

**LAURENS MUNICIPAL
LIGHT AND POWER PLANT**

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

December 31, 2012

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

Table of Contents

| | <u>Page</u> |
|--|-----------------|
| Officials | 1 |
| Independent Auditor’s Report | 2-4 |
| Management’s Discussion and Analysis | 5-7 |
| Basic Financial Statements: | |
| Balance Sheets | 8-9 |
| Statements of Revenues, Expenses and Changes in Net Position | 10 |
| Statements of Cash Flows | 11 |
| Notes to Financial Statements | 12-20 |
| Required Supplementary Information: | |
| Budgetary Comparison Schedule of Revenues, Expenses, and Changes in Net Position – Budget and Actual | 21 |
| Notes to Required Supplementary Information – Budgetary Reporting | 22 |
| Schedule of Funding Progress for the Retiree Health Plan | 23 |
| Supplementary Information: | <u>Schedule</u> |
| Schedules of Operating Revenues | 1 24 |
| Schedules of Operating Expenses | 2 25-26 |
| Other Information | |
| Schedule of Light and Power Plant Statistics | 3 27-28 |
| 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 <i>Government Auditing Standards</i> | 29-30 |
| Schedule of Findings | 31-33 |

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

OFFICIALS

December 31, 2012

| <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

Report on the Financial Statements

We have audited the accompanying financial statements of the major fund of the Laurens Municipal Light and Power Plant (the Utility), a component Unit of the City of Laurens, Iowa, as of and for the years ended December 31, 2012 and 2011, and the related notes to the financial statements, which collectively comprise the Utility's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the major fund of Laurens Municipal Light and Power Plant, a component Unit of the City of Laurens, Iowa, as of December 31, 2012 and 2011, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the required supplementary information, such as management's discussion and analysis, the budgetary comparison information, and the schedule of funding progress for the retiree health plan on pages 5-7 and 21-23 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 who considers it to be an essential part of 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 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 an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Laurens Municipal Light and Power Plant's basic financial statements. The schedules of operating revenue and expenses are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The schedules of revenue and expenses are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the 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 basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedules of revenue and expenses are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The schedule of light and power plant statistics on pages 26 and 27 has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with Government Auditing Standards, we have also issued our report dated September 10, 2013 on our consideration of the Laurens Municipal Light and Power Plant's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters.

The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance.

That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Laurens Municipal Light and Power Plant's internal control over financial reporting and compliance

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

September 10, 2013

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, 2012. We encourage readers to consider this information in conjunction with the Utility's financial statements, which follow.

2012 FINANCIAL HIGHLIGHTS

- ◆ The Utility's operating revenues increased from approximately \$2,499,000 in 2011 to approximately \$2,625,000 in 2012, an increase of 5%. This increase resulted from a rate increase implemented in 2012 and increased sales for resale and sales to the City of Marathon, Iowa.
- ◆ The Utility's operating expenses increased .3% in 2012 to a total of \$2,494,000 from a total of \$2,487,000 in 2011. The increase in expense resulted from increased fuel cost and line maintenance expense.
- ◆ The Utility's Net Position increased \$454,010 in 2012 mainly due to a USDA grant of \$300,000 received to finance the revolving loan fund established in 2012.

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 Position. Over time, increases or decreases in Net Position 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 Position 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 Supplementary Information included in Schedules 1 and 2 provides detailed information about operating revenues and expenses.
- ◆ The Other Information included in Schedule 3 provides statistical data for users of the financial statements and is unadited.

REPORTING THE UTILITY'S FINANCIAL ACTIVITIES

Statements of Net Position

Net Position may serve over time as an indicator of the Utility's financial position. The Utility's Net Position increased in 2012 from approximately \$4,757,000 to \$5,211,000. The condensed statement of Net Position (in thousands), shown below, shows how assets, liabilities, and Net Position have changed over the past two years.

| | <u>2012</u> | <u>2011</u> |
|---|------------------|--------------|
| Current assets | \$ 6,127 | 1,635 |
| Other assets | 1,098 | 739 |
| Capital assets at cost, less accumulated depreciation | <u>6,781</u> | <u>3,254</u> |
| Total assets | <u>14,006</u> | <u>5,628</u> |
| Current liabilities | 1,381 | 862 |
| Non-current liabilities | <u>7,414</u> | <u>9</u> |
| Total liabilities | <u>8,795</u> | <u>871</u> |
| Net Position: | | |
| Net investment in capital assets | 3,426 | 2,884 |
| Restricted | 204 | 271 |
| Unrestricted | <u>1,581</u> | <u>1,602</u> |
| Total Net Position | <u>5,211</u> | <u>4,757</u> |
| Total liabilities and Net Position | <u>\$ 14,006</u> | <u>5,628</u> |

Statements of Revenues, Expenses, and Change in Net Position

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 Position for the years ended December 31, 2012 and 2011 is presented below (in thousands):

| | <u>2012</u> | <u>2011</u> |
|----------------------------|--------------|--------------|
| Operating revenues: | | |
| Sales of electrical energy | \$ 2,625 | 2,499 |
| Total operating revenue | <u>2,625</u> | <u>2,499</u> |
| Operating expenses: | | |
| Purchased power | 1,144 | 1,169 |
| Generating plant | 679 | 648 |
| Distribution system | 251 | 268 |
| Transmission system | 125 | 129 |
| Administrative and general | <u>296</u> | <u>274</u> |
| Total operating expenses | <u>2,495</u> | <u>2,488</u> |
| Operating income | <u>130</u> | <u>11</u> |

| | | |
|--|-----------------|--------------|
| Non-operating revenue and expenses: | | |
| Other | 365 | 1 |
| Non-operating income | <u>365</u> | <u>1</u> |
| Increase in Net Position | 495 | 12 |
| Net Position, beginning of year | 4,757 | 4,781 |
| Less: Residual equity transfer to City – funding | <u>(41)</u> | <u>(36)</u> |
| Net Position, end of year | <u>\$ 5,211</u> | <u>4,757</u> |

CAPITAL ASSETS

As of December 31, 2012 and 2011, the Utility had approximately \$6.8 and \$3.3 million invested in capital assets, net of accumulated depreciation of \$7.2 and \$7.0 million. The increase in capital assets was the result of construction of the new generation plant with 3 new CAT engines and improvements made to Neal 4. Laurens Municipal Light and Power Plant had depreciation expense of approximately \$256,000 in 2012 and \$275,000 in 2011.

LONG-TERM DEBT

At December 31, 2012, the Utility had \$7,400,000 in revenue bonds outstanding, an increase of \$7,085,000 from 2011. The table below summarizes outstanding debt by type.

| | | |
|-------------------------------|------------------|----------------|
| | <u>2012</u> | <u>2011</u> |
| 2008 Electric refunding notes | \$ - | 315,000 |
| 2012 Electric revenue bonds | <u>7,400,000</u> | <u>-</u> |
| Total | <u>7,400,000</u> | <u>315,000</u> |

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The Utility continued to improve its financial position during 2012. 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.

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, 2012 and 2011**

| | Assets | |
|--|---------------|------------|
| | 2012 | 2011 |
| Capital Assets | | |
| Land | \$ 80,546 | 80,546 |
| Plant in service | 10,645,229 | 9,983,713 |
| | 10,725,775 | 10,064,259 |
| Less accumulated depreciation | 7,205,801 | 6,950,005 |
| | 3,519,974 | 3,114,254 |
| Construction in progress | 3,261,363 | 139,494 |
| Total capital assets | 6,781,337 | 3,253,748 |
| Other Assets | | |
| Notes receivable - net of current portion | 149,280 | 140,537 |
| Common transmission system - capital improvement fund | 248,215 | 226,797 |
| NIMECA - emissions funds | 18,569 | 18,018 |
| Bond improvement fund | - | 100,000 |
| Bond reserve fund | 40,777 | 143,500 |
| Bond retirement sinking fund | 163,108 | 27,250 |
| Deferred patronage refund receivable | 58,779 | 58,714 |
| Reserve Fund - Wheelen #2 | 31,345 | 21,481 |
| Revolving loan receivable | 315,000 | - |
| Bond issuance costs | 72,756 | 3,231 |
| Total other assets | 1,097,829 | 739,528 |
| Current Assets | | |
| Cash and cash equivalents | 4,045,105 | - |
| Certificates of deposit | 1,151,223 | 856,500 |
| Accounts receivable - net of provision for doubtful accounts of \$12,629 and \$8,810 respectively | 348,324 | 336,541 |
| Notes receivable - current portion | 56,232 | - |
| Joint use contract receivable | 125,000 | 125,000 |
| Inventories | 214,652 | 208,734 |
| Accrued interest receivable | 3,100 | 6,985 |
| Prepaid expenses | 183,291 | 101,032 |
| Total current assets | 6,126,927 | 1,634,792 |
| Total assets | \$ 14,006,093 | 5,628,068 |

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

**BALANCE SHEET
AS OF DECEMBER 31, 2012 and 2011**

Liabilities and Net Assets

| | 2012 | 2011 |
|---|-------------------|---------------|
| Long-Term Debt (less current maturities) | | |
| Electric revenue bonds - net of current portion | \$ 7,200,000 | - |
| OPEB obligation | 13,530 | 8,910 |
| | 7,213,530 | 8,910 |
| Current and Accrued Liabilities | | |
| Current maturities of revenue bonds | 200,000 | 315,000 |
| Checks in excess of bank balance | - | 173,940 |
| Accounts payable | 1,267,597 | 279,952 |
| Customer deposits | 51,529 | 38,287 |
| Other current and accrued liabilities | 62,142 | 54,694 |
| Total current and accrued liabilities | 1,581,268 | 861,873 |
| Net Position | | |
| Net investment in capital assets | 3,426,442 | 2,883,869 |
| Restricted | 203,885 | 270,750 |
| Unrestricted | 1,580,968 | 1,602,666 |
| Total net position | 5,211,295 | 4,757,285 |
| Total liabilities and net position | \$ 14,006,093 | 5,628,068 |

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

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2012 and 2011**

| | 2012 | 2011 |
|--|---------------------|---------------------|
| Operating revenues: | \$ 2,624,681 | \$ 2,498,711 |
| Operating expenses: | | |
| Purchased power | 1,143,725 | 1,169,387 |
| Generating plant - local | 36,783 | 35,372 |
| Generating plant - Neal 4 | 642,335 | 612,469 |
| Distribution system - electric | 142,666 | 136,978 |
| Distribution system - communications | 108,592 | 130,612 |
| Transmission system | 125,242 | 128,959 |
| Customers' accounts expense | 22,328 | 10,583 |
| Administrative and general | 272,482 | 263,070 |
| Total operating expenses | 2,494,153 | 2,487,430 |
| Operating income (loss) | 130,528 | 11,281 |
| Non-operating expenses: | | |
| Revenues from merchandising | 5,463 | 5,188 |
| Interest earned on investments | 25,981 | 28,134 |
| Amortization of bond issue costs | (1,779) | (1,941) |
| Interest expense | (24,686) | (30,590) |
| Grant income | 360,000 | - |
| Non-operating income | 364,979 | 791 |
| Change in net assets | 495,507 | 12,072 |
| Total net position, beginning of year | 4,757,285 | 4,780,537 |
| Less: Residual equity transfer to City - donation | (41,497) | (35,324) |
| Total net position, end of year | \$ 5,211,295 | \$ 4,757,285 |

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, 2012 and 2011**

| | 2012 | 2011 |
|---|--------------|--------------|
| Cash flows from operating activities: | | |
| Cash receipts from customers | \$ 2,474,985 | \$ 2,372,275 |
| Other operating cash receipts | 125,000 | 125,000 |
| Cash payments to suppliers | (2,082,596) | (2,005,840) |
| Cash payments to employees | (220,951) | (236,336) |
| | 296,438 | 255,099 |
| Cash flows from noncapital financing activities: | | |
| Payments to the city | (41,497) | (35,324) |
| | (41,497) | (35,324) |
| Net cash (used) by noncapital financing activities | (41,497) | (35,324) |
| Cash flows from capital and related financing activities: | | |
| Acquisition and construction of capital assets | (2,780,424) | (169,224) |
| Repayment of revenue bonds | (315,000) | (305,000) |
| Bonds issued | 7,328,696 | - |
| Grant proceeds received | 360,000 | - |
| Checks issued in excess of bank balance | (173,940) | (31,010) |
| Cash payments for interest | (24,686) | (19,345) |
| | 4,394,646 | (524,579) |
| Net cash (used) by capital and related financing activities | 4,394,646 | (524,579) |
| Cash flows from investing activities: | | |
| Interest received | 29,866 | 33,040 |
| Note receivable issued | (390,000) | - |
| Collected notes receivable | 10,025 | 7,543 |
| Sale of resale merchandise | 5,463 | 5,188 |
| Proceeds from redemption of investments | 1,082,244 | 1,600,000 |
| Purchase of investments | (1,342,000) | (1,340,967) |
| | (604,402) | 304,804 |
| Net cash (used) by investing activities | (604,402) | 304,804 |
| Net increase in cash and cash equivalents | 4,045,185 | - |
| Cash and cash equivalents, beginning of year | - | - |
| Cash and cash equivalents, end of year | \$ 4,045,185 | \$ - |
| Reconciliation of operating income (loss) to net cash provided (used) by operating activities: | | |
| Income (loss) from operations | 130,528 | \$ 11,281 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | |
| Depreciation | 255,796 | 274,924 |
| Change in accounts receivable | (11,783) | (1,042) |
| Change in prepaid expenses | (82,259) | (38,106) |
| Change in inventory | (5,918) | 8,150 |
| Change in accounts payable and accrued expenses | - | - |
| (net of accounts payable for construction activities) | (7,788) | (10,177) |
| Change in customer deposits | 13,242 | 5,606 |
| Change in deferred revenue | - | - |
| Change in OPEB liability | 4,620 | 4,463 |
| | 295,120 | 263,813 |
| Net cash provided by operating activities | \$ 295,120 | \$ 263,813 |

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
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 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, 2012, 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 Position

The following accounting policies are followed in preparing the statement of Net Position:

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, 2012 and 2011 consisted of approximately 793 and 809 uncollateralized accounts, respectively. Accounts receivable balances older than 90 days for the Utility were approximately \$16,259 and \$26,400 for the years ended December 31, 2012 and 2011 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, 2012 and 2011 of \$12,629 and \$8,810, 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
A COMPONENT UNIT OF THE CITY OF LAURENS, IOWA**

NOTES TO FINANCIAL STATEMENTS

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

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

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

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

Statement of Revenues, Expenses and Changes in Net Position

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 Position

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

NOTE 2 - CASH AND INVESTMENTS

The Utility's deposits in financial institutions at December 31, 2012 and 2011 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

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

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, 2012 and 2011, 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, 2012 is as follows:

| | Beginning Balance | Increases | Decreases | Ending Balance |
|---|----------------------|------------------|-----------|--------------------|
| Capital assets not being depreciated: | | | | |
| Land | \$ 80,546 | - | - | 80,546 |
| Construction in progress | <u>139,494</u> | <u>3,121,869</u> | - | <u>3,261,363</u> |
| Total capital assets not being depreciated | <u>220,040</u> | <u>3,121,869</u> | - | <u>3,341,909</u> |
| Capital assets being depreciated: | | | | |
| Generating plant | 2,490,994 | 588,250 | - | 3,079,244 |
| Transmission plant | 1,082,638 | - | - | 1,082,638 |
| Transmission plant – Corn Belt | 1,547,446 | 59,608 | - | 1,607,054 |
| Distribution plant | 1,898,286 | 6,104 | - | 1,904,390 |
| Communication plant | 2,612,716 | 6,878 | - | 2,619,594 |
| Other equipment | <u>351,633</u> | <u>676</u> | - | <u>352,309</u> |
| Total capital assets being depreciated | <u>9,983,713</u> | <u>661,516</u> | - | <u>10,645,229</u> |
| Less accumulated depreciation for: | | | | |
| Generating plant | 2,326,083 | 72,479 | - | 2,398,562 |
| Transmission plant | 587,142 | 28,680 | - | 615,822 |
| Transmission plant – Corn Belt | 640,036 | 40,026 | - | 680,062 |
| Distribution plant | 939,893 | 51,435 | - | 991,328 |
| Communication plant | 2,202,217 | 47,549 | - | 2,249,766 |
| Other equipment | <u>254,634</u> | <u>15,627</u> | - | <u>270,261</u> |
| Total accumulated depreciation | <u>6,950,005</u> | <u>255,796</u> | - | <u>7,205,801</u> |
| Total capital assets being depreciated, net | <u>3,033,708</u> | | | <u>3,439,428</u> |
| Net capital assets | <u>\$ 3,253,748</u> | | | <u>\$6,781,337</u> |

Capital asset activity for the year ended December 31, 2011 is as follows:

| | Beginning Balance | Increases | Decreases | Ending Balance |
|--|----------------------|----------------|-----------|-------------------|
| Capital assets not being depreciated: | | | | |
| Land | \$ 80,546 | - | - | 80,546 |
| Construction in progress | <u>-</u> | <u>139,494</u> | - | <u>139,494</u> |
| Total capital assets not being depreciated | <u>80,546</u> | <u>139,494</u> | - | <u>220,040</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 | 2,464,622 | 26,372 | - | 2,490,994 |
| 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>343,926</u> | <u>8,707</u> | - | <u>351,633</u> |
| Total capital assets being depreciated | <u>9,774,375</u> | <u>209,338</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>254,634</u> |
| Total accumulated depreciation | <u>6,675,081</u> | <u>274,924</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> |

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 \$6,660 and \$7,222 as of December 31, 2012 and 2011 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 5.78% (5.35% through June 30, 2012) of their annual salary and the Utility is required to contribute 8.67% (8.07% through June 30, 2012) of annual covered payroll. Contribution requirements are established by state statute. The Utility’s contributions to IPERS for the years ended December 31, 2012, 2011, and 2010 were approximately \$18,639, \$15,911, and \$12,867 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, 2012 and 2011, the amount actually contributed to the plan and changes in the Utility’s net OPEB obligation:

| | | |
|--|------------------|--------------|
| | <u>2012</u> | <u>2011</u> |
| Annual required contribution | \$ 4,620 | 4,463 |
| Interest on annual required contribution | <u>-</u> | <u>-</u> |
| Annual OPEB cost | 4,620 | 4,463 |
| Net OPEB obligation beginning of year | <u>8,910</u> | <u>4,447</u> |
| Net OPEB obligation end of year | <u>\$ 13,530</u> | <u>8,910</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 years ended December 31, 2012 and 2011.

For the years ended December 31, 2012 and 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, 2012, 2011 and 2010 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, 2012 | \$ 4,620 | 0% | \$ 13,530 |
| 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 years ended December 31, 2012 and 2011, the actuarial accrued liability was \$26,604, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$26,604. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$258,000 and the ratio of the UAAL to covered payroll was 10.3%. As of December 31, 2012 and 2011, there were no trust fund assets.

Actuarial Methods and Assumptions. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include 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 | \$ 315,000 | | 315,000 | - |
| 2012 Electric Revenue Bonds (interest rates from .5% to 3.8%) | - | 7,400,000 | - | 7,400,000 |
| | \$ 315,000 | 7,400,000 | 315,000 | 7,400,000 |

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

| <u>Year Ending December 31,</u> | Revenue Bonds | | <u>Total</u> |
|-------------------------------------|---------------|-----------|--------------|
| | Principal | Interest | |
| 2013 | 200,000 | 240,395 | 440,395 |
| 2014 | 320,000 | 190,465 | 510,465 |
| 2015 | 325,000 | 188,225 | 513,225 |
| 2016 | 330,000 | 185,300 | 515,300 |
| 2017 | 340,000 | 181,670 | 521,670 |
| 2018-2022 | 1,810,000 | 817,225 | 2,627,225 |
| 2023-2027 | 2,105,000 | 575,360 | 2,680,360 |
| 2028-2031 | 1,970,000 | 187,920 | 2,157,920 |
| | \$ 7,400,000 | 2,566,560 | 9,966,560 |

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 Electric Revenue Debt Service Reserve Fund into which there shall be set apart and funded monthly until the sum of \$541,000 has been accumulated.
- D. 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 NET POSITION

Net Position has been restricted in amount necessary to fund the following specific reserves:

| | | |
|--|------|------|
| | 2012 | 2011 |
|--|------|------|

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

NOTES TO FINANCIAL STATEMENTS

Restricted:

| | | |
|------------------------------|-------------------|-------------------|
| Bond retirement sinking fund | \$ 163,108 | \$ 27,250 |
| Bond reserve fund | 40,777 | 143,500 |
| Bond improvement fund | <u>-</u> | <u>100,000</u> |
| | <u>\$ 203,885</u> | <u>\$ 270,750</u> |

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 original note called for monthly payments of \$1,288, including interest. In 2012, the City of Marathon increased the note by \$30,000 in order to finance improvements made to their system. The new amortization requires monthly payments of \$1,584, including interest of 5.00% through December 2023.

NOTE 12 – REVOLVING LOAN FUND

The Utility implemented a revolving loan program in 2012. The program was funded with a \$300,000 Grant from USDA Rural Development. The grant funds and a \$60,000 local match were lent to one borrower in 2012. This loan charges no interest and calls for repayment of the note with annual payments of \$45,000.

NOTE 13 – 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 14 - RECLASSIFICATION

Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to confirm with the presentation in the current-year financial statements.

NOTE 15 – SUBSEQUENT EVENTS

The Utility's management has evaluated events and transactions for potential recognition or disclosure through September 10, 2013, the date of the financial statements.

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, 2012**

| | <u>Actual</u> | <u>Original Budget</u> | <u>Final to Actual Variance</u> |
|--|---------------------|----------------------------|-------------------------------------|
| Revenues: | | | |
| Use of money and property | \$ 25,981 | \$ 30,000 | \$ (4,019) |
| Charges for services | 2,499,681 | 2,635,000 | \$ (135,319) |
| Miscellaneous | 490,463 | 165,000 | \$ 325,463 |
| | <u>3,016,125</u> | <u>2,830,000</u> | <u>186,125</u> |
| Expenses | <u>2,520,618</u> | <u>2,592,000</u> | <u>71,382</u> |
| Excess of Receipts Over Disbursements | 495,507 | 238,000 | |
| Net Position at Beginning of Period | 4,757,285 | 4,789,816 | |
| Residual equity transfer to City - donation | <u>(41,497)</u> | <u>(82,000)</u> | |
| Net Position at End of Period | <u>\$ 5,211,295</u> | <u>\$ 4,945,816</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, 2012

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, 2012.

See Accompanying Independent Auditor's Report

**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 |
|------------------------------|--------------------------------|--|--|--------------------------------------|------------------------------|-------------------------------|---|
| 2012 | January 1, 2010 | -0- | \$ 27 | \$ 27 | 0.00% | \$ 258 | 10.3% |
| 2011 | January 1, 2010 | -0- | \$ 27 | \$ 27 | 0.00% | \$ 239 | 11.3% |
| 2010 | January 1, 2010 | -0- | \$ 27 | \$ 27 | 0.00% | \$ 207 | 13.0% |

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.

See Accompanying Independent Auditor's Report

**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, 2012 and 2011**

| | <u>2012</u> | <u>2011</u> |
|----------------------|---------------------|------------------|
| Sale of electricity: | | |
| Residential | \$ 751,223 | 765,709 |
| Commercial | 1,054,045 | 964,334 |
| Resale | 523,701 | 496,082 |
| Marathon | 120,009 | 98,120 |
| Forfeited discounts | 9,023 | 5,299 |
| Sales of steam | 4,818 | 7,944 |
| Miscellaneous | 36,862 | 36,223 |
| Joint use agreement | 125,000 | 125,000 |
| | <u>\$ 2,624,681</u> | <u>2,498,711</u> |

See Accompanying Independent Auditor's Report

**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, 2012 and 2011**

| | 2012 | 2011 |
|---|--------------|-----------|
| Purchased energy | \$ 1,143,725 | 1,169,387 |
| Generating plant - local: | | |
| Operating supervision and labor | 23,691 | 22,630 |
| Fuel | 3,731 | 2,917 |
| Operating supplies | 553 | 495 |
| Maintenance and repairs | 624 | 682 |
| Buildings and grounds maintenance and repairs | 7,297 | 7,555 |
| Depreciation | 887 | 1,093 |
| Total local generating plant expenses | 36,783 | 35,372 |
| Generating plant - Neal 4 | | |
| Fuel | 383,406 | 326,195 |
| Maintenance and repairs | 54,808 | 64,494 |
| Operating | 68,616 | 60,438 |
| Property taxes | 24,642 | 27,860 |
| Depreciation | 71,592 | 66,574 |
| Other | 39,271 | 66,908 |
| Total Neal 4 generating plant expenses | 642,335 | 612,469 |
| Distribution system - electric: | | |
| Line and station supervision and labor | 29,236 | 21,865 |
| Line and station supplies and expense | 6,980 | 7,761 |
| Street lighting and signals labor and expense | - | 79 |
| Meter labor and expense | 501 | 1,771 |
| Customers' installation expense | 7,161 | 10,548 |
| Miscellaneous distribution expense | 756 | 1,192 |
| Maintenance of lines | 36,740 | 26,755 |
| Maintenance of line transformers | 3,744 | 5,300 |
| Maintenance of street lighting and signal systems | 2,918 | 3,791 |
| Maintenance of meters | 3,195 | 6,643 |
| Depreciation | 51,435 | 51,273 |
| Total electric distribution expense | 142,666 | 136,978 |
| Distribution system - communications: | | |
| Line and station supervision and labor | 2,694 | 366 |
| Operating supplies and expense | 2,703 | 3,220 |
| Customers' installation expense | 36,966 | 33,084 |
| Maintenance of lines | 4,402 | 2,990 |
| Maintenance of nodes, amps and peds | 7,916 | 7,379 |
| Maintenance of voice ports | 3,341 | 5,382 |
| Property taxes | 3,005 | 3,799 |
| Depreciation | 47,565 | 74,392 |
| Total communications distribution expense | 108,592 | 130,612 |

**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, 2012 and 2011**

| | 2012 | 2011 |
|--|--------------|-----------|
| Transmission system: | | |
| Amortization | 1,452 | 4,844 |
| Depreciation | 68,707 | 65,808 |
| Capacity assignment costs | 26,008 | 25,898 |
| Other | 29,075 | 32,409 |
| Total transmission system expenses | 125,242 | 128,959 |
| Customers' accounts expense: | | |
| Bad debt expense (recoveries) | 16,732 | 1,800 |
| Meter reading expense | 5,596 | 8,783 |
| Total customers' accounts expense | 22,328 | 10,583 |
| Administrative and general expense: | | |
| Administrative and general salaries | 87,117 | 90,087 |
| Conservation expense | 19,063 | 7,939 |
| Office supplies and postage | 12,410 | 10,856 |
| Audits, legal, and consultation services | 4,674 | 10,707 |
| Property insurance | 16,409 | 11,169 |
| Compensation insurance | 3,536 | 3,732 |
| Employees' group insurance | 43,559 | 40,167 |
| Trustees' fees | 900 | 900 |
| Dues and subscriptions | 4,896 | 4,876 |
| Cash payments to City | 30,000 | 33,000 |
| Cost of services to the Community | 8,165 | 10,485 |
| Legal publications | 2,409 | 1,423 |
| Advertising and promotion | 1,012 | 993 |
| Convention, meeting, and travel expense | 1,388 | 1,050 |
| E911 fees | - | - |
| Depreciation | 15,610 | 15,784 |
| Bank service charges | 1,831 | 387 |
| Motor vehicle and work equipment expense | 15,905 | 14,277 |
| Miscellaneous | 3,598 | 5,238 |
| Total administrative and general expense | 272,482 | 263,070 |
| Total operating expense | \$ 2,494,153 | 2,487,430 |

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

Schedule 3

**SCHEDULE OF LIGHT AND POWER PLANT STATISTICS - Unaudited
FOR THE YEARS ENDED DECEMBER 31:**

Electricity Purchased and Cost

| Year | kWh | |
|------|------------|--------------|
| | Purchased | Cost |
| 2012 | 30,444,691 | \$ 1,143,725 |
| 2011 | 31,865,763 | 1,169,387 |
| 2010 | 32,329,380 | 1,147,870 |
| 2009 | 31,021,125 | 1,008,797 |
| 2008 | 33,814,111 | 942,464 |

Electric Utility Residential and Commercial Billings

| Year | No. of Accounts | Total kWh Sold | Billings |
|------|--------------------|-------------------|--------------|
| | | | |
| 2012 | 843 | 26,402,592 | \$ 1,805,268 |
| 2011 | 855 | 27,990,127 | 1,730,043 |
| 2010 | 862 | 27,203,515 | 1,572,944 |
| 2009 | 861 | 26,324,903 | 1,555,882 |
| 2008 | 865 | 28,897,369 | 1,577,571 |

Peak Demand

| Year | Peak Demand (MW) |
|------|---------------------|
| 2012 | 7.05 |
| 2011 | 7.76 |
| 2010 | 8.11 |
| 2009 | 8.46 |
| 2008 | 8.05 |

History of Electric Accounts Served

| Year | Peak | | | Public Authority | Interdepartmental | Total |
|------|-------------|------------|------------|---------------------|-------------------|-------|
| | Residential | Commercial | Industrial | | | |
| 2012 | 682 | 65 | 69 | 11 | 16 | 843 |
| 2011 | 692 | 68 | 72 | 8 | 15 | 855 |
| 2010 | 695 | 73 | 75 | 2 | 17 | 862 |
| 2009 | 698 | 71 | 75 | 2 | 15 | 861 |
| 2008 | 702 | 71 | 75 | 2 | 15 | 865 |

See Accompanying Independent Auditor's Report

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

Schedule 3

**SCHEDULE OF LIGHT AND POWER PLANT STATISTICS - Unaudited
FOR THE YEARS ENDED DECEMBER 31:**

Largest Electricity Users

| <u>Customer</u> | <u>2012 Billings</u> | <u>% of Total Revenue</u> | <u>2012 Total Revenue</u> |
|-------------------------|--------------------------|-------------------------------|-------------------------------|
| Fisher Gold Star | \$ 192,498 | 10.66% | \$ 1,805,268 |
| Jack Links | 178,395 | 9.88% | 1,805,268 |
| Bobalee | 137,900 | 7.64% | 1,805,268 |
| Pengo Corporation | 46,833 | 2.59% | 1,805,268 |
| Laurens-Marathon School | 43,615 | 2.42% | 1,805,268 |
| Positech | 40,710 | 2.26% | 1,805,268 |
| Farmers Coop | 39,215 | 2.17% | 1,805,268 |
| Food Pride | 32,384 | 1.79% | 1,805,268 |
| City's Water Plant | 28,140 | 1.56% | 1,805,268 |
| Casey's General Store | 23,110 | 1.28% | 1,805,268 |

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 Light and Power Plant
Laurens, Iowa

We have audited 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, the financial statements of the major fund of Laurens Municipal Light and Power Plant, a component unit of the City of Laurens, Iowa as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise Laurens Municipal Light and Power Plant's basic financial statements, and have issued our report thereon dated September 10, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Laurens Municipal Light and Power Plant's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Laurens Municipal Light and Power Plant's internal control. Accordingly, we do not express an opinion on the effectiveness of Laurens Municipal Light and Power Plant's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies (I-A-12, I-B-12, and I-C-12) described in the accompanying schedule of findings to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Laurens Municipal Light and Power Plant's financial statements are free from 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 or other matters that are required to be reported under *Government Auditing Standards*.

Laurens Municipal Light and Power Plant's Response to Findings

Laurens Municipal Light and Power Plant's response to the findings identified in our audit are described in the accompanying schedule of findings. Laurens Municipal Light and Power Plant's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

TP Anderson & Company, PC

September 10, 2013

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

**SCHEDULE OF FINDINGS
YEAR ENDED DECEMBER 31, 2012**

Part I: Findings Related to the Financial Statements

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCIES:

I-A-12 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-12 Condition – Material adjustments to Accounts Payable, Grant Income, and Revolving loan fund receivable were 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. The entries to record the grant funds and the note receivable were entries that were not normal for the Utility.

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. When a material transaction is entered into and a clear understanding of the proper accounting for the transaction is not evident, you should consider consulting with an expert.

Client Response – We will consider the recommendation and take steps to address this issue.

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

**SCHEDULE OF FINDINGS (CONTINUED)
YEAR ENDED DECEMBER 31, 2012**

Conclusion – Response accepted.

I-C-12 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.

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

**SCHEDULE OF FINDINGS (CONTINUED)
YEAR ENDED DECEMBER 31, 2012**

Part II: Other Findings Related to Statutory Reporting:

- II-A-12 Certified Budget - Disbursements during the year ended December 31, 2011 were within the budgeted limits.
- II-B-12 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-12 Travel Expense – No disbursements of City money for travel expenses of spouses of Utility officials or employees were noted.
- II-D-12 Business Transactions – No business transactions between the Utility and Utility officials or employees were noted.
- II-E-12 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-12 Board Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.
- II-G-12 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-12 Revenue Bonds – No instances of non-compliance with revenue bond resolutions were noted.