

**LAURENS MUNICIPAL
BROADBAND COMMUNICATIONS UTILITY**

**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**

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**LAURENS MUNICIPAL BROADBAND COMMUNICATIONS UTILITY
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 Broadband Communications Utility
Laurens, Iowa

Report on the Financial Statements

We have audited the accompanying financial statements of the major fund of the Laurens Municipal Broadband Communications 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 the Laurens Municipal Broadband Communications Utility, 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 18-20 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 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 Broadband Communications Utility'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 on pages 21 and 22 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.

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 Broadband Communications Utility'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 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, 2012. 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 \$870,000 to approximately \$916,000, mainly due to increased special circuit income, internet sales, and carrier access fees.
- ◆ The Utility's expenses increased from approximately \$866,000 to approximately \$881,000. Expenses increased as a result of increased programming costs, wages, and bad debts.
- ◆ The Utility's net position increased approximately \$35,150, which is an improvement from the increase in net position of \$4,401 experienced in 2011. The increased revenues noted above drove the improvement from 2011.

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 positions. Over time, increases or decreases in net positions 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 two schedules in Other Supplementary Information provide detailed information about operating revenues and expenses.

REPORTING THE UTILITY'S FINANCIAL ACTIVITIES

Statements of Net positions

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

	<u>2012</u>	<u>2011</u>
Current assets	\$ 337	\$ 332
Capital assets at cost, less accumulated depreciation	<u>136</u>	<u>112</u>
Total assets	<u><u>473</u></u>	<u><u>444</u></u>
Current liabilities	160	169
Other liabilities	<u>7</u>	<u>5</u>
Total liabilities	<u>167</u>	<u>174</u>
Net positions:		
Net investments in capital assets	136	112
Unrestricted	<u>170</u>	<u>158</u>
Total net positions	<u>306</u>	<u>270</u>
Total liabilities and net position	<u><u>\$ 473</u></u>	<u><u>\$ 444</u></u>

Statements of Revenues, Expenses, and Changes in Net positions

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

	<u>2012</u>	<u>2011</u>
Operating revenues:		
Cable services	\$ 267	\$ 271
Telephone services	294	276
Internet services	179	171
Other operating revenue	<u>176</u>	<u>153</u>
Total operating revenue	<u>916</u>	<u>871</u>
Operating expenses:		
Cost of service	549	520
Head end expense	70	117
Customers' accounts expense (recovery)	7	(7)
Administrative and general	<u>255</u>	<u>236</u>
Total operating expenses	<u>881</u>	<u>866</u>
Increase in net position	35	5

Net position, beginning of year	<u>271</u>	<u>266</u>
Net position, end of year	<u>\$ 306</u>	<u>\$ 271</u>

CAPITAL ASSETS

The Utility had approximately \$136,000 and \$112,000, invested in capital assets, net of accumulated depreciation of \$1.1 and \$1.1 million at December 31, 2012 and 2011 respectively. Laurens Municipal Broadband Communications Utility had depreciation expense of \$37,467 in 2012 and \$69,891 in 2011.

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:

- 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 2013 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, 2012 and 2011**

	2012	2011
Capital assets		
Land	\$ 8,280	8,280
Plant in service	1,266,563	1,204,651
	1,274,843	1,212,931
Less accumulated depreciation	1,138,572	1,101,105
	136,271	111,826
Current assets		
Cash and cash equivalents	279,566	258,101
Accounts receivable (less provision for doubtful accounts of \$6,000)	51,013	68,848
Prepaid expenses	6,547	5,478
Total current assets	337,126	332,427
 Total assets	\$ 473,397	444,253
 Current and accrued liabilities		
Accounts payable	30,282	36,693
Joint use contract payable	125,000	125,000
Other current and accrued liabilities	4,934	7,181
Total current and accrued liabilities	160,216	168,874
 Long-term liabilities		
OPEB obligation	7,360	4,708
Total liabilities	167,576	173,582
 Net position		
Net investment in capital assets	136,271	111,826
Unrestricted	169,550	158,845
Total net position	305,821	270,671
 Total liabilities and net position	\$ 473,397	444,253

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 POSITION
FOR THE YEARS ENDED DECEMBER 31, 2012 and 2011**

	2012	2011
Operating revenues:	<u>\$ 916,335</u>	<u>870,492</u>
Operating expenses:		
Cost of service	549,328	519,516
Head-end expenses	69,575	117,278
Customers' accounts expense (recovery)	6,646	(7,000)
Administrative and general expense	<u>255,636</u>	<u>236,297</u>
Total operating expenses	<u>881,185</u>	<u>866,091</u>
 Change in net position	 35,150	 4,401
 Total net position, beginning of year	 <u>270,671</u>	 <u>266,270</u>
 Total net position, end of year	 <u><u>\$ 305,821</u></u>	 <u><u>270,671</u></u>

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

**STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2012 and 2011**

	2012	2011
Cash flows from operating activities:		
Cash receipts from customers	\$ 931,724	862,189
Cash payments to suppliers	(700,401)	(664,888)
Cash payments to employees	(147,946)	(142,121)
	83,377	55,180
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(61,912)	(30,288)
	(61,912)	(30,288)
Net cash (used) by capital and related financing activities		
Net increase in cash and cash equivalents	21,465	24,892
Cash and cash equivalents, beginning of year	258,101	233,209
Cash and cash equivalents, end of year	\$ 279,566	258,101
 Reconciliation of operating income (loss) to net cash provided by operating activities:		
Income from operations	35,150	4,401
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	37,467	69,891
Change in accounts receivable	17,835	(16,503)
Change in prepaid expenses	(1,069)	(53)
Change in accounts payable	(6,411)	(1,692)
Change in accrued expenses	(2,247)	(3,361)
Change in OPEB liability	2,652	2,497
	83,377	55,180

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, 2012.

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 positions

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

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 476 and 492 uncollateralized accounts. Accounts receivable balances older than 90 days were approximately \$7,860 and \$10,278 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 \$14,421 and \$6,000, 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 positions

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 positions

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

Subsequent Events

In preparing these financial statements, management has evaluated events and transactions for potential recognition or disclosure through September 10, 2013, the date the financial statements were issued.

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.

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 – 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 \$4,174 and \$4,062 as of December 31, 2012 and 2011 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, 2012 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	88,237	11,431	-	99,668
Other equipment – telephone	46,308	-	-	46,308
Distribution plant – CATV and internet	1,032,111	50,481	-	1,082,592
Other equipment – CATV and internet	<u>37,995</u>	<u>-</u>	<u>-</u>	<u>37,995</u>
Total capital assets being depreciated	<u>1,204,651</u>	<u>61,912</u>	<u>-</u>	<u>1,266,563</u>
Less accumulated depreciation for:				
Distribution plant – telephone	80,335	6,467	-	86,802
Other equipment – telephone	40,822	1,276	-	42,908
Distribution plant – CATV and internet	944,253	28,755	-	973,008
Other equipment – CATV and internet	<u>35,695</u>	<u>969</u>	<u>-</u>	<u>36,664</u>
Total accumulated depreciation	<u>1,101,105</u>	<u>37,467</u>	<u>-</u>	<u>1,138,572</u>
Total capital assets being depreciated, net	<u>103,546</u>			<u>127,991</u>
Net capital assets	<u>\$ 111,826</u>			<u>136,271</u>

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>

LAURENS MUNICIPAL BROADBAND COMMUNICATIONS UTILITY
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NOTES TO FINANCIAL STATEMENTS

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>35,695</u>
Total accumulated depreciation	<u>1,031,214</u>	<u>69,891</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>

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% (5.38% 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 \$10,485, \$8,951, and \$6,395 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>
2013	\$ 125,000
2014	125,000
2015	125,000
2016	125,000
2017	125,000
2018-2022	625,000
2023-2027	625,000
2028-2032	625,000
2033-2037	625,000
2038-2041	<u>500,000</u>
Total	<u>\$ 3,625,000</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)

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, 2012, and 2011, the amount actually contributed to the plan and changes in the Utility’s net OPEB obligation:

	2012	2011
Annual required contribution	\$ 2,497	2,497
Interest on annual required contribution	-	-
Annual OPEB cost	2,497	2,497
Net OPEB obligation beginning of year	4,863	2,211
Net OPEB obligation end of year	\$ 7,360	4,708

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, 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:

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

NOTES TO FINANCIAL STATEMENTS

<u>Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost</u>	<u>Net OPEB Obligation</u>
December 31, 2012	\$ 2,652	\$ 0%	\$ 7,360
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 years ended December 31, 2012 and 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, 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 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.

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, 2012

	<u>Actual</u>	<u>Original/Final Budget</u>	<u>Final to Actual Variance</u>
Revenues:			
Use of money and property	\$ -	6,000	(6,000)
Charges for services	911,765	894,000	17,765
Miscellaneous	4,570	15,000	(10,430)
	<u>916,335</u>	<u>915,000</u>	<u>1,335</u>
Expenses	<u>881,185</u>	<u>874,000</u>	<u>(7,185)</u>
Excess of Receipts Over Disbursements	35,150	41,000	<u>\$ (5,850)</u>
Net Assets at Beginning of Period	<u>270,671</u>	<u>270,671</u>	
Net Assets at End of Period	<u>\$ 305,821</u>	<u>311,671</u>	

See accompanying independent auditor's report.

**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, 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 exceeded the budgeted limit for the year ended December 31, 2012.

See accompanying independent auditor's report.

**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
2012	January 1, 2010	-0-	\$ 15	\$ 15	0.00%	\$ 148	10%
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.

See accompanying independent auditor's report.

**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, 2012 and 2011**

	CABLE TV and INTERNET		TELEPHONE		TOTAL	
	2012	2011	2012	2011	2012	2011
Sale of cable services:						
Basic and digital cable	267,444	271,365	-	-	267,444	271,365
Sale of telephone services:						
Local	-	-	148,483	149,317	148,483	149,317
Long distance	-	-	25,308	23,086	25,308	23,086
Access fees	-	-	119,910	103,787	119,910	103,787
Internet	179,037	171,479	-	-	179,037	171,479
Transport fee credits	-	-	60,000	60,000	60,000	60,000
Special circuits	21,692	-	37,186	25,853	58,878	25,853
Other	-	-	8,738	10,444	8,738	10,444
USAC - high cost	-	-	677	1,276	677	1,276
Wireless home sales/commissions	-	-	-	835	-	835
Tower lease fees	5,400	5,940	-	-	5,400	5,940
Converters	28,346	23,974	-	-	28,346	23,974
Penalties	6,710	5,475	2,834	2,290	9,544	7,765
Miscellaneous	3,838	14,647	732	724	4,570	15,371
Total operating revenue	<u>512,467</u>	<u>492,880</u>	<u>403,868</u>	<u>377,612</u>	<u>916,335</u>	<u>870,492</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, 2012 and 2011

	CABLE TV and INTERNET		TELEPHONE		TOTAL	
	2012	2011	2012	2011	2012	2011
Cost of service:						
Basic and digital programming	225,144	206,030	-	-	225,144	206,030
Internet fees	46,855	43,228	-	-	46,855	43,228
Transport fees	7,860	5,400	6,510	7,139	14,370	12,539
Switching fees	-	-	55,117	55,478	55,117	55,478
Long-distance fees	-	-	16,948	16,313	16,948	16,313
Access fees	-	-	45,489	39,439	45,489	39,439
Billing fees	-	-	15,696	15,834	15,696	15,834
Illuminet fees	-	-	-	-	-	-
Directory listing fees	-	-	4,020	4,813	4,020	4,813
Wireless fees	-	-	689	842	689	842
Joint use fees	55,000	55,000	70,000	70,000	125,000	125,000
Total cost of service	334,859	309,658	214,469	209,858	549,328	519,516
Head-end system:						
Wages and benefits	9,594	14,474	7,850	9,593	17,444	24,067
Operating expenses and supplies	5,917	11,716	1,819	6,652	7,736	18,368
Maintenance and repairs	5,049	4,991	1,033	60	6,082	5,051
Buildings and grounds	1,856	2,083	1,235	1,234	3,091	3,317
Depreciation	28,755	59,054	6,467	7,421	35,222	66,475
Total head-end system	51,171	92,318	18,404	24,960	69,575	117,278
Customers' accounts expense:						
Bad debt expense	4,546	(3,500)	2,100	(3,500)	6,646	(7,000)
Total customers' accounts expense	4,546	(3,500)	2,100	(3,500)	6,646	(7,000)
Administrative and general expense:						
Administrative and general salaries	43,834	33,362	88,173	81,637	132,007	114,999
Office supplies and postage	5,982	4,281	5,999	6,319	11,981	10,600
Audits, legal, and consultation services	1,912	1,960	10,691	11,967	12,603	13,927
Property insurance	3,741	1,378	4,093	2,654	7,834	4,032
Compensation insurance	1,157	1,280	1,310	1,919	2,467	3,199
Employees' group insurance	23,155	17,896	23,221	26,763	46,376	44,659
Trustees' fees	450	360	450	540	900	900
Dues and subscriptions	2,588	1,876	2,902	3,193	5,490	5,069
Franchise requirements - cost of services to City	14,789	15,893	-	1,250	14,789	17,143
Legal publications	385	464	385	930	770	1,394
Advertising and promotion	297	478	324	712	621	1,190
Convention, meeting, and travel expense	611	70	611	95	1,222	165
E911 fees	-	-	7,454	7,418	7,454	7,418
Depreciation	969	1,501	1,276	1,915	2,245	3,416
Motor vehicle and work equipment expense	2,431	1,930	2,638	2,782	5,069	4,712
Miscellaneous	1,953	840	1,855	2,635	3,808	3,475
Total administrative and general expense	104,254	83,569	151,382	152,729	255,636	236,298
Total operating expenses	494,830	482,045	386,355	384,047	881,185	866,092



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 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 Broadband Communications Utility (the Utility), 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 the Utility'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 the Utility'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 the Utility's internal control. Accordingly, we do not express an opinion on the effectiveness of the Utility'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 BROADBAND COMMUNICATIONS UTILITY
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 – 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, 2012**

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, 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.

**LAURENS MUNICIPAL BROADBAND COMMUNICATIONS UTILITY
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, 2012 exceeded the amount budgeted.

Criteria – Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

Cause – Certain expenses were not recognized in the current year until accounts payable were adjusted through audit entries.

Effect – The Utility did not comply with the budget section of the Code of Iowa for the year ended December 31, 2012.

Recommendation – The budget should be amended in the future if it appears that expenses with exceed the amount budgeted..

Client response – We will amend our budget if necessary in the future.

Conclusion – Response accepted.

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