

**COMMISSION OF PUBLIC WORKS
LAURENS, SOUTH CAROLINA**

REPORT ON FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

**COMMISSION OF PUBLIC WORKS
LAURENS, SOUTH CAROLINA**

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

The Commissioners
Commission of Public Works
Laurens, South Carolina

We have audited the accompanying statements of net assets of the Commission of Public Works, Laurens, South Carolina as of December 31, 2010 and 2009, and the related statements of revenues, expenses, and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Commission's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Commission of Public Works, Laurens, South Carolina, as of December 31, 2010 and 2009, and the results of its operations and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis, on pages 2 through 6, is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Greenwood, South Carolina
March 17, 2011

Ernest Davis LLC



REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

The Commissioners
Commission of Public Works
Laurens, South Carolina

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In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Commission of Public Works, Laurens, South Carolina, as of December 31, 2010 and 2009, and the results of its operations and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

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Greenwood, South Carolina
March 17, 2011

A handwritten signature in black ink that reads "Elliott Davis LLC".

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section presents management's analysis of the Commission's financial condition and activities for the year. This information should be read in conjunction with the financial statements.

FINANCIAL HIGHLIGHTS

Management believes the Commission's financial condition is strong. The following are key financial highlights:

- Total assets at December 31, 2010 and 2009 were \$37.5 million and \$37.8 million, respectively, and exceeded liabilities by \$25.0 million and \$23.8 million, respectively (i.e. net assets). Of the total net assets, \$1.7 million and \$1.0 million, respectively, were unrestricted and were available to support short-term operations. Total assets decreased and total net assets increased from fiscal year end 2009 to 2010 in the amounts of \$307 thousand and \$1.2 million, respectively; from fiscal year end 2008 to 2009 total assets decreased and total net assets decreased in the amounts of \$1.6 million and \$829 thousand, respectively.
- Operating revenues were \$26.0 and \$24.0 million, respectively, for the current year and prior year.
- Operating expenses before depreciation increased \$221 thousand or 1.0% for 2010 as compared to 2009, and decreased by \$640 thousand, or 2.8% for 2009 compared to 2008. Operating expenses including depreciation increased \$170 thousand or .7% in 2010, and decreased \$803 thousand, or 3.2% in 2009, as compared to the respective preceding years.
- Operating income for the year was \$1.5 million compared to operating loss of \$253 thousand in 2009, and operating income of \$62 thousand in 2008. Net assets increased by \$1.2 million from 2009 to 2010, and decreased \$829 thousand from 2008 to 2009.
- Ratios of net cash provided by operations to total operating revenues were 12.0% for 2010 and 8.8% for 2009.

OVERVIEW OF ANNUAL FINANCIAL REPORT

Management's Discussion and Analysis (MD&A) serves as an introduction to the basic financial statements and supplementary information. The MD&A represents management's examination and analysis of the Commission's financial condition and performance.

The financial statements report information about the Commission using full accrual accounting methods as utilized by similar business activities in the private sector. However, rate-regulated accounting principles applicable to private sector utilities are not used by government utilities.

The financial statements include a statement of net assets; a statement of revenues, expenses and changes in net assets; a statement of cash flows; and notes to the financial statements. The statement of net assets presents the financial position of the Commission on a full accrual historical cost basis. While the statement of net assets provides information about the nature and amount of resources and obligations at year-end, the statement of revenues, expenses, and changes in net assets presents the results of the business activities over the course of the fiscal year and information as to how the net assets changed during the year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. This statement also provides certain information about the Commission's recovery of its costs.

The statement of cash flows presents changes in cash and cash equivalents, resulting from operational, financing and investing activities. This statement presents cash receipts and cash disbursement information, without consideration of the earnings event, when an obligation arises or depreciation of capital assets.

The notes to the financial statements provide required disclosures and other information that are essential to a full understanding of material data provided in the statements. The notes present information about the Commission's accounting policies, significant account balances and activities, material risks, obligations, commitments, contingencies and subsequent events, if any.

FINANCIAL ANALYSIS

The following comparative condensed financial statements and other selected information serve as the key financial data and indicators for management, monitoring and planning. Comments regarding year-to-year variances are included in each section by the name of the statement or account.

Condensed Financial Analysis

	June 30,		Variance				
	2010	2009	2008	Dollars		Percentage	
				2010-09	2009-08	2010-09	2009-08
Capital assets							
Producing assets	\$ 29,178,819	\$ 29,702,787	\$ 31,037,036	\$ (523,968)	\$ (1,334,249)	-1.8%	-4.3%
Current assets	4,607,955	4,112,067	4,366,630	495,888	(254,563)	12.1%	-5.8%
Restricted and other assets	3,751,234	4,030,218	4,033,728	(278,984)	(3,510)	-6.9%	-0.1%
Total Assets	<u>\$ 37,538,008</u>	<u>\$ 37,845,072</u>	<u>\$ 39,437,394</u>	<u>\$ (307,064)</u>	<u>\$ (1,592,322)</u>	-0.8%	-4.0%
Current Liabilities	3,794,579	4,041,068	3,988,625	(246,489)	52,443	-6.1%	1.3%
Long term liabilities	8,788,577	10,021,701	10,836,971	(1,233,124)	(815,270)	-12.3%	-7.5%
Total liabilities	<u>12,583,156</u>	<u>14,062,769</u>	<u>14,825,596</u>	<u>(1,479,613)</u>	<u>(762,827)</u>	-10.5%	-5.1%
Net Assets							
Invested in capital assets, net of related debt	19,595,048	18,841,519	19,299,316	753,529	(457,797)	4.0%	-2.4%
Restricted for debt service and other purposes	3,655,004	3,932,630	3,922,640	(277,626)	9,990	-7.1%	0.3%
Unrestricted	1,704,800	1,008,154	1,389,842	696,646	(381,688)	69.1%	-27.5%
Total net assets	<u>\$ 24,954,852</u>	<u>\$ 23,782,303</u>	<u>\$ 24,611,798</u>	<u>\$ 1,172,549</u>	<u>\$ (829,495)</u>	4.9%	-3.4%

The Commission's financial condition remained strong at year-end with adequate liquid assets, reliable plants and systems to meet demand, and a reasonable level of unrestricted net assets. The current financial condition, technical support staff capabilities and operating plans to meet anticipated customer needs are well balanced and under control.

Total assets decreased \$307 thousand or 0.8% from December 31, 2009 to December 31, 2010 with the most significant factor consisting of the net increases in stored gas inventory of \$231 thousand and accounts receivable of \$307 thousand, offset by a net decrease to capital assets of \$524 thousand, due to depreciation of \$1.9 million and acquisitions of \$1.4 million, and a decrease in restricted cash and investments of \$210 thousand. Total assets decreased \$1.6 million or 4.0% from December 31, 2008 to December 31, 2009 with the most significant factor consisting of the net decrease in capital assets of approximately \$1.3 million, due to depreciation expense of \$1.97 million, disposals of \$336 thousand, and offsetting capital asset additions of \$967 thousand.

Total liabilities decreased \$1.48 million or 10.5% from December 31, 2009 to December 31, 2010, primarily due to net decreases in bond indebtedness in the amount \$1.4 million and payments on a revolving line of credit in the amount of \$200 thousand. Total liabilities decreased \$763 thousand or 5.1% from December 31, 2008 to December 31, 2009, primarily due to payment of revenue bond indebtedness in the amount \$1.1 million offset by advances on a revolving line of credit in the amount of \$50 thousand, an increase in accrued compensated absences of \$41 thousand, capital lease obligation of \$85 thousand and other post employment liabilities accrued totaling \$56 thousand.

Net assets increased \$1.2 million or 4.9% from December 31, 2009 to December 31, 2010. Total net assets at December 31, 2010 totaled \$24.9 million of which \$1.7 million or 6.8% of total net assets were unrestricted. Net assets decreased \$829 thousand or 3.4% from December 31, 2008 to December 31, 2009. Total net assets at December 31, 2009 totaled \$23.8 million of which \$1.0 million or 4.2% of total net assets were unrestricted.

Revenues and Expenses. The following schedule presents a summary of the Commission's revenues and expenses for the fiscal years ended December 31, 2010, 2009 and 2008, and the amount and percentage of increases (decreases) in relation to prior year revenues.

	June 30,			Variance			
	2010	2009	2008	Dollars		Percentage	
				2010-09	2009-08	2010-09	2009-08
Operating Revenues							
Electrical sales	\$ 11,437,654	\$ 10,113,917	\$ 9,887,745	\$ 1,323,737	\$ 226,172	13.1%	2.3%
Private lighting	252,641	252,968	252,385	(327)	583	-0.1%	0.2%
Natural gas sales	9,354,967	8,894,878	10,269,562	460,089	(1,374,684)	5.2%	-13.4%
Water Sales	2,875,368	2,781,663	2,804,726	93,705	(23,063)	3.4%	-0.8%
Sewer charges	1,674,887	1,532,665	1,463,839	142,222	68,826	9.3%	4.7%
Attachment fees	64,107	61,679	50,526	2,428	11,153	3.9%	22.1%
Electric taps and work for others	524	765	209	(241)	556	-31.5%	266.0%
Gas taps and work for others	11,441	10,203	13,706	1,238	(3,503)	12.1%	-25.6%
Water taps and work for others	22,680	29,690	63,348	(7,010)	(33,658)	-23.6%	-53.1%
Sewer taps	11,063	23,023	17,560	(11,960)	5,463	-51.9%	31.1%
Connection and transfer fees	21,065	20,135	23,970	930	(3,835)	4.6%	-16.0%
Penalties	115,351	103,509	107,994	11,842	(4,485)	11.4%	-4.2%
Reconnection fees	10,590	8,430	9,110	2,160	(680)	25.6%	-7.5%
Recoveries of bad debts	127,823	163,259	149,926	(35,436)	13,333	-21.7%	8.9%
Nonoperating Revenues							
Scrap sales	17,825	9,179	10,400	8,646	(1,221)	94.2%	-11.7%
Interest	4,424	63,741	117,358	(59,317)	(53,617)	-93.1%	-45.7%
Miscellaneous	181,509	222,507	108,244	(40,998)	114,263	-18.4%	105.6%
Total revenues	<u>\$ 26,183,919</u>	<u>\$ 24,292,211</u>	<u>\$ 25,350,608</u>	<u>\$ 1,891,708</u>	<u>\$ (1,058,397)</u>	<u>7.8%</u>	<u>-4.2%</u>
Operating Expenses							
Salaries and employees' benefits	\$ 1,916,972	\$ 1,894,252	\$ 1,908,383	\$ 22,720	\$ (14,131)	1.2%	-0.7%
Utilities	34,169	33,466	31,033	703	2,433	2.1%	7.8%
Repairs and maintenance	85,747	44,349	101,948	41,398	(57,599)	93.3%	-56.5%
Other operating expenses	18,533,095	18,439,276	19,124,707	93,819	(685,431)	0.5%	-3.6%
Administrative and general	1,963,384	1,871,492	1,779,021	91,892	92,471	4.9%	5.2%
Miscellaneous	11,530	40,678	39,993	(29,148)	685	-71.7%	1.7%
Depreciation	1,915,093	1,966,811	2,129,203	(51,718)	(162,392)	-2.6%	-7.6%
Nonoperating Expenses							
Amortization	146,583	147,540	147,540	(957)	-	-0.6%	0.0%
Loss on disposal of equipment	229	200,259	-	(200,030)	200,259	-99.9%	100.0%
Interest expense	404,568	483,583	516,023	(79,015)	(32,440)	-16.3%	-6.3%
Total expenses	<u>\$ 25,011,370</u>	<u>\$ 25,121,706</u>	<u>\$ 25,777,851</u>	<u>\$ (110,336)</u>	<u>\$ (656,145)</u>	<u>-0.4%</u>	<u>-2.5%</u>
Total revenues	26,183,919	24,292,211	25,350,608	1,891,708	(1,058,397)	7.8%	-4.2%
Total expenses	25,011,370	25,121,706	25,777,851	(110,336)	(656,145)	-0.4%	-2.5%
Increase (decrease) in net assets	1,172,549	(829,495)	(427,243)	2,002,044	(402,252)	241.4%	-94.2%

During the year ended June 30, 2010, total revenues increased \$1.9 million or 7.8%, primarily as a result of volume sales increases for natural gas. During the same period, expenses decreased by \$110 thousand or 0.4%, primarily as a result of decreasing natural gas prices and efforts to reduce overtime costs. During the year ended June 30, 2009, total revenues decreased \$1.1 million or 4.2%, primarily as a result of pricing of natural gas sales. During the same period, expenses decreased by \$656 thousand or 2.5%, primarily as a result of decreased cost of natural gas offset by increases in departmental operating expenses and accrual of other post employment benefits expense.

CASH FLOW ACTIVITY

The following table shows the Commission's ability to generate net operating cash. Net cash provided by operating activities is shown both in total dollars (in thousands) and as a percentage of operating revenues.

	2010	2009	2008	Variance			
				Amount		Percentage	
				2010-09	2009-08	2010-09	2009-08
Total operating revenues	25,980	23,997	25,115	1,983	(1,118)	8.3%	-4.5%
Net cash provided by operations	3,113	2,110	1,936	1,003	174	47.5%	9.0%
Net operating cash as a % of operating revenue	12.0%	8.8%	7.7%				

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2010, the Commission had invested \$29.2 million in capital assets. This amount represents a net decrease (including additions and deductions) of \$524 thousand, or 1.8 percent, from 2009. At the end of 2009, the Commission had invested \$29.7 million in capital assets. This amount represents a net decrease (including additions and deductions) of \$1.3 million, or 4.3 percent, from 2008.

	Capital Assets (net of depreciation, in thousands of dollars)						
	2010	2009	2008	Variance			
				Dollars		Percentage	
				2010-09	2009-08	2010-09	2009-08
Construction in progress	\$ 458	\$ 296	\$ 222	\$ 162	\$ 74	54.7%	33.3%
Land	1,213	1,198	1,198	15	-	1.3%	0.0%
Electrical system	12,345	12,132	11,852	213	280	1.8%	2.4%
Natural gas system	17,677	17,372	17,651	305	(279)	1.8%	-1.6%
Water system	19,554	19,364	19,152	190	212	1.0%	1.1%
Sewer system	18,127	18,013	17,950	114	63	0.6%	0.4%
Real estate and buildings	3,305	3,193	3,190	112	3	3.5%	0.1%
Office equipment	818	797	751	21	46	2.6%	6.1%
Autos and trucks	3,633	3,456	3,363	177	93	5.1%	2.8%
Communications equipment	165	168	168	(3)	-	-1.8%	0.0%
Warehouse equipment	46	46	44	-	2	0.0%	4.5%
Accumulated depreciation	(48,162)	(46,332)	(44,504)	(1,830)	(1,828)	3.9%	4.1%
Net	\$ 29,179	\$ 29,703	\$ 31,037	\$ (524)	\$ (1,334)	-1.8%	-4.3%

More detailed information about the Commission's capital assets is presented in Note 5 to the financial statements.

LONG-TERM DEBT

At December 31, 2010, the Commission had \$9.6 million in bonds and revolving line of credit outstanding - a decrease of 13.3% from 2009. At December 31, 2009, the Commission had \$11.1 million in bonds and revolving line of credit outstanding - a decrease of 7.5% from 2008. More detailed information about the Commission's long-term liabilities is presented in Notes 8 and 9 to the financial statements.

	Outstanding Debt (in thousands of dollars)			Variance			
	2010	2009	2008	Dollars		Percentage	
				2010-09	2009-08	2010-09	2009-08
Revenue bonds and notes	\$ 9,514	\$ 10,792	\$ 11,738	\$ (1,278)	\$ (946)	-11.8%	-8.1%
Revolving line of credit	100	300	250	(200)	50	-66.7%	20.0%
	<u>\$ 9,614</u>	<u>\$ 11,092</u>	<u>\$ 11,988</u>	<u>\$ (1,478)</u>	<u>\$ (896)</u>	<u>-13.3%</u>	<u>-7.5%</u>

ECONOMIC CONDITION AND OUTLOOK

The Commission operates in Laurens County.

- Economic indicators for this past year are positive. The Commission's gross sales for calendar year 2010 were \$25,595,517 compared to \$23,576,091 and \$24,678,257 in 2009 and 2008, respectively. This equates to a 8.6% increase in gross sales for 2010 compared to 2009, and an increase of 4.5% for 2009 compared to 2008. The unemployment rate for Laurens County as of December 2010 was 11.0% compared to 12.2% as of December 2009, and 9.3% as of December 2008. The 2010 rate is consistent with the state's average unemployment rate of 10.9%, but compares unfavorably with the national average rate of 9.1%, while in 2009 the comparisons were favorable with the state rate of 12.6%, and unfavorable with the national rate of 10.0%
- Inflationary trends in the region compare favorably to national indices.

The budget for 2011 reflects no change in base rates for electrical residential consumption, an increase in residential and industrial water consumption of approximately 1.86% and sewer charges of approximately 6.0%. Natural gas consumption rates will remain consistent with 2010. The 2011 budget projects an increase in net assets of \$4.2 million.

CONTACTING THE COMMISSION'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, customers, and creditors with a general overview of the Commission's finances and to demonstrate the Commission's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Dale Satterfield, General Manager, Post Office Box 349, Laurens, South Carolina 29360.

**COMMISSION OF PUBLIC WORKS
LAURENS, SOUTH CAROLINA
STATEMENTS OF NET ASSETS**

	DECEMBER 31,	
	2010	2009
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	243,634	303,643
Accounts receivable	3,603,267	3,296,247
Inventories	688,728	462,986
Grants receivable	28,942	-
Prepaid insurance	43,384	44,942
Accrued interest receivable	-	4,249
Investments - restricted		
Debt service fund	1,392,520	1,460,530
Total current assets	<u>6,000,475</u>	<u>5,572,597</u>
NONCURRENT ASSETS		
Restricted cash and investments		
Cash and cash equivalents	2,262,547	2,007,312
Investments	-	464,851
Capital assets not being depreciated	1,670,729	1,493,658
Capital assets - Net of accumulated depreciation	27,508,090	28,209,129
Unamortized bond issuance costs	96,167	97,525
Total noncurrent assets	<u>31,537,533</u>	<u>32,272,475</u>
Total assets	<u>37,538,008</u>	<u>37,845,072</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Revenue bonds payable - Current portion	1,135,000	1,120,000
Revolving line of credit	100,000	300,000
Capital lease liability	16,240	15,058
Accounts payable	1,831,611	1,764,780
Accrued expenses	77,029	168,997
Accrued revenue bond interest payable	192,252	241,246
Accrued compensated absences	143,862	140,259
Due to developers	78,193	78,193
Customer deposits	206,919	212,535
Retainage Payable	13,473	-
Total current liabilities	<u>3,794,579</u>	<u>4,041,068</u>
NONCURRENT LIABILITIES		
Compensated absences	231,727	203,559
Revenue bonds payable - Net of unamortized discounts	8,379,261	9,671,758
Other post employment benefits liability	124,319	76,874
Capital lease liability	53,270	69,510
Total noncurrent liabilities	<u>8,788,577</u>	<u>10,021,701</u>
Total liabilities	<u>12,583,156</u>	<u>14,062,769</u>
NET ASSETS		
Invested in capital assets, net of related debt	19,595,048	18,826,461
Restricted for debt service and other purposes	3,655,004	3,932,630
Unrestricted	1,704,800	1,023,212
Total net assets	<u>24,954,852</u>	<u>23,782,303</u>

The accompanying notes are an integral part of these financial statements.

**COMMISSION OF PUBLIC WORKS
LAURENS, SOUTH CAROLINA
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**

	For the years ended December 31,	
	2010	2009
OPERATING REVENUES		
Sales		
Electrical sales	\$ 11,437,654	\$ 10,113,917
Private lighting	252,641	252,968
Natural gas sales	9,354,967	8,894,878
Water sales	2,875,368	2,781,663
Sewer charges	1,674,887	1,532,665
Other		
Attachment fees	64,107	61,679
Electric taps and work for others	524	765
Gas taps and work for others	11,441	10,203
Water taps and work for others	22,680	29,690
Sewer taps	11,063	23,023
Connection and transfer fees	21,065	20,135
Penalties	115,351	103,509
Reconnection fees	10,590	8,430
Recoveries of bad debts	127,823	163,259
	<u>25,980,161</u>	<u>23,996,784</u>
OPERATING EXPENSES		
Electric power purchases	8,266,595	7,674,802
Natural gas purchases, net of refunds	5,999,331	6,283,232
Raw water purchases	300,859	295,285
Electric department	689,565	802,309
Gas department	565,662	574,028
Water department	1,403,671	1,448,210
Sewer department	812,730	822,351
Salaries	1,333,787	1,317,620
Postage	50,390	54,373
Office	85,352	108,276
Programming	4,746	15,323
Repairs and maintenance	85,747	44,349
Insurance	1,041,934	943,676
Communications	35,304	32,037
Uniforms	49,452	52,140
FICA and retirement	583,185	576,632
Professional fees	69,826	63,887
Bad debts	256,219	244,586
Donations	147,152	146,374
General	146,106	114,992
Transportation - Office	19,149	15,616
Medical	7,931	13,927
Community relations	51,289	69,266
Utilities	34,169	33,466
Employee education	26,502	28,601

(Continued)

**COMMISSION OF PUBLIC WORKS
LAURENS, SOUTH CAROLINA
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**

	For the years ended December 31,	
	2010	2009
OPERATING EXPENSES, Continued		
Dues and memberships	21,484	20,558
Meetings and conventions	19,744	22,079
Safety	10,430	9,846
PSC assessment	(19,598)	6,926
Cash (over) short	954	1,827
Intergovernmental fee	298,506	299,034
Depreciation	1,915,082	1,966,811
Amortization	146,594	147,540
	<u>24,459,849</u>	<u>24,249,979</u>
Operating income (loss)	<u>1,520,312</u>	<u>(253,195)</u>
NONOPERATING REVENUES (EXPENSES)		
Scrap sales	17,825	9,179
Investment income	4,424	63,741
Miscellaneous income	60,551	18,510
Grant revenue	120,958	203,997
Revenue bond interest	(404,568)	(483,583)
Loss on disposal of equipment	(229)	(200,259)
Total nonoperating revenues (expenses)	<u>(201,039)</u>	<u>(388,415)</u>
Increase (decrease) in net assets before transfer	1,319,273	(641,610)
TRANSFER		
Transfer to City of Laurens	<u>(146,724)</u>	<u>(187,885)</u>
Increase (decrease) in net assets	1,172,549	(829,495)
NET ASSETS, BEGINNING OF YEAR	<u>23,782,303</u>	<u>24,611,798</u>
NET ASSETS, END OF YEAR	<u><u>\$ 24,954,852</u></u>	<u><u>\$ 23,782,303</u></u>

The accompanying notes are an integral part of these financial statements.

**COMMISSION OF PUBLIC WORKS
LAURENS, SOUTH CAROLINA
STATEMENTS OF CASH FLOWS**

	For the years ended December 31,	
	<u>2010</u>	<u>2009</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$ 25,673,141	\$ 23,790,520
Cash payments to suppliers for goods and services	(21,236,810)	(20,338,272)
Cash payments to employees for services	<u>(1,323,611)</u>	<u>(1,342,016)</u>
Net cash provided by operating activities	<u>3,112,720</u>	<u>2,110,232</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Issuance of refunding revenue bonds	3,430,000	-
Current refunding of debt	(3,712,800)	-
Refunding revenue bond issuance costs	(31,500)	-
Miscellaneous income	181,969	231,686
Transfer to City of Laurens	<u>(146,724)</u>	<u>(187,885)</u>
Net cash provided by (used for) noncapital financing activities	<u>(279,055)</u>	<u>43,801</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investments	532,861	-
Acquisition of investments	-	(22,990)
Investment income	<u>8,673</u>	<u>70,258</u>
Net cash provided by investing activities	<u>541,534</u>	<u>47,268</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of capital assets	(1,391,353)	(881,697)
Principal payments on bonds	(1,120,000)	(1,080,000)
Advances (payments) on line of credit - net	(200,000)	50,000
Payment of capital lease obligation	(15,058)	(2,401)
Proceeds on disposal of assets	-	170,841
Interest paid on borrowings	<u>(453,562)</u>	<u>(500,349)</u>
Net cash used for capital and related financing activities	<u>(3,179,973)</u>	<u>(2,243,606)</u>
Net increase (decrease) in cash and cash equivalents	195,226	(42,305)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>2,310,955</u>	<u>2,353,260</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 2,506,181</u>	<u>\$ 2,310,955</u>
Reconciliation to statement of net assets		
Unrestricted cash and cash equivalents	\$ 243,634	\$ 303,643
Restricted cash and cash equivalents	<u>2,262,547</u>	<u>2,007,312</u>
Total cash and cash equivalents	<u>\$ 2,506,181</u>	<u>\$ 2,310,955</u>
NONCASH CAPITAL AND FINANCING ACTIVITIES		
Acquisition of capital assets under capital lease obligation	<u>\$ -</u>	<u>\$ (86,969)</u>

(Continued)

**COMMISSION OF PUBLIC WORKS
LAURENS, SOUTH CAROLINA
STATEMENTS OF CASH FLOWS**

	For the years ended December 31,	
	2010	2009
Operating income (loss)	\$ 1,520,312	\$ (253,195)
Adjustments to reconcile operating income (loss) to net cash provided by operations:		
Depreciation	1,915,082	1,966,811
Amortization	146,594	147,540
Changes in deferred and accrued amounts:		
Accounts receivable	(307,020)	(201,300)
Inventories	(225,742)	386,411
Prepaid expenses	1,558	(1,366)
Accounts payable	66,831	9,328
Accrued expenses and funds held for others	(46,724)	3,408
Other post employment benefits liability	47,445	76,874
Customer deposits	(5,616)	(24,279)
Net cash provided by operating activities	\$ 3,112,720	\$ 2,110,232

The accompanying notes are an integral part of these financial statements.

**COMMISSION OF PUBLIC WORKS
LAURENS, SOUTH CAROLINA
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - ORGANIZATION

The Commission of Public Works, Laurens, South Carolina (the "Commission") was created in 1922 and consists of natural gas, electric, water, and sanitary sewer systems. The Commission buys and sells electricity, treats and distributes water, and collects and treats wastewater in and around the City of Laurens. The Commission also buys and sells natural gas in a service area generally covering the western half of Laurens County. The Commission is governed by a Board consisting of five members. Commissioners are elected by the public and have decision-making authority such as the authority to increase rates, the power to designate management, the ability to significantly influence operations, and primary accountability for fiscal matters. All operations for which the Commissioners are financially accountable have been included in the accompanying financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

The Commission's financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, as applied to government units. The Governmental Accounting Standards Board is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Commission's accounting policies are described below.

Reporting entity

This report includes all operations of the Primary Government for which the System's Commissioners are financially accountable. The following criteria were used in determining the operations for which financial accountability existed:

1. Selection of a majority of the governing board of the unit
2. Ability to impose its will upon the unit
3. Possibility of the unit to provide a benefit or impose a burden on the Primary Government

There are no component units.

The Commission is established by a separate act of the South Carolina General Assembly to own and operate the utility system in the City of Laurens, South Carolina subject only to the City of Laurens' approval of the Commission's Revenue Bonded indebtedness issuance. The City of Laurens is in no way liable for the debt. There is therefore no financial burden, only a formal approval which is required by the separate act.

Basis of presentation and accounting

The accrual basis of accounting is utilized by the Commission. Under this method, revenues are recorded when earned and expenses are recorded when incurred. The Commission applies all Governmental Accounting Standards Board (GASB) pronouncements as well as Financial Accounting Standards Board (FASB) statements and interpretations, and the Accounting Principles Board (APB) opinions of the Committee on Accounting Procedure issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

All activities of the Commission are accounted for within a single proprietary (enterprise) fund. Proprietary funds are used to account for operations that are (a) financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost (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 that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

The accounting and financial reporting treatment applied to the Commission is determined by its measurement focus. The transactions of the Commission are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations are included on the balance sheet. Net assets (i.e., total assets net of total liabilities) are segregated into invested in capital assets, net of related debt; restricted for debt service, capital activity and other purposes; and unrestricted components.

Statement of cash flows

For purposes of reporting changes in cash flows, the Commission considers all liquid nonequity investments with an original maturity of three months or less to be cash and cash equivalents.

Restricted assets

Certain proceeds of the Commission's enterprise fund revenue bonds are classified as restricted assets on the statement of net assets because their use is limited by applicable bond covenants. The Debt Service Reserve Funds are used to segregate resources accumulated for debt service payments over the next twelve months. The Debt Service Fund - Interest Account, included in the debt service funds, is used to report resources set aside to pay interest coming due on Bonds on July 1 and a portion of the interest coming due on the Bonds on January 1.

Accounts receivable

If accounts have not been collected within the designated time, the service is disconnected and a penalty is required to be paid before the service is reconnected. Accounts which are not considered collectible are written off as bad debts at various times during the year. As of December 31, 2010 and 2009, accounts receivable were \$3,603,267, including \$1,606,775 of unbilled revenue, and \$3,296,247, including \$1,764,117 of unbilled revenue, respectively.

Inventories

Inventories are stated at lower of cost or market which is determined on the first-in, first-out basis. Certain materials for plant improvements and extensions as well as for operation and maintenance are included in inventory.

Capital assets

Capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Depreciation is recognized, principally using the straight-line method, over the estimated useful lives of the assets.

Compensated absences

Compensated absences are absences for which employees will be paid, such as vacation and sick leave. A liability for compensated absences is reported on the statement of net assets.

(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Long-term obligations

Bond discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond discount. Issuance costs are reported as deferred charges.

Net assets

Net assets are comprised of the various net earnings from operating and non-operating revenues, expenses and contributions of capital. Net assets are classified in the following three components: invested in capital assets, net of related debt; restricted for debt service and other purposes; and unrestricted net assets. Invested in capital assets, net of related debt, consists of all capital assets, net of accumulated depreciation and reduced by outstanding debt that is attributable to the acquisition, construction and improvement of those assets. Debt related to unspent proceeds or other restricted cash and investments is excluded from the determination. Restricted for debt service and capital activity consists of net assets for which constraints are placed thereon by external parties, such as lenders, grantors, contributors, laws, regulations and enabling legislation, including self-imposed legal mandates. Unrestricted consists of all other net assets not included in the above categories.

Use of estimates

The financial statements include estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities, and the reported amounts of revenues and expenditures. Actual results could differ from these estimates.

Subsequent Events

In preparing these financial statements, the Commission's management has evaluated events and transactions for potential recognition or disclosure through March 17, 2011, the date the financial statements were available for issuance.

NOTE 3 - INVENTORIES

Inventories consist of the following:

	<u>December 31,</u>	
	<u>2010</u>	<u>2009</u>
Stored gas	\$ 446,303	\$ 215,721
Materials - Electric	102,735	122,957
Materials - Gas	61,253	48,235
Materials - Water and sewer	<u>78,437</u>	<u>76,073</u>
	<u>\$ 688,728</u>	<u>\$ 462,986</u>

NOTE 4 - DEPOSITS AND INVESTMENTS

Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Commission's deposits may not be returned to it.

At December 31, 2010, the carrying amount of the Commission's deposits was \$2,501,031 and the bank balance was \$2,519,624. All of the Commission's deposits at year-end were covered by federal depository insurance or by collateral held in the pledging financial institutions' trust departments in the Commission's name.

(Continued)

NOTE 4 - DEPOSITS AND INVESTMENTS, Continued

At December 31, 2009, the carrying amount of the Commission's deposits was \$2,305,805 and the bank balance was \$2,164,861. All of the Commission's deposits at year-end were covered by federal depository insurance or by collateral held in the pledging financial institutions' trust departments in the Commission's name.

Investments

State statutes authorize the Commission to invest in the following:

- (1) Obligations of the United States and agencies thereof
- (2) General obligations of the State of South Carolina
- (3)
 - (a) Accounts or certificates of deposit of financial institutions to the extent that the same are insured by an agency of the federal government
 - (b) Certificates of deposit or accounts that are collaterally secured by securities of the type described in (1) and (2) above with the collateral security not less than the amount of the account or certificate including interest
 - (c) Repurchase agreements when collateralized by securities as stipulated above
 - (d) No load open end or closed end management type of investment companies or investment trusts registered under the Investment Company Act of 1940 where a bank or trust company is making investments for the fund in securities which qualify as referenced above and whose objective is to maintain a constant net asset value of one dollar

As of December 31, 2010, the Commission had the following investments:

<u>December 31, 2010</u>	<u>Fair Value</u>	<u>Maturities</u>
Mutual funds invested in U.S. Treasuries	\$ 1,392,520	Various
Total investments	<u>\$ 1,392,520</u>	

As of December 31, 2009, the Commission had the following investments:

<u>December 31, 2009</u>	<u>Fair Value</u>	<u>Maturities</u>
Mutual funds invested in U.S. Treasuries	\$ 1,925,381	Various
Total investments	<u>\$ 1,925,381</u>	

Interest rate risk

The Commission does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit risk

The Commission has no investment policy that would further limit its investment choices other than state law.

Concentration of credit risk

The Commission places no limit on the amount the Commission may invest in any one issuer.

The following reconciles deposits and investments to cash and cash equivalents, and investments, as presented in the statement of net assets:

(Continued)

NOTE 4 - DEPOSITS AND INVESTMENTS, Continued

	<u>2010</u>	<u>2009</u>
Disclosures regarding deposits and investments:		
Cash on hand	\$ 5,150	\$ 5,150
Deposits	<u>2,501,031</u>	<u>2,305,805</u>
Total Cash and cash equivalents	2,506,181	2,310,955
Investments	<u>1,392,520</u>	<u>1,925,381</u>
Total	<u>\$ 3,898,701</u>	<u>\$ 4,236,336</u>
	<u>2010</u>	<u>2009</u>
Statements of net assets and cash flow statement amounts:		
Cash and cash equivalents:		
Unrestricted	\$ 243,634	\$ 303,643
Restricted – capital improvement funds	<u>2,262,547</u>	<u>2,007,312</u>
Total cash and cash equivalents	<u>2,506,181</u>	<u>2,310,955</u>
Investments:		
Restricted – debt service reserve funds	<u>1,392,520</u>	<u>1,925,381</u>
Total investments	<u>1,392,520</u>	<u>1,925,381</u>
Total	<u>\$ 3,898,701</u>	<u>\$ 4,236,336</u>

NOTE 5 - CAPITAL ASSETS

The following is a summary of the changes in capital assets:

	Balance <u>December 31, 2009</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfers</u>	Balance <u>December 31, 2010</u>
Capital Assets, Not Being Depreciated					
Land	\$ 1,197,652	\$ 15,500	\$ -	\$ -	\$ 1,213,152
Construction in progress	<u>296,006</u>	<u>229,571</u>	<u>-</u>	<u>(68,000)</u>	<u>457,577</u>
Total capital assets, not being depreciated	<u>1,493,658</u>	<u>245,071</u>	<u>-</u>	<u>(68,000)</u>	<u>1,670,729</u>
Capital Assets, Being Depreciated					
Electric system	12,132,181	194,822	-	18,000	12,345,003
Natural gas system	17,372,217	304,583	-	-	17,676,800
Water system	19,364,091	139,628	-	50,000	19,553,719
Sewer system	18,012,674	114,592	-	-	18,127,266
Real estate and buildings	3,193,167	111,809	-	-	3,304,976
Office equipment	796,722	21,676	(484)	-	817,914
Autos and trucks	3,455,632	250,797	(73,285)	-	3,633,144
Communications equipment	168,305	8,365	(11,546)	-	165,124
Warehouse equipment	<u>45,779</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>45,779</u>
	<u>74,540,768</u>	<u>1,146,272</u>	<u>(85,315)</u>	<u>68,000</u>	<u>75,669,725</u>
Accumulated Depreciation					
Electric system	7,396,436	457,498	-	-	7,853,934
Gas system	15,519,735	449,233	-	-	15,968,968
Water system	10,635,122	477,141	-	-	11,112,263
Sewer system	9,194,673	413,282	-	-	9,607,955
Other	<u>3,585,673</u>	<u>117,928</u>	<u>(85,086)</u>	<u>-</u>	<u>3,618,515</u>
	<u>46,331,639</u>	<u>1,915,082</u>	<u>(85,086)</u>	<u>-</u>	<u>48,161,635</u>
Total capital assets, being depreciated, net	<u>28,209,129</u>	<u>(768,810)</u>	<u>(229)</u>	<u>68,000</u>	<u>27,508,090</u>
Total capital assets, net	<u>\$ 29,702,787</u>	<u>\$ (523,739)</u>	<u>\$ (229)</u>	<u>\$ -</u>	<u>\$ 29,178,819</u>

(Continued)

NOTE 5 - CAPITAL ASSETS, Continued

	Balance December 31, 2008	Additions	Deletions	Transfers	Balance December 31, 2009
Capital Assets, Not Being Depreciated					
Land	\$ 1,197,652	\$ -	\$ -	\$ -	\$ 1,197,652
Construction in progress	221,556	283,485	-	(209,035)	296,006
Total capital assets, not being depreciated	<u>1,419,208</u>	<u>283,485</u>	<u>-</u>	<u>(209,035)</u>	<u>1,493,658</u>
Capital Assets, Being Depreciated					
Electric system	11,852,236	181,902	-	98,043	12,132,181
Natural gas system	17,650,918	196,226	(474,967)	-	17,372,217
Water system	19,151,864	101,235	-	110,992	19,364,091
Sewer system	17,950,080	62,594	-	-	18,012,674
Real estate and buildings	3,190,824	2,343	-	-	3,193,167
Office equipment	750,521	46,201	-	-	796,722
Autos and trucks	3,362,415	93,217	-	-	3,455,632
Communications equipment	168,305	-	-	-	168,305
Warehouse equipment	44,356	1,423	-	-	45,779
	<u>74,121,519</u>	<u>685,181</u>	<u>(474,967)</u>	<u>209,035</u>	<u>74,540,768</u>
Accumulated Depreciation					
Electric	6,496,986	449,450	-	-	7,396,436
Gas	15,125,922	532,678	(138,865)	-	15,519,735
Water	10,179,694	455,428	-	-	10,635,122
Sewer	8,781,763	412,910	-	-	9,194,673
Other	3,469,328	116,345	-	-	3,585,673
	<u>44,503,693</u>	<u>1,966,811</u>	<u>(138,865)</u>	<u>-</u>	<u>46,331,639</u>
Total capital assets, being depreciated, net	<u>29,617,826</u>	<u>(1,281,630)</u>	<u>(336,102)</u>	<u>209,035</u>	<u>28,209,129</u>
Total capital assets, net	<u>\$ 31,037,034</u>	<u>\$ (998,145)</u>	<u>\$ (336,102)</u>	<u>\$ -</u>	<u>\$ 29,702,787</u>

The following is a summary of the estimated useful lives of the system and equipment used to determine depreciation:

Electric system	10-25 years
Natural gas system	10-33 years
Water system	20-50 years
Sewer system	40-50 years
Real estate and buildings	15-25 years
Office equipment	10 years
Autos and trucks	4-5 years
Communications equipment	5-10 years
Warehouse equipment	7-10 years

NOTE 6 - OPERATING LEASE OBLIGATIONS

The Commission leases a copier and certain other equipment under long-term operating leases agreements expiring through 2014. The copier lease includes the cost of 72,000 copies per year. Copies in excess of 72,000 incur a surcharge of \$0.0147 per copy, which is added to the minimum lease payments.

The following is a summary, by years ending December 31, of future minimum lease payments:

2011	\$ 6,289
2012	5,240
2013	4,135
2014	<u>647</u>
	<u>\$ 16,311</u>

Lease expense was \$12,924 and \$19,844 for the years ended December 31, 2010 and 2009, respectively.

NOTE 7 - FUNDS HELD FOR OTHERS

The Commission entered into a Rural Development Act (RDA) Fund Agreement with Laurens Electric Cooperative on January 11, 2001. This agreement states that the Commission is to act as the depository for Laurens Electric Cooperative in accordance with the Rural Development Act of 1996, which allows the Cooperative to use funds otherwise paid to the South Carolina Department of Revenue for the installation and acquisition of infrastructure for economic development. At both December 31, 2010 and 2009, the Commission was holding \$63 in RDA Funds for Laurens Electric Cooperative.

NOTE 8 - REVOLVING LINE OF CREDIT

In October 2010 the Commission renewed the revolving line of credit with its bank in the amount of \$300,100 through August, 2011. The line of credit bears interest at the bank's prime rate, with a minimum rate of 6.00%, payable monthly (6.00% at December 31, 2010 and 6.50% at December 31, 2009). All outstanding advances are due in full, plus accrued interest, at the maturity date, August 18, 2011. At December 31, 2010, outstanding advances totaled \$100,000; at December 31, 2009, outstanding advances totaled \$300,000.

NOTE 9 - REVENUE BONDS PAYABLE

In November 2003, the Commission issued \$12,050,000 of refunding revenue bonds (Series A and B) to defease the 1994 and 1995 bonds. As a result, the 1994 and 1995 refunded bonds are considered to be defeased and the liability has been removed from the statement of net assets. The reacquisition price exceeded the net carrying amount of the old debt by \$1,770,158. This amount is being netted against the new debt and amortized over the remaining life of the refunded debt, which is shorter than the life of the new debt issued. The advance refunding was undertaken to reduce total debt service payments over the next 17 years by \$4,392,866 and resulted in an economic gain of \$1,349,879. The proceeds of the 2003 A and B bonds, applicable to the refunding, have been placed in an irrevocable trust for purposes of generating resources for future debt service payments of the refunded debt. The advance refundings met the requirements of an in-substance defeasance and the debts were removed from the Commission's long-term debt. The amount of defeased debt outstanding but removed from long-term debt amounted to \$8,280,000 and \$9,085,000 at December 31, 2010 and 2009, respectively.

On June 15, 1999, the Commission issued Combined Utility System Revenue Bonds, Series 1999, in the principal amount of \$5,860,000. The purpose of the bonds was to provide funds for improving, extending and enlarging the system. These bonds were retired with the Series 2010 issuance discussed below.

On March 11, 2010, the Commission issued Combined Utility System Revenue Bonds, Series 2010, in the principal amount of \$3,430,000 to currently refund the Series 1999 bonds, of which \$3,640,000 was outstanding at the time of retirement. The reacquisition price exceeded the net carrying amount of the old debt by \$90,951. This amount is being netted against the new debt and amortized over the remaining life of the refunded debt, which is the same as the new debt issued.

(Continued)

NOTE 9 - REVENUE BONDS PAYABLE, Continued

A summary of bonds payable follows:

	<u>December 31,</u>	
	<u>2010</u>	<u>2009</u>
Combined Utility System Revenue Bonds, Series A issued November 6, 2003, due in annual installments of \$40,000 to \$770,000 through January 1, 2018, with an interest rate at 2.0 to 4.0 percent.	\$ 5,495,000	\$ 6,090,000
Combined Utility System Revenue Bonds, Series B issued November 6, 2003, due in annual installments of \$60,000 to \$295,000 through January 1, 2016 with an interest rate at 2.0 to 4.0 percent.	1,675,000	1,925,000
Combined Utility System Revenue Bonds issued June 15, 1999, due in annual installments of \$175,000 - \$450,000 through January 1, 2020, with interest at 5.06 percent.	-	3,915,000
Combined Utility System Revenue Bonds issued March 11, 2010, due in annual installments of \$265,000 - \$415,000 through January 1, 2020, with interest at 3.63 percent.	<u>3,430,000</u>	<u>-</u>
	10,600,000	11,930,000
Unamortized discount	(86,654)	(101,447)
Deferred loss on early retirement of Series 1994 and 1995	(917,553)	(1,036,795)
Deferred loss on early retirement of Series 1999	<u>(81,532)</u>	<u>-</u>
Total bonds payable	9,514,261	10,791,758
Less current portion	<u>(1,135,000)</u>	<u>(1,120,000)</u>
Long-term portion	<u>\$ 8,379,261</u>	<u>\$ 9,671,758</u>

The current portion of bonds payable is summarized as follows:

	<u>December 31,</u>	
	<u>2010</u>	<u>2009</u>
Series 2003A	\$ 610,000	\$ 595,000
Series 2003B	260,000	250,000
Series 1999	-	275,000
Series 2010	<u>265,000</u>	<u>-</u>
	<u>\$ 1,135,000</u>	<u>\$ 1,120,000</u>

The requirement to amortize the Series 2003A bonds is as follows:

<u>Year ending</u> <u>December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u> <u>requirements</u>
2011	\$ 610,000	\$ 186,525	\$ 796,525
2012	630,000	167,138	797,138
2013	645,000	146,016	791,016
2014	670,000	123,406	793,406
2015	695,000	99,084	794,084
2016 – 2018	<u>2,245,000</u>	<u>133,344</u>	<u>2,378,344</u>
	<u>\$ 5,495,000</u>	<u>\$ 855,513</u>	<u>\$ 6,350,513</u>

(Continued)

NOTE 9 - REVENUE BONDS PAYABLE, Continued

The requirement to amortize the Series 2003B bonds is as follows:

<u>Year ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total requirements</u>
2011	\$ 260,000	\$ 59,805	\$ 319,805
2012	265,000	50,353	315,353
2013	275,000	40,225	315,225
2014	285,000	29,300	314,300
2015	295,000	17,700	312,700
2016	295,000	5,900	300,900
	<u>\$ 1,675,000</u>	<u>\$ 203,283</u>	<u>\$ 1,878,283</u>

The requirement to amortize the Series 2010 bonds is as follows:

<u>Year ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total requirements</u>
2011	\$ 265,000	\$ 119,666	\$ 384,666
2012	300,000	109,414	409,414
2013	310,000	98,345	408,345
2014	325,000	86,824	411,824
2015	335,000	74,849	409,849
2016 – 2020	1,895,000	178,457	2,073,457
	<u>\$ 3,430,000</u>	<u>\$ 667,555</u>	<u>\$ 4,097,555</u>

The total requirements to amortize bond debt are as follows:

<u>Year ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total requirements</u>
2011	\$ 1,135,000	\$ 365,996	\$ 1,500,996
2012	1,195,000	326,905	1,521,905
2013	1,230,000	284,586	1,514,586
2014	1,280,000	239,530	1,519,530
2015	1,325,000	191,633	1,516,633
2016 – 2020	4,435,000	317,701	4,752,701
	<u>\$ 10,600,000</u>	<u>\$ 1,726,351</u>	<u>\$ 12,326,351</u>

NOTE 10 - BOND ORDINANCE

The Combined Utility System Revenue Bonds are to be paid, both principal and interest, out of the net revenues of the System after the payment of operating and maintenance expense of the Commission. The bonds are special obligations of the City of Laurens, South Carolina, payable solely from the revenues of the Commission of Public Works, Laurens, South Carolina. The bonds do not constitute a debt of the City.

The Bond Ordinance established the following funds for the deposit and application of the revenue of the system:

Debt Service Fund

The Debt Service Fund is kept on deposit with a trustee, and withdrawals are made for the purposes provided in the Ordinances.

(Continued)

NOTE 10 - BOND ORDINANCE, Continued

The amounts to be paid into the Debt Service Fund, in the following order of priority, are as follow:

Interest Account

The Commission deposits into the Debt Service Fund, for credit to the Interest Account, a monthly amount equal to one-sixth of the next installment of interest due on the bonds outstanding.

Principal Account

The Commission deposits into the Debt Service Fund, for credit to the Principal Account, a monthly amount equal to one-twelfth of the next principal installment due on the bonds outstanding.

Debt Service Reserve Fund

The Debt Service Reserve Fund is kept on deposit with a Trustee and withdrawals are made for the purposes provided in the Ordinance.

Upon the delivery of the 1999 Series bonds, there was deposited into the Debt Service Reserve Fund an amount equal to the Reserve Fund Requirements on the Bonds of 1999. This amount was liquidated as a result of the retirement of the 1999 Series bonds as discussed in note 9 above.

NOTE 11 - CAPITAL LEASES

The Commission entered into a capital lease in October, 2009 for the acquisition of equipment. A summary of the capital lease obligation follows:

	<u>December 31,</u>	
	<u>2010</u>	<u>2009</u>
Capital lease obligation payable in monthly installments of principal and interest of \$1,746 through October 14, 2014	\$ 69,510	\$ 84,568
Less current portion	<u>(16,240)</u>	<u>(15,058)</u>
Long-term portion	<u>\$ 53,270</u>	<u>\$ 69,510</u>

The carrying value of assets under capital lease at December 31, 2010 and 2009 is \$66,676 and \$84,070, respectively. Amortization of assets under capital lease totaling \$17,394 and \$2,899, respectively, is included in depreciation expense.

Future minimum lease payments under the capital lease obligation are as follow:

<u>Year ending</u> <u>December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u> <u>payment</u>
2011	\$ 16,240	\$ 4,712	\$ 20,952
2012	17,510	3,442	20,952
2013	18,891	2,061	20,952
2014	<u>16,869</u>	<u>591</u>	<u>17,460</u>
	<u>\$ 69,510</u>	<u>\$ 10,806</u>	<u>\$ 80,316</u>

NOTE 12 - EMPLOYEE BENEFITS

Retirement Plan

Substantially all Commission employees are members of the South Carolina Retirement System, a cost-sharing multiple-employer defined benefit pension plan administered by the Retirement Division of the State Budget and Control Board. The System provides retirement and disability benefits, cost of living adjustments on an ad hoc basis, life insurance benefits and survivor benefits. The plan's provisions are established under Title 9 of the SC code of laws. The System issues a publicly available financial report that includes financial statements and required information for the South Carolina Retirement System. That report may be obtained by writing the South Carolina Retirement System, Post Office Box 11960, Columbia, South Carolina 29211-1960.

Plan members are required to contribute 6.5 percent of their annual covered salary and the Commission is required to contribute at an actuarially determined rate. The current rate is 9.24 percent of annual covered payroll. In addition, the Commission contributes .15 percent of payroll to a group life insurance benefit for its participants. The Commission's contributions to the System for the years ended December 31, 2010, 2009 and 2008 were \$298,805, \$295,647 and \$280,411, respectively. Covered payrolls for the years ended December 31, 2010, 2009 and 2008 were \$3,233,812, \$3,199,103 and \$3,063,649, respectively.

Employees eligible for service retirement may participate in the Teacher and Retiree Incentive Program (TERI). TERI participants may retire and begin accumulating retirement benefits on a deferred basis without terminating employment for up to five years. Upon termination of employment or at the end of the TERI period, whichever is earlier, participants will begin receiving monthly service retirement benefits which will include any cost of living adjustments granted during the TERI period. Because participants are considered retired during the TERI period, they do not earn service credit, and are ineligible to receive group life insurance benefits or disability retirement benefits. Effective July 1, 2006, TERI participants who entered the program after July 1, 2005 must contribute to SCRS as long as they are covered under the TERI program.

Optional Retirement Program

Certain State employees may elect to participate in the Optional Retirement Program (ORP), a defined contribution plan. The ORP was established in 1987 under Title 9, Chapter 17, of the South Carolina Code of Laws. The ORP provides retirement and death benefits through the purchase of individual fixed or variable annuity contracts which are issued to, and become the property of, the participants. The State assumes no liability for this plan other than for payment of contributions to designated insurance companies. To elect participation in the ORP, eligible employees must irrevocably waive SCRS membership within their first ninety days of employment.

Under State law, contributions to the ORP are required at the same rates as for the SCRS, 9.24 percent plus the retiree surcharge of 3.42 percent from the employer in fiscal year 2009.

Currently, the Commission does not have any employees that have elected to be covered under this plan.

Deferred Compensation Plans

The Commission employees may participate in the 457 and/or 401(k) deferred compensation plans available to state and local governmental employees through the state public employee retirement system. These programs are administered by a state approved nongovernmental third party. The Commission matches a half percent for every one percent of employee contributions up to six percent of their annual salary. The expense for the year ended December 31, 2010, 2009 and 2008 was \$50,429, \$51,942, and \$53,848, respectively.

(Continued)

NOTE 12 - EMPLOYEE BENEFITS, Continued

Post-employment Health Care Benefits

Plan description, contribution information and funding policies

In addition to providing pension benefits, the Commission provides certain health care benefits for retired employees through the South Carolina Retirement System. Substantially all of the Commission's employees may become eligible for those benefits if they reach normal retirement age while working for the Commission. If an employee retires with less than ten years of continuous employment, and prior to becoming eligible for Medicare benefits, health care insurance is available at the employee's expense under the group health insurance plan until such time as the employee becomes eligible for Medicare benefits. If the employee retires with more than ten years of continuous employment, and elects to remain under the Commission's group health insurance plan, the Commission will pay a portion of the premiums for health and dental coverage under that plan for a maximum of five years beginning at the time of retirement, or until the employee is eligible for Medicare benefits, whichever occurs first. The portion of the premium which the Commission will pay is based on the number of continuous years of employment, ranging from 25% for ten to fourteen years of continuous employment to 100% for thirty or more years of continuous employment.

For the year ended December 31, 2010, there were 13 retirees and 2 retirees' dependents participating in the health care benefit plan. Both the Commission and the retired participants contribute to the plan through payment of monthly premiums. The Commission's contribution is recognized as expense as monthly premiums are paid to the South Carolina Retirement System. The expense for the years ended December 31, 2010, 2009, and 2008 were \$87,457, \$58,028, and \$24,468, respectively.

Annual OPEB costs and Net OPEB Obligation

The Commission first had an actuarial valuation performed for the plan as of December 31, 2008 to determine the funded status of the plan as of that date as well as the employer's annual required contribution (ARC) for the fiscal year ended December 31, 2009. The valuation will be updated every three years. The Commission's annual OPEB cost of \$133,250 is equal to the ARC for the initial reporting year. The Commission's annual OPEB costs and the net OPEB obligation for December 31, 2010 was as follows:

Employer normal costs	\$	93,584
Amortization of UAAL*		<u>39,666</u>
Annual required contribution (ARC)		133,250
Interest on net obligation		<u>1,652</u>
Annual OPEB costs		134,902
Contributions made		<u>(87,457)</u>
Increase in net OPEB obligation		47,445
Net OPEB obligation – beginning of year		<u>76,874</u>
Net OPEB obligation - end of year	\$	<u>124,319</u>

* Unfunded Actuarial Accrued Liabilities (UAAL) were amortized over 30 years.

(Continued)

NOTE 12 - EMPLOYEE BENEFITS, Continued

The Commission's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2010:

<u>Fiscal Year</u>	<u>Annual OPEB Cost</u>	<u>Percentage Contributed</u>	<u>Net OPEB Obligation</u>
2009	\$ 134,902	43.01%	\$ 76,874
2010	\$ 134,902	64.83%	\$ 124,319

Funded Status and Funding Progress

The funded status of the plans as of December 31, 2010, was as follows:

Actuarial accrued liability	\$ 999,082
Actuarial value of plan assets	<u>-</u>
Unfunded actuarial accrued liability	\$ 999,082
Funded Ratio	0.00%
Covered payroll	\$ 3,233,812
Unfunded actuarial accrued liability as a percentage of covered payroll	30.89%

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 well into the future. Examples would include assumptions about future employment, rates of retirement, mortality, and health care cost trends. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan understood by the employer and 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.

In the December 31, 2008 actuarial valuation, the projected unit credit cost method was used. The UAAL amortization payment is the level dollar amount required to fully amortize the UAAL over a 30 year period on a closed basis. The actuarial assumptions included 1.24% rate of investment return. The valuation assumes a 7.5% health and dental care trend inflation rate for 2009 and decreases 0.5% each year until 2014, and thereafter 5.0% was assumed.

NOTE 13 - RISK MANAGEMENT

The Commission is subject to risk normally associated with a governmental entity. The South Carolina Insurance Reserve Fund provides insurance coverage for the Commission's vehicles and tort insurance covering its employees and Commissioners. The Commission continues to carry commercial insurance for other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years.

NOTE 14 - UNCONDITIONAL PURCHASE OBLIGATION

On December 15, 1980, the Commission entered into an agreement with the Piedmont Municipal Power Agency, of which it is a charter member, whereby it is obligated to purchase its bulk electricity supply requirements from the Agency excluding any purchases of power and energy from the Southeastern Power Administration. The agreement extends until all of the payments on the bonds issued by the Agency have been paid or provided for, but in any event not later than August 1, 2035. For the years ended December 31, 2010 and 2009, the Commission's electricity purchased from the Agency totaled \$7,845,110 and \$7,275,537, respectively.

On December 14, 1981, the Commission entered into an agreement with Laurens County Water and Sewer Commission, whereby it is obligated to take or pay for 730 million gallons of raw water annually from the Water and Sewer Commission. The agreement extends until December 14, 2021. For the years ended December 31, 2010 and 2009, the raw water purchased from the Water and Sewer Commission totaled \$300,859 and \$295,285, respectively.

On January 27, 1986, the Commission entered into an agreement with the Southeastern Power Administration ("SEPA") whereby SEPA will make available and the Commission will purchase 4678 kilowatts of capacity and a percentage of SEPA's available energy each month. For the years ended December 31, 2010 and 2009, the electricity purchased from SEPA totaled \$421,485 and \$399,266, respectively.

**COMMISSION OF PUBLIC WORKS
LAURENS, SOUTH CAROLINA
REQUIRED SUPPLEMENTAL INFORMATION
SCHEDULE OF FUNDING PROGRESS - OTHER POST EMPLOYMENT BENEFITS
YEAR ENDED JUNE 30, 2010**

The Commission's annual Other Post Employment Benefits Plan (OPEB) cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the 2009 and 2010 fiscal years are as follows:

Fiscal year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2009	\$ 134,902	43.01%	\$ 76,874
2010	\$ 134,902	64.83%	\$ 124,319

The funded status and funding progress of the plan was as follows:

Actuarial valuation date	Fiscal year ended	Actuarial value of plan assets (a)	Actuarial accrued liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded ratio (a/b)	Covered payroll (c)	UAAL as a percentage of covered payroll
6/30/2008	6/30/2009	-	\$ 999,082	\$ 999,082	0.00%	\$ 3,199,103	31.23%
	6/30/2010	-	\$ 999,082	\$ 999,082	0.00%	\$ 3,233,812	30.89%

Compliance and Other Matters

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

This report is intended solely for the information and use of the management, others within the organization and the Commissioners and is not intended to be and should not be used by anyone other than these specified parties.

Greenwood, South Carolina
March 17, 2011

Ernest Davis LLC

LAURENS COMMISSION OF PUBLIC WORKS
SCHEDULE OF FINDINGS
For the year ended December 31, 2010

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements.
2. Two significant deficiencies relating to the audit of the financial statements is reported in the Schedule of Findings.
3. One material weakness relating to the audit of the financial statements is reported in the Schedule of Findings.
4. No instances of noncompliance material to the financial statements were disclosed during the audit.

B. FINDINGS – FINANCIAL STATEMENT AUDIT

2010-1 Preparation of Financial Statements

Significant Deficiency

Condition: Currently, management responsible for the accounting and reporting function are not trained to prepare the Commission's financial statements in accordance with generally accepted accounting principles.

Criteria: Internal controls over financial reporting should be in place to provide reasonable assurance that financial statements are prepared in accordance with generally accepted accounting principles.

Effect: Because management is not trained currently in preparing financial statements in accordance with generally accepted accounting principles, a material misstatement to the Commission's financial statements could occur and not be prevented or detected by the Commission's internal controls over financial reporting.

Recommendation: Consideration should be given to requiring management to attend or obtain additional training in this area.

2010-2 Posting Grant Revenues as Credits in Construction in Progress Capital Accounts

Significant Deficiency

Condition: Posting of grant revenues as credits in the construction in progress account for the project the grant was intended to fund.

Criteria: Grant revenues and costs associated with construction projects should be reported at gross amounts to properly reflect the financial transactions.

Effect: Cost of construction or other capital projects and revenues could be understated significantly.

Recommendation: Consideration should be given to requiring management to attend or obtain additional training in this area.

2010-3 Reconciliation of General Ledger Accounts to Subsidiary Records

Material Weakness

Condition: Reconciliations of cash and revenue bond indebtedness to underlying records were not properly performed during the year.

Criteria: Internal controls over account reconciliations should be in place to provide reasonable assurance that reconciliations are prepared accurately and that accounts are properly adjusted to accurately reflect results of operations and account balances in asset and liability accounts throughout the year.

Effect: Accurate reporting of financial results is dependent on accurately reconciling general ledger accounts to bank account reconciliations, subsidiary reports and other underlying records. Bank reconciliations were inaccurately prepared and revenue bond debt accounts did not properly reflect payment of debt.

Recommendation: Consideration should be given to requiring accounting staff to attend or obtain additional training in this area.