

MANNING MUNICIPAL COMMUNICATIONS
AND TELEVISION SYSTEM UTILITY

INDEPENDENT AUDITORS' REPORTS

BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTAL INFORMATION

SCHEDULE OF FINDINGS

FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

HEITHOFF, HANSEN, MUHLBAUER & CO., P.C.
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MANNING MUNICIPAL COMMUNICATIONS
AND TELEVISION SYSTEM UTILITY

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MANNING MUNICIPAL COMMUNICATIONS
AND TELEVISION SYSTEM UTILITY
MANNING, IOWA

OFFICIALS

DECEMBER 31, 2004

<u>Name</u>	<u>Position</u>	<u>Term Expires</u>
Dr. Robert Vonnahme	Chairperson	11-4-2008
John Detlefsen	Vice Chairperson	11-4-2007
Rick Lohrmann	Secretary	11-4-2010
Ron Soll	Board Member	11-4-2005
Marsha Clausen	Board Member	11-4-2006
Jeff Carson	Manager	

HEITHOFF, HANSEN, MUHLBAUER & CO., P.C.

Certified Public Accountants

Morrie M. Heithoff, CPA
Susan L. Hansen, CPA
Jeffrey L. Muhlbauer, CPA

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May 26, 2005

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
Manning Municipal Communications and Television System Utility
Manning, Iowa 51455

We have audited the accompanying basic financial statements, listed as exhibits in the table of contents of this report, of the Manning Municipal Communications and Television System Utility, (a municipal utility). The Balance Sheets and Statements of Revenues, Expenses and Changes in Fund Net Assets are as of and for the years ended December 31, 2004 and 2003. The Statement of Cash Flows is only for the year ended December 31, 2004. These financial statements are the responsibility of the Manning Municipal Communications and Television System Utility's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions 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 audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Manning Municipal Communications and Television System Utility as of December 31, 2004 and 2003, and the changes in its financial position and its cash flow for the year ended December 31, 2004, in conformity with accounting principles generally accepted in the United States of America.

May 26, 2005
Manning Municipal Communications and
Television System Utility
Page Two

As discussed in Note M to the financial statements, for the year ended December 31, 2004, Manning Municipal Communications and Television System Utility adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments; Statement No. 37, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments; Omnibus; and Statement No. 38, Certain Financial Statement Note Disclosures; and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences.

In accordance with Government Auditing Standards, we have also issued a report dated May 26, 2005, on our consideration of the Manning Municipal Communications and Television System Utility's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations and contracts. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis on pages 6 through 10 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 measurements and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the Manning Municipal Communications and Television System Utility's basic financial statements. The supplemental information included in Schedules 1 through 2 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. Information in Schedule 3 has not been subjected to the auditing procedures applied in our audit of the aforementioned financial statements and, accordingly, we express no opinion on it.

Heithoff, Hansen, Muhlbauer & Co., P.C.
HEITHOFF, HANSEN, MUHLBAUER & CO., P.C.
Certified Public Accountants



Manning Municipal Communications & Television System Utility
719 3rd Street · Manning, IA 51455 · (712) 655-2660

MANAGEMENT'S DISCUSSION AND ANALYSIS

Manning Municipal Communications and Television System Utility provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the year ended December 31, 2004. We encourage readers to consider this information in conjunction with the Utility's financial statements, which follow.

Because Manning Municipal Communications and Television System Utility is implementing new reporting standards for this year with significant changes in content and structure, much of the information is not easily comparable to prior years. However, in future years, comparisons will be more meaningful and will go further in explaining the Utility's financial position and results of operations.

2004 FINANCIAL HIGHLIGHTS

- Operating revenues of the Utility's activities increased 20.54%, or \$171,925, from 2003 to 2004. (This increase is largely due to collecting 3 cents common carrier line charges from a variety of phone companies in the amount of \$125,508.)
- Operating expenses increased 6.49%, or \$56,340 from December 31, 2003 to December 31, 2004.
- The Utility's net assets of business type activities increased \$240,991 from December 31, 2003 to December 31, 2004.

USING THIS ANNUAL REPORT

This 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.

Financial Statements consist of a Balance Sheet and a Statement of Revenues, Expenses, and Changes in Fund Net Assets and a Statement of Cash Flows. These provide information about the activities of Manning Municipal Communications and Television System Utility as a whole and present an overall view of the Utility's finances.

Notes to Financial Statements provide additional information essential to a full-understanding of the data provided in the basic financial statements.

Other Supplementary Information provides a listing of the Utility's comparative financial data with a prior year, capital assets, and statistical data.

REPORTING THE UTILITY'S FINANCIAL ACTIVITIES

Basic Financial Statements

One of the most important questions asked about the Utility's finances is, "Is the Utility as a whole better or worse off as a result of the year's activities?" The Balance Sheet and the Statement of Revenues, Expenses, and Changes in Fund Net Assets report information, which helps answer, this question. These statements include all assets and liabilities using the accrual basis of accounting and the economic resources measurement focus, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account, regardless of when cash is received or paid.

The Balance Sheet presents all of the Utility's assets and liabilities with the difference between the two reported as "net assets". Over time, increases or decreases in the Utility's net assets may serve as a useful indicator of whether the financial position of the Utility is improving or deteriorating.

The Statement of Revenues, Expenses, and Changes in Fund Net Assets presents information showing how the Utility's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement of some items that will not result in cash flows until future fiscal periods.

The Balance Sheet and the Statement of Revenues, Expenses, and Changes in Fund Net Assets report the following activity:

- Business type activity for the Communication Utility. This activity is financed primarily by user charges.

Fund Financial Statements

The Utility has one fund:

The Proprietary fund accounts for the Utility's Enterprise Fund. This fund reports services for which the Utility charges customers for the service it provides. Proprietary funds report all activities in the Balance Sheet and the Statement of Revenues, Expenses, and Changes in Fund Net Assets. Since there is only one fund, this is obviously the only major fund as well. The Utility is responsible for ensuring the assets reported in this fund are used only for their intended purposes and by those to whom the assets belong.

The required financial statements for proprietary funds include a balance sheet, a statement of revenues, expenses, and changes in fund net assets and a statement of cash flows.

BASIC FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of financial position. The analysis that follows focuses on the changes in the net assets for this business type activity.

Net Assets
December 31, 2004

Business Type Activity – Enterprise Fund

Current and other assets	\$ 577,543
Capital assets	<u>626,603</u>
Total Assets	<u>\$1,204,146</u>
Current liabilities	\$ 174,212
Non-current liabilities	<u>800,000</u>
Total Liabilities	<u>\$ 974,212</u>
Net assets:	
Invested in capital assts, net of related debt	\$ -0-
Restricted	1,750
Unrestricted	<u>228,184</u>
Total net assets	<u>\$ 229,934</u>

Net assets of business type activities increased from 2003 by \$240,991. Unrestricted net assets, the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, legislation or other legal requirements, is \$228,184 at the end of this year. This is the largest portion of the net assets. Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The invested in capital assets (e.g. land, infrastructure, buildings, and equipment), less the related debt is shown as zero since it is actually a negative number. The related debt is larger than the net capital assets due to the fact that principal payments have not been made on a large portion of the debt, but yet accumulated depreciation continues to increase. If it was shown as a negative number, the unrestricted net assets would be overstated.

Changes in Net Assets
Year ended December 31, 2004

Business Type Activity Enterprise Fund – Communication Fund

Revenues:	
Charges for services	\$ 989,129
Interest Income	1,987
Service & reconnect charges	9,128
Salary reimbursement	5,506
Debt forgiveness	200,000
Advertising fees	2,372
Misc. fees	2,912
Total revenues	<u>\$1,211,034</u>
Operating expenses:	
Production	\$ 408,479
Rent	170,849
Administrative and general	244,428
Total operating expenses	<u>\$ 823,756</u>
Other expenses:	
Depreciation	\$ 100,773
Interest expense	26,451
Loss on disposal of equipment	19,063
Total other expense	<u>\$ 146,287</u>
Increase in net assets	\$ 240,991
Net assets beginning of year	<u>(11,057)</u>
Net assets end of year	<u>\$ 229,934</u>

CAPITAL ASSETS

The Utility's capital assets include land, buildings and improvements, equipment, and other infrastructure. Capital assets for the business type activity totaled \$626,603 (net of accumulated depreciation) at December 31, 2004.

LONG-TERM DEBT

At December 31, 2004, the Utility had \$800,000 in total long-term debt outstanding for business type activities. During the year ended December 31, 2004, the Utility received an additional \$98,750 from the Manning Gas Dept. on their note payable. The note payable to the Manning Light Plant was reduced by \$200,000 through a debt forgiveness resolution.

ECONOMIC FACTORS BEARING ON THE COMMUNICATION UTILITY'S FUTURE

The Communication Utility has not made any significant rate changes and does not expect any significant changes in the future. MMCTSU also charges carrier access fees to other telephone companies for the use of MMCTSU's telephone lines. It has been a constant legal battle in trying to collect all of the carrier access fees. The fact that several telephone companies have declared bankruptcy makes it even more difficult.

CONTACTING THE COMMUNICATION UTILITY'S FINANCIAL MANAGEMENT

This financial report is designed to present our citizens, taxpayers, customers, investors and creditors with a general overview of the Communication Utility's finances and operating activities. If you have any questions or require additional information please contact Jeff Carson, Manager, 719 Third Street, Manning, Iowa 51455.

BASIC FINANCIAL STATEMENTS

MANNING MUNICIPAL COMMUNICATIONS
AND TELEVISION SYSTEM UTILITY
BALANCE SHEETS
DECEMBER 31, 2004 AND 2003

ASSETS

	<u>2004</u>	<u>2003</u>
Current Assets		
Cash	\$ 391,204	\$ 255,328
Restricted cash - customer deposits	1,750	1,400
Accounts receivable – customers	28,285	27,454
Allowance for doubtful accounts – customers	(886)	-0-
Accounts receivable - carrier access fees	137,164	99,313
Allowance for doubtful accounts – carrier fees	(32,464)	(33,305)
Inventory	48,634	50,576
Prepaid expenses	<u>3,856</u>	<u>3,580</u>
Total Current Assets	577,543	404,346
Capital Assets		
Headhouse	58,095	233,530
Distribution	37,626	127,162
General	39,870	55,075
Internet	110,871	67,436
Telephony	<u>760,507</u>	<u>747,679</u>
	1,006,969	1,230,882
Less: Accumulated depreciation	<u>(380,366)</u>	<u>(586,548)</u>
Net Capital Assets	<u>626,603</u>	<u>644,334</u>
Total Assets	<u>\$1,204,146</u>	<u>\$1,048,680</u>

See notes to financial statements.

MANNING MUNICIPAL COMMUNICATIONS
AND TELEVISION SYSTEM UTILITY
BALANCE SHEETS
DECEMBER 31, 2004 AND 2003

Exhibit A
(continued)

LIABILITIES AND NET ASSETS

	<u>2004</u>	<u>2003</u>
Current Liabilities		
Accounts payable - operating	\$ 20,686	\$ 12,006
Accounts payable - telephone service	60,959	45,007
Sales tax payable	1,662	1,602
Deferred income	27,446	28,629
Customer deposits payable	1,750	1,400
Accrued wages	-0-	2,784
Accrued vacation and sick leave payable	6,225	4,803
Other taxes payable	4,468	4,513
Accrued interest payable	25,846	30,633
Real estate taxes payable	16,610	14,942
Note payable – AIB	<u>8,560</u>	<u>12,168</u>
Total Current Liabilities	174,212	158,487
Long-Term Liabilities, Notes Payable to other municipal departments	<u>800,000</u>	<u>901,250</u>
Total Liabilities	974,212	1,059,737
Net Assets		
Invested in capital assets, net of related debt	-0-	-0-
Restricted for:		
Customer deposits	1,750	1,400
Unrestricted	<u>228,184</u>	<u>(12,457)</u>
Total Net Assets	<u>229,934</u>	<u>(11,057)</u>
Total Liabilities and Net Assets	<u>\$1,204,146</u>	<u>\$1,048,680</u>

See notes to financial statements.

MANNING MUNICIPAL COMMUNICATIONS
AND TELEVISION SYSTEM UTILITY
STATEMENTS OF REVENUES, EXPENSES AND
CHANGES IN FUND NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

	<u>2004</u>	<u>2003</u>
Operating Revenues - Subscriber Fees		
Basic T.V.	\$ 169,674	\$ 172,038
Single movie	6,090	6,738
Double movie	6,245	7,568
Three or more movies	<u>5,898</u>	<u>6,373</u>
	187,907	192,717
Cost of Sales - Signal Charges		
National Cable Television Coop.-Various	101,062	93,575
United Video/WGN	1,180	1,139
USA Network	4,029	3,708
Lifetime	<u>2,441</u>	<u>2,524</u>
	<u>108,712</u>	<u>100,946</u>
Net Revenues from Subscriber Fees	79,195	91,771
Operating Revenues - Telephone Charges		
Local access	159,712	157,083
Local tolls	85,640	78,655
Carrier access fees	366,611	211,416
Circuit revenue	43,824	36,000
USAC revenue	12,514	11,786
Calling features	<u>9,689</u>	<u>8,610</u>
	677,990	503,550
Cost of Sales - Telephone		
Local switching fees	63,870	53,964
Long distance switching fees	36,883	42,151
Carrier access fees	85,015	88,869
Local billing fees	20,847	12,954
Subscriber services	14,600	14,382
Circuit expense	28,017	25,308
USAC expense	<u>-0-</u>	<u>7,741</u>
	<u>249,232</u>	<u>245,369</u>
Net Revenues from Telephone Charges	428,758	258,181

Exhibit B
(continued)

MANNING MUNICIPAL COMMUNICATIONS
AND TELEVISION SYSTEM UTILITY
STATEMENTS OF REVENUES, EXPENSES AND
CHANGES IN FUND NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

	<u>2004</u>	<u>2003</u>
Operating Revenues - Internet		
Unlimited service	\$ 20,786	\$ 26,794
Unlimited service on contract	29,317	34,919
Ten hour plan	4,749	4,728
Cable modem income	62,107	44,929
Other fees	<u>6,273</u>	<u>5,220</u>
	123,232	116,590
Cost of Sales - Internet		
Internet expenses	<u>50,535</u>	<u>50,091</u>
Net Revenues from Internet Charges	72,697	66,499
Other Operating Revenues		
Advertising Fees – Channel 22	2,372	2,485
Remotes	680	716
Miscellaneous	525	2,629
Hookup fees - Cable	750	705
Reconnect charges – Cable	2,350	1,995
Service charges	6,778	5,545
Directory fees	957	3,628
Salary reimbursement - Light Dept.	<u>5,506</u>	<u>6,562</u>
	<u>19,918</u>	<u>24,265</u>
Net Operating Revenues before Expenses	600,568	440,716
Operating Expenses (See Schedule 1)	<u>516,050</u>	<u>471,783</u>
Net Operating Income (Loss)	84,518	(31,067)
Non-operating Revenues (Expenses)		
Interest income	1,987	1,850
Interest expense	(26,451)	(31,325)
Debt forgiveness – Light Dept.	200,000	-0-
Gain (loss) disposal of equip.	<u>(19,063)</u>	<u>-0-</u>
Total Non-operating Revenues (Expenses)	<u>156,473</u>	<u>(29,475)</u>
Change in Net Assets	240,991	(60,542)
Total Net Assets, Beginning	<u>(11,057)</u>	<u>49,485</u>
Total Net Assets, Ending	<u>\$ 229,934</u>	<u>\$ (11,057)</u>

See notes to financial statements.

MANNING MUNICIPAL COMMUNICATIONS
AND TELEVISION SYSTEM UTILITY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2004

Cash Flows from operating activities:	
Cash received from customers and users	\$ 949,309
Cash received from other revenues	19,918
Cash paid to suppliers	(390,861)
Cash paid for personal services	(275,080)
Cash paid to employees	<u>(131,196)</u>
Net cash provided by operating activities	172,090
Cash flows from noncapital financing activities:	
Change in customer deposits	<u>350</u>
Net cash provided by noncapital financing activities	350
Cash flows from capital and related financing activities:	
Proceeds received on note	98,750
Acquisition of capital assets	(102,105)
Interest paid on notes	(31,238)
Principal paid on notes	<u>(3,608)</u>
Net cash provided (used) by capital and related financing activities	(38,201)
Cash flows from investing activities:	
Interest on investments	<u>1,987</u>
Net cash provided by investing activities	<u>1,987</u>
Net increase (decrease) in cash and cash equivalents	136,226
Cash and cash equivalents beginning of year	<u>256,728</u>
Cash and cash equivalents end of year	<u>\$ 392,954</u>

See notes to financial statements.

MANNING MUNICIPAL COMMUNICATIONS
AND TELEVISION SYSTEM UTILITY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2004

Exhibit C
(continued)

**Reconciliation of operating income to net cash
provided by operating activities:**

Operating income (loss)	\$ 84,518
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	100,773
(Increase) decrease in customer accounts receivable	(38,637)
(Increase) decrease in inventories	1,942
(Increase) decrease in prepaid expenses	(276)
Increase (decrease) in accounts payable	24,632
Increase (decrease) in sales tax payable	60
Increase (decrease) in salaries payable	(1,362)
Increase (decrease) in deferred income	(1,183)
Increase (decrease) in other payables	<u>1,623</u>
Net cash provided by operating activities	<u>\$ 172,090</u>

**Reconciliation of cash and cash equivalents at year end
to specific assets included on the Balance Sheet:**

Current assets:	
Cash and pooled investments	\$ 391,204
Restricted assets:	
Cash and pooled investments:	
Customer deposits	<u>1,750</u>
Cash and cash equivalents end of year	<u>\$ 392,954</u>

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

MANNING MUNICIPAL COMMUNICATIONS
AND TELEVISION SYSTEM UTILITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Manning Municipal Communications and Television System Utility is a component unit of the City of Manning, Iowa, as determined by criteria specified by the Governmental Accounting Standards Board. The Utility is governed by a five member board of trustees appointed by the City Council. The Governmental Accounting Standards Board 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 Manning Municipal Communications and Television System Utility has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations

The Utility participates in several jointly governed organizations that provide goods or services to the citizenry of the Utility. Some Utility officials are members of the following boards: Manning Municipal Light Plant and the Manning Municipal Gas Department.

Nature of Business

The Manning Municipal Cable Board was established October 12, 1981, by the Manning City Council, for the purpose of designing, implementing, constructing, operating and maintaining the Manning Municipal Cable System, located in Carroll County and operating in the City of Manning, Iowa.

By vote of a special election held September 24, 1996, a municipal cable communication and television system utility was subsequently established on January 23, 1997. The Manning Municipal Cable T.V. Board formally transferred all of the Cable T.V.'s assets, liabilities, retained earnings, powers, records, and unfinished business at January 23, 1997 to the Manning Municipal Communications and Television System Utility. With that action, all official records of the Manning Municipal Cable T.V. were closed.

MANNING MUNICIPAL COMMUNICATIONS
AND TELEVISION SYSTEM UTILITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Nature of Business (continued)

As of the transfer date, the Manning Municipal Communications and Television System Utility Board acquired all powers as authorized by law and shall provide all services it deems necessary and convenient as permitted by law including, without limitation, video, voice, telephone, data, communication, interconnections and all other forms of communications, whether to date existing or yet to be developed as set forth in a resolution adopted by the Manning City Council on November 4, 1996.

The mission of the Manning Municipal Communications and Television System Utility shall be to develop and implement a comprehensive communications system incorporating the elements of telephony, cable television, broadband communications and any other technologies approved by the Utility Board.

The Utility's revenues are dependent upon the economic status of its customers. Collection policies have been established.

The Utility also charges carrier access fees to other telephone companies for the use of MMCTSU's telephone lines.

Measurement Focus and Basis of Accounting

The proprietary fund 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 related cash flows.

The proprietary fund of the Communication Utility applies all applicable GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncement conflict with or contradict GASB Pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure.

MANNING MUNICIPAL COMMUNICATIONS
AND TELEVISION SYSTEM UTILITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The proprietary fund distinguishes 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 of the Communication Utility are charges to customers for sales and services and charges to various phone companies for carrier access billings. Operating expenses for the Communication Utility include the 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.

The Communication Utility's accounting records are maintained by the City on the cash basis. However, for financial reporting purposes, the accounting records have been adjusted to the accrual method which recognizes income when earned and expenses when incurred.

The Balance Sheet presents the Communication Utility's assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories.

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt attributable to the acquisition, construction or improvement of those assets. MMCTSU's outstanding debt attributable to capital assets exceeds the net capital assets. Therefore, the invested in capital assets, net of related debt, is being shown at zero so that the unrestricted net assets is not overstated.

Restricted net assets result when constraints placed on net asset use are externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets not meeting the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

MANNING MUNICIPAL COMMUNICATIONS
AND TELEVISION SYSTEM UTILITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Budgets and Budgetary Accounting

In accordance with the Code of Iowa, the Board of Trustees annually adopts a budget on the cash basis. The budget of the Utility is submitted with that of the City of Manning following required public notice and hearing. The budgetary comparison and related disclosures are reported as part of the basic financial statements rather than as Required Supplementary Information.

Cash

Cash consists of cash in checking and savings accounts.

Accounts Receivable-Customers

Accounts receivable are presented at their net realizable values. A provision for doubtful accounts is considered unnecessary as most accounts are required to be paid in advance.

The Cable T.V. billing is sent out the 10th of each month along with the customer's electrical bill. This bill is then due on the 30th of that month and is for the next month's activity. If the customer is late with their payment, then MMCTSU sends out a delinquent notice. No surcharge penalty is added to the bill. However, if the customer's service is terminated, then the customer would be required to pay a \$25 reconnect fee.

The long distance portion of the telephone bills are prepared by an outside company whereas the local fees are generated in-house. The bills are sent out on the 15th of each month and cover the long distance phone calls for the previous month and the internet and local phone service for the next month. The customers have 20 days to pay their bills before a 1.5% penalty of the total bill gets added to their accounts. They would have another 10 days from the original due date of their bill to pay the account before disconnection procedures will occur. A \$20 reconnect fee would then apply.

MANNING MUNICIPAL COMMUNICATIONS
AND TELEVISION SYSTEM UTILITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Accounts Receivable - Carrier Access Billings (CABS)

These are fees due from various phone companies when MMCTSUs customers select another phone company for their long distance phone services. As of December 31, 2004 and 2003, the allowance for doubtful accounts for CABS was \$32,464 and \$33,305, respectively. The allowance for doubtful accounts for CABS is largely due to several phone companies having declared bankruptcy.

Various phone companies are billed by an outside Company on behalf of MMCTSUs for long distance wire usage. After MMCTSUs collects the money, approximately 40% to 42% then gets paid to their provider, Long Lines. There are several long distance phone companies who are way behind on their carrier access fees. As of yet, no penalties have been assessed to these phone companies for the unpaid fees.

Inventory

Materials and supplies are stated at the lower of cost or market. Cost is determined by the first-in, first-out method, and market represents the lower of replacement cost or estimated net realizable value.

Advertising

Advertising costs are expensed as incurred. Advertising expense, which includes the publication of legal notices, was \$1,077 and \$3,650 for the years ended December 31, 2004 and 2003, respectively. For December 31, 2003, the advertising expense included new telephone directories as well.

MANNING MUNICIPAL COMMUNICATIONS
AND TELEVISION SYSTEM UTILITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Capital Assets

Capital assets include property, plant and equipment and they are stated at cost. Depreciation is computed using straight line methods applied to the estimated useful lives of the various assets. Depreciation is computed over the following useful lives:

Land, Buildings, Improvements, Towers and Antennas	25 - 40 years
Earth Station, Electronics and Service Drops	10 - 15 years
Convertors and Remotes	10 years
Traps and Other Equipment	5 - 15 years
Internet Equipment	5 - 10 years
Telephony Equipment	5 - 10 years

Capital assets activity for the year ended December 31, 2004 is summarized by the following:

	Balance Beginning of Year	Increase	Decrease	Balance End of Year
Capital Assets	\$1,230,882	\$102,105	\$326,018	\$1,006,969
Less: Accum. Deprec.	<u>586,549</u>	<u>100,772</u>	<u>306,955</u>	<u>380,366</u>
Capital Assets, Net	<u>\$ 644,333</u>	<u>\$ 1,333</u>	<u>\$ 19,063</u>	<u>\$ 626,603</u>

Depreciation Charged \$ 100,773

Expenditures for maintenance, repairs and minor replacements are charged to operations. Expenditures for major repairs and betterments that materially extend the life of an asset are capitalized.

The cost and related accumulated depreciation on capital assets sold or retired are eliminated from the accounts at the time of sale or retirement and the resulting gain or loss is reflected in other revenue (expense).

MANNING MUNICIPAL COMMUNICATIONS
AND TELEVISION SYSTEM UTILITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Customer Deposits

Customer deposits are collected from new customers before their service is turned on. If the customer is already a member of another local utility, then the deposit is waived. Customers in good standing will get a full refund of their deposit after six months of service has passed.

Operating Revenues

For Cable T.V., revenues are based on billing rates for subscriber fees to cable television. These subscriber fees are normally collected one month in advance.

Internet fees are billed to customers by MMCTSU one month in advance. Pioneer provides internet access and related services to MMCTSU on a wholesale basis.

For telephone service, local access fees are billed one month in advance as where long distance toll services are billed out after the calls occur. Carrier access fees are billed out to the various Long Distance Carriers for their line access charges after the charges are incurred. Several Carrier Access Billings (CABS) are being disputed with several different telephone companies which may result in a rate adjustment or a bankruptcy claim. In either event, there is a potential for uncollectible accounts when it comes to the CABS.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that offset certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

MANNING MUNICIPAL COMMUNICATIONS
AND TELEVISION SYSTEM UTILITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003

NOTE B - DEPOSITS AND INVESTMENTS

The Utility's deposits at December 31, 2004, 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 insure 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; and warrants or improvement certificates of a drainage district.

Governmental Accounting Standards Board Statement Number 3 requires investments to be categorized to give an indication of the level of risk assumed by the Utility at year end. The Utility had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3.

The Utility cash and investments at December 31, 2004 are as follows:

	<u>Cash</u>
Restricted - Customer Deposits	\$ 1,750
Unrestricted	<u>391,204</u>
	<u>\$ 392,954</u>

NOTE C - RELATED PARTY TRANSACTIONS

1. JOINT USE AGREEMENT

On July 25, 2001, the Manning Municipal Light Plant and the Manning Municipal Communications and Television System Utility entered into a joint agreement in regards to a communications distribution system. The communications distribution system is and shall remain the sole property of the Electric Utility. However, the Communications Utility has been granted the right to use the distribution system, the headend building, and the Municipal building for its functions for a term of twenty-five years. The Communication Utility is required to pay \$170,849 every year for twenty-five years. The first payment was made on June 30, 2002.

MANNING MUNICIPAL COMMUNICATIONS
AND TELEVISION SYSTEM UTILITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003

NOTE C - RELATED PARTY TRANSACTIONS (continued)

2. OTHER

- A. Employees of the Manning Municipal Light Office are utilized as needed in the operation of the Manning Municipal Communications and Television System Utility business. The Manning Municipal Communications and Television System Utility reimburses the Light Office for the employees' time and vice versa.
- B. The City of Manning bills all subscribers each month for Cable T.V. fees due. All subscriber fees are collected by the City of Manning and are remitted to the Manning Municipal Communications and Television System Utility as fees are received.

NOTE D - RELATED PARTY - NOTES PAYABLE

2004

2003

Note Payable to Manning Municipal Light Plant in the amount of \$500,000 to be used for the broadband communications system. The interest rate shall be adjusted annually on July 1st of each year to an amount which is equal to 1% more than a one year certificate of deposit at American Interstate Bank. The interest rate on July 1, 2003 was 2.95% and the interest rate on July 1, 2004 was 3.08%. The Communication's net revenues shall be pledged to pay off amounts due as allowable.

\$300,000

\$500,000

MANNING MUNICIPAL COMMUNICATIONS
AND TELEVISION SYSTEM UTILITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003

NOTE D - RELATED PARTY - NOTES PAYABLE (continued)

	<u>2004</u>	<u>2003</u>
<p>Note Payable to Manning Municipal Gas Department in the amount of \$500,000 to be used for the broadband communications system. The interest rate shall be adjusted annually on July 15th of each year to an amount which is equal to 1% more than a one year certificate of deposit at American Interstate Bank. The interest rate on July 15, 2003 was 2.95% and the interest rate on July 15, 2004 was 3.18%. The Communication's net revenues shall be pledged to pay off amounts due as allowable.</p>	<u>500,000</u> 800,000	<u>401,250</u> 901,250
<p>Less: Current Portion</p>	<u>-0-</u>	<u>-0-</u>
	<u>\$800,000</u>	<u>\$901,250</u>

The above notes payable with Manning Municipal Light Plant and Manning Municipal Gas Department do not have a specific payoff schedule. Payments made depend upon the net revenues of the Communication Utility. During 2004, Manning Municipal Gas Department borrowed the Communication Utility an additional \$98,750. Also in 2004, the Manning Municipal Light Plant forgave \$200,000 of their note to the Communication Utility.

NOTE E - SHORT TERM NOTE PAYABLE

	<u>2004</u>	<u>2003</u>
<p>Note Payable to American Interstate Bank at a 6.00% interest rate. Note was taken out on February 20, 2003. Payable on demand, but if no demand is made then 48 monthly payments of \$352.36 beginning March 22, 2003. This note is secured by a 2003 Chevy S-10 pickup.</p>	<u>\$ 8,560</u>	<u>\$ 12,168</u>

MANNING MUNICIPAL COMMUNICATIONS
AND TELEVISION SYSTEM UTILITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003

NOTE F - SIGNAL CHARGE COMMITMENTS

Manning Municipal Communications and Television System Utility has contracted with the following companies for distribution of that company's programming over the Manning Cable System.

<u>Name</u>	<u>Agreement Expiration Date</u>	<u>Utility's Cost Per Subscription as of 12-31-04</u>
1. National Cable Television Cooperative:		
a) ABC Family Channel	Dec. 31, 2006	\$.233
b) Home Box Office	Jan. 1, 2005	\$ 8.550
c) Cable News Network	Apr. 15, 2005	\$.487
d) Discovery Channel	Dec. 31, 2004	\$.352
e) Turner Network Television	Dec. 31, 2008	\$.840
f) Cinemax	Nov. 30, 2006	\$ 4.569
g) Home & Garden T.V.	Dec. 31, 2005	\$.158
h) Turner Classic Movies	Apr. 15, 2008	\$.235
i) ESPN & ESPN 2	July 31, 2006	\$ 3.372
j) TBS - Super Station	Dec. 31, 2008	\$.340
k) Disney Channel	Dec. 31, 2005	\$.882
l) Showtime	Feb. 28, 2007	\$ 7.540
m) The Movie Channel	Feb. 28, 2007	\$ 4.600
n) Hallmark Channel	Dec. 31, 2006	\$.135
o) The Weather Channel	Feb. 27, 2008	\$.172
p) Toon Disney	Dec. 31, 2005	\$.105
q) A & E Network	Dec. 31, 2005	\$.275
r) The History Channel	Dec. 31, 2005	\$.180
s) TV Land	Dec. 31, 2002	\$.114
t) TLC	Dec. 31, 2008	\$.200
u) Travel Channel	Dec. 31, 2007	\$.081
v) Comedy Central	Dec. 31, 2004	\$.171
w) FX Network	Dec. 31, 2004	\$.317
x) Outdoor Channel	Jan. 31, 2007	\$.077
y) Golf Channel	Dec. 31, 2004	\$.210
z) Spike TV	Dec. 31, 2009	\$.349

MANNING MUNICIPAL COMMUNICATIONS
AND TELEVISION SYSTEM UTILITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003

NOTE F - SIGNAL CHARGE COMMITMENTS (continued)

<u>Name</u>	<u>Agreement Expiration Date</u>	<u>Utility's Cost Per Subscription as of 12-31-04</u>
aa) Nickelodeon	Dec. 31, 2009	\$.484
bb) VH-1	Dec. 31, 2009	\$.150
cc) MTV Music Television	Dec. 31, 2005	\$.338
2. USA Network	Dec. 31, 2004	\$.580
3. Lifetime	Dec. 31, 2005	\$.350
4. Tower Dist. Co./WGN	July 31, 2004	\$.169
5. Fox Sports	Dec. 31, 2005	\$ 1.280
6. T.V.Guide Channel	Dec. 31, 2005	\$.610

NOTE G - CONTRACT COMMITMENTS

In April 1999, the contract that Pioneer had with Manning Light Plant in regards to internet was transferred over to the Manning Municipal Communications and Television System Utility. The contract stated that Pioneer would supply the Utility with internet communication network and the Utility will provide equipment needed at the connection sight. Pioneer and the Utility would then go into a 50/50 share of monthly expenses and revenues. Beginning in December 2000, MMCTSU started billing customers for internet directly and then paying Pioneer for their half.

Effective January 1, 2003, the above 50/50 share agreement has been replaced with a Wholesale Internet Agreement with Pioneer Teletechnologies. Pioneer will provide internet access, connectivity, and related services to MMCTSU on a wholesale basis. MMCTSU, in turn, will market such services as a retailer to end users over its local network. Therefore, MMCTSU no longer pays Pioneer 50% of net revenues, but rather specified fees for access, connectivity, and services.

On May 21, 1998, the Utility Board of the Manning Municipal Communications and Television System Utility approved and agreed to enter into a Communication and Information Services Agreement with Pioneer Teletechnologies, LLC, a Delaware limited liability company. This contract states that the Utility will use Pioneer Teletechnologies as their provider for telephony services.

MANNING MUNICIPAL COMMUNICATIONS
AND TELEVISION SYSTEM UTILITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003

NOTE G - CONTRACT COMMITMENTS (continued)

MMCTSU started a phone service in November, 2000 but did not start billing customers until January, 2001. The Communication and Information Services Agreement will continue for at least five years. Pioneer Teletechnologies had also granted \$100,000 to MMCTSU to be applied against their fixed transport charges for telephony over three years beginning January 1, 2001. The last of the \$100,000 credit was fully used up on the December 22, 2003 Long Lines billing statement.

On July 30, 2004, MMCTSU signed an agreement with Templeton Telephone Company (TTC) for video signal. TTC wishes to obtain a cable television signal from MMCTSU for transmission via TTC's Cable Television System. MMCTSU agrees to provide such a signal subject to certain terms and conditions. MMCTSU billed TTC for the first time in January 2005 for these video signal services in the amount of \$1,400 per month.

On July 30, 2004, MMCTSU signed an agreement with Templeton Telephone Company (TTC) for switching services. TTC is a local telecommunications carrier with a particular expertise in the provision of certain switching functions and feature applications for the transmission, reception, monitoring, and routing of telecommunications traffic. It is anticipated that MMCTSU will begin using TTC's switching services around November 2005 after their contract with Long Lines expires.

NOTE H - 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 3.70% of their annual salary and the Utility is required to contribute 5.75% of annual payroll. Contribution requirements are established by State statute. The Utility's contribution to IPERS for the years ended December 31, 2004 and 2003 were \$6,569 and \$5,091 respectively, equal to the required contributions for each year.

MANNING MUNICIPAL COMMUNICATIONS
AND TELEVISION SYSTEM UTILITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003

NOTE I - COMPENSATED ABSENCES

Communication Utility employees accumulate vacation hours for use each year between anniversary dates. In the event that available vacation is not used by the end of the benefit year, employees can accumulate up to 10 days of vacation that can transfer over to the following year. At no time can an employee have more than 10 days of vacation time allowed to be carried over upon their anniversary date. Upon termination of employment, employees will be paid for unused vacation time that has been earned through the last day of work at their current rate of pay. The accrued vacation payable at December 31, 2004 was \$292 and at December 31, 2003 it was \$275.

Sick leave may be accumulated for subsequent use or for payment upon termination or retirement. The accumulated liability for accrued sick leave totaled \$5,934 and \$4,528 as of December 31, 2004 and 2003 respectively. Unused sick leave benefits will be paid to employees upon termination of employment at the rate in which they were received and only after 24 days have been accumulated. The Manning Municipal Communications and Television System Utility follows the same policies as the Manning Light Plant for vacation and sick leave. Effective January 1, 2005, MMCTSU adopted a new paid time-off all purpose policy for eligible employees to use for vacation, illness, and personal business. It will combine traditional vacation and sick leave plans into one flexible, paid time-off policy.

NOTE J - RISK MANAGEMENT

Manning Municipal Communications and Television System Utility is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. 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 years.

MANNING MUNICIPAL COMMUNICATIONS
AND TELEVISION SYSTEM UTILITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003

NOTE K - COMPARISON OF DISBURSEMENTS WITH BUDGET

The Manning Municipal Communications and Television System Utility prepares their budget annually on an accrual basis of accounting. The disbursements may not legally exceed budgeted appropriations at the functional level. Actual disbursements for the year ended December 31, 2004 did not exceed the final statutory budget.

<u>Disbursements</u>	<u>Budget</u>	<u>Actual</u>	<u>Favorable Variance</u>
Business – Type activity	<u>\$929,915</u>	<u>\$924,529</u>	<u>\$5,386</u>

NOTE L - SUBSEQUENT EVENTS

Various phone companies have not kept current on the amount of money they owe Manning Municipal Communications and Television System Utility for carrier access fees. These billings amount to a substantial amount of money. Some of these phone companies have filed bankruptcy as well. MMCTSU is also required to turn around and pay Pioneer Teletechnologies/Long Lines a certain percentage of the carrier access fees collected.

MMCTSU signed contracts with Templeton Telephone Company on July 30, 2004 in regards to receiving switching services from TTC and providing a video signal to them. These services will not start until 2005. Before MMCTSU can begin to receive switching services from TTC, MMCTSU will need to spend approximately \$70,000 on equipment to update their system so that the switching service can operate correctly.

NOTE M - ACCOUNTING CHANGE

Governmental Accounting Standards Board has issued Statement Number 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments, Statement Number 37, Basic Financial Statements and Management's Discussion and Analysis - for State and Local Governments; Omnibus, and Statement Number 38, Certain Financial Statement Note Disclosures; and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences, were implemented for the year ended December 31, 2004. The statements create new basic financial statements for reporting the Communication Utility's financial activities.

The financial statements have always been prepared on an accrual basis of accounting. Therefore, the beginning net assets did not have to be restated. There is only one enterprise fund, and therefore it is treated as a major fund.

SUPPLEMENTAL INFORMATION

MANNING MUNICIPAL COMMUNICATIONS
AND TELEVISION SYSTEM UTILITY
OPERATING EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

OPERATING EXPENSES	<u>2004</u>	<u>2003</u>
Headhouse - Power	\$ 133	\$ 1,004
Headhouse - Maintenance	2,105	382
Headhouse - Other	<u>1,068</u>	<u>653</u>
Subtotal	3,306	2,039
Accounting	5,895	5,606
Advertising	1,077	3,650
Bad debts	1,637	2,938
Bank charges	36	1
Credit card fees	136	-0-
Computer expense	3,745	2,143
Depreciation	100,773	98,941
Donations	-0-	180
Dues and subscriptions	3,574	3,088
Employee insurance	14,495	13,921
Engineering services	630	2,140
Insurance	10,280	9,919
Legal publication	638	744
Legal and professional services	2,348	2,527
Maintenance - Line	6,823	1,770
Miscellaneous	1,423	1,088
Pagers	240	192
Payroll taxes	15,578	12,090
Postage	4,708	4,763
Property taxes	17,444	15,485
Rent - Distribution system	170,849	170,849
Safety Program	-0-	48
Seminars & meetings	4,549	732
Supplies - General	1,005	1,329
Supplies - Office	1,746	957
Small tools	686	-0-

MANNING MUNICIPAL COMMUNICATIONS
AND TELEVISION SYSTEM UTILITY
SCHEDULE OF OPERATING EXPENSES
YEARS ENDED DECEMBER 31, 2004 AND 2003

Schedule 1
(continued)

OPERATING EXPENSE (continued)	<u>2004</u>	<u>2003</u>
Telephony equipment expense	\$ -0-	\$ 2,336
Telephone	5,603	5,466
Trustee fees	2,345	2,417
Uniforms	974	569
Utilities	10,073	7,971
Vehicle expense	1,516	1,835
Wages	114,211	90,236
Wage reimbursement – Other	3,030	3,510
Web page	363	303
Wireless internet expense	<u>4,314</u>	<u>-0-</u>
Total Operating Expenses	<u>\$ 516,050</u>	<u>\$ 471,783</u>

MANNING MUNICIPAL COMMUNICATIONS
AND TELEVISION SYSTEM UTILITY
SUMMARY OF CAPITAL ASSETS
ACCUMULATED DEPRECIATION

	Capital Assets			
	December 31, <u>2003</u>	<u>Additions</u>	<u>Retirements</u>	December 31, <u>2004</u>
HEADHOUSE				
Land	\$ 4,208	\$ -0-	\$ (4,208)	\$ -0-
Land improvements	1,206	-0-	(1,206)	-0-
Building	10,889	7,824	(10,889)	7,824
Towers and antennas	26,318	-0-	(26,318)	-0-
Earth station	46,294	-0-	(46,294)	-0-
Electronics & equipment	<u>144,615</u>	<u>30,347</u>	<u>(124,691)</u>	<u>50,271</u>
	233,530	38,171	(213,606)	58,095
DISTRIBUTION				
Service drops	58,462	-0-	(33,243)	25,219
Converters and remotes	48,336	-0-	(45,666)	2,670
Traps	<u>20,364</u>	<u>-0-</u>	<u>(10,627)</u>	<u>9,737</u>
	127,162	-0-	(89,536)	37,626
GENERAL				
Office Furniture	6,529	3,246	-0-	9,775
Vehicles	421	-0-	-0-	421
Equipment	33,687	4,424	(22,875)	15,236
Internet	<u>14,438</u>	<u>-0-</u>	<u>-0-</u>	<u>14,438</u>
	55,075	7,670	(22,875)	39,870
INTERNET				
Equipment	67,436	35,752	-0-	103,188
Building	<u>-0-</u>	<u>7,683</u>	<u>-0-</u>	<u>7,683</u>
	67,436	43,435	-0-	110,871
TELEPHONY				
Building	-0-	7,683	-0-	7,683
Vehicles	15,869	-0-	-0-	15,869
Equipment	723,204	4,895	-0-	728,099
Electronics	<u>8,606</u>	<u>250</u>	<u>-0-</u>	<u>8,856</u>
	<u>747,679</u>	<u>12,828</u>	<u>-0-</u>	<u>760,507</u>
Totals	<u>\$1,230,882</u>	<u>\$ 102,104</u>	<u>\$ (326,017)</u>	<u>\$1,006,969</u>

Useful Lives	Accumulated Depreciation			
	December 31 <u>2003</u>	Current Provision	Retirement	December 31, <u>2004</u>
-	\$ -0-	\$ -0-	\$ -0-	\$ -0-
25 years	1,019	16	(1,035)	-0-
40 years	5,786	99	(5,877)	8
25 years	22,372	351	(22,723)	-0-
15 years	46,295	-0-	(46,295)	-0-
10-15 years	<u>127,527</u>	<u>3,879</u>	<u>(121,804)</u>	<u>9,602</u>
	202,999	4,345	(197,734)	9,610
15 years	32,917	1,965	(30,100)	4,782
10 years	46,759	315	(45,619)	1,455
5 years	<u>17,160</u>	<u>1,893</u>	<u>(10,627)</u>	<u>8,426</u>
	96,836	4,173	(86,346)	14,663
5-10 years	4,136	1,195	-0-	5,331
5 years	379	42	-0-	421
5-15 years	30,294	1,021	(22,875)	8,440
5-10 years	<u>9,284</u>	<u>2,019</u>	<u>-0-</u>	<u>11,303</u>
	44,093	4,277	(22,875)	25,495
5-10 years	18,018	9,443	-0-	27,461
39 years	<u>-0-</u>	<u>8</u>	<u>-0-</u>	<u>8</u>
	18,018	9,451	-0-	27,469
39 years	-0-	8	-0-	8
5 years	2,777	3,174	-0-	5,951
5-10 years	219,981	74,091	-0-	294,072
7 years	<u>1,844</u>	<u>1,254</u>	<u>-0-</u>	<u>3,098</u>
	<u>224,602</u>	<u>78,527</u>	<u>-0-</u>	<u>303,129</u>
	<u>\$586,548</u>	<u>\$100,773</u>	<u>\$(306,955)</u>	<u>\$380,366</u>

MANNING MUNICIPAL COMMUNICATIONS
AND TELEVISION SYSTEM UTILITY
STATISTICAL DATA
DECEMBER 31, 2004
(UNAUDITED)

<u>Inservice Cable T.V. Hookups:</u>	<u>Number</u>
Subscribers - Basic T.V.	449
Subscribers - Basic T.V. & Movie Channel(s)	<u>105</u>
Total Inservice Subscribers	554
Service lines run and not in use	<u>246</u>
Total Service Lines Run as of December 31, 2004	<u>800</u>
Total Potential Customers	<u>722</u>
Percent of Saturation (Hookups)	<u>76.73%</u>

		<u>Monthly Rates</u>		
		<u>Movie</u>	<u>Basic</u>	
<u>Movie Subscribers:</u>	<u>Number</u>	<u>Channel</u>	<u>T.V.</u>	<u>Total</u>
Basic + 1 Movie	53	\$ 9.50	\$ 24.00	\$ 33.50
Basic + 2 Movies	36	\$ 16.50	\$ 24.00	\$ 40.50
Basic + 3 Movies	7	\$ 22.50	\$ 24.00	\$ 46.50
Basic + 4 Movies	1	\$ 28.00	\$ 24.00	\$ 52.00
Basic + 5 Movies	<u>8</u>	\$ 30.00	\$ 24.00	\$ 54.00
Total Movie Subscribers	<u>105</u>			

<u>Telephone Service Lines:</u>	
Residential Lines	499
Business Lines	<u>211</u>
Total Telephone Lines	<u>710</u>

<u>Internet Customers:</u>		<u>Monthly Rate</u>
Dial-up Internet - Plan I	40	\$ 22.50
Dial-up Internet - Plan II	105	\$ 19.95
Dial-up Internet - Plan III	38	\$ 9.95
Employee Internet	<u>21</u>	\$ 16.95
Total Dial-Up	<u>204</u>	
Residential Cable Modem	113	\$ 29.95
Business Cable Modem	<u>17</u>	\$ 79.95
Total Cable Modems	<u>130</u>	

Note: The statistical data is presented on the basis of information on file at the Utility office and is not verified by audit.

HEITHOFF, HANSEN, MUHLBAUER & CO., P.C.

Certified Public Accountants

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Susan L. Hansen, CPA
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May 26, 2005

Independent Auditors' Report on Compliance and on Internal Control over Financial Reporting

To the Board of Trustees of the
Manning Municipal Communications
and Television System Utility:

We have audited the financial statements of the Manning Municipal Communications and Television System Utility as of and for the years ended December 31, 2004 and 2003, and have issued our report thereon, dated May 26, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Manning Municipal Communications and Television System Utility's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance that are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the Utility's operations for the year ended December 31, 2004 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Utility. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior year statutory comments have all been resolved, except for item III-G-04.

May 26, 2005

Manning Municipal Communications and Television System Utility

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Internal Control Over Financial Reporting

In planning and performing our audit, we considered Manning Municipal Communications and Television System Utility's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Manning Municipal Communication and Television System Utility's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described in the Schedule of Findings, we believe items II-A-04, II-B-04, and II-C-04 are all material weaknesses. Prior year reportable conditions have been resolved except for item II-A-04.

This report, a public record by law, is intended solely for the information and use of the management and Board of Trustees of Manning Municipal Communications and Television System Utility, the City of Manning, and for other parties to whom the Utility may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the Manning Municipal Communications and Television System Utility during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Heithoff, Hansen, Muhlbauer & Co., P.C.

HEITHOFF, HANSEN, MUHLBAUER & CO., P.C.
Certified Public Accountants

MANNING MUNICIPAL COMMUNICATIONS
AND TELEVISION SYSTEM UTILITY
SCHEDULE OF FINDINGS
YEAR ENDED DECEMBER 31, 2004

Part I: Summary of the Independent Auditors' Results

- a) An unqualified opinion was issued on the financial statements.
- b) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, including material weaknesses.
- c) The audit did not disclose any non-compliance which is material to the financial statements.

Part II: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE

No matters were noted.

REPORTABLE CONDITIONS:

II-A-04 Segregation of Duties – During our review of the internal control structure, the existing procedures are evaluated in order to determine that incompatible duties, from a control standpoint, are not performed by the same employee. This segregation of duties helps to prevent losses from employee error or dishonesty and therefore maximizes the accuracy of the Utility's financial statements. We noted during our audit that a limited number of people are responsible for most of the accounting and financial duties. As a result, an adequate segregation of duties are, for all practical purposes, missing in your Utility. It was also noted that expenditures are being paid without proper support by the same individual who is responsible for most of the accounting duties. This clearly weakens any segregation of duties that may exist.

Recommendation – We recognize that your Utility is not large enough to make the employment of additional people for the purpose of segregation of duties practical from a financial standpoint. Thus in an attempt to achieve better internal control, officials should provide a segregation and rotation of duties whenever possible.

No claims for expenditures should be paid unless there is proper support, regardless of who may approve it.

Response – We will try to use the staff in the most efficient way to achieve maximum internal control possible with a small staff. No expenditures will be paid without proper support.

Conclusion - Response acknowledged.

MANNING MUNICIPAL COMMUNICATIONS
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YEAR ENDED DECEMBER 31, 2004

II-B-04 Proper Support Documentation – Several instances were noted where invoices and/or supporting documentation for expenses paid were not available to support the expenditure. A signed copy of the credit card slip is not sufficient documentation to support a claim. There were several instances where the full amount of the monthly credit card was paid, but not all the items noted on the credit card had proper support.

Recommendation – All claims for disbursements should have proper supporting documentation. This would include any items charged to the credit card. Each line item on the monthly credit card statement should be supported with an original invoice as well. Proper documentation should be provided before a claim is paid no matter who approves the claim.

Response – We will obtain proper support on future claims for expenditures.

Conclusion – Response accepted.

II-C-04 Credit Cards – The Communication Utility has allowed the use of a credit card by certain employees while on Utility business. MMCTSU has not adopted a formal policy to regulate the use of credit cards and to establish procedures for the proper accounting of credit card charges. Total charges of \$17,866 were made with the credit card during 2004 for which supporting documentation was not always available. Instances were also noted where the MMCTSU credit card was used to purchase personal items.

Recommendation – MMCTSU should adopt a formal written policy regulating the use of credit cards. The policy at a minimum should address who controls the credit cards, who is authorized to use credit cards and for what purposes, as well as the types of supporting documentation required to substantiate charges. If there is not a receipt to support each transaction, then the employee should be asked to reimburse MMCTSU. The business credit card should never be used for personal items even if the individual intends to reimburse MMCTSU.

Response – We have not established a formal written policy detailing specifics on the use of credit cards. We will review procedures and guidelines and establish a written policy.

Conclusion – Response accepted.

MANNING MUNICIPAL COMMUNICATIONS
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SCHEDULE OF FINDINGS
YEAR ENDED DECEMBER 31, 2004

Part III: Other Findings Related to Required Statutory Reporting:

III-A-04 Official Depository Banks

A resolution naming official depositories has been approved by the Utility's Board of Trustees. The maximum deposit amounts stated in the resolution were not exceeded during the year ended December 31, 2004.

III-B-04 Certified Budget

The Utility budgeted on the calendar year and it was properly published. The disbursements during the year ended December 31, 2004, did not exceed the amounts budgeted by the Manning Municipal Communications and Television System Utility.

III-C-04 Questionable Disbursements

Certain disbursements were noted that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 since the public benefits to be derived have not been clearly documented. These disbursements are detailed as follows:

<u>Paid To</u>	<u>Transaction Description</u>	<u>Amount</u>
Beane Street	Shirts with logo	\$ 824
Spies Fur Company	Gift Certificates	300
Fun Fish Florida	Fishing trip	416

According to the opinion, it is possible for certain disbursements to meet the test of serving a public purpose under certain circumstances, although such items will certainly be subject to a deserved close scrutiny. The line to be drawn between a proper and an improper purpose is very thin.

MANNING MUNICIPAL COMMUNICATIONS
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SCHEDULE OF FINDINGS
YEAR ENDED DECEMBER 31, 2004

III-C-04 Questionable Disbursements (continued)

Recommendation – It was determined that the \$416 to Fun Fish Florida was personal and MMCTSU should seek reimbursement from the employee who charged this item to the business credit card. MMCTSU has a \$200 uniform allowance per employee and there are only three employees. Therefore the \$824 paid to Beane Street appears to be questionable.

The Board should determine and document the public purpose and propriety of the above disbursements or, if appropriate, request reimbursement. If this practice is continued, the Board should establish written policies and procedures, including the requirement for proper documentation.

Response – We will establish a written policy and clarify that there will be no expenditures made that would not meet the requirements of public purpose. We will also seek reimbursement of the \$416 for the Fun Fish Florida expenditure immediately. The amount spent on shirts over and above the uniform allowance was considered to be advertising since they have the MMCTSU logo on them and are being worn out in public and to conventions.

Conclusion – Response accepted.

III-D-04 Travel Expense

No expenditure of Utility money for travel expenses of spouses of Utility officials or employees were noted. No travel advances to Utility officials or employees were noted. However, there is no written policy established to determine what would be a reasonable amount for meal allowances, that alcoholic beverages are not an allowable expense, and how employees should be reimbursed for their vehicle expenses.

Recommendation – We will adopt a written policy for travel expenses which will address the following issues:

- Determine a maximum meal allowance.
- Clarify that no alcoholic beverages will be paid by MMCTSU or reimbursed to employees.
- Procedures to follow to be reimbursed for travel expenses and the cents per mile which will be allowed.
- Address how the Utility credit card can be used for travel expenses and for what types of expenses.

MANNING MUNICIPAL COMMUNICATIONS
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SCHEDULE OF FINDINGS
YEAR ENDED DECEMBER 31, 2004

III-D-04 Travel Expense (continued)

Response – We will establish a written policy which will address all of the items stated above.

Conclusion – Response accepted.

III-E-04 Business Transactions

Business transactions between the Utility and Utility officials and/or employees are as follows:

<u>Name, Title and Business Relationship</u>	<u>Transaction Description</u>	<u>Amount</u>
Ron Soll, Board Member, Soll's Service Inc., part owner	Parts, labor & backhoe for headend bldg.	<u>\$ 6,314</u>
John Detlefsen, Board Member, Detlefsen Electric, owner	Electrical work for the headend bldg.	<u>\$ 5,240</u>

In accordance with Chapter 362.5 (11) of the Code of Iowa, the transactions stated above appear to represent a conflict of interest since they were over \$2,500 and not competitively bid.

Recommendation – The Utility should consult legal counsel to determine the disposition of this matter.

Response – We wanted to keep the work in town so, we split the job for the electrical and plumbing at the headend building between the only two contractors in town who do that type of work. We felt it was best to have contractors do the work who are also customers of MMCTSU. We had consulted an attorney on the matter.

Conclusion – Response accepted.

III-F-04 Bond Coverage

Surety bond coverage of Utility's officials and employees is in accordance with the minimum statutory provisions required. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

MANNING MUNICIPAL COMMUNICATIONS
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SCHEDULE OF FINDINGS
YEAR ENDED DECEMBER 31, 2004

III-G-04 Board Minutes

No transactions were found that we believe should have been approved in the board minutes but were not. Also, the Utility did publish annual gross salaries as in accordance with an Attorney General's opinion dated April 12, 1978. Although minutes of Utility Board proceedings were published, the October 21, 2004 board minutes were not published within 15 days as required by Chapter 372.13(b) of the Code of Iowa.

Recommendation - The Utility should monitor its procedures to insure proper publications within the fifteen day period as required by Chapter 372.13 (b) of the Iowa Code.

Response - We will try to do this in the future. This particular board meeting had been emailed to the local paper in a timely manner but they had not received it due to a change in their email address.

Conclusion - Response accepted.

III-H-04 Deposits and Investments

We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the Utility's investment policy.