

MANNING MUNICIPAL LIGHT PLANT
INDEPENDENT AUDITORS' REPORTS
BASIC FINANCIAL STATEMENTS
SUPPLEMENTAL INFORMATION
SCHEDULE OF FINDINGS

FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

MANNING MUNICIPAL LIGHT PLANT

TABLE OF CONTENTS

	<u>Page</u>
Officials	3
Independent Auditors' Report	4-5
Management's Discussion and Analysis	6-10
Basic Financial Statements:	<u>Exhibit</u>
Balance Sheets	A 12-13
Statements of Revenues, Expenses and Changes in Fund Net Assets	B 14
Statement of Cash Flows	C 15-16
Notes to Financial Statements	18-30
Supplemental Information:	<u>Schedule</u>
Summary of Utility Plant and Accumulated Depreciation	1 32-33
Investments and Interest Income	2 34
Operating Expenses	3 35-36
Comparative Statistical Data (Unaudited)	4 37
Independent Auditors' Report on Compliance and on Internal Control over Financial Reporting	38-39
Schedule of Findings and Statutory Reporting	40-43

MANNING MUNICIPAL LIGHT PLANT

OFFICIALS

DECEMBER 31, 2004

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Duane Monson	Trustee	December 31, 2008
Jerry Rasmussen	Trustee	December 31, 2010
Gib Phillips	Trustee	December 31, 2006
Lynn Stein	Trustee	December 31, 2005
Rick Lohrmann	Trustee	December 31, 2007
Kent Hilsabeck	Manager	

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

Certified Public Accountants

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

305 Main Street
Manning, Iowa 51455-1030
(712) 655-3777
Fax (712) 655-3778

INDEPENDENT AUDITORS' REPORT

January 21, 2005

To the Board of Trustees
Manning Municipal Light Plant
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 Light Plant (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 Light Plant'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 respective financial position of the Manning Municipal Light Plant as of December 31, 2004, and 2003, and the changes in its financial position and its cash flows for the year ended December 31, 2004, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note S to the financial statements, for the year ended December 31, 2004, Manning Municipal Light Plant 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 January 21, 2005, on our consideration of the Light Plant'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 Light Plant's basic financial statements. The supplemental information included in Schedules 1 through 3 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 4 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 LIGHT PLANT

719 Third Street, Manning, Iowa 51455

#712-655-3214

MANAGEMENT'S DISCUSSION AND ANALYSIS

Manning Municipal Light Plant 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 Light Plant 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 decreased 1.50%, or \$24,029, from 2003 to 2004.
- Operating expenses increased 2.49%, or \$32,824 from December 31, 2003 to December 31, 2004.
- The Utility's net assets of business type activities increased 3.29%, or \$166,768 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 Light Plant 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 investments, capital assets, comparative financial data with a prior year, 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 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 Electric 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	
<u>Business Type Activity – Enterprise Fund</u>	
Current and other assets	\$ 4,099,825
Capital assets	<u>3,170,650</u>
Total Assets	<u>\$ 7,270,475</u>
Current liabilities	\$ 236,170
Non-current liabilities	<u>1,795,000</u>
Total Liabilities	<u>\$ 2,031,170</u>
Net assets:	
Invested in capital assets, net of related debt	\$ 1,290,650
Restricted	193,120
Unrestricted	<u>3,755,535</u>
Total net assets	<u>\$ 5,239,305</u>

Net assets of business type activities increased from 2003 by \$166,768, or 3.29%. 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 \$3,755,535 at the end of this year. This is the largest portion of the net assets. The second largest portion of the Utility's net assets is the invested in capital assets (e.g. land, infrastructure, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets. Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used.

Changes in Net Assets
Year ended December 31, 2004

Business Type Activity Enterprise Fund – Electric Fund

Revenues:	
Charges for services	\$1,573,609
Interest Income	62,792
Rental income	170,849
Member charge refunds	46,431
WIMECA dividends	<u>149,036</u>
Total revenues	<u>\$2,002,717</u>
Operating expenses:	
Production	\$ 988,332
Distribution	159,899
Accounting & Collection	35,248
Administrative and general	<u>165,619</u>
Total operating expenses	<u>\$1,349,098</u>
Other expenses:	
Amortization	\$ 1,127
Communication infrastructure-Deprec.	139,473
Interest expense	103,497
Contributions	42,754
Debt forgiveness	<u>200,000</u>
Total other expense	<u>\$ 486,851</u>
Increase in net assets	\$ 166,768
Net assets beginning of year	<u>5,072,537</u>
Net assets end of year	<u>\$5,239,305</u>

CAPITAL ASSETS

The Utility's capital assets include land, buildings and improvements, equipment, electric lines, and other infrastructure. Capital assets for the business type activity totaled \$3,170,650 (net of accumulated depreciation) at December 31, 2004.

LONG-TERM DEBT

At December 31, 2004, the Utility had \$1,795,000 in total long-term debt outstanding for business type activities. During the year ended December 31, 2004, the Utility did not issue any new bonds and they paid off \$80,000 on bonds payable.

ECONOMIC FACTORS BEARING ON THE ELECTRIC UTILITY'S FUTURE

The Electric Utility has not made any significant rate changes and does not expect any significant changes in the future. Rates are based upon what the Utility has to pay for the price of energy. The Utility does have one major customer which represents over 40% of total sales.

CONTACTING THE ELECTRIC UTILITY'S FINANCIAL MANAGEMENT

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

BASIC FINANCIAL STATEMENTS

MANNING MUNICIPAL LIGHT PLANT
BALANCE SHEETS
DECEMBER 31, 2004 AND 2003

ASSETS

	<u>2004</u>	<u>Restated 2003</u>
Current Assets		
Unrestricted		
Cash	\$ 118,581	\$ 288,776
Accounts receivable - customers, net of allowance for doubtful accounts	146,267	149,132
Accounts receivable – Member charge refunds	30,304	119,759
Interest receivable	31,022	30,021
Inventory	85,588	78,846
Prepaid expenses	9,476	10,702
Investments	<u>2,536,293</u>	<u>1,553,721</u>
Total unrestricted current assets	2,957,531	2,230,957
Restricted		
Cash	3,800	2,700
Investments - Principal & Interest Reserve Fund	<u>189,320</u>	<u>189,320</u>
Total restricted current assets	<u>193,120</u>	<u>192,020</u>
Total current assets	3,150,651	2,422,977
Capital Assets		
Telecommunication - infrastructure	2,337,118	2,337,118
Production	1,140,658	1,135,213
Transmission	7,750	7,750
Distribution	2,565,355	2,228,792
General	<u>494,627</u>	<u>455,026</u>
	6,545,508	6,163,899
Less: Accumulated depreciation	<u>3,374,858</u>	<u>3,112,978</u>
Net capital assets	3,170,650	3,050,921
Other Assets		
Deferred patronage - WIMECA	532,834	1,061,860
Note receivable, other municipal department	300,000	500,000
Note receivable, Manning Betterment Found.	100,000	100,000
Underwriter's Discount fees (net of accum. amortz.)	<u>16,340</u>	<u>17,467</u>
	<u>949,174</u>	<u>1,679,327</u>
Total assets	<u>\$7,270,475</u>	<u>\$7,153,225</u>

See Accompanying Notes

MANNING MUNICIPAL LIGHT PLANT
BALANCE SHEETS
DECEMBER 31, 2004 AND 2003

LIABILITIES AND NET ASSETS

	<u>2004</u>	<u>Restated 2003</u>
Current Liabilities		
Payable from unrestricted current liabilities		
Accounts payable - operating	\$ 117,445	\$ 84,675
Payroll taxes payable	1	1
Accrued wages	-0-	4,595
Vacation and sick leave payable	19,594	17,147
Sales tax payable	<u>1,983</u>	<u>2,920</u>
Total payables from unrestricted current liabilities	139,023	109,338
Payable from restricted current liabilities		
Current installments of bonds payable	85,000	80,000
Accrued interest payable	8,347	8,650
Customer deposits	<u>3,800</u>	<u>2,700</u>
Total payables from restricted current liabilities	<u>97,147</u>	<u>91,350</u>
Total current liabilities	236,170	200,688
Bonds Payable, net of current maturities	<u>1,795,000</u>	<u>1,880,000</u>
Total liabilities	2,031,170	2,080,688
Net Assets		
Invested in capital assets, net of related debt	1,290,650	1,090,921
Restricted for:		
Principal and interest reserve	189,320	189,320
Customer deposits	3,800	2,700
Unrestricted	<u>3,755,535</u>	<u>3,789,596</u>
Total net assets	<u>5,239,305</u>	<u>5,072,537</u>
Total liabilities and net assets	<u>\$7,270,475</u>	<u>\$7,153,225</u>

See Accompanying Notes

MANNING MUNICIPAL LIGHT PLANT
 STATEMENTS OF REVENUES, EXPENSES AND
 CHANGES IN FUND NET ASSETS
 FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

Exhibit B

	<u>2004</u>	<u>Restated 2003</u>
Operating Revenues		
Sale of electricity		
Residential	\$ 456,796	\$ 466,229
Commercial	192,312	186,326
Industrial	878,871	897,049
Municipal	<u>39,134</u>	<u>40,311</u>
Total sale of electricity	1,567,113	1,589,915
Other operating revenues		
Forfeited discounts	1,720	1,485
Merchandise sales, net of cost	171	107
Connection fees and other	1,575	2,325
Labor reimbursement- MMCTSU	<u>3,030</u>	<u>3,806</u>
Total other operating revenues	<u>6,496</u>	<u>7,723</u>
Total operating revenues	1,573,609	1,597,638
Operating Expenses		
Production	988,332	972,177
Distribution	159,899	154,503
Accounting and collection	35,248	31,288
Administration and general	<u>165,619</u>	<u>158,306</u>
Total operating expenses	<u>1,349,098</u>	<u>1,316,274</u>
Net operating income	224,511	281,364
Non-operating revenues (expenses)		
Interest income	62,792	65,448
Rental income	170,849	170,849
Gain on equip. disposed	-0-	8,625
Amortization expense - bond fees	(1,127)	(1,127)
Member charge refunds	46,431	164,700
WIMECA dividends	149,036	89,868
Interest expense	(103,497)	(107,137)
Depreciation expense-Communication Infrastructure	(139,473)	(139,473)
Contribution - Healthcare Foundation	(200)	(10,200)
Contributions - Various projects	(5,054)	(4,061)
Contributions – Economic Development	(15,000)	(15,000)
Contributions – City of Manning	(20,000)	-0-
Contributions – Manning Quasiquicentennial	(2,500)	-0-
Debt Forgiveness - MMCTSU	<u>(200,000)</u>	<u>-0-</u>
Total non-operating revenues (expenses)	<u>(57,743)</u>	<u>222,492</u>
Change in Net Assets	166,768	503,856
Total Net Assets, Beginning	<u>5,072,537</u>	<u>4,568,681</u>
Total Net Assets, Ending	<u>\$5,239,305</u>	<u>\$5,072,537</u>

See Accompanying Notes

MANNING MUNICIPAL LIGHT PLANT
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2004

Cash flows from operating activities:	
Cash received from customers and users	\$1,569,978
Cash received from other revenues	6,496
Cash paid to suppliers	(937,838)
Cash paid for personal services	(164,191)
Cash paid to employees	<u>(123,220)</u>
Net cash provided by operating activities	351,225
 Cash flows from noncapital financing activities:	
Misc. contributions	(27,754)
Change in customer deposits	<u>1,100</u>
Net cash provided (used) by noncapital financing activities	(26,654)
 Cash flows from capital and related financing activities:	
Acquisition of capital assets	(358,883)
Interest paid on bonds	(103,800)
Principal paid on bonds	<u>(80,000)</u>
Net cash provided (used) by capital and related financing activities	(542,683)
 Cash flows from investing activities:	
Patronage dividends – WIMECA	678,063
Member charge refunds	135,886
Interest on investments	61,791
Contributions – Economic Dev.	(15,000)
Rental income	<u>170,849</u>
Net cash provided by investing activities	<u>1,031,589</u>
 Net increase (decrease) in cash and cash equivalents	813,477
 Cash and cash equivalents beginning of year	<u>2,034,517</u>
 Cash and cash equivalents end of year	<u>\$2,847,994</u>

See Accompanying Notes

MANNING MUNICIPAL LIGHT PLANT
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2004

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

Operating income (loss)	\$ 224,511
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	122,408
(Increase) decrease in customer accounts receivable	2,865
(Increase) decrease in inventories	(6,742)
(Increase) decrease in prepaid expenses	1,226
Increase (decrease) in accounts payable	10,042
Increase (decrease) in sales tax payable	(937)
Increase (decrease) in salaries payable	(2,148)
Net cash provided by operating activities	<u>\$ 351,225</u>

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

Current assets:	
Cash and pooled investments	\$2,654,874
Restricted assets:	
Cash and pooled investments:	
Principal & Interest Reserve	189,320
Customer deposits	<u>3,800</u>
Cash and cash equivalents end of year	<u>\$2,847,994</u>

NOTES TO FINANCIAL STATEMENTS

MANNING MUNICIPAL LIGHT PLANT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003

NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Manning Municipal Light Plant is a component unit of the City of Manning, Iowa, as determined by criteria specified by the Governmental Accounting Standards Board. The Light Plant 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 Light Plant 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 but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. Utility officials are members of the following boards: the Manning Municipal Communication and Television System Utility, the Manning Betterment Foundation, the Western Iowa Municipal Electric Cooperative Association, and the Economic Development Corporation.

Nature of Business

The Manning Municipal Light Plant is a municipal utility. The Utility distributes electricity to the residents and businesses of Manning, an agricultural district area.

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

MANNING MUNICIPAL LIGHT PLANT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003

NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd.)

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 Electric 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.

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 Electric Utility are charges to customers for sales and services. Operating expenses for the Electric 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 Electric 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 Electric 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.

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

MANNING MUNICIPAL LIGHT PLANT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003

NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd.)

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.

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, Investments, and Cash Equivalents

Cash consists of checking accounts, cash on hand, and savings. Investments consist of certificates of deposits. For purposes of the Statement of Cash Flows, the Utility considers all deposits to be cash equivalents. Investments are stated at cost which approximates market.

Inventory

Materials and supplies are stated at the lower of average cost or market on a per item basis.

Accounts Receivable - Customer

Accounts receivable are presented at their net realizable values. Allowance for doubtful accounts is \$1,191 for 2004 and \$943 for 2003.

The Utility's employees read the customer meters the 1st of every month. The customers receive their bills by the 10th of each month and they have until the end of the month to pay their bill. After that point, the customer would be mailed a past due notice and a penalty of 1.5% of their total bill would be added on. The customer has 12 days after the delinquent notice to pay their bill or make payment arrangements. After that point, the customer would be subject to disconnection of all or part of their services which may include cable t.v., water, or electricity.

MANNING MUNICIPAL LIGHT PLANT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003

NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd.)

Accounts Receivable – Member Charge Refund

The member charge refund is a non-budgeted year-end adjustment computed by NIPCO (Northwest Iowa Power Cooperative). The NIPCO Board of Directors may allow a year-end adjustment for net income if year-end book margins are greater than budgeted and conditions of NIPCO's Financial Policy have been met. Said adjustment will be allocated to the Class A Member Cooperative by the ratio of the sum of the Class A Member Cooperative's actual monthly Base Billing Demand to the sum of all Class A Member Cooperatives' actual monthly Base Billing Demand. WIMECA is a Class A Member of the Cooperative and then WIMECA passes the refunds onto the Utilities they serve, which includes Manning Municipal Light Plant.

Advertising

Advertising costs are expensed as incurred. Advertising expense, which includes the publication of legal notices, was \$1,688 and \$730 for the years ended December 31, 2004 and 2003, respectively.

Capital Assets

Capital assets include property, plant and equipment. Capital assets 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:

Plant and Property	20 – 33 years
Office and Other Equipment	5 – 25 years
Transportation Equipment	3 – 10 years
Telecommunication Infrastructure	10 – 40 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	\$6,163,899	\$ 381,609	\$ -0-	\$6,545,508
Less: Accum. Deprec.	<u>3,112,978</u>	<u>261,880</u>	<u>-0-</u>	<u>3,374,858</u>
Capital Assets, Net	<u>\$3,050,921</u>	<u>\$ 119,729</u>	<u>\$ -0-</u>	<u>\$3,170,650</u>
Depreciation Charged				<u>\$ 261,880</u>

MANNING MUNICIPAL LIGHT PLANT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003

NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd.)

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.

Customer Deposits

Meter deposits are collected from new customers before their electricity is turned on. Customers in good standing will get a full refund of their deposit after one year of service has passed.

Underwriter's Discount - Bond Fees

Underwriter's discount bond fees are stated at their original cost less any accumulated amortization expense taken over the years.

The underwriter's discount, incurred in 1999 for the Electric Revenue Bonds, Series 1999, totaled \$22,538 and this is being amortized over the life of the bonds which is twenty years. Accumulated amortization as of the end of 2004 and 2003 was \$6,198 and \$5,071 respectively.

Operating Revenues

Revenues are based on billing rates which are applied to customers' consumption of electricity. The Light Department bills customers for one full month at a time, therefore there is no need to estimate unbilled revenue at the end of accounting periods.

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 LIGHT PLANT
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2004 AND 2003

NOTE B DEPOSITS AND INVESTMENTS

The Utility's deposits in banks 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's cash and investments at December 31, 2004 are as follows:

	<u>Cash</u>	<u>Certificates of Deposit</u>
Unrestricted	\$ 118,581	\$2,536,293
Restricted	<u>3,800</u>	<u>189,320</u>
Total	<u>\$ 122,381</u>	<u>\$2,725,613</u>

NOTE C DEFERRED PATRONAGE DIVIDENDS

Western Iowa Municipal Electric Cooperative Association (WIMECA) allocates deferred patronage dividends to its members who are the municipal electric utilities of Manning, Anthon, Aurelia, Hinton, Mapleton and Onawa, Iowa. WIMECA purchases all of its power requirements from Northwest Iowa Power Cooperative under a long-term contract.

MANNING MUNICIPAL LIGHT PLANT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003

NOTE C DEFERRED PATRONAGE DIVIDENDS (cont'd.)

The deferred patronage dividends in WIMECA are declared allocations from which it is not practicable to estimate a fair value, and they are redeemable only at the discretion of the issuing cooperative. They are recorded at cost or face value assigned by WIMECA and are recorded as an asset in the year to which they apply.

Deferred Patronage – WIMECA, Beginning of Year	\$1,061,860
Less: Patronage Retirement – Paid out in Cash	(678,062)
Add: 2004 Dividends Declared – Deferred	<u>149,036</u>
Deferred Patronage – WIMECA, Dec. 31, 2004	<u>\$ 532,834</u>

NOTE D RESTRICTED ASSETS

The Board of Trustees established by resolution, various reserve account funds to accumulate surplus net revenues for the following purposes:

	<u>Cash</u>		<u>Investments</u>	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
Customer Deposits	\$ 3,800	\$ 2,700	\$ -0-	\$ -0-
Principal & Interest Reserve Fund	<u>-0-</u>	<u>-0-</u>	<u>189,320</u>	<u>189,320</u>
	<u>\$ 3,800</u>	<u>\$ 2,700</u>	<u>\$ 189,320</u>	<u>\$ 189,320</u>

NOTE E MAJOR CUSTOMER

A soybean processing plant purchased electricity totaling \$650,426 and \$674,419 in 2004 and 2003, respectively, which represented 41.5% and 42.4% of total sales respectively each year.

NOTE F POWER PURCHASE CONTRACT

The Utility has a long-term contract with Western Iowa Municipal Electric Cooperative Association (WIMECA) to purchase all electrical needs from WIMECA at established rates. In turn, WIMECA agrees to use its best efforts to provide an adequate, uninterrupted supply of electric power and energy.

MANNING MUNICIPAL LIGHT PLANT
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2004 AND 2003

NOTE G CONTRACT RATES OF DELIVERY FOR FIRM POWER

A contract was signed with Western Area Power Administration to lock in the Contract Rate of Delivery (CROD) for firm power on and after January 1, 2001 and continuing through December 31, 2005. The rate for firm power during the winter season is different than that for the summer season.

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 \$8,487 and \$7,958 respectively, equal to the required contributions for each year.

NOTE I RELATED PARTY TRANSACTIONS

Note receivable from the Manning Municipal Communication and Television System Utility in the amount of \$500,000 to be used for their share of the broadband communications system. The interest rate shall be adjusted annually on the anniversary date of the note to an amount which is equal to 1% more than a one year certificate of deposit at American Interstate Bank. The Communication's net revenues shall be pledged to pay off amounts due as allowable. No payoff schedule has been determined. In 2004, Manning Municipal Light Plant forgave \$200,000 of this note.

December 31		Debt	December 31,
<u>2003</u>	<u>Additions</u>	<u>Forgiven</u>	<u>2004</u>
<u>\$ 500,000</u>	<u>\$ -0-</u>	<u>\$(200,000)</u>	<u>\$ 300,000</u>

MANNING MUNICIPAL LIGHT PLANT
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2004 AND 2003

NOTE I RELATED PARTY TRANSACTIONS (cont'd.)

The above note receivable with the Manning Municipal Communication and Television System Utility does not have a specific payoff schedule. Payments made depend upon the net revenues of the Communication Utility.

The Utility leases an area of City Hall from the City of Manning through oral lease agreements. Rent expense charged to operations on this facility for 2004 and 2003, were \$6,000 for each year.

NOTE J NOTE RECEIVABLE - MANNING BETTERMENT FOUNDATION

Unsecured note receivable from Manning Betterment Foundation for the sum of \$100,000 with interest thereon any unpaid principal from July 28, 2003, payable semi-annually at the rate of 4% per annum. Interest only payments beginning on January 28, 2004 and continuing on the 28th day of each July and January up to and including July 28, 2006. Thereafter, principal and interest payments are required with the final payment due on July 28, 2013. Interest rate is subject to change throughout the loan period.	<u>2004</u>	<u>2003</u>
	\$ 100,000	\$ 100,000
Less: Current Portion	<u>-0-</u>	<u>-0-</u>
	<u>\$ 100,000</u>	<u>\$ 100,000</u>

NOTE K BONDS PAYABLE

The Utility was issued Series 1999 Electric Revenue Bonds in strict compliance with the provisions of Chapter 384 of the Code of Iowa, 1999, in the amount of \$2,260,000. The bonds are not general obligations of the City, but are payable from and secured by a pledge of future net revenues of the Utility.

The proceeds of the sale of the Series 1999 Electric Revenue Bonds will be used by the Utility to defray the costs of distribution and load management infrastructure facilities through the construction of a hybrid fiber optic - coaxial cable communication system. Additional capacity within the system will be utilized by the Manning Municipal Communication and Television System Utility.

MANNING MUNICIPAL LIGHT PLANT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003

NOTE K BONDS PAYABLE (cont'd.)

The remaining principal maturity requirements and interest rates thereon are as follows:

<u>Dec. 1</u>	<u>Amount</u>	<u>Rate</u>	<u>Dec. 1</u>	<u>Amount</u>	<u>Rate</u>
2005	\$ 85,000	4.65	2013	\$ 130,000	5.35%
2006	90,000	4.70	2014	135,000	5.40
2007	95,000	5.05	2015	140,000	5.60
2008	100,000	5.05	2016	150,000	5.60
2009	105,000	5.05	2017	160,000	5.60
2010	110,000	5.15	2018	170,000	5.60
2011	115,000	5.25	2019	<u>175,000</u>	5.60
2012	120,000	5.30		1,880,000	
			Less: Current Installment	<u>(85,000)</u>	
				<u>\$1,795,000</u>	

Principal payments are due annually on December 1 and interest payments are due semi-annually on June 1 and December 1 of each year.

In addition, the Utility is required to fund a Principal and Interest Reserve Fund equal to the maximum annual principal and interest requirements of the Bonds in the amount of \$189,320. The Utility is maintaining this required Reserve Fund by setting aside the allotted amount into a separate certificate of deposit.

NOTE L LOAN GUARANTEE

In 1998, the Manning Municipal Light Plant guaranteed to Western Iowa Municipal Electric Cooperative Association and to Northwest Iowa Power Cooperative the repayment of a \$100,000 loan from NIPCO's Revolving Loan Fund to Manning Development Corporation. The said loan was to be used by Manning Development Corporation for site preparation for the new Murphy Family Farm feed mill to be located in the Manning Development Park. As of December 31, 2004, no activity has transpired on this feed mill.

The Manning Development Corp. has now become the Manning Betterment Foundation but the loan guarantee still exists for the full \$100,000.

MANNING MUNICIPAL LIGHT PLANT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003

NOTE M COMPENSATED ABSENCES

Light Plant 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 is \$3,610 and at December 31, 2003 it was \$4,048.

Sick leave may be accumulated for subsequent use or for payment upon termination or retirement. The accumulated liability for accrued sick leave totaled \$15,984 and \$13,099 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. Eligible employees accrue sick leave benefits at the rate of 6 days per year or 4 hours per month. Therefore an employee would have to work at the Utility for 4 years before they would be eligible to be paid for sick leave upon termination.

NOTE N PLEDGED CONTRIBUTIONS

A motion was made in August 2000 to donate \$10,000 per year for five years, depending upon availability of funds, to the West Central Iowa Health Care Foundation endowment fund. The first payment was made in 2000. The Utility has \$10,000 left to pay on this pledge as of December 31, 2004.

NOTE O RISK MANAGEMENT

Manning Municipal Light Plant 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 LIGHT PLANT
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2004 AND 2003

NOTE P 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 use 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 with the first payment required on June 30, 2002.

NOTE Q COMPARISON OF DISBURSEMENTS WITH BUDGET

The Manning Municipal Light Plant 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>	Variance <u>Favorable</u>
Business – Type activity	<u>\$1,846,923</u>	<u>\$1,835,949</u>	<u>\$ 10,974</u>

NOTE R RESTATEMENTS FOR 2003

There were several restatements made on the December 31, 2003 financial statements which are reported under Exhibit A, Exhibit B, and Schedule 3.

The first restatement was to record \$44,941 in Member Charge Refunds received in 2003 as non-operating revenue rather than reducing the Purchased Power expense.

The second restatement was to record an additional \$119,759 in Member Charge Refunds as non-operating revenue while increasing Accounts Receivable – Member Charge Refunds by the same amount.

The effects of these restatements are summarized as follows:

	<u>Restated 2003</u>	<u>Original 2003</u>
Purchased Power – Expense	<u>\$935,182</u>	<u>\$890,241</u>
Member Charge Refunds-Non-operating Revenue	<u>\$164,700</u>	<u>\$ -0-</u>
Accounts Receivable – Member Charge Refunds	<u>\$119,759</u>	<u>\$ -0-</u>

MANNING MUNICIPAL LIGHT PLANT
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2004 AND 2003

NOTE R RESTATEMENTS FOR 2003 (cont'd.)

Net assets at December 31, 2003, as previously reported	\$4,952,778
A/R Adjustment	<u>119,759</u>
Net Assets at December 31, 2003, Restated	<u>\$5,072,537</u>

NOTE S ACCOUNTING CHANGE

Governmental Accounting Standards Board 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 Electric 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, other than for those items reported in Note R. There is only one enterprise fund, and therefore it is treated as a major fund.

SUPPLEMENTAL INFORMATION

MANNING MUNICIPAL LIGHT PLANT
SUMMARY OF UTILITY PLANT AND ACCUMULATED DEPRECIATION

	Property, Plant and Equipment			
	January 1, 2004	Additions	Retirements	December 31, 2004
PRODUCTION				
Land	\$ 8,500	\$ -0-	\$ -0-	\$ 8,500
Structures and improvements	77,413	5,445	-0-	82,858
Fuel holders	2,500	-0-	-0-	2,500
Prime movers and generators	200,800	-0-	-0-	200,800
Accessory electric equipment	846,000	-0-	-0-	846,000
	<u>1,135,213</u>	<u>5,445</u>	<u>-0-</u>	<u>1,140,658</u>
TRANSMISSION				
Poles and fixtures	3,450	-0-	-0-	3,450
Overhead conductors and devices	4,300	-0-	-0-	4,300
	<u>7,750</u>	<u>-0-</u>	<u>-0-</u>	<u>7,750</u>
DISTRIBUTION				
Poles and fixtures	28,796	-0-	-0-	28,796
Overhead conductors and devices	23,530	-0-	-0-	23,530
Underground conductors and devices	1,073,006	316,216	-0-	1,389,222
Line transformers	383,101	-0-	-0-	383,101
Services	209,351	-0-	-0-	209,351
Meters	65,498	328	-0-	65,826
Leased property on customer premises	820	-0-	-0-	820
Street lighting systems	308,690	20,019	-0-	328,709
Load management underground conductors and devices	136,000	-0-	-0-	136,000
	<u>2,228,792</u>	<u>336,563</u>	<u>-0-</u>	<u>2,565,355</u>
GENERAL				
Structures - garage	33,730	2,600	-0-	36,330
Office furniture and equipment	61,720	13,382	-0-	75,102
Transportation equipment	208,967	23,619	-0-	232,586
Communication equipment	77,799	-0-	-0-	77,799
Miscellaneous equipment	72,810	-0-	-0-	72,810
	<u>455,026</u>	<u>39,601</u>	<u>-0-</u>	<u>494,627</u>
TELECOMMUNICATIONS				
Infrastructure	2,337,118	-0-	-0-	2,337,118
Totals	<u>\$6,163,899</u>	<u>\$ 381,609</u>	<u>\$ -0-</u>	<u>\$6,545,508</u>

SCHEDULE 1

Accumulated Depreciation			
January 1, 2004	Provision	Retirements	December 31, 2004
\$ -0-	\$ -0-	\$ -0-	\$ -0-
59,070	1,744	-0-	60,814
2,500	-0-	-0-	2,500
170,800	-0-	-0-	170,800
<u>676,361</u>	<u>21,585</u>	<u>-0-</u>	<u>697,946</u>
<u>908,731</u>	<u>23,329</u>	<u>-0-</u>	<u>932,060</u>
3,450	-0-	-0-	3,450
<u>4,300</u>	<u>-0-</u>	<u>-0-</u>	<u>4,300</u>
<u>7,750</u>	<u>-0-</u>	<u>-0-</u>	<u>7,750</u>
27,827	91	-0-	27,918
19,432	287	-0-	19,719
616,969	34,376	-0-	651,345
319,904	5,541	-0-	325,445
196,973	1,162	-0-	198,135
48,368	1,124	-0-	49,492
820	-0-	-0-	820
137,417	21,038	-0-	158,455
<u>136,002</u>	<u>-0-</u>	<u>-0-</u>	<u>136,002</u>
<u>1,503,712</u>	<u>63,619</u>	<u>-0-</u>	<u>1,567,331</u>
33,722	146	-0-	33,868
55,121	2,213	-0-	57,334
93,057	28,709	-0-	121,766
76,431	392	-0-	76,823
<u>56,234</u>	<u>3,999</u>	<u>-0-</u>	<u>60,233</u>
<u>314,565</u>	<u>35,459</u>	<u>-0-</u>	<u>350,024</u>
<u>378,220</u>	<u>139,473</u>	<u>-0-</u>	<u>517,693</u>
<u>\$3,112,978</u>	<u>\$ 261,880</u>	<u>\$ -0-</u>	<u>\$3,374,858</u>

MANNING MUNICIPAL LIGHT PLANT
INVESTMENTS AND INTEREST INCOME

	Balance January 1, <u>2004</u>	<u>Purchases</u>	<u>Redeemed</u>	Balance December 31, <u>2004</u>	<u>Interest Income</u>
Current Assets					
Certificates of deposit	<u>\$1,743,041</u>	<u>1,850,210</u>	<u>(867,638)</u>	<u>\$2,725,613</u>	\$ 44,154
Other Interest Income					
General checking account					2,542
Savings accounts					124
Communication utility loan					11,972
Manning Betterment Foundation loan					<u>4,000</u>
Total interest income					<u>\$ 62,792</u>

MANNING MUNICIPAL LIGHT PLANT
OPERATING EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

	<u>2004</u>	Restated <u>2003</u>	Increase <u>(Decrease)</u>
PRODUCTION			
Salaries	\$ 14,943	\$ 13,154	\$ 1,789
Purchased power	947,708	935,182	12,526
Other expenses	437	750	(313)
Provision for depreciation	23,329	23,091	238
Plant utilities	<u>1,915</u>	<u>-0-</u>	<u>1,915</u>
	988,332	972,177	16,155
DISTRIBUTION			
Salaries	57,947	59,712	(1,765)
MMCTSU maintenance salaries	3,412	3,817	(405)
Maintenance materials, labor and overhead	24,425	28,938	(4,513)
Street light maintenance	6,344	5,693	651
Truck expense	4,151	3,487	664
Provision for depreciation	<u>63,620</u>	<u>52,856</u>	<u>10,764</u>
	159,899	154,503	5,396
ACCOUNTING AND COLLECTION			
Office salaries	7,033	5,910	1,123
Meter reading salaries	3,154	2,014	1,140
Reimb. MMCTSU for wages	5,697	6,856	(1,159)
Office supplies/billing expense	1,434	903	531
Office maintenance	1,157	1,304	(147)
Bldg./shop maintenance	87	722	(635)
Postage	3,611	2,220	1,391
Rent	6,000	6,000	-0-
Telephone	3,384	3,268	116
Bad debts expense	2,175	634	1,541
Computer maintenance/software	<u>1,516</u>	<u>1,457</u>	<u>59</u>
	35,248	31,288	3,960
ADMINISTRATION AND GENERAL			
Salaries	34,583	33,975	608
Payroll taxes	19,074	18,628	446
Employee insurance	25,152	23,338	1,814
Property and liability insurance	27,285	25,898	1,387
Audit & accounting services	5,775	5,400	375
Legal and professional services	1,846	9,629	(7,783)
Seminars and meetings	3,440	3,389	51

MANNING MUNICIPAL LIGHT PLANT
OPERATING EXPENSES
FOR THE YEARS ENDED 2004 AND 2003

	<u>2004</u>	Restated <u>2003</u>	Increase (Decrease)
ADMINISTRATIVE AND GENERAL			
Dues	\$ 5,610	\$ 7,234	\$ (1,624)
Uniforms	1,493	1,030	463
Trustee fees	2,995	2,995	-0-
Pager fees	576	634	(58)
Legal notices and advertising	1,688	730	958
Other expenses	493	1,304	(811)
Provisions for depreciation	35,459	25,156	10,303
Less overhead transferred out	<u>150</u>	<u>(1,034)</u>	<u>1,184</u>
	<u>165,619</u>	<u>158,306</u>	<u>7,313</u>
 Total Operating Expenses	 <u>\$1,349,098</u>	 <u>\$1,316,274</u>	 <u>\$ 32,824</u>

MANNING MUNICIPAL LIGHT PLANT
COMPARATIVE STATISTICAL DATA
(UNAUDITED)

	Year Ended December 31,			
	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
SOURCES OF KILOWATT HOURS				
KWHRS purchased	33,900,899	34,803,305	35,187,697	35,034,121
KWHRS generated	<u>870</u>	<u>-0-</u>	<u>3,320</u>	<u>200</u>
Totals	<u>33,901,769</u>	<u>34,803,305</u>	<u>35,197,017</u>	<u>35,034,321</u>
ANALYSIS OF KILOWATT HOURS				
KWHRS sold				
Residential	6,959,261	7,204,427	7,358,596	7,013,619
Commercial	3,138,985	3,021,342	2,926,601	2,775,861
Industrial	21,357,054	22,032,066	22,410,742	22,590,937
Municipal	<u>777,489</u>	<u>796,083</u>	<u>823,020</u>	<u>821,053</u>
Subtotals	<u>32,232,789</u>	<u>33,053,918</u>	<u>33,518,959</u>	<u>33,201,470</u>
KWHRS not sold				
Street lights	540,843	610,020	484,465	258,225
Utility plant and office	137,562	224,930	233,434	235,703
Generated	870	-0-	3,320	200
Line loss	<u>989,705</u>	<u>914,437</u>	<u>950,839</u>	<u>1,338,723</u>
Subtotals not sold	<u>1,668,980</u>	<u>1,749,387</u>	<u>1,672,058</u>	<u>1,832,851</u>
Totals	<u>33,901,769</u>	<u>34,803,305</u>	<u>35,191,017</u>	<u>35,034,321</u>
LINE LOSS PERCENT	2.92%	2.63%	2.70%	3.82%
NUMBER OF CUSTOMERS				
Residential	735	725	724	723
Commercial	128	126	124	120
Industrial	18	19	19	20
Municipal	<u>14</u>	<u>16</u>	<u>18</u>	<u>18</u>
Total	<u>895</u>	<u>886</u>	<u>885</u>	<u>881</u>

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

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

Certified Public Accountants

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

305 Main Street
Manning, Iowa 51455-1030
(712) 655-3777
Fax (712) 655-3778

January 21, 2005

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

To the Board of Trustees of the
Manning Municipal Light Plant:

We have audited the financial statements of the Manning Municipal Light Plant as of and for the years ended December 31, 2004, and 2003, and have issued our report thereon dated January 21, 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 Light Plant'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 Light Plant'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 Light Plant. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Manning Municipal Light Plant'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 Light Plant'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 item A is also a material weakness. Prior year reportable conditions have been resolved except for item A.

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 Light Plant, 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 Light Plant 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 LIGHT PLANT
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 a material weakness.
- 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 Light Department'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.

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.

Response - We will try to use the staff in the most efficient way to achieve maximum internal control possible with a small staff.

Conclusion - Response acknowledged.

MANNING MUNICIPAL LIGHT PLANT
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 for First National Bank, American Interstate Bank, and Commercial Federal Bank were all exceeded during the year ended December 31, 2004.

Recommendation – The Utility received a large cash payout from WIMECA for prior years' deferred patronage dividends in October 2004 for \$662,074. The Utility was not expecting this payment and this is when all of their depository limits were exceeded. The Board needs to raise their depository limits at all three banks.

Response – We will amend and raise the depository limits at all the applicable banks.

Conclusion – Response accepted.

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 Light Plant.

III-C-04 Questionable Disbursements

We noted no disbursements for parties, banquets, or other entertainment for employees that we believe may constitute an unlawful expenditure from public funds as defined in an Attorney General's opinion dated April 25, 1979.

III-D-04 Travel Expense

No expenditures 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.

.MANNING MUNICIPAL LIGHT PLANT
SCHEDULE OF FINDINGS
YEAR ENDED DECEMBER 31, 2004

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>
Jerry Rasmussen, Trustee, Rasmussen Lumber, owner	Misc. repairs and supplies	<u>\$ 1,891</u>
Lynn Stein, Trustee, Manning Motor Co, part owner	2004 Chevrolet Pickup Vehicle Maintenance	\$ 21,673 <u>619</u> <u>\$ 22,292</u>

In accordance with Chapter 362.5 (11) of the Code of Iowa, the transactions with Manning Motor Co. do not appear to represent a conflict of interest since the Chevrolet pickup was competitively bid and the remaining transactions were under \$2,500.

The transactions with Rasmussen Lumber do not appear to represent a conflict of interest since they were less than \$2,500.

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.

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.

However, several instances were noted where the board minutes were not published within fifteen days as required by Chapter 372.13(6) of the Iowa Code.

Recommendation – The Utility should monitor its procedures to insure proper publications within the fifteen day period as required by Chapter 372.13(6) of the Iowa Code.

Response – We will comply with this recommendation.

Conclusion – Response accepted.

MANNING MUNICIPAL LIGHT PLANT
SCHEDULE OF FINDINGS
YEAR ENDED DECEMBER 31, 2004

III-H-04 Deposits and Investments

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