

MANNING MUNICIPAL GAS DEPARTMENT

INDEPENDENT AUDITORS' REPORTS
BASIC FINANCIAL STATEMENTS
SUPPLEMENTAL INFORMATION
SCHEDULE OF FINDINGS

FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

MANNING MUNICIPAL GAS DEPARTMENT

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MANNING MUNICIPAL GAS DEPARTMENT
MANNING, IOWA

OFFICIALS

DECEMBER 31, 2004

<u>Name</u>	<u>Position</u>	<u>Term Expires</u>
Allen Rix	Chairman	June, 2006
Ron Soll	Secretary	June, 2008
Ron Colling	Trustee	June, 2010
Keith Kelderman	Trustee	June, 2005
Bob Ehlers	Trustee	June, 2007
Kenneth Spies	Manager	

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

Certified Public Accountants

Morrie M. Heithoff, CPA
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INDEPENDENT AUDITORS' REPORT

January 12, 2005

To the Board of Trustees
Manning Municipal Gas Department
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 Gas Department (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 Gas Department'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 Gas Department 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 N to the financial statements, for the year ended December 31, 2004, Manning Municipal Gas Department 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 our report dated January 12, 2005, on our consideration of the Gas Department'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 9 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 Gas Department'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.

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

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



Manning Municipal Gas

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MANAGEMENT'S DISCUSSION AND ANALYSIS

Manning Municipal Gas Department 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 Gas Department 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 16.67%, or \$167,963, from 2003 to 2004.
- Operating expenses increased 20.39%, or \$204,606 from December 31, 2003 to December 31, 2004.
- The Utility's net assets of business type activities increased .15%, or \$4,313 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 Gas Department 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.

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 Gas 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	\$ 2,382,576
Capital assets	<u>740,224</u>
Total Assets	<u>\$ 3,122,800</u>
Current liabilities	\$ 168,540
Non-current liabilities	<u>-0-</u>
Total Liabilities	<u>\$ 168,540</u>
Net assets:	
Invested in capital assets, net of related debt	\$ 740,224
Restricted	350,546
Unrestricted	<u>1,863,490</u>
Total net assets	<u>\$ 2,954,260</u>

Net assets of business type activities increased from 2003 by \$4,313, or .15%. 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 \$1,863,490 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 – Gas Fund

Revenues:	
Charges for services	\$1,175,302
Interest Income	51,117
Misc. income	<u>10</u>
Total revenues	<u>\$1,226,429</u>
Operating expenses:	
Purchased gas	\$ 861,177
Distribution operations	119,650
Administrative and general	<u>183,996</u>
Total operating expenses	<u>\$1,164,823</u>
Other expenses:	
Depreciation	\$ 42,926
Interest expense	483
Industrial development contribution	<u>13,884</u>
Total other expense	<u>\$ 57,293</u>
Increase in net assets	\$ 4,313
Net assets beginning of year	<u>2,949,947</u>
Net assets end of year	<u>\$2,954,260</u>

CAPITAL ASSETS

The Utility's capital assets include land, buildings, and improvements, equipment, gas line systems, and other infrastructure. Capital assets for the business type activity totaled \$740,224 (net of accumulated depreciation) at December 31, 2004. See Note D to the financial statements for more information about the Utility's capital assets.

ECONOMIC FACTORS BEARING ON THE GAS UTILITY'S FUTURE

The Gas Utility has not made any significant rate changes and does not expect any significant changes in the future. Rates are based upon what the Gas Utility has to pay for the price of gas.

CONTACTING THE GAS UTILITY'S FINANCIAL MANAGEMENT

This financial report is designed to present our citizens, taxpayers, customers, investors and creditors with a general overview of the Gas Utility's finances and operating activities. If you have any questions or require additional information please contact Kenneth Spies, Manager, 715 Third Street, Manning, Iowa 51455.

BASIC FINANCIAL STATEMENTS

MANNING MUNICIPAL GAS DEPARTMENT
BALANCE SHEETS
DECEMBER 31, 2004 AND 2003

ASSETS	<u>2004</u>	<u>2003</u>
Current Assets		
Unrestricted		
Cash	\$ 88,628	\$ 49,817
Accounts receivable, net of allowance for doubtful accounts	75,525	55,691
Unbilled usage	95,372	109,813
Interest receivable	28,946	30,214
Investments	969,842	1,070,971
Inventory	38,409	31,661
Inventory - Gas	105,066	68,419
Prepaid expenses	3,142	3,111
Note receivable - Manning Betterment Foundation- current portion	-0-	5,000
Notes receivable, other municipal departments - current portion	<u>20,000</u>	<u>20,000</u>
Total unrestricted current assets	1,424,930	1,444,697
Restricted assets		
Cash	4,100	4,525
Investments	<u>350,546</u>	<u>350,546</u>
Total restricted current assets	<u>354,646</u>	<u>355,071</u>
Total current assets	1,779,576	1,799,768
Capital assets		
Land, plants and mains	1,217,512	1,217,194
Warehouse	67,461	67,461
Shop equipment	76,407	75,366
Office equipment and fixtures	59,014	54,568
Office improvements	36,084	36,084
Transportation equipment	60,643	60,643
Border station	<u>16,232</u>	<u>16,232</u>
	1,533,353	1,527,548
Less accumulated depreciation	<u>793,129</u>	<u>750,603</u>
Net capital assets	740,224	776,945

See notes to financial statements.

MANNING MUNICIPAL GAS DEPARTMENT
BALANCE SHEETS
DECEMBER 31, 2004 AND 2003

	<u>2004</u>	<u>2003</u>
Other Assets		
Notes receivable, other municipal departments - net of current portion	\$ 603,000	\$ 524,250
Total assets	<u>\$3,122,800</u>	<u>\$3,100,963</u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Payable from unrestricted current liabilities		
Accounts payable	\$ 148,043	\$ 81,306
Sales and use taxes payable	3,525	3,513
Vacation payable	9,025	7,641
Sick leave payable	3,263	3,154
Property taxes payable	584	596
Accrued interest payable	-0-	281
Short term note payable	<u>-0-</u>	<u>50,000</u>
Total payable from unrestricted current liabilities	164,440	146,491
Payable from restricted current liabilities		
Customer deposits	<u>4,100</u>	<u>4,525</u>
Total current liabilities	168,540	151,016
Net Assets		
Invested in capital assets, net of related debt	740,224	776,945
Restricted for:		
Customer deposits	4,100	4,525
Capital improvement	50,546	50,546
Depreciation	300,000	300,000
Unrestricted	<u>1,859,390</u>	<u>1,817,931</u>
Total net assets	<u>2,954,260</u>	<u>2,949,947</u>
Total liabilities and net assets	<u>\$3,122,800</u>	<u>\$3,100,963</u>

See notes to financial statements.

MANNING MUNICIPAL GAS DEPARTMENT
STATEMENTS OF REVENUES, EXPENSES AND
CHANGES IN FUND NET ASSETS
DECEMBER 31, 2004 AND 2003

	<u>2004</u>	<u>2003</u>
Operating Revenues		
Sales to customers		
Residential	\$ 568,913	\$ 596,127
Commercial	207,127	222,638
Interruptible	128,070	95,953
Large volume	<u>267,272</u>	<u>89,382</u>
	1,171,382	1,004,100
Merchandise sales, net of cost & customer reimbursement for gas lines	3,475	2,784
Service calls	<u>445</u>	<u>455</u>
Total operating revenue	1,175,302	1,007,339
Operating Expenses		
Purchased gas	861,177	669,425
Distribution expenses		
Manager labor	28,204	27,367
Line labor	70,335	67,339
Chemicals	1,750	-0-
Maintenance materials and supplies	10,332	11,752
Transportation and freight	4,022	2,473
Education	124	220
Miscellaneous	<u>4,883</u>	<u>2,684</u>
Total distribution expenses	119,650	111,835
Administrative and general expenses		
Bad debts	749	2,107
Depreciation	42,926	46,531
Dues	11,575	7,982
Group insurance	33,802	33,315
Insurance - general	11,632	12,364
Integrity management	2,820	-0-

See notes to financial statements.

MANNING MUNICIPAL GAS DEPARTMENT
STATEMENTS OF REVENUES, EXPENSES AND
CHANGES IN FUND NET ASSETS
DECEMBER 31, 2004 AND 2003

	<u>2004</u>	<u>2003</u>
Operating Expenses (continued)		
Administrative and general expenses (continued)		
Advertising	\$ 308	\$ 394
Maintenance - copiers and computers	3,135	3,120
Meetings & travel	341	1,089
Miscellaneous expense	5,720	5,786
Manager labor	30,579	29,750
Office labor	33,298	31,740
Office supplies and maintenance	2,484	2,923
Official publications	581	615
Payroll taxes	20,023	20,698
Professional services	6,521	6,548
Real estate taxes	584	(1,465)
Rebate program/comfort plus homes	1,200	-0-
Trustees	2,995	2,995
Utilities, rent, city assessment	<u>15,649</u>	<u>15,391</u>
Total administrative and general expenses	<u>226,922</u>	<u>221,883</u>
Total operating expenses	<u>1,207,749</u>	<u>1,003,143</u>
Operating Income (Loss)	(32,447)	4,196
Non-Operating Revenues (Expenses)		
Interest income	51,117	61,148
Miscellaneous	10	21
Contribution - Main Street Project	-0-	(20,000)
Contribution - Housing Rehab Project	(3,634)	(2,176)
Contribution - Economic Development	(10,000)	(10,000)
Contribution - Project Trees	(250)	(539)
Interest expense	<u>(483)</u>	<u>(281)</u>
Total non-operating revenue	<u>36,760</u>	<u>28,173</u>
Change in Net Assets	4,313	32,369
Total Net Assets, Beginning	<u>2,949,947</u>	<u>2,917,578</u>
Total Net Assets, Ending	<u>\$2,954,260</u>	<u>\$2,949,947</u>

See notes to financial statements.

MANNING MUNICIPAL GAS DEPARTMENT
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2004

Cash flows from operating activities:	
Cash received from customers and users	\$1,165,989
Cash received from other revenues	3,920
Cash paid to suppliers	(837,835)
Cash paid for personal services	(141,261)
Cash paid to employees	<u>(160,923)</u>
Net cash provided by operating activities	29,890
Cash flows from noncapital financing activities:	
Misc. income	10
Change in customer deposits	<u>(425)</u>
Net cash provided (used) by noncapital financing activities	(415)
Cash flows from capital and related financing activities:	
Acquisition of capital assets	(6,205)
Interest paid on notes	(764)
Proceeds from short-term notes	60,000
Repayment of short-term debt	<u>(110,000)</u>
Net cash provided (used) by capital and related financing activities	(56,969)
Cash flows from investing activities:	
Interest on investments	52,385
Industrial development contribution	(13,884)
Loan to other municipality	(98,750)
Principal received on notes	<u>25,000</u>
Net cash provided by investing activities	<u>(35,249)</u>
Net increase (decrease) in cash and cash equivalents	(62,743)
Cash and cash equivalents beginning of year	<u>1,475,859</u>
Cash and cash equivalents end of year	<u>\$1,413,116</u>

See notes to financial statements.

MANNING MUNICIPAL GAS DEPARTMENT
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)	\$ (32,447)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	42,926
(Increase) decrease in customer accounts receivable and unbilled usage and other accounts receivable	(5,393)
(Increase) decrease in inventories	(43,395)
(Increase) decrease in prepaid expenses	(31)
Increase (decrease) in accounts payable	66,737
Increase (decrease) in sales & use tax payable	12
Increase (decrease) in salaries payable	1,493
Increase (decrease) in property taxes payable	(12)
Net cash provided by operating activities	\$ 29,890

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

Current assets:	
Cash and pooled investments	1,058,470
Restricted assets:	
Cash and pooled investments:	
Depreciation reserve	300,000
Capital improvements	50,546
Customer deposits	4,100
Cash and cash equivalents end of year	\$1,413,116

NOTES TO FINANCIAL STATEMENTS

MANNING MUNICIPAL GAS DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003

NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Manning Municipal Gas Department is a component unit of the City of Manning, Iowa, as determined by criteria specified by the Governmental Accounting Standards Board. The Gas Department 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 Gas Department has no component units which meet the Governmental Accounting Standards Board criteria.

The financial statements include only those funds of the Gas Utility and are not intended to present all funds of the City of Manning, Iowa.

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: Manning Municipal Communication and Television System Utility, Manning Betterment Foundation, and Manning Economic Development Corporation.

Nature of Business

The Manning Municipal Gas Department is a municipal utility. The Utility distributes gas to the residents and businesses of Manning, an agricultural community. The Gas Department expanded its services in 1992 to include the City of Templeton, with the first hookups occurring in the fall of 1992. Completion of the Templeton Project took place in 1993. The Gas Department again expanded its services in the fall of 1997 to include the City of Aspinwall.

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

MANNING MUNICIPAL GAS DEPARTMENT
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 Gas 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 Gas Utility are charges to customers for sales and services. Operating expenses for the Gas 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 Gas 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 Gas 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 GAS DEPARTMENT
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.

Accounts Receivable

Accounts receivable are presented at their net realizable values. Allowance for doubtful accounts is \$390 at December 31, 2004 and \$373 at December 31, 2003.

The Utility employees read the customer meters every month. Manning customers are billed on the 1st of each month and Templeton, Aspinwall, and AGP are billed on the 13th of each month. The Utility follows the Commerce Commission rules when it comes to collection procedures. Normally a customer has 20 days to pay their bill, unless they are on the budget plan and then they have 30 days. If the customer is late with their payment, then the Utility sends out a delinquent notice. No surcharge or interest expense is added to the bill.

If it is after April 1st and before November 1st, the gas line could be shut off to a past due customer. Otherwise, the Utility must follow stricter procedures before a customer could be disconnected.

MANNING MUNICIPAL GAS DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003

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

Unbilled Usage

The Gas Department estimates unbilled usage at the end of each accounting period by prorating the total billing based on the number of days still in the audit year versus the total number of days in the billing period. The unbilled usage was \$95,372 at December 31, 2004 and \$109,813 at December 31, 2003.

There was an unplanned incident that occurred in 2003 which made the unbilled usage higher for 2003. There was a billing deficiency which occurred for the months of November and December, 2003. Western Consulting did not catch this error until after the fact. Rate deficiencies totaling \$30,140 for 2003 were billed and collected over a period of time in 2004.

Inventory

Materials and supplies are valued at the lower of cost or market on a per item basis. Gas inventory is valued at the weighted average cost of gas per MMBtu's in storage.

Restricted Assets

The Gas Utility includes in restricted assets those amounts received from customers as deposits on their gas accounts. Other restricted assets include amounts set aside as a Depreciation and Capital Improvement Reserve.

MANNING MUNICIPAL GAS DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003

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

Advertising

Advertising costs are expensed as incurred. Advertising expense was \$308 and \$394 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. A half year's depreciation is recorded in the year the asset is placed in service and a half year's depreciation is taken in the year the asset is retired. Depreciation is computed over the following useful lives:

Plant and Mains	30 - 40 years
Office and Shop Equipment	5 - 10 years
Vehicles	5 years
Warehouse and Office Improv.	20 years
Border Station - Odorizer	20 years

Expenditures for maintenance, repairs and minor replacements are charged to operations. Expenditures for major repairs and betterments are charged to property, plant and equipment accounts.

Customer Deposits

Meter deposits are collected from new customers before they are hooked up to the gas line. Customers in good standing will get a full refund of their deposit after six months.

MANNING MUNICIPAL GAS DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003

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

Operating Revenues

Revenues are based on billing rates which are applied to customers' consumption of gas. Utility employees read the customer's gas meters on a monthly basis. Western Consulting Inc. calculates the rate to charge per MCF on a monthly basis as well.

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.

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 No. 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.

MANNING MUNICIPAL GAS DEPARTMENT
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2004 AND 2003

NOTE B DEPOSITS AND INVESTMENTS (cont'd.)

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

	<u>Cash</u>	<u>Certificates Of Deposit</u>
Unrestricted	\$ 92,728	\$ 969,842
Restricted	<u>4,100</u>	<u>350,546</u>
	<u>\$ 96,828</u>	<u>\$1,320,388</u>

NOTE C RESTRICTED ASSETS

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

	<u>Cash</u>		<u>Investments</u>	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
Customer Deposits	\$ 4,100	\$ 4,525	\$ -0-	\$ -0-
Depreciation Reserve	-0-	-0-	300,000	300,000
Capital Improvement Reserve	<u>-0-</u>	<u>-0-</u>	<u>50,546</u>	<u>50,546</u>
	<u>\$ 4,100</u>	<u>\$ 4,525</u>	<u>\$ 350,546</u>	<u>\$ 350,546</u>

MANNING MUNICIPAL GAS DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003

NOTE D CAPITAL ASSETS

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

	Balance Beginning of Year	Increase	Decrease	Balance End of Year
Land	\$ 2,500	\$ -	\$ -	\$ 2,500
Plants and Mains	1,214,694	718	(400)	1,215,012
Warehouse	67,461	-	-	67,461
Shop Equipment	75,366	1,041	-	76,407
Office Equipment & Fixtures	54,568	4,446	-	59,014
Office Improvements	36,084	-	-	36,084
Transportation Equipment	60,643	-	-	60,643
Border Station	<u>16,232</u>	<u>-</u>	<u>-</u>	<u>16,232</u>
Total Capital Assets	1,527,548	6,205	(400)	1,533,353
Less: Accumulated Depreciation	<u>750,603</u>	<u>42,926</u>	<u>(400)</u>	<u>793,129</u>
Capital assets, net	<u>\$ 776,945</u>	<u>(36,721)</u>	<u>-0-</u>	<u>740,224</u>
Depreciation charged to operations				<u>\$ 42,926</u>

NOTE E RELATED PARTY TRANSACTIONS

2004

2003

Unsecured note receivable from the City of Manning, due in annual installments until principal is paid, at a rate adjusted annually on the anniversary date of the note to an amount which is equal to 1% more than the maximum rate of interest being paid by Commercial Federal Bank of Manning, Iowa, on certificates of deposits which were issued for maturities of one year. Originally borrowed for the purpose of financing the construction of a new municipal water treatment plant. Final payment is due in February, 2010.

\$ 123,000

\$ 143,000

MANNING MUNICIPAL GAS DEPARTMENT
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2004 AND 2003

NOTE E RELATED PARTY TRANSACTIONS (cont'd.)	<u>2004</u>	<u>2003</u>
<p>Note receivable from the Manning Municipal Communications and Television System Utility to be used for 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. No schedule has been drawn up for the repayment on principal.</p>	<u>500,000</u> <u>623,000</u>	<u>401,250</u> <u>544,250</u>
<p>Less Current Portion</p>	<u>20,000</u>	<u>20,000</u>
	<u>\$ 603,000</u>	<u>\$ 524,250</u>

The Manning Municipal Gas Department paid businesses owned by employees or officials for the following:

	<u>2004</u>	<u>2003</u>
Truck repairs	\$ 974	\$ -0-
Supplies	275	1,305
Fuel & truck repairs	1,666	1,810
Publications/Adv.	846	1,142
Misc. repairs	<u>1,780</u>	<u>533</u>
	<u>\$ 5,541</u>	<u>\$ 4,790</u>

The Utility leases an area of City Hall from the City of Manning through an oral lease agreement. Rent expense charged to operations on this facility aggregated \$2,400 and \$2,400 for the years 2004 and 2003, respectively. The City of Manning also charged the Manning Municipal Gas Department a City assessment of \$3,600 in 2004 and \$3,600 in 2003.

MANNING MUNICIPAL GAS DEPARTMENT
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2004 AND 2003

NOTE F NOTE RECEIVABLE - MANNING BETTERMENT FOUNDATION

	<u>2004</u>	<u>2003</u>
Secured note receivable from Manning Betterment Foundation, \$5,000 principal plus interest shall be paid annually on the 30th day of December each year, the interest rate shall change annually at a rate which is 1% greater than the amount being paid by American Interstate Bank during the term of the note on amounts equal to the principal still due.	\$ -0-	\$ 5,000
Less: Current Portion	<u>-0-</u>	<u>5,000</u>
	<u>\$ -0-</u>	<u>\$ -0-</u>

NOTE G SHORT TERM NOTE PAYABLE

A summary of changes in short-term debt for the year ended December 31, 2004 is as follows:

	American Interstate Bank
Balance, beginning	\$ 50,000
Advances	60,000
Payments	<u>(110,000)</u>
Balance, ending	<u>\$ -0-</u>

NOTE H COMPENSATED ABSENCES

Manning Municipal Gas Department employees accrue sick leave benefits at the rate of 88 hours per year, or an average pay period. Sick leave benefits are calculated at their current level of pay. Unused sick leave benefits will be allowed to accumulate until the employee has accrued a total of 88 hours of sick leave benefits in a twelve month period. Unused sick leave benefits will be paid to employees, if eligible, on the employee's anniversary date or upon termination of employment.

MANNING MUNICIPAL GAS DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003

NOTE H COMPENSATED ABSENCES (continued)

Employees accrue vacation benefits beginning on the employee's hire date. Vacation time off is paid at the employee's base rate at the time of vacation. In the event that available vacation is not used by the end of the benefit year, employees will forfeit the unused time. Upon termination of employment, employees will be paid for unused vacation time that has been accrued through the last day of work.

NOTE I 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 covered salary and the Utility is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by State statute. The Utility's contribution to IPERS for the years ended December 31, 2004, and 2003 were \$9,237, and \$8,929 respectively, equal to the required contributions for each year.

NOTE J PURCHASE COMMITMENT

In 1993, Manning Municipal Gas Department entered into an agreement with Clayton Energy Corporation of Omaha whereby Clayton will act as an independent contractor and purchase gas on behalf of the Utility. In September 1995, an addendum was made to this agreement which reiterated the primary term of the agreement to run through October 31, 1996, and extended the secondary terms to run for three years unless terminated one year and ninety days prior to the commencement of any secondary term. The agreement is now open ended and continues to run unless either party gives notification to make a change.

MANNING MUNICIPAL GAS DEPARTMENT
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2004 AND 2003

NOTE K LONG-TERM TRANSPORTATION AGREEMENT

Manning Municipal Gas Department entered into a long-term transportation contract with Ag Processing Inc. (AGP) to transport gas from Northern Natural's town border station to AGP's Manning, Iowa plant for .15 cents per MMBtu plus a \$100.00 monthly fee for a period of seven years ending November 1, 1998. This contract now continues on a year to year basis at the same rates.

NOTE L COMPARISON OF DISBURSEMENTS WITH BUDGET

The City of Manning adopts a budget annually as required by Iowa law. The City budget, which is prepared on the cash basis of accounting, includes those funds of the Gas Utility for the period July 1, 2003 to June 30, 2004.

Therefore, the following is a schedule comparing the business type activity, which includes the Gas Fund's budget and actual disbursements using the cash basis of accounting for the year July 1, 2003 to June 30, 2004:

<u>Disbursements</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance- Favorable</u>
Business-type activity	<u>\$1,182,300</u>	<u>\$1,051,559</u>	<u>\$130,741</u>

The disbursements may not legally exceed budgeted appropriations at the functional level. Actual cash disbursements for the year ended June 30, 2004 did not exceed the final statutory budget.

NOTE M RISK MANAGEMENT

Manning Municipal Gas Department 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 GAS DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003

NOTE N 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 Gas Utility's financial activities.

The financial statements have always been prepared on an accrual basis of accounting, so 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 GAS DEPARTMENT
 SCHEDULE OF INVESTMENTS
 DECEMBER 31, 2004

	Balance December 31, <u>2003</u>	<u>Purchases</u>	<u>Redeemed</u>	Balance December 31, <u>2004</u>
<u>Certificates of Deposit:</u>				
Operations and maintenance	\$ 162,297	\$ 3,189	\$ -0-	\$ 165,486
Capital improvements	50,546	-0-	-0-	50,546
Depreciation Fund	476,615	10,248	-0-	486,863
Contingency Fund	<u>732,059</u>	<u>142,547</u>	<u>(257,113)</u>	<u>617,493</u>
	<u>\$1,421,517</u>	<u>\$ 155,984</u>	<u>\$ (257,113)</u>	<u>\$1,320,388</u>
 Interest Earned on:				
Checking				\$ 258
Operations and maintenance-CD's				3,325
Capital improvements-CD's				1,033
Contingency-CD's				19,337
Customer deposits				24
Depreciation-CD's				10,133
Savings-IPAIT				13
Water treatment plant loan				2,995
Industrial site waterline loan				145
Communication system loan				<u>13,854</u>
				<u>\$ 51,117</u>

MANNING MUNICIPAL GAS DEPARTMENT
 SCHEDULE OF TIME CERTIFICATES OF DEPOSIT
 DECEMBER 31, 2004

	<u>Certificate Number</u>	<u>Maturity Date</u>	<u>Interest Rate</u>
CAPITAL IMPROVEMENT FUND:			
First National Bank, Manning	1899	2-16-05	2.00%
DEPRECIATION FUND:			
First National Bank, Manning	2592	4-9-05	1.95%
American Interstate Bank, Manning	25050	4-24-05	2.15%
Templeton Savings Bank, Templeton	63273	7-16-05	2.25%
CONTINGENCY FUND:			
First National Bank, Manning	2536	2-18-05	2.30%
	2228	12-13-05	3.00%
	424	3-17-05	2.00%
	2643	5-07-05	1.95%
	2591	4-09-05	1.95%
American Interstate Bank, Manning	23525	6-14-05	2.05%
Templeton Savings Bank, Templeton	63258	6-19-05	2.25%
	63242	5-12-05	2.15%
	63156	1-31-05	2.15%
	62735	5-04-05	2.15%
	62746	5-20-05	2.15%
	62790	8-01-05	2.25%
	62939	3-20-05	2.15%
Commercial Federal Bank, Manning	83276	9-08-06	3.00%
	83284	9-24-05	2.33%
OPERATIONS AND MAINTENANCE FUND:			
American Interstate Bank, Manning	23398	7-04-05	2.08%
Total Time Certificates of Deposit			

SCHEDULE 2

Amount
December 31, 2004

\$ 50,546

186,695

269,488

30,680 486,863

204,600

21,988

28,054

20,441

42,675

22,297

20,685

20,716

20,774

15,804

43,946

23,953

10,698

100,746

20,116 617,493

165,486

\$1,320,388

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

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January 12, 2005

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

To the Board of Trustees of the
Manning Municipal Gas Department:

We have audited the financial statements of the Manning Municipal Gas Department as of and for the years ended December 31, 2004, and 2003, and have issued our report thereon dated January 12, 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 Gas Department's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, non-compliance 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 non-compliance that are required to be reported under Government Auditing Standards.

Comments involving statutory and other legal matters about the Gas Department'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 Gas Department. 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 Gas Department'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 Gas Department'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 the Manning Municipal Gas Department, the City of Manning, and other parties to whom the Manning Municipal Gas Department 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 Gas Department 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 GAS DEPARTMENT
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 Gas 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 GAS DEPARTMENT
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's operating budget is part of the certified budget of the City of Manning and is subject to the approval of the City Council. The Utility budgets on the cash basis on the same fiscal year as the City which is from July 1, 2003 to June 30, 2004. The Utility did not exceed their cash basis budget for that time period.

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.

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>
Allen Rix, Trustee, Owner of Rix Amoco	Gasoline & repairs	<u>\$ 1,666</u>
Ron Colling, Trustee, Owner of Manning Monitor	Monthly legal publications, office supplies and advertising	<u>\$ 846</u>

MANNING MUNICIPAL GAS DEPARTMENT
 SCHEDULE OF FINDINGS
 YEAR ENDED DECEMBER 31, 2004

III-E-04 Business Transactions (continued)

Kenneth Spies, Manager, Owner of Spies Fur	Jackets & clothing	<u>\$ 275</u>
Mike Warner, Employee, Owner of Warner Welding	Miscellaneous materials	<u>\$ 517</u>
Ron Soll, Trustee, Shareholder of Soll's Service, Inc.	Parts and misc. supplies	<u>\$ 1,262</u>
Bob Ehlers, Trustee, Shareholder of Manning Motors, Inc.	Tires & Repair	<u>\$ 974</u>

In accordance with Chapter 362.5 (11) of the Code of Iowa, the above transactions do not appear to represent conflicts of interest since total transactions were less than \$2,500 with each individual during the fiscal year.

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. Minutes of the Utility proceedings were all properly and timely published. Also, the Utility did publish annual gross salaries for 2003 as in accordance with an Attorney General's opinion dated April 12, 1978.

III-H-04 Deposits and Investments

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 were noted.