

MANNING MUNICIPAL COMMUNICATIONS
AND TELEVISION SYSTEM UTILITY

INDEPENDENT AUDITORS' REPORTS

BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTAL INFORMATION

SCHEDULE OF FINDINGS

FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

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MANNING MUNICIPAL COMMUNICATIONS
AND TELEVISION SYSTEM UTILITY

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MANNING MUNICIPAL COMMUNICATIONS
AND TELEVISION SYSTEM UTILITY
MANNING, IOWA

OFFICIALS

DECEMBER 31, 2005

<u>Name</u>	<u>Position</u>	<u>Term Expires</u>
John Detlefsen	Chairperson	11-4-2007
Rick Lohrmann	Vice Chairperson	11-4-2010
Ron Soll	Secretary	11-4-2011
Marsha Clausen	Board Member	11-4-2006
Dr. Robert Vonnahme	Board Member	11-4-2008
Jeff Carson	Manager	

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

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

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June 6, 2006

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying basic financial statements, listed as exhibits in the table of contents of this report, of the Manning Municipal Communications and Television System Utility, (a municipal utility) as of and for the years ended December 31, 2005 and 2004. These financial statements are the responsibility of the Manning Municipal Communications and Television System Utility's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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.

As described in Note A, the financial statements of the Manning Municipal Communications and Television System Utility are intended to present the financial position and results of operations and cash flows of only that portion of the financial reporting entity of the City of Manning, Iowa, that is attributable to the transactions of the Manning Municipal Communications and Television System Utility.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Manning Municipal Communications and Television System Utility as of December 31, 2005 and 2004, and the changes in its financial position and its cash flow for the years ended December 31, 2005, and 2004 in conformity with U.S. generally accepted accounting principles.

June 6, 2006
Manning Municipal Communications and
Television System Utility
Page Two

In accordance with Government Auditing Standards, we have also issued a report dated June 6, 2006, on our consideration of the Manning Municipal Communications and Television System Utility's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing 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 conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Manning Municipal Communications and Television System Utility's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended December 31, 2004 (which are not presented herein) and expressed unqualified opinions on those financial statements. The supplemental information included in Schedules 1 through 2 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. Information in Schedule 3 has not been subjected to the auditing procedures applied in our audit of the aforementioned financial statements and, accordingly, we express no opinion on it.

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

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



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

MANAGEMENT'S DISCUSSION AND ANALYSIS

Manning Municipal Communications and Television System Utility provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the year ended December 31, 2005. We encourage readers to consider this information in conjunction with the Utility's financial statements, which follow.

2005 FINANCIAL HIGHLIGHTS

- Operating revenues of the Utility's activities decreased 16.13%, or \$162,804, from 2004 to 2005. (This decrease is largely due to collecting 3 cents common carrier line charges from a variety of phone companies in the amount of \$125,508 in 2004 but none in 2005.)
- Operating expenses increased 2.92%, or \$27,035 from December 31, 2004 to December 31, 2005.
- The Utility's net assets of business type activities decreased \$130,025 from December 31, 2004 to December 31, 2005.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the Utility's financial activities.

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

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

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

REPORTING THE UTILITY'S FINANCIAL ACTIVITIES

Basic Financial Statements

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

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

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

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

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

Fund Financial Statements

The Utility has one fund:

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

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

BASIC FINANCIAL ANALYSIS

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

Net Assets		
December 31, 2005 and 2004		
<u>Business Type Activity – Enterprise Fund</u>		
	<u>Year Ended</u>	
	<u>12-31-05</u>	<u>12-31-04</u>
Current and other assets	\$ 539,120	\$ 577,543
Capital assets	550,678	626,603
Total Assets	<u>\$1,089,798</u>	<u>\$1,204,146</u>
Current liabilities	\$ 189,889	\$ 174,212
Non-current liabilities	800,000	800,000
Total Liabilities	<u>\$ 989,889</u>	<u>\$ 974,212</u>
Net assets:		
Invested in capital assts, net of related debt	\$ -0-	\$ -0-
Restricted	1,850	1,750
Unrestricted	<u>98,059</u>	<u>228,184</u>
Total net assets	<u>\$ 99,909</u>	<u>\$ 229,934</u>

Net assets of business type activities decreased from 2004 by \$130,025. 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 \$98,059 at the end of this year. This is the largest portion of the net assets. Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The invested in capital assets (e.g. land, infrastructure, buildings, and equipment), less the related debt is shown as zero since it is actually a negative number. The related debt is larger than the net capital assets due to the fact that principal payments have not been made on a large portion of the debt, but yet accumulated depreciation continues to increase. If it was shown as a negative number, the unrestricted net assets would be overstated.

Changes in Net Assets
Year ended December 31, 2005 and 2004

Business Type Activity Enterprise Fund – Communication Fund

	<u>Year Ended</u>	
	<u>12-31-05</u>	<u>12-31-04</u>
Revenues:		
Charges for services	\$ 802,521	\$ 989,129
Interest Income	5,725	1,987
Service & reconnect charges	8,755	9,128
Salary reimbursement	9,178	5,506
Debt forgiveness	-0-	200,000
Advertising fees	2,568	2,372
Misc. fees	6,889	2,912
Signal Charges	<u>16,332</u>	<u>-0-</u>
Total revenues	<u>\$ 851,968</u>	<u>\$1,211,034</u>
Operating expenses:		
Production	\$ 419,540	\$ 408,479
Rent	170,849	170,849
Administrative and general	<u>256,669</u>	<u>244,428</u>
Total operating expenses	<u>\$ 847,058</u>	<u>\$ 823,756</u>
Other expenses:		
Depreciation	\$ 104,506	\$ 100,773
Interest expense	30,429	26,451
Loss on disposal of equipment	<u>-0-</u>	<u>19,063</u>
Total other expense	<u>\$ 134,935</u>	<u>\$ 146,287</u>
Increase (decrease) in net assets	\$ (130,025)	\$ 240,991
Net assets beginning of year	<u>229,934</u>	<u>(11,057)</u>
Net assets end of year	<u>\$ 99,909</u>	<u>\$ 229,934</u>

CAPITAL ASSETS

The Utility's capital assets include land, buildings and improvements, equipment, and other infrastructure. Capital assets for the business type activity totaled \$550,678 (net of accumulated depreciation) at December 31, 2005. This is a net decrease of \$75,925 or 12.12% under last year.

CAPITAL ASSETS AT YEAR END

	<u>12-31-05</u>	<u>12-31-04</u>
Headhouse	\$ 62,741	\$ 58,095
Distribution	40,152	37,626
General	41,065	39,870
Interest	119,799	110,871
Telephony	<u>771,793</u>	<u>760,507</u>
Total	1,035,550	1,006,969
Less: Accumulated Depreciation	<u>(484,872)</u>	<u>(380,366)</u>
Net Capital Assets	<u>\$ 550,678</u>	<u>\$ 626,603</u>

LONG-TERM DEBT

At December 31, 2005, the Utility had \$800,000 in total long-term debt outstanding for business type activities. During the year ended December 31, 2005, the Utility did not receive any additional funding on their long-term debt nor did they make any payments on their long-term debt.

ECONOMIC FACTORS BEARING ON THE COMMUNICATION UTILITY'S FUTURE

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

CONTACTING THE COMMUNICATION UTILITY'S FINANCIAL MANAGEMENT

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

BASIC FINANCIAL STATEMENTS

MANNING MUNICIPAL COMMUNICATIONS
AND TELEVISION SYSTEM UTILITY
BALANCE SHEETS
DECEMBER 31, 2005 AND 2004

ASSETS

	<u>2005</u>	<u>2004</u>
Current Assets		
Cash	\$ 336,009	\$ 391,204
Restricted cash - customer deposits	1,850	1,750
Accounts receivable – customers	31,462	28,285
Allowance for doubtful accounts – customers	(249)	(886)
Accounts receivable - carrier access fees	142,246	137,164
Allowance for doubtful accounts – carrier fees	(26,902)	(32,464)
Accrued interest receivable	277	-0-
Due from Light Dept. – Wage reimb.	5,296	-0-
Accounts receivable – misc.	2,103	-0-
Inventory	43,139	48,634
Prepaid expenses	<u>3,889</u>	<u>3,856</u>
Total Current Assets	539,120	577,543
Capital Assets		
Headhouse	62,741	58,095
Distribution	40,152	37,626
General	41,065	39,870
Internet	119,799	110,871
Telephony	<u>771,793</u>	<u>760,507</u>
	1,035,550	1,006,969
Less: Accumulated depreciation	<u>(484,872)</u>	<u>(380,366)</u>
Net Capital Assets	<u>550,678</u>	<u>626,603</u>
Total Assets	<u>\$1,089,798</u>	<u>\$1,204,146</u>

See notes to financial statements.

MANNING MUNICIPAL COMMUNICATIONS
AND TELEVISION SYSTEM UTILITY
BALANCE SHEETS
DECEMBER 31, 2005 AND 2004

Exhibit A
(continued)

LIABILITIES AND NET ASSETS

	<u>2005</u>	<u>2004</u>
Current Liabilities		
Accounts payable - operating	\$ 22,510	\$ 20,686
Accounts payable - telephone service	86,730	60,959
Sales tax payable	1,064	1,662
Deferred income	26,461	27,446
Customer deposits payable	1,850	1,750
Accrued sick leave/vacation/PTO payable	5,446	6,225
Other taxes payable	3,824	4,468
Accrued interest payable	30,025	25,846
Real estate taxes payable	7,224	16,610
Note payable – TSB	<u>4,755</u>	<u>8,560</u>
Total Current Liabilities	189,889	174,212
Long-Term Liabilities, Notes Payable to other municipal departments	<u>800,000</u>	<u>800,000</u>
Total Liabilities	989,889	974,212
Net Assets		
Invested in capital assets, net of related debt	-0-	-0-
Restricted for:		
Customer deposits	1,850	1,750
Unrestricted	<u>98,059</u>	<u>228,184</u>
Total Net Assets	<u>99,909</u>	<u>229,934</u>
Total Liabilities and Net Assets	<u>\$1,089,798</u>	<u>\$1,204,146</u>

See notes to financial statements.

MANNING MUNICIPAL COMMUNICATIONS
AND TELEVISION SYSTEM UTILITY
STATEMENTS OF REVENUES, EXPENSES AND
CHANGES IN FUND NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

	<u>2005</u>	<u>2004</u>
Operating Revenues - Subscriber Fees		
Basic T.V.	\$ 165,090	\$ 169,674
Single movie	5,597	6,090
Double movie	5,858	6,245
Three or more movies	<u>5,678</u>	<u>5,898</u>
	182,223	187,907
Cost of Sales - Signal Charges		
National Cable Television Coop.-Various	106,269	101,062
United Video/WGN	1,186	1,180
USA Network	4,234	4,029
Lifetime	<u>2,485</u>	<u>2,441</u>
	<u>114,174</u>	<u>108,712</u>
Net Revenues from Subscriber Fees	68,049	79,195
Operating Revenues - Telephone Charges		
Local access	165,865	159,712
Local tolls	78,356	85,640
Carrier access fees	216,081	366,611
Circuit revenue	13,271	43,824
USAC revenue	7,000	12,514
Calling features	<u>10,675</u>	<u>9,689</u>
	491,248	677,990
Cost of Sales - Telephone		
Local switching fees	67,380	63,870
Long distance switching fees	33,168	36,883
Switching fees - Templeton	18,000	-0-
Carrier access fees	86,092	85,015
Local billing fees	22,510	20,847
Subscriber services	15,200	14,600
Circuit expense	<u>10,820</u>	<u>28,017</u>
	<u>253,170</u>	<u>249,232</u>
Net Revenues from Telephone Charges	238,078	428,758

MANNING MUNICIPAL COMMUNICATIONS
AND TELEVISION SYSTEM UTILITY
STATEMENTS OF REVENUES, EXPENSES AND
CHANGES IN FUND NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

Exhibit B
(continued)

	<u>2005</u>	<u>2004</u>
Operating Revenues - Internet		
Unlimited service	\$ 18,165	\$ 20,786
Unlimited service on contract	22,956	29,317
Ten hour plan	4,524	4,749
Cable modem income	74,268	62,107
Other fees	4,427	6,273
Wireless internet	4,710	-0-
	<u>129,050</u>	<u>123,232</u>
Cost of Sales - Internet		
Internet expenses	<u>52,196</u>	<u>50,535</u>
Net Revenues from Internet Charges	76,854	72,697
Other Operating Revenues		
Advertising Fees – Channel 22	2,568	2,372
Remotes	572	680
Miscellaneous	1,053	525
Hookup fees – Cable	810	750
Reconnect charges – Cable	2,775	2,350
Service charges	5,980	6,778
Directory fees	4,024	957
Salary reimbursement – Light Dept.	9,178	5,506
Signal charges	16,332	-0-
Pager fees	430	-0-
	<u>43,722</u>	<u>19,918</u>
Net Operating Revenues before Expenses	426,703	600,568
Operating Expenses (See Schedule 1)	<u>532,024</u>	<u>516,050</u>
Net Operating Income (Loss)	(105,321)	84,518
Non-operating Revenues (Expenses)		
Interest income	5,725	1,987
Interest expense	(30,429)	(26,451)
Debt forgiveness – Light Dept.	-0-	200,000
Gain (loss) disposal of equip.	-0-	(19,063)
Total Non-operating Revenues (Expenses)	<u>(24,704)</u>	<u>156,473</u>
Change in Net Assets	(130,025)	240,991
Total Net Assets, Beginning	<u>229,934</u>	<u>(11,057)</u>
Total Net Assets, Ending	<u>\$ 99,909</u>	<u>\$ 229,934</u>

See notes to financial statements.

MANNING MUNICIPAL COMMUNICATIONS
AND TELEVISION SYSTEM UTILITY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Cash Flows from operating activities:		
Cash received from customers and users	\$ 784,975	\$ 949,309
Cash received from other revenues	38,426	19,918
Cash paid to suppliers	(388,307)	(390,861)
Cash paid for personal services	(291,058)	(275,080)
Cash paid to employees	<u>(146,043)</u>	<u>(131,196)</u>
Net cash provided (used) by operating activities	(2,007)	172,090
Cash flows from noncapital financing activities:		
Change in customer deposits	<u>100</u>	<u>350</u>
Net cash provided by noncapital financing activities	100	350
Cash flows from capital and related financing activities:		
Proceeds received on note	-0-	98,750
Acquisition of capital assets	(28,581)	(102,105)
Interest paid on notes	(26,250)	(31,238)
Principal paid on notes	<u>(3,805)</u>	<u>(3,608)</u>
Net cash provided (used) by capital and related financing activities	(58,636)	(38,201)
Cash flows from investing activities:		
Interest on investments	<u>5,448</u>	<u>1,987</u>
Net cash provided by investing activities	5,448	1,987
Net increase (decrease) in cash and cash equivalents	(55,095)	136,226
Cash and cash equivalents beginning of year	<u>392,954</u>	<u>256,728</u>
Cash and cash equivalents end of year	<u>\$ 337,859</u>	<u>\$ 392,954</u>

See notes to financial statements.

MANNING MUNICIPAL COMMUNICATIONS
AND TELEVISION SYSTEM UTILITY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2005 and 2004

Exhibit C
(continued)

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

Operating income (loss)	\$ (105,321)	\$ 84,518
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	104,506	100,773
(Increase) decrease in customer accounts receivable	(16,561)	(38,637)
(Increase) decrease in other receivables	(5,296)	-0-
(Increase) decrease in inventories	5,495	1,942
(Increase) decrease in prepaid expenses	(33)	(276)
Increase (decrease) in accounts payable	27,595	24,632
Increase (decrease) in sales tax payable	(598)	60
Increase (decrease) in salaries payable	(779)	(1,362)
Increase (decrease) in deferred income	(985)	(1,183)
Increase (decrease) in other payables	<u>(10,030)</u>	<u>1,623</u>
Net cash provided by operating activities	<u>\$ (2,007)</u>	<u>\$ 172,090</u>

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

Current assets:		
Cash and pooled investments	\$ 336,009	\$ 391,204
Restricted assets:		
Cash and pooled investments:		
Customer deposits	<u>1,850</u>	<u>1,750</u>
Cash and cash equivalents end of year	<u>\$ 337,859</u>	<u>\$ 392,954</u>

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

MANNING MUNICIPAL COMMUNICATIONS
AND TELEVISION SYSTEM UTILITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Manning Municipal Communications and Television System Utility is a component unit of the City of Manning, Iowa, as determined by criteria specified by the Governmental Accounting Standards Board. The Utility is governed by a five member board of trustees appointed by the City Council. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the Utility to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the Utility. The Manning Municipal Communications and Television System Utility has no component units which meet the Governmental Accounting Standards Board criteria.

The financial statements include only those funds of the Manning Municipal Communications and Television System 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. Some Utility officials are members of the following boards: Manning Municipal Light Plant and the Manning Municipal Gas Department.

Nature of Business

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

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

MANNING MUNICIPAL COMMUNICATIONS
AND TELEVISION SYSTEM UTILITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Nature of Business (continued)

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

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

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

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

Measurement Focus and Basis of Accounting

The proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

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

MANNING MUNICIPAL COMMUNICATIONS
AND TELEVISION SYSTEM UTILITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The proprietary fund distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Communication Utility are charges to customers for sales and services and charges to various phone companies for carrier access billings. Operating expenses for the Communication Utility include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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

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

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

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

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

MANNING MUNICIPAL COMMUNICATIONS
AND TELEVISION SYSTEM UTILITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Budgets and Budgetary Accounting

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

Cash

Cash consists of cash in checking and savings accounts.

Accounts Receivable-Customers

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

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

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

MANNING MUNICIPAL COMMUNICATIONS
AND TELEVISION SYSTEM UTILITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Accounts Receivable - Carrier Access Billings (CABS)

These are fees due from various phone companies when MMCTSUs customers select another phone company for their long distance phone services. As of December 31, 2005 and 2004, the allowance for doubtful accounts for CABS was \$26,902 and \$32,464, respectively. The allowance for doubtful accounts for CABS is largely due to several phone companies having declared bankruptcy.

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

Inventory

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

Advertising

Advertising costs are expensed as incurred. Advertising expense, which includes the publication of legal notices, was \$4,119 and \$1,077 for the years ended December 31, 2005 and 2004, respectively. For December 31, 2005, the advertising expense included new telephone directories for \$2,593.

MANNING MUNICIPAL COMMUNICATIONS
AND TELEVISION SYSTEM UTILITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004

NOTE A -SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Capital Assets

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

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

Capital assets activity for the year ended December 31, 2005 is summarized by the following:

	Balance Beginning of Year	Increase	Decrease	Balance End of Year
Capital Assets	\$1,006,969	\$ 28,581	\$ -0-	\$1,035,550
Less: Accum. Deprec.	<u>380,366</u>	<u>104,506</u>	<u>-0-</u>	<u>484,872</u>
Capital Assets, Net	<u>\$ 626,603</u>	<u>\$ (75,925)</u>	<u>\$ -0-</u>	<u>\$ 550,678</u>

Depreciation Charged \$ 104,506

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

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

MANNING MUNICIPAL COMMUNICATIONS
AND TELEVISION SYSTEM UTILITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Customer Deposits

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

Operating Revenues

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

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

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

Use of Estimates

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

MANNING MUNICIPAL COMMUNICATIONS
AND TELEVISION SYSTEM UTILITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004

NOTE B - DEPOSITS AND INVESTMENTS

The Utility's deposits at December 31, 2005, were entirely covered by Federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Utility is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

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

The Utility cash and investments at December 31, 2005 are as follows:

	<u>Cash</u>
Restricted - Customer Deposits	\$ 1,850
Unrestricted	<u>336,009</u>
	<u>\$ 337,859</u>

NOTE C - RELATED PARTY TRANSACTIONS

1. JOINT USE AGREEMENT

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

MANNING MUNICIPAL COMMUNICATIONS
AND TELEVISION SYSTEM UTILITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004

NOTE C - RELATED PARTY TRANSACTIONS (continued)

2. OTHER

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

NOTE D - RELATED PARTY - NOTES PAYABLE

2005

2004

Note Payable to Manning Municipal Light Plant in the amount of \$500,000 to be used for the broadband communications system. The interest rate shall be adjusted annually on July 1st of each year to an amount which is equal to 1% more than a one year certificate of deposit at Templeton Savings Bank. The interest rate on July 1, 2004 was 3.08% and the interest rate on July 1, 2005 was 4.55%. The Communication's net revenues shall be pledged to pay off amounts due as allowable.

\$300,000

\$300,000

MANNING MUNICIPAL COMMUNICATIONS
AND TELEVISION SYSTEM UTILITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004

NOTE D - RELATED PARTY - NOTES PAYABLE (continued)

	<u>2005</u>	<u>2004</u>
<p>Note Payable to Manning Municipal Gas Department in the amount of \$500,000 to be used for the broadband communications system. The interest rate shall be adjusted annually on July 15th of each year to an amount which is equal to 1% more than a one year certificate of deposit at Templeton Savings Bank. The interest rate on July 15, 2004 was 3.18% and the interest rate on July 15, 2005 was 4.33%. The Communication's net revenues shall be pledged to pay off amounts due as allowable.</p>	<u>500,000</u> <u>800,000</u>	<u>500,000</u> <u>800,000</u>
<p>Less: Current Portion</p>	<u>-0-</u>	<u>-0-</u>
	<u>\$800,000</u>	<u>\$800,000</u>

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

NOTE E - SHORT TERM NOTE PAYABLE

	<u>2005</u>	<u>2004</u>
<p>Note Payable to Templeton Savings Bank at a 6.00% interest rate. Note was taken out on February 20, 2003. Payable on demand, but if no demand is made then 48 monthly payments of \$352.36 beginning March 22, 2003. This note is secured by a 2003 Chevy S-10 pickup.</p>	<u>\$ 4,755</u>	<u>\$ 8,560</u>

MANNING MUNICIPAL COMMUNICATIONS
AND TELEVISION SYSTEM UTILITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004

NOTE F - SIGNAL CHARGE COMMITMENTS

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

<u>Name</u>	<u>Agreement Expiration Date</u>	<u>Utility's Cost Per Subscription as of 12-31-05</u>
1. National Cable Television Cooperative:		
a) ABC Family Channel	Dec. 31, 2006	\$.253
b) Home Box Office	Nov. 30, 2006	\$ 8.975
c) Cable News Network	June 30, 2008	\$.535
d) Discovery Channel	Feb. 28, 2006	\$.387
e) Turner Network Television	Dec. 31, 2008	\$.903
f) Cinemax	Nov. 30, 2006	\$ 4.793
g) Home & Garden T.V.	Dec. 31, 2009	\$.158
h) Turner Classic Movies	Apr. 15, 2008	\$.245
i) ESPN & ESPN 2	July 31, 2006	\$ 3.406
j) TBS - Super Station	Dec. 31, 2008	\$.380
k) Disney Channel	Dec. 31, 2005	\$.914
l) Showtime	Feb. 28, 2007	\$ 7.540
m) The Movie Channel	Feb. 28, 2007	\$ 4.600
n) Hallmark Channel	Dec. 31, 2006	\$.130
o) The Weather Channel	Feb. 27, 2008	\$.179
p) Toon Disney	Dec. 31, 2005	\$.110
q) A & E Network	Dec. 31, 2005	\$.295
r) The History Channel	Dec. 31, 2005	\$.180
s) TV Land	Dec. 31, 2009	\$.123
t) TLC	Dec. 31, 2008	\$.221
u) Travel Channel	Dec. 31, 2007	\$.088
v) Comedy Central	Dec. 31, 2006	\$.183
w) FX Network	Jan. 31, 2006	\$.385
x) Outdoor Channel	Jan. 31, 2007	\$.077
y) Golf Channel	Dec. 31, 2010	\$.230
z) Spike TV	Dec. 31, 2009	\$.363

MANNING MUNICIPAL COMMUNICATIONS
AND TELEVISION SYSTEM UTILITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004

NOTE F - SIGNAL CHARGE COMMITMENTS (continued)

<u>Name</u>	<u>Agreement Expiration Date</u>	<u>Utility's Cost Per Subscription as of 12-31-05</u>
aa) Nickelodeon	Dec. 31, 2009	\$.518
bb) VH-1	Dec. 31, 2009	\$.160
cc) MTV Music Television	Dec. 31, 2009	\$.362
dd) CMT	Dec. 31, 2009	\$.112
ee) Fox News	Oct. 7, 2006	\$.243
ff) Speed Channel	Dec. 31, 2007	\$.195
2. USA Network	Dec. 31, 2005	\$.580
3. Lifetime	Dec. 31, 2009	\$.400
4. Tower Dist. Co./WGN	July 31, 2008	\$.169
5. Fox Sports	Dec. 31, 2005	\$ 1.400
6. T.V.Guide Channel	Dec. 31, 2006	\$.092

NOTE G - CONTRACT COMMITMENTS

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

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

MANNING MUNICIPAL COMMUNICATIONS
AND TELEVISION SYSTEM UTILITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004

NOTE G - CONTRACT COMMITMENTS (continued)

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

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

On July 30, 2004, MMCTSU signed an agreement with Templeton Telephone Company (TTC) for video signal. TTC wishes to obtain a cable television signal from MMCTSU for transmission via TTC's Cable Television System. MMCTSU agrees to provide such a signal subject to certain terms and conditions. MMCTSU billed TTC for the first time in January 2005 for these video signal services in the amount of \$1,400 per month. In December 2005, MMCTSU signed on Addendum to this agreement in which MMCTSU will not charge TTC for video signals from December 1, 2005 until December 1, 2006. (Foregoing charges of \$16,800). Beginning December 1, 2006, MMCTSU will again charge TTC \$1,400 per month for video signal.

On July 30, 2004, MMCTSU signed an agreement with Templeton Telephone Company (TTC) for switching services. TTC is a local telecommunications carrier with a particular expertise in the provision of certain switching functions and feature applications for the transmission, reception, monitoring, and routing of telecommunications traffic. It is anticipated that MMCTSU will begin using TTC's switching services in December 2006 after their contract with Long Lines expires.

In 2005, MMCTSU entered into a Video Signal Agreement with Scranton Telephone Company (STC). STC is a telecommunications company that wishes to provide cable television service to its customers in the Scranton franchise areas. STC wishes to obtain a cable television signal from MMCTSU

MANNING MUNICIPAL COMMUNICATIONS
AND TELEVISION SYSTEM UTILITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004

NOTE G - CONTRACT COMMITMENTS (continued)

for transmission via STC's cable television system. MMCTSU agrees to provide such signal subject to the terms and conditions spelled out in the agreement. The agreement shall continue in full force and effect until January 1, 2015. The rate for this video signal is a monthly charge of \$250. However, MMCTSU will acquire some used equipment from STC in 2006, and all signal charges will be waived and offset against the cost of the equipment until it is paid for. The value of the equipment is \$3,500, so MMCTSU will start billing STC signal charges in January 2007.

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, 2005 and 2004 were \$6,923 and \$6,569 respectively, equal to the required contributions for each year.

NOTE I - COMPENSATED ABSENCES

Effective January 1, 2005, MMCTSU adopted a new paid time-off all purpose policy for eligible employees to use for vacation, illness, and personal business. It combined traditional vacation and sick leave plans into one flexible, paid time-off policy. Under the new PTO (Paid Time Off) policy, MMCTSU's liability is limited to 240 hours by capping the number of hours that can be accrued and paid out upon termination. After an employee accumulates 240 hours, the remaining hours roll into a LTB (Long Term Bank). The hours in the LTB are not paid out upon termination and are capped at 960 hours.

MANNING MUNICIPAL COMMUNICATIONS
AND TELEVISION SYSTEM UTILITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004

NOTE I - COMPENSATED ABSENCES (continued)

The PTO is paid at the employee's base rate of pay at the time of absence. In the event that available PTO is not used by the end of the benefit year, employees may carry up to 240 hours to the next benefit year. The hours in the LTB can only be used for family or personal illness and all regular PTO hours must be used before using LTB hours.

The accumulated liability for accrued sick leave/vacation totaled \$6,225 as of December 31, 2004. The accumulated liability for PTO (Paid Time Off) totaled \$5,446 as of December 31, 2005.

NOTE J - RISK MANAGEMENT

Manning Municipal Communications and Television System Utility is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The Utility assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three years.

NOTE K - COMPARISON OF DISBURSEMENTS WITH BUDGET

The Manning Municipal Communications and Television System Utility prepares their budget annually on an accrual basis of accounting. The disbursements may not legally exceed budgeted appropriations at the functional level. Actual disbursements for the year ended December 31, 2005 exceeded the final statutory budget.

<u>Disbursements</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance</u> (Unfavorable)
Business – Type activity	<u>\$815,358</u>	<u>\$981,993</u>	<u>\$(166,635)</u>

NOTE L - MEDIATION – LONG TINES, LTD vs. CITY OF MANNING

The Communication and Information Services Agreement between Long Lines, L.L.C. and Manning Municipal Utilities shall continue in force and effect until December 1, 2006, at which time the Agreement will terminate.

MANNING MUNICIPAL COMMUNICATIONS
AND TELEVISION SYSTEM UTILITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004

NOTE L - MEDIATION – LONG LINES, LTD vs. CITY OF MANNING (continued)

At the termination of the Agreement, Long Lines will have the option to either remove its related equipment from its present location in the City Utilities Building or pay the City \$200 per month for the right to continue its use of the facility. Such use and related payments will not exceed five years from the termination of the Agreement and Long Lines has the option to quit its use of the property at any time without any obligation for further payments.

Commencing January 1, 2007, the Manning Municipal Communications Television and System Utility will pay Long Lines the sum of \$5,000 per month for six months in exchange for a general release of all claims of Long Lines relating to the Agreement.

NOTE M - SUBSEQUENT EVENTS

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

MMCTSU signed contracts with Templeton Telephone Company (TTC) on July 30, 2004 in regards to receiving switching services from TTC and providing a video signal to TTC. The video signal services started in 2005. However, before MMCTSU can begin to receive switching services from TTC, MMCTSU needs to get out of their contract with Long Lines. MMCTSU hopes to terminate their contract with Long Lines effective December 1, 2006. Originally, MMCTSU had thought their contract with Long Lines would expire in November 2005.

In January 2006, MMCTSU purchased a used pickup for \$14,000. MMCTSU will also purchase in 2006 most of the equipment needed to update their system so that the switching service with TTC can operate correctly. The potential cost of this equipment could reach \$70,000.

MANNING MUNICIPAL COMMUNICATIONS
AND TELEVISION SYSTEM UTILITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004

NOTE M - SUBSEQUENT EVENTS (continued)

In June 2005, MMCTSU signed a letter of intent with Mid American Computer Corporation (MACC) to enter a relationship in which MACC will provide MMCTSU with billing and data processing services. Both parties acknowledge that further discussion and analysis is required to determine all of the specific needs of MMCTSU and to finalize the cost to transition those services with MACC. These services will not start until MMCTSU can terminate their contract with Long Lines.

In 2006, MMCTSU will enter into the following agreements with Iowa Network Services, Inc. (INS):

- 1) Directory Assistance Agreement
- 2) Switching and Transport Agreement
- 3) Traffic Agreement
- 4) Consolidated Billing Agreement

These agreements with INS will not take effect until MMCTSU's contract with Long Lines is terminated on December 1, 2006.

SUPPLEMENTAL INFORMATION

MANNING MUNICIPAL COMMUNICATIONS
AND TELEVISION SYSTEM UTILITY
OPERATING EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

OPERATING EXPENSES	<u>2005</u>	<u>2004</u>
Headhouse – Power	\$ -0-	\$ 133
Headhouse – Maintenance	3,174	2,105
Headhouse – Other	367	1,068
Accounting	6,345	5,895
Advertising	4,119	1,077
Bad debts	172	1,637
Bank charges	53	36
Computer expense	2,120	3,745
Depreciation	104,506	100,773
Donations	335	-0-
Dues and subscriptions	4,538	3,574
Employee insurance	20,272	14,495
Engineering services	1,235	630
Insurance	12,790	10,280
Legal publication	598	638
Legal and professional services	6,801	2,348
Maintenance - Line	4,162	6,823
Miscellaneous	2,214	1,559
Mileage reimbursement	1,960	-0-
Pagers	14	240
Payroll taxes	16,046	15,578
Postage	4,379	4,708
Property taxes	2,531	17,444
Rent - Distribution system	170,849	170,849
Safety Program	609	-0-
Seminars & meetings	856	4,549
Supplies – General	1,826	1,005

MANNING MUNICIPAL COMMUNICATIONS
AND TELEVISION SYSTEM UTILITY
OPERATING EXPENSES
YEARS ENDED DECEMBER 31, 2005 AND 2004

Schedule 1
(continued)

OPERATING EXPENSE (continued)	<u>2005</u>	<u>2004</u>
Supplies – Office	\$ 1,358	\$ 1,746
Small tools	1,269	686
Telephony equipment expense	440	-0-
Telephone	4,947	5,603
Trustee fees	2,995	2,345
Uniforms	518	974
Utilities	10,818	10,073
Vehicle expense	3,036	1,516
Wages	128,574	114,211
Wage reimbursement – Other	1,304	3,030
Web page	425	363
Wireless internet expense	<u>3,469</u>	<u>4,314</u>
Total Operating Expenses	<u>\$ 532,024</u>	<u>\$ 516,050</u>

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

	Capital Assets			
	December 31, <u>2004</u>	<u>Additions</u>	<u>Retirements</u>	December 31, <u>2005</u>
HEADHOUSE				
Land	\$ -0-	\$ -0-	\$ -0-	\$ -0-
Land improvements	-0-	-0-	-0-	-0-
Building	7,824	1,001	-0-	8,825
Towers and antennas	-0-	-0-	-0-	-0-
Earth station	-0-	-0-	-0-	-0-
Electronics & equipment	<u>50,271</u>	<u>3,645</u>	<u>-0-</u>	<u>53,916</u>
	58,095	4,646	-0-	62,741
DISTRIBUTION				
Service drops	25,219	-0-	-0-	25,219
Converters and remotes	2,670	-0-	-0-	2,670
Traps	<u>9,737</u>	<u>2,526</u>	<u>-0-</u>	<u>12,263</u>
	37,626	2,526	-0-	40,152
GENERAL				
Office Furniture	9,775	445	-0-	10,220
Vehicles	421	-0-	-0-	421
Equipment	15,236	750	-0-	15,986
Internet	<u>14,438</u>	<u>-0-</u>	<u>-0-</u>	<u>14,438</u>
	39,870	1,195	-0-	41,065
INTERNET				
Equipment	103,188	7,927	-0-	111,115
Building	<u>7,683</u>	<u>1,001</u>	<u>-0-</u>	<u>8,684</u>
	110,871	8,928	-0-	119,799
TELEPHONY				
Building	7,683	1,001	-0-	8,684
Vehicles	15,869	-0-	-0-	15,869
Equipment	728,099	8,842	-0-	736,941
Electronics	<u>8,856</u>	<u>1,443</u>	<u>-0-</u>	<u>10,299</u>
	<u>760,507</u>	<u>11,286</u>	<u>-0-</u>	<u>771,793</u>
Totals	<u>\$1,006,969</u>	<u>\$ 28,581</u>	<u>\$ -0-</u>	<u>\$1,035,550</u>

Schedule 2

Useful Lives	Accumulated Depreciation			
	December 31 2004	Current Provision	Retirement	December 31, 2005
-	\$ -0-	\$ -0-	\$ -0-	\$ -0-
25 years	-0-	-0-	-0-	-0-
40 years	8	215	-0-	223
25 years	-0-	-0-	-0-	-0-
15 years	-0-	-0-	-0-	-0-
10-15 years	<u>9,602</u>	<u>4,944</u>	<u>-0-</u>	<u>14,546</u>
	9,610	5,159	-0-	14,769
15 years	4,782	1,681	-0-	6,463
10 years	1,455	267	-0-	1,722
5 years	<u>8,426</u>	<u>1,563</u>	<u>-0-</u>	<u>9,989</u>
	14,663	3,511	-0-	18,174
5-10 years	5,331	1,052	-0-	6,383
5 years	421	-0-	-0-	421
5-15 years	8,440	1,103	-0-	9,543
5-10 years	<u>11,303</u>	<u>2,018</u>	<u>-0-</u>	<u>13,321</u>
	25,495	4,173	-0-	29,668
5-10 years	27,461	11,898	-0-	39,359
39 years	<u>8</u>	<u>211</u>	<u>-0-</u>	<u>219</u>
	27,469	12,109	-0-	39,578
39 years	8	211	-0-	219
5 years	5,951	3,174	-0-	9,125
5-10 years	294,072	74,787	-0-	368,859
7 years	<u>3,098</u>	<u>1,382</u>	<u>-0-</u>	<u>4,480</u>
	<u>303,129</u>	<u>79,554</u>	<u>-0-</u>	<u>382,683</u>
	<u>\$380,366</u>	<u>\$104,506</u>	<u>\$ -0-</u>	<u>\$484,872</u>

MANNING MUNICIPAL COMMUNICATIONS
AND TELEVISION SYSTEM UTILITY
STATISTICAL DATA
DECEMBER 31, 2005
(UNAUDITED)

<u>Movie Subscribers:</u>	<u>Number</u>	<u>Monthly Rates</u> <u>Movie Channel</u>	<u>Basic T.V.</u>	<u>Total</u>
Basic + 1 Movie	43	\$9.50	\$24.00	\$33.50
Basic + 2 Movies	27	\$16.50	\$24.00	\$40.50
Basic + 3 Movies	5	\$22.50	\$24.00	\$46.50
Basic + 4 Movies	4	\$28.00	\$24.00	\$52.00
Basic + 5 Movies	6	\$30.00	\$24.00	\$54.00
Institutional #1	4	\$46.50	\$24.00	\$70.50
Institutional #2	1	\$6.00	\$24.00	\$30.00
Basic + Remote	17	\$2.00	\$24.00	\$26.00
Basic + 1 Movie + Remote	3	\$11.50	\$24.00	\$35.50
Basic + 2 Movie + Remote	2	\$18.50	\$24.00	\$42.50
Basic + 3 Movie + Remote	-	\$24.50	\$24.00	\$48.50
Basic + 4 Movie + Remote	-	\$30.00	\$24.00	\$54.00
Basic + 6 Movies	<u>3</u>	\$32.50	\$24.00	\$56.50
Total Movies Subscribers	115			

Telephone Service Lines:

Residential Lines	518
Business Lines	<u>227</u>
Total Telephone	745

Internet Customers:

		<u>Monthly Rates</u>
Dial-up Internet – Plan I	229	\$22.50
Dial-up Internet – Plan II	91	\$19.95
Dial-up Internet – Plan III	39	\$9.95
Employee Internet	<u>16</u>	\$16.95
Total Dial-Up	375	

Residential Cable Modem	140	\$29.95
Business Cable Modem	<u>18</u>	\$79.95
Total Cable Modem	158	

Wireless Internet	19	\$29.95
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Note: The statistical data is presented on the basis of information on file at the Utility office and is not verified by audit.

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

Certified Public Accountants

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**Independent Auditors' Report on Internal Control
Over Financial Reporting and on Compliance
and Other Matters
Based on an Audit on Financial Statements Performed in Accordance
With Government Auditing Standards**

June 6, 2006

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

We have audited the accompanying financial statements of the Manning Municipal Communications and Television System Utility as of and for the years ended December 31, 2005, and 2004, and have issued our report thereon dated June 6, 2006. Our report expressed an unqualified opinion on the financial statements which were prepared in conformity with U.S. generally accepted accounting principles. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered Manning Municipal Communications and Television System Utility's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion 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 Communications and Television System Utility's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part II of the accompanying Schedule of Findings.

June 6, 2006

Manning Municipal Communications and Television System Utility

Page Two

A material weakness is a reportable 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 caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described in the Schedule of Findings, we believe items II-A-05, II-B-05, II-C-05, II-D-05, and II-G-05 are also material weaknesses. Prior year reportable conditions have been resolved except for II-A-05, II-B-05, and II-C-05.

Compliance and Other Matters

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

Comments involving statutory and other legal matters about the Utility's operations for the year ended December 31, 2005 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Utility. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior year statutory comments have all been resolved, except for III-G-05.

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

June 6, 2006
Manning Municipal Communications and Television System Utility
Page Three

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

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

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

MANNING MUNICIPAL COMMUNICATIONS
AND TELEVISION SYSTEM UTILITY
SCHEDULE OF FINDINGS
YEAR ENDED DECEMBER 31, 2005

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-05 Segregation of Duties

During our review of the internal control structure, the existing procedures are evaluated in order to determine that incompatible duties, from a control standpoint, are not performed by the same employee. This segregation of duties helps to prevent losses from employee error or dishonesty and therefore maximizes the accuracy of the Utility's financial statements. We noted during our audit that a limited number of people are responsible for most of the accounting and financial duties. As a result, an adequate segregation of duties are, for all practical purposes, missing in your Utility. For over a month, the Manager took over all controls while a new Administrative Assistant was getting trained. During this time period, the Manager was writing checks, making deposits, and approving the disbursements.

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.

We also recognize that a new Administrative Assistant has been hired. The Utility needs to utilize the Administrative Assistant whenever possible to achieve a higher degree of segregation of duties among the office personnel.

MANNING MUNICIPAL COMMUNICATIONS
AND TELEVISION SYSTEM UTILITY
SCHEDULE OF FINDINGS
YEAR ENDED DECEMBER 31, 2005

II-A-05 Segregation of Duties (continued)

Response – We will try to use the staff in the most efficient way to achieve maximum internal control possible with a small staff. A new Administrative Assistant has been hired, and the Manager is no longer writing checks and making deposits.

During the month that the Manager took over, the Utility had no other choice. Due to employee resignations, the Manager was the only person left to perform these bookkeeping duties until another individual was hired and trained.

Conclusion - Response acknowledged.

II-B-05 Proper Support Documentation

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

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

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

Conclusion – Response accepted.

II-C-05 Credit Cards

The Communication Utility has allowed the use of a credit card by certain employees. MMCTSU did not adopt a formal policy to regulate the use of credit cards and to establish procedures for the proper accounting of credit card charges as was recommended in the prior year's audit. Total charges of \$10,424 were made with the credit card during 2005 for which supporting documentation was not always available. Several instances were noted where the invoice had an employee's name on the statement rather than MMCTSU. It would appear that these could then be construed as personal expenses. The Utility also paid finance charges of \$286 during the year for the credit card.

MANNING MUNICIPAL COMMUNICATIONS
AND TELEVISION SYSTEM UTILITY
SCHEDULE OF FINDINGS
YEAR ENDED DECEMBER 31, 2005

II-C-05 Credit Cards – (continued)

Recommendation – Again we strongly recommend that MMCTSU adopt a formal written policy regulating the use of credit cards. The policy at a minimum should address who controls the credit cards, who is authorized to use credit cards and for what purposes, as well as the types of supporting documentation required to substantiate charges. If there is not a receipt to support each transaction, then the employee should be asked to reimburse MMCTSU. The business credit card should never be used for personal items even if the individual intends to reimburse MMCTSU. The credit card should also be paid off in a timely manner to limit the additional finance charges. Any credit card invoices that are issued in an employee's name need to be subject to close scrutiny and document the reason this was done.

Response – We have not established a formal written policy detailing specifics on the use of credit cards. We will review procedures and guidelines and establish a written policy. In addition, all meals and hotels should be paid by the individual and turned in on a personal expense report for reimbursement rather than using the business credit card.

Conclusion – Response accepted.

II-D-05 Board Minutes

The board minutes appear to lack necessary information being discussed at the board meetings. There were four major items discussed that were never included in the board minutes. They are as follows:

- 1) The Board's decision and approval to pay the Manager an additional \$5,512.50 for performing clerical work for the City of Manning and the Manning Light Department. This payment was to be in addition to his regular paycheck.
- 2) The Board's decision to treat the clerical work performed by the Manager for the City of Manning as a donation and to not seek reimbursement from the City for the work in the amount of \$2,752.50.
- 3) The Board's decision to purchase a pickup previously owned by the Manager through Manning Motors for \$14,000.
- 4) The Board's approval of the following checks #8605 to #8608, #8616 to #8621, #8631, #8660 to #8734, and #8769 to #8794.

MANNING MUNICIPAL COMMUNICATIONS
AND TELEVISION SYSTEM UTILITY
SCHEDULE OF FINDINGS
YEAR ENDED DECEMBER 31, 2005

II-D-05 Board Minutes – (continued)

MMCTSU also failed to have all of the original signed copies of the board minutes kept in a bound book. Some of the minutes were properly signed and others were not. Some of the minutes were just on the computer but no hard copy could be found.

It has been noted that the Manager has also been taking the minutes and typing them up.

Recommendation – The board minutes need to be amended and add the above four missing items, and any other omitted items, to the minutes. This is done by adding the omitted items to the current month's board minutes immediately as a correction or addition. The date on which these items were discussed should also be disclosed in the minutes. Each omitted check number, dollar amount, to whom paid, and what it was for also needs to get added and published along with the next monthly board minutes.

The board minutes need to be approved and signed each month. It is not allowable to go several months without signing the minutes. The minutes should then be kept in a bound book and kept in the vault.

The Board Secretary should be typing up the minutes or appoint someone other than the manager to do so. However, the Board Secretary is ultimately responsible for the minutes and should see to it that they are prepared timely, with no omissions.

Response – We will make all of the additions and/or omissions to our next monthly board minutes. We will also print all of the omitted checks in our next board minutes and see to it that they are properly published.

We have started to keep a proper board minutes book for 2006, and we will approve and sign the minutes on a monthly basis. The board book will be kept in the vault at City Hall.

The Board Secretary will be in charge of the minutes and appoint the Manager to have them typed up. The Board Secretary will review the minutes before they are delivered, within a timely manner, to the newspaper office.

Conclusion – Response accepted.

MANNING MUNICIPAL COMMUNICATIONS
AND TELEVISION SYSTEM UTILITY
SCHEDULE OF FINDINGS
YEAR ENDED DECEMBER 31, 2005

II-E-05 Inventory Control

It had been noted that MMCTSU has acquired used equipment from the various towns that service has been extended to. Later some of this used equipment was traded in for other equipment. There appears to be no documentation to support the acquisition or bartering of used equipment. There are also no controls in place to track the Inventory on hand of used equipment since the Utility is not paying a dollar amount for it.

Recommendation – We recommend that a perpetual inventory system be used for all acquisitions of equipment, and the trading or disposal of equipment carefully documented. This system will allow the Utility to better safeguard and control inventory.

Response – We will have all employees fill out the proper paperwork as inventory comes in or goes out and consider establishing a written policy.

Conclusion – Response accepted.

II-F-05 Conflict of Interest

The Manning Municipal Communications and Television System Utility Manager operates his own telephone equipment sales and installation company. This would appear to represent a conflict of interest.

Recommendation – If the Manager is going to continue with this business, the board needs to take much more responsibility with the items being ordered. A closer review of the invoices should be performed.

Response – We will take your recommendation into consideration and discuss at the next meeting.

Conclusion – Response accepted.

MANNING MUNICIPAL COMMUNICATIONS
AND TELEVISION SYSTEM UTILITY
SCHEDULE OF FINDINGS
YEAR ENDED DECEMBER 31, 2005

II-G-05 Depositing Check Issued to City of Manning

It was noted that an insurance claim check made out to the City of Manning for \$6,001 was deposited into MMCTSU's general checking account. The insurance check was for a claim submitted by the City of Manning for their telephone system which was damaged by water.

Recommendation - The insurance check should not have been deposited into MMCTSU's checking account since it belonged to the City of Manning. Therefore, MMCTSU should reimburse the City of Manning \$6,001.

Response – It has been undetermined as to how MMCTSU ended up with the check or why it was deposited into their account. MMCTSU will issue a check for \$6,001 to the City of Manning. The Board of Trustees agree this matter should have never hit MMCTSU's books.

Conclusion - Response accepted.

MANNING MUNICIPAL COMMUNICATIONS
AND TELEVISION SYSTEM UTILITY
SCHEDULE OF FINDINGS
YEAR ENDED DECEMBER 31, 2005

Part III: Other Findings Related to Required Statutory Reporting:

III-A-05 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, 2005.

III-B-05 Certified Budget

The Utility budgeted on the calendar year and it was properly published. The disbursements during the year ended December 31, 2005, exceeded the amounts budgeted by the Manning Municipal Communications and Television System Utility.

Recommendation - The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – The budget will be amended in the future, if applicable.

Conclusion – Response accepted.

III-C-05 Questionable Disbursements

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

<u>Paid To</u>	<u>Transaction Description</u>	<u>Amount</u>
Jeff Carson	Unsupported Claim	\$ 6,001
Jeff Carson	Unsupported Claim	\$ 1,350
Hero's All American Grill & Bar	2-15-05 Credit Card Charge - No support	\$ 62
Hero's All American Grill & Bar	2-15-05 Credit Card Charge - No support	\$ 109

MANNING MUNICIPAL COMMUNICATIONS
AND TELEVISION SYSTEM UTILITY
SCHEDULE OF FINDINGS
YEAR ENDED DECEMBER 31, 2005

III-C-05 Questionable Disbursements (continued)

The \$6,001 unsupported claim to Jeff Carson matches the insurance claim for the damaged telephone system discussed in II-G-05. Jeff Carson was doing work for the City of Manning, and he should have submitted all his expenses to the City of Manning for approval and payment. There was no documentation submitted to MMCTSU to support the \$6,001 paid to Jeff Carson.

MMCTSU received a check for \$1,350 from PB Exchange for used telephone equipment sold to them. The equipment belonged to the City of Manning, Manning Light, and Manning Gas. Those three entities have been paying the insurance premium so they should be entitled to any money acquired from the sale of the equipment. A check in the amount of \$1,350 was then issued to Jeff Carson, when it should have been issued to the City of Manning.

Recommendation - MMCTSU should seek reimbursement from Jeff Carson for the following items:

Insurance claim check made out to the City of Manning	\$ 6,001
Proceeds from the sale of used telephone equipment	<u>1,350</u>
Total	<u>\$ 7,351</u>

As previously noted in II-G-05, MMCTSU was to issue a check to the City of Manning for \$6,001. In addition, MMCTSU needs to remit an additional \$1,350 to the City of Manning for the sale of the used phone equipment.

The Board should determine and document the public purpose and propriety of the disbursements to Hero's All American Grill & Bar or, if appropriate, request reimbursement.

Response – MMCTSU will seek reimbursement for the \$6,001 from Jeff Carson. The Board will also seek reimbursement for the \$1,350 from Jeff Carson. This money will then be paid back to the City of Manning. It was the understanding by MMCTSU's Trustees that Jeff Carson was going to act as an independent contractor for the City of Manning and install a new telephone system for the City. MMCTSU was not to be involved in any way, shape, or form with regards to the new phone system.

MANNING MUNICIPAL COMMUNICATIONS
AND TELEVISION SYSTEM UTILITY
SCHEDULE OF FINDINGS
YEAR ENDED DECEMBER 31, 2005

III-C-05 Questionable Disbursements (continued)

In regards to the disbursements to Hero's All American Grill & Bar, the Board of Trustees feel a public purpose has been served. We will document the public purpose served more clearly in the future.

Conclusion – The Trustees need to see to it that the City of Manning is reimbursed the total \$7,351 as soon as possible and collect that same amount from Jeff Carson. Jeff Carson will then need to approach the City of Manning as an independent contractor, not as a Manager of MMCTSU, when submitting documentation for the new phone system.

III-D-05 Travel Expense

No expenditure of Utility money for travel expenses of spouses of Utility officials or employees were noted. No travel advances to Utility officials or employees were noted.

In August 2005, the Board established a meal allowance of \$46 per day per employee. The Board also agreed to pay the federal mileage reimbursement rate to employees who use their privately owned vehicles while on Utility business.

III-E-05 Business Transactions

Business transactions between the Utility and Utility officials and/or employees are as follows for the year ending December 31, 2005:

<u>Name, Title and Business Relationship</u>	<u>Transaction Description</u>	<u>Amount</u>
Ron Soll, Board Member, Soll's Service Inc., part owner	Parts, labor & outlets	<u>\$ 1,206</u>
John Detlefsen, Board Member, Detlefsen Electric, owner	Electrical work for the headend bldg.	<u>\$ 423</u>
Wendel Kahl, Employee, Kahl Computer Consulting, Owner	Web server	<u>\$ 80</u>

MANNING MUNICIPAL COMMUNICATIONS
AND TELEVISION SYSTEM UTILITY
SCHEDULE OF FINDINGS
YEAR ENDED DECEMBER 31, 2005

III-E-05 Business Transactions (continued)

Jeff Carson, Manager,
Telephone Sales &
Installation Business

Phone System &
Installation

\$ 6,001

In accordance with Chapter 362.5 (11) of the Code of Iowa, the transaction with Jeff Carson, stated above does appear to represent a conflict of interest since it was over \$2,500 and not competitively bid.

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

Response – This was an emergency situation in which a component part of the phone system was damaged by water in the basement. The telephones quit working and the system needed to be repaired immediately. However, this transaction should have never occurred through MMCTSU. It should have all went through the City of Manning's books. Jeff Carson was working for the City of Manning as a contractor.

Conclusion – Response accepted.

III-F-05 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-05 Board Minutes

As previously mentioned, there were many transactions and items that we believe should have been approved in the board minutes but were not. Also, the Utility did not publish annual gross salaries as in accordance with an Attorney General's opinion dated April 12, 1978. Several of the board minutes were not published within 15 days as required by Chapter 372.13 (b) of the Code of Iowa. On several occasions, the checks being published in the minutes did not coincide with the checks that should have been approved at that monthly board meeting (i.e. checks published are dated far after the actual date of the meeting).

MANNING MUNICIPAL COMMUNICATIONS
AND TELEVISION SYSTEM UTILITY
SCHEDULE OF FINDINGS
YEAR ENDED DECEMBER 31, 2005

III-G-05 Board Minutes (continued)

Recommendation - The Utility needs to publish the gross salaries for 2005 immediately. The Utility should monitor its procedures to insure proper publications within the fifteen day period as required by Chapter 372.13 (b) of the Iowa Code. The checks listed in the minutes need to be the ones actually getting approved at the meeting on that day. All of the omitted items described under II-D-05 also need to be published.

Response - We did e-mail some of the board minutes to the local paper, and they must not have been able to access them. The paper called and said they never received them even though the Utility computer system said the e-mail went through. In the future, we will obtain a written receipt from the paper on the date the board minutes are delivered.

Conclusion – It appears that e-mail is not a good form of communication with the local paper. Therefore, a hard copy of the minutes should be hand delivered to the paper. Obtaining a receipt from the paper would be a good practice to follow.

III-H-05 Deposits and Investments

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

III-I-05 Telecommunication Services

No instances of non-compliance with Chapter 388.10 of the Code of Iowa were noted.

III-J-05 Additional Payment to Employee

The MMCTSU Manager was paid an additional \$5,512.50 in January 2006 for work performed mostly in November and December 2005 for hours worked at the City of Manning and Manning Light Office. This payment was in addition to the manager's normal paycheck on behalf of MMCTSU. This check was never entered through the payroll system and thus there were no withholdings deducted.

MANNING MUNICIPAL COMMUNICATIONS
AND TELEVISION SYSTEM UTILITY
SCHEDULE OF FINDINGS
YEAR ENDED DECEMBER 31, 2005

III-J-05 Additional Payment to Employee (continued)

Recommendation – The Manager is an employee of MMCTSU, and therefore, this additional pay needs to be run through payroll and the proper payroll taxes need to be paid. MMCTSU will also need to collect the employee's share of FICA and IPERS from the manager. The amount of payroll taxes to be collected from the manager is computed as follows:

FICA	\$5,512.50 x 7.65%	\$ 421.71
IPERS	\$5,512.50 x 3.70%	<u>203.96</u>
Employee's Share		<u>\$ 625.67</u>

Response – We will allocate the additional payment to the Manager towards salaries and wages. The payment will be added to the employee's W-2, the proper payroll taxes (Form 941, IPERS, and State Unemployment) will be paid, and the employee's share of the taxes will be collected from the Manager.

Conclusion – Response accepted.

III-K-05 Gas Cards

MMCTSU has issued gas cards to the employees to fill up their vehicles at Aspinwall Cooperative. There is no control over these cards and nothing to prevent an employee from filling up their personal vehicles.

Recommendation – The Utility should adopt a formal written policy regulating the use of gas cards. The policy should address who is authorized to use the gas cards and require users to document each time the gas card is used. A notebook should be kept in each business vehicle. Each time an employee puts gas into that vehicle they should document the dollar amount, date, number of gallons put in, and the odometer reading on that date. A copy of this information should then be provided to the Administrative Assistant at the end of each month. The Administrative Assistant should then reconcile the vehicle logs with the Coop's bill for the respective month.

Response – We will establish a written policy which sets forth the above requirements concerning the use of Utility gas cards.

MANNING MUNICIPAL COMMUNICATIONS
AND TELEVISION SYSTEM UTILITY
SCHEDULE OF FINDINGS
YEAR ENDED DECEMBER 31, 2005

III-K-05 Gas Cards (continued)

Conclusion – Response accepted.

III-L-05 Unpaid Invoices

There were several known outstanding invoices that MMCTSU was unable to find upon request. The Utility had to call the company and request another copy. Some creditors had called asking to be paid, and again there was no invoice to support their claim.

Recommendation – All of the unpaid invoices should be kept in one location at the billing office and not scattered about or taken to different locations. If all the invoices are not available, it then becomes a problem of understating the liabilities and could thus make the financial statements misleading. If an invoice is submitted by e-mail, this e-mail needs to be printed off and a hard copy put with the rest of the unpaid invoices.

Response – The Board will review this matter at the next monthly meeting and designate all unpaid invoices be kept in one location at the billing office of the Utility.

Conclusion – Response accepted.

III-M-05 Utility Vehicles

MMCTSU purchased another pickup in January 2006. As of the date of our audit report, June 6, 2006, this pickup had no proper identification on it to show that it is a MMCTSU vehicle.

Recommendation – Proper identification needs to be put on this pickup immediately so that it can easily be identified as belonging to MMCTSU. It should have permanent identification on it similar to the other pickup owned by MMCTSU.

Response – We had ordered a sign, but when it arrived, it was not correct. We then returned it and are working on getting the right one. We will follow up on this and get the proper signage on the Chevy pickup purchased in January 2006.

MANNING MUNICIPAL COMMUNICATIONS
AND TELEVISION SYSTEM UTILITY
SCHEDULE OF FINDINGS
YEAR ENDED DECEMBER 31, 2005

III-M-05 Utility Vehicles (continued)

Conclusion – A removable sign is not appropriate on the MMCTSU vehicle. The proper identification needs to be permanent.