

**Manning Municipal Gas Department  
Independent Auditors' Report  
Basic Financial Statements and  
Schedule of Findings**

**December 31, 2008 and 2007**

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**Manning Municipal Gas Department  
Officials  
December 31, 2008**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Bob Ehlers	Chairperson	June 2013
Dixon Cole	Secretary	June 2010
Randy Facile	Trustee	June 2014
Keith Kelderman	Trustee	June 2011
Allen Rix	Trustee	June 2012
Kenneth Spies	Manager	Indefinite



Marilyn Schroer, CPA  
Diane McGrain, CPA  
Jim Menard, CPA

April 6, 2009

### Independent Auditors' Report

To the Board of Trustees  
Manning Municipal Gas Department  
Manning, IA 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) as of and for the year ended December 31, 2008. These financial statements are the responsibility of the Manning Municipal Gas Department management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of Manning Municipal Gas Department as of December 31, 2007 were audited by other auditors. Those auditors expressed an unqualified opinion on those financial statements in their report dated April 17, 2008.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 1, the financial statements of Manning Municipal Gas Department 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 Gas Department.

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 at December 31, 2008 and the respective changes in its financial position and the cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards* we have also issued our report dated April 6, 2009, on our consideration of the Department's internal control over financial reporting and our tests of its compliance with certain provisions of law, regulations, and grant agreements 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.

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April 6, 2009  
Manning Municipal Gas Department  
Independent Auditors' Report

Management's Discussion and Analysis information on pages 4 through 7 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

*Schwee and Associates, P.C.*

# Manning Municipal Gas Department

## 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 fiscal year ended December 31, 2008. We encourage readers to consider this information in conjunction with the Utility's financial statements, which follow.

### Financial Highlights

Operating revenues of the Utility's activities increased 21.03% or 274,525 from December 31, 2007 to 2008. Operating expenses increased 19.32% or 235,001 from December 31, 2007 to 2008. The Utility's net assets of business type activities increased 4.07% or 128,682 from December 31, 2007 to 2008.

### 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.

### 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 Sheets and the Statements 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 Sheets present 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 Statements 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 for some items that will not result in cash flows until future fiscal periods.

The Balance Sheets and the Statements 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 for some items that will not result in cash flows until future fiscal periods.

The Balance Sheet and the Statements 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 Sheets and the Statements 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 flow

**Financial Analysis of the Utilities**

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.

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Net Assets
<u>12/31/2008</u>

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**Business Type Activity - Enterprise Fund**

	Year Ended	
	12/31/2008	12/31/2007
Current assets	\$ 2,328,544	\$ 2,156,380
Capital assets	633,341	640,019
Other assets	500,000	522,358
Total Assets	\$ 3,461,885	\$ 3,318,757
 Current liabilities	 \$ 164,139	 \$ 156,139
 Net assets:		
Invested in capital assets, net of related debt	633,341	640,019
Restricted	407,625	406,475
Unrestricted	2,256,780	2,116,124
Total net assets	\$ 3,297,746	\$ 3,162,618

Net assets of business type activities increased from 2007 by 135,128 or 4.27%. 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, increased by 140,656, an increase of 6.64%. 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  
12/31/2008

**Business Type Activity - Enterprise Fund**

	<u>Year Ended</u>	
	<u>12/31/2008</u>	<u>12/31/2007</u>
Revenues:		
Charges for services	\$ 1,484,692	\$ 1,184,508
Interest income	93,309	118,334
Miscellaneous income	3,585	2,712
Total revenues	<u>1,581,586</u>	<u>1,305,554</u>
Operating expenses:		
Purchased gas	1,076,158	862,635
Distribution operations	110,569	100,728
Administrative and general	211,842	202,354
Total operating expenses	<u>1,398,569</u>	<u>1,165,717</u>
Other expenses:		
Depreciation	31,009	33,935
Interest expense	-	1,140
Industrial development contribution	16,880	15,604
Total other expenses	<u>47,889</u>	<u>50,679</u>
Total expenses	<u>1,446,458</u>	<u>1,216,396</u>
Increase in net assets	135,128	89,158
Net assets beginning of year	<u>3,162,618</u>	<u>3,073,460</u>
Net assets end of year	<u>\$ 3,297,746</u>	<u>\$ 3,162,618</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 \$633,341 (net of accumulated depreciation) at December 31, 2008. This is a net decrease of \$6,678 of 1.04% from December 31, 2007.

Capital Assets at Year End

	<u>12/31/2008</u>	<u>12/31/2007</u>
Land, plants and mains	\$ 1,223,212	\$ 1,221,914
Warehouse	67,461	67,461
Shop equipment	77,106	78,361
Office equipment and fixtures	40,524	60,590
Office improvements	36,084	36,084
Transportation equipment	61,558	60,643
Border station	<u>16,232</u>	<u>16,232</u>
	1,522,178	1,541,285
Less accumulated depreciation	<u>888,837</u>	<u>901,266</u>
Net capital assets	<u>\$ 633,341</u>	<u>\$ 640,019</u>
 Additions for 2008 included		
Office Equipment		3,932
Plants & Mains		1,299
Transportation equipment		<u>19,100</u>
Total		<u>\$ 24,331</u>

The Utility had depreciation expense of \$31,009 for the year ended December 31, 2008.

**Budgetary Highlights**

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 Manning Municipal Gas Department for the period July 1, 2007 to June 30, 2008.

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, 2007 to June 30, 2008:

<u>Disbursements</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable</u>
Business type activity	\$ <u>2,300,400</u>	\$ <u>932,580</u>	\$ <u>1,367,820</u>

The disbursements may not legally exceed budgeted appropriations at the functional level. Actual cash disbursements for the year ended June 30, 2008 did not exceed the final statutory budget.

**Economic Factors**

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 Utilities Financial Management**

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

## **Basic Financial Statements**

**Manning Municipal Gas Department  
Balance Sheets  
December 31, 2008 and 2007**

## ASSETS

	2008	2007
<b>Current Assets</b>		
Unrestricted		
Cash	\$ 202,007	\$ 77,307
Investments	1,235,990	1,255,047
Accounts receivable, net of allowance	158,831	90,628
Unbilled usage	90,396	82,205
Accrued interest receivable	48,700	56,087
Inventory	181,625	164,929
Prepaid expenses	3,372	3,702
Notes receivable, other municipal departments - current portion	-	20,000
Total unrestricted current assets	1,920,919	1,749,905
Restricted		
Customer deposits	7,625	6,475
Investments	400,000	400,000
Total restricted current assets	407,625	406,475
Total current assets	2,328,544	2,156,380
<b>Property and Equipment</b>		
Land, plants and mains	1,223,212	1,221,914
Warehouse	67,461	67,461
Shop equipment	77,106	78,361
Office equipment and fixtures	40,524	60,590
Office improvements	36,084	36,084
Transportation equipment	61,558	60,643
Border station	16,232	16,232
	1,522,178	1,541,285
Less accumulated depreciation	888,837	901,266
Total property and equipment	633,341	640,019
<b>Other Assets</b>		
Notes receivable, other municipal departments net of current portion	500,000	522,358
Total assets	\$ 3,461,885	\$ 3,318,757

See accompanying notes to financial statements

Manning Municipal Gas Department  
Balance Sheets  
December 31, 2008 and 2007

LIABILITIES AND NET ASSETS

	<u>2008</u>	<u>2007</u>
Current Liabilities		
Payable from unrestricted current assets:		
Accounts payable	\$ 139,612	\$ 132,794
Sales and use taxes payable	4,236	4,377
Accrued vacation and sick leave payable	12,037	11,865
Property taxes payable	<u>628</u>	<u>628</u>
Total payables from unrestricted current assets	156,514	149,664
Payable from restricted current assets:		
Customer deposits	<u>7,625</u>	<u>6,475</u>
Total current liabilities	164,139	156,139
Net Assets		
Invested in capital assets, net of related debt	633,341	640,019
Restricted for:		
Customer deposits	7,625	6,475
Capital improvement	100,000	100,000
Depreciation	300,000	300,000
Unrestricted	<u>2,256,780</u>	<u>2,116,124</u>
Total net assets	<u>3,297,746</u>	<u>3,162,618</u>
Total liabilities and net assets	<u>\$ 3,461,885</u>	<u>\$ 3,318,757</u>

See accompanying notes to financial statements

**Manning Municipal Gas Department  
Statements of Revenues, Expenses, and  
Changes in Net Assets  
For the years ended December 31, 2008 and 2007**

	<u>2008</u>	<u>2007</u>
Operating Revenues		
Gas sales		
Residential	\$ 682,734	\$ 643,312
Commercial	282,199	259,944
Interruptible	155,281	117,952
Large volume	<u>354,664</u>	<u>158,586</u>
Total gas sales	1,474,878	1,179,794
Merchandise sales, net of cost	4,872	2,141
Service calls	570	630
Other revenue	<u>4,371</u>	<u>1,943</u>
Total	<u>9,814</u>	<u>4,714</u>
Total operating revenue	1,484,692	1,184,508
Operating Expenses		
Purchased gas	1,076,158	862,635
Distribution expenses		
Manager labor	32,403	31,580
Line labor	64,830	55,653
Chemicals	-	2,991
Maintenance materials and supplies	1,744	3,873
Transportation and freight	6,071	4,352
Education	1,195	-
Miscellaneous	<u>4,326</u>	<u>2,279</u>
Total distribution expenses	110,569	100,728
Administrative and general expenses		
Bad debts	1,592	208
Depreciation	31,009	33,936
Dues	6,438	7,965
Group insurance	39,538	40,041
Insurance - general	11,050	11,892
Integrity management	1,122	362
Advertising	131	261
Maintenance - copiers and computers	3,530	3,289
Meetings and travel	235	157
Miscellaneous expense	6,066	6,064
Manager labor	35,108	34,653

**Exhibit B**  
**Continued**

**Manning Municipal Gas Department**  
**Statements of Revenues, Expenses, and**  
**Changes in Net Assets**  
**For the years ended December 31, 2008 and 2007**

Operating Expenses - continued		
Administrative and general expenses - continued		
Office labor	\$ 41,216	\$ 40,600
Office supplies and maintenance	3,050	2,254
Official publications	628	612
Payroll taxes	13,124	12,358
Retirement contributions	10,327	9,076
Professional services	11,114	8,994
Real estate taxes	640	650
Rebate program/comfort plus homes	6,400	3,570
Safety	274	
Trustees	2,995	2,995
Utilities, rent, city assessment	<u>17,264</u>	<u>16,352</u>
Total administrative and general expenses	<u>242,851</u>	<u>236,289</u>
Total operating expenses	<u>1,429,579</u>	<u>1,199,652</u>
Operating income (loss)	55,113	(15,144)
Non-operating Revenues (Expenses)		
Interest income	93,309	118,334
Miscellaneous income	3,585	2,712
Contribution - Housing Rehab Project	(127)	(5,604)
Contribution - Economic Development	(15,000)	(10,000)
Contribution - Project Trees	(250)	-
Contribution - Home Fitness Program	(1,503)	-
Interest expense	<u>-</u>	<u>(1,140)</u>
Net non-operating revenues (expenses)	<u>80,015</u>	<u>104,302</u>
Changes in net assets	135,128	89,158
Net assets, beginning of year	<u>3,162,618</u>	<u>3,073,460</u>
Net assets, end of year	<u>\$ 3,297,746</u>	<u>\$ 3,162,618</u>

See accompanying notes to financial statements

**Manning Municipal Gas Department**  
**Statements of Cash Flows**  
**For the years ended December 31, 2008 and 2007**

	<u>2008</u>	<u>2007</u>
Cash Flows From Operating Activities:		
Cash received from customers	\$ 1,408,299	\$ 1,178,888
Cash payments for goods and services	(1,211,249)	(993,855)
Cash payments to employees	<u>(196,837)</u>	<u>(163,367)</u>
Net cash provided by operating activities	213	21,666
Cash Flows From Capital and Related Financial Activities:		
Non operating income received	3,585	2,712
Change in customer deposits	1,150	2,150
Acquisition and construction of capital assets	(24,330)	(2,222)
Interest paid on short-term notes	-	(2,479)
Principal paid on short-term notes	-	50,000
Proceeds from short-term notes	<u>-</u>	<u>(150,000)</u>
Net cash used for capital and related financing activities	(19,595)	(99,839)
Cash Flows From Investing Activities:		
Interest received	100,697	112,795
Industrial development contribution	(16,880)	(15,604)
Note payments received	<u>42,358</u>	<u>40,642</u>
Net cash provided by investing activities	<u>126,175</u>	<u>137,833</u>
Net increase in cash	106,793	59,660
Cash, Beginning of Year	<u>1,738,829</u>	<u>1,679,169</u>
Cash, End of Year	<u>\$ 1,845,622</u>	<u>\$ 1,738,829</u>

See accompanying notes to financial statements

**Manning Municipal Gas Department  
Statements of Cash Flows  
For the years ended December 31, 2008 and 2007**

Reconciliation of Operating Income to Net		
Cash Provided by Operating Activities:		
Operating Income	\$ 55,113	\$ (15,144)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	31,009	33,936
Net (increase) decrease in:		
Accounts receivables and unbilled usage	(76,393)	(5,620)
Inventories	(16,695)	(29,461)
Prepaid expenses	330	(397)
Net increase (decrease) in:		
Accounts payable	6,818	39,153
Accrued wages and vacation payable	172	(881)
Sales tax payable	(141)	190
Other accrued expenses	-	(110)
	<u>213</u>	<u>21,666</u>
Net cash provided by operating activities	<u>\$ 213</u>	<u>\$ 21,666</u>

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

Current assets:		
Cash	\$ 202,007	\$ 77,307
Investments	1,235,990	1,255,047
Restricted assets:		
Depreciation reserve	300,000	300,000
Capital improvements	100,000	100,000
Customer deposits	7,625	6,475
	<u>\$ 1,845,622</u>	<u>\$ 1,738,829</u>

See accompanying notes to financial statements

**Notes to Financial Statements**

**Manning Municipal Gas Department  
Notes to Financial Statements  
December 31, 2008 and 2007**

**NOTE 1      Summary of Significant Accounting Policies**

**A. 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 (GASB). The Gas department is governed by a five member board of trustees appointed by the City Council. The Governmental Accounting Standards Board (GASB) 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 (GASB) 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.

**B. 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.

**C. 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 Utility'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, 2008 and 2007**

**NOTE 1 Summary of Significant Accounting Policies - Continued**

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 Gas Utility applies all applicable Governmental Accounting Standards Board (GASB) pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict Governmental Accounting Standards Board (GASB) pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure.

The Utility Board 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 the Utility Board'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 expense not meeting this definition are reported as non-operating revenues and expenses.

The Gas Utility's accounting records are maintained 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 assets use are externally 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 Gas Department**  
**Notes to Financial Statements**  
**December 31, 2008 and 2007**

**NOTE 1 Summary of Significant Accounting Policies – Continued**

E. 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.

F. Cash and Cash Equivalents

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

G. Accounts Receivable

Accounts receivable are presented at their net realizable values. Allowances for doubtful accounts is \$612 at December 31, 2008 and 2007.

The Utility employees read the customer meters every month. Manning customers are billed on the 1<sup>st</sup> of each month, and Templeton, Aspinwall, and AGP are billed on the 13<sup>th</sup> 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 1<sup>st</sup> and before November 1<sup>st</sup>, 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.

H. Unbilled Usage

Manning Municipal 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 \$90,396 at December 31, 2008, and \$82,205 at December 31, 2007.

I. 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.

**Manning Municipal Gas Department**  
**Notes to Financial Statements**  
**December 31, 2008 and 2007**

**NOTE 1 Summary of Significant Accounting Policies – Continued**

J. Restricted Assets

Manning Municipal Gas Department 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.

K. Advertising

Advertising costs are expensed as incurred. Advertising expense was \$131 and \$261 for the years ended December 31, 2008 and 2007, respectively.

L. 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 Improvements	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.

M. 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.

N. 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.

**Manning Municipal Gas Department  
Notes to Financial Statements  
December 31, 2008 and 2007**

**NOTE 1 Summary of Significant Accounting Policies – Continued**

O. Use of Estimates

The preparation of the financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates. As of the date of the issuance of the accompanying financial statements, no material changes to the estimates used therein were anticipated by management in the near term.

**NOTE 2 Cash and Investments**

The Utility Board's deposits in banks at December 31, 2008 and 2007 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 depositories to insure there will be no loss of public funds.

The Utility Board 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 Utility Board; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trust; and warrants or improvement certificates of a drainage district.

Interest rate risk – The Utilities investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the need and use of the Utility.

The Utility had no investments meeting the disclosure requirements of Governmental Accounting Standards Board (GASB) Statement No. 3, as amended by Statement No. 40.

The Utility's cash and investments at December 31, 2008 and 2007 are as follows:

	Cash	Certificates of Deposit
December 31, 2008		
Unrestricted	\$ 202,007	\$ 1,235,990
Restricted	7,625	400,000
	<u>\$ 209,632</u>	<u>\$ 1,635,990</u>
December 31, 2007		
Unrestricted	\$ 77,307	\$ 1,255,047
Restricted	6,475	400,000
	<u>\$ 83,782</u>	<u>\$ 1,655,047</u>

**Manning Municipal Gas Department  
Notes to Financial Statements  
December 31, 2008 and 2007**

**NOTE 3 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>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Customer Deposits	\$ 7,625	\$ 6,475	\$ -	\$ -
Depreciation Reserve	-	-	300,000	300,000
Capital Improvement Reserve	-	-	100,000	100,000
	<u>\$ 7,625</u>	<u>\$ 6,475</u>	<u>\$ 400,000</u>	<u>\$ 400,000</u>

**NOTE 4 Capital Assets**

Capital assets activity for the year ended December 31, 2008 is summarized by the following classification:

	<u>Balance</u>			<u>Balance</u>		
	<u>12/31/2007</u>	<u>Increase</u>	<u>Decrease</u>	<u>12/31/2008</u>		
Land	\$ 2,500	\$ -	\$ -	\$ 2,500		
Plants and mains	1,219,414	1,299	-	1,220,713		
Warehouse	67,461	-	-	67,461		
Shop equipment	78,361	-	(1,255)	77,106		
Office equipment and fixtures	60,590	3,932	(23,997)	40,525		
Office improvements	36,084	-	-	36,084		
Transportation equipment	60,643	19,100	(18,185)	61,558		
Border station	16,232	-	-	16,232		
	<u>1,541,285</u>	<u>24,331</u>	<u>(43,437)</u>	<u>1,522,179</u>		
Less: accumulated depreciation	<u>901,266</u>	<u>31,009</u>	<u>(43,437)</u>	<u>888,838</u>		
Capital assets, net	<u>\$ 640,019</u>	<u>(6,678)</u>	<u>-</u>	<u>633,341</u>		
Depreciation charged to operations				<u>\$ 31,009</u>		

**Manning Municipal Gas Department  
Notes to Financial Statements  
December 31, 2008 and 2007**

**NOTE 5 Related Party Transactions**

	2008	2007
<p>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 Bank of the West 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. This note was repaid in 2008</p>	\$ -	\$ 42,358
<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 Templeton Savings Bank. No schedule has been drawn up for the repayment on principal.</p>	500,000	500,000
	500,000	542,358
<p>Less: current portion</p>	-	20,000
<p>Long-term portion</p>	<u>\$ 500,000</u>	<u>\$ 522,358</u>

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

	2008	2007
Truck repairs	\$ 919	\$ 625
Truck	19,100	
Supplies	978	1,181
Fuel and truck repairs	35	1,172
Maint. materials	-	316
	<u>\$ 21,032</u>	<u>\$ 3,294</u>

**Manning Municipal Gas Department  
Notes to Financial Statements  
December 31, 2008 and 2007**

**NOTE 7 Compensated Absences**

Manning Municipal Gas Department employees accrue sick leave benefits at the rate of 88 hours per year, which is equivalent to 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.

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 8 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.

Up through June 30, 2008, plan members were required to contribute 3.90% of their annual covered salary and the Utility was required to contribute 6.05% of annual covered payroll. Effective July 1, 2008, the IPERS rates changed and plan members are required to contribute 4.10% of their annual covered salary and the Utility is required to contribute 6.35% of annual covered payroll. Contribution requirements are established by State statute. The Utility's contributions to IPERS for the years ended December 31, 2008 and 2007 were \$10,327 and \$9,076, respectively, equal to the required contributions for each year.

**NOTE 9 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 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, 2008 and 2007**

**NOTE 10 Long Term Transportation Agreement**

The 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 11 28E Agreement**

The Board of Trustees approved on September 13, 2007 to enter into an agreement under Iowa Code Chapter 28E to establish an agency to be known as the public Energy Financing Authority, an Iowa Joint Powers Agency. The purposes of the Agency are to acquire and procure energy resources, or the rights to acquire thereto, including in particular natural gas and electric energy, and to provide for the transportation, transmission, distribution, sale and/or storage thereof in and to each Member's service area.

**NOTE 12 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 Manning Municipal Gas Department for the period July 1, 2007 to June 30, 2008.

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, 2007 to June 30, 2008:

<u>Disbursements</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable</u>
Business type activity	\$ 2,300,400	\$ 932,580	\$ 1,367,820

The disbursements may not legally exceed budgeted appropriations at the functional level. Actual cash disbursements for the year ended June 30, 2008 did not exceed the final statutory budget.

**NOTE 13 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, 2008 and 2007**

**NOTE 13 Contingencies and Uncertainties**

The Utility provides health care benefits to employees under a self insurance, re-insured plan. The Company's maximum exposure for 2009 under the re-insurance plan is approximately \$14,000.



Marilyn Schroer, CPA  
Diane McGrain, CPA  
Jim Menard, CPA

April 6, 2009

Independent Auditor's Report on Internal Control Over Financial Reporting and on  
Compliance and Other Matters Based on and Audit of Financial Statements  
Prepared in Accordance with *Government Auditing Standards*

To the Board of Trustees of the  
Manning Municipal Gas Department

We have audited the accompanying financial statement of the Manning Municipal Gas Department as of and for the year ended June 30, 2008, and have issued our report thereon dated April 6, 2009. Our report expressed an unqualified opinion on the financial statement which was prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Governmental 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 Gas Department's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Manning Municipal Gas Department's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Manning Municipal Gas Department's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and other deficiencies we consider to be material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Manning Municipal Gas Department's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Manning Municipal Gas Department's financial statements that is more than inconsequential will not be prevented or detected by Manning Municipal Gas Department's internal control. We consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

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April 6, 2009  
Manning Municipal Gas Department  
Report on Internal Control

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Manning Municipal Gas Department's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, of the significant deficiencies described above, we believe all of the above items are material weaknesses.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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 or other matters that are required to be reported under *Governmental Auditing Standards*.

Comments involving statutory and other legal matters about the Utility's operations for the year ended June 30, 2008 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.

Manning Municipal Gas Department's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the Utility's responses, we did not audit Manning Municipal Gas Department's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and customers of the Manning Municipal Gas Department and other parties to whom the Utilities may report including federal awarding agencies and pass-through entities. 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 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.

*Schroer and Associates, P.C.*

**Manning Municipal Gas Department  
Schedule of Findings  
Year Ended December 31, 2008**

**Part I: Findings Related to the Financial Statements:**

**SIGNIFICANT DEFICIENCIES:**

I-A-08     Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal are all done by the same person.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the Utility should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response – We will try to use the staff in the most efficient way to achieve maximum internal control possible with the staff available.

Conclusion – Response acknowledged. The Utility should segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

I-B-08     Related Party Receivables

Comment – The Utility does not have a written policy for determining collectability of related party receivables.

Recommendation – The Utility should draft a policy that details a plan of collections for related party receivables and determine a course of action in the event the receivables are deemed uncollectible.

Response – At this time we feel the Note Receivable is collectible but we will formally document our considerations.

Conclusion – Response accepted.

**Manning Municipal Gas Department  
Schedule of Findings  
Year Ended December 31, 2008**

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

**Part II: Other Findings Related to Statutory Reporting:**

- II-A-08 Certified Budget - Total disbursements during the year ended December 31, 2008, did not exceed the amounts budgeted.
- II-B-08 Questionable Disbursements - We noted no disbursements for parties, banquets, or other entertainment for employees that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- II-C-08 Travel Expense - No disbursements of Municipal Utility's money for travel expenses of spouses of Municipal Utility's officials or employees were noted.
- II-D-08 Business Transactions - Business transactions between the Utility and Utility officials are detailed as follows:

Name, Title, and Business Connection	Transaction Description	Amount
Ken Spies, Spies Fur Co.	Supplies	\$ 977
Robert Ehlers, Manning Motor	Vehicle and vehicle repairs	20,019
Allen Rix, BP Amoco	Fuel	35

The transactions with the Council Members appear to represent conflicts of interest since they exceeded \$1,500 during the year and were not entered into through competitive bidding.

Recommendation - The City should contact legal counsel to determine the disposition of this matter.

Response - We will consult our attorney.

Conclusion - Response accepted.

- II-E-08 Bond Coverage - Surety bond coverage of Municipal Utility's officials and employees is in accordance with statutory provisions. However, the amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- II-F-08 Deposits and Investments - We noted no instances of noncompliance with the deposits and investment provisions of Chapter 12B and 12C of the Code of Iowa and the Municipal Utility's investment policy.

**Manning Municipal Gas Department  
Schedule of Findings  
Year Ended December 31, 2008**

II-G-08 Board Minutes - No transactions were found that we believe should have been approved in the Board minutes but were not.

The Utility did not publish a summary of gross receipts or annual gross salaries in accordance with an Attorney General's opinion dated April 12, 1978.

Recommendation - The Utility should monitor procedures to insure all publications are made in accordance with Chapter 372.13(6) of the Code of Iowa.

Response - We will do this.

Conclusion - Response accepted.

II-G-08 Revenue Notes - There is no revenue debt.



Marilyn Schroer, CPA  
Diane McGrain, CPA  
Jim Menard, CPA

April 6, 2009

To the Board of Trustees  
Manning Municipal Gas Department  
Manning, Iowa

We have audited the financial statements of Manning Municipal Gas Department, Iowa, as of and for the year ended December 31, 2008, and have issued our report thereon dated April 6, 2009. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards and Government Auditing Standards

As stated in our engagement letter dated November 10, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with the cash basis of accounting. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we considered the internal control of the Manning Municipal Gas Department. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of Manning Municipal Gas Department's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on January 12, 2009.

Significant Audit Findings

*Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Manning Municipal Gas Department are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

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Manning Municipal Gas Department  
Communication with Those Charged with Governance

Significant Audit Findings - Continued

*Qualitative Aspects of Accounting Practices - Continued*

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was depreciation.

Management's estimate of the life of property and equipment is based on historical experience of similar asset types. 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 Improvements	20 years
Border Station - Odorizer	20 years

We evaluated the key factors and assumptions used to develop the life of property and equipment in determining that it is reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear.

*Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

*Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements.

*Disagreements with Management*

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or to the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Continued...

Manning Municipal Gas Department  
Communication with Those Charged with Governance

*Management Representations*

We have requested certain representations from management that are included in the management representation letter dated April 6, 2009.

*Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultation has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

*Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to the retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Board of Trustees and management of the Manning Municipal Gas Department, and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

SCHROER & ASSOCIATES, P.C.

