Manning Municipal Gas Department
Independent Auditor's Report
Basic Financial Statements and
Schedule of Findings

December 31, 2009 and 2008

Table of Contents

	Exhibit	Page
Officials		3
Independent Auditor's Report		4 - 5
Management's Discussion and Analysis		6 - 9
Basic Financial Statements:		
Balance Sheets	A	11 - 12
Statements of Revenues, Expenses and Changes in Net Assets	B	13 - 14
Statements of Cash Flows	C	15 - 16
Notes to Financial Statements		18 - 28
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*		30 - 32
Schedule of Findings		33 - 35

Manning Municipal Gas Department
Officials
December 31, 2009

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

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January 22, 2010

Independent Auditor's Report

To the Board of Trustees
Manning Municipal Gas Department
Manning, IA 51455

I 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, 2009. These financial statements are the responsibility of the Manning Municipal Gas Department's management. My responsibility is to express an opinion on these financial statements based on my audit. The financial statements of Manning Municipal Gas Department as of December 31, 2008 were audited by other auditors. Those auditors expressed an unqualified opinion on those financial statements in their report dated April 6, 2009.

I conducted my 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 I 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. I believe that my audit provides a reasonable basis for my 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 my 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, 2009 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* I have also issued my report dated January 22, 2010, on my consideration of the Gas Department's internal control over financial reporting and my 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 my 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 my audit.

Management's Discussion and analysis information on pages 6 through 9 is not a required part of the basic financial statements, but is supplementary information required by the Government Accounting Standards Board. I have applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. I did not audit the information and express no opinion on it.

Mulfelt Associates, CPA, P.C.

Manning Municipal Gas Department
Management's Discussion and Analysis
December 31, 2009

The management of Manning Municipal Gas Department offers this narrative overview and analysis of the financial activities of the Utility for the year ended December 31, 2009. Management encourages readers to consider this information in conjunction with the Utility's financial statements, which follow.

Financial Highlights

Operating revenues decreased by 15% from the year ended December 31, 2008. Operating expenses decreased by 8.5%. Net assets increased by 0.1% or $3,602 for the year ended December 31, 2009. Cash decreased by $19,273.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Utility's basic financial statements. The Utility's statements consist of 1) basic financial statements and 2) notes to the financial statements.

The financial statements consist of a Balance Sheet, a Statement of Revenues, Expenses and Changes in 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.

The notes to the financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Financial Analysis of the Utility

The analysis that follows focuses on the balance sheet classes and changes in the net assets for this business type activity.

Balance Sheet
December 31, 2009

Business Type Activity - Enterprise Fund

	Year Ended 12/31/09	Year Ended 12/31/08
Current assets	$ 2,184,653	$ 2,328,544
Capital assets	626,721	633,341
Other assets	659,234	500,000
Total assets	$ 3,470,608	$ 3,461,885
Current liabilities	$ 169,260	$ 164,139
Net assets:		
Invested in capital assets, net of debt	626,721	633,341
Restricted	407,755	407,625
Unrestricted	2,266,872	2,256,780
Total net assets	$ 3,301,348	$ 3,297,746

Current assets constitute 63% of total assets and exceed current liabilities by thirteen to one. Capital assets constitute 18% of total assets and represent the cost of infrastructure, buildings and equipment and is reported net of accumulated depreciation. Other assets constitute 19% of total assets and consist of the long term portion of notes receivable from the City of Manning and Manning Municipal Cable and Television System Utility. Net assets increased by $3,602 or 0.1% for the year ended December 31, 2009.

Changes in Net Assets
December 31, 2009

Business Type Activity - Enterprise Fund

	Year Ended 12/31/09	Year Ended 12/31/08
Revenues:		
Charges for services	$ 1,260,728	$ 1,484,692
Interest income	69,742	93,309
Miscellaneous income	3,843	3,585
Total revenues	1,334,313	1,581,586
Operating expenses:		
Purchased gas	921,398	1,076,158
Distribution operations	134,018	110,569
Administrative and general	218,749	211,842
Total operating expenses	1,274,165	1,398,569
Other expenses:		
Depreciation	34,405	31,009
Community contributions	22,141	16,880
Total other expenses	56,546	47,889
Total expenses	1,330,711	1,446,458
Increase in net assets	3,602	135,128
Net assets, beginning of year	3,297,746	3,162,618
Net assets, end of year	$ 3,301,348	$ 3,297,746

Total revenues declined by 16% and total expenses declined by 8% for the year ended December 31, 2009. The principal factors for this decline are 1) a 50% drop in natural gas prices and 2) the Federal Reserve Bank's low interest rate policy. The Utility and its customers have little control over the price of natural gas and less control over interest rates. The Utility can ride the valleys and the peaks of the former as it has in the past but the latter poses a more sinister challenge to the Utility. To illustrate this point, consider that 72% of the Utility's assets are demand deposits, savings accounts, certificates of deposit and notes receivable from the City and the Cable Utility. The decline in interest rates resulted a $23,500 decline in interest income which in the past has served to buoy the net profit to the Utility. However, this may not be the case in future.

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 Manning Municipal Gas Department for the period July 1, 2008 to June 30, 2009.

The following schedule compares the business type activity, which includes the Gas Department's budget and actual receipts and disbursements using the cash basis of accounting for the year July 1, 2008 to June 30, 2009.

Business type activity	Budget	Actual	Variable Favorable
Cash Receipts	$ 2,300,400	$ 1,502,757	$ (797,643)
Cash Disbursements	$ 2,300,400	$ 1,446,458	$ 853,942

The disbursements may not legally exceed budgeted appropriations at the functional level. Actual cash disbursements for the year ended June 30, 2009 did not exceed the final statutory budget.

Future Financial Statement Impact

Natural gas prices continue to moderate as of December 31, 2009. Increased corn yields and a wet harvest in the fall of 2009 have resulted in exceptional volume usage at year end. Increased yields and dryer usage are expected to strengthen demand for natural gas in the coming year.

Requests for Information

Requests for additional information can be made to the Manning Municipal Gas Department's manager, Ken Spies, 715 Third Street, Manning, Iowa 51455.

Basic Financial Statements

Exhibit A

Manning Municipal Gas Department
Balance Sheets
December 31, 2009 and 2008

ASSETS

	2009	2008
Current Assets		
Unrestricted		
Cash	$ 134,961	$ 202,005
Investments	1,283,633	1,235,990
Accounts receivable, net of allowance	100,791	158,831
Unbilled usage	95,491	90,396
Accrued interest receivable	34,710	48,700
Inventory	103,853	181,625
Prepaid expenses	3,459	3,372
Notes receivable, other municipal departments - current portion	20,000	-0-
Total unrestricted current assets	1,776,898	1,920,919
Restricted		
Customer deposits	7,755	7,625
Investments	400,000	400,000
Total restricted current assets	407,755	407,625
Total current assets	2,184,653	2,328,544
Property and Equipment		
Land, plants and mains	1,223,631	1,223,212
Warehouse	67,461	67,461
Shop equipment	102,806	77,106
Office equipment and fixtures	42,191	40,524
Office improvements	36,084	36,084
Transportation equipment	61,558	61,558
Border station	16,232	16,232
	1,549,963	1,522,177
Less accumulated depreciation	923,242	888,836
Total property and equipment	626,721	633,341
Other Assets		
Notes receivable, other municipal departments net of current portion	659,234	500,000
Total assets	$ 3,470,608	$ 3,461,885

See accompanying notes to financial statements

Exhibit A
Continued

Manning Municipal Gas Department
Balance Sheets
December 31, 2009 and 2008

LIABILITIES AND NET ASSETS

	2009	2008
Current Liabilities		
Payable from unrestricted current assets:		
Accounts payable	$ 131,997	$ 139,613
Customer credits	16,255	-0-
Accrued vacation and sick leave payable	11,272	12,037
Sales and use taxes payable	1,327	4,236
Property taxes payable	654	628
Total payables from unrestricted current assets	161,505	156,514
Payable from restricted current assets:		
Customer deposits	7,755	7,625
Total current liabilities	169,260	164,139
Net Assets		
Invested in capital assets, net of related debt	626,721	633,341
Restricted for:		
Customer deposits	7,755	7,625
Capital improvement	100,000	100,000
Depreciation	300,000	300,000
Unrestricted	2,266,872	2,256,780
Total net assets	3,301,348	3,297,746
Total liabilities and net assets	$ 3,470,608	$ 3,461,885

See accompanying notes to financial statements

Exhibit B

Manning Municipal Gas Department
Statements of Revenues, Expenses, and Changes in Net Assets
For the years ended December 31, 2009 and 2008

	2009	2008
Operating Revenues		
Gas sales		
Residential	$ 529,306	$ 682,734
Commercial	216,030	282,199
Interruptible	144,629	155,281
Large volume	367,865	354,664
Total gas sales	1,257,830	1,474,878
Merchandise sales, net of cost	1,039	4,872
Service calls	595	570
Other revenue	1,264	4,372
Total	2,898	9,814
Total operating revenue	1,260,728	1,484,692
Operating Expenses		
Purchased gas	921,398	1,076,158
Distribution expenses		
Management labor	35,538	32,403
Line labor	75,214	64,830
Chemicals	3,234	-0-
Maintenance materials and supplies	10,092	1,744
Transportation and freight	5,850	6,071
Education	269	1,195
Miscellaneous	3,821	4,326
Total distribution expenses	134,018	110,569
Administrative and general expenses		
Advertising	121	131
Bad debts	393	1,592
Depreciation	34,405	31,009
Dues	5,928	6,438
Group insurance	42,986	39,538
Insurance - general	10,065	11,050
Integrity management	-0-	1,122
Maintenance - copiers and computers	4,304	3,530
Meeting and travel	245	235
Miscellaneous	6,491	6,067
Manager labor	36,410	35,108

Exhibit B
Continued

Manning Municipal Gas Department
Statements of Revenues, Expenses, and Changes in Net Assets
For the years ended December 31, 2009 and 2008

Operating Expenses - continued		
Administrative and general expenses - continued		
Office labor	$ 43,005	$ 41,216
Office supplies and maintenance	2,946	3,050
Official publications	733	628
Payroll taxes	14,329	13,124
Retirement contributions	11,860	10,327
Professional services	13,710	11,114
Real estate taxes	679	640
Rebate program/comfort plus homes	4,330	6,400
Safety	132	274
Trustees	2,995	2,995
Utilities, rent, city assessment	17,087	17,264
Total administrative and general expenses	253,154	242,851
Total operating expenses	1,308,570	1,429,579
Operating income (loss)	(47,842)	55,113
Non-operating Revenues (Expenses)		
Interest income	69,742	93,309
Miscellaneous income	3,843	3,586
Contribution - Housing Rehab Project	(4,013)	(127)
Contribution - Economic Development	(13,000)	(15,000)
Contribution - Project Trees	(250)	(250)
Contribution - Home Fitness Program	(4,878)	(1,503)
Net non-operating revenues (expenses)	51,444	80,015
Changes in net assets	3,602	135,128
Net assets, beginning of year	3,297,746	3,162,618
Net assets, end of year	$ 3,301,348	$ 3,297,746

See accompanying notes to financial statements

Exhibit C

Manning Municipal Gas Department
Statements of Cash Flows
For the years ended December 31, 2009 and 2008

	2009	2008
Cash Flows From Operating Activities:		
Cash received from customers	$ 1,327,020	$ 1,408,299
Cash payments for goods and services	(1,013,903)	(1,211,249)
Cash payments to employees	(190,932)	(196,837)
Net cash provided by operating activities	122,185	213
Cash Flows From Capital and Related Financial Activities:		
Non operating income received	3,843	3,585
Change in customer deposits	130	1,150
Acquisition and construction of capital assets	(27,786)	(24,330)
Net cash used for capital and related financing activities	(23,813)	(19,595)
Cash Flows From Investing Activities:		
Interest received	83,730	100,697
Community contributions	(22,141)	(16,880)
Note advanced	(200,000)	-0-
Note payments received	20,766	42,358
Net cash used for investing activities	(117,645)	126,175
Net increase in cash	(19,273)	106,793
Cash, Beginning of year	1,845,622	1,738,829
Cash, End of year	$ 1,826,349	$ 1,845,622

See accompanying notes to financial statements

Exhibit C
Continued

Manning Municipal Gas Department
Statements of Cash Flows
For the years ended December 31, 2009 and 2008

		2009		2008
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:				
Operating Income	$	(47,842)	$	55,113
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation		34,405		31,009
Net (increase) decrease in:				
Accounts receivables and unbilled usage		52,945		(76,393)
Inventories		77,772		(16,695)
Prepaid expenses		(87)		330
Net increase (decrease) in:				
Accounts payable		(7,616)		6,818
Accrued wages and vacation payable		(765)		172
Customer credits		16,256		-0-
Sales tax payable		(2,909)		(141)
Other accrued expenses		26		-0-
Net cash provided by operating activities	$	122,185	$	213

Reconciliation of cash and cash equivalents at year end to specific assets included on the Balance Sheet				
Current assets:				
Cash	$	134,961	$	202,007
Investments		1,283,633		1,235,990
Restricted assets:				
Depreciation reserve		300,000		300,000
Capital improvements		100,000		100,000
Customer deposits		7,755		7,625
Total cash	$	1,826,349	$	1,845,622

See accompanying notes to financial statements

Notes to Financial Statements

Manning Municipal Gas Department
Notes to Financial Statements
December 31, 2009 and 2008

(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 Department 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

Formed as a Utility in 1961, the Manning Municipal Gas Department distributes natural gas to the residents and businesses of Manning, Iowa. In 1992, the Gas Department expanded distribution to Templeton, Iowa and, in 1997, to Aspinwall, Iowa. The Utility's revenues are dependent upon the economic condition of its residential and commercial customers.

(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 the Gas Department applies all applicable 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 Department are charges to customers for sales and service. Operating expenses for the Gas Utility include the cost of sales and services, administration expenses and depreciation on capital assets. All revenues and expense not meeting this definition are reported as non-operating revenues and expenses.

The Gas Department maintains its accounting records on the basis of cash receipts and disbursements. For financial reporting purposes, accruals are recorded in conformity with U.S. generally accepted accounting principles.

The Balance Sheet presents the Gas Department'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 any outstanding balances for bonds, notes, and other debt attributable to the acquisition, construction or improvement of those capital assets.

(1) Summary of Significant Accounting Policies (Continued)

D. Measurement Focus and Basis of Accounting (Continued)

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

Unrestricted net assets consist of net assets not meeting the criteria of the two preceding categories. Unrestricted net assets often have constraints on resources that management can remove or modify.

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 deposit. For purposes on the Statement of Cash Flows, the Gas 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. The allowance for doubtful accounts is $612 at December 31, 2009 and 2008.

Customer meters are read monthly. Manning customers are billed the 1st of the month and Templeton, Aspinwall and AGP customers are billed on the 13th of each month. Collection procedures are determined by Commerce Commission Rules as follows: normal customers have twenty days to remit payment whereas budget plan customers have thirty days. No surcharges or interest charges are added to delinquencies. Shut off procedures also differ by season: April 1st through October 31st favor the Utility while November 1st through March 31st favor the customer.

(1) Summary of Significant Accounting Policies (Continued)

H. Unbilled Usage

The Utility estimates unbilled usage by prorating the total billing based on the number of days still in the accounting period versus the total number of days in the billing period.

I. Inventory

Material 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.

J. Restricted Assets

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

K. 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. The Utility records a half year's depreciation in both the year of acquisition and retirement and 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

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

(1) Summary of Significant Accounting Policies (Continued)

L. Customer Deposits

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

M. Operating Revenues

Revenues are based on billing rates applied to customer usage. Meters are read monthly. Western Consulting Inc, calculates the rate to charge per MCF on a monthly basis.

N. 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 financials statements, no material changes to the estimates used therein were anticipated by management in the near term.

(2) Cash and Investments

The Utility Board's deposits in banks at December 31, 2009 and 2008 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 trusts; and warrants or improvement certificates of a drainage district.

(2) Cash and Investments (Continued)

Interest rate risk - The Utility's 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, 2009 and 2008 are as follows:

	Cash	Certificates of Deposit
December 31, 2009		
Unrestricted	$ 134,961	$ 1,283,633
Restricted	7,755	400,000
	$ 142,716	$ 1,683,683
December 31, 2008		
Unrestricted	$ 202,005	$ 1,235,990
Restricted	7,625	400,000
	$ 209,630	$ 1,635,990

(3) Restricted Assets

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

	2009	2008
Customer Deposits - Cash	$ 7,755	$ 7,625
Depreciation Reserve - Certificates of Deposit	300,000	300,000
Capital Improvement Reserve - Certificate of Deposit	100,000	100,000
	$ 407,755	$ 407,625

Manning Municipal Gas Department
Notes to Financial Statements
December 31, 2009 and 2008

(4) Capital Assets

Capital assets activity for the year ended December 31, 2009 is summarized as follows:

	Balance 12/31/08	Additions	Deletions	Balance 12/31/09
Land	$ 2,500	$ -0-	$ -0-	$ 2,500
Plants and mains	1,220,712	419	-0-	1,221,131
Warehouse	67,461	-0-	-0-	67,461
Shop equipment	77,106	25,700	-0-	102,806
Office equipment	40,524	1,667	-0-	42,191
Office improvements	36,084	-0-	-0-	36,084
Transportation	61,558	-0-	-0-	61,558
Border station	16,232	-0-	-0-	16,232
	1,522,177	27,786	-0-	1,549,963
Less: accumulated depreciation	888,837	34,405	-0-	923,242
Capital assets, net	$ 633,340	$ (6,619)	$ -0-	$ 626,721
Depreciation charged to operations				$ 34,405

(5) Related Party Transactions

Water Tower Note	2009	2008
Unsecured note receivable from the City of Manning, due in annual installments of $20,000 plus interest until principal is paid on October 1, 2018. The interest rate is adjusted each October 1st to 1% higher than the maximum rate offered by Templeton Savings Bank on a twelve month certificate of deposit. The note financed water tower construction and repairs. The interest rate on October 1, 2009 was 3.25%.	$ 179,234	$ -0-

(5) Related Party Transactions (Continued)

MMCTSU Note	2009	2008
Note receivable from the Manning Municipal Communications and Television System Utility to be used for broadband communications system. The interest rate is adjusted on July 15th each year to a rate which is 1% higher than that offered by Templeton Savings Bank on a twelve month certificate of deposit. The interest rate on July 15, 2009 was 2.95%. Interest does not accrue on the unpaid interest balance, there are no required principal payments, and payments of principal and interest may not exceed $100,000 per year.	$ 500,000	$ 500,000
	679,234	500,000
Less: current portion	20,000	-0-
Long-term portion	$ 659,234	$ 500,000

Municipal Officials

For the year ended December 31, 2009, the Manning Municipal Gas Department paid businesses owned by employees or officials of the Gas Utility for the following:

	2009	2008
Truck repairs	$ 1,696	$ 919
Truck	-0-	19,100
Supplies	386	978
Fuel and truck repairs	1,930	35
	$ 4,012	$ 21,032

(6) 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 rate 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. Sick leave payable at December 31, 2009 and 2008 was $2,180 and $3,950, respectively.

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 thought the last day of employment. Vacation payable at December 31, 2009 and 2008 was $9,050 and $8,087, respectively.

(7) 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 statue 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.

Through June 30, 2009, plan members were required to contribute 4.10% of their annual covered salary and the Utility was required to contribute 6.35% of annual covered payroll. Effective July 1, 2009, the IPERS rates changed and plan members contributed 4.3% of their annual covered salary and the Utility contributed 6.65% of annual covered payroll. Contribution requirements are established by State statue. The Utility's contributions to IPERS for the years ended December 31, 2009 and 2008 were $11,819 and $10,327, respectively, equal to the required contributions for each year.

(8) 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.

(9) 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.

(10) 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.

(11) Budgetary Comparison

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, 2008 to June 30, 2009.

The Utility Board also adopts a budget annually as required by Iowa law. The budgetary comparison that follows presents the business type activity of the Gas Department as reported in the City of Manning's Annual Report for the period from July 1, 2008 through June 30, 2009

Business type activity	Budget	Actual	Variable Favorable
Cash Receipts	$ 2,300,400	$ 1,502,757	$ (797,643)
Cash Disbursements	$ 2,300,400	$ 1,446,458	$ 853,942

The disbursements may not legally exceed budgeted appropriations at the functional level. Actual cash disbursements for the year ended June 30, 2009 did not exceed the final statutory budget.

(12) Risk Management

Manning Municipal Gas Department is exposed to vaious 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.

(13) Contingencies and Uncertainties

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

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

MUXFELDT ASSOCIATES, CPA, P.C.

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Iowa
Missouri

January 22, 2010

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

I have audited the accompanying financial statements of the Manning Municipal Gas Department as of and for the year ended December 31, 2009, and have issued my report thereon dated January 22, 2010. My report expressed an unqualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. I conducted my 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 my audit, I considered Manning Municipal Gas Department's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing my opinion on the effectiveness of Manning Municipal Gas Department's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of Manning Municipal Gas Department's internal control over financial reporting.

My 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, I identified certain deficiencies in internal control over financial reporting that I consider to be significant deficiencies and other deficiencies I 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. I consider the deficiencies in internal control described in Part II of the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

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.

My 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, I 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, I 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 my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed in instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards.*

January 22, 2010
Manning Municipal Gas Department
Report on Internal Control

Comments involving statutory and other legal matters about the Utility's operations for the year ended December 31, 2009 are based exclusively on knowledge obtained from procedures performed during my audit of the financial statements of the Utility. Since my audit was based on test 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 my audit are described in the accompanying Schedule of Findings. While I have expressed my conclusions on the Utility's responses, I did not audit the Gas Department's responses and, accordingly, I 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 Utility 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.

I would like to acknowledge the many courtesies and assistance extended to me by personnel of Manning Municipal Gas Department during the course of my audit. Should you have any questions concerning any of the above matter, I shall be pleased to discuss them with you at your convenience.

Mayfield Associates, CPA, P.C.

Manning Municipal Gas Department
Schedule of Findings
Year Ended December 31, 2009

Part I: Summary of the Independent Auditor's Results

a) An unqualified opinion was issued on the financial statements.

b) Significant deficiencies 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:

SIGNIFICANT DEFICIENCIES:

II-A-09 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 cash receipts to the cash receipts journal are all done by the same person.

Recommendation - I realize that a 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.

Manning Municipal Gas Department
Schedule of Findings
Year Ended December 31, 2009

Part II: Findings Related to the Financial Statements (Continued):

SIGNIFICANT DEFICIENCIES:

II-B-09 Interest not posted - $12,050 of interest from certificates of deposit was not recorded as interest income for the year ended December 31, 2009.

Recommendation - The Utility should review its procedures concerning interest income on certificates of deposit to ensure that reinvested CD interest is recorded timely. A listing of the certificates of deposit, maturities, interest rates, etc., as of December 31, 2009 has been provided to the Utility's management.

Response - A proper listing of the certificates of deposit with maturity dates is a good start.

Conclusion - Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

Part III: Other Findings Related to Statutory Reporting:

III-A-09 Certified Budget - Total disbursements during the year ended June 30, 2009, did not exceed the amounts budgeted. The Utility adopts an annual budget on the City of Manning's fiscal year ended June 30th.

III-B-09 Questionable Disbursements - I 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.

III-C-09 Travel Expense - No disbursements of Municipal Utility's money for travel expenses of spouses of Municipal Utility's officials or employees were noted.

Manning Municipal Gas Department
Schedule of Findings
Year Ended December 31, 2009

Part III: Other Findings Related to Statutory Reporting (Continued):

III-D-09 Business Transactions - Business transactions between the Utility and Utility officials are detailed as follows:

Name, Title, and Business Connection	Transaction Description		Amount
Ken, Spies Fur Co.	Supplies	$	386
Robert Ehlers, Manning Motor	Vehicle repairs	$	1,696
Allen Rix, BP Amoco	Fuel	$	1,930

The transactions with the Utility's Trustees and management don't appear to represent conflicts of interest since they did not exceed $2,500 during the year.

III-E-09 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.

III-F-09 Deposits and Investments - I 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.

III-G-09 Board Minutes - No transactions were found that I believe should have been approved in the Board minutes but were not.

NEWS RELEASE

MANNING MUNICIPAL GAS DEPARTMENT

Manning, Iowa 51455

Muxfeldt Associates, CPA, P.C., 2309 B Chatburn Avenue, Harlan, Iowa today released an audit report on the Manning Municipal Gas Department of Manning, Iowa.

Muxfeldt Associates, CPA, P.C, reported that the Utility Board's revenues totaled $1,334,313 for the year ended December 31, 2009, a 16 percent decrease from 2008. The revenues included $1,260,728 in natural gas sales, $69,742 in interest income, and $3,843 in other revenues.

Expenses for the year totaled $1,330,711, an 8 percent decrease from 2008. The expenses included $921,398 for natural gas, $134,018 for distribution, $253,154 for administrative and general expenses and $22,141 for other expenses.

A copy of the audit report is available for review in the office of Manning Municipal Gas Department, in the Office of Auditor of State and on the Auditor of State's web site at http://auditor.iowa.gov/reports/reports.htm.