

**MANNING MUNICIPAL COMMUNICATIONS  
AND TELEVISION SYSTEM UTILITY**

**Independent Auditors' Reports  
Financial Statements And  
Required Supplementary Information  
Schedule of Findings**

**For the Years Ended December 31, 2010 and 2009**

**OLSEN, MUHLBAUER & CO., L.L.P.**  
**Certified Public Accountants**  
**CARROLL, IOWA**

# MANNING MUNICIPAL COMMUNICATIONS AND TELEVISION SYSTEM UTILITY

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MANNING MUNICIPAL COMMUNICATIONS AND TELEVISION SYSTEM UTILITY

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Aaron Stangl	Chairperson	11-04-2013
Dean Hoffman	Vice Chairman	11-04-2013
Marsha Clausen	Secretary	11-04-2012
Keith Kelderman	Board Member	11-04-2011
Rick Lohrmann	Board Member	11-04-2014
Wendel Kahl	General Manager	
Kent Hilsabeck	General Manager (effective 12/23/10)	

SEN, MUHLBAUER & CO., L.L.C.

*Certified Public Accountants*

PARTNERS

RICHARD D. MUHLBAUER  
PATRICK J. O'BRIEN  
TRUDENE L. WITTMACK  
KARLA L. FULTON  
TAMMY M. BRUCH  
ROBERT L. MUHLBAUER

1127 PLAZA DR.  
VILLAGE PARK EAST  
CARROLL, IOWA 51401  
712-792-4314  
FAX 712-792-4503

INDEPENDENT AUDITORS' REPORT

To the Members of the Manning Municipal  
Communications and Television System Utility  
Manning, Iowa

We have audited the accompanying financial statements of Manning Municipal Communications and Television System Utility as of and for the years ended December 31, 2010 and 2009. These financial statements are the responsibility of the Utility's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the financial statements are intended to present the financial position and results of operations and cash flows of only that portion of the financial reporting entity of the City of Manning, Iowa, that is attributable to the transactions of the Manning Municipal Communications and Television System Utility.

In our opinion, the financial statements referred to above presents fairly, in all material respects, the financial position of Manning Municipal Communications and Television System Utility as of December 31, 2010 and 2009, and the changes in its financial position and its cash flow 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 May 20, 2011 on our consideration of Manning Municipal Communications and Television System Utility's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Governmental Auditing Standards and should be considered in assessing the results of our audit.

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

*Olsen, Muhlbauer & Co., LLP*

OLSEN, MUHLBAUER & CO., L.L.P.  
Certified Public Accountants

May 20, 2011

# MANNING MUNICIPAL COMMUNICATIONS AND TELEVISION SYSTEM UTILITY

## Management's Discussion and Analysis

Manning Municipal Communications and Television System Utility provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities of the Manning Municipal Communications and Television System Utility is for the year ended December 31, 2009. We encourage readers to consider this information in conjunction with the Utility's financial statements, which follow.

### 2010 FINANCIAL HIGHLIGHTS

- ◆ The Utility's net operating revenues activity increased 7.4%, or \$60,534, from 2009 to 2010.
- ◆ The Utility's operating expenses increased 2.4%, or \$22,342 from 2009 to 2010.
- ◆ The Utility's net assets of business type activities decreased \$108,624 from December 31, 2009 to December 31, 2010.

### 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 Balance Sheet and an Income Statement and a Statement of Cash Flows. These provide information about the activities of Manning Municipal Communications and Television System Utility as a whole and present an overall view of the Utility's finances.

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

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

### REPORTING THE UTILITY'S FINANCIAL ACTIVITIES

#### Basic Financial Statements

One of the most important questions asked about the Utility's finances is, "Is the Utility, as a whole, better or worse off as a result of the year's activities?" The Balance Sheet and the Income Statement 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 Statement of Net Assets presents all of the Utility's assets and liabilities with the difference between the two reported as "net assets". Over time, increases or decreases in the Utility's net assets may serve as useful indicators of whether the financial position of the Utility is improving or deteriorating.

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

The Balance Sheet and Income Statement report the following activity:

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

**MANNING MUNICIPAL COMMUNICATIONS  
AND TELEVISION SYSTEM UTILITY**

**Management's Discussion and Analysis**

**Fund Financial Statements**

The Proprietary fund accounts for the Utility's Enterprise Funds. This fund reports services for which the Utility charges customers for the service it provides. Proprietary funds report all activities in the Statement of Net Assets and the Statement of Revenues, Expenses and Changes in 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 statement of net assets, statement of revenues, expenses and changes in net assets and a statement of cash flows.

**BASIC FINANCIAL ANALYSIS**

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

	<u>Net Assets</u>	
	<u>Year Ended December 31, 2010</u>	<u>2009</u>
Current and Other Assets	165,265	177,922
Capital Assets	<u>169,890</u>	<u>265,783</u>
Total Assets	<u>335,155</u>	<u>443,705</u>
Other Liabilities	92,041	91,967
Notes Payable	<u>795,000</u>	<u>795,000</u>
Total Liabilities	<u>887,041</u>	<u>886,967</u>
Net Assets:		
Invested in Capital Assets, Net of Related Debt	0	0
Restricted	5,282	4,611
Unrestricted	<u>(557,168)</u>	<u>(447,873)</u>
Total Net Assets	<u>(551,886)</u>	<u>(443,262)</u>

Net assets of business type activities decreased from 2009 by \$108,624. Unrestricted net assets, the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, legislation or other legal requirements, is a deficit of (\$557,168) at the end of this year. Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The amount invested in capital assets (e.g. land, infrastructure, buildings, and equipment), less the related debt is shown as zero because the debt exceeds book value. The related debt is larger than the net capital assets due to the fact that principal payments have not been made on a large portion of the debt, yet accumulated depreciation continues to increase. If it was shown as a negative number, the unrestricted net assets would be overstated. The accumulated net operating losses for the past several years have caused negative net assets as of December 31, 2010.

**MANNING MUNICIPAL COMMUNICATIONS  
AND TELEVISION SYSTEM UTILITY**

**Management's Discussion and Analysis**

	Changes Net Assets	
	Year Ended December 31,	
	<u>2010</u>	<u>2009</u>
<b>Revenues:</b>		
Charges for Services	810,259	749,824
Interest Income	862	2,115
Service & Reconnect Charges	28,865	22,220
Advertising Fees	6,230	5,677
Miscellaneous Fees	7,019	13,505
Signal Charges	19,940	19,800
Headend Rent	2,050	1,550
Total Revenues	<u>875,225</u>	<u>814,691</u>
<b>Operating Expenses:</b>		
Production	404,076	377,965
Rent	176,849	176,849
Depreciation	99,911	109,349
Administrative and General	272,405	266,736
Total Operating Expenses	<u>953,241</u>	<u>930,899</u>
<b>Other Expenses:</b>		
Loss on Disposal of Equipment	8,867	
Interest Expense	21,741	26,661
Total Other Expense	<u>30,608</u>	<u>26,661</u>
Increase (Decrease) in Net Assets	(108,624)	(142,869)
Net Assets Beginning of Year	<u>(443,262)</u>	<u>(300,393)</u>
Net Assets End of Year	<u>(551,886)</u>	<u>(443,262)</u>

**CAPITAL ASSETS**

The Utility's capital assets include land, buildings and improvements, equipment, and other infrastructure. Capital assets for the business type activity totaled \$169,890 (net of accumulated depreciation) at December 31, 2010. Depreciation for the year was \$99,911.

MANNING MUNICIPAL COMMUNICATIONS  
AND TELEVISION SYSTEM UTILITY

Management's Discussion and Analysis

CAPITAL ASSETS AT YEAR END

	<u>2010</u>	<u>2009</u>
Headhouse	64,630	63,693
Distribution	20,345	52,678
General	49,561	49,561
Internet	163,104	173,323
Telephone	<u>847,523</u>	<u>847,523</u>
Total	1,177,496	1,186,778
Less: Accumulated Depreciation	<u>(1,007,606)</u>	<u>(920,995)</u>
Net Capital Assets	<u>169,890</u>	<u>265,783</u>

**LONG-TERM DEBT**

At December 31, 2010, the Utility had \$795,000 in total long-term debt outstanding for business type activities.

**ECONOMIC FACTORS BEARING ON THE COMMUNICATION UTILITY'S FUTURE**

The communications utility raised the television rate from \$34.95 to \$39.95 and the Silver internet package rate from \$29.95 to \$34.95 in January, 2010. These are the most popular packages, so the increase will affect most of our customers. Carrier access fees continue to decline due to cell phone use. New customers are not signing up for phone, but rather, use their cell phones. MMCTSU is attempting to renegotiate the loan terms with the gas and electric utilities. The phone contract with Templeton Telephone is also being renegotiated. In addition, other options are being reviewed to reduce expenses.

**CONTACTING THE COMMUNICATION UTILITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the Communication Utility's finances and operating activities. If you have questions about this report or need additional financial information, contact Manning Municipal Communications and Television System Utility, 719 Third Street, Manning, Iowa, 51455.

## FINANCIAL STATEMENTS

MANNING MUNICIPAL COMMUNICATIONS  
AND TELEVISION SYSTEM UTILITY

Statement of Net Assets  
December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
<b>Assets</b>		
Cash	68,547	75,147
Restricted Cash - Customer Deposits	5,323	4,611
Accounts Receivable - Customers	46,254	36,467
Allowance for Doubtfull Accounts - Customers	(3,053)	(3,963)
Accounts Receivable - Carrier Access Fees	21,108	18,816
Allowance for Doubtfull Accounts - Carrier Fees	0	(35)
Accounts Receivable - Miscellaneous	4,522	9,779
Inventory	19,341	25,204
Prepaid Expenses	3,223	11,896
Capital Assets (Net of Accumulated Depreciation)	169,890	265,783
<u>Total Assets</u>	<u>335,155</u>	<u>443,705</u>
<b>Liabilities</b>		
Accounts Payable - Operating	27,198	26,905
Deferred Income	25,541	25,338
Customer Deposits Payable	5,282	4,611
Accrued Wages and PTO Payable	3,513	4,277
Other Taxes Payable	5,016	735
Accrued Interest Payable	21,741	26,661
Real Estate Taxes Payable	3,750	3,440
Notes Payable (all payable after one year)	795,000	795,000
<u>Total Liabilities</u>	<u>887,041</u>	<u>886,967</u>
<b>Net Assets</b>		
Invested in Capital Assets, Net of Related Debt	0	0
Restricted for:		
Customer Deposits	5,282	4,611
Unrestricted (Deficit)	(557,168)	(447,873)
<u>Total Net Assets (Deficit)</u>	<u>(551,886)</u>	<u>(443,262)</u>

The accompanying notes are an integral part of these financial statements.

MANNING MUNICIPAL COMMUNICATIONS  
AND TELEVISION SYSTEM UTILITY

Statements of Revenues, Expenses and Changes in Net Assets  
For Years Ended December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Operating Revenues - Cable		
Basic T.V.	259,351	220,738
Movie Packages	14,033	11,747
TIVO	1,055	893
	<hr/>	<hr/>
	274,439	233,378
Cost of Sales - Cable		
Signal Charges	168,307	163,613
Billing Fees - MACC	2,917	1,700
	<hr/>	<hr/>
	171,224	165,313
	<hr/>	<hr/>
<u>Net Operating Revenues - Cable</u>	<u>103,215</u>	<u>68,065</u>
Operating Revenues - Telephone		
Local Access	141,234	149,218
Local Tolls	53,538	52,160
Carrier Access Fees	116,414	118,505
USAC Revenue	1,314	1,897
Calling Features	18,802	18,980
Cell Phone Plans	12,943	2,686
Cell Phones and Accessories	916	124
	<hr/>	<hr/>
	345,161	343,570
Cost of Sales - Telephone		
Long Distance Switching Fees	34,198	37,264
Switching Fees - Templeton	88,000	88,000
Carrier Access Fees	10,800	10,558
Local Billing Fees	3,917	3,669
Subscriber Services	9,885	6,111
Billing Fees - MACC	2,917	3,765
Cell Phone Minutes	12,856	4,977
Cell Phones and Accessories	4,315	1,201
	<hr/>	<hr/>
	166,888	155,545
	<hr/>	<hr/>
<u>Net Operating Revenues - Telephone</u>	<u>178,273</u>	<u>188,025</u>

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MANNING MUNICIPAL COMMUNICATIONS  
AND TELEVISION SYSTEM UTILITY

Statements of Revenues, Expenses and Changes in Net Assets  
For Years Ended December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Operating Revenues - Internet		
Unlimited Service	1,077	2,233
Unlimited Service on Contract	239	2,423
Ten Hour Plan	20	617
Cable Modem Income	151,458	127,039
Other Fees	8,950	9,921
Wireless Internet	19,075	20,803
Ethernet Income	9,840	9,840
	<u>190,659</u>	<u>172,876</u>
Cost of Sales - Internet		
Internet Expenses	63,047	55,407
Billing Fees MACC	2,917	1,700
	<u>65,964</u>	<u>57,107</u>
<u>Net Operating Revenues - Internet</u>	<u>124,695</u>	<u>115,769</u>
Other Operating Revenues		
Advertising Fees - Channel 22	6,230	5,677
Remotes	0	40
Miscellaneous	6,566	6,505
Hookup Fees	524	432
Reconnect Charges	2,492	2,711
Service Charges	26,373	19,509
Directory Fees - Phone Books	(71)	6,528
Signal Charges - Templeton & Scranton	19,940	19,800
Headend Rent	2,050	1,550
<u>Total Other Operating Revenues</u>	<u>64,104</u>	<u>62,752</u>
Net Operating Revenues Before Expenses	470,287	434,611
Operating Expenses (Schedule 1)	549,165	552,934
<u>Net Operating Loss</u>	<u>(78,878)</u>	<u>(118,323)</u>

(Continued)

MANNING MUNICIPAL COMMUNICATIONS  
AND TELEVISION SYSTEM UTILITY

Statements of Revenues, Expenses and Changes in Net Assets  
For Years Ended December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
<u>Net Operating Loss</u>	(78,878)	(118,323)
Non-operating Revenues (Expenses)		
Interest Income	862	2,115
Loss on Disposal of Equipment	(8,867)	0
Interest Expense	<u>(21,741)</u>	<u>(26,661)</u>
<u>Total Non-operating Revenues (Expenses)</u>	<u>(29,746)</u>	<u>(24,546)</u>
Change in Net Assets	(108,624)	(142,869)
Total Net Assets, Beginning (Deficit)	<u>(443,262)</u>	<u>(300,393)</u>
<u>Total Net Assets , Ending (Deficit)</u>	<u><u>(551,886)</u></u>	<u><u>(443,262)</u></u>

The accompanying notes are an integral part of these financial statements.

MANNING MUNICIPAL COMMUNICATIONS  
AND TELEVISION SYSTEM UTILITY

Statements of Cash Flows  
For Years Ended December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Cash Flows from Operating Activities:		
Cash Received from Customers and Users	797,438	754,092
Cash Received from Other Revenues	69,361	55,323
Cash Paid to Suppliers	(377,145)	(364,005)
Cash Paid for Personal Services	(289,665)	(282,017)
Cash Paid to Employees	(167,864)	(162,263)
<u>Net Cash Provided by Operating Activities</u>	<u>32,125</u>	<u>1,130</u>
Cash Flows from Noncapital Financing Activities:		
Change in Customer Deposits	671	1,211
<u>Net Cash Provided by Noncapital Financing Activities</u>	<u>671</u>	<u>1,211</u>
Cash Flows from Capital and Related Financing Activities:		
Acquisition of Capital Assets	(12,885)	(669)
Interest Paid on Notes	(26,661)	(38,746)
Principal Paid on Notes	0	(5,000)
<u>Net Cash Used by Capital and Related Financing Activities</u>	<u>(39,546)</u>	<u>(44,415)</u>
Cash Flows from Investing Activities:		
Interest on Investments	862	2,115
<u>Net Cash Provided by Investing Activities</u>	<u>862</u>	<u>2,115</u>
Net Decrease in Cash and Cash Equivalents	(5,888)	(39,959)
Cash and Cash Equivalents - Beginning of Year	79,758	119,717
<u>Cash and Cash Equivalents - End of Year</u>	<u><u>73,870</u></u>	<u><u>79,758</u></u>

(Continued)

MANNING MUNICIPAL COMMUNICATIONS  
AND TELEVISION SYSTEM UTILITY

Statements of Cash Flows  
For Years Ended December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:		
Operating Income (Loss)	(78,878)	(118,323)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Depreciation Expense	99,911	109,349
(Increase) Decrease in Customer Accounts Receivable	(13,024)	8,103
(Increase) Decrease in Other Receivables	5,257	(7,429)
(Increase) Decrease in Inventories	5,863	(5,522)
(Increase) Decrease in Prepaid Expenses	8,673	8,854
Increase (Decrease) in Accounts Payable	293	11,170
Increase (Decrease) in Sales Tax Payable	0	(4,997)
Increase (Decrease) in Salaries Payable	(764)	(1,492)
Increase (Decrease) in Deferred Income	203	1,162
Increase (Decrease) in Other Payables	4,591	255
<u>Net Cash Provided by Operating Activities</u>	<u>32,125</u>	<u>1,130</u>
Reconciliation of Cash and Cash Equivalents at Year End to Specific Assets Included on the Statements of Net Assets:		
Current Assets:		
Cash and Pooled Investments	68,547	75,147
Restricted Assets:		
Cash and Pooled Investments:		
Customer Deposits	5,323	4,611
<u>Cash and Cash Equivalents End of Year</u>	<u>73,870</u>	<u>79,758</u>

The accompanying notes are an integral part of these financial statements.

**NOTES TO FINANCIAL STATEMENTS**

MANNING MUNICIPAL COMMUNICATIONS  
AND TELEVISION SYSTEM UTILITY

Notes to Financial Statement  
December 31, 2010 and 2009

Note 1 – Summary of Significant Accounting Policies

Nature of Business

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

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

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

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

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

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

Reporting Entity

MMCTSU is a component unit of the City of Manning, Iowa, as determined by criteria specified by the Governmental Accounting Standards Board when 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 Utility is governed by a five-member board of trustees appointed by the City Council. MMCTSU itself has no component units which meet the Governmental Accounting Standards Board criteria.

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

MANNING MUNICIPAL COMMUNICATIONS  
AND TELEVISION SYSTEM UTILITY

Notes to Financial Statement  
December 31, 2010 and 2009

Note 1 – Summary of Significant Accounting Policies (Continued)

Jointly Governed Organizations

The Utility participates in several jointly governed organizations that provide goods or services to the citizenry of the Utility. Some Utility officials are members of the following boards: Manning Municipal Light Plant and the Manning Municipal Gas Department.

Measurement Focus and Basis of Accounting

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

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

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

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

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

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

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

MANNING MUNICIPAL COMMUNICATIONS  
AND TELEVISION SYSTEM UTILITY

Notes to Financial Statement  
December 31, 2010 and 2009

Note 1 – Summary of Significant Accounting Policies (Continued)

Measurement Focus and Basis of Accounting (Continued)

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

Budgets and Budgetary Accounting

In accordance with the Code of Iowa, the Board of Trustees annually adopts a budget on the cash basis. The budget of the Utility is submitted to the City of Manning for approval in the City's budget process. The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended December 31, 2010, both receipts and expenditures exceeded the amount budgeted.

Cash

Cash consists of cash in checking and savings accounts.

Accounts Receivable – Customers

Accounts receivable are recorded at the time the service is billed. It also included estimated unbilled usage for service consumed between periodic scheduled billing dates. Unbilled usage is recorded as deferred income until it is recognized as revenue in the period in which the service is provided. Allowance for doubtful accounts is \$3,053 for 2010 and \$3,963 for 2009.

The cable T.V., phone, internet and TIVO bills are all generated by an outside company. The bills are sent out approximately on the 15<sup>th</sup> of each month and cover the long distance phone calls for the previous month and the cable T.V., internet, tivo and local phone service for the next month. The customers have 20 days to pay their bills before a 1.5% penalty of the total bill gets added to their accounts. They would have another 10 days from the original due date of their bill to pay the account before disconnection procedures will occur. A \$25 reconnect fee would then apply.

Accounts Receivable – Carrier Access Fees

These are fees due from various phone companies when MMCTSUs customers select another phone company for their long distance phone services. As of December 31, 2010 and 2009, the allowance for doubtful accounts for CABS was \$0 and \$35, respectively.

Various phone companies are billed by an outside Company on behalf of MMCTSUs for long distance wire usage.

MANNING MUNICIPAL COMMUNICATIONS  
AND TELEVISION SYSTEM UTILITY

Notes to Financial Statement  
December 31, 2010 and 2009

Note 1 – Summary of Significant Accounting Policies (Continued)

Inventory

Materials and supplies are stated at average cost on a per item basis. Cost is determined by the first-in, first-out method.

Advertising

Advertising costs are expensed as incurred. Advertising expense, was \$759 and \$4,502 for the years ended December 31, 2010 and 2009, respectively. For December 31, 2009, the advertising expense included new telephone directories for \$3,393.

Capital Assets

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

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

Capital asset activity for the year ended December 31, 2010 is summarized as follows:

	<u>Balance Beginning of Year</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance End of Year</u>
Capital Assets	1,186,778	12,885	(22,167)	1,177,496
Less: Accumulated Depreciation	<u>(920,995)</u>	<u>(99,911)</u>	<u>13,300</u>	<u>(1,007,606)</u>
<u>Capital Assets, Net</u>	<u>265,783</u>	<u>(87,026)</u>	<u>(8,867)</u>	<u>169,890</u>
Depreciation Charged				<u>99,911</u>

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

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

MANNING MUNICIPAL COMMUNICATIONS  
AND TELEVISION SYSTEM UTILITY

Notes to Financial Statement  
December 31, 2010 and 2009

Note 1 – Summary of Significant Accounting Policies (Continued)

Customer Deposits

Customer deposits are collected from new customers before their service is turned on. Each customer who can not provide a credit letter from a previous utility provider is charged a \$50 deposit. Customers in good standing receive a full refund of their deposit after six months of service.

Operating Revenues

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

Internet fees are billed to customers by MMCTSU one month in advance. As of January 1, 2008, Templeton Telephone Co. and Iowa Network Services provide dial up internet access and related services to MMCTSU. High speed internet access is provided by MMCTSU.

Local access telephone fees are billed one month in advance where as long distance toll services are billed out after the calls occur. Carrier access fees are also billed to the various Long Distance Carriers for their line access charges after the charges are incurred.

Use of Estimates

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

Note 2 – Deposits and Investments

The Utility's deposits at December 31, 2010 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

MANNING MUNICIPAL COMMUNICATIONS  
AND TELEVISION SYSTEM UTILITY

Notes to Financial Statement  
December 31, 2010 and 2009

Note 2 – Deposits and Investments (Continued)

The Utility's cash and investments at December 31, 2010 are as follows:

Restricted – Customer Deposits	\$ 5,323
Unrestricted	<u>68,547</u>
	<u>\$ 73,870</u>

Note 3 – Related Party Transactions

Joint Use Agreement

On July 25, 2001, the Manning Municipal Light Plant and MMCTSU entered into a joint agreement regarding a communications distribution system. The communications distribution system is and shall remain the sole property of the Electric Utility. However, the Communications Utility has been granted the right to use the distribution system, the headend building, and the Municipal building for its functions for a term of 25 years. The Communication Utility is required to pay \$170,849 every year for 25 years. The first payment was made on June 30, 2002. During the year ended December 31, 2008, the Utility requested and received a one-year moratorium on the annual lease payment of \$170,849.

Other

Employees of the Manning Municipal Light Office and MMCTSU sometimes do work for the other department in which case the departments bill each other for the work performed.

Beginning June 1, 2007, MMCTSU paid \$500 rent per month to the City of Manning for the office space. The total rent paid to the City of Manning in 2009 and 2010 was \$6,000 per year.

Note 4 – Related Party – Notes Payable

	<u>2010</u>	<u>2009</u>
Note Payable to Manning Municipal Light Plant in the original amount of \$500,000 to be used for the broadband communications system. The interest rate shall be adjusted annually on July 1 <sup>st</sup> of each year to an amount which is equal to 1% more than a one year certificate of deposit at Templeton Savings Bank. The interest rate on July 1, 2009 was 2.95% and the interest rate on July 1, 2010 was 1.50%. The Communication's net revenues shall be pledged to pay off amounts due as allowable.	295,000	295,000

MANNING MUNICIPAL COMMUNICATIONS  
AND TELEVISION SYSTEM UTILITY

Notes to Financial Statement  
December 31, 2010 and 2009

Note 4 – Related Party – Notes Payable (Continued)

Note Payable to Manning Municipal Gas Department in the amount of \$500,000 to be used for the broadband communications system. The interest rate shall be adjusted annually on July 15<sup>th</sup> of each year to an amount which is equal to 1% more than a one year certificate of deposit at Templeton Savings Bank. The interest rate on July 15, 2009 was 2.95% and the interest rate on July 15, 2010 was 1.50%. The Communication’s net revenues shall be pledged to pay off amounts due as allowable.

	<u>500,000</u>	<u>500,000</u>
	<u>795,000</u>	<u>795,000</u>

These notes payable to Manning Municipal Light Plant and Manning Municipal Gas Department do not have a specific payoff schedule. Payments made depend upon the net revenues of the Communication Utility. In 2004, the Manning Municipal Light Plant forgave \$200,000 of their note to the Communication Utility.

Note 5 – Contract Commitments

On July 30, 2004, MMCTSU signed an agreement with Templeton Telephone Company (TTC) for video signal. TTC obtains a cable television signal from MMCTSU for transmission via TTC’s Cable Television System subject to certain terms and conditions. MMCTSU is currently charging TTC \$1,400 per month for video signal.

On July 30, 2004, MMCTSU signed an agreement with Templeton Telephone Company (TTC) for switching services. TTC is a local telecommunications carrier with a particular expertise in the provision of certain switching functions and feature applications for the transmission, reception, monitoring, and routing of telecommunications traffic. The agreement shall continue in full force and effect for a term of five years from the date switching services are first provided. If MMCTSU chooses to terminate the agreement before the five years are up, early termination fees would be incurred. MMCTSU pays TTC \$8,000 per month for these switching services.

In 2005, MMCTSU entered into a Video Signal Agreement with Scranton Telephone Company (STC). STC is a telecommunications company that provides cable television service to its customers in the Scranton franchise areas. STC obtains a cable television signal from MMCTSU for transmission via STC’s cable television system subject to the terms and conditions spelled out in the agreement. The agreement shall continue in full force and effect until January 1, 2015. The rate for this video signal is a monthly charge of \$250.

MANNING MUNICIPAL COMMUNICATIONS  
AND TELEVISION SYSTEM UTILITY

Notes to Financial Statement  
December 31, 2010 and 2009

Note 5 – Contract Commitments (Continued)

Effective December 1, 2006, the Communication and Information Services Agreement between Long Lines and MMCTSU was terminated. MMCTSU agreed to pay Long Lines \$30,000 in exchange for a general release of all claims of Long Lines relating to the agreement. At the termination of the agreement, Long Lines had the option to either remove its related equipment from its present location in the Utilities' building or pay MMCTSU \$200 per month for the right to continue its use of the facility. Long Lines opted to continue using the facility, however, they were exempt from the agreed upon rent of \$200 per month until July 2009.

Beginning December 1, 2006 (and revised May 17, 2007), Mid America Computer Corporation (MACC) provides data processing, related reports, and other related billing services to MMCTSU. The services that MACC provides include rating, toll billing statements, local exchange service billing statements, carrier access billing service, consolidated carrier access collection and remittance services, mailing, and application service provider. Either party, without cause, may terminate this agreement with a written 30 day notice.

Iowa Network Services, Inc. (INS) offers a switching and transport agreement to MMCTSU for both originating and terminating traffic, which virtually extends the MMCTSU's network from the point where it interconnects with the INS network to the meet point of the Commercial Mobile Radio Service (CMRS) provider. This enables MMCTSU to originate traffic to and receive wireless traffic from any CMRS provider. This agreement shall have an initial term of two years. It shall thereafter remain in full force and effect for successive terms of two years each, subject to the right of either party to give the other party written notice of its intent to terminate the agreement not less than 120 days prior to the expiration of the then current term. The initial term started in December 2006.

MMCTSU also has a consolidated billing agreement with INS, which was signed in December 2006. INS will perform monthly settlements for reciprocal compensation traffic measurements, bill issuance, bill consolidation, bill collection service and disbursement of the net amounts due per contract terms, between MMCTSU and CMRS providers. This agreement shall remain in effect until cancelled by either party by written notice to the other party of not less than 120 days.

An agreement for Internet Service was entered into and made effective December 15, 2007 between Templeton Telephone Company (TTC) and Manning Municipal Communications and Television Service Utility (MMCTSU). TTC's network is connected to Iowa Network Service Utility (INS) network at a point of presence located at Templeton, Iowa. TTC agrees to lease to MMCTSU 15MB of bandwidth to transport internet traffic between MMCTSU's wireless network and the INS network. The agreement shall continue in full force for a term of three years from the date the leased bandwidth is first provided and shall automatically renew for additional one year terms unless terminated by either party giving written notice at least ninety (90) days prior to the expiration. The monthly rate to be paid to TTC for the bandwidth is \$1,857.

MANNING MUNICIPAL COMMUNICATIONS  
AND TELEVISION SYSTEM UTILITY

Notes to Financial Statement  
December 31, 2010 and 2009

Note 5 – Contract Commitments (Continued)

In connection with the Internet Service Agreement with TTC, MMCTSU also needed to enter into a Virtual ISP Internet Services Reseller Agreement with Iowa Network Services, Inc. (INS). This would allow MMCTSU to resell INS' wholesale internet access service to current and prospective MMCTSU subscribers. MMCTSU will pay INS a set fee per customer (currently \$7.50 per month) and then MMCTSU can resell the wholesale accounts to their retail customers at whatever fee they shall choose. This contract shall be for a term for one year beginning December 15, 2007 and shall continue on a month-to-month basis thereafter.

Note 6 – 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.

Through June 30, 2009, plan members were required to contribute 4.30% of their annual salary and the employers were required to contribute 6.65% of annual payroll. As of July 1, 2010, IPERS contribution rates increased to 4.50% for members and 6.95% for employers. Contribution requirements are established by state statute. The Utility's contribution to IPERS for the years ended December 31, 2010 and 2009 were \$8,845 and \$8,278 respectively, which was equal to the annual required contributions.

Note 7 – Compensated Absences

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

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

The accumulated liability for PTO totaled \$1,865 as of December 31, 2010 and \$2,579 as of December 31, 2009.

MANNING MUNICIPAL COMMUNICATIONS  
AND TELEVISION SYSTEM UTILITY

Notes to Financial Statement  
December 31, 2010 and 2009

Note 8 – Risk Management

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

Note 9 – Deficit Balances

MMCTSU had a fund deficit of \$551,886 for the year ended December 31, 2010. There was a fund deficit balance of \$443,262 as of December 31, 2009.

The ability of MMCTSU to continue operating as an independent entity requires that the issues resulting in continued losses be addressed by management.

Note 10 – Subsequent Events

Management has evaluated subsequent events through May 20, 2011, the date which the financial statements were available for issue.

Effective June 1, 2011, MMCTSU will stop offering mobile phone service to customers. It is not expected that this will significantly impact telephone operations.

**SUPPLEMENTAL INFORMATION**

MANNING MUNICIPAL COMMUNICATIONS  
AND TELEVISION SYSTEM UTILITY

Schedule of Operating Expenses  
For Years Ended December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Operating Expenses		
Accounting	5,700	5,606
Advertising	759	4,502
Bad Debts (Recoveries)	(910)	3,004
Cable Modems	2,784	2,613
Depreciation	99,911	109,349
Dues and Subscriptions	3,839	3,829
Employee Insurance	20,039	16,346
Headhouse - Maintenance	3,022	986
Headhouse - Other	310	149
Insurance	12,813	12,853
Legal Publication	1,436	803
Legal and Professional Services	6,876	3,086
Maintenance - Tower	94	167
Miscellaneous	3,430	2,203
Payroll Taxes & Retirement	14,675	17,849
Postage	4,430	4,385
Property Taxes	3,835	3,175
Rent- Distribution System	170,849	170,849
Rent - Office Space	6,000	6,000
Seminars and Meetings	1,245	781
Small Tools	433	533
Software Maintenance	13,612	16,598
Supplies - General	5,813	8,075
Supplies - Office	0	543
Telephone	4,949	7,281
Trustee Fees	2,995	2,995
Uniforms	297	170
Utilities	17,747	14,733
Vehicle Expense	5,461	4,890
Wages	132,386	126,576
Wireless Internet Expense	4,335	2,005
	<hr/>	<hr/>
<u>Total Operating Expenses</u>	<u>549,165</u>	<u>552,934</u>

See accountants' report.

MANNING MUNICIPAL COMMUNICATIONS  
AND TELEVISION SYSTEM UTILITY

Schedule of Capital Assets and Accumulated Depreciation  
For Years Ended December 31, 2010 and 2009

	Capital Assets			December 31, 2010
	December 31, 2009	Additions	Retirements	
Headhouse				
Building	8,825	0	0	8,825
Electronics & Equipment	54,868	937	0	55,805
	<u>63,693</u>	<u>937</u>	<u>0</u>	<u>64,630</u>
Distribution				
Service Drops	25,219	0	0	25,219
Converters & Remotes	15,196	0	0	15,196
Traps	12,263	0	0	12,263
	<u>52,678</u>	<u>0</u>	<u>0</u>	<u>52,678</u>
General				
Office Furniture	10,220	0	0	10,220
Vehicles	5,087	0	0	5,087
Equipment	19,816	0	0	19,816
Internet	14,438	0	0	14,438
	<u>49,561</u>	<u>0</u>	<u>0</u>	<u>49,561</u>
Internet				
Equipment	159,972	11,948	(22,167)	149,753
Building	8,684	0	0	8,684
Vehicles	4,667	0	0	4,667
	<u>173,323</u>	<u>11,948</u>	<u>(22,167)</u>	<u>163,104</u>
Telephony				
Building	8,684	0	0	8,684
Vehicles	20,535	0	0	20,535
Equipment	806,471	0	0	806,471
Electronics	11,833	0	0	11,833
	<u>847,523</u>	<u>0</u>	<u>0</u>	<u>847,523</u>
<u>Totals</u>	<u>1,186,778</u>	<u>12,885</u>	<u>(22,167)</u>	<u>1,177,496</u>

MANNING MUNICIPAL COMMUNICATIONS  
AND TELEVISION SYSTEM UTILITY

Schedule of Capital Assets and Accumulated Depreciation  
For Years Ended December 31, 2010 and 2009

Useful Lives	Accumulated Depreciation			December 31, 2010
	December 31, 2009	Current Provision	Retirement	
40 years	1,108	221	0	1,329
10-15 years	35,174	5,200	0	40,374
	36,282	5,421	0	41,703
15 years	13,189	1,681	0	14,870
10 years	4,443	1,353	0	5,796
5 years	12,009	253	0	12,262
	29,641	3,287	0	32,928
5-10 years	8,600	388	0	8,988
5 years	4,037	934	0	4,971
5-15 years	13,983	1,147	0	15,130
5-10 years	14,438	0	0	14,438
	41,058	2,469	0	43,527
5-10 years	99,018	12,860	(13,300)	98,578
39 years	1,090	218	0	1,308
5 years	3,617	933	0	4,550
	103,725	14,011	(13,300)	104,436
39 years	1,090	218	0	1,308
5 years	19,486	933	0	20,419
5-10 years	679,524	73,094	0	752,618
7 years	10,189	478	0	10,667
	710,289	74,723	0	785,012
	920,995	99,911	(13,300)	1,007,606

See accountants' report.

MANNING MUNICIPAL COMMUNICATIONS  
AND TELEVISION SYSTEM UTILITY

Budgetary Comparison Schedule of Revenues, Expenses and  
Changes in Balances - Budget and Actual (Cash Basis)  
For the Year Ended December 31, 2010

	Actual Accrual Basis	Accrual Adjustment	Actual Cash Basis	Original and Final Budget	Final to Actual Variance
<b>Receipts</b>					
Charges for Services	874,363	(7,564)	866,799	843,243	23,556
Non-operating	<u>862</u>	<u>0</u>	<u>862</u>	<u>600</u>	<u>262</u>
Total Receipts	875,225	(7,564)	867,661	843,843	23,818
<b>Expenditures</b>					
Cost of Services	395,325	(18,180)	377,145	357,551	19,594
Operating Expenses	557,916	(100,387)	457,529	439,086	18,443
Non-operating	<u>30,608</u>	<u>(3,947)</u>	<u>26,661</u>	<u>45,000</u>	<u>(18,339)</u>
Total Expenditures	<u>983,849</u>	<u>(122,514)</u>	<u>861,335</u>	<u>841,637</u>	<u>19,698</u>
Net Change in Net Assets	<u>(108,624)</u>	<u>114,950</u>	<u>6,326</u>	<u>2,206</u>	<u>4,120</u>
Net Assests (Deficit) at Beginning of Year	<u>(443,262)</u>				
Net Assests (Deficit) at End of Year	<u>(551,886)</u>				

See accountants' report.

MANNING MUNICIPAL COMMUNICATIONS  
AND TELEVISION SYSTEM UTILITY

Notes to Required Supplementary Information –  
Budgetary Reporting  
For the Year Ended December 31, 2010

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for their financial statements.

In accordance with the Code of Iowa, MMCTSU annually adopts a budget, which is submitted to the City for approval in the City's budget process. The annual budget may be amended during the year utilizing statutorily prescribed procedures. All MMCTSU's disbursements are included in business-type activities function. During the year ended December 31, 2010 there were no amendments to the budget, and both receipts and expenditures exceeded the amounts budgeted.

SEN, MUHLBAUER & CO., L.L.

*Certified Public Accountants*

**PARTNERS**

RICHARD D. MUHLBAUER  
PATRICK J. O'BRIEN  
TRUDENE L. WITTMACK  
KARLA L. FULTON  
TAMMY M. BRUCH  
ROBERT L. MUHLBAUER

1127 PLAZA DR.  
VILLAGE PARK EAST  
CARROLL, IOWA 51401  
712-792-4314  
FAX 712-792-4503

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

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

We have audited the accompanying financial statements of the Manning Municipal Communications and Television System Utility as of and for the years ended December 31, 2010 and 2009, and have issued our report thereon dated May 20, 2011. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Manning Municipal Communications and Television System Utility'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 an opinion on the effectiveness of Manning Municipal Communications and Television System Utility's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Manning Municipal Communications and Television System Utility's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, we identified deficiencies in internal control over financial reporting we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the Manning Municipal Communications and Television System Utility's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings as items (A), (B) and (C) to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We did not identify deficiencies that we consider to be significant deficiencies.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Manning Municipal Communications and Television System Utility's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, 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 Government Auditing Standards.

Comments involving statutory and other legal matters about the Utility's operations for the years ended December 31, 2010 and 2009, 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 Communications and Television System Utility's written responses to findings 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 the Utility'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 members and customers of the Manning Municipal Communications and Television System Utility and other parties to whom the Utility may report. This report is not intended to be and should not be used by anyone other than these specified parties.

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

*Olsen, Muhlbauer & Co., LLP*

OLSEN, MUHLBAUER & CO., L.L.P.  
Certified Public Accountants

May 20, 2011

MANNING MUNICIPAL COMMUNICATIONS AND TELEVISION SYSTEM UTILITY

Schedule of Findings  
Year ended December 31, 2010

Summary of the Independent Auditors' Results

- a) An unqualified opinion was issued on the financial statements.
- b) Deficiencies in internal control over financial reporting were disclosed by the audit of the financial statements, which were considered to be material weaknesses.
- c) The audit did not disclose any non-compliance which is material to the financial statements.

Findings Related to the Financial statements:

INSTANCES OF NON-COMPLIANCE

No matters were noted.

SIGNIFICANT DEFICIENCIES:

- (A) 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. When duties are properly segregated, the activities of one employee act as a check on those of another. One individual has custody of receipts and performs all record-keeping pertaining to receipts for the Utility, including reconciliations and maintaining the accounts receivable records.

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

Response – Due to the limited number of staff available to perform these duties, options available are limited. However, we will continue to look at different procedures to correct this.

Conclusion – Response accepted.

- (B) Financial Reporting – During our audit, we identified material amounts of depreciation expense, accumulated depreciation and various accruals not initially reported in the Utility's financial statements. Adjustments were subsequently made by the Utility to properly include these amounts in the financial statements.

Recommendation – The Utility should implement procedures to ensure depreciation expense and accruals are identified and included in the financial statements in the future.

Response – We will revise our current procedures to identify and record the proper amounts in the financial statements in the future.

Conclusion – Response accepted.

MANNING MUNICIPAL COMMUNICATIONS AND TELEVISION SYSTEM UTILITY

Schedule of Findings  
Year ended December 31, 2010

- (C) Charges for Services – We noted several business accounts where the telephone charges were billed at old rates. We also noted several business accounts where additional telephone services were billed at residential rates rather than business rates.

Recommendation – The Utility should implement procedures to ensure that all service code rates are updated when billing rates change.

Response – We will work with our billing company to set up a commercial bundle similar to the residential billing bundle they have created for us. Then, we will convert all business customers over to this billing bundle and delete the old individual codes. This will allow us to change one USP code and affect all of our customers' rates.

Conclusion – Response accepted.

# MANNING MUNICIPAL COMMUNICATIONS AND TELEVISION SYSTEM UTILITY

## Schedule of Findings Year ended December 31, 2010

### Other Findings Related to Required Statutory Reporting:

- 1) Certified Budget – The Utility’s budget is filed as part of the City of Manning’s budget. The disbursements during the year ended December 31, 2010, exceeded the amounts budgeted by the Manning Municipal Communications and Television System Utility.
- 2) Questionable Disbursements – We noted no disbursements that did not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979.
- 3) Business Transactions – Business transactions between the Utility and Utility officials are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Wendel Kahl – Manager	Mileage and supplies reimbursement	\$547.06
Beth Swearingen – Office Manager	Mileage reimbursement	\$101.12
Swearingen Auto Repair – Spouse of Office Manager	Vehicle service	\$522.03

The transactions do not appear to be conflicts of interest per the Code of Iowa.

- 4) Bond Coverage – Surety bond coverage of Utility officials and employees is in accordance with the minimum statutory provisions required. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- 5) Board Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not.
- 6) Deposits and Investments – We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the Utility’s investment policy.
- 7) Telecommunication Services – No instances of non-compliance with Chapter 388.10 of the Code of Iowa were noted.