

**Communications Utility**  
**Review of Operating Results**  
**July 2014**

**MUSCATINE POWER AND WATER - COMMUNICATIONS UTILITY  
VARIANCES FROM BUDGETED NET POSITION - JULY 31, 2014**

	(Unfavorable)/ Favorable Compared to Budget	
<b>Operating Revenue</b>		
CATV Revenue	\$ (91,410)	Lower CATV revenues due to lower subscribers (6,405 vs. 6,845)
	28,071	Lower marketing promotional discounts (\$196,669 vs. \$224,740)
	(37,424)	Lower video on demand revenues due to fewer customers, fewer buys
	(5,102)	Lower install and service fee revenues
	40,424	Higher ad sales revenues
	(5,642)	Prior year adjustment for equipment billings
	21,567	Higher bulk revenues
	(3,992)	Other miscellaneous variances - net
	<u>(53,508)</u>	
Data/Internet Revenue	31,803	Higher cable modem revenues due to higher subscribers (7,408 vs. 7,410)
	13,514	Higher WiMax revenues
	15,177	Lower marketing promotional discounts (\$27,523 vs. \$42,700)
	18,074	Higher Wi-fi @ Home
	(10,567)	Prior year adjustment for equipment billings
	(12,147)	Other miscellaneous variances - net
	<u>63,578</u>	
MAN/MME	<u>(34,066)</u>	Budget based on higher expected contract amounts
	<u>(34,066)</u>	
Miscellaneous Revenue	8,291	Higher revenues for signal transmission to Mediapolis and Wilton, due to new contract
	3,310	Higher job sales revenues
	4,933	Higher EZ hold fee revenues
	1	Other miscellaneous variances - net
	<u>16,535</u>	
<b>Operating Expense</b>		
Operation	180,944	Lower programming due to less overall subscribers, dropping of Viacom channels, and prior period Starz credit
	4,610	Lower materials for Ad Insertion
	18,823	Lower miscellaneous CAD & CATV labor
	11,085	Lower miscellaneous equipment retirements
	(3,084)	Higher miscellaneous stores adjustments
	2,974	Lower vehicle labor & materials
	35,861	Additional internet bandwidth not necessary and lower prices
	(3,709)	Higher labor for changes of service
	17,251	Lower promotion/education expenses
	9,778	Lower media advertising expenses
	11,400	Customer survey not yet completed
	(6,848)	Higher customer service labor due to full employment
	5,600	Web services not yet incurred
	5,255	Lower FICA costs
	6,515	Health care costs lower than expected
	(31,384)	Severance not budgeted
	16,902	Lower miscellaneous CATV labor
	16,330	Lower miscellaneous travel
	7,722	Lower vacation, holiday, sick leave
	20,832	Other miscellaneous variances - net
	<u>326,857</u>	
Maintenance	(3,858)	Higher labor for maintenance of fiber
	7,273	Lower materials for maintenance of coax
	3,142	Lower labor and materials for maintenance of drops
	(3,543)	Higher labor and materials for maintenance of conduit
	(7,875)	Higher materials for maintenance of CATV headend fiber due to equipment write-offs
	9,882	Lower materials for maintenance of signal acquisition equipment
	17,055	Lower maintenance agreements for signal acquisition equipment
	6,882	Lower labor for maintenance of CATV headend
	3,609	Lower labor for CATV line maintenance
	(4,716)	Higher materials for CATV line maintenance due to equipment write-offs
	13,978	Lower converter maintenance labor costs

**MUSCATINE POWER AND WATER - COMMUNICATIONS UTILITY  
VARIANCES FROM BUDGETED NET POSITION - JULY 31, 2014**

	(88,173)	Higher labor related to internet services work on gateways and network
	5,496	Lower maintenance agreements for internet headend maintenance
	(5,123)	Higher materials for maintenance of internet headend
	5,534	Lower labor for maintenance of modems
	24,230	Lower labor for repairing MAN/MME equipment on customer premises
	(3,453)	Higher materials for repairing MME equipment
	5,110	Lower software/hardware maintenance and repair manuals
	(7,904)	Other miscellaneous variances - net
	<u>(24,111)</u>	
Depreciation	<u>41,343</u>	Lower depreciation due to fewer fixed assets purchases in 2013 than anticipated
<b>Nonoperating Revenue (Expense)</b>		
Interest Income	<u>(1,321)</u>	Lower rate of return
<b>Change in Net Position before Capital Contributions</b>	335,307	
Capital Contributions	14,040	University of Iowa Dialysis contribution not budgeted
	<u>8,631</u>	Other miscellaneous variances - net
	<u>22,671</u>	
<b>Change in Net Position</b>	<u>\$ 357,978</u>	Total Variance from Budgeted Net Position

## Statement of Revenues, Expenses and Changes in Net Position

### Operating Revenues

#### CATV

CATV subscriber revenues are \$91,410 less than budget. Converter revenues are \$7,129 less than budget. Customer levels totaled 6,405 actual vs. 6,845 budgeted. Marketing promotional discounts are less than budget by \$28,071. Promotional discounts include bundled discounts of \$138,290. These discounts had been previously recorded within Data/Internet revenue for most of 2013. Video on demand/PPV revenues are \$37,424 lower than budgeted due to fewer subscribers and lower buy rates. Install and service fee revenues are \$5,857 compared to the \$10,959 budgeted. Ad sales revenues are higher than budget by \$40,424. Other revenues were \$5,642 lower than budget due to a prior year adjustment for equipment billings. Residential and Commercial bulk revenues are \$21,567 higher than budget.

	<u>2014 Budget</u>	<u>2014 Actual</u>	<u>2013 Actual</u>
Gross CATV Revenue	\$4,551,038	\$4,469,459	\$4,635,190
Discounts	<u>(224,740)</u>	<u>(196,669)</u>	<u>(106,934)</u>
Net CATV Revenue	<u>\$4,326,298</u>	<u>\$4,272,790</u>	<u>\$4,528,256</u>

#### Data/Internet Revenue

Internet subscriber revenues are \$31,803 more than budget. Total subscriber levels are 7,408 actual vs. 7,410 budgeted. WiMax revenues are \$13,514 higher than budget, mostly driven by greater than expected residential subscribers. Marketing promotional discounts were less than budgeted by \$15,177. Wi-fi @ Home revenues were greater than budgeted by \$18,074. Installation revenues were \$2,582 lower than budget. Other revenues were \$10,567 lower than budget mostly due to a prior year adjustment for equipment billings.

	<u>2014 Budget</u>	<u>2014 Actual</u>	<u>2013 Actual</u>
Gross Data/Internet Revenue	\$2,713,321	\$2,761,721	\$2,324,549
Discounts	<u>(42,701)</u>	<u>(27,523)</u>	<u>(39,392)</u>
Net Data/Internet Revenue	<u>\$2,670,620</u>	<u>\$2,734,198</u>	<u>\$2,285,157</u>

#### MAN/MME

Revenue is \$34,066 lower than budget mostly due to actual contract pricing coming in lower than expected as well as timing differences in the expected installation dates for new customers. Budgetary numbers were based on expected subscriber contracts and pricing.

#### Miscellaneous

Revenues for signal transmission to Mediapolis and Wilton are higher than budget \$8,291 due to a revised contract after the budget was prepared. Job sales and EZ hold fee revenues are \$3,310 and \$4,933 higher than budget, respectively.

#### Capital Contributions

Capital contributions of \$14,040 from the University of Iowa Dialysis Center not budgeted.

## Statement of Net Position

### Liabilities

#### Health and Dental Insurance Provision

Health and dental care claims have been less than premiums accrued. The current portion is based on the third party administrator's estimate of incurred but unpaid health claims at year end. This estimate is adjusted annually.

## Year-To-Date Summary of Expenses

### CATV

#### Program Acquisition Expense

Programming is lower due to less overall subscribers, the dropping of the Viacom channels, and a Starz credit for prior period over-billings in the amount of \$16,308. Viacom channels dropped represented a \$3.63 per subscriber cost reduction for 5,720 customers in July.

#### Underground Line Expense

Labor is under budget \$2,041 in the Outside Services and Meter Reading department.

#### Ad Insertion – Marketing/Production

Materials are under budget \$4,610, of which \$1,400 is mileage.

#### Miscellaneous CATV Expense

The CAD & CATV Tech departments' labor expense is \$11,488 and \$7,335 lower than budget respectively. The expense for retiring CATV equipment is \$11,085 lower than budget. Stores adjustments are \$3,084 higher than budget.

#### Vehicle Expense

Labor and gasoline/diesel fuel are under budget \$1,262 and \$1,712 respectively.

#### Maintenance of Fiber

Labor is higher than budget by \$3,858.

#### Maintenance of Coax

Only \$624 of the \$7,897 budgeted for materials has been expended.

#### Maintenance of Drops

Labor is under budget by \$1,908. Only \$458 of the \$1,692 budgeted for materials has been expended.

#### Maintenance of Conduit

Labor and materials are over budget by \$1,869 and \$1,674 respectively.

CATV (cont'd)Maintenance of Headend

Material for maintenance on fiber was over budget \$7,875 primarily related to higher than budgeted write-offs of obsolete equipment. Material for maintenance of signal acquisition was under budget \$9,882. Maintenance agreements related to signal acquisition were under budget \$17,055. Labor is under budget \$6,882.

Maintenance of Line Equipment

Material was over budget \$4,716 primarily due to the write-off of obsolete equipment. Maintenance agreements were over budget \$2,466. Labor was under budget \$3,609.

Maintenance of Converters

The CATV technicians' labor is under budget \$11,252. The trafficking specialist's labor is under budget \$2,726.

Vacation, Holiday, Sick Leave

Expense is under budget \$2,631 mostly in the CATV Tech area.

Depreciation

Depreciation is lower than budget due to expected headend, drops, and nodes purchases not being made prior to year-end 2013. This type of equipment has five, ten, and twenty?-year lives respectively.

Data/InternetInternet Access

Internet bandwidth needs have not been as high and the price of bandwidth is less than expected.

Changes of Service

Labor for changes of service is over budget \$3,709.

Maintenance of Headend

Labor for maintenance of headend is over budget \$88,173 due to work continuing on the gateways and network for internet services. Maintenance agreements are under budget \$5,496. Other materials are over budget \$5,123.

Maintenance of Modems

Labor for maintenance of modems is under budget \$5,534.

Depreciation

Depreciation is lower than budget due to expected headend and wireless equipment purchases not being made prior to year-end 2013. These types of equipment have a seven-year life.

MAN/MMEMaintenance of MAN/MME Equipment

Labor for maintenance of equipment is under budget by \$24,230 primarily due to less work on customer premises. Materials are over budget \$3,453.

MAN/MME (cont'd)Depreciation

Depreciation is lower than budget due to expected headend and MME equipment purchases not being made prior to year-end 2013. These types of equipment have seven- and twenty-year lives respectively.

Customer Service ExpenseCustomer Information Expense

	2014 <u>Budget</u>	2014 <u>Actual</u>	2013 <u>Actual</u>
Promotion/Education Expense	\$ 18,195	\$ 944	\$ 1,333
Media Advertising	18,846	9,068	10,140
Customer Survey	11,400	---	---
Focus Groups	2,500	---	---
Other	<u>8,282</u>	<u>5,586</u>	<u>4,284</u>
Total	<u>\$59,223</u>	<u>\$15,598</u>	<u>\$15,757</u>

Consumer AccountsConsumer Records and Collections

Labor expense is higher than budget by \$6,848 due to the less than full employment adjustment. Temp services are \$1,704 lower than budget. Materials are \$2,539 higher than budget.

Vacation, Holiday, Sick Leave

Expense is over budget \$5,754 primarily in the Help Desk and Outside Services/Meter Reading areas.

Administrative & GeneralAdministrative and General Salaries

Expense is over budget \$2,880 primarily in the Supply Chain area.

Administrative & General (cont'd)Outside Services

	2014 <u>Budget</u>	2014 <u>Actual</u>	2013 <u>Actual</u>
MCC Public Access	\$ 34,675	\$ 33,379	\$ 31,474
Web/Graphics Services	5,600	---	---
Insurance Advisor	3,500	3,528	3,528
Audit Fees	4,728	4,072	4,746
Salary Survey	2,800	---	---
Workforce Development Training	1,400	1,325	---
Org Consulting	1,400	1,519	---
Business Systems Study	20,400	17,649	---
Employee Search Services	2,100	---	4,083
Legal Fees	3,735	5,075	2,233
Other	<u>120</u>	<u>115</u>	<u>1,894</u>
	<u>\$80,458</u>	<u>\$66,662</u>	<u>\$47,958</u>

Casualty Ins, Injuries & Damages

Workers compensation claims were higher than anticipated.

Employee Pensions & Benefits

	2014 <u>Budget</u>	2014 <u>Actual</u>	2013 <u>Actual</u>
Deferred Compensation	\$ 22,220	\$ 23,599	\$ 24,008
Dental	11,347	9,443	10,975
FICA	117,632	112,377	109,375
Flex Spending	445	831	506
Education Reimbursements	4,080	3,295	1,279
Health care cost	205,556	199,041	225,282
OPEB	9,479	9,479	6,904
Pension	193,830	193,893	176,795
Unemployment	1,350	---	6,726
Recognition	1,872	2,598	1,787
Severance	---	31,384	---
Other expenses	<u>13,415</u>	<u>11,833</u>	<u>13,668</u>
	<u>\$581,226</u>	<u>\$597,773</u>	<u>\$576,305</u>

Fringe Benefits Charged to Construction

More time has been charged to capital projects than projected.

Administrative & General (cont'd)

Miscellaneous General Expense

Labor is below budget \$16,902 in the CATV Tech department, due to a timing difference in training. Wellness team material expenses are under budget \$963. Travel is under budget \$16,330 mostly in the Communications areas. Memberships and subscriptions are over \$1,700.

Maintenance of General Plant

Software/hardware non-contract maintenance is \$3,190 lower than budgeted. Vehicle maintenance subscriptions for GPS and repair manuals, budgeted at \$1,920, have not been expended.

Vacation, Holiday, Sick Leave

Expense is under budget \$7,946 mostly in the Communications areas.

Depreciation

Depreciation is lower than budget due to expected IS hardware and software purchases not being made prior to year-end 2013. This type of equipment has a five-year life.

**Communications Utility**  
**Statement of Net Position Review**  
**July 2014**

<u><b>Current Assets</b></u>	<u><b>2014</b></u>	<u><b>2013</b></u>
<u>Receivables - Consumer Accounts</u>		
Customer Communications Accounts	\$1,067,991	\$1,089,284
Unbilled Revenue	87,355	83,189
Merchandise Accounts	72,663	43,728
Allowance for Doubtful Accounts	<u>(74,033)</u>	<u>(53,838)</u>
	<u>\$1,153,976</u>	<u>\$1,162,363</u>
 <u>Inventories</u>		
Inventory	\$227,274	\$305,418
Stores Expense (a/c 163)	<u>(1,720)</u>	<u>7,518</u>
	<u>\$225,554</u>	<u>\$312,936</u>
 <u>Prepaid Expenses</u>		
Prepaid Insurance	\$30,962	\$28,224
Prepaid Maintenance Contracts	64,785	65,622
Prepaid Programming Expense - WQAD	41,026	36,406
Other Prepaid Expenses	<u>11,748</u>	<u>8,151</u>
	<u>\$148,521</u>	<u>\$138,403</u>
 <u>Current Liabilities</u>		
<u>Accounts Payable (amounts over \$2,500 itemized)</u>		
Pole Rental	\$24,325	\$23,625
Bancard - travel	—	8,428
Big 10 - programming fee	9,268	9,634
BillTrust - bill processing	5,873	—
Centurylink - tel/access fees	13,459	12,236
Comcast Sportsnet Chicago - programming fee	21,286	20,969
Fox Sports Net Midwest - programming fee	21,178	21,719
Megahertz - mdu gateway package	12,938	—
Muscatine Community College - public access	4,676	4,496
Natl Cable TV Coop - programming fee/digital conv equip	202,557	229,277
Nexstar - programming fee	7,021	—
Power & Tel - switch interfaces	3,835	—
Provantage - rack station	5,018	—
QCTA - programming fee	6,807	6,361
Rovi Guides - programming fee	9,355	9,658
Showtime Networks - programming fee	6,105	3,353
Tech Data Corp - extreme switch support	—	10,608
United Service Source - triple feed antenna	—	7,972
Univision - programming fee	11,267	5,719
Vubiquity/Avail-TVN - programming fee	11,304	13,759
WHBF-TV Quad Cities - programming fee	—	6,535
Young Broadcasting - programming fee	7,723	7,304
Other	<u>21,507</u>	<u>47,193</u>
	<u>\$405,502</u>	<u>\$448,846</u>
 <u>Miscellaneous Accrued Expenses</u>		
Sales/Use Tax Collections Payable	\$20,778	\$23,754
Franchise Fees Payable	17,260	19,952
Payroll Tax Collections Payable	17,694	16,755
Workers' Comp Self Insurance Reserves	<u>25,931</u>	<u>41,457</u>
	<u>\$81,663</u>	<u>\$101,918</u>