

**ROCK RAPIDS MUNICIPAL UTILITIES,
A COMPONENT UNIT OF THE CITY OF ROCK RAPIDS**

**INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS**

JUNE 30, 2004

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**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids**

Officials

Name	Title (Before September 2003)	Term Expires
Eugene Metzger	Board of Trustees Chairperson	August 31, 2005
Gilbert Row	Board of Trustees Member	August 31, 2003
George Vanden Heuvel	Board of Trustees Member	August 31, 2007
Dave Halse	Board of Trustees Ex-Official Member	August 31, 2003
Jordan Kordahl	Board of Trustees Secretary	December 31, 2003
Austin, Haberkorn & Kippley	Attorneys	December 31, 2003
James Hoye	Utilities Manager	Indefinite
(After September 2003)		
Eugene Metzger	Board of Trustees Chairperson	August 31, 2005
George Vanden Heuvel	Board of Trustees Member	August 31, 2007
Dave Halse	Board of Trustees Member	August 31, 2009
John Stillson	Board of Trustees Ex-Official Member	August 31, 2005
Jordan Kordahl	Board of Trustees Secretary	December 31, 2004
Austin, Haberkorn & Kippley	Attorneys	December 31, 2004
James Hoye	Utilities Manager	Indefinite

Independent Auditor's Report

To the Members of the Utilities Board of Trustees:

We have audited the accompanying financial statements of the business type activities and of each major fund of the Rock Rapids Municipal Utilities, a component unit of the City of Rock Rapids, Iowa, as of and for the year ended June 30, 2004, which collectively comprise the Utilities' basic financial statements listed in the table of contents. These financial statements are the responsibility of the Rock Rapids Municipal Utilities' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions 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 our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business type activities and of each major fund of the Rock Rapids Municipal Utilities, a component unit of the City of Rock Rapids, Iowa, at June 30, 2004, and the respective changes in financial position and cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

As described in Note 16 to the financial statements, for the year ended June 30, 2004, the Rock Rapids Municipal Utilities adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences.

In accordance with Government Auditing Standards, we have also issued our report dated September 14, 2004 on our consideration of the Rock Rapids Municipal Utilities' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations and contracts. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 9 and 35 through 37 are not required parts of the basic financial statements, but are 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 on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the Rock Rapids Municipal Utilities', a component unit of the City of Rock Rapids, Iowa, basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the two years ended June 30, 2003 (none of which are presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 20 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Siebrecht Spitler & De Noble PC
Certified Public Accountants

September 14, 2004

Management's Discussion and Analysis

The discussion and analysis of this report focuses on factors that had a material effect on the financial condition of Rock Rapids Municipal Utilities and the results of operations for the fiscal year ended June 30, 2004. This discussion should be read in conjunction with the accompanying financial statements and notes thereto.

Because the Rock Rapids Municipal Utilities is implementing new reporting standards for this fiscal year with changes in content and structure, some of the information is not readily comparable to prior years. However, in future years, comparisons will be more detailed.

2004 FINANCIAL HIGHLIGHTS

- The Utilities' net assets increased 3% during the fiscal year ended June 30, 2004. The net assets increased from \$9,795,560 to \$10,110,532, a \$314,972 increase.
- Net income (loss) before transfers for the fiscal year ended June 30, 2004 for each utility is as follows:

Electric	\$	174,572
Water		100,129
Sewer	(	8,591)
Gas		49,948
Internet	(	1,086)
Total	\$	<u>314,972</u>

- The Electric Utility forgave the \$100,000 loan owed to this fund by the Internet Utility during the fiscal year ended June 30, 2004. This is reported in the financial statements as a transfer between funds.

USING THIS ANNUAL REPORT

The 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 Utilities' financial activities.

Government-Wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of the Utilities as a whole and present an overall view of the Utilities' finances.

Fund Financial Statements report the Utilities' operations in more detail than the government-wide statements by providing information about the funds.

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

Required Supplementary Information further explains and supports the financial statements with a comparison of the Utilities budget for the year.

Other Supplementary Information provides detailed comparison information for each Utility compared to the fiscal years ended June 30, 2003 and 2002.

REPORTING THE UTILITIES' FINANCIAL ACTIVITIES

Government-Wide Financial Statements

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

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

The Statement of Net Assets and the Statement of Activities report one kind of activity:

- Business type activities include the Electric, Water, Sewer, Gas and Internet departments. These activities are financed primarily by user charges.

Fund Financial Statements

The Utilities has one kind of fund:

Proprietary funds account for the Utilities Enterprise Funds. These funds report services for which the Utilities charges customers for the service it provides. Proprietary funds are reported in the same way all activities are reported in the Statement of Net Assets and the Statement of Activities. The major difference between the proprietary funds and the business type activities included in the government-wide statements is the detail and additional information, such as cash flows, provided in the proprietary fund statements. The Enterprise Funds include the Electric, Water, Sewer, Gas and Internet Funds, each considered to be a major fund of the Utilities. The Utilities is responsible for ensuring the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong.

The financial statements required for proprietary funds include a Statement of Net Assets, a Statement of Revenues, Expenses and Changes in Fund Net Assets and a Statement of Cash Flows.

GOVERNMENT-WIDE 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 business type activities.

	Net Assets June 30, 2004
Current Assets	\$ 2,572,372
Restricted Cash and CDs	107,075
Capital Assets (Net	7,467,626
Other Assets	100,763
Total Assets	<u>10,247,836</u>
Current Liabilities	
(Payable from Current Assets)	102,290
Current Liabilities	
(Payable from Restricted Assets)	35,014
Total Liabilities	<u>137,304</u>
Net Assets:	
Invested in Capital Assets, Net of Related Debt	7,467,626
Restricted	72,061
Unrestricted	2,570,845
Total Net Assets	<u>\$ 10,110,532</u>

The largest portion of the Utilities net assets is the invested in capital assets (land, utility plant, transportation equipment, office equipment, tools and safety devices, communication equipment, meter testing equipment and construction work in progress), less any related debt. For fiscal year ended June 30, 2004, there is no capital assets related debt. Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. Unrestricted net assets are 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.

Changes in Net Assets
Year Ended June 30, 2004

Revenues:	
Program Revenues:	
Charges for Services	\$ 3,343,721
General Revenues:	
Gain on Sale of Capital Assets	2,000
Rentals	11,374
Customer Penalties	1,774
Interest Income	26,755
Miscellaneous Income	523
Total Revenues	<u>3,386,147</u>
Program Expenses:	
Electric	\$ 1,310,932
Water	326,965
Sewer	171,306
Gas	1,189,433
Internet	72,539
Total Expenses	<u>3,071,175</u>
Increase in Net Assets	314,972
Net Assets Beginning of Year	<u>9,795,560</u>
Net Assets End of Year	<u><u>\$ 10,110,532</u></u>

INDIVIDUAL MAJOR FUND ANALYSIS

Operating Revenue

Electric operating revenues were \$1,462,590, down approximately \$85,914 or 6% from the prior fiscal year. The cause of this decline was the closure of two large customers and a mild heating and cooling season.

Gas operating revenues were \$1,231,456, \$18,903 or 2% higher than the previous fiscal year, due to the higher cost of the commodity passed onto the customer.

Water operating revenues were \$419,048, down \$11,508 or 3% from the previous fiscal year, due to 7% less in water gallon sales.

Sewer operating revenues were \$159,174, up \$2,858 or 2% over the previous fiscal year, due to a rate increase implemented in April.

Internet operating revenues were \$71,543, up \$7,238 or 11%, as a result of increased customers.

Operating Expenses

Electric operating expenses were \$1,304,440, down \$39,669 or 3% from last year, due to a decrease in kilowatt hours sold. This was offset partially by an increase in purchased power due to Western Area Power Agency's 13% rate increase. The power bought from Western Area Power Agency makes up 70% of Rock Rapids power needs.

Gas operating expenses were \$1,188,388, up \$25,550 or less than 1% from last year, due to an increase in prices paid for the natural gas commodity.

Water operating expenses were \$327,015, up \$10,948 or 3% over last year.

Sewer operating expenses were \$171,306, down \$17,325 or 9% from the previous year.

Communications operating expenses were \$72,346, up \$1,913 or 3%, due to an increased number of customers served.

BUDGETARY HIGHLIGHTS

The Utilities did not have to amend its budget this fiscal year. Actual receipts came in \$265,584 higher than budgeted. Actual disbursements came in \$171,180 lower than budgeted. The Utilities budgets on the cash basis but maintains its records on an accrual basis.

CAPITAL ASSETS

Capital Assets

Please see Note 6 to the financial statements for more information about the Utilities' net assets. The major additions during the fiscal year were for utility plant. Utility plant additions included new lines and generator automating and controls for the Electric Utility, distribution system improvements and new pumps for the Water Utility and Tama lift station work and grinder building for the Sewer Utility.

Construction in progress at June 30, 2004 consists primarily of Electric Utility, Water Utility and Sewer Utility projects. Main projects open include Eastside URD, Courthouse and Tama Street for the Electric Utility, Plant Improvements for the Water Utility and the WWTP (03) for the Sewer Utility.

Long-Term Debt

The Utilities did not have any long-term debt outstanding at June 30, 2004.

ECONOMIC FACTORS

The Utilities' Board of Trustees and staff has had to weigh many factors when setting the rates and budget. The factors range from economic, to commodity price fluctuations, to rising costs for improvements, to increased competition in communications.

Economically, Rock Rapids Utilities has seen quite a swing of events. The fiscal year began with the closure of two businesses and part of the school. The end of the year saw a 180 degree change with two out of state businesses beginning operations in town and the school reopening the closed building.

Drought in the West has caused Western Area Power Agency to raise their prices by 13% starting the first of February. This increase was absorbed temporarily, but will have to be revisited as WAPA has started meetings to discuss additional increases in 2005.

Gas budgets will have to be closely watched, as there have been large fluctuations in the price of the commodity. Electric budgets will see increase in activity as a major construction project is planned.

Water costs could increase. If there is an increase in Federal funding for the Lewis and Clark Project, there will need to be an increase in local matching funds.

CONTACTING THE UTILITIES' FINANCIAL STATEMENT

This financial report is designed to provide our customers a general review of the Utilities' finances. If you have questions about this report or need additional financial information, contact Jim Hoyer, General Manager, 310 S. 3rd St., Rock Rapids, Iowa.

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids**

Basic Financial Statements

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids**
Statement of Net Assets
June 30, 2004

	Business Type Activities
Assets	
Current Assets:	
Cash	\$ 1,149,521
Certificates of Deposit	937,500
Accounts Receivable	220,328
Due From Other Governments (Related Party)	8,880
Due From Other Governments	8,982
Interest Receivable	7,655
Notes Receivable – Rock Rapids Development Corporation	82,800
Flex Spending Receivable	1,245
Inventory	112,230
Prepaid Insurance	43,231
Total Current Assets	2,572,372
Restricted Cash and Certificates of Deposit:	
Customer Deposits (Cash)	35,014
Depreciation Reserves (Cash)	12,561
Depreciation Reserves (Certificates of Deposit)	59,500
Total Restricted Cash and Certificates of Deposits	107,075
Capital Assets:	
Land	184,429
Utility Plant	12,747,286
Transportation Equipment	202,574
Office Equipment	89,189
Tools and Safety Devices	345,672
Communication Equipment	155,872
Meter Testing Equipment	26,296
Total Capital Assets (Before W.I.P.)	13,751,318
Less: Accumulated Depreciation	(6,855,762)
Capital Assets – Net (Before W.I.P.)	6,895,556
Construction Work in Progress	572,070
Net Capital Assets	7,467,626
Other Assets:	
Lewis & Clark Project Membership	100,763
Total Assets	10,247,836

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids**
Statement of Net Assets
June 30, 2004

	Business Type Activities
Liabilities	
Current Liabilities (Payable From Current Assets):	
Accounts Payable	21,609
Due To Other Governments	10,983
Due to Other Governments (Related Party)	4,959
Accrued Vacation and Sick Pay	44,833
Accrued Payroll	19,155
Unearned Income	751
Total Current Liabilities (Payable From Current Assets)	102,290
Liabilities Payable From Restricted Cash and Certificates of Deposit:	
Customer Deposits	35,014
Total Liabilities	137,304
Net Assets:	
Invested in Capital Assets, Net of Related Debt	7,467,626
Restricted for:	
Depreciation Reserves	72,061
Unrestricted	2,570,845
Total Net Assets	\$ 10,110,532

See Notes to Financial Statements.

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids**
Statement of Activities
For the Fiscal Year Ended June 30, 2004

	Expenses	Program Revenues Charges for Services	Net (Expense) Revenue and Changes in Net Assets
Functions/Programs:			
Business Type Activities:			
Electric Utility	\$ 1,310,932	1,462,590	151,658
Water Utility	326,965	419,048	92,083
Sewer Utility	171,306	159,174	(12,132)
Gas Utility	1,189,433	1,231,456	42,023
Communications (Wireless Internet) Utility	72,539	71,453	(1,086)
	Total	\$ 3,071,175	3,343,721
			272,546
 General Revenues:			
Gain on Sale of Capital Assets			2,000
Rentals			6,374
Rentals (Related Party)			5,000
Customer Penalties			1,774
Miscellaneous Income			523
Interest Income			26,701
Interest Income (Related Party)			54
			Total General Revenues
			42,426
Change in Net Assets			314,972
Net Assets Beginning of Year			9,795,560
Net Assets End of Year			\$ 10,110,532

See Notes to Financial Statements.

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids**
Statement of Net Assets
Proprietary Funds
June 30, 2004

	Enterprise Funds					Total
	Electric Utility	Water Utility	Sewer Utility	Gas Utility	Communications (Wireless Internet) Utility	
Assets						
Current Assets:						
Cash	\$ 593,132	182,259	128,127	244,208	1,795	1,149,521
Certificates of Deposit	305,000	147,000	90,500	395,000	0	937,500
Accounts Receivable	100,546	39,862	18,142	57,377	4,401	220,328
Due From Other Funds	3,453	124	0	68	95	3,740
Due From Other Governments (Related Party)	5,233	304	130	2,856	357	8,880
Due From Other Governments	7,089	525	381	951	36	8,982
Interest Receivable	2,335	997	1,357	2,966	0	7,655
Notes Receivable – Rock Rapids Development Corporation	39,150	4,500	0	39,150	0	82,800
Flex Spending Receivable	311	436	187	311	0	1,245
Inventory	30,818	26,470	0	49,952	4,990	112,230
Prepaid Insurance	20,561	9,690	5,518	7,414	48	43,231
Total Current Assets	1,107,628	412,167	244,342	800,253	11,722	2,576,112
Restricted Cash and Certificates of Deposit:						
Customer Deposits (Cash)	12,371	1,620	0	20,615	408	35,014
Depreciation Reserves (Cash)	0	0	12,561	0	0	12,561
Depreciation Reserves (Certificates of Deposit)	0	0	59,500	0	0	59,500
Total Restricted Cash and Certificates of Deposit	12,371	1,620	72,061	20,615	408	107,075
Capital Assets:						
Land	47,127	118,525	0	18,777	0	184,429
Utility Plant	6,764,904	3,383,902	1,632,063	966,417	0	12,747,286
Transportation Equipment	84,660	48,246	19,850	49,818	0	202,574
Office Equipment	36,478	21,226	6,260	24,712	513	89,189
Tools and Safety Devices	160,993	54,019	30,061	100,599	0	345,672
Communication Equipment	19,122	4,716	934	0	131,100	155,872
Meter Testing Equipment	19,789	6,507	0	0	0	26,296

Total Capital Assets (Before W.I.P.)	7,133,073	3,637,141	1,689,168	1,160,323	131,613	13,751,318
Less: Accumulated Depreciation	(3,290,642)	(1,826,783)	(1,208,611)	(476,683)	(53,043)	(6,855,762)
Capital Assets – Net (Before W.I.P.)	3,842,431	1,810,358	480,557	683,640	78,570	6,895,556
Construction Work in Progress	342,493	74,957	153,939	681	0	572,070
Net Capital Assets	4,184,924	1,885,315	634,496	684,321	78,570	7,467,626
Other Assets:						
Lewis & Clark Project Membership	0	100,763	0	0	0	100,763
Total Assets	5,304,923	2,399,865	950,899	1,505,189	90,700	10,251,576
Liabilities						
Current Liabilities (Payable From Current Assets):						
Accounts Payable	10,014	4,242	2,155	1,783	3,415	21,609
Due to Other Funds	181	1,933	1,576	50	0	3,740
Due To Other Governments	7,256	1,399	147	2,181	0	10,983
Due To Other Governments (Related Party)	1,177	673	198	2,773	138	4,959
Accrued Vacation and Sick Pay	14,377	13,331	3,215	13,910	0	44,833
Accrued Payroll	8,053	3,851	2,280	4,689	282	19,155
Unearned Income	0	0	0	751	0	751
Total Current Liabilities (Payable From Current Assets)	41,058	25,429	9,571	26,137	3,835	106,030
Liabilities Payable From Restricted Cash and Certificates of Deposit:						
Customer Deposits	12,371	1,620	0	20,615	408	35,014
Total Liabilities	53,429	27,049	9,571	46,752	4,243	141,044
Net Assets						
Invested in Capital Assets, Net of Related Debt	4,184,924	1,885,315	634,496	684,321	78,570	7,467,626
Restricted for:						
Depreciation Reserves	0	0	72,061	0	0	72,061
Unrestricted	1,066,570	487,501	234,771	774,116	7,887	2,570,845
Total Net Assets	\$ 5,251,494	2,372,816	941,328	1,458,437	86,457	10,110,532

See Notes to Financial Statements.

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids**
Combining Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
For the Fiscal Year Ended June 30, 2004

	Enterprise Funds					Total
	Electric Utility	Water Utility	Sewer Utility	Gas Utility	Communications (Wireless Internet) Utility	
Operating Revenues:						
Residential Sales	\$ 664,834	0	0	1,220,961	71,423	1,957,218
Commercial Sales	745,262	0	0	5,906	0	751,168
Public Street and Highway Lighting	20,445	0	0	0	0	20,445
Wind Power – Residential and Commercial	560	0	0	0	0	560
Water Sales – Metered	0	242,871	0	0	0	242,871
Water Sales – Rural Water System	0	171,528	0	0	0	171,528
Water Sales – Tank Loads	0	1,444	0	0	0	1,444
Sewer Service	0	0	158,291	0	0	158,291
Material and Service Sales	23,360	555	0	523	0	24,438
Service Income	8,129	2,650	883	4,066	30	15,758
Total Operating Revenues	1,462,590	419,048	159,174	1,231,456	71,453	3,343,721
Operating Expenses:						
Production/Processing Expense	653,324	75,486	85,156	925,475	34,997	1,774,438
Distribution Expense	147,625	47,125	0	57,658	1,085	253,493
Accounting and Collecting	25,863	15,519	5,863	23,982	3,119	74,346
Administrative and General	172,149	83,322	33,260	124,631	6,255	419,617
Free Community Service (Related Party)	79,727	777	6,601	3,498	0	90,603
Free Community Service	8,108	0	0	0	0	8,108
Transportation	5,669	2,990	1,805	3,894	0	14,358
Depreciation	188,838	88,318	31,305	35,124	26,031	369,616
Payroll Taxes	23,137	13,428	7,316	14,126	859	58,866
Total Operating Expenses	1,304,440	326,965	171,306	1,188,388	72,346	3,063,445
Operating Income (Loss)	158,150	92,083	(12,132)	43,068	(893)	280,276

Nonoperating Revenues (Expenses):						
Gain on Sale of Capital Assets	2,000	0	0	0	0	2,000
Loss on Disposal of Materials	(5,701)	0	0	0	0	(5,701)
Rentals	714	5,660	0	0	0	6,374
Rentals (Related Party)	5,000	0	0	0	0	5,000
Customer Penalties	414	71	56	1,233	0	1,774
Miscellaneous Income	523	0	0	0	0	523
Interest Income	14,236	2,315	3,485	6,665	0	26,701
Interest Income (Related Party)	27	0	0	27	0	54
Interest Expense	(791)	0	0	(1,045)	(193)	(2,029)
Net Nonoperating Revenues (Expenses)	16,422	8,046	3,541	6,880	(193)	34,696
Net Income (Loss) Before Transfers	174,572	100,129	(8,591)	49,948	(1,086)	314,972
Transfer To (From) Other Fund	(100,000)	0	0	0	100,000	0
Change in Net Assets	74,572	100,129	(8,591)	49,948	98,914	314,972
Net Assets Beginning of Year	5,176,922	2,272,687	949,919	1,408,489	(12,457)	9,795,560
Net Assets End of Year	\$ 5,251,494	2,372,816	941,328	1,458,437	86,457	10,110,532

See Notes to Financial Statements.

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids**
Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended June 30, 2004

	Enterprise Funds					Total
	Electric Utility	Water Utility	Sewer Utility	Gas Utility	Communications (Wireless Internet) Utility	
Cash Flows From Operating Activities:						
Cash Received from Customers and Users	\$ 1,421,467	420,979	158,683	1,239,816	67,541	3,308,486
Cash Received from Interfund Services Provided	48,979	2,293	0	6,341	1,140	58,753
Cash Received from Other Revenues	6,237	5,660	0	0	0	11,897
Cash Paid to Suppliers/Outside Service Providers	(780,478)	(78,970)	(37,177)	(1,013,583)	(45,489)	(1,955,697)
Cash Paid for Personal Services (Employees)	(232,570)	(129,825)	(71,114)	(148,924)	(6,479)	(588,912)
Cash Paid for Interfund Services Used	(7,792)	(25,522)	(24,706)	(733)	0	(58,753)
Cash Paid for Free Community Service (Related Party)	(79,727)	(777)	(6,601)	(3,498)	0	(90,603)
Cash Paid for Free Community Service	(8,108)	0	0	0	0	(8,108)
Net Cash Provided By Operating Activities	368,008	193,838	19,085	79,419	16,713	677,063
Cash Flows From Capital and Related Financing Activities:						
Proceeds from Sale of Capital Assets	2,000	0	0	0	0	2,000
Purchases/Construction of Capital Assets	(161,495)	(126,851)	(189,887)	(14,408)	(2,920)	(495,561)
Paid Toward Lewis & Clark Project Membership	0	(68,532)	0	0	0	(68,532)
Net Cash Used For Capital and Related Financing Activities	(159,495)	(195,383)	(189,887)	(14,408)	(2,920)	(562,093)
Cash Flows From Investing Activities:						
Cashed In (Purchase of) Non Cash Equivalent Certificates of Deposit (Net)	(190,697)	(75,000)	3,500	(309,984)	0	(572,181)
Notes Receivable – Related Party (Principal Repayment)	25,064	0	0	25,064	0	50,128
Notes Receivable – Rock Rapids Development Corporation (Principal Repayment)	5,000	0	0	5,000	0	10,000
Notes Receivable – Rock Rapids Development Corporation (Loan Issued)	(20,250)	(4,500)	0	(20,250)	0	(45,000)
Interest Received	12,473	1,506	3,677	4,113	0	21,769
Interest Received – Related Party	27	0	0	27	0	54
Customer Penalties Received	414	71	56	1,233	0	1,774

Net Cash Provided By (Used For) Investing Activities	(167,969)	(77,923)	7,233	(294,797)	0	(533,456)
Net Increase (Decrease) in Cash and Cash Equivalents	40,544	(79,468)	(163,569)	(229,786)	13,793	(418,486)
Cash and Cash Equivalents Beginning of Year	564,959	263,347	304,257	494,609	(11,590)	1,615,582
Cash and Cash Equivalents End of Year	\$ 605,503	183,879	140,688	264,823	2,203	1,197,096
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:						
Operating Income (Loss)	\$ 158,150	92,083	(12,132)	43,068	(893)	280,276
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:						
Depreciation	188,838	88,318	31,305	35,124	26,031	369,616
Proceeds from Rentals	714	5,660	0	0	0	6,374
Proceeds from Rentals (Related Party)	5,000	0	0	0	0	5,000
Proceeds from Miscellaneous Income	523	0	0	0	0	523
Disposal of Materials	(5,701)	0	0	0	0	(5,701)
Deposit Interest Paid	(791)	0	0	(1,045)	(193)	(2,029)
Changes in Assets and Liabilities:						
Decrease in Accounts Receivable	28,063	5,196	20	16,441	1,543	51,263
(Increase) in Due From Other Funds	(3,453)	(124)	0	(68)	(95)	(3,740)
(Increase) in Due From Other Governments (Related Party)	(5,233)	(304)	(130)	(2,856)	(357)	(8,880)
(Increase) in Due From Other Governments	(7,089)	(525)	(381)	(951)	(36)	(8,982)
(Increase) in Flex Spending Receivable	(311)	(436)	(187)	(311)	0	(1,245)
(Increase) Decrease in Inventory	4,389	1,854	0	(12,255)	(1,722)	(7,734)
(Increase) in Prepaid Insurance	(140)	(1,009)	(547)	(243)	(4)	(1,943)
Increase (Decrease) in Customer Deposits (Cash)	1,271	(20)	0	3,220	(3,828)	643
Increase (Decrease) in Accounts Payable (Non Capital Assets Related)	1,144	(1,084)	773	(1,587)	(3,793)	(4,547)
Increase in Due to Other Funds	181	1,933	1,576	50	0	3,740
Increase (Decrease) in Due to Other Governments	1,474	66	23	(231)	0	1,332
(Decrease) in Due to Other Governments (Related Party)	(1,240)	(708)	(251)	(725)	(103)	(3,027)
Increase (Decrease) in Accrued Vacation and Sick Pay	585	2,522	(145)	2,020	0	4,982

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids**
Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended June 30, 2004

	Enterprise Funds					Total
	Electric Utility	Water Utility	Sewer Utility	Gas Utility	Communications (Wireless Internet) Utility	
Reconciliation of Operating Income to Net Cash Provided by Operating Activities (Continued):						
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities (Continued):						
Changes in Assets and Liabilities (Continued):						
Increase (Decrease) in Accrued Payroll	1,726	544	(784)	1,462	163	3,111
(Decrease) in Flex Spending Payable	(92)	(128)	(55)	(92)	0	(367)
(Decrease) in Unearned Income	0	0	0	(1,602)	0	(1,602)
Net Cash Provided by Operating Activities	\$ 368,008	193,838	19,085	79,419	16,713	677,063
Reconciliation of Cash and Cash Equivalents at Year End to Specific Assets Included on the Statement of Net Assets:						
Current Assets:						
Cash	\$ 593,132	182,259	128,127	244,208	1,795	1,149,521
Restricted Cash and Certificates of Deposit:						
Customer Deposits (Cash)	12,371	1,620	0	20,615	408	35,014
Depreciation Reserves (Cash)	0	0	12,561	0	0	12,561
Cash and Cash Equivalents at Year End	\$ 605,503	183,879	140,688	264,823	2,203	1,197,096

Supplemental Disclosure of Noncash Investing, Capital Received and Financing Activities:

- a. Principal of \$20,000 that was to be received on the original Rock Rapids Development Corporation note receivable was applied directly to an additional Rock Rapids Development Corporation note receivable.
- b. The Electric Utility Fund forgave the \$100,000 loan owed by the Communications (Wireless Internet) Utility Fund.
- c. A Chevrolet pickup with a \$0 book value was donated to the City of Rock Rapids during the fiscal year.

See Notes to Financial Statements.

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids**
Notes to Financial Statements
June 30, 2004

(1) Summary of Significant Accounting Policies

The Rock Rapids Municipal Utilities is a component unit of the City of Rock Rapids, which is a political subdivision of the State of Iowa located in Lyon County, Iowa and operated under the Home Rule provisions of the Constitution of Iowa. The Rock Rapids Municipal Utilities provides electric, water, sewer, gas, and communications (wireless internet) utilities and related services to its customers. The Rock Rapids Municipal Utilities is established and operated in accordance with Chapter 388 of the Code of Iowa.

The financial statements of the Rock Rapids Municipal Utilities have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, the Rock Rapids Municipal Utilities has included all funds, organizations, agencies, boards, commissions and authorities. The Utilities has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Utilities are such that exclusion would cause the Utilities' financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the Utilities 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 Utilities. The Rock Rapids Municipal Utilities has no component units which meet the Governmental Accounting Standards Board criteria.

As previously noted, the Rock Rapids Municipal Utilities is a component unit of the City of Rock Rapids. While the Rock Rapids Municipal Utilities is considered legally separate from the City, there is a financial benefit/burden relationship between the City and the Utilities, and a relationship such that exclusion would cause the City of Rock Rapids' financial statements to be misleading or incomplete. The Utilities are governed by a three-member board appointed by the Mayor and approved by the City Council.

The Rock Rapids Municipal Utilities made contributions to the City of Rock Rapids in the amount of \$90,603 during the fiscal year ended June 30, 2004. The Utilities also donated a Chevrolet pickup that did not have any remaining book value during the fiscal year. In addition, a \$45,000 loan to the Rock Rapids Development Corporation flowed through the City of Rock Rapids.

Joint Ventures – The Utilities is a participant in joint ventures that provide goods and/or services to the Utilities. There is ongoing financial interest and responsibility by the Utilities and other participating members, which is reflected through the price each joint venture charges to provide the goods and/or services to the Utilities and other participating members. The Utilities has this ongoing financial interest and responsibility as a member of the Nebraska Public Gas Association, the Missouri River Energy Services and the Lewis & Clark Rural Water Systems, Inc. The Utilities purchased gas and paid dues to the Nebraska Public Gas Association in the amount of \$924,184 and \$680, respectively. The Utilities paid the Missouri River Energy Services \$578,922 for power and energy services, \$2,441 for dues, and \$618 for meeting registrations and supplies. Please see Note 7 for information on Lewis & Clark Rural Water System, Inc. Financial information on each joint venture is not included with the Utilities’ financial statements. In order to obtain financial information and financial statements on each joint venture to determine whether each joint venture is accumulating significant financial resources or is experiencing fiscal stress that may cause an additional financial benefit to or burden on the Utilities, please contact the Utilities Manager at the Utilities office.

B. Basis of Presentation

Government-Wide Financial Statements – The Statement of Net Assets and the Statement of Activities report information on all activities of the Utilities. For the most part, the effect of interfund activity has been removed from these statements, except for interfund service billings. Business type activities rely to a significant extent on fees and charges for services.

The Statement of Net Assets presents the Utilities’ 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 assets.

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

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

The Statement of Activities demonstrates the degree to which the direct expenses of a given function/program are offset by program revenues. Direct expenses are those clearly identifiable with a specific function/program. Program revenues can include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants and contributions

restricted to meeting the operational or capital requirements of a particular function, when applicable. Other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements – Separate financial statements are provided for the proprietary funds. Major individual proprietary funds are reported as separate columns in the fund financial statements.

The Utilities reports the following major proprietary funds:

Enterprise:

The Electric Utility Fund is used to account for the operation and maintenance of the Utilities' electric system.

The Water Utility Fund is used to account for the operation and maintenance of the Utilities' water system.

The Sewer Utility Fund is used to account for the operation and maintenance of the Utilities' sanitary sewer system.

The Gas Utility Fund is used to account for the operation and maintenance of the Utilities' gas system.

The Communications (Wireless Internet) Utility Fund is used to account for the operation and maintenance of the Utilities' high speed wireless Internet service.

C. Measurement Focus and Basis of Accounting

The government-wide and 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. Grants and similar items, when applicable, are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

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

Proprietary funds distinguish 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 Utilities' Enterprise Funds are charges to customers for sales and services. Principal operating expenses for Enterprise

Funds include the cost of sales and services, administrative expenses, community service donations and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

D. Assets, Liabilities and Net Assets

The following accounting policies are followed in preparing the financial statements:

Cash, Certificates of Deposit and Cash Equivalents – The cash balances of most of the Utilities funds are pooled and invested. Interest earned on investments is allocated to the appropriate fund. Non-negotiable certificates of deposit are stated at cost.

For purposes of the statement of cash flows, the Utilities considers all short-term investments (including restricted cash) that are highly liquid to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash, and at the day of purchase, they have a maturity date no longer than three months. Cash investments not meeting the definition of cash equivalents at June 30, 2004 included all of the certificates of deposit (including the restricted certificates of deposit).

Due from and Due to Other Funds – During the course of its operations, the Utilities has numerous transactions between funds. To the extent certain transactions between funds had not been paid or received as of June 30, 2004, balances of interfund amounts receivable or payable have been recorded in the fund financial statements.

Due From Other Governments – Due from other governments represents amounts due from other governments for charges for sales and services provided.

Due From Other Governments (Related Party) – Due from other governments (related party) represents amounts due from the City of Rock Rapids for charges for sales and services provided.

Inventories – Inventories are valued at cost using the first-in/first-out method. Inventories in the Enterprise Funds consist of materials and supplies. Inventories are recorded as expenses when consumed or sold rather than when purchased.

Restricted Cash and Certificates of Deposit – Funds set aside for deposits held by the Utilities and per Federal EPA requirements (depreciation reserves - provide cash for repair and replacement of equipment, including the eventual replacement of the entire wastewater treatment plant). Other restricted assets include customer deposits restricted for application to unpaid customer accounts or for refund to customers.

Capital Assets – Capital assets, which include property, equipment and vehicles and utility system improvements are reported in the business type activities column in the government-wide Statement of Net Assets and in the appropriate Enterprise Fund column in the Proprietary Funds Statement of Net Assets. Capital assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance

and repair not adding to the value of the asset or materially extend asset lives are not capitalized. Reportable capital assets are defined by the Utilities as assets with initial, individual costs in excess of \$500 and estimated useful lives in excess of two years.

Capital assets of the Utilities are depreciated using the straight line method over the following estimated useful lives:

Asset Class	Estimated Useful lives (In Years)
Utility Plant	5 – 40 years
Transportation Equipment	5 – 7 years
Office Equipment	5 – 10 years
Tools and Safety Devices	5 – 10 years
Communication Equipment	5 – 10 years
Meter Testing Equipment	5 – 7 years

Construction projects that have not been completed as of June 30, 2004 are reported as “Construction Work in Progress” on the balance sheet.

Lewis & Clark Project Membership (Related Party) – This represents membership costs to date related to the Lewis & Clark Rural Water Systems, Inc. project.

Due to Other Governments/Due to Other Governments (Related Party) – This represents state sales and use taxes, garbage and recycling collections, and payments for services and reimbursements which will be remitted to other governments and the City of Rock Rapids.

Accrued Vacation and Sick Pay – The Utilities’ personnel policy provides full-time employees with vacation and sick leave in varying amounts. Vacation and sick pay expenses for non-vested employees are charged to operations when taken by the employee. Vacation and sick pay expenses for vested employees are charged to operations when earned by the employee. At termination, an employee is paid for his accumulated vested vacation time. The amount recorded in the accounts for vested vacation pay aggregated \$24,286 at June 30, 2004.

An employee who has been employed by the Utilities for over ten years and terminates employment due to retirement or death is entitled to 15% of his unused accumulated allowable sick leave benefits up to a maximum amount of \$2,500. An employee who has been employed by the Utility for over 15 years and terminates employment for any reason, other than dismissal, is entitled to 15% of accumulated allowable sick leave up to a maximum amount of \$2,500. As of June 30, 2004, employees’ vested sick leave benefits aggregated \$20,547. Aggregated vested sick leave benefits are included in the accounts.

These liabilities have been computed based on rates of pay in effect at June 30, 2004 and are recorded in the government-wide and proprietary fund financial statements.

Net Assets: Restricted – The amount of net assets restricted at June 30, 2004, is computed as follows:

	Electric Utility Fund	Water Utility Fund	Sewer Utility Fund	Gas Utility Fund	Communications (Wireless Internet) Utility Fund	Total
Total Restricted Cash and Certificates of Deposit	\$ 12,371	1,620	72,061	20,615	408	107,075
Deposits Payable	12,371	1,620	0	20,615	408	35,014
Retained Earnings: Reserved (June 30, 2004)	\$ 0	0	72,061	0	0	72,061

The retained earnings reserved in the Sewer Utility Fund is for required depreciation reserves per Federal EPA requirements.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

(2) Cash and Certificates of Deposit

The Utilities' deposits in banks at June 30, 2004 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 Utilities 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 Utilities 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.

The Utilities had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3.

The Utilities Board has designated money to be set aside as reserves for economic development, depreciation, and the Lewis & Clark Project. The money designated for these purposes is included in the unrestricted (current assets) cash and certificates of deposit balances as there is no legal responsibility that these amounts be used for these purposes. The amount of the Board designated reserves on June 30, 2004 is as follows:

	Economic Development Reserves	Depreciation Reserves	Lewis & Clark Project Sinking Fund Reserve
Electric Utility Fund	\$ 3,470	\$ 121,049	\$ 0
Water Utility Fund	1,838	22,000	67,847
Gas Utility Fund	(645)	0	0
Total	\$ 4,663	\$ 143,049	\$ 67,847

(3) Note Receivable – Related Party

The Rock Rapids Municipal Utilities made a loan to the City of Rock Rapids, a related party, for \$150,000 during the fiscal year ended June 30, 2000. The note receivable carried a 5% interest rate and the length of the note initially extended until October 1, 2002. On September 24, 2002, the length of this note receivable was formally extended until October 1, 2004 by the Utilities Board of Trustees.

In July 2003, the City of Rock Rapids paid off this note early to the Utilities. Principal of \$50,128 plus interest of \$54 was received to satisfy the remaining balance on this note receivable.

(4) Notes Receivable – Rock Rapids Development Corporation

In December 2000, the Rock Rapids Municipal Utilities entered into an agreement to loan money to the Rock Rapids Development Corporation to be used to construct a spec building. The Utilities agreed to finance in the form of a note one-half of the cost of construction of the spec building. The note carries a 0% interest rate, is for an unspecified length of time and will be repaid only upon the sale or lease of the spec building. If funds generated by this project are not sufficient to repay this note in full, the unpaid note amount will be considered as a donation to the Rock Rapids Development Corporation for this project.

In September 2003, the Rock Rapids Municipal Utilities approved loaning money to the Rock Rapids Development Corporation to purchase a commercial building. The amount loaned amounted to \$65,000 (\$30,250 from the Electric Utility Fund, \$4,500 from the Water Utility Fund and \$30,250 from the Gas Utility Fund). This note carries a 0% interest rate, is for an unspecified length of time and will be repaid only upon the sale of the commercial building.

The funds for these notes flowed from the Utilities to the City of Rock Rapids and then from the City to the Rock Rapids Development Corporation. The City of Rock Rapids has agreed that any repayments made on these notes may be paid directly to the Utilities. The amounts shown on the Statement of Net Assets reflect the amounts outstanding on these notes receivable as of June 30, 2004 and are computed as follows:

	Electric Utility Fund	Water Utility Fund	Gas Utility Fund	Total
Balance on June 30, 2003	\$ 23,900	0	23,900	47,800
*New Loan Made	30,250	4,500	30,250	65,000
*Less Principal Received	(15,000)	0	(15,000)	(30,000)
Balance on June 30, 2004	\$ 39,150	4,500	39,150	82,800

*Principal in the amount of \$20,000 on the spec building note that is shown above as received was directly applied to the commercial building new loan issuance. This is noted in the Statement of Cash Flows.

As of June 30, 2004, the spec building has been sold on an installment contract basis. The Utilities should be receiving all of its note receivable back assuming the purchaser makes payments as anticipated. Payments on this note are expected to be received each year in February. The commercial building has also been sold. The Rock Rapids Development Corporation anticipates paying off the commercial building purchase note before December 31, 2004. The anticipated pay off schedules on these notes receivable are as follows for the fiscal year ending June 30, 2004:

	Electric Utility Fund	Water Utility Fund	Gas Utility Fund	Total
Spec Building Note	\$ 8,900	0	8,900	17,800
Commercial Building Purchase Note	30,250	4,500	30,250	65,000
Balance on June 30, 2004	\$ 39,150	4,500	39,150	82,800

(5) Due from and Due to Other Funds

The detail of interfund receivables and payables at June 30, 2004 is as follows:

Receivable Fund	Payable Fund	Amount
Electric Utility	Water Utility	\$ 1,933
	Sewer Utility	1,470
	Gas Utility	50
		<u>3,453</u>
Water Utility	Electric Utility	46
	Sewer Utility	78
		<u>124</u>
Gas Utility	Electric Utility	40
	Sewer Utility	28
		<u>68</u>

Receivable Fund	Payable Fund	Amount
Communications (Wireless Internet) Utility	Electric Utility	95
Total		<u>\$ 3,740</u>

These balances result from the time lag between the dates interfund sales and services are provided, transactions are recorded in the accounting system and payments between funds are made.

(6) Capital Assets

Capital assets activity for the year ended June 30, 2004 was as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business Type Activities:				
Capital Assets Not Being Depreciated:				
Land	\$ 183,787	642	0	184,429
Construction Work in Progress	605,143	417,733 (	450,806)	572,070
Total Capital Assets Not Being Depreciated	788,930	418,375 (	450,806)	756,499
Capital Assets Being Depreciated:				
Utility Plant	12,289,158	458,128	0	12,747,286
Transportation Equipment	200,514	18,330 (	16,270)	202,574
Office Equipment	78,111	11,078	0	89,189
Tools and Safety Devices	349,857	12,078 (	16,263)	345,672
Communication Equipment	153,371	2,501	0	155,872
Meter Testing Equipment	26,296	0	0	26,296
Total Capital Assets Being Depreciated	13,097,307	502,115 (	32,533)	13,566,889
Less Accumulated Depreciation For:				
Utility Plant	5,976,944	306,894	0	6,283,838
Transportation Equipment	168,461	9,502 (	16,270)	161,693
Office Equipment	69,483	3,960	0	73,443
Tools and Safety Devices	229,581	21,599 (	16,263)	234,917
Communication Equipment	49,301	26,742	0	76,043
Meter Testing Equipment	24,909	919	0	25,828
Total Accumulated Depreciation	6,518,679	369,616 (	32,533)	6,855,762
Total Capital Assets Being Depreciated, Net	6,578,628	132,499	0	6,711,127
Business Type Capital Assets, Net	\$ 7,367,558	550,874 (	450,806)	7,467,626

Depreciation expense was charged to the different Utilities as follows:

Business Type Activities:

Electric Utility	\$ 188,838
Water Utility	88,318
Sewer Utility	31,305
Gas Utility	35,124
Communications (Wireless Internet) Utility	<u>26,031</u>
 Total Depreciation Expense – Business Type Activities	 <u>\$ 369,616</u>

(7) Lewis & Clark Project Membership – Related Party

On June 27, 2002, the Rock Rapids Municipal Utilities entered into an agreement with Lewis and Clark Rural Water System, Inc. to become a member in Lewis & Clark and committed to paying the Utilities pro rata share of the base system incremental costs (examples: administrative, overhead, engineering, financing, debt service, legal costs and fees) and to directly pay for design and construction of service lines plus any other member specific incremental costs. As of June 30, 2004, the Utilities has paid \$100,763 toward the cost of membership, which includes both base system incremental costs and some member specific incremental costs. The Utilities also paid Lewis and Clark Rural Water System, Inc. \$9 for a picture during fiscal year ending June 30, 2004.

As of June 30, 2004, the Utilities pro rata share of the base system incremental costs has been projected at \$736,175. There have been no formal projections of the member specific incremental costs as of June 30, 2004. Payments will be made on this commitment as the project progresses.

(8) Advance To and Advance From Other Fund and Interfund Transfer

On January 31, 2002, the Electric Utility Fund loaned \$100,000 to the Communications (Wireless Internet) Utility Fund to assist with the start up of the Communications Utility. The loan carried a 0% interest rate and was for an unspecified length of time. On May 28, 2004, the Utilities Board approved the forgiveness of this loan. The forgiveness of this interfund loan is recorded as a transfer between the funds in the Statement of Revenues, Expenses and Changes in Fund Net Assets.

(9) Due To Other Governments/Due to Other Governments – Related Party

The Utilities purchases services from other governmental units, remits sales and use tax to the State of Iowa, reimburses the City of Rock Rapids for expenses, and remits garbage and recycling collections to the City of Rock Rapids.

A summary of amounts due to other governments is as follows:

Fund	Description	Amount
Electric Utility	Services	\$ 123
	State Sales and Use Tax	7,133
		<u>7,256</u>
Water Utility	Services	100
	State Sales and Use Tax	1,299
		<u>1,399</u>
Sewer Utility	State Sales and Use Tax	<u>147</u>
Gas Utility	Services	100
	State Sales and Use Tax	2,081
		<u>2,181</u>
Total		<u>\$ 10,983</u>

A summary of amounts due to other governments – related party (the City of Rock Rapids) is as follows:

Fund	Description	Amount
Electric Utility	Services/Reimbursement	\$ 1,177
Water Utility	Services/Reimbursement	<u>673</u>
Sewer Utility	Services/Reimbursement	<u>198</u>
Gas Utility	Services/Reimbursement	1,177
	Garbage/Recycling Collections	1,596
		<u>2,773</u>
Communications (Wireless Internet) Utility	Services/Reimbursement	<u>138</u>
Total		<u>\$ 4,959</u>

(10) Major Customer

Lyon and Sioux Rural Water System, Inc., is a major customer of the Water Department. Water sales to Lyon and Sioux Rural Water System, Inc., amounted to \$171,528 or 40.9% of the total operating water revenues for the fiscal year ended June 30, 2004.

(11) Pension and Retirement Benefits

The Rock Rapids Municipal Utilities contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the Municipal Utilities is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by state statute. The Utilities' contributions to IPERS for the years ended June 30, 2004, 2003, and 2002 were \$25,240, \$24,390 and \$23,687, respectively, equal to the required contributions for each year.

(12) Risk Management

The Rock Rapids Municipal Utilities 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 Utilities 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 fiscal years.

(13) Employee Health Insurance Coverage

The Rock Rapids Municipal Utilities is currently providing group health insurance coverage for eligible employees through Principal Life. The Utilities assumes liability for claims against the insurance deductible of up to \$125 under an individual policy and \$250 for an employee plus one or a family policy. The Utilities expense for insurance premiums and any deductibles paid for health insurance coverage is accounted for in the appropriate utility fund.

(14) Commitments

In August 2003, the Utilities committed \$20,000 to the City of Rock Rapids for the Recreation Trail Project. The amount committed is expected to be issued to the City of Rock Rapids during the fiscal year ended June 30, 2005.

In January 2004, the Utilities entered into a \$24,770 contract for dome resurfacing in the Sewer Utility. As of June 30, 2004, none of the contracted amount had been incurred. The contract will be paid as work on the project progresses.

In May 2004, the Utilities committed \$17,000 to the City of Rock Rapids for storm sewer improvements to be done by the City in order to accommodate economic development construction. As of June 30, 2004, nothing has been paid on this commitment.

(15) Subsequent Events

In July 2004, the Utilities Board approved issuing a \$50,000 forgivable loan, with conditions, as part of a financial package to encourage a prospective business to move to Rock Rapids. This loan will be transferred from the Utilities to the General Fund of the City of Rock Rapids for the purpose of economic development.

(16) Accounting Change

Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – Management’s Discussion and Analysis – for State and local Governments; Statement No. 37, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences, were implemented for the year ended June 30, 2004. The statements create new basic financial statements for reporting the Utilities’ financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type.

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids**

Required Supplementary Information

Rock Rapids Municipal Utilities
A Component Unit of the City of Rock Rapids

Budgetary Comparison Schedule of
Receipts, Disbursements and Changes in Balances –
Budget and Actual (Cash Basis) – All Proprietary Funds
Required Supplementary Information

For the Fiscal Year Ended June 30, 2004

	Proprietary Funds Actual	Original Budgeted Amount	Final to Actual Variance – Positive (Negative)
Receipts:			
Electric Utility	\$ 1,521,662	1,454,534	67,128
Water Utility	430,509	424,277	6,232
Sewer Utility	162,416	163,933	(1,517)
Gas Utility	1,281,594	1,096,534	185,060
Communications (Wireless Internet) Utility	68,681	60,000	8,681
Total Receipts	3,464,862	3,199,278	265,584
Disbursements (Business Type/Enterprises Function):			
Electric Utility	1,290,421	1,439,400	148,979
Water Utility	434,977	466,150	31,173
Sewer Utility	329,485	357,547	28,062
Gas Utility	1,201,396	1,149,750	(51,646)
Communications (Wireless Internet) Utility	54,888	69,500	14,612
Total Disbursements (Business Type/ Enterprises Function)	3,311,167	3,482,347	171,180
Excess (Deficiency) of Receipts Over (Under) Disbursements	153,695	(283,069)	436,764
Cash and Certificates of Deposit (Unrestricted and Restricted) – Balances Beginning of Year	2,040,401	1,690,109	350,292
Cash and Certificates of Deposit (Unrestricted and Restricted) – Balances End of Year	\$ 2,194,096	1,407,040	787,056

See Accompanying Independent Auditor's Report.

Rock Rapids Municipal Utilities
A Component Unit of the City of Rock Rapids

Budgetary Comparison Schedule – Budget to GAAP Reconciliation
Required Supplementary Information

For the Fiscal Year Ended June 30, 2004

	Proprietary Funds		
	Enterprise		
	Cash Basis	Accrual Adjustments	Accrual Basis
Revenues	\$ 3,464,862	(78,715)	3,386,147
Expenses	3,311,167	(239,992)	3,071,175
Net	153,695	161,277	314,972
Beginning Net Assets	2,040,401	7,755,159	9,795,560
Ending Net Assets	\$ 2,194,096	7,916,436	10,110,532

See Accompanying Independent Auditor's Report.

Rock Rapids Municipal Utilities
A Component Unit of the City of Rock Rapids

Notes to Required Supplementary Information – Budgetary Reporting
For the Fiscal Year Ended June 30, 2004

In accordance with the Code of Iowa, the Utilities Board of Trustees annually approves a budget on the cash basis. The cash basis budget is adopted by the Rock Rapids City Council following required public notice and hearing. The budget is included in the City of Rock Rapids budget. The annual budget may be amended during the year utilizing similar statutory prescribed procedures. Accruals are not recognized on the cash basis budget. Encumbrances are not recognized on the cash basis budget and appropriations lapse at year end. The Utilities budgeted its receipts under the “Charges for Service” classification and its disbursements under the “Business Type/Enterprises Function” classification on the City’s adopted budget. Formal and legal budgetary control is based upon major classes of disbursements, known as functions, not by fund or fund type. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the fiscal year, the Utilities did not amend its share of the budget.

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids**

Other Supplementary Information

Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids
 Electric Utility Fund
 Comparative Statements of Net Assets

	June 30,		Amount of Change	Percentage of Change
	2004	2003		
Assets				
Current Assets:				
Cash	\$ 593,132	478,859	114,273	24%
Certificates of Deposit	305,000	189,303	115,697	61%
Accounts Receivable	100,546	128,609	(28,063)	(22%)
Due From Other Funds	3,453	0	3,453	N/A
Due From Other Governments (Related Party)	5,233	0	5,233	N/A
Due From Other Governments	7,089	0	7,089	N/A
Interest Receivable	2,335	572	1,763	308%
Notes Receivable – Related Party	0	25,064	(25,064)	(100%)
Notes Receivable – Rock Rapids Development Corporation (Current Portion)	39,150	15,000	24,150	161%
Flex Spending Receivable	311	0	311	N/A
Inventory	30,818	35,207	(4,389)	(12%)
Prepaid Insurance	20,561	20,421	140	1%
Total Current Assets	1,107,628	893,035	214,593	24%
Restricted Cash:				
Customer Deposits	12,371	11,100	1,271	11%
Capital Assets:				
Land	47,127	46,913	214	0%
Utility Plant	6,764,904	6,584,378	180,526	3%
Transportation Equipment	84,660	84,660	0	0%
Office Equipment	36,478	32,582	3,896	12%
Tools and Safety Devices	160,993	173,970	(12,977)	(7%)
Communication Equipment	19,122	19,122	0	0%
Meter Testing Equipment	19,789	19,789	0	0%
Total Capital Assets (Before W.I.P)	7,133,073	6,961,414	171,659	2%
Less: Accumulated Depreciation	(3,290,642)	(3,118,066)	(172,576)	6%
Capital Assets – Net (Before W.I.P)	3,842,431	3,843,348	(917)	(0%)
Construction Work in Progress	342,493	372,808	(30,315)	(8%)
Net Capital Assets	4,184,924	4,216,156	(31,232)	(1%)
Other Assets:				
Notes Receivable – Rock Rapids Development Corporation (Noncurrent Portion)	0	8,900	(8,900)	(100%)
Advance To Other Fund (Communications Fund)	0	100,000	(100,000)	(100%)
Total Other Assets	0	108,900	(108,900)	(100%)
Total Assets	5,304,923	5,229,191	75,732	1%

Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids
 Electric Utility Fund
 Comparative Statements of Net Assets

	June 30,		Amount of Change	Percentage of Change
	2004	2003		
Liabilities				
Current Liabilities (Payable From Current Assets):				
Accounts Payable	10,014	12,759	(2,745)	(22%)
Due to Other Funds	181	0	181	N/A
Due To Other Governments	7,256	5,782	1,474	26%
Due To Other Governments (Related Party)	1,177	2,417	(1,240)	(51%)
Accrued Vacation and Sick Pay	14,377	13,792	585	4%
Accrued Payroll	8,053	6,327	1,726	27%
Flex Spending Payable	0	92	(92)	(100%)
Total Current Liabilities (Payable From Current Assets)	41,058	41,169	(111)	(0%)
Liabilities Payable From Restricted Cash:				
Customer Deposits	12,371	11,100	1,271	11%
Total Liabilities	53,429	52,269	1,160	2%
Net Assets				
Invested in Capital Assets, Net of Related Debt	4,184,924	4,216,156	(31,232)	(1%)
Unrestricted	1,066,570	960,766	105,804	11%
Total Net Assets	\$ 5,251,494	5,176,922	74,572	1%

See Accompanying Independent Auditor's Report.

Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids
 Electric Utility Fund
 Comparative Statements of Net Assets

	June 30,		Amount of Change	Percentage of Change
	2004	2002		
Assets				
Current Assets:				
Cash	\$ 593,132	543,182	49,950	9%
Certificates of Deposit	305,000	210,803	94,197	45%
Accounts Receivable	100,546	121,542	(20,996)	(17%)
Due From Other Funds	3,453	0	3,453	N/A
Due From Other Governments (Related Party)	5,233	0	5,233	N/A
Due From Other Governments	7,089	0	7,089	N/A
Interest Receivable	2,335	3,219	(884)	(27%)
Notes Receivable – Related Party (Current Portion)	0	17,340	(17,340)	(100%)
Notes Receivable – Rock Rapids Development Corporation (Current Portion)	39,150	16,750	22,400	134%
Flex Spending Receivable	311	114	197	173%
Inventory	30,818	39,807	(8,989)	(23%)
Prepaid Insurance	20,561	16,989	3,572	21%
Total Current Assets	1,107,628	969,746	137,882	14%
Restricted Cash:				
Customer Deposits	12,371	10,296	2,075	20%
Capital Assets:				
Land	47,127	32,051	15,076	47%
Utility Plant	6,764,904	6,382,249	382,655	6%
Transportation Equipment	84,660	84,660	0	0%
Office Equipment	36,478	44,476	(7,998)	(18%)
Tools and Safety Devices	160,993	163,400	(2,407)	(1%)
Communication Equipment	19,122	18,159	963	5%
Meter Testing Equipment	19,789	19,789	0	0%
Total Capital Assets (Before W.I.P)	7,133,073	6,744,784	388,289	6%
Less: Accumulated Depreciation	(3,290,642)	(2,946,602)	(344,040)	12%
Capital Assets – Net (Before W.I.P)	3,842,431	3,798,182	44,249	1%
Construction Work in Progress	342,493	179,867	162,626	90%
Net Capital Assets	4,184,924	3,978,049	206,875	5%
Other Assets:				
Notes Receivable – Related Party (Noncurrent Portion)	0	26,680	(26,680)	(100%)
Notes Receivable – Rock Rapids Development Corporation (Noncurrent Portion)	0	23,900	(23,900)	(100%)
Advance To Other Fund (Communications Fund)	0	100,000	(100,000)	(100%)
Total Other Assets	0	150,580	(150,580)	(100%)
Total Assets	5,304,923	5,108,671	196,252	4%

Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids
 Electric Utility Fund
 Comparative Statements of Net Assets

	June 30,		Amount of Change	Percentage of Change
	2004	2002		
Liabilities				
Current Liabilities (Payable From Current Assets):				
Accounts Payable	10,014	115,746	(105,732)	(91%)
Due to Other Funds	181	0	181	N/A
Due To Other Governments	7,256	16,758	(9,502)	(57%)
Due To Other Governments (Related Party)	1,177	105	1,072	1,021%
Accrued Vacation and Sick Pay	14,377	14,540	(163)	(1%)
Accrued Payroll	8,053	4,784	3,269	68%
Total Current Liabilities (Payable From Current Assets)	41,058	151,933	(110,875)	(73%)
Liabilities Payable From Restricted Cash:				
Customer Deposits	12,371	10,296	2,075	20%
Total Liabilities	53,429	162,229	(108,800)	(67%)
Net Assets				
Invested in Capital Assets, Net of Related Debt	4,184,924	3,978,049	206,875	5%
Unrestricted	1,066,570	968,393	98,177	10%
Total Net Assets	\$ 5,251,494	4,946,442	305,052	6%

See Accompanying Independent Auditor's Report.

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids**
Electric Utility Fund

Comparative Statements of Revenues, Expenses and Changes in Fund Net Assets

	For the Fiscal Year Ended June 30,		Amount of Change	Percentage of Change
	2004	2003		
Operating Revenues:				
Residential Sales	\$ 664,834	690,990	(26,156)	(4%)
Commercial Sales	745,262	797,460	(52,198)	(7%)
Public Street and Highway Lighting	20,445	20,898	(453)	(2%)
Wind Power – Residential and Commercial	560	0	560	N/A
Material and Service Sales	23,360	26,820	(3,460)	(13%)
Service Income	8,129	7,336	793	11%
Total Operating Revenues	1,462,590	1,543,504	(80,914)	(5%)
Operating Expenses:				
Production/Processing Expense	653,324	732,621	(79,297)	(11%)
Distribution Expense	147,625	136,066	11,559	8%
Accounting and Collecting	25,863	24,081	1,782	7%
Administrative and General	172,149	155,929	16,220	10%
Free Community Service (Related Party)	79,727	78,353	1,374	2%
Free Community Service	8,108	6,484	1,624	25%
Transportation	5,669	3,423	2,246	66%
Depreciation	188,838	185,812	3,026	2%
Payroll Taxes	23,137	21,340	1,797	8%
Total Operating Expenses	1,304,440	1,344,109	(39,669)	(3%)
Operating Income	158,150	199,395	(41,245)	(21%)
Nonoperating Revenues (Expenses):				
Gain on Sale of Capital Assets	2,000	0	2,000	N/A
Gain (Loss) on Disposal of Materials	(5,701)	336	(6,037)	(1,797%)
Donation (Related Party)	0	2,906	(2,906)	(100%)
Rentals	714	714	0	0%
Rentals (Related Party)	5,000	5,000	0	0%
Customer Penalties	414	387	27	7%
Miscellaneous Income	523	0	523	N/A
Interest Income	14,236	20,431	(6,195)	(30%)
Interest Income (Related Party)	27	1,771	(1,744)	(98%)
Interest Expense	(791)	(460)	(331)	72%
Net Nonoperating Revenues (Expenses)	16,422	31,085	(14,663)	(47%)
Net Income Before Transfers	174,572	230,480	(55,908)	(24%)
Transfer to Communications Utility Fund	(100,000)	0	(100,000)	N/A
Change in Net Assets	74,572	230,480	(155,908)	(68%)
Net Assets Beginning of Year	5,176,922	4,946,442	230,480	5%
Net Assets End of Year	\$ 5,251,494	5,176,922	74,572	1%

See Accompanying Independent Auditor's Report.

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids**
Electric Utility Fund

Comparative Statements of Revenues, Expenses and Changes in Fund Net Assets

	For the Fiscal Year Ended June 30,		Amount of Change	Percentage of Change
	2004	2002		
Operating Revenues:				
Residential Sales	\$ 664,834	612,660	52,174	9%
Commercial Sales	745,262	749,259	(3,997)	(1%)
Public Street and Highway Lighting	20,445	20,164	281	1%
Wind Power – Residential and Commercial	560	0	560	N/A
Material and Service Sales	23,360	25,772	(2,412)	(9%)
Service Income	8,129	4,839	3,290	68%
Total Operating Revenues	1,462,590	1,412,694	49,896	4%
Operating Expenses:				
Production/Processing Expense	653,324	691,033	(37,709)	(5%)
Distribution Expense	147,625	140,018	7,607	5%
Accounting and Collecting	25,863	21,674	4,189	19%
Administrative and General	172,149	154,994	17,155	11%
Free Community Service (Related Party)	79,727	75,832	3,895	5%
Free Community Service	8,108	7,355	753	10%
Transportation	5,669	5,660	9	0%
Depreciation	188,838	180,917	7,921	4%
Payroll Taxes	23,137	21,891	1,246	6%
Total Operating Expenses	1,304,440	1,299,374	5,066	0%
Operating Income	158,150	113,320	44,830	40%
Nonoperating Revenues (Expenses):				
Gain on Sale of Capital Assets	2,000	1,800	200	11%
Loss on Disposal of Materials	(5,701)	(621)	(5,080)	818%
Donation (Related Party)	0	3,630	(3,630)	(100%)
Rentals	714	3,574	(2,860)	(80%)
Rentals (Related Party)	5,000	5,000	0	0%
Customer Penalties	414	347	67	19%
Miscellaneous Income	523	0	523	N/A
Interest Income	14,236	22,681	(8,445)	(37%)
Interest Income (Related Party)	27	2,693	(2,666)	(99%)
Interest Expense	(791)	(499)	(292)	59%
Net Nonoperating Revenues (Expenses)	16,422	38,605	(22,183)	(57%)
Net Income Before Transfers	174,572	151,925	22,647	15%
Transfer to Communications Utility Fund	(100,000)	0	(100,000)	N/A
Change in Net Assets	74,572	151,925	(77,353)	(51%)
Net Assets Beginning of Year	5,176,922	4,794,517	382,405	8%
Net Assets End of Year	\$ 5,251,494	4,946,442	305,052	6%

See Accompanying Independent Auditor's Report.

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids
Water Utility Fund
Comparative Statements of Net Assets**

	June 30,		Amount of Change	Percentage of Change
	2004	2003		
Assets				
Current Assets:				
Cash	\$ 182,259	211,707	(29,448)	(14%)
Certificates of Deposit	147,000	122,000	25,000	20%
Accounts Receivable	39,862	45,059	(5,197)	(12%)
Due From Other Funds	124	0	124	N/A
Due From Other Governments (Related Party)	304	0	304	N/A
Due From Other Governments	525	0	525	N/A
Interest Receivable	997	188	809	430%
Notes Receivable – Rock Rapids Development Corporation	4,500	0	4,500	N/A
Flex Spending Receivable	436	0	436	N/A
Inventory	26,470	28,324	(1,854)	(7%)
Prepaid Insurance	9,690	8,681	1,009	12%
Total Current Assets	412,167	415,959	(3,792)	(1%)
Restricted Cash:				
Customer Deposits	1,620	1,640	(20)	(1%)
Capital Assets:				
Land	118,525	118,311	214	0%
Utility Plant	3,383,902	3,322,023	61,879	2%
Transportation Equipment	48,246	29,916	18,330	61%
Office Equipment	21,226	19,046	2,180	11%
Tools and Safety Devices	54,019	53,286	733	1%
Communication Equipment	4,716	4,716	0	0%
Meter Testing Equipment	6,507	6,507	0	0%
Total Capital Assets (Before W.I.P.)	3,637,141	3,553,805	83,336	2%
Less: Accumulated Depreciation	(1,826,783)	(1,738,466)	(88,317)	5%
Capital Assets – Net (Before W.I.P.)	1,810,358	1,815,339	(4,981)	(0%)
Construction Work in Progress	74,957	40,944	34,013	83%
Net Capital Assets	1,885,315	1,856,283	29,032	2%
Other Assets:				
Lewis & Clark Project Membership	100,763	32,231	68,532	213%
Total Assets	2,399,865	2,306,113	93,752	4%

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids**
Water Utility Fund
Comparative Statements of Net Assets

	June 30,		Amount of Change	Percentage of Change
	2004	2003		
Liabilities				
Current Liabilities (Payable From Current Assets):				
Accounts Payable	4,242	14,828	(10,586)	(71%)
Due To Other Funds	1,933	0	1,933	N/A
Due To Other Governments	1,399	1,333	66	5%
Due To Other Governments (Related Party)	673	1,381	(708)	(51%)
Accrued Vacation and Sick Pay	13,331	10,809	2,522	23%
Accrued Payroll	3,851	3,307	544	16%
Flex Spending Payable	0	128	(128)	(100%)
Total Current Liabilities (Payable From Current Assets)	25,429	31,786	(6,357)	(20%)
Liabilities Payable From Restricted Cash:				
Customer Deposits	1,620	1,640	(20)	(1%)
Total Liabilities	27,049	33,426	(6,377)	(19%)
Net Assets				
Invested in Capital Assets, Net of Related Debt	1,885,315	1,856,283	29,032	2%
Unrestricted	487,501	416,404	71,097	17%
Total Net Assets	\$ 2,372,816	2,272,687	100,129	4%

See Accompanying Independent Auditor's Report.

Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids
 Water Utility Fund
 Comparative Statements of Net Assets

	June 30,		Amount of Change	Percentage of Change
	2004	2002		
Assets				
Current Assets:				
Cash	\$ 182,259	204,772	(22,513)	(11%)
Certificates of Deposit	147,000	122,000	25,000	20%
Accounts Receivable	39,862	34,414	5,448	16%
Due From Other Funds	124	0	124	N/A
Due From Other Governments (Related Party)	304	0	304	N/A
Due From Other Governments	525	0	525	N/A
Interest Receivable	997	1,890	(893)	(47%)
Notes Receivable – Rock Rapids Development Corporation	4,500	4,800	(300)	(6%)
Flex Spending Receivable	436	160	276	173%
Inventory	26,470	28,954	(2,484)	(9%)
Prepaid Insurance	9,690	6,619	3,071	46%
Total Current Assets	412,167	403,609	8,558	2%
Restricted Cash:				
Customer Deposits	1,620	1,440	(180)	(13%)
Capital Assets:				
Land	118,525	111,311	7,214	6%
Utility Plant	3,383,902	3,135,527	248,375	8%
Transportation Equipment	48,246	29,916	18,330	61%
Office Equipment	21,226	18,672	2,554	14%
Tools and Safety Devices	54,019	47,246	6,773	14%
Communication Equipment	4,716	4,256	460	11%
Meter Testing Equipment	6,507	6,507	0	0%
Total Capital Assets (Before W.I.P.)	3,637,141	3,353,435	283,706	8%
Less: Accumulated Depreciation	(1,826,783)	(1,656,597)	(170,186)	10%
Capital Assets – Net (Before W.I.P.)	1,810,358	1,696,838	113,520	7%
Construction Work in Progress	74,957	68,476	6,481	9%
Net Capital Assets	1,885,315	1,765,314	120,001	7%
Other Assets:				
Lewis & Clark Project Membership	100,763	16,578	84,185	508%
Total Assets	2,399,865	2,186,941	212,924	10%

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids**
Water Utility Fund
Comparative Statements of Net Assets

	June 30,		Amount of Change	Percentage of Change
	2004	2002		
Liabilities				
Current Liabilities (Payable From Current Assets):				
Accounts Payable	4,242	17,709	(13,467)	(76%)
Due To Other Funds	1,933	0	1,933	N/A
Due To Other Governments	1,399	1,497	(98)	(7%)
Due To Other Governments (Related Party)	673	60	613	1,022%
Accrued Vacation and Sick Pay	13,331	13,088	243	2%
Accrued Payroll	3,851	3,129	722	23%
Total Current Liabilities (Payable From Current Assets)	25,429	35,483	(10,054)	(28%)
Liabilities Payable From Restricted Cash:				
Customer Deposits	1,620	1,440	(180)	(13%)
Total Liabilities	27,049	36,923	(9,874)	(27%)
Net Assets				
Invested in Capital Assets, Net of Related Debt	1,885,315	1,765,314	120,001	7%
Unrestricted	487,501	384,704	102,797	27%
Total Net Assets	\$ 2,372,816	2,150,018	222,798	10%

See Accompanying Independent Auditor's Report.

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids
Water Utility Fund**

Comparative Statements of Revenues, Expenses and Changes in Fund Net Assets

	For the Fiscal Year Ended June 30,		Amount of Change	Percentage of Change
	2004	2003		
Operating Revenues:				
Water Sales – Metered	\$ 242,871	238,540	4,331	2%
Water Sales – Rural Water System	171,528	183,741	(12,213)	(7%)
Water Sales – Tank Loads	1,444	929	515	55%
Material and Service Sales	555	4,191	(3,636)	(87%)
Service Income	2,650	3,155	(505)	(16%)
Total Operating Revenues	419,048	430,556	(11,508)	(3%)
Operating Expenses:				
Production/Processing Expense	75,486	78,958	(3,472)	(4%)
Distribution Expense	47,125	46,369	756	2%
Accounting and Collecting	15,519	15,462	57	0%
Administrative and General	83,322	75,475	7,847	10%
Free Community Service (Related Party)	777	1,505	(728)	(48%)
Transportation	2,990	2,922	68	2%
Depreciation	88,318	81,869	6,449	8%
Payroll Taxes	13,428	13,457	(29)	(0%)
Total Operating Expenses	326,965	316,017	10,948	3%
Operating Income	92,083	114,539	(22,456)	(20%)
Nonoperating Revenues:				
Rentals	5,660	4,800	860	18%
Customer Penalties	71	74	(3)	(4%)
Interest Income	2,315	3,256	(941)	(29%)
Net Nonoperating Revenues	8,046	8,130	(84)	(1%)
Change in Net Assets	100,129	122,669	(22,540)	(18%)
Net Assets Beginning of Year	2,272,687	2,150,018	122,669	6%
Net Assets End of Year	\$ 2,372,816	2,272,687	100,129	4%

See Accompanying Independent Auditor's Report.

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids
Water Utility Fund**

Comparative Statements of Revenues, Expenses and Changes in Fund Net Assets

	For the Fiscal Year Ended June 30,		Amount of Change	Percentage of Change
	2004	2002		
Operating Revenues:				
Water Sales – Metered	\$ 242,871	215,815	27,056	13%
Water Sales – Rural Water System	171,528	157,560	13,968	9%
Water Sales – Tank Loads	1,444	1,368	76	6%
Material and Service Sales	555	309	246	80%
Service Income	2,650	2,637	13	0%
Total Operating Revenues	419,048	377,689	41,359	11%
Operating Expenses:				
Production/Processing Expense	75,486	76,284	(798)	(1%)
Distribution Expense	47,125	47,095	30	0%
Accounting and Collecting	15,519	12,531	2,988	24%
Administrative and General	83,322	73,440	9,882	13%
Free Community Service (Related Party)	777	1,533	(756)	(49%)
Transportation	2,990	2,444	546	22%
Depreciation	88,318	81,348	6,970	9%
Payroll Taxes	13,428	13,206	222	2%
Total Operating Expenses	326,965	307,881	19,084	6%
Operating Income	92,083	69,808	22,275	32%
Nonoperating Revenues (Expenses):				
Loss on Sale of Capital Assets	0	(2,162)	2,162	(100%)
Rentals	5,660	4,800	860	18%
Customer Penalties	71	67	4	6%
Interest Income	2,315	6,584	(4,269)	(65%)
Interest Expense	0	(3,094)	3,094	(100%)
Net Nonoperating Revenues (Expenses)	8,046	6,195	1,851	30%
Change in Net Assets	100,129	76,003	24,126	32%
Net Assets Beginning of Year	2,272,687	2,074,015	198,672	10%
Net Assets End of Year	\$ 2,372,816	2,150,018	222,798	10%

See Accompanying Independent Auditor's Report.

Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids
Sewer Utility Fund
Comparative Statements of Net Assets

	June 30,		Amount of Change	Percentage of Change
	2004	2003		
Assets				
Current Assets:				
Cash	\$ 128,127	302,463	(174,336)	(58%)
Certificates of Deposit	90,500	94,000	(3,500)	(4%)
Accounts Receivable	18,142	18,162	(20)	(0%)
Due From Other Governments (Related Party)	130	0	130	N/A
Due From Other Governments	381	0	381	N/A
Interest Receivable	1,357	1,549	(192)	(12%)
Flex Spending Receivable	187	0	187	N/A
Prepaid Insurance	5,518	4,971	547	11%
Total Current Assets	244,342	421,145	(176,803)	(42%)
Restricted Cash and Certificates of Deposit:				
Depreciation Reserves (Cash)	12,561	1,794	10,767	600%
Depreciation Reserves (Certificates of Deposit)	59,500	59,500	0	0%
Total Restricted Cash and Certificates of Deposit	72,061	61,294	10,767	18%
Capital Assets:				
Utility Plant	1,632,063	1,418,615	213,448	15%
Transportation Equipment	19,850	36,120	(16,270)	(45%)
Office Equipment	6,260	5,589	671	12%
Tools and Safety Devices	30,061	30,061	0	0%
Communication Equipment	934	934	0	0%
Total Capital Assets (Before W.I.P.)	1,689,168	1,491,319	197,849	13%
Less: Accumulated Depreciation	(1,208,611)	(1,193,576)	(15,035)	1%
Capital Assets – Net (Before W.I.P.)	480,557	297,743	182,814	61%
Construction Work in Progress	153,939	191,391	(37,452)	(20%)
Net Capital Assets	634,496	489,134	145,362	30%
Total Assets	950,899	971,573	(20,674)	(2%)
Liabilities				
Current Liabilities (Payable From Current Assets):				
Accounts Payable	2,155	14,602	(12,447)	(85%)
Due to Other Funds	1,576	0	1,576	N/A
Due To Other Governments	147	124	23	19%
Due To Other Governments (Related Party)	198	449	(251)	(56%)
Accrued Vacation and Sick Pay	3,215	3,360	(145)	(4%)
Accrued Payroll	2,280	3,064	(784)	(26%)
Flex Spending Payable	0	55	(55)	(100%)
Total Liabilities	9,571	21,654	(12,083)	(56%)

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids
Sewer Utility Fund
Comparative Statements of Net Assets**

	June 30,		Amount of Change	Percentage of Change
	2004	2003		
Net Assets				
Invested in Capital Assets, Net of Related Debt	634,496	489,134	145,362	30%
Restricted for:				
Depreciation Reserves	72,061	61,294	10,767	18%
Unrestricted	234,771	399,491	(164,720)	(41%)
Total Net Assets	\$ 941,328	949,919	(8,591)	(1%)

See Accompanying Independent Auditor's Report.

Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids
Sewer Utility Fund
Comparative Statements of Net Assets

	June 30,		Amount of Change	Percentage of Change
	2004	2002		
Assets				
Current Assets:				
Cash	\$ 128,127	71,684	56,443	79%
Certificates of Deposit	90,500	245,087	(154,587)	(63%)
Accounts Receivable	18,142	16,755	1,387	8%
Due From Other Governments (Related Party)	130	0	130	N/A
Due From Other Governments	381	0	381	N/A
Interest Receivable	1,357	3,537	(2,180)	(62%)
Flex Spending Receivable	187	68	119	175%
Prepaid Insurance	5,518	3,263	2,255	69%
Total Current Assets	244,342	340,394	(96,052)	(28%)
Restricted Cash and Certificates of Deposit:				
Depreciation Reserves (Cash)	12,561	56,809	(44,248)	(78%)
Depreciation Reserves (Certificates of Deposit)	59,500	59,500	0	0%
Total Restricted Cash and Certificates of Deposit	72,061	116,309	(44,248)	(38%)
Capital Assets:				
Utility Plant	1,632,063	1,418,341	213,722	15%
Transportation Equipment	19,850	36,120	(16,270)	(45%)
Office Equipment	6,260	5,495	765	14%
Tools and Safety Devices	30,061	21,918	8,143	37%
Communication Equipment	934	934	0	0%
Total Capital Assets (Before W.I.P.)	1,689,168	1,482,808	206,360	14%
Less: Accumulated Depreciation	(1,208,611)	(1,137,580)	(71,031)	6%
Capital Assets – Net (Before W.I.P.)	480,557	345,228	135,329	39%
Construction Work in Progress	153,939	2,579	151,360	5,869%
Net Capital Assets	634,496	347,807	286,689	82%
Total Assets	950,899	804,510	146,389	18%
Liabilities				
Current Liabilities (Payable From Current Assets):				
Accounts Payable	2,155	2,937	(782)	(27%)
Due to Other Funds	1,576	0	1,576	N/A
Due To Other Governments	147	231	(84)	(36%)
Due To Other Governments (Related Party)	198	30	168	560%
Accrued Vacation and Sick Pay	3,215	3,880	(665)	(17%)
Accrued Payroll	2,280	1,874	406	22%
Total Liabilities	9,571	8,952	619	7%

Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids
 Sewer Utility Fund
 Comparative Statements of Net Assets

	June 30,		Amount of Change	Percentage of Change
	2004	2002		
Net Assets				
Invested in Capital Assets, Net of Related Debt	634,496	347,807	286,689	82%
Restricted for:				
Depreciation Reserves	72,061	116,309	(44,248)	(38%)
Unrestricted	234,771	331,442	(96,671)	(29%)
Total Net Assets	\$ 941,328	795,558	145,770	18%

See Accompanying Independent Auditor's Report.

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids
Sewer Utility Fund**

Comparative Statements of Revenues, Expenses and Changes in Fund Net Assets

	For the Fiscal Year Ended June 30,		Amount of Change	Percentage of Change
	2004	2003		
Operating Revenues:				
Sewer Service	\$ 158,291	155,433	2,858	2%
Service Income	883	883	0	0%
Total Operating Revenues	159,174	156,316	2,858	2%
Operating Expenses:				
Production/Processing Expense	85,156	79,580	5,576	7%
Accounting and Collecting	5,863	6,873	(1,010)	(15%)
Administrative and General	33,260	32,270	990	3%
Free Community Service (Related Party)	6,601	5,280	1,321	25%
Transportation	1,805	998	807	81%
Depreciation	31,305	55,996	(24,691)	(44%)
Payroll Taxes	7,316	7,634	(318)	(4%)
Total Operating Expenses	171,306	188,631	(17,325)	(9%)
Operating Loss	(12,132)	(32,315)	20,183	(62%)
Nonoperating Revenues:				
Customer Penalties	56	60	(4)	(7%)
Interest Income	3,485	9,316	(5,831)	(63%)
Net Nonoperating Revenues	3,541	9,376	(5,835)	(62%)
Net Loss Before Special Items	(8,591)	(22,939)	14,348	(63%)
Special Items:				
Donation Received – Related Party	0	277,300	(277,300)	(100%)
Donation Made – Related Party	0	(100,000)	100,000	(100%)
Net Special Items	0	177,300	(177,300)	(100%)
Change in Net Assets	(8,591)	154,361	(162,952)	(106%)
Net Assets Beginning of Year	949,919	795,558	154,361	19%
Net Assets End of Year	\$ 941,328	949,919	(8,591)	(1%)

See Accompanying Independent Auditor's Report.

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids
Sewer Utility Fund**

Comparative Statements of Revenues, Expenses and Changes in Fund Net Assets

	For the Fiscal Year Ended June 30,		Amount of Change	Percentage of Change
	2004	2002		
Operating Revenues:				
Sewer Service	\$ 158,291	158,635	(344)	(0%)
Service Income	883	883	0	0%
Total Operating Revenues	159,174	159,518	(344)	(0%)
Operating Expenses:				
Production/Processing Expense	85,156	86,591	(1,435)	(2%)
Accounting and Collecting	5,863	5,890	(27)	(0%)
Administrative and General	33,260	32,764	496	2%
Free Community Service (Related Party)	6,601	5,280	1,321	25%
Transportation	1,805	1,281	524	41%
Depreciation	31,305	54,902	(23,597)	(43%)
Payroll Taxes	7,316	8,248	(932)	(11%)
Total Operating Expenses	171,306	194,956	(23,650)	(12%)
Operating Loss	(12,132)	(35,438)	23,306	(66%)
Nonoperating Revenues:				
Customer Penalties	56	56	0	0%
Interest Income	3,485	14,357	(10,872)	(76%)
Net Nonoperating Revenues	3,541	14,413	(10,872)	(75%)
Change in Net Assets	(8,591)	(21,025)	12,434	(59%)
Net Assets Beginning of Year	949,919	816,583	133,336	16%
Net Assets End of Year	\$ 941,328	795,558	145,770	18%

See Accompanying Independent Auditor's Report.

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids
Gas Utility Fund
Comparative Statements of Net Assets**

	June 30,		Amount of Change	Percentage of Change
	2004	2003		
Assets				
Current Assets:				
Cash	\$ 244,208	477,214	(233,006)	(49%)
Certificates of Deposit	395,000	85,016	309,984	365%
Accounts Receivable	57,377	73,818	(16,441)	(22%)
Due From Other Funds	68	0	68	N/A
Due From Other Governments (Related Party)	2,856	0	2,856	N/A
Due From Other Governments	951	0	951	N/A
Interest Receivable	2,966	414	2,552	616%
Notes Receivable – Related Party	0	25,064	(25,064)	(100%)
Notes Receivable – Rock Rapids Development Corporation (Current Portion)	39,150	15,000	24,150	161%
Flex Spending Receivable	311	0	311	N/A
Inventory	49,952	37,697	12,255	33%
Prepaid Insurance	7,414	7,171	243	3%
Total Current Assets	800,253	721,394	78,859	11%
Restricted Cash:				
Customer Deposits	20,615	17,395	3,220	19%
Capital Assets:				
Land	18,777	18,563	214	1%
Utility Plant	966,417	964,142	2,275	0%
Transportation Equipment	49,818	49,818	0	0%
Office Equipment	24,712	20,800	3,912	19%
Tools and Safety Devices	100,599	92,540	8,059	9%
Total Capital Assets (Before W.I.P)	1,160,323	1,145,863	14,460	1%
Less: Accumulated Depreciation	(476,683)	(441,558)	(35,125)	8%
Capital Assets – Net (Before W.I.P)	683,640	704,305	(20,665)	(3%)
Construction Work in Progress	681	0	681	N/A
Net Capital Assets	684,321	704,305	(19,984)	(3%)
Other Assets:				
Notes Receivable – Rock Rapids Development Corporation (Noncurrent Portion)	0	8,900	(8,900)	(100%)
Total Assets	1,505,189	1,451,994	53,195	4%

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids**
Gas Utility Fund
Comparative Statements of Net Assets

	June 30,		Amount of Change	Percentage of Change
	2004	2003		
Liabilities				
Current Liabilities (Payable From Current Assets):				
Accounts Payable	1,783	2,638	(855)	(32%)
Due to Other Funds	50	0	50	N/A
Due To Other Governments	2,181	2,412	(231)	(10%)
Due To Other Governments (Related Party)	2,773	3,498	(725)	(21%)
Accrued Vacation and Sick Pay	13,910	11,890	2,020	17%
Accrued Payroll	4,689	3,227	1,462	45%
Flex Spending Payable	0	92	(92)	(100%)
Unearned Income	751	2,353	(1,602)	(68%)
Total Current Liabilities (Payable From Current Assets)	26,137	26,110	27	0%
Liabilities Payable From Restricted Cash:				
Customer Deposits	20,615	17,395	3,220	19%
Total Liabilities	46,752	43,505	3,247	7%
Net Assets				
Invested in Capital Assets, Net of Related Debt	684,321	704,305	(19,984)	(3%)
Unrestricted	774,116	704,184	69,932	10%
Total Net Assets	\$ 1,458,437	1,408,489	49,948	4%

See Accompanying Independent Auditor's Report.

Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids
 Gas Utility Fund
 Comparative Statements of Net Assets

	June 30,		Amount of Change	Percentage of Change
	2004	2002		
Assets				
Current Assets:				
Cash	\$ 244,208	365,683	(121,475)	(33%)
Certificates of Deposit	395,000	155,016	239,984	155%
Accounts Receivable	57,377	27,150	30,227	111%
Due From Other Funds	68	0	68	N/A
Due From Other Governments (Related Party)	2,856	0	2,856	N/A
Due From Other Governments	951	0	951	N/A
Interest Receivable	2,966	2,562	404	16%
Notes Receivable – Related Party (Current Portion)	0	17,340	(17,340)	(100%)
Notes Receivable – Rock Rapids Development Corporation (Current Portion)	39,150	11,950	27,200	228%
Flex Spending Receivable	311	114	197	173%
Inventory	49,952	46,592	3,360	7%
Prepaid Insurance	7,414	4,894	2,520	51%
Total Current Assets	800,253	631,301	168,952	27%
Restricted Cash:				
Customer Deposits	20,615	16,750	3,865	23%
Capital Assets:				
Land	18,777	4,700	14,077	300%
Utility Plant	966,417	937,341	29,076	3%
Transportation Equipment	49,818	49,818	0	0%
Office Equipment	24,712	20,146	4,566	23%
Tools and Safety Devices	100,599	81,488	19,111	23%
Total Capital Assets (Before W.I.P)	1,160,323	1,093,493	66,830	6%
Less: Accumulated Depreciation	(476,683)	(405,359)	(71,324)	18%
Capital Assets – Net (Before W.I.P)	683,640	688,134	(4,494)	(1%)
Construction Work in Progress	681	1,094	(413)	(38%)
Net Capital Assets	684,321	689,228	(4,907)	(1%)
Other Assets:				
Notes Receivable – Related Party (Noncurrent Portion)	0	26,680	(26,680)	(100%)
Notes Receivable – Rock Rapids Development Corporation (Noncurrent Portion)	0	23,900	(23,900)	(100%)
Total Other Assets	0	50,580	(50,580)	(100%)
Total Assets	1,505,189	1,387,859	117,330	8%

Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids
 Gas Utility Fund
 Comparative Statements of Net Assets

	June 30,		Amount of Change	Percentage of Change
	2004	2002		
Liabilities				
Current Liabilities (Payable From Current Assets):				
Accounts Payable	1,783	1,427	356	25%
Due to Other Funds	50	0	50	N/A
Due To Other Governments	2,181	3,170	(989)	(31%)
Due To Other Governments (Related Party)	2,773	592	2,181	368%
Accrued Vacation and Sick Pay	13,910	11,552	2,358	20%
Accrued Payroll	4,689	3,702	987	27%
Unearned Income	751	1,057	(306)	(29%)
Total Current Liabilities (Payable From Current Assets)	26,137	21,500	4,637	22%
Liabilities Payable From Restricted Cash:				
Customer Deposits	20,615	16,750	3,865	23%
Total Liabilities	46,752	38,250	8,502	22%
Net Assets				
Invested in Capital Assets, Net of Related Debt	684,321	689,228	(4,907)	(1%)
Unrestricted	774,116	660,381	113,735	17%
Total Net Assets	\$ 1,458,437	1,349,609	108,828	8%

See Accompanying Independent Auditor's Report.

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids
Gas Utility Fund**

Comparative Statements of Revenues, Expenses and Changes in Fund Net Assets

	For the Fiscal Year Ended June 30,		Amount of Change	Percentage of Change
	2004	2003		
Operating Revenues:				
Residential Sales	\$ 1,220,961	1,195,894	25,067	2%
Commercial Sales	5,906	12,376	(6,470)	(52%)
Material and Service Sales	523	438	85	19%
Service Income	4,066	3,845	221	6%
Total Operating Revenues	<u>1,231,456</u>	<u>1,212,553</u>	<u>18,903</u>	<u>2%</u>
Operating Expenses:				
Production/Processing Expense	925,475	903,321	22,154	2%
Distribution Expense	57,658	67,751	(10,093)	(15%)
Accounting and Collecting	23,982	23,418	564	2%
Administrative and General	124,631	114,036	10,595	9%
Free Community Service (Related Party)	3,498	2,257	1,241	55%
Transportation	3,894	2,227	1,667	75%
Depreciation	35,124	36,199	(1,075)	(3%)
Payroll Taxes	14,126	13,629	497	4%
Total Operating Expenses	<u>1,188,388</u>	<u>1,162,838</u>	<u>25,550</u>	<u>2%</u>
Operating Income	<u>43,068</u>	<u>49,715</u>	<u>(6,647)</u>	<u>(13%)</u>
Nonoperating Revenues (Expenses):				
Customer Penalties	1,233	1,115	118	11%
Interest Income	6,665	6,944	(279)	(4%)
Interest Income (Related Party)	27	1,771	(1,744)	(98%)
Interest Expense	(1,045)	(665)	(380)	(57%)
Net Nonoperating Revenues (Expenses)	<u>6,880</u>	<u>9,165</u>	<u>(2,285)</u>	<u>(25%)</u>
Change in Net Assets	49,948	58,880	(8,932)	(15%)
Net Assets Beginning of Year	<u>1,408,489</u>	<u>1,349,609</u>	<u>58,880</u>	<u>4%</u>
Net Assets End of Year	<u>\$ 1,458,437</u>	<u>1,408,489</u>	<u>49,948</u>	<u>4%</u>

See Accompanying Independent Auditor's Report.

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids
Gas Utility Fund**

Comparative Statements of Revenues, Expenses and Changes in Fund Net Assets

	For the Fiscal Year Ended June 30,		Amount of Change	Percentage of Change
	2004	2002		
Operating Revenues:				
Residential Sales	\$ 1,220,961	857,285	363,676	42%
Commercial Sales	5,906	733	5,173	706%
Material and Service Sales	523	279	244	87%
Service Income	4,066	3,383	683	20%
Total Operating Revenues	1,231,456	861,680	369,776	43%
Operating Expenses:				
Production/Processing Expense	925,475	556,656	368,819	66%
Distribution Expense	57,658	49,408	8,250	17%
Accounting and Collecting	23,982	22,783	1,199	5%
Administrative and General	124,631	109,272	15,359	14%
Free Community Service (Related Party)	3,498	2,300	1,198	52%
Transportation	3,894	2,106	1,788	85%
Depreciation	35,124	36,751	(1,627)	(4%)
Payroll Taxes	14,126	13,878	248	2%
Total Operating Expenses	1,188,388	793,154	395,234	50%
Operating Income	43,068	68,526	(25,458)	(37%)
Nonoperating Revenues (Expenses):				
Customer Penalties	1,233	1,131	102	9%
Interest Income	6,665	8,735	(2,070)	(24%)
Interest Income (Related Party)	27	2,693	(2,666)	(99%)
Interest Expense	(1,045)	(743)	(302)	41%
Net Nonoperating Revenues (Expenses)	6,880	11,816	(4,936)	(42%)
Change in Net Assets	49,948	80,342	(30,394)	(38%)
Net Assets Beginning of Year	1,408,489	1,269,267	139,222	11%
Net Assets End of Year	\$ 1,458,437	1,349,609	108,828	8%

See Accompanying Independent Auditor's Report.

Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids
 Communications (Wireless Internet) Utility Fund
 Comparative Statements of Net Assets

	June 30,		Amount of Change	Percentage of Change
	2004	2003		
Assets				
Current Assets:				
Cash	\$ 1,795	(15,826)	17,621	(111%)
Accounts Receivable	4,401	5,944	(1,543)	(26%)
Due From Other Funds	95	0	95	N/A
Due From Other Governments (Related Party)	357	0	357	N/A
Due From Other Governments	36	0	36	N/A
Inventory	4,990	3,268	1,722	53%
Prepaid Insurance	48	44	4	9%
Total Current Assets	11,722	(6,570)	18,292	(278%)
Restricted Cash:				
Customer Deposits	408	4,236	(3,828)	(90%)
Capital Assets:				
Office Equipment	513	94	419	446%
Communication Equipment	131,100	128,599	2,501	2%
Total Capital Assets	131,613	128,693	2,920	2%
Less: Accumulated Depreciation	(53,043)	(27,013)	(26,030)	96%
Net Capital Assets	78,570	101,680	(23,110)	(23%)
Total Assets	90,700	99,346	(8,646)	(9%)
Liabilities				
Current Liabilities (Payable From Current Assets):				
Accounts Payable	3,415	7,207	(3,792)	(53%)
Due To Other Governments (Related Party)	138	241	(103)	(43%)
Accrued Payroll	282	119	163	137%
Total Current Liabilities (Payable From Current Assets)	3,835	7,567	(3,732)	(49%)
Liabilities Payable From Restricted Cash:				
Customer Deposits	408	4,236	(3,828)	(90%)
Long Term Debt:				
Advance From Other Fund (Electric Fund)	0	100,000	(100,000)	(100%)
Total Liabilities	4,243	111,803	(107,560)	(96%)
Net Assets				
Invested in Capital Assets, Net of Related Debt	78,570	101,680	(23,110)	(23%)
Unrestricted	7,887	(114,137)	122,024	(107%)
Total Net Assets	\$ 86,457	(12,457)	98,914	(794%)

See Accompanying Independent Auditor's Report.

Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids
 Communications (Wireless Internet) Utility Fund
 Comparative Statements of Net Assets

	June 30,		Amount of Change	Percentage of Change
	2004	2002		
Assets				
Current Assets:				
Cash	\$ 1,795	(4,763)	6,558	(138%)
Accounts Receivable	4,401	3,820	581	15%
Due From Other Funds	95	0	95	N/A
Due From Other Governments (Related Party)	357	0	357	N/A
Due From Other Governments	36	0	36	N/A
Inventory	4,990	3,690	1,300	35%
Prepaid Insurance	48	265	(217)	(82%)
Total Current Assets	11,722	3,012	8,710	289%
Restricted Cash:				
Customer Deposits	408	900	(492)	(55%)
Capital Assets:				
Office Equipment	513	0	513	N/A
Communication Equipment	131,100	100,091	31,009	31%
Total Capital Assets	131,613	100,091	31,522	31%
Less: Accumulated Depreciation	(53,043)	(6,518)	(46,525)	714%
Net Capital Assets	78,570	93,573	(15,003)	(16%)
Total Assets	90,700	97,485	(6,785)	(7%)
Liabilities				
Current Liabilities (Payable From Current Assets):				
Accounts Payable	3,415	2,803	612	22%
Due To Other Governments (Related Party)	138	0	138	N/A
Accrued Payroll	282	0	282	N/A
Total Current Liabilities (Payable From Current Assets)	3,835	2,803	1,032	37%
Liabilities Payable From Restricted Cash:				
Customer Deposits	408	900	(492)	(55%)
Long Term Debt:				
Advance From Other Fund (Electric Fund)	0	100,000	(100,000)	(100%)
Total Liabilities	4,243	103,703	(99,460)	(96%)
Net Assets				
Invested in Capital Assets, Net of Related Debt	78,570	93,573	(15,003)	(16%)
Unrestricted	7,887	(99,791)	107,678	(108%)
Total Net Assets	\$ 86,457	(6,218)	92,675	(1,490%)

See Accompanying Independent Auditor's Report.

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids**
Communications (Wireless Internet) Utility Fund
Comparative Statements of Revenues, Expenses and Changes in Fund Net Assets

	For the Fiscal Year Ended June 30,		Amount of Change	Percentage of Change
	2004	2003		
Operating Revenues:				
Residential Sales	\$ 71,423	63,873	7,550	12%
Service Income	30	342	(312)	(91%)
Total Operating Revenues	71,453	64,215	7,238	11%
Operating Expenses:				
Production/Processing Expense	34,997	35,944	(947)	(3%)
Distribution Expense	1,085	3,203	(2,118)	(66%)
Accounting and Collecting	3,119	1,925	1,194	62%
Administrative and General	6,255	8,144	(1,889)	(23%)
Depreciation	26,031	20,495	5,536	27%
Payroll Taxes	859	722	137	19%
Total Operating Expenses	72,346	70,433	1,913	3%
Operating Loss	(893)	(6,218)	5,325	(86%)
Nonoperating Revenues (Expenses):				
Customer Penalties	0	9	(9)	(100%)
Interest Expense	(193)	(30)	(163)	543%
Net Nonoperating Revenues (Expenses)	(193)	(21)	(172)	(819%)
Net Loss Before Transfers	(1,086)	(6,239)	5,153	(83%)
Transfer from Electric Utility Fund	100,000	0	100,000	N/A
Change in Net Assets	98,914	(6,239)	105,153	(1,685%)
Net Assets Beginning of Year	(12,457)	(6,218)	(6,239)	100%
Net Assets End of Year	\$ 86,457	(12,457)	98,914	(794%)

See Accompanying Independent Auditor's Report.

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids**
Communications (Wireless Internet) Utility Fund
Comparative Statements of Revenues, Expenses and Changes in Fund Net Assets

	For the Fiscal Year Ended June 30,		Amount of Change	Percentage of Change
	2004	2002		
Operating Revenues:				
Residential Sales	\$ 71,423	22,151	49,272	222%
Service Income	30	0	30	N/A
Total Operating Revenues	<u>71,453</u>	<u>22,151</u>	<u>49,302</u>	<u>223%</u>
Operating Expenses:				
Production/Processing Expense	34,997	15,697	19,300	123%
Distribution Expense	1,085	612	473	77%
Accounting and Collecting	3,119	945	2,174	230%
Administrative and General	6,255	4,427	1,828	41%
Depreciation	26,031	6,518	19,513	299%
Payroll Taxes	859	172	687	399%
Total Operating Expenses	<u>72,346</u>	<u>28,371</u>	<u>43,975</u>	<u>155%</u>
Operating Loss	(893)	(6,220)	5,327	(86%)
Nonoperating Revenues (Expenses):				
Customer Penalties	0	2	(2)	(100%)
Interest Expense	(193)	0	(193)	N/A
Net Nonoperating Revenues (Expenses)	<u>(193)</u>	<u>2</u>	<u>(195)</u>	<u>(9,750%)</u>
Net Loss Before Transfers	(1,086)	(6,218)	5,132	(83%)
Transfer from Electric Utility Fund	<u>100,000</u>	<u>0</u>	<u>100,000</u>	<u>N/A</u>
Change in Net Assets	98,914	(6,218)	105,132	(1,691%)
Net Assets Beginning of Year	<u>(12,457)</u>	<u>0</u>	<u>(12,457)</u>	<u>N/A</u>
Net Assets End of Year	<u>\$ 86,457</u>	<u>(6,218)</u>	<u>92,675</u>	<u>(1,490%)</u>

See Accompanying Independent Auditor's Report.

**Independent Auditor's Report on Compliance
and on Internal Control over Financial Reporting**

To the Members of the Utilities Board of Trustees:

We have audited the financial statements of the Rock Rapids Municipal Utilities, a Component Unit of the City of Rock Rapids, Iowa, as of and for the year ended June 30, 2004, and have issued our report thereon dated September 14, 2004. We conducted our audit in accordance with U. S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

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

Comments involving statutory and other legal matters about the Utilities' operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Utilities. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior year statutory comments have been resolved except for item 04-7.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Rock Rapids Municipal Utilities' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect

the Rock Rapids Municipal Utilities' ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe items 04-A, C, D, F, G, H and J are material weaknesses. Prior year reportable conditions have been resolved except for items 04-A, B, C, D, E and F.

This report, a public record by law, is intended solely for the information and use of the officials, employees and constituents of the Rock Rapids Municipal Utilities and other parties to whom the Utilities 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 Rock Rapids Municipal Utilities 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.

Siebrecht Spitler & De Noble PC
Certified Public Accountants

September 14, 2004

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids**
Schedule of Findings
Year Ended June 30, 2004

Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

04-A Segregation of Duties – One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the handling of cash and the recordkeeping functions are not entirely separated among employees.

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

Response – We will attempt to segregate duties to the extent possible within economic constraints.

Conclusion – Response acknowledged. The Utilities 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.

04-B Payroll Time Cards – Payroll time cards are allowed to be hand written at times, instead of exclusively using the time clock and there were a few instances where no approval was noted by the supervisor on the time card for the hand written times. Payroll time cards were not signed by the employee’s supervisor as being reviewed before January 2004.

Recommendation – Whenever payroll time cards contain hand written check in/out times, the accuracy of the time written should always specifically be approved in writing by the supervisor immediately. The hand written hours should not be paid until approval is received from the employee’s supervisor. All employees’ time cards should always be signed as being reviewed by the appropriate supervisor before payroll is processed.

Response – As of January 2004 we have made an extra effort to make sure that we comply with your recommendation.

Conclusion – Response accepted.

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids**
Schedule of Findings
Year Ended June 30, 2004

- 04-C Capital Assets – Capital assets are not being marked for identification purposes. Subsidiary capital asset records are not maintained on a perpetual basis.
- Recommendation – Capital assets should be marked for identification purposes to assist in the existence and accountability functions. In order to facilitate the maintaining of accurate and complete capital asset records, subsidiary capital asset records should be kept up-to-date on a perpetual basis.
- Response – We will attempt to mark capital assets within time constraints for current employees if economically practical. We have purchased a computer software program to account for capital assets on a perpetual basis.
- Conclusion – Response accepted. Please address the issue about identifying capital assets.
- 04-D Dual Check Signers – Checks do not require dual signers.
- Recommendation – In order to provide an additional control, all checks issued should require dual signatures to be valid.
- Response – Due to the timing of when certain checks need to be issued, dual check signers is not deemed feasible.
- Conclusion – Response accepted. However, having dual check signers adds an important additional control. We do recommend implementation. Procedures could be established to account for the situation when it is not feasible to have two check signers.
- 04-E Written Disaster Recovery Plan & Prevention Review – The Utilities should consider updating the written disaster recovery plan. Prevention controls need to be reviewed.
- Recommendation – The Utilities should consider expanding the disaster recovery plan to be more comprehensive and prevention controls (example: fire prevention) should be reviewed for adequacy.
- Response – A lot of issues are addressed in the IAMU’s O & M plan. We will address additional issues in a new plan. We will install some fire detectors.
- Conclusion – Response accepted. Please do attempt to implement the recommendation.

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids**
Schedule of Findings
Year Ended June 30, 2004

- 04-F Trust Fund Records – The accounting records for the internal “Trust Fund” that are maintained are not balanced regularly against the components that make up this fund.
- Recommendation – Trial balances should be set up for the internal “Trust Fund” that coincide with the subsidiary records that make up the balances. The accounting records for the “Trust Fund” should be monitored on a regular basis to ensure that this fund is properly in balance.
- Response – We are in the process of developing a system that will implement your recommendation.
- Conclusion – Response accepted. Please continue to work on this recommendation.
-
- 04-G Notes Receivable – The Utilities has entered into a note receivable arrangement with the Rock Rapids Development Corporation. The note receivable is not evidenced by a formal written document, but rather by just a verbal agreement.
- Recommendation A formal, written note receivable should be legally prepared. A written, legal note receivable contract should be completed and in place before a note is granted in the future.
- Response – We will have a written note in place before money is loaned in the future.
- Conclusion – Response accepted.
-
- 04-H Inventory – Monitoring of the inventory and the various inventory procedures are not fully segregated. The inventory subsidiary records are being kept manually.
- Recommendation – Inventory monitoring, procedures and overall recordkeeping should be analyzed for ways to increase controls, efficiency and accuracy. The Utilities should consider computerizing its inventory records.
- Response – We are just beginning the process of addressing this recommendation.
- Conclusion – Response accepted.
-
- 04-I Frequency of Deposits – Receipts that are collected for cash sales and utility deposits are only deposited on a monthly basis.

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids**
Schedule of Findings
Year Ended June 30, 2004

Recommendation – Deposits should be made on a frequent basis for all receipts, possibly at least once a week, to minimize the possibility of theft or loss and to earn interest on the funds. Accounting procedures should be redesigned to allow for this to occur.

Response – We will implement this recommendation.

Conclusion – Response accepted.

04-J Credit Cards – We noted a disbursement to pay for a credit card bill that did not have any supporting documentation/invoices attached. The only support for some credit card charges is a copy of a credit card slip, there was no additional supporting documentation/invoice.

Recommendation – All credit card charges should be supported by an actual receipt/invoice that supports the charge in detail.

Response – We will implement your recommendation.

Conclusion – Response accepted.

04-K Personal Usage of Contractor’s Equipment – Some employees of the Utilities are being allowed to use for personal purposes equipment owned by contractors who are doing work for the Utilities without having to pay the contractors fair market value for using the equipment.

Recommendation – The Utilities Board, the attorney who represents the Utilities, the employees and the contractors need to come to an agreement regarding this practice. A conclusion needs to be reached as to if this represents a conflict of interest.

Response – We will address this issue. We will discuss this issue with the appropriate contractors.

Conclusion – Response accepted.

04-L Sick Leave – We noted that the amount of sick leave that can be taken for family does not correspond with the personnel policy. We noted that an employee was paid sick leave for a day but was then also paid overtime for being called in to work.

Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids
Schedule of Findings
Year Ended June 30, 2004

Recommendation – All procedures actually in place for sick leave should agree with the Utilities Board approved personnel policy. A policy needs to be established addressing the issue of sick leave and overtime pay for the same day of work.

Response – We will address these issues with the Utilities Board.

Conclusion – Response accepted.

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids**
Schedule of Findings
Year Ended June 30, 2004

Other Findings Related to Required Statutory Reporting:

04-1 Official Depositories – A resolution naming official depositories has been approved by the Board. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2004.

04-2 Certified Budget – The Rock Rapids Municipal Utilities is budgeted as a part of the City of Rock Rapids. Disbursements during the fiscal year ended June 30, 2004 did not exceed the amount budgeted in the Business Type/Enterprises function for the Rock Rapids Municipal Utilities.

04-3 Questionable Expenses – Certain expenses were noted that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 since the public benefits to be derived have not been clearly documented. These expenses are detailed as follows:

The Utilities has paid for Utilities employees lunches and also paid them for working through lunch time on those same days on occasion throughout the year. Some of the meals were for food brought to a job site and some were for the employees to go to a restaurant. Also, the Utilities does not have any written policies on limits for business related meals.

According to the opinion, it is possible for certain expenses to meet the test of serving a public purpose under certain circumstances, although such items will certainly be subject to a deserved close scrutiny. The line to be drawn between a proper and improper purpose is very thin.

Recommendation – The Utilities Board should determine and document the public purpose served by these expenses before authorizing any further payments. If this practice is continued, the Utilities Board should establish written policies and procedures, including the requirement for proper documentation. The Utilities Board should consider establishing a written policy on limitations for business related meals. The Utilities should take into consideration public purpose criteria when setting the limitations.

Response – We will review these expenses and determine if public purpose is truly served. We will discuss this issue with the union. We will consider setting a policy on limitations for business meals.

Conclusion – Response accepted.

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids**
Schedule of Findings
Year Ended June 30, 2004

04-4 Travel Expense – No expenses of Utilities money for travel expenses of spouses of Utilities officials or employees were noted. However, please see finding related to the financial statements 04-J for a possibly related comment.

04-5 Business Transactions – Business transactions between the Utilities and Utilities officials or employees are detailed as follows:

Name, Title, and Business Connection	Transaction Description	Amount
Steve Herman, Husband of Laura Herman – Deputy City Clerk, Owner of H & S Building Center	Materials and Supplies	\$2,590

In accordance with Chapter 362.5(10) of the Code of Iowa, the transactions with H & S Building Center appear to represent a conflict of interest since the total was more than \$1,500 during the fiscal year and the transactions were not entered into through competitive bidding.

Recommendation – The Utilities should comply with the Iowa Code regarding business transactions between the Utilities and Utilities/City officials and employees. The Utilities should consult legal counsel to determine the disposition of this matter.

Response – Due to receiving the majority of the bills for purchases from throughout the year all on one invoice, compliance was not met. The Utilities did not realize it had exceeded the statutory level until the invoice came. The Utilities will attempt to comply with this Iowa Code Section in the future.

Conclusion – Response accepted.

04-6 Bond Coverage - Surety bond coverage of Utilities officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that the coverage is adequate for current operations.

04-7 Board Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not. However, the minutes for two meetings were not published within fifteen days of the meeting.

Recommendation – As required by Chapter 372.13(6) of the Code of Iowa, the Utilities should always publish the Board meeting minutes within fifteen days of the meeting.

Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids
Schedule of Findings
Year Ended June 30, 2004

Response – We will attempt to comply with this recommendation in the future.

Conclusion – Response accepted.

04-8 Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the Utilities' investment policy were noted.

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids**

Staff

This audit was performed by:

Myron Siebrecht, CPA, Senior Auditor
David De Noble, CPA, Senior Auditor
Robert Ferreira, CPA, Assistant Auditor
James Fisher, Assistant Auditor
Jerry Stubbe, Assistant Auditor

Siebrecht Spidler & De Noble PC
Certified Public Accountants