

**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, 2005

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

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
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, 2005
Austin, Haberkorn & Kippley	Attorneys	December 31, 2005
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, 2005, 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 and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe 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, 2005, and the respective changes in financial position and cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated September 19, 2005 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, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 10 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 required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted 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. Siebrecht Spittler & De Noble PC (Siebrecht Spittler & De Noble PC was formally dissolved and De Noble & Company PC is one of the two new companies that was formed directly from this dissolution) 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, 2004 (which are not 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.

De Noble & Company PC
Certified Public Accounting Firm

September 19, 2005

Management's Discussion and Analysis

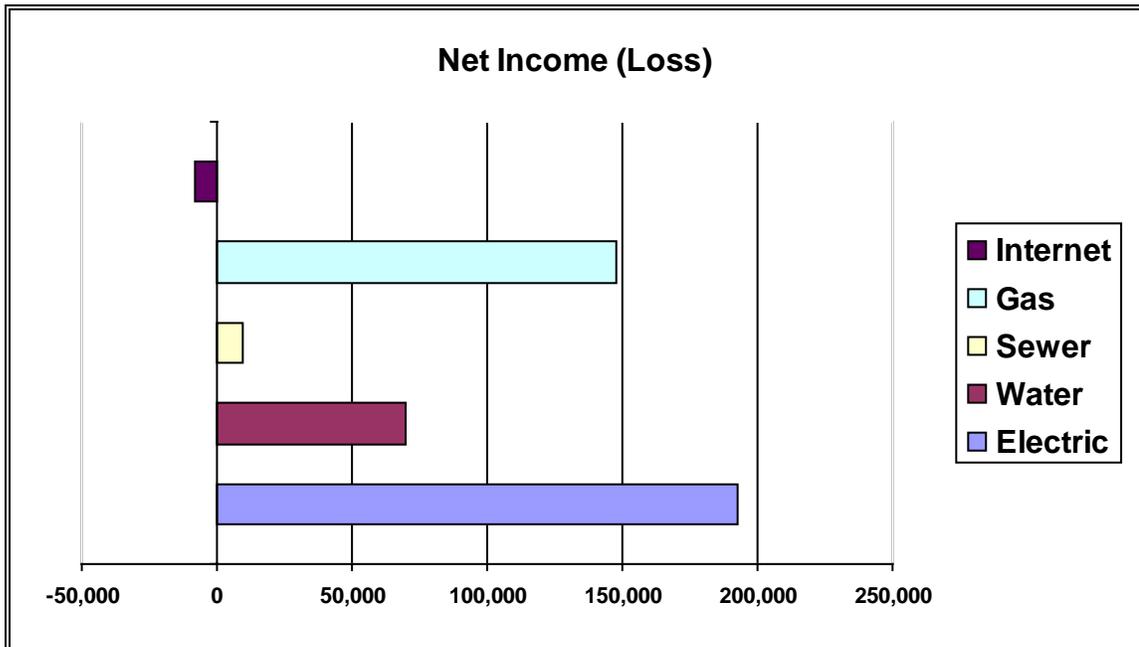
The Rock Rapids Municipal Utilities provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial statements is for the fiscal year ended June 30, 2005. We encourage readers to consider this information in conjunction with the Utilities' financial statements, which follow.

The Rock Rapids Municipal Utilities implemented new reporting standards for the last fiscal year with changes in content and structure. Due to the change last year, much of the information is easily comparable to the prior year this year.

2005 FINANCIAL HIGHLIGHTS

- The Utilities' net assets increased 4.1% during the fiscal year ended June 30, 2005. The net assets increased from \$10,110,532 to \$10,521,816, a \$411,284 increase.
- Net income (loss) for the fiscal year ended June 30, 2005 for each utility is as follows:

Electric	\$	192,366
Water		69,703
Sewer		9,553
Gas		147,783
Communications (Wireless Internet)	(8,121)
Total	\$	411,284



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.

The 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, 2004 and 2003.

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 Communications (Wireless Internet) departments. These activities are financed primarily by user charges.

Fund Financial Statements

The Utilities has one kind of fund:

Proprietary funds are used to 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 Communications (Wireless 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

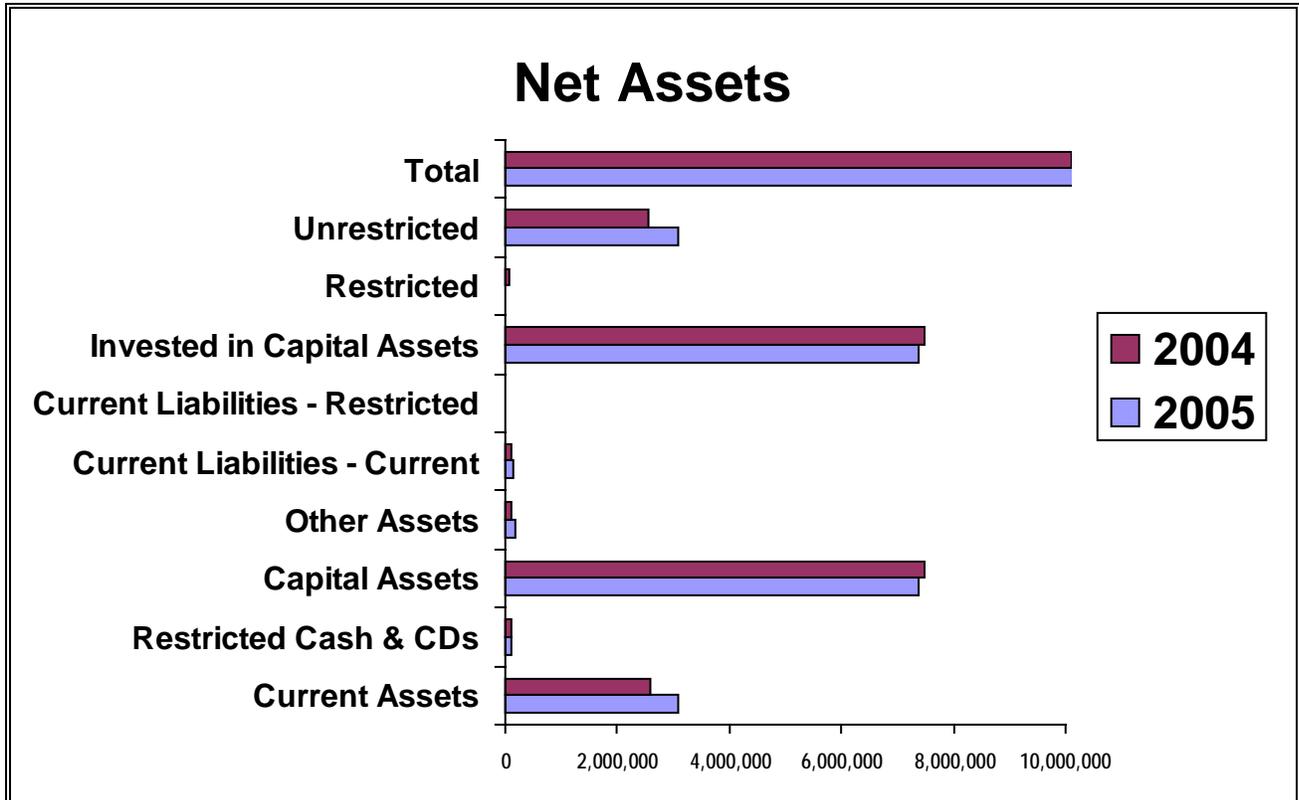
As noted earlier, net assets may serve over time as a useful indicator of financial position. The analysis that follows focuses on the changes in the net assets for business type activities from a year ago.

	<u>Net Assets of Business Activities</u>	
	<u>June 30, 2005</u>	<u>June 30, 2004</u>
Current Assets	\$ 3,077,800	2,572,372
Restricted Cash and CDs	94,723	107,075
Capital Assets (Net)	7,370,544	7,467,626
Other Assets	168,306	100,763
Total Assets	<u>10,711,373</u>	<u>10,247,836</u>
Current Liabilities		
(Payable from Current Assets)	145,050	102,290
Current Liabilities		
(Payable from Restricted Assets)	44,507	35,014
Total Liabilities	<u>189,557</u>	<u>137,304</u>
Net Assets:		
Invested in Capital Assets,		
Net of Related Debt	7,370,544	7,467,626
Restricted	50,216	72,061
Unrestricted	3,101,056	2,570,845

Total Net Assets

\$ 10,521,816 10,110,532

The “Other Assets” category consists of the amount the Utilities has incurred for the Lewis & Clark project membership.



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 years ended June 30, 2005 and June 30, 2004, there are 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 of Business Activities

Year Ended

June 30, 2005

June 30, 2004

Revenues:

Program Revenues:

Charges for Services	\$ 3,505,007	3,343,721
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General Revenues:

Gain on Sale of Capital Assets	12,967	2,000
Rentals	11,289	11,374

Customer Penalties	1,992	1,774
Interest Income	58,034	26,755
Miscellaneous Income	691	523
Equity Distribution	124,620	0
Total Revenues	<u>3,714,600</u>	<u>3,386,147</u>
Program Expenses:		
Electric	1,345,528	1,310,932
Water	344,033	326,965
Sewer	184,871	171,306
Gas	1,347,568	1,189,433
Internet	81,316	72,539
Total Expenses	<u>3,303,316</u>	<u>3,071,175</u>
Increase in Net Assets	411,284	314,972
Net Assets Beginning of Year	<u>10,110,532</u>	<u>9,795,560</u>
Net Assets End of Year	<u>\$ 10,521,816</u>	<u>10,110,532</u>

The "Increase in Net Assets" from fiscal year ended June 30, 2005 compared to June 30, 2004 was up by \$96,312 (30.6%). Besides changes to operating revenues and expenses which are analyzed in the next section, the increase in net assets was higher due to an increase in interest rates on investments and receiving an equity distribution from the National Public Gas Agency.

INDIVIDUAL MAJOR FUND ANALYSIS

Operating Revenues

Electric operating revenues were \$1,489,581, up approximately \$26,991 or 2% from the prior fiscal year. The cause of this increase was the sale of commercial energy and material and service sales.

Gas operating revenues were \$1,353,531, \$122,075 or 10% higher than the previous fiscal year, due to the higher cost of the commodity passed to the customer.

Water operating revenues were \$402,839, down \$16,209 or 4% from the previous fiscal year, due to 4% less in water gallon sales.

Sewer operating revenues were \$185,888, up \$26,714 or 17% over the previous fiscal year, due to a rate increase implemented in April 2004.

Internet operating revenues were \$73,168, up \$1,715 or 2%, as a result of increased customers.

Operating Expenses

Electric operating expenses were \$1,345,061, up \$40,621 or 3% from last year, due to an increase in purchased power costs.

Gas operating expenses were \$1,346,786, up \$158,398 or 13% from last year, due to an increase in prices paid for the natural gas commodity.

Water operating expenses were \$344,033, up \$17,068 or 5% over last year. Expenses were up due to an increase in depreciation on capital assets and repair projects.

Sewer operating expenses were \$184,871, up \$13,565 or 8% from the previous year, due to an increase in maintenance projects.

Communications operating expenses were \$81,276, up \$8,930 or 12%, due to an increase in number of customers served, implementation of new technology and the Utilities implementing a new capital asset capitalization policy.

BUDGETARY HIGHLIGHTS

The Utilities did not have to amend its budget this fiscal year. Actual receipts came in \$419,007 higher than budgeted. Actual disbursements came in \$395,587 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 5 to the financial statements for more information about the Utilities' capital assets and related depreciation. The major additions during the fiscal year were for utility plant, a skidloader and a pickup. Utility plant additions included new lines and the Courthouse and Tama Street Projects for the Electric Utility, system improvements for the Water Utility and new hookups and mains for the Gas Utility.

Construction in progress at June 30, 2005 consists primarily of Electric Utility, Water Utility and Sewer Utility projects. Main projects open include Eastside URD and Downtown for the Electric Utility, Marshall Street and Plant Improvements for the Water Utility and the WWTP for the Sewer Utility.

Long-Term Debt

The Utilities did not have any long-term debt outstanding at June 30, 2005.

ECONOMIC FACTORS

Rock Rapids Municipal Utilities has experienced a large increase in its input costs. The commodity market has seen record highs in many of its components. This increase has been caused by increase in world demand due to improving economies.

Prices for electric lines and most electrical construction inputs have risen significantly. The drought in the west has caused Western Area Power Agency to implement, with past years increase, a 37% increase in the price of energy. This power is 70% of the Rock Rapids Municipal Utilities energy. These two significant factors will have great significance on the Utilities meeting its costs.

Natural gas prices have seen historical rates this winter. This has caused consumers to pay higher than normal prices. Until production can be brought back to full capacity in the United States, there still remains a concern for the upcoming months.

The Lewis and Clark Project continues to make good progress in its construction. The federal funding received was \$17.5 million with hopes of larger allocation in the year to come. The additional federal funding would mean increased obligation on the part of the Rock Rapids Municipal Utilities for their 10% of 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 Hoye, 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, 2005

	Business Type Activities
Assets	
Current Assets:	
Cash	\$ 1,393,189
Certificates of Deposit	1,103,500
Investment - Missouri River Energy Services	200,000
Accounts Receivable	199,972
Due From Other Governments (Related Party)	7,438
Due From Other Governments	13,308
Interest Receivable	10,889
Inventory	107,874
Prepaid Insurance	41,630
Total Current Assets	3,077,800
Restricted Cash and Certificates of Deposit:	
Customer Deposits (Cash)	44,507
Depreciation Reserves (Cash)	(9,284)
Depreciation Reserves (Certificates of Deposit)	59,500
Total Restricted Cash and Certificates of Deposits	94,723
Capital Assets:	
Land	184,429
Utility Plant	13,015,893
Transportation Equipment	191,188
Office Equipment	64,628
Tools and Safety Devices	251,622
Communication Equipment	161,613
Meter Testing Equipment	21,903
Total Capital Assets (Before W.I.P.)	13,891,276
Less: Accumulated Depreciation	(7,031,213)
Capital Assets – Net (Before W.I.P.)	6,860,063
Construction Work in Progress	510,481
Net Capital Assets	7,370,544
Other Assets:	
Lewis & Clark Project Membership (Related Party)	168,306
Total Assets	10,711,373

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids**
Statement of Net Assets
June 30, 2005

	Business Type Activities
Liabilities	
Current Liabilities (Payable From Current Assets):	
Accounts Payable	70,508
Due To Other Governments	12,649
Due to Other Governments (Related Party)	2,064
Accrued Vacation and Sick Pay	48,612
Accrued Payroll	1,940
Payroll Taxes Payable	6,881
Flex Spending Payable	1,583
Unearned Income	813
Total Current Liabilities (Payable From Current Assets)	145,050
Liabilities Payable From Restricted Cash and Certificates of Deposit:	
Customer Deposits	44,507
Total Liabilities	189,557
Net Assets:	
Invested in Capital Assets, Net of Related Debt	7,370,544
Restricted for:	
Depreciation Reserves	50,216
Unrestricted	3,101,056
Total Net Assets	\$ 10,521,816

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, 2005

	<u>Expenses</u>	<u>Program Revenues</u> Charges for Services	<u>Net (Expense) Revenue and Changes in Net Assets</u>
Functions/Programs:			
Business Type Activities:			
Electric Utility	\$ 1,345,528	1,489,581	144,053
Water Utility	344,033	402,839	58,806
Sewer Utility	184,871	185,888	1,017
Gas Utility	1,347,568	1,353,531	5,963
Communications (Wireless Internet) Utility	81,316	73,168	(8,148)
Total	<u>\$ 3,303,316</u>	<u>3,505,007</u>	<u>201,691</u>
General Revenues:			
Gain on Sale of Capital Assets			12,967
Gain on Disposal of Materials			639
Rentals			6,289
Rentals (Related Party)			5,000
Customer Penalties			1,992
Miscellaneous Income			52
Interest Income			58,034
Equity Distribution – NPGA (Related Party)			<u>124,620</u>
Total General Revenues			<u>209,593</u>
Change in Net Assets			411,284
Net Assets Beginning of Year			<u>10,110,532</u>
Net Assets End of Year			<u>\$ 10,521,816</u>

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, 2005

	Enterprise Funds					Total
	Electric Utility	Water Utility	Sewer Utility	Gas Utility	Communications (Wireless Internet) Utility	
Assets						
Current Assets:						
Cash	\$ 614,017	237,198	121,439	413,924	6,611	1,393,189
Certificates of Deposit	424,280	110,975	110,500	457,745	0	1,103,500
Investment - Missouri River Energy Services	200,000	0	0	0	0	200,000
Accounts Receivable	95,638	37,117	17,522	46,431	3,264	199,972
Due From Other Governments (Related Party)	3,697	333	149	3,151	108	7,438
Due From Other Governments	9,633	513	485	2,392	285	13,308
Interest Receivable	3,970	1,288	1,509	4,122	0	10,889
Inventory	30,827	30,915	0	38,635	7,497	107,874
Prepaid Insurance	18,458	10,660	7,077	5,435	0	41,630
Total Current Assets	1,400,520	428,999	258,681	971,835	17,765	3,077,800
Restricted Cash and Certificates of Deposit:						
Customer Deposits (Cash)	14,489	1,840	0	27,206	972	44,507
Depreciation Reserves (Cash)	0	0	(9,284)	0	0	(9,284)
Depreciation Reserves (Certificates of Deposit)	0	0	59,500	0	0	59,500
Total Restricted Cash and Certificates of Deposits	14,489	1,840	50,216	27,206	972	94,723
Capital Assets:						
Land	47,127	118,525	0	18,777	0	184,429
Utility Plant	7,003,871	3,407,625	1,626,812	977,585	0	13,015,893
Transportation Equipment	84,660	18,330	38,380	49,818	0	191,188
Office Equipment	27,897	12,676	4,785	18,757	513	64,628
Tools and Safety Devices	109,071	45,427	25,865	71,259	0	251,622
Communication Equipment	16,206	1,955	0	0	143,452	161,613
Meter Testing Equipment	16,235	5,668	0	0	0	21,903
Total Capital Assets (Before W.I.P.)	7,305,067	3,610,206	1,695,842	1,136,196	143,965	13,891,276
Less: Accumulated Depreciation	(3,403,733)	(1,862,067)	(1,223,038)	(462,862)	(79,513)	(7,031,213)
Capital Assets – Net (Before W.I.P.)	3,901,334	1,748,139	472,804	673,334	64,452	6,860,063
Construction Work in Progress	193,800	125,485	191,196	0	0	510,481

Net Capital Assets	4,095,134	1,873,624	664,000	673,334	64,452	7,370,544
Other Assets:						
Lewis & Clark Project Membership (Related Party)	0	168,306	0	0	0	168,306
Total Assets	5,510,143	2,472,769	972,897	1,672,375	83,189	10,711,373
Liabilities						
Current Liabilities (Payable From Current Assets):						
Accounts Payable	23,870	10,114	17,273	15,565	3,686	70,508
Due To Other Governments	6,827	1,676	193	3,932	21	12,649
Due to Other Governments (Related Party)	121	65	16	1,846	16	2,064
Accrued Vacation and Sick Pay	17,680	13,530	3,183	14,219	0	48,612
Accrued Payroll	748	407	247	518	20	1,940
Payroll Taxes Payable	2,152	2,064	867	1,660	138	6,881
Flex Spending Payable	396	554	237	396	0	1,583
Unearned Income	0	0	0	813	0	813
Total Current Liabilities (Payable From Current Assets)	51,794	28,410	22,016	38,949	3,881	145,050
Liabilities Payable From Restricted Cash and Certificates of Deposit:						
Customer Deposits	14,489	1,840	0	27,206	972	44,507
Total Liabilities	66,283	30,250	22,016	66,155	4,853	189,557
Net Assets:						
Invested in Capital Assets, Net of Related Debt	4,095,134	1,873,624	664,000	673,334	64,452	7,370,544
Restricted for:						
Depreciation Reserves	0	0	50,216	0	0	50,216
Unrestricted	1,348,726	568,895	236,665	932,886	13,884	3,101,056
Total Net Assets	\$ 5,443,860	2,442,519	950,881	1,606,220	78,336	10,521,816

See Notes to Financial Statements.

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids**
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
For the Fiscal Year Ended June 30, 2005

	Enterprise Funds					Total
	Electric Utility	Water Utility	Sewer Utility	Gas Utility	Communications (Wireless Internet) Utility	
Operating Revenues:						
Residential Sales	\$ 651,551	0	0	1,301,442	73,168	2,026,161
Commercial Sales	769,436	0	0	47,522	0	816,958
Public Street and Highway Lighting	21,631	0	0	0	0	21,631
Wind Power - Residential and Commercial	752	0	0	0	0	752
Water Sales - Metered	0	231,170	0	0	0	231,170
Water Sales - Rural Water System	0	167,795	0	0	0	167,795
Water Sales - Tank Loads	0	1,213	0	0	0	1,213
Sewer Service	0	0	185,005	0	0	185,005
Material and Service Sales	38,319	0	0	452	0	38,771
Service Income	7,892	2,661	883	4,115	0	15,551
Total Operating Revenues	1,489,581	402,839	185,888	1,353,531	73,168	3,505,007
Operating Expenses:						
Production/Processing Expense	696,038	79,267	98,305	1,049,826	42,605	1,966,041
Distribution Expense	143,406	52,180	0	74,033	688	270,307
Accounting and Collecting	27,559	16,710	5,332	27,103	4,039	80,743
Administrative and General	155,705	76,108	31,658	116,645	6,497	386,613
Free Community Service (Related Party)	96,957	4,969	8,622	22,362	0	132,910
Free Community Service	5,923	0	0	1,000	0	6,923
Transportation	3,582	4,033	3,420	3,712	0	14,747
Depreciation	194,931	96,977	29,607	36,824	26,470	384,809
Payroll Taxes	20,960	13,789	7,927	15,281	977	58,934
Total Operating Expenses	1,345,061	344,033	184,871	1,346,786	81,276	3,302,027
Operating Income (Loss)	144,520	58,806	1,017	6,745	(8,108)	202,980

Nonoperating Revenues (Expenses):						
Gain on Sale of Capital Assets	3,527	1,813	4,100	3,527	0	12,967
Gain on Disposal of Materials	541	30	15	53	0	639
Rentals	629	5,660	0		0	6,289
Rentals (Related Party)	5,000	0	0	0	0	5,000
Customer Penalties	519	75	59	1,312	27	1,992
Miscellaneous Income	52	0	0	0	0	52
Interest Income	38,045	3,319	4,362	12,308	0	58,034
Equity Distribution - NPGA (Related Party)	0	0	0	124,620	0	124,620
Interest Expense	(467)	0	0	(782)	(40)	(1,289)
Net Nonoperating Revenues (Expenses)	47,846	10,897	8,536	141,038	(13)	208,304
Change in Net Assets	192,366	69,703	9,553	147,783	(8,121)	411,284
Net Assets Beginning of Year	5,251,494	2,372,816	941,328	1,458,437	86,457	10,110,532
Net Assets End of Year	\$ 5,443,860	2,442,519	950,881	1,606,220	78,336	10,521,816

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, 2005

	Enterprise Funds					Total
	Electric	Water	Sewer	Gas	Communications (Wireless Internet)	
	Utility	Utility	Utility	Utility	Utility	
Cash Flows From Operating Activities:						
Cash Received from Customers and Users	\$ 1,448,063	402,231	186,385	1,357,246	73,615	3,467,540
Cash Received from Interfund Services Provided	48,873	3,461	0	5,759	1,348	59,441
Cash Received from Other Revenues	8,339	5,910	15	6,644	0	20,908
Cash Paid to Suppliers/Outside Service Providers	(803,488)	(83,040)	(44,055)	(1,098,586)	(48,766)	(2,077,935)
Cash Paid for Personal Services (Employees)	(231,934)	(140,719)	(79,561)	(170,491)	(8,492)	(631,197)
Cash Paid for Interfund Services Used	(7,485)	(24,588)	(26,838)	(530)	0	(59,441)
Cash Paid for Free Community Service (Related Party)	(96,957)	(4,969)	(8,622)	(22,362)	0	(132,910)
Cash Paid for Free Community Service	(5,923)	0	0	(1,000)	0	(6,923)
Net Cash Provided By Operating Activities	359,488	158,286	27,324	76,680	17,705	639,483
Cash Flows From Capital and Related Financing Activities:						
Proceeds from Sale of Capital Assets	3,527	3,527	4,100	3,527	0	14,681
Purchases/Construction of Capital Assets	(96,810)	(82,739)	(44,227)	(17,390)	(12,352)	(253,518)
Paid Toward Lewis & Clark Project Membership	0	(67,543)	0	0	0	(67,543)
Net Cash Used For Capital and Related Financing Activities	(93,283)	(146,755)	(40,127)	(13,863)	(12,352)	(306,380)
Cash Flows From Investing Activities:						
Cashed In (Purchase of) Non Cash Equivalent Certificates of Deposit (Net)	(119,280)	36,025	(20,000)	(62,745)	0	(166,000)
Notes Receivable – Rock Rapids Development Corporation (Principal Repayment)	39,150	4,500	0	39,150	0	82,800
Interest Received	36,409	3,028	4,211	11,153	0	54,801
Customer Penalties Received	519	75	59	1,312	27	1,992
Equity Distribution - NPGA	0	0	0	124,620	0	124,620
Net Cash Provided By (Used For) Investing Activities	(43,202)	43,628	(15,730)	113,490	27	98,213

Net Increase (Decrease) in Cash and Cash Equivalents	223,003	55,159	(28,533)	176,307	5,380	431,316
Cash and Cash Equivalents Beginning of Year	605,503	183,879	140,688	264,823	2,203	1,197,096
Cash and Cash Equivalents End of Year	\$ 828,506	239,038	112,155	441,130	7,583	1,628,412

Reconciliation of Operating Income to Net Cash Provided by Operating Activities:

Operating Income (Loss)	\$ 144,520	58,806	1,017	6,745	(8,108)	202,980
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:						
Depreciation	194,931	96,977	29,607	36,824	26,470	384,809
Proceeds from Rentals	629	5,660	0	0	0	6,289
Proceeds from Rentals (Related Party)	5,000	0	0	0	0	5,000
Proceeds from Miscellaneous Income	52	0	0	0	0	52
Disposal of Materials	541	30	15	53	0	639
Deposit Interest Paid	(467)	0	0	(782)	(40)	(1,289)
Changes in Assets and Liabilities:						
Decrease in Accounts Receivable	4,908	2,745	620	10,946	1,137	20,356
Decrease in Due From Other Funds	3,453	124	0	68	95	3,740
Decrease (Increase) in Due From Other Governments (Related Party)	1,536	(29)	(19)	(295)	0	1,193
Decrease (Increase) in Due From Other Governments	(2,544)	12	(104)	(1,441)	0	(4,077)
Decrease in Flex Spending Receivable	311	436	187	311	0	1,245
Decrease (Increase) in Inventory	(9)	(4,445)	0	11,317	(2,507)	4,356
Decrease (Increase) in Prepaid Insurance	2,103	(970)	(1,559)	1,979	48	1,601
Increase in Customer Deposits (Cash)	2,118	220	0	6,591	564	9,493
Increase in Accounts Payable (Non Capital Assets Related)	5,526	1,611	233	5,334	271	12,975
(Decrease) in Due to Other Funds	(181)	(1,933)	(1,576)	(50)	0	(3,740)
Increase (Decrease) in Due to Other Governments	(429)	277	46	1,751	21	1,666
(Decrease) in Due to Other Governments (Related Party)	(1,056)	(608)	(182)	(927)	(122)	(2,895)
Increase (Decrease) in Accrued Vacation and Sick Pay	3,303	199	(32)	309	0	3,779
(Decrease) in Accrued Payroll	(7,305)	(3,444)	(2,033)	(4,171)	(262)	(17,215)
Increase in Payroll Taxes Payable	2,152	2,064	867	1,660	138	6,881
Increase in Flex Spending Payable	396	554	237	396	0	1,583

**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, 2005

	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):						
Increase in Unearned Income	0	0	0	62	0	62
Net Cash Provided by Operating Activities	\$ 359,488	158,286	27,324	76,680	17,705	639,483
Reconciliation of Cash and Cash Equivalents at Year End to Specific Assets Included on the Statement of Net Assets:						
Current Assets:						
Cash	\$ 614,017	237,198	121,439	413,924	6,611	1,393,189
Investment - Missouri River Energy Services	200,000	0	0	0	0	200,000
Restricted Cash and Certificates of Deposit:						
Customer Deposits (Cash)	14,489	1,840	0	27,206	972	44,507
Depreciation Reserves (Cash)	0	0	(9,284)	0	0	(9,284)
Cash and Cash Equivalents at Year End	\$ 828,506	239,038	112,155	441,130	7,583	1,628,412

Supplemental Disclosure of Noncash Noncapital and Capital-Related Financing Activities:

A pickup with a book value of \$0 that was originally purchased through the Water Fund was traded-in in order to receive a \$4,100 allowance toward the purchase of a pickup through the Sewer Fund.

See Notes to Financial Statements.

Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids
Notes to Financial Statements
June 30, 2005

(1) Summary of Significant Accounting Policies

The Rock Rapids Municipal Utilities is a component unit (as determined by criteria specified by the Governmental Accounting Standards Board) 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 \$132,910 during the fiscal year ended June 30, 2005.

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 National Public Gas Agency, the Missouri River Energy Services and the Lewis & Clark Rural Water Systems, Inc. The Utilities purchased gas and paid dues to the National Public Gas Agency in the amount of \$1,048,989 and \$721, respectively. The Utilities paid the Missouri River Energy Services \$644,832 for power and energy services, \$2,464 for dues, \$700 for meeting registrations and tours and \$378 for inspection services. Please see Note 8 for more information related to the National Public Gas Agency, Note 2 for more information related to the Missouri River Energy Services and Note 6 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/program, 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, Investment – Missouri River Energy Services 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 and the investments held through Missouri River Energy Services are stated at cost.

For purposes of the statement of cash flows, the Utilities considers all short-term investments (including restricted cash and the investments held through Missouri River Energy Services) 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, 2005 included all of the certificates of deposit (including the restricted certificates of deposit).

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.

Due From Other Governments – Due from other governments represents amounts due from other governments 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 (customer deposits restricted for application to unpaid customer accounts or for refund to customers) 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).

Capital Assets – Capital assets, which include property, equipment, 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 acquired prior to July 1, 2004 are defined by the Utilities as assets with initial, individual costs in excess of \$500 and estimated useful lives in excess of two years. Reportable capital assets acquired after June 30, 2004 are defined by the Utilities as assets with initial, individual costs in excess of the following thresholds and have estimated useful lives in excess of two years.

Asset Class	Amount
Utility Plant	\$10,000
All Other Asset Classes	\$ 5,000

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

Estimated
Useful lives

Asset Class	(In Years)
Utility Plant	5 - 50 years
Transportation Equipment	5 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, 2005 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 \$24,641 at June 30, 2005.

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, 2005, employees' vested sick leave benefits aggregated \$23,971. Aggregated vested sick leave benefits are included in the accounts.

A summary of changes in accrued vacation and sick pay is as follows:

	Accrued Vacation	Sick Pay	Total
Balance Beginning of Year	\$ 24,286	20,547	44,833
Increases	29,676	10,491	40,167
Decreases	(29,321)	(7,067)	(36,388)
Balance End of Year	\$ 24,641	23,971	48,612

These liabilities have been computed based on rates of pay in effect at June 30, 2005 and are recorded in the government-wide and proprietary fund financial statements as current liabilities as these liabilities are expected to be payable within a year.

Net Assets: Restricted – The amount of net assets restricted at June 30, 2005, 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	\$ 14,489	1,840	50,216	27,206	972	94,723
Deposits Payable	14,489	1,840	0	27,206	972	44,507
Retained Earnings:						
Reserved (June 30, 2005)	\$ 0	0	50,216	0	0	50,216

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 Investments

The Utilities' deposits in banks at June 30, 2005 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 has transferred \$200,000 to Missouri River Energy Services (a related party) to be invested as permitted by the investment policy of Missouri River Energy Services. The money is pooled with other organizations using this Company's "bill prepayment" program. All of the Utilities' money is invested in money market accounts and certificates of deposit with less than six months maturity. This money can be accessed at any time with no penalty. Missouri River Energy Services has not provided the Utilities with any collateral for holding these funds. The Utilities does not have a public funds custodial agreement with Missouri River Energy Services and having Missouri River Energy Services invest money for the Utilities is not included in the Utilities' written investment policy. Missouri River Energy Services has the money held in financial institutions where this money is collateralized with securities held by the pledging financial institution, or by its trust department or agent, but not in the depositor government's name.

Credit Risk. The investment done through Missouri River Energy Services “bill prepayment” program is unrated.

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

Board Designated Reserves. 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, 2005 is as follows:

	Economic Development Reserves	Depreciation Reserves	Lewis & Clark Project Sinking Fund Reserve
Electric Utility Fund	\$ 12,142	\$ 181,049	\$ 0
Water Utility Fund	3,765	5,592	60,989
Gas Utility Fund	8,026	0	0
Total	\$ 23,933	\$ 186,641	\$ 60,989

(3) 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 carried a 0% interest rate, was for an unspecified length of time and was to be repaid only upon the sale or lease of the spec building. If funds generated by this project were not sufficient to repay this note in full, the unpaid note amount would have been considered as a donation to the Rock Rapids Development Corporation for this project.

In September 2003, the Rock Rapids Municipal Utilities loaned \$65,000 to the Rock Rapids Development Corporation to purchase a commercial building. This note carried a 0% interest rate, was for an unspecified length of time and was to 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 agreed that any repayments made on these notes were to be paid directly to the Utilities. Both of these notes receivable were fully satisfied during the fiscal year. The fiscal year transactions in relation to these notes receivable were as follows:

	Electric Utility Fund	Water Utility Fund	Gas Utility Fund	Total
Balance on June 30, 2004	\$ 39,150	4,500	39,150	82,800

Less Principal Received	(39,150)	(4,500)	(39,150)	(82,800)
Balance on June 30, 2005	\$ 0	0	0	0

(4) Interfund Transfer

A pickup with a \$0 book value that was included in the transportation equipment capital assets account of the Water Fund was transferred to the Sewer Fund during the fiscal year. This pickup was used to receive a \$4,100 trade-in allowance to acquire a pickup through the Sewer Fund. This interfund transfer is noted in the Statement of Cash Flows in the “supplemental disclosure of noncash noncapital and capital-related financing activities” disclosure portion.

(5) Capital Assets

Capital assets activity for the year ended June 30, 2005 was as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business Type Activities:				
Capital Assets Not Being Depreciated:				
Land	\$ 184,429	0	0	184,429
Construction Work in Progress	572,070	218,397	(279,986)	510,481
Total Capital Assets Not Being Depreciated	756,499	218,397	(279,986)	694,910
Capital Assets Being Depreciated:				
Utility Plant	12,747,286	277,640	(9,033)	13,015,893
Transportation Equipment	202,574	18,530	(29,916)	191,188
Office Equipment	89,189	8,250	(32,811)	64,628
Tools and Safety Devices	345,672	34,257	(128,307)	251,662
Communication Equipment	155,872	12,352	(6,611)	161,613
Meter Testing Equipment	26,296	0	(4,393)	21,903
Total Capital Assets Being Depreciated	13,566,889	351,029	(211,071)	13,706,847
Less Accumulated Depreciation For:				
Utility Plant	6,283,838	309,778	(9,033)	6,584,583
Transportation Equipment	161,693	13,936	(29,916)	145,713
Office Equipment	73,443	5,765	(32,811)	46,397
Tools and Safety Devices	234,917	27,839	(126,594)	136,162
Communication Equipment	76,043	27,023	(6,611)	96,455
Meter Testing Equipment	25,828	468	(4,393)	21,903
Total Accumulated Depreciation	6,855,762	384,809	(209,358)	7,031,213
Total Capital Assets Being Depreciated, Net	6,711,127	(33,780)	(1,713)	6,675,634

Business Type Capital Assets, Net	\$ 7,467,626	184,617	(281,699)	<u>7,370,544</u>
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Depreciation expense was charged to the different Utilities as follows:

Business Type Activities:	
Electric Utility	\$ 194,931
Water Utility	96,977
Sewer Utility	29,607
Gas Utility	36,824
Communications (Wireless Internet) Utility	<u>26,470</u>
Total Depreciation Expense – Business Type Activities	<u>\$ 384,809</u>

(6) 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 Rural Water System, Inc. 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, 2005, the Utilities has paid \$168,306 toward the cost of membership, which includes both base system incremental costs and some member specific incremental costs.

As of June 30, 2005, the Utilities pro rata share of the base system incremental costs has been projected at \$826,345. There have been no formal projections of the member specific incremental costs as of June 30, 2005. Payments will be made on this commitment as the project progresses.

(7) 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	\$ 1,472
	State Sales and Use Tax	<u>5,355</u>
		<u>6,827</u>
Water Utility	Services	408
	State Sales and Use Tax	<u>1,268</u>
		<u>1,676</u>
Sewer Utility	Services	21
	State Sales and Use Tax	<u>172</u>
		<u>193</u>

Gas Utility	Services	1,404
	State Sales and Use Tax	2,528
		<u>3,932</u>
Communications (Wireless Internet) Utility	Services	<u>21</u>
Total		<u>\$ 12,649</u>

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

<u>Fund</u>	<u>Description</u>	<u>Amount</u>
Electric Utility	Services/Reimbursement	<u>\$ 121</u>
Water Utility	Services/Reimbursement	<u>65</u>
Sewer Utility	Services/Reimbursement	<u>16</u>
Gas Utility	Services/Reimbursement	114
	Garbage/Recycling Collections	<u>1,732</u>
		<u>1,846</u>
Communications (Wireless Internet) Utility	Services/Reimbursement	<u>16</u>
Total		<u>\$ 2,064</u>

(8) Equity Distribution Income

The National Public Gas Agency (a related party) allocated to and paid the Rock Rapids Municipal Utilities \$124,620 as part of an equity distribution to members during the fiscal year ended June 30, 2005. This equity distribution is reported as a nonoperating revenue in the Gas Utility.

(9) 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 \$167,795 or 41.7% of the total operating water revenues for the fiscal year ended June 30, 2005.

(10) 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 for the years ended June 30, 2005, 2004 and 2003. Contribution requirements are established by state statute. The Utilities' contributions to IPERS for the years ended June 30, 2005, 2004, and 2003 were \$27,140, \$25,240 and \$24,390, respectively, equal to the required contributions for each year.

(11) 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.

(12) 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.

(13) 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, 2006.

In July 2004, the Utilities Board approved issuing on January 1, 2006, a \$25,000 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.

(14) Subsequent Events

In July 2005, the Utilities Board approved committing \$11,000 to the City of Rock Rapids to help provide assistance with the purchase of new skateboard facility equipment (ramps). The Board also approved contracting with Services Unlimited for a Scada System and authorized purchase of a chlorine analyzer.

**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, 2005

	Proprietary Funds Actual	Original Budgeted Amount	Final to Actual Variance – Positive (Negative)
Receipts:			
Electric Utility	\$ 1,584,880	1,604,241	(19,361)
Water Utility	422,732	463,963	(41,231)
Sewer Utility	194,770	186,131	8,639
Gas Utility	1,549,411	1,086,441	462,970
Communications (Wireless Internet) Utility	74,990	67,000	7,990
Total Receipts	3,826,783	3,407,776	419,007
Disbursements (Business Type/Enterprises Function):			
Electric Utility	1,242,597	1,536,850	294,253
Water Utility	403,598	489,600	86,002
Sewer Utility	203,303	222,371	19,068
Gas Utility	1,310,359	1,310,750	391
Communications (Wireless Internet) Utility	69,610	65,483	(4,127)
Total Disbursements (Business Type/ Enterprises Function)	3,229,467	3,625,054	395,587
Excess (Deficiency) of Receipts Over (Under) Disbursements	597,316	(217,278)	814,594
Cash, Certificates of Deposit and Investment - Missouri River Energy Services (Unrestricted and Restricted) – Balances Beginning of Year			
	2,194,096	1,631,881	562,215
Cash, Certificates of Deposit and Investment - Missouri River Energy Services (Unrestricted and Restricted) – Balances End of Year			
	\$ 2,791,412	1,414,603	1,376,809

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, 2005

	Proprietary Funds		
	Enterprise		
	Cash Basis	Accrual Adjustments	Accrual Basis
Revenues	\$ 3,826,783	(112,183)	3,714,600
Expenses	3,229,467	73,849	3,303,316
Net	597,316	(186,032)	411,284
Beginning Net Assets	2,194,096	7,916,436	10,110,532
Ending Net Assets	\$ 2,791,412	7,730,404	10,521,816

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, 2005

In accordance with the Code of Iowa, the Utilities Board of Trustees annually approves a budget on the cash basis of accounting. The Utilities Board of Trustees submits the approved budget to the Rock Rapids City Council. 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 statutorily 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 ended June 30, 2005, the Utilities did not amend its share of the budget and disbursements did not exceed the amount budgeted.

**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
	2005	2004		
Assets				
Current Assets:				
Cash	\$ 614,017	593,132	20,885	4%
Certificates of Deposit	424,280	305,000	119,280	39%
Investment - Missouri River Energy Services	200,000	0	200,000	N/A
Accounts Receivable	95,638	100,546	(4,908)	(5%)
Due From Other Funds	0	3,453	(3,453)	(100%)
Due From Other Governments (Related Party)	3,697	5,233	(1,536)	(29%)
Due From Other Governments	9,633	7,089	2,544	36%
Interest Receivable	3,970	2,335	1,635	70%
Notes Receivable – Rock Rapids Development Corporation (Current Portion)	0	39,150	(39,150)	(100%)
Flex Spending Receivable	0	311	(311)	(100%)
Inventory	30,827	30,818	9	0%
Prepaid Insurance	18,458	20,561	(2,103)	(10%)
Total Current Assets	1,400,520	1,107,628	292,892	26%
Restricted Cash:				
Customer Deposits	14,489	12,371	2,118	17%
Capital Assets:				
Land	47,127	47,127	0	0%
Utility Plant	7,003,871	6,764,904	238,967	4%
Transportation Equipment	84,660	84,660	0	0%
Office Equipment	27,897	36,478	(8,581)	(24%)
Tools and Safety Devices	109,071	160,993	(51,922)	(32%)
Communication Equipment	16,206	19,122	(2,916)	(15%)
Meter Testing Equipment	16,235	19,789	(3,554)	(18%)
Total Capital Assets (Before W.I.P)	7,305,067	7,133,073	171,994	2%
Less: Accumulated Depreciation	(3,403,733)	(3,290,642)	(113,091)	3%
Capital Assets – Net (Before W.I.P)	3,901,334	3,842,431	58,903	2%
Construction Work in Progress	193,800	342,493	(148,693)	(43%)
Net Capital Assets	4,095,134	4,184,924	(89,790)	(2%)
Total Assets	5,510,143	5,304,923	205,220	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
	2005	2004		
Liabilities				
Current Liabilities (Payable From Current Assets):				
Accounts Payable	23,870	10,014	13,856	138%
Due to Other Funds	0	181	(181)	(100%)
Due To Other Governments	6,827	7,256	(429)	(6%)
Due To Other Governments (Related Party)	121	1,177	(1,056)	(90%)
Accrued Vacation and Sick Pay	17,680	14,377	3,303	23%
Accrued Payroll	748	8,053	(7,305)	(91%)
Payroll Taxes Payable	2,152	0	2,152	N/A
Flex Spending Payable	396	0	396	N/A
Total Current Liabilities (Payable From Current Assets)	51,794	41,058	10,736	26%
Liabilities Payable From Restricted Cash:				
Customer Deposits	14,489	12,371	2,118	17%
Total Liabilities	66,283	53,429	12,854	24%
Net Assets				
Invested in Capital Assets, Net of Related Debt	4,095,134	4,184,924	(89,790)	(2%)
Unrestricted	1,348,726	1,066,570	282,156	26%
Total Net Assets	\$ 5,443,860	5,251,494	192,366	4%

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
	2005	2003		
Assets				
Current Assets:				
Cash	\$ 614,017	478,859	135,158	28%
Certificates of Deposit	424,280	189,303	234,977	124%
Investment - Missouri River Energy Services	200,000	0	200,000	N/A
Accounts Receivable	95,638	128,609	(32,971)	(26%)
Due From Other Governments (Related Party)	3,697	0	3,697	N/A
Due From Other Governments	9,633	0	9,633	N/A
Interest Receivable	3,970	572	3,398	594%
Notes Receivable – Related Party	0	25,064	(25,064)	(100%)
Notes Receivable – Rock Rapids Development Corporation (Current Portion)	0	15,000	(15,000)	(100%)
Inventory	30,827	35,207	(4,380)	(12%)
Prepaid Insurance	18,458	20,421	(1,963)	(10%)
Total Current Assets	1,400,520	893,035	507,485	57%
Restricted Cash:				
Customer Deposits	14,489	11,100	3,389	31%
Capital Assets:				
Land	47,127	46,913	214	0%
Utility Plant	7,003,871	6,584,378	419,493	6%
Transportation Equipment	84,660	84,660	0	0%
Office Equipment	27,897	32,582	(4,685)	(14%)
Tools and Safety Devices	109,071	173,970	(64,899)	(37%)
Communication Equipment	16,206	19,122	(2,916)	(15%)
Meter Testing Equipment	16,235	19,789	(3,554)	(18%)
Total Capital Assets (Before W.I.P)	7,305,067	6,961,414	343,653	5%
Less: Accumulated Depreciation	(3,403,733)	(3,118,066)	(285,667)	9%
Capital Assets - Net (Before W.I.P)	3,901,334	3,843,348	57,986	2%
Construction Work in Progress	193,800	372,808	(179,008)	(48%)
Net Capital Assets	4,095,134	4,216,156	(121,022)	(3%)
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	5,510,143	5,229,191	280,952	5%

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
	2005	2003		
Liabilities				
Current Liabilities (Payable From Current Assets):				
Accounts Payable	23,870	12,759	11,111	87%
Due To Other Governments	6,827	5,782	1,045	18%
Due To Other Governments (Related Party)	121	2,417	(2,296)	(95%)
Accrued Vacation and Sick Pay	17,680	13,792	3,888	28%
Accrued Payroll	748	6,327	(5,579)	(88%)
Payroll Taxes Payable	2,152	0	2,152	N/A
Flex Spending Payable	396	92	304	330%
Total Current Liabilities (Payable From Current Assets)	51,794	41,169	10,625	26%
Liabilities Payable From Restricted Cash:				
Customer Deposits	14,489	11,100	3,389	31%
Total Liabilities	66,283	52,269	14,014	27%
Net Assets				
Invested in Capital Assets, Net of Related Debt	4,095,134	4,216,156	(121,022)	(3%)
Unrestricted	1,348,726	960,766	387,960	40%
Total Net Assets	\$ 5,443,860	5,176,922	266,938	5%

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
	2005	2004		
Operating Revenues:				
Residential Sales	\$ 651,551	664,834	(13,283)	(2%)
Commercial Sales	769,436	745,262	24,174	3%
Public Street and Highway Lighting	21,631	20,445	1,186	6%
Wind Power – Residential and Commercial	752	560	192	34%
Material and Service Sales	38,319	23,360	14,959	64%
Service Income	7,892	8,129	(237)	(3%)
Total Operating Revenues	<u>1,489,581</u>	<u>1,462,590</u>	<u>26,991</u>	<u>2%</u>
Operating Expenses:				
Production/Processing Expense	696,038	653,324	42,714	7%
Distribution Expense	143,406	147,625	(4,219)	(3%)
Accounting and Collecting	27,559	25,863	1,696	7%
Administrative and General	155,705	172,149	(16,444)	(10%)
Free Community Service (Related Party)	96,957	79,727	17,230	22%
Free Community Service	5,923	8,108	(2,185)	(27%)
Transportation	3,582	5,669	(2,087)	(37%)
Depreciation	194,931	188,838	6,093	3%
Payroll Taxes	20,960	23,137	(2,177)	(9%)
Total Operating Expenses	<u>1,345,061</u>	<u>1,304,440</u>	<u>40,621</u>	<u>3%</u>
Operating Income	<u>144,520</u>	<u>158,150</u>	<u>(13,630)</u>	<u>(9%)</u>
Nonoperating Revenues (Expenses):				
Gain on Sale of Capital Assets	3,527	2,000	1,527	76%
Gain (Loss) on Disposal of Materials	541	(5,701)	6,242	(109%)
Rentals	629	714	(85)	(12%)
Rentals (Related Party)	5,000	5,000	0	0%
Customer Penalties	519	414	105	25%
Miscellaneous Income	52	523	(471)	(90%)
Interest Income	38,045	14,236	23,809	167%
Interest Income (Related Party)	0	27	(27)	(100%)
Interest Expense	(467)	(791)	324	(41%)
Net Nonoperating Revenues (Expenses)	<u>47,846</u>	<u>16,422</u>	<u>31,424</u>	<u>191%</u>
Net Income Before Transfers	192,366	174,572	17,794	10%
Transfer to Communications Utility Fund	0	(100,000)	100,000	(100%)
Change in Net Assets	192,366	74,572	117,794	158%
Net Assets Beginning of Year	<u>5,251,494</u>	<u>5,176,922</u>	<u>74,572</u>	<u>1%</u>
Net Assets End of Year	<u>\$ 5,443,860</u>	<u>5,251,494</u>	<u>192,366</u>	<u>4%</u>

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
	2005	2003		
Operating Revenues:				
Residential Sales	\$ 651,551	690,990	(39,439)	(6%)
Commercial Sales	769,436	797,460	(28,024)	(4%)
Public Street and Highway Lighting	21,631	20,898	733	4%
Wind Power – Residential and Commercial	752	0	752	N/A
Material and Service Sales	38,319	26,820	11,499	43%
Service Income	7,892	7,336	556	8%
Total Operating Revenues	<u>1,489,581</u>	<u>1,543,504</u>	<u>(53,923)</u>	<u>(3%)</u>
Operating Expenses:				
Production/Processing Expense	696,038	732,621	(36,583)	(5%)
Distribution Expense	143,406	136,066	7,340	5%
Accounting and Collecting	27,559	24,081	3,478	14%
Administrative and General	155,705	155,929	(224)	0%
Free Community Service (Related Party)	96,957	78,353	18,604	24%
Free Community Service	5,923	6,484	(561)	(9%)
Transportation	3,582	3,423	159	5%
Depreciation	194,931	185,812	9,119	5%
Payroll Taxes	20,960	21,340	(380)	(2%)
Total Operating Expenses	<u>1,345,061</u>	<u>1,344,109</u>	<u>952</u>	<u>0%</u>
Operating Income	<u>144,520</u>	<u>199,395</u>	<u>(54,875)</u>	<u>(28%)</u>
Nonoperating Revenues (Expenses):				
Gain on Sale of Capital Assets	3,527	0	3,527	N/A
Gain on Disposal of Materials	541	336	205	61%
Donation (Related Party)	0	2,906	(2,906)	(100%)
Rentals	629	714	(85)	(12%)
Rentals (Related Party)	5,000	5,000	0	0%
Customer Penalties	519	387	132	34%
Miscellaneous Income	52	0	52	N/A
Interest Income	38,045	20,431	17,614	86%
Interest Income (Related Party)	0	1,771	(1,771)	(100%)
Interest Expense	(467)	(460)	(7)	2%
Net Nonoperating Revenues (Expenses)	<u>47,846</u>	<u>31,085</u>	<u>16,761</u>	<u>54%</u>
Change in Net Assets	192,366	230,480	(38,114)	(17%)
Net Assets Beginning of Year	<u>5,251,494</u>	<u>4,946,442</u>	<u>305,052</u>	<u>6%</u>
Net Assets End of Year	<u>\$ 5,443,860</u>	<u>5,176,922</u>	<u>266,938</u>	<u>5%</u>

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
	2005	2004		
Assets				
Current Assets:				
Cash	\$ 237,198	182,259	54,939	30%
Certificates of Deposit	110,975	147,000	(36,025)	(25%)
Accounts Receivable	37,117	39,862	(2,745)	(7%)
Due From Other Funds	0	124	(124)	(100%)
Due From Other Governments (Related Party)	333	304	29	10%
Due From Other Governments	513	525	(12)	(2%)
Interest Receivable	1,288	997	291	29%
Notes Receivable – Rock Rapids Development Corporation	0	4,500	(4,500)	(100%)
Flex Spending Receivable	0	436	(436)	(100%)
Inventory	30,915	26,470	4,445	17%
Prepaid Insurance	10,660	9,690	970	10%
Total Current Assets	428,999	412,167	16,832	4%
Restricted Cash:				
Customer Deposits	1,840	1,620	220	14%
Capital Assets:				
Land	118,525	118,525	0	0%
Utility Plant	3,407,625	3,383,902	23,723	1%
Transportation Equipment	18,330	48,246	(29,916)	(62%)
Office Equipment	12,676	21,226	(8,550)	(40%)
Tools and Safety Devices	45,427	54,019	(8,592)	(16%)
Communication Equipment	1,955	4,716	(2,761)	(59%)
Meter Testing Equipment	5,668	6,507	(839)	(13%)
Total Capital Assets (Before W.I.P.)	3,610,206	3,637,141	(26,935)	(1%)
Less: Accumulated Depreciation	(1,862,067)	(1,826,783)	(35,284)	2%
Capital Assets – Net (Before W.I.P.)	1,748,139	1,810,358	(62,219)	(3%)
Construction Work in Progress	125,485	74,957	50,528	67%
Net Capital Assets	1,873,624	1,885,315	(11,691)	(1%)
Other Assets:				
Lewis & Clark Project Membership (Related Party)	168,306	100,763	67,543	67%
Total Assets	2,472,769	2,399,865	72,904	3%

**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
	2005	2004		
Liabilities				
Current Liabilities (Payable From Current Assets):				
Accounts Payable	10,114	4,242	5,872	138%
Due To Other Funds	0	1,933	(1,933)	(100%)
Due To Other Governments	1,676	1,399	277	20%
Due To Other Governments (Related Party)	65	673	(608)	(90%)
Accrued Vacation and Sick Pay	13,530	13,331	199	1%
Accrued Payroll	407	3,851	(3,444)	(89%)
Payroll Taxes Payable	2,064	0	2,064	N/A
Flex Spending Payable	554	0	554	N/A
Total Current Liabilities (Payable From Current Assets)	28,410	25,429	2,981	12%
Liabilities Payable From Restricted Cash:				
Customer Deposits	1,840	1,620	220	14%
Total Liabilities	30,250	27,049	3,201	12%
Net Assets				
Invested in Capital Assets, Net of Related Debt	1,873,624	1,885,315	(11,691)	(1%)
Unrestricted	568,895	487,501	81,394	17%
Total Net Assets	\$ 2,442,519	2,372,816	69,703	3%

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
	2005	2003		
Assets				
Current Assets:				
Cash	\$ 237,198	211,707	25,491	12%
Certificates of Deposit	110,975	122,000	(11,025)	(9%)
Accounts Receivable	37,117	45,059	(7,942)	(18%)
Due From Other Governments (Related Party)	333	0	333	N/A
Due From Other Governments	513	0	513	N/A
Interest Receivable	1,288	188	1,100	585%
Inventory	30,915	28,324	2,591	9%
Prepaid Insurance	10,660	8,681	1,979	23%
Total Current Assets	428,999	415,959	13,040	3%
Restricted Cash:				
Customer Deposits	1,840	1,640	200	12%
Capital Assets:				
Land	118,525	118,311	214	0%
Utility Plant	3,407,625	3,322,023	85,602	3%
Transportation Equipment	18,330	29,916	(11,586)	(39%)
Office Equipment	12,676	19,046	(6,370)	(33%)
Tools and Safety Devices	45,427	53,286	(7,859)	(15%)
Communication Equipment	1,955	4,716	(2,761)	(59%)
Meter Testing Equipment	5,668	6,507	(839)	(13%)
Total Capital Assets (Before W.I.P.)	3,610,206	3,553,805	56,401	2%
Less: Accumulated Depreciation	(1,862,067)	(1,738,466)	(123,601)	7%
Capital Assets – Net (Before W.I.P.)	1,748,139	1,815,339	(67,200)	(4%)
Construction Work in Progress	125,485	40,944	84,541	206%
Net Capital Assets	1,873,624	1,856,283	17,341	1%
Other Assets:				
Lewis & Clark Project Membership (Related Party)	168,306	32,231	136,075	422%
Total Assets	2,472,769	2,306,113	166,656	7%

**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
	2005	2003		
Liabilities				
Current Liabilities (Payable From Current Assets):				
Accounts Payable	10,114	14,828	(4,714)	(32%)
Due To Other Governments	1,676	1,333	343	26%
Due To Other Governments (Related Party)	65	1,381	(1,316)	(95%)
Accrued Vacation and Sick Pay	13,530	10,809	2,721	25%
Accrued Payroll	407	3,307	(2,900)	(88%)
Payroll Taxes Payable	2,064	0	2,064	N/A
Flex Spending Payable	554	128	426	333%
Total Current Liabilities (Payable From Current Assets)	28,410	31,786	(3,376)	(11%)
Liabilities Payable From Restricted Cash:				
Customer Deposits	1,840	1,640	200	12%
Total Liabilities	30,250	33,426	(3,176)	(10%)
Net Assets				
Invested in Capital Assets, Net of Related Debt	1,873,624	1,856,283	17,341	1%
Unrestricted	568,895	416,404	152,491	37%
Total Net Assets	\$ 2,442,519	2,272,687	169,832	7%

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
	2005	2004		
Operating Revenues:				
Water Sales - Metered	\$ 231,170	242,871	(11,701)	(5%)
Water Sales - Rural Water System	167,795	171,528	(3,733)	(2%)
Water Sales - Tank Loads	1,213	1,444	(231)	(16%)
Material and Service Sales	0	555	(555)	(100%)
Service Income	2,661	2,650	11	0%
Total Operating Revenues	402,839	419,048	(16,209)	(4%)
Operating Expenses:				
Production/Processing Expense	79,267	75,486	3,781	5%
Distribution Expense	52,180	47,125	5,055	11%
Accounting and Collecting	16,710	15,519	1,191	8%
Administrative and General	76,108	83,322	(7,214)	(9%)
Free Community Service (Related Party)	4,969	777	4,192	540%
Transportation	4,033	2,990	1,043	35%
Depreciation	96,977	88,318	8,659	10%
Payroll Taxes	13,789	13,428	361	3%
Total Operating Expenses	344,033	326,965	17,068	5%
Operating Income	58,806	92,083	(33,277)	(36%)
Nonoperating Revenues:				
Gain on Sale of Capital Assets	1,813	0	1,813	N/A
Gain on Disposal of Materials	30	0	30	N/A
Rentals	5,660	5,660	0	0%
Customer Penalties	75	71	4	6%
Interest Income	3,319	2,315	1,004	43%
Net Nonoperating Revenues	10,897	8,046	2,851	35%
Change in Net Assets	69,703	100,129	(30,426)	(30%)
Net Assets Beginning of Year	2,372,816	2,272,687	100,129	4%
Net Assets End of Year	\$ 2,442,519	2,372,816	69,703	3%

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
	2005	2003		
Operating Revenues:				
Water Sales – Metered	\$ 231,170	238,540	(7,370)	(3%)
Water Sales – Rural Water System	167,795	183,741	(15,946)	(9%)
Water Sales – Tank Loads	1,213	929	284	31%
Material and Service Sales	0	4,191	(4,191)	(100%)
Service Income	2,661	3,155	(494)	(16%)
Total Operating Revenues	402,839	430,556	(27,717)	(6%)
Operating Expenses:				
Production/Processing Expense	79,267	78,958	309	0%
Distribution Expense	52,180	46,369	5,811	13%
Accounting and Collecting	16,710	15,462	1,248	8%
Administrative and General	76,108	75,475	633	1%
Free Community Service (Related Party)	4,969	1,505	3,464	230%
Transportation	4,033	2,922	1,111	38%
Depreciation	96,977	81,869	15,108	18%
Payroll Taxes	13,789	13,457	332	2%
Total Operating Expenses	344,033	316,017	28,016	9%
Operating Income	58,806	114,539	(55,733)	(49%)
Nonoperating Revenues:				
Gain on Sale of Capital Assets	1,813	0	1,813	N/A
Gain on Disposal of Materials	30	0	30	N/A
Rentals	5,660	4,800	860	18%
Customer Penalties	75	74	1	1%
Interest Income	3,319	3,256	63	2%
Net Nonoperating Revenues	10,897	8,130	2,767	34%
Change in Net Assets	69,703	122,669	(52,966)	(43%)
Net Assets Beginning of Year	2,372,816	2,150,018	222,798	10%
Net Assets End of Year	\$ 2,442,519	2,272,687	169,832	7%

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
	2005	2004		
Assets				
Current Assets:				
Cash	\$ 121,439	128,127	(6,688)	(5%)
Certificates of Deposit	110,500	90,500	20,000	22%
Accounts Receivable	17,522	18,142	(620)	(3%)
Due From Other Governments (Related Party)	149	130	19	15%
Due From Other Governments	485	381	104	27%
Interest Receivable	1,509	1,357	152	11%
Flex Spending Receivable	0	187	(187)	(100%)
Prepaid Insurance	7,077	5,518	1,559	28%
Total Current Assets	258,681	244,342	14,339	6%
Restricted Cash and Certificates of Deposit:				
Depreciation Reserves (Cash)	(9,284)	12,561	(21,845)	(174%)
Depreciation Reserves (Certificates of Deposit)	59,500	59,500	0	0%
Total Restricted Cash and Certificates of Deposit	50,216	72,061	(21,845)	(30%)
Capital Assets:				
Utility Plant	1,626,812	1,632,063	(5,251)	0%
Transportation Equipment	38,380	19,850	18,530	93%
Office Equipment	4,785	6,260	(1,475)	(24%)
Tools and Safety Devices	25,865	30,061	(4,196)	(14%)
Communication Equipment	0	934	(934)	(100%)
Total Capital Assets (Before W.I.P)	1,695,842	1,689,168	6,674	0%
Less: Accumulated Depreciation	(1,223,038)	(1,208,611)	(14,427)	1%
Capital Assets - Net (Before W.I.P)	472,804	480,557	(7,753)	(2%)
Construction Work in Progress	191,196	153,939	37,257	24%
Net Capital Assets	664,000	634,496	29,504	5%
Total Assets	972,897	950,899	21,998	2%
Liabilities				
Current Liabilities (Payable From Current Assets):				
Accounts Payable	17,273	2,155	15,118	702%
Due to Other Funds	0	1,576	(1,576)	(100%)
Due To Other Governments	193	147	46	31%
Due To Other Governments (Related Party)	16	198	(182)	(92%)
Accrued Vacation and Sick Pay	3,183	3,215	(32)	(1%)
Accrued Payroll	247	2,280	(2,033)	(89%)
Payroll Taxes Payable	867	0	867	N/A
Flex Spending Payable	237	0	237	N/A
Total Liabilities	22,016	9,571	12,445	130%

**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
	2005	2004		
Net Assets				
Invested in Capital Assets, Net of Related Debt	664,000	634,496	29,504	5%
Restricted for:				
Depreciation Reserves	50,216	72,061	(21,845)	(30%)
Unrestricted	236,665	234,771	1,894	1%
Total Net Assets	\$ 950,881	941,328	9,553	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
	2005	2003		
Assets				
Current Assets:				
Cash	\$ 121,439	302,463	(181,024)	(60%)
Certificates of Deposit	110,500	94,000	16,500	18%
Accounts Receivable	17,522	18,162	(640)	(4%)
Due From Other Governments (Related Party)	149	0	149	N/A
Due From Other Governments	485	0	485	N/A
Interest Receivable	1,509	1,549	(40)	(3%)
Prepaid Insurance	7,077	4,971	2,106	42%
Total Current Assets	258,681	421,145	(162,464)	(39%)
Restricted Cash and Certificates of Deposit:				
Depreciation Reserves (Cash)	(9,284)	1,794	(11,078)	(618%)
Depreciation Reserves (Certificates of Deposit)	59,500	59,500	0	0%
Total Restricted Cash and Certificates of Deposit	50,216	61,294	(11,078)	(18%)
Capital Assets:				
Utility Plant	1,626,812	1,418,615	208,197	15%
Transportation Equipment	38,380	36,120	2,260	6%
Office Equipment	4,785	5,589	(804)	(14%)
Tools and Safety Devices	25,865	30,061	(4,196)	(14%)
Communication Equipment	0	934	(934)	(100%)
Total Capital Assets (Before W.I.P)	1,695,842	1,491,319	204,523	14%
Less: Accumulated Depreciation	(1,223,038)	(1,193,576)	(29,462)	2%
Capital Assets – Net (Before W.I.P)	472,804	297,743	175,061	59%
Construction Work in Progress	191,196	191,391	(195)	0%
Net Capital Assets	664,000	489,134	174,866	36%
Total Assets	972,897	971,573	1,324	0%
Liabilities				
Current Liabilities (Payable From Current Assets):				
Accounts Payable	17,273	14,602	2,671	18%
Due to Other Funds	0	0	0	N/A
Due To Other Governments	193	124	69	56%
Due To Other Governments (Related Party)	16	449	(433)	(96%)
Accrued Vacation and Sick Pay	3,183	3,360	(177)	(5%)
Accrued Payroll	247	3,064	(2,817)	(92%)
Payroll Taxes Payable	867	0	867	N/A
Flex Spending Payable	237	55	182	331%
Total Liabilities	22,016	21,654	362	2%

**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
	2005	2003		
Net Assets				
Invested in Capital Assets, Net of Related Debt	664,000	489,134	174,866	36%
Restricted for:				
Depreciation Reserves	50,216	61,294	(11,078)	(18%)
Unrestricted	236,665	399,491	(162,826)	(41%)
Total Net Assets	\$ 950,881	949,919	962	0%

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
	2005	2004		
Operating Revenues:				
Sewer Service	\$ 185,005	158,291	26,714	17%
Service Income	883	883	0	0%
Total Operating Revenues	185,888	159,174	26,714	17%
Operating Expenses:				
Production/Processing Expense	98,305	85,156	13,149	15%
Accounting and Collecting	5,332	5,863	(531)	(9%)
Administrative and General	31,658	33,260	(1,602)	(5%)
Free Community Service (Related Party)	8,622	6,601	2,021	31%
Transportation	3,420	1,805	1,615	89%
Depreciation	29,607	31,305	(1,698)	(5%)
Payroll Taxes	7,927	7,316	611	8%
Total Operating Expenses	184,871	171,306	13,565	8%
Operating Income (Loss)	1,017	(12,132)	13,149	(108%)
Nonoperating Revenues:				
Gain on Sale of Capital Assets	4,100	0	4,100	N/A
Gain on Disposal of Materials	15	0	15	N/A
Customer Penalties	59	56	3	5%
Interest Income	4,362	3,485	877	25%
Net Nonoperating Revenues	8,536	3,541	4,995	141%
Change in Net Assets	9,553	(8,591)	18,144	211%
Net Assets Beginning of Year	941,328	949,919	(8,591)	(1%)
Net Assets End of Year	\$ 950,881	941,328	9,553	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
	2005	2003		
Operating Revenues:				
Sewer Service	\$ 185,005	155,433	29,572	19%
Service Income	883	883	0	0%
Total Operating Revenues	185,888	156,316	29,572	19%
Operating Expenses:				
Production/Processing Expense	98,305	79,580	18,725	24%
Accounting and Collecting	5,332	6,873	(1,541)	(22%)
Administrative and General	31,658	32,270	(612)	(2%)
Free Community Service (Related Party)	8,622	5,280	3,342	63%
Transportation	3,420	998	2,422	243%
Depreciation	29,607	55,996	(26,389)	(47%)
Payroll Taxes	7,927	7,634	293	4%
Total Operating Expenses	184,871	188,631	(3,760)	(2%)
Operating Income (Loss)	1,017	(32,315)	33,332	(103%)
Nonoperating Revenues:				
Gain on Sale of Capital Assets	4,100	0	4,100	N/A
Gain on Disposal of Materials	15	0	15	N/A
Customer Penalties	59	60	(1)	(2%)
Interest Income	4,362	9,316	(4,954)	(53%)
Net Nonoperating Revenues	8,536	9,376	(840)	(9%)
Net Income (Loss) Before Special Items	9,553	(22,939)	32,492	(142%)
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	9,553	154,361	(144,808)	(94%)
Net Assets Beginning of Year	941,328	795,558	145,770	18%
Net Assets End of Year	\$ 950,881	949,919	962	0%

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
	2005	2004		
Assets				
Current Assets:				
Cash	\$ 413,924	244,208	169,716	69%
Certificates of Deposit	457,745	395,000	62,745	16%
Accounts Receivable	46,431	57,377	(10,946)	(19%)
Due From Other Funds	0	68	(68)	(100%)
Due From Other Governments (Related Party)	3,151	2,856	295	10%
Due From Other Governments	2,392	951	1,441	152%
Interest Receivable	4,122	2,966	1,156	39%
Notes Receivable – Rock Rapids Development Corporation (Current Portion)	0	39,150	(39,150)	(100%)
Flex Spending Receivable	0	311	(311)	(100%)
Inventory	38,635	49,952	(11,317)	(23%)
Prepaid Insurance	5,435	7,414	(1,979)	(27%)
Total Current Assets	971,835	800,253	171,582	21%
Restricted Cash:				
Customer Deposits	27,206	20,615	6,591	32%
Capital Assets:				
Land	18,777	18,777	0	0%
Utility Plant	977,585	966,417	11,168	1%
Transportation Equipment	49,818	49,818	0	0%
Office Equipment	18,757	24,712	(5,955)	(24%)
Tools and Safety Devices	71,259	100,599	(29,340)	(29%)
Total Capital Assets (Before W.I.P)	1,136,196	1,160,323	(24,127)	(2%)
Less: Accumulated Depreciation	(462,862)	(476,683)	13,821	(3%)
Capital Assets - Net (Before W.I.P)	673,334	683,640	(10,306)	(2%)
Construction Work in Progress	0	681	(681)	(100%)
Net Capital Assets	673,334	684,321	(10,987)	(2%)
Total Assets	1,672,375	1,505,189	167,186	11%

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
	2005	2004		
Liabilities				
Current Liabilities (Payable From Current Assets):				
Accounts Payable	15,565	1,783	13,782	773%
Due to Other Funds	0	50	(50)	(100%)
Due To Other Governments	3,932	2,181	1,751	80%
Due To Other Governments (Related Party)	1,846	2,773	(927)	(33%)
Accrued Vacation and Sick Pay	14,219	13,910	309	2%
Accrued Payroll	518	4,689	(4,171)	(89%)
Payroll Taxes Payable	1,660	0	1,660	N/A
Flex Spending Payable	396	0	396	N/A
Unearned Income	813	751	62	8%
Total Current Liabilities (Payable From Current Assets)	38,949	26,137	12,812	49%
Liabilities Payable From Restricted Cash:				
Customer Deposits	27,206	20,615	6,591	32%
Total Liabilities	66,155	46,752	19,403	42%
Net Assets				
Invested in Capital Assets, Net of Related Debt	673,334	684,321	(10,987)	(2%)
Unrestricted	932,886	774,116	158,770	21%
Total Net Assets	<u>\$ 1,606,220</u>	<u>1,458,437</u>	<u>147,783</u>	<u>10%</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 Net Assets

	June 30,		Amount of Change	Percentage of Change
	2005	2003		
Assets				
Current Assets:				
Cash	\$ 413,924	477,214	(63,290)	(13%)
Certificates of Deposit	457,745	85,016	372,729	438%
Accounts Receivable	46,431	73,818	(27,387)	(37%)
Due From Other Funds	0	0	0	N/A
Due From Other Governments (Related Party)	3,151	0	3,151	N/A
Due From Other Governments	2,392	0	2,392	N/A
Interest Receivable	4,122	414	3,708	896%
Notes Receivable – Related Party	0	25,064	(25,064)	(100%)
Notes Receivable – Rock Rapids Development Corporation (Current Portion)	0	15,000	(15,000)	(100%)
Inventory	38,635	37,697	938	2%
Prepaid Insurance	5,435	7,171	(1,736)	(24%)
Total Current Assets	971,835	721,394	250,441	35%
Restricted Cash:				
Customer Deposits	27,206	17,395	9,811	56%
Capital Assets:				
Land	18,777	18,563	214	1%
Utility Plant	977,585	964,142	13,443	1%
Transportation Equipment	49,818	49,818	0	0%
Office Equipment	18,757	20,800	(2,043)	(10%)
Tools and Safety Devices	71,259	92,540	(21,281)	(23%)
Total Capital Assets (Before W.I.P)	1,136,196	1,145,863	(9,667)	(1%)
Less: Accumulated Depreciation	(462,862)	(441,558)	(21,304)	5%
Net Capital Assets	673,334	704,305	(30,971)	(4%)
Other Assets:				
Notes Receivable – Rock Rapids Development Corporation (Noncurrent Portion)	0	8,900	(8,900)	(100%)
Total Assets	1,672,375	1,451,994	220,381	15%

**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
	2005	2003		
Liabilities				
Current Liabilities (Payable From Current Assets):				
Accounts Payable	15,565	2,638	12,927	490%
Due to Other Funds	0	0	0	N/A
Due To Other Governments	3,932	2,412	1,520	63%
Due To Other Governments (Related Party)	1,846	3,498	(1,652)	(47%)
Accrued Vacation and Sick Pay	14,219	11,890	2,329	20%
Accrued Payroll	518	3,227	(2,709)	(84%)
Payroll Taxes Payable	1,660	0	1,660	N/A
Flex Spending Payable	396	92	304	330%
Unearned Income	813	2,353	(1,540)	(65%)
Total Current Liabilities (Payable From Current Assets)	38,949	26,110	12,839	49%
Liabilities Payable From Restricted Cash:				
Customer Deposits	27,206	17,395	9,811	56%
Total Liabilities	66,155	43,505	22,650	52%
Net Assets				
Invested in Capital Assets, Net of Related Debt	673,334	704,305	(30,971)	(4%)
Unrestricted	932,886	704,184	228,702	32%
Total Net Assets	\$1,606,220	1,408,489	197,731	14%

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
	2005	2004		
Operating Revenues:				
Residential Sales	\$ 1,301,442	1,220,961	80,481	7%
Commercial Sales	47,522	5,906	41,616	705%
Material and Service Sales	452	523	(71)	(14%)
Service Income	4,115	4,066	49	1%
Total Operating Revenues	1,353,531	1,231,456	122,075	10%
Operating Expenses:				
Production/Processing Expense	1,049,826	925,475	124,351	13%
Distribution Expense	74,033	57,658	16,375	28%
Accounting and Collecting	27,103	23,982	3,121	13%
Administrative and General	116,645	124,631	(7,986)	(6%)
Free Community Service (Related Party)	22,362	3,498	18,864	539%
Free Community Service	1,000	0	1,000	N/A
Transportation	3,712	3,894	(182)	(5%)
Depreciation	36,824	35,124	1,700	5%
Payroll Taxes	15,281	14,126	1,155	8%
Total Operating Expenses	1,346,786	1,188,388	158,398	13%
Operating Income	6,745	43,068	(36,323)	(84%)
Nonoperating Revenues (Expenses):				
Gain on Sale of Capital Assets	3,527	0	3,527	N/A
Gain on Disposal of Materials	53	0	53	N/A
Customer Penalties	1,312	1,233	79	6%
Interest Income	12,308	6,665	5,643	85%
Interest Income (Related Party)	0	27	(27)	(100%)
Equity Distribution - NPGA (Related Party)	124,620	0	124,620	N/A
Interest Expense	(782)	(1,045)	263	(25%)
Net Nonoperating Revenues (Expenses)	141,038	6,880	134,158	1950%
Change in Net Assets	147,783	49,948	97,835	196%
Net Assets Beginning of Year	1,458,437	1,408,489	49,948	4%
Net Assets End of Year	\$ 1,606,220	1,458,437	147,783	10%

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
	2005	2003		
Operating Revenues:				
Residential Sales	\$ 1,301,442	1,195,894	105,548	9%
Commercial Sales	47,522	12,376	35,146	284%
Material and Service Sales	452	438	14	3%
Service Income	4,115	3,845	270	7%
Total Operating Revenues	<u>1,353,531</u>	<u>1,212,553</u>	<u>140,978</u>	<u>12%</u>
Operating Expenses:				
Production/Processing Expense	1,049,826	903,321	146,505	16%
Distribution Expense	74,033	67,751	6,282	9%
Accounting and Collecting	27,103	23,418	3,685	16%
Administrative and General	116,645	114,036	2,609	2%
Free Community Service (Related Party)	22,362	2,257	20,105	891%
Free Community Service	1,000	0	1,000	N/A
Transportation	3,712	2,227	1,485	67%
Depreciation	36,824	36,199	625	2%
Payroll Taxes	15,281	13,629	1,652	12%
Total Operating Expenses	<u>1,346,786</u>	<u>1,162,838</u>	<u>183,948</u>	<u>16%</u>
Operating Income	<u>6,745</u>	<u>49,715</u>	<u>(42,970)</u>	<u>(86%)</u>
Nonoperating Revenues (Expenses):				
Gain on Sale of Capital Assets	3,527	0	3,527	N/A
Gain on Disposal of Materials	53	0	53	N/A
Customer Penalties	1,312	1,115	197	18%
Interest Income	12,308	6,944	5,364	77%
Interest Income (Related Party)	0	1,771	(1,771)	(100%)
Equity Distribution - NPGA (Related Party)	124,620	0	124,620	N/A
Interest Expense	(782)	(665)	(117)	18%
Net Nonoperating Revenues (Expenses)	<u>141,038</u>	<u>9,165</u>	<u>131,873</u>	<u>1439%</u>
Change in Net Assets	147,783	58,880	88,903	151%
Net Assets Beginning of Year	<u>1,458,437</u>	<u>1,349,609</u>	<u>108,828</u>	<u>8%</u>
Net Assets End of Year	<u>\$ 1,606,220</u>	<u>1,408,489</u>	<u>197,731</u>	<u>14%</u>

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
	2005	2004		
Assets				
Current Assets:				
Cash	\$ 6,611	1,795	4,816	268%
Accounts Receivable	3,264	4,401	(1,137)	(26%)
Due From Other Funds	0	95	(95)	(100%)
Due From Other Governments (Related Party)	108	108	0	0%
Due From Other Governments	285	285	0	0%
Inventory	7,497	4,990	2,507	50%
Prepaid Insurance	0	48	(48)	(100%)
Total Current Assets	17,765	11,722	6,043	52%
Restricted Cash:				
Customer Deposits	972	408	564	138%
Capital Assets:				
Office Equipment	513	513	0	0%
Communication Equipment	143,452	131,100	12,352	9%
Total Capital Assets (Before W.I.P)	143,965	131,613	12,352	9%
Less: Accumulated Depreciation	(79,513)	(53,043)	(26,470)	50%
Net Capital Assets	64,452	78,570	(14,118)	(18%)
Total Assets	83,189	90,700	(7,511)	(8%)
Liabilities				
Current Liabilities (Payable From Current Assets):				
Accounts Payable	3,686	3,415	271	8%
Due To Other Governments	21	0	21	N/A
Due To Other Governments (Related Party)	16	138	(122)	(88%)
Accrued Payroll	20	282	(262)	(93%)
Payroll Taxes Payable	138	0	138	N/A
Total Current Liabilities (Payable From Current Assets)	3,881	3,835	46	1%
Liabilities Payable From Restricted Cash:				
Customer Deposits	972	408	564	138%
Total Liabilities	4,853	4,243	610	14%
Net Assets				
Invested in Capital Assets, Net of Related Debt	64,452	78,570	(14,118)	(18%)
Unrestricted	13,884	7,887	5,997	76%
Total Net Assets	\$ 78,336	86,457	(8,121)	(9%)

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
	2005	2003		
Assets				
Current Assets:				
Cash	\$ 6,611	(15,826)	22,437	(142%)
Accounts Receivable	3,264	5,944	(2,680)	(45%)
Due From Other Funds	0	0	0	N/A
Due From Other Governments (Related Party)	108	0	108	N/A
Due From Other Governments	285	0	285	N/A
Inventory	7,497	3,268	4,229	129%
Prepaid Insurance	0	44	(44)	(100%)
Total Current Assets	17,765	(6,570)	24,335	(370%)
Restricted Cash:				
Customer Deposits	972	4,236	(3,264)	(77%)
Capital Assets:				
Office Equipment	513	94	419	446%
Communication Equipment	143,452	128,599	14,853	12%
Total Capital Assets (Before W.I.P)	143,965	128,693	15,272	12%
Less: Accumulated Depreciation	(79,513)	(27,013)	(52,500)	194%
Net Capital Assets	64,452	101,680	(37,228)	(37%)
Total Assets	83,189	99,346	(16,157)	(16%)
Liabilities				
Current Liabilities (Payable From Current Assets):				
Accounts Payable	3,686	7,207	(3,521)	(49%)
Due To Other Governments	21	0	21	N/A
Due To Other Governments (Related Party)	16	241	(225)	(93%)
Accrued Payroll	20	119	(99)	(83%)
Payroll Taxes Payable	138	0	138	N/A
Total Current Liabilities (Payable From Current Assets)	3,881	7,567	(3,686)	(49%)
Liabilities Payable From Restricted Cash:				
Customer Deposits	972	4,236	(3,264)	(77%)
Long Term Debt:				
Advance From Other Fund (Electric Fund)	0	100,000	(100,000)	(100%)
Total Liabilities	4,853	111,803	(106,950)	(96%)
Net Assets				
Invested in Capital Assets, Net of Related Debt	64,452	101,680	(37,228)	(37%)
Unrestricted	13,884	(114,137)	128,021	112%
Total Net Assets	\$ 78,336	(12,457)	90,793	729%

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
	2005	2004		
Operating Revenues:				
Residential Sales	\$ 73,168	71,423	1,745	2%
Service Income	0	30	(30)	(100%)
Total Operating Revenues	73,168	71,453	1,715	2%
Operating Expenses:				
Production/Processing Expense	42,605	34,997	7,608	22%
Distribution Expense	688	1,085	(397)	(37%)
Accounting and Collecting	4,039	3,119	920	29%
Administrative and General	6,497	6,255	242	4%
Depreciation	26,470	26,031	439	2%
Payroll Taxes	977	859	118	14%
Total Operating Expenses	81,276	72,346	8,930	12%
Operating Loss	(8,108)	(893)	(7,215)	808%
Nonoperating Revenues (Expenses):				
Customer Penalties	27	0	27	N/A
Interest Expense	(40)	(193)	153	(79%)
Net Nonoperating Revenues (Expenses)	(13)	(193)	180	(93%)
Net Loss Before Transfers	(8,121)	(1,086)	(7,035)	648%
Transfer from Electric Utility Fund	0	100,000	(100,000)	(100%)
Change in Net Assets	(8,121)	98,914	(107,035)	(108%)
Net Assets Beginning of Year	86,457	(12,457)	98,914	794%
Net Assets End of Year	\$ 78,336	86,457	(8,121)	(9%)

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
	2005	2003		
Operating Revenues:				
Residential Sales	\$ 73,168	63,873	9,295	15%
Service Income	0	342	(342)	(100%)
Total Operating Revenues	73,168	64,215	8,953	14%
Operating Expenses:				
Production/Processing Expense	42,605	35,944	6,661	19%
Distribution Expense	688	3,203	(2,515)	(79%)
Accounting and Collecting	4,039	1,925	2,114	110%
Administrative and General	6,497	8,144	(1,647)	(20%)
Depreciation	26,470	20,495	5,975	29%
Payroll Taxes	977	722	255	35%
Total Operating Expenses	81,276	70,433	10,843	15%
Operating Loss	(8,108)	(6,218)	(1,890)	30%
Nonoperating Revenues (Expenses):				
Customer Penalties	27	9	18	200%
Interest Expense	(40)	(30)	(10)	33%
Net Nonoperating Revenues (Expenses)	(13)	(21)	8	(38%)
Change in Net Assets	(8,121)	(6,239)	(1,882)	(30%)
Net Assets Beginning of Year	86,457	(6,218)	92,675	1490%
Net Assets End of Year	\$ 78,336	(12,457)	90,793	729%

See Accompanying Independent Auditor's Report.

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

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

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

To the Members of the Utilities Board of Trustees:

We have audited the accompanying financial statements of the business type activities and 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, 2005, which collectively comprise the Utilities' basic financial statements listed in the table of contents and have issued our report thereon dated September 19, 2005. We conducted our audit in accordance with U. S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

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 an opinion 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 reportable 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 caused by error or fraud 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 the 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 05-A, C, D, E and F are material weaknesses.

Compliance and Other Matters

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, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of non-compliance or other matters 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, 2005 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.

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.

De Noble & Company PC
Certified Public Accounting Firm

September 19, 2005

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids**
Schedule of Findings
Year Ended June 30, 2005

Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

05-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.

05-B Payroll Procedures – 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.

The utility coordinator's compensatory time off availability that is earned is not being formally tracked.

We noted that the amount of sick leave that can be taken for family may not necessarily be corresponding 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.

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 in writing from the employee's supervisor.

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids**
Schedule of Findings
Year Ended June 30, 2005

The utility coordinator's compensatory time off earned should be noted on his time sheet. The amount of the utility coordinator's compensatory time off available to be used upon consent of the utility manager should be formally maintained by the bookkeeper.

The Utilities Board should review the sick leave policy and formally discuss the Board's expectations with the personnel. A policy needs to be established addressing the issue of sick leave and overtime pay for the same day of work.

Response – We will continue to work on improving payroll procedures. We will have the Utilities Board address the sick leave policy. We will review the issue of sick leave and overtime pay for the same day of work with the Union.

Conclusion – Response accepted. Please address these payroll issues.

05-C Capital Assets – Capital assets are not being marked for identification purposes. Subsidiary capital asset records are not completely being 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 and will work on updating the capital assets regularly.

Conclusion – Response accepted. Please address the issue about identifying capital assets.

05-D Dual Check Signers – Checks do not require dual signers. There is no requirement for dual signatures even if an amount exceeds a certain set dollar limit.

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.

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids**
Schedule of Findings
Year Ended June 30, 2005

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.

05-E Trust Fund Records – The accounting records for the internal “Trust Fund” that are maintained did not balance with 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 at all times.

Response – We will attempt to redesign our accounting system to eliminate the internal “Trust Fund.”

Conclusion – Response accepted. Please attempt to make sure the “Trust Fund” properly balances until the accounting system is redesigned.

05-F 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 having an inventory program designed to begin the process of addressing this recommendation.

Conclusion – Response accepted.

05-G 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 attempt to retain supporting documentation for all credit card charges.

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids**
Schedule of Findings
Year Ended June 30, 2005

Conclusion – Response accepted. Please stress the importance of needing to maintain detailed support for all credit card charges.

05-H

Information Systems – During our review of internal control, the existing control activities in the Utilities’ computer based systems were evaluated in order to determine that activities, from a control standpoint, were designed to provide reasonable assurance regarding the achievement of objectives in the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations. The following weaknesses in the Utilities’ computer based systems were noted:

The Utilities does not have written policies that require:

- password changes because software does not require the user to change log-ins/passwords periodically.
- password length to be set at a minimum of at least six characters.
- passwords to access the shop computers.
- daily backup and off-site storage of the information on computers other than the office computer system.

Recommendation – Written policies should be developed addressing the above information system issues in order to improve the control over computer based systems.

Response – We will consider implementing these computer related policies.

Conclusion – Response accepted.

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids**
Schedule of Findings
Year Ended June 30, 2005

Other Findings Related to Required Statutory Reporting:

05-1 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, 2005.

05-2 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, 2005 did not exceed the amount budgeted in the Business Type/Enterprises function for the Rock Rapids Municipal Utilities.

05-3 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 occasionally paid for Utilities employees lunches and also paid them for working through lunch time on those same days. The cost of the lunches (this does not include employees’ payroll costs) to the Utilities amounted to \$266.

The Utilities paid \$183 to host an employee and family appreciation get together.

The Utilities does not have any written policies on limits for business related meals.

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 have the Utilities Board review your recommendation with the Utilities’ attorney and then handle appropriately.

Conclusion – Response accepted.

05-4 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 05-G for a possibly related comment.

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids**
Schedule of Findings
Year Ended June 30, 2005

05-5 Business Transactions – No business transactions between the Utilities and Utilities officials or employees were noted.

05-6 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.

05-7 Board Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not. However, the March 31, 2005 Board minutes were never published.

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

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

Conclusion – Response accepted.

05-8 Revenue Bonds/Notes – The Utilities did not have any revenue bonds or notes payable during the fiscal year ended June 30, 2005.

05-9 Deposits and Investments – The Utilities complied with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the Utilities’ investment policy except for the investment in the Missouri River Energy Services “bill prepayment” program.

The Utilities does not have a public funds custodial agreement with Missouri River Energy Services as prescribed in Ch. 12B.10C of the Code of Iowa and the Treasurer of State’s administrative rules. The Utilities did not have on file the most recent audited financial statements and related report on internal controls for Missouri River Energy Services. The written investment policy does not list Missouri River Energy Services as an allowable investment alternative.

Recommendation – The Utilities should consult with the Utilities’ attorney to verify that the Missouri River Energy Services investment fully complies with the Iowa Code. If the attorney verifies compliance, the Utilities should get a public funds custodial agreement in place, retain on file a copy of the most recent audited financial statements and related report on internal controls for Missouri River Energy Services and add

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids**
Schedule of Findings
Year Ended June 30, 2005

Missouri River Energy Services “bill prepayment” program to the investment policy as an allowable investment.

Response – We will comply with your recommendation.

Conclusion – Response accepted.

05-10 Telecommunication Services – No instances of non-compliance with Chapter 388.10 of the Code of Iowa were noted.

05-11 Electronically Retained Check Images – The back (endorsement) side of electronically retained check images of checks that have cleared the bank are not being received and maintained as required by Chapter 554D.114(5) of the Code of Iowa.

Recommendation – The Utilities should be receiving and maintaining the back (endorsement) side of electronically retained check images of checks that have cleared the bank.

Response – We will comply with the Iowa Code by requesting that we receive the canceled checks.

Conclusion – Response accepted.

05-12 Economic Development – The Utilities paid \$40 to rent a room at the community building in order to hold a meeting for possible investors for economic development purposes. The Utilities also paid \$171 for meals served to possible investors at meetings held for economic development purposes.

The Utilities paid \$299 to have an energy audit performed at a local downtown business building for economic development purposes.

Recommendation – In accordance with Chapter 15A of the Code of Iowa and an Attorney General’s opinion dated August 28, 1986, government financing of economic development may, in appropriate circumstances, serve a public purpose. The opinion advises the governing body to evaluate the public benefits to be obtained and discusses specific criteria to be considered in documenting the public purpose.

The Utilities Board should evaluate and document the public purpose served by each expense before authorizing further payments.

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids**
Schedule of Findings
Year Ended June 30, 2005

Response – We will comply with the Iowa Code in the future.

Conclusion – Response accepted.

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

Listing of Auditors

This audit was performed by:

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

De Noble & Company PC
Certified Public Accounting Firm

NEWS RELEASE

FOR RELEASE: January 26, 2006

Contact: James Hoye
Utilities Manager
(712) 472-2511

De Noble & Company PC today released an audit report on the Rock Rapids Municipal Utilities, Rock Rapids, Iowa.

The Utilities had revenues of \$3,714,600 for the fiscal year ended June 30, 2005, a ten percent increase from the previous year. Revenues included \$1,537,894 from the Electric Utility, \$413,736 from the Water Utility, \$194,424 from the Sewer Utility, \$1,495,351 from the Gas Utility and \$73,195 from the Communications (Wireless Internet) Utility.

Expenses for the Utilities totaled \$3,303,316, an eight percent increase from the previous year. Expenses included \$1,345,528 in the Electric Utility, \$344,033 in the Water Utility, \$184,871 in the Sewer Utility, \$1,347,568 in the Gas Utility and \$81,316 in the Communications (Wireless Internet) Utility.

Revenues increased due to a combination of higher overall usage and some rate increases for utility services, larger interest earnings due to interest rate increases on investments and receiving an equity distribution from National Public Gas Agency. Expenses increased due to a combination of higher overall purchases and some increases in utility purchased power costs, along with contributing more toward community projects.

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