

**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, 2006

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

Officials

Name	Title	Term/ Term Expires
(Before August 31, 2005)		
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
(After August 31, 2005)		
George Vanden Heuvel	Board of Trustees Member	August 31, 2007
Dave Halse	Board of Trustees Chairperson	August 31, 2009
John Stillson	Board of Trustees Member	September 1, 2005 to April 11, 2006
David Foltz	Board of Trustees Member	April 11, 2006 to August 31, 2011
David Foltz	Board of Trustees Ex-Official Member	September 1, 2005 to April 11, 2006
Stan Knobloch	Board of Trustees Ex-Official Member	July 11, 2006 to August 31, 2007
Jordan Kordahl	Board of Trustees Secretary	December 31, 2006
Austin, Haberkorn & Kippley	Attorneys	December 31, 2006
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, 2006, 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, 2006, 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 1, 2006 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 and 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 39 through 41 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. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the fiscal year ended June 30, 2005 (which are not presented herein) and expressed unqualified opinions on those financial statements. Siebrecht Spitler & De Noble PC (Siebrecht Spitler & 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 fiscal year 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 1, 2006

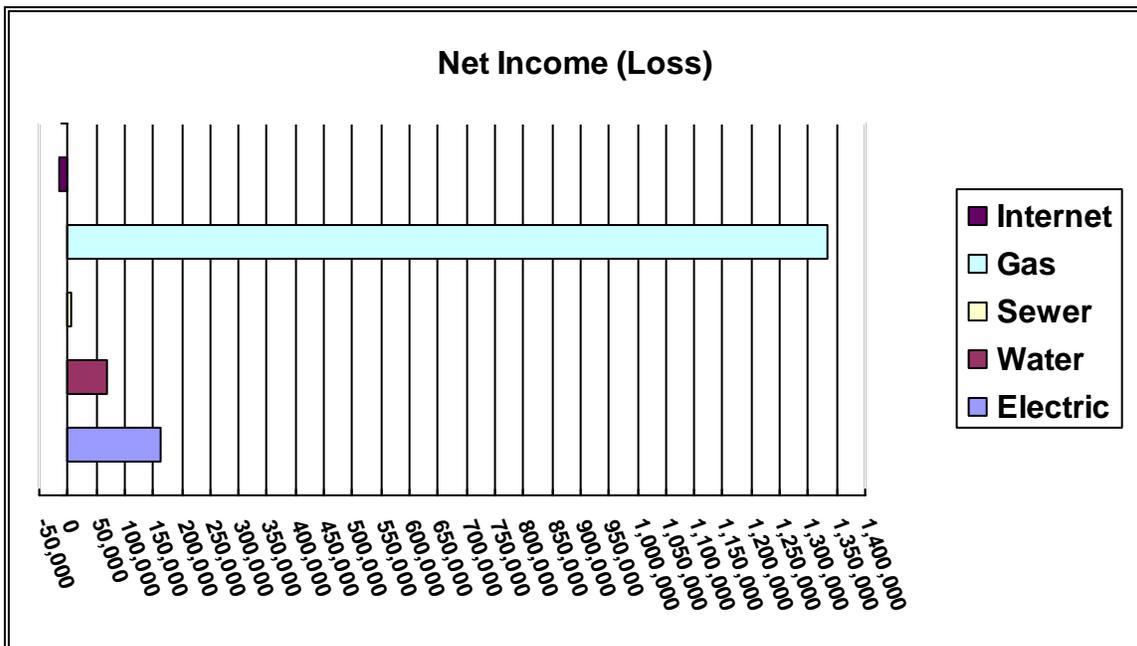
Management's Discussion and Analysis

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, 2006. We encourage readers to consider this information in conjunction with the Utilities' financial statements, which follow.

2006 FINANCIAL HIGHLIGHTS

- The Utilities' total net assets increased 14.8% during the fiscal year ended June 30, 2006. The net assets increased from \$10,521,816 to \$12,074,803, a \$1,552,987 increase.
- The Utilities' total revenues increased 45.1% during the fiscal year ended June 30, 2006. The total revenues increased from \$3,714,600 to \$5,389,884, a \$1,675,284 increase.
- The Utilities' total expenses increased 16.2% during the fiscal year ended June 30, 2006. The total expenses increased from \$3,303,316 to \$3,836,897, a \$533,581 increase.
- Net income (loss) for the fiscal year ended June 30, 2006 for each utility is as follows:

Electric	\$	163,374
Water		69,092
Sewer		4,191
Gas		1,332,932
Communications (Wireless Internet)		(16,602)
Total	\$	1,552,987



USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

The 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.

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

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

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

The Other Supplementary Information provides detailed comparison information for each Utility for the fiscal year ended June 30, 2006, compared to the fiscal years ended June 30, 2005 and 2004.

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.

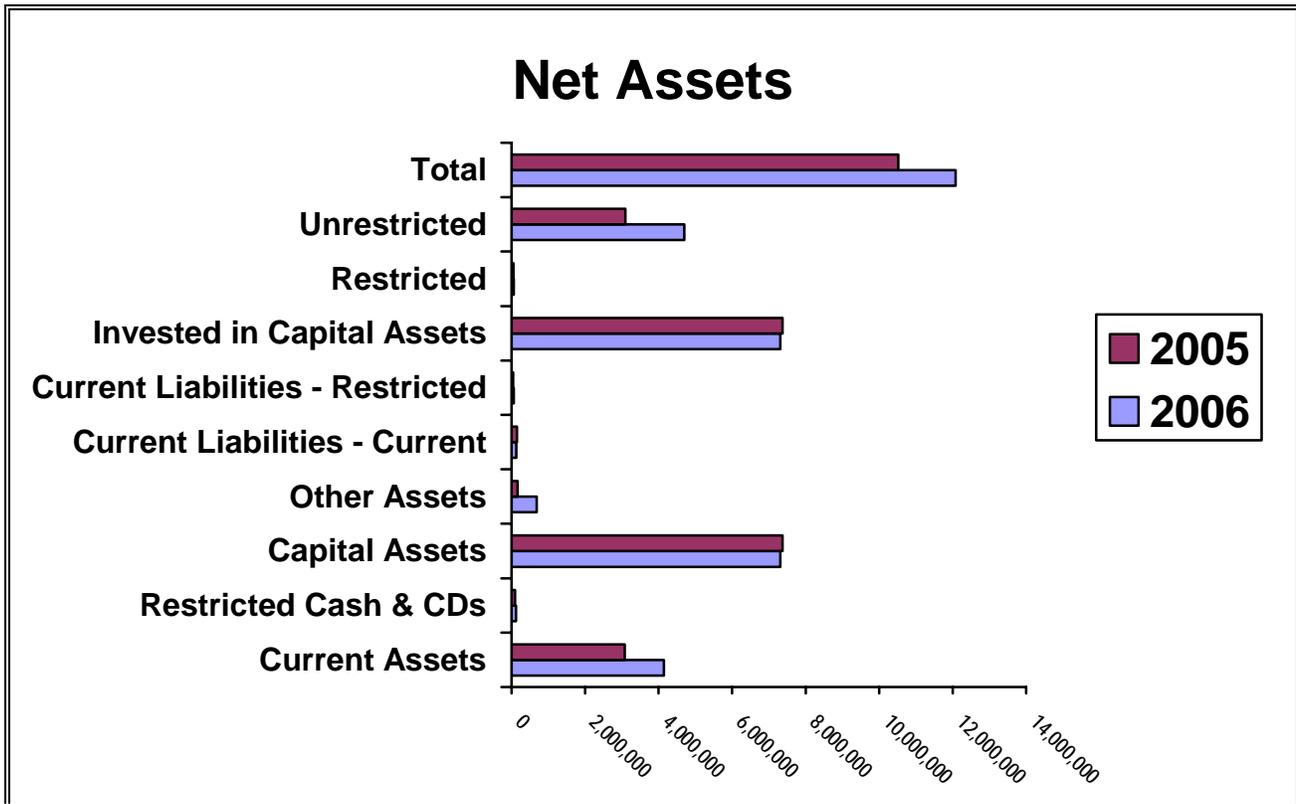
The financial statements required for proprietary funds include a Statement of Net Assets, a Statement of Revenues, Expenses and Changes in Fund Net Assets and a Statement of Cash Flows.

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 at Year End</u>	
	<u>June 30, 2006</u>	<u>June 30, 2005</u>
Current Assets	\$ 4,141,539	3,077,800
Restricted Cash and CDs	125,186	94,723
Capital Assets (Net)	7,313,903	7,370,544
Other Assets	686,772	168,306
Total Assets	<u>12,267,400</u>	<u>10,711,373</u>
Current Liabilities		
(Payable from Current Assets)	128,393	145,050
Current Liabilities		
(Payable from Restricted Assets)	64,204	44,507
Total Liabilities	<u>192,597</u>	<u>189,557</u>
Net Assets:		
Invested in Capital Assets, Net of Related Debt	7,313,903	7,370,544
Restricted	60,982	50,216
Unrestricted	4,699,918	3,101,056
Total Net Assets	<u>\$ 12,074,803</u>	<u>10,521,816</u>

The “Other Assets” category consists of the amount the Utilities has incurred for the Lewis & Clark project membership (\$661,772) and a forgivable note receivable from the Rock Rapids Development Corporation (\$25,000).



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 external debt. For fiscal years ended June 30, 2006 and June 30, 2005, there is no capital assets related external 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, the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, legislation or other legal requirements, is \$4,699,918 at the end of this fiscal year.

	Changes in Net Assets	
	For the Year Ended	
	June 30, 2006	June 30, 2005
Revenues:		
Program Revenues:		
Charges for Services	\$ 3,820,720	3,505,007
General Revenues:		
Equity Distributions - NPGA	1,395,805	124,620
Gain on Sale of Capital Assets	7,764	12,967
Rentals	11,204	11,289
Customer Penalties	2,642	1,992
Interest Income	137,391	58,034
Miscellaneous Income	1,012	691

Insurance Demutualization	9,476	0
Gas Rate Case Settlement	3,870	0
Total Revenues	<u>5,389,884</u>	<u>3,714,600</u>
Program Expenses:		
Electric	1,485,167	1,345,528
Water	353,489	344,033
Sewer	192,635	184,871
Gas	1,714,187	1,347,568
Internet	91,419	81,316
Total Expenses	<u>3,836,897</u>	<u>3,303,316</u>
Increase in Net Assets	1,552,987	411,284
Net Assets Beginning of Year	<u>10,521,816</u>	<u>10,110,532</u>
Net Assets End of Year	<u>\$ 12,074,803</u>	<u>10,521,816</u>

The "Increase in Net Assets" from fiscal year ended June 30, 2006 compared to June 30, 2005 was higher by \$1,141,703 (278%). Besides changes to operating revenues and expenses which are analyzed in the next section, the increase in net assets was larger due to an increase in interest earnings on investments and receiving equity distributions during the fiscal year from the National Public Gas Agency.

INDIVIDUAL MAJOR FUND ANALYSIS

Operating Revenues

Electric operating revenues were \$1,575,995, up \$86,414 or 6% from the prior fiscal year, due to an increase in the sales volume of commercial and residential energy.

Gas operating revenues were \$1,583,256, up \$229,725 or 17% higher than the previous fiscal year, due to the higher cost of the commodity being passed on to the customer.

Water operating revenues were \$402,743, down \$96 or less than 1% from the previous fiscal year.

Sewer operating revenues were \$184,369, down \$1,519 or 1% from the previous fiscal year.

Communications (Wireless Internet) operating revenues were \$74,357, up \$1,189 or 2%, as a result of increased customers.

Operating Expenses

Electric operating expenses were \$1,484,479, up \$139,418 or 10% from last fiscal year, due to an increase in purchased power.

Gas operating expenses were \$1,713,130, up \$366,344 or 27% from last fiscal year, due to an increase in prices paid for the natural gas commodity.

Water operating expenses were \$346,029, up \$1,996 or 1% from last fiscal year.

Sewer operating expenses were \$190,784, up \$5,913 or 3% from the previous fiscal year, due to an increase in maintenance projects.

Communications (Wireless Internet) operating expenses were \$91,360, up \$10,084 or 12%, due to an increase in number of customers served and installation of new technology that is below the capital asset capitalization policy.

Net Assets

The Electric Fund, which accounts for the operation and maintenance of the electric system, ended fiscal year 2006 with a \$5,607,234 net asset balance compared to the prior year ending net asset balance of \$5,443,860.

The Water Fund, which accounts for the operation and maintenance of the water system, ended fiscal year 2006 with a \$2,511,611 net asset balance compared to the prior year ending net asset balance of \$2,442,519.

The Sewer Fund, which accounts for the operation and maintenance of the sewer system, ended fiscal year 2006 with a \$955,072 net asset balance compared to the prior year ending net asset balance of \$950,881.

The Gas Fund, which accounts for the operation and maintenance of the gas system, ended fiscal year 2006 with a \$2,939,152 net asset balance compared to the prior year ending net asset balance of \$1,606,220.

The Communications (Wireless Internet) Fund, which accounts for the operation and maintenance of the wireless internet system, ended fiscal year 2006 with a \$61,734 net asset balance compared to the prior year ending net asset balance of \$78,336.

BUDGETARY HIGHLIGHTS

Over the course of the year, the Rock Rapids Municipal Utilities amended its budget one time. The amendment was done in May 2006. This amendment was needed to cover higher than planned natural gas commodity prices.

Even with this amendment, the Utilities exceeded the total budgeted amount for the year ended June 30, 2006. 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 mower and a pickup. Utility plant additions included new lines, plant improvements and the eastside and Marshall Street projects.

Construction in progress at June 30, 2006 consists of Electric Utility projects. Main projects open include the industrial park and downtown projects.

Long-Term Debt

The Utilities did not have any external long-term debt outstanding at June 30, 2006. Please see Note 4 for internal loans made from the Gas Fund to Water and Sewer Funds.

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 is causing Western Area Power Agency to implement an 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 continue to remain at high rates. This has caused consumers to pay higher than normal prices. Until demand for production eases in the United States, there will remain a concern for the cost of natural gas in upcoming months.

The Lewis and Clark Project continues to make good progress in its construction. The federal funding received was \$23 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, 2006

	Business Type Activities
Assets	
Current Assets:	
Cash	\$ 2,308,658
Certificates of Deposit	1,333,500
Accounts Receivable	262,331
Due From Other Governments (Related Party)	10,751
Due From Other Governments	9,486
Interest Receivable	27,956
Inventory	134,309
Prepaid Insurance	54,548
Total Current Assets	4,141,539
Restricted Cash and Certificates of Deposit:	
Customer Deposits (Cash)	64,204
Depreciation Reserves (Cash)	1,482
Depreciation Reserves (Certificates of Deposit)	59,500
Total Restricted Cash and Certificates of Deposits	125,186
Capital Assets:	
Land	184,429
Utility Plant	13,664,643
Transportation Equipment	193,668
Office Equipment	62,227
Tools and Safety Devices	249,525
Communication Equipment	161,613
Meter Testing Equipment	21,903
Total Capital Assets (Before W.I.P.)	14,538,008
Less: Accumulated Depreciation	(7,383,568)
Capital Assets – Net (Before W.I.P.)	7,154,440
Construction Work in Progress	159,463
Net Capital Assets	7,313,903

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids**
Statement of Net Assets
June 30, 2006

	Business Type Activities
Assets (Continued)	
Other Assets:	
Notes Receivable – Rock Rapids Development Corporation (Noncurrent Portion)	25,000
Lewis & Clark Project Membership (Related Party)	661,772
Total Other Assets	686,772
Total Assets	12,267,400
Liabilities	
Current Liabilities (Payable From Current Assets):	
Accounts Payable	45,751
Due To Other Governments	11,477
Due to Other Governments (Related Party)	2,100
Accrued Vacation and Sick Pay	52,188
Accrued Payroll	3,991
Payroll Taxes Payable	2,080
Flex Spending Payable	797
Unearned Income	10,009
Total Current Liabilities (Payable From Current Assets)	128,393
Liabilities Payable From Restricted Cash and Certificates of Deposit:	
Customer Deposits	64,204
Total Liabilities	192,597
Net Assets:	
Invested in Capital Assets, Net of Related Debt	7,313,903
Restricted for:	
Depreciation Reserves	60,982
Unrestricted	4,699,918
Total Net Assets	\$ 12,074,803

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, 2006

	<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	\$ 1,485,167	1,575,995	90,828
Water Utility	353,489	402,743	49,254
Sewer Utility	192,635	184,369	(8,266)
Gas Utility	1,714,187	1,583,256	(130,931)
Communications (Wireless Internet) Utility	91,419	74,357	(17,062)
Total	<u>\$ 3,836,897</u>	<u>3,820,720</u>	<u>(16,177)</u>
General Revenues:			
Equity Distribution - NPGA (Related Party)			1,395,805
Gain on Sale of Capital Assets			7,764
Gain on Disposal of Materials			552
Rentals			6,204
Rentals (Related Party)			5,000
Customer Penalties			2,642
Miscellaneous Income			460
Insurance Demutualization			9,476
Gas Rate Case Settlement			3,870
Interest Income			<u>137,391</u>
Total General Revenues			<u>1,569,164</u>
Change in Net Assets			1,552,987
Net Assets Beginning of Year			<u>10,521,816</u>
Net Assets End of Year			<u>\$ 12,074,803</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, 2006

	Enterprise Funds					Total
	Electric Utility	Water Utility	Sewer Utility	Gas Utility	Communications (Wireless Internet) Utility	
Assets						
Current Assets:						
Cash	\$ 660,582	255,004	250,798	1,126,284	15,990	2,308,658
Certificates of Deposit	673,600	108,400	90,500	461,000	0	1,333,500
Accounts Receivable	116,770	43,158	19,776	76,408	6,219	262,331
Due From Other Funds	0	0	0	37,385	0	37,385
Due From Other Governments (Related Party)	8,755	418	131	1,339	108	10,751
Due From Other Governments	7,521	589	428	841	107	9,486
Interest Receivable	11,670	2,496	2,899	10,817	74	27,956
Inventory	38,709	38,676	0	49,796	7,128	134,309
Prepaid Insurance	23,724	12,995	8,148	9,599	82	54,548
Total Current Assets	1,541,331	461,736	372,680	1,773,469	29,708	4,178,924
Restricted Cash and Certificates of Deposit:						
Customer Deposits (Cash)	21,467	2,160	0	38,246	2,331	64,204
Depreciation Reserves (Cash)	0	0	1,482	0	0	1,482
Depreciation Reserves (Certificates of Deposit)	0	0	59,500	0	0	59,500
Total Restricted Cash and Certificates of Deposits	21,467	2,160	60,982	38,246	2,331	125,186
Capital Assets:						
Land	47,127	118,525	0	18,777	0	184,429
Utility Plant	7,245,822	3,568,376	1,858,555	991,890	0	13,664,643
Transportation Equipment	84,660	18,330	38,380	52,298	0	193,668
Office Equipment	27,079	12,189	4,542	17,904	513	62,227
Tools and Safety Devices	106,974	45,427	25,865	71,259	0	249,525
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.)	7,544,103	3,770,470	1,927,342	1,152,128	143,965	14,538,008

Less: Accumulated Depreciation	(3,591,364)	(1,952,644)	(1,250,948)	(481,012)	(107,600)	(7,383,568)
Capital Assets – Net (Before W.I.P.)	3,952,739	1,817,826	676,394	671,116	36,365	7,154,440
Construction Work in Progress	159,463	0	0	0	0	159,463
Net Capital Assets	4,112,202	1,817,826	676,394	671,116	36,365	7,313,903

Other Assets:

Notes Receivable – Rock Rapids Development

Corporation (Noncurrent Portion)	12,500	0	0	12,500	0	25,000
Advances To Other Funds	0	0	0	517,202	0	517,202
Lewis & Clark Project Membership (Related Party)	0	661,772	0	0	0	661,772
Total Other Assets	12,500	661,772	0	529,702	0	1,203,974

Total Assets

5,687,500	2,943,494	1,110,056	3,012,533	68,404	12,821,987
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Liabilities

Current Liabilities (Payable From Current Assets):

Accounts Payable	29,305	5,840	2,871	3,531	4,204	45,751
Due To Other Fund	0	25,187	12,198	0	0	37,385
Due To Other Governments	7,536	1,466	205	2,270	0	11,477
Due to Other Governments (Related Party)	0	0	0	2,100	0	2,100
Accrued Vacation and Sick Pay	18,921	13,655	4,120	15,492	0	52,188
Accrued Payroll	1,819	727	413	937	95	3,991
Payroll Taxes Payable	728	416	208	728	0	2,080
Flex Spending Payable	279	159	40	279	40	797
Unearned Income	211	0	0	9,798	0	10,009
Total Current Liabilities (Payable From Current Assets)	58,799	47,450	20,055	35,135	4,339	165,778

Liabilities Payable From Restricted Cash and
Certificates of Deposit:

Customer Deposits	21,467	2,160	0	38,246	2,331	64,204
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Long Term Debt:

Advance From Other Fund	0	382,273	134,929	0	0	517,202
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Total Liabilities

80,266	431,883	154,984	73,381	6,670	747,184
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**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids**
Statement of Net Assets
Proprietary Funds
June 30, 2006

	Enterprise Funds					Total
	Electric Utility	Water Utility	Sewer Utility	Gas Utility	Communications (Wireless Internet) Utility	
Net Assets:						
Invested in Capital Assets, Net of Related Debt	4,112,202	1,817,826	529,325	671,116	36,365	7,166,834
Restricted for:						
Depreciation Reserves	0	0	60,982	0	0	60,982
Unrestricted	1,495,032	693,785	364,765	2,268,036	25,369	4,846,987
Total Net Assets	\$ 5,607,234	2,511,611	955,072	2,939,152	61,734	12,074,803

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, 2006

	Enterprise Funds					Total
	Electric Utility	Water Utility	Sewer Utility	Gas Utility	Communications (Wireless Internet) Utility	
Operating Revenues:						
Residential Sales	\$ 696,851	0	0	1,533,966	74,349	2,305,166
Commercial Sales	830,424	0	0	45,608	0	876,032
Public Street and Highway Lighting	21,074	0	0	0	0	21,074
Wind Power – Residential and Commercial	744	0	0	0	0	744
Water Sales – Metered	0	233,084	0	0	0	233,084
Water Sales – Rural Water System	0	166,031	0	0	0	166,031
Water Sales – Tank Loads	0	1,211	0	0	0	1,211
Sewer Service	0	0	183,486	0	0	183,486
Material and Service Sales	19,527	0	0	45	0	19,572
Service Income	7,375	2,417	883	3,637	8	14,320
Total Operating Revenues	1,575,995	402,743	184,369	1,583,256	74,357	3,820,720
Operating Expenses:						
Production/Processing Expense	836,469	89,133	106,407	1,394,385	44,325	2,470,719
Distribution Expense	134,359	48,655	0	92,145	3,738	278,897
Accounting and Collecting	27,922	15,823	5,294	26,606	4,081	79,726
Administrative and General	155,023	82,728	32,840	125,626	9,735	405,952
Free Community Service (Related Party)	92,870	818	7,643	14,680	0	116,011
Free Community Service	10,620	0	0	0	0	10,620
Transportation	3,298	3,093	1,770	3,797	0	11,958
Depreciation	199,853	91,121	28,153	38,209	28,087	385,423
Payroll Taxes	24,065	14,658	8,677	17,682	1,394	66,476
Total Operating Expenses	1,484,479	346,029	190,784	1,713,130	91,360	3,825,782

Operating Income (Loss)	91,516	56,714	(6,415)	(129,874)	(17,003)	(5,062)
Nonoperating Revenues (Expenses):						
Equity Distribution - NPGA (Related Party)	0	0	0	1,395,805	0	1,395,805
Gain on Sale of Capital Assets	264	0	0	7,500	0	7,764
Gain on Disposal of Materials	546	6	0	0	0	552
Rentals	544	5,660	0	0	0	6,204
Rentals (Related Party)	5,000	0	0	0	0	5,000
Customer Penalties	822	107	84	1,606	23	2,642
Miscellaneous Income	190	270	0	0	0	460
Insurance Demutualization	9,476	0	0	0	0	9,476
Gas Rate Case Settlement	0	0	0	3,870	0	3,870
Interest Income	55,704	13,795	12,373	55,082	437	137,391
Interest Expense	(688)	(7,460)	(1,851)	(1,057)	(59)	(11,115)
Net Nonoperating Revenues (Expenses)	71,858	12,378	10,606	1,462,806	401	1,558,049
Change in Net Assets	163,374	69,092	4,191	1,332,932	(16,602)	1,552,987
Net Assets Beginning of Year	5,443,860	2,442,519	950,881	1,606,220	78,336	10,521,816
Net Assets End of Year	\$ 5,607,234	2,511,611	955,072	2,939,152	61,734	12,074,803

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, 2006

	Enterprise Funds					Total
	Electric Utility	Water Utility	Sewer Utility	Gas Utility	Communications (Wireless Internet) Utility	
Cash Flows From Operating Activities:						
Cash Received from Customers and Users	\$ 1,516,054	393,559	182,189	1,569,425	71,367	3,732,594
Cash Received from Interfund Services Provided	48,053	3,301	0	7,611	1,572	60,537
Cash Received from Other Revenues	10,756	5,880	0	3,870	0	20,506
Cash Paid to Suppliers/Outside Service Providers	(956,972)	(97,425)	(42,604)	(1,497,151)	(50,876)	(2,645,028)
Cash Paid for Personal Services (Employees)	(238,679)	(145,295)	(84,203)	(183,681)	(11,711)	(663,569)
Cash Paid for Interfund Services Used	(8,913)	(22,616)	(28,526)	(482)	0	(60,537)
Cash Paid for Free Community Service (Related Party)	(92,870)	(818)	(7,643)	(14,680)	0	(116,011)
Cash Paid for Free Community Service	(10,620)	0	0	0	0	(10,620)
Net Cash Provided By (Used For) Operating Activities	266,809	136,586	19,213	(115,088)	10,352	317,872
Cash Flows From Noncapital Financing Activities:						
Proceeds from Interfund Loan from the Gas Utility	0	400,000	0	0	0	400,000
Paid Toward Lewis & Clark Project Membership	0	(466,442)	0	0	0	(466,442)
Net Cash Used For Noncapital Financing Activities	0	(66,442)	0	0	0	(66,442)
Cash Flows From Capital and Related Financing Activities:						
Proceeds from Interfund Loan from the Gas Utility	0	0	150,000	0	0	150,000
Principal Payments on Interfund Loan from the Gas Utility	0	0	(2,931)	0	0	(2,931)
Interest Paid on Interfund Loan from the Gas Utility	0	0	(1,794)	0	0	(1,794)
Proceeds from Sale of Capital Assets	4,310	0	0	0	0	4,310
Purchases/Construction of Capital Assets	(204,582)	(67,287)	(55,430)	(36,968)	0	(364,267)
Net Cash Provided By (Used For) Capital						

and Related Financing Activities	(200,272)	(67,287)	89,845	(36,968)	0	(214,682)
Cash Flows From Investing Activities:						
Interfund Loans Issued	0	0	0	(550,000)	0	(550,000)
Principal Received on Interfund Loans	0	0	0	2,931	0	2,931
Interest Received on Interfund Loans	0	0	0	1,794	0	1,794
Cashed In (Purchase of) Non Cash Equivalent Certificates of Deposit (Net)	(249,320)	2,575	20,000	(3,255)	0	(230,000)
Notes Receivable – Rock Rapids Development Corporation (Forgivable Loan)	(12,500)	0	0	(12,500)	0	(25,000)
Equity Distribution - NPGA (Related Party)	0	0	0	1,395,805	0	1,395,805
Interest Received	48,004	12,587	10,983	39,075	363	111,012
Customer Penalties Received	822	107	84	1,606	23	2,642
Net Cash Provided By (Used For) Investing Activities	(212,994)	15,269	31,067	875,456	386	709,184
Net Increase (Decrease) in Cash and Cash Equivalents	(146,457)	18,126	140,125	723,400	10,738	745,932
Cash and Cash Equivalents Beginning of Year	828,506	239,038	112,155	441,130	7,583	1,628,412
Cash and Cash Equivalents End of Year	\$ 682,049	257,164	252,280	1,164,530	18,321	2,374,344
Reconciliation of Operating Income (Loss) to Net Cash Provided By (Used For) Operating Activities:						
Operating Income (Loss)	\$ 91,516	56,714	(6,415)	(129,874)	(17,003)	(5,062)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided By (Used For) Operating Activities:						
Depreciation	199,853	91,121	28,153	38,209	28,087	385,423
Disposal of Materials	546	6	0	0	0	552
Proceeds from Rentals	544	5,660	0	0	0	6,204
Proceeds from Rentals (Related Party)	5,000	0	0	0	0	5,000
Proceeds from Miscellaneous Income	190	270	0	0	0	460
Proceeds from Insurance Demutualization	9,476	0	0	0	0	9,476
Proceeds from Gas Rate Case Settlement	0	0	0	3,870	0	3,870
Deposit Interest Paid	(688)	0	0	(1,057)	(59)	(1,804)
Changes in Assets and Liabilities:						
(Increase) in Accounts Receivable	(21,132)	(6,041)	(2,254)	(29,977)	(2,955)	(62,359)

**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, 2006

	Enterprise Funds					Total
	Electric Utility	Water Utility	Sewer Utility	Gas Utility	Communications (Wireless Internet) Utility	
Reconciliation of Operating Income (Loss) to Net Cash Provided By (Used For) Operating Activities (Continued):						
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided By (Used For) Operating Activities (Continued):						
Changes in Assets and Liabilities (Continued):						
Decrease (Increase) in Due From Other Governments (Related Party)	(5,058)	(85)	18	1,812	0	(3,313)
Decrease (Increase) in Due From Other Governments	2,112	(76)	57	1,551	178	3,822
Decrease (Increase) in Inventory	(7,882)	(7,761)	0	(11,161)	369	(26,435)
(Increase) in Prepaid Insurance	(5,266)	(2,335)	(1,071)	(4,164)	(82)	(12,918)
Increase in Customer Deposits (Cash)	6,978	320	0	11,040	1,359	19,697
(Decrease) Increase in Accounts Payable (Non Capital Assets Related)	(10,950)	666	482	(3,557)	518	(12,841)
Increase (Decrease) in Due to Other Governments	709	(210)	12	(1,662)	(21)	(1,172)
Increase (Decrease) in Due to Other Governments (Related Party)	(121)	(65)	(16)	254	(16)	36
Increase in Accrued Vacation and Sick Pay	1,241	125	937	1,273	0	3,576
Increase in Accrued Payroll	1,071	320	166	419	75	2,051
(Decrease) in Payroll Taxes Payable	(1,424)	(1,648)	(659)	(932)	(138)	(4,801)
Increase (Decrease) in Flex Spending Payable	(117)	(395)	(197)	(117)	40	(786)
Increase in Unearned Income	211	0	0	8,985	0	9,196
Net Cash Provided by (Used for) Operating Activities	\$ 266,809	136,586	19,213	(115,088)	10,352	317,872

Reconciliation of Cash and Cash Equivalents at
Year End to Specific Assets Included on the
Statement of Net Assets:

Current Assets:

Cash	\$ 660,582	255,004	250,798	1,126,284	15,990	2,308,658
Restricted Cash and Certificates of Deposit:						
Customer Deposits (Cash)	21,467	2,160	0	38,246	2,331	64,204
Depreciation Reserves (Cash)	0	0	1,482	0	0	1,482
	<hr/>					
Cash and Cash Equivalents at Year End	\$ 682,049	257,164	252,280	1,164,530	18,321	2,374,344
	<hr/>					

Supplemental Disclosure of Noncash Capital-Related Financing Activities:

A pickup with a book value of \$0 was used to receive a \$7,500 trade-in allowance to acquire another pickup in the Gas Utility Fund. This \$7,500 trade-in allowance is included in the financial statements as "gain on sale of capital assets" and "transportation equipment."

See Notes to Financial Statements.

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids**
Notes to Financial Statements
June 30, 2006

(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 Utilities is governed by a three-member Board of Trustees appointed by the Mayor and approved by the City Council, which exercises oversight responsibility under this criteria.

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 City of Rock Rapids appoints the Utilities' governing body as already disclosed.

The Rock Rapids Municipal Utilities made contributions to the City of Rock Rapids in the amount of \$116,011 during the fiscal year ended June 30, 2006. The Rock Rapids Municipal Utilities also made a \$25,000 forgivable loan to the Rock Rapids Development

Corporation which flowed through the City of Rock Rapids during the fiscal year ended June 30, 2006.

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 \$1,393,902 and \$721, respectively. The Utilities paid the Missouri River Energy Services \$758,315 for power and energy services, \$2,572 for dues, \$125 for meeting registrations and tours and \$45 for advertising. 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 and interest charged for interfund loans. 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 external 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 (all funds are considered major):

Enterprise:

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

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

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

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

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

C. Measurement Focus and Basis of Accounting

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items, when applicable, are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

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

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Utilities' Enterprise Funds are charges to

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

D. Assets, Liabilities and Net Assets

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

Cash, Certificates of Deposit and Cash Equivalents – The cash balances of most of the Utilities funds are pooled and invested. Interest earned on investments is allocated to the appropriate fund. Investments on June 30, 2006 consist of non-negotiable certificates of deposit which 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 at the beginning of the fiscal year) 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, 2006 included all of the certificates of deposit (including the restricted certificates of deposit).

Accounts Receivable – Accounts receivable represents money owed to the Utilities, mainly for utility sales, that was not paid to the Utilities as of June 30, 2006.

Due from and Due to Other Funds/Advance to and Advance from Other Funds – During the course of its operations, the Utilities has numerous transactions between funds and the Utilities also approved some interfund loans. To the extent certain transactions and the loans between funds had not been paid or received as of June 30, 2006, balances of interfund amounts receivable or payable have been recorded in the fund financial statements.

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

Inventory – 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.

Prepaid Insurance – Prepaid insurance represents insurance premium payments that will benefit a future fiscal year. Prepayments are recorded as expenses when utilized rather than when paid for.

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 extending 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:

Asset Class	Estimated Useful lives (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, 2006 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. The membership costs include the Utilities pro rata share of the base system incremental costs and directly paid member specific incremental costs.

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 \$27,493 at June 30, 2006.

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 Utilities 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, 2006, employees’ vested sick leave benefits aggregated \$24,695. 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	\$ 24,641	23,971	48,612
Increases	36,045	5,360	41,405
Decreases	(33,193)	(4,636)	(37,829)
Balance End of Year	\$ 27,493	24,695	52,188

These liabilities have been computed based on rates of pay in effect at June 30, 2006 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.

Unearned Income – Amounts received on customer accounts before being billed are recorded in the “unearned income” account. Revenue is reported in the period in which it is realized or realizable and earned; therefore, when payments on accounts are received in advance of being earned, the amount applicable to future periods is deferred to future periods. The amount unearned is considered a liability because it represents an obligation to perform a service in the future arising from a past transaction.

Net Assets: Restricted – In the proprietary fund financial statements, restricted net assets are reported for amounts legally restricted by outside parties for use for a specific purpose. The amount of net assets restricted at June 30, 2006, 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	\$ 21,467	2,160	60,982	38,246	2,331	125,186
Deposits Payable	21,467	2,160	0	38,246	2,331	64,204

Retained Earnings:							
Reserved (June 30, 2006)	\$	0	0	60,982	0	0	60,982

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

Net Assets: Invested in Capital Assets, Net of Related Debt – The “invested in capital assets, net of related debt” is reported in the Government-Wide Statement of Net Assets as \$7,313,903 and in the Proprietary Funds Statement of Net Assets as \$7,166,834. The \$147,069 difference is due to the removal of the capital related debt owed by the Sewer Utility to the Gas Utility. The effect of this interfund loan was removed from the Government-Wide Statement of Net Assets.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2006, disbursements in the business type activities function for the Rock Rapids Municipal Utilities exceeded the amount budgeted as part of the City of Rock Rapids’ adopted budget.

(2) **Cash and Investments**

The Utilities’ deposits in banks at June 30, 2006 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; and certain joint investment trusts.

The Utilities in fiscal year ending June 30, 2005 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 was pooled with other organizations using this Company’s “bill prepayment” program. The total amount of money invested in the “bill prepayment” program was \$200,000 from July 2005 to December 2005, \$142,867 in January 2006, \$77,509 in February 2006, \$18,374 in March 2006 and \$0 from April 2006 to June 2006. All of the Utilities’ money was invested in money market accounts and certificates of deposit. This money was available to be accessed at any time with no penalty. Missouri River Energy Services did not provide the Utilities with any collateral for holding these funds.

The Utilities did not have a public funds custodial agreement with Missouri River Energy Services; also, having Missouri River Energy Services invest money for the Utilities was not included in the Utilities’ written investment policy. The lack of a public funds custodial

agreement and not having Missouri River Energy Services listed as authorized to invest money for the Utilities in the Utilities written investment policy are statutory non-compliance findings.

The Utilities had no investments on June 30, 2006 which met the disclosure requirements of Governmental Accounting Standards Board Statement No 3, as amended by Statement No. 40.

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, 2006 is as follows:

	Economic Development Reserves	Depreciation Reserves	Lewis & Clark Project Sinking Fund Reserve	Total
Electric Utility Fund	\$ 29,710	\$ 83,631	\$ 0	\$ 113,341
Water Utility Fund	5,447	17,592	29,254	52,293
Gas Utility Fund	25,594	0	0	25,594
Total	\$ 60,751	\$ 101,223	\$ 29,254	\$ 191,228

(3) Notes Receivable – Rock Rapids Development Corporation

In January 2006, the Rock Rapids Municipal Utilities loaned \$25,000 to the Rock Rapids Development Corporation as part of a financial package to encourage a prospective business to move to Rock Rapids. The funds for this note flowed from the Utilities to the City of Rock Rapids and then from the City to the Rock Rapids Development Corporation. Of the \$25,000 loaned, \$12,500 was loaned from both the Electric Utility Fund and the Gas Utility Fund.

The \$25,000 loaned to the Rock Rapids Development Corporation is a 10-year forgivable loan with no interest. The 10-year term commenced January 1, 2006. If certain specified employment numbers and average compensation levels are achieved by the business attracted to Rock Rapids, the entire \$25,000 loan shall be forgiven. If the specified employment numbers and average compensation levels are not met by the aforementioned business, the \$25,000 loan shall be repaid by the Rock Rapids Development Corporation to the Utilities at the end of the 10-year loan period.

(4)

Due from and Due to Other Funds/Advance to and Advance from Other Funds

On January 27, 2006, the Gas Utility Fund loaned \$400,000 to the Water Utility Fund to assist with the payment of Lewis & Clark project membership costs. The loan carries a 4.4205 annual percentage interest rate, annual payments are scheduled at \$35,409 and final maturity date is January 27, 2022. No payments on this loan were made during the fiscal year ended June 30, 2006.

A summary of the annual principal and interest requirements on this loan to maturity by year is as follows:

Year Ending June 30,	Principal	Interest	Total
2007	\$ 17,727	17,682	35,409
2008	18,510	16,899	35,409
2009	19,284	16,125	35,409
2010	20,181	15,228	35,409
2011	21,073	14,336	35,409
2012-2016	120,150	56,894	177,044
2017-2021	149,165	27,879	177,044
2022	33,910	1,499	35,409
Total	\$ 400,000	166,542	566,542

On March 27, 2006, the Gas Utility Fund loaned \$150,000 to the Sewer Utility Fund for utility plant capital asset costs. The loan carries a 4.7754 annual percentage interest rate, monthly payments are scheduled at \$1,575 and final maturity date is March 27, 2016. During the fiscal year ended June 30, 2006, the Sewer Utility paid the Gas Utility Fund \$2,931 in principal and \$1,794 in interest on this loan. The June 30, 2006 balance on this loan was \$147,069.

A summary of the annual principal and interest requirements on this loan to maturity by year is as follows:

Year Ending June 30,	Principal	Interest	Total
2007	\$ 12,140	6,760	18,900
2008	12,716	6,184	18,900
2009	13,353	5,547	18,900
2010	14,005	4,895	18,900
2011	14,688	4,212	18,900
2012-2016	80,167	9,608	89,775
Total	\$ 147,069	37,206	184,275

The balances in the “due from and due to other funds” and “advance to and advance from other funds” are for the aforementioned loans between funds and accrued interest on these loans as follows:

Assets/Liabilities	Payable		Receivable
	Water Utility	Sewer Utility	Gas Utility
Due From/To:			
Loan (Current Portion)	\$ (17,727)	(12,140)	29,867
Accrued Interest on Loans	(7,460)	(58)	7,518
Total Due From/To	\$ (25,187)	(12,198)	37,385
Advance To/From:			
Loan (Noncurrent Portion)	(382,273)	(134,929)	517,202
Total	\$ (407,460)	(147,127)	554,587

(5) Capital Assets

Capital assets activity for the year ended June 30, 2006 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	510,481	324,756	(675,774)	159,463
Total Capital Assets Not Being Depreciated	694,910	324,756	(675,774)	343,892
Capital Assets Being Depreciated:				
Utility Plant	13,015,893	675,774	(27,024)	13,664,643
Transportation Equipment	191,188	21,685	(19,205)	193,668
Office Equipment	64,628	0	(2,401)	62,227
Tools and Safety Devices	251,662	13,352	(15,449)	249,525
Communication Equipment	161,613	0	0	161,613
Meter Testing Equipment	21,903	0	0	21,903
Total Capital Assets Being Depreciated	13,706,847	710,811	(64,079)	14,353,579
Less Accumulated Depreciation For:				
Utility Plant	6,584,583	312,887	(59)	6,897,411
Transportation Equipment	145,713	16,597	(19,205)	143,105
Office Equipment	46,397	4,138	(2,401)	48,134
Tools and Safety Devices	136,162	23,283	(11,403)	148,042
Communication Equipment	96,455	28,518	0	124,973
Meter Testing Equipment	21,903	0	0	21,903
Total Accumulated Depreciation	7,031,213	385,423	(33,068)	7,383,568
Total Capital Assets Being Depreciated, Net	6,675,634	325,388	(31,011)	6,970,011
Business Type Capital Assets, Net	7,370,544	650,144	(706,785)	7,313,903

Depreciation expense was charged to the different Utilities as follows:

Business Type Activities:	
Electric Utility	\$ 199,853
Water Utility	91,121
Sewer Utility	28,153
Gas Utility	38,209
Communications (Wireless Internet) Utility	<u>28,087</u>
Total Depreciation Expense – Business Type Activities	<u>\$ 385,423</u>

The \$27,024 decrease in the “utility plant” capital asset account is due to a reclassification of this amount to the “Lewis & Clark project membership” account.

(6) Lewis & Clark Project Membership – Related Party

On June 27, 2002, the Rock Rapids Municipal Utilities entered into an agreement with the Lewis and Clark Rural Water System, Inc. to become a member in Lewis & Clark Rural Water System, Inc. On December 22, 2005, the Rock Rapids Municipal Utilities entered into an amended and restated commitment agreement with the Lewis & Clark Rural Water System, Inc. In the amended and restated commitment agreement, the Utilities agrees to pay the Utilities’ allocated construction percentage of the base system 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 costs. As of June 30, 2006, the Utilities has paid \$661,772 toward the cost of membership, which includes both base system costs (\$622,117) and some member specific costs (\$39,655).

As of June 30, 2006, the Utilities’ allocated construction percentage of the base system costs has been projected at \$989,682. There have been no formal projections of the member specific costs as of June 30, 2006. Payments will be made on the additional estimated \$367,565 in base system costs and unknown member specific costs as the project progresses.

If the Rock Rapids Municipal Utilities would withdraw from Lewis & Clark, the Utilities would forfeit all amounts paid to Lewis & Clark, whether in the form of dues, construction payments or amounts placed or on deposit in the Maintenance and Repair Fund, the Capital Improvement Fund or the Operating Reserve Fund.

Upon completion of the project, the Rock Rapids Municipal Utilities agrees to purchase a minimum of 137,500 gallons of potable, treated water per day, on average, each month at the water rates and charges set by Lewis & Clark Rural Water Systems, Inc.

(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:

<u>Fund</u>	<u>Description</u>	<u>Amount</u>
Electric Utility	State Sales and Use Tax	\$ 7,536
Water Utility	State Sales and Use Tax	1,466
Sewer Utility	State Sales and Use Tax	205
Gas Utility	State Sales and Use Tax	<u>2,270</u>
Total		<u>\$ 11,477</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>
Gas Utility	Garbage/Recycling Collections	<u>\$ 2,100</u>

(8) Equity Distribution Income

The National Public Gas Agency (a related party) allocated to and paid the Rock Rapids Municipal Utilities \$1,395,805 as part of approved equity distributions to members during the fiscal year ended June 30, 2006. These equity distributions are 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 \$166,031 or 41.2% of the total operating water revenues for the fiscal year ended June 30, 2006.

(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. Contribution requirements are established by state statute. The Utilities' contributions to IPERS for the years ended June 30, 2006, 2005, and 2004 were \$27,316, \$27,140 and \$25,240, 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 assumed 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 prior to April 1, 2006. Effective April 1, 2006, the Utilities is assuming liability for claims against the insurance deductible of up to \$250 under an individual policy and \$750 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, 2007.

On March 31, 2006, the Utilities approved the purchase of wastewater filter components for \$87,930. As of June 30, 2006, no costs have been incurred on this agreement. This agreement will be paid upon satisfaction of the agreement. This purchase will be handled through the Sewer Utility Fund.

The Utilities entered into a contract on April 28, 2006 for a water rate study. The cost of the study is not to exceed \$4,000. As of June 30, 2006, no costs on this study have been incurred. This contract will be paid as work on the project progresses. This study is being conducted for the Water Utility Fund.

The Utilities also entered into a contract on May 24, 2006 totaling \$84,893 for a downtown conversion project. As of June 30, 2006, no costs on this project have been incurred. This contract will be paid as work on the project progresses. This project will be handled through the Electric Utility Fund.

(14) Subsequent Events

In July 2006, the Utilities approved the first installment payment of \$14,338 on the downtown conversion project contract. In August 2006, the Utilities approved the second installment payment of \$46,591 on the downtown conversion project contract. This project is being conducted through the Electric Utility Fund.

(15) Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

**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, 2006

	Proprietary			Final to Actual Variance – Positive (Negative)
	Funds	Budgeted	Amounts	
	Actual	Original	Final	
Receipts:				
Electric Utility	\$ 1,627,999	1,583,905	1,583,905	44,094
Water Utility	815,434	439,477	439,477	375,957
Sewer Utility	340,325	166,633	166,633	173,692
Gas Utility	2,472,117	1,086,600	1,086,600	1,385,517
Communications (Wireless Internet) Utility	73,325	67,000	67,000	6,325
Total Receipts	5,329,200	3,343,615	3,343,615	1,985,585
Disbursements (Business Type Activities Function):				
Electric Utility	1,525,136	1,502,031	1,502,031	(23,105)
Water Utility	799,883	362,850	362,850	(437,033)
Sewer Utility	220,200	187,780	187,780	(32,420)
Gas Utility	1,745,462	1,233,632	1,428,617	(316,845)
Communications (Wireless Internet) Utility	62,587	80,950	80,950	18,363
Total Disbursements (Business Type Activities Function)	4,353,268	3,367,243	3,562,228	(791,040)
Excess (Deficiency) of Receipts Over (Under) Disbursements	975,932	(23,628)	(218,613)	1,194,545
Cash, Certificates of Deposit and Investment - Missouri River Energy Services (Unrestricted and Restricted) – Balances Beginning of Year	2,791,412	2,196,695	2,196,695	594,717
Cash and Certificates of Deposit (Unrestricted and Restricted) – Balances End of Year	\$ 3,767,344	2,173,067	1,978,082	1,789,262

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, 2006

	Proprietary Funds		
	Enterprise		
	Cash Basis	Accrual Adjustments	Accrual Basis
Revenues	\$ 5,329,200	60,684	5,389,884
Expenses	4,353,268	(516,371)	3,836,897
Net	975,932	577,055	1,552,987
Beginning Net Assets	2,791,412	7,730,404	10,521,816
Ending Net Assets	\$ 3,767,344	8,307,459	12,074,803

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, 2006

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

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. Encumbrances are not recognized on the cash basis budget and appropriations lapse at year end. Accruals are also not recognized on the cash basis budget.

The Utilities budgeted its receipts under the “charges for service” classification. Formal and legal budgetary control is based upon nine major classes of disbursements, known as functions, not by fund. These functions are public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. All Utility disbursements are included in “business type activities” function classification on the City’s adopted budget and are required to be budgeted. 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 year, one budget amendment increased budgeted disbursements by \$194,985. This budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2006, disbursements in the business type activities function for the Rock Rapids Municipal Utilities exceeded the amount budgeted as part of the City of Rock Rapids’ adopted budget.

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

Other Supplementary Information

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

	June 30,		Amount of Change	Percentage of Change
	2006	2004		
Assets				
Current Assets:				
Cash	\$ 660,582	593,132	67,450	11%
Certificates of Deposit	673,600	305,000	368,600	121%
Accounts Receivable	116,770	100,546	16,224	16%
Due From Other Funds	0	3,453	(3,453)	(100%)
Due From Other Governments (Related Party)	8,755	5,233	3,522	67%
Due From Other Governments	7,521	7,089	432	6%
Interest Receivable	11,670	2,335	9,335	400%
Notes Receivable – Rock Rapids Development Corporation (Current Portion)	0	39,150	(39,150)	(100%)
Flex Spending Receivable	0	311	(311)	(100%)
Inventory	38,709	30,818	7,891	26%
Prepaid Insurance	23,724	20,561	3,163	15%
Total Current Assets	1,541,331	1,107,628	433,703	39%
Restricted Cash:				
Customer Deposits	21,467	12,371	9,096	74%
Capital Assets:				
Land	47,127	47,127	0	0%
Utility Plant	7,245,822	6,764,904	480,918	7%
Transportation Equipment	84,660	84,660	0	0%
Office Equipment	27,079	36,478	(9,399)	(26%)
Tools and Safety Devices	106,974	160,993	(54,019)	(34%)
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)	7,544,103	7,133,073	411,030	6%
Less: Accumulated Depreciation	(3,591,364)	(3,290,642)	(300,722)	9%
Capital Assets – Net (Before W.I.P)	3,952,739	3,842,431	110,308	3%
Construction Work in Progress	159,463	342,493	(183,030)	(53%)
Net Capital Assets	4,112,202	4,184,924	(72,722)	(2%)
Other Assets:				
Notes Receivable – Rock Rapids Development Corporation (Noncurrent Portion)	12,500	0	12,500	N/A
Total Assets	5,687,500	5,304,923	382,577	7%

**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
	2006	2004		
Liabilities				
Current Liabilities (Payable From Current Assets):				
Accounts Payable	29,305	10,014	19,291	193%
Due to Other Funds	0	181	(181)	(100%)
Due To Other Governments	7,536	7,256	280	4%
Due To Other Governments (Related Party)	0	1,177	(1,177)	(100%)
Accrued Vacation and Sick Pay	18,921	14,377	4,544	32%
Accrued Payroll	1,819	8,053	(6,234)	(77%)
Payroll Taxes Payable	728	0	728	N/A
Flex Spending Payable	279	0	279	N/A
Unearned Income	211	0	211	N/A
Total Current Liabilities (Payable From Current Assets)	58,799	41,058	17,741	43%
Liabilities Payable From Restricted Cash:				
Customer Deposits	21,467	12,371	9,096	74%
Total Liabilities	80,266	53,429	26,837	50%
Net Assets				
Invested in Capital Assets, Net of Related Debt	4,112,202	4,184,924	(72,722)	(2%)
Unrestricted	1,495,032	1,066,570	428,462	40%
Total Net Assets	\$ 5,607,234	5,251,494	355,740	7%

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
	2006	2005		
Assets				
Current Assets:				
Cash	\$ 660,582	614,017	46,565	8%
Certificates of Deposit	673,600	424,280	249,320	59%
Investment – Missouri River Energy Services	0	200,000	(200,000)	(100%)
Accounts Receivable	116,770	95,638	21,132	22%
Due From Other Governments (Related Party)	8,755	3,697	5,058	137%
Due From Other Governments	7,521	9,633	(2,112)	(22%)
Interest Receivable	11,670	3,970	7,700	194%
Inventory	38,709	30,827	7,882	26%
Prepaid Insurance	23,724	18,458	5,266	29%
Total Current Assets	1,541,331	1,400,520	140,811	10%
Restricted Cash:				
Customer Deposits	21,467	14,489	6,978	48%
Capital Assets:				
Land	47,127	47,127	0	0%
Utility Plant	7,245,822	7,003,871	241,951	3%
Transportation Equipment	84,660	84,660	0	0%
Office Equipment	27,079	27,897	(818)	(3%)
Tools and Safety Devices	106,974	109,071	(2,097)	(2%)
Communication Equipment	16,206	16,206	0	0%
Meter Testing Equipment	16,235	16,235	0	0%
Total Capital Assets (Before W.I.P)	7,544,103	7,305,067	239,036	3%
Less: Accumulated Depreciation	(3,591,364)	(3,403,733)	(187,631)	6%
Capital Assets – Net (Before W.I.P)	3,952,739	3,901,334	51,405	1%
Construction Work in Progress	159,463	193,800	(34,337)	(18%)
Net Capital Assets	4,112,202	4,095,134	17,068	0%
Other Assets:				
Notes Receivable – Rock Rapids Development Corporation (Noncurrent Portion)	12,500	0	12,500	N/A
Total Assets	5,687,500	5,510,143	177,357	3%

**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
	2006	2005		
Liabilities				
Current Liabilities (Payable From Current Assets):				
Accounts Payable	29,305	23,870	5,435	23%
Due To Other Governments	7,536	6,827	709	10%
Due To Other Governments (Related Party)	0	121	(121)	(100%)
Accrued Vacation and Sick Pay	18,921	17,680	1,241	7%
Accrued Payroll	1,819	748	1,071	143%
Payroll Taxes Payable	728	2,152	(1,424)	(66%)
Flex Spending Payable	279	396	(117)	(30%)
Unearned Income	211	0	211	N/A
Total Current Liabilities (Payable From Current Assets)	58,799	51,794	7,005	14%
Liabilities Payable From Restricted Cash:				
Customer Deposits	21,467	14,489	6,978	48%
Total Liabilities	80,266	66,283	13,983	21%
Net Assets				
Invested in Capital Assets, Net of Related Debt	4,112,202	4,095,134	17,068	0%
Unrestricted	1,495,032	1,348,726	146,306	11%
Total Net Assets	\$ 5,607,234	5,443,860	163,374	3%

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
	2006	2004		
Operating Revenues:				
Residential Sales	\$ 696,851	664,834	32,017	5%
Commercial Sales	830,424	745,262	85,162	11%
Public Street and Highway Lighting	21,074	20,445	629	3%
Wind Power – Residential and Commercial	744	560	184	33%
Material and Service Sales	19,527	23,360	(3,833)	(16%)
Service Income	7,375	8,129	(754)	(9%)
Total Operating Revenues	1,575,995	1,462,590	113,405	8%
Operating Expenses:				
Production/Processing Expense	836,469	653,324	183,145	28%
Distribution Expense	134,359	147,625	(13,266)	(9%)
Accounting and Collecting	27,922	25,863	2,059	8%
Administrative and General	155,023	172,149	(17,126)	(10%)
Free Community Service (Related Party)	92,870	79,727	13,143	16%
Free Community Service	10,620	8,108	2,512	31%
Transportation	3,298	5,669	(2,371)	(42%)
Depreciation	199,853	188,838	11,015	6%
Payroll Taxes	24,065	23,137	928	4%
Total Operating Expenses	1,484,479	1,304,440	180,039	14%
Operating Income	91,516	158,150	(66,634)	(42%)
Nonoperating Revenues (Expenses):				
Gain on Sale of Capital Assets	264	2,000	(1,736)	(87%)
Gain (Loss) on Disposal of Materials	546	(5,701)	6,247	(110%)
Rentals	544	714	(170)	(24%)
Rentals (Related Party)	5,000	5,000	0	0%
Customer Penalties	822	414	408	99%
Miscellaneous Income	190	523	(333)	(64%)
Insurance Demutualization	9,476	0	9,476	N/A
Interest Income	55,704	14,236	41,468	291%
Interest Income (Related Party)	0	27	(27)	(100%)
Interest Expense	(688)	(791)	103	(13%)
Net Nonoperating Revenues (Expenses)	71,858	16,422	55,436	338%
Net Income Before Transfers	163,374	174,572	(11,198)	(6%)

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
	2006	2004		
Transfer to Communications Utility Fund	0	(100,000)	100,000	(100%)
Change in Net Assets	163,374	74,572	88,802	119%
Net Assets Beginning of Year	5,443,860	5,176,922	266,938	5%
Net Assets End of Year	\$ 5,607,234	5,251,494	355,740	7%

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
	2006	2005		
Operating Revenues:				
Residential Sales	\$ 696,851	651,551	45,300	7%
Commercial Sales	830,424	769,436	60,988	8%
Public Street and Highway Lighting	21,074	21,631	(557)	(3%)
Wind Power – Residential and Commercial	744	752	(8)	(1%)
Material and Service Sales	19,527	38,319	(18,792)	(49%)
Service Income	7,375	7,892	(517)	(7%)
Total Operating Revenues	<u>1,575,995</u>	<u>1,489,581</u>	<u>86,414</u>	<u>6%</u>
Operating Expenses:				
Production/Processing Expense	836,469	696,038	140,431	20%
Distribution Expense	134,359	143,406	(9,047)	(6%)
Accounting and Collecting	27,922	27,559	363	1%
Administrative and General	155,023	155,705	(682)	0%
Free Community Service (Related Party)	92,870	96,957	(4,087)	(4%)
Free Community Service	10,620	5,923	4,697	79%
Transportation	3,298	3,582	(284)	(8%)
Depreciation	199,853	194,931	4,922	3%
Payroll Taxes	24,065	20,960	3,105	15%
Total Operating Expenses	<u>1,484,479</u>	<u>1,345,061</u>	<u>139,418</u>	<u>10%</u>
Operating Income	<u>91,516</u>	<u>144,520</u>	<u>(53,004)</u>	<u>(37%)</u>
Nonoperating Revenues (Expenses):				
Gain on Sale of Capital Assets	264	3,527	(3,263)	(93%)
Gain on Disposal of Materials	546	541	5	1%
Rentals	544	629	(85)	(14%)
Rentals (Related Party)	5,000	5,000	0	0%
Customer Penalties	822	519	303	58%
Miscellaneous Income	190	52	138	265%
Insurance Demutualization	9,476	0	9,476	N/A
Interest Income	55,704	38,045	17,659	46%
Interest Expense	(688)	(467)	(221)	47%
Net Nonoperating Revenues (Expenses)	<u>71,858</u>	<u>47,846</u>	<u>24,012</u>	<u>50%</u>
Change in Net Assets	163,374	192,366	(28,992)	(15%)
Net Assets Beginning of Year	<u>5,443,860</u>	<u>5,251,494</u>	<u>192,366</u>	<u>4%</u>
Net Assets End of Year	<u>\$ 5,607,234</u>	<u>5,443,860</u>	<u>163,374</u>	<u>3%</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
	2006	2004		
Assets				
Current Assets:				
Cash	\$ 255,004	182,259	72,745	40%
Certificates of Deposit	108,400	147,000	(38,600)	(26%)
Accounts Receivable	43,158	39,860	3,296	8%
Due From Other Funds	0	124	(124)	(100%)
Due From Other Governments (Related Party)	418	304	114	38%
Due From Other Governments	589	525	64	12%
Interest Receivable	2,496	997	1,499	150%
Notes Receivable – Rock Rapids Development Corporation	0	4,500	(4,500)	(100%)
Flex Spending Receivable	0	436	(436)	(100%)
Inventory	38,676	26,470	12,206	46%
Prepaid Insurance	12,995	9,690	3,305	34%
Total Current Assets	461,736	412,167	49,569	12%
Restricted Cash:				
Customer Deposits	2,160	1,620	540	33%
Capital Assets:				
Land	118,525	118,525	0	0%
Utility Plant	3,568,376	3,383,902	184,474	5%
Transportation Equipment	18,330	48,246	(29,916)	(62%)
Office Equipment	12,189	21,226	(9,037)	(43%)
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.)	3,770,470	3,637,141	133,329	4%
Less: Accumulated Depreciation	(1,952,644)	(1,826,783)	(125,861)	7%
Capital Assets – Net (Before W.I.P.)	1,817,826	1,810,358	7,468	0%
Construction Work in Progress	0	74,957	(74,957)	(100%)
Net Capital Assets	1,817,826	1,885,315	(67,489)	(4%)
Other Assets:				
Lewis & Clark Project Membership (Related Party)	661,772	100,763	561,009	557%
Total Assets	2,943,494	2,399,865	543,629	23%

**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
	2006	2004		
Liabilities				
Current Liabilities (Payable From Current Assets):				
Accounts Payable	5,840	4,242	1,598	38%
Due To Other Fund	25,187	1,933	23,254	1,203%
Due To Other Governments	1,466	1,399	67	5%
Due To Other Governments (Related Party)	0	673	(673)	(100%)
Accrued Vacation and Sick Pay	13,655	13,331	324	2%
Accrued Payroll	727	3,851	(3,124)	(81%)
Payroll Taxes Payable	416	0	416	N/A
Flex Spending Payable	159	0	159	N/A
Total Current Liabilities (Payable From Current Assets)	47,450	25,429	22,021	87%
Liabilities Payable From Restricted Cash:				
Customer Deposits	2,160	1,620	540	33%
Long Term Debt:				
Advance From Other Fund	382,273	0	382,273	N/A
Total Liabilities	431,883	27,049	404,834	1,497%
Net Assets				
Invested in Capital Assets, Net of Related Debt	1,817,826	1,885,315	(67,489)	(4%)
Unrestricted	693,785	487,501	206,284	42%
Total Net Assets	\$ 2,511,611	2,372,816	138,795	6%

See Accompanying Independent Auditor's Report.

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

	June 30,		Amount of Change	Percentage of Change
	2006	2005		
Assets				
Current Assets:				
Cash	\$ 255,004	237,198	17,806	8%
Certificates of Deposit	108,400	110,975	(2,575)	(2%)
Accounts Receivable	43,158	37,117	6,041	16%
Due From Other Governments (Related Party)	418	333	85	26%
Due From Other Governments	589	513	76	15%
Interest Receivable	2,496	1,288	1,208	94%
Inventory	38,676	30,915	7,761	25%
Prepaid Insurance	12,995	10,660	2,335	22%
Total Current Assets	461,736	428,999	32,737	8%
Restricted Cash:				
Customer Deposits	2,160	1,840	320	17%
Capital Assets:				
Land	118,525	118,525	0	0%
Utility Plant	3,568,376	3,407,625	160,751	5%
Transportation Equipment	18,330	18,330	0	0%
Office Equipment	12,189	12,676	(487)	(4%)
Tools and Safety Devices	45,427	45,427	0	0%
Communication Equipment	1,955	1,955	0	0%
Meter Testing Equipment	5,668	5,668	0	0%
Total Capital Assets (Before W.I.P.)	3,770,470	3,610,206	160,264	4%
Less: Accumulated Depreciation	(1,952,644)	(1,862,067)	(90,577)	5%
Capital Assets – Net (Before W.I.P.)	1,817,826	1,748,139	69,687	4%
Construction Work in Progress	0	125,485	(125,485)	(100%)
Net Capital Assets	1,817,826	1,873,624	(55,798)	(3%)
Other Assets:				
Lewis & Clark Project Membership (Related Party)	661,772	168,306	493,466	293%
Total Assets	2,943,494	2,472,769	470,725	19%

**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
	2006	2005		
Liabilities				
Current Liabilities (Payable From Current Assets):				
Accounts Payable	5,840	10,114	(4,274)	(42%)
Due To Other Fund	25,187	0	25,187	N/A
Due To Other Governments	1,466	1,676	(210)	(13%)
Due To Other Governments (Related Party)	0	65	(65)	(100%)
Accrued Vacation and Sick Pay	13,655	13,530	125	1%
Accrued Payroll	727	407	320	79%
Payroll Taxes Payable	416	2,064	(1,648)	(80%)
Flex Spending Payable	159	554	(395)	(71%)
Total Current Liabilities (Payable From Current Assets)	47,450	28,410	19,040	67%
Liabilities Payable From Restricted Cash:				
Customer Deposits	2,160	1,840	320	17%
Long Term Debt:				
Advance From Other Fund	382,273	0	382,273	N/A
Total Liabilities	431,883	30,250	401,633	1,328%
Net Assets				
Invested in Capital Assets, Net of Related Debt	1,817,826	1,873,624	(55,798)	(3%)
Unrestricted	693,785	568,895	124,890	22%
Total Net Assets	\$ 2,511,611	2,442,519	69,092	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
	2006	2004		
Operating Revenues:				
Water Sales – Metered	\$ 233,084	242,871	(9,787)	(4%)
Water Sales – Rural Water System	166,031	171,528	(5,497)	(3%)
Water Sales – Tank Loads	1,211	1,444	(233)	(16%)
Material and Service Sales	0	555	(555)	(100%)
Service Income	2,417	2,650	(233)	(9%)
Total Operating Revenues	402,743	419,048	(16,305)	(4%)
Operating Expenses:				
Production/Processing Expense	89,133	75,486	13,647	18%
Distribution Expense	48,655	47,125	1,530	3%
Accounting and Collecting	15,823	15,519	304	2%
Administrative and General	82,728	83,322	(594)	(1%)
Free Community Service (Related Party)	818	777	41	5%
Transportation	3,093	2,990	103	3%
Depreciation	91,121	88,318	2,803	3%
Payroll Taxes	14,658	13,428	1,230	9%
Total Operating Expenses	346,029	326,965	19,064	6%
Operating Income	56,714	92,083	(35,369)	(38%)
Nonoperating Revenues (Expenses):				
Gain on Disposal of Materials	6	0	6	N/A
Rentals	5,660	5,660	0	0%
Customer Penalties	107	71	36	51%
Miscellaneous Income	270	0	270	N/A
Interest Income	13,795	2,315	11,480	496%
Interest Expense	(7,460)	0	(7,460)	N/A
Net Nonoperating Revenues (Expenses)	12,378	8,046	4,332	54%
Change in Net Assets	69,092	100,129	(31,037)	(31%)
Net Assets Beginning of Year	2,442,519	2,272,687	169,832	7%
Net Assets End of Year	\$ 2,511,611	2,372,816	138,795	6%

See Accompanying Independent Auditor's Report.

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

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

	For the Fiscal Year Ended June 30,		Amount of Change	Percentage of Change
	2006	2005		
Operating Revenues:				
Water Sales – Metered	\$ 233,084	231,170	1,914	1%
Water Sales – Rural Water System	166,031	167,795	(1,764)	(1%)
Water Sales – Tank Loads	1,211	1,213	(2)	0%
Service Income	2,417	2,661	(244)	(9%)
Total Operating Revenues	402,743	402,839	(96)	0%
Operating Expenses:				
Production/Processing Expense	89,133	79,267	9,866	12%
Distribution Expense	48,655	52,180	(3,525)	(7%)
Accounting and Collecting	15,823	16,710	(887)	(5%)
Administrative and General	82,728	76,108	6,620	9%
Free Community Service (Related Party)	818	4,969	(4,151)	(84%)
Transportation	3,093	4,033	(940)	(23%)
Depreciation	91,121	96,977	(5,856)	(6%)
Payroll Taxes	14,658	13,789	869	6%
Total Operating Expenses	346,029	344,033	1,996	1%
Operating Income	56,714	58,806	(2,092)	(4%)
Nonoperating Revenues (Expenses):				
Gain on Sale of Capital Assets	0	1,813	(1,813)	(100%)
Gain on Disposal of Materials	6	30	(24)	(80%)
Rentals	5,660	5,660	0	0%
Customer Penalties	107	75	32	43%
Miscellaneous Income	270	0	270	N/A
Interest Income	13,795	3,319	10,476	316%
Interest Expense	(7,460)	0	(7,460)	N/A
Net Nonoperating Revenues (Expenses)	12,378	10,897	1,481	14%
Change in Net Assets	69,092	69,703	(611)	(1%)
Net Assets Beginning of Year	2,442,519	2,372,816	69,703	3%
Net Assets End of Year	\$ 2,511,611	2,442,519	69,092	3%

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
	2006	2004		
Assets				
Current Assets:				
Cash	\$ 250,798	128,127	122,671	96%
Certificates of Deposit	90,500	90,500	0	0%
Accounts Receivable	19,776	18,142	1,634	9%
Due From Other Governments (Related Party)	131	130	1	1%
Due From Other Governments	428	381	47	12%
Interest Receivable	2,899	1,357	1,542	114%
Flex Spending Receivable	0	187	(187)	(100%)
Prepaid Insurance	8,148	5,518	2,630	48%
Total Current Assets	372,680	244,342	128,338	53%
Restricted Cash and Certificates of Deposit:				
Depreciation Reserves (Cash)	1,482	12,561	(11,079)	(88%)
Depreciation Reserves (Certificates of Deposit)	59,500	59,500	0	0%
Total Restricted Cash and Certificates of Deposit	60,982	72,061	(11,079)	(15%)
Capital Assets:				
Utility Plant	1,858,555	1,632,063	226,492	14%
Transportation Equipment	38,380	19,850	18,530	93%
Office Equipment	4,542	6,260	(1,718)	(27%)
Tools and Safety Devices	25,865	30,061	(4,196)	(14%)
Communication Equipment	0	934	(934)	(100%)
Total Capital Assets (Before W.I.P)	1,927,342	1,689,168	238,174	14%
Less: Accumulated Depreciation	(1,250,948)	(1,208,611)	(42,337)	4%
Capital Assets – Net (Before W.I.P)	676,394	480,557	195,837	41%
Construction Work in Progress	0	153,939	(153,939)	(100%)
Net Capital Assets	676,394	634,496	41,898	7%
Total Assets	1,110,056	950,899	159,157	17%

**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
	2006	2004		
Liabilities				
Current Liabilities (Payable From Current Assets):				
Accounts Payable	2,871	2,155	716	33%
Due to Other Fund	12,198	1,576	10,622	674%
Due To Other Governments	205	147	58	39%
Due To Other Governments (Related Party)	0	198	(198)	(100%)
Accrued Vacation and Sick Pay	4,120	3,215	905	28%
Accrued Payroll	413	2,280	(1,867)	(82%)
Payroll Taxes Payable	208	0	208	N/A
Flex Spending Payable	40	0	40	N/A
Total Current Liabilities (Payable From Current Assets)	20,055	9,571	10,484	110%
Long Term Debt:				
Advance From Other Fund	134,929	0	134,929	N/A
Total Liabilities	154,984	9,571	145,413	1,519%
Net Assets				
Invested in Capital Assets, Net of Related Debt	529,325	634,496	(105,171)	(17%)
Restricted for:				
Depreciation Reserves	60,982	72,061	(11,079)	(15%)
Unrestricted	364,765	234,771	129,994	55%
Total Net Assets	\$ 955,072	941,328	13,744	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
	2006	2005		
Assets				
Current Assets:				
Cash	\$ 250,798	121,439	129,359	107%
Certificates of Deposit	90,500	110,500	(20,000)	(18%)
Accounts Receivable	19,776	17,522	2,254	13%
Due From Other Governments (Related Party)	131	149	(18)	(12%)
Due From Other Governments	428	485	(57)	(12%)
Interest Receivable	2,899	1,509	1,390	92%
Prepaid Insurance	8,148	7,077	1,071	15%
Total Current Assets	372,680	258,681	113,999	44%
Restricted Cash and Certificates of Deposit:				
Depreciation Reserves (Cash)	1,482	(9,284)	10,766	116%
Depreciation Reserves (Certificates of Deposit)	59,500	59,500	0	0%
Total Restricted Cash and Certificates of Deposit	60,982	50,216	10,766	21%
Capital Assets:				
Utility Plant	1,858,555	1,626,812	231,743	14%
Transportation Equipment	38,380	38,380	0	0%
Office Equipment	4,542	4,785	(243)	(5%)
Tools and Safety Devices	25,865	25,865	0	0%
Total Capital Assets (Before W.I.P)	1,927,342	1,695,842	231,500	14%
Less: Accumulated Depreciation	(1,250,948)	(1,223,038)	(27,910)	2%
Capital Assets – Net (Before W.I.P)	676,394	472,804	203,590	43%
Construction Work in Progress	0	191,196	(191,196)	(100%)
Net Capital Assets	676,394	664,000	12,394	2%
Total Assets	1,110,056	972,897	137,159	14%

**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
	2006	2005		
Liabilities				
Current Liabilities (Payable From Current Assets):				
Accounts Payable	2,871	17,273	(14,402)	(83%)
Due to Other Fund	12,198	0	12,198	N/A
Due To Other Governments	205	193	12	6%
Due To Other Governments (Related Party)	0	16	(16)	(100%)
Accrued Vacation and Sick Pay	4,120	3,183	937	29%
Accrued Payroll	413	247	166	67%
Payroll Taxes Payable	208	867	(659)	(76%)
Flex Spending Payable	40	237	(197)	(83%)
Total Current Liabilities (Payable From Current Assets)	20,055	22,016	(1,961)	(9%)
Long Term Debt:				
Advance From Other Fund	134,929	0	134,929	N/A
Total Liabilities	154,984	22,016	132,968	604%
Net Assets				
Invested in Capital Assets, Net of Related Debt	529,325	664,000	(134,675)	(20%)
Restricted for:				
Depreciation Reserves	60,982	50,216	10,766	21%
Unrestricted	364,765	236,665	128,100	54%
Total Net Assets	\$ 955,072	950,881	4,191	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
	2006	2004		
Operating Revenues:				
Sewer Service	\$ 183,486	158,291	25,195	16%
Service Income	883	883	0	0%
Total Operating Revenues	<u>184,369</u>	<u>159,174</u>	<u>25,195</u>	<u>16%</u>
Operating Expenses:				
Production/Processing Expense	106,407	85,156	21,251	25%
Accounting and Collecting	5,294	5,863	(569)	(10%)
Administrative and General	32,840	33,260	(420)	(1%)
Free Community Service (Related Party)	7,643	6,601	1,042	16%
Transportation	1,770	1,805	(35)	(2%)
Depreciation	28,153	31,305	(3,152)	(10%)
Payroll Taxes	8,677	7,316	1,361	19%
Total Operating Expenses	<u>190,784</u>	<u>171,306</u>	<u>19,478</u>	<u>11%</u>
Operating Loss	<u>(6,415)</u>	<u>(12,132)</u>	<u>5,717</u>	<u>(47%)</u>
Nonoperating Revenues (Expenses):				
Customer Penalties	84	56	28	50%
Interest Income	12,373	3,485	8,888	255%
Interest Expense	(1,851)	0	(1,851)	N/A
Net Nonoperating Revenues (Expenses)	<u>10,606</u>	<u>3,541</u>	<u>7,065</u>	<u>200%</u>
Change in Net Assets	4,191	(8,591)	12,782	149%
Net Assets Beginning of Year	<u>950,881</u>	<u>949,919</u>	<u>962</u>	<u>0%</u>
Net Assets End of Year	<u>\$ 955,072</u>	<u>941,328</u>	<u>13,744</u>	<u>1%</u>

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
	2006	2005		
Operating Revenues:				
Sewer Service	\$ 183,486	185,005	(1,519)	(1%)
Service Income	883	883	0	0%
Total Operating Revenues	<u>184,369</u>	<u>185,888</u>	<u>(1,519)</u>	<u>(1%)</u>
Operating Expenses:				
Production/Processing Expense	106,407	98,305	8,102	8%
Accounting and Collecting	5,294	5,332	(38)	(1%)
Administrative and General	32,840	31,658	1,182	4%
Free Community Service (Related Party)	7,643	8,622	(979)	(11%)
Transportation	1,770	3,420	(1,650)	(48%)
Depreciation	28,153	29,607	(1,454)	(5%)
Payroll Taxes	8,677	7,927	750	9%
Total Operating Expenses	<u>190,784</u>	<u>184,871</u>	<u>5,913</u>	<u>3%</u>
Operating Income (Loss)	<u>(6,415)</u>	<u>1,017</u>	<u>(7,432)</u>	<u>(731%)</u>
Nonoperating Revenues (Expenses):				
Gain on Sale of Capital Assets	0	4,100	(4,100)	(100%)
Gain on Disposal of Materials	0	15	(15)	(100%)
Customer Penalties	84	59	25	42%
Interest Income	12,373	4,362	8,011	184%
Interest Expense	(1,851)	0	(1,851)	N/A
Net Nonoperating Revenues (Expenses)	<u>10,606</u>	<u>8,536</u>	<u>2,070</u>	<u>24%</u>
Change in Net Assets	4,191	9,553	(5,362)	(56%)
Net Assets Beginning of Year	<u>950,881</u>	<u>941,328</u>	<u>9,553</u>	<u>1%</u>
Net Assets End of Year	<u>\$ 955,072</u>	<u>950,881</u>	<u>4,191</u>	<u>0%</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
	2006	2004		
Assets				
Current Assets:				
Cash	\$ 1,126,284	244,208	882,076	361%
Certificates of Deposit	461,000	395,000	66,000	17%
Accounts Receivable	76,408	57,377	19,031	33%
Due From Other Funds	37,385	68	37,317	54,878%
Due From Other Governments (Related Party)	1,339	2,856	(1,517)	(53%)
Due From Other Governments	841	951	(110)	(12%)
Interest Receivable	10,817	2,966	7,851	265%
Notes Receivable – Rock Rapids Development Corporation (Current Portion)	0	39,150	(39,150)	(100%)
Flex Spending Receivable	0	311	(311)	(100%)
Inventory	49,796	49,952	(156)	0%
Prepaid Insurance	9,599	7,414	2,185	29%
Total Current Assets	1,773,469	800,253	973,216	122%
Restricted Cash:				
Customer Deposits	38,246	20,615	17,631	86%
Capital Assets:				
Land	18,777	18,777	0	0%
Utility Plant	991,890	966,417	25,473	3%
Transportation Equipment	52,298	49,818	2,480	5%
Office Equipment	17,904	24,712	(6,808)	(28%)
Tools and Safety Devices	71,259	100,599	(29,340)	(29%)
Total Capital Assets (Before W.I.P)	1,152,128	1,160,323	(8,195)	(1%)
Less: Accumulated Depreciation	(481,012)	(476,683)	(4,329)	1%
Capital Assets – Net (Before W.I.P)	671,116	683,640	(12,524)	(2%)
Construction Work in Progress	0	681	(681)	(100%)
Net Capital Assets	671,116	684,321	(13,205)	(2%)
Other Assets:				
Notes Receivable – Rock Rapids Development Corporation (Noncurrent Portion)	12,500	0	12,500	N/A
Advances To Other Funds	517,202	0	517,202	N/A
Total Other Assets	529,702	0	529,702	N/A
Total Assets	3,012,533	1,505,189	1,507,344	100%

**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
	2006	2004		
Liabilities				
Current Liabilities (Payable From Current Assets):				
Accounts Payable	3,531	1,783	1,748	98%
Due to Other Funds	0	50	(50)	(100%)
Due To Other Governments	2,270	2,181	89	4%
Due To Other Governments (Related Party)	2,100	2,773	(673)	(24%)
Accrued Vacation and Sick Pay	15,492	13,910	1,582	11%
Accrued Payroll	937	4,689	(3,752)	(80%)
Payroll Taxes Payable	728	0	728	N/A
Flex Spending Payable	279	0	279	N/A
Unearned Income	9,798	751	9,047	1,205%
Total Current Liabilities (Payable From Current Assets)	35,135	26,137	8,998	34%
Liabilities Payable From Restricted Cash:				
Customer Deposits	38,246	20,615	17,631	86%
Total Liabilities	73,381	46,752	26,629	57%
Net Assets				
Invested in Capital Assets, Net of Related Debt	671,116	684,321	(13,205)	(2%)
Unrestricted	2,268,036	774,116	1,493,920	193%
Total Net Assets	\$ 2,939,152	1,458,437	1,480,715	102%

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
	2006	2005		
Assets				
Current Assets:				
Cash	\$ 1,126,284	413,924	712,360	172%
Certificates of Deposit	461,000	457,745	3,255	1%
Accounts Receivable	76,408	46,431	29,977	65%
Due From Other Funds	37,385	0	37,385	N/A
Due From Other Governments (Related Party)	1,339	3,151	(1,812)	(58%)
Due From Other Governments	841	2,392	(1,551)	(65%)
Interest Receivable	10,817	4,122	6,695	162%
Inventory	49,796	38,635	11,161	29%
Prepaid Insurance	9,599	5,435	4,164	77%
Total Current Assets	1,773,469	971,835	801,634	82%
Restricted Cash:				
Customer Deposits	38,246	27,206	11,040	41%
Capital Assets:				
Land	18,777	18,777	0	0%
Utility Plant	991,890	977,585	14,305	1%
Transportation Equipment	52,298	49,818	2,480	5%
Office Equipment	17,904	18,757	(853)	(5%)
Tools and Safety Devices	71,259	71,259	0	0%
Total Capital Assets (Before W.I.P)	1,152,128	1,136,196	15,932	1%
Less: Accumulated Depreciation	(481,012)	(462,862)	(18,150)	4%
Net Capital Assets	671,116	673,334	(2,218)	0%
Other Assets:				
Notes Receivable – Rock Rapids Development Corporation (Noncurrent Portion)	12,500	0	12,500	N/A
Advances To Other Funds	517,202	0	517,202	N/A
Total Other Assets	529,702	0	529,702	N/A
Total Assets	3,012,533	1,672,375	1,340,158	80%

**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
	2006	2005		
Liabilities				
Current Liabilities (Payable From Current Assets):				
Accounts Payable	3,531	15,565	(12,034)	(77%)
Due To Other Governments	2,270	3,932	(1,662)	(42%)
Due To Other Governments (Related Party)	2,100	1,846	254	14%
Accrued Vacation and Sick Pay	15,492	14,219	1,273	9%
Accrued Payroll	937	518	419	81%
Payroll Taxes Payable	728	1,660	(932)	(56%)
Flex Spending Payable	279	396	(117)	(30%)
Unearned Income	9,798	813	8,985	1,105%
Total Current Liabilities (Payable From Current Assets)	35,135	38,949	(3,814)	(10%)
Liabilities Payable From Restricted Cash:				
Customer Deposits	38,246	27,206	11,040	41%
Total Liabilities	73,381	66,155	7,226	11%
Net Assets				
Invested in Capital Assets, Net of Related Debt	671,116	673,334	(2,218)	0%
Unrestricted	2,268,036	932,886	1,335,150	143%
Total Net Assets	\$ 2,939,152	1,606,220	1,332,932	83%

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
	2006	2004		
Operating Revenues:				
Residential Sales	\$ 1,533,966	1,220,961	313,005	26%
Commercial Sales	45,608	5,906	39,702	672%
Material and Service Sales	45	523	(478)	(91%)
Service Income	3,637	4,066	(429)	(11%)
Total Operating Revenues	1,583,256	1,231,456	351,800	29%
Operating Expenses:				
Production/Processing Expense	1,394,385	925,475	468,910	51%
Distribution Expense	92,145	57,658	34,487	60%
Accounting and Collecting	26,606	23,982	2,624	11%
Administrative and General	125,626	124,631	995	1%
Free Community Service (Related Party)	14,680	3,498	11,182	320%
Transportation	3,797	3,894	(97)	(2%)
Depreciation	38,209	35,124	3,085	9%
Payroll Taxes	17,682	14,126	3,556	25%
Total Operating Expenses	1,713,130	1,188,388	524,742	44%
Operating Income (Loss)	(129,874)	43,068	(172,942)	(402%)
Nonoperating Revenues (Expenses):				
Equity Distributions - NPGA (Related Party)	1,395,805	0	1,395,805	N/A
Gain on Sale of Capital Assets	7,500	0	7,500	N/A
Customer Penalties	1,606	1,233	373	30%
Gas Rate Case Settlement	3,870	0	3,870	N/A
Interest Income	55,082	6,665	48,417	726%
Interest Income (Related Party)	0	27	(27)	(100%)
Interest Expense	(1,057)	(1,045)	(12)	1%
Net Nonoperating Revenues (Expenses)	1,462,806	6,880	1,455,926	21,162%
Change in Net Assets	1,332,932	49,948	1,282,984	2,569%
Net Assets Beginning of Year	1,606,220	1,408,489	197,731	14%
Net Assets End of Year	\$ 2,939,152	1,458,437	1,480,715	102%

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
	2006	2005		
Operating Revenues:				
Residential Sales	\$ 1,533,966	1,301,442	232,524	18%
Commercial Sales	45,608	47,522	(1,914)	(4%)
Material and Service Sales	45	452	(407)	(90%)
Service Income	3,637	4,115	(478)	(12%)
Total Operating Revenues	<u>1,583,256</u>	<u>1,353,531</u>	<u>229,725</u>	<u>17%</u>
Operating Expenses:				
Production/Processing Expense	1,394,385	1,049,826	344,559	33%
Distribution Expense	92,145	74,033	18,112	24%
Accounting and Collecting	26,606	27,103	(497)	(2%)
Administrative and General	125,626	116,645	8,981	8%
Free Community Service (Related Party)	14,680	22,362	(7,682)	(34%)
Free Community Service	0	1,000	(1,000)	(100%)
Transportation	3,797	3,712	85	2%
Depreciation	38,209	36,824	1,385	4%
Payroll Taxes	17,682	15,281	2,401	16%
Total Operating Expenses	<u>1,713,130</u>	<u>1,346,786</u>	<u>366,344</u>	<u>27%</u>
Operating Income (Loss)	<u>(129,874)</u>	<u>6,745</u>	<u>(136,619)</u>	<u>(2,025%)</u>
Nonoperating Revenues (Expenses):				
Equity Distributions - NPGA (Related Party)	1,395,805	124,620	1,271,185	1,020%
Gain on Sale of Capital Assets	7,500	3,527	3,973	113%
Gain on Disposal of Materials	0	53	(53)	(100%)
Customer Penalties	1,606	1,312	294	22%
Gas Rate Case Settlement	3,870	0	3,870	N/A
Interest Income	55,082	12,308	42,774	348%
Interest Expense	(1,057)	(782)	(275)	35%
Net Nonoperating Revenues (Expenses)	<u>1,462,806</u>	<u>141,038</u>	<u>1,321,768</u>	<u>937%</u>
Change in Net Assets	1,332,932	147,783	1,185,149	802%
Net Assets Beginning of Year	<u>1,606,220</u>	<u>1,458,437</u>	<u>147,783</u>	<u>10%</u>
Net Assets End of Year	<u>\$ 2,939,152</u>	<u>1,606,220</u>	<u>1,332,932</u>	<u>83%</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
	2006	2004		
Assets				
Current Assets:				
Cash	\$ 15,990	1,795	14,195	791%
Accounts Receivable	6,219	4,401	1,818	41%
Due From Other Funds	0	95	(95)	(100%)
Due From Other Governments (Related Party)	108	108	0	0%
Due From Other Governments	107	285	(178)	(62%)
Interest Receivable	74	0	74	N/A
Inventory	7,128	4,990	2,138	43%
Prepaid Insurance	82	48	34	71%
Total Current Assets	29,708	11,722	17,986	153%
Restricted Cash:				
Customer Deposits	2,331	408	1,923	471%
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	(107,600)	(53,043)	(54,557)	103%
Net Capital Assets	36,365	78,570	(42,205)	(54%)
Total Assets	68,404	90,700	(22,296)	(25%)
Liabilities				
Current Liabilities (Payable From Current Assets):				
Accounts Payable	4,204	3,415	789	23%
Due To Other Governments (Related Party)	0	138	(138)	(100%)
Accrued Payroll	95	282	(187)	(66%)
Flex Spending Payable	40	0	40	N/A
Total Current Liabilities (Payable From Current Assets)	4,339	3,835	504	13%
Liabilities Payable From Restricted Cash:				
Customer Deposits	2,331	408	1,923	471%
Total Liabilities	6,670	4,243	2,427	57%
Net Assets				
Invested in Capital Assets, Net of Related Debt	36,365	78,570	(42,205)	(54%)
Unrestricted	25,369	7,887	17,482	222%
Total Net Assets	\$ 61,734	86,457	(24,723)	(29%)

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
	2006	2005		
Assets				
Current Assets:				
Cash	\$ 15,990	6,611	9,379	142%
Accounts Receivable	6,219	3,264	2,955	91%
Due From Other Governments (Related Party)	108	108	0	0%
Due From Other Governments	107	285	(178)	(62%)
Interest Receivable	74	0	74	N/A
Inventory	7,128	7,497	(369)	(5%)
Prepaid Insurance	82	0	82	N/A
Total Current Assets	29,708	17,765	11,943	67%
Restricted Cash:				
Customer Deposits	2,331	972	1,359	140%
Capital Assets:				
Office Equipment	513	513	0	0%
Communication Equipment	143,452	143,452	0	0%
Total Capital Assets (Before W.I.P)	143,965	143,965	0	0%
Less: Accumulated Depreciation	(107,600)	(79,513)	(28,087)	35%
Net Capital Assets	36,365	64,452	(28,087)	(44%)
Total Assets	68,404	83,189	(14,785)	(18%)
Liabilities				
Current Liabilities (Payable From Current Assets):				
Accounts Payable	4,204	3,686	518	14%
Due To Other Governments	0	21	(21)	(100%)
Due To Other Governments (Related Party)	0	16	(16)	(100%)
Accrued Payroll	95	20	75	375%
Payroll Taxes Payable	0	138	(138)	(100%)
Flex Spending Payable	40	0	40	N/A
Total Current Liabilities (Payable From Current Assets)	4,339	3,881	458	12%
Liabilities Payable From Restricted Cash:				
Customer Deposits	2,331	972	1,359	140%
Total Liabilities	6,670	4,853	1,817	37%
Net Assets				
Invested in Capital Assets, Net of Related Debt	36,365	64,452	(28,087)	(44%)
Unrestricted	25,369	13,884	11,485	(83%)
Total Net Assets	\$61,734	78,336	(16,602)	21%

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
	2006	2004		
Operating Revenues:				
Residential Sales	\$ 74,349	71,423	2,926	4%
Service Income	8	30	(22)	(73%)
Total Operating Revenues	<u>74,357</u>	<u>71,453</u>	<u>2,904</u>	<u>4%</u>
Operating Expenses:				
Production/Processing Expense	44,325	34,997	9,328	27%
Distribution Expense	3,738	1,085	2,653	245%
Accounting and Collecting	4,081	3,119	962	31%
Administrative and General	9,735	6,255	3,480	56%
Depreciation	28,087	26,031	2,056	8%
Payroll Taxes	1,394	859	535	62%
Total Operating Expenses	<u>91,360</u>	<u>72,346</u>	<u>19,014</u>	<u>26%</u>
Operating Loss	<u>(17,003)</u>	<u>(893)</u>	<u>(16,110)</u>	<u>1,804%</u>
Nonoperating Revenues (Expenses):				
Customer Penalties	23	0	23	N/A
Interest Income	437	0	437	N/A
Interest Expense	(59)	(193)	134	(69%)
Net Nonoperating Revenues (Expenses)	<u>401</u>	<u>(193)</u>	<u>594</u>	<u>308%</u>
Net Loss Before Transfers	<u>(16,602)</u>	<u>(1,086)</u>	<u>(15,516)</u>	<u>1,429%</u>
Transfer from Electric Utility Fund	<u>0</u>	<u>100,000</u>	<u>(100,000)</u>	<u>(100%)</u>
Change in Net Assets	<u>(16,602)</u>	<u>98,914</u>	<u>(115,516)</u>	<u>(117%)</u>
Net Assets Beginning of Year	<u>78,336</u>	<u>(12,457)</u>	<u>90,793</u>	<u>729%</u>
Net Assets End of Year	<u>\$ 61,734</u>	<u>86,457</u>	<u>(24,723)</u>	<u>(29%)</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 Revenues, Expenses and Changes in Fund Net Assets

	For the Fiscal Year Ended June 30,		Amount of Change	Percentage of Change
	2006	2005		
Operating Revenues:				
Residential Sales	\$ 74,349	73,168	1,181	2%
Service Income	8	0	8	N/A
Total Operating Revenues	<u>74,357</u>	<u>73,168</u>	<u>1,189</u>	<u>2%</u>
Operating Expenses:				
Production/Processing Expense	44,325	42,605	1,720	4%
Distribution Expense	3,738	688	3,050	443%
Accounting and Collecting	4,081	4,039	42	1%
Administrative and General	9,735	6,497	3,238	50%
Depreciation	28,087	26,470	1,617	6%
Payroll Taxes	1,394	977	417	43%
Total Operating Expenses	<u>91,360</u>	<u>81,276</u>	<u>10,084</u>	<u>12%</u>
Operating Loss	<u>(17,003)</u>	<u>(8,108)</u>	<u>(8,895)</u>	<u>110%</u>
Nonoperating Revenues (Expenses):				
Customer Penalties	23	27	(4)	(15%)
Interest Income	437	0	437	N/A
Interest Expense	(59)	(40)	(19)	48%
Net Nonoperating Revenues (Expenses)	<u>401</u>	<u>(13)</u>	<u>414</u>	<u>3,185%</u>
Change in Net Assets	<u>(16,602)</u>	<u>(8,121)</u>	<u>(8,481)</u>	<u>(104%)</u>
Net Assets Beginning of Year	<u>78,336</u>	<u>86,457</u>	<u>(8,121)</u>	<u>9%</u>
Net Assets End of Year	<u>\$61,734</u>	<u>78,336</u>	<u>(16,602)</u>	<u>21%</u>

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***

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, 2006, which collectively comprise the Utilities' basic financial statements listed in the table of contents, and have issued our report thereon dated September 1, 2006. 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 opinions 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 06-A, C, D and E 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, 2006 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 1, 2006

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

Schedule of Findings

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids**
Schedule of Findings
Year Ended June 30, 2006

Findings Related to the Financial Statements:

REPORTABLE CONDITIONS:

06-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 inventory 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.

06-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.

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.

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.

Response – We will continue to work on improving payroll procedures. We will address the utility coordinator's compensatory time off recordkeeping issue.

Conclusion – Response accepted. Please address these payroll issues.

Rock Rapids Municipal Utilities,
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Schedule of Findings
Year Ended June 30, 2006

- 06-C Capital Assets – Capital assets are not being marked for identification purposes.
- Recommendation – Capital assets should be marked for identification purposes to assist in the existence and accountability functions. On a yearly basis, an independent person should be responsible for verifying the existence of the capital assets. Any capital assets disposed of or sold should be adequately documented.
- Response – We will attempt to start working on marking capital assets for identification purposes and conducting an annual inspection.
- Conclusion – Response accepted. Please attempt to work on this issue.
- 06-D Dual Check Signers – Checks did not require dual signers. There was no requirement for dual signatures even if an amount exceeded a certain set dollar limit.
- Recommendation – In order to provide an additional control, all checks issued should require dual signatures to be valid.
- Response – We have implemented the dual check signers recommendation for fiscal year 2006/2007.
- Conclusion – Response accepted.
- 06-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 – The Utilities should consider eliminating the internal “Trust Fund”. If not, 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 then be monitored on a regular basis to ensure that this fund is properly in balance at all times.
- Response – We redesigned our accounting system to eliminate the internal “Trust Fund” effective September 1, 2006.
- Conclusion – Response accepted.
- 06-F Credit Cards – We noted that a disbursement on one credit card bill 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.

**Rock Rapids Municipal Utilities,
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Schedule of Findings
Year Ended June 30, 2006

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.

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

06-G

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 length to be set at a minimum of at least six characters and require use of multiple characters on the keyboard.
- passwords to access the shop computers.
- daily backup and off-site storage of the information on computers other than the office computer system.
- automatic log-off provisions when left unattended for a period of time. Upon log-off, the user should have to again enter a password to re-access information.

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 work on implementing these computer related policies.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids**
Schedule of Findings
Year Ended June 30, 2006

Other Findings Related to Required Statutory Reporting:

06-1 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, 2006 exceeded the amount budgeted in the business type activities function. This was the result of overexpenditures in all of the funds, except for the Communications (Wireless Internet) Utility Fund. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

Recommendation – The Rock Rapids Municipal Utilities should have worked in correlation with the City of Rock Rapids to amend the budget in sufficient amounts in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – We will work with the City of Rock Rapids in the future to comply with your recommendation.

Conclusion – Response accepted.

06-2 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 \$75.

The Utilities paid \$259 throughout the fiscal year to provide food for Board of Trustees meetings.

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.

Response – We will consult with the Utilities’ attorney as to the public purpose of these expenses.

Conclusion – Response accepted.

**Rock Rapids Municipal Utilities,
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Schedule of Findings
Year Ended June 30, 2006

- 06-3 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 06-F for a possibly related comment.
- 06-4 Business Transactions – No business transactions between the Utilities and Utilities officials or employees were noted.
- 06-5 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.
- 06-6 Board Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not. However, the Iowa Code Section referenced in the minutes in order to go into a closed session was improper for five closed sessions held during the fiscal year. All five of the closed sessions held were allowable under a different Iowa Code Section.
- Recommendation – The Utilities Board minutes should document that the Board of Trustees followed the proper proceedings for any closed sessions (Chapter 21.5 of the Code of Iowa). Specifically, the Iowa Code Section that provides for the closed session to be held should be properly identified and documented.
- Response – We will comply with this recommendation.
- Conclusion – Response accepted.
- 06-7 Revenue Bonds/Notes – The Utilities did not have any revenue bonds or notes payable during the fiscal year ended June 30, 2006.
- 06-8 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 portion of the fiscal year that an investment in the Missouri River Energy Services “bill prepayment” program was held.

The Utilities did 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.

**Rock Rapids Municipal Utilities,
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Year Ended June 30, 2006

The written investment policy did not list Missouri River Energy Services as an allowable investment alternative.

Recommendation – The Board of Trustees should formally review and update the Utilities’ written investment policy. All investments should conform with the adopted written investment policy. For investments prescribed in Chapter 12B.10C of the Code of Iowa and the Treasurer of State’s administrative rules, the Utilities should get a public funds custodial agreement in place and retain on file a copy of the most recent audited financial statements and related report on internal controls.

Response – We will comply with your recommendation.

Conclusion – Response accepted.

06-9 Telecommunication Services – No instances of non-compliance with Chapter 388.10 of the Code of Iowa were noted.

06-10 Official Depositories – The maximum deposit amounts stated in the resolution naming official depositories were not exceed during the fiscal year, except for deposits at US Bank. The maximum amount of \$2,000,000 was exceeded from November 2005 to June 2006.

Recommendation – The resolution in effect, as adopted by the Board, should be in amounts sufficient to cover anticipated balance at all approved depositories.

Response – The Board of Trustees increased the maximum authorized deposit amount at US Bank in July 2006. The new amount stated in the resolution is deemed sufficient.

Conclusion – Response accepted.

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

Staff

This audit was performed by:

David De Noble, CPA, Senior Auditor
Carmen Austin, CPA, Senior Auditor
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De Noble & Company PC
Certified Public Accounting Firm

NEWS RELEASE

FOR RELEASE: December 20, 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 \$5,389,884 for the fiscal year ended June 30, 2006, a forty-five percent increase from the previous year. Revenues included \$1,648,541 from the Electric Utility, \$422,581 from the Water Utility, \$196,826 from the Sewer Utility, \$3,047,119 from the Gas Utility and \$74,817 from the Communications (Wireless Internet) Utility.

Expenses for the Utilities totaled \$3,836,897, a sixteen percent increase from the previous year. Expenses included \$1,485,167 in the Electric Utility, \$353,489 in the Water Utility, \$192,635 in the Sewer Utility, \$1,714,187 in the Gas Utility and \$91,419 in the Communications (Wireless Internet) Utility.

Revenues increased due to a combination of higher overall usage in the Electric Utility, an increase in purchase gas adjustment billing in the Gas Utility services and receiving equity distributions from National Public Gas Agency in the Gas Utility. Expenses increased due to a combination of higher overall purchases in the Electric Utility and an increase in utility purchased power costs in the Gas Utility.

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>.