

**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, 2007**

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

**Officials**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
David Halse	Board of Trustees Chairperson	August 31, 2009
George Vanden Heuvel	Board of Trustees Member	August 31, 2007
David Foltz	Board of Trustees Member	August 31, 2011
Stan Knobloch	Board of Trustees Ex-Official Member	August 31, 2007
Jordan Kordahl	Board of Trustees Secretary	December 31, 2007
Austin, Haberkorn & Kippley	Attorneys	December 31, 2007
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, 2007, 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, 2007, 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 January 8, 2008 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 11 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 years ended June 30, 2006 and June 30, 2005 (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 Accountants

January 8, 2008

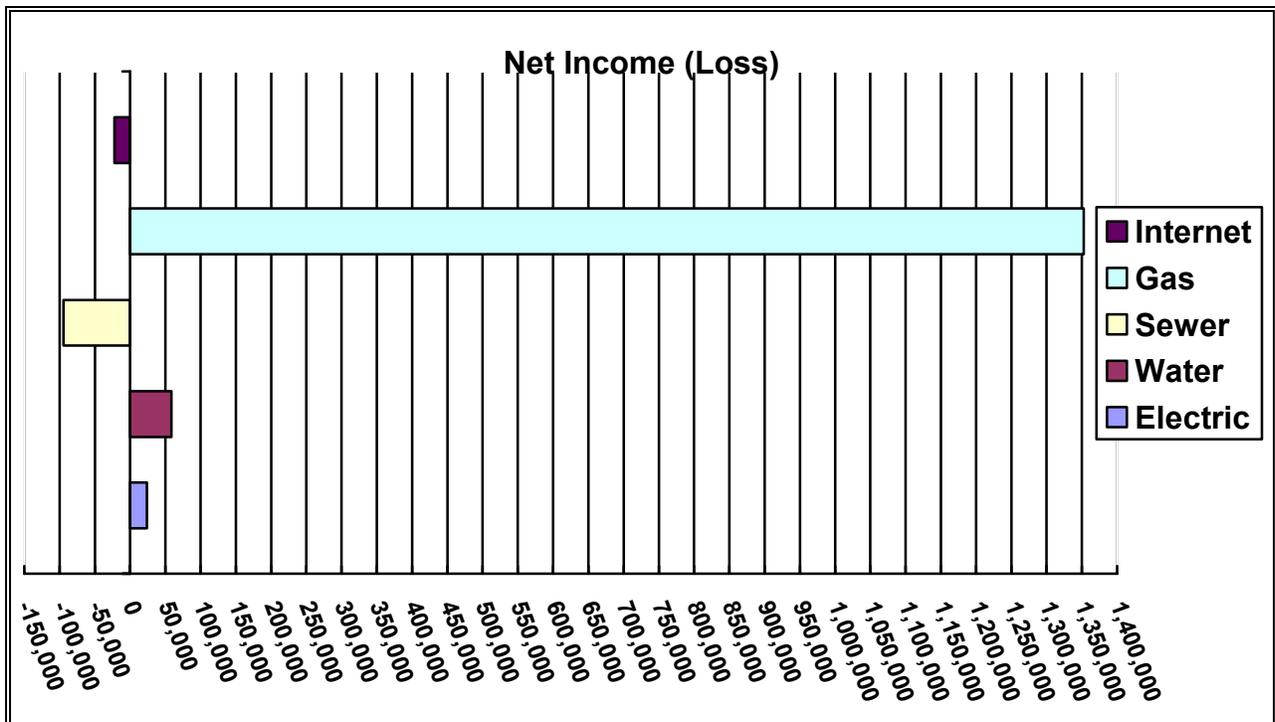
## Management's Discussion and Analysis

The Rock Rapids Municipal Utilities provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2007. We encourage readers to consider this information in conjunction with the Utilities' financial statements, which follow.

### 2007 FINANCIAL HIGHLIGHTS

- The Utilities' total net assets increased 10.9% during the fiscal year ended June 30, 2007. The net assets increased from \$12,074,803 to \$13,392,676, a \$1,317,873 increase.
- The Utilities' total revenues increased 0.5% during the fiscal year ended June 30, 2007. The total revenues increased from \$5,389,884 to \$5,416,284, a \$26,400 increase.
- The Utilities' total expenses increased 6.8% during the fiscal year ended June 30, 2007. The total expenses increased from \$3,836,897 to \$4,098,411, a \$261,514 increase.
- Net income (loss) for the fiscal year ended June 30, 2007 for each utility is as follows:

Electric	\$	23,743
Water		58,369
Sewer		(94,470)
Gas		1,352,579
Communications (Wireless Internet)	(	22,348)
Total	\$	1,317,873



## **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, 2007, compared to the fiscal years ended June 30, 2006 and 2005.

## **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.

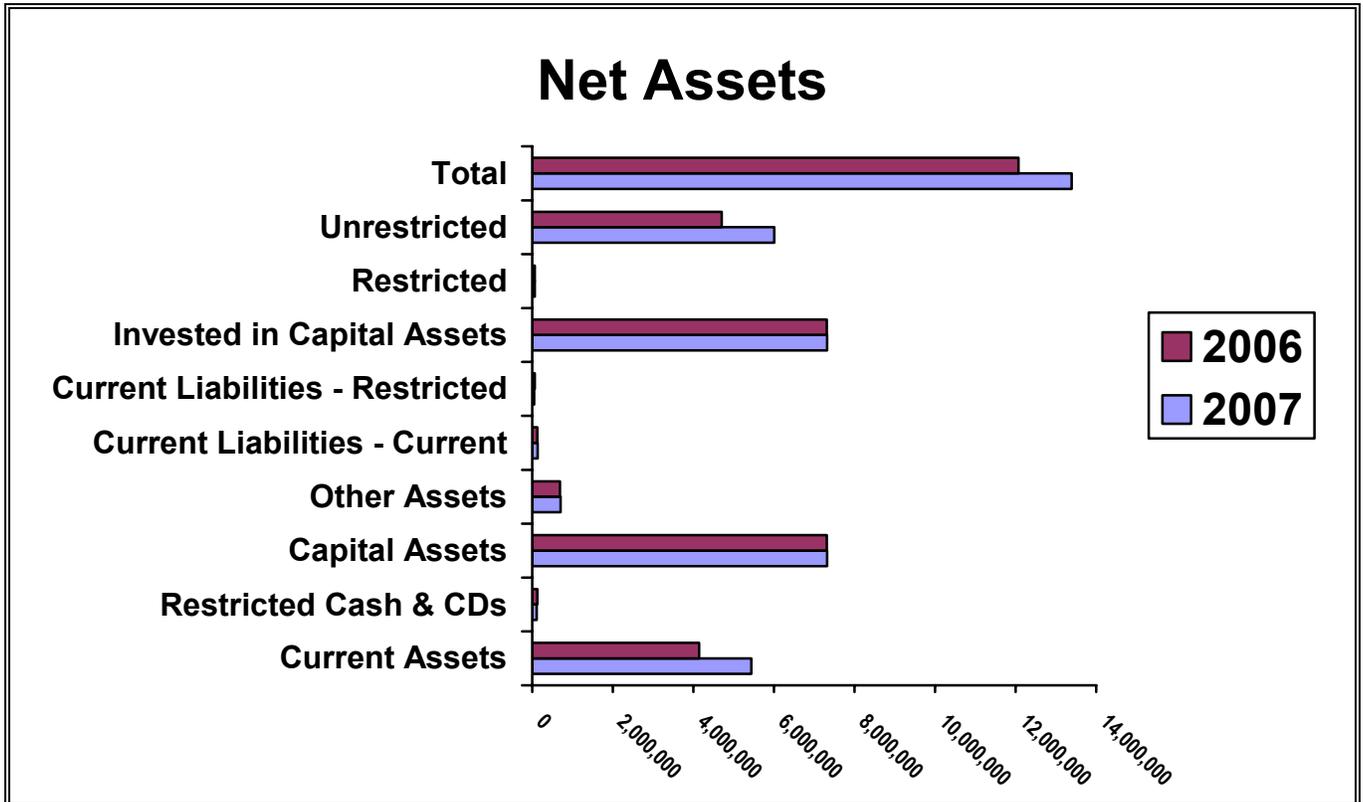
The financial statements required for proprietary funds include a Statement of Net Assets, a Statement of Revenues, Expenses and Changes in Fund Net Assets and a Statement of Cash Flows.

### 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.

	Net Assets at Year End	
	June 30, 2007	June 30, 2006
Current Assets	\$ 5,438,770	4,141,539
Restricted Cash and CDs	110,228	125,186
Capital Assets (Net)	7,322,153	7,313,903
Other Assets	704,888	686,772
Total Assets	<u>13,576,039</u>	<u>12,267,400</u>
Current Liabilities		
(Payable from Current Assets)	136,124	128,393
Current Liabilities		
(Payable from Restricted Assets)	47,239	64,204
Total Liabilities	<u>183,363</u>	<u>192,597</u>
Net Assets:		
Invested in Capital Assets,		
Net of Related Debt	7,322,153	7,313,903
Restricted	62,989	60,982
Unrestricted	6,007,534	4,699,918
Total Net Assets	<u>\$ 13,392,676</u>	<u>12,074,803</u>

The “Other Assets” category consists of the amount the Utilities has incurred for the Lewis & Clark project membership (\$679,888) 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 (54.7% of the net assets total for fiscal year ended June 30, 2007). For fiscal years ended June 30, 2007 and June 30, 2006, 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 \$6,007,534 (44.9% of the net assets total for fiscal year ended June 30, 2007) at the end of this fiscal year.

	Changes in Net Assets	
	For the Year Ended	
	June 30, 2007	June 30, 2006
Revenues:		
Program Revenues:		
Charges for Services	\$ 3,889,091	3,820,720
General Revenues:		
Equity Distributions - NPGA	1,262,882	1,395,805
Gain on Sale of Capital Assets	700	7,764
Rentals	11,224	11,204

Customer Penalties	2,799	2,642
Interest Income	245,395	137,391
Miscellaneous Income	1,675	1,012
Insurance Demutualization	0	9,476
Gas Rate Case Settlement	2,518	3,870
Total Revenues	<u>5,416,284</u>	<u>5,389,884</u>
Program Expenses:		
Electric	1,628,582	1,485,167
Water	421,006	353,489
Sewer	213,867	192,635
Gas	1,631,195	1,714,187
Internet	103,761	91,419
Total Expenses	<u>3,998,411</u>	<u>3,836,897</u>
Special Item (Expense):		
City of Rock Rapids Donation	<u>100,000</u>	<u>0</u>
Increase in Net Assets	1,317,873	1,552,987
Net Assets Beginning of Year	<u>12,074,803</u>	<u>10,521,816</u>
Net Assets End of Year	<u>\$ 13,392,676</u>	<u>12,074,803</u>

The "Increase in Net Assets" from fiscal year ended June 30, 2007 compared to June 30, 2006 was down by \$235,114 (15.1%). Despite the lower amount of "Increase in Net Assets" from the prior fiscal year, net assets still increased this fiscal year due largely to interest earnings on investments and receiving equity distributions during the fiscal year from the National Public Gas Agency. Also, the Utilities donated \$100,000 to the City of Rock Rapids this fiscal year for a sanitary sewer lining project.

## INDIVIDUAL MAJOR FUND ANALYSIS

### Operating Revenues

Electric operating revenues were \$1,580,562, up \$4,567 or 0.3% from the prior fiscal year.

Water operating revenues were \$440,609, up \$37,866 or 9.4% from the previous fiscal year, due to an increase in the sales volume (mainly to the Rural Water System).

Sewer operating revenues were \$203,189, up \$18,820 or 10.2% from the previous fiscal year, due to an increase in rates and sales volume.

Gas operating revenues were \$1,584,395, up \$1,139 or 0.1% higher than the previous fiscal year.

Communications (Wireless Internet) operating revenues were \$80,336, up \$5,979 or 8.0%, as a result of increased customers.

## **Operating Expenses**

Electric operating expenses were \$1,627,795, up \$143,316 or 9.7% from last fiscal year, due to an increase in purchased power, materials, line maintenance and donations (mainly to the City of Rock Rapids for the recreation trail project and economic development).

Water operating expenses were \$399,212, up \$53,183 or 15.4% from last fiscal year, due to more maintenance done on towers and systems.

Sewer operating expenses were \$207,111, up \$16,327 or 8.6% from the previous fiscal year, due to an increase in maintenance projects and more depreciation expense on capital assets.

Gas operating expenses were \$1,629,687, down \$83,443 or 4.9% from last fiscal year, due to a decrease in prices paid for the natural gas commodity.

Communications (Wireless Internet) operating expenses were \$103,669, up \$12,309 or 13.5%, due to an increase in number of customers served and installation of new technology that is below the capital assets capitalization policy.

## **Net Assets**

The Electric Fund, which accounts for the operation and maintenance of the electric system, ended fiscal year 2007 with a \$5,630,977 net asset balance compared to the prior year ending net asset balance of \$5,607,234 (\$23,743 increase or 0.4%).

The Water Fund, which accounts for the operation and maintenance of the water system, ended fiscal year 2007 with a \$2,569,980 net asset balance compared to the prior year ending net asset balance of \$2,511,611 (\$58,369 increase or 2.3%).

The Sewer Fund, which accounts for the operation and maintenance of the sewer system, ended fiscal year 2007 with a \$860,602 net asset balance compared to the prior year ending net asset balance of \$955,072 (\$94,470 decrease or 9.9%). The decrease is mainly due to a \$100,000 donation to the City of Rock Rapids for a sanitary sewer lining project.

The Gas Fund, which accounts for the operation and maintenance of the gas system, ended fiscal year 2007 with a \$4,291,731 net asset balance compared to the prior year ending net asset balance of \$2,939,152 (\$1,352,579 increase or 46.0%). The increase is due mainly to equity distributions received from the National Public Gas Agency.

The Communications (Wireless Internet) Fund, which accounts for the operation and maintenance of the wireless internet system, ended fiscal year 2007 with a \$39,386 net asset balance compared to the prior year ending net asset balance of \$61,734 (\$22,348 decrease or 36.2%).

## **BUDGETARY HIGHLIGHTS**

Over the course of the year, the Rock Rapids Municipal Utilities amended its budget one time. The amendment was done in April 2007. This amendment was needed to cover higher than originally

planned natural gas commodity prices, electric purchased power, maintenance work and capital asset projects.

Receipts came in \$1,175,808 over budget. The Water Utility came in \$410,370 over budget and the Gas Utility came in \$794,992 over budget.

Disbursements came in \$422,701 under budget. The Gas Utility came in \$361,285 under budget, the Electric Utility came in \$148,138 under budget, the Water Utility came in \$93,557 under budget and the Sewer Utility came in \$205,221 over budget.

The Utilities budgets on the cash basis but maintains its records on an accrual basis; therefore, accurate cash basis budgeting is a challenge for the Utilities.

## **CAPITAL ASSETS AND DEBT ADMINISTRATION**

### **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, office carpeting, a truck utility body and a pickup. Utility plant additions included new electric lines, industrial park electric project and the sewer filter project.

Construction in progress at June 30, 2007 consists of the downtown Electric Utility project.

### **Long-Term Debt**

The Utilities did not have any external long-term debt outstanding at June 30, 2007. Please see Note 4 for internal loans made from the Gas Fund to Water and Sewer Funds.

## **ECONOMIC FACTORS**

The Rock Rapids Municipal Utilities continues to experience an 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 continue to remain at high levels. 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. Missouri River Energy Service initiated increases due to higher coal prices and a winter storm. These factors will have great significance on the Utilities' costs.

Natural gas prices are expected to decrease due to favorable weather and good storage quantities.

The Rock Rapids Municipal Utilities will have increased costs in both the Water and Sewer Utilities as the Utilities participates with the City of Rock Rapids in a street project and a sewer lining project.

## **CONTACTING THE UTILITIES' FINANCIAL STATEMENT**

This financial report is designed to provide our customers with a general overview of the Utilities' finances and activities. If you have questions about this report or need additional financial information, contact Jim Hoyer, General Manager, 310 S. 3<sup>rd</sup> 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, 2007

	Business Type Activities
<b>Assets</b>	
Current Assets:	
Cash	\$ 2,188,041
Certificates of Deposit	2,710,000
Accounts Receivable	267,650
Due From Other Governments (Related Party)	7,634
Due From Other Governments	13,679
Interest Receivable	55,260
Flex Spending Receivable	850
Inventory	137,191
Prepaid Insurance	58,465
Total Current Assets	5,438,770
Restricted Cash:	
Customer Deposits	47,239
Depreciation Reserves	62,989
Total Restricted Cash	110,228
Capital Assets:	
Land	184,429
Utility Plant	13,918,646
Transportation Equipment	223,262
Office Equipment	72,196
Tools and Safety Devices	249,525
Communication Equipment	161,613
Meter Testing Equipment	21,903
Total Capital Assets (Before W.I.P.)	14,831,574
Less: Accumulated Depreciation	( 7,774,787)
Capital Assets – Net (Before W.I.P.)	7,056,787
Construction Work in Progress	265,366
Net Capital Assets	7,322,153

**Rock Rapids Municipal Utilities,  
A Component Unit of the City of Rock Rapids**  
Statement of Net Assets  
June 30, 2007

	Business Type Activities
<b>Assets (Continued)</b>	
Other Assets:	
Notes Receivable – Rock Rapids Development Corporation (Noncurrent Portion)	25,000
Lewis & Clark Project Membership (Related Party)	679,888
Total Other Assets	704,888
<b>Total Assets</b>	<b>13,576,039</b>
<b>Liabilities</b>	
Current Liabilities (Payable From Current Assets):	
Accounts Payable	44,888
Due To Other Governments	8,399
Due to Other Governments (Related Party)	19,125
Accrued Vacation and Sick Pay	53,150
Accrued Payroll & Payroll Liabilities	8,184
Unearned Income	2,378
Total Current Liabilities (Payable From Current Assets)	136,124
Liabilities Payable From Restricted Cash:	
Customer Deposits	47,239
<b>Total Liabilities</b>	<b>183,363</b>
<b>Net Assets:</b>	
Invested in Capital Assets, Net of Related Debt	7,322,153
Restricted for:	
Depreciation Reserves	62,989
Unrestricted	6,007,534
<b>Total Net Assets</b>	<b>\$ 13,392,676</b>

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, 2007

	<u>Program Revenues</u>		Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services	
<b>Functions/Programs:</b>			
Business Type Activities:			
Electric Utility	\$ 1,628,582	1,580,562	( 48,020)
Water Utility	421,006	440,609	19,603
Sewer Utility	213,867	203,189	( 10,678)
Gas Utility	1,631,195	1,584,395	( 46,800)
Communications (Wireless Internet) Utility	103,761	80,336	( 23,425)
Total	<u>\$ 3,998,411</u>	<u>3,889,091</u>	<u>( 109,320)</u>
<b>General Revenues:</b>			
Equity Distribution - NPGA (Related Party)			1,262,882
Gain on Sale of Capital Assets			700
Gain on Disposal of Materials			1,412
Rentals			6,224
Rentals (Related Party)			5,000
Customer Penalties			2,799
Miscellaneous Income			263
Gas Rate Case Settlement			2,518
Interest Income			216,845
Interest Income (Water, Sewer Funds)			28,550
Total General Revenues			<u>1,527,193</u>
<b>Special Item:</b>			
Free Community Service ( Related Party)			<u>( 100,000)</u>
Change in Net Assets			1,317,873
Net Assets Beginning of Year			<u>12,074,803</u>
Net Assets End of Year			<u>\$ 13,392,676</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, 2007

	Enterprise Funds					Total
	Electric Utility	Water Utility	Sewer Utility	Gas Utility	Communications (Wireless Internet) Utility	
<b>Assets</b>						
Current Assets:						
Cash	\$ 328,043	801,489	94,169	940,715	23,625	2,188,041
Certificates of Deposit	965,000	75,000	20,000	1,650,000	0	2,710,000
Accounts Receivable	123,543	41,233	25,464	70,164	7,246	267,650
Due From Other Funds	0	0	0	60,102	0	60,102
Due From Other Governments (Related Party)	2,979	571	279	3,697	108	7,634
Due From Other Governments	6,111	624	553	6,011	380	13,679
Interest Receivable	20,626	4,626	1,238	28,688	82	55,260
Flex Spending Receivable	850	0	0	0	0	850
Inventory	47,319	35,347	0	50,986	3,539	137,191
Prepaid Insurance	23,230	15,632	9,857	9,676	70	58,465
Total Current Assets	1,517,701	974,522	151,560	2,820,039	35,050	5,498,872
Restricted Cash:						
Customer Deposits	14,673	1,780	0	27,714	3,072	47,239
Depreciation Reserves	0	0	62,989	0	0	62,989
Total Restricted Cash	14,673	1,780	62,989	27,714	3,072	110,228
Capital Assets:						
Land	47,127	118,525	0	18,777	0	184,429
Utility Plant	7,349,756	3,568,376	2,008,624	991,890	0	13,918,646
Transportation Equipment	105,020	18,330	38,380	61,532	0	223,262
Office Equipment	37,048	12,189	4,542	17,904	513	72,196
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.)	7,678,366	3,770,470	2,077,411	1,161,362	143,965	14,831,574
Less: Accumulated Depreciation	( 3,794,587)	( 2,046,250)	( 1,284,315)	( 520,466)	( 129,169)	( 7,774,787)

Capital Assets – Net (Before W.I.P.)	3,883,779	1,724,220	793,096	640,896	14,796	7,056,787
Construction Work in Progress	265,366	0	0	0	0	265,366
<b>Net Capital Assets</b>	<b>4,149,145</b>	<b>1,724,220</b>	<b>793,096</b>	<b>640,896</b>	<b>14,796</b>	<b>7,322,153</b>

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	858,984	0	858,984
Lewis & Clark Project Membership (Related Party)	0	679,888	0	0	0	679,888
<b>Total Other Assets</b>	<b>12,500</b>	<b>679,888</b>	<b>0</b>	<b>871,484</b>	<b>0</b>	<b>1,563,872</b>

**Total Assets**

	5,694,019	3,380,410	1,007,645	4,360,133	52,918	14,495,125
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**Liabilities**

Current Liabilities (Payable From Current Assets):

Accounts Payable	19,278	7,327	7,326	1,431	9,526	44,888
Due To Other Fund	0	47,333	12,769	0	0	60,102
Due To Other Governments	5,511	1,404	218	1,266	0	8,399
Due To Other Governments (Related Party)	0	0	0	19,125	0	19,125
Accrued Vacation and Sick Pay	19,140	13,960	3,725	15,543	782	53,150
Accrued Payroll & Payroll Liabilities	3,161	1,855	792	2,224	152	8,184
Unearned Income	1,279	0	0	1,099	0	2,378

Total Current Liabilities (Payable From Current Assets)

	48,369	71,879	24,830	40,688	10,460	196,226
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Liabilities Payable From Restricted Cash:

Customer Deposits	14,673	1,780	0	27,714	3,072	47,239
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Long Term Debt:

Advance From Other Fund	0	736,771	122,213	0	0	858,984
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**Total Liabilities**

	63,042	810,430	147,043	68,402	13,532	1,102,449
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**Net Assets:**

Invested in Capital Assets, Net of Related Debt Restricted for:	4,149,145	1,724,220	658,167	640,896	14,796	7,187,224
Depreciation Reserves	0	0	62,989	0	0	62,989
Unrestricted	1,481,832	845,760	139,446	3,650,835	24,590	6,142,463

**Total Net Assets**

\$	5,630,977	2,569,980	860,602	4,291,731	39,386	13,392,676
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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, 2007

	Enterprise Funds						Total
	Electric Utility	Water Utility	Sewer Utility	Gas Utility	Communications (Wireless Internet) Utility		
<b>Operating Revenues:</b>							
Residential Sales	\$ 703,890	0	0	1,558,864	80,336	2,343,090	
Commercial Sales	821,694	0	0	21,815	0	843,509	
Public Street and Highway Lighting	23,001	0	0	0	0	23,001	
Wind Power – Residential and Commercial	618	0	0	0	0	618	
Water Sales – Metered	0	243,227	0	0	0	243,227	
Water Sales – Rural Water System	0	192,366	0	0	0	192,366	
Water Sales – Tank Loads	0	2,064	0	0	0	2,064	
Sewer Service	0	0	202,306	0	0	202,306	
Material and Service Sales	23,082	169	0	141	0	23,392	
Service Income	5,186	1,016	0	484	0	6,686	
Service Income (Related Party)	3,091	1,767	883	3,091	0	8,832	
<b>Total Operating Revenues</b>	<b>1,580,562</b>	<b>440,609</b>	<b>203,189</b>	<b>1,584,395</b>	<b>80,336</b>	<b>3,889,091</b>	
<b>Operating Expenses:</b>							
Production/Processing Expense	858,990	75,039	114,428	1,289,898	37,961	2,376,316	
Distribution Expense	173,656	94,316	0	83,756	26,264	377,992	
Accounting and Collecting	30,772	16,602	6,266	28,769	4,095	86,504	
Administrative and General	162,300	94,700	36,241	129,958	12,542	435,741	
Free Community Service (Related Party)	139,323	5,837	7,367	26,265	0	178,792	
Free Community Service	23,361	1,007	0	10,933	0	35,301	
Transportation	10,524	3,673	1,072	3,952	0	19,221	
Depreciation	203,895	93,606	33,367	39,454	21,569	391,891	
Payroll Taxes	24,974	14,432	8,370	16,702	1,238	65,716	
<b>Total Operating Expenses</b>	<b>1,627,795</b>	<b>399,212</b>	<b>207,111</b>	<b>1,629,687</b>	<b>103,669</b>	<b>3,967,474</b>	

Operating Income (Loss)	( 47,233)	41,397	( 3,922)	( 45,292)	( 23,333)	( 78,383)
Nonoperating Revenues (Expenses):						
Equity Distribution - NPGA (Related Party)	0	0	0	1,262,882	0	1,262,882
Gain on Sale of Capital Assets	0	0	0	700	0	700
Gain on Disposal of Materials	1,262	150	0	0	0	1,412
Rentals	544	5,680	0	0	0	6,224
Rentals (Related Party)	5,000	0	0	0	0	5,000
Customer Penalties	814	103	93	1,749	40	2,799
Miscellaneous Income	73	190	0	0	0	263
Gas Rate Case Settlement	0	0	0	2,518	0	2,518
Interest Income	64,070	32,643	16,115	102,980	1,037	216,845
Interest Income (Water, Sewer Funds)	0	0	0	28,550	0	28,550
Interest Expense	( 787)	0	0	( 1,508)	( 92)	( 2,387)
Interest Expense (Gas Fund)	0	( 21,794)	( 6,756)	0	0	( 28,550)
Net Nonoperating Revenues (Expenses)	70,976	16,972	9,452	1,397,871	985	1,496,256
Net Income (Loss) Before Special Item	23,743	58,369	5,530	1,352,579	( 22,348)	1,417,873
Special Item:						
Free Community Service (Related Party)	0	0	( 100,000)	0	0	( 100,000)
Net Income (Loss) After Special Item	23,743	58,369	( 94,470)	1,352,579	( 22,348)	1,317,873
Net Assets Beginning of Year	5,607,234	2,511,611	955,072	2,939,152	61,734	12,074,803
Net Assets End of Year	\$ 5,630,977	2,569,980	860,602	4,291,731	39,386	13,392,676

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, 2007

	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	\$ 1,520,199	439,301	197,229	1,572,976	78,205	3,807,910	
Cash Received from Interfund Services Provided	50,051	2,662	0	7,928	1,572	62,213	
Cash Received from Other Revenues	11,879	6,020	0	2,518	0	20,417	
Cash Paid to Suppliers/Outside Service Providers	( 995,746)	( 126,949)	( 53,101)	( 1,374,691)	( 59,263)	( 2,609,750)	
Cash Paid for Personal Services (Employees)	( 252,533)	( 144,829)	( 83,027)	( 182,693)	( 13,207)	( 676,289)	
Cash Paid for Interfund Services Used	( 9,296)	( 24,664)	( 27,755)	( 498)	0	( 62,213)	
Cash Paid for Free Community Service (Related Party)	( 139,323)	( 5,837)	( 107,367)	( 26,265)	0	( 278,792)	
Cash Paid for Free Community Service	( 23,361)	( 1,007)	0	( 10,933)	0	( 35,301)	
Net Cash Provided By (Used For) Operating Activities	161,870	144,697	( 74,021)	( 11,658)	7,307	228,195	
Cash Flows From Noncapital Financing Activities:							
Proceeds from Interfund Loan from the Gas Utility	0	390,257	0	0	0	390,257	
Principal Payments on Interfund Loan from the Gas Utility	0	( 17,727)	0	0	0	( 17,727)	
Interest Paid on Interfund Loan from the Gas Utility	0	( 17,682)	0	0	0	( 17,682)	
Net Cash Provided By Noncapital Financing Activities	0	354,848	0	0	0	354,848	
Cash Flows From Capital and Related Financing Activities:							
Principal Payments on Interfund Loan from the Gas Utility	0	0	( 12,140)	0	0	( 12,140)	
Interest Paid on Interfund Loan from the Gas Utility	0	0	( 6,760)	0	0	( 6,760)	
Proceeds from Sale of Capital Assets	0	0	0	700	0	700	
Purchases/Construction of Capital Assets	( 265,731)	0	( 150,069)	( 9,934)	0	( 425,734)	

Net Cash Used For Capital and Related Financing Activities	( 265,731)	0	( 168,969)	( 9,234)	0	( 443,934)
Cash Flows From Investing Activities:						
Interfund Loan Issued to the Water Utility	0	0	0	( 390,257)	0	( 390,257)
Principal Received on Interfund Loans	0	0	0	29,867	0	29,867
Interest Received on Interfund Loans	0	0	0	24,442	0	24,442
Cashed In (Purchase of) Non Cash Equivalent Certificates of Deposit (Net)	( 291,400)	33,400	130,000	( 1,189,000)	0	( 1,317,000)
Equity Distribution - NPGA (Related Party)	0	0	0	1,262,882	0	1,262,882
Interest Received	55,114	30,515	17,775	85,108	1,029	189,541
Customer Penalties Received	814	103	93	1,749	40	2,799
Paid Toward Lewis & Clark Project Membership	0	( 17,458)	0	0	0	( 17,458)
Net Cash Provided By (Used For) Investing Activities	( 235,472)	46,560	147,868	( 175,209)	1,069	( 215,184)
Net Increase (Decrease) in Cash and Cash Equivalents	( 339,333)	546,105	( 95,122)	( 196,101)	8,376	( 76,075)
Cash and Cash Equivalents Beginning of Year	682,049	257,164	252,280	1,164,530	18,321	2,374,344
Cash and Cash Equivalents End of Year	\$ 342,716	803,269	157,158	968,429	26,697	2,298,269
Reconciliation of Operating Income (Loss) to Net Cash Provided By (Used For) Operating Activities:						
Operating Income (Loss)	\$( 47,233)	41,397	( 3,922)	( 45,292)	( 23,333)	( 78,383)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided By (Used For) Operating Activities:						
Depreciation	203,895	93,606	33,367	39,454	21,569	391,891
Disposal of Materials	1,262	150	0	0	0	1,412
Proceeds from Rentals	544	5,680	0	0	0	6,224
Proceeds from Rentals (Related Party)	5,000	0	0	0	0	5,000
Proceeds from Miscellaneous Income	73	190	0	0	0	263
Proceeds from Gas Rate Case Settlement	0	0	0	2,518	0	2,518
Deposit Interest Paid	( 787)	0	0	( 1,508)	( 92)	( 2,387)
Special Item: Free Community Service (Related Party)	0	0	( 100,000)	0	0	( 100,000)

**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, 2007

	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:							
Decrease (Increase) in Accounts Receivable	( 6,773)	1,925	( 5,688)	6,244	( 1,027)	( 5,319)	
Decrease (Increase) in Due From Other Governments (Related Party)	5,776	( 153)	( 148)	( 2,358)	0	3,117	
Decrease (Increase) in Due From Other Governments	1,410	( 35)	( 125)	( 5,170)	( 273)	( 4,193)	
(Increase) in Flex Spending Receivable	( 850)	0	0	0	0	( 850)	
Decrease (Increase) in Inventory	( 8,610)	3,329	0	( 1,190)	3,589	( 2,882)	
Decrease (Increase) in Prepaid Insurance	494	( 2,637)	( 1,709)	( 77)	12	( 3,917)	
Increase (Decrease) in Customer Deposits (Cash)	( 6,794)	( 380)	0	( 10,532)	741	( 16,965)	
Increase (Decrease) in Accounts Payable (Non Capital Assets/ Other Assets Related)	14,866	829	4,455	( 1,400)	5,322	24,072	
Increase (Decrease) in Due to Other Governments	( 2,025)	( 62)	13	( 1,004)	0	( 3,078)	
Increase in Due to Other Governments (Related Party)	0	0	0	17,025	0	17,025	
Increase (Decrease) in Accrued Vacation and Sick Pay	219	305	( 395)	51	782	962	
Increase in Accrued Payroll & Payroll Liabilities (Decrease) in Flex Spending Payable	614	712	171	559	57	2,113	
Increase (Decrease) in Unearned Income	( 279)	( 159)	( 40)	( 279)	( 40)	( 797)	
	1,068	0	0	( 8,699)	0	( 7,631)	

Net Cash Provided By (Used For)							
Operating Activities	\$ 161,870	144,697	( 74,021)	( 11,658)	7,307	228,195	
Reconciliation of Cash and Cash Equivalents at Year End to Specific Assets Included on the Statement of Net Assets:							
Current Assets:							
Cash	\$ 328,043	801,489	94,169	940,715	23,625	2,188,041	
Restricted Cash :							
Customer Deposits (Cash)	14,673	1,780	0	27,714	3,072	47,239	
Depreciation Reserves (Cash)	0	0	62,989	0	0	62,989	
Cash and Cash Equivalents at Year End	\$ 342,716	803,269	157,158	968,429	26,697	2,298,269	

Supplemental Disclosure of Noncash Activities:  
None during the fiscal year ended June 30, 2007.

See Notes to Financial Statements.

**Rock Rapids Municipal Utilities,  
A Component Unit of the City of Rock Rapids**  
Notes to Financial Statements  
June 30, 2007

**(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 \$278,792 during the fiscal year ended June 30, 2007. The contributions made included a \$100,000 donation to the City of Rock Rapids from the Sewer Utility Fund

(reported as a special item). The \$100,000 donation was made to assist the City with a sanitary sewer lining project (please see Note 13 for additional information).

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 Regional Water System, Inc. The Utilities purchased gas and paid dues to the National Public Gas Agency in the amount of \$1,287,512 and \$782, respectively. The Utilities paid the Missouri River Energy Services \$788,046 for power and energy services, \$2,563 for dues and \$200 for meeting registrations. Please see Note 8 for more information related to the National Public Gas Agency and Note 6 for information on Lewis & Clark Regional 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, including equity distributions, sale of capital assets and disposed material, rental income, customer penalties, miscellaneous income, interest income and interest expense.

The Utilities maintains its financial records on the accrual basis of accounting.

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, 2007 consist of non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term investments that are highly liquid (including restricted cash) are considered 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, 2007 included all of the 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, 2007.

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, 2007, 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 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 – 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, 2007 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 Regional Water System, 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 \$29,608 at June 30, 2007.

An employee who has been employed by the Utilities for over ten years, but less than fifteen 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 fifteen 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, 2007, employees’ vested sick leave benefits aggregated \$23,542. 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	\$ 27,493	24,695	52,188
Increases	37,365	2,024	39,389
Decreases	( 35,250)	( 3,177)	( 38,427)
Balance End of Year	\$ 29,608	23,542	53,150

These liabilities have been computed based on rates of pay in effect at June 30, 2007 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, 2007, 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	\$ 14,673	1,780	62,989	27,714	3,072	110,228
Deposits Payable	14,673	1,780	0	27,714	3,072	47,239
Retained Earnings:						

Reserved (June 30, 2007)	\$	0	0	62,989	0	0	62,989
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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 \$7,322,153 and in the Proprietary Funds Statement of Net Assets as \$7,187,224. The \$134,929 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, 2007, disbursements in the business type activities function for the Rock Rapids Municipal Utilities did not exceed the amount budgeted as part of the City of Rock Rapids’ adopted budget. The budgetary comparison is prepared by making memorandum adjusting entries to the accrual basis financial records to convert the records to the cash basis (the basis upon which the adopted budget is prepared).

(2) **Cash and Investments**

The Utilities’ deposits in banks at June 30, 2007 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 and its written investment policy 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 had no investments meeting 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 balances as of June 30, 2007 as there is no legal responsibility that these amounts be used for these purposes. The amount of the Board designated reserves on June 30, 2007 is as follows:

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Economic Development	Depreciation	Lewis & Clark Project Sinking	Lewis & Clark Project Prepayment
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	Reserves	Reserves	Fund Reserve	Reserve	Total
Electric Utility Fund	\$ 10,523	\$ 9,032	\$ 0	\$ 0	\$ 19,555
Water Utility Fund	1,117	29,592	74,607	390,257	495,573
Gas Utility Fund	6,258	0	0	0	6,258
Total	\$ 17,898	\$ 38,624	\$ 74,607	\$ 390,257	\$ 521,386

**(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.

While the business has verbally indicated that the employment numbers and average compensation levels have been achieved in order to have this note receivable forgiven, there has been no written formal documentation provided to the Utilities yet. Therefore, this \$25,000 note receivable (\$12,500 Electric Utility Fund and \$12,500 Gas Utility Fund) is reported as outstanding as of June 30, 2007.

**(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. During the fiscal year ended June 30, 2007, the Water Utility Fund paid the Gas Utility Fund \$17,727 in principal and \$17,682 in interest on this loan. The June 30, 2007 balance on this loan was \$382,273.

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

Year Ending	Principal	Interest	Total
June 30, 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	22,005	13,404	35,409
2013-2017	125,439	51,605	177,044
2018-2022	155,781	21,263	177,044
Total	\$ 382,273	148,860	531,133

On March 28, 2007, the Gas Utility Fund loaned an additional \$390,257 to the Water Utility Fund to assist with the payment of additional Lewis & Clark project membership costs. The loan carries a 4.4205 annual percentage interest rate, annual payments are scheduled at \$34,548 and final maturity date is March 28, 2023. No payments on this loan were made during the fiscal year ended June 30, 2007.

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
2008	\$ 17,249	17,299	34,548
2009	18,059	16,489	34,548
2010	18,858	15,690	34,548
2011	19,691	14,857	34,548
2012	20,523	14,025	34,548
2013-2017	117,236	55,504	172,740
2018-2022	145,555	27,185	172,740
2023	33,086	1,462	34,548
Total	\$ 390,257	162,511	552,768

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, 2007, the Sewer Utility Fund paid the Gas Utility Fund \$12,140 in principal and \$6,760 in interest on this loan. The June 30, 2007 balance on this loan was \$134,929.

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
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	15,396	3,504	18,900
2013-2016	64,771	6,104	70,875

Total	<u>\$ 134,929</u>	<u>30,446</u>	<u>165,375</u>
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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)	\$ ( 35,759)	( 12,716)	48,475
Accrued Interest on Loans	( 11,574)	( 53)	11,627
Total Due From/To	\$ ( 47,333)	( 12,769)	60,102
Advance To/From:			
Loan (Noncurrent Portion)	( 736,771)	( 122,213)	858,984
Total	\$ ( 784,104)	( 134,982)	919,086

## (5) Capital Assets

Capital assets activity for the year ended June 30, 2007 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	159,463	359,907	( 254,004)	265,366
Total Capital Assets Not Being Depreciated	343,892	359,907	(254,004)	449,795
Capital Assets Being Depreciated:				
Utility Plant	13,664,643	254,003	0	13,918,646
Transportation Equipment	193,668	29,594	0	223,262
Office Equipment	62,227	10,641	( 672)	72,196
Tools and Safety Devices	249,525	0	0	249,525
Communication Equipment	161,613	0	0	161,613
Meter Testing Equipment	21,903	0	0	21,903
Total Capital Assets Being Depreciated	14,353,579	294,238	( 672)	14,647,145
Less Accumulated Depreciation For:				
Utility Plant	6,897,411	325,573	0	7,222,984
Transportation Equipment	143,105	19,267	0	162,372
Office Equipment	48,134	4,093	( 672)	51,555
Tools and Safety Devices	148,042	21,207	0	169,249
Communication Equipment	124,973	21,751	0	146,724
Meter Testing Equipment	21,903	0	0	21,903
Total Accumulated Depreciation	7,383,568	391,891	( 672)	7,774,787

Total Capital Assets Being Depreciated, Net	6,970,011	( 97,653)	0	6,872,358
Business Type Capital Assets, Net	\$ 7,313,903	262,254	( 254,004)	7,322,153

Depreciation expense was charged to the different Utilities as follows:

Business Type Activities:	
Electric Utility	\$ 203,895
Water Utility	93,606
Sewer Utility	33,367
Gas Utility	39,454
Communications (Wireless Internet) Utility	<u>21,569</u>
Total Depreciation Expense – Business Type Activities	<u>\$ 391,891</u>

**(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 Regional Water System, Inc. to become a member in Lewis & Clark Regional Water System, Inc. On December 22, 2005, the Rock Rapids Municipal Utilities entered into an amended and restated commitment agreement with the Lewis & Clark Regional 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, 2007, the Utilities has paid \$679,888 toward the cost of membership, which includes both base system costs (\$636,764) and some member specific costs (\$43,124).

As of June 30, 2007, the Utilities’ allocated construction percentage of the base system costs has been projected at \$991,596. There have been no formal projections of the member specific costs as of June 30, 2007. Payments will be made on the additional estimated \$354,832 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 Regional Water System, 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:

Fund	Description	Amount
Electric Utility	State Sales and Use Tax	\$ 5,511
Water Utility	State Sales and Use Tax	1,404
Sewer Utility	State Sales and Use Tax	218
Gas Utility	State Sales and Use Tax	<u>1,266</u>
Total		<u>\$ 8,399</u>

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

Fund	Description	Amount
Gas Utility	Garbage/Recycling Collections	<u>\$ 19,125</u>

**(8) Equity Distribution Income**

The National Public Gas Agency (a related party) allocated to and paid the Rock Rapids Municipal Utilities \$1,262,882 as part of approved equity distributions to members during the fiscal year ended June 30, 2007. These equity distributions are reported as nonoperating revenue in the Gas Utility.

**(9) Major Customer**

Lyon and Sioux Rural Water System, Inc. is a major customer of the Water Utility. Water sales to Lyon and Sioux Rural Water System, Inc., amounted to \$192,366 or 43.7% of the total operating water revenues for the fiscal year ended June 30, 2007.

**(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.

Most regular plan members are required to contribute 3.70% of their annual covered salary and the Municipal Utilities is required to contribute 5.75% of covered payroll. Contribution requirements are established by state statute. The Utilities' contributions to IPERS for the years ended June 30, 2007, 2006, and 2005 were \$28,370, \$27,316 and \$27,140, 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 provided group health insurance coverage for eligible employees through Principal Life for the fiscal year ended June 30, 2007. The Utilities assumed 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 October 2006, the Utilities committed \$200,000 to be paid from the Sewer Utility Fund to the City of Rock Rapids to participate in the funding of phase I of the rehabilitation of the sanitary sewer lines. Of the amount committed, \$100,000 was paid during fiscal year ended June 30, 2007 (reported as a special item) and the remaining \$100,000 is expected to be issued to the City of Rock Rapids during the fiscal year ended June 30, 2008.

In January 2007, the Utilities committed \$51,000 to be paid from the Gas Utility Fund to the City of Rock Rapids to be used to meet the matching funds requirement under a USDA Rural Business Enterprise Grant. The amount committed is expected to be issued to the City of Rock Rapids during the fiscal year ended June 30, 2008.

In February 2007, the Utilities committed donating \$10,000 in total between the Electric, Water, and Gas Utility Funds during the fiscal year ended June 30, 2008 to Rock Rapids Kid's Club, Inc.

#### **(14) Subsequent Events**

In September 2007, the Utilities donated \$50,000 to the City of Rock Rapids. The donated money is to be used by the City of Rock Rapids for economic development projects.

**(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, 2007

	Proprietary			
	Funds	Budgeted	Amounts	Final to Actual
	Actual	Original	Final	Variance
<b>Receipts:</b>				
Electric Utility	\$ 1,638,057	1,662,531	1,662,531	( 24,474)
Water Utility	851,132	440,762	440,762	410,370
Sewer Utility	202,957	216,853	216,853	( 13,896)
Gas Utility	2,597,914	1,802,922	1,802,922	794,992
Communications (Wireless Internet) Utility	80,846	72,030	72,030	8,816
Total Receipts	<u>5,370,906</u>	<u>4,195,098</u>	<u>4,195,098</u>	<u>1,175,808</u>
<b>Disbursements (Business Type Activities Function):</b>				
Electric Utility	1,685,990	1,494,300	1,834,128	148,138
Water Utility	338,427	362,144	431,984	93,557
Sewer Utility	428,081	199,615	222,860	( 205,221)
Gas Utility	1,605,015	1,873,069	1,966,300	361,285
Communications (Wireless Internet) Utility	72,468	83,800	97,410	24,942
Total Disbursements (Business Type Activities Function)	<u>4,129,981</u>	<u>4,012,928</u>	<u>4,552,682</u>	<u>422,701</u>
Excess (Deficiency) of Receipts Over (Under) Disbursements	1,240,925	182,170	( 357,584)	1,598,509
Cash and Certificates of Deposit (Unrestricted and Restricted) – Balances Beginning of Year	<u>3,767,344</u>	<u>2,844,911</u>	<u>3,767,346</u>	<u>( 2)</u>
Cash and Certificates of Deposit (Unrestricted and Restricted) – Balances End of Year	<u>\$ 5,008,269</u>	<u>3,027,081</u>	<u>3,409,762</u>	<u>1,598,507</u>

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, 2007

	Proprietary Funds		
	Enterprise		
	Cash Basis	Accrual Adjustments	Accrual Basis
Receipts/Revenues	\$ 5,370,906	45,378	5,416,284
Disbursements/Expenses	4,129,981	( 31,570)	4,098,411
Net	1,240,925	76,948	1,317,873
Beginning Net Assets	3,767,344	8,307,459	12,074,803
Ending Net Assets	\$ 5,008,269	8,384,407	13,392,676

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, 2007

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 nine 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 \$539,754. This budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2007, disbursements in the business type activities function for the Rock Rapids Municipal Utilities did not exceed 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
	2007	2006		
<b>Assets</b>				
Current Assets:				
Cash	\$ 328,043	660,582	( 332,539)	( 50%)
Certificates of Deposit	965,000	673,600	291,400	43%
Accounts Receivable	123,543	116,770	6,773	6%
Due From Other Governments (Related Party)	2,979	8,755	( 5,776)	( 66%)
Due From Other Governments	6,111	7,521	( 1,410)	( 19%)
Interest Receivable	20,626	11,670	8,956	77%
Flex Spending Receivable	850	0	850	N/A
Inventory	47,319	38,709	8,610	22%
Prepaid Insurance	23,230	23,724	( 494)	( 2%)
<b>Total Current Assets</b>	<b>1,517,701</b>	<b>1,541,331</b>	<b>( 23,630)</b>	<b>( 2%)</b>
Restricted Cash:				
Customer Deposits	14,673	21,467	( 6,794)	( 32%)
Capital Assets:				
Land	47,127	47,127	0	0%
Utility Plant	7,349,756	7,245,822	103,934	1%
Transportation Equipment	105,020	84,660	20,360	24%
Office Equipment	37,048	27,079	9,969	37%
Tools and Safety Devices	106,974	106,974	0	0%
Communication Equipment	16,206	16,206	0	0%
Meter Testing Equipment	16,235	16,235	0	0%
<b>Total Capital Assets (Before W.I.P)</b>	<b>7,678,366</b>	<b>7,544,103</b>	<b>134,263</b>	<b>2%</b>
Less: Accumulated Depreciation	( 3,794,587)	( 3,591,364)	( 203,223)	6%
<b>Capital Assets – Net (Before W.I.P)</b>	<b>3,883,779</b>	<b>3,952,739</b>	<b>( 68,960)</b>	<b>( 2%)</b>
Construction Work in Progress	265,366	159,463	105,903	66%
<b>Net Capital Assets</b>	<b>4,149,145</b>	<b>4,112,202</b>	<b>36,943</b>	<b>1%</b>
Other Assets:				
Notes Receivable – Rock Rapids Development Corporation (Noncurrent Portion)	12,500	12,500	0	0%
<b>Total Assets</b>	<b>5,694,019</b>	<b>5,687,500</b>	<b>6,519</b>	<b>0%</b>

**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
	2007	2006		
<b>Liabilities</b>				
Current Liabilities (Payable From Current Assets):				
Accounts Payable	19,278	29,305	( 10,027)	( 34%)
Due To Other Governments	5,511	7,536	( 2,025)	( 27%)
Accrued Vacation and Sick Pay	19,140	18,921	219	1%
Accrued Payroll & Payroll Liabilities	3,161	2,547	614	24%
Flex Spending Payable	0	279	( 279)	( 100%)
Unearned Income	1,279	211	1,068	506%
Total Current Liabilities (Payable From Current Assets)	48,369	58,799	( 10,430)	( 18%)
Liabilities Payable From Restricted Cash:				
Customer Deposits	14,673	21,467	( 6,794)	( 32%)
<b>Total Liabilities</b>	63,042	80,266	( 17,224)	( 21%)
<b>Net Assets</b>				
Invested in Capital Assets, Net of Related Debt	4,149,145	4,112,202	36,943	1%
Unrestricted	1,481,832	1,495,032	( 13,200)	( 1%)
<b>Total Net Assets</b>	\$ 5,630,977	5,607,234	23,743	0%

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
	2007	2005		
<b>Assets</b>				
Current Assets:				
Cash	\$ 328,043	614,017	( 285,974)	( 47%)
Certificates of Deposit	965,000	424,280	540,720	127%
Investment - Missouri River Energy Services	0	200,000	( 200,000)	( 100%)
Accounts Receivable	123,543	95,638	27,905	29%
Due From Other Governments (Related Party)	2,979	3,697	( 718)	( 19%)
Due From Other Governments	6,111	9,633	( 3,522)	( 37%)
Interest Receivable	20,626	3,970	16,656	420%
Flex Spending Receivable	850	3,970	( 3,120)	( 79%)
Inventory	47,319	30,827	16,492	53%
Prepaid Insurance	23,230	18,458	4,772	26%
Total Current Assets	1,517,701	1,404,490	113,211	8%
Restricted Cash:				
Customer Deposits	14,673	14,489	184	1%
Capital Assets:				
Land	47,127	47,127	0	0%
Utility Plant	7,349,756	7,003,871	345,885	5%
Transportation Equipment	105,020	84,660	20,360	24%
Office Equipment	37,048	27,897	9,151	33%
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)	7,678,366	7,305,067	373,299	5%
Less: Accumulated Depreciation	( 3,794,587)	( 3,403,733)	( 390,854)	11%
Capital Assets – Net (Before W.I.P)	3,883,779	3,901,334	( 17,555)	0%
Construction Work in Progress	265,366	193,800	71,566	37%
Net Capital Assets	4,149,145	4,095,134	54,011	1%
Other Assets:				
Notes Receivable – Rock Rapids Development Corporation (Noncurrent Portion)	12,500	0	12,500	N/A
<b>Total Assets</b>	5,694,019	5,514,113	179,906	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
	2007	2005		
<b>Liabilities</b>				
Current Liabilities (Payable From Current Assets):				
Accounts Payable	19,278	23,870	( 4,592)	( 19%)
Due To Other Governments	5,511	6,827	( 1,316)	( 19%)
Due To Other Governments (Related Party)	0	121	( 121)	( 100%)
Accrued Vacation and Sick Pay	19,140	17,680	1,460	8%
Accrued Payroll & Payroll Liabilities	3,161	2,900	261	9%
Flex Spending Payable	0	396	( 396)	( 100%)
Unearned Income	1,279	0	1,279	N/A
Total Current Liabilities (Payable From Current Assets)	48,369	51,794	( 3,425)	( 7%)
Liabilities Payable From Restricted Cash:				
Customer Deposits	14,673	14,489	184	1%
<b>Total Liabilities</b>	63,042	66,283	( 3,241)	( 5%)
<b>Net Assets</b>				
Invested in Capital Assets, Net of Related Debt	4,149,145	4,095,134	54,011	1%
Unrestricted	1,481,832	1,348,726	133,106	10%
<b>Total Net Assets</b>	\$ 5,630,977	5,443,860	187,117	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
	2007	2006		
<b>Operating Revenues:</b>				
Residential Sales	\$ 703,890	696,851	7,039	1%
Commercial Sales	821,694	830,424	( 8,730)	( 1%)
Public Street and Highway Lighting	23,001	21,074	1,927	9%
Wind Power – Residential and Commercial	618	744	( 126)	( 17%)
Material and Service Sales	23,082	19,527	3,555	18%
Service Income	5,186	4,284	902	21%
Service Income (Related Party)	3,091	3,091	0	0%
Total Operating Revenues	1,580,562	1,575,995	4,567	0%
<b>Operating Expenses:</b>				
Production/Processing Expense	858,990	836,469	22,521	3%
Distribution Expense	173,656	134,359	39,297	29%
Accounting and Collecting	30,772	27,922	2,850	10%
Administrative and General	162,300	155,023	7,277	5%
Free Community Service (Related Party)	139,323	92,870	46,453	50%
Free Community Service	23,361	10,620	12,741	120%
Transportation	10,524	3,298	7,226	219%
Depreciation	203,895	199,853	4,042	2%
Payroll Taxes	24,974	24,065	909	4%
Total Operating Expenses	1,627,795	1,484,479	143,316	10%
Operating Income (Loss)	( 47,233)	91,516	( 138,749)	( 152%)
<b>Nonoperating Revenues (Expenses):</b>				
Gain on Sale of Capital Assets	0	264	( 264)	( 100%)
Gain on Disposal of Materials	1,262	546	716	131%
Rentals	544	544	0	0%
Rentals (Related Party)	5,000	5,000	0	0%
Customer Penalties	814	822	( 8)	( 1%)
Miscellaneous Income	73	190	( 117)	( 62%)
Insurance Demutualization	0	9,476	( 9,476)	( 100%)
Interest Income	64,070	55,704	8,366	15%
Interest Expense	( 787)	( 688)	( 99)	14%
Net Nonoperating Revenues (Expenses)	70,976	71,858	( 882)	( 1%)
Change in Net Assets	23,743	163,374	( 139,631)	( 85%)
Net Assets Beginning of Year	5,607,234	5,443,860	163,374	3%
Net Assets End of Year	\$ 5,630,977	5,607,234	23,743	0%

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
	2007	2005		
<b>Operating Revenues:</b>				
Residential Sales	\$ 703,890	651,551	52,339	8%
Commercial Sales	821,694	769,436	52,258	7%
Public Street and Highway Lighting	23,001	21,631	1,370	6%
Wind Power – Residential and Commercial	618	752	( 134)	( 18%)
Material and Service Sales	23,082	38,319	( 15,237)	( 40%)
Service Income	5,186	4,801	385	8%
Service Income (Related Party)	3,091	3,091	0	0%
Total Operating Revenues	1,580,562	1,489,581	90,981	6%
<b>Operating Expenses:</b>				
Production/Processing Expense	858,990	696,038	162,952	23%
Distribution Expense	173,656	143,406	30,250	21%
Accounting and Collecting	30,772	27,559	3,213	12%
Administrative and General	162,300	155,705	6,595	4%
Free Community Service (Related Party)	139,323	96,957	42,366	44%
Free Community Service	23,361	5,923	17,438	294%
Transportation	10,524	3,582	6,942	194%
Depreciation	203,895	194,931	8,964	5%
Payroll Taxes	24,974	20,960	4,014	19%
Total Operating Expenses	1,627,795	1,345,061	282,734	21%
Operating Income (Loss)	( 47,233)	144,520	( 191,753)	( 133%)
<b>Nonoperating Revenues (Expenses):</b>				
Gain on Sale of Capital Assets	0	3,527	( 3,527)	( 100%)
Gain on Disposal of Materials	1,262	541	721	133%
Rentals	544	629	( 85)	( 14%)
Rentals (Related Party)	5,000	5,000	0	0%
Customer Penalties	814	519	295	57%
Miscellaneous Income	73	52	21	40%
Interest Income	64,070	38,045	26,025	68%
Interest Expense	( 787)	( 467)	( 320)	69%
Net Nonoperating Revenues (Expenses)	70,976	47,846	23,130	48%
Change in Net Assets	23,743	192,366	( 168,623)	( 88%)
Net Assets Beginning of Year	5,607,234	5,251,494	355,740	7%
Net Assets End of Year	\$ 5,630,977	5,443,860	187,117	3%

See Accompanying Independent Auditor's Report.

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

	June 30,		Amount of Change	Percentage of Change
	2007	2006		
<b>Assets</b>				
Current Assets:				
Cash	\$ 801,489	255,004	546,485	214%
Certificates of Deposit	75,000	108,400	( 33,400)	( 31%)
Accounts Receivable	41,233	43,158	( 1,925)	( 4%)
Due From Other Governments (Related Party)	571	418	153	37%
Due From Other Governments	624	589	35	6%
Interest Receivable	4,626	2,496	2,130	85%
Inventory	35,347	38,676	( 3,329)	( 9%)
Prepaid Insurance	15,632	12,995	2,637	20%
Total Current Assets	974,522	461,736	512,786	111%
Restricted Cash:				
Customer Deposits	1,780	2,160	( 380)	( 18%)
Capital Assets:				
Land	118,525	118,525	0	0%
Utility Plant	3,568,376	3,568,376	0	0%
Transportation Equipment	18,330	18,330	0	0%
Office Equipment	12,189	12,189	0	0%
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	3,770,470	3,770,470	0	0%
Less: Accumulated Depreciation	( 2,046,250)	( 1,952,644)	( 93,606)	5%
Net Capital Assets	1,724,220	1,817,826	( 93,606)	( 5%)
Other Assets:				
Lewis & Clark Project Membership (Related Party)	679,888	661,772	18,116	3%
<b>Total Assets</b>	3,380,410	2,943,494	436,916	15%

**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	Percentag e of Change
	2007	2006		
<b>Liabilities</b>				
Current Liabilities (Payable From Current Assets):				
Accounts Payable	7,327	5,840	1,487	25%
Due To Other Fund	47,333	25,187	22,146	88%
Due To Other Governments	1,404	1,466	( 62)	( 4%)
Accrued Vacation and Sick Pay	13,960	13,655	305	2%
Accrued Payroll & Payroll Liabilities	1,855	1,143	712	62%
Flex Spending Payable	0	159	( 159)	( 100%)
Total Current Liabilities (Payable From Current Assets)	71,879	47,450	24,429	51%
Liabilities Payable From Restricted Cash:				
Customer Deposits	1,780	2,160	( 380)	( 18%)
Long Term Debt:				
Advance From Other Fund	736,771	382,273	354,498	93%
<b>Total Liabilities</b>	810,430	431,883	378,547	88%
<b>Net Assets</b>				
Invested in Capital Assets, Net of Related Debt	1,724,220	1,817,826	( 93,606)	( 5%)
Unrestricted	845,760	693,785	151,975	22%
<b>Total Net Assets</b>	\$ 2,569,980	2,511,611	58,369	2%

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
	2007	2005		
<b>Assets</b>				
Current Assets:				
Cash	\$ 801,489	237,198	564,291	238%
Certificates of Deposit	75,000	110,975	( 35,975)	( 32%)
Accounts Receivable	41,233	37,117	4,116	11%
Due From Other Governments (Related Party)	571	333	238	71%
Due From Other Governments	624	513	111	22%
Interest Receivable	4,626	1,288	3,338	259%
Inventory	35,347	30,915	4,432	14%
Prepaid Insurance	15,632	10,660	4,972	47%
<b>Total Current Assets</b>	<b>974,522</b>	<b>428,999</b>	<b>545,523</b>	<b>127%</b>
Restricted Cash:				
Customer Deposits	1,780	1,840	( 60)	( 3%)
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%
<b>Total Capital Assets (Before W.I.P.)</b>	<b>3,770,470</b>	<b>3,610,206</b>	<b>160,264</b>	<b>4%</b>
Less: Accumulated Depreciation	( 2,046,250)	( 1,862,067)	( 184,183)	10%
<b>Capital Assets – Net (Before W.I.P.)</b>	<b>1,724,220</b>	<b>1,748,139</b>	<b>( 23,919)</b>	<b>( 1%)</b>
Construction Work in Progress	0	125,485	( 125,485)	( 100%)
<b>Net Capital Assets</b>	<b>1,724,220</b>	<b>1,873,624</b>	<b>( 149,404)</b>	<b>( 8%)</b>
Other Assets:				
Lewis & Clark Project Membership (Related Party)	679,888	168,306	511,582	304%
<b>Total Assets</b>	<b>3,380,410</b>	<b>2,472,769</b>	<b>907,641</b>	<b>37%</b>

**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
	2007	2005		
<b>Liabilities</b>				
Current Liabilities (Payable From Current Assets):				
Accounts Payable	7,327	10,114	( 2,787)	( 28%)
Due To Other Fund	47,333	0	47,333	N/A
Due To Other Governments	1,404	1,676	( 272)	( 16%)
Due To Other Governments (Related Party)	0	65	( 65)	( 100%)
Accrued Vacation and Sick Pay	13,960	13,530	430	3%
Accrued Payroll & Payroll Liabilities	1,855	2,471	( 616)	( 25%)
Flex Spending Payable	0	554	( 554)	( 100%)
Total Current Liabilities (Payable From Current Assets)	71,879	28,410	43,469	153%
Liabilities Payable From Restricted Cash:				
Customer Deposits	1,780	1,840	( 60)	( 3%)
Long Term Debt:				
Advance From Other Fund	736,771	0	736,771	N/A
<b>Total Liabilities</b>	810,430	30,250	780,180	2,579%
<b>Net Assets</b>				
Invested in Capital Assets, Net of Related Debt	1,724,220	1,873,624	( 149,404)	( 8%)
Unrestricted	845,760	568,895	276,865	49%
<b>Total Net Assets</b>	\$ 2,569,980	2,442,519	127,461	5%

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
	2007	2006		
Operating Revenues:				
Water Sales – Metered	\$ 243,227	233,084	10,143	4%
Water Sales – Rural Water System	192,366	166,031	26,335	16%
Water Sales – Tank Loads	2,064	1,211	853	70%
Material and Service Sales	169	0	169	N/A
Service Income	1,016	650	366	56%
Service Income (Related Party)	1,767	1,767	0	0%
Total Operating Revenues	440,609	402,743	37,866	9%
Operating Expenses:				
Production/Processing Expense	75,039	89,133	( 14,094)	( 16%)
Distribution Expense	94,316	48,655	45,661	94%
Accounting and Collecting	16,602	15,823	779	5%
Administrative and General	94,700	82,728	11,972	14%
Free Community Service (Related Party)	5,837	818	5,019	614%
Free Community Service	1,007	0	1,007	N/A
Transportation	3,673	3,093	580	19%
Depreciation	93,606	91,121	2,485	3%
Payroll Taxes	14,432	14,658	( 226)	( 2%)
Total Operating Expenses	399,212	346,029	53,183	15%
Operating Income	41,397	56,714	( 15,317)	( 27%)
Nonoperating Revenues (Expenses):				
Gain on Disposal of Materials	150	6	144	2,400%
Rentals	5,680	5,660	20	0%
Customer Penalties	103	107	( 4)	( 4%)
Miscellaneous Income	190	270	( 80)	( 30%)
Interest Income	32,643	13,795	18,848	137%
Interest Expense (Gas Fund)	( 21,794)	( 7,460)	( 14,334)	192%
Net Nonoperating Revenues (Expenses)	16,972	12,378	4,594	37%
Change in Net Assets	58,369	69,092	( 10,723)	( 16%)
Net Assets Beginning of Year	2,511,611	2,442,519	69,092	3%
Net Assets End of Year	\$ 2,569,980	2,511,611	58,369	2%

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
	2007	2005		
Operating Revenues:				
Water Sales – Metered	\$ 243,227	231,170	12,057	5%
Water Sales – Rural Water System	192,366	167,795	24,571	15%
Water Sales – Tank Loads	2,064	1,213	851	70%
Material and Service Sales	169	0	169	N/A
Service Income	1,016	894	122	14%
Service Income (Related Party)	1,767	1,767	0	0%
Total Operating Revenues	440,609	402,839	37,770	9%
Operating Expenses:				
Production/Processing Expense	75,039	79,267	( 4,228)	( 5%)
Distribution Expense	94,316	52,180	42,136	81%
Accounting and Collecting	16,602	16,710	( 108)	( 1%)
Administrative and General	94,700	76,108	18,592	24%
Free Community Service (Related Party)	5,837	4,969	868	17%
Free Community Service	1,007	0	1,007	N/A
Transportation	3,673	4,033	( 360)	( 9%)
Depreciation	93,606	96,977	( 3,371)	( 3%)
Payroll Taxes	14,432	13,789	643	5%
Total Operating Expenses	399,212	344,033	55,179	16%
Operating Income	41,397	58,806	( 17,409)	( 30%)
Nonoperating Revenues (Expenses):				
Gain on Sale of Capital Assets	150	1,813	( 1,663)	( 92%)
Gain on Disposal of Materials	0	30	( 30)	( 100%)
Rentals	5,680	5,660	20	0%
Customer Penalties	103	75	28	37%
Miscellaneous Income	190	0	190	N/A
Interest Income	32,643	3,319	29,324	884%
Interest Expense	( 21,794)	0	( 21,794)	N/A
Net Nonoperating Revenues (Expenses)	16,972	10,897	6,075	56%
Change in Net Assets	58,369	69,703	( 11,334)	( 16%)
Net Assets Beginning of Year	2,511,611	2,372,816	138,795	6%
Net Assets End of Year	\$ 2,569,980	2,442,519	127,461	5%

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
	2007	2006		
<b>Assets</b>				
Current Assets:				
Cash	\$ 94,169	250,798	( 156,629)	( 62%)
Certificates of Deposit	20,000	90,500	( 70,500)	( 78%)
Accounts Receivable	25,464	19,776	5,688	29%
Due From Other Governments (Related Party)	279	131	148	113%
Due From Other Governments	553	428	125	29%
Interest Receivable	1,238	2,899	( 1,661)	( 57%)
Prepaid Insurance	9,857	8,148	1,709	21%
<b>Total Current Assets</b>	<b>151,560</b>	<b>372,680</b>	<b>( 221,120)</b>	<b>( 59%)</b>
Restricted Cash and Certificates of Deposit:				
Depreciation Reserves (Cash)	62,989	1,482	61,507	4,150%
Depreciation Reserves (Certificates of Deposit)	0	59,500	( 59,500)	( 100%)
<b>Total Restricted Cash and Certificates of Deposit</b>	<b>62,989</b>	<b>60,982</b>	<b>2,007</b>	<b>3%</b>
Capital Assets:				
Utility Plant	2,008,624	1,858,555	150,069	8%
Transportation Equipment	38,380	38,380	0	0%
Office Equipment	4,542	4,542	0	0%
Tools and Safety Devices	25,865	25,865	0	0%
<b>Total Capital Assets</b>	<b>2,077,411</b>	<b>1,927,342</b>	<b>150,069</b>	<b>8%</b>
Less: Accumulated Depreciation	( 1,284,315)	( 1,250,948)	( 33,367)	3%
<b>Net Capital Assets</b>	<b>793,096</b>	<b>676,394</b>	<b>116,702</b>	<b>17%</b>
<b>Total Assets</b>	<b>1,007,645</b>	<b>1,110,056</b>	<b>( 102,411)</b>	<b>( 9%)</b>

**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
	2007	2006		
<b>Liabilities</b>				
Current Liabilities (Payable From Current Assets):				
Accounts Payable	7,326	2,871	4,455	155%
Due to Other Fund	12,769	12,198	571	5%
Due To Other Governments	218	205	13	6%
Accrued Vacation and Sick Pay	3,725	4,120	( 395)	( 10%)
Accrued Payroll & Payroll Liabilities	792	621	171	28%
Flex Spending Payable	0	40	( 40)	( 100%)
Total Current Liabilities (Payable From Current Assets)	24,830	20,055	4,775	24%
Long Term Debt:				
Advance From Other Fund	122,213	134,929	( 12,716)	( 9%)
<b>Total Liabilities</b>	147,043	154,984	( 7,941)	( 5%)
<b>Net Assets</b>				
Invested in Capital Assets, Net of Related Debt	658,167	529,325	128,842	24%
Restricted for:				
Depreciation Reserves	62,989	60,982	2,007	3%
Unrestricted	139,446	364,765	( 225,319)	( 62%)
<b>Total Net Assets</b>	\$ 860,602	955,072	( 94,470)	( 10%)

See Accompanying Independent Auditor's Report.

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

	June 30,		Amount of Change	Percentage of Change
	2007	2005		
<b>Assets</b>				
Current Assets:				
Cash	\$ 94,169	121,439	( 27,270)	( 22%)
Certificates of Deposit	20,000	110,500	( 90,500)	( 82%)
Accounts Receivable	25,464	17,522	7,942	45%
Due From Other Governments (Related Party)	279	149	130	87%
Due From Other Governments	553	485	68	14%
Interest Receivable	1,238	1,509	( 271)	( 18%)
Prepaid Insurance	9,857	7,077	2,780	39%
<b>Total Current Assets</b>	<b>151,560</b>	<b>258,681</b>	<b>( 107,121)</b>	<b>( 41%)</b>
Restricted Cash and Certificates of Deposit:				
Depreciation Reserves (Cash)	62,989	( 9,284)	72,273	( 778%)
Depreciation Reserves (Certificates of Deposit)	0	59,500	( 59,500)	( 100%)
<b>Total Restricted Cash and Certificates of Deposit</b>	<b>62,989</b>	<b>50,216</b>	<b>12,773</b>	<b>25%</b>
Capital Assets:				
Utility Plant	2,008,624	1,626,812	381,812	23%
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%
<b>Total Capital Assets (Before W.I.P)</b>	<b>2,077,411</b>	<b>1,695,842</b>	<b>381,569</b>	<b>23%</b>
Less: Accumulated Depreciation	( 1,284,315)	( 1,223,038)	( 61,277)	5%
<b>Capital Assets – Net (Before W.I.P)</b>	<b>793,096</b>	<b>472,804</b>	<b>320,292</b>	<b>68%</b>
Construction Work in Progress	0	191,196	( 191,196)	( 100%)
<b>Net Capital Assets</b>	<b>793,096</b>	<b>664,000</b>	<b>129,096</b>	<b>19%</b>
<b>Total Assets</b>	<b>1,007,645</b>	<b>972,897</b>	<b>34,748</b>	<b>4%</b>

**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
	2007	2005		
<b>Liabilities</b>				
Current Liabilities (Payable From Current Assets):				
Accounts Payable	7,326	17,273	( 9,947)	( 58%)
Due to Other Fund	12,769	0	12,769	N/A
Due To Other Governments	218	193	25	13%
Due To Other Governments (Related Party)	0	16	( 16)	( 100%)
Accrued Vacation and Sick Pay	3,725	3,183	542	17%
Accrued Payroll & Payroll Liabilities	792	1,114	( 322)	( 29%)
Flex Spending Payable	0	237	( 237)	( 100%)
Total Current Liabilities (Payable From Current Assets)	24,830	22,016	2,814	13%
Long Term Debt:				
Advance From Other Fund	122,213	0	122,213	N/A
<b>Total Liabilities</b>	147,043	22,016	125,027	568%
<b>Net Assets</b>				
Invested in Capital Assets, Net of Related Debt	658,167	664,000	( 5,833)	( 1%)
Restricted for:				
Depreciation Reserves	62,989	50,216	12,773	25%
Unrestricted	139,446	236,665	( 97,219)	( 41%)
<b>Total Net Assets</b>	<b>\$ 860,602</b>	<b>950,881</b>	<b>( 90,279)</b>	<b>( 9%)</b>

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
	2007	2006		
<b>Operating Revenues:</b>				
Sewer Service	\$ 202,306	183,486	18,820	10%
Service Income (Related Party)	883	883	0	0%
<b>Total Operating Revenues</b>	<b>203,189</b>	<b>184,369</b>	<b>18,820</b>	<b>10%</b>
<b>Operating Expenses:</b>				
Production/Processing Expense	114,428	106,407	8,021	8%
Accounting and Collecting	6,266	5,294	972	18%
Administrative and General	36,241	32,840	3,401	10%
Free Community Service (Related Party)	7,367	7,643	( 276)	( 4%)
Transportation	1,072	1,770	( 698)	( 39%)
Depreciation	33,367	28,153	5,214	19%
Payroll Taxes	8,370	8,677	( 307)	( 4%)
<b>Total Operating Expenses</b>	<b>207,111</b>	<b>190,784</b>	<b>16,327</b>	<b>9%</b>
<b>Operating Loss</b>	<b>( 3,922)</b>	<b>( 6,415)</b>	<b>2,493</b>	<b>( 39%)</b>
<b>Nonoperating Revenues (Expenses):</b>				
Customer Penalties	93	84	9	11%
Interest Income	16,115	12,373	3,742	30%
Interest Expense (Gas Fund)	( 6,756)	( 1,851)	( 4,905)	265%
<b>Net Nonoperating Revenues (Expenses)</b>	<b>9,452</b>	<b>10,606</b>	<b>( 1,154)</b>	<b>( 11%)</b>
<b>Net Income Before Special Item</b>	<b>5,530</b>	<b>4,191</b>	<b>1,339</b>	<b>32%</b>
<b>Special Item:</b>				
Free Community Service (Related Party)	( 100,000)	0	( 100,000)	N/A
<b>Net Income (Loss) After Special Item</b>	<b>( 94,470)</b>	<b>4,191</b>	<b>( 98,661)</b>	<b>( 2,354%)</b>
<b>Net Assets Beginning of Year</b>	<b>955,072</b>	<b>950,881</b>	<b>4,191</b>	<b>0%</b>
<b>Net Assets End of Year</b>	<b>\$ 860,602</b>	<b>955,072</b>	<b>( 94,470)</b>	<b>( 10%)</b>

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
	2007	2005		
<b>Operating Revenues:</b>				
Sewer Service	\$ 202,306	185,005	17,301	9%
Service Income	883	883	0	0%
Total Operating Revenues	<u>203,189</u>	<u>185,888</u>	<u>17,301</u>	<u>9%</u>
<b>Operating Expenses:</b>				
Production/Processing Expense	114,428	98,305	16,123	16%
Accounting and Collecting	6,266	5,332	934	18%
Administrative and General	36,241	31,658	4,583	14%
Free Community Service (Related Party)	7,367	8,622	( 1,255)	( 15%)
Transportation	1,072	3,420	( 2,348)	( 69%)
Depreciation	33,367	29,607	3,760	13%
Payroll Taxes	8,370	7,927	443	6%
Total Operating Expenses	<u>207,111</u>	<u>184,871</u>	<u>22,240</u>	<u>12%</u>
Operating Income (Loss)	<u>( 3,922)</u>	<u>1,017</u>	<u>( 4,939)</u>	<u>( 486%)</u>
<b>Nonoperating Revenues (Expenses):</b>				
Gain on Sale of Capital Assets	0	4,100	( 4,100)	( 100%)
Gain on Disposal of Materials	0	15	( 15)	( 100%)
Customer Penalties	93	59	34	58%
Interest Income	16,115	4,362	11,753	269%
Interest Expense (Gas Fund)	( 6,756)	0	( 6,756)	N/A
Net Nonoperating Revenues (Expenses)	<u>9,452</u>	<u>8,536</u>	<u>916</u>	<u>11%</u>
Net Income Before Special Item	5,530	9,553	( 4,023)	( 42%)
<b>Special Item:</b>				
Free Community Service (Related Party)	( 100,000)	0	( 100,000)	N/A
Net Income (Loss) After Special Item	( 94,470)	9,553	( 104,023)	( 1,089%)
Net Assets Beginning of Year	<u>955,072</u>	<u>941,328</u>	<u>13,744</u>	<u>1%</u>
Net Assets End of Year	<u>\$ 860,602</u>	<u>950,881</u>	<u>( 90,279)</u>	<u>( 9%)</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
	2007	2006		
<b>Assets</b>				
Current Assets:				
Cash	\$ 940,715	1,126,284	( 185,569)	( 16%)
Certificates of Deposit	1,650,000	461,000	1,189,000	258%
Accounts Receivable	70,164	76,408	( 6,244)	( 8%)
Due From Other Funds	60,102	37,385	22,717	61%
Due From Other Governments (Related Party)	3,697	1,339	2,358	176%
Due From Other Governments	6,011	841	5,170	615%
Interest Receivable	28,688	10,817	17,871	165%
Inventory	50,986	49,796	1,190	2%
Prepaid Insurance	9,676	9,599	77	1%
<b>Total Current Assets</b>	<b>2,820,039</b>	<b>1,773,469</b>	<b>1,046,570</b>	<b>59%</b>
Restricted Cash:				
Customer Deposits	27,714	38,246	( 10,532)	( 28%)
Capital Assets:				
Land	18,777	18,777	0	0%
Utility Plant	991,890	991,890	0	0%
Transportation Equipment	61,532	52,298	9,234	18%
Office Equipment	17,904	17,904	0	0%
Tools and Safety Devices	71,259	71,259	0	0%
<b>Total Capital Assets</b>	<b>1,161,362</b>	<b>1,152,128</b>	<b>9,234</b>	<b>1%</b>
Less: Accumulated Depreciation	( 520,466)	( 481,012)	( 39,454)	8%
<b>Net Capital Assets</b>	<b>640,896</b>	<b>671,116</b>	<b>( 30,220)</b>	<b>( 5%)</b>
Other Assets:				
Notes Receivable – Rock Rapids Development Corporation (Noncurrent Portion)	12,500	12,500	0	0%
Advances To Other Funds	858,984	517,202	341,782	66%
<b>Total Other Assets</b>	<b>871,484</b>	<b>529,702</b>	<b>341,782</b>	<b>65%</b>
<b>Total Assets</b>	<b>4,360,133</b>	<b>3,012,533</b>	<b>1,347,600</b>	<b>45%</b>

**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
	2007	2006		
<b>Liabilities</b>				
Current Liabilities (Payable From Current Assets):				
Accounts Payable	1,431	3,531	( 2,100)	( 59%)
Due To Other Governments	1,266	2,270	( 1,004)	( 44%)
Due To Other Governments (Related Party)	19,125	2,100	17,025	811%
Accrued Vacation and Sick Pay	15,543	15,492	51	0%
Accrued Payroll & Payroll Liabilities	2,224	1,665	559	34%
Flex Spending Payable	0	279	( 279)	( 100%)
Unearned Income	1,099	9,798	( 8,699)	( 89%)
Total Current Liabilities (Payable From Current Assets)	40,688	35,135	5,553	16%
Liabilities Payable From Restricted Cash:				
Customer Deposits	27,714	38,246	( 10,532)	( 28%)
<b>Total Liabilities</b>	68,402	73,381	( 4,979)	( 7%)
<b>Net Assets</b>				
Invested in Capital Assets, Net of Related Debt	640,896	671,116	( 30,220)	( 5%)
Unrestricted	3,650,835	2,268,036	1,382,799	61%
<b>Total Net Assets</b>	\$ 4,291,731	2,939,152	1,352,579	46%

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
	2007	2005		
<b>Assets</b>				
<b>Current Assets:</b>				
Cash	\$ 940,715	413,924	526,791	127%
Certificates of Deposit	1,650,000	457,745	1,192,255	260%
Accounts Receivable	70,164	46,431	23,733	51%
Due From Other Funds	60,102	0	60,102	N/A
Due From Other Governments (Related Party)	3,697	3,151	546	17%
Due From Other Governments	6,011	2,392	3,619	151%
Interest Receivable	28,688	4,122	24,566	596%
Inventory	50,986	38,635	12,351	32%
Prepaid Insurance	9,676	5,435	4,241	78%
Total Current Assets	2,820,039	971,835	1,848,204	190%
<b>Restricted Cash:</b>				
Customer Deposits	27,714	27,206	508	2%
<b>Capital Assets:</b>				
Land	18,777	18,777	0	0%
Utility Plant	991,890	977,585	14,305	1%
Transportation Equipment	61,532	49,818	11,714	24%
Office Equipment	17,904	18,757	( 853)	( 5%)
Tools and Safety Devices	71,259	71,259	0	0%
Total Capital Assets	1,161,362	1,136,196	25,166	2%
Less: Accumulated Depreciation	( 520,466)	( 462,862)	( 57,604)	12%
Net Capital Assets	640,896	673,334	( 32,438)	( 5%)
<b>Other Assets:</b>				
Notes Receivable – Rock Rapids Development Corporation (Noncurrent Portion)	12,500	0	12,500	N/A
Advances To Other Funds	858,984	0	858,984	N/A
Total Other Assets	871,484	0	871,484	N/A
<b>Total Assets</b>	4,360,133	1,672,375	2,687,758	161%

**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
	2007	2005		
<b>Liabilities</b>				
Current Liabilities (Payable From Current Assets):				
Accounts Payable	1,431	15,565	( 14,134)	( 91%)
Due To Other Governments	1,266	3,932	( 2,666)	( 68%)
Due To Other Governments (Related Party)	19,125	1,846	17,279	936%
Accrued Vacation and Sick Pay	15,543	14,219	1,324	9%
Accrued Payroll & Payroll Liabilities	2,224	2,178	46	2%
Flex Spending Payable	0	396	( 396)	( 100%)
Unearned Income	1,099	813	286	35%
Total Current Liabilities (Payable From Current Assets)	40,688	38,949	1,739	4%
Liabilities Payable From Restricted Cash:				
Customer Deposits	27,714	27,206	508	2%
<b>Total Liabilities</b>	68,402	66,155	2,247	3%
<b>Net Assets</b>				
Invested in Capital Assets, Net of Related Debt	640,896	673,334	( 32,438)	( 5%)
Unrestricted	3,650,835	932,886	2,717,949	291%
<b>Total Net Assets</b>	\$ 4,291,731	1,606,220	2,685,511	167%

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
	2007	2006		
<b>Operating Revenues:</b>				
Residential Sales	\$ 1,558,864	1,533,966	24,898	2%
Commercial Sales	21,815	45,608	( 23,793)	( 52%)
Material and Service Sales	141	45	96	213%
Service Income	484	546	( 62)	( 11%)
Service Income (Related Party)	3,091	3,091	0	0%
Total Operating Revenues	<u>1,584,395</u>	<u>1,583,256</u>	<u>1,139</u>	<u>0%</u>
<b>Operating Expenses:</b>				
Production/Processing Expense	1,289,898	1,394,385	( 104,487)	( 7%)
Distribution Expense	83,756	92,145	( 8,389)	( 9%)
Accounting and Collecting	28,769	26,606	2,163	8%
Administrative and General	129,958	125,626	4,332	3%
Free Community Service (Related Party)	26,265	14,680	11,585	79%
Free Community Service	10,933	0	10,933	N/A
Transportation	3,952	3,797	155	4%
Depreciation	39,454	38,209	1,245	3%
Payroll Taxes	16,702	17,682	( 980)	( 6%)
Total Operating Expenses	<u>1,629,687</u>	<u>1,713,130</u>	<u>( 83,443)</u>	<u>( 5%)</u>
Operating Loss	<u>( 45,292)</u>	<u>( 129,874)</u>	<u>84,582</u>	<u>( 65%)</u>
<b>Nonoperating Revenues (Expenses):</b>				
Equity Distributions - NPGA (Related Party)	1,262,882	1,395,805	( 132,923)	( 10%)
Gain on Sale of Capital Assets	700	7,500	( 6,800)	( 91%)
Customer Penalties	1,749	1,606	143	9%
Gas Rate Case Settlement	2,518	3,870	( 1,352)	( 35%)
Interest Income	102,980	45,771	57,209	125%
Interest Income (Water, Sewer Funds)	28,550	9,311	19,239	207%
Interest Expense	( 1,508)	( 1,057)	( 451)	43%
Net Nonoperating Revenues (Expenses)	<u>1,397,871</u>	<u>1,462,806</u>	<u>( 64,935)</u>	<u>( 4%)</u>
Change in Net Assets	1,352,579	1,332,932	19,647	1%
Net Assets Beginning of Year	<u>2,939,152</u>	<u>1,606,220</u>	<u>1,332,932</u>	<u>83%</u>
Net Assets End of Year	<u>\$ 4,291,731</u>	<u>2,939,152</u>	<u>1,352,579</u>	<u>46%</u>

See Accompanying Independent Auditor's Report.

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

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

	For the Fiscal Year Ended June 30,		Amount of Change	Percentage of Change
	2007	2005		
<b>Operating Revenues:</b>				
Residential Sales	\$ 1,558,864	1,301,442	257,422	20%
Commercial Sales	21,815	47,522	( 25,707)	( 54%)
Material and Service Sales	141	452	( 311)	( 69%)
Service Income	484	1,024	( 540)	( 53%)
Service Income (Related Party)	3,091	3,091	0	0%
Total Operating Revenues	1,584,395	1,353,531	230,864	17%
<b>Operating Expenses:</b>				
Production/Processing Expense	1,289,898	1,049,826	240,072	23%
Distribution Expense	83,756	74,033	9,723	13%
Accounting and Collecting	28,769	27,103	1,666	6%
Administrative and General	129,958	116,645	13,313	11%
Free Community Service (Related Party)	26,265	22,362	3,903	17%
Free Community Service	10,933	1,000	9,933	993%
Transportation	3,952	3,712	240	6%
Depreciation	39,454	36,824	2,630	7%
Payroll Taxes	16,702	15,281	1,421	9%
Total Operating Expenses	1,629,687	1,346,786	282,901	21%
Operating Income (Loss)	( 45,292)	6,745	( 52,037)	( 771%)
<b>Nonoperating Revenues (Expenses):</b>				
Equity Distributions - NPGA (Related Party)	1,262,882	124,620	1,138,262	913%
Gain on Sale of Capital Assets	700	3,527	( 2,827)	( 80%)
Gain on Disposal of Materials	0	53	( 53)	( 100%)
Customer Penalties	1,749	1,312	437	33%
Gas Rate Case Settlement	2,518	0	2,518	N/A
Interest Income	102,980	12,308	90,672	737%
Interest Income (Water, Sewer Funds)	28,550	0	28,550	N/A
Interest Expense	( 1,508)	( 782)	( 726)	93%
Net Nonoperating Revenues (Expenses)	1,397,871	141,038	1,256,833	891%
Change in Net Assets	1,352,579	147,783	1,204,796	815%
Net Assets Beginning of Year	2,939,152	1,458,437	1,480,715	102%
Net Assets End of Year	\$ 4,291,731	1,606,220	2,685,511	167%

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
	2007	2006		
<b>Assets</b>				
Current Assets:				
Cash	\$ 23,625	15,990	7,635	48%
Accounts Receivable	7,246	6,219	1,027	17%
Due From Other Governments (Related Party)	108	108	0	0%
Due From Other Governments	380	107	273	255%
Interest Receivable	82	74	8	11%
Inventory	3,539	7,128	( 3,589)	( 50%)
Prepaid Insurance	70	82	( 12)	( 15%)
<b>Total Current Assets</b>	<b>35,050</b>	<b>29,708</b>	<b>5,342</b>	<b>18%</b>
Restricted Cash:				
Customer Deposits	3,072	2,331	741	32%
Capital Assets:				
Office Equipment	513	513	0	0%
Communication Equipment	143,452	143,452	0	0%
<b>Total Capital Assets (Before W.I.P)</b>	<b>143,965</b>	<b>143,965</b>	<b>0</b>	<b>0%</b>
Less: Accumulated Depreciation	( 129,169)	( 107,600)	( 21,569)	20%
<b>Net Capital Assets</b>	<b>14,796</b>	<b>36,365</b>	<b>( 21,569)</b>	<b>( 59%)</b>
<b>Total Assets</b>	<b>52,918</b>	<b>68,404</b>	<b>( 15,486)</b>	<b>( 23%)</b>
<b>Liabilities</b>				
Current Liabilities (Payable From Current Assets):				
Accounts Payable	9,526	4,204	5,322	127%
Accrued Vacation and Sick Pay	782	0	782	N/A
Accrued Payroll & Payroll Liabilities	152	95	57	60%
Flex Spending Payable	0	40	( 40)	( 100%)
<b>Total Current Liabilities (Payable From     Current Assets)</b>	<b>10,460</b>	<b>4,339</b>	<b>6,121</b>	<b>141%</b>
Liabilities Payable From Restricted Cash:				
Customer Deposits	3,072	2,331	741	32%
<b>Total Liabilities</b>	<b>13,532</b>	<b>6,670</b>	<b>6,862</b>	<b>103%</b>
<b>Net Assets</b>				
Invested in Capital Assets, Net of Related Debt	14,796	36,365	( 21,569)	( 59%)
Unrestricted	24,590	25,369	( 779)	( 3%)
<b>Total Net Assets</b>	<b>\$ 39,386</b>	<b>61,734</b>	<b>( 22,348)</b>	<b>( 36%)</b>

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
	2007	2005		
<b>Assets</b>				
Current Assets:				
Cash	\$ 23,625	6,611	17,014	257%
Accounts Receivable	7,246	3,264	3,982	122%
Due From Other Governments (Related Party)	108	108	0	0%
Due From Other Governments	380	285	95	33%
Interest Receivable	82	0	82	N/A
Inventory	3,539	7,497	( 3,958)	( 53%)
Prepaid Insurance	70	0	70	N/A
Total Current Assets	35,050	17,765	17,285	97%
Restricted Cash:				
Customer Deposits	3,072	972	2,100	216%
Capital Assets:				
Office Equipment	513	513	0	0%
Communication Equipment	143,452	143,452	0	0%
Total Capital Assets	143,965	143,965	0	0%
Less: Accumulated Depreciation	( 129,169)	( 79,513)	( 49,656)	62%
Net Capital Assets	14,796	64,452	( 49,656)	( 77%)
<b>Total Assets</b>	52,918	83,189	( 30,271)	( 36%)
<b>Liabilities</b>				
Current Liabilities (Payable From Current Assets):				
Accounts Payable	9,526	3,686	5,840	158%
Due To Other Governments	0	21	( 21)	( 100%)
Due To Other Governments (Related Party)	0	16	( 16)	( 100%)
Accrued Vacation and Sick Pay	782	0	782	N/A
Accrued Payroll & Payroll Liabilities	152	158	( 6)	( 4%)
Total Current Liabilities (Payable From Current Assets)	10,460	3,881	6,579	170%
Liabilities Payable From Restricted Cash:				
Customer Deposits	3,072	972	2,100	216%
<b>Total Liabilities</b>	13,532	4,853	8,679	179%
<b>Net Assets</b>				
Invested in Capital Assets, Net of Related Debt	14,796	64,452	( 49,656)	( 77%)
Unrestricted	24,590	13,884	10,706	77%
<b>Total Net Assets</b>	\$ 39,386	78,336	( 38,950)	50%

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
	2007	2006		
Operating Revenues:				
Residential Sales	\$ 80,336	74,349	5,987	8%
Service Income	0	8	( 8)	( 100%)
Total Operating Revenues	80,336	74,357	5,979	8%
Operating Expenses:				
Production/Processing Expense	37,961	34,950	3,011	9%
Distribution Expense	26,264	13,113	13,151	100%
Accounting and Collecting	4,095	4,081	14	0%
Administrative and General	12,542	9,735	2,807	29%
Depreciation	21,569	28,087	( 6,518)	( 23%)
Payroll Taxes	1,238	1,394	( 156)	( 11%)
Total Operating Expenses	103,669	91,360	12,309	13%
Operating Loss	( 23,333)	( 17,003)	( 6,330)	37%
Nonoperating Revenues (Expenses):				
Customer Penalties	40	23	17	74%
Interest Income	1,037	437	600	137%
Interest Expense	( 92)	( 59)	( 33)	56%
Net Nonoperating Revenues (Expenses)	985	401	584	( 146%)
Change in Net Assets	( 22,348)	( 16,602)	( 5,746)	35%
Net Assets Beginning of Year	61,734	78,336	( 16,602)	21%
Net Assets End of Year	\$ 39,386	61,734	( 22,348)	( 36%)

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
	2007	2005		
Operating Revenues:				
Residential Sales	\$ 80,336	73,168	7,168	10%
Operating Expenses:				
Production/Processing Expense	37,961	34,860	3,101	9%
Distribution Expense	26,264	8,433	17,831	211%
Accounting and Collecting	4,095	4,039	56	1%
Administrative and General	12,542	6,497	6,045	93%
Depreciation	21,569	26,470	( 4,901)	( 19%)
Payroll Taxes	1,238	977	261	27%
Total Operating Expenses	103,669	81,276	22,393	28%
Operating Loss	( 23,333)	( 8,108)	( 15,225)	188%
Nonoperating Revenues (Expenses):				
Customer Penalties	40	27	13	48%
Interest Income	1,037	0	1,037	N/A
Interest Expense	( 92)	( 40)	( 52)	130%
Net Nonoperating Revenues (Expenses)	985	( 13)	998	7,677%
Change in Net Assets	( 22,348)	( 8,121)	( 14,227)	( 175%)
Net Assets Beginning of Year	61,734	86,457	( 24,723)	29%
Net Assets End of Year	\$ 39,386	78,336	( 38,950)	50%

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, 2007, which collectively comprise the Utilities' basic financial statements listed in the table of contents, and have issued our report thereon dated January 8, 2008. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the Rock Rapids Municipal Utilities' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Rock Rapids Municipal Utilities' internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and other deficiencies we consider to be material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Rock Rapids Municipal Utilities' ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is

more than a remote likelihood a misstatement of the Rock Rapids Municipal Utilities' financial statements that is more than inconsequential will not be prevented or detected by the Rock Rapids Municipal Utilities' internal control. We consider the deficiencies in internal control described in the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by the Rock Rapids Municipal Utilities' internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe items 07-A, B, C and D 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, 2007 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.

The Rock Rapids Municipal Utilities' responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the Utilities' responses, we did not audit the Rock Rapids Municipal Utilities' responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the 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 Accountants

January 8, 2008

**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, 2007

**Findings Related to the Financial Statements:**

**SIGNIFICANT DEFICIENCIES:**

- 07-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.
- 07-B      Job Rotations – Financial personnel’s duties are not always rotated for a period of time each fiscal year.
- Recommendation – The Utilities should consider the need for financial personnel to annually take a minimum amount of vacation time and each person’s duties should be done by another employee when a person is on vacation. Employees should be cross-trained to be able to perform a fellow employee’s duties.
- Response – We have cross-trained our employees. We will have other employees perform the duties of the person who is absent.
- Conclusion – Response accepted.
- 07-C      Payroll Procedures – Payroll time cards are allowed to be hand written at times, instead of exclusively using the time clock and there was at least one instance where no approval was noted by the supervisor on the time card for the hand written times. We noted two instances where the time cards only showed half a day worked, but since the handwritten time sheets showed a full day’s work, the employee was paid for the full day with no vacation or sick leave used on these days. We noted one instance where there was no absentee slip approved by the employee’s supervisor for vacation time payment. We noted at least three instances where there was no supervisor approval noted on employee time cards.

**Rock Rapids Municipal Utilities,  
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Schedule of Findings  
Year Ended June 30, 2007

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. An employee's time card and time sheet should match before payroll is processed for this employee. Absentee slips should be completed and approved by an employee's supervisor for all compensated absences. A supervisor should be noting approval in writing on all employee time cards.

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.

07-D Financial Reporting – During the audit, we identified material amounts of assets, liabilities, revenues and expenses not recorded properly in the Utilities' financial statements. Adjustments were subsequently made by the Utilities to properly include these amounts in the financial statements.

Recommendation – The Utilities should implement procedures to ensure all assets, liabilities, revenues and expenses are identified and included in the Utilities' financial statements. Management should be reviewing the financial records on a regular basis to help ensure the accuracy of the financial records.

Response – We will review our current procedures to identify areas where we can improve on our financial records.

Conclusion – Response accepted.

07-E 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

**Rock Rapids Municipal Utilities,  
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Year Ended June 30, 2007

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.

07-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. The main area where there are problems with this is on employee meal reimbursements.

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.

07-G Inventory Records – We noted that there were many changes that needed to be made to the detailed inventory records when the physical inventory count was taken. The inventory records are not monitored on a regular on-going basis.

Recommendation – Inventory procedures and monitoring should be analyzed for ways to increase accuracy, controls and efficiency. The Utilities should consider computerizing its inventory records.

Response – We will work on improving our detailed inventory records.

Conclusion – Response accepted.

07-H Utility Deposit Procedures – Current utility deposit procedures for collections and refunds result in larger amounts of cash being kept on hand for extended periods of time.

**Rock Rapids Municipal Utilities,  
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Year Ended June 30, 2007

Recommendation – Utility deposit procedures need to be modified to eliminate the need to keep larger amounts of cash on hand for extended periods of time in order to minimize the possibility of theft or loss and to earn interest on the funds.

Response – We will review our utility deposit procedures and make the appropriate changes.

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, 2007

**Other Findings Related to Required Statutory Reporting:**

07-1      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, 2007 did not exceed the amount budgeted for the Rock Rapids Municipal Utilities in the business type activities function.

07-2      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 paid \$212 throughout the fiscal year for credit card late fees, finance charges and over limit fees.

The Utilities spent \$40 on a memorial for a relative of an employee who passed away.

The Utilities spent \$160 on employee meal reimbursements where there was no supporting documentation or only a credit card slip (no additional detailed receipt or documentation).

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

Recommendation – The Utilities Board should determine and document the public purpose served by these expenses before authorizing any further payments. If this practice is continued, the Utilities Board should establish written policies and procedures, including the requirement for proper documentation.

Response – We will work on implementing your recommendations.

Conclusion – Response accepted.

07-3      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 07-F for a possibly related comment.

07-4      Business Transactions – No business transactions between the Utilities and Utilities officials or employees were noted.

**Rock Rapids Municipal Utilities,  
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Schedule of Findings  
Year Ended June 30, 2007

07-5      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.

07-6      Board Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not. However, there was no Iowa Code Section referenced in the minutes in order to go into a closed session on August 30, 2006. Also, there was no formal approval to make an exception to the personnel policy and allow an employee to keep his jury duty pay from the court in addition to the employee’s normal pay from the Utilities. Additionally, the Board never approved in the minutes changing that the Utilities would pay all health insurance premiums except for 20% of the dependent’s major medical premium which is to be paid by the employee (all health insurance premiums except for 15% of the dependent’s major medical premium was the last formally approved Board resolution).

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. Also, all exceptions to the personnel policy and changes made to the personnel policy need to be formally approved by the Utilities Board of Trustees in the minutes. Please consult with your attorney regarding the jury duty pay and health insurance premium change issues.

Response – We will comply with your recommendations.

Conclusion – Response accepted.

07-7      Revenue Bonds/Notes – The Utilities did not have any revenue bonds or notes payable during the fiscal year ended June 30, 2007.

07-8      Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the Utilities’ investment policy were noted.

07-9      Telecommunication Services – No instances of non-compliance with Chapter 388.10 of the Code of Iowa were noted.

**Rock Rapids Municipal Utilities,  
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Year Ended June 30, 2007

07-10 Official Depositories – The maximum deposit amounts stated in the resolution naming official depositories were not exceeded during the fiscal year, except for deposits at US Bank. The maximum amount of \$2,500,000 (\$2,000,000 from July 1, 2006 to July 25, 2006) was exceeded from July 2006 to October 2006 and March 2007 to June 2007.

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

Response – We will have the Board of Trustees increase the maximum authorized deposit amount at US Bank in the resolution naming official depositories.

Conclusion – Response accepted.

07-11 Communications (Wireless Internet) Utility – It was determined that a customer of the Communications (Wireless Internet) Utility was not charged for service from August 2002 to October 2006. In accordance with Chapter 388.6 of the Code of Iowa, this customer should have been charged the same rate as all other customers that had the same service.

Recommendation – Controls need to be established to ensure that all customers who have communications equipment are being billed in a non-discriminatory manner. Records need to be kept in enough detail to identify what customers have Utilities communication equipment. The communications equipment detail, subscriber records and customer billing records need to be reconciled for completeness by an independent person.

Response – We will establish controls to accomplish your recommendation.

Conclusion – Response accepted.

07-12 Economic Development – The Utilities paid \$73 for office expenses for the Rock Rapids Development Corporation and also allowed the Rock Rapids Development Corporation to use Utilities office supplies, office space, office equipment and personnel’s time for no charge. The Utilities also donated \$500 to the Rock Rapids Development Foundation. These expenses may not be appropriate expenses of public funds.

In accordance with Chapter 15A of the Code of Iowa and an Attorney General’s opinion dated August 28, 1986, government financing of economic development may, in appropriate circumstances, serve a public purpose. The opinion advises the governing

**Rock Rapids Municipal Utilities,**  
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Year Ended June 30, 2007

body to evaluate the public benefits to be obtained and discusses specific criteria to be considered in documenting the public purpose.

Recommendation – The Board of Trustees should evaluate and document the public purpose served by each expense before authorizing further payments. Documentation should be maintained of how the funds were used to accomplish economic development activities that meet the public purpose criteria.

Response – We will properly document public purpose for economic development expenses in the future.

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  
James Fisher, CPA, Assistant Auditor  
Jerry Stubbe, Assistant Auditor

De Noble & Company PC  
Certified Public Accountants

## NEWS RELEASE

FOR RELEASE: January 31, 2008

Contact: James Hoyer  
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 \$5,416,284 for the fiscal year ended June 30, 2007, an increase of \$26,400 or less than a one percent increase from the previous year. Revenues included \$1,652,325 from the Electric Utility, \$479,375 from the Water Utility, \$219,397 from the Sewer Utility, \$2,983,774 from the Gas Utility and \$81,413 from the Communications (Wireless Internet) Utility.

Expenses for the Utilities totaled \$4,098,411, an increase of \$261,514 or a seven percent increase from the previous year. Expenses included \$1,628,582 in the Electric Utility, \$421,006 in the Water Utility, \$213,867 in the Sewer Utility, \$1,731,195 in the Gas Utility and \$103,761 in the Communications (Wireless Internet) Utility.

Revenues in total were consistent with the previous fiscal year. Expenses increased due to a combination of an increase in purchased power, materials and line maintenance for the Electric Utility; maintenance on towers and systems for the Water Utility; and donations to the City of Rock Rapids for a sanitary sewer lining project, the recreation trail project and economic development.

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>.