# 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, 2008**

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

**Officials**

| Name | Title |
|---|---|
| | **(July 1, 2007 to August 31, 2007)** |
| David Halse | Board of Trustees Chairperson |
| George Vanden Heuvel | Board of Trustees Member |
| David Foltz | Board of Trustees Member |
| Stan Knobloch | Board of Trustees Ex-Official Member |
| Jordan Kordahl | Board of Trustees Secretary |
| Austin, Haberkorn & Kippley | Attorneys |
| James Hoye | Utilities Manager |
| | **(September 1, 2007 to May 31, 2008)** |
| David Halse | Board of Trustees Chairperson (September 1, 2007 to September 26, 2007)<br>Board of Trustees Member (September 27, 2007 to May 31, 2008) |
| David Foltz | Board of Trustees Member (September 1, 2007 to September 26, 2007)<br>Board of Trustees Chairperson (September 27, 2007 to May 31, 2008) |
| Stan Knobloch | Board of Trustees Member |
| Randal Koll | Board of Trustees Ex-Official Member<br>(November 13, 2007 to May 31, 2008) |
| Jordan Kordahl | Board of Trustees Secretary |
| Austin, Haberkorn & Kippley | Attorneys |
| James Hoye | Utilities Manager |

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

**Officials**

| Name | Title<br>**(June 1, 2008 to June 30, 2008)** | Term Expires |
|---|---|---|
| David Foltz | Board of Trustees Chairperson | August 31, 2011 |
| Randal Koll | Board of Trustees Member | August 31, 2009 |
| Stan Knobloch | Board of Trustees Member | August 31, 2013 |
| Jordan Kordahl | Board of Trustees Secretary | December 31, 2008 |
| Austin, Haberkorn & Kippley | Attorneys | December 31, 2008 |
| James Hoye | Utilities Manager | Indefinite |

# DE NOBLE & COMPANY PC

Certified Public Accountants

111 S. Story Street
Rock Rapids, IA 51246

***MEMBERS***
American Institute - Certified Public Accountants
Private Companies Practice Section
Iowa Society - Certified Public Accountants

Phone : (712) 472-2549
Fax : (712) 472-2540
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## 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 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, 2008, 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 each major fund of the Rock Rapids Municipal Utilities, a component unit of the City of Rock Rapids, Iowa, at June 30, 2008, 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 21, 2009 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 the 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 5 through 12 and 41 through 43 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, 2007 and June 30, 2006 (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

De Noble & Company PC
Certified Public Accountants

January 21, 2009

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, 2008. We encourage readers to consider this information in conjunction with the Utilities' financial statements, which follow.

## 2008 FINANCIAL HIGHLIGHTS

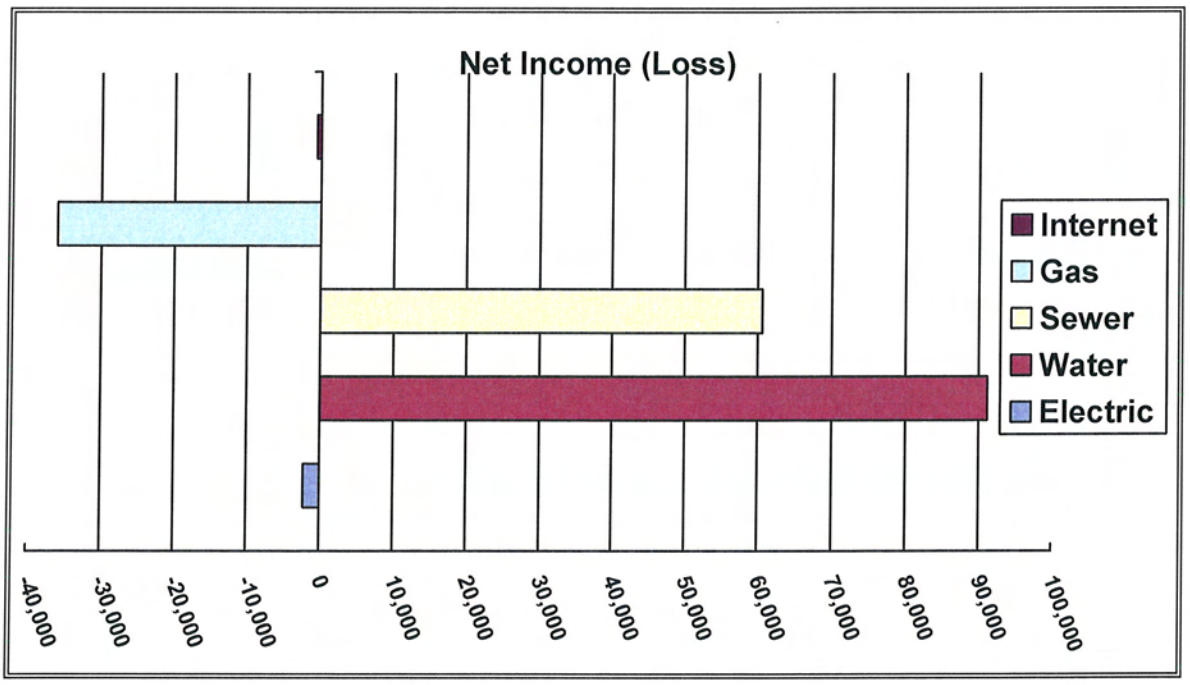
- The Utilities' total net assets increased 0.8% during the fiscal year ended June 30, 2008. The net assets increased from $13,392,676 to $13,505,780, a $113,104 increase.

- The Utilities' total revenues decreased 22.1% during the fiscal year ended June 30, 2008. The total revenues decreased from $5,416,284 to $4,218,164, a $1,198,120 decrease.

- The Utilities' total expenses increased 0.2% during the fiscal year ended June 30, 2008. The total expenses increased from $4,098,411 to $4,105,060, a $6,649 increase.

- Net income (loss) for the fiscal year ended June 30, 2008 for each utility is as follows:

| | |
|---|---|
| Electric | $( 2,183) |
| Water | 91,192 |
| Sewer | 60,610 |
| Gas | ( 35,950) |
| Communications (Wireless Internet) | ( 565) |
| Total | $ 113,104 |



## 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 each of 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, 2008, compared to the fiscal years ended June 30, 2007 and 2006.

## 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) utility 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.

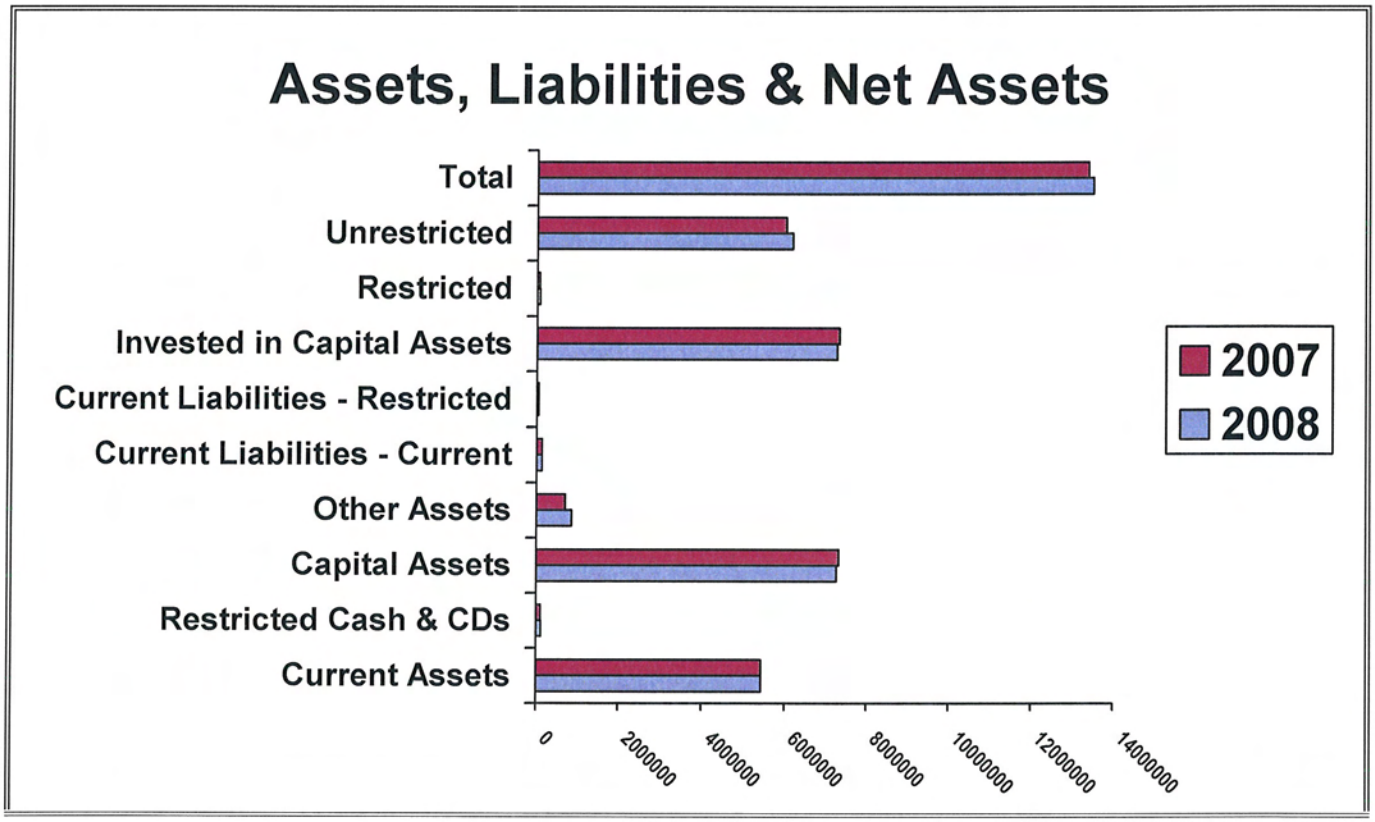
The financial statements required for proprietary funds include a Statement of Net Assets, a Statement of Revenues, Expenses and Changes in Fund Net Assets and a Statement of Cash Flows.

## 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, 2008 | June 30, 2007 |
| Current Assets | $ 5,435,569 | 5,438,770 |
| Restricted Cash and CDs | 120,089 | 110,228 |
| Capital Assets (Net) | 7,266,470 | 7,322,153 |
| Other Assets | 861,869 | 704,888 |
| Total Assets | 13,683,997 | 13,576,039 |
| Current Liabilities (Payable from Current Assets) | 131,883 | 136,124 |
| Current Liabilities (Payable from Restricted Assets) | 46,334 | 47,239 |
| Total Liabilities | 178,217 | 183,363 |
| Net Assets: | | |
| Invested in Capital Assets, Net of Related Debt | 7,266,470 | 7,322,153 |
| Restricted | 73,755 | 62,989 |
| Unrestricted | 6,165,555 | 6,007,534 |
| Total Net Assets | $ 13,505,780 | 13,392,676 |

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




The largest portion of the Utilities' net assets is the invested in capital assets (land, utility plant, transportation equipment, office equipment, tools and safety devices, communication equipment, meter testing equipment and construction work in progress), less any related external debt (53.8% of the net assets total for fiscal year ended June 30, 2008). For fiscal years ended June 30, 2008 and June 30, 2007, 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 (0.5% of the net assets total for fiscal year ended June 30, 2008). 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 $6,165,555 (45.7% of the net assets total for fiscal year ended June 30, 2008) at the end of this fiscal year.

| | Changes in Net Assets For the Year Ended | |
|---|---|---|
| | June 30, 2008 | June 30, 2007 |
| Revenues: | | |
| Program Revenues: | | |
| Charges for Services | $ 3,903,499 | 3,890,503 |
| General Revenues: | | |
| Equity Distributions - NPGA | 0 | 1,262,882 |
| Gain on Sale of Capital Assets | 23,475 | 700 |

| | | |
|---|---|---|
| Rentals | 11,224 | 11,224 |
| Customer Penalties | 2,513 | 2,799 |
| Interest Income | 261,182 | 245,395 |
| Miscellaneous Income | 7 | 263 |
| Insurance Income | 1,539 | 0 |
| Gas Rate Case Settlement | 2,481 | 2,518 |
| Total Revenues | 4,205,920 | 5,416,284 |
| | | |
| Program Expenses: | | |
| Electric | 1,663,483 | 1,628,582 |
| Water | 418,941 | 421,006 |
| Sewer | 204,278 | 213,867 |
| Gas | 1,726,892 | 1,631,195 |
| Internet | 91,466 | 103,761 |
| Total Expenses | 4,105,060 | 3,998,411 |
| | | |
| Special Items: | | |
| WTFAP Grant | 12,244 | 0 |
| City of Rock Rapids Donation | 0 | 100,000 |
| Total Special Items | 12,244 | 100,000 |
| | | |
| Increase in Net Assets | 113,104 | 1,317,873 |
| | | |
| Net Assets Beginning of Year | 13,392,676 | 12,074,803 |
| | | |
| Net Assets End of Year | $ 13,505,780 | 13,392,676 |

The "Increase in Net Assets" from fiscal year ended June 30, 2008 compared to June 30, 2007 was down by $1,204,769 (91.4%). Revenues in total decreased this fiscal year mainly due to not receiving any equity distributions from NPGA. Expenses in total for this fiscal year were very comparable to last fiscal year. The Utilities total net assets increased 0.8% during the fiscal year ended June 30, 2008.

## INDIVIDUAL MAJOR FUND ANALYSIS

### Operating Revenues

Electric operating revenues were $1,570,783, down $11,041 or 0.7% from the previous fiscal year, due mainly to a reduction in commercial power usage.

Water operating revenues were $481,773, up $41,014 or 9.3% from the previous fiscal year, due mainly to an increase in rates and sales to the Rural Water System.

Sewer operating revenues were $252,650, up $39,461 or 19.4% from the previous fiscal year, due mainly to an increase in rates.

Gas operating revenues were $1,517,766, down $66,629 or 4.2% from the previous fiscal year, due mainly to the Board approving a subsidy of $120,000 from prior NPGA equity distributions to net against customers' purchased gas adjustment billings.

Communications (Wireless Internet) operating revenues were $90,527, up $10,191 or 12.7% from the previous fiscal year, due mainly to an increase in customers.

**Operating Expenses**

Electric operating expenses were $1,662,491, up $34,696 or 2.1% from last fiscal year, due mainly to an increase in purchased power costs.

Water operating expenses were $385,286, down $13,926 or 3.5% from last fiscal year, due mainly to less maintenance on water main system/towers this fiscal year.

Sewer operating expenses were $198,098, down $9,013 or 4.4% from last fiscal year, due mainly to fewer maintenance projects this fiscal year.

Gas operating expenses were $1,725,462, up $95,775 or 5.9% from last fiscal year, due mainly to an increase in sales and prices paid for the natural gas commodity and an increase in donations to help fund projects in Rock Rapids.

Communications (Wireless Internet) operating expenses were $91,315, down $12,354 or 11.9% from last fiscal year, due mainly to a decrease in depreciation expense on capital projects.

**Net Assets**

The Electric Fund, which accounts for the operation and maintenance of the electric system, ended fiscal year 2008 with a $5,628,794 net asset balance compared to the prior year ending net asset balance of $5,630,977 ($2,183 decrease or 0.1%). The prior fiscal year change was an increase of $23,743.

The Water Fund, which accounts for the operation and maintenance of the water system, ended fiscal year 2008 with a $2,661,172 net asset balance compared to the prior year ending net asset balance of $2,569,980 ($91,192 increase or 3.6%). The prior fiscal year change was an increase of $58,369.

The Sewer Fund, which accounts for the operation and maintenance of the sewer system, ended fiscal year 2008 with a $921,212 net asset balance compared to the prior year ending net asset balance of $860,602 ($60,610 increase or 7.0%). The prior fiscal year change was a decrease of $94,470 (due mainly to a special $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 2008 with a $4,255,781 net asset balance compared to the prior year ending net asset balance of $4,291,731 ($35,950 decrease or 0.8%). The prior fiscal year change was an increase of $1,352,579 (due mainly to equity distributions from the National Public Gas Agency last year, but none this fiscal year).

The Communications (Wireless Internet) Fund, which accounts for the operation and maintenance of the wireless internet system, ended fiscal year 2008 with a $38,821 net asset balance

compared to the prior year ending net asset balance of $39,386 ($565 decrease or 1.4%). The prior fiscal year change was a decrease of $22,348.

## BUDGETARY HIGHLIGHTS

Over the course of the year, the Rock Rapids Municipal Utilities amended its budget one time. The amendment was done in May 2008. This amendment was done to reduce Gas Utility Fund billings and to cover higher than originally planned maintenance work and capital asset projects.

Receipts came in $69,001 under budget. The Electric Utility Fund receipts came in $192,354 under budget and the Gas Utility Fund came in $145,242 over budget.

Disbursements came in $877,514 under budget. The Electric Utility Fund came in $341,249 under budget, the Sewer Utility Fund came in $207,739 under budget and the Gas Utility Fund came in $271,914 under 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, a dura-lift for a truck, a backhoe-ride control, a trencher/vibrator, a pickup and communications access point equipment. Utility plant additions included masonry improvements, gas utility meters and mains, electric utility line improvements and the electric utility downtown project.

Construction in progress at June 30, 2008 consists of the water main project (water distribution system improvements) and the wastewater treatment system disinfection facilities improvements.

### Long-Term Debt

The Utilities did not have any external long-term debt outstanding at June 30, 2008. Please see Note 4 for internal loans made from the Gas Fund to the Water and Sewer Funds.

## ECONOMIC FACTORS

The Rock Rapids Municipal Utilities is beginning to experience declining sales in part due to the slowing economy. Lower sales are expected into the coming year. Purchased power continues to rise, but input costs are softening. Lower input costs may help make capital projects more attractive in the coming year.

Prices for purchased power in the Electric Utility continue to rise with another larger increase expected on January 1, 2009. A continuing 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 Services initiated increases due to increased costs for replacement power and energy conservation mandates.

The Water Utility will finish its water main project (water distribution system improvements) in the coming year that will lower cash reserves substantially.

The Sewer Utility will finish a disinfection project that was required under the new NPDES operating permit that will cause lower sewer cash reserves.

Natural gas prices have fallen from last winter's highs and will provide for lower Gas Utility commodity prices in fiscal year 2008/2009.

The Communications Utility is being discontinued by the Rock Rapids Municipal Utilities in fiscal year 2008/2009 as the Communications Utility capital assets were sold.

## CONTACTING THE UTILITIES' FINANCIAL MANAGEMENT

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

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

**Basic Financial Statements**

Exhibit A

**Rock Rapids Municipal Utilities,**
**A Component Unit of the City of Rock Rapids**
Statement of Net Assets
June 30, 2008

| | Business Type Activities |
|---|---|
| **Assets** | |
| Current Assets: | |
| Cash | $ 1,746,786 |
| Certificates of Deposit | 3,155,000 |
| Accounts Receivable | 282,992 |
| Due From Other Governments (Related Party) | 7,379 |
| Due From Other Governments | 26,127 |
| Interest Receivable | 42,581 |
| Inventory | 119,307 |
| Prepaid Insurance | 55,397 |
| Total Current Assets | 5,435,569 |
| Restricted Cash: | |
| Customer Deposits | 46,334 |
| Depreciation Reserves | 73,755 |
| Total Restricted Cash | 120,089 |
| Capital Assets: | |
| Land | 184,429 |
| Utility Plant | 14,290,435 |
| Transportation Equipment | 233,782 |
| Office Equipment | 72,196 |
| Tools and Safety Devices | 256,786 |
| Communication Equipment | 167,204 |
| Meter Testing Equipment | 21,903 |
| Total Capital Assets (Before W.I.P.) | 15,226,735 |
| Less: Accumulated Depreciation | ( 8,131,131) |
| Capital Assets – Net (Before W.I.P.) | 7,095,604 |
| Construction Work in Progress | 170,866 |
| Net Capital Assets | 7,266,470 |
| Other Assets: | |
| Lewis & Clark Project Membership (Related Party) | 861,869 |
| **Total Assets** | 13,683,997 |

**Rock Rapids Municipal Utilities,**
**A Component Unit of the City of Rock Rapids**
Statement of Net Assets
June 30, 2008

| | Business Type Activities |
|---|---|
| **Liabilities** | |
| Current Liabilities (Payable From Current Assets): | |
| Accounts Payable | 36,537 |
| Due To Other Governments | 9,677 |
| Due to Other Governments (Related Party) | 18,022 |
| Accrued Vacation and Sick Pay | 58,306 |
| Accrued Payroll & Payroll Liabilities | 6,911 |
| Flex Spending Payable | 1,555 |
| Unearned Income | 875 |
| Total Current Liabilities (Payable From Current Assets) | 131,883 |
| Liabilities Payable From Restricted Cash: | |
| Customer Deposits | 46,334 |
| **Total Liabilities** | 178,217 |
| **Net Assets:** | |
| Invested in Capital Assets, Net of Related Debt | 7,266,470 |
| Restricted for: | |
| Depreciation Reserves | 73,755 |
| Unrestricted | 6,165,555 |
| **Total Net Assets** | $ 13,505,780 |

See Notes to Financial Statements.

Exhibit B

**Rock Rapids Municipal Utilities,**
**A Component Unit of the City of Rock Rapids**
Statement of Activities
For the Fiscal Year Ended June 30, 2008

| | Expenses | Program Revenues: Charges for Services | Net (Expense) Revenue and Changes in Net Assets |
|---|---|---|---|
| **Functions/Programs:** | | | |
| Business Type Activities: | | | |
| Electric Utility | $ 1,663,483 | 1,570,783 | ( 92,700) |
| Water Utility | 418,941 | 481,773 | 62,832 |
| Sewer Utility | 204,278 | 242,650 | 38,372 |
| Gas Utility | 1,726,892 | 1,517,766 | ( 209,126) |
| Communications (Wireless Internet) Utility | 91,466 | 90,527 | ( 939) |
| Total | $ 4,105,060 | 3,903,499 | ( 201,561) |
| **General Revenues:** | | | |
| Gain on Sale of Capital Assets | | | 23,475 |
| Rentals | | | 6,224 |
| Rentals (Related Party) | | | 5,000 |
| Customer Penalties | | | 2,513 |
| Miscellaneous Income | | | 7 |
| Insurance Income | | | 1,539 |
| Gas Rate Case Settlement | | | 2,481 |
| Interest Income | | | 221,347 |
| Interest Income (Water, Sewer Funds) | | | 39,835 |
| Total General Revenues | | | 302,421 |
| **Special Item:** | | | |
| WTFAP Grant | | | 12,244 |
| Change in Net Assets | | | 113,104 |
| Net Assets Beginning of Year | | | 13,392,676 |
| Net Assets End of Year | | | $ 13,505,780 |

See Notes to Financial Statements.

Exhibit C

**Rock Rapids Municipal Utilities,**
**A Component Unit of the City of Rock Rapids**
Statement of Net Assets
Proprietary Funds
June 30, 2008

| | Enterprise Funds | | | | | |
|---|---|---|---|---|---|---|
| | Electric Utility | Water Utility | Sewer Utility | Gas Utility | Communications (Wireless Internet) Utility | Total |
| **Assets** | | | | | | |
| Current Assets: | | | | | | |
| Cash | $ 489,428 | 630,050 | 153,948 | 452,592 | 20,768 | 1,746,786 |
| Certificates of Deposit | 955,000 | 55,000 | 0 | 2,145,000 | 0 | 3,155,000 |
| Accounts Receivable | 112,974 | 48,267 | 22,976 | 92,238 | 6,537 | 282,992 |
| Due From Other Funds | 0 | 0 | 0 | 61,776 | 0 | 61,776 |
| Due From Other Governments (Related Party) | 2,722 | 442 | 208 | 3,899 | 108 | 7,379 |
| Due From Other Governments | 5,150 | 549 | 12,846 | 7,546 | 36 | 26,127 |
| Interest Receivable | 10,427 | 746 | 85 | 31,323 | 0 | 42,581 |
| Inventory | 37,904 | 30,979 | 0 | 46,511 | 3,913 | 119,307 |
| Prepaid Insurance | 22,537 | 14,897 | 8,868 | 9,033 | 62 | 55,397 |
| Total Current Assets | 1,636,142 | 780,930 | 198,931 | 2,849,918 | 31,424 | 5,497,345 |
| Restricted Cash: | | | | | | |
| Customer Deposits | 14,788 | 3,820 | 0 | 26,790 | 936 | 46,334 |
| Depreciation Reserves | 0 | 0 | 73,755 | 0 | 0 | 73,755 |
| Total Restricted Cash | 14,788 | 3,820 | 73,755 | 26,790 | 936 | 120,089 |
| Capital Assets: | | | | | | |
| Land | 47,127 | 118,525 | 0 | 18,777 | 0 | 184,429 |
| Utility Plant | 7,699,739 | 3,573,476 | 2,008,624 | 1,008,596 | 0 | 14,290,435 |
| Transportation Equipment | 115,132 | 18,330 | 38,380 | 61,940 | 0 | 233,782 |
| Office Equipment | 37,048 | 12,189 | 4,542 | 17,904 | 513 | 72,196 |
| Tools and Safety Devices | 111,997 | 46,508 | 25,865 | 72,416 | 0 | 256,786 |
| Communication Equipment | 16,206 | 1,955 | 0 | 0 | 149,043 | 167,204 |
| Meter Testing Equipment | 16,235 | 5,668 | 0 | 0 | 0 | 21,903 |
| Total Capital Assets (Before W.I.P.) | 8,043,484 | 3,776,651 | 2,077,411 | 1,179,633 | 149,556 | 15,226,735 |
| Less: Accumulated Depreciation | ( 3,996,438) | ( 2,138,820) | ( 1,319,379) | ( 539,666) | ( 136,828) | ( 8,131,131) |

| | | | | | | |
|---|---|---|---|---|---|---|
| Capital Assets – Net (Before W.I.P.) | 4,047,046 | 1,637,831 | 758,032 | 639,967 | 12,728 | 7,095,604 |
| Construction Work in Progress | 0 | 149,549 | 21,317 | 0 | 0 | 170,866 |
| Net Capital Assets | 4,047,046 | 1,787,380 | 779,349 | 639,967 | 12,728 | 7,266,470 |
| Other Assets: | | | | | | |
| Advances To Other Funds | 0 | 0 | 0 | 808,287 | 0 | 808,287 |
| Lewis & Clark Project Membership (Related Party) | 0 | 861,869 | 0 | 0 | 0 | 861,869 |
| Total Other Assets | 0 | 861,869 | 0 | 808,287 | 0 | 1,670,156 |
| **Total Assets** | 5,697,976 | 3,433,999 | 1,052,035 | 4,324,962 | 45,088 | 14,554,060 |
| **Liabilities** | | | | | | |
| Current Liabilities (Payable From Current Assets): | | | | | | |
| Accounts Payable | 21,894 | 6,685 | 2,423 | 1,306 | 4,229 | 36,537 |
| Due To Other Fund | 0 | 48,375 | 13,401 | 0 | 0 | 61,776 |
| Due To Other Governments | 5,615 | 1,408 | 236 | 2,418 | 0 | 9,677 |
| Due To Other Governments (Related Party) | 0 | 0 | 0 | 18,022 | 0 | 18,022 |
| Accrued Vacation and Sick Pay | 22,822 | 10,998 | 5,137 | 18,335 | 1,014 | 58,306 |
| Accrued Payroll & Payroll Liabilities | 2,302 | 2,114 | 766 | 1,641 | 88 | 6,911 |
| Flex Spending Payable | 1,555 | 0 | 0 | 0 | 0 | 1,555 |
| Unearned Income | 206 | 0 | 0 | 669 | 0 | 875 |
| Total Current Liabilities (Payable From Current Assets) | 54,394 | 69,580 | 21,963 | 42,391 | 5,331 | 193,659 |
| Liabilities Payable From Restricted Cash: | | | | | | |
| Customer Deposits | 14,788 | 3,820 | 0 | 26,790 | 936 | 46,334 |
| Long Term Debt: | | | | | | |
| Advance From Other Fund | 0 | 699,427 | 108,860 | 0 | 0 | 808,287 |
| **Total Liabilities** | 69,182 | 772,827 | 130,823 | 69,181 | 6,267 | 1,048,280 |
| **Net Assets:** | | | | | | |
| Invested in Capital Assets, Net of Related Debt | 4,047,046 | 1,787,380 | 657,136 | 639,967 | 12,728 | 7,144,257 |
| Restricted for: | | | | | | |
| Depreciation Reserves | 0 | 0 | 73,755 | 0 | 0 | 73,755 |
| Unrestricted | 1,581,748 | 873,792 | 190,321 | 3,615,814 | 26,093 | 6,287,768 |
| **Total Net Assets** | $ 5,628,794 | 2,661,172 | 921,212 | 4,255,781 | 38,821 | 13,505,780 |

See Notes to Financial Statements.

Exhibit D

**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, 2008

| | Enterprise Funds | | | | | |
|---|---|---|---|---|---|---|
| | Electric Utility | Water Utility | Sewer Utility | Gas Utility | Communications (Wireless Internet) Utility | Total |
| Operating Revenues: | | | | | | |
| Residential Sales | $ 705,333 | 0 | 0 | 1,508,379 | 90,527 | 2,304,239 |
| Commercial Sales | 800,350 | 0 | 0 | 3,605 | 0 | 803,955 |
| Public Street and Highway Lighting | 22,884 | 0 | 0 | 0 | 0 | 22,884 |
| Wind Power – Residential and Commercial | 582 | 0 | 0 | 0 | 0 | 582 |
| Water Sales – Metered | 0 | 245,792 | 0 | 0 | 0 | 245,792 |
| Water Sales – Rural Water System | 0 | 226,706 | 0 | 0 | 0 | 226,706 |
| Water Sales – Tank Loads | 0 | 1,115 | 0 | 0 | 0 | 1,115 |
| Sewer Service | 0 | 0 | 241,767 | 0 | 0 | 241,767 |
| Material and Service Sales | 34,510 | 5,703 | 0 | 1,554 | 0 | 41,767 |
| Service Income | 4,033 | 690 | 0 | 1,137 | 0 | 5,860 |
| Service Income (Related Party) | 3,091 | 1,767 | 883 | 3,091 | 0 | 8,832 |
| Total Operating Revenues | 1,570,783 | 481,773 | 242,650 | 1,517,766 | 90,527 | 3,903,499 |
| Operating Expenses: | | | | | | |
| Production/Processing Expense | 912,709 | 88,605 | 101,917 | 1,344,428 | 44,220 | 2,491,879 |
| Distribution Expense | 148,964 | 66,082 | 0 | 90,720 | 23,460 | 329,226 |
| Accounting and Collecting | 30,246 | 15,182 | 5,795 | 27,983 | 3,920 | 83,126 |
| Administrative and General | 190,952 | 100,948 | 39,705 | 133,754 | 10,779 | 476,138 |
| Free Community Service (Related Party) | 105,691 | 1,000 | 6,383 | 44,500 | 0 | 157,574 |
| Free Community Service | 27,454 | 2,200 | 0 | 22,400 | 0 | 52,054 |
| Transportation | 12,643 | 3,053 | 526 | 4,615 | 0 | 20,837 |
| Depreciation | 208,900 | 92,570 | 35,064 | 38,763 | 7,659 | 382,956 |
| Payroll Taxes | 24,932 | 15,646 | 8,708 | 18,299 | 1,277 | 68,862 |
| Total Operating Expenses | 1,662,491 | 385,286 | 198,098 | 1,725,462 | 91,315 | 4,062,652 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Operating Income (Loss) | ( 91,708) | 96,487 | 44,552 | ( 207,696) | ( 788) | ( 159,153) |
| Nonoperating Revenues (Expenses): | | | | | | |
| Gain on Sale of Capital Assets | 15,775 | 0 | 2,200 | 5,500 | 0 | 23,475 |
| Rentals | 544 | 5,680 | 0 | 0 | 0 | 6,224 |
| Rentals (Related Party) | 5,000 | 0 | 0 | 0 | 0 | 5,000 |
| Customer Penalties | 733 | 110 | 133 | 1,484 | 53 | 2,513 |
| Miscellaneous Income | 7 | 0 | 0 | 0 | 0 | 7 |
| Insurance Income | 1,539 | 0 | 0 | 0 | 0 | 1,539 |
| Gas Rate Case Settlement | 0 | 0 | 0 | 2,481 | 0 | 2,481 |
| Interest Income | 66,919 | 22,570 | 7,661 | 123,876 | 321 | 221,347 |
| Interest Income (Water, Sewer Funds) | 0 | 0 | 0 | 39,835 | 0 | 39,835 |
| Interest Expense | ( 992) | 0 | 0 | ( 1,430) | ( 151) | ( 2,573) |
| Interest Expense (Gas Fund) | 0 | ( 33,655) | ( 6,180) | 0 | 0 | ( 39,835) |
| Net Nonoperating Revenues (Expenses) | 89,525 | ( 5,295) | 3,814 | 171,746 | 223 | 260,013 |
| Net Income (Loss) Before Special Item | ( 2,183) | 91,192 | 48,366 | ( 35,950) | ( 565) | 100,860 |
| Special Item: | | | | | | |
| WTFAP Grant | 0 | 0 | 12,244 | 0 | 0 | 12,244 |
| Net Income (Loss) After Special Item | ( 2,183) | 91,192 | 60,610 | ( 35,950) | ( 565) | 113,104 |
| Net Assets Beginning of Year | 5,630,977 | 2,569,980 | 860,602 | 4,291,731 | 39,386 | 13,392,676 |
| Net Assets End of Year | $ 5,628,794 | 2,661,172 | 921,212 | 4,255,781 | 38,821 | 13,505,780 |

See Notes to Financial Statements.

Exhibit E

**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, 2008

| | Enterprise Funds | | | | | |
|---|---|---|---|---|---|---|
| | Electric Utility | Water Utility | Sewer Utility | Gas Utility | Communications (Wireless Internet) Utility | Total |
| Cash Flows From Operating Activities: | | | | | | |
| Cash Received from Customers and Users | $ 1,532,183 | 475,039 | 245,163 | 1,483,898 | 87,872 | 3,824,155 |
| Cash Received from Interfund Services Provided | 49,429 | 1,946 | 0 | 7,602 | 1,572 | 60,549 |
| Cash Received from Other Revenues | 7,090 | 5,680 | 0 | 2,481 | 0 | 15,251 |
| Cash Paid to Suppliers/Outside Service Providers | ( 1,056,452) | ( 100,288) | ( 51,091) | ( 1,420,678) | ( 78,380) | ( 2,706,889) |
| Cash Paid for Personal Services (Employees) | ( 250,061) | ( 162,610) | ( 83,654) | ( 191,677) | ( 10,922) | ( 698,924) |
| Cash Paid for Interfund Services Used | ( 9,052) | ( 25,646) | ( 25,329) | ( 522) | 0 | ( 60,549) |
| Cash Paid for Free Community Service (Related Party) | ( 105,691) | ( 1,000) | ( 6,383) | ( 44,500) | 0 | ( 157,574) |
| Cash Paid for Free Community Service | ( 14,954) | ( 2,200) | 0 | ( 9,900) | 0 | ( 27,054) |
| Net Cash Provided By (Used For) Operating Activities | 152,492 | 190,921 | 78,706 | ( 173,296) | 142 | 248,965 |
| Cash Flows From Noncapital Financing Activities: | | | | | | |
| Principal Payments on Interfund Loan from the Gas Utility | 0 | ( 35,759) | 0 | 0 | 0 | ( 35,759) |
| Interest Paid on Interfund Loan from the Gas Utility | 0 | ( 34,198) | 0 | 0 | 0 | ( 34,198) |
| Net Cash Used For Noncapital Financing Activities | 0 | ( 69,957) | 0 | 0 | 0 | ( 69,957) |
| Cash Flows From Capital and Related Financing Activities: | | | | | | |
| Principal Payments on Interfund Loan from the Gas Utility | 0 | 0 | ( 12,716) | 0 | 0 | ( 12,716) |
| Interest Paid on Interfund Loan from the Gas Utility | 0 | 0 | ( 6,184) | 0 | 0 | ( 6,184) |
| Proceeds from Sale of Capital Assets | 15,775 | 0 | 2,200 | 0 | 0 | 17,975 |
| Purchases/Construction of Capital Assets | ( 94,618) | ( 155,426) | ( 20,407) | ( 32,333) | ( 5,591) | ( 308,375) |
| Net Cash Used For Capital and Related Financing Activities | ( 78,843) | ( 155,426) | ( 37,107) | ( 32,333) | ( 5,591) | ( 309,300) |

| | | | | | | |
|---|---|---|---|---|---|---|
| Cash Flows From Investing Activities: | | | | | | |
| Principal Received on Interfund Loans | 0 | 0 | 0 | 48,475 | 0 | 48,475 |
| Interest Received on Interfund Loans | 0 | 0 | 0 | 40,382 | 0 | 40,382 |
| Cashed In (Purchase of) Non Cash Equivalent Certificates of Deposit (Net) | 10,000 | 20,000 | 20,000 | (495,000) | 0 | (445,000) |
| Interest Received | 77,118 | 26,450 | 8,813 | 121,241 | 403 | 234,025 |
| Customer Penalties Received | 733 | 110 | 133 | 1,484 | 53 | 2,513 |
| Paid Toward Lewis & Clark Project Membership | 0 | (181,497) | 0 | 0 | 0 | (181,497) |
| Net Cash Provided By (Used For) Investing Activities | 87,851 | (134,937) | 28,946 | (283,418) | 456 | (301,102) |
| Net Increase (Decrease) in Cash and Cash Equivalents | 161,500 | (169,399) | 70,545 | (489,047) | (4,993) | (431,394) |
| Cash and Cash Equivalents Beginning of Year | 342,716 | 803,269 | 157,158 | 968,429 | 26,697 | 2,298,269 |
| Cash and Cash Equivalents End of Year | $ 504,216 | 633,870 | 227,703 | 479,382 | 21,704 | 1,866,875 |
| Reconciliation of Operating Income (Loss) to Net Cash Provided By (Used For) Operating Activities: | | | | | | |
| Operating Income (Loss) | $ (91,708) | 96,487 | 44,552 | (207,696) | (788) | (159,153) |
| Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided By (Used For) Operating Activities: | | | | | | |
| Free Community Service (Note Forgiven) | 12,500 | 0 | 0 | 12,500 | 0 | 25,000 |
| Depreciation | 208,900 | 92,570 | 35,064 | 38,763 | 7,659 | 382,956 |
| 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 | 7 | 0 | 0 | 0 | 0 | 7 |
| Proceeds from Insurance | 1,539 | 0 | 0 | 0 | 0 | 1,539 |
| Proceeds from Gas Rate Case Settlement | 0 | 0 | 0 | 2,481 | 0 | 2,481 |
| Deposit Interest Paid | (992) | 0 | 0 | (1,430) | (151) | (2,573) |
| Special Item: WTFAP Grant | 0 | 0 | 12,244 | 0 | 0 | 12,244 |
| Changes in Assets and Liabilities: | | | | | | |
| Decrease (Increase) in Accounts Receivable | 10,569 | (7,034) | 2,488 | (22,074) | 709 | (15,342) |
| Decrease (Increase) in Due From Other Governments (Related Party) | 257 | 129 | 71 | (202) | 0 | 255 |
| Decrease (Increase) in Due From Other Governments | 961 | 75 | (12,293) | (1,535) | 344 | (12,448) |

Exhibit E (Continued)

**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, 2008

| | Enterprise Funds | | | | | |
|---|---|---|---|---|---|---|
| | Electric Utility | Water Utility | Sewer Utility | Gas Utility | Communications (Wireless Internet) Utility | Total |
| 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 in Flex Spending Receivable | 850 | 0 | 0 | 0 | 0 | 850 |
| Decrease (Increase) in Inventory | 9,415 | 4,368 | 0 | 4,475 | (374) | 17,884 |
| Decrease in Prepaid Insurance | 693 | 735 | 989 | 643 | 8 | 3,068 |
| Increase (Decrease) in Customer Deposits (Cash) | 115 | 2,040 | 0 | (924) | (2,136) | (905) |
| (Decrease) in Accounts Payable (Non Capital Assets/ Other Assets Related) | (9,567) | (1,430) | (5,813) | (125) | (5,297) | (22,232) |
| Increase in Due to Other Governments | 104 | 4 | 18 | 1,152 | 0 | 1,278 |
| (Decrease) in Due to Other Governments (Related Party) | 0 | 0 | 0 | (1,103) | 0 | (1,103) |
| Increase (Decrease) in Accrued Vacation and Sick Pay | 3,682 | (2,962) | 1,412 | 2,792 | 232 | 5,156 |
| Increase (Decrease) in Accrued Payroll & Payroll Liabilities | (859) | 259 | (26) | (583) | (64) | (1,273) |
| Increase in Flex Spending Payable | 1,555 | 0 | 0 | 0 | 0 | 1,555 |
| (Decrease) in Unearned Income | (1,073) | 0 | 0 | (430) | 0 | (1,503) |
| Net Cash Provided By (Used For) Operating Activities | $ 152,492 | 190,921 | 78,706 | (173,296) | 142 | 248,965 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Reconciliation of Cash and Cash Equivalents at Year End to Specific Assets Included on the Statement of Net Assets: | | | | | | |
| Current Assets: | | | | | | |
| Cash | $ 489,428 | 630,050 | 153,948 | 452,592 | 20,768 | 1,746,786 |
| Restricted Cash : | | | | | | |
| Customer Deposits (Cash) | 14,788 | 3,820 | 0 | 26,790 | 936 | 46,334 |
| Depreciation Reserves (Cash) | 0 | 0 | 73,755 | 0 | 0 | 73,755 |
| Cash and Cash Equivalents at Year End | $ 504,216 | 633,870 | 227,703 | 479,382 | 21,704 | 1,866,875 |

Supplemental Disclosure of Noncash Investing Activities:
A $25,000 ($12,500 Electric Utility Fund and $12,500 Gas Utility Fund) note receivable to the Rock Rapids Development Corporation was forgiven during the fiscal year as a donation. The $25,000 forgiven was recorded by removing the note receivable from the Electric and Gas Utility Funds and reporting the amount forgiven as free community service expense.

Supplemental Disclosure of Noncash Capital and Related Financing Activities:
The Gas Utility Fund traded in a van during the fiscal year with a book value of $0 for $5,000 in trade value. The $5,000 trade value received was reported as a gain on sale of capital assets and also included in the cost of the pickup purchased as part of the trade.

See Notes to Financial Statements.

**Rock Rapids Municipal Utilities,**
**A Component Unit of the City of Rock Rapids**
Notes to Financial Statements
June 30, 2008

## (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 $157,574 (Free Community Service – Related Party) and reimbursed the City of Rock Rapids for the Utilities share of a construction contract in the amount of $16,452.

The construction contract is for water distribution system improvements (please see Note 13 for additional information) during the fiscal year ended June 30, 2008.

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 $1,343,714 and $782, respectively. The Utilities paid the Missouri River Energy Services $866,189 for power and energy services, $2,550 for dues and $1,250 for meeting registrations. The Utilities received $74,695 from the Missouri River Energy Services as a reimbursement for monthly capacity generation fees and generator costs. Please see Note 6 for information on the 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. Function/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 (the Utilities considers all the funds the Utilities has as 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 are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Under terms of some grant agreements, the Utilities may fund certain qualifying expenses by a combination of specific cost-reimbursement grants, categorical block grants and general revenues. Thus, when qualifying expenses are incurred, there are both restricted and unrestricted net assets available to finance the qualifying expenses. It is the Utilities' policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general revenues.

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. The 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 sale/disposal of capital assets, rental income, customer penalties, miscellaneous income, insurance income, gas rate case settlement, 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, 2008 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, 2008 included all of the certificates of deposit.

Accounts Receivable – Accounts receivable are recorded in the Enterprise Funds at the time the service is billed. Accounts receivable represents money owed to the Utilities, mainly for utility sales, that was not paid to the Utilities as of June 30, 2008.

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, 2008, 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 and for WTFAP grant proceeds.

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, utility system improvements, vehicles and equipment, 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, 2008 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 accumulated vested vacation time. The amount recorded in the accounts for vested vacation pay aggregated $30,351 at June 30, 2008.

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 unused accumulated allowable sick leave benefits. 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. As of June 30, 2008, employees' vested sick leave benefits aggregated $27,955. 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 | $ 29,608 | 23,542 | 53,150 |
| Increases | 37,033 | 7,206 | 44,239 |
| Decreases | ( 36,290) | ( 2,793) | ( 39,083) |
| Balance End of Year | $ 30,351 | 27,955 | 58,306 |

These liabilities have been computed based on rates of pay in effect at June 30, 2008 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, 2008, 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 | $ 14,788 | 3,820 | 73,755 | 26,790 | 936 | 120,089 |
| Deposits Payable | 14,788 | 3,820 | 0 | 26,790 | 936 | 46,334 |
| Retained Earnings: Reserved (June 30, 2008) | $ 0 | 0 | 73,755 | 0 | 0 | 73,755 |

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 $7,266,470 and in the Proprietary Funds Statement of Net Assets as $7,144,257. The $122,213 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, 2008, 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, 2008 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, 2008 as there is no legal responsibility that these amounts be used for these purposes. The amount of the Board designated reserves on June 30, 2008 is as follows:

| | Economic Development Reserves | Depreciation Reserves | Lewis & Clark Project Sinking Fund Reserve | Lewis & Clark Project Prepayment Reserve | Total |
|---|---|---|---|---|---|
| Electric Utility Fund | $ 7,180 | $ 64,144 | $ 0 | $ 0 | $ 71,324 |
| Water Utility Fund | 316 | 41,592 | 61,226 | 212,841 | 315,975 |
| Gas Utility Fund | 2,786 | 0 | 0 | 0 | 2,786 |
| Total | $ 10,282 | $ 105,736 | $ 61,226 | $ 212,841 | $ 390,085 |

## (3) Notes Receivable – Rock Rapids Development Corporation

In January 2007, 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 was 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 were achieved by the business attracted to Rock Rapids, the entire $25,000 loan was to be forgiven. If the specified employment numbers and average compensation levels were not met by the aforementioned business, the $25,000 loan was to be repaid by the Rock Rapids Development Corporation to the Utilities at the end of the 10-year loan period.

During the fiscal year ended June 30, 2008, the Rock Rapids Municipal Utilities determined that the employment numbers and average compensation levels were achieved in order to have this note receivable forgiven. Therefore, this $25,000 note receivable ($12,500 Electric Utility Fund and $12,500 Gas Utility Fund) was expensed as a donation (Free Community Service) in fiscal year ended June 30, 2008.

## (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, 2008, the Water Utility Fund paid the Gas Utility Fund $18,509 in principal and $16,900 in interest on this loan. The June 30, 2008 balance on this loan was $363,764.

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 |
|---|---|---|---|
| 2009 | $ 19,285 | 16,124 | 35,409 |
| 2010 | 20,181 | 15,228 | 35,409 |
| 2011 | 21,073 | 14,336 | 35,409 |
| 2012 | 22,004 | 13,405 | 35,409 |
| 2013 | 22,943 | 12,466 | 35,409 |
| 2014-2018 | 131,019 | 46,025 | 177,044 |
| 2019-2022 | 127,259 | 14,376 | 141,635 |
| Total | $ 363,764 | 131,960 | 495,724 |

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. During the fiscal year ended June 30, 2008, the Water Utility Fund paid the Gas Utility Fund $17,250 in principal and $17,298 in interest on this loan. The June 30, 2008 balance on this loan was $373,007.

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 |
|---|---|---|---|
| 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 | 21,469 | 13,079 | 34,548 |
| 2014-2018 | 122,418 | 50,322 | 172,740 |
| 2019-2023 | 151,989 | 20,751 | 172,740 |
| Total | $ 373,007 | 145,213 | 518,220 |

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, 2008, the Sewer Utility Fund paid the Gas Utility Fund $12,716 in principal and $6,184 in interest on this loan. The June 30, 2008 balance on this loan was $122,213.

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 |
|---|---|---|---|
| 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 | 16,157 | 2,743 | 18,900 |
| 2014-2016 | 48,614 | 3,361 | 51,975 |
| Total | $ 122,213 | 24,262 | 146,475 |

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:

| | Payable | | Receivable |
|---|---|---|---|
| Assets/Liabilities | Water Utility | Sewer Utility | Gas Utility |
| Due From/To: | | | |
| Loan (Current Portion) | $ ( 37,344) | ( 13,353) | 50,697 |
| Accrued Interest on Loans | ( 11,031) | ( 48) | 11,079 |
| Total Due From/To | $ ( 48,375) | ( 13,401) | 61,776 |
| Advance To/From: | | | |
| Loan (Noncurrent Portion) | ( 699,427) | ( 108,860) | 808,287 |
| Total | $ ( 747,802) | ( 122,261) | 870,063 |

## (5) Capital Assets

Capital assets activity for the fiscal year ended June 30, 2008 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 | 265,366 | 175,754 | ( 270,254) | 170,866 |
| Total Capital Assets Not Being Depreciated | 449,795 | 175,754 | ( 270,254) | 355,295 |
| Capital Assets Being Depreciated: | | | | |
| Utility Plant | 13,918,646 | 371,789 | 0 | 14,290,435 |
| Transportation Equipment | 223,262 | 30,084 | ( 19,564) | 233,782 |

| | | | | |
|---|---|---|---|---|
| Office Equipment | 72,196 | 0 | 0 | 72,196 |
| Tools and Safety Devices | 249,525 | 14,309 | ( 7,048) | 256,786 |
| Communication Equipment | 161,613 | 5,591 | 0 | 167,204 |
| Meter Testing Equipment | 21,903 | 0 | 0 | 21,903 |
| Total Capital Assets Being Depreciated | 14,647,145 | 421,773 | ( 26,612) | 15,042,306 |
| Less Accumulated Depreciation For: | | | | |
| Utility Plant | 7,222,984 | 326,374 | 0 | 7,549,358 |
| Transportation Equipment | 162,372 | 23,174 | ( 19,564) | 165,982 |
| Office Equipment | 51,555 | 4,705 | 0 | 56,260 |
| Tools and Safety Devices | 169,249 | 20,907 | ( 7,048) | 183,108 |
| Communication Equipment | 146,724 | 7,796 | 0 | 154,520 |
| Meter Testing Equipment | 21,903 | 0 | 0 | 21,903 |
| Total Accumulated Depreciation | 7,774,787 | 382,956 | ( 26,612) | 8,131,131 |
| Total Capital Assets Being Depreciated, Net | 6,872,358 | 38,817 | 0 | 6,911,175 |
| Business Type Capital Assets, Net | $7,322,153 | 214,571 | ( 270,254) | 7,266,470 |

Depreciation expense was charged to the different Utilities as follows:

| | |
|---|---|
| Business Type Activities: | |
| Electric Utility | $ 208,900 |
| Water Utility | 92,570 |
| Sewer Utility | 35,064 |
| Gas Utility | 38,763 |
| Communications (Wireless Internet) Utility | 7,659 |
| Total Depreciation Expense – Business Type Activities | $ 382,956 |

## (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, 2008, the Utilities has paid $861,869 toward the cost of membership, which includes both base system costs ($814,180) and some member specific costs ($47,689).

As of June 30, 2008, 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, 2008. Payments will be made on the additional estimated $177,416 in base system costs and unknown member specific costs as the project progresses.

If the Rock Rapids Municipal Utilities would withdraw from membership in Lewis & Clark Regional Water System, Inc., the Utilities would forfeit all amounts paid to Lewis & Clark Regional Water System, Inc., 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 | $ 5,615 |
| Water Utility | State Sales and Use Tax | 1,408 |
| Sewer Utility | State Sales and Use Tax | 236 |
| Gas Utility | State Sales and Use Tax | 2,418 |
| Total | | $ 9,677 |

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 | $ 18,022 |

## (8) WTFAP Grant – "Special Item"

The Rock Rapids Municipal Utilities has been awarded an Iowa Finance Authority Wastewater Treatment Financial Assistance Program (WTFAP) Grant. The WTFAP Grant is to help offset up to 60% of the costs incurred by the Utilities to construct improvements to disinfection facilities. The improvements to the wastewater treatment system are to comply with water quality standards adopted by the Iowa Department of Natural Resources in 2006. The WTFAP

Grant award is for up to $111,135 (60% of $185,225 in budgeted project costs). For the fiscal year ended June 30, 2008, the Utilities is reporting WTFAP Grant income of $12,244 in the Sewer Utility Fund. This income is being reported as a "special item".

## (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 $226,706 or 47.1% of the total operating water revenues for the fiscal year ended June 30, 2008.

## (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 3.90% of their annual covered salary and the Municipal Utilities is required to contribute 6.05% of covered salary. Contribution requirements are established by state statute. The Utilities' contributions to IPERS for the years ended June 30, 2008, 2007, and 2006 were $30,720, $28,370 and $27,316, 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 from July 1, 2007 until December 31, 2007 and Sanford Health Plan from January 1, 2008 through the fiscal year ended June 30, 2008. As of June 30, 2008, the Utilities is assuming liability for claims against the insurance deductible of up to $250 under an individual policy and $500 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 up to $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 the fiscal year ended June 30, 2007 (reported as a special item). Nothing was paid on this commitment during the fiscal year ended June 30, 2008. It is estimated that the Utilities will contribute $40,000 toward this commitment to the City of Rock Rapids during the fiscal year ended June 30, 2009.

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 to be issued to the City of Rock Rapids during the fiscal year ended June 30, 2009.

During the fiscal year ended June 30, 2008, the Rock Rapids Municipal Utilities and the City of Rock Rapids started a joint construction project for improvements to the water distribution system (Utilities) and streets (City). The City signed the contract for the entire project. The City will pay all requests on the contract with the Utilities reimbursing the City for the costs related to the water mains portion of the construction project. The Utilities share of the estimated cost of the project is $182,805. As of June 30, 2008, costs of $16,452 have been incurred by the Utilities on this contract. The remaining estimated cost of $166,353 will be paid as work on the project progresses.

## (14) Subsequent Events

In August 2008, the Utilities donated $51,000 to the City of Rock Rapids to meet the matching funds requirement under a USDA Rural Business Enterprise Grant.

The Utilities reimbursed the City of Rock Rapids $44,044 in July 2008, $31,396 in August 2008, $25,012 in September 2008, $15,761 in October 2008, $8,024 in November 2008 and $6,769 in December 2008 ($131,006 to date in fiscal year ended June 30, 2009) for costs incurred on the water distribution system improvements project contract.

In August 2008, the Utilities approved the sale of a couple of propane tanks and the land under the propane tanks for $70,000.

In August 2008, the Utilities approved loaning $140,000 at a 2.5% interest rate to the Rock Rapids Development Corporation for the purpose of the Development Corporation purchasing 28 acres of land for economic development opportunities. As of the audit report date, the Rock Rapids Development Corporation has not borrowed any money on this loan.

In August 2008, the Utilities approved the sale of the Communications Utility capital assets for $10,000. The sale was effective October 15, 2008. As of October 15, 2008, the Utilities discontinued offering wireless Internet services.

## (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, 2008

| | Proprietary Funds Actual | Budgeted Amounts Original | Budgeted Amounts Final | Final to Actual Variance |
|---|---|---|---|---|
| Receipts: | | | | |
| Electric Utility | $ 1,682,328 | 1,874,682 | 1,874,682 | ( 192,354) |
| Water Utility | 473,465 | 483,774 | 483,774 | ( 10,309) |
| Sewer Utility | 243,593 | 276,533 | 276,533 | ( 32,940) |
| Gas Utility | 1,705,563 | 1,983,384 | 1,560,321 | 145,242 |
| Communications (Wireless Internet) Utility | 89,900 | 68,540 | 68,540 | 21,360 |
| Total Receipts | 4,194,849 | 4,686,913 | 4,263,850 | ( 69,001) |
| Electric Utility | 1,530,827 | 1,872,076 | 1,872,076 | 341,249 |
| Water Utility | 662,865 | 425,355 | 719,469 | 56,604 |
| Sewer Utility | 193,046 | 241,460 | 400,785 | 207,739 |
| Gas Utility | 1,699,611 | 1,971,525 | 1,971,525 | 271,914 |
| Communications (Wireless Internet) Utility | 94,894 | 76,987 | 94,902 | 8 |
| Total Disbursements (Business Type Activities Function) | 4,181,243 | 4,587,403 | 5,058,757 | 877,514 |
| Excess (Deficiency) of Receipts Over (Under) Disbursements | 13,606 | 99,510 | ( 794,907) | 808,513 |
| Cash and Certificates of Deposit (Unrestricted and Restricted) – Balances Beginning of Year | 5,008,269 | 3,743,178 | 3,743,178 | 1,265,091 |
| Cash and Certificates of Deposit (Unrestricted and Restricted) – Balances End of Year | $ 5,021,875 | 3,842,688 | 2,948,271 | 2,073,604 |

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, 2008

| | Proprietary Funds | | |
|---|---|---|---|
| | Enterprise | | |
| | Cash Basis | Accrual Adjustments | Accrual Basis |
| Receipts/Revenues | $4,194,849 | 23,315 | 4,218,164 |
| Disbursements/Expenses | 4,181,243 | ( 76,183) | 4,105,060 |
| Net | 13,606 | 99,498 | 113,104 |
| Beginning Net Assets | 5,008,269 | 8,384,407 | 13,392,676 |
| Ending Net Assets | $5,021,875 | 8,483,905 | 13,505,780 |

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, 2008

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 major individual utility fund.

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 for all funds. 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 and accruals are not recognized on the cash basis budget and appropriations lapse at year end.

The Utilities budgeted its receipts under the "charges for services" 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 the "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 decreased budgeted receipts by $423,063 and increased budgeted disbursements by $471,354. This budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2008, 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**

Schedule 1

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

| | June 30, 2008 | June 30, 2007 | Amount of Change | Percentage of Change |
|---|---|---|---|---|
| **Assets** | | | | |
| Current Assets: | | | | |
| Cash | $ 489,428 | 328,043 | 161,385 | 49% |
| Certificates of Deposit | 955,000 | 965,000 | ( 10,000) | ( 1%) |
| Accounts Receivable | 112,974 | 123,543 | ( 10,569) | ( 9%) |
| Due From Other Governments (Related Party) | 2,722 | 2,979 | ( 257) | ( 9%) |
| Due From Other Governments | 5,150 | 6,111 | ( 961) | ( 16%) |
| Interest Receivable | 10,427 | 20,626 | ( 10,199) | ( 49%) |
| Flex Spending Receivable | 0 | 850 | ( 850) | ( 100%) |
| Inventory | 37,904 | 47,319 | ( 9,415) | ( 20%) |
| Prepaid Insurance | 22,537 | 23,230 | ( 693) | ( 3%) |
| Notes Receivable – Rock Rapids Development Corporation | 0 | 12,500 | ( 12,500) | ( 100%) |
| Total Current Assets | 1,636,142 | 1,530,201 | 105,941 | 7% |
| Restricted Cash: | | | | |
| Customer Deposits | 14,788 | 14,673 | 115 | 1% |
| Capital Assets: | | | | |
| Land | 47,127 | 47,127 | 0 | 0% |
| Utility Plant | 7,699,739 | 7,349,756 | 349,983 | 5% |
| Transportation Equipment | 115,132 | 105,020 | 10,112 | 10% |
| Office Equipment | 37,048 | 37,048 | 0 | 0% |
| Tools and Safety Devices | 111,997 | 106,974 | 5,023 | 5% |
| Communication Equipment | 16,206 | 16,206 | 0 | 0% |
| Meter Testing Equipment | 16,235 | 16,235 | 0 | 0% |
| Total Capital Assets (Before W.I.P) | 8,043,484 | 7,678,366 | 365,118 | 5% |
| Less: Accumulated Depreciation | ( 3,996,438) | ( 3,794,587) | ( 201,851) | 5% |
| Capital Assets – Net (Before W.I.P) | 4,047,046 | 3,883,779 | 163,267 | 4% |
| Construction Work in Progress | 0 | 265,366 | ( 265,366) | ( 100%) |
| Net Capital Assets | 4,047,046 | 4,149,145 | ( 102,099) | ( 2%) |
| **Total Assets** | 5,697,976 | 5,694,019 | 3,957 | 0% |

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

| | June 30, 2008 | June 30, 2007 | Amount of Change | Percentage of Change |
|---|---|---|---|---|
| **Liabilities** | | | | |
| Current Liabilities (Payable From Current Assets): | | | | |
| Accounts Payable | 21,894 | 19,278 | 2,616 | 14% |
| Due To Other Governments | 5,615 | 5,511 | 104 | 2% |
| Accrued Vacation and Sick Pay | 22,822 | 19,140 | 3,682 | 19% |
| Accrued Payroll & Payroll Liabilities | 2,302 | 3,161 | ( 859) | ( 27%) |
| Flex Spending Payable | 1,555 | 0 | 1,555 | N/A |
| Unearned Income | 206 | 1,279 | ( 1,073) | ( 84%) |
| Total Current Liabilities (Payable From Current Assets) | 54,394 | 48,369 | 6,025 | 12% |
| Liabilities Payable From Restricted Cash: | | | | |
| Customer Deposits | 14,788 | 14,673 | 115 | 1% |
| **Total Liabilities** | 69,182 | 63,042 | 6,140 | 10% |
| **Net Assets** | | | | |
| Invested in Capital Assets, Net of Related Debt | 4,047,046 | 4,149,145 | ( 102,099) | ( 2%) |
| Unrestricted | 1,581,748 | 1,481,832 | 99,916 | 7% |
| **Total Net Assets** | $ 5,628,794 | 5,630,977 | ( 2,183) | 0% |

See Accompanying Independent Auditor's Report.

Schedule 2

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

| | June 30, 2008 | June 30, 2006 | Amount of Change | Percentage of Change |
|---|---|---|---|---|
| **Assets** | | | | |
| Current Assets: | | | | |
| Cash | $ 489,428 | 660,582 | ( 171,154) | ( 26%) |
| Certificates of Deposit | 955,000 | 673,600 | 281,400 | 42% |
| Accounts Receivable | 112,974 | 116,770 | ( 3,796) | ( 3%) |
| Due From Other Governments (Related Party) | 2,722 | 8,755 | ( 6,033) | ( 69%) |
| Due From Other Governments | 5,150 | 7,521 | ( 2,371) | ( 32%) |
| Interest Receivable | 10,427 | 11,670 | ( 1,243) | ( 11%) |
| Inventory | 37,904 | 38,709 | ( 805) | ( 2%) |
| Prepaid Insurance | 22,537 | 23,724 | ( 1,187) | ( 5%) |
| Notes Receivable – Rock Rapids Development Corporation | 0 | 12,500 | ( 12,500) | ( 100%) |
| Total Current Assets | 1,636,142 | 1,553,831 | 82,311 | 5% |
| Restricted Cash: | | | | |
| Customer Deposits | 14,788 | 21,467 | ( 6,679) | ( 31%) |
| Capital Assets: | | | | |
| Land | 47,127 | 47,127 | 0 | 0% |
| Utility Plant | 7,699,739 | 7,245,822 | 453,917 | 6% |
| Transportation Equipment | 115,132 | 84,660 | 30,472 | 36% |
| Office Equipment | 37,048 | 27,079 | 9,969 | 37% |
| Tools and Safety Devices | 111,997 | 106,974 | 5,023 | 5% |
| Communication Equipment | 16,206 | 16,206 | 0 | 0% |
| Meter Testing Equipment | 16,235 | 16,235 | 0 | 0% |
| Total Capital Assets (Before W.I.P) | 8,043,484 | 7,544,103 | 499,381 | 7% |
| Less: Accumulated Depreciation | ( 3,996,438) | ( 3,591,364) | ( 405,074) | 11% |
| Capital Assets – Net (Before W.I.P) | 4,047,046 | 3,952,739 | 94,307 | 2% |
| Construction Work in Progress | 0 | 159,463 | ( 159,463) | ( 100%) |
| Net Capital Assets | 4,047,046 | 4,112,202 | ( 65,156) | ( 2%) |
| **Total Assets** | 5,697,976 | 5,687,500 | 10,476 | 0% |

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

| | June 30, | | | |
|---|---|---|---|---|
| | 2008 | 2006 | Amount of Change | Percentage of Change |
| **Liabilities** | | | | |
| Current Liabilities (Payable From Current Assets): | | | | |
| Accounts Payable | 21,894 | 29,305 | ( 7,411) | ( 25%) |
| Due To Other Governments | 5,615 | 7,536 | ( 1,921) | ( 25%) |
| Accrued Vacation and Sick Pay | 22,822 | 18,921 | 3,901 | 21% |
| Accrued Payroll & Payroll Liabilities | 2,302 | 2,547 | ( 245) | ( 10%) |
| Flex Spending Payable | 1,555 | 279 | 1,276 | 457% |
| Unearned Income | 206 | 211 | ( 5) | ( 2%) |
| Total Current Liabilities (Payable From Current Assets) | 54,394 | 58,799 | ( 4,405) | ( 7%) |
| Liabilities Payable From Restricted Cash: | | | | |
| Customer Deposits | 14,788 | 21,467 | ( 6,679) | ( 31%) |
| **Total Liabilities** | 69,182 | 80,266 | ( 11,084) | ( 14%) |
| **Net Assets** | | | | |
| Invested in Capital Assets, Net of Related Debt | 4,047,046 | 4,112,202 | ( 65,156) | ( 2%) |
| Unrestricted | 1,581,748 | 1,495,032 | 86,716 | 6% |
| **Total Net Assets** | $ 5,628,794 | 5,607,234 | 21,560 | 0% |

See Accompanying Independent Auditor's Report.

Schedule 3

**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, 2008 | 2007 | Amount of Change | Percentage of Change |
|---|---|---|---|---|
| Operating Revenues: | | | | |
| Residential Sales | $ 705,333 | 703,890 | 1,443 | 0% |
| Commercial Sales | 800,350 | 821,694 | ( 21,344) | ( 3%) |
| Public Street and Highway Lighting | 22,884 | 23,001 | ( 117) | ( 1%) |
| Wind Power – Residential and Commercial | 582 | 618 | ( 36) | ( 6%) |
| Material and Service Sales | 34,510 | 24,344 | 10,166 | 42% |
| Service Income | 4,033 | 5,186 | ( 1,153) | ( 22%) |
| Service Income (Related Party) | 3,091 | 3,091 | 0 | 0% |
| Total Operating Revenues | 1,570,783 | 1,581,824 | ( 11,041) | ( 1%) |
| Operating Expenses: | | | | |
| Production/Processing Expense | 912,709 | 858,990 | 53,719 | 6% |
| Distribution Expense | 148,964 | 173,656 | ( 24,692) | ( 14%) |
| Accounting and Collecting | 30,246 | 30,772 | ( 526) | ( 2%) |
| Administrative and General | 190,952 | 162,300 | 28,652 | 18% |
| Free Community Service (Related Party) | 105,691 | 139,323 | ( 33,632) | ( 24%) |
| Free Community Service | 27,454 | 23,361 | 4,093 | 18% |
| Transportation | 12,643 | 10,524 | 2,119 | 20% |
| Depreciation | 208,900 | 203,895 | 5,005 | 2% |
| Payroll Taxes | 24,932 | 24,974 | ( 42) | 0% |
| Total Operating Expenses | 1,662,491 | 1,627,795 | 34,696 | 2% |
| Operating Loss | ( 91,708) | ( 45,971) | ( 45,737) | 99% |
| Nonoperating Revenues (Expenses): | | | | |
| Gain on Sale of Capital Assets | 15,775 | 0 | 15,775 | N/A |
| Rentals | 544 | 544 | 0 | 0% |
| Rentals (Related Party) | 5,000 | 5,000 | 0 | 0% |
| Customer Penalties | 733 | 814 | ( 81) | ( 10%) |
| Miscellaneous Income | 7 | 73 | ( 66) | ( 90%) |
| Insurance Income | 1,539 | 0 | 1,539 | N/A |
| Interest Income | 66,919 | 64,070 | 2,849 | 4% |
| Interest Expense | ( 992) | ( 787) | ( 205) | 26% |
| Net Nonoperating Revenues (Expenses) | 89,525 | 69,714 | 19,811 | 28% |
| Change in Net Assets | ( 2,183) | 23,743 | ( 25,926) | ( 109%) |
| Net Assets Beginning of Year | 5,630,977 | 5,607,234 | 23,743 | 0% |
| Net Assets End of Year | $ 5,628,794 | 5,630,977 | ( 2,183) | 0% |

See Accompanying Independent Auditor's Report.

Schedule 4

**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, | | | |
|---|---|---|---|---|
| | 2008 | 2006 | Amount of Change | Percentage of Change |
| Operating Revenues: | | | | |
| Residential Sales | $ 705,333 | 696,851 | 8,482 | 1% |
| Commercial Sales | 800,350 | 830,424 | ( 30,074) | ( 4%) |
| Public Street and Highway Lighting | 22,884 | 21,074 | 1,810 | 9% |
| Wind Power – Residential and Commercial | 582 | 744 | ( 162) | ( 22%) |
| Material and Service Sales | 34,510 | 20,073 | 14,437 | 72% |
| Service Income | 4,033 | 4,284 | ( 251) | ( 6%) |
| Service Income (Related Party) | 3,091 | 3,091 | 0 | 0% |
| Total Operating Revenues | 1,570,783 | 1,576,541 | ( 5,758) | 0% |
| Operating Expenses: | | | | |
| Production/Processing Expense | 912,709 | 836,469 | 76,240 | 9% |
| Distribution Expense | 148,964 | 134,359 | 14,605 | 11% |
| Accounting and Collecting | 30,246 | 27,922 | 2,324 | 8% |
| Administrative and General | 190,952 | 155,023 | 35,929 | 23% |
| Free Community Service (Related Party) | 105,691 | 92,870 | 12,821 | 14% |
| Free Community Service | 27,454 | 10,620 | 16,834 | 159% |
| Transportation | 12,643 | 3,298 | 9,345 | 283% |
| Depreciation | 208,900 | 199,853 | 9,047 | 5% |
| Payroll Taxes | 24,932 | 24,065 | 867 | 4% |
| Total Operating Expenses | 1,662,491 | 1,484,479 | 178,012 | 12% |
| Operating Income (Loss) | ( 91,708) | 92,062 | ( 183,770) | ( 200%) |
| Nonoperating Revenues (Expenses): | | | | |
| Gain on Sale of Capital Assets | 15,775 | 264 | 15,511 | 5,875% |
| Rentals | 544 | 544 | 0 | 0% |
| Rentals (Related Party) | 5,000 | 5,000 | 0 | 0% |
| Customer Penalties | 733 | 822 | ( 89) | ( 11%) |
| Miscellaneous Income | 7 | 190 | ( 183) | ( 96%) |
| Insurance Demutualization | 0 | 9,476 | ( 9,476) | ( 100%) |
| Insurance Income | 1,539 | 0 | 1,539 | N/A |
| Interest Income | 66,919 | 55,704 | 11,215 | 20% |
| Interest Expense | ( 992) | ( 688) | ( 304) | 44% |
| Net Nonoperating Revenues (Expenses) | 89,525 | 71,312 | 18,213 | 26% |
| Change in Net Assets | ( 2,183) | 163,374 | ( 165,557) | ( 101%) |
| Net Assets Beginning of Year | 5,630,977 | 5,443,860 | 187,117 | 3% |
| Net Assets End of Year | $ 5,628,794 | 5,607,234 | 21,560 | 0% |

See Accompanying Independent Auditor's Report.

Schedule 5

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

| | June 30, 2008 | June 30, 2007 | Amount of Change | Percentage of Change |
|---|---|---|---|---|
| **Assets** | | | | |
| Current Assets: | | | | |
| Cash | $ 630,050 | 801,489 | ( 171,439) | ( 21% ) |
| Certificates of Deposit | 55,000 | 75,000 | ( 20,000) | ( 27%) |
| Accounts Receivable | 48,267 | 41,233 | 7,034 | 17% |
| Due From Other Governments (Related Party) | 442 | 571 | ( 129) | ( 23%) |
| Due From Other Governments | 549 | 624 | ( 75) | ( 12% ) |
| Interest Receivable | 746 | 4,626 | ( 3,880) | ( 84%) |
| Inventory | 30,979 | 35,347 | ( 4,368) | ( 12% ) |
| Prepaid Insurance | 14,897 | 15,632 | ( 735) | ( 5%) |
| Total Current Assets | 780,930 | 974,522 | ( 193,592 ) | ( 20%) |
| Restricted Cash: | | | | |
| Customer Deposits | 3,820 | 1,780 | 2,040 | 115% |
| Capital Assets: | | | | |
| Land | 118,525 | 118,525 | 0 | 0% |
| Utility Plant | 3,573,476 | 3,568,376 | 5,100 | 0% |
| Transportation Equipment | 18,330 | 18,330 | 0 | 0% |
| Office Equipment | 12,189 | 12,189 | 0 | 0% |
| Tools and Safety Devices | 46,508 | 45,427 | 1,081 | 2% |
| Communication Equipment | 1,955 | 1,955 | 0 | 0% |
| Meter Testing Equipment | 5,668 | 5,668 | 0 | 0% |
| Total Capital Assets (Before W.I.P.) | 3,776,651 | 3,770,470 | 6,181 | 0% |
| Less: Accumulated Depreciation | ( 2,138,820) | ( 2,046,250) | ( 92,570) | 5% |
| Capital Assets - Net (Before W.I.P.) | 1,637,831 | 1,724,220 | ( 86,389) | ( 5%) |
| Construction Work in Progress | 149,549 | 0 | 149,549 | N/A |
| Net Capital Assets | 1,787,380 | 1,724,220 | 63,160 | 4% |
| Other Assets: | | | | |
| Lewis & Clark Project Membership (Related Party) | 861,869 | 679,888 | 181,981 | 27% |
| **Total Assets** | 3,433,999 | 3,380,410 | 53,589 | 2% |

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

| | June 30, 2008 | June 30, 2007 | Amount of Change | Percentage of Change |
|---|---|---|---|---|
| **Liabilities** | | | | |
| Current Liabilities (Payable From Current Assets): | | | | |
| Accounts Payable | 6,685 | 7,327 | ( 642) | ( 9%) |
| Due To Other Fund | 48,375 | 47,333 | 1,042 | 2% |
| Due To Other Governments | 1,408 | 1,404 | 4 | 0% |
| Accrued Vacation and Sick Pay | 10,998 | 13,960 | ( 2,962) | ( 21%) |
| Accrued Payroll & Payroll Liabilities | 2,114 | 1,855 | 259 | 14% |
| Total Current Liabilities (Payable From Current Assets) | 69,580 | 71,879 | ( 2,299) | ( 3%) |
| Liabilities Payable From Restricted Cash: | | | | |
| Customer Deposits | 3,820 | 1,780 | 2,040 | 115% |
| Long Term Debt: | | | | |
| Advance From Other Fund | 699,427 | 736,771 | ( 37,344) | ( 5%) |
| **Total Liabilities** | 772,827 | 810,430 | ( 37,603) | ( 5%) |
| **Net Assets** | | | | |
| Invested in Capital Assets, Net of Related Debt | 1,787,380 | 1,724,220 | 63,160 | 4% |
| Unrestricted | 873,792 | 845,760 | 28,032 | 3% |
| **Total Net Assets** | $ 2,661,172 | 2,569,980 | 91,192 | 4% |

See Accompanying Independent Auditor's Report.

Schedule 6

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

| | June 30, 2008 | June 30, 2006 | Amount of Change | Percentage of Change |
|---|---|---|---|---|
| **Assets** | | | | |
| Current Assets: | | | | |
| Cash | $ 630,050 | 255,004 | 375,046 | 147% |
| Certificates of Deposit | 55,000 | 108,400 | ( 53,400) | ( 49%) |
| Accounts Receivable | 48,267 | 43,158 | 5,109 | 12% |
| Due From Other Governments (Related Party) | 442 | 418 | 24 | 6% |
| Due From Other Governments | 549 | 589 | ( 40) | ( 7%) |
| Interest Receivable | 746 | 2,496 | ( 1,750) | ( 70%) |
| Inventory | 30,979 | 38,676 | ( 7,967) | ( 20%) |
| Prepaid Insurance | 14,897 | 12,995 | 1,902 | 15% |
| Total Current Assets | 780,930 | 461,736 | 319,194 | 69% |
| Restricted Cash: | | | | |
| Customer Deposits | 3,820 | 2,160 | 1,660 | 77% |
| Capital Assets: | | | | |
| Land | 118,525 | 118,525 | 0 | 0% |
| Utility Plant | 3,573,476 | 3,568,376 | 5,100 | 0% |
| Transportation Equipment | 18,330 | 18,330 | 0 | 0% |
| Office Equipment | 12,189 | 12,189 | 0 | 0% |
| Tools and Safety Devices | 46,508 | 45,427 | 1,081 | 2% |
| Communication Equipment | 1,955 | 1,955 | 0 | 0% |
| Meter Testing Equipment | 5,668 | 5,668 | 0 | 0% |
| Total Capital Assets (Before W.I.P.) | 3,776,651 | 3,770,470 | 6,181 | 0% |
| Less: Accumulated Depreciation | ( 2,138,820) | ( 1,952,644) | ( 186,176) | 10% |
| Capital Assets - Net (Before W.I.P.) | 1,637,831 | 1,817,826 | ( 179,995) | ( 10%) |
| Construction Work in Progress | 149,549 | 0 | 149,549 | N/A |
| Net Capital Assets | 1,787,380 | 1,817,826 | ( 30,446) | ( 2%) |
| Other Assets: | | | | |
| Lewis & Clark Project Membership (Related Party) | 861,869 | 661,772 | 200,097 | 30% |
| **Total Assets** | 3,433,999 | 2,943,494 | 490,505 | 17% |

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

| | June 30, 2008 | June 30, 2006 | Amount of Change | Percentage of Change |
|---|---|---|---|---|
| **Liabilities** | | | | |
| Current Liabilities (Payable From Current Assets): | | | | |
| Accounts Payable | 6,685 | 5,840 | 845 | 14% |
| Due To Other Fund | 48,375 | 25,187 | 23,188 | 92% |
| Due To Other Governments | 1,408 | 1,466 | ( 58) | ( 4%) |
| Accrued Vacation and Sick Pay | 10,998 | 13,655 | ( 2,657) | ( 19% ) |
| Accrued Payroll & Payroll Liabilities | 2,114 | 1,143 | 971 | 85% |
| Flex Spending Payable | 0 | 159 | ( 159) | ( 100%) |
| Total Current Liabilities (Payable From Current Assets) | 69,580 | 47,450 | 22,130 | 47% |
| Liabilities Payable From Restricted Cash: | | | | |
| Customer Deposits | 3,820 | 2,160 | 1,660 | 77% |
| Long Term Debt: | | | | |
| Advance From Other Fund | 699,427 | 382,273 | 317,154 | 83% |
| **Total Liabilities** | 772,827 | 431,883 | 340,944 | 79% |
| **Net Assets** | | | | |
| Invested in Capital Assets, Net of Related Debt | 1,787,380 | 1,817,826 | ( 30,446) | ( 2%) |
| Unrestricted | 873,792 | 693,785 | 180,007 | 26% |
| **Total Net Assets** | $ 2,661,172 | 2,511,611 | 149,561 | 6% |

See Accompanying Independent Auditor's Report.

Schedule 7

**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, | | | |
|---|---|---|---|---|
| | 2008 | 2007 | Amount of Change | Percentage of Change |
| Operating Revenues: | | | | |
| Water Sales – Metered | $ 245,792 | 243,227 | 2,565 | 1% |
| Water Sales – Rural Water System | 226,706 | 192,366 | 34,340 | 18% |
| Water Sales – Tank Loads | 1,115 | 2,064 | ( 949) | ( 46%) |
| Material and Service Sales | 5,703 | 319 | 5,384 | 1688% |
| Service Income | 690 | 1,016 | ( 326) | ( 32%) |
| Service Income (Related Party) | 1,767 | 1,767 | 0 | 0% |
| Total Operating Revenues | 481,773 | 440,759 | 41,014 | 9% |
| Operating Expenses: | | | | |
| Production/Processing Expense | 88,605 | 75,039 | 13,566 | 18% |
| Distribution Expense | 66,082 | 94,316 | ( 28,234) | ( 30%) |
| Accounting and Collecting | 15,182 | 16,602 | ( 1,420) | ( 9%) |
| Administrative and General | 100,948 | 94,700 | 6,248 | 7% |
| Free Community Service (Related Party) | 1,000 | 5,837 | ( 4,837) | ( 83%) |
| Free Community Service | 2.200 | 1,007 | 1,193 | 118% |
| Transportation | 3,053 | 3,673 | ( 620) | ( 17%) |
| Depreciation | 92,570 | 93,606 | ( 1,036) | ( 1%) |
| Payroll Taxes | 15,646 | 14,432 | 1,214 | 8% |
| Total Operating Expenses | 385,286 | 399,212 | ( 13,926) | ( 3%) |
| Operating Income | 96,487 | 41,547 | 54,940 | 132% |
| Nonoperating Revenues (Expenses): | | | | |
| Rentals | 5,680 | 5,680 | 0 | 0% |
| Customer Penalties | 110 | 103 | 7 | 7% |
| Miscellaneous Income | 0 | 190 | ( 190) | ( 100%) |
| Interest Income | 22,570 | 32,643 | ( 10,073) | ( 31%) |
| Interest Expense (Gas Fund) | ( 33,655) | ( 21,794) | ( 11,861) | ( 54%) |
| Net Nonoperating Revenues (Expenses) | ( 5,295) | 16,822 | ( 22,117) | ( 131%) |
| Change in Net Assets | 91,192 | 58,369 | 32,823 | 56% |
| Net Assets Beginning of Year | 2,569,980 | 2,511,611 | 58,369 | 2% |
| Net Assets End of Year | $ 2,661,172 | 2,569,9800 | 91,192 | 4% |

See Accompanying Independent Auditor's Report.

Schedule 8

**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, | | | |
|---|---|---|---|---|
| | 2008 | 2006 | Amount of Change | Percentage of Change |
| Operating Revenues: | | | | |
| Water Sales – Metered | $ 245,792 | 233,084 | 12,708 | 5% |
| Water Sales – Rural Water System | 226,706 | 166,031 | 60,675 | 37% |
| Water Sales – Tank Loads | 1,115 | 1,211 | ( 96) | ( 8%) |
| Material and Service Sales | 5,703 | 6 | 5,697 | 94,950% |
| Service Income | 690 | 650 | 40 | 6% |
| Service Income (Related Party) | 1,767 | 1,767 | 0 | 0% |
| Total Operating Revenues | 481,77 | 402,749 | 79,024 | 20% |
| Operating Expenses: | | | | |
| Production/Processing Expense | 88,605 | 89,133 | ( 528) | ( 1%) |
| Distribution Expense | 66,082 | 48,655 | 17,427 | 36% |
| Accounting and Collecting | 15,182 | 15,823 | ( 641) | ( 4%) |
| Administrative and General | 100,948 | 82,728 | 18,220 | 22% |
| Free Community Service (Related Party) | 1,000 | 818 | 182 | 22% |
| Free Community Service | 2,200 | 0 | 2,200 | N/A |
| Transportation | 3,053 | 3,093 | ( 40) | ( 1%) |
| Depreciation | 92,570 | 91,121 | 1,449 | 2% |
| Payroll Taxes | 15,646 | 14,658 | 988 | 7% |
| Total Operating Expenses | 385,286 | 346,029 | 39,257 | 11% |
| Operating Income | 96,487 | 56,720 | 39,767 | 70% |
| Nonoperating Revenues (Expenses): | | | | |
| Rentals | 5,680 | 5,660 | 20 | 0% |
| Customer Penalties | 110 | 107 | 3 | 3% |
| Miscellaneous Income | 0 | 270 | ( 270) | ( 100%) |
| Interest Income | 22,570 | 13,795 | 8,775 | 64% |
| Interest Expense (Gas Fund) | ( 33,655) | ( 7,460) | ( 26,195) | 351% |
| Net Nonoperating Revenues (Expenses) | ( 5,295) | 12,372 | ( 17,667) | ( 143%) |
| Change in Net Assets | 91,192 | 69,092 | 22,100 | 32% |
| Net Assets Beginning of Year | 2,569,980 | 2,442,519 | 127,461 | 5% |
| Net Assets End of Year | $ 2,661,172 | 2,511,611 | 149,561 | 6% |

See Accompanying Independent Auditor's Report.

Schedule 9

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

| | June 30, 2008 | June 30, 2007 | Amount of Change | Percentage of Change |
|---|---|---|---|---|
| **Assets** | | | | |
| Current Assets: | | | | |
| Cash | $ 153,948 | 94,169 | 59,779 | 63% |
| Certificates of Deposit | 0 | 20,000 | ( 20,000) | ( 100%) |
| Accounts Receivable | 22,976 | 25,464 | ( 2,488) | ( 10%) |
| Due From Other Governments (Related Party) | 208 | 279 | ( 71) | ( 25%) |
| Due From Other Governments | 12,846 | 553 | 12,293 | 2,223% |
| Interest Receivable | 85 | 1,238 | ( 1,153) | ( 93%) |
| Prepaid Insurance | 8,868 | 9,857 | ( 989) | ( 10%) |
| Total Current Assets | 198,931 | 151,5600 | 47,371 | 31% |
| Restricted Cash: | | | | |
| Depreciation Reserves | 73,755 | 62,989 | 10,766 | 17% |
| Capital Assets: | | | | |
| Utility Plant | 2,008,624 | 2,008,624 | 0 | 0% |
| 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% |
| Total Capital Assets (Before W.I.P.) | 2,077,411 | 2,077,411 | 0 | 0% |
| Less: Accumulated Depreciation | ( 1,319,379) | ( 1,284,315) | ( 35,064) | 3% |
| Capital Assets - Net (Before W.I.P.) | 758,032 | 793,096 | ( 35,064) | ( 4%) |
| Construction Work in Progress | 21,317 | 0 | 21,317 | N/A |
| Net Capital Assets | 779,349 | 793,096 | ( 13,747) | ( 2%) |
| **Total Assets** | 1,052,035 | 1,007,645 | 44,390 | 4% |

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

| | June 30, 2008 | June 30, 2007 | Amount of Change | Percentage of Change |
|---|---|---|---|---|
| **Liabilities** | | | | |
| Current Liabilities (Payable From Current Assets): | | | | |
| Accounts Payable | 2,423 | 7,326 | ( 4,903) | ( 67%) |
| Due to Other Fund | 13,401 | 12,769 | 632 | 5% |
| Due To Other Governments | 236 | 218 | 18 | 8% |
| Accrued Vacation and Sick Pay | 5,137 | 3,725 | 1,412 | 38% |
| Accrued Payroll & Payroll Liabilities | 766 | 792 | ( 26) | ( 3%) |
| Total Current Liabilities (Payable From Current Assets) | 21,963 | 24,830 | ( 2,867) | ( 12%) |
| Long Term Debt: | | | | |
| Advance From Other Fund | 108,860 | 122,213 | ( 13,353) | ( 11%) |
| **Total Liabilities** | 130,823 | 147,043 | ( 16,220) | ( 11%) |
| **Net Assets** | | | | |
| Invested in Capital Assets, Net of Related Debt | 657,136 | 658,167 | ( 1,031) | 0% |
| Restricted for: | | | | |
| Depreciation Reserves | 73,755 | 62,989 | 10,766 | 17% |
| Unrestricted | 190,321 | 139,446 | 50,875 | 36% |
| **Total Net Assets** | $ 921,212 | 860,602 | 60,610 | 7% |

See Accompanying Independent Auditor's Report.

Schedule 10

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

| | June 30, 2008 | June 30, 2006 | Amount of Change | Percentage of Change |
|---|---|---|---|---|
| **Assets** | | | | |
| Current Assets: | | | | |
| Cash | $ 153,948 | 250,798 | ( 96,850) | ( 39%) |
| Certificates of Deposit | 0 | 90,500 | ( 90,500) | ( 100%) |
| Accounts Receivable | 22,976 | 19,776 | 3,200 | 16% |
| Due From Other Governments (Related Party) | 208 | 131 | 77 | 59% |
| Due From Other Governments | 12,846 | 428 | 12,418 | 2901% |
| Interest Receivable | 85 | 2,899 | ( 2,814) | ( 97%) |
| Prepaid Insurance | 8,868 | 8,148 | 720 | 9% |
| Total Current Assets | 198,931 | 372,680 | ( 173,749) | ( 47%) |
| Restricted Cash and Certificates of Deposit: | | | | |
| Depreciation Reserves (Cash) | 73,755 | 1,482 | 72,273 | 4,877% |
| Depreciation Reserves (Certificates of Deposit) | 0 | 59,500 | ( 59,500) | ( 100%) |
| Total Restricted Cash and Certificates of Deposit | 73,755 | 60,982 | 12,773 | 21% |
| 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% |
| Total Capital Assets (Before W.I.P.) | 2,077,411 | 1,927,342 | 150,069 | 8% |
| Less: Accumulated Depreciation | ( 1,319,379) | ( 1,250,948) | ( 68,431) | 5% |
| Capital Assets - Net (Before W.I.P.) | 758,032 | 676,394 | 81,638 | 12% |
| Construction Work in Progress | 21,317 | 0 | 21,317 | N/A |
| Net Capital Assets | 779,349 | 676,394 | 102,955 | 15% |
| **Total Assets** | 1,052,035 | 1,110,056 | ( 58,021) | ( 5%) |

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

| | June 30, 2008 | June 30, 2006 | Amount of Change | Percentage of Change |
|---|---|---|---|---|
| **Liabilities** | | | | |
| Current Liabilities (Payable From Current Assets): | | | | |
| Accounts Payable | 2,423 | 2,871 | ( 448) | ( 16%) |
| Due to Other Fund | 13,401 | 12,198 | 1,203 | 10% |
| Due To Other Governments | 236 | 205 | 31 | 15% |
| Accrued Vacation and Sick Pay | 5,137 | 4,120 | 1,017 | 25% |
| Accrued Payroll & Payroll Liabilities | 7660 | 621 | 145 | 23% |
| Flex Spending Payable | 0 | 40 | ( 40) | ( 100%) |
| Total Current Liabilities (Payable From Current Assets) | 21,963 | 20,055 | 1,908 | 10% |
| Long Term Debt: | | | | |
| Advance From Other Fund | 108,860 | 134,929 | ( 26,069) | ( 19%) |
| **Total Liabilities** | 130,823 | 154,984 | ( 24,161) | ( 16%) |
| **Net Assets** | | | | |
| Invested in Capital Assets, Net of Related Debt | 657,136 | 529,325 | 127,811 | 24% |
| Restricted for: | | | | |
| Depreciation Reserves | 73,755 | 60,982 | 12,773 | 21% |
| Unrestricted | 190,321 | 364,765 | ( 174,444) | ( 48%) |
| **Total Net Assets** | $ 921,212 | 955,072 | ( 33,860) | ( 4%) |

See Accompanying Independent Auditor's Report.

Schedule 11

**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, | | | |
|---|---|---|---|---|
| | 2008 | 2007 | Amount of Change | Percentage of Change |
| Operating Revenues: | | | | |
| Sewer Service | $ 241,767 | 202,306 | 39,461 | 20% |
| Service Income (Related Party) | 883 | 883 | 0 | 0% |
| Total Operating Revenues | 242,650 | 203,189 | 39,461 | 19% |
| Operating Expenses: | | | | |
| Production/Processing Expense | 101,917 | 114,428 | ( 12,511) | ( 11%) |
| Accounting and Collecting | 5,795 | 6,266 | ( 471) | ( 8%) |
| Administrative and General | 39,705 | 36,241 | 3,464 | 10% |
| Free Community Service (Related Party) | 6,383 | 7,367 | ( 984) | ( 13%) |
| Transportation | 526 | 1,072 | ( 546) | ( 51%) |
| Depreciation | 35,064 | 33,367 | 1,697 | 5% |
| Payroll Taxes | 8,708 | 8,370 | 338 | 4% |
| Total Operating Expenses | 198,098 | 207,111 | ( 9,013) | ( 4%) |
| Operating Income (Loss) | 44,552 | ( 3,922) | 48,474 | ( 1,236%) |
| Nonoperating Revenues (Expenses): | | | | |
| Gain on Sale of Capital Assets | 2,200 | 0 | 2,200 | N/A |
| Customer Penalties | 133 | 93 | 40 | 43% |
| Interest Income | 7,661 | 16,115 | ( 8,454) | ( 52%) |
| Interest Expense (Gas Fund) | ( 6,180) | ( 6,756) | 576 | ( 9%) |
| Net Nonoperating Revenues (Expenses) | 3,814 | 9,452 | ( 5,638) | ( 60%) |
| Net Income Before Special Items | 48,366 | 5,530 | 42,836 | 775% |
| Special Items: | | | | |
| WTFAP Grant | 12,244 | 0 | 12,244 | N/A |
| Free Community Service (Related Party) | 0 | ( 100,000) | 100,000 | ( 100%) |
| Total Special Items | 12,244 | ( 100,000) | 112,244 | ( 112%) |
| Net Income (Loss) After Special Item | 60,610 | ( 94,470) | 155,080 | ( 164%) |
| Net Assets Beginning of Year | 860,602 | 955,072 | ( 94,470) | ( 10%) |
| Net Assets End of Year | $ 921,212 | 860,602 | 60,610 | 7% |

See Accompanying Independent Auditor's Report.

Schedule 12

**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, | | | |
|---|---|---|---|---|
| | 2008 | 2006 | Amount of Change | Percentage of Change |
| Operating Revenues: | | | | |
| Sewer Service | $ 241,767 | 183,486 | 58,281 | 32% |
| Service Income (Related Party) | 883 | 883 | 0 | 0% |
| Total Operating Revenues | 242,650 | 184,369 | 58,281 | 32% |
| Operating Expenses: | | | | |
| Production/Processing Expense | 101,917 | 106,407 | ( 4,490) | ( 4%) |
| Accounting and Collecting | 5,795 | 5,294 | 501 | 9% |
| Administrative and General | 39,705 | 32,840 | 6,865 | 21% |
| Free Community Service (Related Party) | 6,383 | 7,643 | ( 1,260) | ( 16%) |
| Transportation | 526 | 1,770 | ( 1,244) | ( 70%) |
| Depreciation | 35,064 | 28,153 | 6,911 | 25% |
| Payroll Taxes | 8,708 | 8,677 | 31 | 0% |
| Total Operating Expenses | 198,098 | 190,784 | 7,314 | 4% |
| Operating Income (Loss) | 44,552 | ( 6,415) | 50,967 | ( 794%) |
| Nonoperating Revenues (Expenses): | | | | |
| Gain on Sale of Capital Assets | 2,200 | 0 | 2,200 | N/A |
| Customer Penalties | 133 | 84 | 49 | 58% |
| Interest Income | 7,661 | 12,373 | ( 4,712) | ( 38%) |
| Interest Expense (Gas Fund) | ( 6,180) | ( 1,851) | ( 4,329) | 234% |
| Net Nonoperating Revenues (Expenses) | 3,814 | 10,606 | ( 6,792) | ( 64%) |
| Net Income Before Special Item | 48,366 | 4,191 | 44,175 | 1,054% |
| Special Item: | | | | |
| WTFAP Grant | 12,244 | 0 | 12,244 | N/A |
| Net Income After Special Item | 60,610 | 4,191 | 56,419 | 1,346% |
| Net Assets Beginning of Year | 860,602 | 950,881 | ( 90,279) | ( 9%) |
| Net Assets End of Year | $ 921,212 | 955,072 | ( 33,860) | ( 4%) |

See Accompanying Independent Auditor's Report.

Schedule 13

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

| | June 30, 2008 | June 30, 2007 | Amount of Change | Percentage of Change |
|---|---|---|---|---|
| **Assets** | | | | |
| Current Assets: | | | | |
| Cash | $ 452,592 | 940,715 | ( 488,123) | ( 52%) |
| Certificates of Deposit | 2,145,000 | 1,650,000 | 495,000 | 30% |
| Accounts Receivable | 92,238 | 70,164 | 22,074 | 31% |
| Due From Other Funds | 61,776 | 60,102 | 1,674 | 3% |
| Due From Other Governments (Related Party) | 3,899 | 3,697 | 202 | 5% |
| Due From Other Governments | 7,546 | 6,011 | 1,535 | 26% |
| Interest Receivable | 31,323 | 28,688 | 2,635 | 9% |
| Inventory | 46,511 | 50,986 | ( 4,475) | ( 9%) |
| Prepaid Insurance | 9,033 | 9,676 | ( 643) | ( 7%) |
| Notes Receivable – Rock Rapids Development Corporation | 0 | 12,500 | ( 12,500) | ( 100%) |
| Total Current Assets | 2,849,918 | 2,832,539 | 17,379 | 1% |
| Restricted Cash: | | | | |
| Customer Deposits | 26,790 | 27,714 | ( 924) | ( 3%) |
| Capital Assets: | | | | |
| Land | 18,777 | 18,777 | 0 | 0% |
| Utility Plant | 1,008,596 | 991,890 | 16,706 | 2% |
| Transportation Equipment | 61,940 | 61,102 | 408 | 1% |
| Office Equipment | 17,904 | 17,904 | 0 | 0% |
| Tools and Safety Devices | 72,416 | 71,259 | 1,157 | 2% |
| Total Capital Assets | 1,179,633 | 1,161,362 | 18,271 | 2% |
| Less: Accumulated Depreciation | ( 539,666) | ( 520,466) | ( 19,200) | 4% |
| Net Capital Assets | 639,967 | 640,896 | ( 929) | 0% |
| Other Assets: | | | | |
| Advances To Other Funds | 808,287 | 858,984 | ( 50,697) | ( 6%) |
| **Total Assets** | 4,324,962 | 4,360,133 | ( 35,171) | ( 1%) |

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

| | June 30, | | | |
|---|---|---|---|---|
| **Liabilities** | 2008 | 2007 | Amount of Change | Percentage of Change |
| Current Liabilities (Payable From Current Assets): | | | | |
| Accounts Payable | 1,306 | 1,431 | ( 125) | ( 9%) |
| Due To Other Governments | 2,418 | 1,266 | 1,152 | 91% |
| Due To Other Governments (Related Party) | 18,022 | 19,125 | ( 1,103) | ( 6%) |
| Accrued Vacation and Sick Pay | 18,335 | 15,543 | 2,792 | 18% |
| Accrued Payroll & Payroll Liabilities | 1,641 | 2,224 | ( 583) | ( 26%) |
| Unearned Income | 669 | 1,099 | ( 430) | ( 39%) |
| Total Current Liabilities (Payable From Current Assets) | 42,391 | 40,688 | 1,703 | 4% |
| Liabilities Payable From Restricted Cash: | | | | |
| Customer Deposits | 26,790 | 27,714 | ( 924) | ( 3%) |
| **Total Liabilities** | 69,181 | 68,402 | 779 | 1% |
| **Net Assets** | | | | |
| Invested in Capital Assets, Net of Related Debt | 639,967 | 640,896 | ( 929) | 0% |
| Unrestricted | 3,615,814 | 3,650,835 | ( 35,021) | ( 1%) |
| **Total Net Assets** | $ 4,255,781 | 4,291,731 | ( 35,950) | ( 1%) |

See Accompanying Independent Auditor's Report.

Schedule 14

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

| | June 30, 2008 | June 30, 2006 | Amount of Change | Percentage of Change |
|---|---|---|---|---|
| **Assets** | | | | |
| Current Assets: | | | | |
| Cash | $ 452,592 | 1,126,284 | ( 673,692) | ( 60%) |
| Certificates of Deposit | 2,145,000 | 461,000 | 1,684,000 | 365% |
| Accounts Receivable | 92,238 | 76,408 | 15,830 | 21% |
| Due From Other Funds | 61,776 | 37,385 | 24,391 | 65% |
| Due From Other Governments (Related Party) | 3,899 | 1,339 | 2,560 | 191% |
| Due From Other Governments | 7,546 | 841 | 6,705 | 797% |
| Interest Receivable | 31,323 | 10,817 | 20,506 | 190% |
| Inventory | 46,511 | 49,796 | ( 3,285) | ( 7%) |
| Prepaid Insurance | 9,033 | 9,599 | ( 566) | ( 6%) |
| Total Current Assets | 2,849,918 | 1,773,469 | 1,076,449 | 61% |
| Restricted Cash: | | | | |
| Customer Deposits | 26,790 | 38,246 | ( 11,456) | ( 30%) |
| Capital Assets: | | | | |
| Land | 18,777 | 18,777 | 0 | 0% |
| Utility Plant | 1,008,596 | 991,890 | 16,706 | 2% |
| Transportation Equipment | 61,940 | 52,298 | 9,642 | 18% |
| Office Equipment | 17,904 | 17,904 | 0 | 0% |
| Tools and Safety Devices | 72,416 | 71,259 | 1,157 | 2% |
| Total Capital Assets | 1,179,633 | 1,152,128 | 27,505 | 2% |
| Less: Accumulated Depreciation | ( 539,666) | ( 481,012) | ( 58,654) | 12% |
| Net Capital Assets | 639,967 | 671,116 | ( 31,149) | ( 5%) |
| Other Assets: | | | | |
| Notes Receivable – Rock Rapids Development Corporation (Noncurrent Portion) | 0 | 12,500 | ( 12,500) | ( 100%) |
| Advances To Other Funds | 808,287 | 517,202 | 291,085 | 56% |
| Total Other Assets | 808,287 | 529,702 | 278,585 | 53% |
| **Total Assets** | 4,324,962 | 3,012,533 | 1,312,429 | 44% |

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

| | June 30, | | | |
|---|---|---|---|---|
| **Liabilities** | 2008 | 2006 | Amount of Change | Percentage of Change |
| Current Liabilities (Payable From Current Assets): | | | | |
| Accounts Payable | 1,306 | 3,531 | ( 2,225) | ( 63%) |
| Due To Other Governments | 2,418 | 2,270 | 148 | 7% |
| Due To Other Governments (Related Party) | 18,022 | 2,100 | 15,922 | 758% |
| Accrued Vacation and Sick Pay | 18,335 | 15,492 | 2,843 | 18% |
| Accrued Payroll & Payroll Liabilities | 1,641 | 1,665 | ( 24) | ( 1%) |
| Flex Spending Payable | 0 | 279 | ( 279) | ( 100%) |
| Unearned Income | 669 | 9,798 | ( 9,129) | ( 93%) |
| Total Current Liabilities (Payable From Current Assets) | 42,391 | 35,135 | 7,256 | 21% |
| Liabilities Payable From Restricted Cash: | | | | |
| Customer Deposits | 26,790 | 38,246 | ( 11,456) | ( 30%) |
| **Total Liabilities** | 69,181 | 73,381 | ( 4,200) | ( 6%) |
| **Net Assets** | | | | |
| Invested in Capital Assets, Net of Related Debt | 639,967 | 671,116 | ( 31,149) | ( 5%) |
| Unrestricted | 3,615,814 | 2,268,036 | 1,347,778 | 59% |
| **Total Net Assets** | $ 4,255,781 | 2,939,152 | 1,316,629 | 45% |

See Accompanying Independent Auditor's Report.

Schedule 15

**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, 2008 | 2007 | Amount of Change | Percentage of Change |
|---|---|---|---|---|
| Operating Revenues: | | | | |
| Residential Sales | $ 1,508,379 | 1,558,864 | ( 50,485) | ( 3%) |
| Commercial Sales | 3,605 | 21,815 | ( 18,210) | ( 83%) |
| Material and Service Sales | 1,554 | 141 | 1,413 | 1,002% |
| Service Income | 1,137 | 484 | 653 | 135% |
| Service Income (Related Party) | 3,091 0 | 3,091 | 0 | 0% |
| Total Operating Revenues | 1,517,766 | 1,584,395 | ( 66,629) | ( 4%) |
| Operating Expenses: | | | | |
| Production/Processing Expense | 1,344,428 | 1,289,898 | 54,530 | 4% |
| Distribution Expense | 90,720 | 83,756 | 6,964 | 8% |
| Accounting and Collecting | 27,983 | 28,769 | ( 786) | ( 3%) |
| Administrative and General | 133,754 | 129,958 | 3,796 | 3% |
| Free Community Service (Related Party) | 44,500 | 26,265 | 18,235 | 69% |
| Free Community Service | 22,400 | 10,933 | 11,467 | 105% |
| Transportation | 4,615 | 3,952 | 663 | 17% |
| Depreciation | 38,763 | 39,454 | ( 691) | ( 2%) |
| Payroll Taxes | 18,299 | 16,702 | 1,597 | 10% |
| Total Operating Expenses | 1,725,462 | 1,629,687 | 95,775 | 6% |
| Operating Loss | ( 207,696) | ( 45,292) | ( 162,404) | 359% |
| Nonoperating Revenues (Expenses): | | | | |
| Equity Distributions - NPGA (Related Party) | 0 | 1,262,882 | ( 1,262,882) | ( 100%) |
| Gain on Sale of Capital Assets | 5,500 | 700 | 4,800 | 686% |
| Customer Penalties | 1,484 | 1,749 | ( 265) | ( 15%) |
| Gas Rate Case Settlement | 2,481 | 2,518 | ( 37) | ( 1%) |
| Interest Income | 123,876 | 102,980 | 20,896 | 20% |
| Interest Income (Water, Sewer Funds) | 39,835 | 28,550 | 11,285 | 40% |
| Interest Expense | ( 1,430) | ( 1,508) | 78 | ( 5%) |
| Net Nonoperating Revenues (Expenses) | 171,746 | 1,397,871 | ( 1,226,125) | ( 88%) |
| Change in Net Assets | ( 35,950) | 1,352,579 | ( 1,388,529) | ( 103%) |
| Net Assets Beginning of Year | 4,291,731 | 2,939,152 | 1,352,579 | 46% |
| Net Assets End of Year | $ 4,255,781 | 4,291,731 | ( 35,950) | ( 1%) |

See Accompanying Independent Auditor's Report.

Schedule 16

**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, | | | |
|---|---|---|---|---|
| | 2008 | 2006 | Amount of Change | Percentage of Change |
| Operating Revenues: | | | | |
| Residential Sales | $ 1,508,379 | 1,533,966 | ( 25,587) | ( 2%) |
| Commercial Sales | 3,605 | 45,608 | ( 42,003) | ( 92%) |
| Material and Service Sales | 1,554 | 45 | 1,509 | 3,353% |
| Service Income | 1,137 | 546 | 591 | 108% |
| Service Income (Related Party) | 3,091 | 3,091 | 0 | 0% |
| Total Operating Revenues | 1,517,766 | 1,583,256 | ( 65,490) | ( 4%) |
| Operating Expenses: | | | | |
| Production/Processing Expense | 1,344,428 | 1,394,385 | ( 49,957) | ( 4%) |
| Distribution Expense | 90,720 | 92,145 | ( 1,425) | ( 2%) |
| Accounting and Collecting | 27,983 | 26,606 | 1,377 | 5% |
| Administrative and General | 133,754 | 125,626 | 8,128 | 6% |
| Free Community Service (Related Party) | 44,500 | 14,680 | 29,820 | 203% |
| Free Community Service | 22,400 | 0 | 22,400 | N/A |
| Transportation | 4,615 | 3,797 | 818 | 22% |
| Depreciation | 38,763 | 38,209 | 554 | 1% |
| Payroll Taxes | 18,299 | 17,682 | 617 | 3% |
| Total Operating Expenses | 1,725,462 | 1,713,130 | 12,332 | 1% |
| Operating Loss | ( 207,696) | ( 129,874) | ( 77,822) | 60% |
| Nonoperating Revenues (Expenses): | | | | |
| Equity Distributions - NPGA (Related Party) | 0 | 1,395,805 | ( 1,395,805) | ( 100%) |
| Gain on Sale of Capital Assets | 5,500 | 7,500 | ( 2,000) | ( 27%) |
| Customer Penalties | 1,484 | 1,606 | ( 122) | ( 8%) |
| Gas Rate Case Settlement | 2,481 | 3,870 | ( 1,389) | ( 36%) |
| Interest Income | 123,876 | 45,771 | 78,105 | 171% |
| Interest Income (Water, Sewer Funds) | 39,835 | 9,311 | 30,524 | 328% |
| Interest Expense | ( 1,430) | ( 1,057) | ( 373) | 35% |
| Net Nonoperating Revenues (Expenses) | 171,746 | 1,462,806 | ( 1,291,060) | ( 88%) |
| Change in Net Assets | ( 35,950) | 1,332,932 | ( 1,368,882) | ( 103%) |
| Net Assets Beginning of Year | 4,291,731 | 1,606,220 | 2,685,511 | 167% |
| Net Assets End of Year | $ 4,255,781 | 2,939,152 | 1,316,629 | 45% |

See Accompanying Independent Auditor's Report.

Schedule 17

**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, 2008 | June 30, 2007 | Amount of Change | Percentage of Change |
|---|---|---|---|---|
| **Assets** | | | | |
| Current Assets: | | | | |
| Cash | $ 20,768 | 23,625 | ( 2,857) | ( 12%) |
| Accounts Receivable | 6,537 | 7,246 | ( 709) | ( 10%) |
| Due From Other Governments (Related Party) | 108 | 108 | 0 | 0% |
| Due From Other Governments | 36 | 380 | ( 344) | ( 91%) |
| Interest Receivable | 0 | 82 | ( 82) | ( 100%) |
| Inventory | 3,913 | 3,539 | 374 | 11% |
| Prepaid Insurance | 62 | 70 | ( 8) | ( 11%) |
| Total Current Assets | 31,424 | 35,050 | ( 3,626) | ( 10%) |
| Restricted Cash: | | | | |
| Customer Deposits | 936 | 3,072 | ( 2,136) | ( 70%) |
| Capital Assets: | | | | |
| Office Equipment | 513 | 513 | 0 | 0% |
| Communication Equipment | 149,043 | 143,452 | 5,591 | 4% |
| Total Capital Assets (Before W.I.P) | 149,556 | 143,965 | 5,591 | 4% |
| Less: Accumulated Depreciation | ( 136,828) | ( 129,169) | ( 7,659) | 6% |
| Net Capital Assets | 12,728 | 14,796 | ( 2,068) | ( 14%) |
| **Total Assets** | 45,088 | 52,918 | ( 7,830) | ( 15%) |
| **Liabilities** | | | | |
| Current Liabilities (Payable From Current Assets): | | | | |
| Accounts Payable | 4,229 | 9,526 | ( 5,297) | ( 56%) |
| Accrued Vacation and Sick Pay | 1,014 | 782 | 232 | 30% |
| Accrued Payroll & Payroll Liabilities | 88 | 152 | ( 64) | ( 42%) |
| Total Current Liabilities (Payable From Current Assets) | 5,331 | 10,460 | ( 5,129) | ( 49%) |
| Liabilities Payable From Restricted Cash: | | | | |
| Customer Deposits | 936 | 3,072 | ( 2,136) | ( 70%) |
| **Total Liabilities** | 6,267 | 13,532 | ( 7,265) | ( 54%) |
| **Net Assets** | | | | |
| Invested in Capital Assets, Net of Related Debt | 12,728 | 14,796 | ( 2,068) | ( 14%) |
| Unrestricted | 26,093 | 24,590 | 1,503 | 6% |
| **Total Net Assets** | $ 38,821 | 39,386 | ( 565) | ( 1%) |

See Accompanying Independent Auditor's Report.

Schedule 18

**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, 2008 | June 30, 2006 | Amount of Change | Percentage of Change |
|---|---|---|---|---|
| **Assets** | | | | |
| Current Assets: | | | | |
| Cash | $ 20,768 | 15,990 | 4,778 | 30% |
| Accounts Receivable | 6,537 | 6,219 | 318 | 5% |
| Due From Other Governments (Related Party) | 108 | 108 | 0 | 0% |
| Due From Other Governments | 36 | 107 | ( 71) | ( 66%) |
| Interest Receivable | 0 | 74 | ( 74) | ( 100%) |
| Inventory | 3,913 | 7,128 | ( 3,215) | ( 45%) |
| Prepaid Insurance | 62 | 82 | ( 20) | ( 24%) |
| Total Current Assets | 31,424 | 29,708 | 1,716 | 6% |
| Restricted Cash: | | | | |
| Customer Deposits | 936 | 2,331 | ( 1,395) | ( 60%) |
| Capital Assets: | | | | |
| Office Equipment | 513 | 513 | 0 | 0% |
| Communication Equipment | 149,043 | 143,452 | 5,591 | 4% |
| Total Capital Assets (Before W.I.P) | 149,556 | 143,965 | 5,591 | 4% |
| Less: Accumulated Depreciation | ( 136,828) | ( 107,600) | ( 29,228) | 27% |
| Net Capital Assets | 12,728 | 36,365 | ( 23,637) | ( 65%) |
| **Total Assets** | 45,088 | 68,404 | ( 23,316) | ( 34%) |
| **Liabilities** | | | | |
| Current Liabilities (Payable From Current Assets): | | | | |
| Accounts Payable | 4,229 | 4,204 | 25 | 1% |
| Accrued Vacation and Sick Pay | 1,014 | 0 | 1,014 | N/A |
| Accrued Payroll & Payroll Liabilities | 88 | 95 | ( 7) | ( 7%) |
| Flex Spending Payable | 0 | 40 | ( 40) | ( 100%) |
| Total Current Liabilities (Payable From Current Assets) | 5,331 | 4,339 | 992 | 23% |
| Liabilities Payable From Restricted Cash: | | | | |
| Customer Deposits | 936 | 2,331 | ( 1,395) | ( 60%) |
| **Total Liabilities** | 6,267 | 6,670 | ( 403) | ( 6%) |
| **Net Assets** | | | | |
| Invested in Capital Assets, Net of Related Debt | 12,728 | 36,365 | ( 23,637) | ( 65%) |
| Unrestricted | 26,093 | 25,369 | 724 | 3% |
| **Total Net Assets** | $ 38,821 | 61,734 | ( 22,913) | ( 37%) |

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, | | | |
|---|---|---|---|---|
| | 2008 | 2007 | Amount of Change | Percentage of Change |
| Operating Revenues: | | | | |
| Residential Sales | $ 90,527 | 80,336 | 10,191 | 13% |
| Operating Expenses: | | | | |
| Production/Processing Expense | 44,220 | 37,960 | 6,260 | 16% |
| Distribution Expense | 23,460 | 26,265 | (2,805) | (11%) |
| Accounting and Collecting | 3,920 | 4,095 | (175) | (4%) |
| Administrative and General | 10,779 | 12,542 | (1,763) | (14%) |
| Depreciation | 7,659 | 21,569 | (13,910) | (64%) |
| Payroll Taxes | 1,277 | 1,238 | 39 | 3% |
| Total Operating Expenses | 91,315 | 103,669 | (12,354) | (12%) |
| Operating Loss | (788) | (23,333) | 22,545 | (97%) |
| Nonoperating Revenues (Expenses): | | | | |
| Customer Penalties | 53 | 40 | 13 | 33% |
| Interest Income | 321 | 1,037 | (716) | (69%) |
| Interest Expense | (151) | (92) | (59) | 64% |
| Net Nonoperating Revenues (Expenses) | 223 | 985 | (762) | 77% |
| Change in Net Assets | (565) | (22,348) | 21,783 | (97%) |
| Net Assets Beginning of Year | 39,386 | 61,734 | (22,348) | (36%) |
| Net Assets End of Year | $ 38,821 | 39,386 | (565) | (1%) |

See Accompanying Independent Auditor's Report.

Schedule 20

**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, | | | |
|---|---|---|---|---|
| | 2008 | 2006 | Amount of Change | Percentage of Change |
| Operating Revenues: | | | | |
| Residential Sales | $ 90,527 | 74,349 | 16,178 | 22% |
| Service Income | 0 | 8 | ( 8) | ( 100%) |
| Total Operating Revenues | 90,527 | 74,357 | 16,170 | 22% |
| Operating Expenses: | | | | |
| Production/Processing Expense | 44,220 | 34,950 | 9,270 | 27% |
| Distribution Expense | 23,460 | 13,113 | 10,347 | 79% |
| Accounting and Collecting | 3,920 | 4,081 | ( 161) | ( 4%) |
| Administrative and General | 10,779 | 9,735 | 1,044 | 11% |
| Depreciation | 7,659 | 28,087 | ( 20,428) | ( 73%) |
| Payroll Taxes | 1,277 | 1,394 | ( 117) | ( 8%) |
| Total Operating Expenses | 91,315 | 91,360 | ( 45) | 0% |
| Operating Loss | ( 788) | ( 17,003) | 16,215 | ( 95%) |
| Nonoperating Revenues (Expenses): | | | | |
| Customer Penalties | 53 | 23 | 30 | 130% |
| Interest Income | 321 | 437 | ( 116) | ( 27%) |
| Interest Expense | ( 151) | ( 59) | ( 92) | 156% |
| Net Nonoperating Revenues (Expenses) | 223 | 401 | ( 178) | ( 44%) |
| Change in Net Assets | ( 565) | ( 16,602) | 16,037 | ( 97%) |
| Net Assets Beginning of Year | 39,386 | 78,336 | ( 38,950) | ( 50%) |
| Net Assets End of Year | $ 38,821 | 61,734 | ( 22,913) | ( 37%) |

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***

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## 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, 2008, which collectively comprise the Utilities' basic financial statements listed in the table of contents, and have issued our report thereon dated January 21, 2009. 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, including 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 08-A, B, D, G and H 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, 2008 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, including any grantor entities. 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

De Noble & Company PC
Certified Public Accountants

January 21, 2009

**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, 2008

## Findings Related to the Financial Statements:

### SIGNIFICANT DEFICIENCIES:

08-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 assets and various aspects of 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.

08-B Job Rotations – Financial personnel's duties are not always rotated for a period of time each fiscal year.

Recommendation – The Utilities should consider having each person's duties done by another employee for a period of time each fiscal year. Employees should be cross-trained to be able to perform a fellow employee's duties. This is important in case an employee unexpectedly becomes unavailable for an extended period of time.

Response – We have cross-trained our employees. We will work on having employees rotate duties for a period of time each fiscal year.

Conclusion – Response accepted.

08-C Payroll Procedures – We noted a few instances where there was no absentee slip approved by the employee's supervisor for compensated absence time payment. The utility coordinator's compensatory time off availability that is earned is not being formally tracked.

Recommendation – Absentee slips should be completed and approved by an employee's supervisor for all compensated absences before payment is authorized. The utility coordinator's compensatory time off earned should be documented in writing. 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.

Conclusion – Response accepted. Please address these payroll issues.

08-D Financial Reporting – During the audit, we identified material amounts of assets, liabilities, net assets, revenues and expenses not recorded properly in the Utilities' financial statements and disclosures not properly being reported on in the Utilities' notes to the financial statements. Adjustments/disclosure changes were subsequently made by the Utilities to properly include these amounts and disclosures in the financial statements and notes.

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

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

Conclusion – Response accepted.

08-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.

Response – We will attempt to start working on marking capital assets for identification purposes.

Conclusion – Response accepted. Please attempt to work on this issue.

08-F Dual Check Signers – We noted at least one instance when a check did not have dual signatures.

Recommendation – The Utilities should review its check signing procedures to determine if a control can be established to help prevent a check being issued without dual signatures.

Response – We will review our check signing procedures and take appropriate steps to help ensure all checks have dual signatures.

Conclusion – Response accepted.

08-G Inventory Records – The Utilities is not consistently following inventory procedures. 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 developing new inventory procedures that we will be implementing consistently. This will help improve our detailed inventory records.

Conclusion – Response accepted.

08-H Bank Signature Cards – The Utilities needs to remove from the authorized signers' list at one bank an individual who is no longer authorized to make disbursements. The Utilities needs to get the bank account updated to include only all properly authorized signers.

Recommendation – The Utilities needs to correct the authorized bank accounts signers' list to allow only all eligible current officials to make transactions. Procedures need to be established to ensure that an individual who is no longer authorized to make financial transactions is immediately removed from all authorized signers' lists and that any new individuals are properly authorized to do so on the signers' lists.

Response – We will implement this recommendation.

Conclusion – Response accepted.

**Rock Rapids Municipal Utilities**
**A Component Unit of the City of Rock Rapids**
Schedule of Findings
Year Ended June 30, 2008

## 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, 2008

## Other Findings Related to Required Statutory Reporting:

08-1 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, 2008 did not exceed the amount budgeted for the Rock Rapids Municipal Utilities in the business type activities function.

08-2 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 incurred some over the limit credit card fees.

The Utilities purchased some meals for a Board of Trustees meeting and bought a couple gifts for an employee who was hospitalized twice.

The Utilities reimbursed an employee for mileage where there was no supporting documentation as to the date, destination or business purpose.

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 (example: a written food, gifts and sustenance purchases policy should be adopted by the Board of Trustees) and procedures, including the requirement for proper documentation.

Response – We will work on implementing your recommendations. We will adopt a written food, gifts and sustenance purchases policy.

Conclusion – Response accepted.

08-3 Travel Expense – No expenses of Utilities money for travel expenses of spouses of Utilities officials or employees were noted.

08-4 Business Transactions – No business transactions between the Utilities and Utilities officials or employees were noted.

08-5 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 the coverage is adequate for current operations.

08-6 Board Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not, except as noted here. The Board never approved in the minutes changing the personnel policy to state 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) or that an employee who terminates employment is no longer limited to a maximum pay out amount of $2,500 in accumulated vested unused allowable sick leave benefits.

Recommendation – 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. The personnel policy should be updated and approved by the Board of Trustees. Please consult with your attorney regarding this issue.

Response – We will comply with your recommendation.

Conclusion – Response accepted.

08-7 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. However, please see Finding 08-10 for a related issue.

08-8 Revenue Bonds/Notes – The Utilities did not have any revenue bonds or notes payable during the fiscal year ended June 30, 2008.

08-9 Telecommunication Services – No instances of non-compliance with Chapter 388.10 of the Code of Iowa were noted.

08-10 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 was exceeded during the majority of July and August 2008 and parts of September and October 2008.

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 monitor more closely the actual amount held at US Bank compared to the maximum authorized deposit amount at US Bank as stated in the resolution naming official depositories.

Conclusion – Response accepted.

08-11 Economic Development – In fiscal year ended June 30, 2008, the Utilities 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 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. Please do document public purpose for all economic development expenses in writing before authorizing the expense in the future.

08-12 Employee Material Sales – Employees are allowed to purchase materials from the Utilities at cost. All other customers are charged cost plus a markup percentage. This practice may be a violation of Chapter 388.6 of the Code of Iowa, which prohibits utilities from charging discriminatory rates.

Recommendation – Please consult with your legal counsel as to the legality of waiving the markup percentage on materials sold to employees. If your attorney determines this practice is legal, a written policy needs to be adopted by the Board of Trustees regarding this practice.

Response – We will address your recommendation with our attorney.

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
Stephenie Korthals, Assistant Auditor

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