

**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, 2010

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

Officials

Name	Title	Term Expires
(Before September 2009)		
David Foltz	Board of Trustees Chairman	August 31, 2011
Stan Knobloch	Board of Trustees Vice Chairman	August 31, 2013
Randal Koll	Board of Trustees Member	August 31, 2009
Jordan Kordahl	Board of Trustees Secretary	Indefinite
Austin, Haberkorn & Kippley	Attorneys	December 31, 2009
James Hoye	Utilities Manager	Indefinite
George Schneidermann	Board of Trustees Ex-Official Member	August 31, 2009
(After September 2009)		
David Foltz	Board of Trustees Chairman	August 31, 2011
Stan Knobloch	Board of Trustees Vice Chairman	August 31, 2013
Randal Koll	Board of Trustees Member	August 31, 2015
Jordan Kordahl	Board of Trustees Secretary	Indefinite
Austin, Haberkorn & Kippley	Attorneys	December 31, 2010
James Hoye	Utilities Manager	Indefinite
George Schneidermann	Board of Trustees Ex-Official Member	August 31, 2011

DE NOBLE & COMPANY PC

Certified Public Accountants

MEMBERS

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Rock Rapids, IA 51246

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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, 2010, 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.

As discussed in Note 1 to the financial statements, management has not recorded the net other postemployment benefits (OPEB) liability in the business type activities and the proprietary funds and, accordingly, has not recorded the corresponding OPEB expense. There are also no disclosures reported on the OPEB obligation in the notes to the financial statements. Accounting principles generally accepted in the United States of America require that the net OPEB liability be reported and expensed, which would increase liabilities and expenses and decrease net assets of the business type activities and the proprietary funds and that certain information/data be disclosed in the notes to the financial statements in regards to the OPEB. The amount by which this departure would affect the liabilities, net assets and expenses of the business type activities and the proprietary funds and the failure to report the required OPEB disclosures is not reasonably determinable.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to above do not 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, 2010, 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 24, 2011 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 4 through 11 and 40 through 42 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. Management has omitted the Schedule of Funding Progress for the Retiree Health Plan that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

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, 2009 and June 30, 2008 (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 16 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Because of the significance of not recording the net OPEB liability and the corresponding expense in the business type activities and proprietary funds and not reporting disclosures on the net OPEB obligation in the notes to the financial statements for the fiscal year ended June 30, 2010, it is inappropriate to, and we do not, express an opinion on the supplementary information referred to above.

De Noble & Company PC

De Noble & Company PC
Certified Public Accountants

January 24, 2011

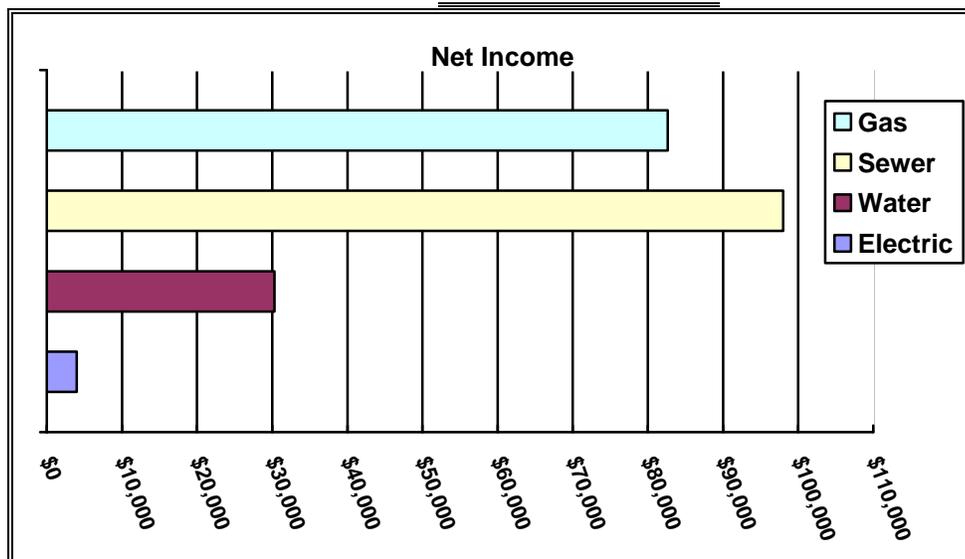
Management's Discussion and Analysis

The Rock Rapids Municipal Utilities provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2010. We encourage readers to consider this information in conjunction with the Utilities' financial statements, which follow.

2010 FINANCIAL HIGHLIGHTS

- The Utilities' total net assets increased 1.6% during the fiscal year ended June 30, 2010. The net assets increased from \$13,971,850 to \$14,186,739, a \$214,889 increase.
- The Utilities' total revenues decreased 8.1% during the fiscal year ended June 30, 2010. The total revenues decreased from \$4,336,770 to \$3,987,160, a \$349,610 decrease. The decrease is mainly due to the Gas Utility receiving \$368,997 in fiscal year ended June 30, 2009 from terminating its membership in the National Public Gas Agency (NPGA). Also, the Communications (Wireless Internet) Utility ceased operations during the fiscal year ended June 30, 2009. The fiscal year ended June 30, 2009 revenues were \$17,584. In fiscal year ended June 30, 2010, the Sewer Utility had grant income of \$68,621 from the Wastewater Treatment Financial Assistance Program through the Iowa Finance Authority.
- The Utilities' total expenses decreased 2.6% during the fiscal year ended June 30, 2010. The total expenses decreased from \$3,870,700 to \$3,772,271, a \$98,429 decrease. A portion of the decrease was the termination of the Communications (Wireless Internet) Utility in the prior fiscal year. There was \$27,502 in expenses for the Communications (Wireless Internet) Utility in fiscal year ended June 30, 2009.
- The net income after a special item for the fiscal year ended June 30, 2010 for each utility is as follows:

Electric	\$	3,980
Water		30,294
Sewer		98,001
Gas		82,614
Total	\$	214,889



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 existing Utility for the fiscal year ended June 30, 2010, compared to the fiscal years ended June 30, 2009 and 2008.

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 and Gas 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 and Gas 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, 2010	June 30, 2009
Current Assets	\$ 5,831,788	5,849,654
Restricted Cash and CDs	63,258	135,552
Capital Assets (Net)	7,341,025	7,212,359
Other Assets	1,262,777	1,043,814
Total Assets	<u>14,498,848</u>	<u>14,241,379</u>
Current Liabilities		
(Payable from Current Assets)	258,045	216,529
Current Liabilities		
(Payable from Restricted Assets)	54,064	53,000
Total Liabilities	<u>312,109</u>	<u>269,529</u>
Net Assets:		
Invested in Capital Assets,		
Net of Related Debt	7,341,025	7,212,359
Restricted	9,194	82,552
Unrestricted	6,836,520	6,676,939
Total Net Assets	<u>\$ 14,186,739</u>	<u>13,971,850</u>

The "Other Assets" category consists of two notes receivable issued to the Rock Rapids Development Corporation during the fiscal year ended June 30, 2010 and the amount the Utilities has incurred for the Lewis & Clark project membership.

Assets, Liabilities & Net Assets



The largest portion of the Utilities' net assets is invested in capital assets (land, utility plant, transportation equipment, office equipment, tools and safety devices, communication equipment, meter testing equipment, intangibles and construction work in progress) (51.8% of the net assets total for fiscal year ended June 30, 2010). For fiscal years ended June 30, 2010 and June 30, 2009, 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 (0.1% of the net assets total for fiscal year ended June 30, 2010). 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 (48.1% of the net assets total for fiscal year ended June 30, 2010).

	Changes in Net Assets	
	For the Year Ended	
	June 30, 2010	June 30, 2009
Revenues:		
Program Revenues:		
Charges for Services	\$ 3,757,135	3,762,348
General Revenues:		
Rentals	6,880	7,886
Customer Penalties	2,005	2,144
Interest Income	148,142	180,478
Miscellaneous Income	72	214
Gas Rate Case Settlement	3,779	3,456
Free Community Service Agreement	526	4,234
Total Revenues	3,918,539	3,960,760

Program Expenses:		
Electric	1,869,397	1,750,820
Water	439,833	395,931
Sewer	208,530	199,243
Gas	1,254,511	1,497,204
Internet	0	27,502
Total Expenses	<u>3,772,271</u>	<u>3,870,700</u>
Special Items:		
WTFAP Grant	68,621	7,013
Membership Termination – NPGA	0	368,997
Total Special Items	<u>68,621</u>	<u>376,010</u>
Increase in Net Assets	214,889	466,070
Net Assets Beginning of Year	<u>13,971,850</u>	<u>13,505,780</u>
Net Assets End of Year	<u>\$ 14,186,739</u>	<u>13,971,850</u>

The “Increase in Net Assets” from fiscal year ended June 30, 2010 compared to June 30, 2009 was lower by \$251,181 (53.9%). The Utilities total net assets increased 1.6% during the fiscal year ended June 30, 2010. The reason the amount of “Increase in Net Assets” was lower was due primarily to receiving \$368,997 as the result of terminating membership in NPGA in fiscal year ended June 30, 2009. Without the \$368,997 from NPGA membership termination, the variance in the “Increase in Net Assets” would have been an increase of \$117,816, (121.4%) compared to last fiscal year. The amount of the WTFAP Grant revenue increased by \$61,608 during fiscal year ended June 30, 2010.

Interest income dropped by \$32,336 (18.0%) in fiscal year 2010 compared to fiscal year 2009. The decrease was mainly a result of a continuing downward trend in interest rates.

INDIVIDUAL MAJOR FUND ANALYSIS

Operating Revenues

Electric operating revenues were \$1,833,619, up \$93,579 or 5.1% from the previous fiscal year, due mainly to a rate increase implemented on February 1, 2010.

Water operating revenues were \$468,423, down \$36,434 or 7.3% from the previous fiscal year, due mainly to a reduction in the amount of gallons sold to Lyon & Sioux Rural Water.

Sewer operating revenues were \$237,313, down \$1,138 or 0.5% from the previous fiscal year, due mainly to a very slight decrease in water sales volume.

Gas operating revenues were \$1,217,780, down \$44,713 or 3.7% from the previous fiscal year, due mainly to as a result of lower natural gas commodity prices.

Operating Expenses

Electric operating expenses were \$1,866,874, up \$116,480 or 6.7% from last fiscal year, due mainly to an increase in purchased power costs.

Water operating expenses were \$406,639, up \$42,756 or 11.8% from last fiscal year, due mainly to non-capitalized costs related to installation of water mains in conjunction with the street project and the purchase of easements for the Lewis & Clark project.

Sewer operating expenses were \$202,185, up \$8,484 or 4.4% from last fiscal year, due mainly to an increase in administrative and general costs this fiscal year.

Gas operating expenses were \$1,253,875, down \$200,782 or 13.8% from last fiscal year.

Net Assets

The Electric Fund, which accounts for the operation and maintenance of the electric system, ended fiscal year 2010 with a \$5,704,710 net asset balance compared to the prior year ending net asset balance of \$5,700,730 (\$3,980 increase or 0.1%). The prior fiscal year change was an increase of \$71,936 (\$28,903 of the increase was the result of the Communications (Wireless Internet) Fund's remaining assets (cash) being transferred to the Electric Fund).

The Water Fund, which accounts for the operation and maintenance of the water system, ended fiscal year 2010 with a \$2,804,629 net asset balance compared to the prior year ending net asset balance of \$2,774,335 (\$30,294 increase or 1.1%). The prior fiscal year change was an increase of \$113,163.

The Sewer Fund, which accounts for the operation and maintenance of the sewer system, ended fiscal year 2010 with a \$1,066,396 net asset balance compared to the prior year ending net asset balance of \$968,395 (\$98,001 increase or 10.1%). The prior fiscal year change was an increase of \$47,183.

The Gas Fund, which accounts for the operation and maintenance of the gas system, ended fiscal year 2010 with a \$4,611,004 net asset balance compared to the prior year ending net asset balance of \$4,528,390 (\$82,614 increase or 1.8%). The prior fiscal year change was an increase of \$272,609 (due mainly to receiving membership termination money from NPGA in the amount of \$368,997 in fiscal year ended June 30, 2009).

BUDGETARY HIGHLIGHTS

During fiscal year ended June 30, 2010, the Rock Rapids Municipal Utilities did not amend its budget.

Receipts came in \$325,252 under budget. The Electric Fund receipts came in \$234,033 under budget, the Water Fund came in \$79,228 under budget, the Sewer Fund came in \$11,292 over budget and the Gas Fund came in \$23,283 under budget.

Disbursements came in \$135,860 under budget. The Electric Fund came in \$230,626 under budget, the Water Fund came in \$27,033 over budget, the Sewer Fund came in \$80,371 over budget and the Gas Fund came in \$12,638 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 copier, accounting software, snowblower, trailer mounted trash pump and an ag-gator. Utility plant additions were for Electric Utility fiber installation, right of way project and line improvements; the Water Utility's 2008 water main project (water distribution system improvements); the Sewer Utility clarifier; and the Gas Utility elevator and telescada projects.

Construction in progress at June 30, 2010 consists of an electric substation project, the 2010 water main project (water distribution system improvements), the Lewis & Clark member specific costs project (design and construction of service lines) and the wastewater treatment system disinfection facilities improvements project.

Long-Term Debt

The Utilities did not have any external long-term debt outstanding at June 30, 2010. Please see Note 3 for internal loans made from the Gas Fund to the Water and Sewer Funds.

ECONOMIC FACTORS

The Rock Rapids Municipal Utilities Electric Utility experienced lower retail sales in fiscal year 2009/2010. The reduced sales were the result of state initiatives for energy efficiency and reduced consumption due to weather. Upcoming capital improvement projects, which include updates in substation, installation of infrastructure, and updates to a transmission line, will put a higher demand on the Electric Utility capital reserves.

The Water Utility saw lower revenues in fiscal year 2009/2010 due to less gallons being sold. This decline in sales, along with the need to refurbish the thirty year plant and member specific infrastructure costs related to the Lewis and Clark system, will require a review of the Water Utility's present ability to raise construction capital and maintain adequate reserves.

The Gas Utility realized a profit in fiscal year 2009/2010 mainly due to a reduction in the purchase cost for the gas commodity. The outlook for the coming year in the purchase of the gas commodity looks favorable due to an abundance of supply in storage.

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 Hoyer, General Manager, 310 S. 3rd St., Rock Rapids, Iowa.

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

Basic Financial Statements

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids**
Statement of Net Assets
June 30, 2010

	Business Type Activities
Assets	
Current Assets:	
Cash	\$ 1,206,681
Certificates of Deposit	4,155,000
Accounts Receivable	236,579
Due From Other Governments (Related Party)	14,427
Due From Other Governments	16,689
Interest Receivable	23,400
Inventory	116,666
Prepaid Expenses	62,346
Total Current Assets	5,831,788
Restricted Cash:	
Customer Deposits	54,064
Depreciation Reserves	9,194
Total Restricted Cash	63,258
Capital Assets:	
Land	179,087
Utility Plant	14,832,808
Transportation Equipment	240,850
Office Equipment	39,782
Tools and Safety Devices	280,316
Communication Equipment	8,077
Meter Testing Equipment	21,903
Intangibles	34,045
Total Capital Assets (Before W.I.P.)	15,636,868
Less: Accumulated Depreciation/Amortization	(8,591,078)
Capital Assets – Net (Before W.I.P.)	7,045,790
Construction Work in Progress	295,235
Net Capital Assets	7,341,025
Other Assets:	
Notes Receivable - Rock Rapids Development Corporation	215,000
Lewis & Clark Project Membership (Related Party)	1,047,777
Total Other Assets	1,262,777
Total Assets	14,498,848

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids**
Statement of Net Assets
June 30, 2010

	Business Type Activities
Liabilities	
Current Liabilities (Payable From Current Assets):	
Accounts Payable	50,682
Due to Other Governments (Related Party)	18,783
Due to Other Governments	8,141
Contracts Payable	40,991
Accrued Vacation and Sick Pay	71,891
Accrued Payroll & Payroll Liabilities	12,956
Flex Spending Payable	1,928
Unearned Income	52,673
Total Current Liabilities (Payable From Current Assets)	258,045
Liabilities Payable From Restricted Cash:	
Customer Deposits	54,064
Total Liabilities	312,109
Net Assets	
Invested in Capital Assets	7,341,025
Restricted for:	
Depreciation Reserves	9,194
Unrestricted	6,836,520
Total Net Assets	\$ 14,186,739

See Notes to Financial Statements

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids**
Statement of Activities
For the Fiscal Year Ended June 30, 2010

		<u>Program Revenues</u>	
	Expenses	Charges for Services	Net (Expense) Revenue and Changes in Net Assets
Functions/Programs:			
Business Type Activities:			
Electric Utility	\$ 1,869,397	1,833,619	(35,778)
Water Utility	439,833	468,423	28,590
Sewer Utility	208,530	237,313	28,783
Gas Utility	1,254,511	1,217,780	(36,731)
Total	<u>\$ 3,772,271</u>	<u>3,757,135</u>	<u>(15,136)</u>
 General Revenues:			
Rentals			1,880
Rentals (Related Party)			5,000
Customer Penalties			2,005
Miscellaneous Income			72
Gas Rate Case Settlement			3,779
Interest Income			112,920
Interest Income (Water, Sewer Funds)			35,222
Free Community Service Agreement			526
Total General Revenues			<u>161,404</u>
 Special Item:			
WTFAP Grant			<u>68,621</u>
 Change in Net Assets			 214,889
 Net Assets Beginning of Year			 <u>13,971,850</u>
 Net Assets End of Year			 <u>\$ 14,186,739</u>

See Notes to Financial Statements.

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids**
Statement of Net Assets
Proprietary Funds
June 30, 2010

	Enterprise Funds				
	Electric Utility	Water Utility	Sewer Utility	Gas Utility	Total
Assets					
Current Assets:					
Cash	\$ 355,857	338,226	230,074	282,524	1,206,681
Certificates of Deposit	1,305,000	50,000	25,000	2,775,000	4,155,000
Accounts Receivable	126,356	36,406	19,048	54,769	236,579
Due From Other Funds	0	0	0	65,370	65,370
Due From Other Governments (Related Party)	11,784	721	618	1,304	14,427
Due From Other Governments	5,257	695	9,605	1,132	16,689
Interest Receivable	6,284	93	44	16,979	23,400
Inventory	47,353	25,856	0	43,457	116,666
Prepaid Expenses	24,902	14,698	12,284	10,462	62,346
Total Current Assets	1,882,793	466,695	296,673	3,250,997	5,897,158
Restricted Cash:					
Customer Deposits	17,691	5,580	0	30,793	54,064
Depreciation Reserves	0	0	9,194	0	9,194
Total Restricted Cash	17,691	5,580	9,194	30,793	63,258
Capital Assets:					
Land	46,913	118,311	0	13,863	179,087
Utility Plant	7,917,388	3,974,790	2,031,280	909,350	14,832,808
Transportation Equipment	111,468	18,330	38,380	72,672	240,850
Office Equipment	24,958	6,498	730	7,596	39,782
Tools and Safety Devices	129,052	45,116	30,251	75,897	280,316
Communication Equipment	7,071	1,006	0	0	8,077
Meter Testing Equipment	16,235	5,668	0	0	21,903
Intangibles	11,990	6,710	3,355	11,990	34,045
Total Capital Assets (Before W.I.P.)	8,265,075	4,176,429	2,103,996	1,091,368	15,636,868
Less: Accumulated Depreciation/Amortization	(4,392,355)	(2,286,885)	(1,367,903)	(543,935)	(8,591,078)

Capital Assets – Net (Before W.I.P.)	3,872,720	1,889,544	736,093	547,433	7,045,790
Construction Work in Progress	8,940	139,193	147,102	0	295,235
Net Capital Assets	<u>3,881,660</u>	<u>2,028,737</u>	<u>883,195</u>	<u>547,433</u>	<u>7,341,025</u>
Other Assets:					
Advances To Other Funds	0	0	0	699,791	699,791
Notes Receivable - Rock Rapids Development Corporation	0	0	0	215,000	215,000
Lewis & Clark Project Membership (Related Party)	0	1,047,777	0	0	1,047,777
Total Other Assets	<u>0</u>	<u>1,047,777</u>	<u>0</u>	<u>914,791</u>	<u>1,962,568</u>
Total Assets	<u>5,782,144</u>	<u>3,548,789</u>	<u>1,189,062</u>	<u>4,744,014</u>	<u>15,264,009</u>
Liabilities					
Current Liabilities (Payable From Current Assets):					
Accounts Payable	21,561	15,542	9,893	3,686	50,682
Due To Other Fund	0	50,639	14,731	0	65,370
Due To Other Governments (Related Party)	168	90	45	18,480	18,783
Due To Other Governments	5,249	1,438	220	1,234	8,141
Contracts Payable	0	36,299	4,692	0	40,991
Accrued Vacation and Sick Pay	26,764	11,791	11,267	22,069	71,891
Accrued Payroll & Payroll Liabilities	3,926	3,157	1,651	4,222	12,956
Flex Spending Payable	1,928	0	0	0	1,928
Unearned Income	147	0	0	52,526	52,673
Total Current Liabilities (Payable From Current Assets)	<u>59,743</u>	<u>118,956</u>	<u>42,499</u>	<u>102,217</u>	<u>323,415</u>
Liabilities Payable From Restricted Cash:					
Customer Deposits	17,691	5,580	0	30,793	54,064
Long Term Debt:					
Advance From Other Fund	0	619,624	80,167	0	699,791
Total Liabilities	<u>77,434</u>	<u>744,160</u>	<u>122,666</u>	<u>133,010</u>	<u>1,077,270</u>
Net Assets					
Invested in Capital Assets, Net of Related Debt	3,881,660	2,028,737	788,339	547,433	7,246,169
Restricted for:					
Depreciation Reserves	0	0	9,194	0	9,194
Unrestricted	1,823,050	775,892	268,863	4,063,571	6,931,376
Total Net Assets	<u>\$ 5,704,710</u>	<u>2,804,629</u>	<u>1,066,396</u>	<u>4,611,004</u>	<u>14,186,739</u>

See Notes to Financial Statements.

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids**
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
For the Fiscal Year Ended June 30, 2010

	Enterprise Funds				
	Electric Utility	Water Utility	Sewer Utility	Gas Utility	Total
Operating Revenues:					
Residential Sales	\$ 911,890	0	0	0	911,890
Commercial Sales	877,898	0	0	0	877,898
Commercial/Residential Gas Sales	0	0	0	1,209,645	1,209,645
Public Street and Highway Lighting	29,161	0	0	0	29,161
Wind Power – Residential and Commercial	552	0	0	0	552
Water Sales – Metered	0	257,463	0	0	257,463
Water Sales – Rural Water System	0	207,590	0	0	207,590
Water Sales – Tank Loads	0	612	0	0	612
Sewer Service	0	0	236,157	0	236,157
Material and Service Sales	6,884	73	0	1,203	8,160
Service Income	3,189	374	0	2,888	6,451
Service Income (Related Party)	4,045	2,311	1,156	4,044	11,556
Total Operating Revenues	1,833,619	468,423	237,313	1,217,780	3,757,135
Operating Expenses:					
Production/Processing Expense	1,126,899	78,583	98,149	907,297	2,210,928
Distribution Expense	151,669	126,900	0	85,742	364,311
Accounting and Collecting	32,259	16,645	6,565	29,983	85,452
Administrative and General	178,949	88,230	51,006	146,785	464,970
Free Community Service (Related Party)	115,267	0	3,694	15,075	134,036
Free Community Service	8,500	1,400	0	7,300	17,200
Transportation	11,654	2,316	2,456	3,576	20,002
Depreciation	213,367	75,361	30,434	36,695	355,857
Payroll Taxes	28,311	17,204	9,881	21,422	76,818
Total Operating Expenses	1,866,875	406,639	202,185	1,253,875	3,729,574

Operating Income (Loss)	<u>(33,256)</u>	<u>61,784</u>	<u>35,128</u>	<u>(36,095)</u>	<u>27,561</u>
Nonoperating Revenues (Expenses):					
Rentals	1,000	880	0	0	1,880
Rentals (Related Party)	5,000	0	0	0	5,000
Customer Penalties	869	153	153	830	2,005
Miscellaneous Income	72	0	0	0	72
Gas Rate Case Settlement	0	0	0	3,779	3,779
Interest Income	32,291	671	444	79,514	112,920
Interest Income (Water, Sewer Funds)	0	0	0	35,222	35,222
Free Community Service Agreement	526	0	0	0	526
Loss on Disposal of Capital Assets	(2,351)	(2,867)	(1,450)	(210)	(6,878)
Interest Expense	(171)	0	0	(426)	(597)
Interest Expense (Gas Fund)	0	(30,327)	(4,895)	0	(35,222)
Net Nonoperating Revenues (Expenses)	<u>37,236</u>	<u>(31,490)</u>	<u>(5,748)</u>	<u>118,709</u>	<u>118,707</u>
Change in Net Assets Before Special Item	3,980	30,294	29,380	82,614	146,268
Special Item:					
WTFAP Grant	0	0	68,621	0	68,621
Change in Net Assets After Special Item	3,980	30,294	98,001	82,614	214,889
Net Assets Beginning of Year	<u>5,700,730</u>	<u>2,774,335</u>	<u>968,395</u>	<u>4,528,390</u>	<u>13,971,850</u>
Net Assets End of Year	<u>\$ 5,704,710</u>	<u>2,804,629</u>	<u>1,066,396</u>	<u>4,611,004</u>	<u>14,186,739</u>

See Notes to Financial Statements.

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids**
Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended June 30, 2010

	Enterprise Funds				
	Electric Utility	Water Utility	Sewer Utility	Gas Utility	Total
Cash Flows From Operating Activities:					
Cash Received from Customers and Users	\$ 1,747,968	471,367	235,440	1,198,046	3,652,821
Cash Received from Interfund Services Provided	56,184	938	312	5,960	63,394
Cash Received from Other Revenues	6,598	880	0	3,779	11,257
Cash Paid to Suppliers/Outside Service Providers	(1,285,325)	(134,789)	(48,005)	(971,558)	(2,439,677)
Cash Paid for Personal Services (Employees)	(264,191)	(162,466)	(90,183)	(217,016)	(733,856)
Cash Paid for Interfund Services Used	(6,017)	(28,395)	(28,145)	(837)	(63,394)
Cash Paid for Free Community Service (Related Party)	(115,267)	0	(3,694)	(15,075)	(134,036)
Cash Paid for Free Community Service	(8,500)	(1,400)	0	(7,300)	(17,200)
Net Cash Provided By (Used For) Operating Activities	<u>131,450</u>	<u>146,135</u>	<u>65,725</u>	<u>(4,001)</u>	<u>339,309</u>
Cash Flows From Noncapital Financing Activities:					
Principal Payments on Interfund Loan from the Gas Utility	0	(39,039)	0	0	(39,039)
Interest Paid on Interfund Loan from the Gas Utility	0	(30,918)	0	0	(30,918)
Net Cash Provided By (Used For) Noncapital Financing Activities	<u>0</u>	<u>(69,957)</u>	<u>0</u>	<u>0</u>	<u>(69,957)</u>
Cash Flows From Capital and Related Financing Activities:					
Principal Payments on Interfund Loan from the Gas Utility	0	0	(14,004)	0	(14,004)
Interest Paid on Interfund Loan from the Gas Utility	0	0	(4,896)	0	(4,896)
Proceeds from Sale of Capital Assets	0	0	0	1,850	1,850
Purchases/Construction of Capital Assets	(142,249)	(124,964)	(148,024)	(43,900)	(459,137)
Special Item: WTFAP Grant Proceeds	0	0	66,475	0	66,475
Net Cash Provided By (Used For) Capital and Related Financing Activities	<u>(142,249)</u>	<u>(124,964)</u>	<u>(100,449)</u>	<u>(42,050)</u>	<u>(409,712)</u>

Cash Flows From Investing Activities:					
Principal Received on Interfund Loans	0	0	0	53,043	53,043
Interest Received on Interfund Loans	0	0	0	35,814	35,814
Cashed In (Purchase of) Non Cash Equivalent					
Certificates of Deposit (Net)	(100,000)	(50,000)	(25,000)	150,000	(25,000)
Interest Received	36,649	578	400	91,300	128,927
Customer Penalties Received	869	153	153	830	2,005
Paid Toward Lewis & Clark Project Membership	0	(3,827)	0	0	(3,827)
Notes Receivable Issued to the Rock Rapids Devopment Corp.	0	0	0	(215,000)	(215,000)
Net Cash Provided By (Used For) Investing Activities	(62,482)	(53,096)	(24,447)	115,987	(24,038)
Net Increase (Decrease) in Cash and Cash Equivalents					
	(73,281)	(101,882)	(59,171)	69,936	(164,398)
Cash and Cash Equivalents Beginning of Year					
	446,829	445,688	298,439	243,381	1,434,337
Cash and Cash Equivalents End of Year					
	\$ 373,548	343,806	239,268	313,317	1,269,939
Reconciliation of Operating Income (Loss) to Net Cash Provided By (Used For) Operating Activities:					
Operating Income (Loss)	\$ (33,256)	61,784	35,128	(36,095)	27,561
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided By (Used For) Operating Activities:					
Depreciation	213,367	75,361	30,434	36,695	355,857
Proceeds from Rentals	1,000	880	0	0	1,880
Proceeds from Rentals (Related Party)	5,000	0	0	0	5,000
Proceeds from Miscellaneous Income	72	0	0	0	72
Proceeds from Gas Rate Case Settlement	0	0	0	3,779	3,779
Proceeds from Free Community Service Agreement	526	0	0	0	526
Deposit Interest Paid	(171)	0	0	(426)	(597)
Changes in Assets and Liabilities:					
Decrease (Increase) in Accounts Receivable	(28,777)	2,870	(1,294)	(40,162)	(67,363)
Decrease in Due From Other Governments (Related Party)	(7,664)	(75)	(404)	(1,097)	(9,240)
Decrease (Increase) in Due From Other Governments (Non WTFAP Grant Related)	4,669	96	138	(65)	4,838

**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, 2010

	Enterprise Funds				
	Electric Utility	Water Utility	Sewer Utility	Gas 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 (Continued):					
Decrease in Flex Spending Receivable	3,541	0	0	0	3,541
Decrease in Inventory	3,877	1,281	0	1,424	6,582
Decrease (Increase) in Prepaid Expenses	985	479	(3,144)	223	(1,457)
Increase (Decrease) in Customer Deposits (Cash)	1,484	990	0	(1,410)	1,064
Increase (Decrease) in Accounts Payable (Non Capital Assets/ Other Assets Related)	(33,403)	1,199	428	579	(31,197)
Increase in Due to Other Governments (Related Party)	0	0	0	1,249	1,249
Increase (Decrease) in Due to Other Governments	(4,877)	(44)	17	124	(4,780)
Increase in Accrued Vacation and Sick Pay	2,295	94	4,074	2,076	8,539
Increase in Accrued Payroll & Payroll Liabilities	707	1,220	348	1,396	3,671
Increase in Flex Spending Payable	1,928	0	0	0	1,928
Increase in Unearned Income	147	0	0	27,709	27,856
Net Cash Provided By (Used For) Operating Activities	\$ 131,450	146,135	65,725	(4,001)	339,309

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

Current Assets:						
Cash	\$	355,857	338,226	230,074	282,524	1,206,681
Restricted Cash :						
Customer Deposits (Cash)		17,691	5,580	0	30,793	54,064
Depreciation Reserves (Cash)		0	0	9,194	0	9,194
		<hr/>				
Cash and Cash Equivalents at Year End	\$	373,548	343,806	239,268	313,317	1,269,939
		<hr/> <hr/>				

See Notes to Financial Statements.

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids**
Notes to Financial Statements
June 30, 2010

(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, and gas utilities and related services to its customers (the Rock Rapids Municipal Utilities provided communications (Wireless Internet) utility and related services to its customers until the Utilities approved the sale of the Communications Utility capital assets and inventory effective October 15, 2008). 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 except that management has not recorded the net other postemployment benefits (OPEB) liability in the business type activities and the proprietary funds and, accordingly, has not recorded the corresponding OPEB expense. There are also no disclosures reported on the OPEB obligation in the notes to the financial statements.

The Rock Rapids Municipal Utilities operates a single-employer retiree benefit plan which provides medical/prescription drug benefits through a plan with the Sanford Health Plan. Retirees under age 65 pay the same premium for the medical/prescription drug benefit as active employees, which results in an implicit rate subsidy and OPEB liability/expense. Accounting principles generally accepted in the United States of America require that this net OPEB liability be reported and expensed, which would increase liabilities and expenses and decrease net assets of the business type activities and the proprietary funds. Required disclosures to be in conformity with accounting principles generally accepted in the United States of America that are omitted for this implicit rate subsidy include the plan description, funding policy, annual OPEB cost and net OPEB obligation, funded status and funding progress, and actuarial methods and assumptions.

Management has also decided to omit the Schedule of Funding Progress for the Retiree Health Plan that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required 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 \$134,036 (reported as free community service – related party), bought a Ford truck and snow plow from the City of Rock Rapids for \$4,300 and reimbursed the City of Rock Rapids for the Utilities share of two construction contracts in the amount of \$43,243 on the cash basis (\$71,781 on the accrual basis) for the fiscal year ended June 30, 2010. The City of Rock Rapids paid the Rock Rapids Municipal Utilities \$5,000 for rent and \$11,556 for garbage/recycling billing and collection services. The construction contracts are for water distribution system improvements worked on during the fiscal year ended June 30, 2010. The City of Rock Rapids also pays the Utilities for utility services and both entities charge each other for any occasional labor and materials provided to each other (these costs have not been presented in the financial statements).

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 Missouri River Energy Services and the Lewis & Clark Regional Water System, Inc. The Utilities paid the Missouri River Energy Services \$1,077,415 for power and energy services, \$2,476 for dues, \$340 for inspection services and \$100 for meeting registrations. The Utilities received \$75,877 from the Missouri River Energy Services as a reimbursement for monthly capacity generation fees and generator costs and \$1,664 as a reimbursement for the “Bright Energy Solutions Program.” 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, consists of capital assets, net of accumulated depreciation/amortization.

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.

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 qualifying expenses, 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/amortization on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses, including rental income, customer penalties, miscellaneous income, gas rate case settlement, interest income, free community service agreement, loss on disposal of capital assets 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, 2010 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, 2010 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, 2010.

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, 2010, 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 Expenses – Prepaid expenses represents insurance premium and other expense 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, equipment and intangibles 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
Equipment, Tools and Safety Devices	\$ 5,000
Intangibles	\$20,000

Capital assets of the Utilities are depreciated/amortized 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
Intangibles	5 – 40 years

Construction projects that have not been completed as of June 30, 2010 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 any non-capitalized 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 \$37,668 at June 30, 2010.

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, 2010, employees' vested sick leave benefits aggregated \$34,223. Aggregated vested sick leave benefits (15% of accumulated allowable sick leave) 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	\$ 33,934	29,418	63,352
Increases	41,315	6,050	47,365
Decreases	(37,581)	(1,245)	(38,826)
Balance End of Year	\$ 37,668	34,223	71,891

These liabilities have been computed based on rates of pay in effect at June 30, 2010 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, 2010 is computed as follows:

	Electric Utility Fund	Water Utility Fund	Sewer Utility Fund	Gas Utility Fund	Total
Total Restricted Cash	\$ 17,691	5,580	9,194	30,793	63,258
Deposits Payable	(17,691)	(5,580)	0	(30,793)	(54,064)
Net Assets: Restricted (June 30, 2010)	\$ 0	0	9,194	0	9,194

The restricted net assets in the Sewer Utility Fund is for required depreciation reserves per Federal EPA requirements.

Net Assets: Invested in Capital Assets and Invested in Capital Assets, Net of Related Debt
The “invested in capital assets” is reported in the Government-Wide Statement of Net Assets as \$7,341,025 and the “invested in capital assets, net of related debt” in the Proprietary Funds Statement of Net Assets as \$7,246,169. The \$94,856 difference is due to the removal of the capital related debt (debt attributable to the acquisition, construction or improvement of capital assets) 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 as only external debt is reflected in that financial statement.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2010, 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, 2010 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, 2010 as there is no legal responsibility that these amounts be used for these purposes. The amount of the Board designated reserves on June 30, 2010 is as follows:

	Economic Development Reserves	Depreciation Reserves	Lewis & Clark Project Sinking Fund Reserve	Total
Electric Utility Fund	\$ 16,180	\$ 157,133	\$ 0	\$ 173,313
Water Utility Fund	2,316	65,592	9,936	77,844
Gas Utility Fund	11,786	0	0	11,786
Total	\$ 30,282	\$ 222,725	\$ 9,936	\$ 262,943

(3) **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, 2010, the Water Utility Fund paid the Gas Utility Fund \$20,181 in principal and \$15,228 in interest on this loan. The June 30, 2010 balance on this loan was \$324,298.

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
2011	\$ 21,073	14,336	35,409
2012	22,004	13,405	35,409
2013	22,943	12,466	35,409
2014	23,992	11,417	35,409
2015	25,052	10,357	35,409
2016-2020	142,858	34,186	177,044
2021-2022	66,376	4,441	70,817
Total	\$ 324,298	100,608	424,906

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, 2010, the Water Utility Fund paid the Gas Utility Fund \$18,858 in principal and \$15,690 in interest on this loan. The June 30, 2010 balance on this loan was \$336,090.

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
2011	\$ 19,691	14,857	34,548
2012	20,523	14,025	34,548
2013	21,469	13,079	34,548
2014	22,418	12,130	34,548
2015	23,409	11,139	34,548
2016-2020	133,465	39,275	172,740
2021-2023	95,115	8,530	103,645
Total	\$ 336,090	113,035	449,125

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, 2010, the Sewer Utility Fund paid the Gas Utility Fund \$14,004 in principal and \$4,896 in interest on this loan. The June 30, 2010 balance on this loan was \$94,856.

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
2011	\$ 14,689	4,211	18,900
2012	15,396	3,504	18,900
2013	16,157	2,743	18,900
2014	16,946	1,954	18,900
2015	17,773	1,127	18,900
2016	13,895	280	14,175
Total	\$ 94,856	13,819	108,675

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

Assets/Liabilities	Payable		Receivable
	Water Utility	Sewer Utility	Gas Utility
Due From/To:			
Loan (Current Portion)	\$ (40,764)	(14,689)	55,453
Accrued Interest on Loans	(9,875)	(42)	9,917
Total Due From/To	\$ (50,639)	(14,731)	65,370
Advance To/From:			
Loan (Noncurrent Portion)	(619,624)	(80,167)	677,791
Total	\$ (670,263)	(94,898)	765,161

(4) Notes Receivable – Rock Rapids Development Corporation

On September 28, 2009, the Rock Rapids Municipal Utilities loaned \$140,000 to the Rock Rapids Development Corporation to be used toward the purchase of approximately 28 acres of real estate in Rock Rapids, Iowa for development purposes. This promissory draw note loan earns interest at a rate of 2.5% per annum (accrued interest is to be paid annually with interest computed through December 31st of each year) and is secured by a real estate mortgage on the 28 acres of real estate purchased through the aforementioned loan funds.

The Rock Rapids Development Corporation is to pay all principal and unpaid interest due per this promissory draw note no later than thirty days after written demand for such payment by the Rock Rapids Municipal Utilities, provided, however, that the entire amount of loan outstanding and any unpaid interest shall be paid no later than twenty years after September 28, 2009, and provided further, however, that upon the sale of any part or all of the 28 acres, the Rock Rapids Development Corporation shall repay that percentage of such net sale

proceeds from the sale which are equivalent to the percentage of acres sold from the original 28 acres purchased from the proceeds of this loan. If the Rock Rapids Development Corporation sells all 28 acres, the Rock Rapids Development Corporation shall repay the Rock Rapids Municipal Utilities all unpaid principal and interest no later than thirty days after final closing on such sale.

On June 29, 2010, the Rock Rapids Municipal Utilities loaned \$75,000 to the Rock Rapids Development Corporation to be used toward the purchase of a 5 acre parcel of real estate. This promissory draw note loan earns interest at a rate of 3.1% per annum (accrued interest is to be paid annually with interest computed through June 30th of each year) and is secured by a real estate mortgage on the 5 acre parcel of real estate noted above.

This promissory note shall be for a period of ten years with interest only payable annually. The Rock Rapids Development Corporation shall have the right to make additional principal payments at any time. However, upon the sale, gift, or transfer in any way of any part of all of the five acres, the Rock Rapids Development Corporation shall be required to pay to the Rock Rapids Municipal Utilities \$15,000 per acre transferred. The Rock Rapids Development Corporation shall pay this amount to the Rock Rapids Municipal Utilities no later than 30 days after any transfer of real estate.

As of June 30, 2010, the balance on these notes receivable was \$215,000 as no payments had been received on these promissory notes. Accrued interest income of \$2,637 has been recognized for fiscal year ended June 30, 2010 on these notes receivable.

(5) Capital Assets

Capital assets activity for the fiscal year ended June 30, 2010 was as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business Type Activities:				
Capital Assets Not Being Depreciated/Amortized:				
Land	\$ 179,729	0	(642)	179,087
Construction Work in Progress (*)	453,677	228,047	(386,489)	295,235
Total Capital Assets Not Being Depreciated/Amortized	633,406	228,047	(387,131)	474,322
Capital Assets Being Depreciated/Amortized:				
Utility Plant	14,251,741	599,852	(18,785)	14,832,808
Transportation Equipment	240,850	0	(0)	240,850
Office Equipment	70,477	7,297	(37,992)	39,782
Tools and Safety Devices	281,962	10,499	(12,145)	280,316
Communication Equipment	10,503	0	(2,426)	8,077
Meter Testing Equipment	21,903	0	(0)	21,903
Intangibles	0	34,045	(0)	34,045
Total Capital Assets Being Depreciated/Amortized	14,877,436	651,693	(71,348)	15,457,781
Less Accumulated Depreciation/Amortization For:				
Utility Plant	7,819,009	317,257	(14,972)	8,121,294
Transportation Equipment	184,310	14,923	(0)	199,233

Office Equipment	57,659	2,180	(34,140)	25,699
Tools and Safety Devices	205,098	19,228	(11,725)	212,601
Communication Equipment	10,504	0	(2,425)	8,079
Meter Testing Equipment	21,903	0	(0)	21,903
Intangibles	0	2,269	(0)	2,269
Total Accumulated Depreciation/Amortization	<u>8,298,483</u>	<u>355,857</u>	<u>(63,262)</u>	<u>8,591,078</u>
Total Capital Assets Being Depreciated/Amortized, Net	<u>6,578,953</u>	<u>295,836</u>	<u>(8,086)</u>	<u>6,866,703</u>
Business Type Capital Assets, Net (*)	<u>\$7,212,359</u>	<u>523,883</u>	<u>(395,217)</u>	<u>7,341,025</u>

(*) The beginning of the year balance for the construction work in progress account was increased by \$34,711 due to reclassifying \$34,711 in member specific capital asset costs from the Lewis & Clark project membership account.

Depreciation/amortization expense was charged to the different Utilities as follows:

Business Type Activities:	
Electric Utility	\$ 213,367
Water Utility	75,361
Sewer Utility	30,434
Gas Utility	<u>36,695</u>
Total Depreciation/Amortization Expense – Business Type Activities	<u>\$355,857</u>

(6) Lewis & Clark Project Membership – Related Party

On June 27, 2002, the Rock Rapids Municipal Utilities entered into an agreement with the Lewis and Clark Regional Water System, Inc. to become a member in Lewis & Clark Regional Water System, Inc. On December 22, 2005, the Rock Rapids Municipal Utilities entered into an amended and restated commitment agreement with the Lewis & Clark Regional Water System, Inc. In the amended and restated commitment agreement, the Utilities agrees to pay the Utilities' allocated construction percentage of the base system costs (examples: administrative, overhead, engineering, financing, debt service, legal costs and fees), related membership/lobbying fees and to directly pay for design and construction of service lines plus any other member specific costs. As of June 30, 2010, the Utilities has paid/accrued \$1,047,777 toward the cost of membership, which includes base system costs and related membership/lobbying fees (\$3,963 was paid/accrued during fiscal year ended June 30, 2010). The Utilities has also paid/accrued \$41,245 for design and construction of service lines plus other member specific fees that the Utilities is including in the Construction Work in Progress account (\$6,534 was paid/accrued during fiscal year ended June 30, 2010).

As of June 30, 2010, the Utilities has paid all of its projected allocated construction percentage of the base system costs. There have been no formal projections of the continuing related membership/lobbying fees or of the member specific costs to be incurred yet as of June 30, 2010.

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 membership fees, 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 follows:

Fund	Description	Amount
Electric Utility	State Sales and Use Tax	\$ 5,249
Water Utility	State Sales and Use Tax	1,438
Sewer Utility	State Sales and Use Tax	220
Gas Utility	State Sales and Use Tax	<u>1,234</u>
Total		<u>\$ 8,141</u>

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

Fund	Description	Amount
Electric Utility	Expense Reimbursement	\$ 168
Water Utility	Expense Reimbursement	90
Sewer Utility	Expense Reimbursement	45
Gas Utility	Garbage/Recycling Collections and Expense Reimbursement	<u>18,480</u>
Total		<u>\$ 18,783</u>

(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, 2010, the Utilities is reporting WTFAP Grant income of \$68,621 in the Sewer Utility Fund (reported as a “special item”). As of June 30, 2010, a total of \$87,877 of the possible \$111,135 WTFAP Grant has been recorded as revenue in the Sewer Utility Fund.

(9) Major Customers

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 \$207,590 or 44.4% of the total operating water revenues for the fiscal year ended June 30, 2010.

Farmers Elevator Cooperative was a major customer of the Gas Utility for the fiscal year ended June 30, 2010. Gas sales to the Farmers Elevator Cooperative amounted to \$119,560 or 9.9% of the total operating gas revenues for the fiscal year ended June 30, 2010.

(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 4.30% of their annual covered salary and the Municipal Utilities is required to contribute 6.65% of covered salary. Contribution requirements are established by state statute. The Utilities’ contributions to IPERS for the years ended June 30, 2010, 2009 and 2008 were \$35,491, \$33,462 and \$30,720, 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 the Sanford Health Plan during the fiscal year ended June 30, 2010. As of June 30, 2010, 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

The Utilities has been approved for a \$300,000 USDA Rural Utility Services Grant. The Utilities has committed a \$60,000 match from the Gas Utility Fund when the grant is completely processed and received. The grant and match will be used to start a revolving loan program.

In March 2009, the Utilities entered into a contract for \$93,845 (\$93,300 plus \$545 in change orders) for a disinfection equipment addition project. As of June 30, 2010 costs of \$93,845 have been incurred by the Utilities and \$89,153 paid by the Utilities on this contract. Payment for the remaining \$4,692 on the project will be made from the Sewer Fund after the final inspection and approval is granted for this project.

During the fiscal year ended June 30, 2010, 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 is paying 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 cost of the project is \$63,396 (\$59,779 plus \$3,617 in change orders). As of June 30, 2010, costs of \$36,299 have been incurred by the Utilities on this contract but nothing had been paid by the Utilities on this contract. The remaining cost of \$63,396 will be paid as work on the project progresses.

The Utilities and the City have been approved for a \$105,579 Energy Efficiency and Conservation Block Grant for the purpose of replacing street lighting in Rock Rapids. The Utilities and the City must match the \$105,579 grant. The Utilities has committed to match \$103,579 from the Electric Fund (\$91,921 in cash and \$11,658 in the form of in-kind labor contributions to the project). Additionally, the City of Rock Rapids will provide in-kind labor contributions to the project of \$2,000.

(14) Subsequent Events

In August 2010, the Utilities paid the remaining \$4,692 on the disinfection equipment addition project.

In September 2010, the Utilities awarded a \$121,221 contract for substation improvements for the Electric Utility. Additionally, the Board approved the purchase of interrupters for \$80,636 for this substation improvement project.

In September 2010, the Board approved a \$39,902 contract for Scada system improvements for the Sewer Utility.

From July 2010 through November 2010, the Utilities reimbursed the City of Rock Rapids a total of \$63,396 on the water distribution system improvements project contract.

(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, 2010

	Proprietary Funds Actual	Budgeted Amount	Final to Actual Variance
Receipts:			
Electric Utility	\$ 1,848,268	2,082,301	(234,033)
Water Utility	434,876	514,104	(79,228)
Sewer Utility	288,775	277,483	11,292
Gas Utility	1,390,622	1,413,905	(23,283)
Total Receipts	<u>3,962,541</u>	<u>4,287,793</u>	<u>(325,252)</u>
Disbursements (Business Type/Enterprises Activities Function):			
Electric Utility	1,821,549	2,052,175	230,626
Water Utility	486,758	459,725	(27,033)
Sewer Utility	322,946	242,575	(80,371)
Gas Utility	1,470,686	1,483,324	12,638
Total Disbursements (Business Type/Enterprises Activities Function)	<u>4,101,939</u>	<u>4,237,799</u>	<u>135,860</u>
Excess (Deficiency) of Receipts Over (Under) Disbursements	(139,398)	49,994	(189,392)
Cash and Certificates of Deposit (Unrestricted and Restricted) – Balances Beginning of Year	<u>5,564,337</u>	<u>4,916,234</u>	<u>648,103</u>
Cash and Certificates of Deposit (Unrestricted and Restricted) – Balances End of Year	<u>\$ 5,424,939</u>	<u>4,966,228</u>	<u>458,711</u>

See Accompanying Independent Auditor's Report.

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

Budgetary Comparison Schedule - Budget to GAAP Reconciliation

Required Supplementary Information

For the Fiscal Year Ended June 30, 2010

	Proprietary Funds		
	Enterprise		
	Cash Basis	Accrual Adjustments	Accrual Basis
Receipts/Revenues	\$3,962,541	24,619	3,987,160
Disbursements/Expenses	4,101,939	(329,668)	3,772,271
Net	(139,398)	354,287	214,889
Beginning Net Assets	5,564,337	8,407,513	13,971,850
Ending Net Assets	\$5,424,939	8,761,800	14,186,739

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, 2010

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 all its receipts under the “charges for fees and service” classification. Actual receipts primarily came from the “charges for fees and service” classification; however, the Utilities did have some receipts come from the “use of money and property”, “intergovernmental” and “miscellaneous” receipts classifications. 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/enterprises activities. All Utility disbursements are included in the “business type/enterprises 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 fiscal year, there were no budget amendments for the Rock Rapids Municipal Utilities.

During the year ended June 30, 2010, disbursements in the business type/enterprises activities function for the Rock Rapids Municipal Utilities did not exceed in total for all funds combined the amount budgeted as part of the City of Rock Rapids’ adopted budget.

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

Other Supplementary Information

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

	June 30,		Amount of Change	Percentage of Change
	2010	2009		
Assets				
Current Assets:				
Cash	\$ 355,857	430,622	(74,765)	(17%)
Certificates of Deposit	1,305,000	1,205,000	100,000	8%
Accounts Receivable	126,356	97,579	28,777	29%
Due From Other Governments (Related Party)	11,784	4,120	7,664	186%
Due From Other Governments	5,257	9,926	(4,669)	(47%)
Interest Receivable	6,284	10,642	(4,358)	(41%)
Flex Spending Receivable	0	3,541	(3,541)	(100%)
Inventory	47,353	51,230	(3,877)	(8%)
Prepaid Expenses	24,902	25,887	(985)	(4%)
Total Current Assets	1,882,793	1,838,547	44,246	2%
Restricted Cash:				
Customer Deposits	17,691	16,207	1,484	9%
Capital Assets:				
Land	46,913	47,127	(214)	(0%)
Utility Plant	7,917,388	7,801,837	115,551	1%
Transportation Equipment	111,468	111,468	0	0%
Office Equipment	24,958	36,626	(11,668)	(32%)
Tools and Safety Devices	129,052	130,314	(1,262)	(1%)
Communication Equipment	7,071	8,548	(1,477)	(17%)
Meter Testing Equipment	16,235	16,235	0	0%
Intangibles	11,990	0	11,990	N/A
Total Capital Assets (Before W.I.P)	8,265,075	8,152,155	112,920	1%
Less: Accumulated Depreciation/Amortization	(4,392,355)	(4,196,554)	(195,801)	5%
Capital Assets – Net (Before W.I.P)	3,872,720	3,955,601	(82,881)	(2%)
Construction Work in Progress	8,940	6,586	2,354	36%
Net Capital Assets	3,881,660	3,962,187	(80,527)	(2%)
Total Assets	5,782,144	5,816,941	(34,797)	(1%)

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

	June 30,		Amount of Change	Percentage of Change
	2010	2009		
Liabilities				
Current Liabilities (Payable From Current Assets):				
Accounts Payable	21,561	62,022	(40,461)	(65%)
Due To Other Governments (Related Party)	168	168	0	0%
Due To Other Governments	5,249	10,126	(4,877)	(48%)
Accrued Vacation and Sick Pay	26,764	24,469	2,295	9%
Accrued Payroll & Payroll Liabilities	3,926	3,219	707	22%
Flex Spending Payable	1,928	0	1,928	N/A
Unearned Income	147	0	147	N/A
Total Current Liabilities (Payable From Current Assets)	59,743	100,004	(40,261)	(40%)
Liabilities Payable From Restricted Cash:				
Customer Deposits	17,691	16,207	1,484	9%
Total Liabilities	77,434	116,211	(38,777)	(33%)
Net Assets				
Invested in Capital Assets	3,881,660	3,962,187	(80,527)	(2%)
Unrestricted	1,823,050	1,738,543	84,507	5%
Total Net Assets	\$ 5,704,710	5,700,730	3,980	0%

See Accompanying Independent Auditor's Report.

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

	June 30,		Amount of Change	Percentage of Change
	2010	2008		
Assets				
Current Assets:				
Cash	\$ 355,857	489,428	(133,571)	(27%)
Certificates of Deposit	1,305,000	955,000	350,000	37%
Accounts Receivable	126,356	112,974	13,382	12%
Due From Other Governments (Related Party)	11,784	2,722	9,062	333%
Due From Other Governments	5,257	5,150	107	2%
Interest Receivable	6,284	10,427	(4,143)	(40%)
Inventory	47,353	37,904	9,449	25%
Prepaid Expenses	24,902	22,537	2,365	10%
Total Current Assets	1,882,793	1,636,142	246,651	15%
Restricted Cash:				
Customer Deposits	17,691	14,788	2,903	20%
Capital Assets:				
Land	46,913	47,127	(214)	(0%)
Utility Plant	7,917,388	7,699,739	217,649	3%
Transportation Equipment	111,468	115,132	(3,664)	(3%)
Office Equipment	24,958	37,048	(12,090)	(33%)
Tools and Safety Devices	129,052	111,997	17,055	15%
Communication Equipment	7,071	16,206	(9,135)	(56%)
Meter Testing Equipment	16,235	16,235	0	0%
Intangibles	11,990	0	11,990	N/A
Total Capital Assets (Before W.I.P)	8,265,075	8,043,484	221,591	3%
Less: Accumulated Depreciation/Amortization	(4,392,355)	(3,996,438)	(395,917)	10%
Capital Assets – Net (Before W.I.P)	3,872,720	4,047,046	(174,326)	(4%)
Construction Work in Progress	8,940	0	8,940	N/A
Net Capital Assets	3,881,660	4,047,046	(165,386)	(4%)
Total Assets	5,782,144	5,697,976	84,168	1%

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

	June 30,		Amount of Change	Percentage of Change
	2010	2008		
Liabilities				
Current Liabilities (Payable From Current Assets):				
Accounts Payable	21,561	21,894	(333)	(2%)
Due To Other Governments (Related Party)	168	0	168	N/A
Due To Other Governments	5,249	5,615	(366)	(7%)
Accrued Vacation and Sick Pay	26,764	22,822	3,942	17%
Accrued Payroll & Payroll Liabilities	3,926	2,302	1,624	71%
Flex Spending Payable	1,928	1,555	373	24%
Unearned Income	147	206	(59)	(29%)
Total Current Liabilities (Payable From Current Assets)	59,743	54,394	5,349	10%
Liabilities Payable From Restricted Cash:				
Customer Deposits	17,691	14,788	2,903	20%
Total Liabilities	77,434	69,182	8,252	12%
Net Assets				
Invested in Capital Assets	3,881,660	4,047,046	(165,386)	(4%)
Unrestricted	1,823,050	1,581,748	241,302	15%
Total Net Assets	\$ 5,704,710	5,628,794	75,916	1%

See Accompanying Independent Auditor's Report.

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

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

	For the Fiscal Year Ended June 30,		Amount of Change	Percentage of Change
	2010	2009		
Operating Revenues:				
Residential Sales	\$ 911,890	854,114	57,776	7%
Commercial Sales	877,898	840,430	37,468	4%
Public Street and Highway Lighting	29,161	27,458	1,703	6%
Wind Power – Residential and Commercial	552	564	(12)	(2%)
Material and Service Sales	6,884	11,087	(4,203)	(38%)
Service Income	3,189	3,296	(107)	(3%)
Service Income (Related Party)	4,045	3,091	954	31%
Total Operating Revenues	1,833,619	1,740,040	93,579	5%
Operating Expenses:				
Production/Processing Expense	1,126,899	1,032,432	94,467	9%
Distribution Expense	151,669	152,197	(528)	(0%)
Accounting and Collecting	32,259	30,253	2,006	7%
Administrative and General	178,949	175,741	3,208	2%
Free Community Service (Related Party)	115,267	108,970	6,297	6%
Free Community Service	8,500	9,045	(545)	(6%)
Transportation	11,654	5,160	6,494	126%
Depreciation	213,367	211,860	1,507	1%
Payroll Taxes	28,311	24,737	3,574	14%
Total Operating Expenses	1,866,875	1,750,395	116,480	7%
Operating Loss	(33,256)	(10,355)	(22,901)	221%
Nonoperating Revenues (Expenses):				
Rentals	1,000	206	794	385%
Rentals (Related Party)	5,000	5,000	0	0%
Customer Penalties	869	691	178	26%
Miscellaneous Income	72	214	(142)	(66%)
Interest Income	32,291	43,468	(11,177)	(26%)
Free Community Service Agreement	526	4,234	(3,708)	(88%)
Loss on Disposal of Capital Assets	(2,351)	0	(2,351)	N/A
Interest Expense	(171)	(425)	254	(60%)
Net Nonoperating Revenues (Expenses)	37,236	53,388	(16,152)	(30%)
Change in Net Assets Before Other Financing Source	3,980	43,033	(39,053)	(91%)
Other Financing Source:				
Operating Transfers In (Closing of the Communications Utility Fund)	0	28,903	(28,903)	(100%)
Change in Net Assets After Other Financing Source	3,980	71,936	(67,956)	(94%)
Net Assets Beginning of Year	5,700,730	5,628,794	71,936	1%
Net Assets End of Year	\$ 5,704,710	5,700,730	3,980	0%

See Accompanying Independent Auditor's Report.

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

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

	For the Fiscal Year Ended June 30,		Amount of Change	Percentage of Change
	2010	2008		
Operating Revenues:				
Residential Sales	\$ 911,890	705,333	206,557	29%
Commercial Sales	877,898	800,350	77,548	10%
Public Street and Highway Lighting	29,161	22,884	6,277	27%
Wind Power – Residential and Commercial	552	582	(30)	(5%)
Material and Service Sales	6,884	34,510	(27,626)	(80%)
Service Income	3,189	4,033	(844)	(21%)
Service Income (Related Party)	4,045	3,091	954	31%
Total Operating Revenues	1,833,619	1,570,783	262,836	17%
Operating Expenses:				
Production/Processing Expense	1,126,899	912,709	214,190	23%
Distribution Expense	151,669	148,964	2,705	2%
Accounting and Collecting	32,259	30,246	2,013	7%
Administrative and General	178,949	190,952	(12,003)	(6%)
Free Community Service (Related Party)	115,267	105,691	9,576	9%
Free Community Service	8,500	27,454	(18,954)	(69%)
Transportation	11,654	12,643	(989)	(8%)
Depreciation	213,367	208,900	4,467	2%
Payroll Taxes	28,311	24,932	3,379	14%
Total Operating Expenses	1,866,875	1,662,491	204,384	12%
Operating Loss	(33,256)	(91,708)	58,452	(64%)
Nonoperating Revenues (Expenses):				
Gain on Sale of Capital Assets	0	15,775	(15,775)	(100%)
Rentals	1,000	544	456	84%
Rentals (Related Party)	5,000	5,000	0	0%
Customer Penalties	869	733	136	19%
Miscellaneous Income	72	7	65	929%
Insurance Income	0	1,539	(1,539)	(100%)
Interest Income	32,291	66,919	(34,628)	(52%)
Free Community Service Agreement	526	0	526	N/A
Loss on Disposal of Capital Assets	(2,351)	0	(2,351)	N/A
Interest Expense	(171)	(992)	821	(83%)
Net Nonoperating Revenues (Expenses)	37,236	89,525	(52,289)	(58%)
Change in Net Assets	3,980	(2,183)	6,163	(282%)
Net Assets Beginning of Year	5,700,730	5,630,977	69,753	1%
Net Assets End of Year	\$ 5,704,710	5,628,794	75,916	1%

See Accompanying Independent Auditor's Report.

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

	June 30,		Amount of Change	Percentage of Change
	2010	2009		
Assets				
Current Assets:				
Cash	\$ 338,226	441,098	(102,872)	(23%)
Certificates of Deposit	50,000	0	50,000	N/A
Accounts Receivable	36,406	39,276	(2,870)	(7%)
Due From Other Governments (Related Party)	721	646	75	12%
Due From Other Governments	695	791	(96)	(12%)
Interest Receivable	93	0	93	N/A
Inventory	25,856	27,137	(1,281)	(5%)
Prepaid Expenses	14,698	15,177	(479)	(3%)
Total Current Assets	466,695	524,125	(57,430)	(11%)
Restricted Cash:				
Customer Deposits	5,580	4,590	990	22%
Capital Assets:				
Land	118,311	118,525	(214)	(0%)
Utility Plant	3,974,790	3,573,476	401,314	11%
Transportation Equipment	18,330	18,330	0	0%
Office Equipment	6,498	11,948	(5,450)	(46%)
Tools and Safety Devices	45,116	46,508	(1,392)	(3%)
Communication Equipment	1,006	1,955	(949)	(49%)
Meter Testing Equipment	5,668	5,668	0	0%
Intangibles	6,710	0	6,710	N/A
Total Capital Assets (Before W.I.P.)	4,176,429	3,776,410	400,019	11%
Less: Accumulated Depreciation/Amortization	(2,286,885)	(2,225,009)	(61,876)	3%
Capital Assets - Net (Before W.I.P.)	1,889,544	1,551,401	338,143	22%
Construction Work in Progress	139,193	399,734	(260,541)	(65%)
Net Capital Assets	2,028,737	1,951,135	77,602	4%
Other Assets:				
Lewis & Clark Project Membership (Related Party)	1,047,777	1,043,814	3,963	0%
Total Assets	3,548,789	3,523,664	25,125	1%

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

	June 30,		Amount of Change	Percentage of Change
	2010	2009		
Liabilities				
Current Liabilities (Payable From Current Assets):				
Accounts Payable	15,542	11,879	3,663	31%
Due To Other Fund	50,639	49,505	1,134	2%
Due To Other Governments (Related Party)	90	90	0	0%
Due To Other Governments	1,438	1,482	(44)	(3%)
Contracts Payable	36,299	7,761	28,538	368%
Accrued Vacation and Sick Pay	11,791	11,697	94	1%
Accrued Payroll & Payroll Liabilities	3,157	1,937	1,220	63%
Total Current Liabilities (Payable From Current Assets)	118,956	84,351	34,605	41%
Liabilities Payable From Restricted Cash:				
Customer Deposits	5,580	4,590	990	22%
Long Term Debt:				
Advance From Other Fund	619,624	660,388	(40,764)	(6%)
Total Liabilities	744,160	749,329	(5,169)	(1%)
Net Assets				
Invested in Capital Assets	2,028,737	1,951,135	77,602	4%
Unrestricted	775,892	823,200	(47,308)	(6%)
Total Net Assets	\$ 2,804,629	2,774,335	30,294	1%

See Accompanying Independent Auditor's Report.

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

	June 30,		Amount of Change	Percentage of Change
	2010	2008		
Assets				
Current Assets:				
Cash	\$ 338,226	630,050	(291,824)	(46%)
Certificates of Deposit	50,000	55,000	(5,000)	(9%)
Accounts Receivable	36,406	48,267	(11,861)	(25%)
Due From Other Governments (Related Party)	721	442	279	63%
Due From Other Governments	695	549	146	27%
Interest Receivable	93	746	(653)	(88%)
Inventory	25,856	30,979	(5,123)	(17%)
Prepaid Expenses	14,698	14,897	(199)	(1%)
Total Current Assets	466,695	780,930	(314,235)	(40%)
Restricted Cash:				
Customer Deposits	5,580	3,820	1,760	46%
Capital Assets:				
Land	118,311	118,525	(214)	(0%)
Utility Plant	3,974,790	3,573,476	401,314	11%
Transportation Equipment	18,330	18,330	0	0%
Office Equipment	6,498	12,189	(5,691)	(47%)
Tools and Safety Devices	45,116	46,508	(1,392)	(3%)
Communication Equipment	1,006	1,955	(949)	(49%)
Meter Testing Equipment	5,668	5,668	0	0%
Intangibles	6,710	0	6,710	N/A
Total Capital Assets (Before W.I.P.)	4,176,429	3,776,651	399,778	11%
Less: Accumulated Depreciation/Amortization	(2,286,885)	(2,138,820)	(148,065)	7%
Capital Assets - Net (Before W.I.P.)	1,889,544	1,637,831	251,713	15%
Construction Work in Progress	139,193	149,549	(10,356)	(7%)
Net Capital Assets	2,028,737	1,787,380	241,357	14%
Other Assets:				
Lewis & Clark Project Membership (Related Party)	1,047,777	861,869	185,908	22%
Total Assets	3,548,789	3,433,999	114,790	3%

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

	June 30,		Amount of Change	Percentage of Change
	2010	2008		
Liabilities				
Current Liabilities (Payable From Current Assets):				
Accounts Payable	15,542	6,685	8,857	132%
Due To Other Fund	50,639	48,375	2,264	5%
Due To Other Governments (Related Party)	90	0	90	N/A
Due To Other Governments	1,438	1,408	30	2%
Contracts Payable	36,299	0	36,299	N/A
Accrued Vacation and Sick Pay	11,791	10,998	793	7%
Accrued Payroll & Payroll Liabilities	3,157	2,114	1,043	49%
Total Current Liabilities (Payable From Current Assets)	118,956	69,580	49,376	71%
Liabilities Payable From Restricted Cash:				
Customer Deposits	5,580	3,820	1,760	46%
Long Term Debt:				
Advance From Other Fund	619,624	699,427	(79,803)	(11%)
Total Liabilities	744,160	772,827	(28,667)	(4%)
Net Assets				
Invested in Capital Assets	2,028,737	1,787,380	241,357	14%
Unrestricted	775,892	873,792	(97,900)	(11%)
Total Net Assets	\$ 2,804,629	2,661,172	143,457	5%

See Accompanying Independent Auditor's Report.

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

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

	For the Fiscal Year Ended June 30,		Amount of Change	Percentage of Change
	2010	2009		
Operating Revenues:				
Water Sales – Metered	\$ 257,463	257,641	(178)	(0%)
Water Sales – Rural Water System	207,590	241,175	(33,585)	(14%)
Water Sales – Tank Loads	612	2,613	(2,001)	(77%)
Material and Service Sales	73	797	(724)	(91%)
Service Income	374	864	(490)	(57%)
Service Income (Related Party)	2,311	1,767	544	31%
Total Operating Revenues	468,423	504,857	(36,434)	(7%)
Operating Expenses:				
Production/Processing Expense	78,583	76,898	1,685	2%
Distribution Expense	126,900	81,426	45,474	56%
Accounting and Collecting	16,645	15,042	1,603	11%
Administrative and General	88,230	80,669	7,561	9%
Free Community Service	1,400	1,400	0	0%
Transportation	2,316	2,859	(543)	(19%)
Depreciation	75,361	86,430	(11,069)	(13%)
Payroll Taxes	17,204	19,159	(1,955)	(10%)
Total Operating Expenses	406,639	363,883	42,756	12%
Operating Income	61,784	140,974	(79,190)	(56%)
Nonoperating Revenues (Expenses):				
Rentals	880	1,680	(800)	(48%)
Customer Penalties	153	96	57	59%
Interest Income	671	2,461	(1,790)	(73%)
Loss on Disposal of Capital Assets	(2,867)	0	(2,867)	N/A
Interest Expense (Gas Fund)	(30,327)	(32,048)	1,721	(5%)
Net Nonoperating Revenues (Expenses)	(31,490)	(27,811)	(3,679)	13%
Change in Net Assets	30,294	113,163	(82,869)	(73%)
Net Assets Beginning of Year	2,774,335	2,661,172	113,163	4%
Net Assets End of Year	\$ 2,804,629	2,774,335	30,294	1%

See Accompanying Independent Auditor's Report.

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

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

	For the Fiscal Year Ended June 30,		Amount of Change	Percentage of Change
	2010	2008		
Operating Revenues:				
Water Sales – Metered	\$ 257,463	245,792	11,671	5%
Water Sales – Rural Water System	207,590	226,706	(19,116)	(8%)
Water Sales – Tank Loads	612	1,115	(503)	(45%)
Material and Service Sales	73	5,703	(5,630)	(99%)
Service Income	374	690	(316)	(46%)
Service Income (Related Party)	2,311	1,767	544	31%
Total Operating Revenues	468,423	481,773	(13,350)	(3%)
Operating Expenses:				
Production/Processing Expense	78,583	88,605	(10,022)	(11%)
Distribution Expense	126,900	66,082	60,818	92%
Accounting and Collecting	16,645	15,182	1,463	10%
Administrative and General	88,230	100,948	(12,718)	(13%)
Free Community Service (Related Party)	0	1,000	(1,000)	(100%)
Free Community Service	1,400	2,200	(800)	(36%)
Transportation	2,316	3,053	(737)	(24%)
Depreciation	75,361	92,570	(17,209)	(19%)
Payroll Taxes	17,204	15,646	1,558	10%
Total Operating Expenses	406,639	385,286	21,353	6%
Operating Income	61,784	96,487	(34,703)	(36%)
Nonoperating Revenues (Expenses):				
Rentals	880	5,680	(4,800)	(85%)
Customer Penalties	153	110	43	39%
Interest Income	671	22,570	(21,899)	(97%)
Loss on Disposal of Capital Assets	(2,867)	0	(2,867)	N/A
Interest Expense (Gas Fund)	(30,327)	(33,655)	3,328	(10%)
Net Nonoperating Revenues (Expenses)	(31,490)	(5,295)	(26,195)	495%
Change in Net Assets	30,294	91,192	(60,898)	(67%)
Net Assets Beginning of Year	2,774,335	2,569,980	204,355	8%
Net Assets End of Year	\$ 2,804,629	2,661,172	143,457	5%

See Accompanying Independent Auditor's Report.

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

	June 30,		Amount of Change	Percentage of Change
	2010	2009		
Assets				
Current Assets:				
Cash	\$ 230,074	215,887	14,187	7%
Certificates of Deposit	25,000	0	25,000	N/A
Accounts Receivable	19,048	17,754	1,294	7%
Due From Other Governments (Related Party)	618	214	404	189%
Due From Other Governments	9,605	7,597	2,008	26%
Interest Receivable	44	0	44	N/A
Prepaid Expenses	12,284	9,140	3,144	34%
Total Current Assets	296,673	250,592	46,081	18%
Restricted Cash:				
Depreciation Reserves	9,194	82,552	(73,358)	(89%)
Capital Assets:				
Utility Plant	2,031,280	2,008,624	22,656	1%
Transportation Equipment	38,380	38,380	0	0%
Office Equipment	730	4,421	(3,691)	(83%)
Tools and Safety Devices	30,251	25,865	4,386	17%
Intangibles	3,355	0	3,355	N/A
Total Capital Assets (Before W.I.P.)	2,103,996	2,077,290	26,706	1%
Less: Accumulated Depreciation/Amortization	(1,367,903)	(1,353,018)	(14,885)	1%
Capital Assets - Net (Before W.I.P.)	736,093	724,272	11,821	2%
Construction Work in Progress	147,102	32,477	114,625	353%
Net Capital Assets	883,195	756,749	126,446	17%
Total Assets	1,189,062	1,089,893	99,169	9%

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

	June 30,		Amount of Change	Percentage of Change
	2010	2009		
Liabilities				
Current Liabilities (Payable From Current Assets):				
Accounts Payable	9,893	3,851	6,042	157%
Due to Other Fund	14,731	14,048	683	5%
Due To Other Governments (Related Party)	45	45	0	0%
Due To Other Governments	220	203	17	8%
Contracts Payable	4,692	0	4,692	N/A
Accrued Vacation and Sick Pay	11,267	7,193	4,074	57%
Accrued Payroll & Payroll Liabilities	1,651	1,303	348	27%
Total Current Liabilities (Payable From Current Assets)	42,499	26,643	15,856	60%
Long Term Debt:				
Advance From Other Fund	80,167	94,855	(14,688)	(15%)
Total Liabilities	122,666	121,498	1,168	1%
Net Assets				
Invested in Capital Assets, Net of Related Debt	788,339	647,889	140,450	22%
Restricted for:				
Depreciation Reserves	9,194	82,552	(73,358)	(89%)
Unrestricted	268,863	237,954	30,909	13%
Total Net Assets	\$ 1,066,396	968,395	98,001	10%

See Accompanying Independent Auditor's Report.

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

	June 30,		Amount of Change	Percentage of Change
	2010	2008		
Assets				
Current Assets:				
Cash	\$ 230,074	153,948	76,126	49%
Certificates of Deposit	25,000	0	25,000	N/A
Accounts Receivable	19,048	22,976	(3,928)	(17%)
Due From Other Governments (Related Party)	618	208	410	197%
Due From Other Governments	9,605	12,846	(3,241)	(25%)
Interest Receivable	44	85	(41)	(48%)
Prepaid Expenses	12,284	8,868	3,416	39%
Total Current Assets	296,673	198,931	97,742	49%
Restricted Cash:				
Depreciation Reserves	9,194	73,755	(64,561)	(88%)
Capital Assets:				
Utility Plant	2,031,280	2,008,624	22,656	1%
Transportation Equipment	38,380	38,380	0	0%
Office Equipment	730	4,542	(3,812)	(84%)
Tools and Safety Devices	30,251	25,865	4,386	17%
Intangibles	3,355	0	3,355	N/A
Total Capital Assets (Before W.I.P.)	2,103,996	2,077,411	26,585	1%
Less: Accumulated Depreciation/Amortization	(1,367,903)	(1,319,379)	(48,524)	4%
Capital Assets - Net (Before W.I.P.)	736,093	758,032	(21,939)	(3%)
Construction Work in Progress	147,102	21,317	125,785	590%
Net Capital Assets	883,195	779,349	103,846	13%
Total Assets	1,189,062	1,052,035	137,027	13%

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

	June 30,		Amount of Change	Percentage of Change
	2010	2008		
Liabilities				
Current Liabilities (Payable From Current Assets):				
Accounts Payable	9,893	2,423	7,470	308%
Due to Other Fund	14,731	13,401	1,330	10%
Due To Other Governments (Related Party)	45	0	45	N/A
Due To Other Governments	220	236	(16)	(7%)
Contracts Payable	4,692	0	4,692	N/A
Accrued Vacation and Sick Pay	11,267	5,137	6,130	119%
Accrued Payroll & Payroll Liabilities	1,651	766	885	116%
Total Current Liabilities (Payable From Current Assets)	42,499	21,963	20,536	94%
Long Term Debt:				
Advance From Other Fund	80,167	108,860	(28,693)	(26%)
Total Liabilities	122,666	130,823	(8,157)	(6%)
Net Assets				
Invested in Capital Assets, Net of Related Debt	788,339	657,136	131,203	20%
Restricted for:				
Depreciation Reserves	9,194	73,755	(64,561)	(88%)
Unrestricted	268,863	190,321	78,542	41%
Total Net Assets	\$ 1,066,396	921,212	145,184	16%

See Accompanying Independent Auditor's Report.

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

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

	For the Fiscal Year Ended June 30,		Amount of Change	Percentage of Change
	2010	2009		
Operating Revenues:				
Sewer Service	\$ 236,157	237,568	(1,411)	(1%)
Service Income (Related Party)	1,156	883	273	31%
Total Operating Revenues	237,313	238,451	(1,138)	(0%)
Operating Expenses:				
Production/Processing Expense	98,149	97,238	911	1%
Accounting and Collecting	6,565	5,934	631	11%
Administrative and General	51,006	40,627	10,379	26%
Free Community Service (Related Party)	3,694	4,327	(633)	(15%)
Transportation	2,456	2,584	(128)	(5%)
Depreciation	30,434	33,760	(3,326)	(10%)
Payroll Taxes	9,881	9,231	650	7%
Total Operating Expenses	202,185	193,701	8,484	4%
Operating Income	35,128	44,750	(9,622)	(22%)
Nonoperating Revenues (Expenses):				
Customer Penalties	153	104	49	47%
Interest Income	444	858	(414)	(48%)
Loss on Disposal of Capital Assets	(1,450)	0	(1,450)	N/A
Interest Expense (Gas Fund)	(4,895)	(5,542)	647	(12%)
Net Nonoperating Revenues (Expenses)	(5,748)	(4,580)	(1,168)	26%
Change in Net Assets Before Special Item	29,380	40,170	(10,790)	(27%)
Special Item:				
WTFAP Grant	68,621	7,013	61,608	878%
Change in Net Assets After Special Item	98,001	47,183	50,818	108%
Net Assets Beginning of Year	968,395	921,212	47,183	5%
Net Assets End of Year	\$ 1,066,396	968,395	98,001	10%

See Accompanying Independent Auditor's Report.

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

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

	For the Fiscal Year Ended June 30,		Amount of Change	Percentage of Change
	2010	2008		
Operating Revenues:				
Sewer Service	\$ 236,157	241,767	(5,610)	(2%)
Service Income (Related Party)	1,156	883	273	31%
Total Operating Revenues	237,313	242,650	(5,337)	(2%)
Operating Expenses:				
Production/Processing Expense	98,149	101,917	(3,768)	(4%)
Accounting and Collecting	6,565	5,795	770	13%
Administrative and General	51,006	39,705	11,301	28%
Free Community Service (Related Party)	3,694	6,383	(2,689)	(42%)
Transportation	2,456	526	1,930	367%
Depreciation	30,434	35,064	(4,630)	(13%)
Payroll Taxes	9,881	8,708	1,173	13%
Total Operating Expenses	202,185	198,098	4,087	2%
Operating Income	35,128	44,552	(9,424)	(21%)
Nonoperating Revenues (Expenses):				
Gain on Sale of Capital Assets	0	2,200	(2,200)	(100%)
Customer Penalties	153	133	20	15%
Interest Income	444	7,661	(7,217)	(94%)
Loss on Disposal of Capital Assets	(1,450)	0	(1,450)	N/A
Interest Expense (Gas Fund)	(4,895)	(6,180)	1,285	(21%)
Net Nonoperating Revenues (Expenses)	(5,748)	3,814	(9,562)	(251%)
Change in Net Assets Before Special Item	29,380	48,366	(18,986)	(39%)
Special Item:				
WTFAP Grant	68,621	12,244	56,377	460%
Change in Net Assets After Special Item	98,001	60,610	37,391	62%
Net Assets Beginning of Year	968,395	860,602	107,793	13%
Net Assets End of Year	\$ 1,066,396	921,212	145,184	16%

See Accompanying Independent Auditor's Report.

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

	June 30,		Amount of Change	Percentage of Change
	2010	2009		
Assets				
Current Assets:				
Cash	\$ 282,524	211,178	71,346	34%
Certificates of Deposit	2,775,000	2,925,000	(150,000)	(5%)
Accounts Receivable	54,769	14,607	40,162	275%
Due From Other Funds	65,370	63,553	1,817	3%
Due From Other Governments (Related Party)	1,304	207	1,097	530%
Due From Other Governments	1,132	1,067	65	6%
Interest Receivable	16,979	28,765	(11,786)	(41%)
Inventory	43,457	44,881	(1,424)	(3%)
Prepaid Expenses	10,462	10,685	(223)	(2%)
Total Current Assets	3,250,997	3,299,943	(48,946)	(1%)
Restricted Cash:				
Customer Deposits	30,793	32,203	(1,410)	(4%)
Capital Assets:				
Land	13,863	14,077	(214)	(2%)
Utility Plant	909,350	867,804	41,546	5%
Transportation Equipment	72,672	72,672	0	0%
Office Equipment	7,596	17,482	(9,886)	(57%)
Tools and Safety Devices	75,897	79,275	(3,378)	(4%)
Intangibles	11,990	0	11,990	N/A
Total Capital Assets (Before W.I.P)	1,091,368	1,051,310	40,058	4%
Less: Accumulated Depreciation/Amortization	(543,935)	(523,902)	(20,033)	4%
Capital Assets – Net (Before W.I.P)	547,433	527,408	20,025	4%
Construction Work in Progress	0	14,880	(14,880)	(100%)
Net Capital Assets	547,433	542,288	5,145	1%
Other Assets:				
Advances To Other Funds	699,791	755,243	(55,452)	(7%)
Notes Receivable - Rock Rapids Development Corp.	215,000	0	215,000	N/A
Total Other Assets	914,791	755,243	159,548	21%
Total Assets	4,744,014	4,629,677	114,337	2%

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

	June 30,		Amount of Change	Percentage of Change
	2010	2009		
Liabilities				
Current Liabilities (Payable From Current Assets):				
Accounts Payable	3,686	3,107	579	19%
Due To Other Governments (Related Party)	18,480	17,231	1,249	7%
Due To Other Governments	1,234	1,110	124	11%
Accrued Vacation and Sick Pay	22,069	19,993	2,076	10%
Accrued Payroll & Payroll Liabilities	4,222	2,826	1,396	49%
Unearned Income	52,526	24,817	27,709	112%
Total Current Liabilities (Payable From Current Assets)	102,217	69,084	33,133	48%
Liabilities Payable From Restricted Cash:				
Customer Deposits	30,793	32,203	(1,410)	(4%)
Total Liabilities	133,010	101,287	31,723	31%
Net Assets				
Invested in Capital Assets	547,433	542,288	5,145	1%
Unrestricted	4,063,571	3,986,102	77,469	2%
Total Net Assets	\$ 4,611,004	4,528,390	82,614	2%

See Accompanying Independent Auditor's Report.

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

	June 30,		Amount of Change	Percentage of Change
	2010	2008		
Assets				
Current Assets:				
Cash	\$ 282,524	452,592	(170,068)	(38%)
Certificates of Deposit	2,775,000	2,145,000	630,000	29%
Accounts Receivable	54,769	92,238	(37,469)	(41%)
Due From Other Funds	65,370	61,776	3,594	6%
Due From Other Governments (Related Party)	1,304	3,899	(2,595)	(67%)
Due From Other Governments	1,132	7,546	(6,414)	(85%)
Interest Receivable	16,979	31,323	(14,344)	(46%)
Inventory	43,457	46,511	(3,054)	(7%)
Prepaid Expenses	10,462	9,033	1,429	16%
Total Current Assets	3,250,997	2,849,918	401,079	14%
Restricted Cash:				
Customer Deposits	30,793	26,790	4,003	15%
Capital Assets:				
Land	13,863	18,777	(4,914)	(26%)
Utility Plant	909,350	1,008,596	(99,246)	(10%)
Transportation Equipment	72,672	61,940	10,732	17%
Office Equipment	7,596	17,904	(10,308)	(58%)
Tools and Safety Devices	75,897	72,416	3,481	5%
Intangibles	11,990	0	11,990	N/A
Total Capital Assets	1,091,368	1,179,633	(88,265)	(7%)
Less: Accumulated Depreciation/Amortization	(543,935)	(539,666)	(4,269)	1%
Net Capital Assets	547,433	639,967	(92,534)	(14%)
Other Assets:				
Advances To Other Funds	699,791	808,287	(55,452)	(7%)
Notes Receivable - Rock Rapids Development Corp.	215,000	0	215,000	N/A
Total Other Assets	914,791	808,287	159,548	21%
Total Assets	4,744,014	4,324,962	472,096	11%

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

	June 30,		Amount of Change	Percentage of Change
	2010	2008		
Liabilities				
Current Liabilities (Payable From Current Assets):				
Accounts Payable	3,686	1,306	2,380	182%
Due To Other Governments (Related Party)	18,480	18,022	458	3%
Due To Other Governments	1,234	2,418	(1,184)	(49%)
Accrued Vacation and Sick Pay	22,069	18,335	3,734	20%
Accrued Payroll & Payroll Liabilities	4,222	1,641	2,581	157%
Unearned Income	52,526	669	51,857	7,751%
Total Current Liabilities (Payable From Current Assets)	102,217	42,391	59,826	141%
Liabilities Payable From Restricted Cash:				
Customer Deposits	30,793	26,790	4,003	15%
Total Liabilities	133,010	69,181	63,829	92%
Net Assets				
Invested in Capital Assets	547,433	639,967	(92,534)	(14%)
Unrestricted	4,063,571	3,615,814	447,757	12%
Total Net Assets	\$ 4,611,004	4,255,781	355,223	8%

See Accompanying Independent Auditor's Report.

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

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

	For the Fiscal Year Ended June 30,		Amount of Change	Percentage of Change
	2010	2009		
Operating Revenues:				
Residential/Commercial Gas Sales	\$ 1,209,645	1,238,445	(28,800)	(2%)
Material and Service Sales	1,203	103	1,100	1068%
Service Income	2,888	830	2,058	248%
Service Income (Related Party)	4,044	3,091	953	31%
Propane Sold	0	20,024	(20,024)	(100%)
Total Operating Revenues	1,217,780	1,262,493	(44,713)	(4%)
Operating Expenses:				
Production/Processing Expense	907,297	1,068,820	(161,523)	(15%)
Distribution Expense	85,742	101,149	(15,407)	(15%)
Accounting and Collecting	29,983	27,258	2,725	10%
Administrative and General	146,785	131,671	15,114	11%
Free Community Service (Related Party)	15,075	51,000	(35,925)	(70%)
Free Community Service	7,300	11,300	(4,000)	(35%)
Transportation	3,576	4,059	(483)	(12%)
Depreciation	36,695	39,561	(2,866)	(7%)
Payroll Taxes	21,422	19,839	1,583	8%
Total Operating Expenses	1,253,875	1,454,657	(200,782)	(14%)
Operating Loss	(36,095)	(192,164)	156,069	(81%)
Nonoperating Revenues (Expenses):				
Customer Penalties	830	1,243	(413)	(33%)
Gas Rate Case Settlement	3,779	3,456	323	9%
Interest Income	79,514	96,034	(16,520)	(17%)
Interest Income (Water, Sewer Funds)	35,222	37,590	(2,368)	(6%)
Loss on Disposal of Capital Assets	(210)	(41,730)	41,520	(99%)
Interest Expense	(426)	(817)	391	(48%)
Net Nonoperating Revenues (Expenses)	118,709	95,776	22,933	24%
Change in Net Assets Before Special Item	82,614	(96,388)	179,002	(186%)
Special Item:				
Membership Termination - NPGA (Related Party)	0	368,997	(368,997)	(100%)
Change in Net Assets After Special Item	82,614	272,609	(189,995)	(70%)
Net Assets Beginning of Year	4,528,390	4,255,781	272,609	6%
Net Assets End of Year	\$ 4,611,004	4,528,390	82,614	2%

See Accompanying Independent Auditor's Report.

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

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

	For the Fiscal Year Ended June 30,		Amount of Change	Percentage of Change
	2010	2008		
Operating Revenues:				
Residential/Commercial Gas Sales	\$ 1,209,645	1,511,984	(302,339)	(20%)
Material and Service Sales	1,203	1,554	(351)	(23%)
Service Income	2,888	1,137	1,751	154%
Service Income (Related Party)	4,044	3,091	953	31%
Total Operating Revenues	1,217,780	1,517,766	(299,986)	(20%)
Operating Expenses:				
Production/Processing Expense	907,297	1,344,428	(437,131)	(33%)
Distribution Expense	85,742	90,720	(4,978)	(5%)
Accounting and Collecting	29,983	27,983	2,000	7%
Administrative and General	146,785	133,754	13,031	10%
Free Community Service (Related Party)	15,075	44,500	(29,425)	(66%)
Free Community Service	7,300	22,400	(15,100)	(67%)
Transportation	3,576	4,615	(1,039)	(23%)
Depreciation	36,695	38,763	(2,068)	(5%)
Payroll Taxes	21,422	18,299	3,123	17%
Total Operating Expenses	1,253,875	1,725,462	(471,587)	(27%)
Operating Loss	(36,095)	(207,696)	171,601	(83%)
Nonoperating Revenues (Expenses):				
Gain on Sale of Capital Assets	0	5,500	(5,500)	(100%)
Customer Penalties	830	1,484	(654)	(44%)
Gas Rate Case Settlement	3,779	2,481	1,298	52%
Interest Income	79,514	123,876	(44,362)	(36%)
Interest Income (Water, Sewer Funds)	35,222	39,835	(4,613)	(12%)
Loss on Disposal of Capital Assets	(210)	0	(210)	N/A
Interest Expense	(426)	(1,430)	1,004	(70%)
Net Nonoperating Revenues (Expenses)	118,709	171,746	(53,037)	(31%)
Change in Net Assets	82,614	(35,950)	118,564	(330%)
Net Assets Beginning of Year	4,528,390	4,291,731	236,659	6%
Net Assets End of Year	\$ 4,611,004	4,255,781	355,223	8%

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, 2010, which collectively comprise the Utilities' basic financial statements listed in the table of contents, and have issued our report thereon dated January 24, 2011. The report on the business type activities and the proprietary funds was adverse due to management not recording the net other postemployment benefits (OPEB liability), the corresponding OPEB expense and the disclosures on the OPEB obligation in the notes to the financial statements. Accounting principles generally accepted in the United States of America require that the net OPEB liability be reported and expensed, which would increase liabilities and expenses and decrease net assets of the business type activities and the proprietary funds and that certain information/data be disclosed in the notes to the financial statements in regards to the OPEB. The amounts by which this departure would affect the liabilities, net assets and expenses of the business type activities and the proprietary funds and the failure to report the required OPEB disclosures are not reasonably determinable. 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 and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control over financial reporting we consider to be material weaknesses and other deficiencies we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect

and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the Rock Rapids Municipal Utilities' financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies in the Rock Rapids Municipal Utilities' internal control described in the accompanying Schedule of Findings as items (A), (B), (C) and (D) to be material weaknesses.

A significant deficiency is a deficiency or combination of deficiencies in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings as items (E) and (F) to be significant deficiencies.

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 which 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, 2010 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, constituents and customers of the Rock Rapids Municipal Utilities and other parties to whom the Utilities may report, including any grantor entities, and 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 24, 2011

**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, 2010

Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

10-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. The Utilities inability to eliminate segregation of duties issues reduces the effectiveness of the Utilities control environment and increases the risk of material errors, theft or fraud not being detected.

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/governing body members to provide additional control through review of financial transactions and reports.

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

Recommendation – Employees should be cross-trained to be able to perform a fellow employee’s duties. The Utilities should utilize this cross-training to have each person’s duties done by another employee for a period of time each fiscal year. This is important in case an employee unexpectedly becomes unavailable for an extended period of time and serves as an important aspect in the control environment.

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

Conclusion – Response accepted.

10-C 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

Rock Rapids Municipal Utilities
A Component Unit of the City of Rock Rapids
Schedule of Findings
Year Ended June 30, 2010

the Utilities to properly include these amounts and disclosures in the financial statements and notes except as previously noted for the OPEB obligation.

Recommendation – The Utilities should implement procedures and controls and conduct staff training 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 monitoring procedures and controls and 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 and controls in all accounting aspects to identify areas where we can improve on our financial records/reporting going forward.

Conclusion – Response accepted.

10-D 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 the possible benefits of 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. Please attempt to develop inventory procedures and monitoring that will be consistently applied to increase accuracy, controls and efficiency.

10-E Payroll Procedures – We noted a couple instances where there was no written absentee slip and a couple instances where there was no absentee slip approval documented by the employee’s supervisor for compensated absence time payment. We also noted an instance where there was no supervisor approval noted on an employee’s time card.

Recommendation – Absentee slips should be completed and approved by an employee’s supervisor for all compensated absences before payment is authorized. A supervisor should be noting approval in writing on all employee time cards.

Response – We will continue to work on improving payroll procedures for absentee slips and time cards.

Conclusion – Response accepted.

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10-F Disbursement Procedures – We noted several instances where the only supporting documentation on file was a copy of a credit card slip (no detailed support).

Recommendation – All disbursements, including employee reimbursements and credit card charges, need to be supported by an actual receipt or invoice that supports the disbursement in detail. This receipt or invoice needs to be marked “paid” or otherwise cancelled upon payment to avoid duplicate payment and needs to be retained and filed as proof for the disbursement.

Response – We will evaluate our disbursement procedures in an attempt to identify ways we can eliminate this issue.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

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Other Findings Related to Required Statutory Reporting:

10-1 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, 2010 did not exceed the amount budgeted for the Rock Rapids Municipal Utilities in the business type/enterprises activities function.

10-2 Questionable Expenses – Certain expenses were noted that we believe 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 or the necessary documentation to support the expense was not present. These expenses are detailed as follows:

The Utilities purchased some food for Board of Trustees meetings. Also, the only support for several credit card charges was a copy of a credit card slip (there was no detailed receipt/supporting documentation).

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

Recommendation – The Utilities Board should determine and document the public purpose served by these expenses before authorizing any further payments. If this practice is continued, the Utilities Board should establish written policies (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. All disbursements, including credit card charges, should be supported by an actual receipt/invoice that supports the expense in detail.

Response – Based on a discussion with a State of Iowa employee, we believe the food for meetings satisfies the public purpose criteria. We will evaluate our disbursement procedures to make sure we retain proper supporting documentation.

Conclusion – Response accepted. We do believe the Utilities should formally adopt a written food, gifts, and sustenance purchases policy.

10-3 Travel Expense – No expenses of Utilities money for travel expenses of spouses of Utilities officials or employees were noted. However, please see “Other Findings Related to Required Statutory Reporting: 10-2” for a possible related comment.

10-4 Business Transactions – No business transactions between the Utilities and Utilities officials or employees were noted.

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10-5 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.

10-6 Board Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not, except that the decision to discontinue an annual subsidy of the gas billings in an amount totaling \$100,000 annually plus interest (as approved in the December 27, 2007 Board minutes) was never formally approved in the Board minutes.

Recommendation – The Board’s decision to discontinue the subsidizing of the gas billings, as previously approved by the Board on December 27, 2007, should have been formally approved in the Board minutes.

Response – We will evaluate this compliance issue. We will attempt to make sure all required decisions are documented in the Board minutes.

Conclusion – Response accepted.

10-7 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 “Other Findings Related to Required Statutory Reporting: 10-09” for a related issue.

10-8 Revenue Bonds/Notes – The Utilities did not have any revenue bonds or notes payable during the fiscal year ended June 30, 2010.

10-9 Official Depositories – The maximum deposit amounts stated in the resolution naming official depositories were not exceeded during the fiscal year, except for deposits at Premier Bank. The maximum amount of \$3,000,000 was exceeded during most of the January 2010 through June 2010 time period.

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 have increased the maximum authorized deposit amount at Premier Bank to \$4,000,000. We believe this will satisfy your recommendation.

Conclusion – Response accepted.

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10-10 Economic Development – In fiscal year ended June 30, 2010, the Utilities issued \$215,000 in loans to the Rock Rapids Development Corporation. These loans might not be an appropriate use of public funds as there was no written documentation as to the public purpose for these loans.

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 making these kinds of loans before authorizing further loans. Documentation should be maintained of how the funds are being used to accomplish economic development activities that meet the public purpose criteria.

Response – We used our attorney to draft the resolution. We will consult with him on how we need to properly document in writing the public purpose for these types of economic development loans in the future.

Conclusion – Response accepted. Please do document public purpose for all economic development expenses/loans in writing before authorizing the expense/loan in the future.

10-11 Internal Revenue Service Reporting Compliance – The Utilities awarded each of the employees with a gift certificate. The Utilities treated these payments as non-taxable to the employees, when in actuality; these are taxable earnings to the employees per Internal Revenue Code regulations. Also, required information forms were not issued to individuals who were paid \$600 or more for easements in calendar year 2009 in accordance with Internal Revenue Service requirements.

Recommendation – The Utilities should be following Internal Revenue Code regulations and properly report gift certificates issued to employees as taxable earnings to the employees. The Utilities should amend prior tax reports and forms that were filed improperly. The Utilities should also issue the required Form 1099s to individuals who were paid \$600 or more for easement payments in accordance with Internal Revenue Service requirements.

Response – We will implement procedures to ensure gift certificates issued to employees are reported as taxable and Form 1099s are issued for payments of \$600 or more for easements.

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
Curt Robison, Assistant Auditor
Craig Hoekstra, Assistant Auditor

De Noble & Company PC
Certified Public Accountants