

COON RAPIDS MUNICIPAL UTILITIES

Independent Auditors' Reports
Basic Financial Statements and
Supplementary Information
Schedule of Findings

June 30, 2004

OLSEN, MUHLBAUER & CO., L.L.P.

Certified Public Accountants

CARROLL, IOWA

COON RAPIDS MUNICIPAL UTILITIES

Table of Contents

		<u>Page</u>
Officials		3
Independent Auditors' Report		4-5
Management's Discussion and Analysis		7-16
Basic Financial Statements:	<u>Exhibit</u>	
Proprietary Fund Financial Statements:		
Statement of Net Assets	A	18-21
Statement of Revenues, Expenses and Changes in Fund Net Assets	B	22-27
Statement of Cash Flows	C	28-33
Notes to Financial Statements		34-58
Required Supplementary Information:		
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances - Budget and Actual (Cash Basis) - Proprietary Funds		60
Budget to GAAP Reconciliation		61
Notes to Required Supplementary Information - Budgetary Reporting		62
Other Supplementary Information:		
	<u>Schedule</u>	
Schedule of Changes in Revenue Bond and Capital Loan Note Required Funds	1	64
Insurance Coverage	2	65
Independent Auditors' Report on Compliance and on Internal Control Over Financial Reporting		67-68
Schedule of Findings		69-79
Audit Staff		80

COON RAPIDS MUNICIPAL UTILITIES

Officials

<u>Name</u>	<u>Position</u>	<u>Term Expires</u>
Dan Pomeroy	Chairman (Indefinite until replacement is named)	July, 2004
Mike Deeth	Trustee	July, 2006
Larry Taylor	Trustee	July, 2008
Bradley Honold	Secretary/General Manager	Indefinite
Travis Castle	Assistant Manager	Indefinite
Philip Wernsmann	Comptroller	Indefinite
Geraldine Richardson	City Clerk/Treasurer (Resigned effective July 31, 2004)	July, 2004
Julie Ruggles	City Clerk/Treasurer (Effective August 1, 2004)	December, 2005
Mark Thomas	Attorney	December, 2004

OLSEN, MUHLBAUER & CO., L.L.P.

Certified Public Accountants

PARTNERS

RICHARD D. MUHLBAUER
PATRICK J. O'BRIEN
TRUDENE L. WITTMACK
KARLA L. FULTON

1127 PLAZA DR.
VILLAGE PARK EAST
CARROLL, IOWA 51401
712-792-4314
FAX 712-792-4503

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
Coon Rapids Municipal Utilities

We have audited the accompanying financial statements of the business type activities of Coon Rapids Municipal Utilities, a component unit of the City of Coon Rapids, Iowa, as of and for the year ended June 30, 2004, which collectively comprise Coon Rapids Municipal Utilities' basic financial statements listed in the table of contents. These financial statements are the responsibility of Coon Rapids Municipal Utilities' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions 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 that our audit provides a reasonable basis for our opinion.

As described in Note 1, the financial statements of Coon Rapids Municipal Utilities are intended to present the financial position and results of operations and cash flows of proprietary fund types of only that portion of the financial reporting entity of the City of Coon Rapids, Iowa, that is attributable to the transactions of the Coon Rapids Municipal Utilities.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business type activities of Coon Rapids Municipal Utilities at June 30, 2004, and the changes in financial position and the cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

As described in Note 23 to the financial statements, for the year ended June 30, 2004, the Coon Rapids Municipal Utilities adopted Government Accounting Standards Board Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments; Statement No. 37, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; and Statement No. 41, Budgetary Comparison Schedule - Perspective Differences.

In accordance with Government Auditing Standards, we have also issued our report dated October 1, 2004, on our consideration of Coon Rapids Municipal Utilities' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations and contracts. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 16 and 60 through 62 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 supplementary information. We did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise Coon Rapids Municipal Utilities' basic financial statements. Other supplementary information included in Schedules 1 and 2 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Olsen, Muhlbauer & Co., L.L.P.

OLSEN, MUHLBAUER & CO., L.L.P.
Certified Public Accountants

Carroll, Iowa
October 1, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis

The Coon Rapids Municipal Utilities, "CRMU," provides this narrative overview and analysis of the Communications, Electric, Natural Gas, Water and Wastewater Utilities' financial activities based upon currently known facts, decisions, and conditions for the fiscal year ended June 30, 2004. This should be read in conjunction with the Statement of Net Assets, the Statement of Revenues, Expenses and Changes in Fund Net Assets, and Statement of Cash Flows, which follow.

The Financial Statements of the Utility report information utilizing the accrual basis of accounting. The Financial Statements conform to accounting principals which are generally accepted in the United States of America.

The Statement of Net Assets provides information about the type and amount of investments in resources (assets) and the obligations to creditors (liabilities), and indicate those restricted by the Board of Communication, Electric, Natural Gas, Water & Wastewater Trustees (the Board). It also provides the basis for making a variety of financial assessments about the structure, liquidity, and financial flexibility of the Utility.

The Statement of Revenues, Expenses, and Changes in Net Assets reports all the revenues and expenses for the year, including non-operating revenues and expenses. This statement can be used to determine whether the Utility has recovered all of its actual costs through rates and other charges.

The Statement of Cash Flows reports the cash from operating activities, cash from non capital financing activities, as well as capital and related financing activities, and investing activities. This statement can be used to determine the source, use and change in cash.

Because CRMU is implementing new reporting standards for this fiscal year with significant changes in content and structure, much of the information is not easily comparable to prior years. However, in the future years, comparisons will be more meaningful and will go further in explaining CRMU's financial position and results of operations.

Communications Utility

Overview:

In 2004, the Communications Utility was able to increase its cash and improve its sound financial position as a result of an affective bundling program which allows customers to save more, as they utilize more products. The bundling program resulted in an increase of over 150 telephone lines leading to net income being more than budgeted.

Communications Utility

Financial Highlights:

Dollars in thousands

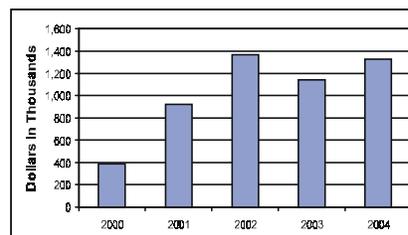
	2004	2003
Current and Other Assets.....	985	813
Net Capital Assets.....	65	70
Total Assets.....	1,049	883
Long-term Liabilities.....	151	181
Other Liabilities.....	103	113
Total Liabilities.....	254	294
Net Assets:		
Invested in Capital Assets		
Net of Related Debt.....	65	0
Restricted.....	0	5
Unrestricted.....	731	585
Total Net Assets.....	795	589
Operating Revenues.....	1,275	1,086
Non-Operating Revenues.....	50	55
Total Revenues.....	1,325	1,141
Operating Expenses.....	1,109	1,076
Interest on Long-term Debt.....	9	10
Other Non-Operating Exp.....	7	25
Total Expenses.....	1,124	1,111
Change in Net Assets.....	200	30
Net Assets, Beginning.....	595	559
Net Assets, Ending.....	795	589

Results of Operations:

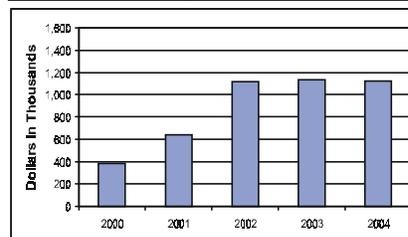
(As reported in the Statement of Revenues, Expenses & Changes in Fund Net Assets)

Operating revenue increased 17.4% in 2004 primarily due to a significant increase in local telephone and long distance customers. Total 2004 operating expenses are 1.5% greater than the previous year. This increase is attributable to the increase in customers and programmer rate increases for cable television.

Communications Utility Total Revenues: \$1,325,143



Communications Utility Total Expenses: \$1,124,850



Financial Position:

(As reported on the Statement of Net Assets)

As of June 30, 2004, the Communications Utility did not have any restricted funds appropriated for specific purposes. The communications utility does have a joint use agreement with the electric utility requiring an annual payment of \$173,000. This joint use agreement allows the communications

utility to utilize the electric utility's communication distribution plant.

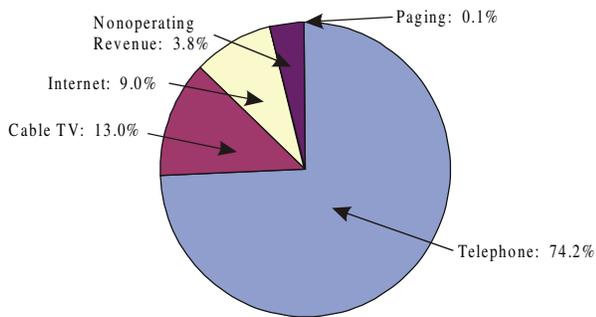
The communications utility also has an interutility loan with the natural gas utility. The note receivable decreased by \$28,482 in 2004.

Net capital assets represent 6.2% of total assets. This low percentage is

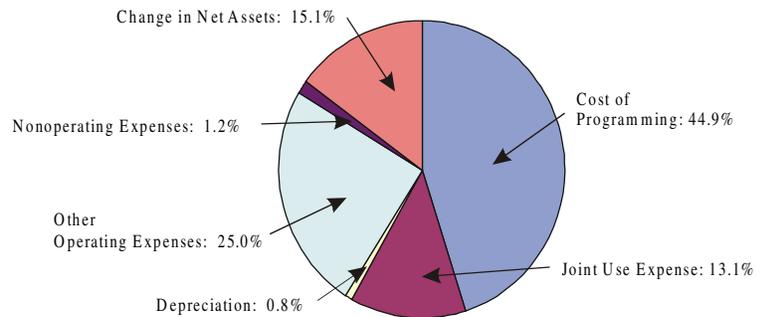
attributable to the fact that the communications utility does not own the distribution plant, which is a capital asset of the electric utility.

Accounts receivables decreased and cash increased from the prior year, resulting in an increase in total assets of 18.8%.

Communications Utility Source of Funds: \$1,325,143



Communications Utility Use of Funds: \$1,325,143



Management's Discussion and Analysis (continued)

Electric Utility

Overview:

The sound financial position of the Electric Utility is a result of management's dedication to optimize generation assets and minimize transmission costs in coordination with NIMECA's capacity sharing agreement and common transmission system agreement.

Operating revenues and expenses were 27.0% and 13.0% higher than projected, respectively, while purchased energy costs increased 9.5% compared to 2003.

Electric Utility Financial Highlights:

Dollars in thousands

	2004	2003
Current and Other Assets.....	2,936	2,764
Net Capital Assets.....	7,754	7,943
Total Assets.....	10,691	10,707
Long-term Liabilities.....	4,191	4,503
Other Liabilities.....	473	406
Total Liabilities.....	4,665	4,909
Net Assets:		
Invested in Capital Assets		
Net of Related Debt.....	3,226	203
Restricted.....	572	489
Unrestricted.....	2,228	5,106
Total Net Assets.....	6,026	5,798
Operating Revenues.....	1,977	1,746
Non-Operating Revenues.....	224	237
Total Revenues.....	2,201	1,983
Operating Expenses.....	1,687	1,274
Interest on Long-term Debt.....	224	277
Other Non-Operating Exp.....	21	47
Total Expenses.....	1,932	1,597
Change in Net Assets.....	270	386
Net Assets, Beginning.....	5,756	5,412
Net Assets, Ending.....	6,026	5,798

Results of Operations:

(As reported in the Statement of Revenues, Expenses & Changes in Fund Net Assets)

Revenue from operations increased 13.2% due to a rate increase in 2004 and a 2.1% increase in kilowatt-hours sold to customers, compared to 2003.

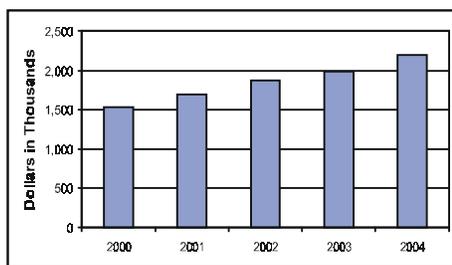
Total kilowatt-hour sales were down 1.7% from the previous year due to weather and unit availability. Due to increased customer sales and unit availability, wholesale sales were down 5.3% resulting in a revenue decrease of

over \$38,000.

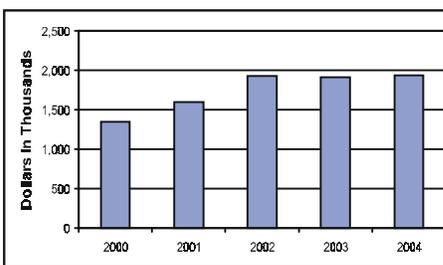
Purchased energy costs have risen over 32% in the last two years, mainly due to wholesale power increases from long-term WAPA contracts and NIMECA member capacity purchases from CORNBELT.

Interest charges were lower than the previous year due to the refinancing of capital loan notes from 6.0% to 3.85% in 2004.

Electric Utility Total Revenues: \$2,201,377



Electric Utility Total Expenses: \$1,931,849



Financial Position:

(As reported on the Statement of Net Assets)

Restricted funds and other assets appropriated for specific purposes, \$1,255,885 at June 30, 2004, include the 1998 Bond Sinking Fund, 1998 Debt Reserve Fund, 1998 Capital Improvement Fund, 2000 Note Sinking Fund, CORNBELT Deferred Patronage Dividend Fund, NIMECA-Common Transmission System Fund, Customer Deposit Fund, and the Health Reimbursement Fund. These funds have

been set aside as required by bond covenants or for uses specified by the Board.

The Electric Utility had a prior period adjustment to inventory and an adjustment to remove some assets that had traded previously which decreased capital assets by almost \$98,000.

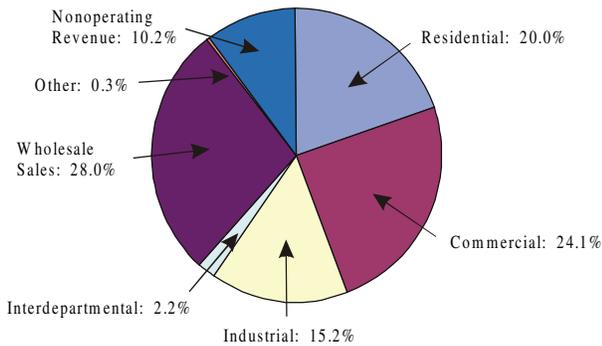
Including work in process, the change in capital assets results in a net increase in Electric capital assets of

\$82,717, and the total Electric capital assets increased over \$180,000.

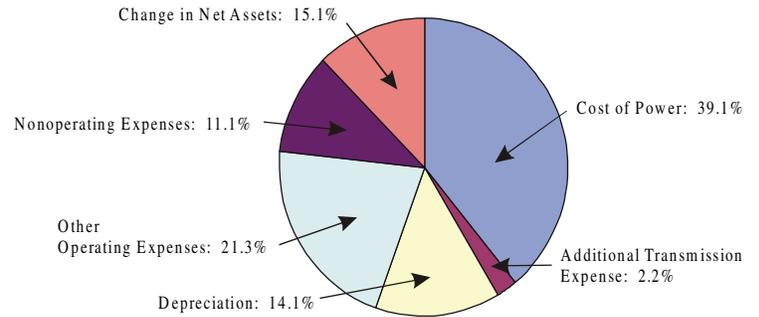
The note receivable from the Coon Rapids Development Group decreased by \$11,438 in 2004.

In 2004, the electric utility decreased its debt obligation from the Series 1998 Revenue Bonds and Series 2000 Capital Loan Notes by \$296,771.

Electric Utility Source of Funds: \$2,201,377



Electric Utility Use of Funds: \$2,201,377



Management's Discussion and Analysis (continued)

Natural Gas Utility

Overview:

The Natural Gas Utility is in a sound financial position with strong reserves. Increased transportation and commodity costs, coupled with low interest rates have limited the gas utility's earnings over the past two years.

The gas utility will be analyzing revenue requirements and cost allocations for possible adjustment due to the anticipated reduction of industrial sales in 2006 and beyond.

Natural Gas Utility Financial

Highlights:

Dollars in thousands

	2004	2003
Current and Other Assets.....	2,010	2,011
Net Capital Assets.....	556	486
Total Assets.....	2,566	2,496
Long-term Liabilities.....	0	0
Other Liabilities.....	142	52
Total Liabilities.....	142	52
Net Assets:		
Invested in Capital Assets		
Net of Related Debt.....	469	14
Restricted.....	0	789
Unrestricted.....	1,955	1,641
Total Net Assets.....	2,424	2,444
Operating Revenues.....	1,039	947
Non-Operating Revenues.....	68	85
Total Revenues.....	1,107	1,031
Operating Expenses.....	1,097	907
Interest on Long-term Debt.....	0	0
Other Non-Operating Exp.....	53	0
Total Expenses.....	1,150	907
Change in Net Assets.....	(43)	125
Net Assets, Beginning.....	2,467	2,320
Net Assets, Ending.....	2,424	2,444

Results of Operations:

(As reported in the Statement of Revenues, Expenses & Changes in Fund Net Assets)

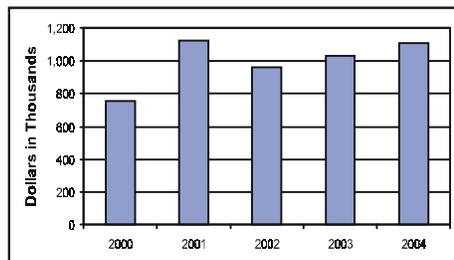
Purchased energy and transmission costs increased 28.1% in 2004. Total cubic feet sales increased 1.5% over the same period resulting in an increase of revenues and expenses from operations of 9.7% and 17.2%, respectively.

Interest revenue increased over

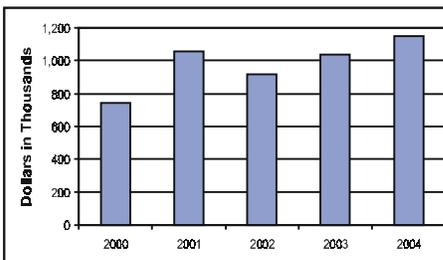
\$36,000 in 2004; however, non-operating expenses also increased by \$24,517 and in-lieu-of-tax payments increased \$12,218 over the same period.

In 2004, the gas utility realized a discount on the TIF receivable amounting to a \$21,433 addition to non-operating expenses.

Natural Gas Utility Total Revenues: \$1,106,900



Natural Gas Utility Total Expenses: \$1,150,007



Financial Position:

(As reported on the Statement of Net Assets)

Restricted funds and other assets appropriated for specific purposes, \$1,480,666 at June 30, 2004, include the Capital Improvement Fund, Economic Reserve Fund, Equipment Replacement Fund and Health Reimbursement Fund.

Net capital assets represents 21.8% of total assets. Capital expenditures for distribution plant improvements increased over \$50,000 more than

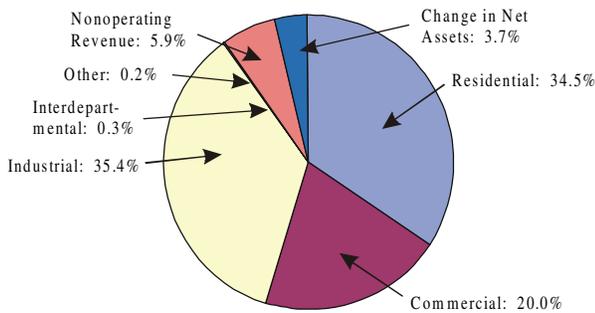
anticipated, resulting in an increase of net capital assets of 14.4% compared to 2003.

The note receivable from the City of Coon Rapids for the Sumpter Street Bridge Project, and the note receivable from the Communications Utility for Start-up Capital, decreased by \$8,824 and \$28,482, respectively, in 2004.

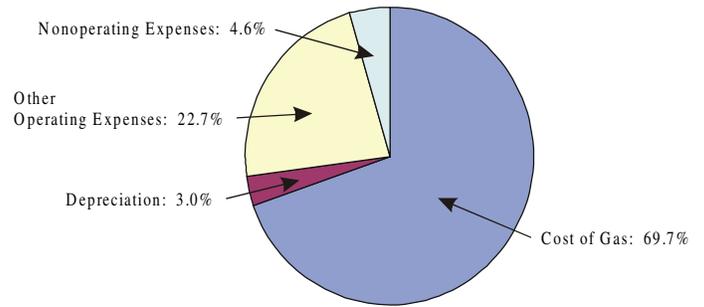
In 2003, the gas utility advanced

funds in the amount of \$214,584, to assist in two separate economic development programs; one for development of land for commercial businesses and the other for development of land for single & multiple-family dwellings with the City of Coon Rapids. The advanced funds are to be repaid through tax increment revenues.

Natural Gas Utility Source of Funds: \$1,150,007



Natural Gas Utility Use of Funds: \$1,150,007



Management's Discussion and Analysis (continued)

Water Utility

Overview:

The financial position of the Water Utility remained stable over the prior year, although the water utility will be evaluating the method of donating water to the golf course and its impact on financial statements.

Due to limited financial resources and the possible financial burden of expensive testing required by the Safe Drinking Water Act (SDWA), the water utility must be ready to evaluate and implement new revenue requirements if addition testing is mandated.

Water Utility Financial Highlights:

Dollars in thousands

	2004	2003
Current and Other Assets.....	238	272
Net Capital Assets.....	566	588
Total Assets.....	804	860
Long-term Liabilities.....	16	29
Other Liabilities.....	28	33
Total Liabilities.....	43	61
Net Assets:		
Invested in Capital Assets		
Net of Related Debt.....	566	92
Restricted.....	0	5
Unrestricted.....	194	702
Total Net Assets.....	761	798
Operating Revenues.....	188	188
Non-Operating Revenues.....	6	9
Total Revenues.....	195	198
Operating Expenses.....	188	121
Interest on Long-term Debt.....	0	0
Other Non-Operating Exp.....	45	0
Total Expenses.....	233	121
Change in Net Assets.....	(38)	77
Net Assets, Beginning.....	798	722
Net Assets, Ending.....	761	798

Results of Operations:

(As reported in the Statement of Revenues, Expenses & Changes in Fund Net Assets)

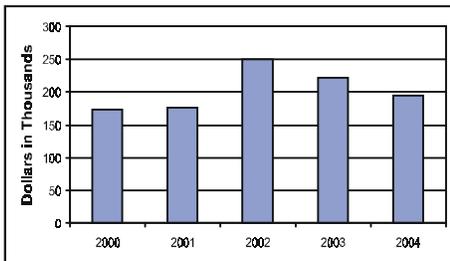
Revenue from water sales for 2004 remained steady with only a 0.2% increase, while total operating expenses increased by 17.1%. Chemical and testing expenses increased 22.8% over the prior year.

The majority of the increase in operating expenses can be attributed to

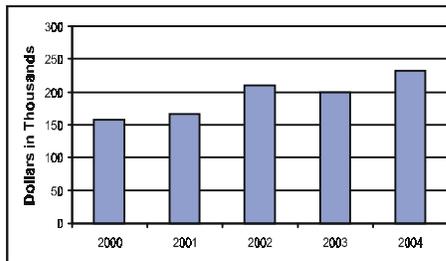
increased maintenance of the distribution system. In 2004, distribution maintenance labor costs were \$14,450 higher than 2003, resulting in a 113.5% increase from the prior year.

In the last two years, the water utility has had to replace the pump and motor for both primary wells and one emergency well.

Water Utility Total Revenues: \$195,252



Water Utility Total Expenses: \$232,843



Financial Position:

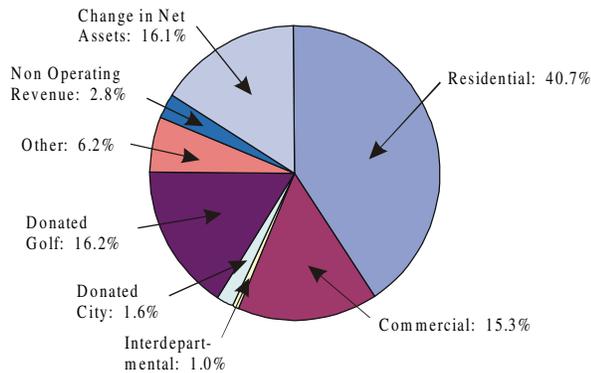
(As reported on the Statement of Net Assets)

In 2004, net capital assets represents 70.4% of total assets. The Water Utility maintains a capital replacement / improvement fund for hydrants, pumps and motors, as well as a replacement fund for equipment.

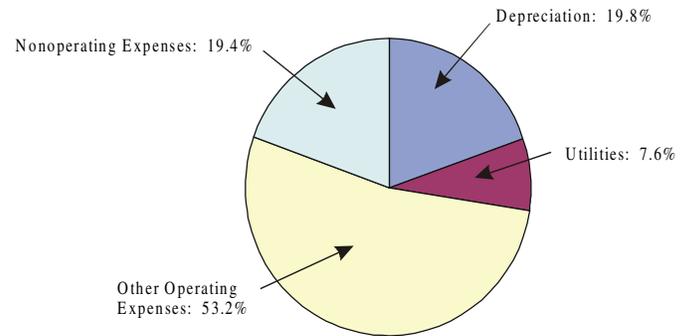
In 2003, the water utility advanced funds in the amount of \$50,316, to assist

in two separate economic development programs; one for development of land for commercial businesses and the other for development of land for single & multiple-family dwellings with the City of Coon Rapids. The advanced funds are to be repaid through tax increment revenues.

Water Utility Source of Funds: \$232,843



Water Utility Use of Funds: \$232,843



Management's Discussion and Analysis (continued)

Wastewater Utility

Overview:

The financial position of the Wastewater Utility remained stable over the prior year.

The wastewater utility may experience significant capital expenditures in the near future.

The wastewater utility has implemented a plan of action to mitigate inflow and infiltration from its collection system. The plan identified several areas in need of structural repair and/or replacement. The primary lift station and force main to the lagoons have also been evaluated for capacity requirements and may need upgraded.

Wastewater Utility Financial Highlights:

Dollars in thousands

	2004	2003
Current and Other Assets.....	1,241	1,214
Net Capital Assets.....	723	727
Total Assets.....	1,964	1,941
Long-term Liabilities.....	0	0
Other Liabilities.....	10	7
Total Liabilities.....	10	7
Net Assets:		
Invested in Capital Assets		
Net of Related Debt.....	719	500
Restricted.....	0	3
Unrestricted.....	1,235	1,431
Total Net Assets.....	1,954	1,934
Operating Revenues.....	110	110
Non-Operating Revenues.....	14	16
Total Revenues.....	124	126
Operating Expenses.....	88	60
Interest on Long-term Debt.....	0	0
Other Non-Operating Exp.....	17	0
Total Expenses.....	105	60
Change in Net Assets.....	19	66
Net Assets, Beginning.....	1,934	1,868
Net Assets, Ending.....	1,954	1,934

Results of Operations:

(As reported in the Statement of Revenues, Expenses & Changes in Fund Net Assets)

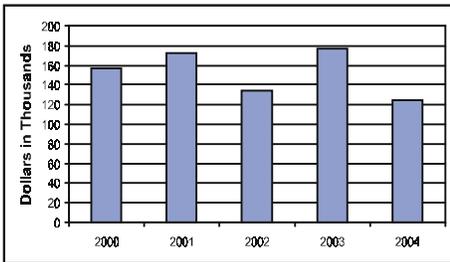
Revenue from wastewater sales for 2004 remained steady with only a 0.3% increase, while total operating expenses decreased by 12.8%.

Plant maintenance/operations expenses increased 22.8%, while

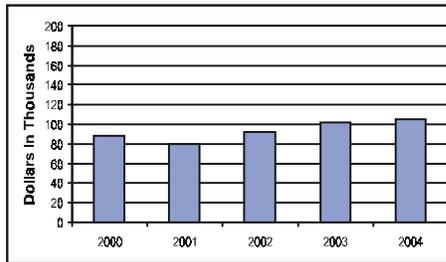
distribution labor expenses decreased by 28.7%.

Interest income decreased by 14.1% due to lower interest rates.

Wastewater Utility Total Revenues: \$124,353



Wastewater Utility Total Expenses: \$105,021



Financial Position:

(As reported on the Statement of Net Assets)

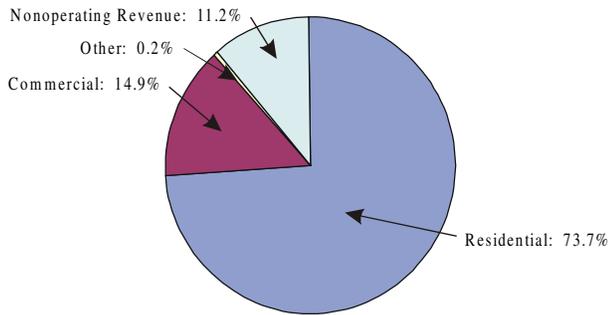
In 2004, net capital assets represents 36.8% of total assets.

In 2003, the wastewater utility advanced funds in the amount of \$138,264, to assist in two separate economic development programs; one for

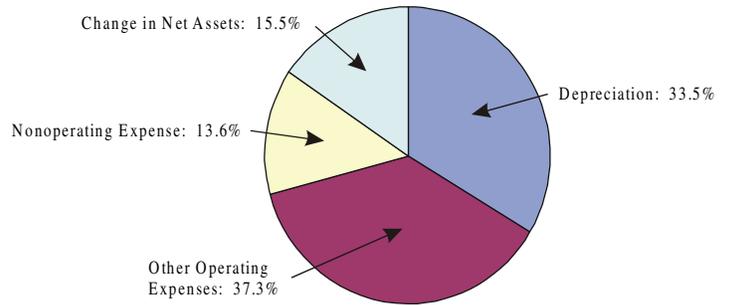
development of land for commercial businesses and the other for development of land for single & multiple-family dwellings with the City of Coon Rapids. The advanced funds are to be repaid through tax increment revenues.

The note receivable from the City of Coon Rapids for the Sumpter Street Bridge Project decreased by \$22,057 in 2004. The original amount of the loan was \$250,000.

Wastewater Utility Source of Funds: \$124,353



Wastewater Utility Use of Funds: \$124,353



BASIC FINANCIAL STATEMENTS

COON RAPIDS MUNICIPAL UTILITIES

Statement of Net Assets
 Proprietary Funds
 June 30, 2004

Assets	<u>Communications:</u> Telephone <u>Utility</u>	<u>Communications:</u> Cable TV, Internet & Pagers <u>Utility</u>
Current Assets:		
Cash and Cash Equivalents	580,048	175,784
Accounts Receivable (Net of Allowance) -		
Trade	68,313	16,008
Other	134,523	81
Loans Receivable, Current Portion	0	0
Interutility Loans, Current Portion	0	0
Inventories	1,578	5,876
Other Current and Prepaid Assets	0	2,402
<u>Total Current Assets</u>	<u>784,462</u>	<u>200,151</u>
Restricted Funds and Other Assets:		
Restricted Cash Funds	0	0
Patronage Dividend Due from NIMECA	0	0
Investment - Iowa Stored Energy Project	0	0
Loans Receivable, Net of Current Portion -		
Loan to City of Coon Rapids	0	0
Loan to Coon Rapids Development Group	0	0
Tax Increment Financing	0	0
Interutility Loans, Net of Current Portion	0	0
Prepaid Rent, Net of Current Portion	0	0
Municipal Building, Equipment and Land, Net of Accumulated Depreciation	0	0
<u>Total Restricted Funds and Other Assets</u>	<u>0</u>	<u>0</u>
Capital Assets:		
Utility Plant, Facilities and Equipment	5,012	278,272
Accumulated Depreciation	(897)	(217,668)
	<u>4,115</u>	<u>60,604</u>
Construction in Progress	0	0
<u>Net Capital Assets</u>	<u>4,115</u>	<u>60,604</u>
<u>Total Assets</u>	<u>788,577</u>	<u>260,755</u>

Business Type Activities - Enterprise Funds

<u>Electric Utility</u>	<u>Gas Utility</u>	<u>Water Utility</u>	<u>Wastewater Utility</u>	<u>Total</u>
1,221,894	336,177	150,493	895,964	3,360,360
166,067	32,623	16,625	12,913	312,549
59,445	26,715	6,787	0	227,551
17,393	38,322	6,844	41,636	104,195
0	29,790	0	0	29,790
185,450	50,760	14,207	191	258,062
30,304	15,406	4,208	1,202	53,522
<u>1,680,553</u>	<u>529,793</u>	<u>199,164</u>	<u>951,906</u>	<u>4,346,029</u>
952,574	853,642	0	0	1,806,216
12,802	0	0	0	12,802
0	20,000	0	0	20,000
0	73,518	0	183,835	257,353
90,721	0	0	0	90,721
31,908	163,962	38,446	105,647	339,963
0	150,836	0	0	150,836
7,778	7,778	0	0	15,556
<u>160,102</u>	<u>210,930</u>	<u>0</u>	<u>0</u>	<u>371,032</u>
<u>1,255,885</u>	<u>1,480,666</u>	<u>38,446</u>	<u>289,482</u>	<u>3,064,479</u>
11,410,809	1,224,256	1,339,646	1,615,780	15,873,775
(3,758,401)	(673,233)	(773,369)	(929,229)	(6,352,797)
<u>7,652,408</u>	<u>551,023</u>	<u>566,277</u>	<u>686,551</u>	<u>9,520,978</u>
<u>101,697</u>	<u>4,917</u>	<u>0</u>	<u>36,168</u>	<u>142,782</u>
<u>7,754,105</u>	<u>555,940</u>	<u>566,277</u>	<u>722,719</u>	<u>9,663,760</u>
<u>10,690,543</u>	<u>2,566,399</u>	<u>803,887</u>	<u>1,964,107</u>	<u>17,074,268</u>

(Continued)

COON RAPIDS MUNICIPAL UTILITIES

Statement of Net Assets
 Proprietary Funds
 June 30, 2004

Liabilities	<u>Communications:</u> Telephone Utility	<u>Communications:</u> Cable TV, Internet & Pagers Utility
Current Liabilities:		
Accounts Payable - Trade	43,896	13,065
Other Payables and Credits	74	16
Contracts Payable	0	0
Payroll, Sales and Use Taxes Payable	9,379	1,030
Payable from Restricted Assets:		
Customer Deposits	0	0
Electric Revenue Bonds Payable (Net), Current Portion	0	0
Electric Capital Notes Payable, Current Portion	0	0
Accrued Interest	0	0
Compensated Absences	2,697	3,281
Interutility Loans, Current Portion	0	29,790
Deferred Rent Revenue, Current Portion	0	0
<u>Total Current Liabilities</u>	<u>56,046</u>	<u>47,182</u>
Long-term Obligations, Net of Current Portion:		
Electric Revenue Bonds Payable, Net of Unamortized Discount - Series 1998	0	0
Electric Capital Notes Payable	0	0
Interutility Loans	0	150,836
Deferred Rent Revenue	0	0
<u>Total Long-term Obligations</u>	<u>0</u>	<u>150,836</u>
<u>Total Liabilities</u>	<u>56,046</u>	<u>198,018</u>
Net Assets		
Invested in Capital Assets, Net of Related Debt	4,115	60,604
Restricted For:		
Revenue Bond and Note Retirement	0	0
Revenue Bond Contingency	0	0
Unrestricted	728,416	2,133
<u>Total Net Assets</u>	<u>732,531</u>	<u>62,737</u>
<u>Total Liabilities and Net Assets</u>	<u>788,577</u>	<u>260,755</u>

See independent auditors' report and notes to financial statements.

Business Type Activities - Enterprise Funds

<u>Electric Utility</u>	<u>Gas Utility</u>	<u>Water Utility</u>	<u>Wastewater Utility</u>	<u>Total</u>
70,055	45,421	8,959	4,486	185,882
31,897	15,898	7	6	47,898
4,815	70,628	0	3,598	79,041
9,128	4,063	1,979	870	26,449
19,563	0	0	0	19,563
181,773	0	0	0	181,773
130,000	0	0	0	130,000
14,340	0	0	0	14,340
11,827	6,309	3,482	1,492	29,088
0	0	0	0	29,790
0	0	13,333	0	13,333
<u>473,398</u>	<u>142,319</u>	<u>27,760</u>	<u>10,452</u>	<u>757,157</u>
2,521,225	0	0	0	2,521,225
1,670,000	0	0	0	1,670,000
0	0	0	0	150,836
0	0	15,556	0	15,556
<u>4,191,225</u>	<u>0</u>	<u>15,556</u>	<u>0</u>	<u>4,357,617</u>
<u>4,664,623</u>	<u>142,319</u>	<u>43,316</u>	<u>10,452</u>	<u>5,114,774</u>
3,226,429	469,416	566,277	719,121	5,045,962
421,837	0	0	0	421,837
150,000	0	0	0	150,000
<u>2,227,654</u>	<u>1,954,664</u>	<u>194,294</u>	<u>1,234,534</u>	<u>6,341,695</u>
<u>6,025,920</u>	<u>2,424,080</u>	<u>760,571</u>	<u>1,953,655</u>	<u>11,959,494</u>
<u>10,690,543</u>	<u>2,566,399</u>	<u>803,887</u>	<u>1,964,107</u>	<u>17,074,268</u>

COON RAPIDS MUNICIPAL UTILITIES

Statement of Revenues, Expenses and Changes in Fund Net Assets
 Proprietary Funds
 For the Year Ended June 30, 2004

	<u>Communications:</u> Telephone Utility	<u>Communications:</u> Cable TV, Internet & Pagers Utility
Operating Revenues:		
Sales to Customers	975,721	292,212
Sales for Resale	0	0
Interdepartmental Sales	0	0
Forfeited Discounts	7,060	0
Rebates and Other	0	78
	<hr/>	<hr/>
<u>Total Operating Revenues</u>	<u>982,781</u>	<u>292,290</u>
Operating Expenses:		
Plant Operation Expenses:		
Cost of Power, Gas and Programming	448,114	146,654
Joint Use Expense	173,000	0
Chemicals and Testing	0	0
Transmission Expense	0	0
Salaries and Wages	187	3,297
Utilities	10,090	4,874
Maintenance	0	0
	<hr/>	<hr/>
	631,391	154,825
Distribution Operation Expenses:		
Salaries and Wages	20,633	34,148
Line and Station Supplies	32	1,326
Safety Expense	317	186
Maintenance of Lines and Meters	900	1,652
Miscellaneous Distribution Expense	0	0
	<hr/>	<hr/>
	21,882	37,312
Consumer Service Expenses:		
Salaries and Wages	11,554	10,870
Accounting and Collecting Supplies	25,573	13,809
Uncollectible Accounts	61,416	646
	<hr/>	<hr/>
	98,543	25,325

Business Type Activities - Enterprise Funds

<u>Electric Utility</u>	<u>Gas Utility</u>	<u>Water Utility</u>	<u>Wastewater Utility</u>	<u>Total</u>
1,306,792	1,033,594	172,098	110,208	3,890,625
616,168	0	0	0	616,168
47,368	3,916	2,249	0	53,533
3,253	782	202	193	11,490
3,513	1,000	14,267	0	18,858
<u>1,977,094</u>	<u>1,039,292</u>	<u>188,816</u>	<u>110,401</u>	<u>4,590,674</u>
861,010	801,419	0	0	2,257,197
0	0	0	0	173,000
0	0	7,390	532	7,922
48,099	0	0	0	48,099
655	363	12,562	2,861	19,925
11,054	7,835	17,754	6,949	58,556
435	0	4,751	0	5,186
<u>921,253</u>	<u>809,617</u>	<u>42,457</u>	<u>10,342</u>	<u>2,569,885</u>
110,127	48,380	27,183	12,432	252,903
2,943	3,924	132	40	8,397
1,414	1,443	327	132	3,819
11,554	9,650	6,412	1,585	31,753
6,667	6,667	0	0	13,334
<u>132,705</u>	<u>70,064</u>	<u>34,054</u>	<u>14,189</u>	<u>310,206</u>
34,571	20,548	14,044	5,024	96,611
8,370	4,291	2,241	780	55,064
2,185	2,176	595	573	67,591
<u>45,126</u>	<u>27,015</u>	<u>16,880</u>	<u>6,377</u>	<u>219,266</u>

(Continued)

COON RAPIDS MUNICIPAL UTILITIES

Statement of Revenues, Expenses and Changes in Fund Net Assets
 Proprietary Funds
 For the Year Ended June 30, 2004

	<u>Communications:</u> Telephone Utility	<u>Communications:</u> Cable TV, Internet & Pagers Utility
Operating Expenses: (Continued)		
Administrative and General Expenses:		
Salaries and Wages	14,182	12,263
Telephone	641	842
Professional Services	6,369	325
Legal and Public Notices	108	329
Insurance	1,955	3,181
Regulatory Commission Expense	14,237	155
Advertising	11,779	58
Trustee Salaries	0	720
Travel and Training	818	1,875
Dues and Assessments	3,441	96
Energy Conservation Expense	0	0
Miscellaneous	1,198	4,185
Municipal Building Expense	0	0
Transportation Expense	934	1,241
General Maintenance	987	1,548
Property Taxes	9,386	0
In-Lieu-Of-Tax Payments	6,936	235
Employee Taxes and Benefits	14,140	18,159
	<u>87,111</u>	<u>45,212</u>
Depreciation	<u>425</u>	<u>10,457</u>
<u>Total Operating Expenses</u>	<u>839,352</u>	<u>273,131</u>
<u>Operating Income (Loss)</u>	<u>143,429</u>	<u>19,159</u>

Business Type Activities - Enterprise Funds

<u>Electric Utility</u>	<u>Gas Utility</u>	<u>Water Utility</u>	<u>Wastewater Utility</u>	<u>Total</u>
47,113	25,897	13,870	4,660	117,985
3,399	1,917	1,030	344	8,173
21,613	5,730	851	519	35,407
1,274	644	316	118	2,789
29,380	7,502	3,416	1,113	46,547
1,576	1,017	165	0	17,150
1,666	1,738	172	0	15,413
720	720	720	720	3,600
7,249	2,506	1,534	1,105	15,087
2,314	6,715	209	0	12,775
3,176	2,093	0	0	5,269
3,314	4,171	1,460	319	14,647
12,057	12,797	0	0	24,854
5,714	2,745	1,549	485	12,668
7,014	8,098	2,668	962	21,277
17,835	534	0	0	27,755
48,533	36,827	4,581	0	97,112
67,470	37,480	18,637	8,138	164,024
<u>281,417</u>	<u>159,131</u>	<u>51,178</u>	<u>18,483</u>	<u>642,532</u>
<u>309,698</u>	<u>34,640</u>	<u>46,023</u>	<u>41,692</u>	<u>442,935</u>
<u>1,690,199</u>	<u>1,100,467</u>	<u>190,592</u>	<u>91,083</u>	<u>4,184,824</u>
<u>286,895</u>	<u>(61,175)</u>	<u>(1,776)</u>	<u>19,318</u>	<u>405,850</u>

(Continued)

COON RAPIDS MUNICIPAL UTILITIES

Statement of Revenues, Expenses and Changes in Fund Net Assets
 Proprietary Funds
 For the Year Ended June 30, 2004

	<u>Communications:</u> Telephone Utility	<u>Communications:</u> Cable TV, Internet & Pagers Utility
Operating Income (Loss)	<u>143,429</u>	<u>19,159</u>
Nonoperating Revenues (Expenses):		
Merchandise Sales - Net	17,825	(2,946)
Municipal Building - Rent and City Reimbursements	0	0
Joint Use Revenue	0	0
Miscellaneous Nonoperating Revenue	26,335	1,994
Net Gain (Loss) on Sale or Disposal of Assets	0	0
Recovery of Discount on TIF Receivable	0	0
Interest Income	2,804	1,114
Interest Expense	0	(8,827)
Discount on TIF Receivable	0	0
Free Community Service	(87)	(507)
	<u>46,877</u>	<u>(9,172)</u>
<u>Change in Net Assets</u>	190,306	9,987
<u>Total Net Assets - July 1, 2003, As Restated</u>	<u>542,225</u>	<u>52,750</u>
<u>Total Net Assets - June 30, 2004</u>	<u><u>732,531</u></u>	<u><u>62,737</u></u>

See independent auditors' report and notes to financial statements.

Business Type Activities - Enterprise Funds

<u>Electric Utility</u>	<u>Gas Utility</u>	<u>Water Utility</u>	<u>Wastewater Utility</u>	<u>Total</u>
<u>286,895</u>	<u>(61,175)</u>	<u>(1,776)</u>	<u>19,318</u>	<u>405,850</u>
498	957	957	0	17,291
13,047	6,440	4,180	0	23,667
173,000	0	0	0	173,000
13,952	(2)	(26)	0	42,253
1,886	(3,082)	0	0	(1,196)
0	40,050	0	0	40,050
21,900	20,160	1,298	13,952	61,228
(223,527)	0	0	0	(232,354)
(4,171)	(21,433)	(5,026)	(13,810)	(44,440)
<u>(13,952)</u>	<u>(25,022)</u>	<u>(37,198)</u>	<u>(128)</u>	<u>(76,894)</u>
<u>(17,367)</u>	<u>18,068</u>	<u>(35,815)</u>	<u>14</u>	<u>2,605</u>
269,528	(43,107)	(37,591)	19,332	408,455
<u>5,756,392</u>	<u>2,467,187</u>	<u>798,162</u>	<u>1,934,323</u>	<u>11,551,039</u>
<u>6,025,920</u>	<u>2,424,080</u>	<u>760,571</u>	<u>1,953,655</u>	<u>11,959,494</u>

COON RAPIDS MUNICIPAL UTILITIES

Statement of Cash Flows
 Proprietary Funds
 Year Ended June 30, 2004

	<u>Communications:</u> Telephone Utility	<u>Communications:</u> Cable TV, Internet & Pagers Utility
Cash Flows from Operating Activities:		
Cash Received from Customers and Users	1,103,854	290,469
Cash Received from Interdepartmental Sales	0	0
Cash Received from Other Revenues - Net	44,160	(952)
Cash Paid to Suppliers for Goods and Services	(854,531)	(179,736)
Cash Paid for Interdepartmental Services	0	0
Cash Paid for In-Lieu-Of-Tax Payments	(6,936)	(235)
Cash Paid to Employees	(45,979)	(60,870)
Cash Paid for Employee Benefits	(9,327)	(19,193)
	<u>231,241</u>	<u>29,483</u>
Cash Flows from Noncapital Financing Activities:		
Increase in Patronage Dividend Receivable	0	0
Increase in Customer Deposits	0	0
Transfers to City of Coon Rapids - Free Community Service	(87)	(507)
	<u>(87)</u>	<u>(507)</u>
Cash Flows from Capital and Related Financing Activities:		
Proceeds from Sale of Fixed Assets	0	0
Capital and Construction in Progress Expenditures	(3,993)	(1,617)
Hail Insurance Proceeds Received	0	0
Principal Payments on Long-term Debt	0	(28,482)
Interest Paid on Debt	0	(8,827)
	<u>(3,993)</u>	<u>(38,926)</u>
<u>Net Cash Used by Capital and Related Financing Activities</u>	<u>(3,993)</u>	<u>(38,926)</u>

Business Type Activities - Enterprise Funds

<u>Electric Utility</u>	<u>Gas Utility</u>	<u>Water Utility</u>	<u>Wastewater Utility</u>	<u>Total</u>
1,858,500	1,028,740	184,623	111,556	4,577,742
47,368	3,916	2,249	0	53,533
200,497	7,395	5,111	0	256,211
(1,041,319)	(877,739)	(57,489)	(12,473)	(3,023,287)
(47,368)	(3,916)	(2,249)	0	(53,533)
(48,533)	(36,827)	(4,581)	0	(97,112)
(193,290)	(96,238)	(68,336)	(25,297)	(490,010)
(67,899)	(38,689)	(18,943)	(7,779)	(161,830)
<u>707,956</u>	<u>(13,358)</u>	<u>40,385</u>	<u>66,007</u>	<u>1,061,714</u>
(626)	0	0	0	(626)
6,458	0	0	0	6,458
(13,952)	(25,022)	(37,198)	(128)	(76,894)
<u>(8,120)</u>	<u>(25,022)</u>	<u>(37,198)</u>	<u>(128)</u>	<u>(71,062)</u>
1,886	0	0	0	1,886
(164,746)	(37,920)	(24,649)	(38,557)	(271,482)
19,863	15,896	0	0	35,759
(296,771)	0	0	0	(325,253)
(227,050)	0	0	0	(235,877)
<u>(666,818)</u>	<u>(22,024)</u>	<u>(24,649)</u>	<u>(38,557)</u>	<u>(794,967)</u>

(Continued)

COON RAPIDS MUNICIPAL UTILITIES

Statement of Cash Flows
 Proprietary Funds
 Year Ended June 30, 2004

	<u>Communications:</u> Telephone Utility	<u>Communications:</u> Cable TV, Internet & Pagers Utility
Cash Flows from Investing Activities:		
Interest on Investments	2,804	1,114
Recovery of Discount on TIF Receivable	0	0
Principal Received on:		
Interutility Loans	0	0
City of Coon Rapids Loan	0	0
Coon Rapids Development Group Loan	0	0
	<hr/>	<hr/>
<u>Net Cash Provided by Investing Activities</u>	<u>2,804</u>	<u>1,114</u>
Net Increase (Decrease) in Cash and Cash Equivalents	229,965	(8,836)
Cash and Cash Equivalents - July 1, 2003	<hr/> 350,083	<hr/> 184,620
<u>Cash and Cash Equivalents - June 30, 2004</u>	<u><hr/>580,048</u>	<u><hr/>175,784</u>

Business Type Activities - Enterprise Funds

<u>Electric Utility</u>	<u>Gas Utility</u>	<u>Water Utility</u>	<u>Wastewater Utility</u>	<u>Total</u>
21,900	20,160	1,298	13,952	61,228
0	40,050	0	0	40,050
0	28,482	0	0	28,482
0	8,824	0	22,057	30,881
11,438	0	0	0	11,438
<u>33,338</u>	<u>97,516</u>	<u>1,298</u>	<u>36,009</u>	<u>172,079</u>
66,356	37,112	(20,164)	63,331	367,764
<u>2,108,112</u>	<u>1,152,707</u>	<u>170,657</u>	<u>832,633</u>	<u>4,798,812</u>
<u><u>2,174,468</u></u>	<u><u>1,189,819</u></u>	<u><u>150,493</u></u>	<u><u>895,964</u></u>	<u><u>5,166,576</u></u>

(Continued)

COON RAPIDS MUNICIPAL UTILITIES

Statement of Cash Flows
 Proprietary Funds
 Year Ended June 30, 2004

	<u>Communications:</u> Telephone <u>Utility</u>	<u>Communications:</u> Cable TV, Internet & Pagers <u>Utility</u>
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:		
Operating Income (Loss) (Exhibit B)	143,429	19,159
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:		
Depreciation	425	10,457
Other Revenues	44,160	(952)
Non-cash Expense	0	0
(Increase) Decrease in:		
Accounts Receivable	58,887	(1,813)
Inventories	(378)	(1,196)
Other Current and Prepaid Assets	23	(82)
Prepaid Rent, Noncurrent	0	0
Increase (Decrease) in:		
Deferred Rent Revenue	0	0
Accounts and Other Payables	(20,695)	4,516
Compensated Absences	577	428
Payroll, Sales and Use Taxes Payable	4,813	(1,034)
<u>Net Cash Provided (Used) by Operating Activities</u>	<u>231,241</u>	<u>29,483</u>
Reconciliation of Cash and Cash Equivalents at Year End to Specific Assets Included on the Statement of Net Assets:		
Current Assets:		
Cash and Pooled Investments	580,048	175,784
Restricted Assets:		
Cash and Pooled Investments		
Customer Deposits	0	0
Electric Revenue Bond and Interest Sinking	0	0
Electric Revenue Debt Service Reserve	0	0
Electric Revenue Capital Improvement	0	0
Electric Revenue Capital Loan Note Sinking	0	0
Economic Reserve	0	0
Nimeca Contingency	0	0
<u>Cash and Cash Equivalents - June 30, 2004</u>	<u>580,048</u>	<u>175,784</u>

See independent auditors' report and notes to financial statements.

Business Type Activities - Enterprise Funds

<u>Electric Utility</u>	<u>Gas Utility</u>	<u>Water Utility</u>	<u>Wastewater Utility</u>	<u>Total</u>
286,895	(61,175)	(1,776)	19,318	405,850
309,698	34,640	46,023	41,692	442,935
200,497	7,395	5,111	0	256,211
1,029	1,029	0	0	2,058
(70,235)	(6,370)	11,636	1,369	(6,526)
(49,536)	(5,007)	(1,673)	(191)	(57,981)
(1,351)	(2,031)	(808)	(866)	(5,115)
6,666	6,667	0	0	13,333
0	0	(13,333)	0	(13,333)
24,826	13,033	(4,532)	3,926	21,074
(104)	(330)	43	400	1,014
(429)	(1,209)	(306)	359	2,194
<u>707,956</u>	<u>(13,358)</u>	<u>40,385</u>	<u>66,007</u>	<u>1,061,714</u>
1,221,894	336,177	150,493	895,964	3,360,360
19,563	0	0	0	19,563
32,242	0	0	0	32,242
378,360	0	0	0	378,360
150,077	685,763	0	0	835,840
24,265	0	0	0	24,265
203,019	167,879	0	0	370,898
145,048	0	0	0	145,048
<u>2,174,468</u>	<u>1,189,819</u>	<u>150,493</u>	<u>895,964</u>	<u>5,166,576</u>

COON RAPIDS MUNICIPAL UTILITIES

Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances -
Budget and Actual (Cash Basis)
Proprietary Funds

Required Supplementary Information
Year Ended June 30, 2004

	<u>Actual</u>	<u>Budgeted Amounts Original and Final</u>	<u>Final Budget to Actual Variance</u>
Receipts:			
Use of Money and Property	61,228		
Charges for Service	4,893,318		
Miscellaneous	<u>148,496</u>		
<u>Total Receipts</u>	<u>5,103,042</u>	4,275,225	827,817
Disbursements:			
Business Type Activities:			
Operating Expenses	3,825,772		
Transfers to City of Coon Rapids	76,894		
Capital Outlay	271,482		
Principal Redemption	325,253		
Interest Payments	<u>235,877</u>		
<u>Total Disbursements</u>	<u>4,735,278</u>	<u>4,663,044</u>	<u>(72,234)</u>
Excess (Deficiency) of Receipts Over (Under) Disbursements	367,764	(387,819)	755,583
Balance, beginning of year	<u>4,798,812</u>	<u>1,830,300</u>	
<u>Balance, end of year</u>	<u><u>5,166,576</u></u>	<u><u>1,442,481</u></u>	

See independent auditors' report.

COON RAPIDS MUNICIPAL UTILITIES

Budget to GAAP Reconciliation
Proprietary Funds

Required Supplementary Information
Year Ended June 30, 2004

	<u>Enterprise Funds</u>		
	<u>Cash</u> <u>Basis</u>	<u>Accrual</u> <u>Adjustments</u>	<u>Accrual</u> <u>Basis</u>
Receipts / Revenues	5,103,042	(156,075)	4,946,967
Disbursements / Expenses	<u>4,735,278</u>	<u>(196,766)</u>	<u>4,538,512</u>
<u>Net</u>	367,764	40,691	408,455
<u>Beginning Net Assets, as Restated</u>	<u>4,798,812</u>	<u>6,752,227</u>	<u>11,551,039</u>
<u>Ending Net Assets</u>	<u><u>5,166,576</u></u>	<u><u>6,792,918</u></u>	<u><u>11,959,494</u></u>

See independent auditors' report.

COON RAPIDS MUNICIPAL UTILITIES

Schedule of Changes in Revenue Bond and Capital Loan Note Required Funds
Year Ended June 30, 20041998 Series Revenue BondsElectric Revenue - Bond and Interest Sinking Fund

Balance - July 1, 2003	26,639
Deposits	296,618
Interest Earned	791
Transfers In	3,233
Principal and Interest Paid on Bonds	(295,039)
Transfers Out and Withdrawals	0
<u>Balance - June 30, 2004</u>	<u>32,242</u>

Electric Revenue - Debt Service Reserve Fund

Balance - July 1, 2003	378,360
Deposits	0
Interest Earned	2,271
Transfers Out and Withdrawals	(2,271)
<u>Balance - June 30, 2004</u>	<u>378,360</u>

Electric Revenue - Capital Improvements Fund

Balance - July 1, 2003	150,089
Deposits	0
Interest Earned	900
Transfers Out and Withdrawals	(912)
<u>Balance - June 30, 2004</u>	<u>150,077</u>

2003 Capital Loan NotesElectric Revenue - Capital Loan Note Sinking Fund

Balance - July 1, 2003	24,254
Deposits	0
Interest Earned	61
Transfers Out and Withdrawals	(50)
<u>Balance - June 30, 2004</u>	<u>24,265</u>

See independent auditors' report.

COON RAPIDS MUNICIPAL UTILITIES

Schedule of Insurance Coverage
Year Ended June 30, 2004

<u>Type of Coverage - All Utility Systems</u>	<u>Expiration Date</u>	<u>Limits of Coverage (Each Occurrence/Aggregate)</u>
Property Coverage (Replacement Costs) - Fire and Extended Coverage (\$5,000 Deductible, 90% Co-Insurance) -	04-01-2005	
Electric Facilities, Buildings and Contents		3,481,677
Peak Shaving Plant and Contents		97,332
Water Treatment Plant and Contents		239,000
Water Tower and Contents		445,000
Cable Television Building and Contents		111,063
Maintenance Garage Building and Contents		335,518
Municipal Building - Building and Contents		1,288,305
Telecommunications Building - Building and Contents		1,224,000
Telecommunications Building - Generator Plant		3,663,541
Comprehensive General Liability -	04-01-2005	
Bodily Injury		1,000,000/2,000,000
Property Damage		1,000,000/2,000,000
Fire Damage		100,000
Medical Expense		5,000
Employee Benefits		100,000
Comprehensive Auto Policy -	04-01-2005	
Bodily Injury		1,000,000
Property Damage		1,000,000
Uninsured/Underinsured Motorists		50,000
Collision (\$1,000 Universal Motorists Deductible)		ACV
Comprehensive (No Deductible)		ACV
Umbrella (Wrongful Act) Liability (\$10,000 Deductible)	04-01-2005	2,000,000/2,000,000
Linebacker Liability (1,500 Deductible)	04-01-2005	1,000,000/2,000,000
Workmen's Compensation	04-01-2005	Statutory
Inland Marine (Coverage is City and Utilities)	04-01-2005	233,492
Boiler and Machinery Breakdown	10-08-2004	1,500,000
Surety Bond On -	01-01-2005	
Manager		250,000
Assistant Manager		150,000
Comptroller		150,000
Bookkeeper		5,000
Bookkeeper Assistant		5,000
Public Employee		2,500

See independent auditors' report.

COON RAPIDS MUNICIPAL UTILITIES

Notes to Financial Statements

June 30, 2004

Note 1 - Summary of Significant Accounting Policies

The Coon Rapids Municipal Utilities (CRMU) is governed by a three-member Board of Trustees that are appointed by the Mayor of the City of Coon Rapids, Iowa, with the approval of the City Council. Services provided are communications (telephone, cable TV, internet and pager), electric, natural gas, water and wastewater. CRMU's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

Criteria specified by the Governmental Accounting Standards Board have been applied in determining the scope of the reporting entity for financial reporting purposes. Specifically, those offices and activities over which the Board of Trustees exercises oversight responsibility are included in these financial statements. Manifestations of oversight responsibility over an entity include: (1) financial interdependency, (2) selection of governing authority, (3) designation of management, (4) ability to significantly influence operations, and (5) accountability for fiscal matters.

In accordance with GASB 14, CRMU has been identified as a component unit of the City of Coon Rapids.

B. Shared Utility Plant

CRMU, as a member of the North Iowa Municipal Electric Cooperative Association (NIMECA), entered into an agreement with Corn Belt Power Cooperative to provide NIMECA and its participating members with a long-term right and access to electric transmission facilities necessary to handle the combined needs of the participating members through undivided ownership interests in the capacity of transmission facilities. The costs associated with this agreement were allocated to the members based on their proportionate use of the shared transmission system and have been recorded by CRMU as capital assets in the Electric Utility Fund. The net book value at June 30, 2004 was \$435,338. In connection with this agreement, NIMECA established a Common Transmission System (CTS) Capital Improvement Fund in order to provide for major repairs or capital improvements made to the Common Transmission System.

Additionally, CRMU is one of fourteen owners in Unit 4 George Neal Generating Station which is managed in accordance with the terms of the basic generating agreement between MidAmerican Energy and the owners. CRMU, as a tenant-in-common, owns 0.521 percent of the generating station for generating, purchasing, obtaining by exchange, or otherwise acquiring or transmitting electric power and energy. CRMU's share of the costs of this generating station has been recorded as capital assets in the Electric Utility Fund. The net book value at June 30, 2004 was \$866,247.

COON RAPIDS MUNICIPAL UTILITIES

Notes to Financial Statements
June 30, 2004

Note 1 - Summary of Significant Accounting Policies

B. Shared Utility Plant (Continued)

CRMU is required to pay its pro rata share of operations and maintenance costs, net of revenues earned, for both of these shared plant facilities. Separate financial statements for these shared plant facilities are available in the offices of CRMU.

C. Basis of Presentation

Basic Financial Statements

The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Fund Net Assets report information on CRMU's business type activities which rely to a significant extent on fees and charges for services.

The Statement of Net Assets presents CRMU's assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories.

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets not meeting the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

Fund Financial Statements

The accounts of CRMU are organized on the basis of proprietary funds, each of which is considered to be a separate accounting entity and each reported in a separate column in the financial statements. The operations of each fund are accounted for by a separate set of self-balancing accounts, which comprise its assets, liabilities, net assets, revenues and expenses.

COON RAPIDS MUNICIPAL UTILITIES

Notes to Financial Statements

June 30, 2004

Note 1 - Summary of Significant Accounting Policies

C. Basis of Presentation

Fund Financial Statements (Continued)

CRMU reports the following major proprietary funds:

Enterprise:

The Communications: Telephone Fund is used to account for the operation and maintenance of the Utilities' telephone system.

The Communications: Cable TV, Internet, Pager Fund is used to account for the operation and maintenance of the Utilities' cable TV, internet and pager systems.

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

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

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

The Wastewater Fund is used to account for the operation and maintenance of the Utilities' wastewater treatment and sanitary sewer system.

D. Measurement Focus and Basis of Accounting

CRMU's 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.

CRMU applies 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.

COON RAPIDS MUNICIPAL UTILITIES

Notes to Financial Statements

June 30, 2004

Note 1 - Summary of Significant Accounting Policies

D. Measurement Focus and Basis of Accounting (Continued)

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 Utility's Enterprise Funds are charges to customers for sales and services. Operating expenses for Enterprise Funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

E. Assets, Liabilities and Net Assets

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

Cash, Pooled Investments and Cash Equivalents

The various proprietary funds of CRMU combine their cash funds into several shared bank accounts at one financial institution. Interest earned on investments is divided among the proprietary funds.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid (including restricted assets) are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, have a maturity date no longer than three months.

Customer Accounts, Unbilled Usage and Allowance for Doubtful Accounts

Accounts receivable are recorded in the Enterprise Funds at the time the service is billed. Unbilled receivables for Communications - Telephone for service consumed between periodic scheduled billing dates was estimated by management and recognized as revenue in the period in which the service was provided. There were no unbilled receivables at year-end for the other Enterprise Funds as meters are read at the end of each month and revenues from those readings are recorded as of that month.

The allowance for doubtful accounts for all Enterprise Funds amounted to \$60,222 at June 30, 2004.

COON RAPIDS MUNICIPAL UTILITIES

Notes to Financial Statements

June 30, 2004

Note 1 - Summary of Significant Accounting Policies

E. Assets, Liabilities and Net Assets (Continued)

Inventories

Material and supplies inventories are valued at the lower of cost or market, using the first-in, first-out method and amounted to \$225,964 at June 30, 2004, for all Enterprise funds of CRMU. The Electric and Gas Utility funds also carry fuel inventories in connection with the local plants and Unit 4 George Neal Generating Station that amounted to \$32,098 at June 30, 2004. The amount for the Unit 4 George Neal Generating Station represents only CRMU's joint ownership share.

Inventories are recorded as expenses when consumed rather than when purchased. As detailed in Note 22, restatements were made to various utility funds to correct errors in the proper accumulation of inventory costs in previous years.

Restricted Assets

Funds set aside for payment of Enterprise Fund revenue bonds and capital loan notes are classified as restricted assets since their use is restricted by applicable bond and note indentures. Other restricted assets include customer deposits restricted for application to unpaid customer accounts or for refund to customers. In addition, restricted assets include funds held for future capital improvements or for other uses at the discretion of the Board of Trustees.

Capital Assets

Capital assets, which include property, plant and equipment are stated at cost. The cost of system additions includes labor to remove and install and, if applicable, engineering, interim financing interest and other related costs. The costs of normal maintenance and repairs of property and replacements and renewals of the system, which do not significantly add to the value of the asset or materially extend asset lives are not capitalized but are charged to operating expense as incurred.

CRMU does not have a written policy for capitalizing assets. Management determines capitalization or expensing on an individual basis.

Interest costs on debt are capitalized where proceeds are used to finance the construction of assets. Interest earned on proceeds of tax exempt borrowing arrangements restricted to the acquisition of qualifying assets is offset against interest costs in determining the amount to be capitalized. No interest costs were capitalized for the year ended June 30, 2004, as no qualifying assets were acquired.

COON RAPIDS MUNICIPAL UTILITIES

Notes to Financial Statements
June 30, 2004

Note 1 - Summary of Significant Accounting Policies

E. Assets, Liabilities and Net Assets

Capital Assets (Continued)

Depreciation of capital assets is calculated using the straight-line method over estimated useful lives ranging from 4 to 50 years.

CRMU capitalizes direct labor, material costs, interest costs and other related costs used to construct improvements. Incomplete projects at June 30, 2004 have been classified as construction in progress. No depreciation is calculated for construction in progress.

Discount on Bonds

The 1998 series electric revenue bonds were issued at a discount. The discount is being amortized using the straight-line method over the term of the bonds and amounts to \$3,227 per year. Bonds payable are reflected net of the unamortized discount, which amounted to \$32,002 at June 30, 2004.

Compensated Absences

CRMU employees are entitled to certain compensated absences based on length of employment. Vacation hours are accumulated on a calendar year basis with a limited amount of carryover to subsequent years allowed. Earned but unused vacation hours will be paid upon termination, retirement or death. The compensated absences liability for earned but unused vacation hours has been computed based on rates of pay in effect at June 30, 2004. Sick leave is not paid on termination, retirement or death; therefore, no accrual has been made for accumulated sick leave hours.

Long-term Obligations

In the basic financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Assets.

F. Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates. As of the date of the issuance of the accompanying financial statements, no material changes to the estimates used therein were anticipated by management in the near term.

COON RAPIDS MUNICIPAL UTILITIES

Notes to Financial Statements June 30, 2004

Note 1 - Summary of Significant Accounting Policies (Continued)

G. Allocations

CRMU allocates certain expenses based on a three-year rolling average of personnel hours for each utility, except for those expenses determined to be for a specific fund or funds. The rolling average is updated each pay period.

H. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2004, disbursements for CRMU exceeded the amounts budgeted for their operations in the business type activities function. However, CRMU's budget is included in the budget for the City of Coon Rapids as a component unit of the City; therefore, we were unable to determine if the overall budget for business type activities was exceeded for the year ended June 30, 2004.

Note 2 - Cash and Pooled Investments

CRMU's deposits in banks at June 30, 2004, 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.

CRMU is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2004, the Electric Utility had investments in the Iowa Public Agency Investment Trust held in the NIMECA CTS Improvement Fund, which are valued at an amortized cost of \$109,598 pursuant to Rule 2a-7 under the Investment Company Act of 1940. Governmental Accounting Standards Board Statement No. 3 requires investments to be categorized to give an indication of the level of risk assumed by CRMU at year end. CRMU's investment in the Iowa Public Agency Investment Trust is not subject to risk categorization.

CRMU's other investments are category 1, which means that the investments are insured or registered or the securities are held by CRMU or its agent in CRMU's name.

COON RAPIDS MUNICIPAL UTILITIES

Notes to Financial Statements

June 30, 2004

Note 3 - Communications (Telephone) Accounts Receivable - Other

Accounts Receivable - Other for the Communications (Telephone) Utility includes CABs billings for the telephone system amounting to \$104,321 at June 30, 2004. An allowance account has been set up in the amount of \$50,817 at June 30, 2004, and management believes the allowance to be a reasonable and appropriate reduction of the CABs receivables to their net realizable value.

In addition, at June 30, 2004, CRMU had overpaid the service provider for the payables related to the CABs billings noted above. The overpayment amounted to \$22,557. An allowance account was also recorded for \$12,304 to correspond to the related receivable allowance. The combined total of the overpayment and the payable reserve of \$34,861 has been included in Accounts Receivable - Other on the Statement of Net Assets.

Note 4 - Loans Receivable

Loans to City of Coon Rapids

On April 11, 2002, the Board of Trustees of CRMU approved a resolution to provide financing from the Gas Utility and Wastewater Utility for the purpose of providing funds to the City of Coon Rapids in order for the City to pay the cost of construction of a new bridge and reconstruction of the roadway approaching the bridge. CRMU is financing the loan pursuant to the provisions of Section 384.24A of the Code of Iowa.

The principal amount of the loan was \$350,000 with \$100,000 financed by the Gas Utility and \$250,000 financed by the Wastewater Utility. The General Obligation note, dated May 31, 2002, specifies annual installments of \$42,088 including interest at 3.50% beginning June 1, 2003, with a final payment on June 1, 2012. The City has the right to prepay principal of the note, in whole or in part, at any time prior to and in inverse order of maturity on terms of par and accrued interest.

Annual amounts receivable for the loans are as follows:

Year Ending June 30,	Gas		Wastewater		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2005	\$ 9,133	\$ 2,893	\$ 22,829	\$ 7,233	\$ 31,962	\$ 10,126
2006	9,452	2,573	23,629	6,434	33,081	9,007
2007	9,783	2,243	24,455	5,607	34,238	7,850
2008	10,125	1,900	25,312	4,751	35,437	6,651
2009	10,480	1,546	26,197	3,865	36,677	5,411
2010	10,847	1,178	27,114	2,949	37,961	4,127
2011	11,226	799	28,063	2,000	39,289	2,799
2012	11,605	406	29,065	1,017	40,670	1,423
Totals	\$ 82,651	\$ 13,538	\$ 206,664	\$ 33,856	\$ 289,315	\$ 47,394

COON RAPIDS MUNICIPAL UTILITIES

Notes to Financial Statements

June 30, 2004

Note 4 - Loans Receivable (Continued)

Loan to Coon Rapids Development Group

On January 17, 2002, the Board of Trustees of CRMU approved a resolution to provide financing from the Electric Utility to the Coon Rapids Development Group (a non-profit organization) for a new residential development in the City of Coon Rapids. The Board approved a 10-year loan for \$125,000 at 2.50% interest. The CRMU board provided the funds in order to promote economic and community development in the Coon Rapids area and to create a sound economic base to serve as a foundation for future load growth and development for CRMU. The funds were advanced in May 2002. Repayment terms specify monthly principal payments of \$1,178 plus interest calculated at 2.50% which began June 30, 2002, and a final payment on June 30, 2012.

Annual amounts receivable for the loan are as follows:

Year Ending June 30,	Electric	
	Principal	Interest
2005	\$ 11,713	\$ 2,427
2006	12,009	2,131
2007	12,313	1,827
2008	12,624	1,516
2009	12,944	1,196
2010	13,271	869
2011	13,607	533
2012	13,953	190
	<u>\$ 102,434</u>	<u>\$ 10,689</u>

Note 5 - Interutility Loans

On February 18, 1999, the Gas Utility loaned funds to the Communications (Cable TV) Utility. This loan is unsecured. The loan was used for the purchase of equipment and for operating capital for the Communications (Cable TV) Utility. The initial loan amount was \$300,000 with scheduled repayment over ten years. Interest is accrued and added to the principal balance of the note on a monthly basis at a rate of 4.50%. Monthly payments are \$3,109, which began on September 30, 1999; total payments per year amount to \$37,310.

COON RAPIDS MUNICIPAL UTILITIES

Notes to Financial Statements

June 30, 2004

Note 5 - Interutility Loans (Continued)

The detail of interutility receivables and payables at June 30, 2004 is as follows:

Receivable <u>Fund</u>	Payable <u>Fund</u>	Balance Beginning of the Year	Payments During Year		Balance End of Year
			<u>Principal</u>	<u>Interest</u>	
Gas	Communications - Cable TV	\$ 209,108	\$ 28,482	\$ 8,828	\$180,626

Amounts receivable for the Gas Utility and the debt service requirements for the Communications (Cable TV) Utility for the interutility loan for years subsequent to June 30, 2004, are as follows:

Year Ended <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Scheduled Payments</u>
2005	\$ 29,791	\$ 7,519	\$ 37,310
2006	31,160	6,150	37,310
2007	32,591	4,719	37,310
2008	34,088	3,222	37,310
2009	35,654	1,656	37,310
2010	17,342	224	17,566
	<u>\$ 180,626</u>	<u>\$ 23,490</u>	<u>\$ 204,116</u>

Note 6 - Tax Increment Financing Receivable

The Gas Utility entered into an agreement with the Coon Rapids Action Council (a non-profit organization) to provide interest-free funds for the purchase and development of residential areas to further the growth of this Utility and to stabilize rates. On July 1, 1996, the City of Coon Rapids issued an Urban Renewal Tax Increment Revenue Bond to CRMU for the principal sum of \$285,050. As this bond carried no interest rate, the principal was discounted over a twenty-year payback at CRMU's nominal interest rate. Total payments received on the 1996 bond since inception exceeded the discounted principal balance; therefore, the excess has been classified as Recovery of Discount on TIF Receivable on Exhibit B - Statement of Revenues, Expenses and Changes in Fund Net Assets. CRMU received \$40,050 from the City during the year ended June 30, 2004 as the final payment on this bond.

COON RAPIDS MUNICIPAL UTILITIES

Notes to Financial Statements

June 30, 2004

Note 6 - Tax Increment Financing Receivable (Continued)

On January 29, 2003, the Board of Trustees of CRMU passed a resolution authorizing the advancement of funds for construction costs and labor to the Coon Rapids Development Group (CRDG) (a non-profit organization) to assist in two separate economic development programs with a combined cost of \$444,922. One project was for the development of land for commercial businesses with a total cost of \$138,281. The other project was for the development of land for single and multiple-family dwellings within the city of Coon Rapids with a total cost of \$306,641.

On April 5, 2004, CRMU entered into a development agreement with the City of Coon Rapids in which the City agreed to make economic development rebate payments to CRMU in the amount of \$444,922. To the extent that there are funds available in the City's Urban Renewal Tax Revenue Fund, the City will make payments pursuant to the agreement with the initial payment beginning June 2005 and continuing until the debt is paid. As the agreement carries no interest rate, the principal was discounted over an anticipated repayment period of six years at CRMU's nominal interest rate. Funds advanced to the City and the related discount for the various Enterprise Funds were as follows:

<u>Utility Fund</u>	<u>Total</u>	<u>Discount</u>	<u>Net Receivable</u>
Electric	\$ 41,758	\$ 4,170	\$ 37,588
Gas	214,584	21,433	193,151
Water	50,316	5,026	45,290
Wastewater	138,264	13,810	124,454
<u>Total</u>	<u>\$ 444,922</u>	<u>\$ 44,439</u>	<u>\$ 400,483</u>

Based on the anticipated repayment amounts from the City and an anticipated repayment period of six years, annual amounts receivable for the loan are as shown below and on the following page.

<u>Year Ending June 30,</u>	<u>Electric Utility</u>		<u>Gas Utility</u>		<u>Water Utility</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2005	\$ 5,680	\$ 1,359	\$ 29,189	\$ 6,984	\$ 6,844	\$ 1,638
2006	6,111	929	31,400	4,771	7,363	1,119
2007	6,289	750	32,315	3,858	7,577	904
2008	6,471	568	33,255	2,917	7,798	684
2009	6,660	380	34,223	1,949	8,024	457
2010	6,377	185	32,769	954	7,684	224
	<u>\$ 37,588</u>	<u>\$ 4,171</u>	<u>\$ 193,151</u>	<u>\$ 21,433</u>	<u>\$ 45,290</u>	<u>\$ 5,026</u>

COON RAPIDS MUNICIPAL UTILITIES

Notes to Financial Statements
June 30, 2004

Note 6 - Tax Increment Financing Receivable (Continued)

Year Ending June 30,	Wastewater Utility		Total	
	Principal	Interest	Principal	Interest
2005	\$ 18,807	\$ 4,499	\$ 60,520	\$ 14,480
2006	20,233	3,074	65,107	9,893
2007	20,821	2,486	67,002	7,998
2008	21,427	1,880	68,951	6,049
2009	22,051	1,256	70,958	4,042
2010	21,115	614	67,945	1,977
	<u>\$ 124,454</u>	<u>\$ 13,809</u>	<u>\$ 400,483</u>	<u>\$ 44,439</u>

Note 7 - Prepaid Rent Expense / Deferred Rent Revenue

In August 2001, the Electric Utility and Gas Utility entered into a rental agreement with the Water Utility for the use of a directional-boring machine for a period of five years. The equipment is included in the Water Utility as a part of Capital Assets and has a cost basis of \$100,356 with accumulated depreciation at June 30, 2004, of \$29,271. Amounts paid in advance were \$33,333 each by the Electric Utility and Gas Utility, for a total of \$66,666 and included all rental charges and a share of anticipated repairs and operating costs.

For the year ended June 30, 2004, rental income for the Water Utility amounted to \$13,333; rental expense amortized for the Electric Utility and Gas Utility amounted to \$6,667 and \$6,666, respectively.

Future recognition of rental income and future amortization of rental expense for succeeding years will be as follows:

Year Ended June 30,	Rental Income	Rental Expense	
	Water	Electric	Gas
2005	\$ 13,333	\$ 6,667	\$ 6,666
2006	13,333	6,667	6,666
2007	2,223	1,111	1,112
<u>Totals</u>	<u>\$ 28,889</u>	<u>\$ 14,445</u>	<u>\$ 14,444</u>

COON RAPIDS MUNICIPAL UTILITIES

Notes to Financial Statements
June 30, 2004

Note 8 - Municipal Building

The Electric Utility and Gas Utility provided funds for construction of a building, which is used as an office facility for CRMU, the city library and general city offices. Based on square footage data, CRMU utilizes 76.83% of the facility and the general city and city library utilize 23.17%. The city reimburses the Electric Utility and Gas Utility for a share of building operating costs. For financial reporting purposes, all assets, liabilities, income and expenses of this building are prorated in accordance with percentages of capital contributed, with the Electric Utility's share at 43.16% and the Gas Utility's share at 56.84%. Cost and accumulated depreciation activity for the year ended June 30, 2004 was as shown below.

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
<u>Electric Utility</u>				
<u>Cost</u>				
Land	\$ 15,106	\$0	\$0	\$ 15,106
Buildings and Improvements	310,836	0	0	310,836
Equipment	10,812	0	0	10,812
	<u>\$ 336,754</u>	<u>\$0</u>	<u>\$0</u>	<u>\$ 336,754</u>
<u>Less: Accumulated Depreciation</u>				
Buildings and Improvements	161,852	6,132	0	167,984
Equipment	8,609	59	0	8,668
	<u>170,461</u>	<u>6,191</u>	<u>0</u>	<u>176,652</u>
<u>Net</u>	<u>\$ 166,293</u>	<u>\$ (6,191)</u>	<u>\$0</u>	<u>\$ 160,102</u>
<u>Gas Utility</u>				
<u>Cost</u>				
Land	19,894	0	0	19,894
Buildings and Improvements	409,470	0	0	409,470
Equipment	14,207	0	0	14,207
	<u>\$ 443,571</u>	<u>\$0</u>	<u>\$0</u>	<u>\$ 443,571</u>
<u>Less: Accumulated Depreciation</u>				
Buildings and Improvements	213,180	8,078	0	221,258
Equipment	11,305	78	0	11,383
	<u>224,485</u>	<u>8,156</u>	<u>0</u>	<u>232,641</u>
<u>Net</u>	<u>\$ 219,086</u>	<u>\$ (8,156)</u>	<u>\$0</u>	<u>\$ 210,930</u>

COON RAPIDS MUNICIPAL UTILITIES

Notes to Financial Statements
June 30, 2004

Note 8 - Municipal Building (Continued)

Municipal building assets are depreciated using the straight-line method over the following estimated useful lives:

Buildings and Improvements	10 - 50 Years
Equipment	5 - 40 Years

Note 9 - Capital Assets

Capital assets activity for the year ended June 30, 2004 was as follows:

	Balance Beginning of Year (as restated, <u>Note 22</u>)	<u>Increases</u>	<u>Decreases</u>	Balance End of Year
<u>Utility Plant, Facilities and Equipment</u>				
Steam Production Plant - Neal 4	\$ 1,766,589	\$ 3,949	\$ 0	\$ 1,770,538
Local Production Facilities	1,663,353	13,655	(3,480)	1,673,528
Transmission Plant System	918,160	52,854	(10,709)	960,305
Distribution Plant System	9,524,494	105,876	0	9,630,370
General Facilities and Equipment	<u>1,821,952</u>	<u>45,307</u>	<u>(28,225)</u>	<u>1,839,034</u>
<u>Total Utility Plant, Facilities and Equipment</u>	<u>15,694,548</u>	<u>221,641</u>	<u>(42,414)</u>	<u>15,873,775</u>
<u>Less Accumulated Depreciation for:</u>				
Steam Production Plant - Neal 4	857,655	46,635	0	904,290
Local Production Facilities	1,051,180	39,218	(399)	1,089,999
Transmission Plant System	413,667	35,621	(239)	449,049
Distribution Plant System	2,819,540	216,111	0	3,035,651
General Facilities and Equipment	<u>808,726</u>	<u>91,003</u>	<u>(25,921)</u>	<u>873,808</u>
<u>Total Accumulated Depreciation</u>	<u>5,950,768</u>	<u>428,588</u>	<u>(26,559)</u>	<u>6,352,797</u>
<u>Net Utility Plant, Facilities and Equipment</u>	<u>9,743,780</u>	<u>(206,947)</u>	<u>(15,855)</u>	<u>9,520,978</u>
Construction in Progress	<u>15,860</u>	<u>152,353</u>	<u>(25,431)</u>	<u>142,782</u>
<u>Total Capital Assets, Net</u>	<u>\$ 9,759,640</u>	<u>\$ (54,594)</u>	<u>\$ (41,286)</u>	<u>\$ 9,663,760</u>

COON RAPIDS MUNICIPAL UTILITIES

Notes to Financial Statements

June 30, 2004

Note 9 - Capital Assets (Continued)

Total depreciation expense for CRMU for the year ended June 30, 2004, amounted to \$442,935, which includes \$14,347 in depreciation on the municipal building assets. Depreciation expense charged to operations and the estimated useful lives per classification of depreciable property for each fund are as shown below and on the following page.

<u>Communications Utility:</u>	<u>Estimated Useful Life</u>	<u>Depreciation Expense</u>
<u>Telephone</u>		
General Facilities and Equipment	5 - 40 Years	\$ 425
<u>Total</u>		<u>\$ 425</u>

<u>Communications Utility:</u>		
<u>Cable TV, Internet and Pagers</u>		
Local Production Facilities	5 - 40 Years	\$ 7,119
General Facilities and Equipment	5 - 40 Years	3,338
<u>Total</u>		<u>\$ 10,457</u>

<u>Electric Utility</u>		
Steam Production Plant - Neal 4	40 Years	\$ 46,635
Transmission Plant System	24 - 40 Years	32,862
Distribution Plant System	5 - 40 Years	168,542
General Facilities and Equipment	5 - 40 Years	55,468
Municipal Office Building and Equipment	5 - 40 Years	6,191
<u>Total</u>		<u>\$ 309,698</u>

COON RAPIDS MUNICIPAL UTILITIES

Notes to Financial Statements
June 30, 2004

Note 9 - Capital Assets (Continued)

	<u>Estimated Useful Life</u>	<u>Depreciation Expense</u>
<u>Gas Utility</u>		
Local Production Facilities	40 Years	\$ 4,504
Distribution Plant System	5 - 40 Years	10,619
General Facilities and Equipment	5 - 40 Years	11,361
Municipal Office Building and Equipment	5 - 50 Years	<u>8,156</u>
<u>Total</u>		<u><u>\$ 34,640</u></u>
 <u>Water Utility</u>		
Local Production Facilities	25 - 40 Years	\$ 8,050
Transmission Plant System	40 Years	2,759
Distribution Plant System	5 - 50 Years	17,901
General Facilities and Equipment	5 - 40 Years	<u>17,313</u>
<u>Total</u>		<u><u>\$ 46,023</u></u>
 <u>Wastewater Utility</u>		
Local Production Facilities	20 - 40 Years	\$ 19,545
Distribution Plant System	4 - 40 Years	19,049
General Facilities and Equipment	5 - 40 Years	<u>3,098</u>
<u>Total</u>		<u><u>\$ 41,692</u></u>

Note 10 - Changes in Long-term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2004 is shown on the following page.

COON RAPIDS MUNICIPAL UTILITIES

Notes to Financial Statements

June 30, 2004

Note 10 - Changes in Long-term Liabilities (Continued)

	Balance Beginning of Year	Increases	Decreases	Balance End of Year	Due Within One Year
Revenue Bonds	\$ 2,885,000	\$0	\$ (150,000)	\$2,735,000	\$ 185,000
Less: Bond Discount	(35,231)	0	3,229	(32,002)	(3,227)
Net Revenue Bonds	2,849,769	0	(146,771)	2,702,998	181,773
Capital Loan Notes	1,950,000	1,925,000	(2,075,000)	1,800,000	130,000
Interutility Loans	209,109	0	(28,483)	180,626	29,790
Deferred Rent Revenue	42,222	0	(13,333)	28,889	13,333
	<u>\$ 5,051,100</u>	<u>\$1,925,000</u>	<u>\$(2,263,587)</u>	<u>\$4,712,513</u>	<u>\$ 354,896</u>

Note 11 - Bonds and Notes Payable

Series 1998 Electric Revenue Bonds

The Series 1998 Bonds were issued on May 15, 1998, to finance the construction of a hybrid fiber coaxial distribution system, tools and equipment; the construction of a new utilities building; and to refund the final maturity of a previous electric revenue bond issuance. The face amount of the original issue was \$3,445,000 with interest rates from 4.85% to 5.10%. The bonds were issued at a discount; the unamortized discount at June 30, 2004, amounted to \$32,002. The bonds are payable serially over sixteen years commencing June 1, 1999, with a final maturity of June 1, 2014. Bonds due after June 1, 2006 will be subject to call for prior redemption as of that date or any date thereafter upon terms of par plus accrued interest to date of redemption.

The resolution providing for the issuance of the Series 1998 revenue bonds includes the following provisions:

- A. The bonds will only be redeemed from future earnings of the Electric Utility and bondholders hold a lien on the future earnings of the fund.
- B. The Electric Utility will accumulate cash sufficient to pay the next fiscal year's principal and interest payments in a separate electric revenue bond and interest sinking fund.

COON RAPIDS MUNICIPAL UTILITIES

Notes to Financial Statements

June 30, 2004

Note 11 - Bonds and Notes Payable

Series 1998 Electric Revenue Bonds (Continued)

- C. The Electric Utility will set aside, in a separate electric revenue debt service reserve fund, an amount equal to the maximum amount of principal and interest coming due in any succeeding year. This account is restricted for the payment of principal and interest on the bonds when there is insufficient money available in the electric revenue bond and interest sinking fund.
- D. The Electric Utility will set aside periodic amounts sufficient to accumulate a minimum of \$150,000 in a separate improvement fund. This account is restricted for payment of extraordinary maintenance expenses or repairs, renewals and replacements; rentals on any part of the system or payment due for any property purchased as a part of the system and for capital improvements to the system. In addition, the funds in this account can be used to pay principal and interest payments, which the other accounts might be unable to make.
- E. According to the bond covenants, if the amount on hand in the bond and interest sinking fund and debt service reserve fund exceed the amount required by the bond provisions, the excess is to be withdrawn and paid into the revenue fund. At June 30, 2004, there were no significant excess funds in the sinking fund or reserve fund accounts.

During the year ended June 30, 2004, CRMU was in compliance with the revenue bond provisions.

Subordinate Series 2000 and 2003 Electric Revenue Capital Loan Notes

On August 5, 2003, CRMU issued \$1,925,000 of Subordinate Series 2003 Electric Revenue Capital Loan Notes to advance refund a previous electric capital loan note issuance. The previous issuance, Subordinate Series 2000 Capital Loan Notes issued on June 15, 2000, provided funds to pay the costs of improvements and extensions to the Electric Utility including the purchase of three 1860 - kilowatt caterpillar engines. The outstanding balance of the Series 2000 capital loan notes at July 1, 2003 was \$1,950,000. Principal paid on the Series 2000 notes prior to refinancing amounted to \$25,000.

The interest rate on the Subordinate Series 2003 Capital Loan Notes is 3.85% computed using a 360-day year. Monthly principal and interest payments are scheduled with the amount of the monthly installment of principal varying on an annual basis. The final payment is scheduled for June 15, 2015. The Series 2003 notes may be called for redemption and paid before maturity on any date from any funds, regardless of source, in whole or, from time to time, in part, in any order of maturity and within a maturity by lot. The terms of redemption shall be par plus accrued interest to the date of call with no penalty for prepayment.

COON RAPIDS MUNICIPAL UTILITIES

Notes to Financial Statements

June 30, 2004

Note 11 - Bonds and Notes Payable

Subordinate Series 2000 and 2003 Electric Revenue Capital Loan Notes (Continued)

The resolution providing for the issuance of the Subordinate Series 2003 Capital Loan Notes includes the following provisions:

- A. The notes will only be redeemed from future earnings of the Electric Utility and note holders hold a lien on the future earnings of the fund. The notes are subordinate to the outstanding electric revenue bonds dated May 15, 1998. The notes will not constitute general obligations of the City of Coon Rapids nor be payable in any manner by taxation. The City shall not, in any manner, be liable by reason of insufficient net earnings of the Electric Utility.
- B. Funds in the Revenue Fund shall first be disbursed to make all required deposits into funds created by the prior resolutions for the Series 1998 revenue bonds.
- C. The Electric Utility will set aside, in a separate sinking fund account on a monthly basis, the amount necessary to pay in full the installment of principal and interest coming due on the next payment date of the outstanding notes.
- D. According to the note covenants, if the amount on hand in the sinking fund exceeds the amount required by the note provisions, the excess is to be withdrawn and paid into the revenue fund. At June 30, 2004, there were no significant excess funds in the sinking fund account.

During the year ended June 30, 2004, CRMU was in compliance with the capital loan note provisions.

Details of the revenue bonds and capital loan notes payable are as follows:

	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Final Due Date</u>	<u>Annual Payments</u>	<u>Amount Originally Issued</u>	<u>Outstanding June 30, 2004</u>
Revenue Bonds:						
Electric Revenue Bond, Series 1998	05-15-98	4.85% to 5.10%	06-01-14	\$90,000 to \$360,000	\$3,445,000	\$2,735,000
Capital Loan Notes:						
Electric Revenue Capital Loan Notes, Subordinate Series 2003	08-05-03	3.85%	06-15-15	\$110,000 to \$530,000	\$1,925,000	<u>\$1,800,000</u>
<u>Total Outstanding, June 30, 2004</u>						<u><u>\$4,535,000</u></u>

COON RAPIDS MUNICIPAL UTILITIES

Notes to Financial Statements

June 30, 2004

Note 11 - Bonds and Notes Payable (Continued)

A summary of the annual revenue bond and note principal and interest requirements to maturity by year is as follows:

Year Ending June 30,	Series 1998 Revenue Bonds (1)		Series 2003 Revenue Capital Loan Notes		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2005	\$ 185,000	\$137,426	\$ 130,000	\$ 67,006	\$ 315,000	\$ 204,432
2006	190,000	128,408	140,000	61,825	330,000	190,233
2007	225,000	119,097	125,000	56,699	350,000	175,796
2008	240,000	108,073	125,000	51,887	365,000	159,960
2009	275,000	96,072	110,000	47,339	385,000	143,411
2010	290,000	82,323	115,000	43,016	405,000	125,339
2011	305,000	67,677	125,000	38,412	430,000	106,089
2012	325,000	52,275	125,000	33,599	450,000	85,874
2013	340,000	35,700	135,000	28,610	475,000	64,310
2014	360,000	18,360	140,000	23,325	500,000	41,685
2015	0	0	530,000	11,052	530,000	11,052
Totals	\$2,735,000	\$845,411	\$1,800,000	\$462,770	\$4,535,000	\$1,308,181

(1) Annual principal requirements for the Series 1998 Revenue Bonds are shown exclusive of bond discount amortization.

Note 12 - Pension and Retirement Benefits

CRMU contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits, which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and CRMU is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by state statute. CRMU's contribution to IPERS for the years ended June 30, 2004, 2003, and 2002 were \$28,468, \$27,811 and \$26,484, respectively, equal to the required contributions for each year.

COON RAPIDS MUNICIPAL UTILITIES

Notes to Financial Statements

June 30, 2004

Note 13 - Major Customer

A significant portion of CRMU' s Electric Utility and Gas Utility Fund's revenue is derived from a single customer. This customer generated approximately 25.6% of the Electric Utility's total sales to customers and 39.4% of the Gas Utility's total sales to customers for the year ended June 30, 2004. Subsequent to June 30, 2004, this customer announced a change in their operations. As a result, CRMU anticipates a reduction in industrial electric and gas sales in the future.

Note 14 - Concentration of Credit Risk

CRMU provides utility services to commercial and residential customers in a specified service area in and around the City of Coon Rapids, Iowa. Credit is granted to substantially all customers, all of whom are local businesses or residents. All new customers of CRMU are required to pay a meter deposit. The deposit is refundable, within twelve months, if their account balances have been paid on time during this period.

The tax increment financing receivable by the various Utility Funds is subject to collection of property taxes in the tax increment financing district located in the City of Coon Rapids, Iowa.

The interutility loan receivable by the Gas Utility from the Communications (Cable TV) Utility is unsecured. Repayment is dependent upon the sales and collection policies of the Communications (Cable TV) Utility of CRMU.

Note 15 - Risk Management

CRMU 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. CRMU 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.

Note 16 - Related Party Transactions

CRMU had business transactions between CRMU and CRMU officials totaling \$42 during the year ended June 30, 2004.

COON RAPIDS MUNICIPAL UTILITIES

Notes to Financial Statements

June 30, 2004

Note 17 - Health Insurance

CRMU has a group health insurance policy, which provides comprehensive medical coverage for eligible employees and, if elected, their spouses and dependents. In order to reduce health insurance costs, CRMU self-insures employee eligible medical costs that are not reimbursed by the health insurance provider. Under the self-insured program, the employees can apply for a reimbursement for out of pocket expenses that are considered normal and acceptable under the comprehensive medical insurance program. The employee can make an application for reimbursement by providing CRMU with a copy of an explanation of benefit report provided by the insurance carrier. The amount of the deductibles and out of pocket expenses for the employees are as follows:

	<u>Deductible</u>		<u>Out-of-Pocket</u>	
	<u>Single</u>	<u>Family</u>	<u>Single</u>	<u>Family</u>
Employee	\$ 2,000	\$ 4,000	\$ 2,000	\$ 4,000

Note 18 - Commitments and Contingent Liabilities

1. CRMU has a contract, effective to December 31, 2020, with the United States Department of Energy to provide CRMU firm electric power up to 2,400 kilowatts during any winter season month and up to 2,670 kilowatts during any summer season month, through December 31, 2005. This contract provides that the contract rate of delivery for firm power will be recalculated January 2006, and January 2011, for the kilowatts to be provided during the subsequent winter and summer seasons.
2. CRMU entered into a contract with its major transporter of natural gas in August 1993 that requires a capacity demand of approximately \$127,000 annually. The initial expiration date of the contract was through October 31, 1996, which was subsequently extended through October 31, 2008.
3. Prior to June 30, 2003, the Gas Utility entered into a contract for the construction of a gas main crossing. The total contract to June 30, 2004, including change orders, amounted to \$217,319 with \$147,316 completed and approved. The remaining amount of the contract will be paid as the work progresses and is approved.
4. In March 2004, the Electric Utility entered into a contract for purchase and installation of fuel oil storage tanks. The total contract to June 30, 2004, including change orders, amounted to \$35,731 with \$30,916 completed and approved. The remaining amount of the contract will be paid as the work progresses and is approved.

COON RAPIDS MUNICIPAL UTILITIES

Notes to Financial Statements June 30, 2004

Note 18 - Commitments and Contingent Liabilities (Continued)

5. In March 2004, the Wastewater Utility entered into a contract for wastewater system consultation. The original amount of the contract amounted to \$5,500 with \$1,903 completed and approved. The remaining amount of the contract will be paid as the work progresses and is approved.

Note 19 - Cash Flow Information

CRMU had the following non-cash transactions for the year ended June 30, 2004:

1. Non-cash operating and capital and related financing transactions occurred when a prior period adjustment was made for inventories, as referred to in Note 22. The adjustment consisted of a net increase in inventories of \$41,449; a decrease in capital assets of \$59,655 and a decrease in accumulated depreciation of \$5,344.
2. Non-cash capital and related financing transactions occurred when CRMU incurred liability for the purchase of property, equipment and construction in progress, which was unpaid at June 30, 2004. The total unpaid liability amounted to \$79,041.
3. Non-cash investing transactions occurred in relation to the discount of the Tax Increment Financing Receivable. The amount of the discount per fund was as follows:

Electric Utility	\$ 4,171
Gas Utility	21,433
Water Utility	5,026
Wastewater Utility	<u>13,810</u>
	<u>\$ 44,440</u>

Note 20 - Joint Use Agreement

On April 19, 2002, the Board of Trustees adopted and approved a resolution between the Electric Utility and Communications (Telephone) Utility for "A Joint Use Agreement Under Iowa Code Chapter 28E". The Electric Utility financed and installed a communications distribution system for the use and support of the electric functions of the Electric Utility system. This communications distribution system is the sole property of the Electric Utility. Through the joint use agreement, the Communications (Telephone) Utility is granted the right to use the three networks of the communications distribution system in varying percentages as specified in the agreement.

COON RAPIDS MUNICIPAL UTILITIES

Notes to Financial Statements
June 30, 2004

Note 20 - Joint Use Agreement (Continued)

The term of the agreement is forty years and commenced on July 1, 2002. For the term of the agreement, the Communications (Telephone) Utility will pay to the Electric Utility, the sum of \$173,000 on or before the last day of June each year with the first payment due and paid on June 30, 2003. The arrangements and terms of the agreement were based upon present market value and economic conditions in sole reference to the joint use of the communications distribution system by the Electric Utility and Communications (Telephone) Utility. The Communications (Telephone) Utility is obligated to comply with all property tax filing requirements imposed under Iowa Code Chapter 433.

Note 21 - Other Information

CRMU provides utility and other services to the City of Coon Rapids. CRMU contributes an amount equal to these utilities and services back to the City as in-lieu-of-tax payments. The total amount paid to the City for the year ended June 30, 2004 amounted to \$97,112.

Note 22 - Prior Period Adjustments

Restatements were made to inventories, capital assets and net assets to correct errors in the proper accumulation of inventory costs in previous years.

Communications (Telephone) Utility

Inventories were increased by \$1,200 with an offset to net assets to correct for items not included in the physical inventory count in previous years.

Communications (Cable TV) Utility

Inventories were increased by \$4,680 with an offset to net assets to correct for items not included in the physical inventory count in previous years.

Electric Utility

A net increase of \$12,719 was made to correct inventories. Part of the adjustment consisted of inventory items that were incorrectly capitalized. Inventories were increased and capital assets were decreased by \$59,655 to remove the items from utility plant and record as inventory. As a result of the decrease in capital assets, accumulated depreciation was decreased by \$5,344 with an offset to net assets. Electric inventory was also adjusted to correct the valuation of certain inventory items recorded at cost to their lower market value. As a result, inventories were decreased by \$46,936 with an offset to net assets.

COON RAPIDS MUNICIPAL UTILITIES

Notes to Financial Statements

June 30, 2004

Note 22 - Prior Period Adjustments (Continued)

Gas Utility

Inventories were increased by \$22,850 with an offset to net assets to correct for items not included in the physical inventory count in previous years.

The effects of the restatements are summarized as follows:

	Communications (Telephone) <u>Utility</u>	Communications (Cable TV) <u>Utility</u>	Electric <u>Utility</u>	Gas <u>Utility</u>
Net Assets at June 30, 2003, as previously reported	\$ 541,025	\$ 48,070	\$ 5,797,984	\$ 2,444,337
Adjustments:				
Inventory	1,200	4,680	12,719	22,850
Capital Assets	0	0	(59,655)	0
Accumulated Depreciation	<u>0</u>	<u>0</u>	<u>5,344</u>	<u>0</u>
<u>Net Assets at June 30, 2003,</u> <u>Restated</u>	<u>\$ 542,225</u>	<u>\$ 52,750</u>	<u>\$ 5,756,392</u>	<u>\$ 2,467,187</u>

Note 23 - Accounting Change and Restatements

Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements - Management's Discussion and Analysis - for State and Local Governments; Statement No. 37, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; and Statement No. 41, Budgetary Comparison Schedule - Perspective Differences, were implemented for the year ended June 30, 2004. The statements create new basic financial statements for reporting the Utility's financial activities.

No restatement was required for accrual adjustments, as prior financial statements have always been prepared on the accrual basis of accounting. There are no non-major funds presented as each enterprise fund has been treated as a major fund.

REQUIRED SUPPLEMENTARY INFORMATION

COON RAPIDS MUNICIPAL UTILITIES

Notes to Required Supplementary Information - Budgetary Reporting Year Ended June 30, 2004

In accordance with the Code of Iowa, the Coon Rapids City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds of the primary government and component units, including CRMU' s operations. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures. The budget for the City of Coon Rapids was amended for the year ended June 30, 2004; however, the budget amendment did not apply to CRMU's operations.

Formal and legal budgetary control is based upon nine major classes of disbursements, known as functions, not by fund or fund type. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. CRMU's budget is included in the business type activities function. Function disbursements required to be budgeted include disbursements for the primary government funds and enterprise funds, which would include CRMU's disbursements. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund.

During the year ended June 30, 2004, cash disbursements for CRMU in the business type activities function exceeded the amount budgeted for their operations. However, as noted previously, the budget for the City of Coon Rapids includes the primary government and its component units and each entity has disbursements included in the business type activities function. Therefore, we were unable to determine if the overall budget for business type activities was exceeded for the year ended June 30, 2004.

OTHER SUPPLEMENTARY INFORMATION

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING

OLSEN, MUHLBAUER & CO., L.L.P.

Certified Public Accountants

PARTNERS

RICHARD D. MUHLBAUER
PATRICK J. O'BRIEN
TRUDENE L. WITTMACK
KARLA L. FULTON

1127 PLAZA DR.
VILLAGE PARK EAST
CARROLL, IOWA 51401
712-792-4134
FAX 712-792-4503

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING

To the Board of Trustees
Coon Rapids Municipal Utilities

We have audited the financial statements of Coon Rapids Municipal Utilities, a component unit of the City of Coon Rapids, Iowa, as of and for the year ended June 30, 2004, and have issued our report thereon dated October 1, 2004. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Coon Rapids Municipal Utilities' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations and contracts, 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 noncompliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of noncompliance that are described in Part III of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the Utilities' operations for the year ended June 30, 2004, 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. Prior year statutory comments have been resolved except for items III-G-04 and III-M-04.

Internal Control over Financial Reporting

In planning and performing our audit, we considered Coon Rapids Municipal Utilities' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial

reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Coon Rapids Municipal Utilities's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part II of the accompanying Schedule of Findings.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe items II-A-04 and II-B-04 are material weaknesses. Prior year reportable conditions have been resolved.

This report, a public record by law, is intended solely for the information and use of the officials, employees and customers of Coon Rapids Municipal Utilities and other parties to whom Coon Rapids Municipal Utilities may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by the personnel of Coon 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.

Olsen, Muhlbauer & Co., L.L.P.

OLSEN, MUHLBAUER & CO., L.L.P.
Certified Public Accountants

Carroll, Iowa
October 1, 2004

COON RAPIDS MUNICIPAL UTILITIES

Schedule of Findings
Year Ended June 30, 2004

Part I: Summary of the Independent Auditors' Results:

- (a) An unqualified opinion was issued on the financial statements.
- (b) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, including material weaknesses.
- (c) The audit did not disclose any noncompliance which is material to the financial statements.

COON RAPIDS MUNICIPAL UTILITIES

Schedule of Findings Year Ended June 30, 2004

Part II: Findings Related to the Financial Statements:

Instances of Non-Compliance:

No matters were noted.

Reportable Conditions:

II-A-04 Account Reconciliations Review

Although management stated that reviews were made of account reconciliations and related adjustments, the reconciliation reports and adjusting entries were not initialed to document their review.

Recommendation

Reconciliations of balance sheet accounts including the cash accounts, accounts receivable and accounts payable are an important internal control used by management to ensure that all transactions are properly recorded in the accounting records and to help identify errors. We recommend that management document their review of such reconciliations to ensure their accuracy and completion. In addition, management should document their review of all adjusting entries to verify their approval of the entries.

Response

We will document our review and approval of account reconciliations and adjusting entries.

Conclusion

Response accepted.

COON RAPIDS MUNICIPAL UTILITIES

Schedule of Findings
Year Ended June 30, 2004

Part II: Findings Related to the Financial Statements:

Reportable Conditions: (Continued)

II-B-04 Disbursements

In our review of disbursements, we noted the following:

- 1) Four invoices were not initialed to indicate approval for payment
- 2) CRMU personnel were unable to locate invoices or supporting documentation for the following payments:

<u>Date</u>	<u>Paid To</u>	<u>Amount</u>
July 3, 2003	CRMU - Petty Cash	\$ 497.45
July 22, 2003	CRMU - Petty Cash	\$ 406.73
May 18, 2004	Mark Winnett	\$ 312.82

- 3) Documentation for some employee expense reimbursements were incomplete or missing. In two instances, the employee provided charge slips for meal expenses that only listed the total charge and not an itemized listing of the expenses. In another instance, invoices were not provided for the employee's meal expense. Total incomplete or missing invoices amounted to \$263.82.

Recommendation

Management should initial all invoices to document their review and approval for payment.

Invoices and supporting documentation should be available to support all disbursements. The supporting documents should be in sufficient detail to verify their propriety.

Response

We will comply with the recommendations.

Conclusion

Response accepted.

COON RAPIDS MUNICIPAL UTILITIES

Schedule of Findings
Year Ended June 30, 2004

Part II: Findings Related to the Financial Statements:

Reportable Conditions: (Continued)

II-C-04 Information System

The following weaknesses in CRMU's computer based systems were noted:

CRMU does not have written policies for:

- Requiring password changes every 60 to 90 days or maintaining password confidentiality.
- Usage of the internet.
- Prohibiting installation of non-licensed software.
- Personal use of CRMU owned computer equipment or software.
- Requiring back-up tapes to be stored off-site.
- Requiring a time-out and/or log off function or a screensaver password to protect a terminal if left unattended.
- Requiring a disaster recovery plan to address critical applications, staff responsibilities, etc. in the event of a natural disaster or other emergency situation.

Also, the computer system does not lock out a user if the user has entered the wrong password a specified number of times.

Recommendation

CRMU should develop written policies addressing the above items in order to improve their control over computer based systems. A written disaster recovery plan should be developed and back-up tapes should be stored off-site in a fireproof vault or safe. Also, the computer should lock out users that input their passwords incorrectly a specified number of times.

COON RAPIDS MUNICIPAL UTILITIES

Schedule of Findings Year Ended June 30, 2004

Part II: Findings Related to the Financial Statements:

Reportable Conditions:

II-C-04 Information System (Continued)

Response

CRMU believes that the recommended password procedures could compromise computer security and decrease efficiency. This could occur because some employees won't remember their new password and will write it down and store it in a non-secure area. We will consider requiring password changes at least annually.

CRMU does not have written policies on internet usage, prohibition of installation of non-licensed software, and personal usage of computer equipment or software. However, employees have been verbally notified of these policies. In addition, the office area is open to management oversight at all times.

Currently, CRMU stores back-up tapes in a fireproof vault every night; however, the vault is not located off-site. We will consider off-site storage at an appropriate facility.

We will review all current policies and procedures and establish written policies that will compliment our operations.

Conclusion

Response accepted.

COON RAPIDS MUNICIPAL UTILITIES

Schedule of Findings Year Ended June 30, 2004

Part III: Other Findings Related to Statutory Reporting:

III-A-04 Official Depositories

The Board of Trustees has approved a resolution naming official depositories. The maximum deposit amount stated in the resolution was not exceeded during the year ended June 30, 2004.

III-B-04 Certified Budget

Cash disbursements for CRMU operations in the Business Type Activities function exceeded the amounts budgeted for the year ended June 30, 2004.

CRMU is a component unit of the City of Coon Rapids; therefore, their disbursements and the disbursements of other component units are included with those of the City when the annual budget is adopted. Therefore, we were unable to determine if the overall budget for business type activities for the City of Coon Rapids was exceeded for the year ended June 30, 2004.

Recommendation

CRMU should monitor their cash basis disbursements in comparison with their cash basis budget. If it is estimated that disbursements for CRMU will exceed their budget, the Board of Trustees should amend their budget and submit the information to officials of the City of Coon Rapids. City officials would determine if their overall budget would need to be amended based on information from CRMU and other component units.

Response

We will comply with this recommendation.

Conclusion

Response accepted.

COON RAPIDS MUNICIPAL UTILITIES

Schedule of Findings
Year Ended June 30, 2004

Part III: Other Findings Related to Statutory Reporting: (Continued)

III-C-04 Questionable Disbursements

No disbursements were noted that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

III-D-04 Travel expenses

No disbursement of Utilities' money for travel expenses of spouses of Utilities' officials or employees were noted.

III-E-04 Business Transactions

Business transactions between Coon Rapids Municipal Utilities and Utility officials or employees are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Dan Pomeroy, Chairman of Board of Trustees, Owner of Coon Rapids Pharmacy, Inc.	Supplies	\$ <u>42</u>

In accordance with Chapter 362.5(10) of the Code of Iowa, the transactions with the Trustee do not appear to represent a conflict of interest since total transactions were less than \$2,500 during the fiscal year.

III-F-04 Bond Coverage

Surety bond coverage of Municipal Utility officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that coverage is adequate for current operations.

COON RAPIDS MUNICIPAL UTILITIES

Schedule of Findings
Year Ended June 30, 2004

Part III: Other Findings Related to Statutory Reporting: (Continued)

III-G-04 Trustee Minutes

No transactions were found that we believe should have been approved in the Board of Trustees minutes but were not.

The Municipal Utilities published calendar year 2003 annual gross salaries in accordance with an Attorney General' s opinion dated April 12, 1978. However, salaries for part-time employees were not included in the publication.

Recommendation

The Municipal Utilities should publish all annual individual gross salaries as required to comply with the Attorney General' s opinion dated April 12, 1978.

Response

The publication will include all employees' annual gross salaries in the future.

Conclusion

Response accepted.

III-H-04 Deposits and investments

No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the Coon Rapids Municipal Utilities' investment policy were noted.

III-I-04 Revenue Bonds and Notes

No instances of non-compliance with the electric revenue bond and capital loan note requirements for the year ended June 30, 2004 were noted.

COON RAPIDS MUNICIPAL UTILITIES

Schedule of Findings
Year Ended June 30, 2004

Part III: Other Findings Related to Statutory Reporting: (Continued)

III-J-04 Payroll and Sales Tax Reports

Certain payroll tax, IPERS and sales tax reports were filed after deadlines, which resulted in the assessment of late fees and penalties.

Recommendation

Payroll tax, IPERS and sales tax reports should be processed in a timely and accurate manner in order to avoid the payment of late fees and penalties.

Response

Payroll tax, IPERS and sales tax reports will be processed timely in order to avoid the payment of late fees and penalties.

Conclusion

Response accepted.

III-K-04 CRMU Vehicle Usage

CRMU owns vehicles for use by various employees while on Utility business. CRMU has not established a formal written policy to regulate the use of these vehicles.

Recommendation

CRMU should adopt a formal written policy regulating the use of their vehicles. The policy should include provisions for incidental personal use, commuting, assignment of vehicles, documentation required, restricted vehicle uses, reimbursement by employees for personal use, and additional compensation for employees.

Response

A policy will be written regulating the use of CRMU vehicles.

Conclusion

Response accepted.

COON RAPIDS MUNICIPAL UTILITIES

Schedule of Findings Year Ended June 30, 2004

Part III: Other Findings Related to Statutory Reporting: (Continued)

III-L-04 Compensated Absences

According to the CRMU employee handbook, employees earn holiday pay if they are on-call on holidays. They are granted a day off for this on-call time and are to use the day as soon as possible; however, it is to be taken by the end of the year in which it is accrued. Based on our review, holiday pay has not been used or carried over according to the policy, as the amount of unused holiday pay for certain employees at June 30, 2004 was in excess of actual holidays available in 2004.

We also noted that certain employees were accounting for comp time on their pay records. Department heads keep track of the comp time used by their employees. However, accurate information for comp time accumulated but not used at the end of fiscal year 2004 was not available from management. In addition, there is no written policy authorizing CRMU employees to use comp time or to restrict the accumulation to a maximum amount.

Recommendation

CRMU should comply with the policy relating to holiday pay and change employees' records to reflect the correct accrual of hours.

CRMU should develop and approve a written policy that addresses the use of comp time by employees. In addition, if the use of comp time is approved, management should keep complete and accurate records of each employee's comp time activity and balance.

Response

We will develop a written policy stating that when an employee requests vacation time and has accrued holiday hours, the hours will be offset against holiday hours first. We will review all accrued holiday hours to determine if the accrual is accurate.

We will develop a written policy on comp time and present it to the Board for approval. If we formally implement the use of comp time, we will maintain complete and accurate records of comp time activity and balances.

Conclusion

Response accepted.

COON RAPIDS MUNICIPAL UTILITIES

Schedule of Findings Year Ended June 30, 2004

Part III: Other Findings Related to Statutory Reporting: (Continued)

III-M-04 Excess Municipal Balances

At June 30, 2004, the unrestricted cash balance for the Wastewater Utility was \$895,964. Cash basis disbursements for fiscal year 2004 were \$84,234. Therefore, the Wastewater Utility's ending balance was in excess of the fiscal year 2004 disbursements.

Recommendation

According to Municipal Utilities officials, CRMU has been retaining funds in the Wastewater Utility in anticipation of major renovations, repairs and acquisitions of equipment and fixed assets, thereby reducing or eliminating the need for the issuance of bonds or notes.

The Board should continue to review the Wastewater Utility fund and if it is determined that balances are in excess of anticipated needs they should consider reducing the balance in an orderly manner through revenue reductions, if financially feasible.

Response

CRMU has hired an engineering firm to assess the wastewater system and review and identify structural deficiencies. Repairs to the system have been made in fiscal year 2004 and CRMU anticipates the need for major additions and/or replacements in the near term.

CRMU is reviewing the engineer's recommendations of wastewater improvements. Future plans to repair structural damage are being evaluated and initial cost estimates appear to be very costly. We will continue to monitor this fund in relation to anticipated needs.

Conclusion

Response accepted.

COON RAPIDS MUNICIPAL UTILITIES

Audit Staff

This audit was performed by:

Richard D. Muhlbauer, CPA

Karla L. Fulton, CPA

Patrick J. O' Brien, CPA

Trudene L. Wittmaack, CPA

Robert L. Muhlbauer, CPA

Tammy M. Bruch, CPA

Michelle A. Madden, CPA

OLSEN, MUHLBAUER & CO., L.L.P.
Certified Public Accountants