

**COON RAPIDS MUNICIPAL UTILITIES
(A COMPONENT UNIT OF
THE CITY OF COON RAPIDS)
INDEPENDENT AUDITORS' REPORT
FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
JUNE 30, 2011**

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COON RAPIDS MUNICIPAL UTILITIES

OFFICIALS

<u>Name</u>	<u>Position</u>	<u>Term Expires</u>
Mike Deeth	Chairman	June 2012
Ron Brower	Trustee	June 2014
Dierk Halverson	Trustee	June 2016
Bradley Honold	Secretary/General Manager	Indefinite
Kari Woodard	Director of Finance and Accounting	Indefinite
Jesica Leighty	City Clerk/City Treasurer	Indefinite
Mark Thomas	Attorney	Indefinite



Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

Board of Trustees
Coon Rapids Municipal Utilities
Coon Rapids, IA 50058

We have audited the accompanying financial statements of the business-type activities of each major fund of Coon Rapids Municipal Utilities, a component unit of the City of Coon Rapids, as of and for the year ended June 30, 2011, which collectively comprise the Utilities' basic financial statements as listed in the table of contents. These financial statements are the responsibility of management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. 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 respective financial position of the business-type activities of each major fund of Coon Rapids Municipal Utilities, a component unit of the City of Coon Rapids, as of June 30, 2011 and the respective changes in financial position and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 4, 2011, on our consideration of the Utility's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be considered in conjunction with this report in considering the results of our audit.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 11 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Williams & Company, P.C.
Certified Public Accountants

Spencer, Iowa
November 4, 2011



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, 2011. This should be read in conjunction with the Statements of Net Assets, the Statements of Revenues, Expenses and Changes in Fund Net Assets, and the Statements of Cash Flows, which follow.

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

The Statements of Net Assets provides information about the type and amount of investments in resources (assets) and the obligations to creditors (liabilities), and also

indicate those restricted by the Board of Communications, Electric, Natural Gas, Water, and 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 Statements of Revenues, Expenses, and Changes in Net Assets reports all the revenues and expenses for the year, including nonoperating 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 Statements 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.

Communications Utility

Overview:

CRMU's communication utility provides a variety of products and services to the Coon Rapids community. Services include telephone, long distance, high speed internet, cable television, and high definition television. As the industry has become increasingly competitive over the years, CRMU has maintained quality service at reasonable rates.

CRMU monitors the industry to remain competitive and meet the wants and needs of customers. CRMU must be responsive to its customers and provide an extraordinary level of customer support.

CRMU continues to work toward expanding offerings and enhancing current services (adding digital and high definition television channels, increasing internet bandwidth) to provide additional revenue to offset costs incurred due to the always-changing nature of the technology industry.

Over the past several years, the communications utility has experienced a break-even financial position. Achieving a positive financial gain will continue to be a challenge, making fiscal management and marketing an ongoing priority for CRMU.

Communications Utility Financial Highlights:

Dollars in Thousands

	2011	2010
OPERATING		
Revenues	760	740
Expenses	676	712
Operating Gain	84	28
NONOPERATING		
Revenue	8	1
Total Gain	92	29
ASSETS		
Current	895	706
Capital	117	137
Noncurrent	223	294
Total Assets	1,235	1,137
LIABILITIES		
Current	41	28
Noncurrent	0	0
Total	41	28
NET ASSETS		
Invested in Capital Assets	117	137
Unrestricted	1077	972
Total	1,194	1,109
Total Liabilities & Net Assets	1,235	1,137

Management's Discussion and Analysis

Results of Operations:

(As reported in the Statements of Revenues, Expenses and Changes in Fund Net Assets)

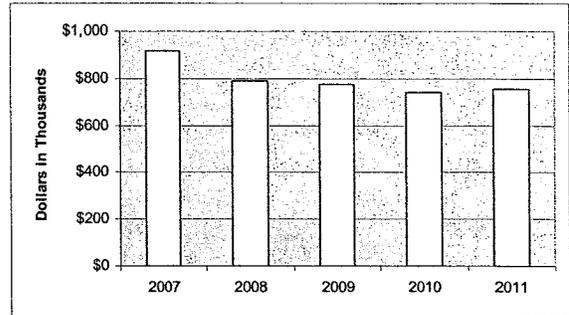
Revenue from operations increased by 2.7%, while total operating expenses decreased by 5.1%. The increase in revenue can be attributed to an increase in basic cable, high definition, and internet revenues. Cable and internet revenues increased by just over \$18,000 compared to fiscal year 2010. Telephone revenues decreased just slightly by \$500.

Expenses for the communication utility were lower due to a renegotiation of the telephone joint use agreement, which is \$49,000 lower than last year. There was a slight increase cable programming fees. Plant operation and depreciation expenses decreased, while distribution and customer service operations remained relatively unchanged, and Administrative / General expenses increased.

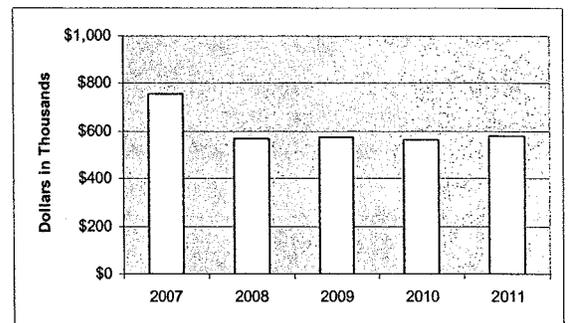
Interest income was lower in 2011 by more than \$2,200. In-Lieu-of tax payments and free community services were \$6,800.

The communications utility ended the year with a \$92,000 gain, compared to \$29,000 in 2010.

**Communications Utility
Operating Revenues: \$759,642**



**Communications Utility
Operating Expenses: \$676,406**



Financial Position:

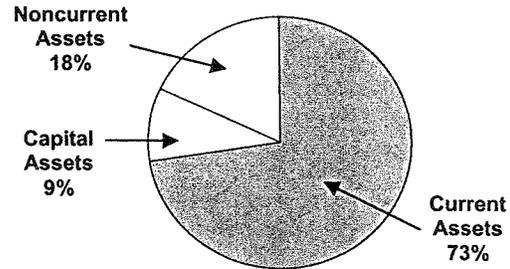
(As reported on the Statements of Net Assets)

Total assets increased by almost 9% in fiscal year 2011. This can be attributed to an increase in cash, which is a direct result of the increased operating gain. Total liabilities increased almost 45% simply because CRMU had higher accounts payable and accrued payables at the end of fiscal year 2011 compared to fiscal year 2010. Total net assets increased almost 8%.

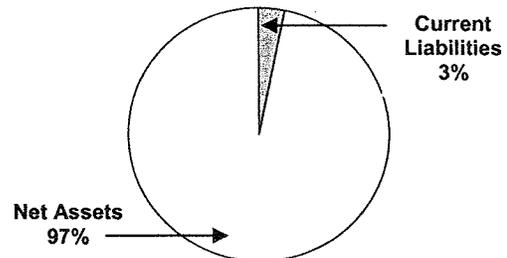
The communication utility's noncurrent assets decreased by \$71,000 due to debt paydown from the electric utility. Capital assets, in the form of utility plant, facilities and equipment, account for 9% of total assets, while current assets comprise 73% of the total assets. Cash and cash equivalents account for over 60% of total assets. These funds are designated for equipment replacement, capital improvements, and general savings.

Both revenues and expenses were higher than budget by \$46,000 and \$640, respectively.

Communication Utility Total Assets: \$1,234,789



**Communication Utility Total Liabilities and
Net Assets: \$1,234,789**



Management's Discussion and Analysis

Electric Utility

Overview:

In 2011, CRMU realized a net operating gain of \$472,000 and a nonoperating gain of \$58,000 for a total gain of \$530,000. Wholesale and retail sales increased 4% (\$94,000). Operating expenses were higher by the same amount (\$94,000) compared to 2010.

In the next few years, CRMU will face significant capital improvements. From 2011-2014, a scrubber / bag house will be installed onto Neal 4 to help reduce emissions. CRMU's share of this improvement is approximately \$1.3 million. Additional environmental regulations could force CRMU to add emission control equipment to its local generators at an estimated cost of \$270,000. Finally, CRMU will be making significant improvements to the current distribution system at a cost of \$1.7 million. CRMU hopes to minimize the financing amount needed by utilizing FEMA grant funds, continuing to save, and closely monitoring cash flow projections.

Electric Utility Financial Highlights:

Dollars in Thousands

	2011	2010
OPERATING		
Revenues	2,588	2,466
Expenses	2,116	2,023
Operating Gain	472	443
NONOPERATING		
Revenue	58	81
Total Gain	530	524
ASSETS		
Current	3,054	2,512
Capital	6,688	6,880
Noncurrent	243	264
Total Assets	9,984	9,656
LIABILITIES		
Current	412	342
Noncurrent	799	1,052
Total	1,211	1,394
NET ASSETS		
Invested in Capital Assets	5,636	5,580
Restricted	360	360
Unrestricted	2,777	2,322
Total	8,773	8,262
Total Liabilities & Net Assets	9,984	9,656

Results of Operations:

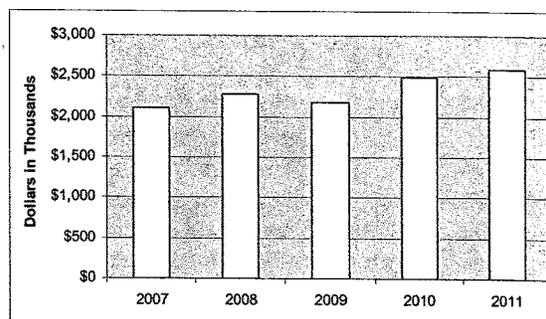
(As reported in the Statements of Revenues, Expenses and Changes in Fund Net Assets)

Revenue from operations increased 4%. Sales to customers increased 3%, while resale revenue increased 5%. One reason for the resale revenue increase is the recent agreement with Basin. CRMU now receives more revenue per KW of excess capacity with the new agreement, which began September 1, 2009. Fiscal year 2011 is the first full year of realizing the overall impact of the new agreement.

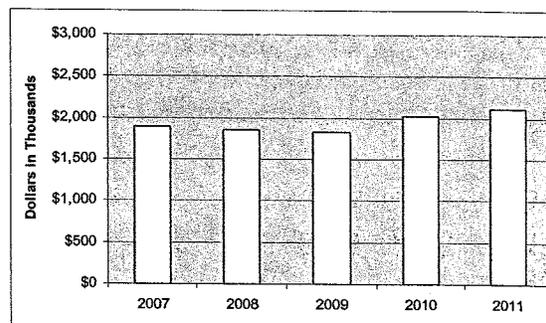
Operating expenses increased almost 5%. Purchased energy costs, plant operations, transmission operations, distribution operations, and administrative, and customer service operation expenses increased, while depreciation decreased. In the future, the electric utility will likely see purchased energy costs continue to increase as new environmental mandates and "green" programs are mandated by the government.

With the upcoming capital improvement projects and new environmental rules, CRMU is in the process of developing a detailed 10-year strategic and financial plan.

Electric Utility Operating Revenues: \$2,588,313



Electric Utility Operating Expenses: \$2,116,069



Management's Discussion and Analysis

Financial Position:

(As reported on the Statement of Net Assets)

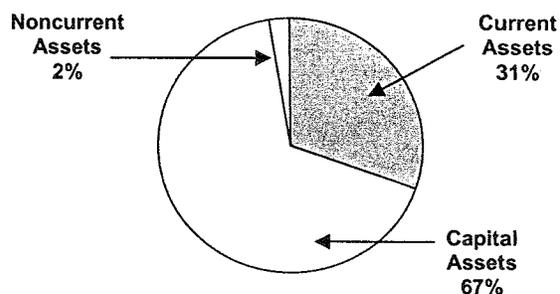
Current assets account for 31% of total assets. CRMU has approximately 23% of its total assets in the form of cash and cash equivalents. Of this amount, the Board of Trustees has allocated the majority for designated uses such as equipment replacement, generation replacement, health fund plan, etc., leaving only a small portion of its current assets undesignated.

Capital assets, in the form of utility plant, facilities and equipment, account for 67% of CRMU's total assets. Noncurrent assets account for 2% of total assets.

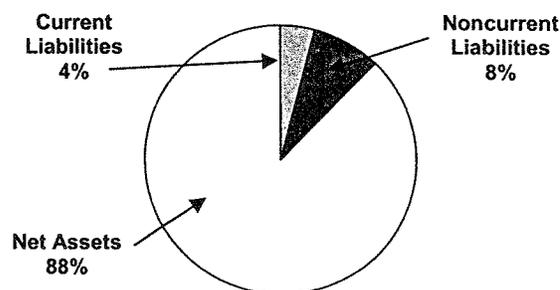
CRMU's total liabilities declined by 13% due to debt pay down to the gas, wastewater, and telephone utilities. Noncurrent liabilities account for 8% of total liabilities and net assets, while current liabilities account for 4%. Overall, net assets increased about 6% from last year.

Revenues and expenses were higher than budget by \$282,000 and \$36,000, respectively.

Electric Utility Total Assets: \$9,984,274



Electric Utility Total Liabilities and Net Assets: \$9,984,274



Natural Gas Utility

Overview:

Historically, CRMU has experienced very volatile energy costs. In efforts to limit exposure to this market, CRMU follows a commodity purchasing strategy with the goal of forward purchasing roughly 50% of its annual requirements prior to the winter heating season. This purchasing strategy consists of a mixed portfolio of commodity purchases ranging from futures contracts, to storage, to fixed monthly and spot volume purchases.

CRMU also optimizes its storage contract to help balance its daily volumes to avoid any monthly imbalance penalties from the pipeline.

Fortunately, gas prices remained relatively low during fiscal year 2011. CRMU expects the commodity cost to remain relatively low in the near future.

In 2011, CRMU's natural gas utility experienced an operating loss of \$51,000, compared to a gain of \$76,000 in 2010. Combined with nonoperating revenues / expenses the utility ended the year with an \$87,000 loss.

Natural Gas Utility Financial Highlights:

Dollars in Thousands

	2011	2010
OPERATING		
Revenues	704	1,037
Expenses	755	961
Operating Gain (Loss)	(51)	76
NONOPERATING		
(Expense)	(36)	(86)
Total (Loss)	(87)	(10)
ASSETS		
Current	1,099	1,071
Capital	803	816
Noncurrent	337	467
Total Assets	2,240	2,354
LIABILITIES		
Current	39	66
Noncurrent	0	0
Total	39	66
NET ASSETS		
Invested in Capital Assets	803	815
Unrestricted	1,398	1,473
Total	2,201	2,288
Total Liabilities & Net Assets	2,240	2,354

Management's Discussion and Analysis

Results of Operations:

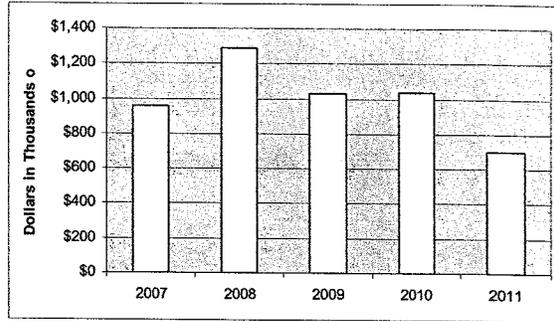
(As reported in the Statements of Revenues, Expenses and Changes in Fund Net Assets)

In 2011, total operating revenues decreased more than 32%. Total usage billed decreased by 33%. Industrial usage decreased 60%, while residential and commercial usage decreased 21%.

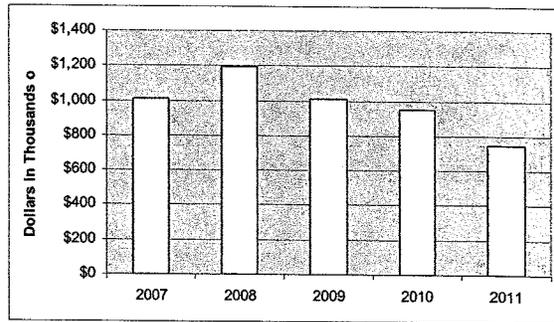
Total operating expenses decreased \$198,000 or 21%. Purchased energy (commodity) costs declined almost \$207,000 (31%) from the previous year. Excluding commodity costs, other expenses varied by less than 1% compared to fiscal year 2010. Thus, it is important to note that the natural gas utility's performance is dependent on consistent customer usages. Because usages declined so much in 2011, the utility experienced a poor financial performance.

Nonoperating expenses decreased 58% in 2011. This change can be attributed to lower contribution to Coon Rapids and the community. CRMU gave the City of Coon Rapids \$45,000 for in-lieu-of tax payments and \$14,000 in free service to the community for a total of \$59,000, compared to \$104,000 in 2010.

Natural Gas Utility Operating Revenues: \$704,097



Natural Gas Utility Operating Expenses: \$754,601



Financial Position:

(As reported on the Statement of Net Assets)

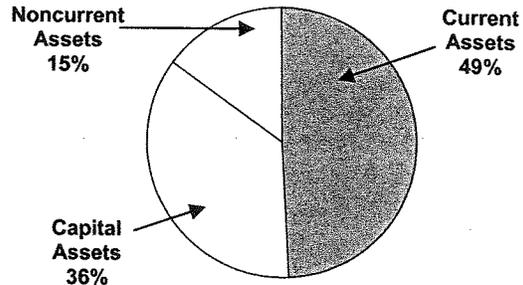
Capital assets, in the form of utility plant, facilities and equipment, account for 36% of CRMU's total assets, while current assets comprise 49% of the total. Cash, cash equivalents, and certificates of deposit account for 40% of total assets. Cash increased 3% from the previous year, while noncurrent assets (loan receivables) decreased 26%. These changes are a direct result of the interutility loan pay down between gas and electric.

The Natural Gas Utility has no significant noncurrent liabilities. CRMU's current liabilities are primarily comprised of payables totaling \$39,000.

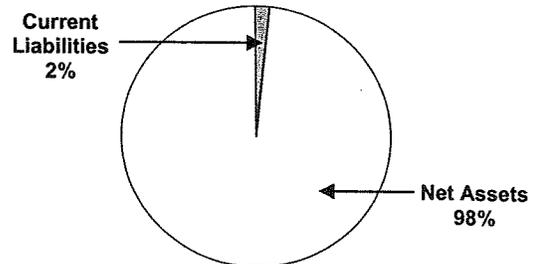
The gas utility maintains a solid financial position. Some cash reserves were used this year to cover the losses, but CRMU expects to see the utility rebound in 2012, as usages are expected to be back at normal levels. Fortunately, no capital improvement projects are planned in the near future.

Revenues and expenses were lower than budget by \$352,000 and \$261,000, respectively.

Natural Gas Utility Total Assets: \$2,239,626



Natural Gas Utility Total Liabilities and Net Assets: \$2,239,626



Management's Discussion and Analysis

Water Utility

Overview:

Protecting and preserving the water quality for Coon Rapids is a primary concern of CRMU. CRMU has been very fortunate through the years with an abundant water supply of good quality drinking water. CRMU is also fortunate to have four certified operators on staff, while some communities struggle to keep one.

For the past few years, CRMU has operated its water utility with very slight margins while continuing to make much needed and necessary system improvements. The result of these activities has put a financial strain on the small reserves of the water utility. In 2011, the water utility ended with an operating loss of \$24,000. Sales to customers declined more than 2% in 2011. This can be attributed to the wet summer months, decreasing the demand for irrigation and lawn watering.

Water Utility Financial Highlights:

Dollars in Thousands

	2011	2010
OPERATING		
Revenues	203	190
Expenses	227	201
Operating (Loss)	(24)	(11)
NONOPERATING		
(Expense)	(5)	(12)
Total (Loss)	(29)	(23)
ASSETS		
Current	229	225
Capital	352	388
Noncurrent	0	0
Total Assets	581	613
LIABILITIES		
Current	23	26
Noncurrent	0	0
Total	23	26
NET ASSETS		
Invested in Capital Assets	352	388
Unrestricted	206	199
Total	558	587
Total Liabilities & Net Assets	581	613

Results of Operations:

(As reported in the Statements of Revenues, Expenses and Changes in Fund Net Assets)

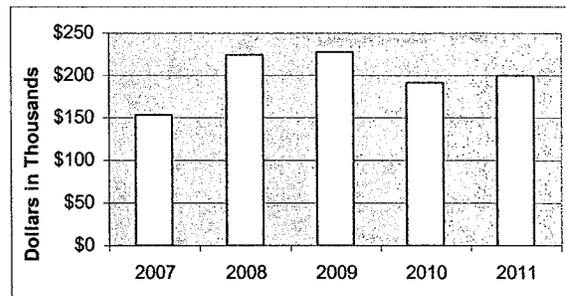
Revenue from operations increased almost \$13,000 (6.8%). An adjustment was made to interdepartmental revenue in 2010, which caused a negative amount for interdepartmental sales last year. The 2011 revenue is actually an accurate reflection of operations and sales.

Operating expenses increased almost 13%, a result of higher plant and distribution operations (higher utility cost, wages, and maintenance of lines, meters, and equipment).

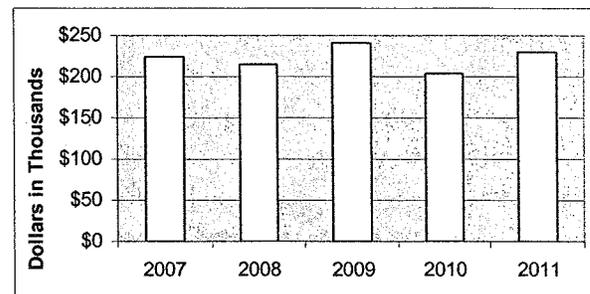
Nonoperating expenses totaled just over \$5,000. CRMU continued with contributions through payment in-lieu-of tax and donations to the community for a total of \$5,200, which is 23% lower than last year. Considering the nonoperating expenses, the water utility's total loss for 2011 was \$29,000.

As expenses increase and testing requirements are mandated, a rate adjustment may be likely. However, CRMU works hard to control expenses and make much needed improvements to provide quality drinking water to Coon Rapids.

Water Utility Operating Revenues: \$202,671



Water Utility Operating Expenses: \$226,417



Management's Discussion and Analysis

Financial Position:

(As reported on the Statement of Net Assets)

Current assets account for 39% of total assets. CRMU has approximately 31% of its total assets in the form of cash and cash equivalents. Of this amount, the Board of Trustees has designated uses for all of it. As losses are incurred, these funds will continue to decline. Fortunately, the water utility does not have any large capital projects planned in the near future.

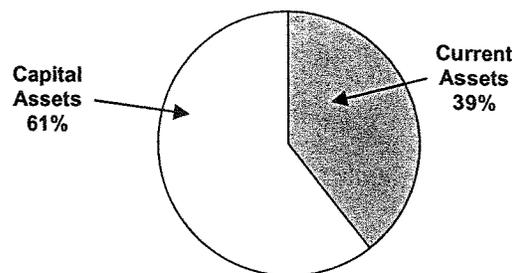
The water utility has no noncurrent assets (loan receivables).

Capital assets, in the form of utility plant, facilities and equipment, account for over 61% of CRMU's total assets. CRMU's total assets declined more than \$31,000 (5%) in 2011.

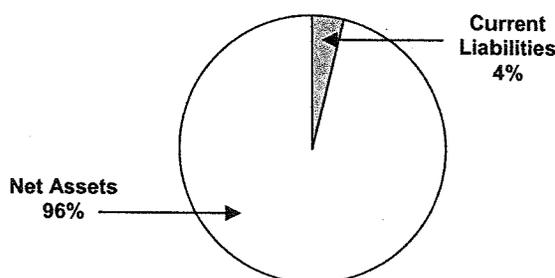
The water utility has no significant liabilities, other than normal payables. These payables account for 4% of total liabilities and net assets. Net assets declined 5% in 2011. For the year, total liabilities and net assets decreased 5%.

Revenues were lower than budget by \$25,000. Expenses were higher than budget by \$9,000.

Water Utility Total Assets: \$581,235



Water Utility Total Liabilities and Net Assets: \$581,235



Wastewater Utility

Overview:

In 2011, the wastewater utility realized an operating loss of \$56,000. Including nonoperating revenues (primarily interest income), the utility ended with a total loss of \$44,000, compared to a \$31,000 loss in 2010.

In fiscal year 2011, CRMU finished its pump station and force main improvement capital project. CRMU continued to televise the wastewater collection system this past year and will continue over the next few years, as well. This may indicate areas of needed improvements, resulting in additional capital outlays.

As CRMU uses wastewater reserves to make these necessary improvements and interest rates remain historically low, CRMU will have to rely on operating revenues instead of nonoperating revenues to break-even. A rate adjustment was made in July, 2010; however, CRMU will likely be forced to implement another adjustment in fiscal year 2012.

Wastewater Utility Financial Highlights:

Dollars in Thousands

	2011	2010
OPERATING		
Revenues	105	100
Expenses	161	145
Operating (Loss)	(56)	(45)
NONOPERATING		
(Expense)	12	14
Total (Loss)	(44)	(31)
ASSETS		
Current	951	850
Capital	900	914
Noncurrent	239	372
Total Assets	2,090	2,136
LIABILITIES		
Current	5	7
Noncurrent	0	0
Total	5	7
NET ASSETS		
Invested in Capital Assets	900	914
Unrestricted	1,185	1,215
Total	2,085	2,129
Total Liabilities & Net Assets	2,090	2,136

Management's Discussion and Analysis

Results of Operations:

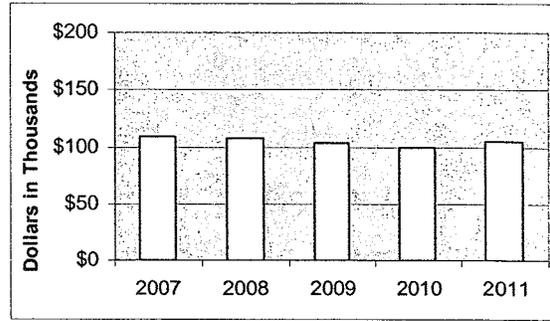
(As reported in the Statements of Revenues, Expenses and Changes in Fund Net Assets)

In 2011, the wastewater utility recorded just over \$105,000 in revenues. This is higher by \$5,000 compared to 2010; however, usages were 1.2% lower. Thus, the rate adjustment helped revenues just slightly.

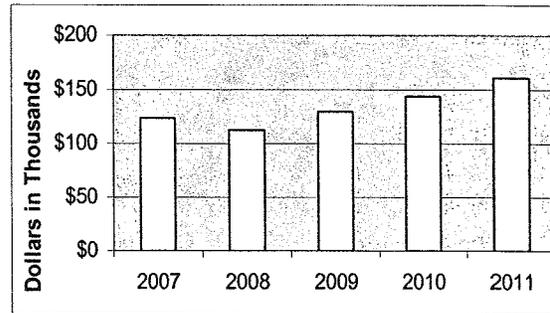
Total operating expenses in 2011 were up almost \$17,000 (12%) compared to 2010. Plant and distribution operations, customer service operations, administrative / general, and depreciation expense increased over the year. Wage expense increased due to additional time spent on utility improvements. This trend is expected to continue while the department continues to televise the sewer system.

Nonoperating revenues decreased by \$3,100 in 2011 (20%) due to lower interest income. Payments to the city and community (via in-lieu-of tax payments and free service) decreased to \$0, compared to \$1,750 in 2010.

Wastewater Utility Operating Revenues: \$105,215



Wastewater Utility Operating Expenses: \$161,325



Financial Position:

(As reported on the Statement of Net Assets)

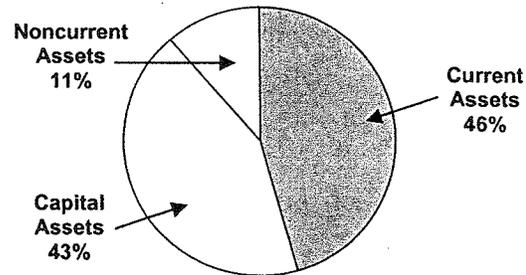
Capital assets, in the form of utility plant, facilities and equipment, account for 43% of CRMU's total assets, while current assets account for 46%. Noncurrent assets account for 11% of total assets.

The wastewater utility has 40% of its total assets in the form of cash, cash equivalents, and certificates of deposit. A portion of this will be used for ongoing improvements previously described. The cash position increased 9% from last year due to loan repayment from the electric utility.

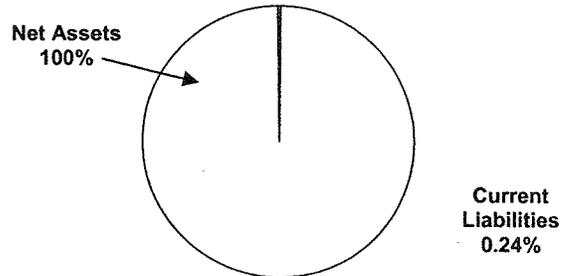
The wastewater utility essentially has no liabilities other than some small payables.

Revenues were \$12,000 lower than budget, and expenses were \$33,000 lower than budget.

Wastewater Utility Total Assets: \$2,090,009



Wastewater Utility Total Liabilities and Net Assets: \$2,090,009



BASIC FINANCIAL STATEMENTS

COON RAPIDS MUNICIPAL UTILITIES
(A COMPONENT UNIT OF THE CITY OF COON RAPIDS, IOWA)
STATEMENTS OF NET ASSETS
JUNE 30, 2011

	Communications: Telephone Utility	Communications: Cable TV, Internet & Pager Utility	Electric Utility
Assets			
Current Assets:			
Cash & Cash Equivalents-Unrestricted	\$ 497,547	\$ 265,963	\$ 2,211,917
Cash & Cash Equivalents-Restricted	-	-	88,180
Accounts Receivable, Net of Allowance -			
Trade	20,050	20,462	185,768
Other	13,172	246	67,536
Loans Receivable, Current Portion	70,713	-	47,574
Inventories	1,150	978	414,549
Other Current and Prepaid Assets	4,839	-	38,008
Total Current Assets	<u>607,471</u>	<u>287,649</u>	<u>3,053,532</u>
Capital Assets:			
Land	-	-	52,312
Construction in Progress	-	-	8,356
Utility Plant, Facilities and Equipment, at Cost	42,327	390,201	12,489,058
Accumulated Depreciation	<u>(24,723)</u>	<u>(291,186)</u>	<u>(5,861,528)</u>
Total Capital Assets	<u>17,604</u>	<u>99,015</u>	<u>6,688,198</u>
Noncurrent Assets:			
NIMECA Patronage Dividend Receivable	-	-	18,298
Loans Receivable, Net of Current Portion			
From Electric Fund	223,050	-	-
Revolving Loans Receivable	<u>-</u>	<u>-</u>	<u>224,246</u>
Total Noncurrent Assets	<u>223,050</u>	<u>-</u>	<u>242,544</u>
Total Assets	<u><u>848,125</u></u>	<u><u>386,664</u></u>	<u><u>9,984,274</u></u>
Liabilities			
Current Liabilities:			
Accounts Payable - Trade	12,890	14,243	89,195
Other Payables and Credits	5,992	-	34,676
Payroll, Sales and Use Taxes Payable	-	-	3,418
Compensated Absences Payable	2,327	5,633	17,276
Customer Deposits	-	-	13,100
Loans Payable, Current Portion	-	-	253,251
Accrued Interest	<u>-</u>	<u>-</u>	<u>1,096</u>
Total Current Liabilities	<u>21,209</u>	<u>19,876</u>	<u>412,012</u>
Long-term Liabilities:			
Loans Payable - Net of Current Portion			
To Gas Fund	-	-	337,169
To Wastewater Fund	-	-	238,612
To Telephone Fund	<u>-</u>	<u>-</u>	<u>223,050</u>
Total Long-term Liabilities	<u>-</u>	<u>-</u>	<u>798,831</u>
Total Liabilities	<u>21,209</u>	<u>19,876</u>	<u>1,210,843</u>
Net Assets			
Invested in Capital Assets - Net of Related Debt	17,604	99,015	5,636,116
Restricted	-	-	360,000
Unrestricted	<u>809,312</u>	<u>267,773</u>	<u>2,777,315</u>
Total Net Assets	<u>826,916</u>	<u>366,788</u>	<u>8,773,431</u>
Total Liabilities and Net Assets	<u><u>\$ 848,125</u></u>	<u><u>\$ 386,664</u></u>	<u><u>\$ 9,984,274</u></u>

See Accompanying Notes to Financial Statements

Gas Utility	Water Utility	Wastewater Utility	Total
\$ 893,929	\$ 180,153	\$ 831,895	\$ 4,881,404
-	-	-	88,180
28,544	31,070	13,593	299,487
4,137	2,028	166	87,285
118,532	-	104,800	341,619
45,090	10,951	175	472,893
9,207	4,849	802	57,705
<u>1,099,439</u>	<u>229,051</u>	<u>951,431</u>	<u>6,228,573</u>
30,478	33,349	5,980	122,119
13,421	-	13,368	35,145
1,746,405	1,344,985	2,133,858	18,146,834
(987,286)	(1,026,150)	(1,253,240)	(9,444,113)
<u>803,018</u>	<u>352,184</u>	<u>899,966</u>	<u>8,859,985</u>
-	-	-	18,298
337,169	-	238,612	798,831
-	-	-	224,246
<u>337,169</u>	<u>-</u>	<u>238,612</u>	<u>1,041,375</u>
<u>2,239,626</u>	<u>581,235</u>	<u>2,090,009</u>	<u>16,129,933</u>
27,256	7,197	2,228	153,009
4,055	9,995	11	54,729
186	1,152	68	4,824
7,516	4,566	2,663	39,981
-	-	-	13,100
-	-	-	253,251
-	-	-	1,096
<u>39,013</u>	<u>22,910</u>	<u>4,970</u>	<u>519,990</u>
-	-	-	337,169
-	-	-	238,612
-	-	-	223,050
-	-	-	798,831
<u>39,013</u>	<u>22,910</u>	<u>4,970</u>	<u>1,318,821</u>
803,018	352,184	899,966	7,807,903
-	-	-	360,000
1,397,595	206,141	1,185,073	6,643,209
<u>2,200,613</u>	<u>558,325</u>	<u>2,085,039</u>	<u>14,811,112</u>
<u>\$ 2,239,626</u>	<u>\$ 581,235</u>	<u>\$ 2,090,009</u>	<u>\$ 16,129,933</u>

COON RAPIDS MUNICIPAL UTILITIES
(A COMPONENT UNIT OF THE CITY OF COON RAPIDS, IOWA)
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2011

	Communications: Telephone Utility	Communications: Cable TV, Internet & Pager Utility	Electric Utility
Operating Revenues			
Sales to Customers	\$ 352,930	\$ 402,129	\$ 1,546,949
Sales for Resale	-	-	942,321
Interdepartmental Sales	-	-	85,689
Forfeited Discounts	1,781	-	10,179
Rebates and Other	26	2,776	3,175
Total Operating Revenues	354,737	404,905	2,588,313
Operating Expenses			
Purchased Energy and Programming	89,075	214,052	626,735
Plant Operations	12,594	14,575	504,612
Transmission Operations	-	-	130,232
Distribution Operations	120,882	39,959	159,438
Consumer Service Operations	8,820	24,674	69,534
Administrative & General Expenses	50,783	76,060	298,355
Depreciation	5,217	19,715	327,163
Total Operating Expense	287,371	389,035	2,116,069
Operating Income (Loss)	67,366	15,870	472,244
Nonoperating Revenues (Expenses)			
Interest Income	8,480	160	9,396
Joint Use Revenue	-	-	103,000
In-Lieu-Of Tax Payments	(5,024)	(35)	(41,081)
Free Community Service	(1,528)	(216)	(11,875)
Miscellaneous Nonoperating Revenue	91	6,020	28,190
Interest Expense	-	-	(29,402)
Net Nonoperating Revenues (Expenses)	2,019	5,929	58,228
Change in Net Assets	69,385	21,799	530,472
Total Net Assets July 1, 2010	763,691	344,989	8,262,226
Prior Period Adjustment	(6,160)	-	(19,267)
Total Net Assets July 1, 2010-Restated	757,531	344,989	8,242,959
Total Net Assets June 30, 2011	\$ 826,916	\$ 366,788	\$ 8,773,431

See Accompanying Notes to Financial Statements

Gas Utility	Water Utility	Wastewater Utility	Total
\$ 693,287	\$ 194,226	\$ 104,344	\$ 3,293,865
-	-	-	942,321
5,635	4,288	576	96,188
3,691	746	295	16,692
1,484	3,411	190	11,062
<u>704,097</u>	<u>202,671</u>	<u>105,405</u>	<u>4,360,128</u>
457,948	-	-	1,387,810
20,282	76,679	20,909	649,651
-	-	-	130,232
78,135	41,660	32,084	472,158
40,342	21,217	10,413	175,000
113,433	48,732	35,092	622,455
44,461	38,129	62,827	497,512
<u>754,601</u>	<u>226,417</u>	<u>161,325</u>	<u>3,934,818</u>
(50,504)	(23,746)	(55,920)	425,310
14,400	114	12,198	44,748
-	-	-	103,000
(45,433)	(4,593)	-	(96,166)
(13,700)	(615)	-	(27,934)
8,195	34	18	42,548
-	-	-	(29,402)
<u>(36,538)</u>	<u>(5,060)</u>	<u>12,216</u>	<u>36,794</u>
(87,042)	(28,806)	(43,704)	462,104
2,287,991	587,131	2,128,743	14,374,771
(336)	-	-	(25,763)
<u>2,287,655</u>	<u>587,131</u>	<u>2,128,743</u>	<u>14,349,008</u>
<u>\$ 2,200,613</u>	<u>\$ 558,325</u>	<u>\$ 2,085,039</u>	<u>\$ 14,811,112</u>

COON RAPIDS MUNICIPAL UTILITIES
(A COMPONENT UNIT OF THE CITY OF COON RAPIDS, IOWA)
STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2011

	Communications: Telephone Utility	Communications: Cable TV, Internet & Pager Utility	Electric Utility
Cash Flows from Operating Activities:			
Cash Received from Customers & Users	\$ 352,092	\$ 403,622	\$ 2,562,282
Cash Paid to Suppliers for Goods and Services	(235,451)	(256,656)	(1,458,735)
Cash Paid to Employees	(44,181)	(109,277)	(315,163)
Cash Received from Joint Revenue	-	-	103,000
Cash Received from Miscellaneous Nonoperating Revenue	91	6,020	28,190
Cash Paid for In-Lieu-of Tax Payments	(5,024)	(35)	(41,081)
Cash Paid for Free Community Services	(1,528)	(216)	(11,875)
Net Cash Provided (Used) by Operating Activities	<u>65,999</u>	<u>43,458</u>	<u>866,618</u>
Cash Flows from Capital & Related Financing Activities			
Acquisition & Construction of Property and Equipment	(73)	(4,645)	(135,155)
Payments Received on Inter-Utility Loans	68,969	-	-
Principal Payments Paid on Inter-Utility Loans	-	-	(247,005)
Interest Paid	-	-	(29,659)
Net Cash Provided (Used) by Capital & Related Financing Activities	<u>68,896</u>	<u>(4,645)</u>	<u>(411,819)</u>
Cash Flows from Investing Activities			
Interest on Investments	8,480	160	9,396
Payments Received on City of Coon Rapids Loan	-	-	-
Disbursements Made on Coon Rapids Development Loans	-	-	(27,237)
Payments Received on Coon Rapids Development Loans	-	-	46,104
Net Cash Provided from Investing Activities	<u>8,480</u>	<u>160</u>	<u>28,263</u>
Net Increase in Cash & Cash Equivalents	143,375	38,973	483,062
Cash & Cash Equivalents - June 30, 2010	<u>354,172</u>	<u>226,990</u>	<u>1,817,035</u>
Cash & Cash Equivalents - June 30, 2011	<u>\$ 497,547</u>	<u>\$ 265,963</u>	<u>\$ 2,300,097</u>
Reconciliation:			
Cash & Cash Equivalents	\$ 497,547	\$ 265,963	\$ 2,211,917
Unrestricted	-	-	88,180
Restricted	<u>\$ 497,547</u>	<u>\$ 265,963</u>	<u>\$ 2,300,097</u>

See Accompanying Notes to Financial Statements

Gas Utility	Water Utility	Wastewater Utility	Total
\$ 710,002	\$ 195,761	\$ 103,152	\$ 4,326,911
(588,388)	(84,753)	(42,121)	(2,666,104)
(139,587)	(101,016)	(58,316)	(767,540)
-	-	-	103,000
8,195	34	18	42,548
(45,433)	(4,593)	-	(96,166)
(13,700)	(615)	-	(27,934)
<u>(68,911)</u>	<u>4,818</u>	<u>2,733</u>	<u>914,715</u>
(32,035)	(2,025)	(48,666)	(222,599)
104,255	-	73,781	247,005
-	-	-	(247,005)
<u>-</u>	<u>-</u>	<u>-</u>	<u>(29,659)</u>
72,220	(2,025)	25,115	(252,258)
14,400	114	12,198	44,748
11,244	-	28,104	39,348
-	-	-	(27,237)
<u>-</u>	<u>-</u>	<u>-</u>	<u>46,104</u>
<u>25,644</u>	<u>114</u>	<u>40,302</u>	<u>102,963</u>
28,953	2,907	68,150	765,420
<u>864,976</u>	<u>177,246</u>	<u>763,745</u>	<u>4,204,164</u>
<u>\$ 893,929</u>	<u>\$ 180,153</u>	<u>\$ 831,895</u>	<u>\$ 4,969,584</u>
\$ 893,929	\$ 180,153	\$ 831,895	\$ 4,881,404
-	-	-	88,180
<u>\$ 893,929</u>	<u>\$ 180,153</u>	<u>\$ 831,895</u>	<u>\$ 4,969,584</u>

COON RAPIDS MUNICIPAL UTILITIES
(A COMPONENT UNIT OF THE CITY OF COON RAPIDS, IOWA)
STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2011

	Communications: Telephone Utility	Communications: Cable TV, Internet & Pager Utility	Electric Utility
Reconciliation of Operating Income (Loss) to Net Cash Flows from Operating Activities			
Operating Income (Loss)	\$ 67,366	\$ 15,870	\$ 472,244
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities			
Depreciation	5,217	19,715	327,163
Cash Received from Joint Revenue	-	-	103,000
Cash Paid for In-Lieu-of Tax Payments	(5,024)	(35)	(41,081)
Cash Paid for Free Community Services	(1,528)	(216)	(11,875)
(Increase) Decrease Operating Assets:			
Accounts Receivable	(2,645)	(1,283)	(26,031)
Inventories	(87)	936	(17,928)
Other Current & Prepaid Assets	(1,436)	-	(10,281)
Increase (Decrease) Operating Liabilities:			
Accounts & Other Payables	3,683	2,290	35,890
Customer Deposits	-	-	6,350
Compensated Absences Payables	362	161	1,188
Payroll, Sales & Use Taxes Payable	-	-	(211)
Net Cash Provided (Used) by Operating Activities	<u>\$ 65,908</u>	<u>\$ 37,438</u>	<u>\$ 838,428</u>

See Accompanying Notes to Financial Statements

Gas Utility	Water Utility	Wastewater Utility	Total
\$ (50,504)	\$ (23,746)	\$ (55,920)	\$ 425,310
44,461	38,129	62,827	497,512
-	-	-	103,000
(45,433)	(4,593)	-	(96,166)
(13,700)	(615)	-	(27,934)
5,905	(6,910)	(2,253)	(33,217)
7,833	5,207	-	(4,039)
1,171	(123)	282	(10,387)
(27,224)	(2,680)	(2,619)	9,340
-	-	-	6,350
385	125	407	2,628
-	(10)	(9)	(230)
<u>\$ (77,106)</u>	<u>\$ 4,784</u>	<u>\$ 2,715</u>	<u>\$ 872,167</u>

**COON RAPIDS MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

Note 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Nature of Activities

Coon Rapids Municipal Utilities (CRMU), a component unit of the City of Coon Rapids, Iowa (the City), is engaged in the activities of providing telephone services; cable TV, internet & pager services; electric, natural gas and water utilities services; and wastewater service. CRMU is governed by a three-member Board of Trustees, appointed by the Mayor with the approval of the City Council, who are authorized to establish rates. CRMU is not liable for federal and state income or ad valorem taxes property; however, payments in-lieu-of taxes and other contributions are made to the City.

These financial statements are presented in conformity with U.S. generally accepted accounting principles applicable for proprietary funds of governmental entities. In reporting the financial activity of its enterprise fund, 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 Boards Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Reporting Entity

Generally accepted accounting principles require CRMU to consider if it has oversight responsibility or control over any other legal entity. Control or dependence is determined based on budget adoption, taxing authority, funding, or appointment of the respective governing board. A financial benefit or burden relationship exists if the primary government (a) is entitled to the organization's resources; (b) is legally obligated or has otherwise assumed the obligation to finance the deficits of, or provide financial support to, the organization; (c) is obligated in some manner for the debt of the organization. CRMU has no component units itself, but has determined that it is a component unit of the City of Coon Rapids.

Shared Utility Plants

Common Transmission System – North Iowa Municipal Electric Cooperative Association (NIMECA), acting as agent for its participating members, including CRMU, has entered into an agreement with Corn Belt Power Cooperative to obtain for the benefit of its participating members a long-term right and access to electric transmission facilities, referred to as Common Transmission System (CTS) necessary to handle the combined needs of the participating members through undivided ownership interest in the capacity of transmission facilities. The costs associated with this agreement are allocated to the members based on their proportionate use of the shared transmission system. CRMU has recorded its share of these costs as capital assets in the Electric Utility Fund. The net book value at June 30, 2011, was \$661,133.

Neal 4 Generating Station – CRMU is one of fourteen owners of Unit 4 George Neal Generating Station which is managed by MidAmerican Energy under terms of the basic generating agreements between MidAmerican Energy and the owners. CRMU owns 0.521 percent as a tenant-in-common of the generating station for generating, purchasing, obtaining by exchange, or otherwise acquiring or transmitting electric power and energy. CRMU's cost of acquiring its share of this generating station was recorded as capital assets in the Electric Utility Fund. The net book value at June 30, 2011, was \$636,645.

COON RAPIDS MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

Note 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The operators of both the Transmission System and Neal 4 shared utility plants have established accounts to which CRMU is required to pay its pro rata share, net of revenues earned, of operating and maintenance costs. Any disbursements from these accounts for operating and maintenance costs are reflected in the financial statements of CRMU. Separate financial statements for these shared utility plants are available in the offices of CRMU.

Basis of Presentation

The accounts of CRMU are organized on the basis of proprietary enterprise 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 with a separate set of self-balancing accounts, which comprise its assets, liabilities, net assets, revenues and expenses, and debt service of the designated activity. CRMU reports the following major enterprise funds:

- Communication: Telephone Utility
- Communications: Cable TV, Internet, & Pager Utility
- Electric Utility
- Natural Gas Utility
- Water Utility
- Wastewater Utility

Measurement Focus and Basis of Accounting

Measurement focus refers to what is measured and basis of accounting refers to when revenues and expenditures are recognized and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

CRMU's Proprietary Funds financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. As such, the fund measurement objective is the determination of operating income, changes in net assets, financial position, and cash flows. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when the related obligation is incurred. The applicable generally accepted accounting principles are those similar to businesses in the private sector.

Proprietary enterprise funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing, producing, and delivering goods in connection with an enterprise's principal ongoing operations. The primary operating revenues of the enterprise funds are changes to customers for sales and services. Operating expenses of enterprise funds include the cost of sales, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating items.

**COON RAPIDS MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

Note 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes

CRMU is exempt from federal and state income taxes because it is a governmental entity organized under the provisions of Chapter 388 of the Code of Iowa.

Revenue Recognition

For all services meters are read and bills are rendered on a cycle basis near the end of each month. Revenues based on meter readings are recorded close to the end of each month and, as such, the revenues earned from utilities delivered after meters are read to the end of the month are minimal and not estimated or recorded.

Cash and Cash Equivalents

The various enterprise funds of CRMU combine their cash and invested cash (nonnegotiable certificates of deposits) funds into several shared bank accounts at one financial institution. Interest earned on invested cash is divided among the funds.

For purposes of the statement of cash flows, invested cash and all short-term 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.

Accounts Receivable and Allowances

An estimate is made for allowances for doubtful accounts based on an analysis of the aging of accounts receivable and on historical write-offs net of recoveries. Additional specific amounts may be included based on credit risk as deemed appropriate by management. Accounts receivable are reported net of the allowance for doubtful accounts of \$11,455 at June 30, 2011.

Inventories

Materials, supplies and other consumables are recorded as expense when consumed rather than when purchased. Material, supplies and fuel inventories are stated at cost, which does not exceed market.

Cost is generally determined on a weighted-average basis. Electric Utility inventories include fuel for the local plant and its joint ownership share of the coal pile at the Neal 4 Generating Station. Gas Utility inventories include stored natural gas held for sale.

**COON RAPIDS MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

Note 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The inventories at June 30, 2011, are comprised as follows:

All Material and Supplies	\$ 223,030
Electric Fund Fuel Inventories	149,900
Gas Fund Natural Gas Inventory	8,184
SO2 Allowances	87,435
No(X) Allowance	<u>4,344</u>
Total	<u>\$ 472,893</u>

Capital Assets

Capital assets, which include utility plants, infrastructures, facilities and equipment, are valued at historical cost. The cost of system renewals and betterments includes engineering, interest and other related costs. Preliminary and construction costs of projects not yet in service, if any, are shown in the financial statements as construction in progress. Maintenance and repairs which do not add to the capacity or efficiency of the asset are charged to operating expense.

Interest costs on debt are capitalized when proceeds are used to finance the construction of assets. Interest earned on proceeds of tax-exempt borrowings which are restricted to the acquisition of qualifying assets is offset against interest costs in determining the amount of interest capitalized. No interest costs were capitalized for the year June 30, 2011, as no qualifying assets were constructed or acquired. CRMU does not have a written policy for capitalizing assets. Management determines capitalization or expensing on an individual basis.

Capital assets are depreciated over the assets estimated useful lives using the straight-line method with one-half year convention. No depreciation is taken on construction in progress. The range of estimated useful lives by capital asset sub-categories is as follows:

Plant and Structures	20 - 50 Years
Sub-Station Improvements	20 - 35 Years
Transmission System Improvements	25 - 35 Years
Distribution System Improvements	25 - 35 Years
Tools and Shop Equipment	5 - 10 Years
Furniture and Office Equipment	5 - 10 Years
Vehicles	5 Years

**COON RAPIDS MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

Note 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Assets

Net assets are shown in three components:

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 by outside creditors, others 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 (designations), which can be removed or modified.

Amounts shown as restricted net assets and the purpose of the restriction are as follows:

Restricted for Economic Development Loans \$360,000

The Utilities' policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

Expense Allocations

Expenses, except for those expenses determined to be for a specific fund or funds, are allocated to all funds based on a one-year rolling average of each fund's personnel hours. The rolling average is updated each pay period.

Budgets and Budgetary Accounting

In accordance with the Code of Iowa, the Board of Trustees annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures. Encumbrances are not recognized on the cash basis budget and appropriations lapse at year end. Formal and legal budgetary control is based on the total of all six utilities as a whole. During the year 2011 there were no budget amendments.

Note 2 – CASH AND INVESTED CASH AND POOLED INVESTMENTS

CRMU considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash.

CRMU pool their deposits and investments and maintain records as to the separate utility systems share of the total balance. All deposits in banks at June 30, 2011, 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.

**COON RAPIDS MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

Note 2 – CASH AND INVESTED CASH AND POOLED INVESTMENTS (Continued)

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 or savings accounts at federally insured depository institutions approved by the Board of Trustees and the Treasurer of the State of Iowa; 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 drainage districts.

At June 30, 2011, the Electric Utility had investments in the Iowa Public Agency Investment Trust (IPAIT) held in the NIMECA CTS Improvement Fund and Emission Allowances, which are valued at an amortized cost of \$72,890. Deposits with IPAIT are not FDIC insured as it is not considered a financial institution. Instead, IPAIT is a common law trust established under Iowa law pursuant to Chapter 28E and Sections 331, 555, and 384.21, Iowa Code (1987), as amended, which authorizes Iowa public agencies to jointly invest monies pursuant to a joint investment agreement. IPAIT is registered under the Investment Company Act of 1940.

Interest Rate Risk – The Utilities’ investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the Utilities.

Credit Risk – The Utilities’ investment in the Iowa Public Agency Investment Trust is unrated. The remaining investments consisted of Certificate of Deposits are protected per Chapter 12C of the Iowa code, and credit risk concentration risks do not apply.

Monies held for special purposes are limited to the use for which restricted and cannot be used for the general operations of the utility. The funds held for Economic Development Loans are required by covenants of the Grant Agreement with the Federal Government. The purpose of this grant is to establish a Revolving Loan Fund to provide loans that foster rural economic development.

Note 3 – COMMUNICATIONS: TELEPHONE ACCOUNTS RECEIVABLE - OTHER

Other accounts receivable reported for the Communications: Telephone Utility includes delayed long distance and CAB’s billings of \$12,562 for the telephone system. These amounts are net of an allowance for doubtful collections. Management believes this allowance to be reasonable and appropriate reduction of the CAB’s receivables to their net realizable value.

**COON RAPIDS MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

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 to the City of Coon Rapids 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 of \$42,093 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 in the future for the loans are as follows:

Year Ending June 30,	Gas Utility		Wastewater Utility		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2012	\$ 11,621	\$ 389	\$ 29,107	\$ 976	\$ 40,728	\$ 1,365

On September 28, 2007, CRMU entered into a loan agreement with the City of Coon Rapids for rural economic development. The proceeds of this loan were used solely to finance the Assisted Living Facility in Coon Rapids, Iowa. This loan was made in association with the Federal Grant Agreement for rural economic development made with the Federal government from which the utility received \$300,000 for purposes of making these types of loans. The principal amount of the loan was \$300,000. The promissory note, dated September 28, 2007, specifies monthly installments of \$2,778, without interest, beginning September 1, 2008 with a final payment of \$2,779 on August 1, 2017. The City has the right to prepay principal of the note, in whole or in part, at any time prior to maturity.

Annual amounts receivable in the future for the loan are as follows:

Year Ending June 30,	Electric Utility
2012	\$ 33,333
2013	33,333
2014	33,333
2015	33,333
2016	33,333
2017-2018	38,891
Total	<u>\$ 205,556</u>

**COON RAPIDS MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

Note 4 – LOANS RECEIVABLE (Continued)

Loan to Coon Rapids Medical Center

On April 30, 2008, CRMU entered into a loan agreement with the Coon Rapids Medical Center. The proceeds of this loan were used to purchase and renovate an office building for a dental practice to start-up in Coon Rapids. This loan was made in association with the Federal Grant Agreement for rural economic development made with the Federal Government. The principal amount of the loan was \$25,000. The promissory note, date April 30, 2008, specifies annual payments of \$2,500 without interest for the first three years, commencing on April 30, 2009 through April 30, 2011, after which a 2% interest rate will be applied, and yearly payments will increase to \$2,074 for the remaining seven years of the loan.

Annual amounts receivable in the future for the loan are as follows:

Year Ending	Electric Utility	
June 30,	Principal	Interest
2012	\$ 2,354	\$ 350
2013	2,401	303
2014	2,449	255
2015	2,498	206
2016	2,548	156
2017 - 2018	5,250	105
Totals	\$ 17,500	\$ 1,375

Loan to Downing Seeds

On March 6, 2009, CRMU entered into a loan agreement with Downing Seeds. The proceeds of this loan were used to purchase equipment in Coon Rapids, Iowa. This loan was made in association with the Federal Grant Agreement for rural economic development made with the Federal Government. The principal amount of the loan was \$23,222. The promissory note, dated March 6, 2009, specifies monthly payments of \$420 for five years including interest at 3.25% per annum.

Annual amounts receivable in the future for the loan are as follows:

Year Ending	Electric Utility	
June 30,	Principal	Interest
2012	\$ 4,677	\$ 361
2013	4,832	207
2014	3,729	49
Totals	\$ 13,238	\$ 617

**COON RAPIDS MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

Note 4 – LOANS RECEIVABLE (Continued)

Loan to Guthrie Center Family Dentistry

On July 24, 2008, CRMU entered into a loan agreement with Guthrie Center Family Dentistry. The proceeds of this loan were used to purchase dental equipment to be used at a dental office in Coon Rapids, Iowa. This loan was made in association with the Federal Grant Agreement for rural economic development made with the Federal Government. The principal amount of the loan was \$21,000. The promissory note, dated July 24, 2008, specifies monthly payments of \$382 for five years including interest at 3.5% per annum.

Annual amounts receivable in the future for the loan are as follows:

Year Ending June 30,	Electric Utility	
	Principal	Interest
2012	\$ 4,319	\$ 266
2013	4,472	112
2014	1,844	66
Totals	<u>\$ 10,635</u>	<u>\$ 444</u>

Loan to Lewis Chiropractic, P.C.

On July 22, 2010, CRMU entered into a loan agreement with Lewis Chiropractic P.C.. The proceeds of this loan were used to purchase equipment to be used at a chiropractic office in Coon Rapids, Iowa. This loan was made in association with the Federal Grant Agreement for rural economic development made with the Federal Government. The principal amount of the loan was \$27,237. The promissory note, dated July 22, 2010, specifies monthly payments of \$300, starting September 1, 2010, for three years with a final balloon payment of \$18,765 with interest at 3% per annum.

Annual amounts receivable in the future for the loan are as follows:

Year Ending June 30,	Electric Utility	
	Principal	Interest
2012	\$ 2,891	\$ 709
2013	2,981	619
2014	19,018	47
Totals	<u>\$ 24,890</u>	<u>\$ 1,375</u>

**COON RAPIDS MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

Note 5 – CAPITAL ASSETS

Capital asset categories and changes in each cost category and depreciation for the year ended June 30, 2011 are as follows:

	Beginning <u>Balance</u>	Additions and <u>Transfers In</u>	Deletions and <u>Transfers Out</u>	Ending <u>Balance</u>
Capital assets not being depreciated:				
Land	\$ 122,119	\$ -	\$ -	\$ 122,119
Construction in progress	375,991	73,365	414,211	35,145
Total capital assets not being depreciated	<u>498,110</u>	<u>73,365</u>	<u>414,211</u>	<u>157,264</u>
Capital Assets being depreciated:				
Neal 4 Steam Production	1,844,961	41,072	2,361	1,883,672
Local Production Facilities	1,775,504	2,014	-	1,777,518
Transmission System	1,373,024	81,612	4,668	1,449,968
Distribution System	9,464,723	387,640	-	9,852,363
Municipal Building	1,138,739	15,830	-	1,154,569
General Facilities Equipment	1,993,474	35,270	-	2,028,744
Total capital assets being depreciated	<u>17,590,425</u>	<u>563,438</u>	<u>7,029</u>	<u>18,146,834</u>
Less -				
Accumulated Depreciation	<u>8,953,631</u>	<u>497,511</u>	<u>7,029</u>	<u>9,444,113</u>
Total capital assets being depreciated- net	<u>8,636,794</u>	<u>65,927</u>	<u>-</u>	<u>8,702,721</u>
Total Capital Assets, Net	<u>\$ 9,134,904</u>	<u>\$ 139,292</u>	<u>\$ 414,211</u>	<u>\$ 8,859,985</u>

Note 6 – MUNICIPAL BUILDING

The Electric Utility and Gas Utility each provided funds for construction of a municipal building for use as office space by CRMU and by the City for library and general office space. Based on square footage, CRMU utilizes 76.83 percent of the building and the City utilizes 23.17 percent. The City reimburses the Electric Utility and Gas Utility ratably for a share of building operating costs. The public uses 50 percent of the building as a meeting hall and pays a nominal rent for each usage. This public usage area is included in the portion allocated CRMU.

For financial reporting purposes, all assets, liabilities, income and expenses of this building are prorated 50% to the Electric Utility and 50% to the Gas Utility. These percentages represent each Utility's share of the original capital contributed for construction of the building.

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

**COON RAPIDS MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

Note 7 – 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 liability for compensated absences is computed based on rates of pay in effect at June 30, 2011. Sick leave is not paid on termination, retirement or death; therefore, no accrual has been made for accumulated sick leave hours.

Note 8 – INTER-UTILITY LOANS PAYABLE

On June 25, 2009, CRMU issued \$1,540,000 of Promissory Notes from the Electric Utility to the Gas (\$650,000), Communications (\$430,000), and Wastewater (\$460,000) Utilities to refund both the 2003 and 2006 Electric Capital Loan Notes. These loans were originally taken out to make improvements and extensions to the Electric Utility, including the purchase of three caterpillar engines, as well as to finance construction of a distribution system and construction of a new building.

The outstanding balances of the Inter-utility loans were \$1,052,083 as of June 30, 2011.

The interest rate on the Inter-utility loans is 2.5% per annum. Monthly principal and interest payments are \$23,055. The final payment is scheduled for June 15, 2015.

A summary of the annual inter-utility loans and note principal and interest requirements to maturity is as follows:

Year Ending June 30,	Gas Utility		Gas Utility		Communications Utility		Wastewater Utility		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2012	\$ 24,667	\$ 2,281	\$ 82,224	\$ 7,602	\$ 70,713	\$ 6,537	\$ 75,646	\$ 6,994	\$ 253,250	\$ 23,414
2013	25,291	1,657	84,304	5,522	72,501	4,749	77,559	5,081	259,655	17,009
2014	25,931	1,017	86,436	3,390	74,335	2,916	79,521	3,119	266,223	10,442
2015	26,586	361	88,622	1,205	76,214	1,036	81,532	1,108	272,954	3,710
Totals	\$ 102,475	\$ 5,316	\$ 341,586	\$ 17,719	\$ 293,763	\$ 15,238	\$ 314,258	\$ 16,302	\$ 1,052,082	\$ 54,575

**COON RAPIDS MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

Note 9 – JOINT USE AGREEMENT

On April 19, 2002, the Board of Trustees adopted and approved an intra-fund resolution between the Electric Utility and Communications: Telephone Utility titled "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 electronic operations. 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 Electric Utility communications distribution system in varying percentages as specified in the agreement.

The term of the agreement is forty years, expiring June 30, 2041. For the term of the agreement, the Communications: Telephone Utility will pay to the Electric Utility, the sum of \$100,000 on or before the last day of June each year. The arrangements and terms of the agreement were based upon applicable market value and economic conditions at that time, 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 10 – PAYMENT TO THE CITY

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, 2011, was \$96,166.

Note 11 – 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 4.50% of their annual covered salary and CRMU is required to contribute 6.95% of annual covered payroll. Contribution requirements are established by state statute. CRMU's contribution to IPERS for the years ended June 30, 2011, 2010, and 2009, were \$39,212, \$37,049, and \$34,190, respectively, equal to the required contributions for each year.

**COON RAPIDS MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

Note 12 – HEALTH INSURANCE SELF-INSURED

CRMU has a group health insurance policy which provides comprehensive medical coverage for eligible employees and, if elected, their spouses and dependents. CRMU self-insures certain employee eligible medical costs that are not reimbursed by the health insurance provider because the medical cost does not exceed the deductible and maximum out-of-pocket policy provision. CRMU has eleven covered employees as of June 30, 2011.

The amount of the deductibles and maximum out-of-pocket expenses self-insured are as follows:

	Deductible		Maximum Out-of-Pocket	
	<u>Single</u>	<u>Family</u>	<u>Single</u>	<u>Family</u>
Employee	\$2,500	\$7,500	\$5,000	\$15,000

CRMU risk is limited to the difference between the out of pocket maximums of the two plans. The claims payable, including claims incurred but not yet reported, have been determined by the CRMU's management and have not been recorded in the accompanying financial statements. Changes in the claim's liability amount were as follows:

Year Ended June 30	Beginning Balance Liability	Claims and Changes in Estimates	Claim Payments	Ending Balance
2011	\$ -	\$ 39,980	\$ 37,151	\$ 2,829

Note 13 – COMMITMENTS AND CONTINGENT LIABILITIES

CRMU has a contract, effective to December 31, 2020, with the United States Department of Energy to provide CRMU firm electric power up to 2,395 kilowatts during any winter season month and up to 2,666 kilowatts during any summer season month.. This contract provides that the contract rate of delivery for firm power maybe adjusted after January 2011 for the kilowatts to be provided during the subsequent winter and summer seasons.

CRMU entered into a contract with its major transporter of natural gas in August 1993 that requires a capacity demand payment of approximately \$100,000 annually. The initial expiration date of the contract was through October 31, 1996, which was subsequently extended through October 31, 2013.

CRMU entered into a contract with Rotert Construction for a warehouse building. The contracted bid amount was \$133,096 of which \$26,737 has been paid by June 30, 2011. The project will likely be completed during the next fiscal year.

CRMU entered into a contract July 27, 2006, with Utility Service Co., Inc., engaging them to provide the professional service needed to maintain CRMU's 250,000 gallon water storage tank. The annual fee is \$19,991 per year until 2012 when it becomes \$11,288. Beginning in 2015 and each third year thereafter, the annual fee will be adjusted to reflect the current cost of service, and may be adjusted up or down by a maximum of 5% annually. This contract may be cancelled by CRMU if notification is received 90 days prior to the anniversary date. Unless a cancellation notice is received, the contract automatically renews each year.

**COON RAPIDS MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

Note 13 – COMMITMENTS AND CONTINGENT LIABILITIES (Continued)

CRMU ownership in Unit 4 George Neal Generating Station has committed the utility to a construction project to reduce the annual sulfur dioxide and nitrogen oxide emission emitted by the station. CRMU's approximate share of the project is \$1,338,906. The project will likely be completed during 2014.

Note 14 – MAJOR CUSTOMERS

A significant portion of the Electric Utility and Gas Utility revenue is derived from a single customer. This customer generated approximately 12% of the Electric Utility total sales to customers and 25% of the Gas Utility total sales to customers for the year ended June 30, 2011.

Note 15 – CONCENTRATIONS

CRMU provides utility services to commercial and residential customers in a specified service area in and around City of Coon Rapids, Iowa. Credit is granted to substantially all customers, all of whom are local business 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 that period.

Note 16 – 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, except for loss of infrastructure, 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 17 – GRANT AGREEMENT

CRMU received a federal Rural Economic Development Grant for \$300,000, which required a local match of \$60,000 making a total of \$360,000 available to establish a revolving loan fund during 2008. During 2011, one new loan was made for economic development totaling \$27,237, and payments were received on all of the loans totaling \$46,104, leaving \$88,180 available for purposes of this revolving loan program.

Note 18 – PRIOR PERIOD ADJUSTMENT

CRMU recorded accrued property taxes to correctly show the outstanding liabilities. The prior period adjustment was recorded to correct property tax expense for the current year.

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**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Board of Trustees
Coon Rapids Municipal Utilities
Coon Rapids, Iowa 50058

We have audited the accompanying financial statements of Coon Rapids Municipal Utilities, a component unit of the City of Coon Rapids, (Coon Rapids Municipal Utilities) as of and for the year ended June 30, 2011, which collectively comprise the Utilities' basic financial statements listed in the table of contents, and have issued our report thereon dated November 4, 2011. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Coon Rapids Municipal Utilities' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Coon Rapids Municipal Utilities' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Spencer Municipal Utility's internal control over financial reporting.

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

A deficiency in internal control exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the Utilities' financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency in internal control described in Part II of the accompanying Schedule of Findings as item II-A-11 to be a material weakness in internal control over financial reporting.

Compliance and Other Matters

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, contracts and grants, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*.

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

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Coon Rapids Municipal Utilities and other parties to whom Coon Rapids Municipal Utilities may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

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

Williamo + Company, P.C.

Certified Public Accountants

Spencer, Iowa
November 4, 2011

**COON RAPIDS MUNICIPAL UTILITIES
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2011**

PART I – SUMMARY OF INDEPENDENT AUDITOR’S RESULTS

- (A) An unqualified opinion was issued on the financial statements.
- (B) A significant deficiency in internal control over financial reporting was disclosed by the audit of the financial statements and is considered to be a material weakness.
- (C) The audit did not disclose any noncompliance which could have a material effect on the financial statement accounts.

PART II – FINDINGS RELATED TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

SIGNIFICANT DEFICIENCIES:

II-A-11 Financial Reporting – During the audit, we identified material and immaterial adjustments which could result in material misstatements of accounts receivable, accrued expenses, revenue and expenses not initially identified by Coon Rapids Municipal Utilities’ internal control. These amounts were either not recorded or not properly recorded in Coon Rapids Municipal Utilities’ financial statements. Adjustments were subsequently made by Coon Rapids Municipal Utilities, if applicable, to properly include or reclassify these amounts in the financial statements.

Recommendation – Coon Rapids Municipal Utilities should implement procedures to ensure all accounts are properly identified, classified, and included in Coon Rapids Municipal Utilities’ financial statements.

Response – We will revise our current procedures to ensure the proper amounts are recorded in the financial statements in the future.

Conclusion - Response accepted.

INSTANCES OF NONCOMPLIANCE:

No matters were reported.

**COON RAPIDS MUNICIPAL UTILITIES
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2011**

PART III – OTHER FINDINGS RELATED TO REQUIRED STATUTORY REPORTING

- III-A-11: 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, 2011.
- III-B-11: Certified Budget – Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation. Disbursements did not exceed the certified budget during the fiscal year.
- III-C-11: 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-11: Travel Expenses – No disbursements of Utilities’ money for travel expenses of spouses of Utilities’ officials or employees were noted.
- III-E-11: Business Transactions: - No business transactions between Coon Rapids Municipal Utilities and Utilities’ officials were noted.
- III-F-11: Bond Coverage – Surety bond coverage of Coon Rapids Municipal Utilities’ 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.
- III-G-11: Trustee Minutes – No transactions were found that we believe should have been approved in the Board of Trustees minutes but were not.
- III-H-11: 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-11: Telecommunication Services – No instances of non-compliance with Chapter 388.10 of the Code of Iowa were noted.