

**COON RAPIDS MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF COON RAPIDS**

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
WITH
INDEPENDENT AUDITORS' REPORT
FOR THE YEAR ENDED JUNE 30, 2007**

COON RAPIDS MUNICIPAL UTILITIES

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COON RAPIDS MUNICIPAL UTILITIES

OFFICIALS

Name	Position	Term Expires
Mike Deeth	Chairman	June, 2012
Larry Taylor	Trustee	June, 2008
Dierk Halverson	Trustee	June, 2010
Bradley Honold	Secretary/General Manager	Indefinite
Kari Woodard	Comptroller	Indefinite
Jesica Leighty	City Clerk / City Treasurer	Indefinite
Mark Thomas	Attorney	Indefinite

O'Donnell, Ficenec, Wills & Ferdig, LLP

Certified Public Accountants

4815 South 107th Avenue

Omaha, Nebraska 68127-1904

Gerald A. Wills, C.P.A.
Ronald W. Ferdig, C.P.A.
Lawrence A. Wolfe, C.P.A.
Richard P. Edgar, C.P.A.
Steven M. Povich, C.P.A.
John Keblesh, C.P.A.

402-592-3800
Fax: 402-592-7747
www.ofwf.com

Gregory A. Harr, C.P.A.
Dwain E. Wulf, C.P.A.
Daniel R. Holt, C.P.A.
Daniel A. Dudley, C.P.A.
Geoffrey F. Schnathorst, C.P.A.
Catherine T. Kellogg, C.P.A.

INDEPENDENT AUDITORS' REPORT

Coon Rapids Municipal Utilities
Coon Rapids, Iowa

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, 2007, which collectively comprise the Utilities' basic financial statement 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 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 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 opinions.

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 opinions, the financial statements referred to above present fairly, in all material respects, the 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, 2007, 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 26, 2007, 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, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 11 and 38 through 40, respectively, 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 of the financial statements that collectively comprise Coon Rapids Municipal Utilities' basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statement for the year ended June 30, 2006, (which are not presented herein) and expressed an unqualified opinion on those financial statements. Other supplementary information included in Schedules 3 and 4 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.

O'DONNELL, FICENEC, WILLS & FERDIG, LLP

November 26, 2007

By  _____
Certified Public Accountant

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, 2007. This should be read in conjunction with the Statement of Net Assets, the Statement of Revenues, Expenses and Changes in Fund Net Assets, and the Statement 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 principles 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 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 Statement 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 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.

Communications Utility

Overview:

CRMU's communication utility continues to strive towards remaining competitive in the telecommunications industry. Reasonable rates and excellent customer service allow CRMU to maintain a competitive advantage.

CRMU has worked towards expanding its offerings and services to help generate additional revenue to offset reductions in revenue due to lower access fees and the loss of a large customer.

With the loss of Precision Telemarketing, CRMU's telephone utility has operated at a break-even level (or slight loss). Considering the competitive nature of the industry, it is difficult to make rate adjustments since customers have other alternatives to consider.

To be successful into the future, CRMU must focus on gaining new customers and enticing existing customers to purchase additional services. CRMU is also in the process of contract negotiations with its wholesale provider.

Communications Utility Financial Highlights:

Dollars in Thousands

	2007	2006
OPERATIONS		
Revenues	914	1,121
Expenses	758	929
Operating Income	156	192
ASSETS		
Current	897	1,057
Restricted	0	0
Capital	98	104
Noncurrent	0	0
Total	995	1,161
LIABILITIES		
Current	29	129
Noncurrent	0	87
Total	29	216
NET ASSETS		
Invested in Capital Assets	98	104
Unrestricted	868	841
Total	966	945
Total Liabilities & Net Assets	995	1,161

Results of Operations:

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

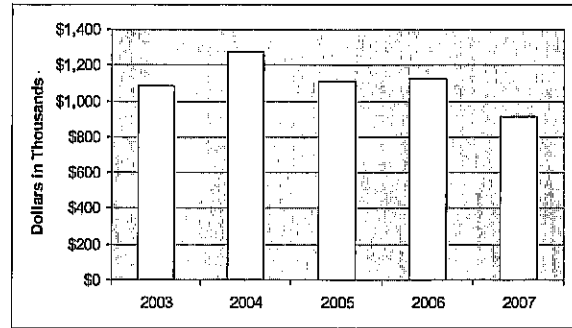
Revenue from operations decreased by 18% while total operating expenses decreased by 23%. The decrease in both revenues and expenses can be attributed to the telephone department and the loss of Precision Telemarketing.

Cable television, internet, and pager expenses actually increased from 2006 by \$22,028 due to higher administrative and general expenses. However, telephone expenses decreased by \$193,053 from the previous year primarily due to lower purchased programming costs.

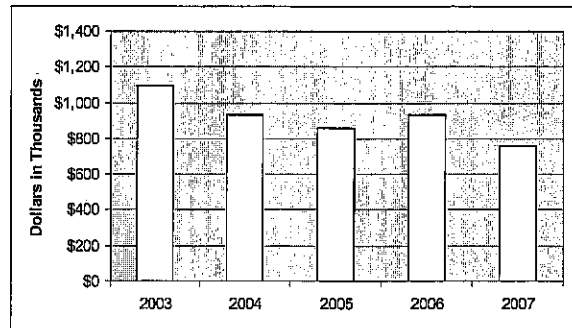
The communication utility's bundling program has been very successful as seen through relatively low churn and stable customer counts. In the future, CRMU will increase marketing for the new high definition channels and other communication features.

CRMU's physical operations will be changing in the near future, as the communications utility has been notified of the manufacturing discontinuance of its current voiceport products. CRMU is evaluating different technologies for the delivery of voice services to its customers.

**Communications Utility
Operating Revenues: \$914,665**



**Communications Utility
Operating Expenses: \$758,270**



Financial Position:

(As reported on the Statement of Net Assets)

Total assets decreased by 17% in fiscal year 2007. This can be attributed to a decrease in accounts receivable for both customer and carrier access billing accounts.

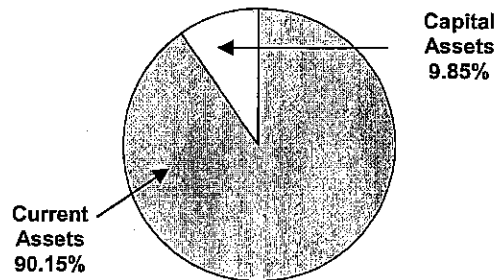
Total liabilities decreased by 87% in fiscal year 2007. The communications utility paid off a liability in the form of an interutility loan to the gas utility, causing a decrease in liabilities to the sum of \$119,675. Accounts payable also decreased by \$62,870 compared to last year.

The communications utility has no noncurrent, or restricted assets. Capital assets, in the form of utility plant, facilities and equipment, account for 10% of total assets, while current assets comprise 90% of the balance of total assets.

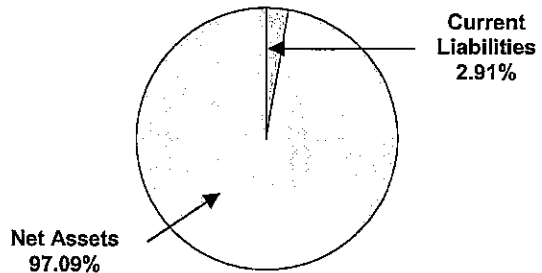
For a startup utility in late 1999, the communications utility has a sound financial base. However, CRMU must monitor the utility closely as the effect of Precision of Iowa's closing greatly impacted the telephone utility.

Both revenues and expenses were lower than budget by \$48,000 and \$65,000, respectively.

Communications Utility Total Assets: \$995,010



Communications Utility Total Liabilities and Net Assets: \$995,010



Electric Utility

Overview:

In 2007, CRMU experienced an increase in net operating revenue. The electric utility ended the year in a strong financial position. The implementation of the Electric Cost Adjustment (ECA) rate has proved to follow the volatility of power costs.

In the next ten years, the electric utility will have several significant factors influence the utility. In 2012, a scrubber / bag house will be installed onto Neal 4 to help with environmental emissions. This capital improvement will cost CRMU approximately \$1.3 million. By 2015, both capital loan notes with Iowa Savings Bank will be paid off. Additionally, it is likely that electric utilities will be mandated by federal and state governments to have a certain percentage (15-25%) of renewable energies in their resource portfolio. This requirement could mean increased costs for CRMU.

Electric usage (kwh) decreased slightly from 2006 to 2007. A slight increase is expected for FY 2008 due to Syngenta reopening the town plant.

Electric Utility Financial Highlights:

Dollars in Thousands

	2007	2006
OPERATIONS		
Revenues	2,110	1,939
Expenses	1,885	1,819
Operating Income	225	120
ASSETS		
Current	2,477	2,299
Restricted	15	15
Capital	7,252	7,469
Noncurrent	179	211
Total	9,923	9,995
LIABILITIES		
Current	389	432
Noncurrent	2,890	3,220
Total	3,279	3,652
NET ASSETS		
Invested in Capital Assets	4,103	3,904
Restricted for:		
Bond/Note Retirement	15	15
Bond/Note Covenants	0	0
Unrestricted	2,526	2,424
Total	6,644	6,343
Total Liabilities & Net Assets	9,923	9,995

Results of Operations:

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

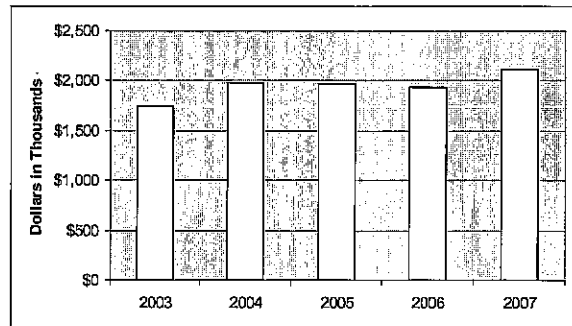
Revenue from operations increased 9% despite a 4% decrease in kilowatt-hours sold to customers compared to 2006. Sales for resale increased 9%.

Operating expenses increased primarily due to transmission operations and customer service operations. Plant operation expenses increased by \$218,206; however purchased energy expenses decreased by \$210,630. This is a result of a reallocation of operations and maintenance expenses associated with Neal 4.

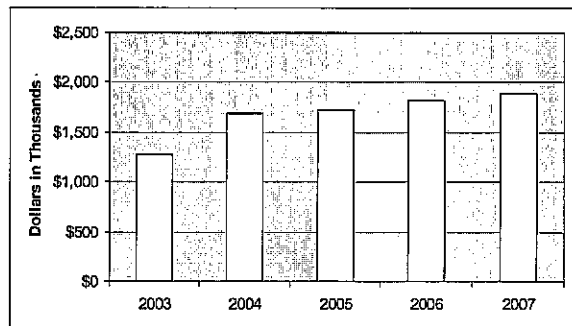
CRMU will likely continue to experience an increase in purchased energy expense. Western Area Power Administration (WAPA) is planning another rate increase of 25% as of January 1, 2008.

Nonoperating revenues increased \$84,773 from the previous year. This is explained by a \$86,225 decrease in interest expense.

Electric Utility Operating Revenues: \$2,110,206



Electric Utility Operating Expenses: \$1,885,215



Financial Position:

(As reported on the Statement of Net Assets)

CRMU has two significant noncurrent liabilities - a 2003 and 2006 capital loan note. In 2007, CRMU reduced the liability of each obligation by \$125,000 and \$185,000 respectively.

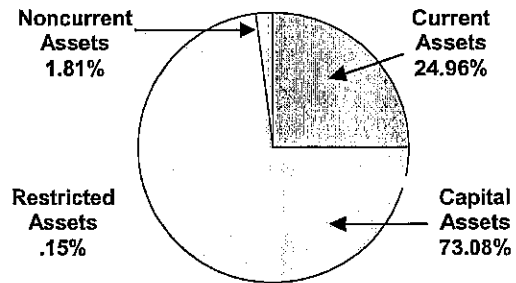
Noncurrent assets decreased by 15% mainly due to a reduction in the loan receivable from the Coon Rapids Development Group and a reduction in a tax increment financing loan receivable from the City of Coon Rapids.

Capital assets, in the form of utility plant, facilities and equipment, account for over 73% of CRMU's total assets. CRMU has \$14,924 in the form of Restricted Assets which are suggested for security against the capital loan notes.

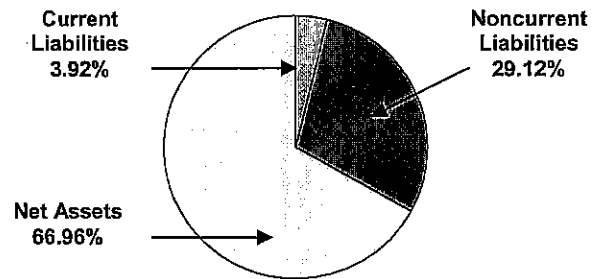
CRMU has approximately 20% of its total assets in the form of cash and cash equivalents. Of this amount, the Board of Trustees has allocated the majority for designated uses such as equipment replacement, generation replacement, health fund plan, etc., leaving a small portion of its current assets undesignated.

Revenues and expenses were higher than budget by \$255,000 and \$202,000, respectively.

Electric Utility Total Assets: \$9,923,137



Electric Utility Total Liabilities and Net Assets: \$9,923,137



Natural Gas Utility

Overview:

Over the past few years, CRMU has experienced increased energy and transportation costs. This national pattern of rising energy costs illustrates the price volatility of the natural gas commodity market in a deregulated environment.

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.

CRMU is currently evaluating participation in a long-term pre-pay program to help reduce operating costs.

Natural Gas Utility Financial Highlights:

Dollars in Thousands

	2007	2006
OPERATIONS		
Revenues	957	1,154
Expenses	1,012	1,237
Operating Income	(55)	(83)
ASSETS		
Current	1,234	1,487
Restricted	0	0
Capital	764	504
Noncurrent	288	411
Total	2,286	2,403
LIABILITIES		
Current	24	74
Noncurrent	0	0
Total	24	74
NET ASSETS		
Invested in Capital Assets	480	489
Restricted for:		
Bond/Note Retirement	0	0
Bond/Note Covenants	0	0
Unrestricted	1,782	1,840
Total	2,262	2,329
Total Liabilities & Net Assets	2,286	2,403

Results of Operations:

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

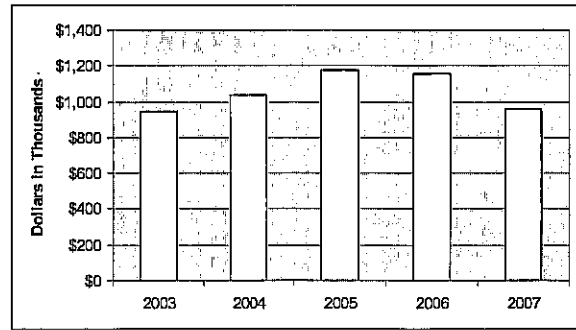
In 2007, purchased energy costs decreased 22% due to lower market commodity prices, which resulted in a 17% decrease in revenue from operations. CRMU continued to control costs as plant operations and administrative and general expenses decreased 30% and 16% respectively.

CRMU realized an operating loss in 2007 of \$55,219, compared to a loss of \$83,616 in 2006. CRMU implemented a new rate structure beginning fiscal year 2008 to incorporate transportation and services costs into the PGA. This new structure will allow rates to follow the volatility of all purchased gas costs, rather than only commodity costs.

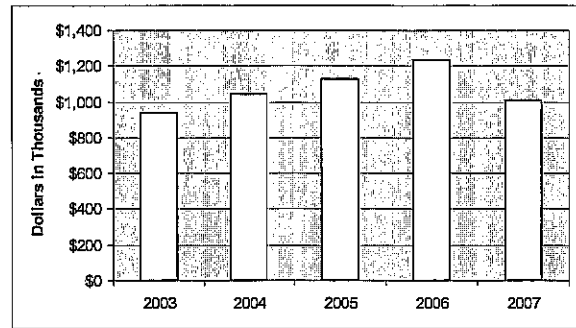
Nonoperating revenues were up 63% in 2007. This can primarily be attributed to realizing a \$20,000 loss in 2006 for the Iowa Stored Energy Project.

CRMU continued with its contributions to the community and City of Coon Rapids by recognizing a net transfer out of \$60,740 in 2007.

Natural Gas Utility Operating Revenues: \$957,202



Natural Gas Utility Operating Expenses: \$1,012,421



Financial Position:

(As reported on the Statement of Net Assets)

The Natural Gas Utility has no significant noncurrent liabilities. CRMU's current liabilities, comprised of small payables, are also immaterial totaling \$23,399.

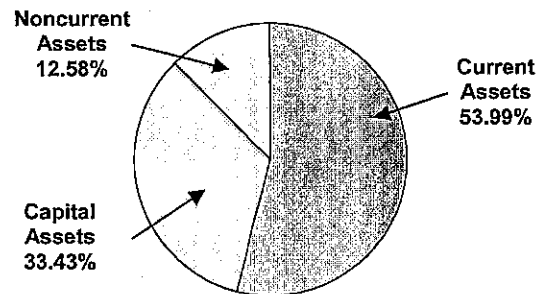
Noncurrent assets decreased by 30% mainly due to the payoff of the communications inter-utility loan and reductions in the TIF and City of Coon Rapids bridge loan.

Capital assets, in the form of utility plant, facilities and equipment, account for 33% of CRMU's total assets, while current assets comprise 54% of the total. Cash, cash equivalents, and certificates of deposit account for 86% of total current assets. Most of this is designated for future utility improvements.

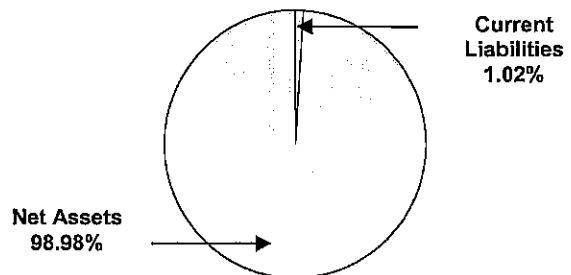
The gas utility maintains a strong financial position, but has used some reserves to cover losses over the last couple years and complete the municipal building roof project.

Revenues and expenses were lower than budget by \$130,000 and \$139,000, respectively.

Natural Gas Utility Total Assets: \$2,285,892



Natural Gas Utility Total Liabilities and Net Assets: \$2,285,892



Water Utility

Overview:

Over past several 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. CRMU implemented a 17% rate increase at the beginning of fiscal year 2007 and, as of July, 2007, eliminated the declining block rate structure.

CRMU has been very fortunate through the years with an abundant water supply of good quality drinking water. This has served the water utility well, as CRMU has experienced minimal financial impacts due to increased testing promulgated by the Safe Drinking Water Act.

Protecting and preserving the water quality for Coon Rapids is a primary concern of CRMU. CRMU has made efforts towards establishing a wellhead protection plan and is continuing efforts to see that it can be implemented.

Water Utility Financial Highlights:

Dollars in Thousands

	2007	2006
OPERATIONS		
Revenues	153	146
Expenses	223	193
Operating Income	(70)	(47)
ASSETS		
Current	145	169
Restricted	0	0
Capital	470	506
Noncurrent	13	17
Total	629	693
LIABILITIES		
Current	19	15
Noncurrent	0	0
Total	19	15
NET ASSETS		
Invested in Capital Assets	470	506
Restricted for:		
Bond/Note Retirement	0	0
Bond/Note Covenants	0	0
Unrestricted	140	172
Total	610	678
Total Liabilities & Net Assets	629	693

Results of Operations:

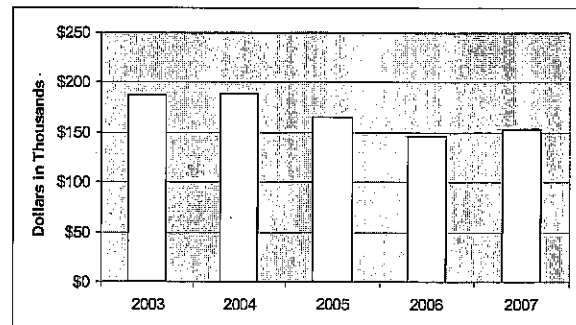
(As reported in the Statements of Revenues, Expenses and Changes in Fund Net Assets)

Revenue from operations increased by \$7,420 in 2007 primarily due to increased usage and a rate increase implemented at the beginning of the fiscal year. Operating expenses increased 11% in 2007. Specifically, plant operations increased 57% because of the water tower maintenance contract signed with Utility Services Company. This will account for about a \$20,000 expense for the next 5 years.

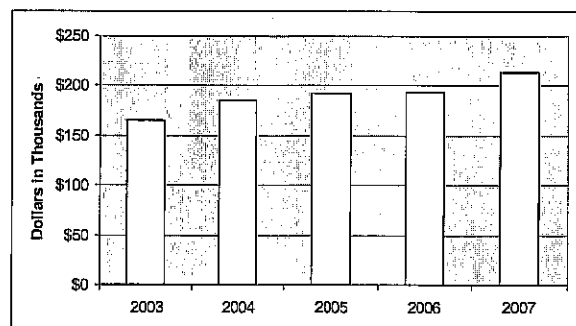
In 2007, distribution operation expenses decreased 30% while customer service and administrative / general expenses increased 52% and 14% respectively. Considering the increased costs, the water utility experienced an operating loss of \$60,877.

Nonoperating revenues totaled \$12,146 in 2007 helping to offset the operating loss, while CRMU continued its transfers out totaling \$9,424, resulting in a decrease in net assets of \$58,155.

Water Utility Operating Revenues: \$153,070



Water Utility Operating Expenses: \$213,947



Financial Position:

(As reported on the Statement of Net Assets)

Noncurrent assets decreased by 23% in 2007 due to a reduction in the tax increment financing loan receivable from the City of Coon Rapids.

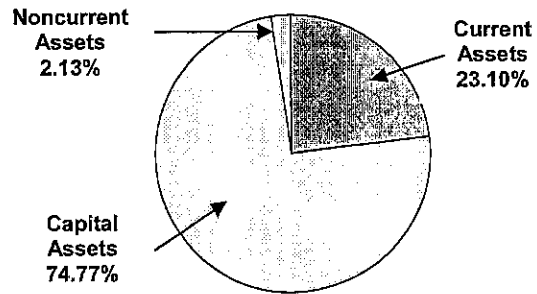
Capital assets, in the form of utility plant, facilities and equipment, account for over 74% of CRMU's total assets. CRMU's total assets decreased by 9% (\$64,573) in 2007.

CRMU has approximately 16% of its total assets in the form of cash, cash equivalents, and certificates of deposit. Of this amount, the Board of Trustees has designated uses for all of the funds, which indicates a need to reevaluate revenue requirements.

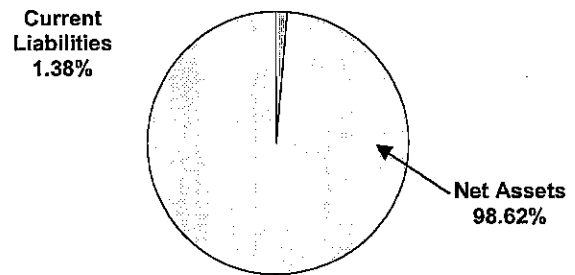
CRMU has no significant liabilities. For the year, total liabilities and net assets decreased 9%.

Revenues and expenses were higher than budget by \$24,000 and \$44,000, respectively.

Water Utility Total Assets: \$628,520



Water Utility Total Liabilities and Net Assets: \$628,520



Wastewater Utility

Overview:

In 2007, the wastewater utility realized an operating loss of \$14,490. Including nonoperating revenues (consisting primarily of interest income), the utility ended with a total gain of \$44,817.

The wastewater utility continues to have strong financial reserves and is in the position to make capital improvements to the wastewater system. CRMU is currently evaluating the possibility of televising the wastewater system to make the most effective and necessary improvements.

Interest income from substantial reserves is providing the stability of this utility. In 2007, interest income totaled \$58,982. As reserves are used, CRMU will most likely need to consider a rate adjustment.

Wastewater Utility Financial Highlights:

Dollars in Thousands

	2007	2006
OPERATIONS		
Revenues	109	110
Expenses	124	101
Operating Income	(15)	9
ASSETS		
Current	1,330	1,202
Restricted	0	0
Capital	611	654
Noncurrent	147	184
Total	2,088	2,040
LIABILITIES		
Current	7	3
Noncurrent	0	0
Total	7	3
NET ASSETS		
Invested in Capital Assets	611	654
Restricted for:		
Bond/Note Retirement	0	0
Bond/Note Covenants	0	0
Unrestricted	1,470	1,383
Total	2,081	2,037
Total Liabilities & Net Assets	2,088	2,040

Results of Operations:

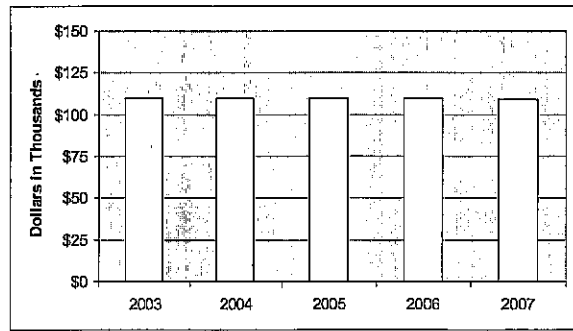
(As reported in the Statements of Revenues, Expenses and Changes in Fund Net Assets)

In 2007, the wastewater utility recorded \$109,411 in revenues. Wastewater revenues have been extremely consistent throughout the years, varying less than 1% over the past five years.

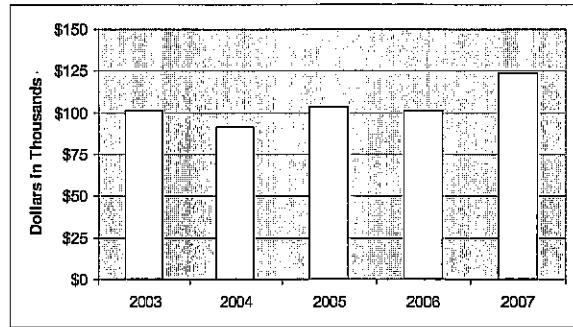
Total operating expenses in 2007 were up \$23,968 compared to 2005. Plant operation expenses account for the majority of this increase. They increased by 130% partially due to the purchase of chemicals and the repair of the lift station motor and impeller.

CRMU realized a net operating loss of \$14,490 in 2007. Nonoperating revenues increased by \$12,672 in 2007 mainly due to a significant increase in interest income. Total revenues for the year totaled \$44,817. This is a 20% decrease compared to 2006.

Wastewater Utility Operating Revenues: \$109,411



Wastewater Utility Operating Expenses: \$123,901



Financial Position:

(As reported on the Statement of Net Assets)

Noncurrent assets decreased by 20% in 2007, mainly due to reductions in loan receivables from the City of Coon Rapids for a bridge loan, and a tax increment financing (TIF) loan.

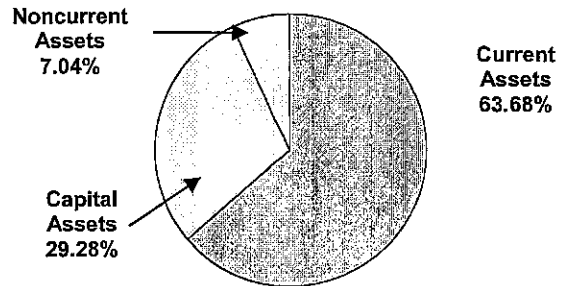
Capital assets, in the form of utility plant, facilities and equipment, account for 29% of CRMU's total assets, while current assets account for 64%.

The wastewater utility has accumulated reserves in anticipation of improvements to its collection system and lift station. This is evident as 61% of its total assets are in the form of cash, cash equivalents, and certificates of deposit.

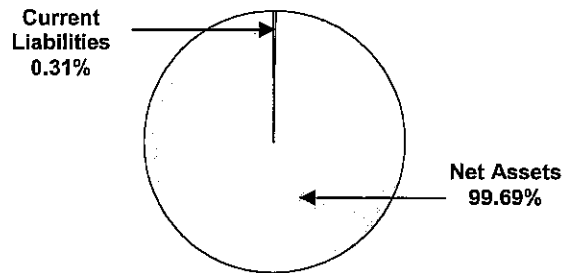
The wastewater utility essentially has no liabilities other than some small payables.

Revenues were \$28,000 higher than budget, while expenses were \$4,000 lower than budget.

Wastewater Utility Total Assets: \$2,087,792



Wastewater Utility Total Liabilities and Net Assets: \$2,087,792



BASIC FINANCIAL STATEMENTS

COON RAPIDS MUNICIPAL UTILITIES

**STATEMENT OF NET ASSETS
 PROPRIETARY FUNDS
 JUNE 30, 2007**

ASSETS	Communications: Telephone Utility	Communications: Cable TV, Internet & Pager Utility
CURRENT ASSETS:		
Cash and Invested Cash	\$ 701,601	\$ 136,142
Accounts Receivable, Net of Allowance -		
Trade	17,614	11,295
Other	26,005	305
Loans Receivable, Current Portion	-	-
Inventories	988	777
Other Current and Prepaid Assets	<u>2,277</u>	<u>-</u>
Total Current Assets	748,485	148,519
RESTRICTED ASSETS:		
Cash and Invested Cash	<u>-</u>	<u>-</u>
Total Restricted Assets	-	-
CAPITAL ASSETS:		
Utility Plant, Facilities and Equipment, at Cost	11,495	345,831
Accumulated Depreciation	<u>(5,441)</u>	<u>(253,882)</u>
Total Capital Assets, Net	6,054	91,949
NONCURRENT ASSETS:		
NIMECA Patronage Dividend Receivable	-	-
Loans Receivable, Net of Current Portion Above -		
From City of Coon Rapids	-	-
From Coon Rapids Development Group	-	-
From Tax Increment Financing	-	-
Municipal Building, Equipment and Land, Net of Accumulated Depreciation	<u>-</u>	<u>-</u>
Total Noncurrent Assets	-	-
Total Assets	<u>\$ 754,539</u>	<u>\$ 240,468</u>

See Independent Auditors' Report and Notes to Financial Statements.

Business Type Activities - Enterprise Funds

Electric Utility	Gas Utility	Water Utility	Wastewater Utility	Total
\$ 1,971,545	\$ 1,058,988	\$ 98,826	\$ 1,265,760	\$ 5,232,862
187,798	37,670	22,625	15,867	292,869
27,487	4,506	1,419	358	60,080
19,897	43,380	7,798	46,739	117,814
202,551	80,936	12,304	175	297,731
<u>67,431</u>	<u>8,752</u>	<u>2,615</u>	<u>614</u>	<u>81,689</u>
2,476,709	1,234,232	145,587	1,329,513	6,083,045
<u>14,924</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>14,924</u>
14,924	-	-	-	14,924
11,751,384	1,523,381	1,371,054	1,669,099	16,672,244
<u>(4,499,240)</u>	<u>(759,299)</u>	<u>(901,096)</u>	<u>(1,057,896)</u>	<u>(7,476,854)</u>
7,252,144	764,082	469,958	611,203	9,195,390
15,653	-	-	-	15,653
-	44,157	-	110,440	154,597
11,080	-	-	-	11,080
11,093	56,959	13,370	36,636	118,058
<u>141,528</u>	<u>186,463</u>	<u>-</u>	<u>-</u>	<u>327,991</u>
179,354	287,579	13,370	147,076	627,379
<u>\$ 9,923,131</u>	<u>\$ 2,285,893</u>	<u>\$ 628,915</u>	<u>\$ 2,087,792</u>	<u>\$ 15,920,738</u>

(Continued)

COON RAPIDS MUNICIPAL UTILITIES

**STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2006**

LIABILITIES	Communications: Telephone Utility	Communications: Cable TV, Internet & Pager Utility
CURRENT LIABILITIES:		
Accounts Payable - Trade	\$ 11,486	\$ 10,473
Other Payables and Credits	95	13
Payroll, Sales and Use Taxes Payable	-	-
Compensated Absences Payable	3,407	3,459
Payable from Restricted Assets -		
Customer Deposits	-	-
Electric Capital Notes Payable, Current Portion	-	-
Accrued Interest	-	-
Total Current Liabilities	14,988	13,945
LONG-TERM LIABILITIES, NET OF CURRENT PORTION:		
Electric Capital Notes Payable, Series 2006	-	-
Electric Capital Notes Payable, Series 2003	-	-
Total Long-term Liabilities	-	-
Total Liabilities	14,988	13,945
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	6,054	91,949
Restricted	-	-
Unrestricted	733,497	134,574
Total Net Assets	739,551	226,523
Total Liabilities and Net Assets	\$ 754,539	\$ 240,468

See Independent Auditors' Report and Notes to Financial Statements.

Business Type Activities - Enterprise Funds

Electric Utility	Gas Utility	Water Utility	Wastewater Utility	Total
\$ 12,880	\$ 18,272	\$ 3,725	\$ 5,049	\$ 61,885
18,806	-	9,995	-	28,909
3,649	71	863	77	4,660
11,620	5,056	4,082	1,347	28,971
6,710	-	-	-	6,710
330,000	-	-	-	330,000
5,354	-	-	-	5,354
<u>389,019</u>	<u>23,399</u>	<u>18,665</u>	<u>6,473</u>	<u>466,489</u>
1,610,000	-	-	-	1,610,000
<u>1,280,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,280,000</u>
<u>2,890,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,890,000</u>
<u>3,279,019</u>	<u>23,399</u>	<u>18,665</u>	<u>6,473</u>	<u>3,356,489</u>
4,103,409	480,402	469,958	611,204	5,762,976
14,924	-	-	-	14,924
<u>2,525,779</u>	<u>1,782,092</u>	<u>140,292</u>	<u>1,470,115</u>	<u>6,786,349</u>
<u>6,644,112</u>	<u>2,262,494</u>	<u>610,250</u>	<u>2,081,319</u>	<u>12,564,249</u>
<u>\$ 9,923,131</u>	<u>\$ 2,285,893</u>	<u>\$ 628,915</u>	<u>\$ 2,087,792</u>	<u>\$ 15,920,738</u>

COON RAPIDS MUNICIPAL UTILITIES

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2007**

	<u>Communications: Telephone Utility</u>	<u>Communications: Cable TV, Internet & Pager Utility</u>
OPERATING REVENUES:		
Sales to Customers	\$ 588,577	\$ 316,457
Sales for Resale	-	-
Interdepartmental Sales	-	-
Forfeited Discounts	9,631	-
Rebates and Other	-	-
Total Operating Revenues	<u>598,208</u>	<u>316,457</u>
OPERATING EXPENSES:		
Purchased Energy and Programming	262,671	168,020
Plant Operations	15,866	20,843
Transmission Operations	-	-
Distribution Operations	20,600	37,879
Consumer Service Operations	37,878	17,989
Administrative and General Expenses	100,405	61,611
Depreciation	1,631	12,880
Total Operating Expenses	<u>439,051</u>	<u>319,222</u>
Operating Income (Loss)	159,157	(2,765)
NONOPERATING REVENUES (EXPENSES):		
Interest Income	32,346	9,846
Joint Use Revenue (Expense)	(172,992)	-
Municipal Building - Rent and Expense Reimbursement	-	-
Merchandise Sales - Net	(1,225)	(1,043)
Miscellaneous Nonoperating Revenue	109	3,850
Interest Expense	-	(449)
Municipal Building Expense	-	-
Net Nonoperating Revenues (Expenses)	<u>(141,762)</u>	<u>12,204</u>
Income (Loss) before Transfers	17,395	9,439
TRANSFERS IN (OUT):		
In-Lieu-Of Tax Payments	(5,021)	(757)
Non-Operating Transfers	(120,124)	120,124
Free Community Service	(271)	(270)
Net Transfers In (Out)	<u>(125,416)</u>	<u>119,097</u>
Change in Net Assets	(108,021)	128,536
Total Net Assets - July 1, 2006	847,572	97,987
Total Net Assets - June 30, 2007	<u>\$ 739,551</u>	<u>\$ 226,523</u>

See Independent Auditors' Report and Notes to Financial Statements

Business Type Activities - Enterprise Funds

Electric Utility	Gas Utility	Water Utility	Wastewater Utility	Total
\$ 1,353,268	\$ 951,278	\$ 148,895	\$ 109,183	\$ 3,467,658
684,546	-	-	-	684,546
67,223	3,815	694	-	71,732
4,299	1,419	448	228	16,025
870	690	3,033	-	4,593
<u>2,110,206</u>	<u>957,202</u>	<u>153,070</u>	<u>109,411</u>	<u>4,244,554</u>
650,095	771,184	-	-	1,851,970
377,900	13,544	78,955	28,067	535,175
86,753	-	-	-	86,753
131,396	79,862	28,510	17,833	316,080
62,225	29,921	23,368	7,422	178,803
259,154	91,156	54,762	26,676	593,764
317,700	26,753	37,951	43,905	440,820
<u>1,885,223</u>	<u>1,012,420</u>	<u>223,546</u>	<u>123,903</u>	<u>4,003,365</u>
224,983	(55,218)	(70,476)	(14,492)	241,189
92,884	56,786	7,542	58,982	258,386
175,742	-	-	-	2,750
10,417	6,188	3,636	-	20,241
5,666	329	933	325	4,985
5,844	15	35	-	9,853
(134,659)	-	-	-	(135,108)
(11,079)	(13,412)	-	-	(24,491)
<u>144,815</u>	<u>49,906</u>	<u>12,146</u>	<u>59,307</u>	<u>136,616</u>
369,798	(5,312)	(58,330)	44,815	377,805
(41,962)	(42,806)	(6,951)	(126)	(97,623)
-	-	-	-	-
(26,874)	(17,934)	(2,473)	(522)	(48,344)
<u>(68,836)</u>	<u>(60,740)</u>	<u>(9,424)</u>	<u>(648)</u>	<u>(145,967)</u>
300,962	(66,052)	(67,754)	44,167	231,838
6,343,150	2,328,546	678,004	2,037,152	12,332,411
<u>\$ 6,644,112</u>	<u>\$ 2,262,494</u>	<u>\$ 610,250</u>	<u>\$ 2,081,319</u>	<u>\$ 12,564,249</u>

COON RAPIDS MUNICIPAL UTILITIES

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2007**

	Communications: Telephone Utility	Communications: Cable TV, Internet & Pager Utility
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash Received from Customers and Users	\$ 713,935	\$ 314,764
Cash Received from Interdepartmental Sales	-	-
Cash Received (Paid) from Other Revenues (Expenses) - Net	(174,108)	2,807
Cash Paid to Suppliers for Goods and Services	(455,057)	(223,959)
Cash Paid to Employees	(44,041)	(84,295)
Cash Paid for Interdepartmental Services	-	-
Cash Paid for In-Lieu-of-Tax Payments	<u>(5,021)</u>	<u>(757)</u>
Net Cash Flow from Operating Activities	35,708	8,560
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Transfers to City of Coon Rapids - Free Community Service	(271)	(270)
Net Municipal Building Expense	-	-
Increase in Patronage Dividend Receivable	-	-
Increase in Customer Deposits	<u>-</u>	<u>-</u>
Net Cash Flow from Noncapital Financing Activities	(271)	(270)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Capital and Construction in Progress Expenditures	(1,393)	(7,033)
Principal Payments on Long-term Debt	-	(119,675)
Inter-fund Non-operating transfers	(120,124)	120,124
Interest Paid on Debt	<u>-</u>	<u>(449)</u>
Net Cash Flow from Capital and Related Financing Activities	(121,517)	(7,033)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest on Investments	32,346	9,846
Principal Received on -		
City of Coon Rapids Loan	-	-
Coon Rapids Development Group Loan	-	-
Tax Increment Financing	-	-
Inter-utility Loans	<u>-</u>	<u>-</u>
Net Cash Flow from Investing Activities	32,346	9,846
Net Increase (Decrease) in Cash and Cash Equivalents	(53,734)	11,103
Cash and Cash Equivalents - July 1, 2006	755,335	125,039
Cash and Cash Equivalents - June 30, 2007	<u>\$ 701,601</u>	<u>\$ 136,142</u>

See Independent Auditors' Report and Notes to Financial Statements.

Business Type Activities - Enterprise Funds

Electric Utility	Gas Utility	Water Utility	Wastewater Utility	Total
\$ 2,046,242	\$ 947,531	\$ 149,291	\$ 106,762	\$ 4,278,525
67,223	3,815	694	-	71,732
327,549	6,532	4,604	325	167,709
(1,351,775)	(908,397)	(89,833)	(39,351)	(3,068,372)
(263,039)	(131,449)	(89,450)	(36,409)	(648,683)
(67,223)	(3,815)	(694)	-	(71,732)
(41,962)	(42,806)	(6,951)	(126)	(97,623)
<u>717,015</u>	<u>(128,589)</u>	<u>(32,339)</u>	<u>31,201</u>	<u>631,556</u>
(26,874)	(17,934)	(2,473)	(522)	(48,344)
-	(5,257)	-	-	(5,257)
(1,294)	-	-	-	(1,294)
(2,337)	-	-	-	(2,337)
<u>(30,505)</u>	<u>(23,191)</u>	<u>(2,473)</u>	<u>(522)</u>	<u>(57,232)</u>
(223,285)	(286,412)	(1,669)	(551)	(520,343)
(310,000)	-	-	-	(429,675)
(144,562)	-	-	-	(145,011)
<u>(677,847)</u>	<u>(286,412)</u>	<u>(1,669)</u>	<u>(551)</u>	<u>(1,095,029)</u>
92,884	56,786	7,542	58,982	258,386
-	9,120	-	23,848	32,968
26,506	-	-	-	26,506
-	17,298	3,833	11,156	32,287
-	119,399	-	-	119,399
<u>119,390</u>	<u>202,603</u>	<u>11,375</u>	<u>93,986</u>	<u>469,546</u>
128,053	(235,589)	(25,106)	124,114	(51,159)
1,858,416	1,294,577	123,932	1,141,646	5,298,945
<u>\$ 1,986,469</u>	<u>\$ 1,058,988</u>	<u>\$ 98,826</u>	<u>\$ 1,265,760</u>	<u>\$ 5,247,786</u>

COON RAPIDS MUNICIPAL UTILITIES
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2007

	Communications: Telephone Utility	Communications: Cable TV, Internet & Pager Utility
RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES:		
Operating Income (Loss) (Exhibit B)	\$ 159,157	\$ (2,765)
Adjustments to Reconcile Operating Income (Loss) to Net Cash From Operating Activities -		
Depreciation	1,631	12,880
Other Revenues (Expenses)	(179,129)	2,050
(Increase) Decrease in Operating Assets -		
Accounts Receivable	115,727	(1,693)
Inventories	8	3,149
Other Current and Prepaid Assets	(2,277)	2,615
Prepaid Rent, Noncurrent	-	-
Increase (Decrease) in Operating Liabilities -		
Deferred Rent Revenue	-	-
Accounts and Other Payables	(55,887)	(6,974)
Customer Deposits	-	-
Compensated Absences	580	17
Payroll, Sales and Use Taxes Payable	(4,102)	(719)
Net Cash Flows from Operating Activities	\$ 35,708	\$ 8,560
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON THE STATEMENT OF NET ASSETS:		
Current Assets - Cash and Cash Equivalents	\$ 701,601	\$ 136,142
Restricted Assets - Cash and Cash Equivalents	-	-
Cash and Cash Equivalents - June 30, 2007	\$ 701,601	\$ 136,142

See Independent Auditors' Report and Notes to Financial Statements

Business Type Activities - Enterprise Funds

Electric Utility	Gas Utility	Water Utility	Wastewater Utility	Total
\$ 224,983	\$ (55,218)	\$ (70,476)	\$ (14,492)	\$ 241,189
317,700	26,753	37,951	43,905	440,820
285,587	(36,274)	(2,347)	199	70,086
3,259	(5,856)	(3,085)	(2,649)	105,703
(10,237)	(7,877)	1,192	(24)	(13,789)
(41,712)	(218)	850	700	(40,042)
-	1,111	-	-	1,111
(19,863)	-	(2,223)	-	(22,086)
(35,490)	(47,726)	6,423	4,068	(135,586)
(2,337)	-	-	-	(2,337)
(789)	(1,563)	429	(218)	(1,544)
(4,086)	(1,721)	(1,053)	(288)	(11,969)
<u>\$ 717,015</u>	<u>\$ (128,589)</u>	<u>\$ (32,339)</u>	<u>\$ 31,201</u>	<u>\$ 631,556</u>
\$ 1,971,545	\$ 1,058,988	\$ 98,826	\$ 1,265,760	\$ 5,232,862
14,924	-	-	-	14,924
<u>\$ 1,986,469</u>	<u>\$ 1,058,988</u>	<u>\$ 98,826</u>	<u>\$ 1,265,760</u>	<u>\$ 5,247,786</u>

COON RAPIDS MUNICIPAL UTILITIES

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. *Organization and Nature of Activities* -

Coon Rapids Municipal Utilities (CRMU) is a component unit of the City of Coon Rapids, Iowa (the City) 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 of the City of Coon Rapids, who are authorized to establish rates. CRMU is not liable for federal and state income or ad valorem taxes on property; however, payments in-lieu-of taxes and other contributions are made to the City.

These financial statements are presented in conformity with accounting principles generally accepted in the United States of America (GAAP) applicable for proprietary funds of governmental entities. In reporting financial activities, CRMU applies all applicable Governmental Accounting Standards Board (GASB) pronouncements, as well as Financial Accounting Standards Board (FASB) statements and interpretations, including statements and interpretations of the FASB issued after November 30, 1989, except those that conflict with or contradict GASB pronouncements.

B. *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; or (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.

C. *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, 2007, was \$650,189.

See Independent Auditors' Report.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 agreement 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, 2007, was \$765,550.

The operator 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.

D. ***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

E. ***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.

See Independent Auditors' Report.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 charges 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.

F. *Use of Estimates* -

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

G. *Revenue Recognition* -

For all services except communication 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.

For telephone communication services, unbilled receivables for services delivered between scheduled billing dates are estimated and shown in the Communications: Telephone Utility column as other accounts receivable. For other communication services, unbilled services delivered between scheduled billing dates are minimal and not estimated or recorded.

H. *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.

I. *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 was reported net of the allowance for doubtful accounts of \$65,944 at June 30, 2007.

J. *Inventories* -

Inventories 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.

See Independent Auditors' Report

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The inventories at June 30, 2007, are comprised as follows:

All Material and Supplies	\$ 222,851
Electric Fund Fuel Inventories	46,057
Gas Fund Natural Gas Inventory	28,823

K. Capital Assets -

Utility plants, infrastructures, facilities and equipment (capital assets) 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 ended June 30, 2007, 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

L. 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.

See Independent Auditors' Report

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Restricted for	Amount
Revenue Notes Sinking	\$ 14,924

M. *Expense Allocations* -

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

N. *Budgets and Budgetary Accounting* -

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

NOTE 2 - CASH AND INVESTED CASH AND POOLED INVESTMENTS

CRMU considers all short-term investments that are highly liquid to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash. The Utilities consider any non-negotiable certificates of deposits to be cash equivalents.

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, 2007, were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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, 2007, the Electric Utility had investments in the Iowa Public Agency Investment Trust (IPAIT) held in the NIMECA CTS Improvement Fund, which are valued at an amortized cost of \$217,764. 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. Investments in IPAIT are not classified as to custodial credit risk.

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 debt redemption are required by covenants of the electric capital notes payable. Upon payoff or refinancing of the capital notes payable, these funds will be released to unrestricted funds.

See Independent Auditors' Report

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 \$26,005 for the telephone system. The CAB's portion is \$1,550 at June 30, 2007. The CAB's amount is net of an allowance for doubtful collections in the amount of \$0. Management believes the zero allowance to be a reasonable and appropriate reduction of the CAB's receivables to their net realizable value.

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
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	<u>\$ 54,283</u>	<u>\$ 5,829</u>	<u>\$ 135,751</u>	<u>\$ 14,582</u>	<u>\$ 190,034</u>	<u>\$ 20,411</u>

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 nonprofit 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 at 2.50% which began June 30, 2002. Extra payments were made during the fiscal year 2006-2007, and subsequently, which makes the final scheduled payment due April 30, 2009.

See Independent Auditors' Report

NOTE 4 - LOANS RECEIVABLE (Continued)

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

Year Ending June 30,	Electric Utility	
	Principal	Interest
2008	13,425	715
2009	11,080	122
Totals	<u>\$ 24,505</u>	<u>\$ 837</u>

NOTE 5 - TAX INCREMENT FINANCING RECEIVABLE

On January 29, 2003, the Board of Trustees of CRMU passed a resolution to provide financing to Coon Rapids Development Group (a nonprofit group), to assist in two separate economic development projects. 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 within the City of Coon Rapids for single and multiple-family dwellings with a total cost of \$306,641. The combined amount of \$444,922 was advanced in varying amounts from the Electric, Gas, Water and Wastewater Utilities Funds.

On April 5, 2004, CRMU and the City of Coon Rapids entered into a development agreement whereby the City agreed to make economic development rebate payments to CRMU totaling \$444,922. To the extent money is available in the City's Urban Renewal Tax Revenue Fund, the City will make rebate payments up to \$75,000 annually beginning June 2005 and continuing for six years or 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.

A repayment of \$42,134 was received during the current year. The annual amount receivable by the Utilities as principal, and the related amortized discount recognized as interest income, for the loan receivable in future years are expected to be as follows:

Ending June 30,	Electric Utility		Gas Utility		Water Utility	
	Principal	Discount	Principal	Discount	Principal	Discount
2008	\$ 6,471	\$ 568	\$ 33,255	\$ 2,917	\$ 7,798	\$ 684
2009	6,660	380	34,223	1,949	8,024	457
2010	4,434	552	22,735	2,834	5,346	666
	<u>\$ 17,565</u>	<u>\$ 1,500</u>	<u>\$ 90,213</u>	<u>\$ 7,700</u>	<u>\$ 21,168</u>	<u>\$ 1,807</u>
Ending June 30,	Wastewater Utility		Total	Total	Total	
	Principal	Discount	Principal	Discount	Payments	
2008		21,427	1,880	68,951	6,049	75,000
2009		22,051	1,256	70,958	4,042	75,000
2010		14,585	1,822	47,101	5,874	52,975
		<u>\$ 58,063</u>	<u>\$ 4,958</u>	<u>\$187,010</u>	<u>\$ 15,965</u>	<u>\$202,975</u>

See Independent Auditors' Report

NOTE 6 - INTER-UTILITY LOANS

On February 18, 1999, the Gas Utility loaned funds to the Communications (Cable TV) Utility. This loan was 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 was accrued and added to the principal balance of the note on a monthly basis at a rate of 4.50%. Monthly payments were \$3,109, which began on September 30, 1999; total payments per year amounted to \$37,310. This loan was paid off earlier than scheduled, as shown below.

The detail of inter-utility receivable and payable at June 30, 2007, is as follows:

Receivable Fund	Payable Fund	Balance Beginning of the Year	Payments During Year		Balance End of Year
			Principal	Interest	
Gas	Communications - Cable TV	<u>\$ 119,675</u>	<u>\$119,675</u>	<u>\$ 449</u>	<u>\$ -</u>

NOTE 7 - 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 to CRMU.

For financial reporting purposes, all assets, liabilities, income and expenses of this building are prorated 43.16% to the Electric Utility and 56.84% 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

See Independent Auditors' Report.

NOTE 7 - MUNICIPAL BUILDING (Continued)

Acquisition cost and accumulated depreciation activity for the year ended June 30, 2007, reported in each utility's financial statement are as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Electric Utility Cost Share -				
Land	\$ 15,106	\$ -	\$ -	\$ 15,106
Buildings and Improvements	310,836	-	-	310,836
Equipment	<u>10,812</u>	<u>-</u>	<u>-</u>	<u>10,812</u>
Total Cost	336,754	-	-	336,754
Less -				
Accumulated Depreciation	189,035	6,191	-	195,226
Cost Less Depreciation	<u>\$ 147,719</u>	<u>\$ (6,191)</u>	<u>\$ -</u>	<u>\$ 141,528</u>

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Gas Utility Cost Share -				
Land	\$ 19,894	\$ -	\$ -	\$ 19,894
Buildings and Improvements	409,470	-	-	409,470
Equipment	<u>14,207</u>	<u>-</u>	<u>-</u>	<u>14,207</u>
Total Cost	443,571	-	-	443,571
Less -				
Accumulated Depreciation	248,953	8,155	-	257,108
Cost Less Depreciation	<u>\$ 194,618</u>	<u>\$ (8,155)</u>	<u>\$ -</u>	<u>\$ 186,463</u>

See Independent Auditors' Report.

NOTE 8 - CAPITAL ASSETS

Categories and changes in each category of capital assets for the year ended June 30, 2007, are as follows:

	Balances Beginning of Year	Increases	Decreases	Balances End of Year
Utility Plant, Facilities and Equipment, at Cost				
Neal 4 Steam Production	\$ 1,794,275	\$ 35,748	\$ -	\$ 1,830,023
Local Production Facilities	1,748,451	2,178	-	1,750,629
Transmission System	1,133,485	123,781	-	1,257,266
Distribution System	9,525,707	13,771	-	9,539,478
General Facilities Equipment	<u>1,942,637</u>	<u>15,277</u>	-	<u>1,957,914</u>
Total Cost	16,144,555	190,755	-	16,335,310
Less -				
Accumulated Depreciation	<u>6,906,160</u>	<u>440,814</u>	-	<u>7,346,974</u>
Cost Less Depreciation	9,238,395	(250,053)	-	8,988,336
Construction in Progress	-	336,934	-	336,934
Total Capital Assets, Net	<u>\$ 9,238,395</u>	<u>\$ 86,875</u>	<u>\$ -</u>	<u>\$ 9,325,270</u>

Total depreciation expense for CRMU for the year ended June 30, 2007, amounted to \$455,161, which includes \$14,347 in depreciation on the municipal building assets. Depreciation expense charged to operations and the estimated useful lives for each category of depreciable property by fund are as follows:

	Estimated Useful Life	Depreciation Expense
Communications Utility: Telephone - General Facilities and Equipment	5 – 40 Years	\$ 1,631
Total		<u>\$ 1,631</u>
Communications Utility: Cable TV, Internet and Pagers -		
Local Production Facilities	5 – 40 Years	\$ 9,573
General Facilities and Equipment	5 – 40 Years	3,307
Total		<u>\$ 12,880</u>
Electric Utility -		
Steam Production Plant - Neal 4	40 Years	\$ 52,353
Transmission Plant System	24 – 40 Years	41,834
Distribution Plant System	5 – 40 Years	172,669
General Facilities and Equipment	5 – 40 Years	<u>50,844</u>
Sub-total		317,700
Municipal Office Building and Equipment	5 – 40 Years	6,191
Total		<u>\$ 323,891</u>

See Independent Auditors' Report.

NOTE 8 - CAPITAL ASSETS (Continued)

	Estimated Useful Life	Depreciation Expense
Gas Utility -		
Local Production Facilities	40 Years	\$ 2,785
Distribution Plant System	5 – 40 Years	11,893
General Facilities and Equipment	5 – 40 Years	<u>12,075</u>
Sub-total		26,753
Municipal Office Building and Equipment	5 – 50 Years	8,156
Total		<u>\$ 34,909</u>
Water Utility -		
Local Production Facilities	25 – 20 Years	\$ 7,466
Transmission Plant System	40 Years	2,759
Distribution Plant System	5 – 50 Years	15,340
General Facilities and Equipment	5 – 40 Years	12,386
Total		<u>\$ 37,951</u>
Wastewater Utility -		
Local Production Facilities	20 – 40 Years	\$ 19,545
Distribution Plant System	4 – 40 Years	19,920
General Facilities and Equipment	5 – 40 Years	4,440
Total		<u>\$ 43,905</u>

NOTE 9 - 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, 2007. Sick leave is not paid on termination, retirement or death; and therefore, no accrual has been made for accumulated sick leave hours.

NOTE 10 - NOTES PAYABLESubordinate 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 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, 2007, was \$1,405,000.

See Independent Auditors' Report.

NOTE 10 - NOTES PAYABLE (Continued)

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 repayment.

During the year ended June 30, 2007, CRMU was in compliance with the capital loan note provisions included in the original resolution for issuance of the Subordinate Series 2003 Capital Loan Notes as follows:

- 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 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.

Subordinate Series 2006 Electric Revenue Capital Loan Notes

On May 4, 2006, CRMU issued \$2,000,000 of Series 2006 Electric Revenue Capital Loan Notes to refund Series 1998 Electric Revenue Bonds issued on May 15, 1998. The 1998 Series Bonds provided funds to finance the construction of a hybrid fiber coaxial distribution system, tools and equipment; the construction of a new building, and to refund the final maturity of a previous electric revenue bond issuance. The outstanding balance of the Series 2006 capital loan notes at July 1, 2007, was \$1,815,000.

The interest rate on the Series 2006 Capital Loan Notes is 4.10% 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, 2014.

The Series 2006 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 total benefit of this refunding is \$211,762, which amount will be recognized as a reduced interest expense over the payment period of the refunding notes.

See Independent Auditors' Report.

NOTE 10 - NOTES PAYABLE (Continued)

Details of the capital loans notes payable are as follows:

	Date of Issue	Interest Rates	Final Due Date	Annual Payments	Amount Originally Issued	Outstanding June 30, 2007
Capital Loan Notes: Electric Revenue Capital Loan Notes, Subordinate Series 2003	8/05/03	3.85%	6/15/15	\$ 140,000 to 530,000	\$ 1,925,000	\$ 1,405,000
Electric Revenue Capital Loan Notes, Series 2006	5/04/06	4.10%	6/15/14	\$272,862 to 306,663	2,000,000	1,815,000
Total Outstanding June 30, 2007						<u>\$ 3,220,000</u>

A summary of changes in long-term liabilities for the year ended June 30, 2007, is as follows:

	Balances July 1,	Increases	Decreases	Balances June 30,	Due Within One Year
Capital Loan Notes	\$ 1,530,000	\$ -	\$ (125,000)	\$ 1,405,000	\$ 125,000
Capital Loan Notes	2,000,000	-	(185,000)	1,815,000	205,000
Inter-utility Loans	119,675	-	(119,675)	-	-
Deferred Rent Revenue	2,223	-	(2,223)	-	-
Totals	<u>\$ 3,651,898</u>	<u>\$ -</u>	<u>\$ (431,898)</u>	<u>\$ 3,220,000</u>	<u>\$ 330,000</u>

A summary of the annual principal and interest requirements to maturity is as follows:

Year Ending June 30,	Series 2006 Revenue Capital Loan Notes		Series 2003 Revenue Capital Loan Notes		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2008	\$ 205,000	\$ 70,563	\$ 125,000	\$ 51,887	\$ 330,000	\$ 122,450
2009	240,000	61,500	110,000	47,339	350,000	108,839
2010	250,000	51,472	115,000	43,016	365,000	94,488
2011	260,000	41,034	125,000	38,412	385,000	79,446
2012	275,000	30,092	125,000	33,599	400,000	63,691
2013	285,000	18,629	135,000	28,610	420,000	47,239
2014	300,000	6,663	140,000	23,325	440,000	29,988
2015	-	-	530,000	11,052	530,000	11,052
Totals	<u>\$ 1,815,000</u>	<u>\$ 279,953</u>	<u>\$ 1,405,000</u>	<u>\$ 277,240</u>	<u>\$ 3,220,000</u>	<u>\$ 557,193</u>

See Independent Auditors' Report.

NOTE 11 - 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 electric 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 \$173,000 on or before the last day of June each year beginning June 30, 2002. 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 12 - 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, 2007, was \$97,623.

NOTE 13 - 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, 2007, 2006 and 2005, were \$28,933, \$27,904 and \$30,756, respectively, equal to the required contributions for each year.

NOTE 14 - 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 had eleven covered employees as of June 30, 2007.

See Independent Auditors' Report.

NOTE 14 - HEALTH INSURANCE SELF-INSURED (Continued)

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

	Deductible		Maximum Out-of-Pocket	
	Single	Family	Single	Family
Employee	\$ 3,000	\$ 6,000	\$ 6,000	\$12,000

NOTE 15 - 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 2,395 kilowatts during any winter season month and up to 2,666 kilowatts during any summer season month, through December 31, 2010. This contract provides that the contract rate of delivery for firm power will be recalculated 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 payment 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. CRMU has a contract with R. L. Craft Roofing Co., Inc. for the remodel of the utilities building roof. The original contract amount was \$388,611, of which \$268,114 had been paid prior to the end of the fiscal year, leaving \$120,497 left to pay on the contract.
4. 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.

NOTE 16 - MAJOR CUSTOMERS

A significant portion of the Electric Utility and Gas Utility revenue is derived from a single customer. This customer generated approximately 24.9% of the Electric Utility total sales to customers and 33.7% of the Gas Utility total sales to customers for the year ended June 30, 2007. In addition, a significant portion of the Telephone Utility revenue is derived from one customer. This customer generated approximately 13.2% of the total telephone sales.

NOTE 17 - CONCENTRATIONS

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 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.

See Independent Auditors' Report.

NOTE 17 - CONCENTRATIONS (Continued)

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

The inter-utility 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 18 - 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 19 - FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amounts reflected in the balance sheets for cash and cash equivalents approximate the respective fair values due to the short maturities of those instruments. Management estimates that there are no significant differences between the fair value of financial instruments and the amounts shown as assets and liabilities on the statement of net assets.

NOTE 20 - CASH FLOW INFORMATION

Non-cash investing transactions occurred in relation to the discount of the Tax Increment Financing Receivable. The amount of the original discount and discount earned (reported as interest income) for each fund is as follows:

	Original Discount	2007 Discount Earned
Electric Utility	\$ 4,171	\$ 770
Gas Utility	21,433	3,959
Water Utility	5,026	928
Wastewater Utility	13,810	2,554
Totals	<u>\$ 44,440</u>	<u>\$ 8,211</u>

See Independent Auditors' Report.

REQUIRED SUPPLEMENTARY INFORMATION

COON RAPIDS MUNICIPAL UTILITIES

SCHEDULE OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCES -
 BUDGET AND ACTUAL (BUDGETARY BASIS)
 PROPRIETARY FUNDS

REQUIRED SUPPLEMENTARY INFORMATION
 FOR THE YEAR ENDED JUNE 30, 2007

	Actual on Budget Basis	Budgeted Amounts Original and Final	Final Budget to Actual Variance
RECEIPTS:			
Use of Money and Property	\$ 258,386		
Charges for Service	4,518,361		
Debt Proceeds	167,709		
Miscellaneous	<u>-</u>		
Total Receipts	4,944,456	\$ 5,281,458	\$ (337,002)
DISBURSEMENTS:			
Business Type Activities -			
Operating Expenses	3,717,450		
Transfers to City of Coon Rapids	48,344		
Capital Outlay	190,758		
Principal Redemption	429,675		
Interest Payments	<u>135,108</u>		
Total Disbursements	<u>4,521,335</u>	<u>5,755,375</u>	1,234,040
Excess (Deficiency) of Receipts			
Over Disbursements	423,121	(473,917)	<u>\$ 897,038</u>
Balance, Beginning of Year	5,298,945	639,767	
Balance, End of Year	<u>\$ 5,722,066</u>	<u>\$ 165,850</u>	

See Independent Auditors' Report.

COON RAPIDS MUNICIPAL UTILITIES

BUDGET TO GAAP RECONCILIATION
PROPRIETY FUNDS

REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2007

	Budget Basis	Enterprise Funds Accrual Adjustments	GAAP Basis
Receipts/Revenues	\$ 4,944,456	\$ (100,815)	\$ 4,843,641
Disbursements/Expense	<u>4,521,335</u>	<u>(49,012)</u>	<u>4,472,323</u>
Net	423,121	(51,803)	371,318
Beginning Net Assets	5,298,945	6,483,466	12,332,411
Ending Net Assets	<u>\$ 5,722,066</u>	<u>\$ 6,431,663</u>	<u>\$ 12,703,729</u>

See Independent Auditors' Report.

COON RAPIDS MUNICIPAL UTILITIES

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION BUDGETARY REPORTING

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 the operations of Coon Rapids Municipal Utilities (CRMU). The annual budget may be amended during the year utilizing similar statutorily prescribed procedures. The budget for the City of Coon Rapids was not amended for the year ended June 30, 2007.

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. Functional 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.

OTHER SUPPLEMENTARY INFORMATION

COON RAPIDS MUNICIPAL UTILITIES

**SCHEDULE OF EXPENSES
 PROPRIETARY FUNDS
 FOR THE YEAR ENDED JUNE 30, 2007**

	<u>Communications: Telephone Utility</u>	<u>Communications: Cable TV, Internet & Pager Utility</u>
PURCHASED ENERGY AND PROGRAMMING:		
Purchased Energy	\$ -	\$ -
Purchased Cable	-	111,373
Purchased Internet	-	56,383
Purchased Pager	-	264
Central Office Switching and Transmission	116,946	-
Purchase Telephone and Long Distance	145,725	-
Neal 4 Generated Energy	-	-
Neal 4 Purchased Energy	-	-
Fuel	-	-
	<hr/>	<hr/>
Total Purchased Energy and Programming	\$ 262,671	\$ 168,020
PLANT OPERATIONS:		
Salaries and Wages	\$ 192	\$ 5,366
Utilities	15,674	6,509
Chemicals and Testing	-	-
Maintenance and Generators	-	8,968
Maintenance of Plant	-	-
	<hr/>	<hr/>
Total Plant Operations	\$ 15,866	\$ 20,843
TRANSMISSION OPERATIONS:		
Maintenance Neal 4 Transmission	\$ -	\$ -
	<hr/>	<hr/>
Total Transmission Operations	\$ -	\$ -
DISTRIBUTION OPERATIONS:		
Salaries and Wages	\$ 17,295	\$ 31,293
Line and Station Supplies	670	52
Safety Expense	1,388	1,140
Maintenance	1,247	5,394
Miscellaneous	-	-
	<hr/>	<hr/>
Total Distribution Operations	\$ 20,600	\$ 37,879

See Independent Auditors' Report.

SCHEDULE 3
(Continued)

Business Type Activities - Enterprise Funds

Electric Utility	Gas Utility	Water Utility	Wastewater Utility	Total
\$ 227,189	\$ 771,184	\$ -	\$ -	\$ 998,373
-	-	-	-	111,373
-	-	-	-	56,383
-	-	-	-	264
-	-	-	-	116,946
-	-	-	-	145,725
-	-	-	-	-
412,567	-	-	-	412,567
10,339	-	-	-	10,339
<u>\$ 650,095</u>	<u>\$ 771,184</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,851,970</u>
\$ 10,225	\$ 272	\$ 11,710	\$ 2,866	30,631
13,189	13,272	19,222	12,111	79,977
-	-	8,605	561	9,166
-	-	-	-	8,968
354,486	-	39,418	12,529	406,433
<u>\$ 377,900</u>	<u>\$ 13,544</u>	<u>\$ 78,955</u>	<u>\$ 28,067</u>	<u>\$ 535,175</u>
\$ 86,753	\$ -	\$ -	\$ -	86,753
<u>\$ 86,753</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 86,753</u>
\$ 97,207	\$ 56,743	\$ 22,095	\$ 14,048	238,681
3,752	2,701	422	58	7,655
6,326	4,102	1,339	474	14,769
23,000	15,205	4,654	1,109	50,609
1,111	1,111	-	2,144	4,366
<u>\$ 131,396</u>	<u>\$ 79,862</u>	<u>\$ 28,510</u>	<u>\$ 17,833</u>	<u>\$ 316,080</u>

COON RAPIDS MUNICIPAL UTILITIES

**SCHEDULE OF EXPENSES
 PROPRIETARY FUNDS
 FOR THE YEAR ENDED JUNE 30, 2006**

	Communications: Telephone Utility	Communications: Cable TV, Internet & Pager Utility
CONSUMER SERVICE EXPENSES:		
Salaries and Wages	\$ 16,337	\$ 15,163
Office Supplies	4,809	2,563
Provision for Uncollectible Accounts	16,732	263
	<hr/>	<hr/>
Total Consumer Service Operations	<u>\$ 37,878</u>	<u>\$ 17,989</u>
ADMINISTRATIVE AND GENERAL EXPENSES:		
Salaries and Wages	\$ 13,316	\$ 12,060
Telephone	1,146	994
Outside Professional Services	29,217	15,199
Legal and Public Notices	162	169
Property Insurance	802	2,291
Regulatory Commission Expense	10,184	107
Advertising	7,212	1,121
Trustee Salaries	423	430
Travel and Training	723	304
Dues and Assessments	4,233	188
Energy Conservation Expense	-	-
Miscellaneous	-	46
Vehicle Operating Expense	1,683	1,150
General Maintenance	2,663	6,867
Property Taxes	9,142	-
Employer Payroll Taxes	6,084	4,992
Employee Benefits	13,415	15,693
	<hr/>	<hr/>
Total Administrative and General Expenses	<u>\$ 100,405</u>	<u>\$ 61,611</u>
DEPRECIATION:		
Depreciation Neal 4 Plant	\$ -	\$ -
Depreciation Transmission System	-	-
Depreciation Distribution System	-	-
Depreciation General Plant	1,631	3,306
Depreciation Production Plant	-	9,574
Depreciation Municipal Building	-	-
	<hr/>	<hr/>
Total Depreciation Expense	1,631	12,880
Less Depreciation Allocated to Nonoperating Expense	-	-
	<hr/>	<hr/>
Total Operating Depreciation Expense	<u>\$ 1,631</u>	<u>\$ 12,880</u>

See Independent Auditors' Report

SCHEDULE 3

Business Type Activities - Enterprise Funds

Electric Utility	Gas Utility	Water Utility	Wastewater Utility	Total
\$ 50,632	\$ 25,294	\$ 19,960	\$ 6,287	98,134
8,691	3,989	2,944	1,041	24,037
2,902	638	464	94	21,093
<u>\$ 62,225</u>	<u>\$ 29,921</u>	<u>\$ 23,368</u>	<u>\$ 7,422</u>	<u>\$ 178,803</u>
\$ 41,107	\$ 18,635	\$ 14,136	\$ 5,061	\$ 104,315
3,421	1,589	1,166	404	8,720
23,622	9,304	7,245	2,105	86,692
886	494	195	67	1,973
26,791	7,040	5,116	507	42,547
1,839	945	-	390	13,465
2,903	2,704	679	625	15,244
1,444	628	507	167	3,599
4,262	3,809	1,500	1,330	11,928
6,619	3,137	517	-	14,694
2,889	2,346	-	-	5,235
(3)	-	-	3	46
5,217	2,820	1,285	474	12,629
48,794	3,942	750	7,057	70,073
22,064	331	-	-	31,537
64,113	31,070	20,834	3,697	130,790
3,186	2,362	832	4,789	40,277
<u>\$ 259,154</u>	<u>\$ 91,156</u>	<u>\$ 54,762</u>	<u>\$ 26,676</u>	<u>\$ 593,764</u>
\$ 52,354	\$ -	\$ 7,466	\$ 19,545	\$ 79,365
41,834	-	2,759	-	44,593
172,669	11,893	15,340	19,920	219,822
50,843	12,075	12,386	4,440	84,681
-	2,785	-	-	12,359
6,191	8,156	-	-	14,347
<u>323,891</u>	<u>34,909</u>	<u>37,951</u>	<u>43,905</u>	<u>455,167</u>
6,191	8,156	-	-	14,347
<u>\$ 317,700</u>	<u>\$ 26,753</u>	<u>\$ 37,951</u>	<u>\$ 43,905</u>	<u>\$ 440,820</u>

COON RAPIDS MUNICIPAL UTILITIES

SCHEDULE OF INSURANCE COVERAGE
FOR THE YEAR ENDED JUNE 30, 2007

TYPE OF COVERAGE - ALL UTILITY SYSTEMS	Expiration Date	Limits of Coverage (Each Occurrence/Aggregate)
Property Coverage (Replacement Costs) - Fire and Extended Coverage (\$5,000 Deductible, 90% Co-Insurance) -	4/1/2008	
Peak Shaving Plant and Contents		\$ 109,612
Water Treatment Plant and Contents		269,940
Water Tower and Contents		744,866
Cable Television Building and Contents		167,392
Maintenance Garage Building, Contents and Equipment		1,028,240
Municipal Building - Building and Contents		1,779,605
Telecommunications Building - Building and Contents		1,378,422
Telecommunications Building - Generator Plant		3,832,356
Gas Shop Building and Contents		114,866
Switch Gear Transformers Building and Contents		520,339
Iron Hill Sub Station Building		173,240
Inland Marine -	4/1/2008	
Contractors Equipment (\$250 Deductible)		365,377
Electronic Data Processing (\$500 Deductible)		3,000
Scheduled Property Floater (\$250 Deductible)		103,000
Comprehensive General Liability -	4/1/2008	
Bodily Injury, Personal Injury and/or Property Damage		1,000,000/1,000,000
Fire Damage		100,000
Medical Expense		5,000
Employee Benefits		100,000
Products and Completed Operations		2,000,000/2,000,000
Comprehensive Auto Policy -	4/1/2008	
Bodily Injury and/or Property Damage		1,000,000
Uninsured/Underinsured Motorists		50,000
Collision (\$1,000 Universal Motorists Deductible)		ACV
Comprehensive (No Deductible)		ACV
Workmen's Compensation	4/1/2008	Statutory
Umbrella (Wrongful Act) Liability (\$10,000 Deductible)	4/1/2008	3,000,000/3,000,000
Linebacker Liability (\$1,500 Deductible)	4/1/2008	1,000,000/1,000,000
Boiler and Machinery Breakdown	4/1/2008	2,000,000
Crime -		
Employee Theft per Person (\$500 Deductible)		2,000/200,000
Computer Fraud (\$500 Deductible)		500/50,000
Manager		400,000
Assistant Manager		200,000
Comptroller		200,000

See Independent Auditors' Report.

COON RAPIDS MUNICIPAL UTILITIES

**SCHEDULE OF INSURANCE COVERAGE
FOR THE YEAR ENDED JUNE 30, 2007**

TYPE OF COVERAGE - ALL UTILITY SYSTEMS	Expiration Date	Limits of Coverage (Each Occurrence/ Aggregate)
Commercial Output -		
Personal Property (\$5,000 Deductible)	4/1/2008	\$ 20,808
Electric Generating and Switchgear (\$5,000 Deductible)	4/1/2008	3,811,548
Extra Expense	4/1/2008	50,000

See Independent Auditors' Report.

OTHER REPORTS

O'Donnell, Ficenec, Wills & Ferdig, LLP

Certified Public Accountants

4815 South 107th Avenue

Omaha, Nebraska 68127-1904

402-592-3800

Fax: 402-592-7747

www.ofwf.com

Gerald A. Wills, C.P.A.
Ronald W. Ferdig, C.P.A.
Lawrence A. Wolfe, C.P.A.
Richard P. Edgar, C.P.A.
Steven M. Povich, C.P.A.
John Keblesh, C.P.A.

Gregory A. Harr, C.P.A.
Dwain E. Wulf, C.P.A.
Daniel R. Holt, C.P.A.
Daniel A. Dudley, C.P.A.
Geoffrey F. Schnathorst, C.P.A.
Catherine T. Kellogg, C.P.A.

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

Coon Rapids Municipal Utilities
Coon Rapids, Iowa

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, 2007, and have issued our report thereon dated November 26, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards for 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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Utilities' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Coon Rapids Municipal Utilities' internal control over financial reporting.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Utilities' ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood a misstatement of the Utilities' financial statements that is more than inconsequential will not be prevented or detected by the Utilities' internal control over financial reporting.

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control over financial reporting that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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

Comments involving statutory and other legal matters about the Coon Rapids Municipal Utilities' operations for the year ended June 30, 2007, are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Utilities. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

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 trustees, officials, employees and customers of Coon Rapids Municipal Utilities, and other parties to whom the 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.

O'DONNELL, FICENEC, WILLS & FERDIG, LLP

By  _____
Certified Public Accountant

November 26, 2007

COON RAPIDS MUNICIPAL UTILITIES

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2007**

PART I: SUMMARY OF THE INDEPENDENT AUDITORS' RESULTS:

- (a) An unqualified opinion was issued on the financial statements.
- (b) No significant deficiencies in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any noncompliance which could have a material effect on the financial statement amounts.
- (d) No material weaknesses in internal control were noted.

PART II: FINDINGS RELATED TO THE FINANCIAL STATEMENTS:

Instances of Non-Compliance:

No Matters were noted.

Significant Deficiencies:

No Matters were noted.

PART III: OTHER FINDINGS RELATED TO REQUIRED STATUTORY REPORTING:

- III-A-07 **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, 2007.
- III-B-07 **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-07 **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-07 **Travel Expenses** - No disbursement of Utilities' money for travel expenses of spouses of Utilities' officials or employees were noted.
- III-E-07 **Business Transactions** - Business transactions between Coon Rapids Municipal Utilities and Utilities' officials are immaterial and meet the guidelines of the Code of Iowa.

COON RAPIDS MUNICIPAL UTILITIES

SCHEDULE OF FINDINGS AND QUESTIONED COSTS YEAR ENDED JUNE 30, 2007

PART III: OTHER FINDINGS RELATED TO REQUIRED STATUTORY REPORTING: (Continued)

- III-F-07 **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-07 **Trustee Minutes** - No transactions were found that we believe should have been approved in the Board of Trustees minutes but were not.
- III-H-07 **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-07 **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, 2007, were noted.
- III-J-07 **Telecommunication Service Compliance** - Iowa Code Section 388.10 entitled *Municipal Utility Providing Telecommunications Services* generally requires a telecommunication service operated by a municipality not be supported by monies, facilities or services not paid for at reasonable amounts from funds generated by the telecommunication service. In addition, this section contains administrative requirements. No instances of non-compliance with Iowa Code Section 388.10 for the year ended June 30, 2007, were noted.