

**COON RAPIDS MUNICIPAL UTILITIES  
(A COMPONENT UNIT OF  
THE CITY OF COON RAPIDS)  
INDEPENDENT AUDITORS' REPORTS  
BASIC FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION  
SCHEDULE OF FINDINGS**

**JUNE 30, 2016**

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# COON RAPIDS MUNICIPAL UTILITIES

## OFFICIALS

(As of June 30, 2016)

<u>Name</u>	<u>Position</u>	<u>Term Expires</u>
Ron Brower	Chairman	June 2019
Terry Garnes	Vice Chairman	June 2021
Doris Bass	Trustee	June 2018
Harold Siegler	Trustee	June 2020
Mary Schwaller	Trustee	June 2017
Bradley Honold	Secretary/General Manager	Indefinite
Kari Woodard	Director of Finance and Accounting	Indefinite
Jesica Leighty	City Clerk/City Treasurer	Indefinite
David Bruner	City Attorney	Indefinite

## INDEPENDENT AUDITORS' REPORT

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

### Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and 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, 2016, and the related notes to the financial statements, which collectively comprise the Utilities' basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and each major fund of Coon Rapids Municipal Utilities, a component unit of the City of Coon Rapids, as of June 30, 2016 and the respective changes in

financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, Schedule of the Utilities' Proportionate Share of the Net Pension Liability, Schedule of Utilities' Contributions, and Notes to Required Supplementary Information – Pension Liability on pages 4 through 11 and pages 41 through 44 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance. Another auditor previously audited, in accordance with the third paragraph of this report, the financial statements for the five years ended June 30, 2011 (which are not presented herein) and expressed unqualified opinions on those financial statements.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 14, 2016, on our consideration of the Utility's internal control over financial reporting and on 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Utility's internal control over financial reporting and compliance.

*Williams & Company, P.C.*

Certified Public Accountants

Spencer, Iowa  
November 14, 2016



## 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, 2016. This should be read in conjunction with the Statement of Net Position, the Statement of Revenues, Expenses and Changes in Fund Net Position, 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 Position 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 Position 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 provides a variety of products and services to the Coon Rapids community. Services include telephone, long distance, high speed internet, cable television, and high definition television. As the industry has become increasingly competitive over the years, CRMU has maintained quality service at reasonable rates.

Over the years, CRMU has increased internet bandwidth coming into Coon Rapids, allowing our customers to receive speeds up to 200 Mbps download speed and 30 Mbps upload speed. Additionally, customers in our popular “Family Choice Package” receive 30 Mbps download / 5 Mbps upload, which has proved to be very popular as customers are streaming video content and gaming more than ever.

This year, CRMU launched more than 15 new cable channels. Cable has become increasingly challenging as networks join together and require cable providers to carry all of their channels, while substantially increasing rates.

The new wireless internet product for rural Coon Rapids has been successful and customers are appreciative of this new option.

### Communications Utility Financial Highlights:

*Dollars in Thousands*

	2016	2015
<b>OPERATING</b>		
Revenues.....	788	758
Expenses.....	709	703
Operating Income (Loss).....	79	55
<b>NONOPERATING</b>		
Revenues (Expenses).....	7	3
<b>Change in Net Position.....</b>	<b>86</b>	<b>58</b>
<b>ASSETS</b>		
Current.....	1,367	1,422
Capital.....	164	150
Noncurrent Assets.....	128	0
Total Assets.....	1,659	1,572
<b>DEFERRED OUTFLOWS.....</b>	<b>28</b>	<b>14</b>
<b>Total Assets &amp; Deferred Outflows.....</b>	<b>1,687</b>	<b>1,586</b>
<b>LIABILITIES</b>		
Current.....	46	41
Long-term.....	81	67
Total Liabilities.....	127	108
<b>DEFERRED INFLOWS.....</b>	<b>21</b>	<b>26</b>
<b>NET POSITION</b>		
Net Investment in Capital Assets.....	164	83
Unrestricted.....	1,375	1,369
Total Net Position.....	1,539	1,452
<b>Total Liab., Def. Inflows &amp; Net Pos.....</b>	<b>1,687</b>	<b>1,586</b>

# Management's Discussion and Analysis

## Results of Operations:

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

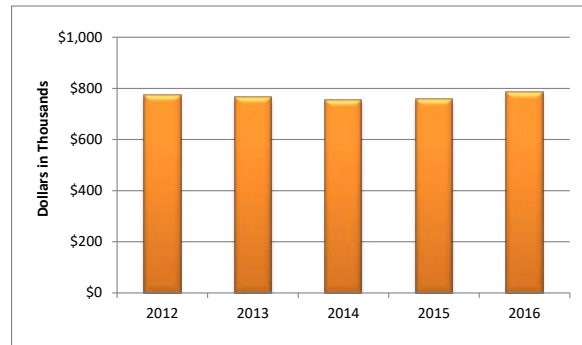
Revenue from operations increased almost 4% (slightly less than \$30,000), while total operating expenses remained relatively unchanged (<1% increase).

The primary reason for the increased revenue is a cable rate change in May, 2015. Due to increasing programming fees, rates were increased, which netted an additional \$33,000 in revenue. Additionally, internet revenue is higher (by about \$15,000) as a result of customers selecting higher speed packages and new rural wireless revenue. Telephone revenues declined about \$16,000 from decreased CABS, long distance, and phone subscribers. Expenses, although relatively unchanged overall, saw increases among channel subscriber fees and uncollectable accounts, while purchased internet, operating transfers, and utility costs decreased.

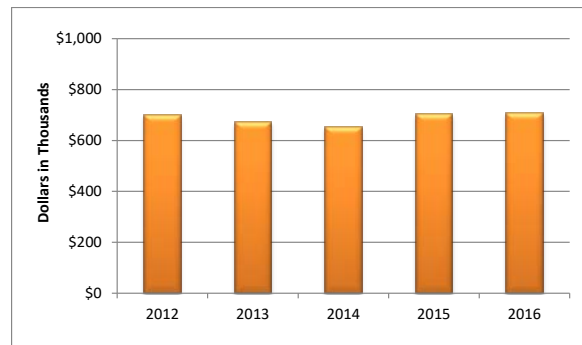
Interest income increased in 2016 (\$3,000). In-Lieu-of tax payments and free community services totaled \$634, compared to \$6,763 last year.

The communications utility ended the year with a \$86,000 gain, compared to \$58,000 in 2015.

**Communications Utility  
Operating Revenues: \$787,746**



**Communications Utility  
Operating Expenses: \$709,052**



## Financial Position:

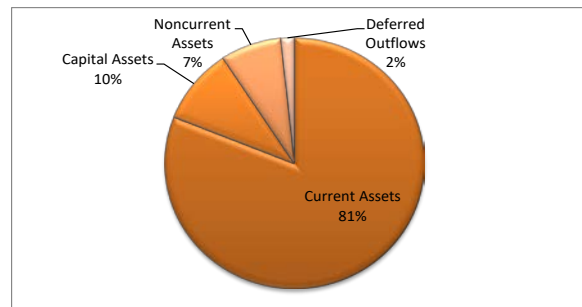
(As reported on the Statement of Net Position)

Total assets increased more than 5% in fiscal year 2016. This can be attributed to an increase in capital assets (such as cable television equipment) and a note receivable to the Coon Rapids Development Group. Total liabilities increased almost 18%, primarily because of a \$14,000 increase in the net pension liability, which CRMU will likely never be required to pay (see Note 10 of the audit report). Total net position increased almost 6%.

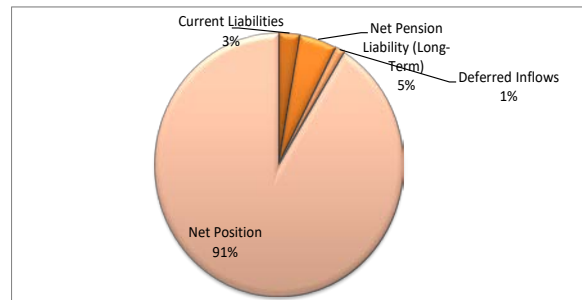
Capital assets, in the form of utility plant, facilities and equipment, account for 10% of total assets, while current assets comprise 81% of the total assets. Cash and cash equivalents account for more than 79% of total assets. These funds are designated for equipment replacement, capital improvements, and general savings.

Revenues were higher than budgeted projections by \$37,000, and expenses were higher than budget by \$6,300.

**Communication Utility Total Assets: \$1,686,717**



**Communication Utility Total Liabilities and Net Position: \$1,686,717**



# Management's Discussion and Analysis

## Electric Utility

### Overview:

CRMU's electric utility continued to make capital improvements in fiscal year 2016. Over the last few years, CRMU has completed a mitigation project, which converted distribution overhead facilities to underground, upgraded the Neal 4 power plant with a Scrubber / Bag House system, and completed mandatory RICE upgrades on our local generation plant. In 2016, CRMU finished an upgrade of electric services at the Iron Hills Substation / South Plant, upgraded the South Feeder of the distribution system, finalized and implemented new arc-flash requirements, upgraded services at Upland Road and East Main, and installed new distribution lines at the new subdivision. CRMU has been able to fund these improvements without borrowing money. CRMU is planning to borrow money for a fiber-to-the-home project in fiscal year 2017, estimated at a cost of \$3,000,000.

In 2016, CRMU realized a net operating gain of \$381,000 and a nonoperating gain of almost \$39,000 for a total gain of \$420,000, compared to a gain of \$346,500 in 2015 (an increase of \$73,500).

### Electric Utility Financial Highlights:

Dollars in Thousands	2016	2015
<b>OPERATING</b>		
Revenues.....	2,604	2,746
Expenses.....	2,223	2,358
Operating Income (Loss).....	381	388
<b>NONOPERATING</b>		
Revenues (Expenses).....	39	(41)
<b>Change in Net Position.....</b>	<b>420</b>	<b>347</b>
<b>ASSETS</b>		
Current.....	2,709	2,224
Capital.....	9,821	10,008
Noncurrent.....	233	141
Total Assets.....	12,763	12,373
<b>DEFERRED OUTFLOWS.....</b>	<b>68</b>	<b>35</b>
<b>Total Assets &amp; Deferred Outflows.....</b>	<b>12,831</b>	<b>12,408</b>
<b>LIABILITIES</b>		
Current.....	191	212
Long-term.....	206	167
Total Liabilities.....	397	379
<b>DEFERRED INFLOWS.....</b>	<b>49</b>	<b>64</b>
<b>NET POSITION</b>		
Net Investment in Capital Assets.....	9,821	9,841
Restricted.....	382	377
Unrestricted.....	2,182	1,747
Total Net Position.....	12,385	11,965
<b>Total Liab., Def. Inflows &amp; Net Pos.....</b>	<b>12,831</b>	<b>12,408</b>

### Results of Operations:

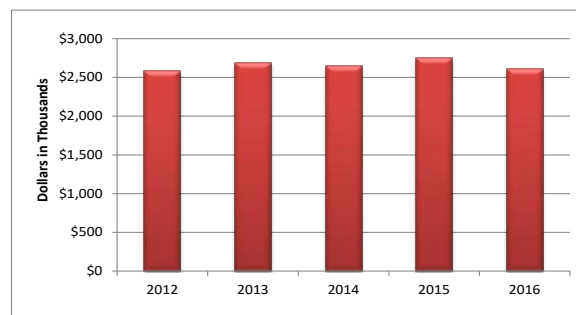
(As reported in the Statements of Revenues, Expenses and Changes in Fund Net Position)

Revenue from operations decreased almost \$142,000 (-5%). Revenue from sales to customers decreased 8%, which correlates directly to the 8.5% decrease in kwh sales. Resale revenue was relatively unchanged (<1% increase). Resale revenue varies as a result of our capacity sharing agreement within NIMECA and based on SPP ATRR revenue.

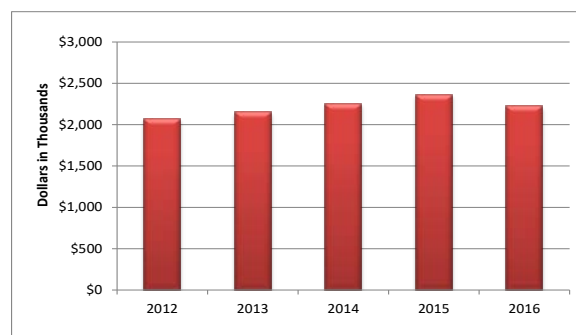
Operating expenses decreased more than \$135,000 (-5.7%). Purchased energy, gain / loss on disposal of asset, and plant / transmission operation expenses declined compared to fiscal year 2015. Distribution operations, administrative / general, customer service and depreciation expenses increased. Specifically, operation & maintenance expenses related to Neal 4 were more than \$208,000 lower than last year (Plant Operations).

In-lieu-of tax payments and free community services totaled \$71,000, compared to \$135,700 last year.

### Electric Utility Operating Revenues: \$2,603,644



### Electric Utility Operating Expenses: \$2,222,285





# Management's Discussion and Analysis

## Financial Position:

(As reported on the Statement of Net Position)

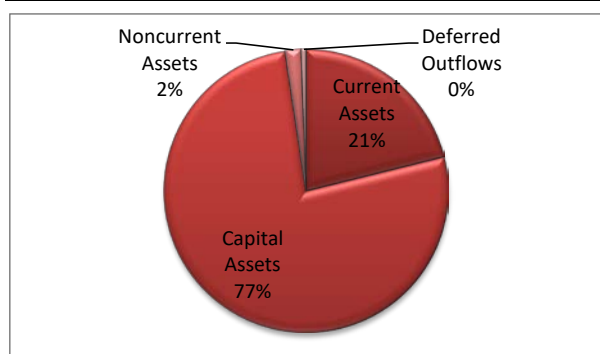
Current assets account for 21% of total assets. CRMU has 13.5% of its total assets in the form of cash and cash equivalents. Of this amount, the Board of Trustees has allocated these funds for designated uses such as capital improvement, equipment replacement, generation replacement, health fund plan, etc., leaving only a small portion of its current assets undesignated.

Capital assets, in the form of utility plant, facilities and equipment, account for 77% of CRMU's total assets. Noncurrent assets account for 2% of total assets.

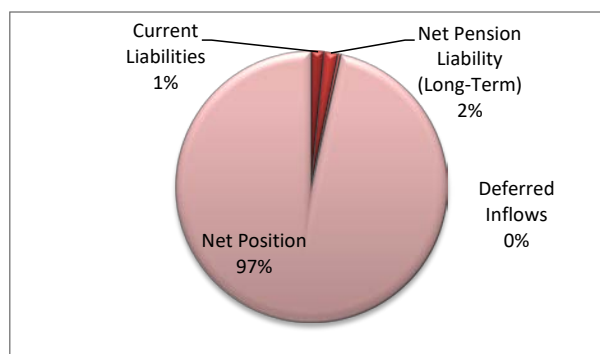
Current liabilities account for 1% of total liabilities and net position. CRMU is now required to report a "Net Pension Liability" of \$206,000 for the electric utility, which CRMU will likely never be required to pay (see Note 10 of the audit report). Overall, the net position increased \$420,000 (3.5%) from last year.

Revenues and expenses were lower than budget by \$62,000 and \$302,500, respectively.

**Electric Utility Total Assets: \$12,831,301**



**Electric Utility Total Liabilities and Net Position: \$12,831,301**



## Natural Gas Utility

Overview:

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

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

In fiscal year 2016, the average price for the natural gas commodity was approximately \$2.87/Mcf. CRMU's natural gas utility experienced a challenging year financially because of no industrial customer usage (or corresponding revenue). CRMU expects the commodity cost to remain relatively stable in the near future. CRMU's challenge in the future will be to maintain reasonable rates if the decreased usage continues. Over time, reserves have been used to cover losses, but those have steadily declined over the years.

## Natural Gas Utility Financial Highlights:

Dollars in Thousands

	2016	2015
<b>OPERATING</b>		
Revenues	430	533
Expenses	571	701
Operating Income (Loss)	(141)	(168)
<b>NONOPERATING</b>		
Revenues (Expenses)	(88)	(37)
<b>Change in Net Position</b>	<b>(229)</b>	<b>(205)</b>
<b>ASSETS</b>		
Current	759	1,127
Capital	793	833
Noncurrent	220	45
Total Assets	1,772	2,005
<b>DEFERRED OUTFLOWS</b>	<b>28</b>	<b>14</b>
<b>Total Assets &amp; Deferred Outflows</b>	<b>1,800</b>	<b>2,019</b>
<b>LIABILITIES</b>		
Current	46	46
Long-term	83	66
Total Liabilities	129	112
<b>DEFERRED INFLOWS</b>	<b>19</b>	<b>25</b>
<b>NET POSITION</b>		
Net Investment in Capital Assets	793	767
Unrestricted	859	1,115
Total Net Position	1,652	1,882
<b>Total Liab., Def. Inflows &amp; Net Pos.</b>	<b>1,800</b>	<b>2,019</b>

# Management’s Discussion and Analysis

## Results of Operations:

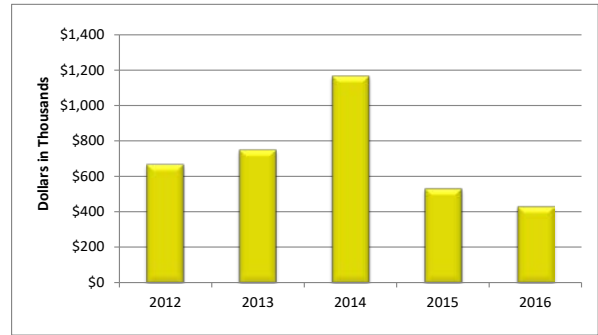
*(As reported in the Statements of Revenues, Expenses and Changes in Fund Net Position)*

In 2016, CRMU’s natural gas utility experienced an operating loss of \$141,000, compared to a loss of \$168,000 in 2015. Combined with nonoperating revenues and expenses, the utility ended the year with a \$229,400 loss, compared to a loss of \$205,500 last year.

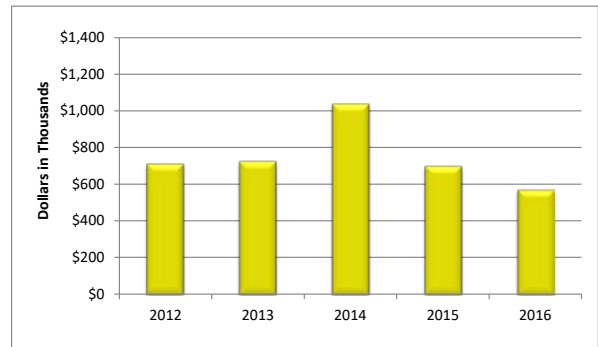
In 2016, total operating revenues declined more than \$102,500 (19%). Total usage billed decreased almost 7,000 mcf (12%). Industrial usage remained at 0 for the second straight year.

Total operating expenses decreased \$130,000 or 18.5%. This is attributed to purchasing less natural gas commodity associated with the decreased demand from customers, which is designated as “Purchased Energy” on the financial statements. Additionally, the gas we purchased was at a lower cost than last year. Plant operation and administrative expenses also decreased. Nonoperating expenses increased more than 137% in 2016, which can be attributed to a higher contribution to the City of Coon Rapids and the community, which totaled just over \$96,500 in 2016, compared to \$45,000 last year.

**Natural Gas Utility Operating Revenues: \$430,666**



**Natural Gas Utility Operating Expenses: \$571,413**



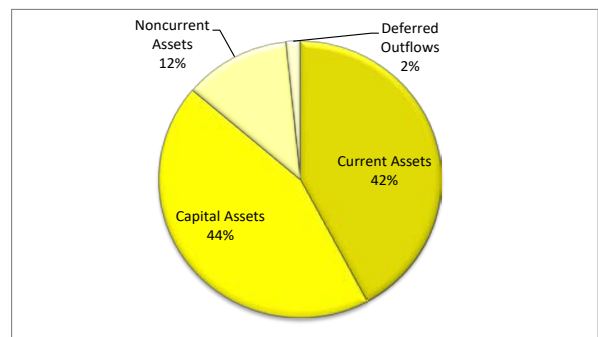
## Financial Position:

*(As reported on the Statement of Net Position)*

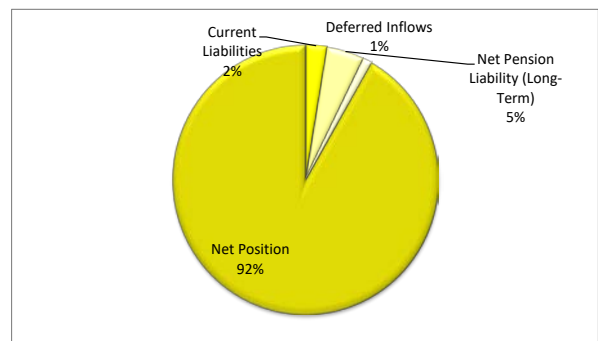
Capital assets, in the form of utility plant, facilities and equipment, account for 44% of CRMU’s total assets, while current assets comprise 42% of the total. Cash and cash equivalents account for 37% of total assets. Cash decreased \$380,000 (37%) from the previous year, while noncurrent assets (loan receivables) increased almost \$175,000. The natural gas utility loaned the Coon Rapids Development Group \$200,000 for subdivision development.

CRMU’s current liabilities are primarily comprised of payables totaling almost \$46,000. Total liabilities increased 15% because CRMU is now required to report a “Net Pension Liability” of \$83,000 in the natural gas utility, which CRMU will likely never be required to pay (see Note 10 of the audit report). Revenues and expenses were lower than budget projections by \$293,000 and \$151,000, respectively.

**Natural Gas Utility Total Assets: \$1,800,402**



**Natural Gas Utility Total Liabilities and Net Position: \$1,800,402**



# Management's Discussion and Analysis

## Water Utility

### Overview:

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

For the past few years, CRMU has operated its water utility with small 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 over the years. Slowly, reserves are being built back up after the rate adjustment in July, 2012.

In 2016, the water utility ended with an operating gain of almost \$6,000, compared to almost \$8,500 last year. Sales to customers decreased \$5,800 (2.7%), which is directly associated with an almost 3% decline in customer usage.

### Water Utility Financial Highlights:

*Dollars in Thousands*

	2016	2015
<b>OPERATING</b>		
Revenues.....	215	223
Expenses.....	209	215
Operating Income (Loss).....	6	8
<b>NONOPERATING</b>		
Revenues (Expenses).....	(4)	(1)
<b>Change in Net Position.....</b>	<b>2</b>	<b>7</b>
<b>ASSETS</b>		
Current.....	326	306
Capital.....	316	341
Total Assets.....	642	647
<b>DEFERRED OUTFLOWS.....</b>	<b>19</b>	<b>10</b>
<b>Total Assets &amp; Deferred Outflows.....</b>	<b>661</b>	<b>657</b>
<b>LIABILITIES</b>		
Current.....	18	21
Long-term.....	55	47
Total Liabilities.....	73	68
<b>DEFERRED INFLOWS.....</b>	<b>15</b>	<b>18</b>
<b>NET POSITION</b>		
Net Investment in Capital Assets.....	316	295
Unrestricted.....	257	276
Total Net Position.....	573	571
<b>Total Liab., Def. Inflows &amp; Net Pos.....</b>	<b>661</b>	<b>657</b>

### Results of Operations:

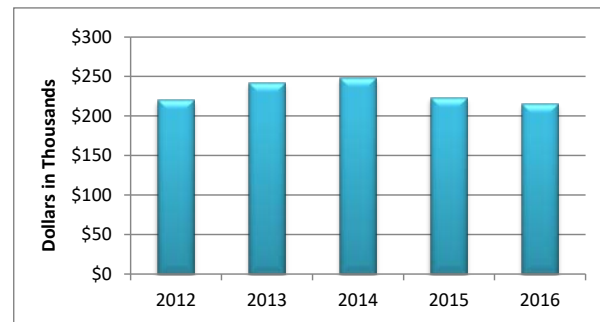
*(As reported in the Statements of Revenues, Expenses and Changes in Fund Net Position)*

Revenue from operations decreased \$8,000 (more than 3%), which is expected since there was a decline in customer usage.

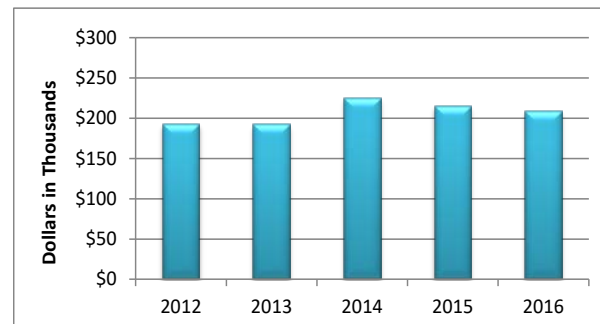
Operating expenses decreased \$5,750 (3%). Plant operations expense declined \$8,000 due to lower utility expense and lower production wage expense. Customer service expenses also decreased. Distribution operation and administrative / general expenses increased.

Nonoperating expenses totaled \$3,800, compared to \$1,000 last year. Within nonoperating expenses, contributions through payment-in-lieu-of-tax and donations to the community totaled \$4,380 this year, which is more than last year's contribution of \$3,775. Considering the nonoperating losses, the water utility experienced a \$2,200 gain in 2016 compared to a \$7,400 gain last year.

### Water Utility Operating Revenues: \$215,187



### Water Utility Operating Expenses: \$209,177



# Management's Discussion and Analysis

## Financial Position:

(As reported on the Statement of Net Position)

Current assets account for 49% of total assets. CRMU has approximately 42% of its total assets in the form of cash and cash equivalents. Of this amount, the Board of Trustees has designated uses for all of it.

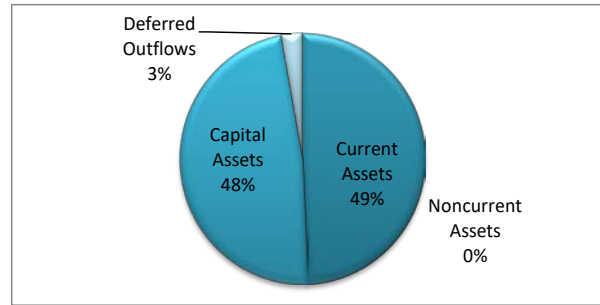
The water utility has no noncurrent assets (loan receivables).

Capital assets, in the form of utility plant, facilities and equipment, account for 48% of CRMU's total assets. CRMU's total assets decreased \$5,000 (less than 1%) in 2016.

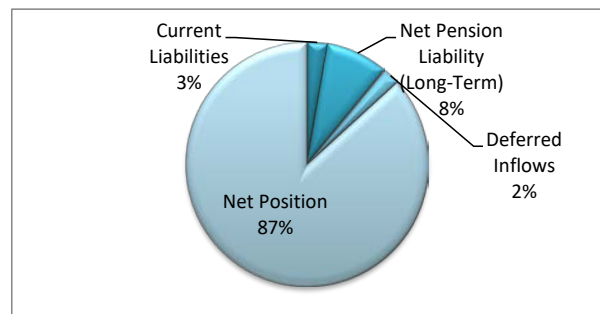
Total liabilities increased 7% because CRMU is now required to report a "Net Pension Liability" of \$55,000 in the water utility, which CRMU will likely never be required to pay (see Note 10 of the audit report). Current liabilities account for 3% of total liabilities, net position, and deferred inflows. Net position increased \$2,200 in 2016.

Revenues were lower than budget by \$27,700. Expenses were lower than budget by \$17,700.

**Water Utility Total Assets: \$660,948**



**Water Utility Total Liabilities and Net Position: \$660,948**



## Wastewater Utility

Overview:

Last year, the wastewater utility began significant and necessary improvements to the wastewater lagoons. Only a portion of the \$343,000 dredging project was completed in 2015, while the remainder was completed this fiscal year (2016). CRMU realized an operating loss of just over \$38,000 in fiscal year 2016. Including nonoperating expenses (primarily infrastructure donations to the CRDG development), the utility ended with a total loss of \$162,000, compared to a \$42,000 loss in 2015.

The loss realized is not unexpected by the utility. The wastewater utility currently has reserves in the bank, which have been used to offset losses realized over the past several years. These reserves have also been spent down as capital improvements have been made. Considering the decline in revenues and operating losses, a break-even performance will be necessary in the future.

## Wastewater Utility Financial Highlights:

Dollars in Thousands

	2016	2015
<b>OPERATING</b>		
Revenues.....	140	131
Expenses.....	178	179
Operating Income (Loss).....	(38)	(48)
<b>NONOPERATING</b>		
Revenues (Expenses).....	(124)	6
<b>Change in Net Position.....</b>	<b>(162)</b>	<b>(42)</b>
<b>ASSETS</b>		
Current.....	598	881
Capital.....	1,140	1,010
Total Assets.....	1,738	1,891
<b>DEFERRED OUTFLOWS.....</b>	<b>11</b>	<b>5</b>
<b>Total Assets &amp; Deferred Outflows.....</b>	<b>1,749</b>	<b>1,896</b>
<b>LIABILITIES</b>		
Current.....	11	5
Long-term.....	39	24
Total Liabilities.....	50	29
<b>DEFERRED INFLOWS.....</b>	<b>3</b>	<b>9</b>
<b>NET POSITION</b>		
Net Investment in Capital Assets.....	1,140	986
Unrestricted.....	556	871
Total Net Position.....	1,696	1,858
<b>Total Liab., Def. Inflows &amp; Net Pos.....</b>	<b>1,749</b>	<b>1,896</b>

# Management's Discussion and Analysis

## Results of Operations:

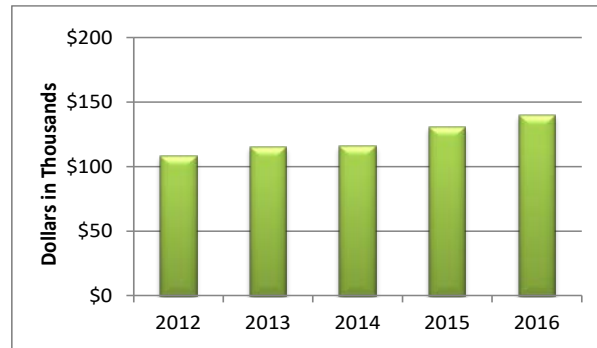
*(As reported in the Statements of Revenues, Expenses and Changes in Fund Net Position)*

In 2016, the wastewater utility recorded \$139,958 in revenues. This is higher by \$9,500 compared to 2015. Customer usage declined 2.6% from 2015 to 2016. A rate adjustment was implemented on usage beginning July 1, 2015, which explains the increased revenue even though usage decreased.

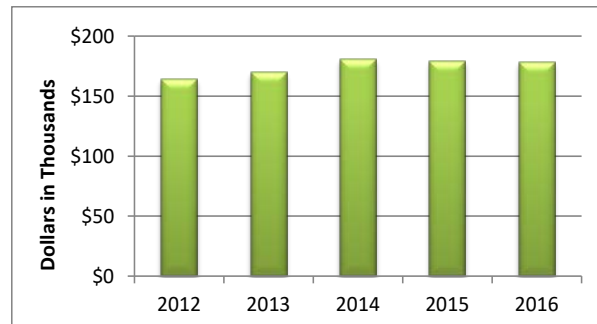
Total operating expenses in 2016 declined \$332 (less than 1%) compared to 2015. Plant operations, customer service, and admin / general expenses decreased, while distribution operations and depreciation expense increased. Plant operation expenses declined due to decreased utility costs.

Nonoperating expenses increased by almost \$130,000 in 2016, which is a direct result of free service to the community. The wastewater utility donated infrastructure to the Coon Rapids Development Group subdivision development. In total, payment-in-lieu-of tax payments and free service to the community was significantly higher at \$125,400 this year, compared to \$600 last year.

### Wastewater Utility Operating Revenues: \$139,958



### Wastewater Utility Operating Expenses: \$178,272



## Financial Position:

*(As reported on the Statement of Net Position)*

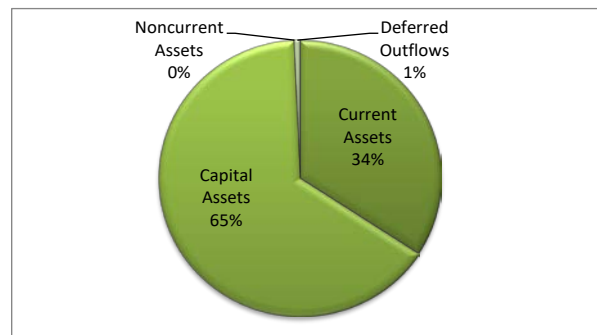
Capital assets, in the form of utility plant, facilities and equipment, account for 65% of CRMU's total assets, while current assets account for 34%.

The wastewater utility has 33% of its total assets in the form of cash, cash equivalents, and certificates of deposit. A portion of this will be used for ongoing improvements. The cash position decreased \$281,700 (33%) from last year due to spending reserves on lagoon dredging and operating losses.

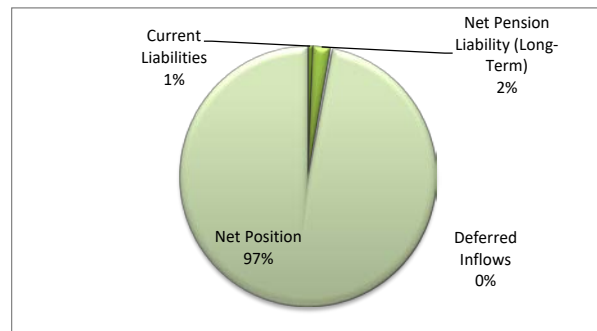
Total liabilities increased 71% because CRMU is now required to report a "Net Pension Liability" of \$39,000 in the wastewater utility, which CRMU will likely never be required to pay (see Note 10 of the audit report).

Revenues were \$7,400 lower than budget, and expenses were \$115,000 higher than budget.

### Wastewater Utility Total Assets: \$1,749,146



### Wastewater Utility Total Liabilities and Net Position: \$1,749,146



## **BASIC FINANCIAL STATEMENTS**

**COON RAPIDS MUNICIPAL UTILITIES**  
**(A COMPONENT UNIT OF THE CITY OF COON RAPIDS, IOWA)**  
**STATEMENTS OF NET POSITION**  
**JUNE 30, 2016**

	Communications		
	Utility	Electric Utility	Gas Utility
<b>Assets</b>			
<b>Current Assets:</b>			
Cash & Cash Equivalents-Unrestricted	\$ 1,308,587	\$ 1,723,806	\$ 656,367
Cash & Cash Equivalents-Restricted	-	134,045	-
Accounts Receivable, Net of Allowance -			
Trade	23,267	135,847	13,344
Other	4,831	110,540	1,668
Revolving Loans Receivable - Current Portion	-	34,124	7,445
Note Receivable - Current Portion	12,086	-	17,266
Inventories	6,501	525,540	47,923
Other Current and Prepaid Assets	11,614	44,835	15,359
Total Current Assets	<u>1,366,886</u>	<u>2,708,737</u>	<u>759,372</u>
<b>Capital Assets:</b>			
Land	-	52,312	30,478
Construction in Progress	-	1,698,765	315
Utility Plant, Facilities and Equipment, at Cost	408,779	14,683,705	1,859,999
Accumulated Depreciation	(244,642)	(6,613,579)	(1,098,027)
Total Capital Assets	<u>164,137</u>	<u>9,821,203</u>	<u>792,765</u>
<b>Noncurrent Assets:</b>			
NIMECA Patronage Dividend Receivable	-	18,553	-
Revolving Loans Receivable - Net of Current Portion	-	214,236	37,193
Note Receivable - Net of Current Portion	127,914	-	182,734
Total Noncurrent Assets	<u>127,914</u>	<u>232,789</u>	<u>219,927</u>
Total Assets	<u>1,658,937</u>	<u>12,762,729</u>	<u>1,772,064</u>
<b>Deferred Outflows of Resources</b>			
Pension Related Deferred Outflows	<u>27,780</u>	<u>68,572</u>	<u>28,338</u>
<b>Liabilities</b>			
<b>Current Liabilities:</b>			
Accounts Payable - Trade	34,460	134,154	33,819
Other Payables and Credits	8	18,195	484
Payroll, Sales and Use Taxes Payable	-	1	-
Compensated Absences Payable	11,747	27,439	11,704
Customer Deposits	-	11,050	-
Total Current Liabilities	<u>46,215</u>	<u>190,839</u>	<u>46,007</u>
<b>Long-term Liabilities:</b>			
Net Pension Liability	<u>81,257</u>	<u>205,882</u>	<u>82,910</u>
Total Long-term Liabilities	<u>81,257</u>	<u>205,882</u>	<u>82,910</u>
Total Liabilities	<u>127,472</u>	<u>396,721</u>	<u>128,917</u>
<b>Deferred Inflows of Resources</b>			
Pension Related Deferred Inflows	<u>20,653</u>	<u>49,578</u>	<u>19,217</u>
<b>Net Position</b>			
Net Investment in Capital Assets	164,137	9,821,203	792,765
Restricted	-	382,406	-
Unrestricted	<u>1,374,455</u>	<u>2,181,393</u>	<u>859,503</u>
Total Net Position	<u>\$ 1,538,592</u>	<u>\$ 12,385,002</u>	<u>\$ 1,652,268</u>

See Accompanying Notes to Financial Statements

Water Utility	Wastewater Utility	Total
\$ 271,452	\$ 578,808	\$ 4,539,020
-	-	134,045
31,405	16,301	220,164
623	219	117,881
-	-	41,569
-	-	29,352
17,462	538	597,964
5,043	2,319	79,170
<u>325,985</u>	<u>598,185</u>	<u>5,759,165</u>
33,349	5,980	122,119
-	-	1,699,080
1,385,034	2,760,781	21,098,298
(1,102,014)	(1,627,091)	(10,685,353)
<u>316,369</u>	<u>1,139,670</u>	<u>12,234,144</u>
-	-	18,553
-	-	251,429
-	-	310,648
<u>-</u>	<u>-</u>	<u>580,630</u>
<u>642,354</u>	<u>1,737,855</u>	<u>18,573,939</u>
<u>18,594</u>	<u>11,291</u>	<u>154,575</u>
4,463	7,215	214,111
6,265	-	24,952
-	-	1
7,199	3,544	61,633
-	-	11,050
<u>17,927</u>	<u>10,759</u>	<u>311,747</u>
<u>55,020</u>	<u>38,847</u>	<u>463,916</u>
<u>55,020</u>	<u>38,847</u>	<u>463,916</u>
<u>72,947</u>	<u>49,606</u>	<u>775,663</u>
<u>14,782</u>	<u>3,791</u>	<u>108,021</u>
316,369	1,139,670	12,234,144
-	-	382,406
<u>256,850</u>	<u>556,079</u>	<u>5,228,280</u>
<u>\$ 573,219</u>	<u>\$ 1,695,749</u>	<u>\$ 17,844,830</u>

See Accompanying Notes to Financial Statements



**COON RAPIDS MUNICIPAL UTILITIES**  
**(A COMPONENT UNIT OF THE CITY OF COON RAPIDS, IOWA)**  
**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**  
**FOR THE YEAR ENDED JUNE 30, 2016**

	Communications		
	Utility	Electric Utility	Gas Utility
<b>Operating Revenues</b>			
Sales to Customers	\$ 781,249	\$ 1,330,593	\$ 422,054
Sales for Resale	-	1,179,632	-
Interdepartmental Sales	-	77,836	5,742
Forfeited Discounts	5,379	10,596	1,006
Rebates and Other	1,118	4,987	1,864
Total Operating Revenues	<u>787,746</u>	<u>2,603,644</u>	<u>430,666</u>
<b>Operating Expenses</b>			
Purchased Energy and Programming	338,497	601,861	256,782
Plant Operations	25,121	531,701	12,953
Transmission Operations	-	92,229	-
Distribution Operations	167,238	176,841	95,187
Consumer Service Operations	37,954	86,830	43,948
Administrative & General Expenses	111,770	337,193	111,899
Depreciation	28,472	395,630	50,644
Total Operating Expense	<u>709,052</u>	<u>2,222,285</u>	<u>571,413</u>
Operating Income (Loss)	78,694	381,359	(140,747)
<b>Nonoperating Revenues (Expenses)</b>			
Interest Income	7,374	8,962	8,660
Joint Use Revenue	-	103,000	-
In-Lieu-Of Tax Payments	(253)	(51,292)	(15,262)
Free Community Service	(381)	(19,877)	(81,218)
(Loss) on Sale or Disposal of Assets	(4,154)	(3,151)	(801)
Miscellaneous Nonoperating Revenue	3,878	1,105	(75)
Merchandise Sales - Net	988	-	-
Net Nonoperating Revenues (Expenses)	<u>7,452</u>	<u>38,747</u>	<u>(88,696)</u>
Change in Net Position	86,146	420,106	(229,443)
Total Net Position June 30, 2015	<u>1,452,446</u>	<u>11,964,896</u>	<u>1,881,711</u>
Total Net Position June 30, 2016	<u>\$ 1,538,592</u>	<u>\$ 12,385,002</u>	<u>\$ 1,652,268</u>

See Accompanying Notes to Financial Statements

Water Utility	Wastewater Utility	Total
\$ 211,264	\$ 137,898	\$ 2,883,058
-	-	1,179,632
2,025	438	86,041
855	619	18,455
1,043	1,003	10,015
<u>215,187</u>	<u>139,958</u>	<u>4,177,201</u>
-	-	1,197,140
48,297	7,465	625,537
-	-	92,229
53,280	35,438	527,984
24,761	11,731	205,224
54,941	37,158	652,961
27,898	86,480	589,124
<u>209,177</u>	<u>178,272</u>	<u>3,890,199</u>
6,010	(38,314)	287,002
644	1,855	27,495
-	-	103,000
(3,517)	(391)	(70,715)
(866)	(124,994)	(227,336)
(87)	-	(8,193)
19	9	4,936
-	-	988
<u>(3,807)</u>	<u>(123,521)</u>	<u>(169,825)</u>
2,203	(161,835)	117,177
<u>571,016</u>	<u>1,857,584</u>	<u>17,727,653</u>
<u>\$ 573,219</u>	<u>\$ 1,695,749</u>	<u>\$ 17,844,830</u>

See Accompanying Notes to Financial Statements

**COON RAPIDS MUNICIPAL UTILITIES**  
**(A COMPONENT UNIT OF THE CITY OF COON RAPIDS, IOWA)**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEAR ENDED JUNE 30, 2016**

	Communications Utility	Electric Utility	Gas Utility
<b>Cash Flows from Operating Activities:</b>			
Cash Received from Customers & Users	\$ 814,347	\$ 2,631,393	\$ 440,260
Cash Paid to Suppliers for Goods and Services	(511,332)	(1,506,360)	(357,009)
Cash Paid to Employees	(175,129)	(380,306)	(172,314)
Cash Received from Joint Revenue	-	103,000	-
Cash Received from Miscellaneous Nonoperating Revenue	4,866	1,105	(75)
Cash Paid for In-Lieu-of Tax Payments	(253)	(51,292)	(15,262)
Cash Paid for Free Community Services	(381)	(19,877)	(81,218)
Net Cash Provided (Used) by Operating Activities	<u>132,118</u>	<u>777,663</u>	<u>(185,618)</u>
<b>Cash Flows from Capital &amp; Related Financing Activities</b>			
Acquisition & Construction of Property and Equipment	(46,260)	(212,292)	(18,734)
Proceeds from Sale of Capital Asset	-	-	7,500
Net Cash (Used) by Capital & Related Financing Activities	<u>(46,260)</u>	<u>(212,292)</u>	<u>(11,234)</u>
<b>Cash Flows from Investing Activities</b>			
Interest on Investments	7,375	8,962	8,661
Disbursements Made on Coon Rapids Development Loans	(140,000)	(130,000)	(200,000)
Payments Received on Coon Rapids Development Loans	-	24,990	8,003
Net Cash Provided (Used) from Investing Activities	<u>(132,625)</u>	<u>(96,048)</u>	<u>(183,336)</u>
Net Increase (Decrease) in Cash & Cash Equivalents	(46,767)	469,323	(380,188)
Cash & Cash Equivalents - June 30, 2015	<u>1,355,354</u>	<u>1,388,528</u>	<u>1,036,555</u>
Cash & Cash Equivalents - June 30, 2016	<u>\$ 1,308,587</u>	<u>\$ 1,857,851</u>	<u>\$ 656,367</u>
<b>Reconciliation:</b>			
Cash & Cash Equivalents			
Unrestricted	\$ 1,308,587	\$ 1,723,806	\$ 656,367
Restricted	-	134,045	-
	<u>\$ 1,308,587</u>	<u>\$ 1,857,851</u>	<u>\$ 656,367</u>

See Accompanying Notes to Financial Statements

Water Utility	Wastewater Utility	Total
\$ 222,997	\$ 142,652	\$ 4,251,649
(69,963)	(25,617)	(2,470,281)
(116,362)	(58,862)	(902,973)
-	-	103,000
19	9	5,924
(3,517)	(391)	(70,715)
(866)	(124,994)	(227,336)
<u>32,308</u>	<u>(67,203)</u>	<u>689,268</u>
(3,016)	(216,358)	(496,660)
-	-	7,500
<u>(3,016)</u>	<u>(216,358)</u>	<u>(489,160)</u>
640	1,857	27,495
-	-	(470,000)
-	-	32,993
<u>640</u>	<u>1,857</u>	<u>(409,512)</u>
29,932	(281,704)	(209,404)
<u>241,520</u>	<u>860,512</u>	<u>4,882,469</u>
<u>\$ 271,452</u>	<u>\$ 578,808</u>	<u>\$ 4,673,065</u>
\$ 271,452	\$ 578,808	\$ 4,539,020
-	-	134,045
<u>\$ 271,452</u>	<u>\$ 578,808</u>	<u>\$ 4,673,065</u>

See Accompanying Notes to Financial Statements

**COON RAPIDS MUNICIPAL UTILITIES**  
**(A COMPONENT UNIT OF THE CITY OF COON RAPIDS, IOWA)**  
**STATEMENTS OF CASH FLOWS (CONTINUED)**  
**FOR THE YEAR ENDED JUNE 30, 2016**

	Communications Utility	Electric Utility	Gas Utility
<b>Reconciliation of Operating Income (Loss) to Net Cash Flows from Operating Activities</b>			
Operating Income (Loss)	\$ 78,694	\$ 381,359	\$ (140,747)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities			
Depreciation	28,472	395,630	50,644
Cash Received from Joint Revenue	-	103,000	-
Cash Received from Miscellaneous Nonoperating Revenue	3,878	1,105	(75)
Cash Received from Merchandise Sales	988	-	-
Cash Paid for In-Lieu-of Tax Payments	(253)	(51,292)	(15,262)
Cash Paid for Free Community Services	(381)	(19,877)	(81,218)
(Increase) Decrease Operating Assets:			
Accounts Receivable	26,599	27,749	9,594
Inventories	(1,311)	(32,349)	1,280
Other Current & Prepaid Assets	(4,927)	2,689	(5,866)
Deferred Outflows	(13,714)	(33,701)	(14,504)
Increase (Decrease) Operating Liabilities:			
Accounts & Other Payables	4,235	(22,755)	(1,055)
Customer Deposits	-	(950)	-
Compensated Absences Payables	1,053	2,458	1,049
Net Pension Liability	13,842	38,756	16,610
Deferred Inflows	(5,057)	(14,159)	(6,068)
Net Cash Provided (Used) by Operating Activities	<u>\$ 132,118</u>	<u>\$ 777,663</u>	<u>\$ (185,618)</u>

See Accompanying Notes to Financial Statements

Water Utility	Wastewater Utility	Total
\$ 6,010	\$ (38,314)	\$ 287,002
27,898	86,480	589,124
-	-	103,000
19	9	4,936
-	-	-
(3,517)	(391)	(70,715)
(866)	(124,994)	(227,336)
7,810	2,694	74,446
2,304	28	(30,048)
(80)	(1,662)	(9,846)
(8,847)	(6,266)	(77,032)
(4,339)	5,526	(18,388)
-	-	(950)
645	318	5,523
8,305	14,765	92,278
(3,034)	(5,396)	(33,714)
\$ 32,308	\$ (67,203)	\$ 689,268

See Accompanying Notes to Financial Statements

**COON RAPIDS MUNICIPAL UTILITIES  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016**

**Note 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Organization and Nature of Activities**

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

These financial statements are presented in conformity with U.S. generally accepted accounting principles (GAAP) applicable for proprietary funds of governmental entities as prescribed by the Governmental Accounting Standards Board.

**Reporting Entity**

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

**Shared Utility Plants**

Common Transmission System – North Iowa Municipal Electric Cooperative Association (NIMECA), acting as agent for its participating members, including CRMU, has entered into an agreement with Corn Belt Power Cooperative to obtain for the benefit of its participating members a long-term right and access to electric transmission facilities, referred to as Common Transmission System (CTS) necessary to handle the combined needs of the participating members through undivided ownership interest in the capacity of transmission facilities. The costs associated with this agreement are allocated to the members based on their proportionate use of the shared transmission system. CRMU has recorded its share of these costs as capital assets in the Electric Utility Fund. The net book value at June 30, 2016, was \$752,177.

Neal 4 Generating Station – CRMU is one of fourteen owners of Unit 4 George Neal Generating Station which is managed by MidAmerican Energy under terms of the basic generating agreements between MidAmerican Energy and the owners. CRMU owns 0.521 percent as a tenant-in-common of the generating station for generating, purchasing, obtaining by exchange, or otherwise acquiring or transmitting electric power and energy. CRMU's cost of acquiring its share of this generating station was recorded as capital assets in the Electric Utility Fund. The net book value at June 30, 2016, was \$603,898.

**COON RAPIDS MUNICIPAL UTILITIES**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**Note 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

**Basis of Presentation**

The accounts of CRMU are organized on the basis of proprietary enterprise funds, each of which is considered to be a separate accounting entity and each reported in a separate column in the financial statements. The operations of each fund are accounted for with a separate set of self-balancing accounts, which comprise its assets, liabilities, net positions, revenues and expenses, and debt service of the designated activity. CRMU reports the following major enterprise funds:

- Communications Utility
- Electric Utility
- Natural Gas Utility
- Water Utility
- Wastewater Utility

**Measurement Focus and Basis of Accounting**

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

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

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



**COON RAPIDS MUNICIPAL UTILITIES  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016**

**Note 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Revenue Recognition**

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

**Cash and Cash Equivalents**

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

For purposes of the statement of cash flows, invested cash and all short-term investments that are highly liquid (including restricted assets) are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash, and at the day of purchase, have a maturity date no longer than three months. Cash investments not meeting the definition of cash equivalents at June 30, 2016 were \$0.

**Accounts Receivable and Allowances**

An estimate is made for allowances for doubtful accounts based on an analysis of the aging of accounts receivable and on historical write-offs net of recoveries. Additional specific amounts may be included based on credit risk as deemed appropriate by management. Accounts receivable are reported net of the allowance for doubtful accounts of \$12,647 at June 30, 2016.

**Inventories**

Materials, supplies and other consumables are recorded as expenses 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.

The inventories at June 30, 2016, are comprised as follows:

All Material and Supplies	\$ 285,993
Electric Fund Fuel Inventories	234,051
Gas Fund Natural Gas Inventory	7,410
SO2 Allowances	70,342
No(X) Allowance	168
Total	<u>\$ 597,964</u>

**COON RAPIDS MUNICIPAL UTILITIES  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016**

**Note 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Capital Assets**

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

Interest costs on debt are capitalized when proceeds are used to finance the construction of assets. Interest earned on proceeds of tax-exempt borrowings which are restricted to the acquisition of qualifying assets is offset against interest costs in determining the amount of interest capitalized. No interest costs were capitalized for the year June 30, 2016.

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

**Pensions**

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions and pension expense, information about the fiduciary net position of the Iowa Public Employees' Retirement System (IPERS) and additions to/deductions from IPERS' fiduciary net position have been determined on the same basis as they are reported by IPERS. For this purpose, benefit payments, including refunds of employee contributions, are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

**Deferred Outflows of Resources**

Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense/expenditure) until then. Pension related deferred outflows of resources consist of unrecognized items not yet charged to pension expense and contributions from the employer after the measurement date but before the end of the employer's reporting period.

**Deferred Inflows of Resources**

Deferred inflows of resources represents an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time. Pension related deferred inflows

**COON RAPIDS MUNICIPAL UTILITIES  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016**

**Note 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

of resources in the Statements of Net Position consist of unamortized portion of the net difference between projected and actual earnings on pension plan investments.

**Net Positions**

Net positions are shown in three components:

Net Investment in Capital Assets 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 positions 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 positions consist of net positions not meeting the definition of the two preceding categories. Unrestricted net positions often have constraints on resources imposed by management (designations), which can be removed or modified.

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

Restricted for Economic Development Loans \$382,406.

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

**Expense Allocations**

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

**Note 2 – CASH AND CASH EQUIVALENTS**

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

CRMU pool their deposits and investments and maintain records as to the separate utility systems share of the total balance. All deposits in banks at June 30, 2016, 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

**COON RAPIDS MUNICIPAL UTILITIES  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016**

**Note 2 – CASH AND CASH EQUIVALENTS (Continued)**

agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of drainage districts.

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

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

**Note 3 – COMMUNICATIONS ACCOUNTS RECEIVABLE - OTHER**

Other accounts receivable reported for the Communications Utility includes delayed long distance and CABS billings of \$4,831 for the telephone system. These amounts are net of an allowance for doubtful collections of \$104. Management believes this allowance to be reasonable and appropriate reduction of the CAB’s receivables to their net realizable value.

**Note 4 – LOANS RECEIVABLE**

Loan to Jim’s Lawn Care

On October 29, 2014, CRMU entered into a loan agreement with Jim’s Lawn Care. The proceeds of this loan were used to finance the purchase of building for lawn care business in Coon Rapids. The principal amount of the loan was \$7,000. The promissory note, dated October 29, 2014, specifies monthly payments of \$125.78 for five years including interest at 3.00% per annum.

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

Year Ended 6/30,	Electric Utility	
	Principal	Interest
2017	\$ 1,381	\$ 128
2018	1,423	86
2019	1,467	43
2020	626	7
Total	\$ 4,897	\$ 264

**COON RAPIDS MUNICIPAL UTILITIES  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016**

**Note 4 – LOANS RECEIVABLE (Continued)**

Loan to Acklin Properties, LLC

On December 31, 2014, CRMU entered into a loan agreement with Acklin Property, LLC. The proceeds of this loan were used to finance the purchase of building for daycare center in Coon Rapids. The principal amount of the loan was \$18,000. The promissory note, dated December 31, 2014, specifies monthly payments of \$173.81 for ten years including interest at 3.00% per annum.

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

Year Ended <u>6/30</u>	Electric Utility	
	<u>Principal</u>	<u>Interest</u>
2017	\$ 1,628	\$ 457
2018	1,679	407
2019	1,730	355
2020	1,784	302
2021	1,842	243
2022-2026	7,114	400
Total	<u>\$ 15,777</u>	<u>\$ 2,166</u>

Loan to Lewis Chiropractic, P.C.

On July 22, 2010, CRMU entered into a loan agreement with Lewis Chiropractic P.C. The proceeds of this loan were used to purchase equipment to be used at a chiropractic office in Coon Rapids, Iowa. This loan was made in association with the Federal Grant Agreement for rural economic development made with the Federal Government. The principal amount of the loan was \$27,237. The promissory note, dated July 22, 2010, specifies monthly payments of \$300, starting September 1, 2010, for three years with a final balloon payment of \$18,765 with interest at 3% per annum. On July 19, 2013, the terms of the loan were modified with a new principal amount of \$18,812. The note specifies monthly payments of \$809, starting August 1, 2013, for two years with interest at 3% per annum. Lewis Chiropractic, P.C. paid off this loan during the year ending June 30, 2016.

Loan to Country Stores of Carroll, LTD

On June 8, 2012, CRMU entered into a loan agreement with Sperry One Stop Shop. The proceeds of this loan were used to purchase new underground tanks and blender pumps in Coon Rapids. This loan was made in association with the Federal Grant Agreement for rural economic development made with the Federal Government. The principal amount of the loan was \$142,000. The promissory note, dated June 8, 2012, specifies monthly payments of \$1,307 for ten years including interest at 2.00% per annum. Sperry One Stop, LLC transferred its assigned debt to Country Stores of Carroll, LTD during the year ending June 30, 2016.

**COON RAPIDS MUNICIPAL UTILITIES  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016**

**Note 4 – LOANS RECEIVABLE (Continued)**

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

Year Ended 6/30	Electric Utility	
	Principal	Interest
2017	\$ 13,984	\$ 1,840
2018	14,270	1,409
2019	14,562	1,117
2020	14,858	821
2021	15,164	515
2022-2026	15,475	205
2027-2031	1,664	2
Total	<u>\$ 89,976</u>	<u>\$ 5,909</u>

Loan to Alfa Valley, Inc

On June 15, 2012, CRMU entered into a loan agreement with Alfa Valley, Inc. The proceeds of this loan were used to finance a new office building in Coon Rapids. This loan was made for economic development. The principal amount of the loan was \$75,000. The promissory note, dated June 15, 2012, specifies monthly payments of \$690 for ten years including interest at 2.00% per annum.

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

Year Ended 6/30	Gas Utility	
	Principal	Interest
2017	\$ 7,413	\$ 868
2018	7,563	718
2019	7,716	566
2020	7,871	410
2021	8,030	251
2021-2026	6,045	88
Total	<u>\$ 44,638</u>	<u>\$ 2,901</u>

Loan to Resurrection Rides, LLC

On June 26, 2014, CRMU entered into a loan agreement with Resurrection Rides, LLC. The proceeds of this loan were used to finance the purchase of equipment for their car restoration business. This loan was made for economic development. The principal amount of the loan was \$20,000. The promissory note, dated June 26, 2014, specifies monthly payments of \$359 for five years including interest at 3.00% per annum.

**COON RAPIDS MUNICIPAL UTILITIES  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016**

**Note 4 – LOANS RECEIVABLE (Continued)**

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

Year Ended 6/30	Electric Utility	
	Principal	Interest
2017	\$ 3,980	\$ 333
2018	4,102	210
2019	4,229	84
2020	443	3
Total	\$ 12,754	\$ 630

Loan to Coon Rapids Development Group

On July 1, 2015, CRMU entered into a loan agreement with Coon Rapids Development Group. The proceeds of this loan were used to finance the construction of a new subdivision. The principal amount of the loan was \$340,000. The promissory note, dated July 1, 2015, specifies yearly payments in the amount of \$39,858.37 for ten years including interest at 3.00% per annum.

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

Year Ended 6/30	Principal	Interest
2017	\$ 29,352	\$ 10,506
2018	30,233	9,625
2019	31,141	8,718
2020	32,074	7,784
2021	33,036	6,822
2022-2026	184,164	18,635
Total	\$ 340,000	\$ 62,090

Loan to Joel & Tammy Roetman

On April 6, 2016, CRMU entered into a loan agreement with Joel & Tammy Roetman. The proceeds of this loan were used to finance the construction of residential housing in Coon Rapids, Iowa. The principal amount of the loan was \$60,000. The promissory note, dated April 6, 2016, specifies monthly payments of \$552 for ten years including interest at 3.00% per annum.

**COON RAPIDS MUNICIPAL UTILITIES  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016**

**Note 4 – LOANS RECEIVABLE (Continued)**

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

Year Ended 6/30	Electric Utility	
	Principal	Interest
2017	\$ 5,249	\$ 1,136
2018	5,409	1,070
2019	5,573	961
2020	5,739	849
2021	5,917	734
2022-2026	31,284	1,689
Total	\$ 59,171	\$ 6,439

Loan to Beautifully Me Salon & Spa

On September 8, 2015, CRMU entered into a loan agreement with Beautifully Me Salon & Spa. The proceeds of this loan were used to finance the renovations, capital, and inventory of Beautifully Me Salon & Spa. The principal amount of the loan was \$20,000. The promissory note, dated September 8, 2015, specifies monthly payments of \$359 for five years including interest at 3.00% per annum.

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

Year Ended 6/30	Electric Utility	
	Principle	Interest
2017	\$ 3,820	\$ 492
2018	3,938	374
2019	4,060	253
2020	4,185	128
2021	1,911	15
Total	\$ 17,914	\$ 1,262

Loan to D.R.A.A.H

On November 24, 2015, CRMU entered into a loan agreement with D.R.A.A.H. The proceeds of this loan were used to finance the purchase of buildings and expansion of current retail business. The principal amount of the loan was \$50,000. The promissory note, dated November 24, 2015, specifies monthly payments of \$483 for ten years including interest at 3.00% per annum.



**COON RAPIDS MUNICIPAL UTILITIES  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016**

**Note 4 – LOANS RECEIVABLE (Continued)**

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

Year Ended 6/30	Electric Utility	
	Principle	Interest
2017	\$ 4,418	\$ 1,376
2018	4,552	1,241
2019	4,691	1,103
2020	4,831	963
2021	4,980	813
2022-2026	24,399	2,202
Total	\$ 47,871	\$ 7,698

**Note 5 – CAPITAL ASSETS**

Capital asset categories and changes in each cost category and depreciation for the year ended June 30, 2016 are as follows:

	Beginning Balance	Additions and Transfers In	Deletions and Transfers Out	Ending Balance
Capital assets not being depreciated:				
Land	\$ 122,119	\$ -	\$ -	\$ 122,119
Construction in progress	2,107,049	379,237	(787,206)	1,699,080
Total capital assets not being depreciated	2,229,168	379,236	(787,206)	1,821,199
Capital assets being depreciated:				
Neal 4 Steam Production	1,972,393	63,282	(8,006)	2,027,669
Local Production Facilities	1,735,757	388,004	(10,380)	2,113,381
Transmission System	1,710,028	24,726	(4,394)	1,730,360
Distribution System	11,235,358	387,024	-	11,622,382
Municipal Building	1,169,671	18,579	-	1,188,250
General Facilities Equipment	2,410,476	27,735	(21,955)	2,416,256
Total capital assets being depreciated	20,233,683	909,350	(44,735)	21,098,298
Less -				
Accumulated Depreciation	10,120,558	589,122	(24,327)	10,685,353
Total capital assets being depreciated- net	10,113,125	320,228	(20,408)	10,412,945
Total Capital Assets, Net	\$ 12,342,293	\$ 699,464	\$ (807,613)	\$ 12,234,144

**COON RAPIDS MUNICIPAL UTILITIES  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016**

**Note 5 – CAPITAL ASSETS (Continued)**

Capital asset categories and changes in each cost category and depreciation for the year ended June 30, 2016 for each major fund are as follows:

**Communications:**

	Beginning Balance	Additions and Transfers In	Deletions and Transfers Out	Ending Balance
Capital assets being depreciated:				
Local Production Facilities	\$ 301,316	\$ 44,197	\$ (9,922)	\$ 335,591
General Facilities Equipment	71,124	2,064	-	73,188
Total capital assets being depreciated	<u>372,440</u>	<u>46,261</u>	<u>(9,922)</u>	<u>408,779</u>
Less -				
Accumulated Depreciation	<u>221,938</u>	<u>28,472</u>	<u>(5,768)</u>	<u>244,642</u>
Total Capital Assets, Net	<u>\$ 150,502</u>	<u>\$ 17,789</u>	<u>\$ (4,154)</u>	<u>\$ 164,137</u>

**Electric:**

	Beginning Balance	Additions and Transfers In	Deletions and Transfers Out	Ending Balance
Capital assets not being depreciated:				
Land	\$ 52,312	\$ -	\$ -	\$ 52,312
Construction in progress	1,956,257	177,365	(434,857)	1,698,765
Total capital assets not being depreciated	<u>2,008,569</u>	<u>177,365</u>	<u>(434,857)</u>	<u>1,751,077</u>
Capital Assets being depreciated:				
Neal 4 Steam Production	1,972,393	63,282	(8,006)	2,027,669
Transmission System	1,599,677	24,726	(4,394)	1,620,009
Distribution System	8,777,741	364,063	-	9,141,804
Municipal Building	542,601	9,586	-	552,187
General Facilities Equipment	1,337,058	4,978	-	1,342,036
Total capital assets being depreciated	<u>14,229,470</u>	<u>466,635</u>	<u>(12,400)</u>	<u>14,683,705</u>
Less -				
Accumulated Depreciation	<u>6,230,350</u>	<u>395,629</u>	<u>(12,400)</u>	<u>6,613,579</u>
Total capital assets being depreciated- net	<u>7,999,120</u>	<u>71,006</u>	<u>-</u>	<u>8,070,126</u>
Total Capital Assets, Net	<u>\$ 10,007,689</u>	<u>\$ 248,371</u>	<u>\$ (434,857)</u>	<u>\$ 9,821,203</u>

**COON RAPIDS MUNICIPAL UTILITIES**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**Note 5 – CAPITAL ASSETS (Continued)**

**Gas:**

	Beginning Balance	Additions and Transfers In	Deletions and Transfers Out	Ending Balance
Capital assets not being depreciated:				
Land	\$ 30,478	\$ -	\$ -	\$ 30,478
Construction in progress	2,393	6,916	(8,994)	315
Total capital assets not being depreciated	<u>32,871</u>	<u>6,916</u>	<u>(8,994)</u>	<u>30,793</u>
Capital Assets being depreciated:				
Local Production Facilities	330,452	-	-	330,452
Distribution System	544,332	-	-	544,332
Municipal Building	627,070	8,993	-	636,063
General Facilities Equipment	351,423	19,684	(21,955)	349,152
Total capital assets being depreciated	<u>1,853,277</u>	<u>28,677</u>	<u>(21,955)</u>	<u>1,859,999</u>
Less -				
Accumulated Depreciation	<u>1,053,173</u>	<u>50,644</u>	<u>(5,790)</u>	<u>1,098,027</u>
Total capital assets being depreciated- net	<u>800,104</u>	<u>(21,967)</u>	<u>(16,165)</u>	<u>761,972</u>
Total Capital Assets, Net	<u>\$ 832,975</u>	<u>\$ (15,051)</u>	<u>\$ (25,159)</u>	<u>\$ 792,765</u>

**Water:**

	Beginning Balance	Additions and Transfers In	Deletions and Transfers Out	Ending Balance
Capital assets not being depreciated:				
Land	\$ 33,349	\$ -	\$ -	\$ 33,349
Total capital assets not being depreciated	<u>33,349</u>	<u>-</u>	<u>-</u>	<u>33,349</u>
Capital Assets being depreciated:				
Local Production Facilities	304,612	451	(457)	304,606
Transmission System	110,351	-	-	110,351
Distribution System	772,871	1,907	-	774,778
General Facilities Equipment	194,640	659	-	195,299
Total capital assets being depreciated	<u>1,382,474</u>	<u>3,017</u>	<u>(457)</u>	<u>1,385,034</u>
Less -				
Accumulated Depreciation	<u>1,074,486</u>	<u>27,898</u>	<u>(370)</u>	<u>1,102,014</u>
Total capital assets being depreciated- net	<u>307,988</u>	<u>(24,881)</u>	<u>(87)</u>	<u>283,020</u>
Total Capital Assets, Net	<u>\$ 341,337</u>	<u>\$ (24,881)</u>	<u>\$ (87)</u>	<u>\$ 316,369</u>

**COON RAPIDS MUNICIPAL UTILITIES  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016**

**Note 5 – CAPITAL ASSETS (Continued)**

**Wastewater:**

	Beginning Balance	Additions and Transfers In	Deletions and Transfers Out	Ending Balance
Capital assets not being depreciated:				
Land	\$ 5,980	\$ -	\$ -	\$ 5,980
Construction in progress	148,399	194,956	(343,355)	-
Total capital assets not being depreciated	<u>154,379</u>	<u>194,956</u>	<u>(343,355)</u>	<u>5,980</u>
Capital Assets being depreciated:				
Local Production Facilities	799,377	343,356	-	1,142,733
Distribution System	1,140,413	21,055	-	1,161,468
General Facilities Equipment	456,232	348	-	456,580
Total capital assets being depreciated	<u>2,396,022</u>	<u>364,759</u>	<u>-</u>	<u>2,760,781</u>
Less -				
Accumulated Depreciation	<u>1,540,611</u>	<u>86,480</u>	<u>-</u>	<u>1,627,091</u>
Total capital assets being depreciated- net	<u>855,411</u>	<u>278,279</u>	<u>-</u>	<u>1,133,690</u>
Total Capital Assets, Net	<u>\$ 1,009,790</u>	<u>\$ 473,235</u>	<u>\$ (343,355)</u>	<u>\$ 1,139,670</u>

**Note 6 – MUNICIPAL BUILDING**

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

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

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

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

**COON RAPIDS MUNICIPAL UTILITIES  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016**

**Note 7 – COMPENSATED ABSENCES**

CRMU employees are entitled to certain compensated absences based on length of employment. Vacation hours are accumulated on a calendar year basis with a limited amount of carryover to subsequent years allowed. Earned but unused vacation hours will be paid upon termination, retirement or death. The liability for compensated absences is computed based on rates of pay in effect at June 30, 2016 and includes related employee benefits. Sick leave is not paid on termination, retirement or death; therefore, no accrual has been made for accumulated sick leave hours.

**Note 8 – JOINT USE AGREEMENT**

On April 19, 2002, the Board of Trustees adopted and approved an intra-fund resolution between the Electric Utility and Communications 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 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 Utility will pay to the Electric Utility, the sum of \$100,000 on or before the last day of June each year. The arrangements and terms of the agreement were based upon applicable market value and economic conditions at that time, in sole reference to the joint use of the communications distribution system by the Electric Utility and Communications Utility. The Communications Utility is obligated to comply with all property tax filing requirements imposed under Iowa Code Chapter 433.

**Note 9 – PAYMENT TO THE CITY**

CRMU made voluntary in-lieu-of-tax payments to the City in the amount of \$70,715 for the year ended June 30, 2016.

**Note 10 – PENSION AND RETIREMENT BENEFITS**

Plan Description. IPERS membership is mandatory for employees of the Utility, except for those covered by another retirement system. Employees of the Utility are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by Iowa Public Employees’ Retirement System (IPERS). IPERS issues a stand-alone financial report which is available to the public by mail at 7401 Register Drive P.O. Box 9117, Des Moines, Iowa 50306-9117 or at [www.ipers.org](http://www.ipers.org).

IPERS benefits are established under Iowa Code chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following brief description is provided for general informational purposes only. Refer to the plan documents for more information

**COON RAPIDS MUNICIPAL UTILITIES  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016**

**Note 10 – PENSION AND RETIREMENT BENEFITS (Continued)**

Pension Benefits – A regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is age 65, anytime after reaching age 62 with 20 or more years of covered employment, or when the member's years of service plus the member's age at the last birthday equals or exceeds 88, whichever comes first. (These qualifications must be met on the member's first month of entitlement to benefits.) Members cannot begin receiving retirement benefits before age 55. The formula used to calculate a Regular member's monthly IPERS benefit includes:

- A multiplier (based on years of service).
- The member's highest five-year average salary. (For members with service before June 30, 2012, the highest three-year average salary as of that date will be used if it is greater than the highest five-year average salary.)

Protection occupation members may retire at normal retirement age which is generally at age 55. The formula used to calculate a protection occupation members' monthly IPERS benefit includes:

- 60% of average salary after completion of 22 years of service, plus an additional 1.5% of average salary for years of service greater than 22 but not more than 30 years of service.
- The member's highest three-year average salary.

If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early-retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25 percent for each month that the member receives benefits before the member's earliest

normal retirement age. For service earned starting July 1, 2012, the reduction is 0.50 percent for each month that the member receives benefits before age 65.

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member's lifetime. However, to combat the effects of inflation, retirees who began receiving benefits prior to July 1990 receive a guaranteed dividend with their regular November benefit payments.

Disability and Death Benefits - A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement, the member's beneficiary will receive a lifetime annuity or a lump-sum payment equal to the present actuarial value of the member's accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

Contributions - Contribution rates are established by IPERS following the annual actuarial valuation, which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization Method. Statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS Contribution Rate Funding

**COON RAPIDS MUNICIPAL UTILITIES  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016**

**Note 10 – PENSION AND RETIREMENT BENEFITS (Continued)**

Policy requires that the actuarial contribution rate be determined using the “entry age normal” actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll, based on the Actuarial Amortization Method adopted by the Investment Board.

In fiscal year 2016, pursuant to the required rate, Regular members contributed 5.95 percent of pay and the Utility contributed 8.93 percent for a total rate of 14.88 percent.

The Utilities’ total contributions to IPERS for the year ended June 30, 2016 were \$60,251.

Net Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - At June 30, 2016, the Utilities reported a liability of \$463,916 for their proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Utilities’ proportion of the net pension liability was based on the Utilities’ share of contributions to the pension plan relative to the contributions of all IPERS participating employers. At June 30, 2015, the Utilities’ collective proportion was .009332 percent which was an increase of .000149 percent from their proportion measured as of June 30, 2014.

For the year ended June 30, 2016, the Utilities recognized pension expense of \$41,133. At June 30, 2016, the Utility reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 7,009	\$ -
Changes of assumptions	12,773	-
Net difference between projected and actual earnings on pension plan investments	69,411	108,021
Changes in proportion and differences between Utility contributions and proportionate share of contributions	5,131	-
Utility contributions subsequent to the measurement date	60,251	-
Total	\$ 154,575	\$ 108,021

**COON RAPIDS MUNICIPAL UTILITIES  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016**

**Note 10 – PENSION AND RETIREMENT BENEFITS (Continued)**

\$60,251 reported as deferred outflows of resources related to pensions resulting from the Utilities' contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30,	Total
2017	\$ (11,705)
2018	(11,705)
2019	(11,705)
2020	20,855
2021	563
Total	\$ (13,697)

There were no non-employer contributing entities at IPERS.

Actuarial Assumptions - The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Rate of inflation	3.00 percent per annum
(effective June 30, 2014)	
Rates of salary increase	4.00 to 17.00 percent, average, including inflation. Rates vary by
(effective June 30, 2010)	membership group
Long-term investment rate of return	7.50 percent, compounded annually, net of investment
(effective June 30, 1996)	expense, including inflation
Wage growth	4.00 percent per annum based on 3.00 percent inflation
(effective June 30, 1990)	and 1.00 percent real wage inflation

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of actuarial experience studies with dates corresponding to those listed above.

Mortality rates were based on the RP-2000 Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the



**COON RAPIDS MUNICIPAL UTILITIES  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016**

**Note 10 – PENSION AND RETIREMENT BENEFITS (Continued)**

target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Core Plus Fixed Income	28%	2.04%
Domestic Equity	24%	6.29
International Equity	16%	6.75
Private Equity/Debt	11%	11.32
Real Estate	8%	3.48
Credit Opportunities	5%	3.63
U.S. TIPS	5%	1.91
Other Real Assets	2%	6.24
Cash	1%	-0.71
Total	<u>100%</u>	

Discount Rate - The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the contractually required rate and that contributions from the Utility will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Utilities' Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following presents the Utilities' proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the Utilities' proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5 percent) or 1-percentage-point higher (8.5 percent) than the current rate.

	1% Decrease (6.5%)	Discount Rate (7.5%)	1% Increase (8.5%)
Utilities' proportionate share of the net pension liability	\$ 812,230	\$ 463,916	\$ 169,910

**COON RAPIDS MUNICIPAL UTILITIES  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016**

**Note 10 – PENSION AND RETIREMENT BENEFITS (Continued)**

Pension Plan Fiduciary Net Position - Detailed information about the pension plan’s fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS’ website at [www.ipers.org](http://www.ipers.org).

Payables to the Pension Plan - At June 30, 2016, the Utilities reported \$0 of payables related to the defined benefit pension plan.

**Note 11 – 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. Beginning January 1, 2015, employees pay out of pocket maximum of \$1,000 for single coverage or \$2,000 for family coverage. CRMU has eleven covered employees as of June 30, 2016.

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

	Deductible		Maximum Out-of-Pocket	
	<u>Single</u>	<u>Family</u>	<u>Single</u>	<u>Family</u>
Employee	\$2,000	\$4,000	\$6,850	\$13,700

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

Year Ended June 30	Beginning Balance Liability	Claims and Changes in Estimates	Claim Payments	Ending Balance
2016	\$ 4,705	\$ 17,180	\$ 21,194	\$ 691

**Note 12 – COMMITMENTS AND CONTINGENT LIABILITIES**

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

**COON RAPIDS MUNICIPAL UTILITIES  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016**

**Note 12 – COMMITMENTS AND CONTINGENT LIABILITIES (Continued)**

CRMU entered into a contract with its major transporter of natural gas in August 1993 that requires a capacity demand payment of approximately \$100,000 annually. The initial expiration date of the contract was through October 31, 1996, which was subsequently extended through January 1, 2019.

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 \$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.

CRMU committed the utility to a subdivision project with the Coon Rapids Development Corporation. The contracted amount is \$491,895, of which \$176,877 has been paid as of June 30, 2016.

**Note 13 – CONCENTRATIONS**

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

**Note 14 – 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 15 – REVOLVING LOAN AGREEMENT**

CRMU received a federal Rural Economic Development Grant for \$300,000, which required a local match of \$60,000 making a total of \$360,000 available to establish a revolving loan fund during 2008. During the current year, three new loans were made for economic development totaling \$130,000, and payments were received on all of the loans totaling \$25,146, leaving \$111,795 available for purposes of this revolving loan program.

**REQUIRED SUPPLEMENTARY INFORMATION**

**COON RAPIDS MUNICIPAL UTILITIES  
(A COMPONENT UNIT OF THE CITY OF COON RAPIDS, IOWA)  
SCHEDULE OF THE UTILITIES' PROPORTIONATE SHARE  
OF THE NET PENSION LIABILITY  
IOWA PUBLIC EMPLOYEE'S RETIREMENT SYSTEM  
REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE LAST FISCAL YEAR**

	<u>2016</u>	<u>2015</u>
Utilities' collective proportion of the net pension liability (asset)	0.09332%	0.09183%
Utilities' collective proportionate share of the net pension liability (asset)	\$ 463,916	\$ 371,638
Utilities' covered employee payroll	\$ 643,303	\$ 613,191
Utilities' collective proportionate share of the net pension liability as a percentage of its covered employee payroll	72.11%	60.61%
Plan fiduciary net position as a percentage of the total pension liability	87.61%	87.61%

**Note:** GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the Utilities will present information for those years for which information is available.

**COON RAPIDS MUNICIPAL UTILITIES**  
**(A COMPONENT UNIT OF THE CITY OF COON RAPIDS, IOWA)**  
**SCHEDULE OF THE UTILITIES' CONTRIBUTIONS**  
**IOWA PUBLIC EMPLOYEE'S RETIREMENT SYSTEM**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**LAST 10 FISCAL YEARS**

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Statutorily required contribution	\$ 60,251	\$ 57,447	\$ 54,758	\$ 51,529
Contributions in relation to the statutorily required contribution	<u>\$ (60,251)</u>	<u>\$ (57,447)</u>	<u>\$ (54,758)</u>	<u>\$ (51,529)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Utilities' covered-employee payroll	\$ 674,705	\$ 643,303	\$ 613,191	\$ 594,337
Contributions as a percentage of covered-employee payroll	8.93%	8.93%	8.93%	8.67%

See Accompanying Independent Auditors' Report

2012	2011	2010	2009	2008	2007
\$ 46,003	\$ 39,212	\$ 37,049	\$ 34,190	\$ 30,160	\$ 28,933
\$ (46,003)	\$ (39,212)	\$ (37,049)	\$ (34,190)	\$ (30,160)	\$ (28,933)
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
\$ 570,050	\$ 564,201	\$ 557,128	\$ 538,425	\$ 498,512	\$ 503,183
8.07%	6.95%	6.65%	6.35%	6.05%	5.75%

See Accompanying Independent Auditors' Report

**COON RAPIDS MUNICIPAL UTILITIES  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION –  
PENSION LIABILITY  
FOR THE YEAR ENDED JUNE 30, 2016**

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**Changes of Benefit Terms:**

Legislation enacted in 2010 modified benefit terms for Regular members. The definition of final average salary changed from the highest three to the highest five years of covered wages. The vesting requirement changed from four years of service to seven years. The early retirement reduction increased from 3 percent per year measured from the member's first unreduced retirement age to a 6 percent reduction for each year of retirement before age 65.

Legislative action in 2008 transferred four groups – emergency medical service providers, county jailers, county attorney investigators, and National Guard installation security officers – from Regular membership to the protection occupation group for future service only.

**Changes of Assumptions**

The 2014 valuation implemented the following refinements as a result of a quadrennial experience study:

- Decreased the inflation assumption from 3.25 percent to 3.00 percent.
- Decreased the assumed rate of interest on member accounts from 4.00 percent to 3.75 percent per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Reduced retirement rates for sheriffs and deputies between the ages of 55 and 64.
- Moved from an open 30 year amortization period to a closed 30 year amortization period for the UAL beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20 year period.

The 2010 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted retiree mortality assumptions.
- Modified retirement rates to reflect fewer retirements.
- Lowered disability rates at most ages.
- Lowered employment termination rates.
- Generally increased the probability of terminating members receiving a deferred retirement benefit.
- Modified salary increase assumptions based on various service duration.

The 2007 valuation adjusted the application of the entry age normal cost method to better match projected contributions to the projected salary stream in the future years. It also included the one- year lag between the valuation date and the effective date of the annual actuarial contribution rate in the calculation of the UAL amortization payments.



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

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

We have audited, in accordance with the 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, the accompanying financial statements of the business-type activities and 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, 2016, and the related notes to the financial statements, which collectively comprise the Utilities' basic financial statements as listed in the table of contents, and have issued our report thereon dated November 14, 2016.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Coon Rapids Municipal Utilities' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Coon Rapids Municipal Utilities' internal control. Accordingly, we do not express an opinion on the effectiveness of Coon Rapids Municipal Utilities' internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Coon Rapids Municipal Utilities' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Williams & Company, P.C.*

Certified Public Accountants

Spencer, Iowa  
November 14, 2016

**COON RAPIDS MUNICIPAL UTILITIES  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2016**

**PART I – SUMMARY OF AUDITORS’ RESULTS**

- (A) An unmodified 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 non-compliance which is material to the financial statements.

**PART II – FINDING RELATED TO THE GENERAL PURPOSE FINANCIAL STATEMENTS**

**INSTANCES OF NON-COMPLIANCE:** No matters were reported.

**INSTANCES OF SIGNIFICANT DEFICIENCIES:** No matters were reported

**PART III – OTHER FINDINGS RELATED TO REQUIRED STATUTORY REPORTING**

IV-A-16: Official Depositories – The Board of Trustees has approved a resolution naming official depositories. The maximum amount stated in the resolution was not exceeded during the year ended June 30, 2016.

IV-B-16: Questionable Disbursements – No expenditures we believe did not meet the requirement of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 were noted.

IV-C-16: Travel Expense – No disbursements of the Utilities’ money for travel expenses of spouses of Utilities’ officials or employees were noted.

IV-D-16: Business Transactions – No business transactions between Coon Rapids Municipal Utilities and Utilities’ officials and employees were noted.

IV-E-16: 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 the coverage is adequate for current operations.

V-F-16: Board Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not.

IV-G-16: Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapter 12(B) and 12(C) of the Code of Iowa and the Coon Rapids Municipal Utilities’ investment policy were noted.

IV-H-16: Telecommunication Services – No instances of non-compliance with Chapter 388.10 of the Code of Iowa were noted.