

**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 AND QUESTIONED COSTS**

JUNE 30, 2013

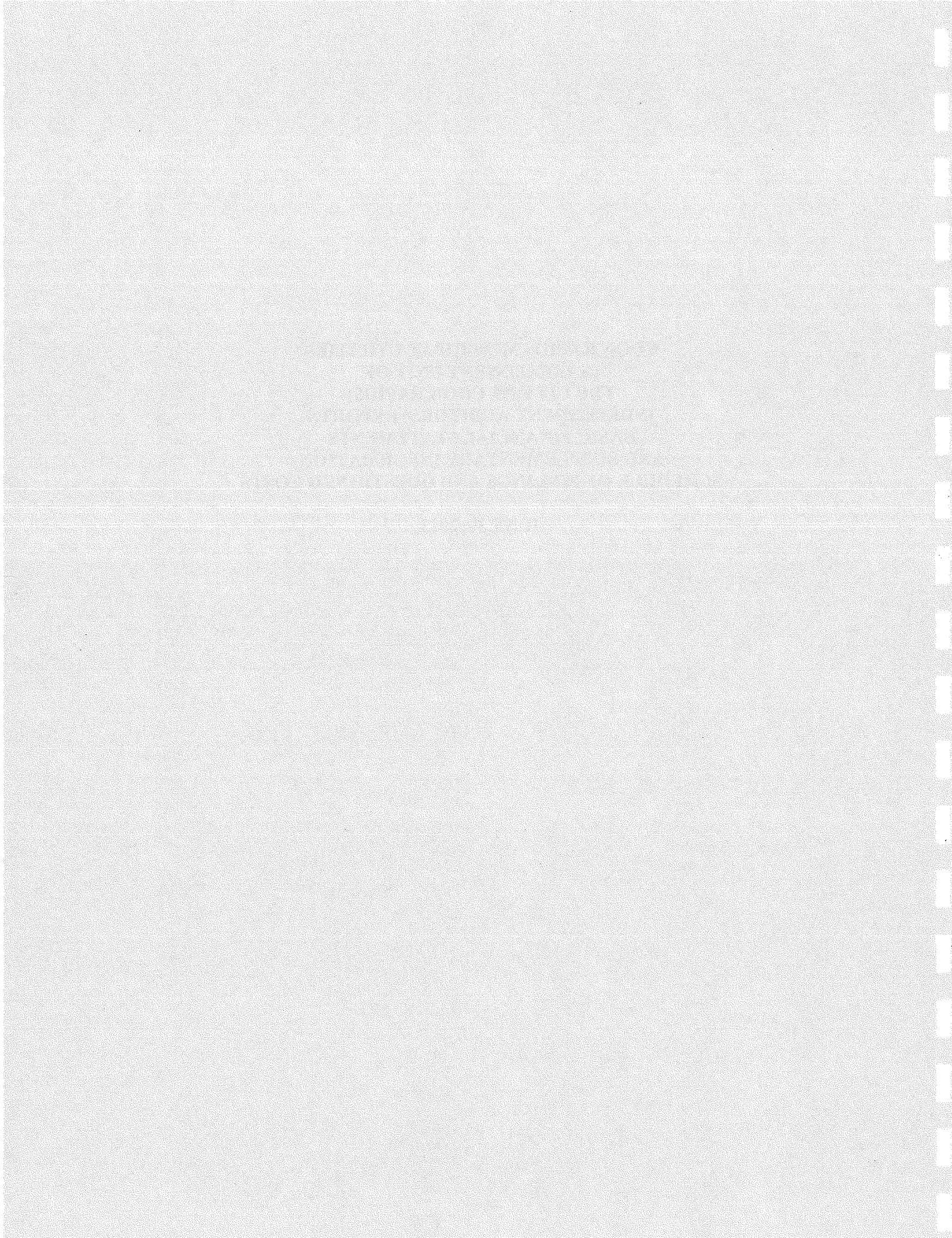


TABLE OF CONTENTS

	<u>Page</u>
Officials	1
Independent Auditors' Report	2 - 3
Management's Discussion and Analysis	4 - 11
Basic Financial Statements:	
Statements of Net Position	12 - 13
Statements of Revenues, Expenses and Changes in Net Position	14 - 15
Statements of Cash Flows.....	16 - 19
Notes to Financial Statements	20 - 33
Other Supplemental Information:	
Schedule of Expenditures of Federal Awards	34
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 <i>Government Auditing Standards</i>	35 - 36
Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133.....	37 - 38
Schedule of Findings and Questioned Costs	39 - 40

COON RAPIDS MUNICIPAL UTILITIES

OFFICIALS

(As of June 30, 2013)

<u>Name</u>	<u>Position</u>	<u>Term Expires</u>
Ron Brower	Chairman	June 2014
Dierk Halverson	Trustee	June 2016
Doris Bass	Trustee	June 2018
Bradley Honold	Secretary/General Manager	Indefinite
Kari Woodard	Director of Finance and Accounting	Indefinite
Jesica Leighty	City Clerk/City Treasurer	Indefinite
Mark Thomas	Attorney	Indefinite



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 of each major fund of Coon Rapids Municipal Utilities, a component unit of the City of Coon Rapids, as of and for the year ended June 30, 2013, 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 of each major fund of Coon Rapids Municipal Utilities, a component unit of the City of Coon Rapids, as of June 30, 2013 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 on pages 4 through 11 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Coon Rapids Municipal Utilities' basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 10, 2013, 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
December 10, 2013



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, 2013. This should be read in conjunction with the Statements of Net Position, the Statements of Revenues, Expenses and Changes in Net Position, and the Statements of Cash Flows, which follow.

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

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

indicate those restricted by the Board of Communications, Electric, Natural Gas, Water, and Wastewater Trustees (the Board). It also provides the basis for making a variety of financial assessments about the structure, liquidity, and financial flexibility of the Utility.

The Statements of Revenues, Expenses, and Changes in Net Position report all the revenues and expenses for the year, including nonoperating revenues and expenses. These statements can be used to determine whether the Utility has recovered all of its actual costs through rates and other charges.

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

Communications Utility

Overview:

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

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

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

Communications Utility Financial Highlights:

Dollars in Thousands

	2013	2012
OPERATING		
Revenues	766	773
Expenses	671	699
Operating Income (Loss)	95	74
NONOPERATING		
Revenues (Expenses)	5	6
Change in Net Position	100	80
ASSETS		
Current	1,266	1,069
Capital	85	98
Noncurrent	76	151
Total Assets	1,427	1,318
LIABILITIES		
Current	53	45
Long-term	0	0
Total	53	45
NET POSITION		
Net Investment in Capital Assets	85	98
Unrestricted	1,289	1,175
Total	1,374	1,273
Total Liabilities & Net Position	1,427	1,318

Management's Discussion and Analysis

Results of Operations:

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

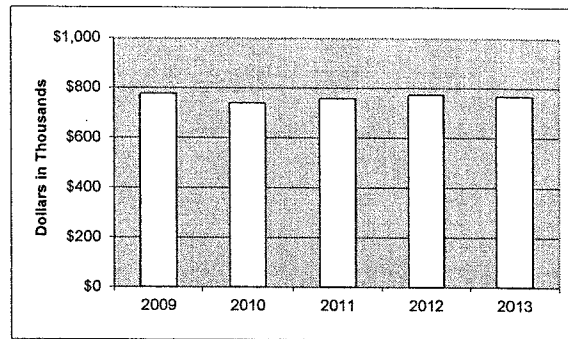
Revenue from operations decreased by almost 1%, while total operating expenses decreased by 4.1%. The decrease in revenue is ultimately a result of decreased telephone revenue, specifically Carrier Access Billing (CABS).

The primary reason for the decreased expense is lower fees associated with contract negotiations. These lower fees alone totaled a savings of over \$41,000 this fiscal year. Purchased energy / programming, administrative / general, and depreciation expenses decreased, while plant, distribution, and customer service expenses increased.

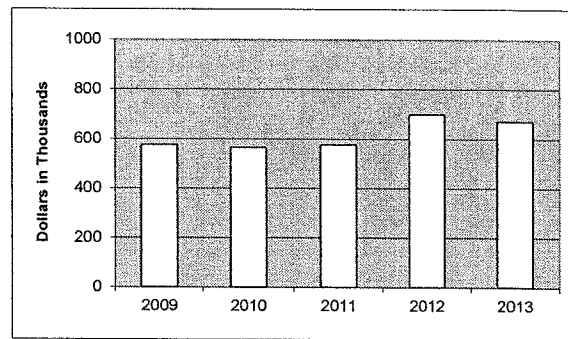
Interest income was lower in 2013 (\$1,180). In-Lieu-of tax payments and free community services totaled \$6,565, compared to \$6,725 last year.

The communications utility ended the year with a \$100,000 gain, compared to \$80,000 in 2012.

**Communications Utility
Operating Revenues: \$765,924**



**Communications Utility
Operating Expenses: \$670,694**



Financial Position:

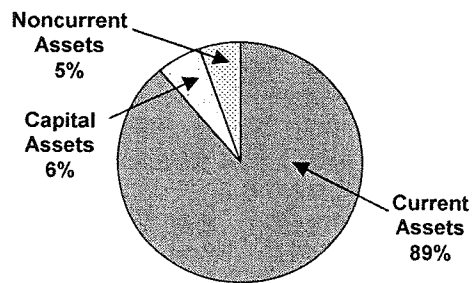
(As reported on the Statements of Net Position)

Total assets increased more than 8% in fiscal year 2013. This can be attributed to an increase in cash, which is a direct result of the operating gain and receipt of loan payments from the electric utility. Total liabilities increased almost 19% simply because CRMU had higher accounts payable and accrued payables at the end of fiscal year 2013 compared to fiscal year 2012. Total net position increased almost 8%.

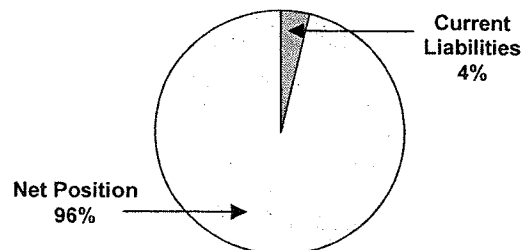
The communication utility's noncurrent assets decreased by \$74,300 due to debt pay down from the electric utility. Capital assets, in the form of utility plant, facilities and equipment, account for 6% of total assets, while current assets comprise 89% of the total assets. Cash and cash equivalents account for more than 78% of total assets. These funds are designated for equipment replacement, capital improvements, and general savings.

Both revenues and expenses were lower than budget by \$21,500 and \$44,000, respectively.

Communication Utility Total Assets: \$1,426,718



Communication Utility Total Liabilities and Net Position: \$1,426,718



Management's Discussion and Analysis

Electric Utility

Overview:

CRMU's electric utility has several ongoing and upcoming capital improvement projects. In 2012, CRMU began the mitigation project of converting overhead facilities to underground. This project will continue into fiscal year 2014, with a minimum obligation by CRMU of \$265,000. Additionally, as an owner of the Neal 4 power plant, CRMU has a \$1.3 million commitment for the scrubber / bag house project. This project will conclude in fiscal year 2014. Finally, due to EPA regulations, CRMU will be upgrading generation engines to become RICE compliant, at a cost of \$206,000.

In 2013, CRMU realized a net operating gain of \$542,000 and a nonoperating gain of \$850,000 for a total gain of \$1,392,000, compared to a gain of \$784,000 in 2012 (an increase of \$608,000). Nonoperating gains alone were \$575,000 higher in 2013 than 2012. This is a direct result of \$620,000 more in grant revenues received in 2013 than 2012.

Electric Utility Financial Highlights:

Dollars in Thousands

	2013	2012
OPERATING		
Revenues	2,692	2,580
Expenses	2,150	2,071
Operating Income (Loss)	542	509
NONOPERATING		
Revenues (Expenses)	850	275
Change in Net Position	1,392	784
ASSETS		
Current	3,264	3,617
Capital	8,389	7,096
Noncurrent	263	323
Total Assets	11,916	11,036
LIABILITIES		
Current	694	939
Long-term	273	539
Total	967	1,478
NET POSITION		
Net Investment in Capital Assets	7,849	6,297
Restricted	360	360
Unrestricted	2,740	2,901
Total	10,949	9,558
Total Liabilities & Net Position	11,916	11,036

Results of Operations:

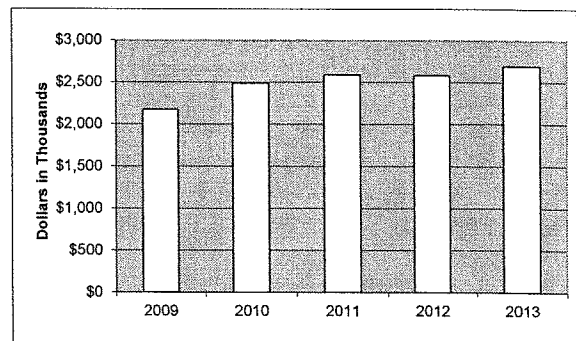
(As reported in the Statements of Revenues, Expenses and Changes in Net Position)

Revenue from operations increased more than 4%. Sales to customers increased almost 2%, which correlates to the 1.6% increase in kWhs sold in fiscal year 2013. Resale revenue increased just over 7%. Resale revenue varies as a result of our capacity sharing agreement within NIMECA.

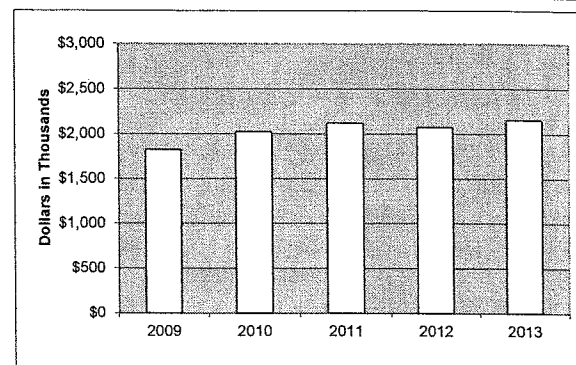
Operating expenses increased almost 4% (\$78,700). Purchased energy and depreciation expenses decreased. Plant, transmission, distribution, customer service, and administrative expenses increased. Specifically, operations & maintenance expenses related to Neal 4 were about \$57,000 higher than last year (Plant Operations). Maintenance of lines was also higher by \$11,500 (Distribution Operations). Energy efficiency expenses were higher by \$10,500 (Administrative Expense).

In-Lieu-of tax payments and free community services totaled \$60,500, compared to \$53,500 last year.

Electric Utility Operating Revenues: \$2,691,839



Electric Utility Operating Expenses: \$2,150,033



Management's Discussion and Analysis

Financial Position:

(As reported on the Statements of Net Position)

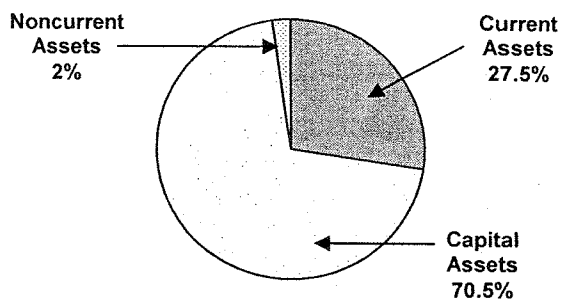
Current assets account for 27.5% of total assets. CRMU has approximately 14.6% of its total assets in the form of cash and cash equivalents. Of this amount, the Board of Trustees has allocated the majority for designated uses such as capital improvement, equipment replacement, generation replacement, 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 70.5% of CRMU's total assets. Noncurrent assets account for 2% of total assets.

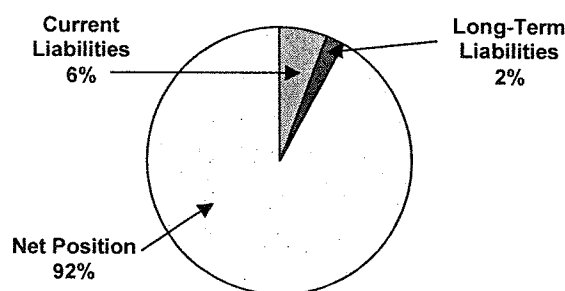
Long-Term liabilities account for 2% of total liabilities and net position, while current liabilities account for 6%. Long-term liabilities decreased from last year due to debt pay down. Current liabilities decreased due to fewer payables at year-end. Overall, the net position increased about 14.5% from last year.

Revenues were higher than budget by more than \$1,035,000 (HMGP timing), while expenses were lower than budget by almost \$9,000.

Electric Utility Total Assets: \$11,916,358



Electric Utility Total Liabilities and Net Position: \$11,916,358



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.

Fortunately, gas prices remained relatively low during fiscal year 2013. CRMU expects the commodity cost to remain relatively low in the near future.

In 2013, CRMU's natural gas utility experienced an operating gain of \$24,400, compared to a loss of \$43,700 in 2012. Combined with nonoperating revenues / expenses and transfers out, the utility ended the year with a \$17,000 loss.

Natural Gas Utility Financial Highlights:

Dollars in Thousands

	2013	2012
OPERATING		
Revenues	752	669
Expenses	728	713
Operating Income (Loss)	24	(44)
NONOPERATING		
Revenues (Expenses)	(41)	(44)
Change in Net Position.....	(17)	(88)
ASSETS		
Current	1,092	927
Capital	882	924
Noncurrent.....	176	296
Total Assets	2,150	2,147
LIABILITIES		
Current	54	34
Long-term	0	0
Total	54	34
NET POSITION		
Net Investment in Capital Assets	882	924
Unrestricted	1,214	1,189
Total	2,096	2,113
Total Liabilities & Net Position...	2,150	2,147

Management's Discussion and Analysis

Results of Operations:

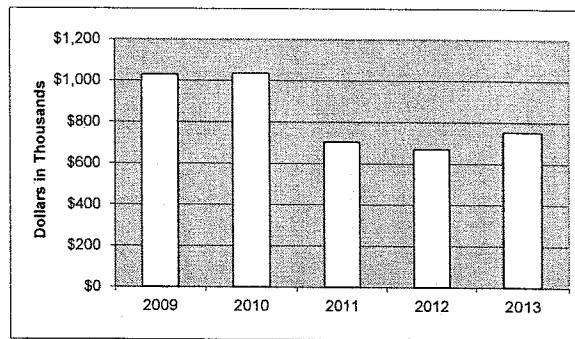
(As reported in the Statements of Revenues, Expenses and Changes in Net Position)

In 2013, total operating revenues increased more than 12%. Total usage billed increased by 16%. The increase in usage relates to residential and commercial customers (cooler winter compared to last year), as industrial usage was unchanged.

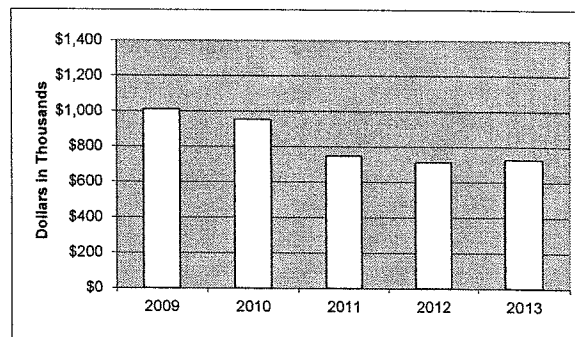
Total operating expenses increased \$14,200 or 2%. Despite the increased usage, commodity costs (Purchased Energy) declined almost \$5,000. Increased expenses include Distribution Operations, Customer Service Operations, and Depreciation. The majority of the increase is a result of increased wages and meter maintenance. Because usages were more normal in 2013, the utility experienced a break-even performance.

Nonoperating expenses decreased more than 5% in 2013. This change can be attributed to lower contribution to Coon Rapids and the community. CRMU gave the City of Coon Rapids \$35,600 for in-lieu-of tax payments and \$17,300 in free service to the community for a total of \$52,900, compared to \$63,000 in 2012.

Natural Gas Utility Operating Revenues: \$751,754



Natural Gas Utility Operating Expenses: \$727,337



Financial Position:

(As reported on the Statements of Net Position)

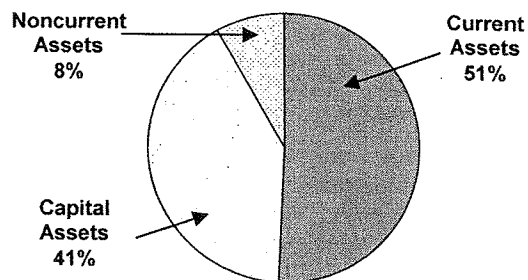
Capital assets, in the form of utility plant, facilities and equipment, account for 41% of CRMU's total assets, while current assets comprise 51% of the total. Cash and cash equivalents account for 41% of total assets. Cash increased just over 20% from the previous year, while noncurrent assets (loan receivables) decreased more than 40%. These changes are a direct result of the interutility loan pay down between gas and electric and other economic development loan pay downs.

The Natural Gas Utility has no significant noncurrent liabilities. CRMU's current liabilities are primarily comprised of payables totaling almost \$54,000.

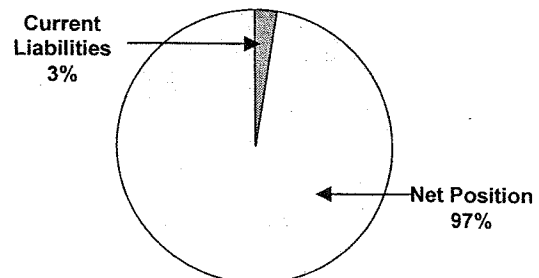
No capital improvement projects are planned in the near future, allowing the utility to realize a small loss this year.

Due to lower than anticipated commodity prices, revenues and expenses were lower than budget by \$111,500 and \$152,000, respectively.

Natural Gas Utility Total Assets: \$2,150,173



Natural Gas Utility Total Liabilities and Net Position: \$2,150,173



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 very slight margins while continuing to make much needed and necessary system improvements. The result of these activities has put a financial strain on the small reserves of the water utility over the years.

In 2013, the water utility ended with an operating gain of \$49,500. Sales to customers decreased more than 3% in 2013. A rate adjustment was implemented at the beginning of fiscal year 2013.

Water Utility Financial Highlights:

Dollars in Thousands

	2013	2012
OPERATING		
Revenues	242	220
Expenses	192	193
Operating Income (Loss)	50	27
NONOPERATING		
Revenues (Expenses)	(5)	(5)
Change in Net Position.....	45	22
ASSETS		
Current	312	242
Capital	335	361
Noncurrent.....	0	0
Total Assets	647	603
LIABILITIES		
Current	22	22
Long-term	0	0
Total	22	22
NET POSITION		
Net Investment in Capital Assets	335	361
Unrestricted	290	220
Total	625	581
Total Liabilities & Net Position.....	647	603

Results of Operations:

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

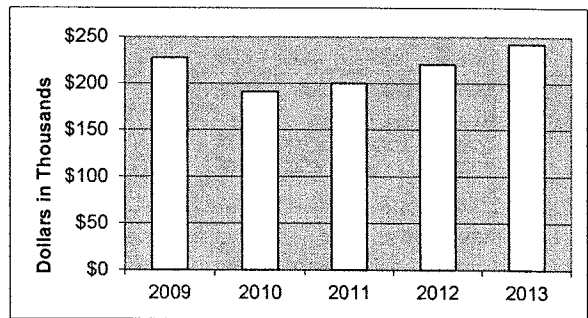
Revenue from operations increased more than almost \$22,000 (10%). This is a direct result of the rate adjustment done at the beginning of the year. Although customer usage was slightly lower, revenues were higher.

Operating expenses were lower by \$669 (virtually a 0% change). CRMU is still realizing the benefit of the lower water tank maintenance contract fees, which were first realized in 2012.

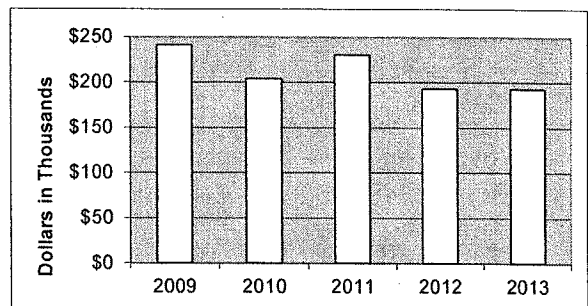
Nonoperating expenses totaled just less than \$5,000. CRMU continued with contributions through payment in-lieu-of tax and donations to the community for a total of \$5,700, which is slightly higher than last year's contribution of \$5,400. Considering the nonoperating losses, the water utility's total gain for 2013 was \$44,600, compared \$22,000 last year.

The water utility is performing better than it has for the past several years. This is necessary, as system improvements and maintenance will be needed in future years.

Water Utility Operating Revenues: \$241,902



Water Utility Operating Expenses: \$192,440



Management's Discussion and Analysis

Financial Position:

(As reported on the Statements of Net Position)

Current assets account for 48% of total assets. CRMU has approximately 39% 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.

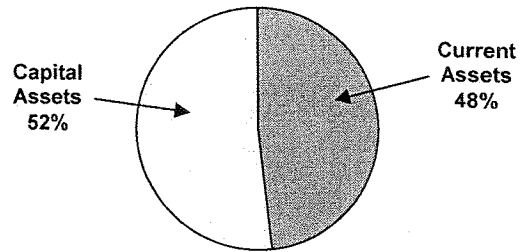
The water utility has no noncurrent assets (loan receivables).

Capital assets, in the form of utility plant, facilities and equipment, account for 52% of CRMU's total assets. CRMU's total assets increased almost \$44,000 (7%) in 2013.

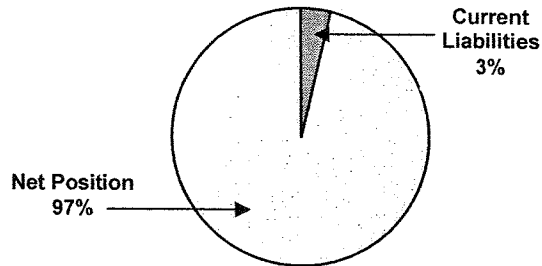
The water utility has no significant liabilities, other than normal payables. These payables account for 3% of total liabilities and net position. Net position increased more than 7% in 2013. For the year, total liabilities and net assets increased 7%.

Revenues were higher than budget by \$11,400. Expenses were lower than budget by \$17,500.

Water Utility Total Assets: \$646,604



Water Utility Total Liabilities and Net Position: \$646,604



Wastewater Utility

Overview:

In 2013, the wastewater utility realized an operating loss of just over \$55,000. Including nonoperating revenues (primarily interest income), the utility ended with a total loss of \$48,500, compared to a \$46,900 loss in 2012.

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. As those reserves are spent down and other capital improvements are made, a break-even performance will be necessary.

The wastewater utility currently has a receivable of approximately \$161,000 due from the electric utility, with payment expected to be completed by June, 2015.

Wastewater Utility Financial Highlights:

Dollars in Thousands

	2013	2012
OPERATING		
Revenues	115	107
Expenses	170	164
Operating Income (Loss)	(55)	(57)
NONOPERATING		
Revenues (Expenses)	7	10
Change in Net Position	(48)	(47)
ASSETS		
Current	1,000	899
Capital	919	985
Noncurrent	81	161
Total Assets	2,000	2,045
LIABILITIES		
Current	10	7
Long-term	0	0
Total	10	7
NET POSITION		
Net Investment in Capital Assets	919	985
Unrestricted	1,071	1,053
Total	1,990	2,038
Total Liabilities & Net Position	2,000	2,045

Management's Discussion and Analysis

Results of Operations:

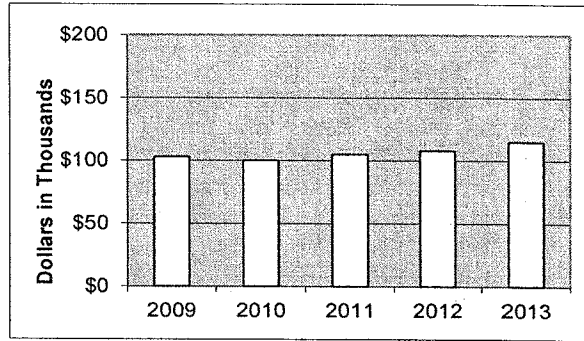
(As reported in the Statements of Revenues, Expenses and Changes in Net Position)

In 2013, the wastewater utility recorded \$115,000 in revenues. This is higher by \$7,500 compared to 2012. A rate adjustment was implemented at the beginning of fiscal year 2013. Customer usage was lower by just over 2%.

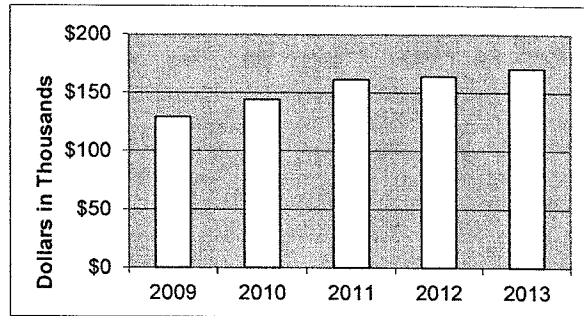
Total operating expenses in 2013 were up almost \$6,400 (4%) compared to 2012. Customer service operations, distribution operations, and depreciation expense increased over the year. The majority of the increase expense can be attributed to increased wages and more employee time spent in the wastewater utility than others. Plant and administrative / general expenses decreased.

Nonoperating revenues decreased by \$2,700 in 2012 (28%) due to lower interest income. In-lieu-of tax payments and free service to the community was unchanged at \$400.

Wastewater Utility Operating Revenues: \$114,961



Wastewater Utility Operating Expenses: \$170,426



Financial Position:

(As reported on the Statements of Net Position)

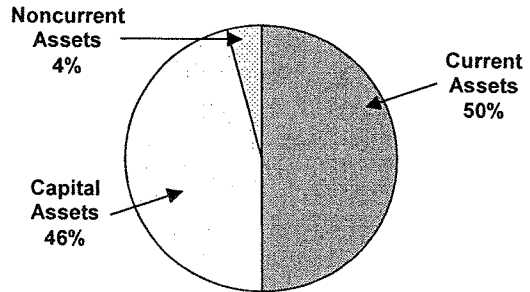
Capital assets, in the form of utility plant, facilities and equipment, account for 46% of CRMU's total assets, while current assets account for 50%. Noncurrent assets account for 4% of total assets.

The wastewater utility has 45% of its total assets in the form of cash, cash equivalents, and certificates of deposit. A portion of this will be used for ongoing improvements previously described. The cash position increased 12% from last year due to loan payments from the electric utility.

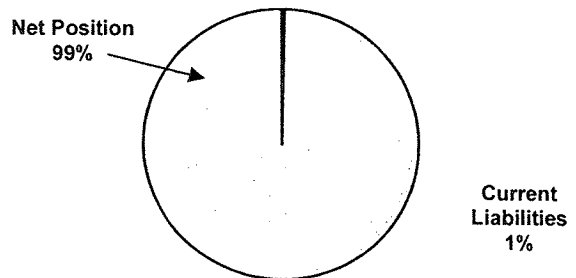
The wastewater utility essentially has no liabilities other than some small payables.

Revenues were \$1,800 lower than budget, and expenses were \$25,500 lower than budget.

Wastewater Utility Total Assets: \$1,999,848



Wastewater Utility Total Liabilities and Net Position: \$1,999,848



BASIC FINANCIAL STATEMENTS

COON RAPIDS MUNICIPAL UTILITIES
(A COMPONENT UNIT OF THE CITY OF COON RAPIDS, IOWA)
STATEMENTS OF NET POSITION
JUNE 30, 2013

	Communications Utility	Electric Utility	Gas Utility
Assets			
Current Assets:			
Cash & Cash Equivalents-Unrestricted	\$ 1,125,295	\$ 1,676,605	\$ 882,767
Cash & Cash Equivalents-Restricted	-	69,217	-
Accounts Receivable, Net of Allowance -			
Trade	44,644	189,561	30,009
Other	8,653	351,628	3,205
Inter-Utility Loans Receivable - Current Portion	74,335	-	112,367
Revolving Loans Receivable - Current Portion	-	59,235	6,844
Inventories	2,678	869,407	46,737
Other Current and Prepaid Assets	10,317	48,757	9,937
Total Current Assets	<u>1,265,922</u>	<u>3,264,410</u>	<u>1,091,866</u>
Capital Assets:			
Land	-	52,312	30,478
Construction in Progress	-	2,184,540	-
Utility Plant, Facilities and Equipment, at Cost	444,792	12,478,270	1,914,428
Accumulated Depreciation	(360,210)	(6,326,567)	(1,062,468)
Total Capital Assets	<u>84,582</u>	<u>8,388,555</u>	<u>882,438</u>
Noncurrent Assets:			
NIMECA Patronage Dividend Receivable	-	21,516	-
Inter-Utility Loans Receivable - Net of Current Portion	76,214	-	115,209
Revolving Loans Receivable - Net of Current Portion	-	241,877	60,662
Total Noncurrent Assets	<u>76,214</u>	<u>263,393</u>	<u>175,871</u>
Total Assets	<u>1,426,718</u>	<u>11,916,358</u>	<u>2,150,175</u>
Liabilities			
Current Liabilities:			
Accounts Payable - Trade	41,836	375,851	43,644
Other Payables and Credits	-	18,270	-
Compensated Absences Payable	11,057	23,142	10,385
Customer Deposits	-	9,600	-
Inter-Utility Loans Payable - Current Portion	-	266,223	-
Accrued Interest	-	562	-
Total Current Liabilities	<u>52,893</u>	<u>693,648</u>	<u>54,029</u>
Long-term Liabilities:			
Inter-Utility Loans Payable - Net of Current Portion			
To Gas Fund	-	115,209	-
To Wastewater Fund	-	81,532	-
To Communications Fund	-	76,214	-
Total Long-term Liabilities	<u>-</u>	<u>272,955</u>	<u>-</u>
Total Liabilities	<u>52,893</u>	<u>966,603</u>	<u>54,029</u>
Net Position			
Net Investment in Capital Assets	84,582	7,849,377	882,438
Restricted	-	370,329	-
Unrestricted	<u>1,289,243</u>	<u>2,730,049</u>	<u>1,213,708</u>
Total Net Position	<u>\$ 1,373,825</u>	<u>\$ 10,949,755</u>	<u>\$ 2,096,146</u>

See Accompanying Notes to Financial Statements

Water Utility	Wastewater Utility	Total
\$ 249,646	\$ 900,370	\$ 4,834,683
-	-	69,217
38,190	17,083	319,487
4,335	1,462	369,283
-	79,521	266,223
-	-	66,079
14,218	566	933,606
5,639	688	75,338
<u>312,028</u>	<u>999,690</u>	<u>6,933,916</u>
33,349	5,980	122,119
-	-	2,184,540
1,380,859	2,318,338	18,536,687
(1,079,632)	(1,405,692)	(10,234,569)
<u>334,576</u>	<u>918,626</u>	<u>10,608,777</u>
-	-	21,516
-	81,532	272,955
-	-	302,539
<u>-</u>	<u>81,532</u>	<u>597,010</u>
<u>646,604</u>	<u>1,999,848</u>	<u>18,139,703</u>
10,408	6,700	478,439
5,643	-	23,913
5,682	3,541	53,807
-	-	9,600
-	-	266,223
-	-	562
<u>21,733</u>	<u>10,241</u>	<u>832,544</u>
-	-	115,209
-	-	81,532
-	-	76,214
<u>-</u>	<u>-</u>	<u>272,955</u>
<u>21,733</u>	<u>10,241</u>	<u>1,105,499</u>
334,576	918,626	10,069,599
-	-	370,329
290,295	1,070,981	6,594,276
<u>\$ 624,871</u>	<u>\$ 1,989,607</u>	<u>\$ 17,034,204</u>

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, 2013

	Communications Utility	Electric Utility	Gas Utility
Operating Revenues			
Sales to Customers	\$ 757,424	\$ 1,563,051	\$ 741,883
Sales for Resale	-	1,031,148	-
Interdepartmental Sales	-	79,304	6,661
Forfeited Discounts	3,298	10,277	1,551
Rebates and Other	5,202	8,059	1,659
Total Operating Revenues	<u>765,924</u>	<u>2,691,839</u>	<u>751,754</u>
Operating Expenses			
Purchased Energy and Programming	290,162	598,872	424,208
Plant Operations	32,125	607,186	12,738
Transmission Operations	-	114,361	-
Distribution Operations	165,664	149,227	83,738
Consumer Service Operations	36,423	70,598	43,288
Administrative & General Expenses	122,350	284,846	115,027
Depreciation	23,970	324,943	48,338
Total Operating Expense	<u>670,694</u>	<u>2,150,033</u>	<u>727,337</u>
Operating Income (Loss)	95,230	541,806	24,417
Nonoperating Revenues (Expenses)			
Interest Income	7,299	10,189	10,316
Joint Use Revenue	-	103,000	-
In-Lieu-Of Tax Payments	(5,000)	(40,412)	(35,614)
Free Community Service	(1,565)	(20,122)	(17,321)
(Loss) on Sale or Disposal of Assets	-	(21,862)	-
Miscellaneous Nonoperating Revenue	4,499	1,277	206
Grant Revenue	-	834,875	1,024
Interest Expense	-	(16,739)	-
Net Nonoperating Revenues (Expenses)	<u>5,233</u>	<u>850,206</u>	<u>(41,389)</u>
Change in Net Position	100,463	1,392,012	(16,972)
Total Net Position June 30, 2012	<u>1,273,362</u>	<u>9,557,743</u>	<u>2,113,118</u>
Total Net Position June 30, 2013	<u>\$ 1,373,825</u>	<u>\$ 10,949,755</u>	<u>\$ 2,096,146</u>

See Accompanying Notes to Financial Statements

Water Utility	Wastewater Utility	Total
\$ 233,953	\$ 113,700	\$ 3,410,011
-	-	1,031,148
3,603	422	89,990
935	438	16,499
3,411	401	18,732
<u>241,902</u>	<u>114,961</u>	<u>4,566,380</u>
-	-	1,313,242
53,199	11,382	716,630
-	-	114,361
42,081	28,246	468,956
21,000	14,838	186,147
48,466	37,509	608,198
27,694	78,451	503,396
<u>192,440</u>	<u>170,426</u>	<u>3,910,930</u>
49,462	(55,465)	655,450
579	7,091	35,474
-	-	103,000
(4,203)	(122)	(85,351)
(1,471)	(214)	(40,693)
-	-	(21,862)
277	180	6,439
-	-	835,899
-	-	(16,739)
<u>(4,818)</u>	<u>6,935</u>	<u>816,167</u>
44,644	(48,530)	1,471,617
<u>580,227</u>	<u>2,038,137</u>	<u>15,562,587</u>
<u>\$ 624,871</u>	<u>\$ 1,989,607</u>	<u>\$ 17,034,204</u>

COON RAPIDS MUNICIPAL UTILITIES
(A COMPONENT UNIT OF THE CITY OF COON RAPIDS, IOWA)
STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2013

	Communications		
	Utility	Electric Utility	Gas Utility
Cash Flows from Operating Activities:			
Cash Received from Customers & Users	\$ 767,953	\$ 2,566,415	\$ 740,511
Cash Paid to Suppliers for Goods and Services	(473,277)	(2,031,725)	(502,000)
Cash Paid to Employees	(165,575)	(317,896)	(160,165)
Cash Received from Joint Revenue	-	103,000	-
Cash Received from Miscellaneous Nonoperating Revenue	4,499	1,277	206
Cash Paid for In-Lieu-of Tax Payments	(5,000)	(40,412)	(35,614)
Cash Paid for Free Community Services	(1,565)	(20,122)	(17,321)
Net Cash Provided by Operating Activities	<u>127,035</u>	<u>260,537</u>	<u>25,617</u>
Cash Flows from Capital & Related			
Financing Activities			
Acquisition & Construction of Property and Equipment	(10,229)	(1,647,700)	(6,276)
Proceeds from Sale of Capital Asset	-	8,512	-
Payments Received on Inter-Utility Loans	72,501	-	109,595
Principal Payments Paid on Inter-Utility Loans	-	(259,655)	-
Interest Paid	-	(17,009)	-
Cash Received from Grant Revenue	-	834,875	1,024
Net Cash Provided (Used) by Capital & Related Financing Activities	<u>62,272</u>	<u>(1,080,977)</u>	<u>104,343</u>
Cash Flows from Investing Activities			
Interest on Investments	7,299	10,189	10,316
Payments Received on Coon Rapids Development Loans	-	56,518	7,486
Net Cash Provided from Investing Activities	<u>7,299</u>	<u>66,707</u>	<u>17,802</u>
Net Increase (Decrease) in Cash & Cash Equivalents	196,606	(753,733)	147,762
Cash & Cash Equivalents - June 30, 2012	<u>928,689</u>	<u>2,499,555</u>	<u>735,005</u>
Cash & Cash Equivalents - June 30, 2013	<u>\$ 1,125,295</u>	<u>\$ 1,745,822</u>	<u>\$ 882,767</u>
Reconciliation:			
Cash & Cash Equivalents			
Unrestricted	\$ 1,125,295	\$ 1,676,605	\$ 882,767
Restricted	-	69,217	-
	<u>\$ 1,125,295</u>	<u>\$ 1,745,822</u>	<u>\$ 882,767</u>

See Accompanying Notes to Financial Statements

Water Utility	Wastewater Utility	Total
\$ 242,326	\$ 110,858	\$ 4,428,063
(67,537)	(25,979)	(3,100,518)
(99,990)	(62,927)	(806,553)
-	-	103,000
277	180	6,439
(4,203)	(122)	(85,351)
(1,471)	(214)	(40,693)
<u>69,402</u>	<u>21,796</u>	<u>504,387</u>
(1,780)	(11,859)	(1,677,844)
-	-	8,512
-	77,559	259,655
-	-	(259,655)
-	-	(17,009)
-	-	835,899
<u>(1,780)</u>	<u>65,700</u>	<u>(850,442)</u>
578	7,091	35,473
-	-	64,004
<u>578</u>	<u>7,091</u>	<u>99,477</u>
68,200	94,587	(246,578)
<u>181,446</u>	<u>805,783</u>	<u>5,150,478</u>
<u>\$ 249,646</u>	<u>\$ 900,370</u>	<u>\$ 4,903,900</u>
\$ 249,646	\$ 900,370	\$ 4,834,683
-	-	69,217
<u>\$ 249,646</u>	<u>\$ 900,370</u>	<u>\$ 4,903,900</u>

COON RAPIDS MUNICIPAL UTILITIES
(A COMPONENT UNIT OF THE CITY OF COON RAPIDS, IOWA)
STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2013

	Communications Utility	Electric Utility	Gas Utility
Reconciliation of Operating Income (Loss) to Net Cash Flows from Operating Activities			
Operating Income (Loss)	\$ 95,230	\$ 541,806	\$ 24,417
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities			
Depreciation	23,970	324,943	48,338
Cash Received from Joint Revenue	-	103,000	-
Cash Received from Miscellaneous Nonoperating Revenue	4,499	1,277	206
Cash Paid for In-Lieu-of Tax Payments	(5,000)	(40,412)	(35,614)
Cash Paid for Free Community Services	(1,565)	(20,122)	(17,321)
(Increase) Decrease Operating Assets:			
Accounts Receivable	2,028	(125,423)	(11,243)
Inventories	(368)	(266,307)	(2,662)
Other Current & Prepaid Assets	(84)	(6,884)	(837)
Increase (Decrease) Operating Liabilities:			
Accounts & Other Payables	6,267	(251,331)	19,099
Customer Deposits	-	(800)	-
Compensated Absences Payables	2,021	4,131	1,354
Payroll, Sales & Use Taxes Payable	37	(3,341)	(120)
Net Cash Provided by Operating Activities	<u>\$ 127,035</u>	<u>\$ 260,537</u>	<u>\$ 25,617</u>

See Accompanying Notes to Financial Statements

Water Utility	Wastewater Utility	Total
\$ 49,462	\$ (55,465)	\$ 655,450
27,694	78,451	503,396
-	-	103,000
277	180	6,439
(4,203)	(122)	(85,351)
(1,471)	(214)	(40,693)
424	(4,103)	(138,317)
(1,515)	3	(270,849)
(579)	80	(8,304)
(375)	3,016	(223,324)
-	-	(800)
860	36	8,402
(1,172)	(66)	(4,662)
<u>\$ 69,402</u>	<u>\$ 21,796</u>	<u>\$ 504,387</u>

**COON RAPIDS MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

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 three-member Board of Trustees, appointed by the Mayor with the approval of the City Council, who are authorized to establish rates. As of November 2012, the three-member Board of Trustees was expanded to a five-member Board of Trustees with those seats being appointed in July and August of 2013. 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, 2013, was \$670,510.

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, 2013, was \$545,534.

**COON RAPIDS MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

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

**COON RAPIDS MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

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.

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 \$4,395 at June 30, 2013.

Inventories

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

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

The inventories at June 30, 2013, are comprised as follows:

All Material and Supplies	\$ 621,252
Electric Fund Fuel Inventories	223,455
Gas Fund Natural Gas Inventory	11,396
SO2 Allowances	77,375
No(X) Allowance	128
Total	<u>\$ 933,606</u>

**COON RAPIDS MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

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, 2013. 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

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.

**COON RAPIDS MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

Note 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Amounts shown as restricted net positions and the purpose of the restriction are as follows:
Restricted for Economic Development Loans \$370,329

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.

Budgets and Budgetary Accounting

In accordance with the Code of Iowa, the Board of Trustees annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures. Encumbrances are not recognized on the cash basis budget and appropriations lapse at year end. Formal and legal budgetary control is based on the total of all five utilities as a whole. During the year 2013 there were no budget amendments.

Note 2 – CASH AND INVESTED CASH AND POOLED INVESTMENTS

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

CRMU pool their deposits and investments and maintain records as to the separate utility systems share of the total balance. All deposits in banks at June 30, 2013, were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

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.

**COON RAPIDS MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

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

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 CAB's billings of \$8,653 for the telephone system. These amounts are net of an allowance for doubtful collections. Management believes this allowance to be reasonable and appropriate reduction of the CAB's receivables to their net realizable value.

Note 4 – LOANS RECEIVABLE

Loans to City of Coon Rapids

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

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

Year Ending June 30,	Electric Utility Principal
2014	\$ 33,333
2015	33,333
2016	33,333
2017	33,333
2018	5,557
Total	\$ 138,889

**COON RAPIDS MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

Note 4 – LOANS RECEIVABLE (Continued)

Loan to Coon Rapids Medical Center

On April 30, 2008, CRMU entered into a loan agreement with the Coon Rapids Medical Center. The proceeds of this loan were used to purchase and renovate an office building for a dental practice to start-up in Coon Rapids. This loan was made in association with the Federal Grant Agreement for rural economic development made with the Federal Government. The principal amount of the loan was \$25,000. The promissory note, date April 30, 2008, specifies annual payments of \$2,500 without interest for the first three years, commencing on April 30, 2009 through April 30, 2011, after which a 2% interest rate will be applied, and yearly payments will increase to \$2,704 for the remaining seven years of the loan.

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

Year Ending June 30,	Electric Utility	
	Principal	Interest
2014	\$ 2,449	\$ 255
2015	2,498	206
2016	2,548	156
2017	2,599	105
2018	2,634	70
Totals	<u>\$ 12,728</u>	<u>\$ 792</u>

Loan to Guthrie Center Family Dentistry

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

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

Year Ending June 30,	Electric Utility	
	Principal	Interest
2014	\$ 1,452	\$ 11
Totals	<u>\$ 1,452</u>	<u>\$ 11</u>

**COON RAPIDS MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

Note 4 – LOANS RECEIVABLE (Continued)

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.

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

Year Ending	Electric Utility	
June 30,	Principal	Interest
2014	\$ 8,782	\$ 412
2015	9,524	178
2016	712	2
Totals	\$ 19,018	\$ 592

Loan to Sperry One Stop Shop

On June 8, 2012, CRMU entered into a loan agreement with the 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.

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

Year Ending	Electric Utility	
June 30,	Principal	Interest
2014	\$ 13,219	\$ 2,460
2015	13,486	2,193
2016	13,758	1,921
2017	14,036	1,643
2018	14,319	1,360
2019-2022	60,207	2,490
Totals	\$ 129,025	\$ 12,067

**COON RAPIDS MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

Note 4 – LOANS RECEIVABLE (Continued)

Loan to Alfa Valley, Inc

On June 15, 2012, CRMU entered into a loan agreement with the 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 Ending	Electric Utility	
June 30,	Principal	Interest
2014	\$ 6,844	\$ 1,299
2015	7,123	1,158
2016	7,267	1,015
2017	7,413	868
2018	7,563	718
2019-2022	31,296	1,314
Totals	\$ 67,506	\$ 6,372

**COON RAPIDS MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

Note 5 – CAPITAL ASSETS

Capital asset categories and changes in each cost category and depreciation for the year ended June 30, 2013 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	662,000	1,579,990	57,450	2,184,540
Total capital assets not being depreciated	<u>784,119</u>	<u>1,579,990</u>	<u>57,450</u>	<u>2,306,659</u>
Capital Assets being depreciated:				
Neal 4 Steam Production	1,883,324	9,960	1,544	1,891,740
Local Production Facilities	1,777,518	16,890	-	1,794,408
Transmission System	1,471,564	77,232	16,798	1,531,998
Distribution System	9,922,794	17,597	159,353	9,781,038
Municipal Building	1,161,310	-	-	1,161,310
General Facilities Equipment	2,345,806	30,387	-	2,376,193
Total capital assets being depreciated	<u>18,562,316</u>	<u>152,066</u>	<u>177,695</u>	<u>18,536,687</u>
Less -				
Accumulated Depreciation	9,881,740	503,395	150,566	10,234,569
Total capital assets being depreciated- net	<u>8,680,576</u>	<u>(351,329)</u>	<u>27,129</u>	<u>8,302,118</u>
Total Capital Assets, Net	<u>\$ 9,464,695</u>	<u>\$ 1,228,661</u>	<u>\$ 84,579</u>	<u>\$ 10,608,777</u>

Reconciliation of Net Investment in Capital Assets:

Capital Assets (Net of Accumulated)	\$ 10,608,777
Less: Inter-Utility Loans	<u>(539,177)</u>
Net Investment in Capital Assets	<u>\$ 10,069,600</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.

**COON RAPIDS MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

Note 6 – MUNICIPAL BUILDING (Continued)

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

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, 2013 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 – INTER-UTILITY LOANS PAYABLE

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

The outstanding balances of the Inter-utility loans were \$539,176 as of June 30, 2013.

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

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

Year Ending June 30,	Gas Utility		Gas Utility		Communications Utility		Wastewater Utility		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2014	\$ 25,931	\$ 1,017	\$ 86,436	\$ 3,390	\$ 74,335	\$ 2,916	\$ 79,521	\$ 3,119	\$ 266,223	\$ 10,443
2015	26,587	361	88,622	1,205	76,214	1,036	81,532	1,108	272,955	3,710
Total	<u>\$ 52,518</u>	<u>\$ 1,378</u>	<u>\$ 175,058</u>	<u>\$ 4,595</u>	<u>\$ 150,549</u>	<u>\$ 3,952</u>	<u>\$ 161,053</u>	<u>\$ 4,227</u>	<u>\$ 539,178</u>	<u>\$ 14,153</u>

**COON RAPIDS MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

Note 9 – JOINT USE AGREEMENT

On April 19, 2002, the Board of Trustees adopted and approved an intra-fund resolution between the Electric Utility and Communications Utility titled "A Joint Use Agreement Under Iowa Code Chapter 28E".

The Electric Utility financed and installed a communications distribution system for the use and support of electronic operations. This communications distribution system is the sole property of the Electric Utility. Through the joint use agreement, the Communications 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 10 – PAYMENT TO THE CITY

CRMU made volunteer in-lieu-of-tax payments to the City in the amount of \$85,351 for the year ended June 30, 2013.

Note 11 – PENSION AND RETIREMENT BENEFITS

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

Plan members are required to contribute 5.78% of their annual covered salary and CRMU is required to contribute 8.67% of annual covered payroll. Contribution requirements are established by state statute. CRMU's contribution to IPERS for the years ended June 30, 2013, 2012, and 2011, were \$51,529, \$46,003, and \$39,212, respectively, equal to the required contributions for each year.

**COON RAPIDS MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

Note 12 – HEALTH INSURANCE SELF-INSURED

CRMU has a group health insurance policy which provides comprehensive medical coverage for eligible employees and, if elected, their spouses and dependents. CRMU self-insures certain employee eligible medical costs that are not reimbursed by the health insurance provider because the medical cost does not exceed the deductible and maximum out-of-pocket policy provision. CRMU has eleven covered employees as of June 30, 2013.

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

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

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

Year Ended June 30	Beginning Balance Liability	Claims and Changes in Estimates	Claim Payments	Ending Balance
2013	\$ 8,368	\$ 30,708	\$ 39,076	\$ 8,580

Note 13 – COMMITMENTS AND CONTINGENT LIABILITIES

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

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

CRMU entered into a contract 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.

**COON RAPIDS MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

Note 13 – COMMITMENTS AND CONTINGENT LIABILITIES (Continued)

CRMU ownership in Unit 4 George Neal Generating Station has committed the utility to a construction project to reduce the annual sulfur dioxide and nitrogen oxide emission emitted by the station. CRMU's approximate share of the project is \$1,254,526 of which \$791,758 has been paid by June 30, 2013. The project will likely be completed during 2014.

CRMU committed the utility to a project to upgrade it's generators to meet the EPA's hazardous air pollutant emission standards for Reciprocating Internal Combustion Engines (RICE). The contracted amount with Ziegler Power Systems is \$205,529. The Project is expected to be completed in September 2013

Note 14 – MAJOR CUSTOMERS

A significant portion of the Electric Utility and Gas Utility revenue is derived from a single customer. This customer generated approximately 13% of the Electric Utility total sales to customers and 32% of the Gas Utility total sales to customers for the year ended June 30, 2013.

Note 15 – CONCENTRATIONS

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

Note 16 – RISK MANAGEMENT

CRMU is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks, except for loss of infrastructure, are covered by the purchase of commercial insurance. CRMU assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Note 17 – 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, no new loans were made, and payments were received on all of the loans totaling \$56,517, leaving \$69,217 available for purposes of this revolving loan program.

**COON RAPIDS MUNICIPAL UTILITIES
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2013**

Grantor/Program	CFDA Number	Grant or Award Number	Program Expenditures
INDIRECT:			
U.S. Department of Homeland Security: Indirect Through Iowa Homeland Security and Emergency Management Division:			
Hazard Mitigation Grant	97.039	HMGP-DR-1763-0197-01	\$ 726,416
U.S. Department of Energy: Indirect Through Iowa Office of Energy Independence:			
ARRA - Energy Efficiency and Conservation Block Grant Program	81.128	EECBG 10-3500	7,111
Total Indirect Expenditures			<u>733,527</u>
TOTAL			<u>\$ 733,527</u>

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note 1 - BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Coon Rapids Municipal Utilities and is presented on the accrual basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the general purpose financial statements.

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

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, of each major fund of Coon Rapids Municipal Utilities, a component unit of the City of Coon Rapids, as of and for the year ended June 30, 2013, 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 December 10, 2013.

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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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. . We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs, II-A-13, to be a material weakness.

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*.

Coon Rapids Municipal Utilities' Response to Findings

Coon Rapids Municipal Utilities' response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Coon Rapids Municipal Utilities' response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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
December 10, 2013

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

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

Report on Compliance for Each Major Federal Program

We have audited Coon Rapids Municipal Utilities', a component unit of the City of Coon Rapids, (Coon Rapids Municipal Utilities) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Coon Rapids Municipal Utilities' major federal programs for the year ended June 30, 2013. Coon Rapids Municipal Utilities' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Coon Rapids Municipal Utilities' major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Coon Rapids Municipal Utilities compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Coon Rapids Municipal Utilities' compliance.

Opinion on Each Major Federal Program

In our opinion, Coon Rapids Municipal Utilities complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

Report on Internal Control over Compliance

Management of Coon Rapids Municipal Utilities is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Coon Rapids Municipal Utilities' internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Coon Rapids Municipal Utilities' internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Williams + Company, P.C.
Certified Public Accountants

Spencer, Iowa
December 10, 2013

**COON RAPIDS MUNICIPAL UTILITIES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2013**

PART I – SUMMARY OF AUDITORS' RESULTS

- (A) An unmodified opinion was issued on the financial statements.
- (B) A material weakness in internal control over financial reporting was disclosed by the audit of the financial statements.
- (C) The audit did not disclose any non-compliance which is material to the financial statements.
- (D) No significant deficiencies in internal control over major programs were disclosed by the audit of the financial statements.
- (E) An unmodified opinion was issued on compliance with requirements applicable to each major program.
- (F) The audit disclosed audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (G) Major programs were as follows:
 - CFDA Number 97.039 – Hazard Mitigation Grant
- (H) The dollar threshold used to distinguish between Type A and Type B was \$300,000.
- (I) Coon Rapids Municipal Utilities did not qualify as a low-risk auditee.

PART II – FINDING RELATED TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

MATERIAL WEAKNESS:

II-A-13 Financial Reporting – During the audit, we identified material and immaterial adjustments which could result in material misstatements of retainage payable, revenue and expense that were not initially identified by Coon Rapids Municipal Utilities' internal control. These amounts were either not recorded or not properly recorded in the financial statements.

Recommendation – The Utility should review its' procedures to ensure all accounts are properly identified, classified, and included in the Utility's financial statements.

Response – We will continue to improve procedures to ensure the proper amounts are recorded in the financial statements in the future.

Conclusion - Response accepted.

INSTANCES OF NON-COMPLIANCE: No matters were reported.

**COON RAPIDS MUNICIPAL UTILITIES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2013**

PART III – FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

SIGNIFICANT DEFICIENCIES: No matters were reported.

INSTANCES OF NON-COMPLIANCE: No matter were reported.

PART IV – OTHER FINDINGS RELATED TO REQUIRED STATUTORY REPORTING

IV-A-13: 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, 2013.

IV-B-13: Certified Budget – Expenditures for the year ended June 30, 2013, did not exceed the amounts budgeted.

IV-C-13: 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-D-13: Travel Expense – No disbursements of the Utilities’ money for travel expenses of spouses of Utilities’ officials or employees were noted.

IV-E-13: Business Transactions – No business transactions between the Utility and Utility officials or employees were noted.

IV-F-13: 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.

IV-G-13: Board Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not.

IV-H-13: 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-I-13: Telecommunication Services – No instances of non-compliance with Chapter 388.10 of the Code of Iowa were noted.