

**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, 2017

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 - 39
Required Supplementary Information	
Schedule of the Utilities' Proportionate Share of the Net Pension Liability	40
Schedule of Utilities' Contributions	41 - 42
Notes to Required Supplementary Information – Pension Liability.....	43
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>	44 - 45
Schedule of Findings	46 - 47

COON RAPIDS MUNICIPAL UTILITIES

OFFICIALS

(As of June 30, 2017)

<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 2022
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, 2017, 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 auditors' 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, 2017 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 40 through 43 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 Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 15, 2017, 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 15, 2017

BASIC FINANCIAL STATEMENTS



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, 2017. 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, deferred outflows) and the obligations to creditors (liabilities, deferred inflows), 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.

Required Supplementary information further explains and supports the financial statements with the Utilities’ share of the net pension liability and related contributions.

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. In the near future, CRMU will be deploying a new fiber-to-the-home (FTTH) network. This new network will provide CRMU customers with the best technology available for communication service. Coupled with our excellent customer service, this very reliable system will hopefully create an inherent advantage over local competitors.

Over the years, CRMU has seen demand for internet bandwidth increase at a rapid pace. With more customers streaming and using multiple devices in their home, we can assume this pace will continue. CRMU is currently in the process of securing additional bandwidth, as well as a redundant route, to keep up with these demands.

This year, CRMU launched 2 new cable channels. Perhaps more compelling is the addition of watchtveverywhere.com. Today, CRMU cable subscribers can watch their favorite shows whenever and wherever they want - for free.

Communications Utility Financial Highlights:

Dollars in Thousands

	2017	2016
OPERATING		
Revenues	795	788
Expenses	738	709
Operating Income (Loss).....	57	79
NONOPERATING		
Revenues (Expenses)	11	7
TRANSFERS	(650)	0
Change in Net Position	(582)	86
ASSETS		
Current	839	1,367
Capital	145	164
Noncurrent Assets	117	128
Total Assets.....	1,101	1,659
DEFERRED OUTFLOWS	28	28
Total Assets & Deferred Outflows	1,129	1,687
LIABILITIES		
Current	72	46
Long-term	99	81
Total Liabilities.....	171	127
DEFERRED INFLOWS	1	21
NET POSITION		
Net Investment in Capital Assets	145	164
Unrestricted	812	1,375
Total Net Position	957	1,539
Total Liab., Def. Inflows & Net Pos.	1,129	1,687

Management’s Discussion and Analysis

Results of Operations:

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

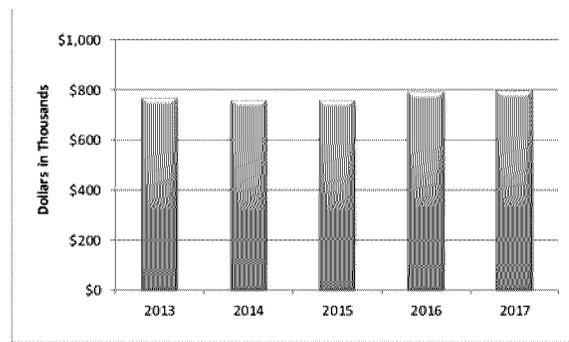
Revenue from operations increased almost 1% (approximately \$7,250), while total operating expenses increased 4% (\$29,000 increase).

Revenues, although relatively unchanged overall, saw a decrease of \$30,500 for cable tv (solely due to lower operating transfers from telephone), a \$21,700 increase in internet (a combination of higher internet and rural wireless subscriber revenue), and a \$16,750 increase in telephone (a combination of increased telephone system retail sales and decreased CABS revenue). Expenses increased – specifically, channel subscriber fees and cost of merchandising (phone system), while purchased internet, wages, and operating transfers (excluding surplus transfers) decreased.

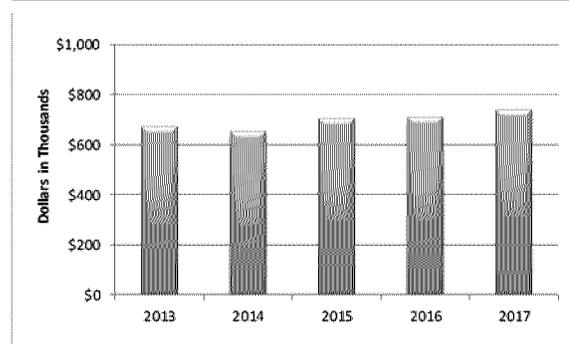
In-Lieu-of tax payments and free community services totaled \$1,450, compared to \$634 last year.

The communications utility ended the year with a \$68,000 gain before transfers, compared to \$86,000 in 2016. The communication utility’s beginning net position was \$1,539,000, the change in net position was a loss of \$582,000, resulting in an ending net position of \$957,000.

**Communications Utility
Operating Revenues: \$794,989**



**Communications Utility
Operating Expenses: \$738,315**



Financial Position:

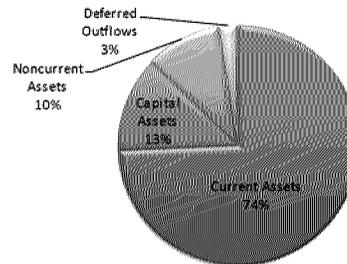
(As reported on the Statement of Net Position)

Total assets decreased more than 33% in fiscal year 2017. This can be attributed to a decrease in cash. The communications utility declared a surplus of \$650,000, which was transferred to the electric utility to aid in construction for the FTTH project. Total liabilities increased almost 35%, primarily because of a \$28,000 increase in accounts payable (specifically, CABS) and an \$18,000 increase in the net pension liability, which CRMU will likely never be required to pay (see Note 12 of the audit report). Total net position decreased more than 37%.

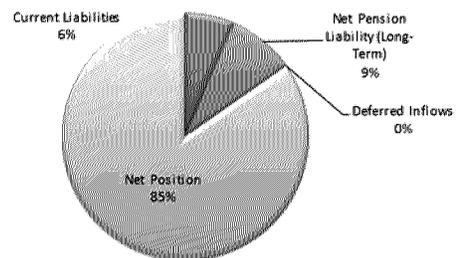
Capital assets, in the form of utility plant, facilities and equipment, account for 13% of total assets, while current assets comprise 73% of the total assets. Cash and cash equivalents account for almost 69% of total assets. These funds are designated for equipment replacement, capital improvements, and general savings.

Revenues were higher than budgeted projections by \$56,000, and expenses were higher than budget by \$24,000.

**Communication Utility Total Assets and Deferred
Outflows: \$1,129,454**



**Communication Utility Total Liabilities, Deferred
Inflows and Net Position: \$1,129,454**



Management's Discussion and Analysis

Electric Utility

Overview:

In June, 2017, CRMU's electric utility completed its first full fiscal year in SPP (Southwest Power Pool – Regional Transmission Organization) after first entering in October, 2015. Although our Attachment H case submitted to FERC isn't completely settled, SPP entry has been beneficial for CRMU. Attachment H revenue, as well as market reliability and dependability, has provided a sense of security for CRMU and NIMECA, the joint action agency of which CRMU is a member. CRMU is heavily involved in NIMECA, ensuring the best decisions are made for all members.

In 2017, CRMU's electric utility borrowed \$2.4 million in capital loan notes to build the fiber-to-the-home network previously discussed under communications. The project is not yet complete, but we see this debt impact our balance sheet this year. The expected project completion date is December, 2018.

In 2017, CRMU realized a net operating gain of \$494,000 and a nonoperating gain of \$36,000 for a total gain of \$530,000 before transfers, compared to a gain of \$420,000 in 2016 (an increase of \$110,000). The electric utility's beginning net position was \$12,385,000, the change in net position was a gain of \$1,180,000, resulting in an ending net position of \$13,565,000.

Electric Utility Financial Highlights:

Dollars in Thousands

	2017	2016
OPERATING		
Revenues	2,637	2,604
Expenses	2,143	2,223
Operating Income (Loss)	494	381
NONOPERATING		
Revenues (Expenses)	36	39
TRANSFERS	650	0
Change in Net Position	1,180	420
ASSETS		
Current	5,480	2,709
Capital	11,375	9,821
Noncurrent	311	233
Total Assets	17,166	12,763
DEFERRED OUTFLOWS	74	68
Total Assets & Deferred Outflows	17,240	12,831
LIABILITIES		
Current	1,132	191
Long-term	2,540	206
Total Liabilities	3,672	397
DEFERRED INFLOWS	3	49
NET POSITION		
Net Investment in Capital Assets	10,333	9,821
Restricted	389	382
Unrestricted	2,843	2,182
Total Net Position	13,565	12,385
Total Liab., Def. Inflows & Net Pos.	17,240	12,831

Results of Operations:

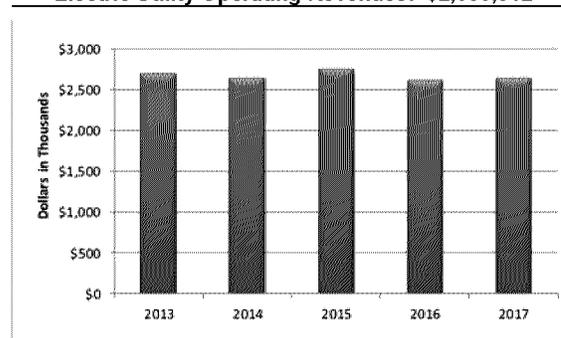
(As reported in the Statements of Revenues, Expenses and Changes in Fund Net Position)

Revenue from operations increased slightly by \$33,000 (1%). Revenue from sales to customers increased 5%, which is expected since kwh sales increased 2.5%. Resale revenue decreased \$27,000 (-2%). This revenue varies as a result of Neal 4 operations, our capacity sharing agreement within NIMECA, and our Attachment H / SPP ATRR revenue.

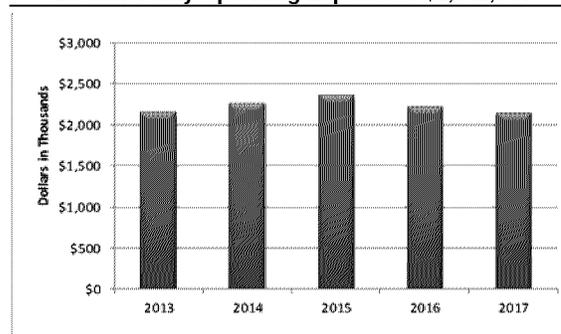
Operating expenses decreased almost \$80,000 (-3.6%). Purchased energy, plant operations, and administrative and general expenses all decreased compared to 2016. Specifically, O&M – Neal 4 expenses decreased more than \$100,000 due to its decreased production. Depreciation (non-cash), customer service, distribution, and transmission operation expenses all increased.

In-lieu-of tax payments and free community services totaled \$52,200, compared to \$71,000 last year.

Electric Utility Operating Revenues: \$2,636,812



Electric Utility Operating Expenses: \$2,142,541



Management's Discussion and Analysis

Financial Position:

(As reported on the Statement of Net Position)

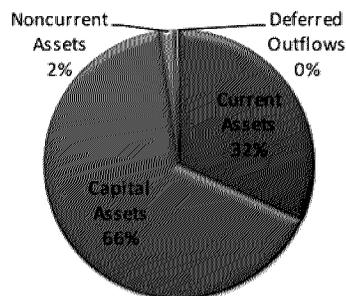
Current assets account for 32% of total assets. CRMU has 26% of its total assets in the form of cash and cash equivalents. Of this amount, a significant portion are the loan proceeds for the FTTH project that have yet to be spent. Additionally, the Board of Trustees has allocated the remaining funds 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 66% of CRMU's total assets. Noncurrent assets account for 2% of total assets.

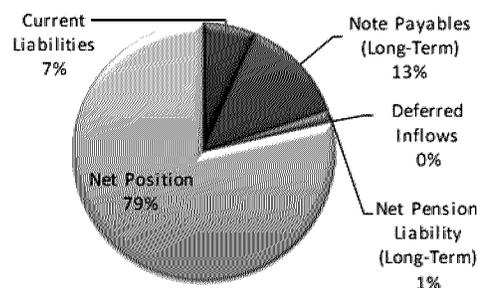
Current liabilities account for 7% of total liabilities and net position (\$120,000 in notes payable). CRMU is now required to report a "Net Pension Liability" of \$260,000 for the electric utility, which CRMU will likely never be required to pay (see Note 12 of the audit report). Finally, the "Note Payables" of 13% (\$2.28 million) are new this year and represent the FTTH debt.

Revenues were higher than budget by \$22,500, while expenses were lower than budget by \$242,000.

Electric Utility Total Assets & Deferred Outflows:
\$17,240,126



Electric Utility Total Liabilities, Deferred Inflows, and Net Position: \$17,240,126



Natural Gas Utility

Overview:

CRMU's natural gas utility 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 2017, the average price for the natural gas commodity was approximately \$2.93/Mcf. CRMU expects the commodity cost to remain relatively stable in the near future.

CRMU's natural gas utility performed better this year than last, which is a direct result of industrial customer usage, as well as a rate adjustment implemented at the beginning of the fiscal year. Additionally, a rate restructuring plan with small increases over a 3-year period was implemented in July, 2017 to help rebuild reserves that have spent down over the last few years.

Natural Gas Utility Financial Highlights:

Dollars in Thousands

	2017	2016
OPERATING		
Revenues	537	430
Expenses	577	571
Operating Income (Loss)	(40)	(141)
NONOPERATING		
Revenues (Expenses)	(23)	(88)
Change in Net Position	(63)	(229)
ASSETS		
Current	777	759
Capital	753	793
Noncurrent	175	220
Total Assets	1,705	1,772
DEFERRED OUTFLOWS	32	28
Total Assets & Deferred Outflows	1,737	1,800
LIABILITIES		
Current	43	46
Long-term	104	83
Total Liabilities	147	129
DEFERRED INFLOWS	1	19
NET POSITION		
Net Investment in Capital Assets	752	793
Unrestricted	837	859
Total Net Position	1,589	1,652
Total Liab., Def. Inflows & Net Pos.	1,737	1,800

Management’s Discussion and Analysis

Results of Operations:

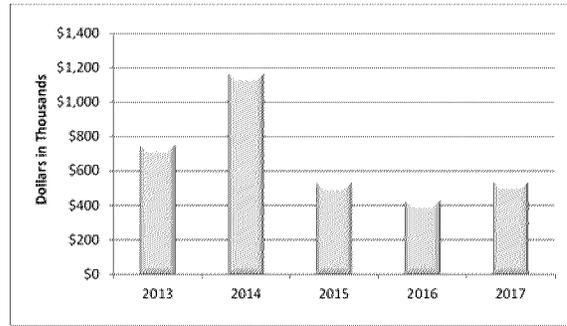
(As reported in the Statements of Revenues, Expenses and Changes in Fund Net Position)

In 2017, CRMU’s natural gas utility experienced an operating loss of \$39,000, compared to a loss of \$141,000 in 2016. Combined with nonoperating revenues and expenses, the utility ended the year with a \$62,500 loss, compared to a loss of \$229,000 last year.

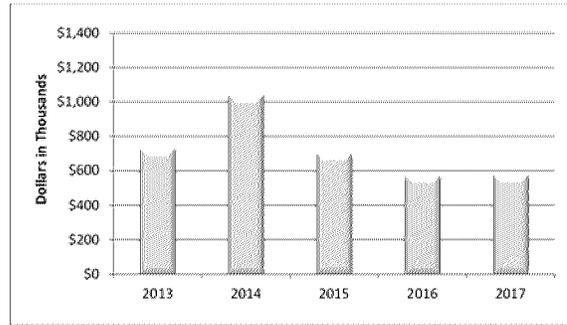
In 2017, total operating revenues increased almost \$107,000 (25%). Total usage billed increased more than 4,000 mcf (8.4%). Industrial usage totaled 2,900 mcf – an increase from 0 mcf the last two years.

Total operating expenses increased \$5,300 (less than 1%). Considering the actual commodity cost of gas was slightly higher this year and we had more usage, this small increase shows our resources and expenses are well managed and controlled. Nonoperating expenses decreased more than 73% in 2017, which can be attributed to a lower contribution to the City of Coon Rapids and the community, which totaled \$31,400 in 2016, compared to \$96,500 last year.

Natural Gas Utility Operating Revenues: \$537,414



Natural Gas Utility Operating Expenses: \$576,756



Financial Position:

(As reported on the Statement of Net Position)

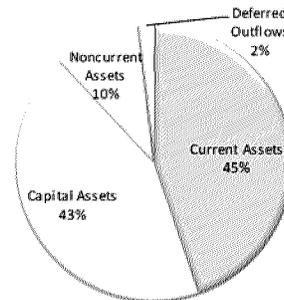
Capital assets, in the form of utility plant, facilities and equipment, account for 43% of CRMU’s total assets, while current assets comprise 44% of the total. Cash and cash equivalents account for 39% of total assets. Of the cash on hand, most is designed for specific uses, but has been used to fund losses over the last few years. We hope the rate restructurings will replenish these reserve levels in the future.

CRMU’s current liabilities are primarily comprised of payables totaling almost \$41,600.

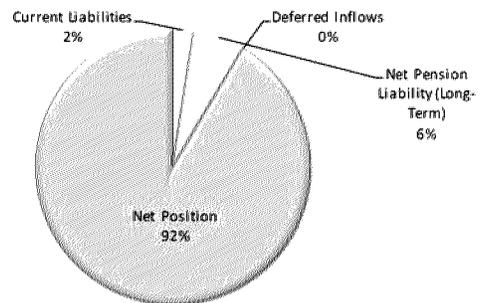
CRMU’s natural gas “Net Pension Liability” accounts for 6% of the total liabilities and net pension. This equates to \$105,000, which CRMU will likely never be required to pay (see Note 12 of the audit report).

Revenues and expenses were lower than budget projections by \$30,000 and \$75,000, respectively. The natural gas utility’s beginning net position was \$1,652,000, the change in net position was a loss of \$63,000, resulting in an ending net position of \$1,589,000.

Natural Gas Utility Total Assets and Deferred Outflows: \$1,737,219



Natural Gas Utility Total Liabilities, Deferred Liabilities, and Net Position: \$1,737,219



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.

CRMU's water utility has struggled to break-even in years past. With the help of recent rate adjustments, the water utility has been able to break-even and slowly rebuild reserves. Yet, our water infrastructure is aging and requires numerous repairs each year. The level of reserves needed is continuously monitored to ensure future capital improvement needs can be met, while maintaining reasonable rates.

In 2017, the water utility ended with an operating gain of just over \$3,000, compared to \$6,000 last year. Revenues from sales to customers increased 3%, while actual customer usage was unchanged. The revenue increase is a result of a rate adjustment implemented in July, 2016.

Water Utility Financial Highlights:

Dollars in Thousands

	2017	2016
OPERATING		
Revenues	227	215
Expenses	224	209
Operating Income (Loss).....	3	6
NONOPERATING		
Revenues (Expenses)	59	(4)
Change in Net Position	62	2
ASSETS		
Current	343	326
Capital	360	316
Total Assets.....	703	642
DEFERRED OUTFLOWS		
	17	19
Total Assets & Deferred Outflows	720	661
LIABILITIES		
Current	17	18
Long-term	67	55
Total Liabilities.....	84	73
DEFERRED INFLOWS		
	1	15
NET POSITION		
Net Investment in Capital Assets	360	316
Unrestricted	275	257
Total Net Position	635	573
Total Liab., Def. Inflows & Net Pos.	720	661

Results of Operations:

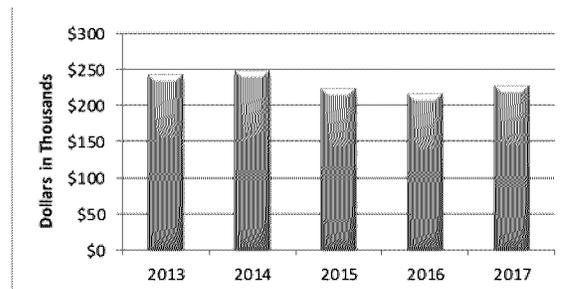
(As reported in the Statements of Revenues, Expenses and Changes in Fund Net Position)

In addition to the increase in revenues from sales to customers, interdepartmental sales and merchandising revenues also increased.

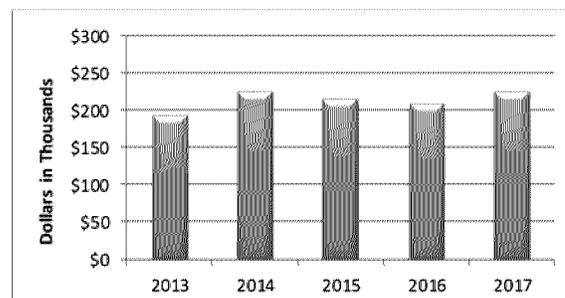
Operating expenses increased \$15,250 (7%). Plant operations expense increased \$5,300 due to increased chemical and wage expense. Customer service and admin/general expenses also increased. Distribution operation and depreciation expenses remained relatively unchanged.

Nonoperating revenues totaled almost \$59,000 this year, compared to a \$3,800 loss last year. The reason for this swing is the contribution from the Coon Rapids Development Group for water infrastructure in the new subdivision – in the amount of \$64,500. Contributions through payment-in-lieu-of-tax and donations to the community totaled \$6,600 this year, which is more than last year's contribution of \$4,400.

Water Utility Operating Revenues: \$227,477



Water Utility Operating Expenses: \$224,434



Management's Discussion and Analysis

Financial Position:

(As reported on the Statement 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.

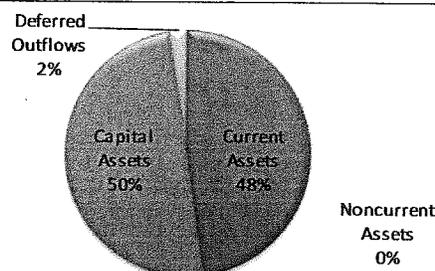
The water utility has no noncurrent assets (loan receivables).

Capital assets, in the form of utility plant, facilities and equipment, account for 50% of CRMU's total assets. CRMU's total assets increased \$60,700 in 2017.

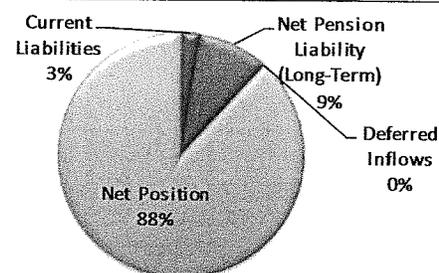
Total liabilities increased 15% because CRMU is now required to report a "Net Pension Liability" of \$66,500 in the water utility, which CRMU will likely never be required to pay (see Note 10 of the audit report). Current liabilities account for 3% of total liabilities, net position, and deferred inflows.

Revenues were higher than budget by \$49,350. Expenses were lower than budget by \$2,250. The water utility's beginning net position was \$573,000, the change in net position was a gain of \$62,000, resulting in an ending net position of \$635,000.

Water Utility Total Assets and Deferred Outflows:
\$719,735



Water Utility Total Liabilities, Deferred Inflows, and Net Position: \$719,735



Wastewater Utility

Overview:

CRMU's wastewater utility experienced a net gain of \$58,700 in 2017, compared to net loss of \$161,800 last year.

The Coon Rapids Development Group subdivision sanitary sewer infrastructure is the primary reason for this performance swing. Last year, CRMU donated \$126,000 to the development group for sewer service to the subdivision. After completion of the project, the development group contributed the assets to CRMU, which resulted in \$126,000 in nonoperating revenue. Ultimately, the expense and revenue offset, but in different fiscal years.

Aside from the development's impact on financials, the wastewater utility saw a \$68,000 loss on operations, compared to a \$38,000 loss last year. The wastewater utility's beginning net position was \$1,695,000, the change in net position was a gain of \$59,000, resulting in an ending net position of \$1,754,000.

Wastewater Utility Financial Highlights:

Dollars in Thousands

	2017	2016
OPERATING		
Revenues	139	140
Expenses	207	178
Operating Income (Loss)	(68)	(38)
NONOPERATING		
Revenues (Expenses)	127	(124)
Change in Net Position	59	(162)
ASSETS		
Current	640	598
Capital	1,167	1,140
Total Assets	1,807	1,738
DEFERRED OUTFLOWS	22	11
Total Assets & Deferred Outflows	1,829	1,749
LIABILITIES		
Current	12	11
Long-term	62	39
Total Liabilities	74	50
DEFERRED INFLOWS	1	3
NET POSITION		
Net Investment in Capital Assets	1,167	1,140
Unrestricted	587	556
Total Net Position	1,754	1,696
Total Liab., Def. Inflows & Net Pos.	1,829	1,749

Management’s Discussion and Analysis

Results of Operations:

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

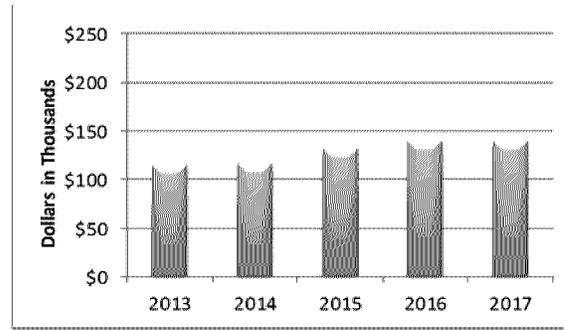
In 2017, the wastewater utility recorded \$139,250 in revenues. This is lower by less than 1% (\$700) compared to 2016. Total customer usage declined 2% from 2016 to 2017.

Total operating expenses in 2017 increased almost \$29,000 (16%) compared to 2016. All expense categories, as reported on the audit, increased. Specifically, plant production equipment increased \$4,000, wages increased 5,000, IPERS expense increased \$6,500 (directly related to GASB 68), and depreciation – production plan increased \$13,500. Of these increases, \$20,000 is “non-cash.”

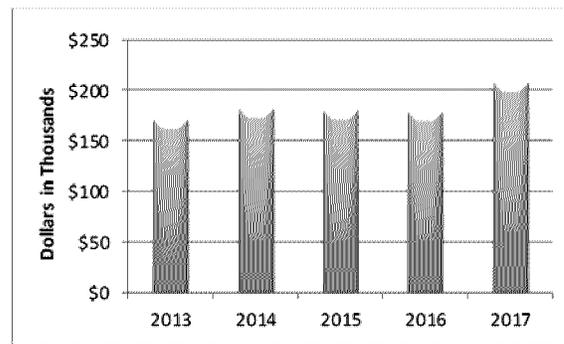
Nonoperating revenues this year totaled \$126,500, compared to a \$123,500 loss last year. This is a direct result of the “Contribution from Developers” previously mentioned regarding the CRDG subdivision.

In total, payment-in-lieu-of tax payments and free service to the community totaled \$1,488, compared to \$125,400 last year.

Wastewater Utility Operating Revenues: \$139,256



Wastewater Utility Operating Expenses: \$206,958



Financial Position:

(As reported on the Statement of Net Position)

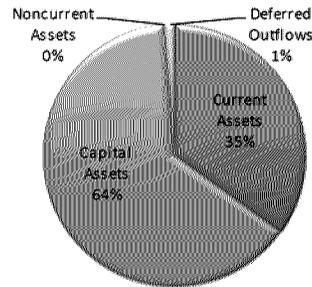
Capital assets, in the form of utility plant, facilities and equipment, account for 64% of CRMU's total assets, while current assets account for 35%.

The wastewater utility has 34% 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 actually increased by \$39,000 from last year.

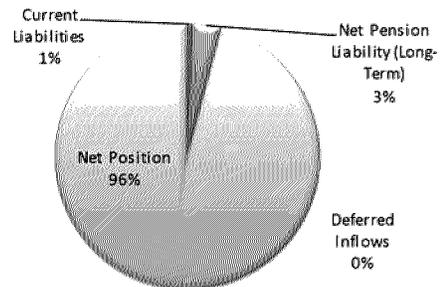
Total liabilities account for \$73,500 (4%) of the total liabilities, deferred inflows, and net position. Of that, \$61,800 are recorded as the net pension liability, which CRMU will likely never be required to pay (see Note 12 of the audit report).

Revenues were \$122,000 higher than budget (due to contribution from developer). Expenses were \$16,600 higher than budget.

Wastewater Utility Total Assets and Deferred Outflows: \$1,829,324



Wastewater Utility Total Liabilities, Deferred Inflows, and Net Position: \$1,829,324



COON RAPIDS MUNICIPAL UTILITIES
(A COMPONENT UNIT OF THE CITY OF COON RAPIDS, IOWA)
STATEMENTS OF NET POSITION
JUNE 30, 2017

	Communications Utility	Electric Utility	Gas Utility
Assets			
Current Assets:			
Cash & Cash Equivalents-Unrestricted	\$ 759,477	\$ 2,250,706	\$ 663,543
Cash & Cash Equivalents-Restricted	-	2,219,140	-
Accounts Receivable, Net of Allowance -			
Trade	25,515	159,278	31,977
Other	22,300	132,949	2,955
Revolving Loans Receivable - Current Portion	-	45,336	7,563
Note Receivable - Current Portion	12,449	-	17,784
Inventories	9,191	627,272	44,990
Other Current and Prepaid Assets	10,597	45,377	8,114
Total Current Assets	<u>839,529</u>	<u>5,480,058</u>	<u>776,926</u>
Capital Assets:			
Land	-	52,312	30,478
Construction in Progress	-	3,214,720	-
Utility Plant, Facilities and Equipment, at Cost	412,592	15,059,577	1,869,791
Accumulated Depreciation	(267,848)	(6,951,570)	(1,147,144)
Total Capital Assets	<u>144,744</u>	<u>11,375,039</u>	<u>753,125</u>
Noncurrent Assets:			
NIMECA Patronage Dividend Receivable	-	17,706	-
Revolving Loans Receivable - Net of Current Portion	-	293,339	28,905
Note Receivable - Net of Current Portion	116,697	-	146,645
Total Noncurrent Assets	<u>116,697</u>	<u>311,045</u>	<u>175,550</u>
Total Assets	<u>1,100,970</u>	<u>17,166,142</u>	<u>1,705,601</u>
Deferred Outflows of Resources			
Pension Related Deferred Outflows	<u>28,484</u>	<u>73,984</u>	<u>31,618</u>
Liabilities			
Current Liabilities:			
Accounts Payable - Trade	62,264	924,287	30,429
Other Payables and Credits	290	19,335	182
Compensated Absences Payable	10,165	29,465	11,044
Customer Deposits	-	15,200	-
Notes Payable	-	120,000	-
Accrued Interest	-	24,048	-
Total Current Liabilities	<u>72,719</u>	<u>1,132,335</u>	<u>41,655</u>
Long-term Liabilities:			
Note Payables	-	2,280,000	-
Net Pension Liability	99,144	259,544	104,630
Total Long-term Liabilities	<u>99,144</u>	<u>2,539,544</u>	<u>104,630</u>
Total Liabilities	<u>171,863</u>	<u>3,671,879</u>	<u>146,285</u>
Deferred Inflows of Resources			
Pension Related Deferred Inflows	<u>989</u>	<u>2,965</u>	<u>1,201</u>
Net Position			
Net Investment in Capital Assets	144,744	10,333,400	753,125
Restricted	-	389,366	-
Unrestricted	811,858	2,842,516	836,608
Total Net Position	<u>\$ 956,602</u>	<u>\$ 13,565,282</u>	<u>\$ 1,589,733</u>

See Accompanying Notes to Financial Statements

Water Utility	Wastewater Utility	Total
\$ 275,794	\$ 618,229	\$ 4,567,749
-	-	2,219,140
36,105	18,147	271,022
4,355	41	162,600
-	-	52,899
-	-	30,233
15,509	538	697,500
11,557	2,537	78,182
<u>343,320</u>	<u>639,492</u>	<u>8,079,325</u>
33,349	5,980	122,119
-	-	3,214,720
1,455,586	2,887,812	21,685,358
(1,129,177)	(1,726,315)	(11,222,054)
<u>359,758</u>	<u>1,167,477</u>	<u>13,800,143</u>
-	-	17,706
-	-	322,244
-	-	263,342
-	-	603,292
<u>703,078</u>	<u>1,806,969</u>	<u>22,482,760</u>
<u>16,657</u>	<u>22,355</u>	<u>173,098</u>
9,955	8,025	1,034,960
-	-	19,807
7,501	3,661	61,836
-	-	15,200
-	-	120,000
-	-	24,048
<u>17,456</u>	<u>11,686</u>	<u>1,275,851</u>
-	-	2,280,000
66,519	61,845	591,682
<u>66,519</u>	<u>61,845</u>	<u>2,871,682</u>
<u>83,975</u>	<u>73,531</u>	<u>4,147,533</u>
<u>636</u>	<u>1,271</u>	<u>7,062</u>
359,758	1,167,477	12,758,504
-	-	389,366
275,366	587,045	5,353,393
<u>\$ 635,124</u>	<u>\$ 1,754,522</u>	<u>\$ 18,501,263</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, 2017

	Communications		
	Utility	Electric Utility	Gas Utility
Operating Revenues			
Sales to Customers	\$ 787,479	\$ 1,397,997	\$ 528,390
Sales for Resale	-	1,152,379	-
Interdepartmental Sales	-	70,300	6,333
Forfeited Discounts	6,091	13,092	1,356
Rebates and Other	1,419	3,044	1,335
Total Operating Revenues	<u>794,989</u>	<u>2,636,812</u>	<u>537,414</u>
Operating Expenses			
Purchased Energy and Programming	362,980	586,848	270,557
Plant Operations	20,295	425,525	12,686
Transmission Operations	-	101,738	-
Distribution Operations	157,885	189,873	88,571
Consumer Service Operations	44,943	95,206	45,385
Administrative & General Expenses	121,964	321,363	108,064
Depreciation	30,248	421,988	51,493
Total Operating Expense	<u>738,315</u>	<u>2,142,541</u>	<u>576,756</u>
Operating Income (Loss)	56,674	494,271	(39,342)
Nonoperating Revenues (Expenses)			
Interest Income	7,525	15,607	8,386
Joint Use Revenue	-	101,395	-
In-Lieu-Of Tax Payments	(925)	(32,408)	(13,847)
Free Community Service	(527)	(19,776)	(17,573)
(Loss) on Sale or Disposal of Assets	(2,305)	(7,729)	-
Miscellaneous Nonoperating Revenue	4,365	2,968	(159)
Merchandise Sales - Net	3,203	-	-
Interest Expense	-	(24,048)	-
Contributions from Developers	-	-	-
Net Nonoperating Revenues (Expenses)	<u>11,336</u>	<u>36,009</u>	<u>(23,193)</u>
Change in Net Position Before Transfers	68,010	530,280	(62,535)
Non-mandatory Transfers	<u>(650,000)</u>	<u>650,000</u>	<u>-</u>
Change in Net Position After Transfers	(581,990)	1,180,280	(62,535)
Total Net Position June 30, 2016	<u>1,538,592</u>	<u>12,385,002</u>	<u>1,652,268</u>
Total Net Position June 30, 2017	<u>\$ 956,602</u>	<u>\$ 13,565,282</u>	<u>\$ 1,589,733</u>

See Accompanying Notes to Financial Statements

Water Utility	Wastewater Utility	Total
\$ 217,884	\$ 137,307	\$ 3,069,057
-	-	1,152,379
3,347	437	80,417
1,115	633	22,287
5,131	879	11,808
<u>227,477</u>	<u>139,256</u>	<u>4,335,948</u>
-	-	1,220,385
53,619	10,436	522,561
-	-	101,738
54,648	38,048	529,025
26,025	12,661	224,220
62,660	46,429	660,480
27,482	99,384	630,595
<u>224,434</u>	<u>206,958</u>	<u>3,889,004</u>
3,043	(67,702)	446,944
917	1,838	34,273
-	-	101,395
(5,501)	(262)	(52,943)
(1,087)	(1,226)	(40,189)
-	-	(10,034)
-	-	7,174
-	-	3,203
-	-	(24,048)
<u>64,533</u>	<u>126,125</u>	<u>190,658</u>
<u>58,862</u>	<u>126,475</u>	<u>209,489</u>
61,905	58,773	656,433
-	-	-
<u>61,905</u>	<u>58,773</u>	<u>656,433</u>
573,219	1,695,749	17,844,830
<u>\$ 635,124</u>	<u>\$ 1,754,522</u>	<u>\$ 18,501,263</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, 2017

	Communications		
	Utility	Electric Utility	Gas Utility
Cash Flows from Operating Activities:			
Cash Received from Customers & Users	\$ 775,273	\$ 2,590,972	\$ 517,494
Cash Paid to Suppliers for Goods and Services	(517,051)	(617,497)	(343,303)
Cash Paid to Employees	(168,666)	(405,398)	(175,710)
Cash Received from Joint Revenue	-	101,395	-
Cash Received from Miscellaneous Nonoperating Revenue	7,568	2,968	(159)
Cash Paid for In-Lieu-of Tax Payments	(925)	(32,408)	(13,847)
Cash Paid for Free Community Services	(527)	(19,776)	(17,573)
Net Cash Provided (Used) by Operating Activities	<u>95,672</u>	<u>1,620,256</u>	<u>(33,098)</u>
Cash Flows from Capital & Related			
Financing Activities			
Acquisition & Construction of Property and Equipment	(13,162)	(1,994,912)	(11,853)
Proceeds from Sale of Capital Asset	-	11,359	-
Proceeds from Notes Payable	-	2,400,000	-
Non-mandatory Transfers	(650,000)	650,000	-
Net Cash Provided (Used) by Capital & Related Financing Activities	<u>(663,162)</u>	<u>1,066,447</u>	<u>(11,853)</u>
Cash Flows from Investing Activities			
Interest on Investments	7,525	15,607	8,386
Disbursements Made on Coon Rapids Development Loans	-	(130,000)	-
Payments Received on Coon Rapids Development Loans	10,855	39,685	43,741
Net Cash Provided (Used) from Investing Activities	<u>18,380</u>	<u>(74,708)</u>	<u>52,127</u>
Net Increase (Decrease) in Cash & Cash Equivalents	(549,110)	2,611,995	7,176
Cash & Cash Equivalents - June 30, 2016	<u>1,308,587</u>	<u>1,857,851</u>	<u>656,367</u>
Cash & Cash Equivalents - June 30, 2017	<u>\$ 759,477</u>	<u>\$ 4,469,846</u>	<u>\$ 663,543</u>
Reconciliation:			
Cash & Cash Equivalents			
Unrestricted	\$ 759,477	\$ 2,250,706	\$ 663,543
Restricted	-	2,219,140	-
	<u>\$ 759,477</u>	<u>\$ 4,469,846</u>	<u>\$ 663,543</u>

See Accompanying Notes to Financial Statements

Water Utility	Wastewater Utility	Total
\$ 219,044	\$ 137,588	\$ 4,240,371
(73,352)	(33,741)	(1,584,944)
(129,342)	(63,710)	(942,826)
-	-	101,395
-	-	10,377
(5,501)	(262)	(52,943)
(1,087)	(1,226)	(40,189)
<u>9,762</u>	<u>38,649</u>	<u>1,731,241</u>
(6,337)	(1,066)	(2,027,330)
-	-	11,359
-	-	2,400,000
-	-	-
<u>(6,337)</u>	<u>(1,066)</u>	<u>384,029</u>
917	1,838	34,273
-	-	(130,000)
-	-	94,281
<u>917</u>	<u>1,838</u>	<u>(1,446)</u>
4,342	39,421	2,113,824
<u>271,452</u>	<u>578,808</u>	<u>4,673,065</u>
<u>\$ 275,794</u>	<u>\$ 618,229</u>	<u>\$ 6,786,889</u>
\$ 275,794	\$ 618,229	\$ 4,567,749
-	-	2,219,140
<u>\$ 275,794</u>	<u>\$ 618,229</u>	<u>\$ 6,786,889</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, 2017

	Communications Utility	Electric Utility	Gas Utility
Reconciliation of Operating Income (Loss) to Net Cash Flows from Operating Activities			
Operating Income (Loss)	\$ 56,674	\$ 494,271	\$ (39,342)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities			
Depreciation	30,248	421,988	51,493
Cash Received from Joint Revenue	-	101,395	-
Cash Received from Miscellaneous Nonoperating Revenue	4,365	2,968	(159)
Cash Received from Merchandise Sales	3,203	-	-
Cash Paid for In-Lieu-of Tax Payments	(925)	(32,408)	(13,847)
Cash Paid for Free Community Services	(527)	(19,776)	(17,573)
(Increase) Decrease Operating Assets:			
Accounts Receivable	(19,717)	(45,840)	(19,920)
Inventories	(2,690)	(101,732)	2,933
Other Current & Prepaid Assets	1,018	305	7,245
Deferred Outflows	(704)	(5,412)	(3,280)
Increase (Decrease) Operating Liabilities:			
Accounts & Other Payables	28,086	791,272	(3,692)
Customer Deposits	-	4,150	-
Compensated Absences Payables	(1,582)	2,026	(660)
Net Pension Liability	17,887	53,662	21,720
Deferred Inflows	(19,664)	(46,612)	(18,016)
Net Cash Provided (Used) by Operating Activities	<u>\$ 95,672</u>	<u>\$ 1,620,257</u>	<u>\$ (33,098)</u>

See Accompanying Notes to Financial Statements

Water Utility	Wastewater Utility	Total
\$ 3,043	\$ (67,702)	\$ 446,944
27,482	99,384	630,595
-	-	101,395
-	-	7,174
-	-	3,203
(5,501)	(262)	(52,943)
(1,087)	(1,226)	(40,189)
(8,432)	(1,668)	(95,577)
1,953	-	(99,536)
(6,514)	(218)	1,836
1,937	(11,064)	(18,523)
(774)	810	815,702
-	-	4,150
302	117	203
11,499	22,998	127,766
(14,146)	(2,520)	(100,958)
\$ 9,762	\$ 38,649	\$ 1,731,242

See Accompanying Notes to Financial Statements

**COON RAPIDS MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

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, 2017, was \$724,432.

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, 2017, was \$774,847.

COON RAPIDS MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

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, 2017**

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, 2017 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 \$15,842 at June 30, 2017.

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, 2017, are comprised as follows:

All Material and Supplies	\$ 281,774
Electric Fund Fuel Inventories	246,222
Gas Fund Natural Gas Inventory	10,090
SO2 Allowances	66,648
No(X) Allowance	50
Fiber to the Home	92,716
Total	<u>\$ 697,500</u>

**COON RAPIDS MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

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, 2017.

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.

**COON RAPIDS MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

Note 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Pension related deferred inflows 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 \$389,366.

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, 2017, 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, 2017**

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.

The Utility had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 72.

Note 3 – COMMUNICATIONS ACCOUNTS RECEIVABLE - OTHER

Other accounts receivable reported for the Communications Utility includes delayed long distance and CABS billings of \$109 for the telephone system. These amounts are net of an allowance for doubtful collections of \$106. Management believes this allowance to be reasonable and appropriate reduction of the CAB's receivables to their net realizable value.

Note 4 – REVOLVING LOANS RECEIVABLE

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 \$39,686, leaving \$21,325 available for purposes of this revolving loan program.

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 a building for a 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 \$174 for ten years including interest at 3.00% per annum.

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.

**COON RAPIDS MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

Note 4 – REVOLVING LOANS RECEIVABLE (Continued)

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.

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.

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.

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.

Loan to Robbie Lyons and Nancy Bruening

On September 7, 2016, CRMU entered into a loan agreement with Robbie Lyons and Nancy Bruening. The proceeds of this loan were used to finance the purchase of a building or to reimburse short-term financing and expenditures for the approved purposes incurred after December 1, 2016. The principal amount of the loan was \$30,000. The promissory note, dated September 7, 2016, specifies monthly payments of \$290 for ten years including interest at 3.00% per annum.

Loan to Peace Evangelical Lutheran Church

On March 10, 2017, CRMU entered into a loan agreement with Peace Evangelical Lutheran Church. The proceeds of this loan were used to finance the purchase the construction of a Four-Season Community Center. The principal amount of the loan was \$100,000. The promissory note, dated March 10, 2017, specifies yearly payments of \$11,723 for ten years including interest at 2.00% per annum.

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. Jim's Lawn Care paid off this loan during the year ending June 30, 2017.

**COON RAPIDS MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

Note 4 – REVOLVING LOANS RECEIVABLE (Continued)

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 loans are as follows:

Year Ended 6/30	Electric Utility		Gas Utility		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2018	\$ 45,336	\$ 8,525	\$ 7,563	\$ 718	\$ 52,899	\$ 9,243
2019	46,573	7,343	7,716	566	54,289	7,909
2020	43,912	6,193	7,871	410	51,783	6,603
2021	42,260	5,076	8,030	251	50,290	5,327
2022	41,727	4,048	5,288	88	47,015	4,136
2023-2027	118,867	8,226	-	-	118,867	8,226
Total	<u>\$ 338,675</u>	<u>\$ 39,411</u>	<u>\$ 36,468</u>	<u>\$ 2,033</u>	<u>\$ 375,143</u>	<u>\$ 41,444</u>

Note 5 – NOTE RECEIVABLE

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 for ten years including interest at 3.00% per annum.

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

	Communications Utility		Gas Utility		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
	CRDG Financing					
	Interest Rate 3.00%					
2018	\$ 12,449	\$ 3,963	\$ 17,784	\$ 5,662	\$ 30,233	\$ 9,625
2019	12,822	3,590	18,318	5,128	31,140	8,718
2020	13,207	3,205	18,867	4,579	32,074	7,784
2021	13,603	2,809	19,433	4,013	33,036	6,822
2022	14,011	2,401	20,016	3,430	34,027	5,831
2023-2026	63,053	5,272	70,011	7,532	133,064	12,805
Total	<u>\$ 129,146</u>	<u>\$ 21,241</u>	<u>\$ 164,429</u>	<u>\$ 30,345</u>	<u>\$ 293,575</u>	<u>\$ 51,586</u>

**COON RAPIDS MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

Note 6 – CAPITAL ASSETS

Capital asset categories and changes in each cost category and depreciation for the year ended June 30, 2017 are as follows:

	Beginning <u>Balance</u>	Additions and <u>Transfers In</u>	Deletions and <u>Transfers Out</u>	Ending <u>Balance</u>
Capital assets not being depreciated:				
Land	\$ 122,119	-	-	\$ 122,119
Construction in progress	1,699,080	1,888,281	(372,641)	3,214,720
Total capital assets not being depreciated	<u>1,821,199</u>	<u>1,888,281</u>	<u>(372,641)</u>	<u>3,336,839</u>
Capital assets being depreciated:				
Neal 4 Steam Production	2,027,669	237,866	(7,751)	2,257,784
Local Production Facilities	2,113,381	9,380	(8,405)	2,114,356
Transmission System	1,730,360	23,730	(10,263)	1,743,827
Distribution System	11,622,382	337,535	(45,960)	11,913,957
Municipal Building	1,188,250	-	-	1,188,250
General Facilities Equipment	2,416,256	94,428	(43,500)	2,467,184
Total capital assets being depreciated	<u>21,098,298</u>	<u>702,939</u>	<u>(115,879)</u>	<u>21,685,358</u>
Less -				
Accumulated Depreciation	<u>10,685,353</u>	<u>630,595</u>	<u>(93,894)</u>	<u>11,222,054</u>
Total capital assets being depreciated- net	<u>10,412,945</u>	<u>72,344</u>	<u>(21,985)</u>	<u>10,463,304</u>
Total Capital Assets, Net	<u>\$ 12,234,144</u>	<u>1,960,625</u>	<u>(394,626)</u>	<u>\$ 13,800,143</u>

Reconciliation of Net Investment in Capital Assets

	<u>Communications</u>	<u>Electric</u>	<u>Gas</u>	<u>Water</u>	<u>Wastewater</u>	<u>Total</u>
Capital Assets (Net of A/D)	\$ 144,744	\$11,375,039	\$753,125	\$359,758	\$ 1,167,477	\$13,800,143
Plus: Unspent Proceeds	-	2,168,450	-	-	-	2,168,450
Less: Retainage Payable	-	(86,330)	-	-	-	(86,330)
Note Payable	-	(2,400,000)	-	-	-	(2,400,000)
A/P related to CIP	-	(723,759)	-	-	-	(723,759)
	<u>\$ 144,744</u>	<u>\$10,333,400</u>	<u>\$753,125</u>	<u>\$359,758</u>	<u>\$ 1,167,477</u>	<u>\$12,758,504</u>

**COON RAPIDS MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

Note 6 – CAPITAL ASSETS (Continued)

Capital asset categories and changes in each cost category and depreciation for the year ended June 30, 2017 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	\$ 335,591	\$ 9,378	\$ (8,405)	\$ 336,564
General Facilities Equipment	73,188	3,782	(942)	76,028
Total capital assets being depreciated	<u>408,779</u>	<u>13,160</u>	<u>(9,347)</u>	<u>412,592</u>
Less -				
Accumulated Depreciation	<u>244,642</u>	<u>30,248</u>	<u>(7,042)</u>	<u>267,848</u>
Total Capital Assets, Net	<u>\$ 164,137</u>	<u>\$ (17,088)</u>	<u>\$ (2,305)</u>	<u>\$ 144,744</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	1,698,765	1,885,395	(369,440)	3,214,720
Total capital assets not being depreciated	<u>1,751,077</u>	<u>1,885,395</u>	<u>(369,440)</u>	<u>3,267,032</u>
Capital Assets being depreciated:				
Neal 4 Steam Production	2,027,669	237,868	(7,751)	2,257,786
Transmission System	1,620,009	23,730	(10,263)	1,633,476
Distribution System	9,141,804	146,876	(45,960)	9,242,720
Municipal Building	552,187	-	-	552,187
General Facilities Equipment	1,342,036	64,910	(33,538)	1,373,408
Total capital assets being depreciated	<u>14,683,705</u>	<u>473,384</u>	<u>(97,512)</u>	<u>15,059,577</u>
Less -				
Accumulated Depreciation	<u>6,613,579</u>	<u>421,987</u>	<u>(83,996)</u>	<u>6,951,570</u>
Total capital assets being depreciated- net	<u>8,070,126</u>	<u>51,397</u>	<u>(13,516)</u>	<u>8,108,007</u>
Total Capital Assets, Net	<u>\$ 9,821,203</u>	<u>\$ 1,936,792</u>	<u>\$ (382,956)</u>	<u>\$ 11,375,039</u>

**COON RAPIDS MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

Note 6 – 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	315	2,885	(3,200)	-
Total capital assets not being depreciated	<u>30,793</u>	<u>2,885</u>	<u>(3,200)</u>	<u>30,478</u>
Capital Assets being depreciated:				
Local Production Facilities	330,452	-	-	330,452
Distribution System	544,332	-	-	544,332
Municipal Building	636,063	-	-	636,063
General Facilities Equipment	349,152	18,328	(8,536)	358,944
Total capital assets being depreciated	<u>1,859,999</u>	<u>18,328</u>	<u>(8,536)</u>	<u>1,869,791</u>
Less -				
Accumulated Depreciation	<u>1,098,027</u>	<u>51,494</u>	<u>(2,377)</u>	<u>1,147,144</u>
Total capital assets being depreciated- net	<u>761,972</u>	<u>(33,166)</u>	<u>(6,159)</u>	<u>722,647</u>
Total Capital Assets, Net	<u>\$ 792,765</u>	<u>\$ (30,281)</u>	<u>\$ (9,359)</u>	<u>\$ 753,125</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	304,606	-	-	304,606
Transmission System	110,351	-	-	110,351
Distribution System	774,778	64,533	-	839,311
General Facilities Equipment	195,299	6,340	(321)	201,318
Total capital assets being depreciated	<u>1,385,034</u>	<u>70,873</u>	<u>(321)</u>	<u>1,455,586</u>
Less -				
Accumulated Depreciation	<u>1,102,014</u>	<u>27,484</u>	<u>(321)</u>	<u>1,129,177</u>
Total capital assets being depreciated- net	<u>283,020</u>	<u>(27,484)</u>	<u>-</u>	<u>326,409</u>
Total Capital Assets, Net	<u>\$ 316,369</u>	<u>\$ 43,389</u>	<u>\$ -</u>	<u>\$ 359,758</u>

**COON RAPIDS MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

Note 6 – 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	-	-	-	-
Total capital assets not being depreciated	<u>5,980</u>	<u>-</u>	<u>-</u>	<u>5,980</u>
Capital Assets being depreciated:				
Local Production Facilities	1,142,733	-	-	1,142,733
Distribution System	1,161,468	126,125	-	1,287,593
General Facilities Equipment	456,580	1,069	(163)	457,486
Total capital assets being depreciated	<u>2,760,781</u>	<u>127,194</u>	<u>(163)</u>	<u>2,887,812</u>
Less -				
Accumulated Depreciation	<u>1,627,091</u>	<u>99,387</u>	<u>(163)</u>	<u>1,726,315</u>
Total capital assets being depreciated- net	<u>1,133,690</u>	<u>27,807</u>	<u>-</u>	<u>1,161,497</u>
Total Capital Assets, Net	<u>\$ 1,139,670</u>	<u>\$ 27,807</u>	<u>\$ -</u>	<u>\$ 1,167,477</u>

Note 7 – MUNICIPAL BUILDING

The Electric Utility and Gas Utility each provided funds for construction of a municipal building for use as office space by CRMU and by the City for library and general office space. Based on square footage, CRMU utilizes 76.83 percent of the building and the City utilizes 23.17 percent. The City reimburses the Electric Utility and Gas Utility ratably for a share of building operating costs. The public uses 50 percent of the building as a meeting hall and pays a nominal rent for each usage. This public usage area is included in the portion allocated 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, 2017**

Note 8 – LONG-TERM LIABILITIES

Changes in long-term liabilities for the year ended June 20, 2017 are summarized as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Notes Payable	\$ -	\$ 2,400,000	\$ -	\$ 2,400,000	\$ 120,000
Net Pension Liability	463,916	127,766	-	591,682	-
Total	<u>\$ 463,916</u>	<u>\$ 2,527,766</u>	<u>\$ -</u>	<u>\$ 2,991,682</u>	<u>\$ 120,000</u>

Notes Payable

Notes payable activity for the year ended June 30, 2017 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Iowa Savings Bank	\$ -	\$ 2,400,000	\$ -	\$ 2,400,000	\$ 120,000
Total	<u>\$ -</u>	<u>\$ 2,400,000</u>	<u>\$ -</u>	<u>\$ 2,400,000</u>	<u>\$ 120,000</u>

Water Utility – The Utility adopted a resolution on January 26, 2017 providing for the issuance of \$2,400,000 in Electric Revenue Capital Loan Notes.

The Iowa Savings Bank note matures and bears interest as follows:

Iowa Savings Bank			
	<u>Principal</u>	<u>Interest</u>	<u>Interest Rate</u>
2018	\$ 120,000	\$ 80,502	1.375%
2019	135,000	59,750	1.625
2020	140,000	57,556	1.750
2021	140,000	55,106	2.000
2022	145,000	52,306	2.125
2023-2027	790,000	207,452	2.500-2.750
2028-2032	930,000	89,426	2.875-3.250
	<u>\$ 2,400,000</u>	<u>\$ 602,098</u>	

**COON RAPIDS MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

Note 9 – COMPENSATED ABSENCES

CRMU employees are entitled to certain compensated absences based on length of employment. Vacation hours are accumulated on a calendar year basis with a limited amount of carryover to subsequent years allowed. Earned but unused vacation hours will be paid upon termination, retirement or death. The liability for compensated absences is computed based on rates of pay in effect at June 30, 2017 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 10 – 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 11 – PAYMENT TO THE CITY

CRMU made voluntary in-lieu-of-tax payments to the City in the amount of \$52,943 for the year ended June 30, 2017.

Note 12 – 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.

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, 2017**

Note 12 – 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, any time 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, except members with service before June 30, 2012 will use the highest three-year average salary as of that date if it is greater than the highest five-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 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 2017, 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.

**COON RAPIDS MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

Note 12 – PENSION AND RETIREMENT BENEFITS (Continued)

The Utilities’ total contributions to IPERS for the year ended June 30, 2017 were \$63,543.

Net Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - At June 30, 2017, the Utilities reported a liability of \$591,682 for their proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, 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, 2016, the Utilities’ collective proportion was .0094018 percent which was an increase of .000012 percent from their proportion measured as of June 30, 2016.

For the year ended June 30, 2017, the Utilities recognized pension expense of \$73,083. At June 30, 2017, 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	\$ 5,229	\$ 7,062
Changes of assumptions	9,027	-
Net difference between projected and actual earnings on pension plan investments	84,296	-
Changes in proportion and differences between Utility contributions and proportionate share of contributions	11,003	-
Utility contributions subsequent to the measurement date	63,543	-
Total	\$ 173,098	\$ 7,062

**COON RAPIDS MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

Note 12 – PENSION AND RETIREMENT BENEFITS (Continued)

\$63,543 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, 2018. 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
2018	\$ 14,298
2019	14,298
2020	47,402
2021	26,569
2022	(74)
Total	\$ 102,493

There were no non-employer contributing entities at IPERS.

Actuarial Assumptions - The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

The actuarial assumptions used in the June 30, 2016 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 IPERS' 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.

**COON RAPIDS MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

Note 12 – PENSION AND RETIREMENT BENEFITS (Continued)

These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the 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%	1.90%
Domestic equity	24%	5.85
International equity	16%	6.32
Private equity/debt	11%	10.31
Real estate	8%	3.87
Credit opportunities	5%	4.48
U.S. TIPS	5%	1.36
Other real assets	2%	6.42
Cash	1%	-0.26
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 contributions from the Utility will be made at contractually required rates, actuarially determined. Based on those assumptions, IPERS' 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 IPERS' 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	\$ 957,260	\$ 591,682	\$ 283,128

**COON RAPIDS MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

Note 12 – 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.

Payables to the Pension Plan - At June 30, 2017, the Utilities reported \$0 of payables related to the defined benefit pension plan.

Note 13 – 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, 2017, employees pay out of pocket maximum of \$1,000 for single coverage or \$2,000 for family coverage. CRMU has ten covered employees as of June 30, 2017.

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	\$2,250	\$4,500	\$7,150	\$14,300

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
2017	\$ 1,946	\$ 33,278	\$ 32,377	\$ 2,847

The ending liability balance is included in the current liabilities.

Note 14 – 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, 2017**

Note 14 – 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 entered into an agreement with North Central Service for the Fiber to the Home Construction Project. The contract is in the amount of \$1,295,105. As of June 30, 2017, the remaining balance was \$1,096,124. The expected project completion date is December 2018.

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.

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 THREE FISCAL YEARS**

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Utilities' collective proportion of the net pension liability (asset)	0.094018%	0.093901%	0.093708%
Utilities' collective proportionate share of the net pension liability (asset)	\$ 591,681	\$ 463,916	\$ 371,638
Utilities' covered employee payroll	\$ 674,705	\$ 643,303	\$ 613,191
Utilities' collective proportionate share of the net pension liability as a percentage of its covered employee payroll	87.69%	72.11%	60.61%
Plan fiduciary net position as a percentage of the total pension liability	81.82%	85.19%	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>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Statutorily required contribution	\$ 63,543	\$ 60,251	\$ 57,447	\$ 54,758
Contributions in relation to the statutorily required contribution	<u>\$ (63,543)</u>	<u>\$ (60,251)</u>	<u>\$ (57,447)</u>	<u>\$ (54,758)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Utilities' covered-employee payroll	\$ 711,570	\$ 674,705	\$ 643,303	\$ 613,191
Contributions as a percentage of covered-employee payroll	8.93%	8.93%	8.93%	8.93%

See Accompanying Independent Auditors' Report

2013	2012	2011	2010	2009	2008
\$ 51,529	\$ 46,003	\$ 39,212	\$ 37,049	\$ 34,190	\$ 30,160
\$ (51,529)	\$ (46,003)	\$ (39,212)	\$ (37,049)	\$ (34,190)	\$ (30,160)
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
\$ 594,337	\$ 570,050	\$ 564,201	\$ 557,128	\$ 538,425	\$ 498,512
8.67%	8.07%	6.95%	6.65%	6.35%	6.05%

See Accompanying Independent Auditors' Report

**COON RAPIDS MUNICIPAL UTILITIES
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION –
PENSION LIABILITY
FOR THE YEAR ENDED JUNE 30, 2017**

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.



**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 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, 2017, 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 15, 2017.

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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify a certain deficiency in internal controls described in Part II of the accompanying schedule of findings as item 2017-001 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 finding identified in our audit is described in the accompanying schedule of findings. CRMU's 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
November 15, 2017

**COON RAPIDS MUNICIPAL UTILITIES
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2017**

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.

PART II – FINDING RELATED TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

MATERIAL WEAKNESS:

2017-001 Financial Reporting

Criteria – The Utility is responsible for the accuracy of the financial statements.

Condition – During the audit, we identified an immaterial amount of depreciation expense and interest expense not capitalized and material amounts of accounts payable and prepaid expenses that were not recorded properly in the Utility's financial statements.

Cause – Review procedures did not allow all misstatements to be caught.

Effect – Prior to the journal entries recorded by management, assets and liabilities were understated and depreciation expense was overstated on 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.

PART III – OTHER FINDINGS RELATED TO REQUIRED STATUTORY REPORTING

III-A-17: 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, 2017.

III-B-17: 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.

**COON RAPIDS MUNICIPAL UTILITIES
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2017**

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

III-C-17: Travel Expense – No disbursements of the Utilities’ money for travel expenses of spouses of Utilities’ officials or employees were noted.

III-D-17: Business Transactions – No business transactions between Coon Rapids Municipal Utilities and Utilities’ officials and employees were noted.

III-E-17: 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.

III-F-17: Board Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not.

III-G-17: 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.

III-H-17: Telecommunication Services – No instances of non-compliance with Chapter 388.10 of the Code of Iowa were noted.