

COUNCIL BLUFFS CITY WATER WORKS

FINANCIAL STATEMENTS

DECEMBER 31, 2013 and 2012

(With Independent Auditors' Report Thereon)

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COUNCIL BLUFFS CITY WATER WORKS

OFFICIALS

Board of Trustees

Maureen R. Kruse	Chairperson	June 30, 2016
Carl L. Heinrich	Member	June 30, 2015
Michael J. Waller	Member	June 30, 2016
Caitlin A. Beresford	Member	June 30, 2018
Martin L. Brooks	Member	June 30, 2019

Water Works' Officials

Douglas P. Drummey	CEO & General Manager	Indefinite
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INDEPENDENT AUDITOR'S REPORT

The Board of Trustees
Council Bluffs City Water Works
Council Bluffs, Iowa

Report on the Financial Statements

We have audited the accompanying financial statements of the Council Bluffs City Water Works, Council Bluffs, Iowa (Water Works) as of and for the years ended December 31, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the Council Bluffs City Water Works' 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.

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Council Bluffs City Water Works, as of December 31, 2013 and 2012 and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Accounting principles generally accepted in the United States of America require that the *management's discussion and analysis and the budgetary comparison information* on pages 1-4 and 16-17 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 Standard

In accordance with *Government Auditing Standards*, we have also issued our report dated April 9, 2014 on our consideration of the Council Bluffs City Water Works 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 Council Bluffs City Water Works internal control over financial reporting and compliance.

Hamilton Associates, P.C.

Council Bluffs, Iowa
April 9, 2014

**Council Bluffs Water Works
Council Bluffs, Iowa**

MANAGEMENT'S DISCUSSION AND ANALYSIS

Calendar Year Ending December 31, 2013

Council Bluffs Water Works provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the calendar year ending December 31, 2013. We encourage readers to consider this information in conjunction with our financial statements, which follow.

FINANCIAL HIGHLIGHTS

- ◆ The Water Works' operating revenues decreased 13.22% or \$1,595,192 from calendar year 2012 to 2013.
- ◆ The Water Works' operating expenses increased by 5.75% or \$521,992, in calendar year 2012 to 2013.
- ◆ The Water Works' net position increased 0.19% or \$78,429, from December 31, 2012 to December 31, 2013.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the Water Works financial activities.

Financial Statements consist of Statements of Net Position, Statements of Revenues, Expenses, and Changes in Net Position, and Statements of Cash Flows. These provide information about the activities of the Council Bluffs Water Works as a whole and present an overall view of the Water Works finances.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statement with a comparison of the Water Works' budget for the year.

**Council Bluffs Water Works
Council Bluffs, Iowa**

MANAGEMENT'S DISCUSSION AND ANALYSIS

Calendar Year Ending December 31, 2013

FINANCIAL ANALYSIS

Statements of Net Position

The statements of net position present the assets, liabilities, and net position of the Water Works, as of the end of the calendar year. The purpose of this statement is to present a summary of the Water Works to the readers of the financial statements. The statements of net position include year-end information concerning current assets and liabilities, and net position (assets less liabilities). Readers of the financial statements are able to determine the Water Works financial position by analyzing the increases and decreases in fund equity. This statement is a good source for readers to determine how much the Water Works owes to outside vendors and creditors. The statement presents the available assets that can be used to satisfy those liabilities.

The largest portion of the Water Works' net position 89.5% is the investment in capital assets (building and structures, furniture and fixtures, tools and equipment, distribution system, meters and automotive equipment), less the related debt. The restricted portion of the net position 0.63% includes resources that are subject to restrictions. The remaining net position 9.87% is the unrestricted position that can be used to meet the Water Works' obligations as they come due.

Statements of Net Position		
December 31, 2013 and 2012		
	<u>2013</u>	<u>2012</u>
Current assets	\$ 6,218,595	\$ 6,539,396
Restricted assets	1,210,589	4,401,205
Capital assets	68,139,141	67,377,805
Total assets	\$ 75,568,325	\$ 78,318,406
Current liabilities (payable from current assets)	\$ 3,440,982	\$ 2,381,657
Current liabilities (payable from restricted assets)	951,005	2,298,563
Revenue bonds payable	29,701,741	32,242,018
Total liabilities	\$ 34,093,728	\$ 36,922,238
 Net Position		
Net investment in capital assets	\$ 37,118,400	\$ 33,915,472
Restricted	259,574	3,343,479
Unrestricted	4,096,623	4,137,217
Total net position	\$ 41,474,597	\$ 41,396,168

**Council Bluffs Water Works
Council Bluffs, Iowa**

MANAGEMENT'S DISCUSSION AND ANALYSIS

Calendar Year Ending December 31, 2013

Statement of Revenues and Expenses

The Statement of Revenues and Expenses reflects a negative with an decrease in the net assets at the end of the calendar year.

In calendar year 2013, operating revenues decreased by \$1,595,192 or 13.22%, due to the decrease in water sales. 2012 was an exceptionally high year for water sales due to the drought, additionally federal grant funds relating to the 2011 flooding were received in 2012, also increasing revenue for that year.

A summary of revenues and expense for the years ending December 31, 2013 and 2012 is presented below:

Statements of Revenues and Expenses		
Decmeber 31, 2013 and 2012		
Operating revenues		
Metered water sales	\$ 9,449,393	\$ 10,242,217
Rental	117,105	111,296
Other	904,955	1,713,132
Total operating revenues	\$ 10,471,453	\$ 12,066,645
Operating expenses		
Facilities and grounds	\$ 836,595	\$ 825,965
Inventory adjustment	(16,167)	(15,126)
Purification	1,552,835	1,239,244
Distribution and meter	1,392,337	1,333,609
Customer accounting	418,904	364,150
Administration and general	2,194,083	2,096,657
Pension and social security	382,638	350,904
Depreciation	2,831,468	2,875,298
Total operating expenses	\$ 9,592,693	\$ 9,070,701
Nonoperating revenues (expenses)		
Interest on investments	\$ 222,140	\$ 270,547
Interest expense	(1,212,857)	(1,140,436)
Loss on disposal of equipment	(4,807)	(22,737)
Nonoperating revenues, net	\$ (995,524)	\$ (892,626)
Change in net position	\$ (116,764)	\$ 2,103,318

**Council Bluffs Water Works
Council Bluffs, Iowa**

MANAGEMENT'S DISCUSSION AND ANALYSIS

Calendar Year Ending December 31, 2013

Statement of Cash Flows

The Statement of Cash Flows presents information related to cash inflows and outflows, summarized by operating, capital and related financing and investing activities. Cash provided by operating activities include metered water sales, miscellaneous water sales, penalty charges, and service charges. Cash used from capital and related financing activities includes: principal payment of revenue bonds, interest paid on revenue bonds, interest paid on consumer deposits, additions to property, plant, and equipment, and contributions-in-aid of construction. Cash used by investing activities includes interest income.

CAPITAL ASSETS

At December 31, 2013 the Water Works had \$112,183,740 invested in capital assets, net of accumulated depreciation of \$44,044,599. Depreciation expense totaled \$2,831,468 for calendar year 2013. More detailed information about the Water Works' capital assets is presented in Note 4 to the financial statements.

LONG-TERM DEBT

At December 31, 2013, the Water Works had \$31,020,741 debt outstanding. See Note 5 to the financial statements for more information.

ECONOMIC FACTORS

Council Bluffs Water Works continued to support development throughout the community to improve its financial position during the current calendar year.

Facilities and the distribution system operated by Water Works require constant maintenance and upkeep.

Chemical cost, electricity, maintenance of mains and services, and health insurance continue to put pressure on the Water Works resources.

Continued growth in the community requires the Water Works to invest in new infrastructures to meet the growing demands of the community.

Vulnerability and security improvement of our system will be an ongoing process.

CONTACTING THE COUNCIL BLUFFS WATER WORKS FINANCIAL MANAGEMENT

This financial report is designed to provide our customers, investors and creditors with a general overview of the Water Works finances and operating activities. If you have any questions or require additional information please contact the General Manager, 2000 North 25th Street, P O Box 309, Council Bluffs, Iowa 51502.

COUNCIL BLUFFS CITY WATER WORKS

STATEMENTS OF NET POSITION

December 31, 2013 and 2012

ASSETS	2013	2012
CURRENT ASSETS		
Cash (Note 2)	\$ 3,934,253	\$ 4,305,286
Inventory	838,783	693,347
Receivables:		
Consumer accounts	999,966	1,118,572
Unbilled revenues	355,615	322,844
Total receivables	<u>\$ 1,355,581</u>	<u>\$ 1,441,416</u>
Prepaid insurance	89,978	99,347
Restricted assets (Note 3)	<u>1,210,589</u>	<u>4,401,205</u>
Total current assets	<u>\$ 7,429,184</u>	<u>\$ 10,940,601</u>
Property, plant and equipment, net (Note 4)	<u>68,139,141</u>	<u>67,377,805</u>
	<u><u>\$ 75,568,325</u></u>	<u><u>\$ 78,318,406</u></u>
LIABILITIES AND NET POSITION		
LIABILITIES		
Current liabilities (payable from current assets):		
Accounts payable	\$ 444,309	\$ 250,962
Accrued wages and payroll taxes	32,641	44,378
Accrued compensated absences	208,308	169,428
Accrued interest payable	84,209	93,929
Retainage payable	1,266,216	14,065
Due to City of Council Bluffs	86,299	226,895
Current portion of long term debt (Note 5)	1,319,000	1,582,000
Total current liabilities (payable from current assets)	<u>\$ 3,440,982</u>	<u>\$ 2,381,657</u>
Current liabilities (payable from restricted assets):		
Consumer deposits	\$ 681,400	\$ 662,950
Main extension escrow deposit	52,194	41,875
Accrued interest on consumer deposits	210,932	201,004
Construction costs payable	6,479	151,897
Retainage payable from restricted assets	-	1,240,837
Total current liabilities (payable from restricted assets)	<u>\$ 951,005</u>	<u>\$ 2,298,563</u>
Long term debt (Note 5)	<u>\$ 29,701,741</u>	<u>\$ 32,242,018</u>
Total liabilities	<u>\$ 34,093,728</u>	<u>\$ 36,922,238</u>
NET POSITION		
Net investment in capital assets	\$ 37,118,400	\$ 33,553,787
Restricted	259,584	3,343,479
Unrestricted	4,096,613	4,498,902
Total net position	<u>\$ 41,474,597</u>	<u>\$ 41,396,168</u>
Total liabilities and net position	<u><u>\$ 75,568,325</u></u>	<u><u>\$ 78,318,406</u></u>

See Notes to Financial Statements.

COUNCIL BLUFFS CITY WATER WORKS

STATEMENTS OF REVENUE, EXPENSES AND CHANGES IN NET POSITION

Years Ended December 31, 2013 and 2012

	2013	2012
OPERATING REVENUES		
Metered water sales	\$ 9,449,393	\$ 10,242,217
Rental	117,105	111,296
Other	<u>904,955</u>	<u>1,713,132</u>
Total operating revenues	<u>\$ 10,471,453</u>	<u>\$ 12,066,645</u>
OPERATING EXPENSES		
Facilities and grounds	\$ 836,595	\$ 825,965
Inventory adjustment	(16,167)	(15,126)
Purification	1,552,835	1,239,244
Distribution and meter	1,392,337	1,333,609
Customer accounting	418,904	364,150
Administration and general	2,194,083	2,096,657
Pension and social security	382,638	350,904
Depreciation	<u>2,831,468</u>	<u>2,875,298</u>
Total operating expenses	<u>\$ 9,592,693</u>	<u>\$ 9,070,701</u>
Operating income	<u>\$ 878,760</u>	<u>\$ 2,995,944</u>
NONOPERATING REVENUES (EXPENSES)		
Interest on investments	\$ 222,140	\$ 270,547
Interest expense	(1,212,857)	(1,140,436)
Loss on disposal of equipment	<u>(4,807)</u>	<u>(22,737)</u>
Nonoperating revenues, net	<u>\$ (995,524)</u>	<u>\$ (892,626)</u>
Change in net position	\$ (116,764)	<u>\$ 2,103,318</u>
NET POSITION - BEGINNING AS PREVIOUSLY STATED	41,396,168	\$ 39,658,033
Adjustment due to adoption of Governmental Accounting Standards Board Statement No. 65. (Note 10)	-	<u>(382,905)</u>
NET POSITION - BEGINNING AS RESTATED	-	<u>\$ 39,275,128</u>
Contributions in aid of construction (Note 5)	<u>195,193</u>	<u>17,722</u>
NET POSITION - END OF YEAR	<u>\$ 41,474,597</u>	<u>\$ 41,396,168</u>

See Notes to Financial Statements.

COUNCIL BLUFFS CITY WATER WORKS

STATEMENTS OF CASH FLOWS

Years Ended December 31, 2013 and 2012

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers and users	\$ 9,535,228	\$ 10,236,823
Cash received from other revenues	1,022,060	1,824,428
Cash paid to suppliers for goods and services	(3,807,428)	(3,470,476)
Cash paid to employees and on their behalf	(2,850,924)	(2,721,170)
(Payments) receipts for City sewer services net of collections	(140,596)	(104,827)
Net cash provided by operating activities:	<u>\$ 3,758,340</u>	<u>\$ 5,764,778</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Principal payment of long term debt	\$ (4,336,000)	\$ (1,536,000)
Long term debt issued	1,532,723	3,910,003
Interest paid on long term debt	(1,184,482)	(1,100,438)
Interest paid on consumer deposits	(28,166)	(17,534)
Additions to property, plant, and equipment	(3,731,716)	(9,334,397)
Main extension escrow deposits	10,319	8,729
Contributions-in-aid of construction	195,193	17,722
Net cash provided by (used in) capital and related financing activities	<u>\$ (7,542,129)</u>	<u>\$ (8,051,915)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received on investments	222,140	270,547
Net cash provided by investing activities	<u>\$ 222,140</u>	<u>\$ 270,547</u>
NET INCREASE (DECREASE) IN CASH	\$ (3,561,649)	\$ (2,016,590)
CASH - BEGINNING OF YEAR	<u>8,706,491</u>	<u>10,723,081</u>
CASH - END OF YEAR	<u>\$ 5,144,842</u>	<u>\$ 8,706,491</u>
RECONCILIATION TO BALANCE SHEETS		
Cash	\$ 3,934,253	\$ 4,305,286
Cash included in restricted assets	1,210,589	4,401,205
	<u>\$ 5,144,842</u>	<u>\$ 8,706,491</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income (loss)	\$ 878,760	\$ 2,995,944
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	2,831,468	2,875,298
Changes in assets and liabilities:		
(Increase) Decrease in inventory	(145,436)	(99,662)
(Increase) Decrease in receivables	85,835	(5,394)
(Increase) Decrease in prepaid insurance	9,368	(7,205)
Increase (Decrease) in accounts payable	193,348	65,183
Increase (Decrease) in salaries payable	(11,737)	11,966
Increase (Decrease) in accrued compensated absences	38,880	3,350
Increase (Decrease) in Due to City of Council Bluffs	(140,596)	(104,827)
Increase (Decrease) in consumer deposits	18,450	30,125
Net cash provided by operating activities	<u>\$ 3,758,340</u>	<u>\$ 5,764,778</u>

See Notes to Financial Statements.

COUNCIL BLUFFS CITY WATER WORKS

NOTES TO FINANCIAL STATEMENTS

Years Ended December 31, 2013 and 2012

1. Summary of Significant Accounting Policies

The Council Bluffs City Water Works ("Water Works") is a related organization to the City of Council Bluffs, Iowa ("City") and is not included in the City's financial statements. The Mayor, with City Council concurrence, appoints individuals to the Water Works' Board of Trustees. The Water Works' Board of Trustees maintains oversight responsibility and, therefore, is responsible for selection of management personnel and all financial matters. The authority to adopt the annual budget, to incur debt and to fix rates and charges is vested in the Board of Trustees. The Water Works is exempt from state and Federal income taxes. The Water Works' financial statements are prepared on the accrual basis.

Reporting Entity:

For financial reporting purposes, the Water Works has included all funds, organizations, agencies, boards, commissions and authorities. The Water Works has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the Water Works are such that exclusion would cause the Water Works' financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and 1) the ability of the Water Works to impose its will on that organization or 2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the Water Works. The Water Works has no component units which meet the Governmental Accounting Standards Board criteria.

Basis of Presentation:

The accounts of the Water Works are organized as an Enterprise Fund. Enterprise Funds are used to account for operations (a) financed and operated in a manner similar to private business enterprises, where the intent of the governing body is the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or (b) where the governing body has decided periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

The Statement of Net Position presents the Water Works assets and liabilities, with the difference reported as net position. Net position is reported in the following categories:

Net investment in capital assets – Consists of capital assets, net of accumulated depreciation/amortization and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.

Restricted – Use of net position is externally imposed.

Unrestricted – The portion of net position that is not in restricted or net of investment in capital assets.

Measurement Focus and Basis of Accounting:

The financial statements are reported using the economic resources measurement focus and accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider are met.

COUNCIL BLUFFS CITY WATER WORKS

NOTES TO FINANCIAL STATEMENTS

Years Ended December 31, 2013 and 2012

1. Summary of Significant Accounting Policies - Continued

Measurement Focus and Basis of Accounting – Continued:

Water Works distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Water Works' principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Use of estimates:

In preparing the accompanying financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents:

For purposes of the statements of cash flows, the Water Works considers all highly liquid instruments with a maturity date of three months or less when purchased to be cash equivalents.

Consumer Accounts Receivable:

The consumer accounts receivable balance includes an assessment for sewer fees, which the Water Works bills on behalf of the City. A corresponding liability represents the amount of consumer accounts receivable that will be remitted to the City upon collection.

Revenues:

Metered water sales include amounts billed to customers on a monthly and bimonthly cycle basis and unbilled amounts based on estimated usage from the latest meter reading to the end of the accounting period.

Valuation of Inventories:

Inventories are valued at the lower of cost (average cost method) or market.

Contributions-in-Aid of Construction and Contributed Capital:

Contributions of cash by governments, customers or developers are maintained by the Water Works as restricted assets and restricted liabilities until expended. When expended the contributor's costs of construction are recorded as property, plant and equipment and contributed capital. Further, a contribution may be in the form of a completed project in which the contributor's costs of construction is recorded directly into the property, plant and equipment and contributed capital accounts. Depreciation expense recognized on these assets is charged to contributed capital.

COUNCIL BLUFFS CITY WATER WORKS

NOTES TO FINANCIAL STATEMENTS

Years Ended December 31, 2013 and 2012

1. Summary of Significant Accounting Policies - Continued

Property, Plant and Equipment:

Property, plant and equipment are stated at cost. Depreciation is computed using the straight-line method based on estimated useful lives.

Maintenance and repair of property, plant and equipment are charged to operations and major improvements are capitalized. Upon retirement, sale or other disposition of property, plant and equipment, the cost and accumulated depreciation are eliminated from the accounts and gain or loss is included in operations.

Accrued Compensated Absences:

Accrued compensated absences represent vacation time, which has been earned by employees in the current year to be used in subsequent years. Sick leave does not vest and, therefore, is not accrued.

New Accounting Pronouncements:

In December 2010, the Governmental Accounting Standards Board (GASB) issued Statement No. 61, *The Financial Reporting Entity*, which amends GASB Statement No. 14, *The Financial Reporting Entity*, and GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. Changes under Statement No. 61 include an increased emphasis on financial relationships between primary governments and other organizations, clarification of the requirements to blend component units, and clarification of reporting equity interests in legally separate organizations. Statement No. 61 was effective for the Utilities' December 31, 2013 financial statements; however, the adoption of this Statement did not have a material impact on the financial statements.

In December 2010, the Governmental Accounting Standards Board (GASB) issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. That Statement supersedes Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*. Statement No. 62 was effective for the Utilities' December 31, 2013 financial statements; however, the adoption of this Statement did not have a material impact on the financial statements.

In June 2011, the Governmental Accounting Standards Board (GASB) issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. That Statement amends Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. Statement No. 63 was effective for the Utilities' December 31, 2013 financial statements; however, the adoption of this Statement did not have a material impact on the financial statements.

COUNCIL BLUFFS CITY WATER WORKS

NOTES TO FINANCIAL STATEMENTS

Years Ended December 31, 2013 and 2012

1. Summary of Significant Accounting Policies - Continued

New Accounting Pronouncements – Continued:

In April 2012, the Governmental Accounting Standards Board (GASB) issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. That Statement amends the financial statement classification of certain items to now be included as deferred inflows and outflows. Statement No. 65 was effective for the Utilities' December 31, 2013 financial statements. The adoption of this Statement had a material impact on the financial statements. See Note 10 for additional information regarding prior period adjustments created by the adoption of this Statement.

Reclassifications:

Reclassification adjustments have been made to the 2012 financial statements to reflect the adoption of the above accounting pronouncements. These changes allow for comparability between the current and prior year financial statements, but do not materially affect the balances or results of operations.

Subsequent Events:

Subsequent events have been evaluated through April 9, 2014, which is the date the financial statements were available to be issued.

2. Cash and Short-Term Investments

Listed below is a summary of the deposit and investment portfolios that comprise cash and investments on the December 31, 2013 balance sheet including restricted cash and cash equivalents and investments:

Deposits:

At December 31, 2013, deposits consisted of demand deposits and certificates of deposits and had the following balances:

Book Balance	\$ 5,144,842
Bank Balance	\$ 5,082,915

Of the total deposits, \$255,000 was covered by federal depository insurance and \$4,827,915 was covered by pledged securities that are being held in the pledging bank's trust department in the Board's name in the form of a joint safekeeping receipt.

COUNCIL BLUFFS CITY WATER WORKS

NOTES TO FINANCIAL STATEMENTS

Years Ended December 31, 2013 and 2012

3. Restricted Assets

Restricted assets represent money set aside for payment of bonds, proceeds from bond issues to be used for capital improvements, or contributions of cash by governments, customers, or developers for costs of construction. These contributions are reflected as restricted assets until expended. Details of the accounts comprising restricted assets as of December 31, 2013 and 2012 are as follows:

	<u>2013</u>	<u>2012</u>
Consumer deposit fund cash	\$ 946,364	\$ 910,175
Sinking fund cash	-	37,539
Reserve fund investments	-	3,448,491
Build America Bond loan funds	5,000	5,000
Main extension deposit	<u>259,225</u>	<u>-</u>
	<u>\$ 1,210,589</u>	<u>\$ 4,401,205</u>

4. Property, Plant and Equipment

Property, plant and equipment at December 31, 2013 and 2012 consisted of the following:

<u>Description</u>	<u>Useful Life in Years</u>	<u>2013</u>	<u>2012</u>
Land	-	\$ 2,208,406	\$ 2,208,406
Building and Structures	20 - 40	13,334,521	13,403,529
Water Distribution System	20 - 40	51,696,510	50,516,789
Meters	25 - 40	1,519,810	1,362,642
Tools and Equipment	3 - 20	6,936,742	7,229,427
Automobiles and Trucks	5	1,352,575	1,338,633
Office Equipment	15	104,985	104,985
Work in Progress	-	<u>35,030,191</u>	<u>33,223,247</u>
		\$ 112,183,740	\$ 109,387,658
Less Accumulated Depreciation		<u>(44,044,599)</u>	<u>(42,009,853)</u>
		<u>\$ 68,139,141</u>	<u>\$ 67,377,805</u>

As of December 31, 2013, construction of the new water treatment facility was substantially complete. Total contracted costs for this facility was \$29,545,363. Total amount completed as of December 31, 2013 was \$29,620,463.

COUNCIL BLUFFS CITY WATER WORKS

NOTES TO FINANCIAL STATEMENTS

Years Ended December 31, 2013 and 2012

5. Revenue Bonds

In 2010, the Water Works executed the final \$25 million of its \$35.353 million Water Revenue Bonds for construction of a second water treatment facility. The Water Revenue Bonds bear interest at 3.00% due in 2041. The Iowa Finance Authority also charges an annual service fee of 0.25%. As of December 31, 2013 and 2012 the Water Works had drawn down \$35,353,000 and \$32,466,019, respectively. These bonds require that the Water Works produce and maintain net revenues at a level not less than 110% of the amount of principal and interest on the Revenue Bond falling due in the same year. The Water Works was in compliance with this requirement for the years ended December 31, 2013 and 2012.

Principal and interest requirements to maturity on revenue bonds outstanding at December 31, 2013 are as follows:

Years ended December 31,	Principal	Interest	Total Requirements
2014	\$ 1,319,000	\$ 930,622	\$ 2,249,622
2015	1,361,000	891,052	2,252,052
2016	1,403,000	850,222	2,253,222
2017	1,447,000	808,132	2,255,132
2018	1,493,000	764,722	2,257,722
2019 - 2023	8,208,000	3,122,511	11,330,511
2024 - 2029	9,592,000	1,810,851	11,402,851
2029 - 2033	5,633,679	431,550	6,065,229
2034 - 2036	<u>564,062</u>	<u>31,596</u>	<u>595,658</u>
	<u>\$ 31,020,741</u>	<u>\$ 9,641,258</u>	<u>\$ 40,661,999</u>

COUNCIL BLUFFS CITY WATER WORKS

NOTES TO FINANCIAL STATEMENTS

Years Ended December 31, 2013 and 2012

6. Contributions-in-Aid of Construction and Contributed Capital

The following is a schedule of contributions of cash by governments and customers or developers:

	Other Governments	Customers and Developers	Total
Balances at January 1, 2012	\$ 1,263,662	\$ 6,623,713	\$ 7,887,375
Contributions-in-aid of construction	-	17,722	17,722
Transfers – Depreciation of contributed property, plant and equipment	<u>(130,854)</u>	<u>(603,682)</u>	<u>(734,536)</u>
Balances at December 31, 2012	\$ 1,132,808	\$ 6,037,753	\$ 7,170,561
Contributions-in-aid of construction	102,911	92,282	195,193
Transfers – Depreciation of contributed property, plant and equipment	<u>(136,000)</u>	<u>(608,296)</u>	<u>(744,296)</u>
Balances at December 31, 2013	<u>\$ 1,099,719</u>	<u>\$ 5,521,739</u>	<u>\$ 6,621,458</u>

7. Retirement Systems

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

Contribution and benefit provisions are established by state law and may only be amended by the state legislature. On July 1, 2012, the State increased the required contributions from 5.38% to 5.78% for the employee and from 8.07% to 8.67% for the employer. On July 1, 2013, the state increased the required contributions again to 5.95% for the employee and 8.93% for the employer. The Water Works' contributions to IPERS for the years ended December 31, 2013, and 2012 were \$228,372, and \$203,809, respectively, equal to the required contributions for each year.

8. Contingencies

The Environmental Protection Agency (EPA) is currently evaluating the method of which the Water Works' discharges treatment plant residuals. As a result of this evaluation, the EPA may require the Water Works' to change it's disposal method. This change could result in significant additional costs to the Water Works' infrastructure and operations. As of the date of this report, Management was not able to reasonably estimate costs, if any, that would be incurred to comply with this regulation. Once management understands the new requirements, they will determine if a liability shall be established.

COUNCIL BLUFFS CITY WATER WORKS

NOTES TO FINANCIAL STATEMENTS

Years Ended December 31, 2013 and 2012

9. Risk Management

The Water Works is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Water Works carries commercial insurance for all risks of loss, including errors and omissions, destruction of assets and natural disasters. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

The Water Works participates in a partially self-funding benefit plan for its employees' health insurance. The plan is administered by a third-party, which estimates The Water Works maximum annual exposure to be \$236,800. The Water Works contributes funds monthly to a separate bank account to supplement the employee's deductible. The balance in this account as of December 31, 2013 and 2012 was \$11,575 and \$12,600, respectively.

10. Restatement of Prior Period Financial Statements

The Water Works adopted Governmental Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities* during 2013. That Statement amends the financial statement classification of certain items to now be included as deferred inflows and outflows. The Water Works had previously recorded debt issuance costs as assets, and amortized the costs over the life of the debt. GASB Statement No. 65 requires that these costs be recognized as expense in the period incurred. This created a restatement of the 2012 financial statements as follows:

Statement of Net Position at December 31, 2012

	Previously Reported	Increase (Decrease)	Restated
Capitalized costs, net	\$ 361,685	\$ (361,685)	\$ -
Total assets	<u>\$ 78,680,091</u>	<u>\$ (361,685)</u>	<u>\$ 78,318,406</u>
Net position, January 1, 2012	39,658,033	(382,905)	39,275,128
Change in net position 2012	<u>2,082,098</u>	<u>21,220</u>	<u>2,103,318</u>
Net position, December 31, 2012	<u>\$ 41,757,853</u>	<u>\$ (361,685)</u>	<u>\$ 41,396,168</u>
Total liabilities and net position	<u>\$ 76,680,091</u>	<u>\$ (361,685)</u>	<u>\$ 76,318,406</u>

Statement of Revenue, Expenses and Changes in Net Position at December 31, 2012

	Previously Reported	Increase (Decrease)	Restated
Depreciation and amortization	\$ 2,896,518	\$ (21,220)	\$ 2,875,298
Change in net position	<u>\$ 2,082,098</u>	<u>\$ 21,220</u>	<u>\$ 2,103,318</u>

COUNCIL BLUFFS CITY WATER WORKS

**BUDGETARY COMPARISON SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN BALANCES – BUDGET AND ACTUAL**

Year Ended December 31, 2013

	2013 <u>Actual</u>	2013 <u>Budget</u>	Budget Variance Favorable (Unfavorable)
Operating revenues:			
Metered water sales	\$ 9,449,393	\$ 9,645,000	\$ (195,607)
Rental	117,105	113,800	3,305
Other	<u>904,955</u>	<u>566,000</u>	<u>338,955</u>
Total operating revenues	<u>\$ 10,471,453</u>	<u>\$ 10,324,800</u>	<u>\$ 146,653</u>
Operating expenses:			
Facilities and grounds	\$ 836,595	\$ 827,000	\$ (9,595)
Inventory adjustment	(16,167)	5,000	21,167
Purification	1,552,835	1,499,000	(53,835)
Distribution and meter	1,392,337	1,302,500	(89,837)
Customer accounting	418,904	395,700	(23,204)
Administration and general	2,194,083	2,370,800	176,717
Pension and social security	382,638	411,760	29,122
Total operating expenses	<u>\$ 6,761,225</u>	<u>\$ 6,811,760</u>	<u>\$ 50,535</u>
Operating income	<u>\$ 3,710,228</u>	<u>\$ 3,513,040</u>	<u>\$ 197,188</u>
Nonoperating revenues (expenses):			
Interest on investments	\$ 222,140	\$ 241,600	\$ (19,460)
Interest expense	(1,212,857)	(1,254,800)	41,943
Loss on disposal of equipment	<u>(4,807)</u>	<u>(5,000)</u>	<u>193</u>
Nonoperating revenues, net	<u>\$ (995,524)</u>	<u>\$ (1,018,200)</u>	<u>\$ 22,676</u>
Surplus (Deficit) from Operations	\$ 2,714,704	\$ 2,494,840	\$ 219,864
Debt Service	(4,336,000)	(4,336,000)	-
Capital Outlay	(3,731,716)	(5,045,000)	1,313,284
Bond Proceeds	<u>1,532,723</u>	<u>2,793,000</u>	<u>(1,260,277)</u>
Surplus (Deficit)	<u>\$ (3,820,289)</u>	<u>\$ (4,093,160)</u>	<u>\$ 272,871</u>
Reconciliation to statement of revenues and expenses:			
Budget Basis Deficit	\$ (3,820,289)		
Debt Service	4,336,000		
Capital Outlay	3,731,716		
Bond Proceeds	(1,532,723)		
Depreciation and Amortization	<u>(2,831,468)</u>		
Excess of revenues over expenses	<u>\$ (116,764)</u>		

COUNCIL BLUFFS CITY WATER WORKS

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

Year Ended December 31, 2013

1. Budgetary reporting

In accordance with the Code of Iowa, the Water Works' Board of Trustees adopts a budget following required public notice and hearing. The budget is adopted on a budget basis which consists of accrual basis revenues and expenditures plus cash outlay for debt service and capital improvements and cash receipts of bond proceeds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures. In 2013, there were no budget amendments and disbursements did not exceed the amount budgeted.



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

The Board of Trustees
Council Bluffs City Water Works
Council Bluffs, Iowa

We have audited the financial statements of the Council Bluffs City Water Works as of and for the year ended December 31, 2013, and have issued our report thereon dated April 9, 2014. 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.

Internal Control Over Financial Reporting

Management of Council Bluffs City Water Works is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Council Bluffs City Water Works' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Council Bluffs City Water Works' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Council Bluffs City Water Works' internal control over financial reporting.

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 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.

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

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result 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.

Hamilton Associates, P.C.

Council Bluffs, Iowa
April 9, 2014

COUNCIL BLUFFS CITY WATER WORKS

SCHEDULE OF FINDINGS

For the Year Ended December 31, 2013

I. OTHER FINDINGS RELATED TO STATUTORY REPORTING

- I-A-13 Certified Budget – We compared the Water Works disbursements for the twelve months ended December 31, 2013 with the published budget and found that disbursements did not exceed the amounts budgeted.
- I-B-13 Questionable Disbursements – No disbursements that we believe may not meet the requirements of public purpose as defined in an Attorney general's opinion dated April 25, 1979 were noted.
- I-C-13 Travel Expense – No expenditures of funds for travel expenses of spouses of Water Works' officials or employees were noted.
- I-D-13 Business Transactions – During the course of our audit of Water Works as of December 31, 2013, we looked at many records substantiating disbursements. We noted no business transactions between the Water Works and Water Works' officials or employees.
- I-E-13 Bond Coverage – We reviewed the statutory provisions for surety bond coverage of Water Works' officials and employees. The City has an ordinance allowing the City to set bonding requirements for the Water Works. Resolution 83-475 sets the amount of surety bond coverage for board members at \$500 annually. Water Works maintains public officials' liability insurance, which sufficiently meets bond coverage requirements.
- I-F-13 Board Minutes – We noted no transactions that we believe should have been approved in the Board minutes but were not.
- I-G-13 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City's investment policy were noted.
- I-H-13 Revenue Notes – No instances of non-compliance with the revenue bond and note requirements were noted.