

2012



# ANNUAL REPORT



**COUNCIL BLUFFS WATER WORKS**

*Safe Drinking Water Is Our Business*

***MISSION STATEMENT:***

***THE COUNCIL BLUFFS WATER WORKS IS COMMITTED TO PROVIDING THE BEST POSSIBLE SERVICE WHILE SUPPLYING ADEQUATE QUANTITIES OF HIGH QUALITY TAP WATER TO MEET ALL THE DOMESTIC, INDUSTRIAL AND FIRE PROTECTION NEEDS OF OUR CUSTOMERS AND OUR COMMUNITY.***

Front Cover Photo: Yard Sprinkler In-action. Summer of 2012

## CHAIRMAN'S REPORT

The Council Bluffs Water Works broke every water production record on the books in 2012, including peak day, peak month and the most water ever produced in a single calendar year. The year started with an early warm spring, followed by a hot and dry summer which led to the record production levels. As illustrated by our front cover, record amounts of water were used to irrigate lawns and public greenspaces throughout the City. In addition, much of the increased demand was due to commercial and industrial cooling purposes. During the month of July a record 532,360,000 gallons of water was pumped to our customers, smashing the previous record month of 484,100,000 gallons pumped in July of 2006. During the month of July demand exceeded 18 million gallons per day for six days, peaking at 18,920,000 on July 19<sup>th</sup>. This prompted the Water Works to ask our customers to voluntarily conserve water for the first time in our history. Our community and customers pulled together to conserve water thereby reducing the stress being placed on the water system and averting the potential of a catastrophic system failure. The voluntary water conservation measures were lifted at the end of August as demand came down. By the end of the year 4,272,231,000 gallons of water were delivered to our customers, breaking the old record set in 2005.

The record demand of our customers during 2012 reflects the continued growth of our community and customer base and is the very reason the Board of Trustees pursued the development of a new source of water supply and water purification plant on the south side of the City several years ago. This substantial capacity increase will come on-line and begin delivering water to the community in the summer of 2013. With this major investment in our water supply system the Board continues to fulfill its obligation of providing our customers a high quality drinking water supply to meet the public health, fire protection and economic development needs of our customers.

Just as our staff met the challenge of the Flood of 2011 our staff met the challenge of the Drought of 2012. The Board of Water Works Trustees and Water Works employees will meet any challenge to fulfill its obligation and commitment to provide you with a safe, dependable and affordable supply of drinking water. Please read this report that details the accomplishments and challenges of the dedicated employees of the Council Bluffs Water Works.

Martin L. Brooks  
Chairman

Trustees:  
Carl L. Heinrich  
Glen M. Mitchell  
Maureen R. Kruse  
Michael J. Wallner



**COUNCIL POINT WATER PURIFICATION PLANT UNDER CONSTRUCTION 2012**

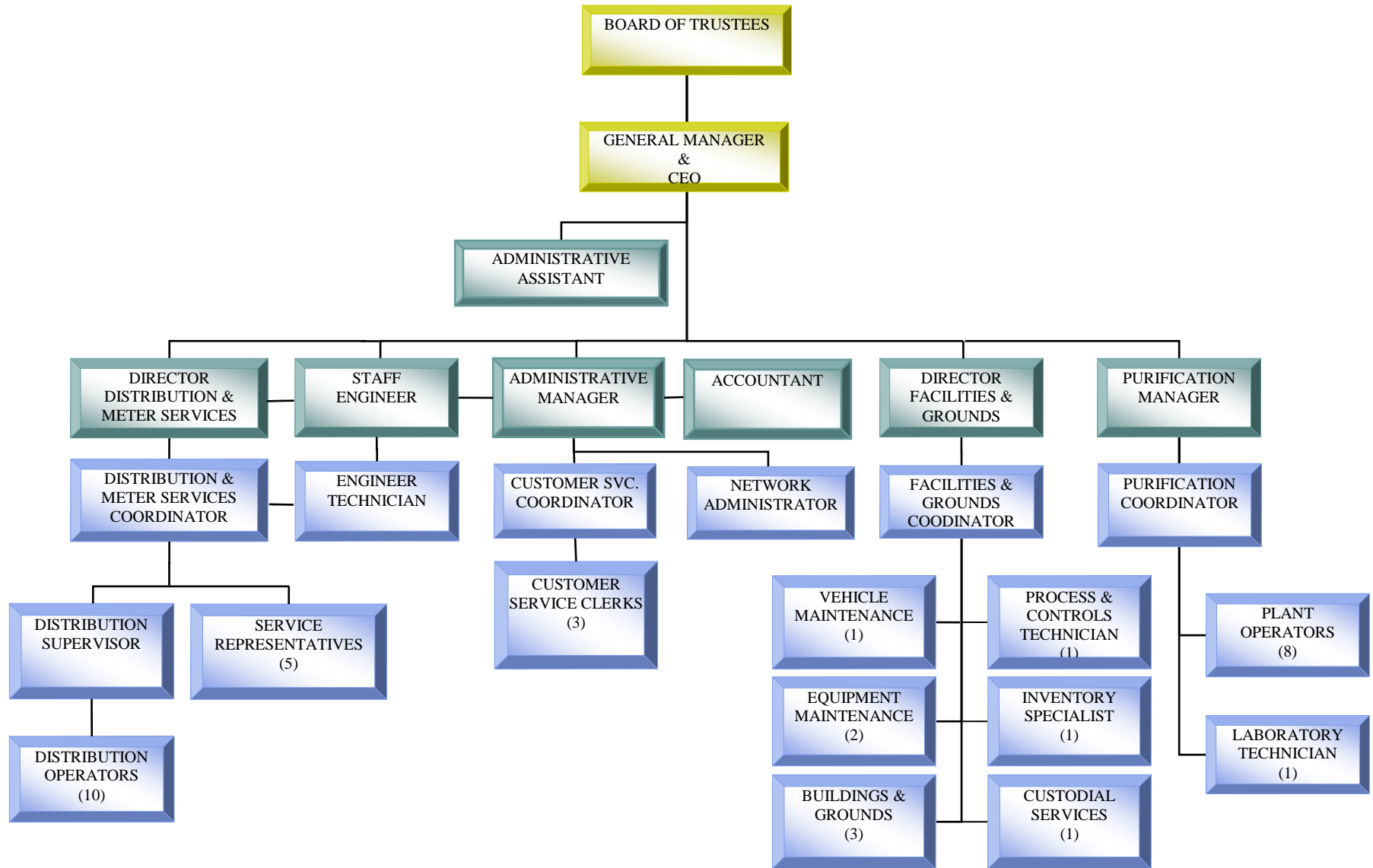
**2012  
RATE SCHEDULE**

Monthly Retail Volume Charges		
	Monthly Billing	
	Inside City (\$/CCF)	Outside City (\$/CCF)
First 1,500 Cubic Feet	\$2.81	\$4.22
Next 28,500 Cubic Feet	\$2.05	\$3.08
Next 1,970,000 Cubic Feet	\$1.29	\$1.94
Over 2,000,000 Cubic Feet	\$0.79	\$1.19

Bi-Monthly Retail Volume Charges		
	Bi-Monthly Billing	
	Inside City (\$/CCF)	Outside City (\$/CCF)
First 3,000 Cubic Feet	\$2.81	\$4.22
Next 57,000 Cubic Feet	\$2.05	\$3.08
Next 3,940,000 Cubic Feet	\$1.29	\$1.94
Over 4,000,000 Cubic Feet	\$0.79	\$1.19

Cubic foot = 7.48 gallons  
 100 cubic feet (CCF) = 748 gallons

# COUNCIL BLUFFS WATER WORKS ORGANIZATIONAL CHART



**ORGANIZATION**  
**AND**  
**PERSONNEL**

**BOARD OF WATER WORKS TRUSTEES**

Chairman	Martin L. Brooks	term expires June 30, 2013
Trustee	Carl L. Heinrich	term expires June 30, 2015
Trustee	Glen M. Mitchell	term expires June 30, 2012
Trustee	Michael J. Wallner	term expires June 30, 2016
Trustee	Maureen R. Kruse	term expires June 30, 2016

***STAFF***

General Manager and CEO:	Douglas P. Drummey	Iowa Grade IV Operator
Administrative Assistant:	Celestine Powell	
Staff Engineer:	Brian T. Cady	Professional Engineer

***PURIFICATION DEPARTMENT***

Purification Manager:	John M. Meads	Iowa Grade IV Operator
Coordinator:	---	---
Personnel:	Carolyn L. Hussein	Iowa Grade IV Operator
	Rodney A. Scott	Iowa Grade IV Operator
	Timothy C. Parker	Iowa Grade IV Operator
	Benjamin E. Brandes	Iowa Grade II Operator
	Joseph S. Rhoades	Iowa Grade II Operator
	Brandon L. Wear	Iowa Grade I Operator
	Ian J. Cassidy	Iowa Grade I Operator
	Ketrick E. Dilworth	

***DISTRIBUTION & METER SERVICES DEPARTMENT***

Director:	William E. Wiggins Jr.	Iowa Grade IV Operator
Coordinator:	---	---
Supervisor:	Douglas P. Adkins	Iowa Grade II Operator
Engineering Technician:	Karen R. Perdue	
Distribution Personnel:	Matthew L. Farrell	Iowa Grade II Operator
	John D. Penney	Iowa Grade II Operator
	Jeffrey A. Schuster	Iowa Grade II Operator
	Joshua W. Ryan	Iowa Grade II Operator
	Sammy J. Hughes	Iowa Grade I Operator
	Dustin L. Christensen	Iowa Grade I Operator
	Brian E. Andersen	
	Edwin C. Kuhl	
	Michael J. Tornblom	
	Jeffery S. Chanley	
Meter Personnel:	Stephen J. Ronk	
	Russell D. Osbahr	
	Kenny C. McKeighan	
	Chad M. Springer	
	Kyle W. Newson	



**FACILITIES & GROUNDS DEPARTMENT**

Director: Ronnie G. Kopaska

Coordinator: Raymond P. Stevens Iowa Grade II Operator

Process & Controls Technician: Phil V. Kinart Iowa Grade I Operator

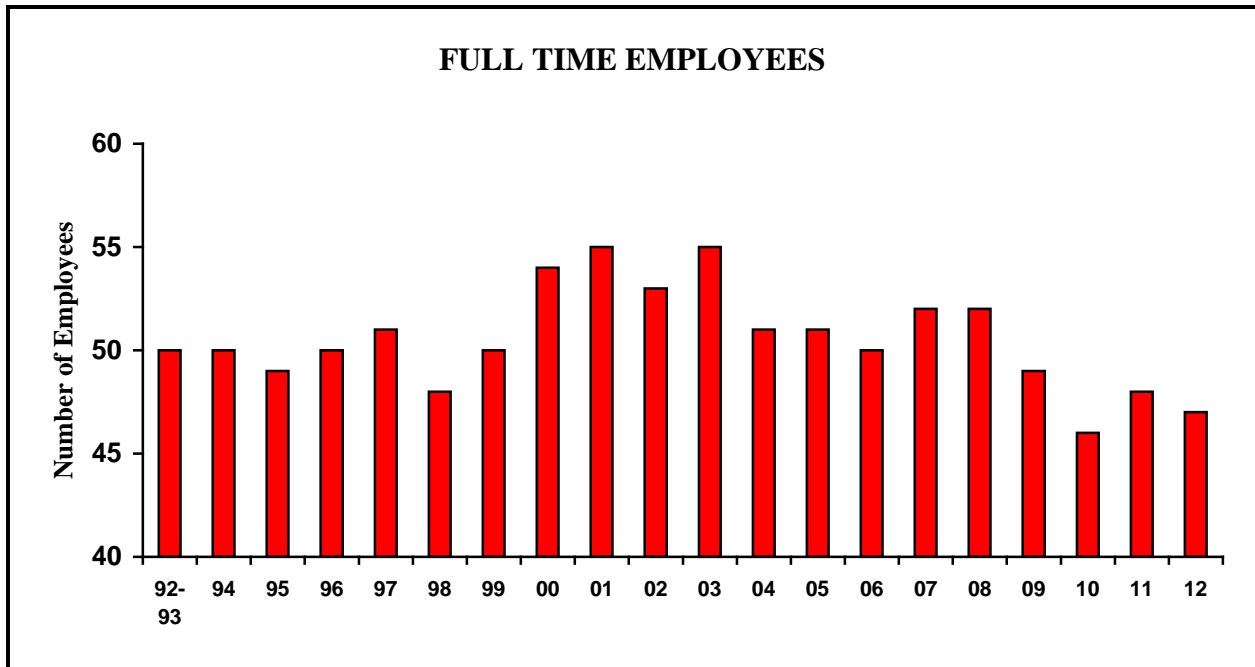
Personnel: Mark P. Applegate  
James L. Smith Jr.  
Joseph A. Masker  
Norman H. Sales Jr.  
Shane E. Ruckman  
Jason R. Jones  
Frank J. Bouska Jr.

**CUSTOMER SERVICE & ACCOUNTING DEPARTMENT**

Administrative Manager: Karen A. Wisniski

Systems Administrator: Bruce M. Riegel

Personnel: Joseph E. Lenihan  
Travis P. Anderson  
Lisa A. Hammer  
Loni N. Neve  
Amy M. Driver



**HIGHLIGHTS**  
**AND**  
**STATISTICS**

## **PURIFICATION DEPARTMENT**

The Purification Department's primary responsibility is to produce safe drinking water in compliance with all Federal and State Drinking Water Standards and deliver that water to our customers. The Department produced record amounts of drinking water in 2012 all of which complied with the Safe Drinking Water Act. The Narrows Water Purification Plant delivered 4,272,231,000 gallons of potable water to its customers. Our average daily pumpage was 11,673,000 gallons with a maximum day record of 18,920,000 gallons set on July 19, 2012. Monthly records were broke in the months of March, April, May, July, August, and September.

The Narrows Water Purification Plant is a conventional lime softening plant that utilizes chlorination as its primary disinfectant. The chlorination system is a vital part of the water treatment process and must provide uninterrupted application of chlorine to properly disinfect the water. In order to maintain high quality drinking water a new chlorinator was purchased and installed in 2012. Also, an on-line process turbidimeter was installed that monitors and measures the turbidity of the water during water treatment as it leaves the settling basins just before it enters the filters. This data provides crucial real-time data that ensures optimum treatment plant performance and filter efficiency.

The new Stage II Disinfection By-Product (DBP) Rule took effect in July of 2012 that lowered the level of DBP allowed in drinking water. Two of the by-products formed in drinking water disinfection that are regulated by the Safe Drinking Water Act are Total Trihalomethanes (TTHM's) and Haloacetic acids (HAA5's). Prior to the new regulation taken affect the department evaluated DBP formation and determined that locating a new chlorine application point would reduce DBP formation. Analysis of samples in July showed a reduction in TTHM's from prior results. TTHM's have a Maximum Contaminant Level (MCL) of 80 PPB for drinking water and the highest level detected in July 2012 was 53 PPB, well below the MCL.

A new operator was added to the Purification Department in 2012. Ketrick Dilworth was hired in October. Ketrick is now working hard to achieve required certification to operate the plant. He will be eligible to take his Grade I Certification exam in 2013. Ketrick currently holds an Associate's Degree in Civil Engineering/Construction Technology.

The Missouri River Mainstream Reservoir System entered the 2012 spring runoff season well prepared to capture spring runoff. It had slightly more than full flood storage capacity available. The U. S. Army Corps of Engineers' goal following the Flood of 2011 was to evacuate all of the flood waters and prepare the reservoir system for the 2012 runoff season. Runoff was limited and the Missouri River Basin experienced drought conditions throughout much of the summer and fall. Runoff during 2012 totaled 19.8 million acre feet or 80 percent of normal. Drought conditions typically mean higher quality source water and that was the case in 2012.

### 2012 Water Quality Facts and Figures

Total Gallons Pumped to System	4,272,231,000
Average Gallons Pumped to System (daily)	11,673,000
Maximum Gallons Pumped to System (single day)	18,920,000
Average Gallons Used Per Person Per Day	187
Source of Water	Missouri River & Missouri River Alluvium
Finished Water Chemical Analysis	
pH	9.3 (units)
Alkalinity	61 (ppm)
Hardness	151 (ppm)
Calcium	93 (ppm)

Magnesium	58 (ppm)
Non-Carbonate Hardness	90 (ppm)
Total Chlorine	2.1 (ppm)
Fluoride	0.69 (ppm)
Turbidity	0.07 (NTU)
Annual Average Temperature (Fahrenheit)	59 degrees

The following chemicals and quantities were used to treat our water:

<u>Water Treatment Chemical</u>	<u>Tons Used</u>	<u>\$ Cost</u>
Lime	2,149.7	\$333,206
Soda Ash	162.9	51,793
Ferric Sulfate	209.3	104,225
Liquid Chlorine	77.3	63,350
Sodium Silicofluoride	11.3	11,618
Polymer	10.2	10,159
Anhydrous Ammonia	10.4	17,013
Sodium Chlorite	18.2	22,526
Powder Activated Carbon	6.7	9,918
Sodium Hexametaphosphate	4.6	10,424
Potassium Permanganate	0.5	2,154
Total Water Treatment Chemical Cost		<u>\$636,386</u>

### ***DISTRIBUTION DEPARTMENT***

The Distribution Department is responsible for the maintenance and operation of all underground facilities in the water distribution system and fire hydrants, including nearly 297.42 miles of water main, 7,904 valves and 2,909 fire hydrants. The departments responds to emergency call-outs 24/7 under all weather conditions to repair water main breaks and restore water service to Water Works' customers in a timely manner.

In 2012, the Distribution Department continued with the leak survey of our entire system, maintained all fire hydrants and painted 329 hydrants as part of our annual hydrant maintenance program. To date, 1,897 fire hydrants have been painted. Additionally, our personnel responded to 136 emergency call-outs throughout the year during all hours and weather conditions to ensure continued water service to our customers.

The Distribution Department's water main replacement efforts this year continued in support of city street and sewer replacement projects. Water mains were also added in new developments. Department personnel repaired approximately 3,059 square yards of Portland Cement Concrete (PCC) paving. 170 square yards of asphalt overlay was installed by agreement with the Public Works Department.

This year the department:

- Made 97 small taps, and 17 purification taps
- Checked 534 service leaks
- Turned on/off 82 services
- Repaired 53 service lines and 209 curb boxes
- Replaced 25 services from the main to stop box

1 service was moved for construction by Water Works personnel  
94 services were connected by contractors  
Killed 81 services at the main and 10 at the curb stop  
Answered 6,548 requests for service line or main location  
Turned 615 large valves, rebuilt 13, replaced 10 and added 5 new valves  
Installed 62 additional valves with Water Works mains  
Repaired 71 main leaks, moved 5 water mains, and killed 2 water mains  
Repaired 38 valve boxes  
Made 15 large taps (4 inches and above)  
Removed 15 fire hydrants from service which were obsolete, damaged or for main replacement  
22 Hydrants were replaced by Water Works personnel  
Hydrants painted and domes color coded by an outside contractor 329  
Hydrants were listened to while performing leak survey 5,715  
Hydrant flow tested 328  
Checked 3,058 hydrants  
Repaired 78 hydrants  
Relocated 4 hydrants  
Scooped snow from 5 hydrants  
Flushed 556 hydrants  
Thawed out 5 fire hydrants

Observed installation of 18,530 feet of new mains installed by contractors.

Mains installed by the Distribution Department were:

13 feet of 4 - inch main  
229 feet of 6 - inch main  
1,285 feet of 8 - inch main  
15 feet of 10 - inch main  
72 feet of 12 - inch main  
19 feet of 16 - inch main  
8 feet of 24 - inch main

Mains installed by contractors were:

5 feet of 4 - inch main  
74 feet of 6 - inch main  
6,285 feet of 8 - inch main  
2,379 feet of 10 - inch main  
312 feet of 12 - inch main  
53 feet of 16 - inch main  
9,422 feet of 30 - inch main

### ***METER SERVICES DEPARTMENT***

The Meter Department's primary function is to read over 22,000 water meters on a monthly and bi-monthly basis, repair and replace meters as needed, complete disconnect and reconnect orders, collect delinquent accounts and respond to service call requests as needed.

In 2012, the Meter Department continued to upgrade and exchanged 491 water meters as part of our meter replacement program. While continuing to maintain and upgrade the Water Works' 22,000 plus water meters, we installed an additional 456 radio read meters to improve meter reading efficiency.

In addition to the meter exchanges this year the department:

Replaced 155 dead meters  
Removed 37 meters for demolition  
Repaired 64 leaking meters  
Replaced 43 frozen meters

Installed 130 touch pads  
Installed 456 radio reading devices  
Exchanged 100 radio reading devices  
Exchanged 156 radio reading batteries  
Set 82 new addresses with meters  
Set 15 new addresses with large meters  
Exchanged 125 small meters  
Exchanged 7 large meters  
491 meters were exchanged for the Meter Exchange Program  
287 notes were left to exchange meter  
70 meters were tested for accuracy or malfunction  
Wired 90 new construction homes  
Rewired 54 existing customer homes  
Monitored 493 new construction homes  
Checked 42 homes for low water pressure  
Surveyed 1 account for leaks  
Set and Removed 145 Hydrant Meters  
Performed 2,741 final readings  
Read 2,815 RMMS (Reading Meter Management System)  
Researched 205 high bill orders  
Verified 103 meter readings  
763 notes were left to read the meter  
Turned on 559 delinquent accounts for Customer Service  
3,094 cards were left for delinquent accounts  
Turned on 1,455 water services  
Turned off 929 water services  
Inspected 94 Pump Stations  
Inspected 2 water main leaks  
Inspected 15 service leaks  
Inspected 10 Fire Hydrants  
55 bi-monthly meter routes were read 330 times and 4 monthly meter routes were read 48 times  
There were 141,375 meter readings

### ***FACILITIES & GROUNDS DEPARTMENT***

The Facilities and Grounds Department is responsible for the maintenance of all facilities, equipment, buildings and grounds, including the Narrows Water Purification Plant, Administration Building, five (5) Booster Pump Stations, four (4) Ground Storage Reservoirs, five (5) Elevated Storage Tanks and soon to be the new Council Point Water Purification Plant property and facilities. The eleven (11) locations account for approximately 200 acres of land spread throughout the city. The Facilities and Grounds crew takes pride in maintaining the appearance of all Water Work's properties and facilities.

Department personnel oversee the daily operations of the Store Room and Warehouse. The Inventory Specialist is responsible for the purchase, storage and allocation of material and resources needed for all departments with an inventory valued at nearly \$700,000.

The department maintains the vehicle and equipment fleet with over forty (40) pieces of equipment for the organization including automobiles, service trucks, dump trucks, backhoes, tractors, mowers, compressors, welders, trailers and specialty equipment used for concrete and water main repair.

Capital Improvements project included replacement of access covers to pits and vaults around the Narrows Water Purification Plant. Nearly all the access lids to the vaults were replaced with new light weight and maintenance free aluminum lids. Capital Improvements included installation of a new process turbidimeter and adding and upgrading chlorine injection points to our finished water clearwell. A new powdered activated carbon feeder system was installed at the Narrows Plant which is more reliable, easier to control and operate. Over the winter the record low river stages and levels required personnel to take special measure to protect the Intake Structure from freezing and ice buildup so that pumps could continue to draw water from the intake.

Power and fuel are essential to our operations. It took 5,749,131 kWh of electricity at a cost of \$243,542.42 to

process and distributes over four billion gallons of water. We also used 16,816 gallons of lead free gasoline at a cost of \$51,829.24 and 11,697 gallons of red diesel fuel at a cost of \$39,287.21 to fuel the Water Works fleet. We used 6,211 cubic feet of natural gas at a cost of \$23,835.92 to heat our buildings and structures.

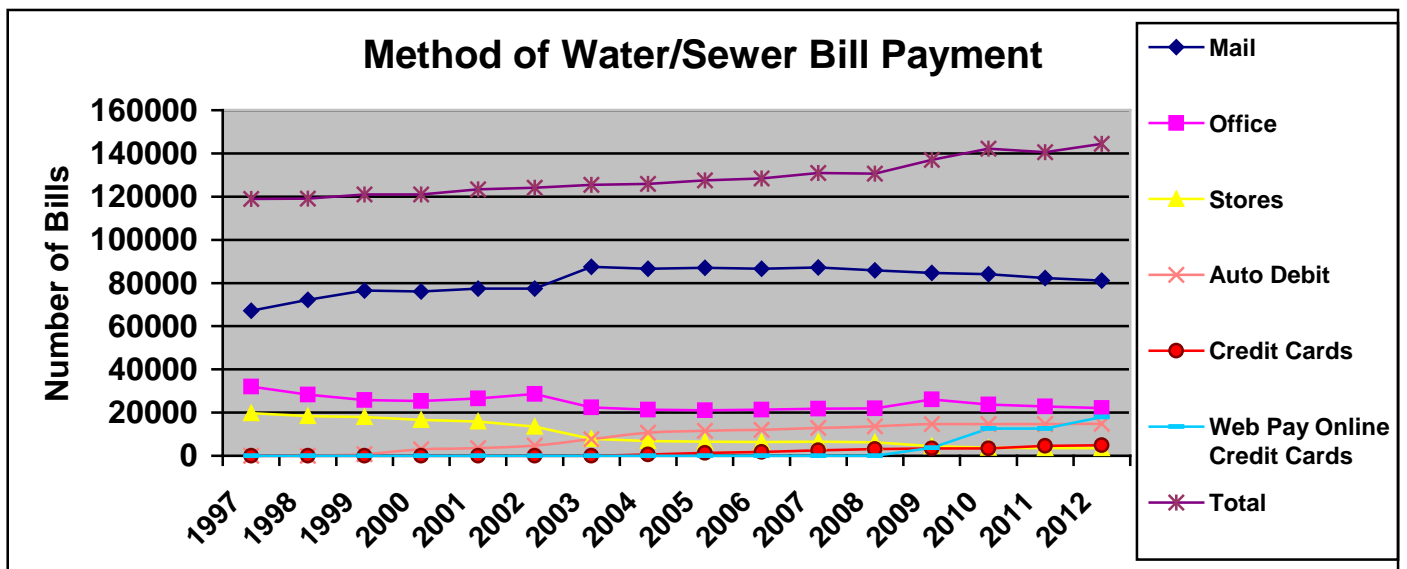
**CUSTOMER SERVICE & ACCOUNTING DEPARTMENT**

Our Customer Service Representatives do an excellent job helping Water Works customers with their questions whether by telephone or in person. Customer Service handled many calls in 2012 such as “Why is my water bill so high?” Customer Service would then ask, “Have you been watering or do you have anything leaking?” Customers’ replies were normally, “We have been watering, but not that much.” The Customer Service Department would then generate a service order to be sent out with the Service Representative to check for a high bill and for any leaks. Service orders are returned to the office to be processed by the Customer Service Representative, who then enters any comments the Service Representative would have listed on the service order as to what they inspected when they went to the service location of the customer. Some comments listed by our Service Representatives are, “Customer has green grass and had been watering”. During the drought in the summer of 2012, if customers were not watering their yards, their yards were probably brown. Customers do not realize the amount of water required to keep their yards green when it is hot and dry. We did notice that some customers cut back on watering their lawns once they received their first high water bill.

In 2012, the Customer Service Department mailed out 136,502 water bills, and sent 35,599 reminder notices and 18,950 shut-off notices to customers. There were 146,160 payments processed. There were 14,828 automatic bank payments. There were 6,013 service orders processed for final readings, high bills, dead meters, or to install new meters. There were 911 meters installed or replaced. Customer Service Representative made 1,362 payment arrangements with customers. 1,081 water bills were paid on the day of shut-off and 1,124 services were discontinued for non-payment. There were 207 returned checks that had to be collected from customers. 3,777 service contracts were processed to transfer, reinstate or add new customers to the system.

The Council Bluffs Water Works continues to see an increase in the number of customers paying their bills on the company website. There were 4,946 credit card payments and 17,893 online web credit card payments.

The Accounting Department processed \$16,399,934.68 in receipts and payments in 2012, including processing water and sewer bill payments and making the daily bank deposits. The Accounting Department is responsible for processing accounts payable invoices, checks, payroll, the budget, fixed assets and other information for the general ledger. The Accounting Department prepares monthly reports for the Board and other departments. The most recent audit found no irregularities or deficiencies in accounting practices and procedures.



**GENERAL INFORMATION**

The Council Bluffs Water Works has 21,512 active service accounts: 19,689 residential; 1,823 are commercial or industrial.

Last year, total production was 4,272,231,000 gallons.

Residential customers consumed 1,250,299,204 gallons in 2012. The average residential customer used 63,502 gallons at a cost of \$247.87 per year or \$20.66 per month.

Our top ten customers consumed 1,325,996,804 gallons, 31% of total production.

**SERVICES PROVIDED OUTSIDE THE CITY OF COUNCIL BLUFFS, IOWA**

641 outside-City customers paid \$758,197.65 for 228,350,188 gallons of water.

The City of Crescent paid \$55,331.71 for 22,641,212 gallons of water.

Regional Water paid \$117,477.16 for 43,633,832 gallons of water.

In total, outside City customers paid \$931,006.52 for 294,625,232 gallons of water. This represents 9.1% of metered water sales and 6.9% of total water production.

**SERVICES PROVIDED TO THE CITY OF COUNCIL BLUFFS, IOWA**

The Council Bluffs Water Works provided 83,317,476 gallons of water to the City free of charge, having a value of \$206,437.16. Also, on behalf of the City, the Council Bluffs Water Works collected \$4,944,814.41 in sewer use fees.

**TOP TEN CUSTOMERS**

	<u>2012 Rank</u>	<u>2011 Rank</u>
1. ConAgra Frozen Foods		1
2. MidAmerican Energy Co.		2
3. Bunge Corporation		3
4. City of Council Bluffs		8
5. Griffin Pipe Products		4
6. Google, Inc. (Council Bluffs)		7
7. Tyson Foods, Inc.		6
8. Plumrose USA, Inc.		5
9. Iowa Western Community College		10
10. Ameristar Casino		unranked

The Council Bluffs Water Works has 297.42 miles of water mains consisting of:

1-inch main	3,192	feet
1 ¼ inch main	310	feet
2-inch main	1,054	feet
4-inch main	51,436	feet
6-inch main	605,502	feet
8-inch main	320,034	feet
10-inch main	155,000	feet
12-inch main	214,431	feet
16-inch main	163,612	feet

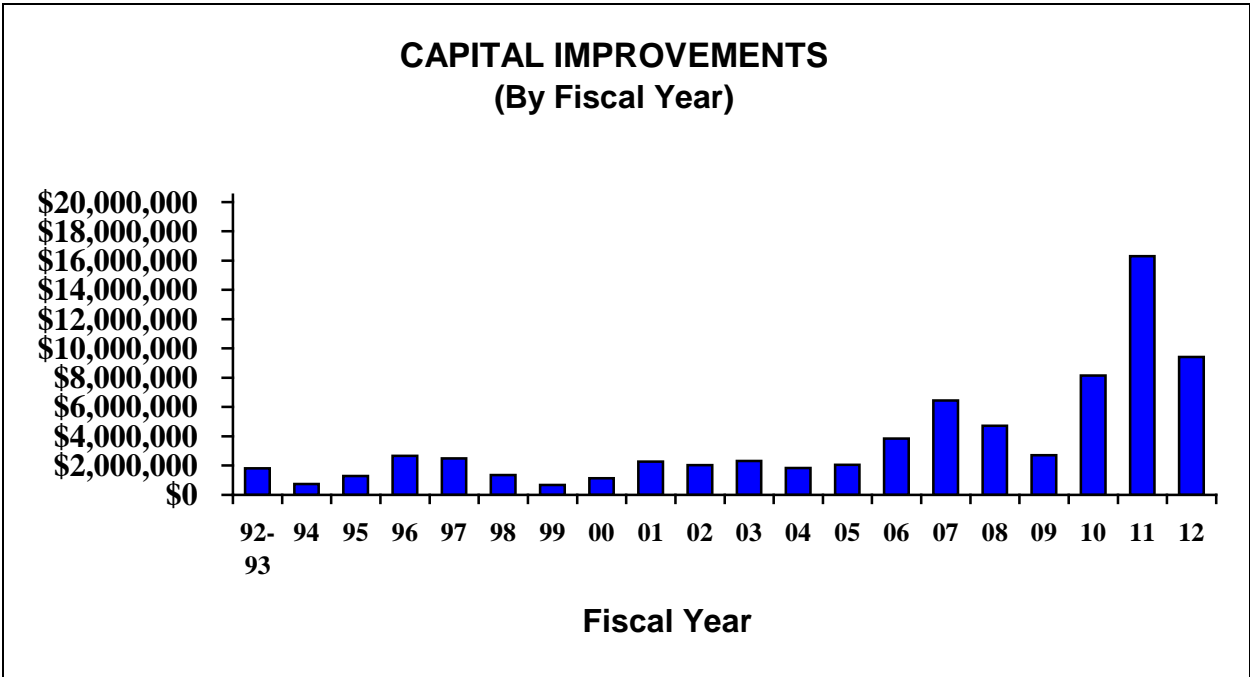
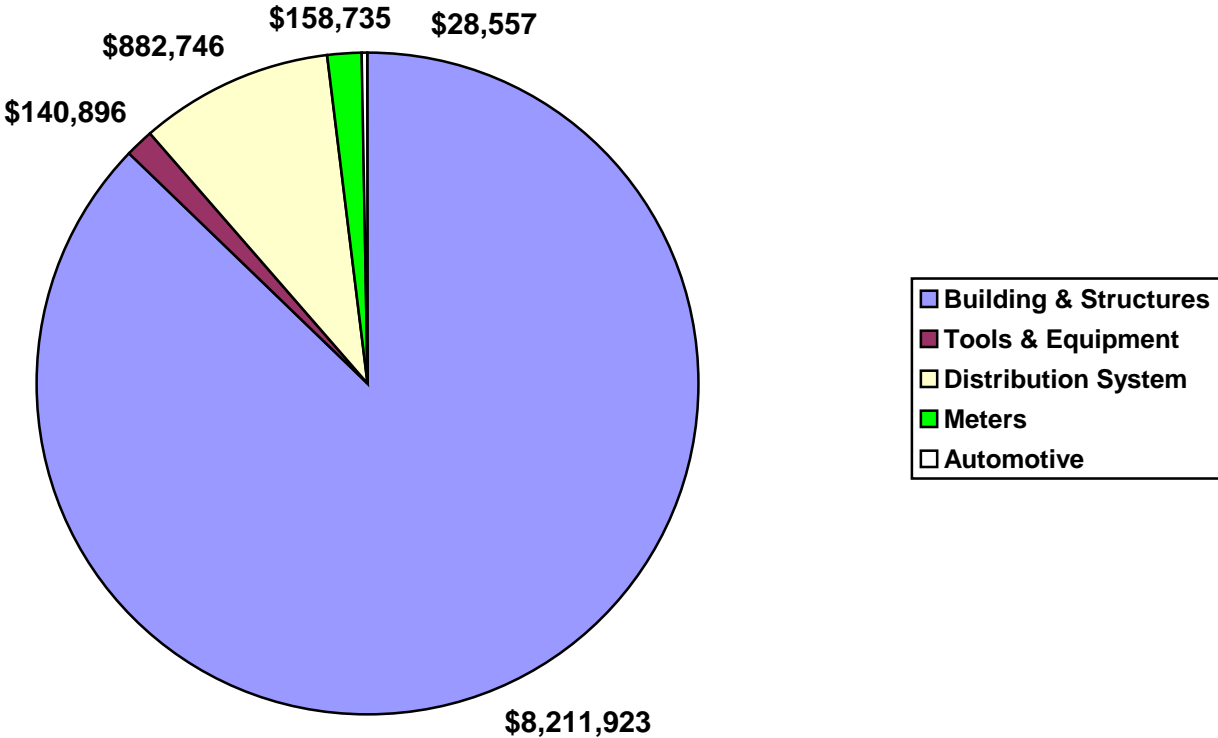


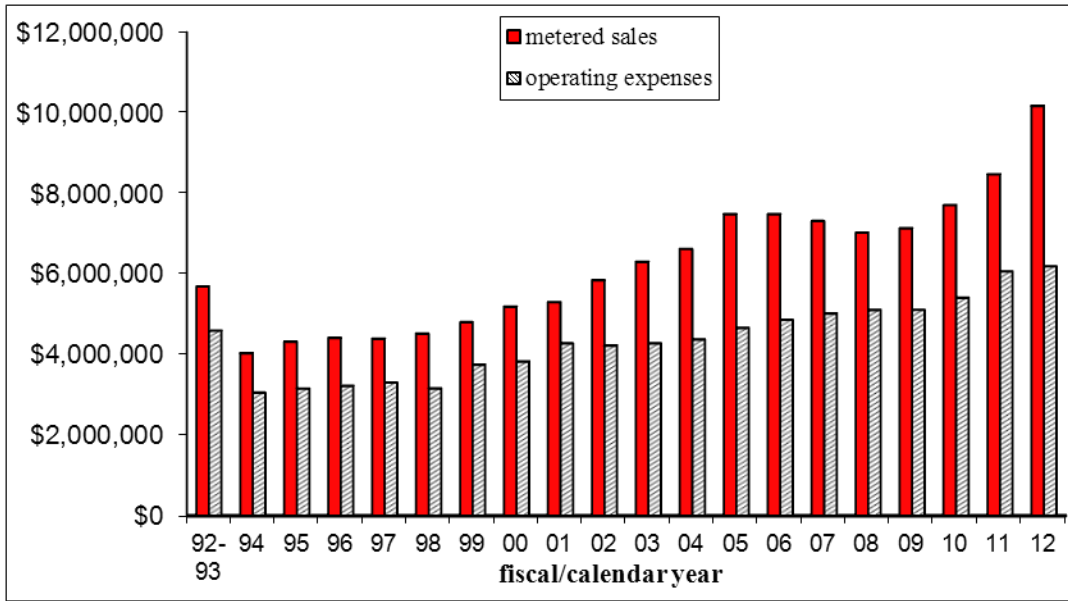
20-inch main	7,723	feet
24-inch main	25,461	feet
30-inch main	13,638	feet
36-inch main	8,995	feet

Number of Hydrants: 2,909

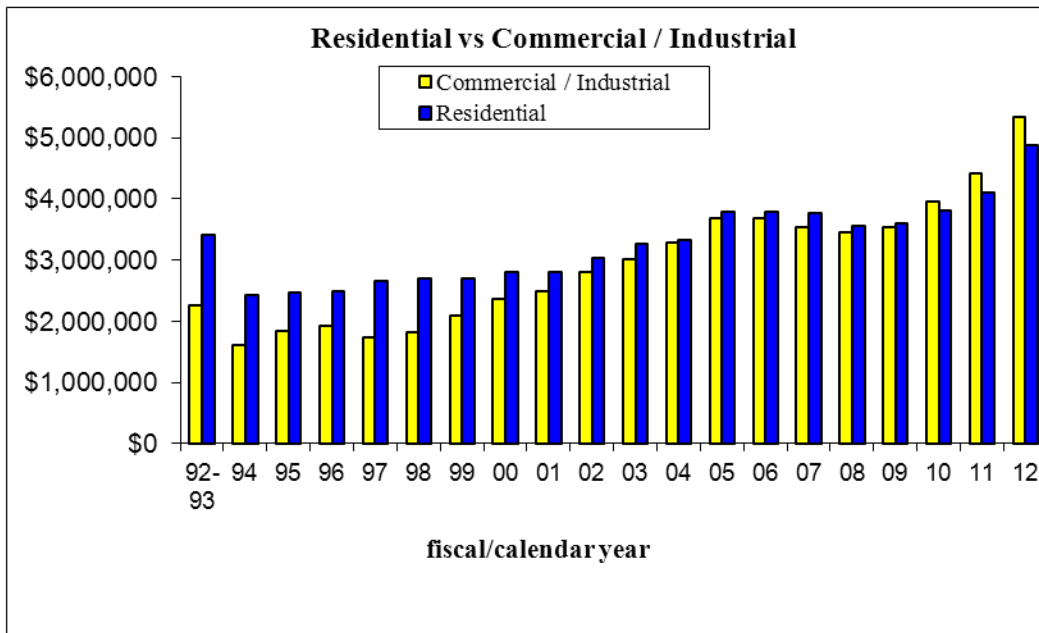
Number of Valves: 7,904

**2012 CAPITAL IMPROVEMENTS  
TOTAL \$9,422,857**





METERED SALES vs OPERATING EXPENSES  
(92-93 is an 18-month period)



WATER REVENUE  
(92-93 is an 18-month)

**COUNCIL BLUFFS WATER WORKS  
PUMPAGE & METERED CONSUMPTION  
(1,000'S Gallons)  
2012**

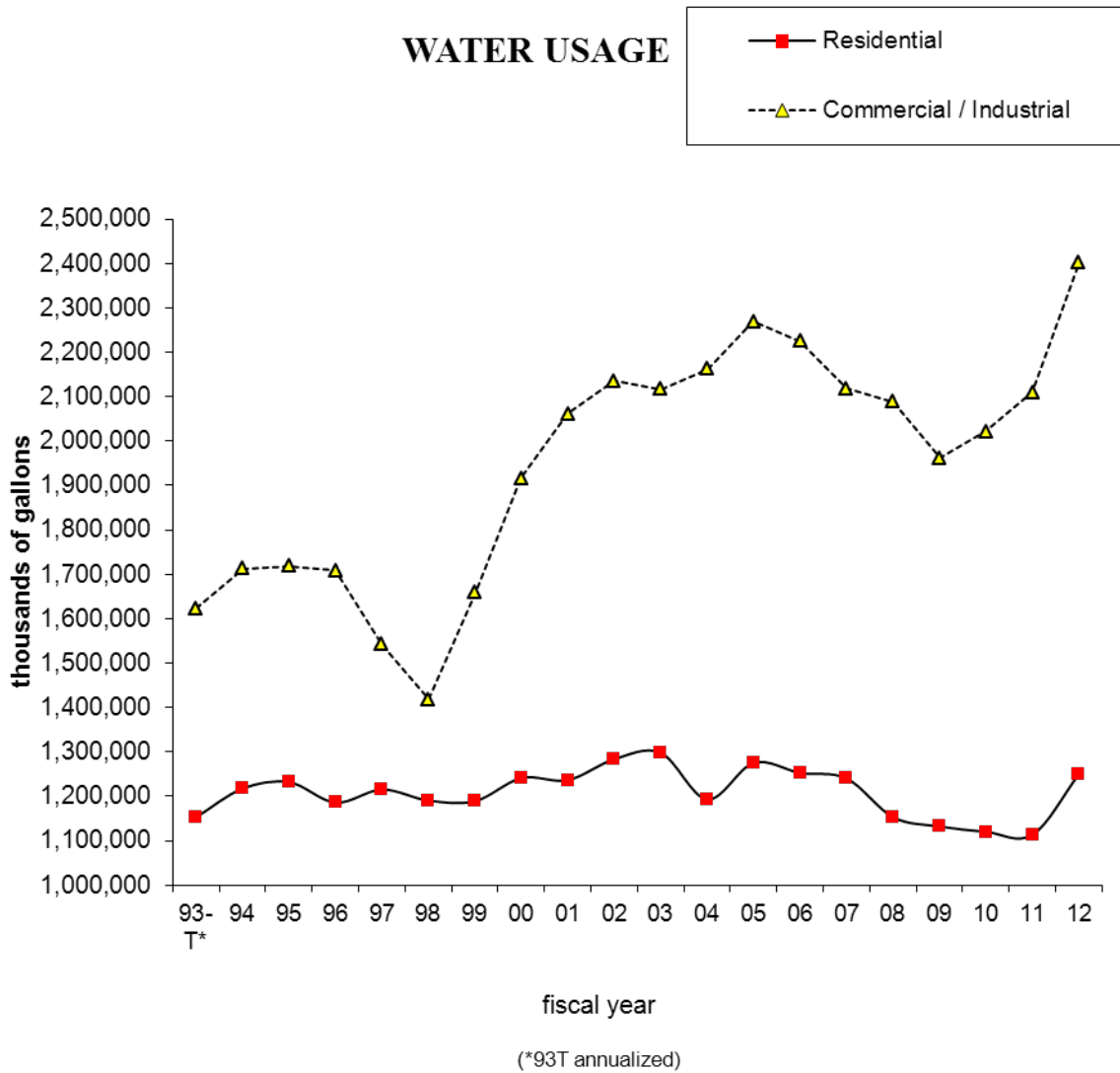
<u>MONTH</u>	<u>PUMPAGE TOTAL</u>	<u>METERED CONSUMPTION TOTAL</u>	<u>CONSUMPTION COMMERCIAL &amp; INDUSTRIAL</u>	<u>RESIDENTIAL</u>
January	288,510	233,776	148,951	84,825
February	266,854	224,486	142,872	81,614
March	305,723	254,688	174,199	80,489
April	316,777	258,942	176,445	82,497
May	374,795	298,379	211,959	86,420
June	419,620	377,745	256,491	121,254
July	532,360	399,666	284,039	115,627
August	468,728	463,367	288,967	174,400
September	401,780	357,071	226,929	130,142
October	335,720	320,435	198,858	121,577
November	282,234	243,197	151,513	91,684
December	279,130	219,885	140,115	79,770
Totals 2012	4,272,231	3,651,637	2,401,338	1,250,299
Ratio		85.5%	56.2%	29.3%
Totals 2011	3,812,510	3,223,701	2,109,993	1,113,708
Ratio		84.6%	55.3%	29.3%
Totals 2002	4,008,626	3,418,993	2,135,288	1,283,705
Ratio		85.3%	53.3%	32.0%

**COUNCIL BLUFFS WATER WORKS  
METERED SALES (\$)  
2012**

<u>MONTH</u>	<u>TOTAL</u>	<u>COMMERCIAL &amp; INDUSTRIAL</u>	<u>RESIDENTIAL</u>
January	658,305	338,808	319,497
February	636,378	323,134	313,244
March	714,332	382,837	331,495
April	725,890	385,310	340,580
May	821,246	470,490	350,756
June	1,028,378	558,192	470,186
July	1,069,272	619,986	449,286
August	1,271,301	632,113	639,188
September	1,008,118	515,522	492,596
October	920,792	449,089	471,703
November	718,578	349,131	369,447
December	658,012	325,625	332,387
Totals 2012	10,230,602	5,350,237	4,880,365
Ratio		52.3%	47.7%
Totals 2011	8,514,184	4,418,578	4,095,606
Ratio		51.9%	48.1%
Totals 2002	5,840,809	2,799,616	3,041,193
Ratio		47.9%	52.1%

## RESIDENTIAL VERSUS COMMERCIAL / INDUSTRIAL

### WATER USAGE



## ***HISTORY***

Construction of the Council Bluffs Water System began in 1881 by the American Construction Company of New York City, which had been granted a 25 year franchise by the City of Council Bluffs. Under the franchise, the American Construction Company was to construct and operate a water system. The system constructed was very inferior, and during the life of the franchise, practically no improvements or extensions were made. As a result, along with the poor service rendered by the water company, the renewal of the franchise was rejected by the voters in 1906. In 1911, the City acquired the water system through condemnation proceedings at a cost of \$510,000. On June 1, 1911, the control of the Council Bluffs Water Works came under the Board of Water Works Trustees, which had been appointed by the Mayor. Their first task was to reconstruct or replace practically the entire system. The utility remains under the control of a five member Board of Trustees, appointed by the Mayor on alternate terms of six years each. Many physical changes have occurred within the water system itself. The system in 1911 consisted of obtaining water from the Missouri River near North 37<sup>th</sup> Street, settling in large reservoirs, disinfecting, and pumping. Disinfection was begun in 1910 which eliminated illness and deaths from typhoid. In 1952, a conventional lime softening water treatment plant was constructed at North 25<sup>th</sup> Street. The Administration Building was relocated to North 25<sup>th</sup> Street in 1974. In the ensuing thirty years many other improvements have been made including the construction of the 2,000,000 gallon Valley View Reservoir, a Distribution/Meter Department Office and Warehouse Complex, a 1,500,000 gallon Clearwell, a modern Chlorine Handling Facility, 3 Elevated Storage Tanks, two Pump Stations and one storage reservoir.

## ***GENERAL DESCRIPTION OF SYSTEM OPERATIONS***

The water systems main source of water is the Missouri River. Four low service pumps are located at the intake pump station. #1 pump is rated at 12.5 million gallons per day (MGD) and is a dual drive pump (electric or gas engine). #2 pump is rated at 5.5 MGD. #3 pump is a variable speed with a maximum capacity of 9.0 MGD. #4 pump is also variable speed with a maximum capacity of 12.5 MGD. Any single pump can be run from a standby generator if commercial power fails.

The secondary source of water is the Missouri River Alluvium. Two wells at a depth of 150 feet have a capacity of 4.5 MGD each.

Traveling screens at the Intake Pump Station remove large debris before it is pumped to twin preliminary settling basins where the sand and heavy silt settle out. Polyelectrolytes are added when necessary to enhance the settling process. Well water is blended with the cold river water in the winter to minimize icing problems within the basins. Water then flows by gravity through the remaining treatment steps.

There are two independent treatment trains at the purification plant. Typically, the plant operates in a split treatment mode where lime is added to approximately 70% of the water to elevate the pH sufficiently to precipitate magnesium and calcium ions. This softened water is blended with un-softened water as needed to adjust the pH and hardness of the water. Soda Ash and Ferric Sulfate are added as required to complete the coagulation and softening process. A series of mixers and flocculators ensure a complete chemical reaction prior to the clarification basins. Solids are recycled to the mixers as a catalyst for the chemical reactions.

Water then flows to 8 gravity multi-media filters. Each filter has a rated capacity of 3.0 MGD. The filters remove any remaining particles. The filters have a granular activated carbon cap that remove dissolved organic compounds and taste and odor causing compounds by adsorption.

Chlorine is added as a disinfectant before and after the filters. Fluoride is added as a prophylaxis. The water then flows through two 1.5 million gallon baffled clearwells to ensure inactivation of microorganisms. Ammonia is then added to convert the chlorine to chloramines to stabilize the chlorine residual and control disinfection by-products.

There are four high service pumps that deliver water to the City. Two of the pumps have a capacity of 10 MGD, one is 7.5 MGD and the smallest is 6 MGD. Pumps can be run in any combination to meet demand. Typical plant discharge pressure is 90 – 100 pounds per square inch. A 500 kW and 100 kW generators provide emergency back up power to the plant in case of commercial power failure.

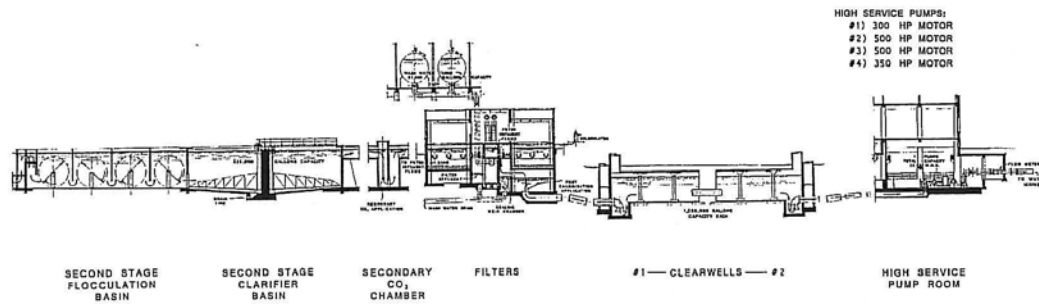
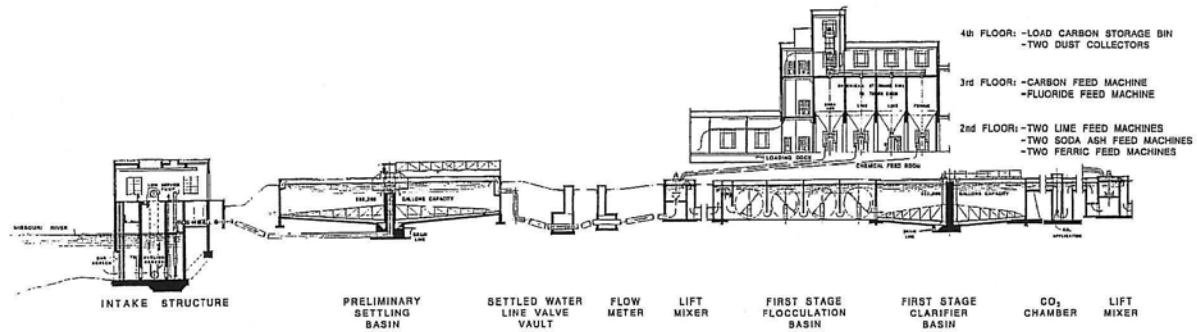
The distribution system has three pressure zones. The first zone is the flat (western and southern) sections of the city and is served by three 2 million gallon reservoirs and one 3 million gallon reservoir. Three of the reservoirs are located downtown and one is located in the southeastern part of the city.

Four booster pump stations and 4 elevated storage tanks with a combined capacity of 1.2 million gallons serve the second pressure zone (bluffs). Lincoln Pump Station has three pumps rated at 600, 750 and 750 gallons per minute (GPM), one is dual drive (electric or gas). Lincoln Pump Station delivers water to the northern section of the City and pumps to a 500,000 gallon elevated tank at Buena Vista Circle and a 200,000 gallon elevated tank at Simms Avenue. Glen Pump Station has three pumps rated at 1500, 800 and 2500 GPM, the largest being a dual drive. This booster pump station delivers to the eastern section of the city and pumps to a 200,000 gallon elevated tank at Memorial Park and a 300,000 gallon tank on Greenview Drive. The Valley View Pump Station has two pumps rated at 750 GPM and 1500 GPM. A gas fired generator provides emergency backup power. This new pump station supports the rapidly growing eastern sections of the city. Oak Street Pump Station has three pumps rated at 400, 700 and 700 GPM, one is a dual drive. This pump station supports both the northern and eastern sections of the bluffs.

A third pressure zone of the distribution system serves the eastern portions of the system. The Airport/Bent Tree pump station has three variable speed pumps each with a maximum capacity of 600 gallons per minute and pump to a 400,000 gallon elevated tank on Highway 6. A gas fired generator provides emergency back up power.

A Supervisory Control and Data Acquisition System monitors all pump station and tank operations from the Water Treatment Plant located on North 25<sup>th</sup> Street.

# WATER TREATMENT PROCESS





COUNCIL BLUFFS CITY WATER WORKS  
FINANCIAL STATEMENTS AND SCHEDULE  
DECEMBER 31, 2012 and 2011  
(With Independent Auditors' Report Thereon)

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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 balance sheets of the Council Bluffs City Water Works, Council Bluffs, Iowa (Water Works) as of December 31, 2012 and 2011, and the related statements of revenues and expenses, fund equity and cash flows for the years then ended.

### **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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, Chapter 11 of the "Code of Iowa" and "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, 2012 and 2011 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 budgetary comparison information* on pages 17 and 18 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Council Bluffs City Water Works basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by US Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements taken as a whole.

The schedule of federal expenditures is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report April 12, 2013 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 12, 2013

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
Calendar Year Ending December 31, 2012 (Audited)

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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, 2012. We encourage readers to consider this information in conjunction with our financial statements, which follow.

**FINANCIAL HIGHLIGHTS**

- ◆ The Water Works' operating revenues increased 32.45% or \$2,956,608 from calendar year 2011 to 2012.
- ◆ The Water Works' operating expenses increased by 2.22% or \$197,065, more in calendar year 2011 to 2012.
- ◆ The Water Works' net assets increased 5.29% or \$2,099,820, from December 31, 2011 to December 31, 2012.

**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 Balance Sheets, Statements of Revenues and Expenses, Statements of Fund Equity, 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.

Other Supplementary Information provides comparative financial data with a prior year and statistical data.

## FINANCIAL ANALYSIS

### Balance Sheets

The balance sheets present the assets, liabilities, and fund equity 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 balance sheets include year-end information concerning current assets and liabilities, and fund equity (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' fund equity 81.23% 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 assets 5.02% includes resources that are subject to restrictions. The remaining net assets 13.75% are the unrestricted net assets that can be used to meet the Water Works' obligations as they come due.

Balance Sheets		
December 31, 2012 and 2011		
	<u>2012</u>	<u>2011</u>
Current Assets	\$ 6,539,396	\$ 4,986,416
Restricted Assets	4,401,205	7,858,515
Capital Assets	<u>67,739,490</u>	<u>61,975,623</u>
Total Assets	<u>\$ 78,680,091</u>	<u>\$ 74,820,554</u>
Current Liabilities (payable from current assets)	\$ 2,381,657	\$ 1,619,685
Current Liabilities (payable from restricted assets)	2,298,563	2,894,821
Revenue bonds payable	<u>32,242,018</u>	<u>30,648,015</u>
Total Liabilities	<u>\$ 36,922,238</u>	<u>\$ 35,162,521</u>
Net Assets		
Invested in capital assets, net of related debt	\$ 33,920,472	\$ 34,649,469
Restricted	2,097,642	839,833
Unrestricted	<u>5,739,739</u>	<u>4,168,731</u>
Total Net Assets	<u>\$ 41,757,853</u>	<u>\$ 39,658,033</u>

Statement of Revenues and Expenses

Changes in total fund equity as presented on the statement of fund equity are based on the activity presented in the statement of revenues and expenses. The purpose of the statement is to present the revenues received by the Waters Works, both operating and non-operating, and the expenses incurred.

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

The Board of Trustees approved a rate increase of 8% for 2012.

In calendar year 2012, operating revenues increased by \$2,956,608 or 32.45%, due to the increase in water sales, water rates, as well as federal grants received related to flooding in 2011.

A summary of revenues and expense for the years ending December 31, 2012 and 2011 is presented below:

Statements of Revenues and Expenses		
	<u>2012</u>	<u>2011</u>
Operating Revenues		
Metered water sales	\$ 10,242,217	\$ 8,519,060
Rental	111,296	106,826
Other	\$ 1,713,132	\$ 484,151
Total operating revenues	<u>\$ 12,066,645</u>	<u>\$ 9,110,037</u>
Operating Expenses		
Facilities and Grounds	\$ 825,965	\$ 743,984
Inventory Adjustment	(15,126)	(563)
Purification	1,239,244	1,107,119
Distribution and Meter	1,333,609	1,218,018
Consumer Accounting	364,150	366,911
Administration and General	2,096,657	2,298,726
Pension and Social Security	350,904	326,806
Depreciation	\$ 2,896,518	\$ 2,833,855
Total operating expenses	<u>\$ 9,091,921</u>	<u>\$ 8,894,856</u>
Non-operating revenues (expenses)		
Interest on investments	\$ 270,547	\$ 323,981
Interest expenses	(1,140,436)	(1,080,971)
Loss on disposal of equipment	\$ (22,737)	\$ (1,309)
Non-operating revenues, net	<u>\$ (829,626)</u>	<u>\$ (758,299)</u>
Excess of expenses over revenues	<u>\$ 2,082,098</u>	<u>\$ (543,118)</u>

### 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 purchase of certificates of deposits and interest income.

### **CAPITAL ASSETS**

At December 31, 2012 the Water Works had \$109,387,658 invested in capital assets, net of accumulated depreciation of \$42,009,853. Depreciation expense totaled \$2,896,518 for calendar year 2012. More detailed information about the Water Works' capital assets is presented in Note 4 to the financial statements.

### **LONG-TERM DEBT**

At December 31, 2012, the Water Works had \$33,824,018 debt outstanding. See note 6 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 25<sup>th</sup> Street, P O Box 309, Council Bluffs, Iowa 51502.



COUNCIL BLUFFS CITY WATER WORKS

BALANCE SHEETS  
December 31, 2012 and 2011

ASSETS	2012	2011
<b>CURRENT ASSETS</b>		
Cash (Note 2)	\$ 4,305,286	\$ 2,864,566
Inventory	693,347	593,685
Receivables:		
Consumer accounts, net of allowance for doubtful accounts of \$1,000 for 2011	1,118,572	1,129,840
Unbilled revenues	<u>322,844</u>	<u>306,182</u>
Total receivables	\$ 1,441,416	\$ 1,436,022
Prepaid insurance	99,347	92,143
Restricted assets (Note 3)	<u>4,401,205</u>	<u>7,858,515</u>
Total current assets	\$ 10,940,601	\$ 12,844,931
Property, plant and equipment, net (Note 4)	67,377,805	61,592,718
Capitalized Costs, net (Note 5)	<u>361,685</u>	<u>382,905</u>
	<u>\$ 78,680,091</u>	<u>\$ 74,820,554</u>
<b>LIABILITIES AND FUND EQUITY</b>		
<b>LIABILITIES</b>		
Current liabilities (payable from current assets):		
Accounts payable	\$ 250,962	\$ 185,780
Salaries payable	44,378	32,412
Accrued compensated absences	169,428	166,078
Accrued interest payable	93,929	89,019
Retainage payable	14,065	12,674
Due to City of Council Bluffs	226,895	331,722
Current portion of long term debt (Note 6)	<u>1,582,000</u>	<u>802,000</u>
Total current liabilities (payable from current assets)	\$ 2,381,657	\$ 1,619,685
Current liabilities (payable from restricted assets):		
Consumer deposits	\$ 662,950	\$ 632,825
Main extension escrow deposit	41,875	33,146
Accrued interest on consumer deposits	201,004	183,449
Construction costs payable	151,897	742,906
Retainage payable from restricted assets	<u>1,240,837</u>	<u>1,302,495</u>
Total current liabilities (payable from restricted assets)	\$ 2,298,563	\$ 2,894,821
Long term debt (Note 6)	<u>\$ 32,242,018</u>	<u>\$ 30,648,015</u>
Total liabilities	\$ 36,922,238	\$ 35,162,521
<b>FUND EQUITY</b>		
Contributed capital:		
Other governments	\$ 1,132,808	\$ 1,263,662
Customers and developers	<u>6,037,753</u>	<u>6,623,713</u>
Total contributed capital	\$ 7,170,561	\$ 7,887,375
Retained earnings	<u>34,587,292</u>	<u>31,770,658</u>
Total fund equity	<u>\$ 41,757,853</u>	<u>\$ 39,658,033</u>
	<u>\$ 78,680,091</u>	<u>\$ 74,820,554</u>

See Notes to Financial Statements.

COUNCIL BLUFFS CITY WATER WORKS  
STATEMENTS OF REVENUES AND EXPENSES  
Years Ended December 31, 2012 and 2011

	2012	2011
Operating revenues:		
Metered water sales	\$10,242,217	\$ 8,519,060
Rental	111,296	106,826
Other	<u>1,713,132</u>	<u>484,151</u>
Total operating revenues	<u>\$12,066,645</u>	<u>\$ 9,110,037</u>
Operating expenses:		
Facilities and grounds	\$ 825,965	\$ 743,984
Inventory adjustment	(15,126)	(563)
Purification	1,239,244	1,107,119
Distribution and meter	1,333,609	1,218,018
Customer accounting	364,150	366,911
Administration and general	2,096,657	2,298,726
Pension and social security	350,904	326,806
Depreciation and amortization	<u>2,896,518</u>	<u>2,833,855</u>
Total operating expenses	<u>\$ 9,091,921</u>	<u>\$ 8,894,856</u>
Operating income	<u>\$ 2,974,724</u>	<u>\$ 215,181</u>
Nonoperating revenues (expenses):		
Interest on investments	\$ 270,547	\$ 323,981
Interest expense	(1,140,436)	(1,080,971)
Loss on disposal of equipment	<u>(22,737)</u>	<u>(1,309)</u>
Nonoperating revenues, net	<u>\$ (892,626)</u>	<u>\$ (758,299)</u>
Excess of revenues over expenses/(expenses over revenues)	<u>\$ 2,082,098</u>	<u>\$ (543,118)</u>

See Notes to Financial Statements.

COUNCIL BLUFFS CITY WATER WORKS

STATEMENTS OF FUND EQUITY  
 Years Ended December 31, 2012 and 2011

	Contributed Capital			Retained Earnings	Total Fund Equity
	Other Governments	Customers and Developers	Total		
Balances at January 1, 2011	\$1,367,800	\$ 7,226,509	\$ 8,594,309	\$ 31,580,126	\$40,174,435
Excess of revenues over expenses				(543,118)	(543,118)
Contributions-in-aid of construction	26,716	-	26,716	-	26,716
Transfers – Depreciation of contributed property, plant and equipment	<u>(130,854)</u>	<u>(602,796)</u>	<u>(733,650)</u>	<u>733,650</u>	<u>-</u>
Balances at December 31, 2011	\$1,263,662	\$ 6,623,713	\$ 7,887,375	\$ 31,770,658	\$39,658,033
Excess of expenses over revenues				2,082,098	2,082,098
Contributions-in-aid of construction		17,722	17,722	-	17,722
Transfers – Depreciation of contributed property, plant and equipment	<u>(130,854)</u>	<u>(603,682)</u>	<u>(734,536)</u>	<u>734,536</u>	<u>-</u>
Balances at December 31, 2012	<u>\$1,132,808</u>	<u>\$ 6,037,753</u>	<u>\$ 7,170,561</u>	<u>\$ 34,587,292</u>	<u>\$41,757,853</u>

See Notes to Financial Statements.

COUNCIL BLUFFS CITY WATER WORKS

STATEMENTS OF CASH FLOWS

Years Ended December 31, 2012 and 2011

	2012	2011
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from customers and users	\$ 10,236,823	\$ 8,419,829
Cash received from other revenues	1,824,428	590,977
Cash paid to suppliers for goods and services	(3,470,476)	(3,559,134)
Cash paid to employees and on their behalf	(2,721,170)	(2,555,176)
(Payments) receipts for City sewer services net of collections	(104,827)	(57,027)
Net cash provided by operating activities:	<u>\$ 5,764,778</u>	<u>\$ 2,839,469</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Principal payment of long term debt	\$ (1,536,000)	\$ (300,000)
Long term debt issued	3,910,003	2,043,644
Loan fees paid	-	-
Interest paid on long term debt	(1,100,438)	(1,005,309)
Interest paid on consumer deposits	(17,534)	(20,274)
Additions to property, plant, and equipment	(9,334,397)	(16,306,842)
Main extension escrow deposits	8,729	-
Contributions-in-aid of construction	17,722	26,716
Net cash provided by (used in) capital and related financing activities	<u>\$ (8,051,915)</u>	<u>\$ (15,562,065)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest received on investments	270,547	323,981
Net cash provided by investing activities	<u>\$ 270,547</u>	<u>\$ 323,981</u>
Net increase (decrease) in cash	\$ (2,016,590)	\$ (12,398,615)
Cash at beginning of year	<u>10,723,081</u>	<u>23,121,696</u>
Cash at end of year	<u>\$ 8,706,491</u>	<u>\$ 10,723,081</u>
Reconciliation to balance sheets:		
Cash	\$ 4,305,286	\$ 2,864,566
Cash included in restricted assets	<u>4,401,205</u>	<u>7,858,515</u>
	<u>\$ 8,706,491</u>	<u>\$ 10,723,081</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>		
Operating income (loss)	\$ 2,974,724	\$ 215,181
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	2,896,518	2,833,855
Changes in assets and liabilities:		
(Increase) Decrease in inventory	(99,662)	14,747
(Increase) Decrease in receivables	(5,394)	(99,231)
(Increase) Decrease in prepaid insurance	(7,205)	(44,798)
Increase (Decrease) in accounts payable	65,183	(40,866)
Increase (Decrease) in salaries payable	11,966	(14,302)
Increase (Decrease) in accrued compensated absences	3,350	5,765
Increase (Decrease) in Due to City of Council Bluffs	(104,827)	(57,027)
Increase (Decrease) in consumer deposits	30,125	26,145
Net cash provided by operating activities	<u>\$ 5,764,778</u>	<u>\$ 2,839,469</u>

See Notes to Financial Statements.

## COUNCIL BLUFFS CITY WATER WORKS

### NOTES TO FINANCIAL STATEMENTS Years Ended December 31, 2012 and 2011

#### 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.

##### 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.

Water Works applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure.

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.

COUNCIL BLUFFS CITY WATER WORKS

NOTES TO FINANCIAL STATEMENTS  
Years Ended December 31, 2012 and 2011

**1. Summary of Significant Accounting Policies - Continued**

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.

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.

Valuation of Inventories:

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

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.

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.

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.

COUNCIL BLUFFS CITY WATER WORKS

NOTES TO FINANCIAL STATEMENTS  
Years Ended December 31, 2012 and 2011

**1. Summary of Significant Accounting Policies - Continued**

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.

Subsequent Events:

Subsequent events have been evaluated through April 12, 2013, 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, 2012 balance sheet including restricted cash and cash equivalents and investments:

Deposits:

At December 31, 2012, deposits consisted of demand deposits and certificates of deposits and had the following balances:

Book Balance	\$ 8,706,491
Bank Balance	\$ 8,940,163

Of the total deposits, \$255,000 was covered by federal depository insurance and \$8,685,163 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, 2012 and 2011

**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, 2012 and 2011 are as follows:

	<u>2012</u>	<u>2011</u>
Consumer deposit fund cash	\$ 910,175	\$ 853,769
Sinking fund cash	37,539	148,487
Reserve fund Investments	3,448,491	2,732,398
Build America Bond loan funds	<u>5,000</u>	<u>4,123,861</u>
	<u>\$ 4,401,205</u>	<u>\$ 7,858,515</u>

**4. Property, Plant and Equipment**

Property, plant and equipment at December 31, 2012 and 2011 consisted of the following:

Description	Useful Life in Years	<u>2012</u>	<u>2011</u>
Land	-	\$ 2,208,406	\$ 2,208,406
Buildings and Structures	20 – 40	13,403,529	13,378,714
Water Distribution System	20 – 40	50,516,789	49,637,207
Meters	25 – 40	1,362,642	1,325,472
Tools and equipment	3 – 20	7,229,427	7,093,660
Automobiles and trucks	5	1,338,633	1,358,628
Office equipment	15	104,985	104,985
Work in progress	-	<u>33,223,247</u>	<u>25,705,999</u>
		<u>\$ 109,387,658</u>	<u>\$ 100,813,071</u>
Less accumulated depreciation		<u>(42,009,853)</u>	<u>(39,220,353)</u>
		<u>\$ 67,377,805</u>	<u>\$ 61,592,718</u>

As of December 31, 2012 the Water Works had contractual commitments of approximately \$29,382,898 for the construction of a new water treatment facility of which \$28,075,680 has been completed. The facility is expected to be complete in June 2013. Funding for the water treatment facility will be through Water Revenue bonds as described in Note 6.



COUNCIL BLUFFS CITY WATER WORKS

NOTES TO FINANCIAL STATEMENTS  
Years Ended December 31, 2012 and 2011

**5. Capitalized Costs**

The costs incurred to obtain long term financing of the Water Revenue Bonds, State Revolving Funds and Build America Bonds have been capitalized and are being amortized as described below:

		<u>2012</u>	<u>2011</u>
Water Revenue Bonds, Series 2005			
Financing costs	180 months	\$ 53,740	\$ 53,740
Bond Premium		(7,651)	(7,651)
Less accumulated amortization		<u>(14,790)</u>	<u>(12,724)</u>
Capitalized costs, net		<u>\$ 31,299</u>	<u>\$ 33,365</u>
Water Revenue Bonds, Series 2006			
Financing costs	180 months	\$ 16,626	\$ 16,626
Bond Premium		34,001	34,001
Less accumulated amortization		<u>(23,626)</u>	<u>(20,251)</u>
Capitalized costs, net		<u>\$ 27,001</u>	<u>\$ 30,376</u>
State Revolving Funds, \$10,353,000			
Financing costs	240 months	\$ 103,530	\$ 103,530
Less accumulated amortization		<u>(20,950)</u>	<u>(16,069)</u>
Capitalized costs, net		<u>\$ 82,580</u>	<u>\$ 87,461</u>
Build America Bonds, \$20,000,000			
Financing costs	260 months	\$ 200,000	\$ 200,000
Less accumulated amortization		<u>(24,711)</u>	<u>(15,444)</u>
Capitalized costs, net		<u>\$ 175,289</u>	<u>\$ 184,556</u>
Build America Bonds, \$5,000,000			
Financing costs	369 months	\$ 50,000	\$ 50,000
Less accumulated amortization		<u>(4,484)</u>	<u>(2,853)</u>
Capitalized costs, net		<u>\$ 45,516</u>	<u>\$ 47,147</u>
Total capitalized costs, net		<u>\$ 361,685</u>	<u>\$ 382,905</u>

COUNCIL BLUFFS CITY WATER WORKS

NOTES TO FINANCIAL STATEMENTS  
 Years Ended December 31, 2012 and 2011

**6. Revenue Bonds**

On December 21, 2005, the Water Works issued \$1,995,000 in tax exempt Water Revenue Bonds Series 2005, bearing interest at rates ranging from 3.9% to 4.1% due in 2020. On January 6, 2006, the Water Works issued \$3,005,000 in tax exempt Water Revenue Bonds Series 2006, bearing interest at rates ranging from 3.5% to 4.375%. The 2005 and 2006 Series bonds were issued to finance the following projects: a new booster pump station, new ground storage reservoir with a 2 to 3 million-gallon capacity, and new high service pump.

The bond resolutions relating to the Series 2005 and 2006 Revenue Bonds require the Water Works to provide net available revenue at an amount not less than 1.25 times the next year's debt service on the then outstanding bonds. For the years ended December 31, 2012 and 2011 this ratio was 2.33 and 1.34 respectively.

The bond resolutions also provide for the maintenance of a revenue fund represented by a cash account into which all monies derived by the Water Works from revenue are to be deposited. These funds are transferred monthly, in amounts to meet specified requirements, to separate accounts for operations and maintenance, bond redemption and interest, bond reserves and capital projects. The Water Works was in compliance with all debt covenants for the years ended December 31, 2012 and 2011.

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, 2012 and 2011 the Water Works had drawn down \$32,466,019 and \$28,556,015, 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, 2012 and 2011.

Principal and interest requirements to maturity on revenue bonds outstanding at December 31, 2012 are as follows:

Year ended December 31,	Principal	Interest	Total Requirements
2013	\$ 1,582,000	\$ 1,048,086	\$ 2,630,086
2014	1,638,000	997,506	2,635,506
2015	1,696,000	945,101	2,641,101
2016	1,759,000	890,811	2,649,811
2017	1,818,000	834,291	2,652,291
Thereafter	<u>25,331,019</u>	<u>5,505,770</u>	<u>30,836,789</u>
	<u>\$ 33,824,019</u>	<u>\$ 10,221,565</u>	<u>\$ 44,045,584</u>

## COUNCIL BLUFFS CITY WATER WORKS

### NOTES TO FINANCIAL STATEMENTS Years Ended December 31, 2012 and 2011

#### **7. Retirement Systems**

The Water Works is a participating employer in the Iowa Public Employees Retirement System ("IPERS"), which is a cost-sharing multiple-employer public employees retirement system designed as a supplement to Social Security. During 1998, IPERS adopted GASB Statement No. 25 and the Water Works adopted GASB Statement No. 27, "Accounting for Pensions by State and Local Government Employers".

All employees who did not participate in any other public retirement system in the State are eligible and must participate in IPERS. The pension plan provides retirement and death benefits, which are established by State statute. Generally, a member may retire at the age of 65 or any time after age 62 with 30 years or more of service or when age plus years of service equals or exceeds 88, and receive full benefits. However, regardless of meeting the Rule of 88 the member will not receive full benefits unless the member has at least 30 years of service. Members may also retire at the age of 55 or more at reduced benefits. Benefits vest after four years of service or after attaining the age of 55.

The plan is administered by the State of Iowa and the Water Works' responsibility is limited to payment of contributions. Contribution and benefit provisions are established by state law and may only be amended by the state legislature. On July 1, 2011, the State increased the required contributions from 4.50% to 5.38% for the employee and from 6.95% to 8.07% for the employer. On July 1, 2012, the state increased the required contributions again to 5.78% for the employee and 8.67% for the employer. Certain employers and employees in special risk occupations contribute at a slightly higher rate as required by statute. Contribution rates are applied on the first \$250,000 and \$245,000 of compensation in calendar years 2012 and 2011 respectively. The contribution paid by the Water Works totaled \$203,809 and \$180,961 for the years ended December 31, 2012 and 2011 respectively, and the contribution paid by employees totaled \$135,873 and \$119,432, respectively. The total payroll for employees covered by IPERS for the years ended December 31, 2012 and 2011 was \$2,433,918 and \$2,409,203 respectively, and the total Water Works' payroll for 2012 and 2011 was \$2,446,298 and \$2,425,665, respectively. The Water Works' employer and employee contributions during the years ended December 31, 2012 and 2011 represented less than one percent of total contributions of all participating entities.

IPERS prepares a separate report that includes financial statements and required supplementary information. The report can be obtained by writing IPERS, 7410 Register Drive, P. O. Box 9117, Des Moines, Iowa 50306. IPERS does not invest in obligations of the State of Iowa or its political subdivisions.

#### **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 its 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, 2012 and 2011

**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 participated in the City workers' compensation self-insurance plan through June 24, 2010 when it enrolled in a fully insured plan with a national insurance group.

As of July 2007, 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 \$246,400. 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, 2012 and 2011 was \$12,600 and \$4,970, respectively.

COUNCIL BLUFFS CITY WATER WORKS

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

Required Supplementary Information  
Year Ended December 31, 2012

	2012 <u>Actual</u>	2012 <u>Budget</u>	Budget Variance Favorable (Unfavorable)
Operating revenues:			
Metered water sales	\$ 10,242,217	\$ 9,144,000	\$ 1,098,217
Rental	111,296	110,000	1,296
Other	<u>1,713,132</u>	<u>526,000</u>	<u>1,187,132</u>
Total operating revenues	<u>\$ 12,066,645</u>	<u>\$ 9,780,000</u>	<u>\$ 2,286,645</u>
Operating expenses:			
Facilities and grounds	\$ 825,965	\$ 820,100	\$ (5,865)
Inventory adjustment	(15,126)	(5,000)	10,126
Purification	1,239,244	1,309,900	70,656
Distribution and meter	1,333,609	1,252,000	(81,609)
Customer accounting	364,150	374,000	9,850
Administration and general	2,096,657	1,877,500	(219,157)
Pension and social security	350,904	382,760	31,856
Total operating expenses	<u>\$ 6,195,403</u>	<u>\$ 6,011,260</u>	<u>\$ (184,143)</u>
Operating income	<u>\$ 5,871,242</u>	<u>\$ 3,768,740</u>	<u>\$ 2,102,502</u>
Nonoperating revenues (expenses):			
Interest on investments	\$ 270,547	\$ 340,000	\$ (69,453)
Interest expense	(1,140,436)	(1,297,190)	156,754
Loss on disposal of equipment	<u>(22,737)</u>	<u>(10,000)</u>	<u>(12,737)</u>
Nonoperating revenues, net	<u>\$ (892,626)</u>	<u>\$ (967,190)</u>	<u>\$ 74,564</u>
Surplus (Deficit) from Operations	\$ 4,978,616	\$ 2,801,550	\$ 2,177,066
Debt Service	(1,536,000)	(1,528,250)	(7,750)
Capital Outlay	(9,334,397)	(11,952,000)	2,617,603
Bond Proceeds	<u>3,910,003</u>	<u>10,820,960</u>	<u>(6,910,957)</u>
Surplus (Deficit)	<u>\$ (1,981,778)</u>	<u>\$ 142,260</u>	<u>\$ (2,124,038)</u>
Reconciliation to statement of revenues and expenses:			
Budget Basis Deficit	\$ (1,981,778)		
Debt Service	1,536,000		
Capital Outlay	9,334,397		
Bond Proceeds	(3,910,003)		
Depreciation and Amortization	<u>(2,896,518)</u>		
Excess of revenues over expenses	<u>\$ 2,082,098</u>		

See Notes to Required Supplementary Information

COUNCIL BLUFFS CITY WATER WORKS

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
Year Ended December 31, 2012

**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 2012, there were no budget amendments and disbursements did not exceed the amount budgeted.

COUNCIL BLUFFS CITY WATER WORKS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the Year Ended December 31, 2012

<u>Federal Grantor/Pass-Through Grantor/Program</u>	<u>CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Expenditures</u>
Indirect			
Pass-Through Iowa Finance Authority			
Environmental Protection Agency			
Capitalization Grants for Drinking Water State Revolving Funds	66.468	D0043R	\$ 21,787
Pass-Through State of Iowa Emergency Management			
US Department of Homeland Security			
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	155-U59RE-00	<u>\$ 518,363</u>
			<u><u>\$ 540,150</u></u>

Note 1. Basis of Presentation

The accompanying schedule of federal awards includes the federal grant activity of the Council Bluffs City Water Works and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations." Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

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

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, 2012, and have issued our report thereon dated April 12, 2013. 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*. This report is intended solely for the information and use of management, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

*Hamilton Associates, P.C.*

Council Bluffs, Iowa  
April 12, 2013



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH  
REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT  
ON EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE  
IN ACCORDANCE WITH OMB CIRCULAR A-133

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

### Compliance

We have audited the compliance of Council Bluffs City Water Works with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133, *Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2012. The Council Bluffs City Water Works' major federal program is identified in the summary of auditor's results section of the accompanying *Schedule of Findings and Questioned Costs*. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Council Bluffs City Water Works' management. Our responsibility is to express an opinion on Council Bluffs City Water Works' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Council Bluffs City Water Works' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Council Bluffs City Water Works' compliance with those requirements.

In our opinion, Council Bluffs City Water Works complied, in all material respects, with the compliance requirements referred to above that are could have a direct and material effect on each of its major federal programs for the year ended December 31, 2012.

### Internal Control over Compliance

Management of Council Bluffs City Water Works is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Council Bluffs City Water Works' internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Council Bluffs City Water Works' internal control over compliance.

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

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

This report is intended solely for the information and use of management, board of trustees, others within the entity, and federal awarding agencies and is not intended to be and should not be used by anyone other than those specified parties.

*Hamilton Associates, P.C.*

Council Bluffs, Iowa  
April 12, 2013

COUNCIL BLUFFS CITY WATER WORKS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For the Year Ended December 31, 2012

I. SUMMARY OF AUDITOR'S RESULTS

*Financial Statements*

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified?                      Yes        X    No
- Significant deficiency(ies) identified?                Yes        X    None  
Reported

Noncompliance material to financial statements noted?                      Yes        X    No

*Federal Awards*

Internal control over major programs:

- Material weakness(es) identified?                      Yes        X    No
- Significant deficiency(ies) identified?                Yes        X    None  
Reported

Type of auditor's report issued on compliance for major programs: Unqualified

- Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?                      Yes        X    No

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
97.036	Disaster Grants – Public Assistance (Presidentially Declared Disasters)

Dollar threshold used to distinguish between type A and type B programs                      \$ 300,000

Auditee qualified as low-risk auditee?                      X    Yes        No

II. FINANCIAL STATEMENT FINDINGS - None

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS - None