

COUNCIL BLUFFS CITY WATER WORKS
FINANCIAL STATEMENTS AND SCHEDULE
DECEMBER 31, 2009 and 2008
(With Independent Auditors' Report Thereon)

COUNCIL BLUFFS CITY WATER WORKS

OFFICIALS

Board of Trustees

Martin L. Brooks	Chairperson	June 30, 2013
Mark Genereux	Member	June 30, 2011
Carl L. Heinrich	Member	June 30, 2010
Maureen R. Kruse	Member	June 30, 2010
Glen M. Mitchell	Member	June 30, 2012

Water Works' Officials

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

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

We have audited the accompanying balance sheets of the Council Bluffs City Water Works, Council Bluffs, Iowa (Water Works) as of December 31, 2009 and 2008, and the related statements of revenues and expenses, fund equity and cash flows for the years then ended. These financial statements are the responsibility of the Water Works' management. Our responsibility is to express an opinion 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, 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Water Works' internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Council Bluffs City Water Works as of December 31, 2009 and 2008, 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.

In accordance with "Government Auditing Standards", we have also issued a report dated March 16, 2010 on our consideration of the Water Works' internal control over financial reporting. The purpose of that report is to describe the scope of our testing of internal control over financial reporting, and not to provide an opinion on the internal control over financial reporting. That report is an integral part of an audit performed in accordance with "Government Auditing Standards" and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 1 through 4 and 17 through 18 are not required parts of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Hamilton Associates P.C.

Council Bluffs, Iowa
March 16, 2010

Council Bluffs Water Works Council Bluffs, Iowa

MANAGEMENT'S DISCUSSION AND ANALYSIS Calendar Year Ending December 31, 2009 (Audited)

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, 2009. We encourage readers to consider this information in conjunction with our financial statements, which follow.

FINANCIAL HIGHLIGHTS

- ◆ The Water Works' operating revenues decreased 0.23%, or \$17,622, from calendar year 2008 to 2009.
- ◆ The Water Works' operating expenses increased by 1.5%, or \$112,755, more in calendar year 2008 to 2009.
- ◆ The Water Works' fund equity increased 0.85% or \$335,908, from December 31, 2008 to December 31, 2009.

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 78.7% 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 1.9% includes resources that are subject to restrictions. The remaining net assets 19.4% are the unrestricted net assets that can be used to meet the Water Works' obligations as they come due.

Balance Sheets December 31, 2009 and 2008		
	<u>2009</u>	<u>2008</u>
Current Assets	\$ 8,901,556	\$ 8,758,918
Restricted Assets	1,576,734	1,491,483
Capital Assets	<u>41,186,349</u>	<u>40,669,175</u>
Total Assets	<u>\$51,664,639</u>	<u>\$50,919,576</u>
Current Liabilities (payable from current assets)	\$1,889,683	\$2,006,666
Current Liabilities (payable from restricted assets)	818,918	761,780
Revenue bonds payable	<u>8,943,258</u>	<u>8,474,258</u>
Total Liabilities	<u>\$11,651,859</u>	<u>\$11,242,704</u>
Net Assets:		
Invested in capital assets, net of related debt	\$31,508,091	\$31,489,917
Restricted	757,816	729,703
Unrestricted	<u>7,746,873</u>	<u>7,457,252</u>
Total Net asset	<u>\$40,012,780</u>	<u>\$39,676,872</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.

A summary of revenues and expense for the years ending December 31, 2009 and 2008 is presented below:

<u>Statements of Revenues and Expenses</u>		
	<u>2009</u>	<u>2008</u>
Operating revenues:		
Metered water sales	\$ 7,104,303	\$ 7,036,788
Rental	101,063	81,115
Other	<u>572,171</u>	<u>677,256</u>
Total operating revenues	<u>\$ 7,777,537</u>	<u>\$ 7,795,159</u>
Operating expenses:		
Facilities and maintenance	\$ 670,197	\$ 725,442
Inventory adjustment	(15,458)	89,421
Purification	1,074,492	1,098,354
Transmission and distribution	1,093,035	1,101,710
Consumer accounting and meter division	387,871	376,617
Administration and general	1,629,508	1,532,792
Pension and social security	282,050	274,430
Depreciation	<u>2,677,210</u>	<u>2,487,384</u>
Total operating expenses	<u>\$ 7,798,905</u>	<u>\$ 7,686,150</u>
Non-operating revenues (expenses):		
Interest on investments	\$ 163,374	\$ 217,041
Interest expense	(326,980)	(254,884)
Loss on disposal of equipment	<u>(6,313)</u>	<u>(23,125)</u>
Non-operating revenues, net	<u>\$ (169,919)</u>	<u>\$ (60,968)</u>
Excess of expenses over revenues	<u>\$ (191,287)</u>	<u>\$ 48,041</u>

The Statement of Revenues and Expenses reflects a negative year. However with the contributions from other governments and developers there was an increase in the fund equity at the end of the calendar year.

The Board of Trustees has approved rate increases of 8% for 2010 and 2011 to improve the revenues to a positive change in revenues over expenses.

In calendar year 2009, operating revenues decreased by \$17,622 or 0.23%, primarily due to a decrease in water usage for the year.

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, 2009, the Water Works had \$74,642,484 invested in capital assets, net of accumulated depreciation of \$33,633,952. Depreciation expense totaled \$2,677,210 for calendar year 2009. More detailed information about the Water Works' capital assets is presented in Note 4 to the financial statements.

LONG-TERM DEBT

At December 31, 2009, the Water Works had \$9,678,258 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.

- ◆ Vulnerability and security improvement of our system will be an ongoing process.
- ◆ Facilities at the 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.

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

BALANCE SHEETS
December 31, 2009 and 2008

ASSETS	2009	2008
CURRENT ASSETS		
Cash (Note 2)	\$ 6,510,514	\$ 5,001,280
Short-term investments (Note 2)	379,000	1,539,000
Inventory	598,290	711,643
Receivables:		
Consumer accounts, net of allowance for doubtful accounts of \$1,000 in 2009 and \$1,000 in 2008	1,045,387	1,057,853
Unbilled revenues	276,641	325,502
Accrued interest	1,807	10,372
Total receivables	\$ 1,323,835	\$ 1,393,727
Prepaid insurance	89,917	113,268
Restricted assets (Note 3)	1,576,734	1,491,483
Total current assets	\$ 10,478,290	\$ 10,250,401
Property, plant and equipment, net (Note 4)	41,008,532	40,474,675
Capitalized Costs, net (Note 5)	177,817	194,500
	<u>\$ 51,664,639</u>	<u>\$ 50,919,576</u>
LIABILITIES AND FUND EQUITY		
LIABILITIES		
Current liabilities (payable from current assets):		
Accounts payable	\$ 396,055	\$ 483,677
Salaries payable	27,358	28,950
Accrued compensated absences	171,184	162,534
Accrued interest payable	24,477	24,092
Due to City of Council Bluffs	535,609	602,413
Current portion of long term debt (Note 6)	735,000	705,000
Total current liabilities (payable from current assets)	\$ 1,889,683	\$ 2,006,666
Current liabilities (payable from restricted assets):		
Consumer deposits	\$ 588,380	\$ 577,195
Main extension escrow deposit	58,259	34,198
Accrued interest on consumer deposits	172,279	150,387
Total current liabilities (payable from restricted assets)	\$ 818,918	\$ 761,780
Long term debt (Note 6)	\$ 8,943,258	\$ 8,474,258
Total liabilities	<u>\$ 11,651,859</u>	<u>\$ 11,242,704</u>
FUND EQUITY		
Contributed capital:		
Other governments	\$ 1,497,307	\$ 1,566,902
Customers and developers	7,674,180	7,801,949
Total contributed capital	\$ 9,171,487	\$ 9,368,851
Retained earnings	30,841,293	30,308,021
Total fund equity	<u>\$ 40,012,780</u>	<u>\$ 39,676,872</u>
	<u>\$ 51,664,639</u>	<u>\$ 50,919,576</u>

See Notes to Financial Statements.

COUNCIL BLUFFS CITY WATER WORKS

STATEMENTS OF REVENUES AND EXPENSES

Years Ended December 31, 2009 and 2008

	2009	2008
Operating revenues:		
Metered water sales	\$ 7,104,303	\$ 7,036,788
Rental	101,063	81,115
Other	<u>572,171</u>	<u>677,256</u>
Total operating revenues	<u>\$ 7,777,537</u>	<u>\$ 7,795,159</u>
Operating expenses:		
Facilities and maintenance	\$ 670,197	\$ 725,442
Inventory adjustment	(15,458)	89,421
Purification	1,074,492	1,098,354
Distribution and meter	1,093,035	1,101,710
Customer accounting	387,871	376,617
Administration and general	1,629,508	1,532,792
Pension and social security	282,050	274,430
Depreciation and amortization	<u>2,677,210</u>	<u>2,487,384</u>
Total operating expenses	<u>\$ 7,798,905</u>	<u>\$ 7,686,150</u>
Operating income	<u>\$ (21,368)</u>	<u>\$ 109,009</u>
Nonoperating revenues (expenses):		
Interest on investments	\$ 163,374	\$ 217,041
Interest expense	(326,980)	(254,884)
Loss on disposal of equipment	<u>(6,313)</u>	<u>(23,125)</u>
Nonoperating revenues, net	<u>\$ (169,919)</u>	<u>\$ (60,968)</u>
Excess of revenues over expenses/(expenses over revenues)	<u><u>\$ (191,287)</u></u>	<u><u>\$ 48,041</u></u>

See Notes to Financial Statements.

COUNCIL BLUFFS CITY WATER WORKS

STATEMENTS OF FUND EQUITY
Years Ended December 31, 2009 and 2008

	Contributed Capital			Retained Earnings	Total Fund Equity
	Other Governments	Customers and Developers	Total		
Balances at January 1, 2008	\$1,629,382	\$ 7,376,665	\$ 9,006,047	\$29,564,128	\$38,570,175
Excess of revenues over expenses				48,041	48,041
Contributions-in-aid of construction	64,044	994,612	1,058,656	-	1,058,656
Transfers – Depreciation of contributed property, plant and equipment	<u>(126,524)</u>	<u>(569,328)</u>	<u>(695,852)</u>	<u>695,852</u>	<u>-</u>
Balances at December 31, 2008	\$1,566,902	\$ 7,801,949	\$ 9,368,851	\$30,308,021	\$39,676,872
Excess of expenses over revenues				(191,287)	(191,287)
Contributions-in-aid of construction	59,925	467,270	527,195	-	527,195
Transfers – Depreciation of contributed property, plant and equipment	<u>(129,520)</u>	<u>(595,039)</u>	<u>(724,559)</u>	<u>724,559</u>	<u>-</u>
Balances at December 31, 2009	<u>\$1,497,307</u>	<u>\$ 7,674,180</u>	<u>\$ 9,171,487</u>	<u>\$30,841,293</u>	<u>\$40,012,780</u>

See Notes to Financial Statements.

COUNCIL BLUFFS CITY WATER WORKS

STATEMENTS OF CASH FLOWS
Years Ended December 31, 2009 and 2008

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers and users	\$ 7,165,630	\$ 7,114,649
Cash received from other revenues	673,234	758,371
Cash paid to suppliers for goods and services	(2,652,257)	(2,711,138)
Cash paid to employees and on their behalf	(2,402,112)	(2,419,650)
(Payments) receipts for City sewer services net of collections	(66,804)	57,558
Net cash provided by operating activities:	<u>\$ 2,717,691</u>	<u>\$ 2,799,790</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Principal payment of revenue bonds	\$ (705,000)	\$ (680,000)
Revenue bonds issued	1,204,000	4,059,258
Loan fees, net of bond amortization	-	(103,530)
Interest paid on revenue bonds	(288,682)	(220,583)
Interest paid on consumer deposits	(16,021)	(15,947)
Additions to property, plant, and equipment	(3,200,697)	(6,244,434)
Main extension escrow deposits	24,061	(195,297)
Contributions-in-aid of construction	527,195	1,058,656
Net cash (used in) capital and related financing activities	<u>\$ (2,455,144)</u>	<u>\$ (2,341,877)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Net sales of investments	\$ 1,270,000	\$ -
Interest received on investments	177,477	232,149
Net cash provided by investing activities	<u>\$ 1,447,477</u>	<u>\$ 232,149</u>
Net increase in cash	\$ 1,710,024	\$ 690,062
Cash at beginning of year	<u>5,565,248</u>	<u>4,875,186</u>
Cash at end of year	<u><u>\$ 7,275,272</u></u>	<u><u>\$ 5,565,248</u></u>
Reconciliation to balance sheets:		
Cash	\$ 6,510,514	\$ 5,001,280
Cash included in restricted assets	<u>764,758</u>	<u>563,968</u>
	<u><u>\$ 7,275,272</u></u>	<u><u>\$ 5,565,248</u></u>

See Notes to Financial Statements.

COUNCIL BLUFFS CITY WATER WORKS

NOTES TO FINANCIAL STATEMENTS Years Ended December 31, 2009 and 2008

Note 1. Summary of Significant Accounting Policies

Reporting Entity and Basis of Accounting

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.

The Water Works has elected to apply all pronouncements of the Governmental Accounting Standards Board ("GASB") as well as all Financial Accounting Standards Board's statements and interpretations issued on or before November 30, 1989 unless these pronouncements conflict with or contradict GASB pronouncements.

The Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus; and Statement No. 38, Certain Financial Statement Note Disclosures; and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences, were implemented for the year ended December 31, 2004. The statements create new basic financial statements for reporting the Water Works' financial activities. The financial statements have always been prepared on an accrual basis of accounting so the beginning net assets did not have to be restated for that reason.

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.

Short-term Investments

Investments include time certificates of deposit maturing within six months. Investments are carried at cost, which approximates market.

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.

COUNCIL BLUFFS CITY WATER WORKS

NOTES TO FINANCIAL STATEMENTS
Years Ended December 31, 2009 and 2008

Note 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.

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.

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 March 16, 2010, which is the date the financial statements were available to be issued.

COUNCIL BLUFFS CITY WATER WORKS

NOTES TO FINANCIAL STATEMENTS Years Ended December 31, 2009 and 2008

Note 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, 2009 balance sheet including restricted cash and cash equivalents and investments:

Deposits

For reporting purposes, Water Works' deposits are classified in these three categories of credit risk:

1. Insured or collateralized with securities held by the Water Works or by its agent in the Water Works' name.
2. Collateralized with securities held by the pledging financial institution for all Water Works' deposits as required by state law.
3. Uncollateralized.

At December 31, 2009, deposits consisted of the following:

Book Balance	Bank Balance	Category		
		1	2	3
<u>\$ 7,275,272</u>	<u>\$ 7,530,118</u>	<u>\$ 250,000</u>	<u>\$ 7,280,118</u>	<u>\$ --</u>

Investments

For reporting purposes, the Water Works' investments are classified in these three categories of credit risk:

1. Insured or registered, or securities held by the entity, or its agent in the Water Works' name.
2. Uninsured and unregistered with securities held by the counterparty, or by its trust department or agent in the Water Works' name.
3. Uninsured and unregistered with securities held by the counterparty, or by its trust department or agent, but not in the Water Works name.

Investments at December 31, 2009 consisted of the following:

	Category			Carrying amount	Market value
	1	2	3		
Investments	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 1,187,500</u>	\$ 1,187,500	<u>\$ 1,187,500</u>
Deposits				<u>7,275,272</u>	
				\$ 8,462,772	
Restricted assets (excluding accrued interest)				<u>1,573,258</u>	
				<u>\$ 6,889,514</u>	

COUNCIL BLUFFS CITY WATER WORKS

NOTES TO FINANCIAL STATEMENTS Years Ended December 31, 2009 and 2008

Note 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, 2009 and 2008 are as follows:

	2009	2008
Consumer deposit fund cash	\$ 642,784	\$ 479,005
Sinking fund cash	121,974	84,963
Consumer deposit fund investments	100,000	210,000
Reserve fund investments	708,500	708,500
Accrued interest	<u>3,476</u>	<u>9,015</u>
	<u>\$ 1,576,734</u>	<u>\$ 1,491,483</u>

Note 4. Property, Plant and Equipment

Property, plant and equipment at December 31, 2009 and 2008 consists of the following:

Description	Useful life in years	2009	2008
Land	-	\$ 2,158,072	\$ 378,608
Buildings and structures	20-40	13,194,979	13,171,573
Water distribution system	20-40	45,413,215	43,970,279
Meters	25-40	1,152,718	957,220
Tools and equipment	3-20	6,658,617	5,855,720
Automobiles and trucks	5	1,345,830	1,345,830
Office equipment	15	104,985	104,985
Work in progress		<u>4,614,068</u>	<u>5,678,766</u>
		\$ 74,642,484	\$ 71,462,981
Less accumulated depreciation		<u>(33,633,952)</u>	<u>(30,988,306)</u>
		<u>\$ 41,008,532</u>	<u>\$ 40,474,675</u>

As of December 31, 2009 the Water Works had contractual commitments of approximately \$22,515,135 for various construction projects of which \$277,282 has been completed. Included in the contractual commitments is \$22.1 million for the construction of a new water treatment facility, which is expected to be complete in May 2012. 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, 2009 and 2008

Note 5. Capitalized Costs

The costs incurred to obtain financing of the Revenue Bond Refunding, Series 2004 and the Water Revenue Bonds, Series 2005 and 2006 have been capitalized and are being amortized as described below:

		2009	2008
Water Revenue Refunding, Series 2004			
Financing costs	81 months	\$ 44,899	\$ 44,899
Less accumulated amortization		<u>(38,247)</u>	<u>(31,595)</u>
Capitalized costs, net		<u>\$ 6,652</u>	<u>\$ 13,304</u>
Water Revenue Bonds, Series 2005			
Financing costs	180 months	\$ 53,740	\$ 53,740
Bond Premium		(7,651)	(7,651)
Less accumulated amortization		<u>(9,274)</u>	<u>(7,500)</u>
Capitalized costs, net		<u>\$ 36,815</u>	<u>\$ 38,589</u>
Water Revenue Bonds, Series 2006			
Financing costs	180 months	\$ 16,626	\$ 16,626
Bond Discount		34,001	34,001
Less accumulated amortization		<u>(13,501)</u>	<u>(10,125)</u>
Capitalized costs, net		<u>\$ 37,126</u>	<u>\$ 40,502</u>
State Revolving Funds			
Financing costs	240 months	\$ 103,530	\$ 103,530
Less accumulated amortization		<u>(6,306)</u>	<u>(1,425)</u>
Capitalizes costs, net		<u>\$ 97,224</u>	<u>\$ 102,105</u>
Total capitalized costs, net		<u>\$ 177,817</u>	<u>\$ 194,500</u>

Note 6. Revenue Bonds

On April 1, 2004, the Water Works issued \$2,085,000 in tax exempt Water Revenue Refunding Bonds Series 2004, bearing interest at rates ranging from 1.5% to 2.6% due in 2010. The bonds were issued to crossover refund on December 1, 2005, \$2,020,000 of the outstanding Series 1995 Bonds, maturing December 1, 2006 through 2010, originally dated April 1, 1995.

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. In January 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 2004, 2005 and 2006 Revenue Bonds require the Water Works to provide net available revenue at an amount not less than 1.25 times the maximum annual debt service on the then outstanding bonds. For the years ended December 31, 2009 and 2008 the ratio was 2.55 and 2.48 respectively.

COUNCIL BLUFFS CITY WATER WORKS

NOTES TO FINANCIAL STATEMENTS Years Ended December 31, 2009 and 2008

Note 6. Revenue Bonds (Continued)

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, 2009 and 2008.

In January 2010, the Water Works was pre-approved for \$35,353,000 in Water Revenue Bonds for construction of a second water treatment facility. As of December 31, 2008, the Water Works executed a loan agreement for \$10,353,000, bearing interest at 3.00% due in 2029. The Iowa Finance Authority also charges an annual service fee of 0.25%. As of December 31, 2009 and 2008 the Water Works had drawn down \$2,411,909 and \$1,970,578, respectively. In 2010, the Water Works plans to execute loans for the remaining \$25 million.

The Iowa Finance Authority has also issued an interim loan with balance of \$2,851,349 and \$2,088,680 at December 31, 2009 and 2008, respectively. The loan is interest free and matures on January 17, 2011 at which time it will be rolled into the Water Revenue Capital Loan Note.

Principal and interest requirements to maturity on revenue bonds outstanding at December 31, 2009 are as follows:

Year ended December 31,	Principal	Interest	Total Requirements
2010	\$ 735,000	\$ 244,962	\$ 979,962
2011	685,000	295,967	980,967
2012	707,000	272,178	979,178
2013	734,000	247,633	981,633
2014	761,000	222,133	983,133
Thereafter	<u>6,056,258</u>	<u>723,512</u>	<u>6,779,770</u>
	<u>\$ 9,678,258</u>	<u>\$ 2,006,385</u>	<u>\$ 11,684,643</u>

COUNCIL BLUFFS CITY WATER WORKS

NOTES TO FINANCIAL STATEMENTS Years Ended December 31, 2009 and 2008

Note 7. Retirement Systems

IPERS

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. Full benefits are equal to fifty-six percent of the average of the highest three years of covered wages times years of service divided by 30 for members retiring on or after July 1, 1992.

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. During the year ended June 30, 2009, State statute requires contributions of 4.30 percent by the employee and 6.65 percent by 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 \$245,000 and \$230,000 of compensation in calendar years 2009 and 2008 respectively. The contribution paid by the Water Works totaled \$146,234 and \$138,721 for the years ended December 31, 2009 and 2008 respectively, and the contribution paid by employees totaled \$94,507 and \$91,624, respectively. The total payroll for employees covered by IPERS for the years ended December 31, 2009 and 2008 was \$2,250,995 and \$2,288,074 respectively, and the total Water Works' payroll for 2009 and 2008 was \$2,246,413 and \$2,301,224, respectively. The Water Works' employer and employee contributions during the years ended December 31, 2009 and 2008 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, 600 East Court, P. O. Box 9117, Des Moines, Iowa 50306. IPERS does not invest in obligations of the State of Iowa or its political subdivisions.

COUNCIL BLUFFS CITY WATER WORKS

NOTES TO FINANCIAL STATEMENTS
Years Ended December 31, 2009 and 2008

Note 8. 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 the City workers' compensation self-insurance plan. The plan pays \$500,000 per incident with no upper limit. The Water Works pays a premium to the City for its portion of workers' compensation.

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 \$249,600. 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, 2009 and 2008 was \$15,056 and \$ 6,089, respectively.

COUNCIL BLUFFS CITY WATER WORKS

Comparison of Cash Basis – Actual with Cash Basis - Budget Year ended December 31, 2009

Fund	<u>Cash basis – actual</u>		Cash basis - budget
	Home and Community Environment Program	Non-program	
Enterprise – general (revenues)	<u>\$ 9,238,864</u>	<u>\$ 5,086,731</u>	<u>\$ 20,751,400</u>
Enterprise – general (expenses)	<u>\$ 9,395,621</u>		<u>\$ 20,683,800</u>

Year ended December 31, 2008

Fund	<u>Cash basis – actual</u>		Cash basis - budget
	Home and Community Environment Program	Non-program	
Enterprise – general (revenues)	<u>\$ 11,961,996</u>	<u>\$ 5,151,892</u>	<u>\$ 8,898,400</u>
Enterprise – general (expenses)	<u>\$ 12,315,778</u>		<u>\$ 16,926,183</u>

See Independent Auditors' Report.

COUNCIL BLUFFS CITY WATER WORKS

BUDGETARY COMPARISON OF REVENUES, EXPENDITURES AND
CHANGES IN BALANCES
BUDGET AND ACTUAL (GAAP BASIS)
REQUIRED SUPPLEMENTARY INFORMATION
Year Ended December 31, 2009

	2009 Actual	2009 Budget	Budget Variance Favorable (Unfavorable)
Operating revenues:			
Metered water sales	\$ 7,104,303	\$ 7,840,000	\$ (735,697)
Rental	101,063	88,000	13,063
Other	572,171	508,400	63,771
Total operating revenues	<u>\$ 7,777,537</u>	<u>\$ 8,436,400</u>	<u>\$ (658,863)</u>
Operating expenses:			
Facilities and maintenance	\$ 670,197	\$ 792,600	\$ 122,403
Inventory adjustment	(15,458)	(10,000)	5,458
Purification	1,074,492	1,176,600	102,108
Distribution and meter	1,093,035	1,135,500	42,465
Customer accounting	387,871	432,200	44,329
Administration and general	1,629,508	1,624,900	(4,608)
Pension and social security	282,050	285,000	2,950
Total operating expenses	<u>\$ 5,121,695</u>	<u>\$ 5,436,800</u>	<u>\$ 315,105</u>
Operating income	<u>\$ 2,655,842</u>	<u>\$ 2,999,600</u>	<u>\$ (343,758)</u>
Nonoperating revenues (expenses):			
Interest on investments	\$ 163,374	\$ 260,000	\$ (96,626)
Interest expense	(326,980)	(617,000)	290,020
Loss on disposal of equipment	(6,313)	(15,000)	8,687
Nonoperating revenues, net	<u>\$ (169,919)</u>	<u>\$ (372,000)</u>	<u>\$ 202,081</u>
Change in net assets before depreciation	<u>\$ 2,485,923</u>	<u>\$ 2,627,600</u>	<u>\$ (141,677)</u>
Depreciation	(2,677,210)		
Contributions in aid of construction	527,195		
	<u>\$ 335,908</u>		
Total net assets beginning	<u>39,676,872</u>		
Total net assets ending	<u>\$ 40,012,780</u>		