

COUNCIL BLUFFS CITY WATER WORKS  
FINANCIAL STATEMENTS AND SCHEDULE  
DECEMBER 31, 2010 and 2009  
(With Independent Auditors' Report Thereon)

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## COUNCIL BLUFFS CITY WATER WORKS

### OFFICIALS

#### Board of Trustees

Martin L. Brooks	Chairperson	June 30, 2013
Mark Genereux	Member	June 30, 2011
Glen M. Mitchell	Member	June 30, 2012
Carl L. Heinrich	Member	June 30, 2015
Maureen R. Kruse	Member	June 30, 2016

#### 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, 2010 and 2009, 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, 2010 and 2009, 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 April 14, 2011 on our consideration of the Water Works' internal control over financial reporting and 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 the internal control over financial reporting or on compliance. 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 audits.

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  
April 14, 2011

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

## **MANAGEMENT'S DISCUSSION AND ANALYSIS Calendar Year Ending December 31, 2010 (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, 2010. We encourage readers to consider this information in conjunction with our financial statements, which follow.

### **FINANCIAL HIGHLIGHTS**

- ◆ The Water Works' operating revenues increased 9.36%, or \$728,350, from calendar year 2009 to 2010.
- ◆ The Water Works' operating expenses increased by 5.27%, or \$411,235, more in calendar year 2009 to 2010.
- ◆ The Water Works' net assets increased 0.40% or \$161,655, from December 31, 2009 to December 31, 2010.

### **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 82.1% 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 2.5% includes resources that are subject to restrictions. The remaining net assets 15.4% are the unrestricted net assets that can be used to meet the Water Works' obligations as they come due.

Balance Sheets December 31, 2010 and 2009		
	<u>2010</u>	<u>2009</u>
Current Assets	\$ 7,226,734	\$ 8,901,556
Restricted Assets	17,887,532	1,576,734
Capital Assets	<u>47,582,094</u>	<u>41,186,349</u>
Total Assets	<u>\$72,696,360</u>	<u>\$51,664,639</u>
Current Liabilities (payable from current assets)	\$ 1,168,209	\$1,889,683
Current Liabilities (payable from restricted assets)	1,947,345	818,918
Revenue bonds payable	<u>29,406,371</u>	<u>8,943,258</u>
Total Liabilities	<u>\$32,521,925</u>	<u>\$11,651,859</u>
Net Assets:		
Invested in capital assets, net of related debt	\$32,980,372	\$31,508,091
Restricted	992,161	757,816
Unrestricted	<u>6,201,902</u>	<u>7,746,873</u>
Total Net asset	<u>\$40,174,435</u>	<u>\$40,012,780</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, 2010 and 2009 is presented below:

<u>Statements of Revenues and Expenses</u>		
	<u>2010</u>	<u>2009</u>
Operating revenues:		
Metered water sales	\$ 7,813,357	\$ 7,104,303
Rental	103,640	101,063
Other	<u>588,890</u>	<u>572,171</u>
Total operating revenues	<u>\$ 8,505,887</u>	<u>\$ 7,777,537</u>
Operating expenses:		
Facilities and Maintenance	\$ 684,453	\$ 670,197
Inventory adjustment	(5,231)	(15,458)
Purification	1,176,500	1,074,492
Distribution and Meter	1,228,848	1,093,035
Consumer Accounting	384,571	387,871
Administration and General	1,611,137	1,629,508
Pension and social security	294,259	282,050
Depreciation	<u>2,835,603</u>	<u>2,677,210</u>
Total operating expenses	<u>\$ 8,210,140</u>	<u>\$ 7,798,905</u>
Non-operating revenues (expenses):		
Interest on investments	\$ 192,248	\$ 163,374
Interest expense	(481,134)	(326,980)
Loss on disposal of equipment	<u>(331)</u>	<u>(6,313)</u>
Non-operating revenues, net	<u>\$ (289,217)</u>	<u>\$ (169,919)</u>
Excess of expenses over revenues	<u>\$ 6,530</u>	<u>\$ (191,287)</u>

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 has approved rate increases of 8% for 2010 and 2011.

In calendar year 2010, operating revenues increased by \$728,350 or 9.36%, primarily due to the increase in water rates..

### 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, 2010, the Water Works had \$83,864,714 invested in capital assets, net of accumulated depreciation of \$36,441,515. Depreciation expense totaled \$2,835,603 for calendar year 2010. More detailed information about the Water Works' capital assets is presented in Note 4 to the financial statements.

### **LONG-TERM DEBT**

At December 31, 2010, the Water Works had \$39,033,000 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 25<sup>th</sup> Street, P O Box 309, Council Bluffs, Iowa 51502.



COUNCIL BLUFFS CITY WATER WORKS

BALANCE SHEETS  
December 31, 2010 and 2009

ASSETS	2010	2009
<b>CURRENT ASSETS</b>		
Cash (Note 2)	\$ 5,234,164	\$ 6,510,514
Short-term investments (Note 2)	-	379,000
Inventory	608,432	598,290
Receivables:		
Consumer accounts, net of allowance for doubtful accounts of \$1,000 for 2010 and 2009	1,032,819	1,045,387
Unbilled revenues	303,972	276,641
Accrued interest	-	1,807
Total receivables	\$ 1,336,791	\$ 1,323,835
Prepaid insurance	47,346	89,917
Restricted assets (Note 3)	17,887,532	1,576,734
Total current assets	\$ 25,114,265	\$ 10,478,290
Property, plant and equipment, net (Note 4)	47,423,200	41,008,532
Capitalized Costs, net (Note 5)	403,734	177,817
	<u>\$ 72,941,199</u>	<u>\$ 51,664,639</u>
<b>LIABILITIES AND FUND EQUITY</b>		
<b>LIABILITIES</b>		
Current liabilities (payable from current assets):		
Accounts payable	\$ 226,647	\$ 396,055
Salaries payable	46,714	27,358
Accrued compensated absences	160,313	171,184
Accrued interest payable	47,183	24,477
Retainage payable	155,225	-
Due to City of Council Bluffs	388,749	535,609
Current portion of long term debt (Note 6)	300,000	735,000
Total current liabilities (payable from current assets)	\$ 1,324,831	\$ 1,889,683
Current liabilities (payable from restricted assets):		
Consumer deposits	\$ 606,680	\$ 588,380
Main extension escrow deposit	33,146	58,259
Accrued interest on consumer deposits	169,897	172,279
Construction costs payable	654,705	-
Retainage payable from restricted assets	571,134	-
Total current liabilities (payable from restricted assets)	\$ 2,035,562	\$ 818,918
Long term debt (Note 6)	\$ 29,406,371	\$ 8,943,258
Total liabilities	<u>\$ 32,766,764</u>	<u>\$ 11,651,859</u>
<b>FUND EQUITY</b>		
Contributed capital:		
Other governments	\$ 1,367,800	\$ 1,497,307
Customers and developers	7,226,509	7,674,180
Total contributed capital	\$ 8,594,309	\$ 9,171,487
Retained earnings	31,580,126	30,841,293
Total fund equity	<u>\$ 40,174,435</u>	<u>\$ 40,012,780</u>
	<u>\$ 72,941,199</u>	<u>\$ 51,664,639</u>

See Notes to Financial Statements.

COUNCIL BLUFFS CITY WATER WORKS  
STATEMENTS OF REVENUES AND EXPENSES  
Years Ended December 31, 2010 and 2009

	2010	2009
Operating revenues:		
Metered water sales	\$ 7,813,357	\$ 7,104,303
Rental	103,640	101,063
Other	<u>588,890</u>	<u>572,171</u>
Total operating revenues	<u>\$ 8,505,887</u>	<u>\$ 7,777,537</u>
Operating expenses:		
Facilities and maintenance	\$ 684,453	\$ 670,197
Inventory adjustment	(5,231)	(15,458)
Purification	1,176,500	1,074,492
Distribution and meter	1,228,848	1,093,035
Customer accounting	384,571	387,871
Administration and general	1,611,137	1,629,508
Pension and social security	294,259	282,050
Depreciation and amortization	<u>2,835,603</u>	<u>2,677,210</u>
Total operating expenses	<u>\$ 8,210,140</u>	<u>\$ 7,798,905</u>
Operating income	<u>\$ 295,747</u>	<u>\$ (21,368)</u>
Nonoperating revenues (expenses):		
Interest on investments	\$ 192,248	\$ 163,374
Interest expense	(481,134)	(326,980)
Loss on disposal of equipment	<u>(331)</u>	<u>(6,313)</u>
Nonoperating revenues, net	<u>\$ (289,217)</u>	<u>\$ (169,919)</u>
Excess of revenues over expenses/(expenses over revenues)	<u>\$ 6,530</u>	<u>\$ (191,287)</u>

See Notes to Financial Statements.

COUNCIL BLUFFS CITY WATER WORKS

STATEMENTS OF FUND EQUITY  
Years Ended December 31, 2010 and 2009

	Contributed Capital			Retained Earnings	Total Fund Equity
	Other Governments	Customers and Developers	Total		
Balances at January 1, 2009	\$1,566,902	\$ 7,801,949	\$ 9,368,851	\$30,308,021	\$39,676,872
Excess of revenues over expenses				(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	\$1,497,307	\$ 7,674,180	\$ 9,171,487	\$30,841,293	\$40,012,780
Excess of expenses over revenues				6,530	6,530
Contributions-in-aid of construction	-	155,125	155,125	-	155,125
Transfers – Depreciation of contributed property, plant and equipment	<u>(129,507)</u>	<u>(602,796)</u>	<u>(732,303)</u>	<u>732,303</u>	<u>-</u>
Balances at December 31, 2010	<u>\$1,367,800</u>	<u>\$ 7,226,509</u>	<u>\$ 8,594,309</u>	<u>\$31,580,126</u>	<u>\$40,174,435</u>

See Notes to Financial Statements.

COUNCIL BLUFFS CITY WATER WORKS

STATEMENTS OF CASH FLOWS  
Years Ended December 31, 2010 and 2009

	2010	2009
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from customers and users	\$ 7,798,594	\$ 7,165,630
Cash received from other revenues	692,530	673,234
Cash paid to suppliers for goods and services	(3,035,218)	(2,652,257)
Cash paid to employees and on their behalf	(2,449,513)	(2,402,112)
(Payments) receipts for City sewer services net of collections	(146,860)	(66,804)
Net cash provided by operating activities:	<u>\$ 2,859,533</u>	<u>\$ 2,717,691</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Principal payment of revenue bonds	\$ (735,000)	\$ (705,000)
Revenue bonds issued	20,763,113	1,204,000
Loan fees paid	(250,000)	-
Interest paid on revenue bonds	(443,025)	(288,682)
Interest paid on consumer deposits	(17,785)	(16,021)
Additions to property, plant, and equipment	(7,845,455)	(3,200,697)
Main extension escrow deposits	(25,113)	24,061
Contributions-in-aid of construction	155,125	527,195
Net cash provided by (used in) capital and related financing activities	<u>\$ 11,601,860</u>	<u>\$ (2,455,144)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Net sales of investments	\$ 1,190,976	\$ 1,270,000
Interest received on investments	194,055	177,477
Net cash provided by investing activities	<u>\$ 1,385,031</u>	<u>\$ 1,447,477</u>
Net increase in cash	\$ 15,846,424	\$ 1,710,024
Cash at beginning of year	<u>7,275,272</u>	<u>5,565,248</u>
Cash at end of year	<u><u>\$ 23,121,696</u></u>	<u><u>\$ 7,275,272</u></u>
Reconciliation to balance sheets:		
Cash	\$ 5,234,164	\$ 6,510,514
Cash included in restricted assets	<u>17,887,532</u>	<u>764,758</u>
	<u><u>\$ 23,121,696</u></u>	<u><u>\$ 7,275,272</u></u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>		
Operating income (loss)	\$ 295,747	\$ (21,368)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	2,835,603	2,677,210
Changes in assets and liabilities:		
(Increase) Decrease in inventory	(10,142)	113,353
(Increase) Decrease in receivables	(14,763)	61,327
(Increase) Decrease in prepaid insurance	42,571	23,352
Increase (Decrease) in accounts payable	(169,408)	(87,622)
Increase (Decrease) in salaries payable	19,356	(1,592)
Increase (Decrease) in accrued compensated absences	(10,871)	8,650
Increase (Decrease) in Due to City of Council Bluffs	(146,860)	(66,804)
Increase (Decrease) in consumer deposits	<u>18,300</u>	<u>11,185</u>
Net cash provided by operating activities	<u><u>\$ 2,859,533</u></u>	<u><u>\$ 2,717,691</u></u>

See Notes to Financial Statements.

## COUNCIL BLUFFS CITY WATER WORKS

### NOTES TO FINANCIAL STATEMENTS Years Ended December 31, 2010 and 2009

#### Note 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 Association 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 have been 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, 2010 and 2009

#### Note 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.

##### 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.

##### 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, 2010 and 2009

### Note 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 14, 2011, which is the date the financial statements were available to be issued.

### 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, 2010 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, uninsured.

At December 31, 2010, deposits consisted of the following:

Book Balance	Bank Balance	Category		
		1	2	3
<u>\$ 23,121,696</u>	<u>\$ 23,426,295</u>	<u>\$ 500,000</u>	<u>\$ 8,316,486</u>	<u>\$ 14,609,809</u>

# COUNCIL BLUFFS CITY WATER WORKS

## NOTES TO FINANCIAL STATEMENTS Years Ended December 31, 2010 and 2009

### 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, 2010 and 2009 are as follows:

	2010	2009
Consumer deposit fund cash	\$ 794,319	\$ 642,784
Sinking fund cash	102,534	121,974
Consumer deposit fund investments	--	100,000
Reserve fund investments	2,130,870	708,500
Build America Bond loan funds	14,859,809	--
Accrued interest	--	3,476
	<u>\$ 17,887,532</u>	<u>\$ 1,576,734</u>

### Note 4. Property, Plant and Equipment

Property, plant and equipment at December 31, 2010 and 2009 consists of the following:

Description	Useful life in years	2010	2009
Land	-	\$ 2,208,406	\$ 2,158,072
Buildings and structures	20-40	13,229,740	13,194,979
Water distribution system	20-40	46,111,108	45,413,215
Meters	25-40	1,263,484	1,152,718
Tools and equipment	3-20	6,881,334	6,658,617
Automobiles and trucks	5	1,345,830	1,345,830
Office equipment	15	104,985	104,985
Work in progress		<u>12,719,828</u>	<u>4,614,068</u>
		\$ 83,864,714	\$ 74,642,484
Less accumulated depreciation		<u>(36,441,515)</u>	<u>(33,633,952)</u>
		<u>\$ 47,423,200</u>	<u>\$ 41,008,532</u>

As of December 31, 2010 the Water Works had contractual commitments of approximately \$30,955,073 for various construction projects of which \$8,815,838 has been completed. Included in the contractual commitments is \$25.9 million for the construction of a new water treatment facility, which is expected to be complete in August 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, 2010 and 2009

### Note 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:

		2010	2009
Water Revenue Refunding, Series 2004			
Financing costs	81 months	\$ 44,899	\$ 44,899
Less accumulated amortization		<u>(44,899)</u>	<u>(38,247)</u>
Capitalized costs, net		<u>\$ --</u>	<u>\$ 6,652</u>
Water Revenue Bonds, Series 2005			
Financing costs	180 months	\$ 53,740	\$ 53,740
Bond Premium		(7,651)	(7,651)
Less accumulated amortization		<u>(11,049)</u>	<u>(9,274)</u>
Capitalized costs, net		<u>\$ 35,040</u>	<u>\$ 36,815</u>
Water Revenue Bonds, Series 2006			
Financing costs	180 months	\$ 16,626	\$ 16,626
Bond Discount		34,001	34,001
Less accumulated amortization		<u>(16,876)</u>	<u>(13,501)</u>
Capitalized costs, net		<u>\$ 33,751</u>	<u>\$ 37,126</u>
State Revolving Funds, \$10,353,000			
Financing costs	240 months	\$ 103,530	\$ 103,530
Less accumulated amortization		<u>(11,188)</u>	<u>(6,306)</u>
Capitalizes costs, net		<u>\$ 92,342</u>	<u>\$ 97,224</u>
Build America Bonds, \$20,000,000			
Financing costs	260 months	\$ 200,000	\$ --
Less accumulated amortization		<u>(6,177)</u>	<u>--</u>
Capitalized costs, net		<u>\$ 193,823</u>	<u>\$ --</u>
State Revolving Funds, \$5,000,000			
Financing costs	369 months	\$ 50,000	\$ --
Less accumulated amortization		<u>(1,222)</u>	<u>--</u>
Capitalizes costs, net		<u>\$ 48,778</u>	<u>\$ --</u>
Total capitalized costs, net		<u>\$ 403,734</u>	<u>\$ 177,817</u>

# COUNCIL BLUFFS CITY WATER WORKS

## NOTES TO FINANCIAL STATEMENTS Years Ended December 31, 2010 and 2009

### 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. The balance of these bonds was retired as of December 31, 2010.

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, 2010 and 2009 the ratio was 1.68 and 2.55 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, 2010 and 2009.

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, 2010 and 2009 the Water Works had drawn down \$26,026,371 and \$2,411,909, 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, 2010 and 2009.

The Iowa Finance Authority has also issued an interim interest free loan for planning costs. This loan was closed and rolled into the Water Revenue Bonds during 2010. The loan balance as of December 31, 2009 was \$2,851,349.

Principal and interest requirements to maturity on revenue bonds outstanding at December 31, 2010 are as follows:

Year ended December 31,	Principal	Interest	Total Requirements
2011	\$ 300,000	\$ 930,411	\$ 1,230,411
2012	1,512,000	882,471	2,394,471
2013	1,566,000	832,966	2,398,966
2014	1,622,000	781,636	2,403,636
2015	1,678,000	728,481	2,406,481
Thereafter	<u>23,028,371</u>	<u>5,286,181</u>	<u>28,314,552</u>
	<u>\$ 29,706,371</u>	<u>\$ 9,442,146</u>	<u>\$ 39,148,517</u>

## COUNCIL BLUFFS CITY WATER WORKS

### NOTES TO FINANCIAL STATEMENTS Years Ended December 31, 2010 and 2009

#### 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, 2010, State statute requires contributions of 4.50 percent by the employee and 6.95 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 of compensation in calendar years 2010 and 2009. The contribution paid by the Water Works totaled \$155,935 and \$146,234 for the years ended December 31, 2010 and 2009 respectively, and the contribution paid by employees totaled \$100,105 and \$94,507, respectively. The total payroll for employees covered by IPERS for the years ended December 31, 2010 and 2009 was \$2,263,878 and \$2,246,413 respectively, and the total Water Works' payroll for 2010 and 2009 was \$2,289,104 and \$2,250,995, respectively. The Water Works' employer and employee contributions during the years ended December 31, 2010 and 2009 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, 2010 and 2009

#### 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 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 \$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, 2010 and 2009 was \$15,615 and \$ 15,056, respectively.

# COUNCIL BLUFFS CITY WATER WORKS

## Comparison of Cash Basis – Actual with Cash Basis - Budget Year ended December 31, 2010

Fund	<u>Cash basis – actual</u>		Cash basis - budget
	Home and Community Environment Program	Non-program	
Enterprise – general (revenues)	<u>\$ 29,423,179</u>	<u>\$ 5,075,631</u>	<u>\$ 31,655,500</u>
Enterprise – general (expenses)	<u>\$ 14,543,484</u>		<u>\$ 31,241,150</u>

## 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>

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, 2010

	2010 Actual	2010 Budget	Budget Variance Favorable (Unfavorable)
Operating revenues:			
Metered water sales	\$ 7,813,357	\$ 7,916,000	\$ (102,643)
Rental	103,640	102,000	1,640
Other	588,890	506,500	82,390
Total operating revenues	<u>\$ 8,505,887</u>	<u>\$ 8,524,500</u>	<u>\$ (18,613)</u>
Operating expenses:			
Facilities and maintenance	\$ 684,453	\$ 759,500	\$ 75,047
Inventory adjustment	(5,231)	10,000	15,231
Purification	1,176,500	1,052,500	(124,000)
Distribution and meter	1,228,848	1,166,450	(62,398)
Customer accounting	384,571	397,000	12,429
Administration and general	1,611,137	1,680,450	69,313
Pension and social security	294,259	289,000	(5,259)
Total operating expenses	<u>\$ 5,374,537</u>	<u>\$ 5,354,900</u>	<u>\$ (19,637)</u>
Operating income	<u>\$ 3,131,350</u>	<u>\$ 3,169,600</u>	<u>\$ (38,250)</u>
Nonoperating revenues (expenses):			
Interest on investments	\$ 192,248	\$ 146,000	\$ 46,248
Interest expense	(481,134)	(692,000)	210,866
Loss on disposal of equipment	(331)	(15,000)	14,669
Nonoperating revenues, net	<u>\$ (289,217)</u>	<u>\$ (561,000)</u>	<u>\$ 271,783</u>
Change in net assets before depreciation	\$ 2,842,133	<u>\$ 2,608,600</u>	<u>\$ 233,533</u>
Depreciation	(2,835,603)		
Contributions in aid of construction	155,125		
	<u>\$ 161,655</u>		
Total net assets beginning	<u>40,012,780</u>		
Total net assets ending	<u>\$ 40,174,435</u>		