

COUNCIL BLUFFS CITY WATER WORKS

FINANCIAL STATEMENTS

DECEMBER 31, 2016 and 2015

(With Independent Auditors' Report Thereon)

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COUNCIL BLUFFS CITY WATER WORKS

OFFICIALS

Board of Trustees

Michael J. Wallner	Chairperson	June 30, 2022
Caitlin A. Beresford	Vice-Chairperson	June 30, 2018
Maureen R. Kruse	Member	June 30, 2022
Carl L. Heinrich	Member	June 30, 2021
Martin L. Brooks	Member	June 30, 2019

Water Works' Officials

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

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Council Bluffs City Water Works, Council Bluffs, Iowa (Water Works) as of and for the years ended December 31, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the Council Bluffs City Water Works' basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Council Bluffs City Water Works, as of December 31, 2016 and 2015 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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis (pages 1 through 4), Schedule of the Utility's Proportionate Share of the Net Pension Liability (page 20) and the Schedule of the Utility's Contributions (pages 21 through 22) be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

The Budgetary Comparison Schedule on page 25 has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standard

In accordance with *Government Auditing Standards*, we have also issued our report dated May 10, 2017 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
May 10, 2017

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
Calendar Year Ending December 31, 2016

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, 2016. We encourage readers to consider this information in conjunction with our financial statements, which follow.

FINANCIAL HIGHLIGHTS

- ◆ The Water Works' operating revenues increased 10.2% or \$1,132,961 from calendar year 2015 to 2016.
- ◆ The Water Works' operating expenses increased by 1.6% or \$170,731, in calendar year 2015 to 2016.
- ◆ The Water Works' net position increased 3.2% or \$1,313,429, from December 31, 2015 to December 31, 2016.

USING THIS ANNUAL REPORT

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

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

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

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

Required Supplementary Information further explains and supports the net pension liability and IPERS contributions.

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

Council Bluffs Water Works
Council Bluffs, Iowa

MANAGEMENT'S DISCUSSION AND ANALYSIS

Calendar Year Ending December 31, 2016

FINANCIAL ANALYSIS

Statements of Net Position

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

The largest portion of the Water Works' net position 89.9% is the investment in capital assets (building and structures, furniture and fixtures, tools and equipment, distribution system, meters and automotive equipment), less the related debt. The restricted portion of the net position .1% includes resources that are subject to restrictions. The remaining net position 10.0% is the unrestricted position that can be used to meet the Water Works' obligations as they come due.

Statements of Net Position December 31, 2016 and 2015		
	<u>2016</u>	<u>2015</u>
Current assets	\$ 7,010,563	\$ 7,219,510
Restricted assets	1,411,276	983,806
Capital assets	<u>66,846,650</u>	<u>67,122,248</u>
Total assets	<u>\$ 75,268,489</u>	<u>\$ 75,325,564</u>
Deferred outflows of resources	<u>\$ 538,866</u>	<u>\$ 231,818</u>
Current liabilities (payable from current assets)	\$ 2,616,552	\$ 2,640,845
Current liabilities (payable from restricted assets)	1,143,872	1,037,650
Revenue bonds payable	27,643,000	29,121,000
Other liabilities	<u>2,352,748</u>	<u>1,871,433</u>
Total liabilities	<u>\$ 33,756,172</u>	<u>\$ 34,670,928</u>
Deferred inflows of resources	<u>\$ 96,619</u>	<u>\$ 245,319</u>
Net investment in capital assets	\$ 37,697,650	\$ 36,539,248
Restricted	24,479	57,972
Unrestricted	<u>4,232,435</u>	<u>4,043,915</u>
Total net position	<u>\$ 41,954,564</u>	<u>\$ 40,641,135</u>

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
Calendar Year Ending December 31, 2016

Statement of Revenues and Expenses

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

In calendar year 2016, operating revenues increased by \$1,132,961 or 10.2%, due to the increase in water rates. The Board of Trustees approved a rate increase of 6% in 2016.

A summary of revenues and expense for the years ending December 31, 2016 and 2015 is presented below:

Statements of Revenues and Expenses December 31, 2016 and 2015		
Operating revenues		
Metered water sales	\$ 11,300,288	\$ 10,371,018
Rental	158,143	152,951
Other	823,515	625,016
Total operating revenues	<u>\$ 12,281,946</u>	<u>\$ 11,148,985</u>
Operating expenses		
Facilities and grounds	\$ 958,117	\$ 933,364
Inventory adjustment	(6,694)	(2,827)
Purification	1,797,906	1,625,718
Distribution and meter	1,222,682	1,316,201
Customer accounting	480,184	446,787
Administration and general	2,409,548	2,358,053
Pension and social security	431,675	447,796
Depreciation	3,549,916	3,547,511
Total operating expenses	<u>\$ 10,843,334</u>	<u>\$ 10,672,603</u>
Nonoperating revenues (expenses)		
Interest on investments	\$ 207,910	\$ 195,370
Interest expense	(992,778)	(1,032,345)
Loss on disposal of equipment	(8,050)	(42)
Nonoperating revenues, net	<u>\$ (792,918)</u>	<u>\$ (837,017)</u>
Change in net position	<u>\$ 645,694</u>	<u>\$ (360,635)</u>
Total Net Postion	41,954,564	40,641,135

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

Calendar Year Ending December 31, 2016

Statement of Cash Flows

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

CAPITAL ASSETS

At December 31, 2016 the Water Works had \$120,478,977 invested in capital assets, net of accumulated depreciation of \$53,632,327. Depreciation expense totaled \$3,549,916 for calendar year 2016. More detailed information about the Water Works' capital assets is presented in Note 4 to the financial statements.

LONG-TERM DEBT

At December 31, 2016, the Water Works had \$29,149,000 debt outstanding. See Note 5 to the financial statements for more information.

ECONOMIC FACTORS

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

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

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

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

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

CONTACTING THE COUNCIL BLUFFS WATER WORKS FINANCIAL MANAGEMENT

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

FINANCIAL STATEMENTS

COUNCIL BLUFFS CITY WATER WORKS

STATEMENTS OF NET POSITION

December 31, 2016 and 2015

ASSETS	2016	2015
CURRENT ASSETS		
Cash (Note 2)	\$ 4,705,392	\$ 4,693,311
Inventory	883,942	805,536
Receivables:		
Consumer accounts	1,317,587	1,215,489
Unbilled revenues	391,883	377,288
Total receivables	\$ 1,709,470	\$ 1,592,777
Prepaid insurance	91,630	83,057
Main extension escrow deposit	(379,871)	44,829
Restricted assets (Note 3)	1,411,276	983,806
Total current assets	\$ 8,421,839	\$ 8,203,316
PROPERTY, PLANT AND EQUIPMENT, NET (Note 4)	66,846,650	67,122,248
Total assets	<u>\$ 75,268,489</u>	<u>\$75,325,564</u>
DEFERRED OUTFLOWS OF RESOURCES		
Pension related deferred outflows (Note 9)	<u>\$ 538,866</u>	<u>\$ 231,818</u>
LIABILITIES		
CURRENT LIABILITIES (payable from current assets):		
Accounts payable	\$ 270,179	\$ 463,799
Accrued wages and payroll taxes	113,649	99,416
Accrued compensated absences	266,797	259,337
Accrued interest payable	76,492	80,016
Retainage payable	25,108	21,693
Due to City of Council Bluffs	358,327	254,584
Current portion of long term debt (Note 5)	1,506,000	1,462,000
Total current liabilities (payable from current assets)	<u>\$ 2,616,552</u>	<u>\$ 2,640,845</u>
CURRENT LIABILITIES (payable from restricted assets):		
Consumer deposits	\$ 764,480	\$ 736,800
Accrued interest on consumer deposits	242,446	233,863
Construction costs payable	136,946	66,987
Total current liabilities (payable from restricted assets)	<u>\$ 1,143,872</u>	<u>\$ 1,037,650</u>
LONG TERM DEBT (Note 5)	<u>\$ 27,643,000</u>	<u>\$29,121,000</u>
OTHER LIABILITIES		
Net pension liability (Note 9)	<u>\$ 2,352,748</u>	<u>\$ 1,871,433</u>
Total liabilities	<u>\$ 33,756,172</u>	<u>\$34,670,928</u>
DEFERRED INFLOWS OF RESOURCES		
Pension related deferred inflows (Note 9)	<u>\$ 96,619</u>	<u>\$ 245,319</u>
NET POSITION		
Net investment in capital assets	\$ 37,697,650	\$36,539,248
Restricted	24,479	57,972
Unrestricted	4,232,435	4,043,915
Total net position	<u>\$ 41,954,564</u>	<u>\$40,641,135</u>

See Notes to Financial Statements

COUNCIL BLUFFS CITY WATER WORKS

STATEMENTS OF REVENUE, EXPENSES AND CHANGES IN NET POSITION

Years Ended December 31, 2016 and 2015

	2016	2015
OPERATING REVENUES		
Metered water sales	\$ 11,300,288	\$ 10,371,018
Rental	158,143	152,951
Other	<u>823,515</u>	<u>625,016</u>
Total operating revenues	<u>\$ 12,281,946</u>	<u>\$ 11,148,985</u>
OPERATING EXPENSES		
Facilities and grounds	\$ 958,117	\$ 933,364
Inventory adjustment	(6,694)	(2,827)
Purification	1,797,906	1,625,718
Distribution and meter	1,222,682	1,316,201
Customer accounting	480,184	446,787
Administration and general	2,409,548	2,358,053
Pension and social security	431,675	447,796
Depreciation	<u>3,549,916</u>	<u>3,547,511</u>
Total operating expenses	<u>\$ 10,843,334</u>	<u>\$ 10,672,603</u>
Operating income	<u>\$ 1,438,612</u>	<u>\$ 476,382</u>
NONOPERATING REVENUES (EXPENSES)		
Interest on investments	\$ 207,910	\$ 195,370
Interest expense	(992,778)	(1,032,345)
Loss on disposal of equipment	<u>(8,050)</u>	<u>(42)</u>
Nonoperating revenues, net	<u>\$ (792,918)</u>	<u>\$ (837,017)</u>
Change in net position	\$ 645,694	\$ (360,635)
NET POSITION - BEGINNING AS RESTATED (Note 10)	40,641,135	39,735,503
Contributions in aid of construction (Note 6)	<u>667,735</u>	<u>1,266,267</u>
NET POSITION - END OF YEAR	<u>\$ 41,954,564</u>	<u>\$ 40,641,135</u>

See Notes to Financial Statements

COUNCIL BLUFFS CITY WATER WORKS

STATEMENTS OF CASH FLOWS Years Ended December 31, 2016 and 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers and users	\$ 11,183,595	\$ 10,225,774
Cash received from other revenues	981,658	777,967
Cash paid to suppliers for goods and services	(4,357,956)	(3,631,858)
Cash paid to employees and on their behalf	(3,141,121)	(3,028,692)
(Payments) receipts for City sewer services net of collections	103,743	85,974
Net cash provided by operating activities:	<u>\$ 4,769,919</u>	<u>\$ 4,429,165</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Principal payment of long term debt	\$ (1,434,000)	\$ (1,391,234)
Long term debt issued	-	1,210,000
Interest paid on long term debt	(959,644)	(999,963)
Interest paid on consumer deposits	(28,075)	(23,925)
Additions to property, plant, and equipment	(3,208,994)	(3,657,526)
Main extension escrow deposits	424,700	100,907
Contributions-in-aid of construction	667,735	1,266,267
Net cash provided by (used in) capital and related financing activities	<u>\$ (4,538,278)</u>	<u>\$ (3,495,474)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received on investments	207,910	195,370
Net cash provided by investing activities	<u>\$ 207,910</u>	<u>\$ 195,370</u>
NET INCREASE (DECREASE) IN CASH	\$ 439,551	\$ 1,129,061
CASH - BEGINNING OF YEAR	5,677,117	4,548,056
CASH - END OF YEAR	<u>\$ 6,116,668</u>	<u>\$ 5,677,117</u>
RECONCILIATION TO BALANCE SHEETS		
Cash	\$ 4,705,392	\$ 4,693,311
Cash included in restricted assets	1,411,276	983,806
	<u>\$ 6,116,668</u>	<u>\$ 5,677,117</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income (loss)	\$ 1,438,612	\$ 476,382
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	3,549,916	3,547,511
Changes in assets and liabilities:		
(Increase) Decrease in inventory	(78,406)	59,276
(Increase) Decrease in receivables	(116,693)	(145,244)
(Increase) Decrease in prepaid insurance	(8,573)	17,012
(Increase) Decrease in deferred outflows of resources	(307,048)	122,834
Increase (Decrease) in accounts payable	(193,620)	240,629
Increase (Decrease) in salaries payable	14,233	10,245
Increase (Decrease) in accrued compensated absences	7,460	51,629
Increase (Decrease) in Due to City of Council Bluffs	103,743	85,974
Increase (Decrease) in net pension liability	481,315	(311,502)
Increase (Decrease) in consumer deposits	27,680	29,100
Increase (Decrease) in deferred inflows of resources	(148,700)	245,319
Net cash provided by operating activities	<u>\$ 4,769,919</u>	<u>\$ 4,429,165</u>

See Notes to Financial Statements

COUNCIL BLUFFS CITY WATER WORKS

NOTES TO FINANCIAL STATEMENTS Years Ended December 31, 2016 and 2015

1. Summary of Significant Accounting Policies

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

Reporting Entity:

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

Basis of Presentation:

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

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

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

Restricted – Use of net position is externally imposed.

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

COUNCIL BLUFFS CITY WATER WORKS

NOTES TO FINANCIAL STATEMENTS

Years Ended December 31, 2016 and 2015

1. Summary of Significant Accounting Policies - Continued

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

Use of estimates:

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

Cash and Cash Equivalents:

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

Consumer Accounts Receivable:

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

Revenues:

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

Valuation of Inventories:

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

Contributions-in-Aid of Construction and Contributed Capital:

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

COUNCIL BLUFFS CITY WATER WORKS

NOTES TO FINANCIAL STATEMENTS Years Ended December 31, 2016 and 2015

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.

Deferred Outflows of Resources:

Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense/expenditure) until then. Deferred outflows of resources consist of unrecognized items not yet charged to pension expense and contributions from the employer after the measurement date but before the end of the employer's reporting period.

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.

Pensions:

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Iowa Public Employees' Retirement System (IPERS) and additions to/deductions from IPERS' fiduciary net position have been determined on the same basis as they are reported by IPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Deferred Inflows of Resources:

Deferred inflows of resources represent an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time. Although certain revenues are measurable, they are not available. Available means collected within the current year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Deferred inflows of resources in the financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Deferred inflows of resources represents the difference between projected and actual earnings on pension plan investments.

Subsequent Events:

Subsequent events have been evaluated through May 10, 2017, 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, 2016 and 2015

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, 2016 balance sheet including restricted cash and cash equivalents and investments:

Deposits:

At December 31, 2016, deposits consisted of demand deposits and certificates of deposits and had the following balances:

Book Balance	\$ 6,114,869
Bank Balance	\$ 6,387,544

Of the total deposits, \$250,000 was covered by federal depository insurance and \$6,137,544 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.

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, 2016 and 2015 are as follows:

	<u>2016</u>	<u>2015</u>
Consumer deposit fund cash	\$ 1,021,048	\$ 983,806
Build America Bond loan funds	-	-
Main extension deposit	<u>390,228</u>	<u>-</u>
	<u>\$ 1,411,276</u>	<u>\$ 983,806</u>

COUNCIL BLUFFS CITY WATER WORKS

NOTES TO FINANCIAL STATEMENTS Years Ended December 31, 2016 and 2015

4. Property, Plant and Equipment

Property, plant and equipment at December 31, 2016 and 2015 consisted of the following:

<u>Description</u>	<u>Useful Life in Years</u>	<u>2016</u>	<u>2015</u>
Land	-	\$ 3,500,307	\$ 3,500,307
Building and Structures	20 - 50	36,008,429	35,863,039
Water Distribution System	20 - 75	56,988,133	55,229,076
Meters	25 - 40	1,807,671	1,674,539
Tools and Equipment	3 - 20	18,624,040	18,344,244
Automobiles and Trucks	5	1,490,611	1,397,978
Office Equipment	15	104,985	104,985
Work in Progress	-	1,954,801	1,361,930
		<u>\$ 120,478,977</u>	<u>\$ 117,476,098</u>
Less Accumulated Depreciation		<u>(53,632,327)</u>	<u>(50,353,850)</u>
		<u>\$ 66,846,650</u>	<u>\$ 67,122,248</u>

5. Revenue Bonds

In 2010, the Water Works executed the final \$25 million of its \$35.353 million Water Revenue Bonds for construction of a second water treatment facility. The Water Revenue Bonds bear interest at 3.00% due in 2040. The Iowa Finance Authority also charges an annual service fee of 0.25%. As of December 31, 2013 the Water Works had drawn down the \$35,353,000.

In 2015, the Water Works issued Water Revenue Bonds in the amount of \$1,200,000 for the purchase of land adjacent to their treatment plant to protect existing wells from potential contamination by farming practices and industries wanting to locate on adjacent property. The bonds are non-interest bearing, and are due in 2034. The Iowa Finance Authority charges an annual service fee of 0.25%.

All of the 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, 2016 and 2015

COUNCIL BLUFFS CITY WATER WORKS

NOTES TO FINANCIAL STATEMENTS Years Ended December 31, 2016 and 2015

5. Revenue Bonds - Continued

Principal and interest requirements to maturity on revenue bonds outstanding at December 31, 2016 are as follows:

Years ended December 31,	Principal	Interest	Total Requirements
2017	\$ 1,506,000	\$ 842,010	\$ 2,348,010
2018	1,552,000	798,600	2,350,600
2019	1,600,000	753,810	2,353,810
2020	1,649,000	707,580	2,356,580
2021	1,699,000	659,880	2,358,880
2022-2026	9,312,000	2,529,540	11,841,540
2027-2031	9,893,000	1,082,070	10,975,070
2032-2036	1,238,000	201,960	1,439,960
2037-2039	700,000	41,910	741,910
	<u>\$ 29,149,000</u>	<u>\$ 7,617,360</u>	<u>\$ 36,766,360</u>

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

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

	Other Governments	Customers and Developers	Total
Balances at January 1, 2015	\$ 963,711	\$ 4,985,874	\$ 5,949,585
Contributions-in-aid of construction	158,250	1,108,017	1,266,267
Transfers – Depreciation of contributed property, plant and equipment	<u>(136,417)</u>	<u>(639,048)</u>	<u>(775,465)</u>
Balances at December 31, 2015	\$ 985,544	\$ 5,454,843	\$ 6,440,387
Contributions-in-aid of construction	520,794	146,941	667,735
Transfers – Depreciation of contributed property, plant and equipment	<u>(157,632)</u>	<u>(611,594)</u>	<u>(769,226)</u>
Balances at December 31, 2016	<u>\$ 1,348,706</u>	<u>\$ 4,990,190</u>	<u>\$ 6,338,896</u>

COUNCIL BLUFFS CITY WATER WORKS

NOTES TO FINANCIAL STATEMENTS Years Ended December 31, 2016 and 2015

7. Contingencies

The Iowa Department of Natural Resources issued a NPDES Permit. The Water Works appealed the terms thereunder to an Administrative Law Judge with the Iowa Department of Inspections and Appeals. The matter involves suspended solids discharge to the Missouri River and, thus, monetary loss was not an issue. The Order dismissing this matter was filed on January 21, 2016.

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 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 \$471,750. 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, 2016 and 2015 was \$66,343 and \$33,611, respectively.

9. Pension Plan

Plan Description:

IPERS membership is mandatory for employees of the Water Works, except for those covered by another retirement system. Employees of the Water Works are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by Iowa Public Employees' Retirement System (IPERS). IPERS issues a stand-alone financial report which is available to the public by mail at 7401 Register Drive P.O. Box 9117, Des Moines, Iowa 50306-9117 or at www.ipers.org.

IPERS benefits are established under Iowa Code chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following brief description is provided for general informational purposes only. Refer to the plan documents for more information

Pension Benefits:

A regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is age 65, anytime after reaching age 62 with 20 or more years of covered employment, or when the member's years of service plus the member's age at the last birthday equals or exceeds 88, whichever comes first. (These qualifications must be met on the member's first month of entitlement to benefits.) Members cannot begin receiving retirement benefits before age 55. The formula used to calculate a Regular member's monthly IPERS benefit includes:

- A multiplier (based on years of service).
- The member's highest five-year average salary. (For members with service before June 30, 2012, the highest three-year average salary as of that date will be used if it is greater than the highest five-year average salary.)

COUNCIL BLUFFS CITY WATER WORKS

NOTES TO FINANCIAL STATEMENTS Years Ended December 31, 2016 and 2015

9. Pension Plan – Continued

If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early-retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25 percent for each month that the member receives benefits before the member's earliest normal retirement age. For service earned starting July 1, 2012, the reduction is 0.50 percent for each month that the member receives benefits before age 65.

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member's lifetime. However, to combat the effects of inflation, retirees who began receiving benefits prior to July 1990 receive a guaranteed dividend with their regular November benefit payments.

Disability and Death Benefits:

A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement, the member's beneficiary will receive a lifetime annuity or a lump-sum payment equal to the present actuarial value of the member's accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

Contributions:

Effective July 1, 2012, as a result of a 2010 law change, the contribution rates are established by IPERS following the annual actuarial valuation, which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization Method. Statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS Contribution Rate Funding Policy requires that the actuarial contribution rate be determined using the "entry age normal" actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll, based on the Actuarial Amortization Method adopted by the Investment Board.

In calendar year 2016, pursuant to the required rate, Regular members contributed 5.95 percent of pay and the Water Works contributed 8.93 percent for a total rate of 14.88 percent.

The Water Works' total contributions to IPERS for the year ended December 31, 2016 were \$242,913.

COUNCIL BLUFFS CITY WATER WORKS

NOTES TO FINANCIAL STATEMENTS Years Ended December 31, 2016 and 2015

9. Pension Plan – Continued

Net Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions:

At December 31, 2016, the Water Works reported a liability of \$2,352,748 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Water Works' proportion of the net pension liability was based on the Water Works' share of contributions to the pension plan relative to the contributions of all IPERS participating employers. At June 30, 2016, the Water Works' collective proportion was .0373848 percent which was a decrease of .000495 percent from its proportion measured as of June 30, 2015.

For the year ended December 31, 2016, the Water Works recognized pension expense of \$269,663. At December 31, 2016, the Water Works reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 20,794	\$ 28,079
Changes of assumptions	35,896	-
Net difference between projected and actual earnings on pension plan investments	335,192	-
Changes in proportion and differences between Water Works contributions and proportionate share of contributions	24,607	68,540
Water Works' contributions subsequent to the measurement date	122,377	-
	<u>\$ 538,866</u>	<u>\$ 96,619</u>

COUNCIL BLUFFS CITY WATER WORKS

NOTES TO FINANCIAL STATEMENTS

Years Ended December 31, 2016 and 2015

9. Pension Plan – Continued

\$242,913 reported as deferred outflows of resources related to pensions resulting from the Water Works contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2017. The remaining amount of contributions subsequent to the measurement date of \$122,377 will be recognized as a reduction of the net pension liability in the year-ended December 31, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31,		
2017	\$	34,757
2018		34,757
2019		158,965
2020		93,348
2021		(1,957)
Total	\$	319,870

There were no non-employer contributing entities at IPERS.

Actuarial Assumptions:

The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of actuarial experience studies with dates corresponding to those listed above.

Mortality rates were based on the RP-2000 Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

COUNCIL BLUFFS CITY WATER WORKS

NOTES TO FINANCIAL STATEMENTS Years Ended December 31, 2016 and 2015

9. Pension Plan – Continued

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Asset Allocation	Long-Term Expected Real Rate of Return
Core Plus Fixed Income	28%	2.04%
Domestic Equity	24	6.29
International Equity	16	6.75
Private Equity/Debt	11	11.32
Real Estate	8	3.48
Credit Opportunities	5	3.63
U.S. TIPS	5	1.91
Other Real Assets	2	6.24
Cash	1	-0.71
Total	100%	

Discount Rate:

The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the contractually required rate and that contributions from the Water Works will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Water Works' Proportionate Share of the Net Pension Liability to Changes in the Discount Rate:

The following presents the Water Works' proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the Water Works' proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5 percent) or 1-percentage-point higher (8.5 percent) than the current rate.

	1% Decrease (6.5%)	Discount Rate (7.5%)	1% Increase (8.5%)
Water Works' proportionate share of the net pension liability	\$ 3,806,424	\$ 2,352,748	\$ 1,125,822

COUNCIL BLUFFS CITY WATER WORKS

NOTES TO FINANCIAL STATEMENTS Years Ended December 31, 2016 and 2015

9. Pension Plan – Continued

Pension Plan Fiduciary Net Position:

Detailed information about the pension plan's fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS' website at www.ipers.org.

Payables to the Pension Plan:

At December 31, 2016, the Water Works reported payables to the defined benefit pension plan of \$9,442 for legally required employer contributions and \$6,301 for legally required employee contributions which had been withheld from employee wages but not yet remitted to IPERS.

10. Restatement of Prior Period Financial Statements

Net assets as of December 31, 2015 have been decreased by \$158,614 to correct net pension calculation for the GASB 68 accounting change which was adopted during 2015. The accompanying financial statements for the year ending December 31, 2015 have been restated to reflect the corrections.

Statement of Net Position at December 31, 2015

	Previously Reported	Increase (Decrease)	Restated
Deferred outflows	\$ 493,979	\$ (262,161)	\$ 231,818
Total assets	<u>\$75,819,543</u>	<u>\$ (262,161)</u>	<u>\$75,557,382</u>
Deferred inflows	\$ 612,984	\$ (367,665)	\$ 245,319
Net pension liability	1,607,315	264,118	1,871,433
Net position, January 1, 2015	39,735,503	-	39,735,503
Change in net position 2015	(202,021)	(158,614)	(360,635)
Contributions in aid of construction	1,266,267		1,266,267
Net position, December 31, 2015	<u>\$40,799,749</u>	<u>\$ (262,161)</u>	<u>\$40,641,135</u>
Total liabilities and net position	<u>\$75,819,543</u>	<u>\$ (262,161)</u>	<u>\$75,557,382</u>

Statement of Revenue, Expenses and Changes in Net Position at December 31, 2015

Pension and social security	\$ 289,183	\$ 158,614	\$ 447,797
Change in net position	<u>\$ (202,021)</u>	<u>\$ (158,614)</u>	<u>\$ (360,635)</u>

REQUIRED SUPPLEMENTARY INFORMATION

COUNCIL BLUFFS CITY WATER WORKS

SCHEDULE OF THE WATER WORKS' PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

Iowa Public Employee's Retirement System

Last Year*, ended June 30

	<u>2016</u>
Water Works' proportion of the net pension liability (asset)	0.0373848%
Water Works' proportionate share of the net pension liability	2,352,748
Water Works' covered-employee payroll	2,682,875
Water Works' proportionate share of the net pension liability as a percentage of its covered-employee payroll	87.70%
Plan fiduciary net position as a percentage of the total pension liability	81.82%

* The amounts presented for each year were determined as of June 30.

See accompanying independent auditor's report

Note: GASB Statement No.68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the Water Works will present information for those years for which information is available.

COUNCIL BLUFFS CITY WATER WORKS

SCHEDULE OF WATER WORKS' CONTRIBUTIONS

Iowa Public Employee's Retirement System
Last Ten Calendar Years, ending December 31
(In Thousands)

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Statutorily required contributions	\$ 243	\$ 235	\$ 234	\$ 228
Contributions in relation to the statutorily required contribution	<u>(243)</u>	<u>(235)</u>	<u>(234)</u>	<u>(228)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Water Works covered-employee payroll	\$ 2,720	\$ 2,628	\$ 2,620	\$ 2,594
Contributions as a percentage of covered-employee payroll	8.93%	8.94%	8.93%	8.79%

See accompanying independent auditor's report

COUNCIL BLUFFS CITY WATER WORKS

SCHEDULE OF WATER WORKS' CONTRIBUTIONS

Iowa Public Employee's Retirement System
Last Ten Calendar Years, ending December 31
(In Thousands)

<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
\$ 204	\$ 181	\$ 155	\$ 146	\$ 142	\$ 128
<u>(204)</u>	<u>(181)</u>	<u>(155)</u>	<u>(146)</u>	<u>(142)</u>	<u>(128)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 2,434	\$ 2,409	\$ 2,264	\$ 2,246	\$ 2,288	\$ 2,164
8.38%	7.51%	6.85%	6.50%	6.21%	5.91%

COUNCIL BLUFFS CITY WATER WORKS

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – PENSION LIABILITY

Year ended December 31, 2016

1. Changes of benefit terms

Legislation passed in 2010 modified benefit terms for current Regular members. The definition of final average salary changed from the highest three to the highest five years of covered wages. The vesting requirement changed from four years of service to seven years. The early retirement reduction increased from 3 percent per year measured from the member's first unreduced retirement age to a 6 percent reduction for each year of retirement before age 65.

In 2008, legislative action transferred four groups – emergency medical service providers, county jailers, county attorney investigators, and National Guard installation security officers – from Regular membership to the protection occupation group for future service only.

Benefit provisions for sheriffs and deputies were changed in the 2004 legislative session. The eligibility for unreduced retirement benefits was lowered from age 55 by one year each July 1 (beginning in 2004) until it reached age 50 on July 1, 2008. The years of service requirement remained at 22 or more. Their contribution rates were also changed to be shared 50-50 by the employee and employer, instead of the previous 40-60 split.

2. Changes of assumptions

The 2014 valuation implemented the following refinements as a result of a quadrennial experience study:

- Decreased the inflation assumption from 3.25 percent to 3.00 percent
- Decreased the assumed rate of interest on member accounts from 4.00 percent to 3.75 percent per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Reduced retirement rates for sheriffs and deputies between the ages of 55 and 64.
- Moved from an open 30 year amortization period to a closed 30 year amortization period for the UAL beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20 year period.

The 2010 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted retiree mortality assumptions.
- Modified retirement rates to reflect fewer retirements.
- Lowered disability rates at most ages.
- Lowered employment termination rates
- Generally increased the probability of terminating members receiving a deferred retirement benefit.
- Modified salary increase assumptions based on various service duration.

COUNCIL BLUFFS CITY WATER WORKS

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – PENSION LIABILITY

Year ended December 31, 2016

2. Changes of assumptions – Continued

The 2007 valuation adjusted the application of the entry age normal cost method to better match projected contributions to the projected salary stream in the future years. It also included in the calculation of the UAL amortization payments the one-year lag between the valuation date and the effective date of the annual actuarial contribution rate.

The 2006 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted salary increase assumptions to service based assumptions.
- Decreased the assumed interest rate credited on employee contributions from 4.25 percent to 4.00 percent.
- Lowered the inflation assumption from 3.50 percent to 3.25 percent.
- Lowered disability rates for sheriffs and deputies and protection occupation members.

OTHER INFORMATION

COUNCIL BLUFFS CITY WATER WORKS

BUDGETARY COMPARISON SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN BALANCES – BUDGET AND ACTUAL Year ended December 31, 2016

	2016 Actual	2016 Budget	Budget Variance Favorable (Unfavorable)
Operating revenues:			
Metered water sales	\$ 11,300,288	\$ 11,078,000	\$ 222,288
Rental	158,143	157,000	1,143
Other	823,515	559,400	264,115
Total operating revenues	<u>\$ 12,281,946</u>	<u>\$ 11,794,400</u>	<u>\$ 487,546</u>
Operating expenses:			
Facilities and grounds	\$ 958,117	\$ 973,100	\$ 14,983
Inventory adjustment	(6,694)	5,000	11,694
Purification	1,797,906	1,783,000	(14,906)
Distribution and meter	1,222,682	1,408,500	185,818
Customer accounting	480,184	430,000	(50,184)
Administration and general	2,409,548	2,304,000	(105,548)
Pension and social security	431,675	450,000	18,325
Total operating expenses	<u>\$ 7,293,418</u>	<u>\$ 7,353,600</u>	<u>\$ 60,182</u>
Operating income	<u>\$ 4,988,528</u>	<u>\$ 4,440,800</u>	<u>\$ 547,728</u>
Nonoperating revenues (expenses):			
Interest on investments	\$ 207,910	\$ 184,200	\$ 23,710
Interest expense	(992,778)	(998,260)	5,482
Loss on disposal of equipment	(8,050)	(5,000)	(3,050)
Nonoperating revenues, net	<u>\$ (792,918)</u>	<u>\$ (819,060)</u>	<u>\$ 26,142</u>
Surplus (Deficit) from Operations	<u>\$ 4,195,610</u>	<u>\$ 3,621,740</u>	<u>\$ 573,870</u>
Debt Service	(1,434,000)	(1,446,500)	12,500
Capital Outlay	(3,208,994)	(3,442,000)	233,006
Bond Proceeds	-	200,000	(200,000)
Surplus (Deficit)	<u>\$ (447,384)</u>	<u>\$ (1,066,760)</u>	<u>\$ 619,376</u>
Reconciliation to statement of revenues and expenses:			
Budget Basis Deficit	\$ (447,384)		
Debt Service	1,434,000		
Capital Outlay	3,208,994		
Bond Proceeds	-		
Depreciation and Amortization	<u>(3,549,916)</u>		
Excess of revenues over expenses	<u>\$ 645,694</u>		

COUNCIL BLUFFS CITY WATER WORKS

BUDGETARY COMPARISON SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN BALANCES – BUDGET AND ACTUAL Year ended December 31, 2016

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 2016, there were no budget amendments and disbursements did not exceed the amount budgeted.



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

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

We have audited the financial statements of the Council Bluffs City Water Works as of and for the year ended December 31, 2016, and have issued our report thereon dated May 10, 2017. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Hamilton Associates, P.C.

Council Bluffs, Iowa
May 10, 2017

COUNCIL BLUFFS CITY WATER WORKS

SCHEDULE OF FINDINGS

Year ended December 31, 2016

I. FINDINGS RELATED TO THE FINANCIAL STATEMENTS

None reported

II. OTHER FINDINGS RELATED TO STATUTORY REPORTING

II-A-16 Certified Budget – We compared the Water Works disbursements for the twelve months ended December 31, 2016 with the published budget and found that disbursements did not exceed the amounts budgeted.

II-B-16 Questionable Disbursements – No disbursements that we believe may not meet the requirements of public purpose as defined in an Attorney general's opinion dated April 25, 1979 were noted.

II-C-16 Travel Expense – No expenditures of funds for travel expenses of spouses of Water Works' officials or employees were noted.

II-D-16 Business Transactions – During the course of our audit of Water Works as of December 31, 2016, we looked at many records substantiating disbursements. We noted no business transactions between the Water Works and Water Works' officials or employees.

II-E-16 Bond Coverage – We reviewed the statutory provisions for surety bond coverage of Water Works' officials and employees. The City has an ordinance allowing the City to set bonding requirements for the Water Works. Resolution 83-475 sets the amount of surety bond coverage for board members at \$500 annually. Water Works maintains public officials' liability insurance, which sufficiently meets bond coverage requirements.

II-F-16 Board Minutes – We noted no transactions that we believe should have been approved in the Board minutes but were not.

II-G-16 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City's investment policy were noted.

II-H-16 Revenue Notes – No instances of non-compliance with the revenue bond and note requirements were noted.