

COUNCIL BLUFFS CITY WATER WORKS

FINANCIAL STATEMENTS

DECEMBER 31, 2019 and 2018

(With Independent Auditors' Report Thereon)

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COUNCIL BLUFFS CITY WATER WORKS

OFFICIALS

Board of Trustees

Martin L. Brooks	Chairperson	June 30, 2025
Carl L. Heinrich	Vice-Chairperson	June 30, 2021
Maureen R. Kruse	Member	June 30, 2022
Caitlin A. Beresford	Member	June 30, 2024
Michael J. Wallner	Member	June 30, 2022

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, 2019 and 2018, 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, 2019 and 2018 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 24 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 13, 2020 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 13, 2020

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
Calendar Year Ending December 31, 2019

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, 2019. We encourage readers to consider this information in conjunction with our financial statements, which follow.

FINANCIAL HIGHLIGHTS

- ◆ The Water Works' operating revenues increased 5.5% or \$678,099 from calendar year 2018 to 2019.
- ◆ The Water Works' operating expenses increased by 2.5% or \$283,880, in calendar year 2018 to 2019.
- ◆ The Water Works' net position increased 3.6% or \$1,614,127, from December 31, 2018 to December 31, 2019.

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, 2019

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 91.3% 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 .5% includes resources that are subject to restrictions. The remaining net position 8.2% is the unrestricted position that can be used to meet the Water Works' obligations as they come due.

Statements of Net Position December 31, 2019 and 2018		
	<u>2019</u>	<u>2018</u>
Current assets	\$ 8,649,703	\$ 7,828,634
Restricted assets	7,222,000	2,315,350
Capital assets	<u>69,287,604</u>	<u>68,469,550</u>
 Total assets	 <u>\$ 85,159,307</u>	 <u>\$ 78,613,534</u>
 Deferred outflows of resources	 <u>\$ 389,513</u>	 <u>\$ 484,897</u>
 Current liabilities (payable from current assets)	\$ 3,735,727	\$ 3,614,778
Current liabilities (payable from restricted assets)	6,973,086	2,085,169
Revenue bonds payable	24,557,478	24,721,000
Other liabilities	<u>3,501,311</u>	<u>3,694,013</u>
 Total liabilities	 <u>\$ 38,767,602</u>	 <u>\$ 34,114,960</u>
 Deferred inflows of resources	 <u>\$ 342,003</u>	 <u>\$ 158,383</u>
 Net investment in capital assets	\$ 42,394,310	\$ 41,420,844
Restricted	248,915	230,180
Unrestricted	<u>3,795,990</u>	<u>3,174,064</u>
 Total net position	 <u>\$ 46,439,215</u>	 <u>\$ 44,825,088</u>

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
Calendar Year Ending December 31, 2019

Statement of Revenues and Expenses

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

In calendar year 2019, operating revenues increased by \$678,099 or 5.5%, due to a 5% increase in rates and an increase in consumption.

A summary of revenues and expense for the years ending December 31, 2019 and 2018 is presented below:

Statements of Revenues and Expenses December 31, 2019 and 2018		
	2019	2018
Operating revenues		
Metered water sales	\$ 12,246,243	\$ 11,481,829
Rental	134,544	145,076
Other	636,867	712,650
Total operating revenues	<u>\$ 13,017,654</u>	<u>\$ 12,339,555</u>
Operating expenses		
Facilities and grounds	\$ 973,801	\$ 992,962
Inventory adjustment	(6,352)	(9,859)
Purification	2,265,885	2,118,942
Distribution and meter	1,345,107	1,279,173
Customer accounting	557,416	518,284
Administration and general	2,518,503	2,539,018
Pension and social security	601,513	489,388
Depreciation	3,473,009	3,517,094
Total operating expenses	<u>\$ 11,728,882</u>	<u>\$ 11,445,002</u>
Nonoperating revenues (expenses)		
Interest on investments	\$ 308,077	\$ 312,828
Interest expense	(779,851)	(904,176)
Loss on disposal of equipment	-	(2,604)
Nonoperating revenues, net	<u>\$ (471,774)</u>	<u>\$ (593,952)</u>
Change in net position	<u>\$ 816,998</u>	<u>\$ 300,601</u>
Total Net Position	46,439,215	44,825,088

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
Calendar Year Ending December 31, 2019

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, 2019 the Water Works had \$132,898,778 invested in capital assets, net of accumulated depreciation of \$63,611,174. Depreciation expense totaled \$3,473,009 for calendar year 2019. More detailed information about the Water Works' capital assets is presented in Note 4 to the financial statements.

LONG-TERM DEBT

At December 31, 2019, the Water Works had \$26,384,478 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, 2019 and 2018

ASSETS	2019	2018
CURRENT ASSETS		
Cash (Note 2)	\$ 5,240,178	\$ 4,960,902
Inventory	1,133,103	968,665
Receivables:		
Consumer accounts	1,466,415	1,304,609
Unbilled revenues	409,626	409,173
Total receivables	\$ 1,876,041	\$ 1,713,782
Prepaid expense	400,381	185,285
Restricted assets (Note 3)	7,222,000	2,315,350
Total current assets	\$ 15,871,703	\$10,143,984
PROPERTY, PLANT AND EQUIPMENT, NET (Note 4)	69,287,604	68,469,550
Total assets	\$ 85,159,307	\$78,613,534
DEFERRED OUTFLOWS OF RESOURCES		
Pension related deferred outflows (Note 9)	\$ 389,513	\$ 484,897
LIABILITIES		
CURRENT LIABILITIES (payable from current assets):		
Accounts payable	\$ 290,947	\$ 221,307
Accrued wages and payroll taxes	146,735	133,503
Accrued compensated absences	304,077	312,215
Accrued interest payable	60,576	68,649
Construction costs payable	187,346	396,445
Retainage payable	321,469	359,261
Due to City of Council Bluffs	597,577	551,398
Current portion of long term debt (Note 5)	1,827,000	1,572,000
Total current liabilities (payable from current assets)	\$ 3,735,727	\$ 3,614,778
CURRENT LIABILITIES (payable from restricted assets):		
Consumer deposits	\$ 815,355	\$ 809,125
Plant expansion and main extension escrow deposits	5,883,260	1,009,786
Accrued interest on consumer deposits	274,471	266,258
Total current liabilities (payable from restricted assets)	\$ 6,973,086	\$ 2,085,169
LONG TERM DEBT (Note 5)	\$ 24,557,478	\$24,721,000
OTHER LIABILITIES		
Deferred revenue (Note 6)	\$ 1,299,840	\$ 1,326,920
Net pension liability (Note 9)	2,201,471	2,367,093
Total other liabilities	\$ 3,501,311	\$ 3,694,013
Total liabilities	\$ 38,767,602	\$34,114,960
DEFERRED INFLOWS OF RESOURCES		
Pension related deferred inflows (Note 9)	\$ 342,003	\$ 158,383
NET POSITION		
Net investment in capital assets	\$ 42,394,310	\$41,420,844
Restricted	248,915	230,180
Unrestricted	3,795,990	3,174,064
Total net position	\$ 46,439,215	\$44,825,088

See Notes to Financial Statements

COUNCIL BLUFFS CITY WATER WORKS

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

Years Ended December 31, 2019 and 2018

	2019	2018
OPERATING REVENUES		
Metered water sales	\$ 12,246,243	\$ 11,481,829
Rental	134,544	145,076
Other	<u>636,867</u>	<u>712,650</u>
Total operating revenues	<u>\$ 13,017,654</u>	<u>\$ 12,339,555</u>
OPERATING EXPENSES		
Facilities and grounds	\$ 973,801	\$ 992,962
Inventory adjustment	(6,352)	(9,859)
Purification	2,265,885	2,118,942
Distribution and meter	1,345,107	1,279,173
Customer accounting	557,416	518,284
Administration and general	2,518,503	2,539,018
Pension and social security	601,513	489,388
Depreciation	<u>3,473,009</u>	<u>3,517,094</u>
Total operating expenses	<u>\$ 11,728,882</u>	<u>\$ 11,445,002</u>
Operating income	<u>\$ 1,288,772</u>	<u>\$ 894,553</u>
NONOPERATING REVENUES (EXPENSES)		
Interest on investments	\$ 308,077	\$ 312,828
Interest expense	(779,851)	(904,176)
Loss on disposal of equipment	<u>-</u>	<u>(2,604)</u>
Nonoperating revenues, net	<u>\$ (471,774)</u>	<u>\$ (593,952)</u>
Change in net position	<u>\$ 816,998</u>	<u>\$ 300,601</u>
NET POSITION - BEGINNING	<u>\$ 44,825,088</u>	<u>\$ 43,167,177</u>
Contributions in aid of construction (Note 7)	<u>797,129</u>	<u>1,357,310</u>
NET POSITION - END OF YEAR	<u>\$ 46,439,215</u>	<u>\$ 44,825,088</u>

See Notes to Financial Statements

COUNCIL BLUFFS CITY WATER WORKS

STATEMENTS OF CASH FLOWS

Years Ended December 31, 2019 and 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers and users	\$ 12,083,984	\$ 11,526,199
Cash received from other revenues	744,331	830,646
Cash received for easement (Note 6)	-	1,354,000
Cash paid to suppliers for goods and services	(4,963,458)	(4,587,852)
Cash paid to employees and on their behalf	(3,477,603)	(3,388,306)
(Payments) receipts for City sewer services net of collections	46,179	84,748
Net cash provided by operating activities:	<u>\$ 4,433,433</u>	<u>\$ 5,819,435</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Principal payment of long term debt	\$ (1,572,000)	\$ (1,523,000)
Long term debt issued	1,663,478	145,000
Interest paid on long term debt	(748,325)	(868,893)
Interest paid on consumer deposits	(31,385)	(26,899)
Additions to property, plant, and equipment	(4,537,955)	(4,160,908)
Plant expansion and main extension escrow deposits	4,873,474	(3,786,671)
Contributions-in-aid of construction	797,129	1,357,310
Net cash provided by (used in) capital and related financing activities	<u>\$ 444,416</u>	<u>\$ (8,864,061)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received on investments	308,077	312,828
Net cash provided by investing activities	<u>\$ 308,077</u>	<u>\$ 312,828</u>
NET INCREASE (DECREASE) IN CASH	<u>\$ 5,185,926</u>	<u>\$ (2,731,798)</u>
CASH - BEGINNING OF YEAR	<u>7,276,252</u>	<u>10,008,050</u>
CASH - END OF YEAR	<u>\$ 12,462,178</u>	<u>\$ 7,276,252</u>
RECONCILIATION TO BALANCE SHEETS		
Cash	\$ 5,240,178	\$ 4,960,902
Cash included in restricted assets	7,222,000	2,315,350
	<u>\$ 12,462,178</u>	<u>\$ 7,276,252</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income (loss)	\$ 1,288,772	\$ 894,553
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	3,473,009	3,517,094
Changes in assets and liabilities:		
(Increase) Decrease in inventory	(164,438)	(121,871)
(Increase) Decrease in receivables	(162,259)	44,370
(Increase) Decrease in prepaid insurance	(215,096)	(48,575)
(Increase) Decrease in deferred outflows of resources	95,384	104,738
Increase (Decrease) in accounts payable	69,640	35,756
Increase (Decrease) in salaries payable	13,232	20,818
Increase (Decrease) in accrued compensated absences	(8,138)	(2,961)
Increase (Decrease) in due to City of Council Bluffs	46,179	84,748
Increase (Decrease) in deferred revenue	(27,080)	1,326,920
Increase (Decrease) in net pension liability	(165,622)	(96,315)
Increase (Decrease) in consumer deposits	6,230	13,765
Increase (Decrease) in deferred inflows of resources	183,620	46,395
Net cash provided by operating activities	<u>\$ 4,433,433</u>	<u>\$ 5,819,435</u>

See Notes to Financial Statements

COUNCIL BLUFFS CITY WATER WORKS

NOTES TO FINANCIAL STATEMENTS

Years Ended December 31, 2019 and 2018

1. Summary of Significant Accounting Policies

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

Reporting Entity:

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

Basis of Presentation:

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

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

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

Restricted – Use of net position is externally imposed.

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

Measurement Focus and Basis of Accounting:

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

COUNCIL BLUFFS CITY WATER WORKS

NOTES TO FINANCIAL STATEMENTS Years Ended December 31, 2019 and 2018

1. Summary of Significant Accounting Policies - Continued

Measurement Focus and Basis of Accounting - Continued:

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

Use of estimates:

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

Cash and Cash Equivalents:

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

Consumer Accounts Receivable:

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

Revenues:

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

Valuation of Inventories:

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

Contributions-in-Aid of Construction and Contributed Capital:

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

COUNCIL BLUFFS CITY WATER WORKS

NOTES TO FINANCIAL STATEMENTS Years Ended December 31, 2019 and 2018

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 13, 2020, 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, 2019 and 2018

2. Cash and Short-Term Investments

Below is a summary of the deposit and investment portfolios that comprise cash and investments on the December 31, 2019 balance sheet including restricted cash and cash equivalents and investments:

Deposits:

At December 31, 2019, deposits consisted of demand deposits and certificates of deposits and had the following balances:

Book Balance	\$ 12,460,378
Bank Balance	\$ 12,821,061

Of the total deposits, \$250,000 was covered by federal depository insurance and \$12,571,061 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, 2019 and 2018 are as follows:

	<u>2019</u>	<u>2018</u>
Consumer deposit fund cash	\$ 1,135,386	\$ 1,102,349
Plant expansion deposit	5,987,506	1,022,077
Main extension deposit	99,108	190,924
	<u>\$ 7,222,000</u>	<u>\$ 2,315,350</u>

4. Property, Plant and Equipment

Property, plant and equipment at December 31, 2019 and 2018 consisted of the following:

<u>Description</u>	<u>Useful Life in Years</u>	<u>2019</u>	<u>2018</u>
Land	-	\$ 3,500,307	\$ 3,500,307
Building and Structures	20 - 50	36,568,955	36,297,925
Water Distribution System	20 - 75	66,339,971	64,320,638
Meters	25 - 40	2,246,957	1,912,122
Tools and Equipment	3 - 20	18,560,059	18,522,840
Automobiles and Trucks	5	1,672,474	1,585,032
Office Equipment	15	104,985	104,985
Work in Progress	-	3,905,070	2,429,506
		<u>\$ 132,898,778</u>	<u>\$ 128,673,355</u>
Less Accumulated Depreciation		<u>(63,611,174)</u>	<u>(60,203,805)</u>
		<u>\$ 69,287,604</u>	<u>\$ 68,469,550</u>

COUNCIL BLUFFS CITY WATER WORKS

NOTES TO FINANCIAL STATEMENTS

Years Ended December 31, 2019 and 2018

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. In 2019 \$7,416,000 of these bonds were refinanced with an interest rate of 1.75%. 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%.

In 2018, the Water Works issued Water Revenue Bonds in the amount of \$5,025,000 for the construction of a West Broadway transmission water main project. The Water Revenue Bonds bear interest at 1.75% due in 2039. The Iowa Finance Authority also charges an annual service fee of 0.25%. As of December 31, 2019, the Water Works had drawn down \$1,808,478.

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, 2019 and 2018.

Principal and interest requirements to maturity on revenue bonds outstanding at December 31, 2019 are as follows:

Years ended December 31,	Principal	Interest	Total Requirements
2020	\$ 1,827,000	\$ 660,953	\$ 2,487,953
2021	1,883,000	616,726	2,499,726
2022	1,940,000	571,081	2,511,081
2023	2,000,000	524,000	2,524,000
2024	2,058,000	458,698	2,516,698
2025-2029	10,811,478	1,597,271	12,408,749
2030-2034	4,539,000	414,605	4,953,605
2035-2039	1,087,000	135,780	1,222,780
2040	239,000	7,170	246,170
	<u>\$ 26,384,478</u>	<u>\$ 4,986,284</u>	<u>\$ 31,370,762</u>

6. Deferred Revenue

In 2017, the Water Works signed an agreement that provided the buyer exclusive communications easement and non-exclusive access and utility easement for 50 years. In 2018, the Water Works received \$1,354,000 for a 50-year communications easement. Revenue of \$27,080 will be recognized ratably each year over the 50-year agreement period. The deferred revenue balances as of 2019 and 2018 respectively of \$1,299,840 and \$1,326,920 represent remaining cash received that has not yet been recognized.

COUNCIL BLUFFS CITY WATER WORKS

NOTES TO FINANCIAL STATEMENTS

Years Ended December 31, 2019 and 2018

7. 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, 2018	\$ 1,781,508	\$ 4,667,625	\$ 6,449,133
Contributions-in-aid of construction	-	1,357,310	1,357,310
Transfers – Depreciation of contributed property, plant and equipment	<u>(180,100)</u>	<u>(628,872)</u>	<u>(808,972)</u>
Balances at December 31, 2018	\$ 1,601,408	\$ 5,396,063	\$ 6,997,471
Contributions-in-aid of construction	164,672	632,457	797,129
Transfers – Depreciation of contributed property, plant and equipment	<u>(177,453)</u>	<u>(650,674)</u>	<u>(828,127)</u>
Balances at December 31, 2019	<u>\$ 1,588,627</u>	<u>\$ 5,377,846</u>	<u>\$ 6,966,473</u>

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 \$576,400. The Water Works contributes funds monthly to a separate bank account to supplement the employee's deductible. The balance in this account as of December 31, 2019 and 2018 was \$84,505 and \$114,833, respectively.

COUNCIL BLUFFS CITY WATER WORKS

NOTES TO FINANCIAL STATEMENTS

Years Ended December 31, 2019 and 2018

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.)

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.

COUNCIL BLUFFS CITY WATER WORKS

NOTES TO FINANCIAL STATEMENTS

Years Ended December 31, 2019 and 2018

9. Pension Plan – Continued

Contributions:

Contribution rates are established by IPERS following the annual actuarial valuation which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization Method. State statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS Contribution Rate Funding Policy requires 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 the year ending December 31, 2019, pursuant to the required rate, Regular members contributed 6.29 percent of pay and the Water Works contributed 9.44 percent for a total rate of 15.73 percent.

The Water Works' total contributions to IPERS for the year ended December 31, 2019 and 2018 were \$274,517 and \$252,367, respectively.

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

At December 31, 2019 and 2018, the Water Works reported a liability of \$2,201,471 and \$2,367,093, respectively, for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2019 and June 30, 2018, 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, 2019, the Water Works' collective proportion was .0380176 percent which was an increase of .000612 percent from its proportion measured as of June 30, 2018. At June 30, 2018, the Water Works' collective proportion was .0374052 percent which was an increase of .000424 percent from its proportion measured as of June 30, 2017.

COUNCIL BLUFFS CITY WATER WORKS

NOTES TO FINANCIAL STATEMENTS Years Ended December 31, 2019 and 2018

9. Pension Plan – Continued

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

For the year ended December 31, 2019 and 2018, the Water Works recognized pension expense of \$389,397 and \$319,656, respectively. The Water Works reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources at December 31:

	2019		2018	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 6,103	\$ 79,153	\$ 12,978	\$ 53,500
Changes of assumptions	235,809	-	337,680	-
Net difference between projected and actual earnings on pension plan investments	-	248,079	-	65,040
Changes in proportion and differences between Water Works contributions and proportionate share of contributions	20,068	14,771	8,097	39,843
Water Works' contributions subsequent to the measurement date	127,533	-	126,142	-
	<u>\$ 389,513</u>	<u>\$ 342,003</u>	<u>\$ 484,897</u>	<u>\$ 158,383</u>

\$127,533 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, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions as of December 31, 2019, will be recognized in pension expense as follows:

Year Ended December 31,	
2020	\$ 43,152
2021	(52,251)
2022	(33,013)
2023	(35,182)
2024	(2,729)
Total	<u>\$ (80,023)</u>

There were no non-employer contributing entities at IPERS.

COUNCIL BLUFFS CITY WATER WORKS

NOTES TO FINANCIAL STATEMENTS

Years Ended December 31, 2019 and 2018

9. Pension Plan – Continued

Actuarial Assumptions:

The total pension liability in the June 30, 2019 and June 30, 2018 actuarial valuations were determined using the following actuarial assumptions, applied to all periods included in the measurement:

Rate of inflation (effective June 30, 2017)	2.60 percent per annum
Rates of salary increase (effective June 30, 2017)	3.25 to 16.25 percent, average, including inflation Rates vary by membership group.
Long-term investment rate of return (effective June 30, 2017)	7.00 percent, compounded annually, net of investment expense, including inflation.
Wage growth (effective June 30, 2017)	3.25 percent per annum based on 2.60 percent inflation and .65 percent real wage inflation.

The actuarial assumptions used in the June 30, 2019 and June 30, 2018 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.

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:

<u>Asset Class</u>	<u>Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Equity	22%	6.01%
International Equity	15	6.48
Global smart beta equity	3	6.23
Core-plus fixed income	27	1.97
Public Credit	3.5	3.93
Public real assets	7	2.91
Cash	1	(0.25)
Private equity	11	10.81
Private real assets	7.5	4.14
Private credit	3	3.11
Total	<u>100%</u>	

COUNCIL BLUFFS CITY WATER WORKS

NOTES TO FINANCIAL STATEMENTS

Years Ended December 31, 2019 and 2018

9. Pension Plan – Continued

Discount Rate:

The discount rate used to measure the total pension liability was 7 percent for 2019 and 2018. 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 recorded at December 31, 2019 using the discount rate of 7.0 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 (6.0 percent) or 1-percentage-point higher (8.0 percent) than the current rate.

	1% Decrease (6.0%)	Discount Rate (7.0%)	1% Increase (8.0%)
Water Works' proportionate share of the net pension liability - 2019	\$ 3,909,102	\$ 2,201,471	\$ 769,129

The following presents the Water Works' proportionate share of the net pension liability recorded at December 31, 2018 using the discount rate of 7 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 (6.0 percent) or 1-percentage-point higher (8.0 percent) than the current rate.

	1% Decrease (6.0%)	Discount Rate (7.0%)	1% Increase (8.0%)
Water Works' proportionate share of the net pension liability - 2018	\$ 4,017,432	\$ 2,367,093	\$ 982,703

COUNCIL BLUFFS CITY WATER WORKS

NOTES TO FINANCIAL STATEMENTS

Years Ended December 31, 2019 and 2018

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, 2019, the Water Works reported payables to the defined benefit pension plan of \$12,800 for legally required employer contributions and \$8,605 for legally required employee contributions which had been withheld from employee wages but not yet remitted to IPERS. At December 31, 2018, the Water Works reported payables to the defined benefit pension plan of \$11,730 for legally required employer contributions and \$7,828 for legally required employee contributions which had been withheld from employee wages but not yet remitted to IPERS.

10. Commitments

As of December 31, 2019, the Water Works had construction contracts in progress with remaining future commitments totaling \$8,263,796. Funding for these projects is expected to be obtained through drawing down funds on the 2018 Water Revenue Bonds, and contributions in aid of construction from customers and developers.

11. Coronavirus Pandemic

On March 10, 2020 the World Health Organization declared the coronavirus outbreak to be a pandemic. Actions taken around the world to help mitigate the spread of the coronavirus include restrictions on travel, and quarantines in certain areas, and forced closures for certain types of public places and businesses. The coronavirus and actions taken to mitigate it have had and are expected to continue to have an adverse impact on the economies and financial markets of many countries, including the United States. While it is unknown how long these conditions will last and what the complete financial effect will be to the world economy, and the economy of the United States, the State of Iowa and our local economy, the Council Bluffs Water Works is experiencing disruption in daily activities.

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>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Water Works' proportion of the net pension liability (asset)	0.0380176%	0.0374052%	0.0369811%	0.0373848%	0.0405283%
Water Works' proportionate share of the net pension liability	2,201,471	2,367,093	2,463,408	2,352,748	1,607,315
Water Works' covered-employee payroll	2,983,267	2,811,350	2,760,458	2,682,875	2,595,093
Water Works' proportionate share of the net pension liability as a percentage of its covered-employee payroll	73.79%	84.20%	89.24%	87.70%	61.94%
Plan fiduciary net position as a percentage of the total pension liability	85.45%	83.62%	82.21%	81.82%	87.61%

* 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>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Statutorily required contributions	\$ 275	\$ 262	\$ 249	\$ 243
Contributions in relation to the statutorily required contribution	<u>(275)</u>	<u>(262)</u>	<u>(249)</u>	<u>(243)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Water Works' covered-employee payroll	\$ 2,912	\$ 2,857	\$ 2,788	\$ 2,720
Contributions as a percentage of covered-employee payroll	9.44%	9.17%	8.93%	8.93%

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>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
\$ 235	\$ 234	\$ 228	\$ 204	\$ 181	\$ 155
<u>(235)</u>	<u>(234)</u>	<u>(228)</u>	<u>(204)</u>	<u>(181)</u>	<u>(155)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 2,628	\$ 2,620	\$ 2,594	\$ 2,434	\$ 2,409	\$ 2,264
8.94%	8.93%	8.79%	8.38%	7.51%	6.85%

COUNCIL BLUFFS CITY WATER WORKS

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – PENSION LIABILITY

Year ended December 31, 2019

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.

2. Changes of assumptions

The 2018 valuation implemented the following refinements as a result of a demographic assumption study dated June 28, 2018.

- Changed mortality assumption to the RP-2014 mortality tables with mortality improvements modeled using Scale MP-2017.
- Adjusted retirement rates.
- Lowered disability rates.
- Adjusted the probability of a vested Regular member electing to receive a deferred benefit.
- Adjusted the merit component of the salary increase assumption.

The 2017 valuation implemented the following refinements as a result of an experience study dated March 24, 2017:

- Decreased the inflation assumption from 3.00 percent to 2.60 percent.
- Decreased the assumed rate of interest on member accounts from 3.75 percent to 3.50 percent per year.
- Decreased the discount rate from 7.50% to 7.00%.
- Decreased the wage growth assumption from 4.00% to 3.25%.
- Decreased the payroll growth assumption from 4.00% to 3.25%.

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.

OTHER INFORMATION

COUNCIL BLUFFS CITY WATER WORKS

**BUDGETARY COMPARISON SCHEDULE OF REVENUES,
EXPENDITURES AND CHANGES IN BALANCES – BUDGET AND ACTUAL**
Year ended December 31, 2019

	2019 Actual	2019 Budget	Budget Variance Favorable (Unfavorable)
Operating revenues:			
Metered water sales	\$ 12,246,243	\$ 12,280,000	\$ (33,757)
Rental	134,544	122,000	12,544
Other	636,867	634,000	2,867
Total operating revenues	<u>\$ 13,017,654</u>	<u>\$ 13,036,000</u>	<u>\$ (18,346)</u>
Operating expenses:			
Facilities and grounds	\$ 973,801	\$ 1,105,300	\$ 131,499
Inventory adjustment	(6,352)	5,000	11,352
Purification	2,265,885	2,320,000	54,115
Distribution and meter	1,345,107	1,382,000	36,893
Customer accounting	557,416	481,000	(76,416)
Administration and general	2,518,503	2,699,000	180,497
Pension and social security	487,061	490,000	2,939
Total operating expenses	<u>\$ 8,141,421</u>	<u>\$ 8,482,300</u>	<u>\$ 340,879</u>
Operating income	<u>\$ 4,876,233</u>	<u>\$ 4,553,700</u>	<u>\$ 322,533</u>
Nonoperating revenues (expenses):			
Interest on investments	\$ 308,077	\$ 287,000	\$ 21,077
Interest expense	(779,851)	(825,000)	45,149
Loss on disposal of equipment	-	(5,000)	5,000
Nonoperating revenues, net	<u>\$ (471,774)</u>	<u>\$ (543,000)</u>	<u>\$ 71,226</u>
Surplus (Deficit) from Operations	\$ 4,404,459	\$ 4,010,700	\$ 393,759
Debt Service	(1,572,000)	(1,572,000)	-
Capital Outlay	(3,740,826)	(6,960,000)	3,219,174
Bond Proceeds	1,663,478	4,500,000	(2,836,522)
Surplus (Deficit)	<u>\$ 755,111</u>	<u>\$ (21,300)</u>	<u>\$ 776,411</u>
Reconciliation to statement of revenues and expenses:			
Budget Basis Deficit	\$ 755,111		
Debt Service	1,572,000		
Capital Outlay	3,740,826		
Bond Proceeds	(1,663,478)		
Pension Expense	(114,452)		
Depreciation and Amortization	<u>(3,473,009)</u>		
Excess of revenues over expenses	<u>\$ 816,998</u>		

COUNCIL BLUFFS CITY WATER WORKS

**BUDGETARY COMPARISON SCHEDULE OF REVENUES,
EXPENDITURES AND CHANGES IN BALANCES – BUDGET AND ACTUAL**
Year ended December 31, 2019

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 2019, 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, 2019 and have issued our report thereon dated May 13, 2020. 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*. However, we noted certain immaterial instances of non-compliance or other matters which are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the Water Works' operations for the year ended December 31, 2019 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Water Works. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Council Bluffs City Water Works' Responses to the Findings

The Council Bluffs City Water Works' responses to the findings identified in our audit are described in the accompanying Schedule of Findings. The Water Works' responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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 13, 2020

COUNCIL BLUFFS CITY WATER WORKS

SCHEDULE OF FINDINGS

Year ended December 31, 2019

I. FINDINGS RELATED TO THE FINANCIAL STATEMENTS

None reported

II. OTHER FINDINGS RELATED TO STATUTORY REPORTING

II-A-18 Certified Budget – We compared the Water Works disbursements for the twelve months ended December 31, 2019 with the published budget and found that disbursements did not exceed the amounts budgeted.

II-B-18 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-18 Travel Expense – No expenditures of funds for travel expenses of spouses of Water Works' officials or employees were noted.

II-D-18 Business Transactions – During the course of our audit of Water Works as of December 31, 2019, we looked at many records substantiating disbursements. We noted no business transactions between the Water Works and Water Works' officials or employees.

II-E-18 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-18 Board Minutes – We noted no transactions that we believe should have been approved in the Board minutes but were not.

II-G-18 Deposits and Investments – Chapter 12C of the Code of Iowa, requires that public bodies approve the financial institutions and maximum amounts that may be kept on deposit in each approved depository. The Water Works has an approved depository resolution, however at December 31, 2019, deposits exceeded the maximum amount approved for deposit by \$2,821,061 in one financial institution.

Recommendation – Water works should comply with Chapter 12C of the Code of Iowa and ensure that all deposits are within maximum amounts approved by the depository resolution.

Response – Management will review maximum deposit amounts allowed in the depository resolution and consider requesting the board increase the limits in order to ensure balances remain below authorized amounts.

II-H-18 Revenue Notes – No instances of non-compliance with the revenue bond and note requirements were noted.

Council Bluffs City Water Works

Report to the Board of Trustees

May 19, 2020

 *Hamilton Associates, P.C.*



May 19, 2020

Board of Trustees

Council Bluffs City Water Works

Council Bluffs, Iowa

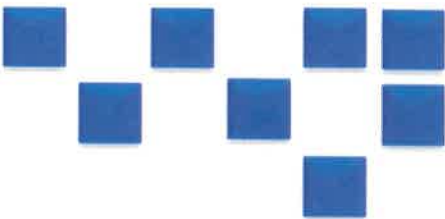
We are pleased to present this report related to our audit of the financial statements of Council Bluffs City Water Works for the year ended December 31, 2019. This report summarizes certain matters required by professional standards to be communicated to you in your oversight responsibility for Council Bluffs City Water Works' financial reporting process.

This report is intended solely for the information and use of the Board of Directors and management and is not intended to be and should not be used by anyone other than these specified parties. It will be our pleasure to respond to any questions you have about this report. We appreciate the opportunity to continue to be of service to Council Bluffs City Water Works.

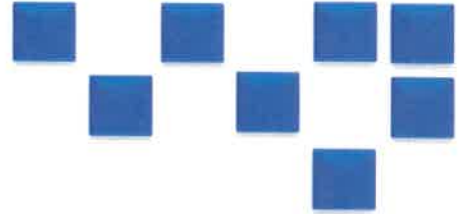
Hamilton Associates, P.C.

Council Bluffs, Iowa

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REQUIRED COMMUNICATIONS

Generally accepted auditing standards (AU-C 260, *The Auditor's Communication With Those Charged With Governance*) require the auditor to promote effective two-way communication between the auditor and those charged with governance. Consistent with this requirement, the following summarizes our responsibilities regarding the financial statement audit as well as observations arising from our audit that are significant and relevant to your responsibility to oversee the financial reporting process.

Area	Comments
Auditor's Responsibility Under Professional Standards	Our responsibility under auditing standards generally accepted in the United States of America has been described to you in our arrangement letter dated February 24, 2020.
Accounting Practices	<p>Preferability of Accounting Policies and Practices</p> <p>Under generally accepted accounting principles, in certain circumstances, management may select among alternative accounting practices. In our view, in such circumstances, management has selected the preferable accounting practice.</p> <p>Adoption of, or Change in, Accounting Policies</p> <p>Management has the ultimate responsibility for the appropriateness of the accounting policies used by the Organization. The Organization did not adopt any significant new accounting policies nor have there been any changes in existing significant accounting policies during the current period.</p> <p>Significant or Unusual Transactions</p> <p>No significant or unusual transactions were noted.</p>
Management's Judgments and Accounting Estimates	Summary information about the process used by management in formulating particularly sensitive accounting estimates and about our conclusions regarding the reasonableness of those estimates is in the attached Summary of Significant Accounting Estimates.
Audit Adjustments	Audit adjustments recorded by Council Bluffs City Water Works are shown on the attached "Summary of Recorded Audit Adjustments."
Uncorrected Misstatements	Uncorrected misstatements are summarized in the attached "Summary of Uncorrected Misstatements."

Area	Comments
Disagreements with Management	We encountered no disagreements with management over the application of significant accounting principles, the basis for management's judgments on any significant matters, the scope of the audit, or significant disclosures to be included in the financial statements.
Consultations with Other Accountants	We are not aware of any consultations management had with other accountants about accounting or auditing matters.
Significant Issues Discussed with Management	No significant issues arising from the audit were discussed with or the subject of correspondence with management.
Difficulties Encountered in Performing the Audit	We did not encounter any difficulties in dealing with management during the audit.
Certain Written Communications Between Management and Our Firm	Copies of significant written communications between our firm and the management of the Council Bluffs City Water Works, including the representation letter provided to us by management, are attached as Exhibit A.

COUNCIL BLUFFS CITY WATER WORKS

SUMMARY OF ACCOUNTING ESTIMATES

YEAR ENDED DECEMBER 31, 2019

Accounting estimates are an integral part of the preparation of financial statements and are based upon management's current judgment. The process used by management encompasses their knowledge and experience about past and current events and certain assumptions about future events. You may wish to monitor throughout the year the process used to determine and record these accounting estimates. The following describes the significant accounting estimates reflected in the Organization's December 31, 2019, financial statements.

Area	Accounting Policy	Estimation Process	Comments
Accumulated Depreciation	Long lived assets are depreciated over their "useful" lives.	Management's experience and industry knowledge is used to determine the "useful" lives of assets.	"Useful" lives of long lived assets were examined and found to be reasonable and consistently applied.
Inventories	To reduce obsolete, damaged, or excess inventories to the estimated net realizable values.	The Water Works values its inventories at the lower of cost (average cost method) or market.	This valuation appears reasonable. Most of the inventory items are used internally for repairs and capital improvements. When the items are placed into service, they are depreciated over 20 years.
Uninsured Losses	A liability for all losses or loss retentions attributable for events occurring through December 31, 2019 should be included in the financial statements.	For the partially self-insured health insurance, the Water Works' makes monthly deposits in a separate bank account for potential claims. Deposits are made as recommended by the third party administer. Adjustments will be made as considered necessary.	Each year, we receive confirmation from the Water Works' legal counsel about potential losses. At December 31, 2019, there were no such instances identified. At December 31, 2019, there was \$84,505 set aside for employee health insurance claims.

Environmental Clean-Up Obligations	The Water Works' management should establish a reserve for the potential of environmental clean-up costs.	The Water Works does not consider there to be a material obligation for environmental clean-up costs.	
Contingent Liabilities and Subsequent Events	Conditions existing at the balance sheet date or thereafter, which contain uncertainty as to possible gains or losses that will ultimately be resolved in some future period are to be properly recorded or disclosed at the balance sheet date.	Management evaluates all current conditions through the date the financial statements are issued which may require recording or modifying of gains, losses, disclosures, or current estimates at the balance sheet date.	Independent expectations for possible liabilities, inquiries with management and other personnel, and external communications were performed and it was concluded that the financial statements are fairly stated.

COUNCIL BLUFFS CITY WATER WORKS

SUMMARY OF RECORDED AUDIT ADJUSTMENTS

YEAR ENDED DECEMBER 31, 2019

<i>Description</i>	<i>EFFECT - INCREASE (DECREASE)</i>				
	<i>Assets & Deferred Outflows</i>	<i>Liabilities & Deferred Inflows</i>	<i>Net Position</i>	<i>Revenue</i>	<i>Expense</i>
Adjust for prior year audit adjustments approved by management but not entered into the accounting software	\$ 185,053	\$ 3,805,592	\$ (3,620,539)	\$ -	\$ -
True up allowance of doubtful accounts	(10,182)	-	-	-	10,182
Record accounts payable and reversal of prior year accounts payable entry	(243,285)	(245,071)	-	-	(1,786)
To adjust for earned easement revenue	-	(27,080)	-	27,080	-
Adjust payroll accruals		6,164			6,164
True up bond interest and service fee to actual	4,000	(4,073)	-	-	(8,073)
To record items related to net pension liability	(95,384)	17,998			113,382
Change in Net Position Effect			\$ (92,789)	\$ 27,080	\$ 119,869
Net Position Effect	\$ (159,798)	\$ 3,553,530	\$ (3,713,328)		

COUNCIL BLUFFS CITY WATER WORKS

SUMMARY OF UNCORRECTED MISSTATEMENTS

YEAR ENDED DECEMBER 31, 2019

During the course of our audit, we accumulated uncorrected misstatements that were determined by management to be immaterial, both individually and in the aggregate, to the statements of net position, revenues, expenses and changes in net position, and cash flows and to the related financial statement disclosures. Following is a summary of those differences.

<i>Description</i>	<i>EFFECT - INCREASE (DECREASE)</i>				
	<i>Assets & Deferred Outflows</i>	<i>Liabilities & Deferred Inflows</i>	<i>Net Position</i>	<i>Revenue</i>	<i>Expense</i>
Current Year Misstatements					
Credit balances in accounts receivable	\$ 98,538	\$ 98,538	\$ -	\$ -	\$ -
Change in Net Position Effect			\$ -	\$ -	\$ -
Net Position Effect	\$ 98,538	\$ 98,538	\$ -		

EXHIBIT A - SIGNIFICANT WRITTEN COMMUNICATIONS BETWEEN MANAGEMENT AND OUR
FIRM

February 24, 2020

Board of Trustees, General Manager, Administrative Manager
Council Bluffs City Water Works
2000 North 25th Street
Council Bluffs, IA 51502

Attention: Douglas P. Drummey, General Manager

The Objective and Scope of the Audit of the Financial Statements

You have requested that we audit the financial statements of Council Bluffs City Water Works (the "Water Works"), which comprise business-type activities as of and for the year-ended December 31, 2019, which collectively comprise the basic financial statements. We are pleased to confirm our acceptance and our understanding of this audit engagement by means of this letter.

Our audit will be conducted with the objective of our expressing an opinion on the financial statements.

The Responsibilities of the Auditor

We will conduct our audit in accordance with auditing standards generally accepted in the United States of America (GAAS); "Government Auditing Standards" issued by the Comptroller General of the United States (GAS); and guidance provided by Chapter 11 of the "Code of Iowa." Those standards and guides 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. 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.

Our audit approach places a strong emphasis on obtaining an understanding of how the Water Works functions. This enables us to identify key audit components and tailor our procedures to the unique aspects of your business. The development of a specific audit plan will begin by performing inquiries of the board of trustees and management to obtain an understanding of the Water Works' business objectives, strategies, risks, and performance.

We apply the concept of materiality both in planning and performing the audit, evaluating the effect of identified misstatements on the audit, and the effect of uncorrected misstatements, if any, on the financial statements, in forming the opinion in our report on the financial statements, and in determining or reporting in accordance with Government Auditing Standards and other compliance reporting requirements. Our determination of materiality is a matter of professional judgment and is affected by our perception of the financial information needs of users of the financial statements. We establish

performance materiality at an amount less than materiality for the financial statements as a whole to allow for the risk of misstatements that may not be detected by the audit. We use performance materiality for purposes of assessing the risks of material misstatement and determining the nature, timing and extent of further audit procedures. Our assessment of materiality throughout the audit will be based on both quantitative and qualitative considerations. Because of the interaction of quantitative and qualitative considerations, misstatements of a relatively small amount could have a material effect on the current financial statements as well as financial statements of future periods. We will accumulate misstatements identified during the audit, other than those that are clearly trivial. At the end of the audit, we will inform the board of trustees and management of all individual unrecorded misstatements aggregated by us in connection with our evaluation of our audit test results.

Additionally, the board of trustees' insights may assist us in understanding the Water Works and its environment, in identifying appropriate sources of audit evidence, and in providing information about specific transactions or events. We will discuss with the board of trustees its oversight of the effectiveness of internal control and any areas where the board of trustees may request additional procedures to be undertaken.

Because of the inherent limitations of an audit, together with the inherent limitations of internal control, an unavoidable risk that some material misstatements may not be detected exists, even though the audit is properly planned and performed in accordance with GAAS. Also, an audit is not designed to detect errors or fraud that is immaterial to the financial statements. The determination of abuse is subjective; therefore, Government Auditing Standards do not expect us to provide reasonable assurance of detecting abuse.

In making our risk assessments, we consider internal control relevant to the Water Works' 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. However, we will communicate to you in writing concerning any significant deficiencies or material weaknesses in internal control relevant to the audit of the financial statements that we have identified during the audit.

We will also communicate to the board of trustees (a) any fraud involving senior management and fraud (whether caused by senior management or other employees) that causes a material misstatement of the financial statements that becomes known to us during the audit, and (b) any instances of noncompliance with laws and regulations, illegal acts, or abuse that we become aware of during the audit (unless they are clearly inconsequential). (c) any disagreements with management or other serious difficulties encountered in performing the audit, and (d) other matters arising from the audit that are, in our professional judgment, significant and relevant to the board of trustees in its oversight of the financial reporting process.

Our report(s) on internal control will include any significant deficiencies and material weaknesses in controls of which we become aware as a result of obtaining an understanding of internal control and performing tests of internal control consistent with requirements of the standards and circulars identified above. Our report(s) on compliance matters will address material errors, fraud, abuse, violations of compliance obligations, and other responsibilities imposed by state and federal statutes and regulations or assumed by contracts, and any state or federal grant, entitlement, or loan program questioned costs of which we become aware, consistent with requirements of the standards and circulars identified above.

Independence

Our independence policies and procedures are designed to provide reasonable assurance that our Firm and its personnel comply with applicable professional independence standards. Our policies address financial interests, business and family relationships, and non-audit services that may be thought to bear on independence. In addition, our policies restrict certain non-audit services that may be provided by

Hamilton Associates, P.C. and require audit clients to accept certain responsibilities in connection with the provision of permitted non-attest services.

The Responsibilities of Management and Identification of the Applicable Financial Reporting Framework

Our audit will be conducted on the basis that management and when appropriate, those charged with governance, acknowledge and understand that they have responsibility:

- a. For the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America;
- b. For 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;
- c. For establishing and maintaining effective internal control over financial reporting and for informing us of all significant deficiencies and material weaknesses in the design or operation of such controls of which it has knowledge;
- d. For identifying and ensuring that the entity complies with the laws and regulations applicable to its activities, and for informing us about all known material violations of such laws or regulations. In addition, management is responsible for the design and implementation of programs and controls to prevent and detect fraud, and for informing us about all known or suspected fraud affecting the entity involving management, employees who have significant roles in internal control, and others where the fraud could have a material effect on the financial statements. Management is also responsible for informing us of its knowledge of any allegations of fraud or suspected fraud affecting the entity received in communications from employees, former employees, analysts, regulators, or others;
- e. To provide us with:
 - (1) Access to all information of which management is aware that is relevant to the preparation and fair presentation of the financial statements such as records, documentation, and other matters;
 - (2) Additional information that we may request from management for the purpose of the audit;
 - (3) Unrestricted access to persons within the entity from whom we determine it necessary to obtain audit evidence;
 - (4) If applicable, responses to any findings reported on the schedule of findings and questioned costs.

As part of our audit process, we will request from management and when appropriate, those charged with governance, written confirmation concerning representations made to us in connection with the audit including among other items:

- a. That management has fulfilled its responsibilities as set out in the terms of this letter; and
- b. That it believes the effects of any uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

Management is responsible for identifying and ensuring that the Water Works complies with the laws and regulations applicable to its activities, and for informing us about all known material violations of such laws or regulations. In addition, management is responsible for the design and implementation of programs and controls to prevent and detect fraud or abuse, and for informing us about all known or suspected fraud or abuse affecting the entity involving management, employees who have significant roles in internal control, and others where the fraud or abuse could have a material effect on the financial statements or compliance. Management is also responsible for informing us of its knowledge of any

allegations of fraud or abuse or suspected fraud or abuse affecting the entity received in communications from employees, former employees, analysts, regulators, short sellers, or others.

Management is responsible for the preparation of the supplementary information in accordance with accounting principles generally accepted in the United States of America. Management agrees to include the auditor's report on the supplementary information in any document that contains the supplementary information and that indicates that the auditor has reported on such supplementary information. Management also agrees to present the supplementary information with the audited financial statements or, if the supplementary information will not be presented with audited financial statements, to make the audited financial statements readily available to the intended users of the supplementary information no later than the date of issuance of the supplementary information and the auditor's report thereon.

The board of trustees is responsible for informing us of its views about the risks of fraud or abuse within the entity, and its knowledge of any fraud or abuse or suspected fraud or abuse affecting the entity. Additionally, we expect that the board of directors will timely communicate with us any matters it considers relevant to the audit. Such matters might include strategic decisions that may significantly affect the nature, timing, and extent of audit procedures, or suspicions or detections of fraud or abuse.

Water Works agrees that it will not associate us with any public or private securities offering without first obtaining our consent. Therefore, Water Works agrees to contact us before it includes our reports or otherwise makes reference to us, in any public or private securities offering.

Our association with an official statement is a matter for which separate arrangements will be necessary. Water Works agrees to provide us with printer's proofs or masters of such offering documents for our review and approval before printing and with a copy of the final reproduced material for our approval before it is distributed. In the event our auditor/client relationship has been terminated when Water Works seeks such consent, we will be under no obligation to grant such consent or approval.

Because Hamilton Associates, P.C. will rely on Water Works and its management and board of trustees to discharge the foregoing responsibilities, Water Works holds harmless and releases Hamilton Associates, P.C., its partners, and employees from all claims, liabilities, losses, and costs arising in circumstances where there has been a knowing misrepresentation by a member of Water Works' management which has caused, in any respect, Hamilton Associates, P.C.'s breach of contract or negligence. This provision shall survive the termination of this arrangement for services.

Water Works' Records and Assistance

If circumstances arise relating to the condition of Water Works records, the availability of appropriate audit evidence, or indications of a significant risk of material misstatement of the financial statements because of error, fraudulent financial reporting, or misappropriation of assets, which in our professional judgment, prevent us from completing the audit or forming an opinion, we retain the unilateral right to take any course of action permitted by professional standards, including declining to express an opinion, issue a report, or withdraw from the engagement.

During the course of our engagement, we may accumulate records containing data that should be reflected in the Water Works' books and records. The Water Works will determine that all such data, if necessary, will be so reflected. Accordingly, the Water Works will not expect us to maintain copies of such records in our possession.

The assistance to be supplied by Water Works personnel, including the preparation of schedules and analyses of accounts, has been discussed and coordinated with Karen Wisniski, Administrative Manager. The timely and accurate completion of this work is an essential condition to our completion of the audit and issuance of our audit report.

In connection with our audit, you have requested us to perform certain non-audit services necessary for the preparation of the financial statements, including the preparation of draft financial statements. The independence standards of the "Government Auditing Standards" issued by the Comptroller General of the United States GAS require that the auditor maintain independence so that opinions, findings, conclusions, judgments, and recommendations will be impartial and viewed as impartial by reasonable and informed third parties. Before we agree to provide a non-audit service to Water Works, we determine whether providing such a service would create a significant threat to our independence for GAS audit purposes, either by itself or in aggregate with other non-audit services provided. A critical component of our determination is consideration of management's ability to effectively oversee the non-audit service to be performed. Water Works has agreed that Karen Wisniski, Administrative Manager possesses suitable skill, knowledge, or experience and that the individual understands the non-audit services to be performed sufficiently to oversee them. Accordingly, the management of Water Works agrees to the following:

1. Water Works has designated Karen Wisniski, Administrative Manager a senior member of management, who possesses suitable skill, knowledge, and experience to oversee the services.
2. Karen Wisniski, Administrative Manager will assume all management responsibilities for subject matter and scope of the preparation of the draft financial statements.
3. Water Works will evaluate the adequacy and results of the services performed.
4. Water Works accepts responsibility for the results and ultimate use of the services.

GAS further requires we establish an understanding with the management (and those charged with governance) of Water Works of the objectives of the non-audit service, the services to be performed, the entity's acceptance of its responsibilities, the auditor's responsibilities, and any limitations of the non-audit service. We believe this letter documents that understanding.

Other Relevant Information

In accordance with Government Auditing Standards, a copy of our most recent peer review report is enclosed, for your information.

Fees, Costs, and Access to Workpapers

Our fees for the audit and accounting services described above are based upon the value of the services performed and the time required by the individuals assigned to the engagement, plus direct expenses. Our fee estimate and completion of our work is based upon the following criteria:

- a. Anticipated cooperation from Water Works personnel
- b. Timely responses to our inquiries
- c. Timely completion and delivery of client assistance requests
- d. Timely communication of all significant accounting and financial reporting matters
- e. The assumption that unexpected circumstances will not be encountered during the engagement

If any of the aforementioned criteria are not met, then fees may increase. Our proposed fees for services described in this letter are \$13,700 for the financial statement audit and \$3,600 for the single audit (if necessary). Interim billings will be submitted as work progresses and as expenses are incurred. Billings are due upon submission.

Our professional standards require that we perform certain additional procedures, on current and previous years' engagements, whenever a partner or professional employee leaves the firm and is subsequently employed by or associated with a client in a key position. Accordingly, the Water Works agrees it will compensate Hamilton Associates, P.C. for any additional costs incurred as a result of the Water Works' employment of a partner or professional employee of Hamilton Associates, P.C.

In the event we are requested or authorized by Water Works or are required by government regulation, subpoena, or other legal process to produce our documents or our personnel as witnesses with respect to our engagement for Water Works, Water Works will, so long as we are not a party to the proceeding in which the information is sought, reimburse us for our professional time and expenses, as well as the fees and expenses of our counsel, incurred in responding to such requests.

The documentation for this engagement is the property of Hamilton Associates, P.C. However, you acknowledge and grant your assent that representatives of the cognizant or oversight agency or their designee, other government audit staffs, and the U.S. Government Accountability Office shall have access to the audit documentation upon their request and that we shall maintain the audit documentation for a period of at least three years after the date of the report, or for a longer period if we are requested to do so by the cognizant or oversight agency. Access to requested documentation will be provided under the supervision of Hamilton Associates, P.C. audit personnel and at a location designated by our Firm.

Information Security - Miscellaneous Terms

Hamilton Associates, P.C. is committed to the safe and confidential treatment of Water Works' proprietary information. Hamilton Associates, P.C. is required to maintain the confidential treatment of client information in accordance with relevant industry professional standards which govern the provision of services described herein. Water Works agrees that it will not provide Hamilton Associates, P.C. with any unencrypted electronic confidential or proprietary information, and the parties agree to utilize commercially reasonable measures to maintain the confidentiality of Water Works' information, including the use of collaborate sites to ensure the safe transfer of data between the parties.

Hamilton Associates, P.C. may terminate this relationship immediately in its sole discretion if Hamilton Associates, P.C. determines that continued performance would result in a violation of law, regulatory requirements, applicable professional standards or Hamilton Associates, P.C.'s client acceptance or retention standards, or if Water Works is placed on a verified sanctioned entity list or if any director or executive of, or other person closely associated with, Water Works or its affiliates is placed on a verified sanctioned person list, in each case, including but not limited to lists promulgated by the Office of Foreign Assets Control of the U.S. Department of the Treasury, the U.S. State Department, the United Nations Security Council, the European Union or any other relevant sanctioning authority.

If any term or provision of this arrangement letter is determined to be invalid or unenforceable, such term or provision will be deemed stricken and all other terms and provisions will remain in full force and effect.

Claim Resolution

Water Works and Hamilton Associates, P.C. agree that no claim arising out of services rendered pursuant to this agreement shall be filed more than two years after the date of the audit report issued by Hamilton Associates, P.C. or the date of this arrangement letter if no report has been issued. Water Works waives any claim for punitive damages. Hamilton Associates, P.C.'s liability for all claims, damages and costs of Water Works arising from this engagement is limited to the amount of fees paid by Water Works to Hamilton Associates, P.C. for the services rendered under this arrangement letter.

Reporting

We will issue a written report upon completion of our audit of Water Works' financial statements. Our report will be addressed to the board of trustees of Water Works. We cannot provide assurance that an unmodified opinion will be expressed. Circumstances may arise in which it is necessary for us to modify our opinion, add an emphasis-of-matter or other-matter paragraph(s), or withdraw from the engagement.

In addition to our report on Water Works' financial statements and the supplementary information contained therein, we will also issue the following types of reports:

- Report on internal control related to the financial statements. This report will describe the scope of testing of internal control and the results of our tests of internal controls.
- A schedule of findings and questioned costs (if applicable).

This letter constitutes the complete and exclusive statement of agreement between Hamilton Associates, P.C. and Water Works, superseding all proposals, oral or written, and all other communications, with respect to the terms of the engagement between the parties.

Electronic Signatures and Counterparts

Each party hereto agrees that any electronic signature of a party to this agreement or any electronic signature to a document contemplated hereby (including any representation letter) is intended to authenticate such writing and shall be as valid, and have the same force and effect, as a manual signature. Any such electronically signed document shall be deemed (i) to be "written" or "in writing," (ii) to have been signed and (iii) to constitute a record established and maintained in the ordinary course of business and an original written record when printed from electronic files. Each party hereto also agrees that electronic delivery of a signature to any such document (via email or otherwise) shall be as effective as manual delivery of a manual signature. For purposes hereof, "electronic signature" includes, but is not limited to, (i) a scanned copy (as a "pdf" (portable document format) or other replicating image) of a manual ink signature, (ii) an electronic copy of a traditional signature affixed to a document, (iii) a signature incorporated into a document utilizing touchscreen capabilities or (iv) a digital signature. This agreement may be executed in one or more counterparts, each of which shall be considered an original instrument, but all of which shall be considered one and the same agreement. Paper copies or "printouts," of such documents if introduced as evidence in any judicial, arbitral, mediation or administrative proceeding, will be admissible as between the parties to the same extent and under the same conditions as other original business records created and maintained in documentary form. Neither party shall contest the admissibility of true and accurate copies of electronically signed documents on the basis of the best evidence rule or as not satisfying the business records exception to the hearsay rule.

Please sign and return the attached copy of this letter to indicate your acknowledgment of, and agreement with, the arrangements for our audit of the financial statements including our respective responsibilities.

Hamilton Associates, P.C.



Paul Hamilton, CPA

Confirmed on behalf of Council Bluffs City Water Works:



Martin L. Brooks, Board Chair

3-17-20

Date



Douglas P. Drummey, General Manager

3/24/2020

Date



Karen Wisniski, Administrative Manager

03/12/20

Date



MARTENS & COMPANY, CPA, LLP

CERTIFIED PUBLIC ACCOUNTANTS

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Report on the Firm's System of Quality Control

November 30, 2018

To the Shareholders of
Hamilton Associates, P.C.
and the Peer Review Committee of the
Peer Review Alliance

We have reviewed the system of quality control for the accounting and auditing practice of Hamilton Associates, P.C. (the firm) in effect for the year ended March 31, 2018. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants (Standards).

A summary of the nature, objectives, scope, limitations of, and the procedures performed in a System Review as described in the Standards may be found at www.aicpa.org/prsummary. The summary also includes an explanation of how engagements identified as not performed or reported in conformity with applicable professional standards, if any, are evaluated by a peer reviewer to determine a peer review rating.

Firm's Responsibility

The firm is responsible for designing a system of quality control and complying with it to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. The firm is also responsible for evaluating actions to promptly remediate engagements deemed as not performed or reported in conformity with professional standards, when appropriate, and for remediating weaknesses in its system of quality control, if any.

Peer Reviewer's Responsibility

Our responsibility is to express an opinion on the design of the system of quality control and the firm's compliance therewith based on our review.

Required Selections and Considerations

Engagements selected for review included engagements performed under Government Auditing Standards, including a compliance audit under the Single Audit Act, and an audit of an employee benefit plan.

As a part of our peer review, we considered reviews by regulatory entities as communicated by the firm, if applicable, in determining the nature and extent of our procedures.

To the Shareholders of Hamilton Associates, P.C.
and the Peer Review Committee of the
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Opinion

In our opinion, the system of quality control for the accounting and auditing practice of Hamilton Associates, P.C. in effect for the year ended March 31, 2018, has been suitably designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Firms can receive a rating of *pass*, *pass with deficiency(ies)* or *fail*. Hamilton Associates, P.C. has received a peer review rating of *pass*.

Martens & Company, CPA, LLP

Martens & Company, CPA, LLP



Administering peer reviews for the following:

Illinois CPA Society | Indiana CPA Society | Iowa Society of CPAs | Kentucky Society of CPAs
South Carolina Association of CPAs | West Virginia Society of CPAs | Wisconsin Institute of CPAs

June 13, 2019

Paul Hamilton
Hamilton Associates, P. C.
P.O. BOX 959
Council Bluffs, IA 51502-0959

Dear Paul Hamilton:

It is my pleasure to notify you that on June 12, 2019, the Peer Review Alliance Committee accepted the report on the most recent System Review of your firm. The due date for your next review is September 30, 2021. This is the date by which all review documents should be completed and submitted to the administering entity.

As you know, the report had a peer review rating of pass. The Committee asked me to convey its congratulations to the firm.

Thank you for your cooperation.

Sincerely,

Peer Review Committee

Peer Review Committee
Peer Review Committee
peerreview@icpas.org 800.993.0407, then dial 6
Peer Review Alliance

cc: Richard Atterbury

Firm Number: 900010105446

Review Number: 563891



Council Bluffs Water Works

COUNCIL BLUFFS, IOWA — 51501

Office

2000 NORTH 25TH STREET

Mailing Address

P.O. BOX No. 309 — 51502

Board of Trustees:

MARTIN L. BROOKS, *Chairperson*

CARL L. HEINRICH

MAUREEN R. KRUSE

MICHAEL J. WALLNER

CAITLIN A. BERESFORD

CEO & General Manager & Secretary of Board

DOUGLAS P. DRUMMEY

May 13, 2020

Hamilton Associates, P.C.
20 Pearl Street
Council Bluffs, IA 51502

This representation letter is provided in connection with your audit[s] of the financial statements of Council Bluffs City Water Works (the Water Works), which comprise the statements of net position as of December 31, 2019 and 2018, the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements, for the purpose of expressing an opinion on whether the financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

We confirm, to the best of our knowledge and belief, that as of May 13, 2020:

Financial Statements

1. We have fulfilled our responsibilities, as set out in the terms of the audit arrangement letter dated February 24, 2020, for the preparation and fair presentation of the financial statements referred to above in accordance with U.S. GAAP.
2. We acknowledge our responsibility for 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.
3. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.
4. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable and reflect our judgment based on our knowledge and experience about past and current events, and our assumptions about conditions we expect to exist and courses of action we expect to take.
5. Related-party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP.
6. All events subsequent to the date of the financial statements, and for which U.S. GAAP requires adjustment or disclosure, have been adjusted or disclosed.
7. The effects of all known actual or possible litigation and claims have been accounted for and disclosed in accordance with U.S. GAAP.
8. We have informed you of all uncorrected misstatements.

As of and for the year ended December 31, 2019, we believe that the effects of the uncorrected misstatements aggregated by you and summarized below are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

<i>Description</i>	<i>EFFECT - INCREASE (DECREASE)</i>				
	<i>Assets</i>	<i>Liabilities</i>	<i>Net Assets</i>	<i>Revenue</i>	<i>Expense</i>
Current Year Misstatements					
Credit balances in accounts receivable	\$ 98,538	\$ 98,538	\$ -	\$ -	\$ -
Change in Net Asset Effect			\$ -	\$ -	\$ -
Financial Position Effect	\$ 98,538	\$ 98,538	\$ -		

Information Provided

9. We have provided you with:
 - a. Access to all information of which we are aware that is relevant to the preparation and fair presentation of the financial statements such as records, documentation and other matters;
 - b. Additional information that you have requested from us for the purpose of the audit;
 - c. Unrestricted access to persons within the Company from whom you determined it necessary to obtain audit evidence; and
 - d. Minutes of the meetings of stockholders, directors and committees of directors, or summaries of actions of recent meetings for which minutes have not yet been prepared.
10. All transactions have been recorded in the accounting records and are reflected in the financial statements.
11. We have disclosed to you the results of our assessment of risk that the financial statements may be materially misstated as a result of fraud.
12. We have no knowledge of allegations of fraud or suspected fraud affecting Water Works' financial statements involving:
 - a. Management.
 - b. Employees who have significant roles in internal control.
 - c. Others where the fraud could have a material effect on the financial statements.
13. We have no knowledge of any allegations of fraud or suspected fraud affecting the Company's financial statements received in communications from employees, former employees, analysts, regulators, short sellers or others.
14. We have no knowledge of noncompliance or suspected noncompliance with laws and regulations whose effects should be considered when preparing financial statements.

15. We are not aware of any pending or threatened litigation and claims whose effects should be considered when preparing the financial statements.
16. We have disclosed to you the identity of the Water Works' related parties and all the related-party relationships and transactions of which we are aware.
17. We are aware of no significant deficiencies, including material weaknesses, in the design or operation of internal controls that could adversely affect Water Works' ability to record, process, summarize and report financial data.
18. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
19. During the course of your audit, you may have accumulated records containing data that should be reflected in our books and records. All such data have been so reflected. Accordingly, copies of such records in your possession are no longer needed by us.

Required Supplementary Information

20. With respect to the Required Supplementary Information related to the net pension liability presented as required by the Governmental Accounting Standards Board to supplement the basic financial statements:
 - a. We acknowledge our responsibility for the presentation of such required supplementary information.
 - b. We believe such required supplementary information is measured and presented in accordance with guidelines prescribed by U.S. GAAP.
 - c. The methods of measurement or presentation have not changed from those used in the prior period.

Compliance Considerations

In connection with your audit conducted in accordance with *Government Auditing Standards*, we confirm that management:

21. Is responsible for the preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework.
22. Is responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to the auditee.
23. Has identified and disclosed to the auditor all instances that have occurred, or are likely to have occurred, of fraud and noncompliance with provisions of laws and regulations that have a material effect on the financial statements or other financial data significant to the audit objectives, and any other instances that warrant the attention of those charged with governance.
24. Has identified and disclosed to the auditor all instances that have occurred, or are likely to have occurred, of noncompliance with provisions of contracts and grant agreements that have a material effect on the determination of financial statement amounts.
25. Has identified and disclosed to the auditor all instances that have occurred, or are likely to have occurred, of abuse that could be quantitatively or qualitatively material to the financial statements.

26. Is responsible for 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.
27. Acknowledges its responsibility for the design, implementation and maintenance of internal controls to prevent and detect fraud.
28. Has taken timely and appropriate steps to remedy fraud; noncompliance with provisions of laws, regulations, contracts and grant agreements; or abuse that the auditor reports.
29. Has a process to track the status of audit findings and recommendations.
30. Has identified for the auditor previous audits, attestation engagements and other studies related to the audit objectives and whether related recommendations have been implemented.
31. Has provided views on the auditor's reported findings, conclusions and recommendations, as well as management's planned corrective actions, for the report.
32. Acknowledges its responsibilities as it relates to non-audit services performed by the auditor, including a statement that it assumes all management responsibilities; that it oversees the services by designating an individual, preferably within senior management, who possesses suitable skill, knowledge or experience; that it evaluates the adequacy and results of the services performed; and that it accepts responsibility for the results of the services.

Council Bluffs City Water Works



Douglas Drummey, General Manager



Karen Wisniski, Administrative Manager