

COUNCIL BLUFFS CITY WATER WORKS
FINANCIAL STATEMENTS AND SCHEDULE
DECEMBER 31, 2004 and 2003
(With Independent Auditors' Report Thereon)

COUNCIL BLUFFS CITY WATER WORKS

OFFICIALS

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Martin L. Brooks	Chairperson	June 30, 2007
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Arthur W. Hill	Member	June 30, 2010

Water Works' Officials

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

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

We have audited the accompanying balance sheets of the Council Bluffs City Water Works, Council Bluffs, Iowa (Water Works) as of December 31, 2004 and 2003, and the related statements of revenues and expenses, fund equity and cash flows for the years then ended. These financial statements are the responsibility of the Water Works' management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America, Chapter 11 of the "Code of Iowa" and "Governmental Auditing Standards" issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Council Bluffs City Water Works as of December 31, 2004, and 2003 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.

As described in Note 9 to the financial statements, for the year ended December 31, 2004, the Council Bluffs City Water Works adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments; Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; Statement No. 41, Budgetary Comparison Schedule – Perspective Differences.

In accordance with "Government Auditing Standards", we have also issued a report dated February 22, 2005 on our consideration of the Water Works' internal control structure.

Management's Discussion and Analysis and budgetary comparison information are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Council Bluffs, Iowa
February 22, 2005

Council Bluffs Water Works Council Bluffs, Iowa

MANAGEMENT'S DISCUSSION AND ANALYSIS Calendar Year Ending December 31, 2004 (Audited)

Council Bluffs Water Works provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the calendar year ending December 31, 2004. We encourage readers to consider this information in conjunction with our financial statements, which follow.

FINANCIAL HIGHLIGHTS

- ◆ The Water Works' operating revenues increased 5.3%, or \$355,569, from calendar year 2003 to 2004.
- ◆ The Water Works' operating expenses were 3.6%, or \$216,572, more in calendar year 2004 than in calendar year 2003.
- ◆ The Water Works' net assets increased 4.5% or \$1,331,641, from December 31, 2003 to December 31, 2004.

USING THIS ANNUAL REPORT

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

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

Financial Statements consist of Balance Sheets, Statements of Revenues and Expenses, Statements of Fund Equity, and Statements of Cash Flows. These provide information about the activities of the Council Bluffs Water Works as a whole and present an overall view of the Water Works finances.

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

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

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

FINANCIAL ANALYSIS

Statement of Net Assets

The statement of net assets presents the assets, liabilities, and net assets 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 statement of net assets includes year-end information concerning current assets and liabilities, and net assets (assets less liabilities). Readers of the financial statements are able to determine the Water Works financial position by analyzing the increases and decreases in net assets. 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 assets 83.3% 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 assets 1.8% includes resources that are subject to restrictions. The remaining net assets 14.9% are the unrestricted net assets that can be used to meet the Water Works' obligations as they come due.

Net Assets		
December 31, 2004		
	<u>2004</u>	<u>2003</u>
Current Assets	\$5,596,693	\$5,099,583
Restricted Assets	4,552,186	1,598,306
Capital Assets	<u>28,200,373</u>	<u>27,000,056</u>
Total Assets	<u>\$38,349,252</u>	<u>\$33,697,945</u>
Current Liabilities (payable from current assets)	\$1,314,671	\$1,130,056
Current Liabilities (payable from restricted assets)	3,977,151	602,100
Revenue bonds payable	<u>2,085,000</u>	<u>2,345,000</u>
Total Liabilities	<u>\$7,396,822</u>	<u>\$4,077,156</u>
Net Assets:		
Invested in capital assets, net of related debt	\$25,790,373	\$24,350,056
Restricted	555,035	996,206
Unrestricted	<u>4,607,022</u>	<u>4,274,527</u>
Total Net asset	<u>\$30,952,430</u>	<u>\$29,620,789</u>

Statement of Revenues, Expenses and Changes in Net Assets

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

A summary of revenues, expenses and changes in net assets for the year ending December 31, 2004 is presented below:

<u>Changes in Net Assets</u>		
	<u>2004</u>	<u>2003</u>
Operating revenues:		
Metered water sales	\$ 6,673,246	\$ 6,343,463
Rental	57,528	15,550
Other	<u>315,302</u>	<u>331,494</u>
Total operating revenues	<u>\$ 7,046,076</u>	<u>\$ 6,690,507</u>
Operating expenses:		
Facilities and maintenance	\$ 650,656	\$ 637,322
Purification	806,917	767,879
Transmission and distribution	619,630	636,224
Consumer accounting and meter division	671,702	643,458
Administration and general	1,431,590	1,369,443
Pension and social security	233,600	232,078
Depreciation	<u>1,851,716</u>	<u>1,762,835</u>
Total operating expenses	<u>\$ 6,265,811</u>	<u>\$ 6,049,239</u>
Non-operating revenues (expenses):		
Interest on investments	\$ 109,800	\$ 71,401
Interest expense	(197,478)	(179,495)
Loss on disposal of equipment	<u>(59,599)</u>	<u>(17,175)</u>
Non-operating revenues, net	<u>\$ (147,277)</u>	<u>\$ (125,269)</u>
Excess of revenues over expenses	<u>\$ 632,988</u>	<u>\$ 515,999</u>

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

In calendar year 2004, operating revenues increased by \$355,569 or 5.3%, primarily a result of a rate increase on water.

Statement of Cash Flows

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

CAPITAL ASSETS

At December 31, 2004, the Water Works had approximately \$52,052,049 invested in capital assets, net of accumulated depreciation of approximately \$23,891,586. Depreciation expense totaled \$1,846,727 and amortization expense totaled \$4,989 for calendar year 2004. More detailed information about the Water Works' capital assets are presented in Note 4 to the financial statements.

LONG-TERM DEBT

At December 31, 2004, the Water Works had approximately \$4,430,000 debt outstanding. During the year ended December 31, 2004, the Water Works issued \$2,085,000 in tax-exempt Water Revenue Refunding Bonds Series 2004, bearing interest at rates ranging from 1.5% to 2.6% due in 2010. The bonds were issued to crossover refund on December 1, 2005, \$2,020,000 of the outstanding Series 1995 Bonds, maturing December 1, 2006 through 2010, originally dated April 1, 1995.

ECONOMIC FACTORS

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

- ◆ Vulnerability and security improvement of our system will be an ongoing process.
- ◆ Facilities at the Water Works require constant maintenance and upkeep.
- ◆ Chemical cost, fuel, and health insurance continue to put pressure on the Water Works resources.

CONTACTING THE COUNCIL BLUFFS WATER WORKS FINANCIAL MANAGEMENT

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

COUNCIL BLUFFS CITY WATER WORKS

BALANCE SHEETS
December 31, 2004 and 2003

ASSETS	2004	2003
CURRENT ASSETS		
Cash (Note 2)	\$ 2,330,736	\$ 1,957,865
Short-term investments (Note 2)	1,339,000	1,339,000
Inventory	602,131	602,374
Receivables:		
Consumer accounts, net of allowance for doubtful accounts of \$1,000 in 2004 and \$1,000 in 2003	869,179	786,622
Unbilled revenues	335,728	302,651
Accrued interest	8,426	5,941
	<hr/>	<hr/>
Total receivables	\$ 1,213,333	\$ 1,095,214
Prepaid insurance	111,493	105,130
Restricted assets (Note 3)	4,552,186	1,598,306
	<hr/>	<hr/>
Total current assets	\$ 10,148,879	\$ 6,697,889
Property, plant and equipment, net (Note 4)	28,160,463	27,000,056
Capitalized Costs, net (Note 5)	39,910	-
	<hr/>	<hr/>
	<u>\$ 38,349,252</u>	<u>\$ 33,697,945</u>
LIABILITIES AND FUND EQUITY		
LIABILITIES		
Current liabilities (payable from current assets):		
Accounts payable	\$ 359,161	\$ 238,441
Salaries payable	84,516	65,025
Accrued compensated absences	147,194	140,363
Accrued interest payable	14,351	12,105
Due to City of Council Bluffs	384,449	369,122
Current portion of revenue bonds payable (Note 6)	325,000	305,000
Total current liabilities (payable from current assets)	<hr/>	<hr/>
	\$ 1,314,671	\$ 1,130,056
Current liabilities (payable from restricted assets):		
Consumer deposits	\$ 427,075	\$ 410,278
Main extension escrow deposit	1,430,032	78,461
Accrued interest on consumer deposits	120,044	113,361
Revenue bonds payable from refunding bond proceeds (Note 6)	2,020,000	-
Total current liabilities (payable from restricted assets)	<hr/>	<hr/>
	\$ 3,997,151	\$ 602,100
Revenue bonds payable	\$ 2,085,000	\$ 2,345,000
	<hr/>	<hr/>
Total liabilities	\$ 7,396,822	\$ 4,077,156
FUND EQUITY		
Contributed capital:		
Other governments	\$ 1,793,736	\$ 1,841,073
Customers and developers	5,243,738	4,964,087
	<hr/>	<hr/>
Total contributed capital	\$ 7,037,474	\$ 6,805,160
Retained earnings	23,914,956	22,815,629
Total fund equity	<hr/>	<hr/>
	\$ 30,952,430	\$ 29,620,789
	<hr/>	<hr/>
	<u>\$ 38,349,252</u>	<u>\$ 33,697,945</u>

See Notes to Financial Statements.

COUNCIL BLUFFS CITY WATER WORKS
 STATEMENTS OF REVENUES AND EXPENSES
 Years Ended December 31, 2004 and 2003

	2004	2003
Operating revenues:		
Metered water sales	\$ 6,673,246	\$ 6,343,463
Rental	57,528	15,550
Other	<u>315,302</u>	<u>331,494</u>
Total operating revenues	<u>\$ 7,046,076</u>	<u>\$ 6,690,507</u>
Operating expenses:		
Facilities and maintenance	\$ 650,656	\$ 637,322
Purification	806,917	767,879
Transmission and distribution	619,630	636,224
Consumer accounting and meter division	671,702	643,458
Administration and general	1,431,590	1,369,443
Pension and social security	233,600	232,078
Depreciation	<u>1,851,716</u>	<u>1,762,835</u>
Total operating expenses	<u>\$ 6,265,811</u>	<u>\$ 6,049,239</u>
Operating income	<u>\$ 780,265</u>	<u>\$ 641,268</u>
Nonoperating revenues (expenses):		
Interest on investments	\$ 109,800	\$ 71,401
Interest expense	(197,478)	(179,495)
Loss on disposal of equipment	<u>(59,599)</u>	<u>(17,175)</u>
Nonoperating revenues, net	<u>\$ (147,277)</u>	<u>\$ (125,269)</u>
Excess of revenues over expenses	<u><u>\$ 632,988</u></u>	<u><u>\$ 515,999</u></u>

See Notes to Financial Statements.

COUNCIL BLUFFS CITY WATER WORKS

STATEMENTS OF FUND EQUITY
 Years Ended December 31, 2004 and 2003

	Contributed Capital			Retained Earnings	Total Fund Equity
	Other Governments	Customers and Developers	Total		
Balances at December 31, 2002	\$1,843,924	\$ 4,567,500	\$ 6,411,424	\$ 21,864,542	\$28,275,966
Excess of revenues over expenses				515,999	515,999
Contributions-in-aid of construction	120,446	708,378	828,824	-	828,824
Transfers – Depreciation of contributed property, plant and equipment	<u>(123,297)</u>	<u>(311,791)</u>	<u>(435,088)</u>	<u>435,088</u>	<u>-</u>
Balances at December 31, 2003	\$1,841,073	\$ 4,964,087	\$ 6,805,160	\$ 22,815,629	\$29,620,789
Excess of revenues over expenses				632,988	632,988
Contributions-in-aid of construction	76,084	622,569	698,653	-	698,653
Transfers – Depreciation of contributed property, plant and equipment	<u>(123,421)</u>	<u>(342,918)</u>	<u>(466,339)</u>	<u>466,339</u>	<u>-</u>
Balances at December 31, 2004	<u>\$1,793,736</u>	<u>\$ 5,243,738</u>	<u>\$ 7,037,474</u>	<u>\$ 23,914,956</u>	<u>\$30,952,430</u>

See Notes to Financial Statements.

COUNCIL BLUFFS CITY WATER WORKS

STATEMENTS OF CASH FLOWS

December 31, 2004 and 2003

	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers and users	\$ 6,557,612	\$ 6,410,292
Cash received from other revenues	372,830	347,044
Cash paid to suppliers for goods and services	(2,143,601)	(2,290,683)
Cash paid to employees and on their behalf	(2,112,775)	(1,946,834)
Payments to City for sewer services net of collections	15,327	(8,235)
Net cash provided by operating activities:	<u>\$ 2,689,393</u>	<u>\$ 2,511,584</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Principal payment of revenue bonds	\$ (305,000)	\$ (285,000)
Revenue bonds issued	2,085,000	-
Interest paid on revenue bonds	(174,306)	(160,792)
Interest paid on consumer deposits	(14,243)	(12,909)
Additions to property, plant, and equipment	(3,066,732)	(2,921,697)
Payment of bond issue costs	(44,899)	-
Main extension escrow deposits	1,351,571	(220,926)
Contributions-in-aid of construction	698,653	828,824
Net cash provided by capital and related financing activities	<u>\$ 530,044</u>	<u>\$ (2,772,500)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Net (purchases) sales of investments	\$ (2,039,350)	\$ 9,086
Interest received on investments	98,704	71,194
Net cash provided investing activities	<u>\$ (1,940,646)</u>	<u>\$ 80,280</u>
Net increase (decrease) in cash	\$ 1,278,791	\$ (180,636)
Cash at beginning of year	<u>2,892,804</u>	<u>3,073,440</u>
Cash at end of year	<u>\$ 4,171,595</u>	<u>\$ 2,892,804</u>
Reconciliation to balance sheets:		
Cash	\$ 2,330,736	\$ 1,957,865
Cash included in restricted assets	<u>1,840,859</u>	<u>934,939</u>
	<u>\$ 4,171,595</u>	<u>\$ 2,892,804</u>

See Notes to Financial Statements.

COUNCIL BLUFFS CITY WATER WORKS

NOTES TO FINANCIAL STATEMENTS Years Ended December 31, 2004 and 2003

Note 1. Summary of Significant Accounting Policies

Reporting Entity and Basis of Accounting

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

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

Revenues

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

Short-term Investments

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

Consumer Accounts Receivable

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

Valuation of Inventories

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

COUNCIL BLUFFS CITY WATER WORKS

NOTES TO FINANCIAL STATEMENTS
Years Ended December 31, 2004 and 2003

Note 1. Summary of Significant Accounting Policies – Continued

Property, Plant and Equipment

Property, plant and equipment is stated at cost. Depreciation is computed using the straight-line method based on estimated useful lives.

Maintenance and repair of property, plant and equipment are charged to operations and major improvements are capitalized. Upon retirement, sale or other disposition of property, plant and equipment, the cost and accumulated depreciation are eliminated from the accounts and gain or loss is included in operations.

Accrued Compensated Absences

Accrued compensated absences represent vacation time, which has been earned by employees in the current year to be used in subsequent years. Sick leave does not vest and, therefore, is not accrued.

Contributions-in-Aid of Construction and Contributed Capital

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

Cash and Cash Equivalents

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

Use of estimates

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

COUNCIL BLUFFS CITY WATER WORKS

NOTES TO FINANCIAL STATEMENTS
 Years Ended December 31, 2004 and 2003

Note 2. Cash and Short-term Investments

Listed below is a summary of the deposit and investment portfolios that comprise cash and investments on the December 31, 2004 balance sheet including restricted cash and cash equivalents and investments:

Deposits

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

1. Insured or collateralized with securities held by the Water Works or by its agent in the Water Works' name.
2. Collateralized with securities held by the pledging financial institution's trust department in the Water Works' name.
3. Uncollateralized.

At December 31, 2004, deposits consisted of the following:

Book Balance	Bank Balance	Category		
		1	2	3
<u>\$ 4,171,595</u>	<u>\$ 4,446,641</u>	<u>\$ 300,000</u>	<u>\$ - -</u>	<u>\$ 4,146,641</u>

Investments

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

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

Investments at December 31, 2004 consisted of the following:

	Category			Carrying amount	Market value
	1	2	3		
Investments	<u>\$ 300,000</u>	<u>\$ 2,032,850</u>	<u>\$ 1,705,500</u>	\$ 4,038,350	<u>\$ 4,038,350</u>
Deposits				<u>4,171,595</u>	
				\$ 8,209,945	
Restricted assets (excluding accrued interest)				<u>4,540,209</u>	
				<u>\$ 3,669,736</u>	

COUNCIL BLUFFS CITY WATER WORKS

NOTES TO FINANCIAL STATEMENTS
Years Ended December 31, 2004 and 2003

Note 3. Restricted Assets

Restricted assets represent money set aside for payment of bonds 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, 2004 and 2003 are as follows:

	2004	2003
Consumer deposit fund cash	\$ 307,623	\$ 297,418
Main Extension Deposit	895,433	--
Improvement fund cash	600,000	600,000
Sinking fund cash	37,803	37,522
Consumer deposit fund investments	210,000	210,000
Reserve fund investments	456,500	450,000
Bond Refunding Escrow	2,032,850	--
Accrued interest	<u>11,977</u>	<u>3,366</u>
	<u>\$ 4,552,186</u>	<u>\$ 1,598,306</u>

Note 4. Property, Plant and Equipment

Property, plant and equipment at December 31, 2004 and 2003 consists of the following:

Description	Useful life in years	2004	2003
Land	-	\$ 132,948	\$ 132,948
Buildings and structures	20-40	8,131,538	8,075,160
Water distribution system	20-40	33,487,319	31,578,944
Meters	25-40	914,627	928,243
Tools and equipment	3-20	5,353,616	5,186,490
Automobiles and trucks	5	1,152,242	1,138,341
Office equipment	15	140,623	140,623
Work in progress		<u>2,739,136</u>	<u>2,105,588</u>
		\$ 52,052,049	\$ 49,286,337
Less accumulated depreciation		<u>23,891,586</u>	<u>22,286,281</u>
		<u>\$ 28,160,463</u>	<u>\$ 27,000,056</u>

As of December 31, 2004 the Water Works had contractual commitments of approximately \$1,430,032 for various construction projects of which \$550,343 has been completed. Funding for these projects will be from the general fund.

COUNCIL BLUFFS CITY WATER WORKS

NOTES TO FINANCIAL STATEMENTS
Years Ended December 31, 2004 and 2003

Note 5. Capitalized Costs

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

		2004
Financing costs	21 months	\$ 44,899
Less accumulated Amortization		<u>4,989</u>
Capitalized costs, net		<u>\$ 39,910</u>

Note 6. Revenue Bonds

On April 1, 1995, the Water Works issued \$4,500,000 in tax-exempt Water Revenue Bonds Series 1995, bearing interest at rates ranging from 5.4% to 5.5% due in 2010. The bonds were issued to pay costs of construction of a 1.5 MGD Clearwater Well as well as various other capital projects. The bonds may be redeemed, in whole at any time, or in part on any interest payment date, in order of maturity on or after December 1, 1996.

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

The bond resolutions relating to the Series 1995 Revenue Bonds require the Water Works to provide net available revenue at an amount not less than 1.25 times the maximum annual debt service on the then outstanding bonds. For the year ended December 31, 2004 the ratio was 5.94.

The bond resolutions also provide for the maintenance of a revenue fund represented by a cash account into which all monies derived by the Water Works from revenue are to be deposited. These funds are transferred monthly, in amounts to meet specified requirements, to separate accounts for operations and maintenance, bond redemption and interest, bond reserves and capital projects. The Water Works was in compliance with all debt covenants for the years ended December 31, 2004 and 2003.

Principal and interest requirements to maturity on revenue bonds outstanding at December 31, 2004 are as follows:

Year ended December 31,	Principal	Interest	Total Requirements
2005	\$ 2,345,000	172,207	2,517,207
2006	390,000	43,570	433,570
2007	400,000	37,720	437,720
2008	415,000	30,520	445,520
2009	430,000	21,805	451,805
Thereafter	<u>450,000</u>	<u>11,700</u>	<u>461,700</u>
	<u>\$ 4,430,000</u>	<u>\$ 317,522</u>	<u>\$ 4,747,522</u>

COUNCIL BLUFFS CITY WATER WORKS

NOTES TO FINANCIAL STATEMENTS Years Ended December 31, 2004 and 2003

Note 7. Retirement Systems

Water Works' Pension

The Water Works sponsors a defined contribution pension plan covering substantially all employees after six months of continuous employment. Individual employee contributions, equal to five percent of their salary, may not exceed \$600 for each calendar year. The Water Works must contribute an amount not less than the aggregate amount contributed by employees. Total pension expense for the years ended December 31, 2004 and 2003 were \$1,150 and \$1,800 respectively. The Water Works' funding responsibility is limited to the contributions set forth above. During 1998, the Water Works adopted Government Accounting Standards Board's (GASB) Statement No. 25, "Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans". As of March 31, 2004, this plan was discontinued and all funds were distributed as of January 31, 2005. Employees had the options of buying into IPERS, rolling over into an IRA or receiving cash.

IPERS

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

All employees who did not participate in any other public retirement system in the State are eligible and must participate in IPERS. The pension plan provides retirement and death benefits, which are established by State statute. Generally, a member may retire at the age of 65 or any time after age 62 with 30 years or more of service or when age plus years of service equal or exceeds 88, and receive full benefits. However, regardless of meeting the Rule of 88 the member will not receive full benefits unless the member has at least 30 years of service. Members may also retire at the age of 55 or more at reduced benefits. Benefits vest after four years of service or after attaining the age of 55. Full benefits are equal to fifty-six percent of the average of the highest three years of covered wages times years of service divided by 30 for members retiring on or after July 1, 1992.

The plan is administered by the State of Iowa and the Water Works' responsibility is limited to payment of contributions. Contribution and benefit provisions are established by state law and may only be amended by the state legislature. During the year ended June 30, 2004, State statute requires contributions of 3.70 percent by the employee and 5.75 percent by the employer. Certain employers and employees in special risk occupations contribute at a slightly higher rate as required by statute. Contribution rates are applied on the first \$200,000 of compensation in calendar-years 2004 and 2003. The contribution paid by the Water Works totaled \$112,359 and \$108,499 for the years ended December 31, 2004 and 2003 respectively, and the contribution paid by employees totaled \$72,051 and \$69,817, respectively. The total payroll for employees covered by IPERS for the years ended December 31, 2004 and 2003 was \$1,947,311 and \$1,886,939 respectively, and the total Water Works' payroll was \$1,971,601 and \$2,012,827 respectively. The Water Works' employer and employee contributions during the years ended December 31, 2004 and 2003 represented less than one percent of total contributions of all participating entities.

IPERS prepares a separate report that includes financial statements and required supplementary information. The report can be obtained by writing IPERS, 600 East court, P. O. Box 9117, Des Moines, Iowa 50306. IPERS does not invest in obligations of the State of Iowa or its political subdivisions.

COUNCIL BLUFFS CITY WATER WORKS

NOTES TO FINANCIAL STATEMENTS
Years Ended December 31, 2004 and 2003

Note 8. Risk Management

The Water Works is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Water Works carries commercial insurance for all risks of loss, including errors and omissions, destruction of assets and natural disasters. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

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

Note 9. Accounting Change

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

COUNCIL BLUFFS CITY WATER WORKS

Comparison of Cash Basis – Actual with Cash Basis - Budget

Year ended December 31, 2004

Fund	<u>Cash basis – actual</u>		Cash basis - budget
	Home and Community Environment Program	Nonprogram	
Enterprise – general (revenues)	<u>\$ 7,032,603</u>	<u>\$ 4,545,564</u>	<u>\$ 6,895,900</u>
Enterprise – general (expenses)	<u>\$ 6,689,704</u>		<u>\$ 7,806,452</u>

Year ended December 31, 2003

Fund	<u>Cash basis – actual</u>		Cash basis - budget
	Home and Community Environment Program	Nonprogram	
Enterprise – general (revenues)	<u>\$ 6,733,174</u>	<u>\$ 4,761,126</u>	<u>\$ 6,426,500</u>
Enterprise – general (expenses)	<u>\$ 7,072,957</u>		<u>\$ 8,191,435</u>

See Independent Auditors' Report.

COUNCIL BLUFFS CITY WATER WORKS

BUDGETARY COMPARISON OF REVENUES, EXPENDITURES AND
 CHANGES IN BALANCES
 BUDGET AND ACTUAL (GAAP BASIS)
 REQUIRED SUPPLEMENTARY INFORMATION
 Year Ended December 31, 2004

	2004 Actual	2004 Budget	Budget Variance Favorable (Unfavorable)
Operating revenues:			
Metered water sales	\$ 6,673,246	\$ 6,492,000	\$ 181,246
Rental	57,528	34,700	22,828
Other	315,302	296,200	19,102
	<u>\$ 7,046,076</u>	<u>\$ 6,822,900</u>	<u>\$ 223,176</u>
Operating expenses:			
Facilities and maintenance	\$ 650,656	\$ 693,460	\$ 42,804
Purification	806,917	829,330	22,413
Transmission and distribution	619,630	740,900	121,270
Consumer accounting and meter division	671,702	705,300	33,598
Administration and general	1,431,590	1,622,620	191,030
Pension and social security	233,600	245,200	11,600
Total operating expenses	<u>\$ 4,414,095</u>	<u>\$ 4,836,810</u>	<u>\$ 422,715</u>
Operating income	<u>\$ 2,631,981</u>	<u>\$ 1,986,090</u>	<u>\$ 645,891</u>
Nonoperating revenues (expenses):			
Interest on investments	\$ 109,800	\$ 88,000	\$ 21,800
Interest expense	(197,478)	(165,875)	(31,603)
Loss on disposal of equipment	(59,599)	(15,000)	(44,599)
Nonoperating revenues, net	<u>\$ (147,277)</u>	<u>\$ (92,875)</u>	<u>\$ (54,402)</u>
Change in net assets before depreciation	\$ 2,484,704	<u>\$ 1,893,215</u>	<u>\$ 591,489</u>
Depreciation	(1,851,716)		
Contributions in aid of construction	698,653		
	<u>\$ 1,331,641</u>		
Total net assets beginning	<u>29,620,789</u>		
Total net assets ending	<u>\$ 30,952,430</u>		