

**Burlington Municipal Waterworks,
A Component Unit of the City of Burlington**

**Independent Auditor's Report
Management's Discussion and Analysis
Financial Statements and Supplemental Information
Independent Auditor's Reports on Compliance and Internal Control
Schedule of Findings**

June 30, 2005 and 2004

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**Burlington Municipal Waterworks,
A Component Unit of the City of Burlington
Board of Trustees
June 30, 2005**

<u>Trustee</u>	<u>Title</u>
Gary L. Brotherson	Chairman
Jon W. Hart	Trustee
Jack L. Wehrle	Trustee
Alan R. Borden	General Manager
Mary E. Hart	Office Manager

James Walker, CPA
James Egerton, CPA
Kimberly Hunsaker, CPA
Melodee Walker, CPA
Stephanie Hoschek, CPA
William Hesse, LPA



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Independent Auditor's Report

To the Officials of
Burlington Municipal Waterworks,
A Component Unit of the City of Burlington
Burlington, Iowa

We have audited the accompanying statements of net assets of the proprietary fund of the Burlington Municipal Waterworks, A Component Unit of the City of Burlington, as of June 30, 2005 and 2004, and the related statements of revenues, expenses, changes in fund net assets, changes in fund balances, and statements of cash flows of its proprietary fund for the years then ended. These financial statements are the responsibility of the Waterworks' management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards and provisions 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 Burlington Municipal Waterworks, at June 30, 2005 and 2004, and the changes in its net assets and cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 8, 2005 on our consideration of Burlington Municipal Waterworks' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of the audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis is not a required part of the basic financial statements but is 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.

Our audits were made for the purpose of forming an opinion on the financial statements taken as a whole. The supplemental information included on pages 19 - 20 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audits of the aforementioned financial statements and, in our opinion, is fairly stated in all material respects in relation to the aforementioned financial statements taken as a whole.

Walker Egerton & Hursaker PC

September 8, 2005

**Burlington Municipal Waterworks,
A Component Unit of the City of Burlington
Management's Discussion and Analysis**

The following Management Discussion and Analysis (MD&A) of the Burlington Municipal Waterworks' activities and financial performance provides the reader with an introduction and overview to the financial statements of the Burlington Municipal Waterworks for the fiscal year ended June 30, 2005. The information contained in this MD&A should be considered in conjunction with the Waterworks' basic financial statements.

Following this MD&A are the basic financial statements of the Waterworks together with the notes thereto which are essential to a full understanding of the data contained in the financial statements.

Financial Operations Highlights

As a result of this year's operations, assets exceeded liabilities by \$7.8 million (net assets) for the fiscal year reported. This compares to the previous year when assets exceeded liabilities by \$7.6 million. The net assets increased by \$176,388 or 2.3%.

Total net assets are comprised of the following:

- Unrestricted net assets of \$6,753,573 are comprised mainly of the Waterworks' investment in capital assets such as property, equipment and infrastructure. These capital assets, less accumulated depreciation, are shown at depreciated cost of \$5,984,278.
- Restricted net assets of \$1,027,165 represent resources that are subject to external restrictions such as grantors, laws, debt covenants or regulations.

During the year revenues increased to \$2.64 million or 2.82%, while expenses increased to \$2.63 million or 9.89%.

Non-operating revenues increased \$39,035 or 31.48% and are primarily attributable to capital contributions. Capital contributions increased to \$132,244 or 27.40% over the last year. This represents amounts received for water main extension fees.

Summary of Operations and Changes in Net Assets

	2005	2004
Net operating revenues	\$ 2,640,663	\$ 2,568,220
Net operating expenses	<u>2,627,301</u>	<u>2,390,725</u>
Net operating income	13,362	177,495
Non-operating income and expenses:		
Interest income	30,782	20,185
Capital contributions	<u>132,244</u>	<u>103,806</u>
Increase in Net Assets	<u>\$ 176,388</u>	<u>\$ 301,486</u>

Financial Position Summary

Net assets may serve over time as a useful indicator of the Waterworks' financial position. The Waterworks' net assets exceeded liabilities by \$7.8 million at June 30, 2005, a \$176,388 increase from June 30, 2004.

A condensed summary of the Waterworks' net assets at June 30, 2005 is shown below:

	2005	2004
Assets:		
Current and other assets	\$ 2,651,437	\$ 2,607,708
Capital assets	<u>5,984,278</u>	<u>5,875,432</u>
Total assets	<u>8,635,715</u>	<u>8,483,140</u>
Liabilities:		
Current liabilities	<u>854,977</u>	<u>878,790</u>
Total liabilities	<u>854,977</u>	<u>878,790</u>
Net Assets:		
Reserve funds	1,027,165	1,222,036
Unrestricted	<u>6,753,573</u>	<u>6,382,314</u>
Total liabilities and net assets	\$ <u>8,635,715</u>	\$ <u>8,483,140</u>

The largest portion of the Waterworks' net assets each year represents its investment in capital assets (e.g., main extensions, buildings, improvements, and equipment), less any related indebtedness outstanding used to acquire those capital assets.

Revenues

A summary of revenues for the year ended June 30, 2005, and the amount and percentage of change in relation to prior year amounts is as follows:

	2005 <u>Amount</u>	% of <u>Total</u>	Increase (Decrease) from Prior <u>Year</u>	% Increase (Decrease)
Operating:				
Unmetered water	\$ 1,367,031	48.76	\$ 75,191	5.82
Metered water	1,312,463	48.74	(7,728)	(0.59)
Other, net	<u>(38,831)</u>	<u>(1.39)</u>	<u>4,980</u>	<u>(11.37)</u>
Total Operating	<u>2,640,663</u>	<u>94.19</u>	<u>72,443</u>	<u>2.82</u>
Non-operating:				
Interest income	30,782	1.10	10,597	52.50
Capital contributions	<u>132,244</u>	<u>4.72</u>	<u>28,438</u>	<u>27.40</u>
Total Non-operating	<u>163,026</u>	<u>5.81</u>	<u>39,035</u>	<u>31.48</u>
Total Revenues	\$ <u>2,803,689</u>	<u>100.00</u>	\$ <u>111,478</u>	<u>4.14</u>

Expenses

A summary of expenses for the year ended June 30, 2005, and the amount and percentage change in relation to prior year amounts is as follows:

	2005 <u>Amount</u>	% of <u>Total</u>	Increase (Decrease) from Prior <u>Year</u>	% Increase (Decrease) <u>(Decrease)</u>
Operating:				
Power and pumping	\$ 881,878	33.56	\$ (8,207)	(0.92)
Purification	715,925	27.25	49,888	7.49
Distribution	748,531	28.49	196,968	35.71
General and administrative	383,811	14.61	60	0.02
Sewer reimbursement	<u>(102,844)</u>	<u>(3.91)</u>	<u>(2,133)</u>	<u>2.12</u>
Total Operating	<u>\$ 2,627,301</u>	<u>100.00</u>	<u>\$ 236,576</u>	<u>9.90</u>

The exceptionally large increase in distribution expense is attributable to a major break on a 30" water main in Flint Creek. Due to the size of the water main and location, private contractors were hired to install a valve necessary to isolate the leak, dewater the site and permanently repair the break. The cost, including materials, to return this water main to service was in excess of \$100,000.

Summary of Cash Flow Activities

The following shows a summary of the major sources and uses of cash and cash equivalents for the past year. Cash equivalents are considered to be cash-on-hand, bank deposits and highly liquid investments with an original maturity of three months or less.

	2005	2004
Cash flow from operating activities	\$ 262,357	\$ 297,394
Cash flow from investing activities	27,855	18,540
Cash flow used by capital and related financing activities	<u>(264,744)</u>	<u>(182,922)</u>
Net increase in cash and cash equivalents	25,468	133,012
Cash and cash equivalents, beginning of year	<u>2,100,017</u>	<u>1,967,005</u>
Cash and cash equivalents, end of year	<u>\$ 2,125,485</u>	<u>\$ 2,100,017</u>

Financial Statements

The Waterworks' financial statements are prepared on an accrual basis in accordance with U.S. generally accepted accounting principals promulgated by the Government Accounting Standards Board (GASB). The Waterworks is structured as a single enterprise fund with revenues recognized when earned, not received. Expenses are recognized when incurred, not when they are paid. Capital assets are capitalized and (except land) are depreciated over their useful lives. See the notes to the financial statements for a summary of the Waterworks' significant accounting policies.

Capital Acquisitions and Construction Activities

During the year ended June 30, 2005, the Waterworks expended \$396,988 on capital activities. The largest capital project for the year involved the rehabilitation of the water storage facility at 15th & Acres. This project included repairs to the tank, contained removal and disposal of the existing coatings, and application of new coatings to both the interior and exterior. Additionally, property adjacent to this tank site was purchased to allow for future expansion. Other capital activities included an upgrade of filtering controls (Phase 3) and the filter backwash metering system, replacement of the Treatment Plant boiler, the rehabilitation of Well #1 (part of the raw water supply), an engineering study on alternative methods of disinfection for the purpose of lowering trihalomethane levels, new office hardware and billing system, and numerous small equipment and material purchases. These projects were financed with reserves from the Depreciation and Improvements fund, which is a major portion of the restricted net assets. During this fiscal year, the Waterworks applied for a FEMA Pre-Disaster Mitigation Grant to be used for emergency power generation at critical facilities within the system. While the Grant application was not selected for funding, the Waterworks will continue to seek these and other grant funds for identified system improvement needs.

Request for Information

This financial report is designed to provide a general overview of the Waterworks' finances for all those interested. Questions concerning any of the information provided in this report or request for additional information should be addressed in writing to the General Manager, Burlington Municipal Waterworks, 500 North Third Street, Burlington, Iowa 52601.

Respectfully submitted,

Alan Borden
General Manager

**Burlington Municipal Waterworks,
A Component Unit of the City of Burlington
Statements of Net Assets - Proprietary Fund
June 30, 2005 and 2004**

	2005	2004
Assets		
Current assets:		
Cash	\$ 1,098,595	\$ 878,303
Accrued interest receivable	44,622	41,648
Accounts receivable, water main extension	165,606	165,606
Accounts receivable, metered water	193,659	180,222
Other receivables	11,065	11,231
Chemical inventory, at cost	22,325	18,962
Prepaid expenses	<u>88,400</u>	<u>89,700</u>
Total current assets	<u>1,624,272</u>	<u>1,385,672</u>
Restricted assets:		
Bond and interest reserve fund:		
Cash	243,373	239,893
Accrued interest receivable	110	129
Depreciation, extensions and improvements:		
Cash	783,517	981,821
Accrued interest receivable	<u>165</u>	<u>193</u>
	<u>1,027,165</u>	<u>1,222,036</u>
Utility Plant in service:		
Property and equipment at cost	15,396,319	14,973,459
Less accumulated depreciation	<u>(9,412,041)</u>	<u>(9,098,027)</u>
	<u>5,984,278</u>	<u>5,875,432</u>
Total assets	<u>\$ 8,635,715</u>	<u>\$ 8,483,140</u>
Liabilities		
Current liabilities:		
Accounts payable	\$ 123,579	\$ 48,660
Sales tax payable	99	106
Accrued water revenue bond interest payable	250	250
Salaries and wages payable	33,886	25,448
Compensated absences payable	72,388	51,857
IAAP deposit on main extension	362,717	392,120
Deferred revenue	109,302	103,499
Liability for lime removal	151,000	255,900
Meter deposits	<u>1,756</u>	<u>950</u>
Total current liabilities	<u>854,977</u>	<u>878,790</u>
Net assets		
Restricted:		
Reserve fund for water bond retirement	243,483	240,022
Reserve fund for depreciation, extension	783,682	982,014
Unrestricted	<u>6,753,573</u>	<u>6,382,314</u>
Total net assets	<u>7,780,738</u>	<u>7,604,350</u>
Total liabilities and net assets	<u>\$ 8,635,715</u>	<u>\$ 8,483,140</u>

See notes to financial statements.

**Burlington Municipal Waterworks,
A Component Unit of the City of Burlington
Statements of Revenues, Expenses and Changes in Fund Net Assets - Proprietary Fund
For the Years Ended June 30, 2005 and 2004**

	2005	2004
Operating revenues		
Unmetered water	\$ 1,367,031	\$ 1,291,840
Metered water	1,312,463	1,320,191
Extra water	1,933	4,407
Service charges	51,648	46,979
Miscellaneous	<u>49,581</u>	<u>39,288</u>
Total operating revenues	2,782,656	2,702,705
Less:		
Refunds	(19,120)	(14,851)
State sales tax	<u>(122,873)</u>	<u>(119,634)</u>
Net operating revenues	<u>2,640,663</u>	<u>2,568,220</u>
 Operating expenses		
Power and pumping	881,878	890,085
Purification	715,925	666,037
Distribution	748,531	551,563
General and administrative	<u>383,811</u>	<u>383,751</u>
	2,730,145	2,491,436
Less: Sewer collection reimbursement	<u>(102,844)</u>	<u>(100,711)</u>
Net operating expenses	<u>2,627,301</u>	<u>2,390,725</u>
 Net operating income	13,362	177,495
 Nonoperating income		
Interest income	30,782	20,185
 Capital contributions	<u>132,244</u>	<u>103,806</u>
Increase in net assets	176,388	301,486
Net assets, beginning	<u>7,604,350</u>	<u>7,302,864</u>
Net assets, ending	<u>\$ 7,780,738</u>	<u>\$ 7,604,350</u>

See notes to financial statements.

Burlington Municipal Waterworks
A Component Unit of the City of Burlington
Statements of Changes in Fund Balances - Proprietary Fund
For the Years Ended June 30, 2005 and 2004

	<u>Unrestricted</u>	<u>Water Revenue Bond Reserve</u>	<u>Depreciation, Extensions and Improvements</u>	<u>Total</u>
Balance, June 30, 2003	\$ 5,975,991	\$ 237,757	\$ 1,089,116	\$ 7,302,864
Net income	289,200	2,212	10,074	301,486
Changes in reserves	<u>117,123</u>	<u>53</u>	<u>(117,176)</u>	<u>-</u>
Balance, June 30, 2004	<u>\$ 6,382,314</u>	<u>\$ 240,022</u>	<u>\$ 982,014</u>	<u>\$ 7,604,350</u>
Balance, June 30, 2004	\$ 6,382,314	\$ 240,022	\$ 982,014	\$ 7,604,350
Net income	158,949	3,405	14,034	176,388
Changes in reserves	<u>212,310</u>	<u>56</u>	<u>(212,366)</u>	<u>-</u>
Balance, June 30, 2005	<u>\$ 6,753,573</u>	<u>\$ 243,483</u>	<u>\$ 783,682</u>	<u>\$ 7,780,738</u>

See notes to financial statements.

**Burlington Municipal Waterworks,
A Component Unit of the City of Burlington
Statements of Cash Flows - Proprietary Fund
For the Years Ended June 30, 2005 and 2004**

	2005	2004
Cash flows from operating activities		
Receipts from customers	\$ 2,500,443	\$ 2,444,016
Receipts from service charges and miscellaneous	102,980	90,632
Meter deposits received, net	806	350
Payments to suppliers	(1,377,248)	(1,304,586)
Payments to employees	<u>(964,624)</u>	<u>(933,018)</u>
Net cash provided by operating activities	<u>262,357</u>	<u>297,394</u>
 Cash flows from capital and related financing activities		
Purchase of capital assets	(396,988)	(286,728)
Capital contributions	<u>132,244</u>	<u>103,806</u>
Net cash used by capital and related financing activities	<u>(264,744)</u>	<u>(182,922)</u>
 Cash flows from investing activities		
Interest income	<u>27,855</u>	<u>18,540</u>
Net cash provided by investing activities	<u>27,855</u>	<u>18,540</u>
 Net increase in cash and cash equivalents	25,468	133,012
 Cash and cash equivalents, beginning of year	<u>2,100,017</u>	<u>1,967,005</u>
 Cash and cash equivalents, end of year	<u>\$ 2,125,485</u>	<u>\$ 2,100,017</u>
 Reconciliation of operating income to net cash used by operating activities		
Operating income	\$ 13,362	\$ 177,495
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	338,109	313,736
Changes in assets and liabilities:		
Receivables and prepaids	(15,334)	(20,397)
Accounts payable and accrued expenses	(79,583)	(166,657)
Deferred revenue	<u>5,803</u>	<u>(6,783)</u>
Net cash provided by operating activities	<u>\$ 262,357</u>	<u>\$ 297,394</u>
 Supplemental disclosure of noncash financing activities:		
Equipment purchases financed through accounts payable	<u>\$ 49,967</u>	<u>\$ -</u>

Cash consists of cash on hand and in checking accounts.

See notes to financial statements.

**Burlington Municipal Waterworks,
A Component Unit of the City of Burlington
Notes to Financial Statements
June 30, 2005**

Note 1. Summary of Significant Accounting Policies

The Burlington Municipal Waterworks was established in 1878 and currently provides water for the residential and commercial needs of locations within the City of Burlington, Iowa. Additionally, water is provided to the cities of West Burlington, Danville, Middletown (all Iowa), the Iowa Army Ammunition Plant at Middletown, Iowa, and the Rathbun Regional Water Association, Inc.

The governing body of the Waterworks is a Board of Trustees consisting of three members appointed by the City of Burlington.

Reporting Entity

For financial reporting purposes, the Waterworks has included all funds, organizations, account groups, agencies, boards, commissions and authorities. The Waterworks 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 Waterworks are such that exclusion would cause the Waterworks' 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 Entity 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 Entity.

Based on the above criteria, there are no agencies or entities which should be combined with the financial statements of the Waterworks. However, based on these criteria, the Waterworks is a component unit of the City of Burlington for financial reporting purposes. The City of Burlington has financial accountability for the Waterworks because it appoints a voting majority of the Waterworks' Board of Trustees and provides financial benefit to the Waterworks.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The financial statements of the Waterworks are prepared in accordance with U.S. generally accepted accounting principles. The Waterworks' reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. The proprietary fund financial statements apply Financial Accounting Standards Board pronouncements and Accounting Principles Board Opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails.

The accounts of the Waterworks are organized on the basis of funds or account groups, each of which is considered to be a separate accounting entity. The transactions of each fund or account group are summarized by providing a separate set of self-balancing accounts which include its assets, liabilities, fund equity, revenues and expenses.

**Burlington Municipal Waterworks,
A Component Unit of the City of Burlington
Notes to Financial Statements
June 30, 2005**

Note 1. Summary of Significant Accounting Policies (continued)

The accounts of the Burlington Municipal Waterworks are primarily organized as an enterprise fund, which is a proprietary fund type. Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that 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 that 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 proprietary funds are accounted for using the flow of economic resources measurement focus. The accounting objectives are a determination of net income, financial position and changes in cash flow. All assets and liabilities associated with a proprietary fund's activities are included on its statement of net assets. Operating income reported in the proprietary fund financial statements includes revenues and expenses related to the primary, continuing operations of the fund. Principal operating revenues for the proprietary fund are charges to customers for services or rent. Principal operating expenses are the costs of providing goods or services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the balance sheet:

Cash Equivalents - The Waterworks considers all short-term investments with an original maturity of three months or less to be cash equivalents. The Waterworks invested only in certificates of deposit during the year ended June 30, 2005.

Property and Equipment - Property and equipment is stated at cost.

Depreciation expense for the year ended June 30, 2005 is \$338,109. Depreciation of property and equipment is computed by the 150% declining balance method at rates based on the following estimated useful lives:

Land improvements	15-30 years
Buildings and improvements	10-33 years
Furniture and equipment	3-10 years
Distribution system	10-50 years

The cost of assets sold, retired, or otherwise disposed of and the related allowance for depreciation are eliminated from the accounts, and any resulting gain or loss is included in operations.

Expenditures for maintenance and repairs are charged against operations. Renewals and betterments that materially extend the life of an asset are capitalized.

**Burlington Municipal Waterworks,
A Component Unit of the City of Burlington
Notes to Financial Statements
June 30, 2005**

Note 1. Summary of Significant Accounting Policies (continued)

Changes in property and equipment consist of the following:

	<u>Beginning</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending</u>	<u>Estimated Useful Lives</u>
Land	\$ 120,481	\$ 31,500	-	\$ 151,981	--
Land improvements	715,580	-	-	715,580	15-30
Building and improvements	1,950,288	-	-	1,950,288	10-33
Filter equipment	280,240	14,067	-	294,307	15-40
Purification equipment	703,434	52,007	-	755,441	10-20
Power/pumping equipment	2,565,465	13,529	-	2,578,994	10-40
Distribution system	8,209,211	235,749	-	8,444,960	10-50
Furniture and fixtures	61,959	64,361	-	126,320	3-10
Vehicles	<u>366,801</u>	<u>35,742</u>	<u>24,095</u>	<u>378,448</u>	6-7
	<u>\$14,973,459</u>	<u>\$ 446,955</u>	<u>\$ 24,095</u>	<u>\$15,396,319</u>	

Deferred Revenue

The Waterworks has recorded a liability for deferred (billed in advance) unmetered water revenue.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Note 2. Pension and Retirement Benefits

The Waterworks contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306.

Plan members are required to contribute 3.70% of their annual salary and the Waterworks is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by State statute. The Waterworks' contribution to IPERS for the years ended June 30, 2005 and 2004 was \$313 and \$311 respectively, equal to the required contribution.

The Waterworks established a defined contribution pension plan on February 1, 1989. The plan requires the Waterworks to contribute five percent (5%) of each eligible employee's total pay on a monthly basis. The employee is required to contribute a matching amount. The Waterworks contributed \$46,200, \$45,400, and \$44,300, net of forfeitures, to the plan for the years ended June 30, 2005, 2004, and 2003, respectively. Employees must complete six months of service before being eligible. The plan is funded through separate investment contracts with an insurance company.

**Burlington Municipal Waterworks,
A Component Unit of the City of Burlington
Notes to Financial Statements
June 30, 2005**

Note 3. Deposits

The Waterworks' deposits at June 30, 2005 were entirely covered by Federal depository insurance or by the state sinking fund in accordance with Chapter 12C of the Code of Iowa. This Chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Waterworks is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Waterworks and the Treasurer of the State of Iowa; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

Note 4. Deferred Compensation

The Waterworks offers its employees a deferred compensation plan created in accordance with the Internal Revenue Code Section 457. The plan, available to all employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

The Waterworks deposits all amounts of compensation deferred under the plan to a third party fiduciary. The fair market value of the plan assets is \$74,700 and \$51,500 at June 30, 2005 and 2004, respectively.

Note 5. Related Organization

Based on criteria set by the Governmental Accounting Standards Board, the Burlington Municipal Waterworks is a component unit of the City of Burlington for financial reporting purposes. The City of Burlington has financial accountability for the Waterworks under these criteria because it appoints a voting majority of the Waterworks' Board of Trustees and provides financial benefits to the Waterworks.

The Waterworks provides billing service for sewer, storm water, and trash for the City of Burlington and collects fees for these services. Amounts for the current year included as sewer collection reimbursement on the Statement of Revenues, Expenses and Changes in Net Assets amounted to \$102,844. Amounts due from the City as of June 30, 2005 in connection with fees and refunds was \$11,065; due for water main extensions, including interest, was \$165,600.

**Burlington Municipal Waterworks,
A Component Unit of the City of Burlington
Notes to Financial Statements
June 30, 2005**

Note 6. Risk Management

The Waterworks 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. These risks are covered by the purchase of commercial liability insurance. Settled claims for these risks have not exceeded commercial insurance coverage for the past three years.

Note 7. Contract with Iowa Army Ammunition Plant

The Waterworks entered into a contract with the Department of the Army as of November 1, 1974, which provides that the Waterworks shall construct, own, and operate a water distribution system to service the premises of the Iowa Army Ammunition Plant (IAAP) near Burlington, Iowa. As consideration, the Waterworks received a connection fee of \$1,320,000 from the Department of the Army. The contract further provides that the Waterworks shall issue credits against the monthly bills of the IAAP; however, if monthly consumption by the IAAP is reduced at any time to \$4,225 per month or less, the credit will also be reduced to allow Waterworks to receive a minimum monthly payment of \$3,000. Credit will be issued until total credits of \$1,320,000 have been granted. The amount of credits remaining at June 30, 2005, was \$362,717.

Note 8. Liability for Lime Removal

The water treatment plant generates approximately 4,000 to 6,000 tons of lime per year, which is held primarily in two lagoons. The two lagoons were full, which placed a limitation on additional space for lime storage and necessitated the reduction in the number of tons held in the lagoons. The Department of Natural Resources had asked for a plan to reduce the amount of lime in the lagoons and on the premises.

The engineering firm that represents the Burlington Municipal Waterworks estimated that there were approximately 308,000 tons on the premises. Management estimated that if the amount of lime was reduced by approximately twenty-five percent (25%), the Waterworks could continue to operate without a problem with the Department of Natural Resources.

The accrual on June 30, 1999 was estimated based on the above facts and assuming a cost of \$10 per ton for removal of 75,000 tons, thus recording a liability as of June 30, 1999 in the amount of \$750,000.

During the year ended June 30, 2000, the Board approved a contract for removal of approximately 125,000 tons of wet lime over the six-year period ending December 15, 2004. The cost ranges from \$10.08 to \$10.91 per ton. The contract allows additional tonnage to be removed at the discretion of the Board at a cost of \$7.27 to \$7.87 per ton during the period.

**Burlington Municipal Waterworks,
A Component Unit of the City of Burlington
Notes to Financial Statements
June 30, 2005**

Note 8. Liability for Lime Removal (continued)

During the current year, the liability for lime removal was decreased as the amount removed was less than the estimated tonnage added to the lagoons.

Liability for lime removal, June 30, 2004	\$ 255,900
Decrease of liability	<u>(104,900)</u>
Balance accrued June 30, 2005	<u>\$ 151,000</u>

Note 9. Contract with Rathbun Regional Water Association, Inc.

The Waterworks entered into a contract dated July 29, 1992, to provide a water supply for Rathbun Regional Water Association, Inc. (Rathbun) serving users within a specified area. Rathbun has agreed to purchase a minimum of 350,000 gallons of water per day within one year from the first usage. The Waterworks has agreed to provide up to an average of 1,000,000 gallons per day. This water will be sold at a rate of one and one-half times the standard metered rate for industrial users for quantities up to 1,000,000 gallons per day, and a rate of two times this standard metered rate for usage in excess of 1,000,000 gallons per day. The initial term of this contract is forty years, with provisions for an additional twenty years.

Water usage began on December 3, 1993, and will increase as customers are gradually added to the system. This contract is expected to provide gross revenues in a range from \$110,000 to \$320,000 per year. In the year ended June 30, 2005, \$281,000 was recorded as revenue from this contract.

Note 10. Contract with the City of West Burlington, Iowa

On August 16, 1995, the Waterworks entered into an agreement with the City of West Burlington, Iowa. The contract provides for the sale of water to the City of West Burlington in a range from 290,000 gallons per day to 1,000,000 gallons per day, averaged over each monthly billing cycle. The charge for this water will be at a rate of one and one-half times the standard metered rate of industrial users for the first 1,000,000 gallons per day. The contract provides an initial term of twenty years, with four additional terms of five years each, unless cancelled by either party after the initial term expires. The Waterworks has estimated usage to be approximately 400,000 gallons per day, providing gross revenues of \$131,000 per year. Water usage began on January 1, 1996, and revenue of \$217,700 was recorded as revenue in the year ended June 30, 2005, from this contract.

**Burlington Municipal Waterworks,
A Component Unit of the City of Burlington
Comparison of Revenues and Expenses - Actual to Budget
Required Supplemental Information
Year Ended June 30, 2005**

	<u>Actual</u>	<u>Budget</u>	Variance: Favorable (Unfavorable)	Net as Percent of <u>Budget</u>
Operating revenues				
Water sales	\$ 2,558,554	\$ 2,555,375	\$ 3,179	100 %
Main extension & miscellaneous	<u>82,109</u>	<u>79,675</u>	<u>2,434</u>	103 %
Total operating revenues	<u>2,640,663</u>	<u>2,635,050</u>	<u>5,613</u>	
Operating expenses				
Power, pumping & purification	1,472,739	1,710,905	238,166	86 %
Distribution	594,579	536,325	(58,254)	111 %
General and administration	324,718	370,030	45,312	88 %
Sewer collection reimbursement	<u>(102,844)</u>	<u>(98,000)</u>	<u>4,844</u>	105 %
Operating expenses, before depreciation	<u>2,289,192</u>	<u>2,519,260</u>	<u>230,068</u>	
Net operating income	<u>351,471</u>	<u>115,790</u>		
Nonoperating income (expenses)				
Interest income	30,782	9,000		
Capital contributions	<u>132,244</u>	<u>-</u>		
Increase in net assets before depreciation	<u>514,497</u>	<u>124,790</u>		
Depreciation expense	<u>338,109</u>	<u>301,175</u>		
Increase (decrease) in net assets	<u>\$ 176,388</u>	<u>\$ (176,385)</u>		

Note to Budgetary Information

The Waterworks prepares a budget and submits it to the City Council. In accordance with the Code of Iowa, the City Council annually adopts a budget following required public notice and hearing on all funds.

See accompanying independent auditor's report.

**Burlington Municipal Waterworks,
A Component Unit of the City of Burlington
Supplementary Schedule of Expenses
Year Ended June 30, 2005**

	<u>Power and Pumping</u>	<u>Purification</u>	<u>Distribution</u>	<u>General and Administrative</u>	<u>Total 6/30/05</u>	<u>Total 6/30/04</u>
Salaries and wages	\$ 345,043	\$ 206,578	\$ 271,177	\$ 115,358	\$ 938,156	\$ 863,577
Group insurance	150,108	-	97,204	34,650	281,962	274,430
Retirement plan	17,563	10,099	15,416	5,630	48,708	46,057
Payroll taxes	<u>25,863</u>	<u>15,305</u>	<u>23,583</u>	<u>8,614</u>	<u>73,365</u>	<u>70,665</u>
Total salaries and related expenses	538,577	231,982	407,380	164,252	1,342,191	1,254,729
Power and fuel	216,126	-	4,799	4,799	225,724	224,727
Supplies and tools	3,260	9,695	3,251	3,281	19,487	20,262
Water main maintenance	-	-	129,586	-	129,586	7,776
Equipment repairs	1,947	5,580	24,342	-	31,869	30,575
Structure repairs	10,254	631	893	-	11,778	23,038
Lime removal	-	150,003	-	-	150,003	119,781
Ground supplies	865	-	653	1,251	2,769	14,574
Telephone and leased circuits	9,440	-	-	4,176	13,616	12,818
Professional fees	-	-	-	8,511	8,511	7,493
Dues and subscriptions	-	-	-	2,682	2,682	2,636
Uniforms/cleaning	2,282	-	2,475	-	4,757	4,621
Office supplies and expense	1,833	-	-	39,472	41,305	41,651
Insurance	-	-	-	76,487	76,487	80,409
Chemicals	-	266,943	-	-	266,943	265,941
Vehicle expense	8,573	-	15,627	-	24,200	12,061
Miscellaneous	<u>14,748</u>	<u>-</u>	<u>5,573</u>	<u>19,807</u>	<u>40,128</u>	<u>54,608</u>
Total expense before depreciation	807,905	664,834	594,579	324,718	2,392,036	2,177,700
Depreciation	<u>73,973</u>	<u>51,091</u>	<u>153,952</u>	<u>59,093</u>	<u>338,109</u>	<u>313,736</u>
Total operating expenses	<u>\$ 881,878</u>	<u>\$ 715,925</u>	<u>\$ 748,531</u>	<u>\$ 383,811</u>	<u>\$ 2,730,145</u>	<u>\$ 2,491,436</u>

See accompanying independent auditor's report.

**Burlington Municipal Waterworks,
A Component Unit of the City of Burlington
Cash Balance Composition
Year Ended June 30, 2005**

<u>Depository</u>	<u>Demand Deposits</u>	<u>Certificates</u>	<u>Total</u>
Farmers & Merchants Bank & Trust:			
Maintenance & operating	\$ 49,248	\$ -	\$ 49,248
Maintenance & operating	421,855	-	421,855
Depreciation & improvements	220,853	150,000	370,853
Revenue bond sinking fund	19,214	-	19,214
Revenue bond reserve	138,319	-	138,319
U.S. Bank, NA:			
Water revenue bond reserve	85,840	-	85,840
Depreciation & improvements	262,664	-	262,664
Maintenance & operating	38,208	100,000	138,208
Burlington Bank & Trust:			
Maintenance & operating	388,084	100,000	488,084
Depreciation & improvements	<u>-</u>	<u>150,000</u>	<u>150,000</u>
	\$ 1,624,285	\$ 500,000	2,124,285
Petty cash			<u>1,200</u>
			<u>\$ 2,125,485</u>

See accompanying independent auditor's report.

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Independent Auditor's Combined Report on Compliance and Internal Control Over Financial Reporting

To the Board of Trustees
Burlington Municipal Waterworks,
A Component Unit of the City of Burlington
Burlington, Iowa

We have audited the financial statements of Burlington Municipal Waterworks, a component unit of the City of Burlington, as of and for the years ended June 30, 2005 and 2004, and have issued our reports thereon dated September 8, 2005 and September 1, 2004. We conducted our audits in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Waterworks' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, non-compliance 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 non-compliance that are required to be reported under *Government Auditing Standards*.

Comments involving statutory and other legal matters about the Waterworks' operations for the year ended June 30, 2005 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Waterworks. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Waterworks' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Waterworks' ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying schedule of findings.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We noted no reportable conditions that we consider to be material weaknesses.

This report, a public record by law, is intended solely for the information and use of the Board, management, authority members and federal and state awarding agencies. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Burlington Municipal Waterworks during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Walker Egerton & Hunsaker PC

September 8, 2005

**Burlington Municipal Waterworks,
A Component Unit of the City of Burlington
Schedule of Findings
For the Year Ended June 30, 2005**

Part I: Summary of the Independent Auditor's Results

- (a) An unqualified opinion was issued on the financial statements.
- (b) One reportable condition disclosed during the audit of the financial statements is reported in the Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*. The reportable condition is not a material weakness.
- (c) The audit did not disclose any noncompliance which is material to the financial statements.

Part II: Findings Related to the Financial Statements

Reportable Conditions

05-A Segregation of Duties

Due to the size of office staff, there is a lack of segregation of duties normally considered necessary for adequate internal control. We consider this situation to be a weakness for which corrective action may not be practicable in the circumstances, but we are required, under our professional responsibilities, to call your attention to the situation.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, the Waterworks should review its operating procedures to obtain the maximum internal control possible under the circumstances.

Response - We will continue to review our operating procedures to obtain the maximum internal control possible under the circumstances.

Conclusion - Response accepted.

Part III: Findings and Questioned Costs for Federal Awards

Instances of Noncompliance

None

Part IV: Other Findings Related to Required Statutory Reporting

- 05-1 Official Depositories - A resolution naming official depositories has been adopted by the Waterworks. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2005.
- 05-2 Deposits and Investments - The Waterworks has adopted a written investment policy as required by Chapter 12B.10B of the Code of Iowa.
- 05-3 Travel Expense - No expenditures of Waterworks money for travel expenses of spouses of Waterworks members or employees were noted.
- 05-4 Board Minutes - No transactions were found that we believe should have been approved in the Waterworks minutes but were not.
- 05-5 Questionable Disbursements - No disbursements were found that did not meet the requirements of public purpose as defined in the Attorney General's opinion dated April 25, 1979.
- 05-6 Certified Budget - Disbursements during the year ended June 30, 2005 did not exceed budget amounts.
- 05-7 Business Transactions with Waterworks Officials and Employees - We noted no evidence of business transactions between the Waterworks and Waterworks' officials or employees which we believed to be in violation of statutory provisions.
- 05-8 Bond Coverage - Surety bond coverage of Waterworks officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.