

COUNCIL BLUFFS CITY WATER WORKS
FINANCIAL STATEMENTS AND SCHEDULE
DECEMBER 31, 2005 and 2004
(With Independent Auditors' Report Thereon)

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COUNCIL BLUFFS CITY WATER WORKS

OFFICIALS

Board of Trustees

Martin L. Brooks	Chairperson	June 30, 2007
Glen M. Mitchell	Member	June 30, 2006
Carl L. Heinrich	Member	June 30, 2009
Maureen R. Kruse	Member	June 30, 2010
Mark Genereux	Member	June 30, 2011

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, 2005 and 2004, 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, 2005, and 2004 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 March 2, 2006 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.

Hamilton Associates, P.C.

Council Bluffs, Iowa
March 2, 2006

Council Bluffs Water Works Council Bluffs, Iowa

MANAGEMENT'S DISCUSSION AND ANALYSIS Calendar Year Ending December 31, 2005 (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, 2005. We encourage readers to consider this information in conjunction with our financial statements, which follow.

FINANCIAL HIGHLIGHTS

- ◆ The Water Works' operating revenues increased 12.3%, or \$864,567, from calendar year 2004 to 2005.
- ◆ The Water Works' operating expenses increased by 3.0%, or \$187,928, more in calendar year 2004 to 2005.
- ◆ The Water Works' net assets increased 11.4% or \$3,539,637, from December 31, 2004 to December 31, 2005.

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 74.3% 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 8.8% includes resources that are subject to restrictions. The remaining net assets 16.9% are the unrestricted net assets that can be used to meet the Water Works' obligations as they come due.

<u>Net Assets</u>		
<u>December 31, 2005</u>		
	<u>2005</u>	<u>2004</u>
Current Assets	\$6,843,163	\$5,596,693
Restricted Assets	3,572,945	4,552,186
Capital Assets	<u>30,015,369</u>	<u>28,200,373</u>
Total Assets	<u>\$40,431,477</u>	<u>\$38,349,252</u>
Current Liabilities (payable from current assets)	\$1,613,929	\$1,314,671
Current Liabilities (payable from restricted assets)	705,431	3,997,151
Revenue bonds payable	<u>3,620,050</u>	<u>2,085,000</u>
Total Liabilities	<u>\$5,939,410</u>	<u>\$7,396,822</u>
Net Assets:		
Invested in capital assets, net of related debt	\$25,905,319	\$25,790,373
Restricted	2,867,514	555,035
Unrestricted	<u>5,719,234</u>	<u>4,607,022</u>
Total Net asset	<u>\$34,492,067</u>	<u>\$30,952,430</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 Works, both operating and non-operating, and the expenses incurred.

A summary of revenues, expenses and changes in net assets for the year ending December 31, 2005 is presented below:

<u>Changes in Net Assets</u>		
	<u>2005</u>	<u>2004</u>
Operating revenues:		
Metered water sales	\$ 7,483,872	\$ 6,673,246
Rental	53,590	57,528
Other	<u>373,181</u>	<u>315,302</u>
Total operating revenues	<u>\$ 7,910,643</u>	<u>\$ 7,046,076</u>
Operating expenses:		
Facilities and maintenance	\$ 706,230	\$ 650,656
Purification	824,497	806,917
Transmission and distribution	723,784	619,630
Consumer accounting and meter division	641,417	671,702
Administration and general	1,422,490	1,431,590
Pension and social security	231,295	233,600
Depreciation	<u>1,904,026</u>	<u>1,851,716</u>
Total operating expenses	<u>\$ 6,453,739</u>	<u>\$ 6,265,811</u>
Non-operating revenues (expenses):		
Interest on investments	\$ 208,860	\$ 109,800
Interest expense	(184,957)	(197,478)
Loss on disposal of equipment	<u>(73,419)</u>	<u>(59,599)</u>
Non-operating revenues, net	<u>\$ (49,516)</u>	<u>\$ (147,277)</u>
Excess of revenues over expenses	<u>\$1,407,388</u>	<u>\$ 632,988</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 2005, operating revenues increased by \$864,567 or 12.3%, primarily a result of a rate increase on water billing rates and increase water consumption by customers.

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, 2005, the Water Works had \$55,624,474 invested in capital assets, net of accumulated depreciation of \$25,705,079. Depreciation expense totaled \$1,897,374 and amortization expense totaled \$6,652 for calendar year 2005. More detailed information about the Water Works' capital assets are presented in Note 4 to the financial statements.

LONG-TERM DEBT

At December 31, 2005, the Water Works had \$4,110,050 debt outstanding. During the year ended December 31, 2005, the Water Works issued \$1,995,000 in tax-exempt Water Revenue Bonds Series 2005, bearing interest at rates ranging from 3.9% to 4.1% due in 2020. The Bond Series 2005 total proceeds were \$2,002,651. In addition, in 2006 the Water Works issued Water Revenue Bonds Series 2006 for \$3,005,000. A deposit of \$30,050 was received in 2005 for the 2006 bonds.

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

CONTACTING THE COUNCIL BLUFFS WATER WORKS FINANCIAL MANAGEMENT

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

COUNCIL BLUFFS CITY WATER WORKS

BALANCE SHEETS
December 31, 2005 and 2004

ASSETS	2005	2004
CURRENT ASSETS		
Cash (Note 2)	\$ 3,314,472	\$ 2,330,736
Short-term investments (Note 2)	1,539,000	1,339,000
Inventory	608,325	602,131
Receivables:		
Consumer accounts, net of allowance for doubtful accounts of \$1,000 in 2005 and \$1,000 in 2004	925,424	869,179
Unbilled revenues	329,793	335,728
Accrued interest	<u>15,527</u>	<u>8,426</u>
Total receivables	\$ 1,270,744	\$ 1,213,333
Prepaid insurance	110,622	111,493
Restricted assets (Note 3)	<u>3,572,945</u>	<u>4,552,186</u>
Total current assets	\$ 10,416,108	\$10,148,879
Property, plant and equipment, net (Note 4)	29,919,395	28,160,463
Capitalized Costs, net (Note 5)	<u>95,974</u>	<u>39,910</u>
	<u>\$ 40,431,477</u>	<u>\$38,349,252</u>
LIABILITIES AND FUND EQUITY		
LIABILITIES		
Current liabilities (payable from current assets):		
Accounts payable	\$ 512,115	\$ 359,161
Salaries payable	5,445	84,516
Accrued compensated absences	121,936	147,194
Accrued interest payable	5,556	14,351
Due to City of Council Bluffs	478,877	384,449
Current portion of revenue bonds payable (Note 6)	<u>490,000</u>	<u>325,000</u>
Total current liabilities (payable from current assets)	\$ 1,613,929	\$ 1,314,671
Current liabilities (payable from restricted assets):		
Consumer deposits	\$ 437,485	\$ 427,075
Main extension escrow deposit	141,710	1,430,032
Accrued interest on consumer deposits	126,236	120,044
Revenue bonds payable from refunding bond proceeds (Note 6)	<u>-</u>	<u>2,020,000</u>
Total current liabilities (payable from restricted assets)	\$ 705,431	\$ 3,997,151
Revenue bonds payable (Note 6)	<u>\$ 3,620,050</u>	<u>\$ 2,085,000</u>
Total liabilities	<u>\$ 5,939,410</u>	<u>\$ 7,396,822</u>
FUND EQUITY		
Contributed capital:		
Other governments	\$ 1,835,600	\$ 1,793,736
Customers and developers	<u>6,780,751</u>	<u>5,243,738</u>
Total contributed capital	\$ 8,616,351	\$ 7,037,474
Retained earnings	<u>25,875,716</u>	<u>23,914,956</u>
Total fund equity	<u>\$ 34,492,067</u>	<u>\$30,952,430</u>
	<u>\$ 40,431,477</u>	<u>\$38,349,252</u>

See Notes to Financial Statements.

COUNCIL BLUFFS CITY WATER WORKS
 STATEMENTS OF REVENUES AND EXPENSES
 Years Ended December 31, 2005 and 2004

	2005	2004
Operating revenues:		
Metered water sales	\$ 7,483,872	\$ 6,673,246
Rental	53,590	57,528
Other	<u>373,181</u>	<u>315,302</u>
Total operating revenues	<u>\$ 7,910,643</u>	<u>\$ 7,046,076</u>
Operating expenses:		
Facilities and maintenance	\$ 706,230	\$ 650,656
Purification	824,497	806,917
Transmission and distribution	723,784	619,630
Consumer accounting and meter division	641,417	671,702
Administration and general	1,422,490	1,431,590
Pension and social security	231,295	233,600
Depreciation	<u>1,904,026</u>	<u>1,851,716</u>
Total operating expenses	<u>\$ 6,453,739</u>	<u>\$ 6,265,811</u>
Operating income	<u>\$ 1,456,904</u>	<u>\$ 780,265</u>
Nonoperating revenues (expenses):		
Interest on investments	\$ 208,860	\$ 109,800
Interest expense	(184,957)	(197,478)
Loss on disposal of equipment	<u>(73,419)</u>	<u>(59,599)</u>
Nonoperating revenues, net	<u>\$ (49,516)</u>	<u>\$ (147,277)</u>
Excess of revenues over expenses	<u>\$ 1,407,388</u>	<u>\$ 632,988</u>

See Notes to Financial Statements.

COUNCIL BLUFFS CITY WATER WORKS

STATEMENTS OF FUND EQUITY
Years Ended December 31, 2005 and 2004

	Contributed Capital			Retained Earnings	Total Fund Equity
	Other Governments	Customers and Developers	Total		
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	\$1,793,736	\$ 5,243,738	\$ 7,037,474	\$ 23,914,956	\$30,952,430
Excess of revenues over expenses				1,407,388	1,407,388
Contributions-in-aid of construction	153,374	1,978,875	2,132,249	-	2,132,249
Transfers – Depreciation of contributed property, plant and equipment	<u>(111,510)</u>	<u>(441,862)</u>	<u>(553,372)</u>	<u>553,372</u>	<u>-</u>
Balances at December 31, 2005	<u>\$1,835,600</u>	<u>\$ 6,780,751</u>	<u>\$ 8,616,351</u>	<u>\$ 25,875,716</u>	<u>\$34,492,067</u>

See Notes to Financial Statements.

COUNCIL BLUFFS CITY WATER WORKS

STATEMENTS OF CASH FLOWS
Years Ended December 31, 2005 and 2004

	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers and users	\$ 7,433,562	\$ 6,557,612
Cash received from other revenues	426,771	372,830
Cash paid to suppliers for goods and services	(2,370,701)	(2,143,601)
Cash paid to employees and on their behalf	(2,120,535)	(2,112,775)
Payments to City for sewer services net of collections	94,428	15,327
Net cash provided by operating activities:	<u>\$ 3,463,525</u>	<u>\$ 2,689,393</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Principal payment of revenue bonds	\$ (2,345,000)	\$ (305,000)
Revenue bonds issued	1,995,000	2,085,000
Premium on bonds issued	7,651	-
Revenue bonds deposit	30,050	-
Interest paid on revenue bonds	(172,208)	(174,306)
Interest paid on consumer deposits	(15,353)	(14,243)
Additions to property, plant, and equipment	(3,734,488)	(3,066,732)
Payment of bond issue costs	(70,367)	(44,899)
Main extension escrow deposits	(1,288,322)	1,351,571
Contributions-in-aid of construction	2,132,249	698,653
Net cash provided by capital and related financing activities	<u>\$ (3,460,788)</u>	<u>\$ 530,044</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Net (purchases) sales of investments	\$ 1,832,850	\$ (2,039,350)
Interest received on investments	206,203	98,704
Net cash provided investing activities	<u>\$ 2,039,053</u>	<u>\$ (1,940,646)</u>
Net increase (decrease) in cash	\$ 2,041,790	\$ 1,278,791
Cash at beginning of year	<u>4,171,595</u>	<u>2,892,804</u>
Cash at end of year	<u><u>\$ 6,213,385</u></u>	<u><u>\$ 4,171,595</u></u>
Reconciliation to balance sheets:		
Cash	\$ 3,314,472	\$ 2,330,736
Cash included in restricted assets	<u>2,898,913</u>	<u>1,840,859</u>
	<u><u>\$ 6,213,385</u></u>	<u><u>\$ 4,171,595</u></u>

See Notes to Financial Statements.

COUNCIL BLUFFS CITY WATER WORKS

NOTES TO FINANCIAL STATEMENTS
Years Ended December 31, 2005 and 2004

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, 2005 and 2004

Note 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.

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, 2005 and 2004

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, 2005 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, 2005, deposits consisted of the following:

Book Balance	Bank Balance	Category		
		1	2	3
<u>\$ 6,213,385</u>	<u>\$ 6,563,131</u>	<u>\$ 100,000</u>	<u>\$ --</u>	<u>\$ 6,463,131</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, 2005 consisted of the following:

	Category			Carrying amount	Market value
	1	2	3		
Investments	<u>\$ 300,000</u>	<u>\$ --</u>	<u>\$ 1,905,500</u>	\$ 2,205,500	<u>\$ 2,205,500</u>
Deposits				<u>6,213,385</u>	
				\$ 8,418,885	
Restricted assets (excluding accrued interest)				<u>3,565,413</u>	
				<u>\$ 4,853,472</u>	

COUNCIL BLUFFS CITY WATER WORKS

NOTES TO FINANCIAL STATEMENTS
Years Ended December 31, 2005 and 2004

Note 3. Restricted Assets

Restricted assets represent money set aside for payment of bonds, proceeds from bond issues to be used for capital improvements, or contributions of cash by governments, customers, or developers for costs of construction. These contributions are reflected as restricted assets until expended. Details of the accounts comprising restricted assets as of December 31, 2005 and 2004 are as follows:

	2005	2004
Consumer deposit fund cash	\$ 317,104	\$ 307,623
Main Extension Deposit	--	895,433
Improvement fund cash	600,000	600,000
Sinking fund cash	36,131	37,803
Consumer deposit fund investments	210,000	210,000
Reserve fund investments	456,500	456,500
Bond Refunding Escrow	--	2,032,850
Project Fund Cash	1,945,678	--
Accrued interest	<u>7,532</u>	<u>11,977</u>
	<u>\$ 3,572,945</u>	<u>\$ 4,552,186</u>

Note 4. Property, Plant and Equipment

Property, plant and equipment at December 31, 2005 and 2004 consists of the following:

Description	Useful life in years	2005	2004
Land	-	\$ 132,948	\$ 132,948
Buildings and structures	20-40	9,060,707	8,131,538
Water distribution system	20-40	36,172,184	33,487,319
Meters	25-40	942,263	914,627
Tools and equipment	3-20	5,793,015	5,353,616
Automobiles and trucks	5	1,181,787	1,152,242
Office equipment	15	159,201	140,623
Work in progress		<u>2,182,369</u>	<u>2,739,136</u>
		\$ 55,624,474	\$ 52,052,049
Less accumulated depreciation		<u>25,705,079</u>	<u>23,891,586</u>
		<u>\$ 29,919,395</u>	<u>\$ 28,160,463</u>

As of December 31, 2005 the Water Works had contractual commitments of approximately \$141,710 for various construction projects of which \$57,793 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, 2005 and 2004

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:

		2005	2004
Water Revenue Refunding, Series 2004			
Financing costs	81 months	\$ 44,899	\$ 44,899
Less accumulated amortization		<u>(11,640)</u>	<u>(4,989)</u>
Capitalized costs, net		<u>\$ 33,259</u>	<u>\$ 39,910</u>
Water Revenue Bonds, Series 2005			
Financing costs	180 months	\$ 53,740	\$ --
Bond Premium		(7,651)	--
Less accumulated amortization		<u>--</u>	<u>--</u>
Capitalized costs, net		<u>\$ 46,089</u>	<u>\$ --</u>
Water Revenue Bonds, Series 2006	180 months	<u>\$ 16,626</u>	<u>\$ --</u>
Total capitalized costs, net		<u>\$ 95,974</u>	<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. These bonds were paid off in December 2005 with the proceeds from the 2004 Water Revenue Refunding Bonds.

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

On December 21, 2005, the Water Works issued \$1,995,000 in tax exempt Water Revenue Bonds Series 2005, bearing interest at rates ranging from 3.9% to 4.1% due in 2020. In January 2006, the Water Works issued \$3,005,000 in tax exempt Water Revenue Bonds Series 2006. The 2005 and 2006 Series bonds were issued to finance the following projects: a new booster pump station, new ground storage reservoir with a 2 to 3 million-gallon capacity, and new high service pump.

The bond resolutions relating to the Series 2004, 2005 and 2006 Revenue Bonds require the Water Works to provide net available revenue at an amount not less than 1.25 times the maximum annual debt service on the then outstanding bonds. For the year ended December 31, 2005 the ratio was 5.55.

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, 2005 and 2004.

COUNCIL BLUFFS CITY WATER WORKS

NOTES TO FINANCIAL STATEMENTS
 Years Ended December 31, 2005 and 2004

Note 6. Revenue Bonds (Continued)

Principal and interest requirements to maturity on revenue bonds outstanding at December 31, 2005 (not including the Series 2006) are as follows:

Year ended December 31,	Principal	Interest	Total Requirements
2006	\$ 490,000	\$ 118,228	\$ 608,228
2007	500,000	112,870	612,870
2008	520,000	101,770	621,770
2009	540,000	88,960	628,960
2010	565,000	74,565	639,565
Thereafter	<u>1,465,000</u>	<u>345,770</u>	<u>1,810,770</u>
	<u>\$ 4,080,000</u>	<u>\$ 842,163</u>	<u>\$ 4,922,163</u>

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. 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. Total pension expense for the years ended December 31, 2005 and 2004 were \$ 0 and \$1,150 respectively.

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.

COUNCIL BLUFFS CITY WATER WORKS

NOTES TO FINANCIAL STATEMENTS Years Ended December 31, 2005 and 2004

Note 7. Retirement Systems (Continued)

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, 2005, 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 2005 and 2004. The contribution paid by the Water Works totaled \$115,047 and \$112,359 for the years ended December 31, 2005 and 2004 respectively, and the contribution paid by employees totaled \$71,369 and \$72,051, respectively. The total payroll for employees covered by IPERS for the years ended December 31, 2005 and 2004 was \$1,928,838 and \$1,947,311 respectively, and the total Water Works' payroll was \$1,928,838 and \$1,971,601 respectively. The Water Works' employer and employee contributions during the years ended December 31, 2005 and 2004 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.

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, 2005

Fund	<u>Cash basis – actual</u>		Cash basis - budget
	Home and Community Environment Program	Nonprogram	
Enterprise – general (revenues)	<u>\$ 8,022,513</u>	<u>\$ 5,059,085</u>	<u>\$ 7,337,200</u>
Enterprise – general (expenses)	<u>\$ 7,187,117</u>		<u>\$ 8,106,906</u>

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>

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, 2005

	2005 Actual	2005 Budget	Budget Variance Favorable (Unfavorable)
Operating revenues:			
Metered water sales	\$ 7,483,872	\$ 6,941,500	\$ 542,372
Rental	53,590	34,500	19,090
Other	373,181	288,200	84,981
	<u>\$ 7,910,643</u>	<u>\$ 7,264,200</u>	<u>\$ 646,443</u>
Operating expenses:			
Facilities and maintenance	\$ 706,230	\$ 702,623	\$ (3,607)
Purification	824,497	862,730	38,233
Transmission and distribution	723,784	740,900	17,116
Consumer accounting and meter division	641,417	697,300	55,883
Administration and general	1,422,490	1,570,300	147,810
Pension and social security	231,295	277,500	46,205
Total operating expenses	<u>\$ 4,549,713</u>	<u>\$ 4,851,353</u>	<u>\$ 301,640</u>
Operating income	<u>\$ 3,360,930</u>	<u>\$ 2,412,847</u>	<u>\$ 948,083</u>
Nonoperating revenues (expenses):			
Interest on investments	\$ 208,860	\$ 88,000	\$ 120,860
Interest expense	(184,957)	(151,550)	(33,407)
Loss on disposal of equipment	(73,419)	(15,000)	(58,419)
Nonoperating revenues, net	<u>\$ (49,516)</u>	<u>\$ (78,550)</u>	<u>\$ 29,034</u>
Change in net assets before depreciation	\$ 3,311,414	<u>\$ 2,334,297</u>	<u>\$ 977,117</u>
Depreciation	(1,904,026)		
Contributions in aid of construction	2,132,249		
	<u>\$ 3,539,637</u>		
Total net assets beginning	<u>30,952,430</u>		
Total net assets ending	<u>\$ 34,492,067</u>		