

**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, 2006 and 2005

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**Burlington Municipal Waterworks,
A Component Unit of the City of Burlington
Board of Trustees
June 30, 2006**

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



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Independent Auditor's Report

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, 2006 and 2005, 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, 2006 and 2005, 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 August 25, 2006 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 20 - 22 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.

CPA Associates PC

August 25, 2006

**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, 2006. 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 \$7.9 million (net assets) for the fiscal year reported. This compares to the previous year when assets exceeded liabilities by \$7.8 million. The net assets increased by \$143,183 or 1.8%.

Total net assets are comprised of the following:

- Unrestricted net assets of \$7,012,540 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 \$6,016,050.
- Restricted net assets of \$911,381 represent resources that are subject to external restrictions such as grantors, laws, debt covenants or regulations.

During the year revenues increased to \$2.79 million or 5.76%, while expenses increased to \$2.7 million or 2.83%.

Non-operating revenues decreased \$111,014 or 68.10% and are primarily attributable to capital contributions made in the prior year for water main extension fees.

Summary of Operations and Changes in Net Assets

	2006	2005
Net operating revenues	\$ 2,792,709	\$ 2,640,663
Net operating expenses	<u>2,701,538</u>	<u>2,627,301</u>
Net operating income	91,171	13,362
Non-operating income and expenses:		
Interest income	52,012	30,782
Capital contributions	<u>-</u>	<u>132,244</u>
Increase in Net Assets	<u>\$ 143,183</u>	<u>\$ 176,388</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 \$7.9 million at June 30, 2006, a \$143,183 increase from June 30, 2005.

A condensed summary of the Waterworks' net assets at June 30, 2006 and June 30, 2005 is shown below:

	2006	2005
Assets:		
Current and other assets	\$ 2,826,166	\$ 2,651,437
Capital assets	<u>6,016,050</u>	<u>5,984,278</u>
Total assets	<u>8,842,216</u>	<u>8,635,715</u>
Liabilities:		
Current liabilities	<u>722,258</u>	<u>854,977</u>
Long-term debt	<u>196,037</u>	<u>-</u>
Total liabilities	<u>918,295</u>	<u>854,977</u>
Net Assets:		
Reserve funds	911,381	1,027,165
Unrestricted	<u>7,012,540</u>	<u>6,753,573</u>
Total liabilities and net assets	<u>\$ 8,842,216</u>	<u>\$ 8,635,715</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, 2006, and the amount and percentage of change in relation to prior year amounts is as follows:

	2006	% of	Increase (Decrease)	% Increase (Decrease)
	<u>Amount</u>	<u>Total</u>	<u>from Prior Year</u>	<u>(Decrease)</u>
Operating:				
Unmetered water	\$ 1,414,485	49.72	\$ 47,454	3.47
Metered water	1,412,156	49.63	99,693	7.60
Other, net	<u>(33,932)</u>	<u>(1.19)</u>	<u>4,899</u>	<u>(12.62)</u>
Total Operating	<u>2,792,709</u>	<u>98.17</u>	<u>152,046</u>	<u>5.76</u>
Non-operating:				
Interest income	52,012	1.83	21,230	68.97
Capital contributions	<u>-</u>	<u>-</u>	<u>(132,244)</u>	<u>(100.00)</u>
Total Non-operating	<u>52,012</u>	<u>1.83</u>	<u>(111,014)</u>	<u>(68.10)</u>
Total Revenues	<u>\$ 2,844,721</u>	<u>100.00</u>	<u>\$ 41,032</u>	<u>1.46</u>

Expenses

A summary of expenses for the year ended June 30, 2006, and the amount and percentage change in relation to prior year amounts is as follows:

	2006 <u>Amount</u>	% of <u>Total</u>	Increase (Decrease) from Prior <u>Year</u>	% Increase (Decrease)
Operating:				
Power and pumping	\$ 991,927	36.72	\$ 110,049	12.48
Purification	770,499	28.52	54,574	7.62
Distribution	592,804	21.94	(155,727)	(20.80)
General and administrative	430,680	15.94	46,869	12.21
Sewer reimbursement	<u>(84,372)</u>	<u>(3.12)</u>	<u>18,472</u>	17.96
Total Operating Expenses	<u>\$ 2,701,538</u>	<u>100.00</u>	<u>\$ 74,237</u>	2.83

The sizeable decrease in distribution expense is attributable to a major break on a 30" water main in Flint Creek the prior year. Private contractors were hired to install a valve necessary to isolate the leak, dewater the site and permanently repair the break at a cost 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 years ended June 30, 2006 and 2005. Cash equivalents are considered to be cash-on-hand, bank deposits and highly liquid investments with an original maturity of three months or less.

	2006	2005
Cash flow from operating activities	\$ 317,229	\$ 262,357
Cash flow from investing activities	45,605	27,855
Cash flow used by capital and related financing activities	<u>(201,374)</u>	<u>(264,744)</u>
Net increase in cash and cash equivalents	161,460	25,468
Cash and cash equivalents, beginning of year	<u>2,125,485</u>	<u>2,100,017</u>
Cash and cash equivalents, end of year	<u>\$ 2,286,945</u>	<u>\$ 2,125,485</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, 2006, the Waterworks expended \$397,411 on capital activities. The largest capital project for the year involved the planning and design phases for identified Drinking Water Infrastructure improvements to be constructed during the next fiscal year. These improvements consist of installation of over 7,600 ft. of water mains, construction of a 2.5 million gallon water storage tank, demolition of a 1.4 million gallon water storage tank and refurbishment of an existing pumping station. A change in the method of disinfection of the water was instituted during this fiscal year. This change from the use of chlorine as a secondary disinfectant to the use of chloramines for the purpose of lowering total trihalomethane levels, involved construction of a bulk ammonia storage room at the Treatment Plant along with purchase of necessary pumping, piping and testing equipment. Additional capital activities included replacement of the chemical unloading dock at the Treatment Plant, purchase and installation of weight scales for the chlorine cylinders, the purchase of a new dump truck, and numerous small equipment and material purchases. These projects and purchases were financed with reserves from the Depreciation and Improvements Fund, which compromises a major portion of the restricted net assets.

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, 2006 and 2005**

	2006	2005
Assets		
Current Assets:		
Cash	\$ 1,375,508	\$ 1,098,595
Accrued interest receivable	50,312	44,622
Accounts receivable, water main extension	165,606	165,606
Accounts receivable, metered water	188,973	193,659
Other receivables	12,592	11,065
Chemical inventory, at cost	31,429	22,325
Prepaid expenses	<u>89,375</u>	<u>88,400</u>
Total current assets	<u>1,913,795</u>	<u>1,624,272</u>
Restricted Assets:		
Bond and interest reserve fund:		
Cash	249,701	243,373
Accrued interest receivable	396	110
Depreciation, extensions and improvements:		
Cash	661,680	783,517
Accrued interest receivable	<u>594</u>	<u>165</u>
	<u>912,371</u>	<u>1,027,165</u>
Utility Plant in Service:		
Property and equipment at cost	15,795,282	15,396,319
Less accumulated depreciation	<u>(9,779,232)</u>	<u>(9,412,041)</u>
	<u>6,016,050</u>	<u>5,984,278</u>
Total assets	<u>\$ 8,842,216</u>	<u>\$ 8,635,715</u>
Liabilities		
Current Liabilities:		
Accounts payable	\$ 106,996	\$ 123,579
Sales tax payable	99	99
Accrued water revenue bond interest payable	250	250
Salaries and wages payable	-	33,886
Compensated absences payable	51,459	72,388
IAAP deposit on main extension	328,963	362,717
Deferred revenue	115,793	109,302
Liability for lime removal	116,442	151,000
Meter deposits	<u>2,256</u>	<u>1,756</u>
Total current liabilities	<u>722,258</u>	<u>854,977</u>
Long-Term Debt		
	<u>196,037</u>	<u>-</u>
Net Assets		
Restricted:		
Reserve fund for water bond retirement	249,701	243,483
Reserve fund for depreciation, extension	661,680	783,682
Unrestricted		
	<u>7,012,540</u>	<u>6,753,573</u>
Total net assets	<u>7,923,921</u>	<u>7,780,738</u>
Total liabilities and net assets	<u>\$ 8,842,216</u>	<u>\$ 8,635,715</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, 2006 and 2005**

	2006	2005
Operating Revenues		
Unmetered water	\$ 1,414,485	\$ 1,367,031
Metered water	1,412,156	1,312,463
Extra water	4,077	1,933
Service charges	56,539	51,648
Miscellaneous	<u>52,221</u>	<u>49,581</u>
Total operating revenues	2,939,478	2,782,656
Less:		
Refunds	(16,688)	(19,120)
State sales tax	<u>(130,081)</u>	<u>(122,873)</u>
Net operating revenues	<u>2,792,709</u>	<u>2,640,663</u>
Operating Expenses		
Power and pumping	991,927	881,878
Purification	770,499	715,925
Distribution	592,804	748,531
General and administrative	<u>430,680</u>	<u>383,811</u>
	2,785,910	2,730,145
Less: Sewer collection reimbursement	<u>(84,372)</u>	<u>(102,844)</u>
Net operating expenses	<u>2,701,538</u>	<u>2,627,301</u>
Net operating income	91,171	13,362
Nonoperating Income		
Interest income	52,012	30,782
Capital contributions	<u>-</u>	<u>132,244</u>
Increase in net assets	143,183	176,388
Net assets, beginning	<u>7,780,738</u>	<u>7,604,350</u>
Net assets, ending	<u>\$ 7,923,921</u>	<u>\$ 7,780,738</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, 2006 and 2005

	<u>Unrestricted</u>	<u>Water Revenue Bond Reserve</u>	<u>Depreciation, Extensions and Improvements</u>	<u>Total</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>
Balance, June 30, 2005	\$ 6,753,573	\$ 243,483	\$ 783,682	\$ 7,780,738
Net income	143,183	-	-	143,183
Changes in reserves	<u>115,784</u>	<u>6,218</u>	<u>(122,002)</u>	<u>-</u>
Balance, June 30, 2006	<u>\$ 7,012,540</u>	<u>\$ 249,701</u>	<u>\$ 661,680</u>	<u>\$ 7,923,921</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, 2006 and 2005**

	2006	2005
Cash Flows from Operating Activities		
Receipts from customers	\$ 2,656,640	\$ 2,500,443
Receipts from service charges and miscellaneous	112,512	102,980
Meter deposits received, net	500	806
Payments to suppliers	(1,445,141)	(1,377,248)
Payments to employees	<u>(1,007,282)</u>	<u>(964,624)</u>
Net cash provided by operating activities	<u>317,229</u>	<u>262,357</u>
 Cash Flows from Capital and Related Financing Activities		
Purchase of capital assets	(397,411)	(396,988)
Capital contributions	-	132,244
Principal borrowings on long-term debt	<u>196,037</u>	<u>-</u>
Net cash used by capital and related financing activities	<u>(201,374)</u>	<u>(264,744)</u>
 Cash Flows from Investing Activities		
Interest income	<u>45,605</u>	<u>27,855</u>
Net cash provided by investing activities	<u>45,605</u>	<u>27,855</u>
 Net increase in cash and cash equivalents	161,460	25,468
 Cash and cash equivalents, beginning of year	<u>2,125,485</u>	<u>2,100,017</u>
 Cash and cash equivalents, end of year	<u>\$ 2,286,889</u>	<u>\$ 2,125,485</u>
 Reconciliation of Operating Income to Net Cash Used by Operating Activities		
Operating income	\$ 91,171	\$ 13,362
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	367,191	338,109
Changes in assets and liabilities:		
Receivables and prepaids	(6,920)	(15,334)
Accounts payable and accrued expenses	(140,704)	(79,583)
Deferred revenue	<u>6,491</u>	<u>5,803</u>
Net cash provided by operating activities	<u>\$ 317,229</u>	<u>\$ 262,357</u>
 Supplemental Disclosure of Noncash Financing Activities:		
Equipment purchases financed through accounts payable	<u>\$ 51,523</u>	<u>\$ 49,967</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**

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**

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 years ended June 30, 2006 and June 30, 2005.

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

Depreciation expense for the years ended June 30, 2006 and 2005 is \$367,191 and \$338,109, respectively. 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**

Note 1. Summary of Significant Accounting Policies (continued)

Changes in property and equipment consist of the following:

	2005				Estimated
	<u>Beginning</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending</u>	<u>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
Vehicle	<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>	

	2006				Estimated
	<u>Beginning</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending</u>	<u>Useful Lives</u>
Land	\$ 151,981	\$ -	\$ -	\$ 151,981	--
Land improvements	715,580	-	-	715,580	15-30
Building and improvements	1,950,288	8,600	-	1,958,888	10-33
Filter equipment	294,307	-	-	294,307	15-40
Purification equipment	755,441	60,716	-	816,157	10-20
Power/pumping equipment	2,578,994	92,898	-	2,671,892	10-40
Distribution system	8,444,960	160,595	-	8,605,555	10-50
Furniture and fixtures	126,320	23,515	-	149,835	3-10
Vehicles	<u>378,448</u>	<u>52,639</u>	<u>-</u>	<u>431,087</u>	6-7
	<u>\$15,396,319</u>	<u>\$ 398,963</u>	<u>\$ -</u>	<u>\$15,795,282</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.

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

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' contributions to IPERS for the years ended June 30, 2006 and 2005 was \$342 and \$313 respectively, which was equal to the required contributions.

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 \$48,600, \$46,200, and \$45,400, net of forfeitures, to the plan for the years ended June 30, 2006, 2005, and 2004, respectively. Employees must complete six months of service before being eligible. The plan is funded through separate investment contracts with an insurance company.

Note 3. Deposits

The Waterworks' deposits at June 30, 2006 and 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 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.

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

Note 4. Deferred Compensation (continued)

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 \$86,703 and \$74,700 at June 30, 2006 and 2005, 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 years ended June 30, 2006 and 2005 included as sewer collection reimbursement on the Statement of Revenues, Expenses and Changes in Net Assets amounted to \$84,372 and \$102,844, respectively. Amounts due from the City as of June 30, 2006 and 2005 in connection with fees and refunds was \$12,592 and \$11,065, respectively; due for water main extensions, including interest, was \$165,606 for the years ended June 30, 2006 and 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, 2006 and June 30, 2005, was \$328,963 and \$362,717, respectively.

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

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, 2005, the Board approved a contract for removal of approximately 34,000 tons of wet lime over the two-year period ending December 15, 2006. The cost for removal is \$10.17 per ton. The contract allows for two additional two-year extensions, with the price and quantity to be negotiated, for a total six-year contract.

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.

	2006	2005
Liability for lime removal, June 30,	\$ 151,000	\$ 255,900
Decrease of liability	<u>(34,560)</u>	<u>(104,900)</u>
Balance accrued June 30,	<u>\$ 116,440</u>	<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 years ended June 30, 2006 and 2005, \$291,420 and \$281,000 was recorded as revenue from this contract.

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

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 revenues of \$233,211 and \$217,700 was recorded as revenue in the years ended June 30, 2006 and 2005, from this contract.

Note 11. Contract with the City of Danville, Iowa

On November 3, 1983, the Waterworks entered into an agreement with the City of Danville, Iowa. The contract provides for the sale of water to the City of Danville not to exceed 140 gallons per minute. The charge for this water will be at a rate of one and one-half times the standard metered rate plus a wheeling charge as required by the Iowa Army Ammunition Plant. The contract provides an initial term of twenty years, with additional terms of five years each, unless cancelled by either party after the initial term expires. Water usage began on October 16, 1984, and revenues of \$48,020 and \$46,084 was recorded as revenue in the year ended June 30, 2006 and 2005, respectively, from this contract.

Note 12. Contract with the City of Middletown, Iowa

On March 13, 2001, the Waterworks entered into an agreement with the City of Middletown, Iowa. The contract provides for the sale of water to the City of Middletown in a range from 14,000 gallons per month to 110,000 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 plus a wheeling charge as required by the Iowa Army Ammunition Plant. The contract provides an initial term of fifteen years, with continuance of additional terms of five years each, unless cancelled by either party after the initial term expires. Water usage began in March, 2001, and revenues of \$26,470 and \$27,408 was recorded as revenue in the year ended June 30, 2006 and 2005, respectively, from this contract.

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

Note 13. Revolving Loan Fund

The City has entered into an agreement with the Iowa Finance Authority to establish a revolving loan fund for the planning and design of improvements to the water distribution system. The Iowa Finance Authority transfers funds to the Utility through approved disbursement request forms submitted to the Iowa Finance Authority. The amounts to be transferred shall not exceed \$205,000 for the year ended June 30, 2006. At June 30, 2006, \$196,037 was outstanding on this loan. Upon completion of the planning and design stage of the improvements to the water distribution system the Utility has requested and been approved for an Iowa Drinking Water State Revolving Loan fund for \$4,000,000 that the Utility will begin to draw in the year ending June 30, 2007.

**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, 2006**

	<u>Actual</u>	<u>Budget</u>	Variance: Favorable (Unfavorable)	Net as Percent of <u>Budget</u>
Operating revenues				
Water sales	\$ 2,700,637	\$ 2,659,946	\$ 40,691	102 %
Main extension & miscellaneous	<u>92,072</u>	<u>86,300</u>	<u>5,772</u>	107 %
Total operating revenues	<u>2,792,709</u>	<u>2,746,246</u>	<u>46,463</u>	
Operating expenses				
Power, pumping & purification	1,635,780	1,754,609	118,829	93 %
Distribution	437,898	557,184	119,286	79 %
General and administration	345,041	380,327	35,286	91 %
Sewer collection reimbursement	<u>(84,372)</u>	<u>(96,000)</u>	<u>(11,628)</u>	88 %
Operating expenses, before depreciation	<u>2,334,347</u>	<u>2,596,120</u>	<u>\$ 261,773</u>	
Net operating income	<u>458,362</u>	<u>150,126</u>		
Nonoperating income				
Interest income	<u>52,012</u>	<u>9,000</u>		
Increase in net assets before depreciation	<u>510,374</u>	<u>159,126</u>		
Depreciation expense	<u>367,191</u>	<u>313,736</u>		
Increase (decrease) in net assets	<u>\$ 143,183</u>	<u>\$ (154,610)</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, 2006**

	<u>Power and Pumping</u>	<u>Purification</u>	<u>Distribution</u>	<u>General and Administrative</u>	<u>Total 6/30/06</u>	<u>Total 6/30/05</u>
Salaries and wages	\$ 328,078	\$ 206,236	\$ 253,271	\$ 113,520	\$ 901,105	\$ 938,156
Group insurance	148,429	-	91,646	30,999	271,074	281,962
Retirement plan	27,905	2,285	15,255	5,152	50,597	48,708
Payroll taxes	<u>39,533</u>	<u>3,434</u>	<u>23,309</u>	<u>10,027</u>	<u>76,303</u>	<u>73,365</u>
Total salaries and related expenses	543,945	211,955	383,481	159,698	1,299,079	1,342,191
Power and fuel	309,089	-	6,519	6,045	321,653	225,724
Supplies and tools	3,107	9,589	4,158	4,802	21,656	19,487
Water main maintenance	-	-	4,298	-	4,298	129,586
Equipment repairs	4,219	3,600	14,480	-	22,299	31,869
Structure repairs	12,661	1,822	4,464	-	18,947	11,778
Lime removal	-	149,194	-	-	149,194	150,003
Ground supplies	1,094	-	759	1,948	3,801	2,769
Telephone and leased circuits	10,545	-	-	4,059	14,604	13,616
Professional fees	-	32	-	8,029	8,061	8,511
Dues and subscriptions	-	-	-	2,508	2,508	2,682
Uniforms/cleaning	3,617	-	2,256	-	5,873	4,757
Office supplies and expense	2,419	-	-	53,369	55,788	41,305
Insurance	-	-	-	78,383	78,383	76,487
Chemicals	-	340,964	-	-	340,964	266,943
Vehicle expense	8,140	-	13,011	-	21,151	24,200
Miscellaneous	<u>19,788</u>	<u>-</u>	<u>4,472</u>	<u>26,200</u>	<u>50,460</u>	<u>40,128</u>
Total expense before depreciation	918,624	717,156	437,898	345,041	2,418,719	2,392,036
Depreciation	<u>73,303</u>	<u>53,343</u>	<u>154,906</u>	<u>85,639</u>	<u>367,191</u>	<u>338,109</u>
Total operating expenses	<u>\$ 991,927</u>	<u>\$ 770,499</u>	<u>\$ 592,804</u>	<u>\$ 430,680</u>	<u>\$ 2,785,910</u>	<u>\$ 2,730,145</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, 2006**

<u>Depository</u>	<u>Demand Deposits</u>	<u>Certificates</u>	<u>Total</u>
Farmers & Merchants Bank & Trust:			
Maintenance & operating	\$ 608,009	\$ -	\$ 608,009
Depreciation & improvements	142,925	150,000	292,925
Revenue bond sinking fund	19,281	-	19,281
Revenue bond reserve	141,291	-	141,291
U.S. Bank, NA:			
Water revenue bond reserve	89,128	-	89,128
Depreciation & improvements	218,755	-	218,755
Maintenance & operating	38,505	100,000	138,505
Burlington Bank & Trust:			
Maintenance & operating	527,795	100,000	627,795
Depreciation & improvements	<u>-</u>	<u>150,000</u>	<u>150,000</u>
	\$ 1,785,689	\$ 500,000	2,285,689
Petty cash			<u>1,200</u>
			<u>\$ 2,286,889</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, 2006 and 2005, and have issued our reports thereon dated August 25, 2006 and September 08, 2005. 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, 2006 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.

CPA Associates PC

August 25, 2006

**Burlington Municipal Waterworks,
A Component Unit of the City of Burlington
Schedule of Findings
For the Year Ended June 30, 2006**

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

06-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

- 06-1 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, 2006.
- 06-2 Deposits and Investments - The Waterworks has adopted a written investment policy as required by Chapter 12B.10B of the Code of Iowa.
- 06-3 Travel Expense - No expenditures of Waterworks money for travel expenses of spouses of Waterworks members or employees were noted.
- 06-4 Board Minutes - No transactions were found that we believe should have been approved in the Waterworks minutes but were not.
- 06-5 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.
- 06-6 Certified Budget - Disbursements during the year ended June 30, 2006 did not exceed budget amounts.
- 06-7 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.
- 06-8 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.