COUNCIL BLUFFS CITY WATER WORKS

FINANCIAL STATEMENTS AND SCHEDULE

DECEMBER 31, 2006 and 2005

(With Independent Auditors' Report Thereon)

COUNCIL BLUFFS CITY WATER WORKS

OFFICIALS

Board of Trustees

Maureen R. Kruse	Chairperson	June 30, 2010
Martin L. Brooks	Member	June 30, 2007
Carl L. Heinrich	Member	June 30, 2009
Mark Genereux	Member	June 30, 2011
Glen M. Mitchell	Member	June 30, 2012

Water Works' Officials

Douglas P. Drummey	General Manager	Indefinite

CONTENTS

	Page
INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS	
MANAGEMENT'S DISCUSSION AND ANALYSIS	1-4
FINANCIAL STATEMENTS	
Balance sheets	5
Statements of revenues and expenses	6
Statements of fund equity	7
Statements of cash flows	8
Notes to financial statements	9-15
REQUIRED SUPPLEMENTARY INFORMATION	
Comparison of cash basis – actual with cash basis – budget	16
Budgetary comparison of revenues, expenditures, and changes in balances (GAAP Basis)	17

Hamilton Associates, P.C.
Certified Public Accountants

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, 2006 and 2005, 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, 2006 and 2005, 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.

In accordance with "Government Auditing Standards", we have also issued a report dated April 12, 2007 on our consideration of the Water Works' internal control over financial reporting. The purpose of that report is to describe the scope of our testing of internal control over financial reporting, and not to provide an opinion on the internal control over financial reporting. That report is an integral part of an audit performed in accordance with "Government Auditing Standards" and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 1 through 4 and 16 through 17 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
April 12, 2007

Council Bluffs Water Works
Council Bluffs, Iowa

MANAGEMENT'S DISCUSSION AND ANALYSIS
Calendar Year Ending December 31, 2006 (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, 2006. We encourage readers to consider this information in conjunction with our financial statements, which follow.

FINANCIAL HIGHLIGHTS

- The Water Works' operating revenues increased 2.6%, or $204,250, from calendar year 2005 to 2006.
- The Water Works' operating expenses increased by 9.1%, or $587,624, more in calendar year 2005 to 2006.
- The Water Works' net assets increased 6.5% or $2,241,629, from December 31, 2005 to December 31, 2006.

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 70.7% 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 13.0% includes resources that are subject to restrictions. The remaining net assets 16.3% are the unrestricted net assets that can be used to meet the Water Works' obligations as they come due.

Net Assets
December 31, 2006 and 2005

	2006	2005
Current Assets	$ 9,665,328	$ 6,843,163
Restricted Assets	3,522,615	3,572,945
Capital Assets	32,423,494	30,015,369
Total Assets	$45,611,437	$40,431,477
Current Liabilities (payable from current assets)	$ 1,823,858	$ 1,613,929
Current Liabilities (payable from restricted assets)	1,253,883	705,431
Revenue bonds payable	5,800,000	3,620,050
Total Liabilities	$ 8,877,741	$ 5,939,410
Net Assets:		
Invested in capital assets, net of related debt	$25,973,494	$25,905,319
Restricted	2,268,732	2,867,514
Unrestricted	8,491,470	5,719,234
Total Net asset	$36,733,696	$34,492,067

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, 2006 and 2005 is presented below:

Changes in Net Assets		
	2006	2005
Operating revenues:		
Metered water sales	$ 7,481,138	$ 7,483,872
Rental	69,279	53,590
Other	564,476	373,181
Total operating revenues	$ 8,114,893	$ 7,910,643
Operating expenses:		
Facilities and maintenance	$ 736,122	$ 706,230
Purification	929,379	824,497
Transmission and distribution	810,303	723,784
Consumer accounting and meter division	663,896	641,417
Administration and general	1,492,270	1,422,490
Pension and social security	232,447	231,295
Depreciation and amortization	2,176,946	1,904,026
Total operating expenses	$ 7,041,363	$ 6,453,739
Non-operating revenues (expenses):		
Interest on investments	$ 551,775	$ 208,860
Interest expense	(260,335)	(184,957)
Loss on disposal of equipment	(332)	(73,419)
Non-operating revenues, net	$ 291,108	$ (49,516)
Excess of revenues over expenses	$ 1,364,638	$ 1,407,388

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 2006, operating revenues increased by $204,250 or 2.6%, primarily a result of increase rates on capital facility fees and service charges.

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, 2006, the Water Works had $59,965,991 invested in capital assets, net of accumulated depreciation of $27,659,460. Depreciation expense totaled $2,163,934 for calendar year 2006. More detailed information about the Water Works' capital assets are presented in Note 4 to the financial statements.

LONG-TERM DEBT

At December 31, 2006, the Water Works had $6,450,000 debt outstanding. During the year ended December 31, 2006, the Water Works issued $3,005,000 in tax-exempt Water Revenue Bonds Series 2006, bearing interest at rates ranging from 3.5% to 4.375% due in 2020.

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, electricity, maintenance of mains and services, and health insurance continue to put pressure on the Water Works resources.
- Continued growth in the community requires the Water Works to invest in new infrastructures to meet the growing demands of the community.

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, 2006 and 2005

ASSETS	2006	2005
CURRENT ASSETS		
Cash (Note 2)	$ 5,584,142	$ 3,314,472
Short-term investments (Note 2)	1,539,000	1,539,000
Inventory	672,735	608,325
Receivables:		
Consumer accounts, net of allowance for doubtful accounts of $1,000 in 2006 and $1,000 in 2005	1,364,578	925,424
Unbilled revenues	327,814	329,793
Accrued interest	67,079	15,527
Total receivables	$ 1,759,471	$ 1,270,744
Prepaid insurance	109,980	110,622
Restricted assets (Note 3)	3,522,615	3,572,945
Total current assets	$ 13,187,943	$ 10,416,108
Property, plant and equipment, net (Note 4)	32,306,531	29,919,395
Capitalized Costs, net (Note 5)	116,963	95,974
	$ 45,611,437	$ 40,431,477
LIABILITIES AND FUND EQUITY		
LIABILITIES		
Current liabilities (payable from current assets):		
Accounts payable	$ 460,795	$ 512,115
Salaries payable	5,872	5,445
Accrued compensated absences	139,682	121,936
Accrued interest payable	18,961	5,556
Due to City of Council Bluffs	548,548	478,877
Current portion of revenue bonds payable (Note 6)	650,000	490,000
Total current liabilities (payable from current assets)	$ 1,823,858	$ 1,613,929
Current liabilities (payable from restricted assets):		
Consumer deposits	$ 492,750	$ 437,485
Main extension escrow deposit	629,807	141,710
Accrued interest on consumer deposits	131,326	126,236
Total current liabilities (payable from restricted assets)	$ 1,253,883	$ 705,431
Revenue bonds payable (Note 6)	$ 5,800,000	$ 3,620,050
Total liabilities	$ 8,877,741	$ 5,939,410
FUND EQUITY		
Contributed capital:		
Other governments	$ 1,752,704	$ 1,835,600
Customers and developers	7,135,851	6,780,751
Total contributed capital	$ 8,888,555	$ 8,616,351
Retained earnings	27,845,141	25,875,716
Total fund equity	$ 36,733,696	$ 34,492,067
	$ 45,611,437	$ 40,431,477

See Notes to Financial Statements.

COUNCIL BLUFFS CITY WATER WORKS

STATEMENTS OF REVENUES AND EXPENSES
Years Ended December 31, 2006 and 2005

	2006	2005
Operating revenues:		
Metered water sales	$ 7,481,138	$ 7,483,872
Rental	69,279	53,590
Other	564,476	373,181
Total operating revenues	$ 8,114,893	$ 7,910,643
Operating expenses:		
Facilities and maintenance	$ 736,122	$ 706,230
Purification	929,379	824,497
Transmission and distribution	810,303	723,784
Consumer accounting and meter division	663,896	641,417
Administration and general	1,492,270	1,422,490
Pension and social security	232,447	231,295
Depreciation and amortization	2,176,946	1,904,026
Total operating expenses	$ 7,041,363	$ 6,453,739
Operating income	$ 1,073,530	$ 1,456,904
Nonoperating revenues (expenses):		
Interest on investments	$ 551,775	$ 208,860
Interest expense	(262,677)	(184,957)
Loss on disposal of equipment	(332)	(73,419)
Nonoperating revenues, net	$ 288,766	$ (49,516)
Excess of revenues over expenses	$ 1,362,296	$ 1,407,388

See Notes to Financial Statements.

COUNCIL BLUFFS CITY WATER WORKS

STATEMENTS OF FUND EQUITY
Years Ended December 31, 2006 and 2005

	Contributed Capital				
	Other Governments	Customers and Developers	Total	Retained Earnings	Total Fund Equity
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	(111,510)	(441,862)	(553,372)	553,372	-
Balances at December 31, 2005	$1,835,600	$ 6,780,751	$ 8,616,351	$25,875,716	$34,492,067
Excess of revenues over expenses				1,362,296	1,362,296
Contributions-in-aid of construction	40,426	838,907	879,333	-	879,333
Transfers – Depreciation of contributed property, plant and equipment	(123,322)	(483,807)	(607,129)	607,129	-
Balances at December 31, 2006	$1,752,704	$ 7,135,851	$ 8,888,555	$27,845,141	$36,733,696

See Notes to Financial Statements.

COUNCIL BLUFFS CITY WATER WORKS

STATEMENTS OF CASH FLOWS
Years Ended December 31, 2006 and 2005

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers and users	$ 7,043,963	$ 7,433,562
Cash received from other revenues	633,755	426,771
Cash paid to suppliers for goods and services	(2,770,739)	(2,370,701)
Cash paid to employees and on their behalf	(2,135,328)	(2,120,535)
Payments to City for sewer services net of collections	69,671	94,428
Net cash provided by operating activities:	$ 2,841,322	$ 3,463,525
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Principal payment of revenue bonds	$ (635,000)	$ (2,345,000)
Revenue bonds issued	3,005,000	1,995,000
Premium(discount) on bonds issued	(20,999)	7,651
Revenue bonds deposit	(30,050)	30,050
Interest paid on revenue bonds	(226,327)	(172,208)
Interest paid on consumer deposits	(17,855)	(15,353)
Additions to property, plant, and equipment	(4,564,404)	(3,734,488)
Payment of bond issue costs	-	(70,367)
Main extension escrow deposits	488,097	(1,288,322)
Contributions-in-aid of construction	879,333	2,132,249
Net cash provided by capital and related financing activities	$ (1,122,205)	$ (3,460,788)
CASH FLOWS FROM INVESTING ACTIVITIES		
Net (purchases) sales of investments	$ (1,732,000)	$ 1,832,850
Interest received on investments	485,730	206,203
Net cash provided investing activities	$ (1,246,270)	$ 2,039,053
Net increase (decrease) in cash	$ 472,847	$ 2,041,790
Cash at beginning of year	6,213,385	4,171,595
Cash at end of year	$ 6,686,232	$ 6,213,385
Reconciliation to balance sheets:		
Cash	$ 5,584,142	$ 3,314,472
Cash included in restricted assets	1,102,090	2,898,913
	$ 6,686,232	$ 6,213,385

See Notes to Financial Statements.

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.

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.

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.

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.

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, 2006 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, 2006, deposits consisted of the following:

Book Balance	Bank Balance	Category 1	Category 2	Category 3
$ 6,686,232	$ 7,209,958	$ 100,000	$ - -	$ 7,109,958

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, 2006 consisted of the following:

	Category 1	Category 2	Category 3	Carrying amount	Market value
Investments	$ 200,000	$ - -	$ 3,737,500	$ 3,937,500	$ 3,937,500
Deposits				6,686,232	
				$10,623,732	
Restricted assets (excluding accrued interest)				3,500,590	
				$ 7,123,142	

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, 2006 and 2005 are as follows:

	2006	2005
Consumer deposit fund cash	$ 379,694	$ 317,104
Main Extension Deposit	407,363	- -
Improvement fund cash	- -	600,000
Sinking fund cash	73,128	36,131
Consumer deposit fund investments	210,000	210,000
Reserve fund investments	708,500	456,500
Project Fund Cash	241,905	1,945,678
Project Fund Investments	1,480,000	- -
Accrued interest	22,025	7,532
	$ 3,522,615	$ 3,572,945

Note 4. Property, Plant and Equipment

Property, plant and equipment at December 31, 2006 and 2005 consists of the following:

Description	Useful life in years	2006	2005
Land	-	$ 132,948	$ 132,948
Buildings and structures	20-40	9,297,422	9,060,707
Water distribution system	20-40	38,370,642	36,172,184
Meters	25-40	923,838	942,263
Tools and equipment	3-20	6,268,908	5,793,015
Automobiles and trucks	5	1,318,832	1,181,787
Office equipment	15	159,201	159,201
Work in progress		3,494,200	2,182,369
		$ 59,965,991	$ 55,624,474
Less accumulated depreciation		27,659,460	25,705,079
		$ 32,306,531	$ 29,919,395

As of December 31, 2006 the Water Works had contractual commitments of approximately $629,807 for various construction projects of which $511,429 has been completed. Funding for these projects will be from the general fund.

Note 5. Capitalized Costs

The costs incurred to obtain financing of the Revenue Bond Refunding, Series 2004 and the Water Revenue Bonds, Series 2005 and 2006 have been capitalized and are being amortized as described below:

		2006	2005
Water Revenue Refunding, Series 2004			
Financing costs	81 months	$ 44,899	$ 44,899
Less accumulated amortization		(18,292)	(11,640)
Capitalized costs, net		$ 26,607	$ 33,259
Water Revenue Bonds, Series 2005			
Financing costs	180 months	$ 53,740	$ 53,740
Bond Premium		(7,651)	(7,651)
Less accumulated amortization		(2,986)	
Capitalized costs, net		$ 43,103	$ 46,089
Water Revenue Bonds, Series 2006			
Financing costs	180 months	$ 16,626	$ 16,626
Bond Discount		34,001	
Less accumulated amortization		(3,374)	- -
Capitalized costs, net		$ 47,253	$ 16,626
Total capitalized costs, net		$ 116,963	$ 95,974

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, bearing interest at rates ranging from 3.5% to 4.375%. 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, 2006 and 2005 the ratio was 4.21 and 5.55 respectively.

Note 6. Revenue Bonds (Continued)

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, 2006 and 2005.

Principal and interest requirements to maturity on revenue bonds outstanding at December 31, 2006 are as follows:

Year ended December 31,	Principal	Interest	Total Requirements
2007	$ 650,000	$ 227,535	$ 877,535
2008	680,000	211,185	891,185
2009	705,000	192,775	897,775
2010	735,000	172,605	907,605
2011	300,000	149,620	449,620
Thereafter	3,380,000	740,840	4,120,840
	$ 6,450,000	$ 1,694,560	$ 8,144,560

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. There was no pension expense for the years ended December 31, 2006 and 2005.

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 equals 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.

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, 2006, 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 2006 and 2005. The contribution paid by the Water Works totaled $112,894 and $115,047 for the years ended December 31, 2006 and 2005 respectively, and the contribution paid by employees totaled $72,444 and $71,369, respectively. The total payroll for employees covered by IPERS for the years ended December 31, 2006 and 2005 was $1,957,937 and $1,928,838 respectively, and the total Water Works' payroll for 2006 and 2005 was $1,962,061 and $1,929,542 respectively. The Water Works' employer and employee contributions during the years ended December 31, 2006 and 2005 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.

COUNCIL BLUFFS CITY WATER WORKS

Comparison of Cash Basis – Actual with Cash Basis - Budget

Year ended December 31, 2006

Fund	Cash basis – actual: Home and Community Environment Program	Cash basis – actual: Nonprogram	Cash basis - budget
Enterprise – general (revenues)	$ 8,608,524	$ 5,137,754	$ 8,152,160
Enterprise – general (expenses)	$ 9,623,627		$ 10,423,110

Year ended December 31, 2005

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

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, 2006

	2006 Actual	2006 Budget	Budget Variance Favorable (Unfavorable)
Operating revenues:			
Metered water sales	$ 7,481,138	$ 7,349,500	$ 131,638
Rental	69,279	48,600	20,679
Other	564,476	484,500	79,976
Total operating revenues	$ 8,114,893	$ 7,882,600	$ 232,293
Operating expenses:			
Facilities and maintenance	$ 736,122	$ 755,310	$ 19,188
Purification	929,379	909,295	(20,084)
Transmission and distribution	810,303	774,400	(35,903)
Consumer accounting and meter division	663,896	716,300	52,404
Administration and general	1,492,270	1,598,370	106,100
Pension and social security	232,447	243,500	11,053
Total operating expenses	$ 4,864,417	$ 4,997,175	$ 132,758
Operating income	$ 3,250,476	$ 2,885,425	$ 365,051
Nonoperating revenues (expenses):			
Interest on investments	$ 551,775	$ 284,560	$ 267,215
Interest expense	(260,335)	(296,685)	36,350
Loss on disposal of equipment	(332)	(15,000)	14,668
Nonoperating revenues, net	$ 291,108	$ (27,125)	$ 318,233
Change in net assets before depreciation	$ 3,541,584	$ 2,858,300	$ 683,284
Depreciation	(2,176,946)		
Contributions in aid of construction	879,333		
	$ 2,243,971		
Total net assets beginning	34,492,067		
Total net assets ending	$ 36,736,038		