Hamilton Associates, P.C.
Certified Public Accountants

July 6, 2009

Auditor of State
State Capitol Building
1st Floor South, Room 111
1007 East Grand Avenue
Des Moines, IA 50319-0001

Dear Sirs:

In accordance with Chapter 11 of the code of the State of Iowa, we are submitting our audit report dated March 31, 2009, for the Council Bluffs City Water Works for the year ended December 31, 2008.

Yours very truly,
Hamilton Associates, P.C.

Paul E. Hamilton

COUNCIL BLUFFS CITY WATER WORKS

FINANCIAL STATEMENTS AND SCHEDULE

DECEMBER 31, 2008 and 2007

(With Independent Auditors' Report Thereon)

COUNCIL BLUFFS CITY WATER WORKS

OFFICIALS

Board of Trustees

Mark Genereux	Chairperson	June 30, 2011
Martin L. Brooks	Member	June 30, 2013
Carl L. Heinrich	Member	June 30, 2009
Maureen R. Kruse	Member	June 30, 2010
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	9-16
REQUIRED SUPPLEMENTARY INFORMATION	
Comparison of cash basis – actual with cash basis – budget	17
Budgetary comparison of revenues, expenditures, and changes in balances (GAAP Basis)	18

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, 2008 and 2007, 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, 2008 and 2007, 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 March 31, 2009 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 17 through 18 are not required parts of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Hamilton Associates, P.C.

Council Bluffs, Iowa
March 31, 2009

Council Bluffs Water Works
Council Bluffs, Iowa

MANAGEMENT'S DISCUSSION AND ANALYSIS
Calendar Year Ending December 31, 2008 (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, 2008. We encourage readers to consider this information in conjunction with our financial statements, which follow.

FINANCIAL HIGHLIGHTS

- The Water Works' operating revenues decreased 6.5%, or $545,776, from calendar year 2007 to 2008.
- The Water Works' operating expenses increased by 3.5%, or $262,319, from calendar year 2007 to 2008.
- The Water Works' net assets increased 2.7% or $1,106,697, from December 31, 2007 to December 31, 2008.

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 81.6% is the investment in capital assets (building and structures, furniture and fixtures, tools and equipment, distribution system, meters and automotive equipment), less the related debt. The restricted portion of the net assets 1.9% includes resources that are subject to restrictions. The remaining net assets 16.5% are the unrestricted net assets that can be used to meet the Water Works' obligations as they come due.

Net Assets
December 31, 2008 and 2007

	2008	2007
Current Assets	$ 8,758,918	$ 7,834,653
Restricted Assets	1,491,483	1,783,975
Capital Assets	40,669,175	36,831,721
Total Assets	$50,919,576	$46,450,349
Current Liabilities (payable from current assets)	$2,006,666	$1,853,188
Current Liabilities (payable from restricted assets)	761,780	906,986
Revenue bonds payable	8,474,258	5,120,000
Total Liabilities	$11,242,704	$ 7,880,174
Net Assets:		
Invested in capital assets, net of related debt	$31,489,917	$31,031,721
Restricted	729,703	876,989
Unrestricted	7,457,252	6,661,465
Total Net asset	$39,676,872	$38,570,175

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, 2008 and 2007 is presented below:

Changes in Net Assets

	2008	2007
Operating revenues:		
Metered water sales	$ 7,036,788	$ 7,297,777
Rental	81,115	77,533
Other	677,256	965,625
Total operating revenues	$ 7,795,159	$ 8,340,935
Operating expenses:		
Facilities and maintenance	$ 725,442	$ 716,509
Inventory adjustment	89,421	18,751
Purification	1,098,354	1,010,931
Transmission and distribution	1,101,710	791,993
Consumer accounting and meter division	376,617	718,074
Administration and general	1,532,792	1,534,113
Pension and social security	274,430	260,051
Depreciation	2,487,384	2,373,409
Total operating expenses	$ 7,686,150	$ 7,423,831
Non-operating revenues (expenses):		
Interest on investments	$ 217,041	$ 486,730
Interest expense	(254,884)	(251,762)
Loss on disposal of equipment	(23,125)	(78,352)
Non-operating revenues, net	$ (60,968)	$ 156,616
Excess of revenues over expenses	$ 48,041	$ 1,073,720

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 2008, operating revenues decreased by $545,776 or 6.5%, primarily due to a decrease in water usage for the year.

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, 2008, the Water Works had $71,462,981 invested in capital assets, net of accumulated depreciation of $30,988,306. Depreciation expense totaled $2,487,384 for calendar year 2008. More detailed information about the Water Works' capital assets is presented in Note 4 to the financial statements.

LONG-TERM DEBT

At December 31, 2008, the Water Works had $9,179,258 debt outstanding.

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, 2008 and 2007

ASSETS	2008	2007
CURRENT ASSETS		
Cash (Note 2)	$ 5,001,280	$ 4,025,861
Short-term investments (Note 2)	1,539,000	1,539,000
Inventory	711,643	674,314
Receivables:		
Consumer accounts, net of allowance for doubtful accounts of $1,000 in 2008 and $1,000 in 2007	1,057,853	1,145,739
Unbilled revenues	325,502	315,477
Accrued interest	10,372	18,346
Total receivables	$ 1,393,727	$ 1,479,562
Prepaid insurance	113,268	115,916
Restricted assets (Note 3)	1,491,483	1,783,975
Total current assets	$ 10,250,401	$ 9,618,628
Property, plant and equipment, net (Note 4)	40,474,675	36,727,249
Capitalized Costs, net (Note 5)	194,500	104,472
	$ 50,919,576	$46,450,349
LIABILITIES AND FUND EQUITY		
LIABILITIES		
Current liabilities (payable from current assets):		
Accounts payable	$ 483,677	$ 395,226
Salaries payable	28,950	65,121
Accrued compensated absences	162,534	150,385
Accrued interest payable	24,092	17,599
Due to City of Council Bluffs	602,413	544,855
Current portion of long term debt (Note 6)	705,000	680,000
Total current liabilities (payable from current assets)	$ 2,006,666	$ 1,853,186
Current liabilities (payable from restricted assets):		
Consumer deposits	$ 577,195	$ 538,965
Main extension escrow deposit	34,198	229,495
Accrued interest on consumer deposits	150,387	138,526
Total current liabilities (payable from restricted assets)	$ 761,780	$ 906,986
Long term debt (Note 6)	$ 8,474,258	$ 5,120,000
Total liabilities	$ 11,242,704	$ 7,880,174
FUND EQUITY		
Contributed capital:		
Other governments	$ 1,566,902	$ 1,629,382
Customers and developers	7,801,949	7,376,665
Total contributed capital	$ 9,368,851	$ 9,006,047
Retained earnings	30,308,021	29,564,128
Total fund equity	$ 39,676,872	$38,570,175
	$ 50,919,576	$46,450,349

See Notes to Financial Statements.

COUNCIL BLUFFS CITY WATER WORKS

STATEMENTS OF REVENUES AND EXPENSES
Years Ended December 31, 2008 and 2007

	2008	2007
Operating revenues:		
Metered water sales	$ 7,036,788	$ 7,297,777
Rental	81,115	77,533
Other	677,256	965,625
Total operating revenues	$ 7,795,159	$ 8,340,935
Operating expenses:		
Facilities and maintenance	$ 725,442	$ 716,509
Inventory adjustment	89,421	18,751
Purification	1,098,354	1,010,931
Distribution and meter	1,101,710	791,993
Customer accounting	376,617	718,074
Administration and general	1,532,792	1,534,113
Pension and social security	274,430	260,051
Depreciation and amortization	2,487,384	2,373,409
Total operating expenses	$ 7,686,150	$ 7,423,831
Operating income	$ 109,009	$ 917,104
Nonoperating revenues (expenses):		
Interest on investments	$ 217,041	$ 486,730
Interest expense	(254,884)	(251,762)
Loss on disposal of equipment	(23,125)	(78,352)
Nonoperating revenues, net	$ (60,968)	$ 156,616
Excess of revenues over expenses	$ 48,041	$ 1,073,720

See Notes to Financial Statements.

COUNCIL BLUFFS CITY WATER WORKS

STATEMENTS OF FUND EQUITY
Years Ended December 31, 2008 and 2007

	Contributed Capital				
	Other Governments	Customers and Developers	Total	Retained Earnings	Total Fund Equity
Balances at December 31, 2006	$1,752,704	$ 7,135,851	$ 8,888,555	$27,845,141	$36,733,696
Excess of revenues over expenses				1,073,720	1,073,720
Contributions-in-aid of construction	-	762,759	762,759	-	762,759
Transfers – Depreciation of contributed property, plant and equipment	(123,322)	(521,945)	(645,267)	645,267	-
Balances at December 31, 2007	$1,629,382	$ 7,376,665	$ 9,006,047	$29,564,128	$38,570,175
Excess of revenues over expenses				48,041	48,041
Contributions-in-aid of construction	64,044	994,612	1,058,656	-	1,058,656
Transfers – Depreciation of contributed property, plant and equipment	(126,524)	(569,328)	(695,852)	695,852	-
Balances at December 31, 2008	$1,566,902	$ 7,801,949	$ 9,368,851	$30,308,021	$39,676,872

See Notes to Financial Statements.

COUNCIL BLUFFS CITY WATER WORKS

STATEMENTS OF CASH FLOWS
Years Ended December 31, 2008 and 2007

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers and users	$ 7,114,649	$ 7,528,953
Cash received from other revenues	758,371	1,043,158
Cash paid to suppliers for goods and services	(2,711,138)	(2,773,393)
Cash paid to employees and on their behalf	(2,419,650)	(2,233,944)
(Payments) receipts for City sewer services net of collections	57,558	(3,693)
Net cash provided by operating activities:	$ 2,799,790	$ 3,561,081
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Principal payment of revenue bonds	$ (680,000)	$ (650,000)
Revenue bonds issued	4,059,258	-
Loan fees, net of bond amortization	(103,530)	-
Revenue bonds deposit	-	-
Interest paid on revenue bonds	(220,583)	(227,535)
Interest paid on consumer deposits	(15,947)	(18,390)
Additions to property, plant, and equipment	(6,244,434)	(6,859,987)
Main extension escrow deposits	(195,297)	(400,312)
Contributions-in-aid of construction	1,058,656	762,759
Net cash provided by capital and related financing activities	$ (2,341,877)	$ (7,393,465)
CASH FLOWS FROM INVESTING ACTIVITIES		
Net (purchases) sales of investments	$ -	$ 1,480,000
Interest received on investments	232,149	541,338
Net cash provided investing activities	$ 232,149	$ 2,021,338
Net increase (decrease) in cash	$ 690,062	$ (1,811,046)
Cash at beginning of year	4,875,186	6,686,232
Cash at end of year	$ 5,565,248	$ 4,875,186
Reconciliation to balance sheets:		
Cash	$ 5,001,280	$ 4,025,861
Cash included in restricted assets	563,968	849,325
	$ 5,565,248	$ 4,875,186

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, 2008 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 for all Water Works' deposits as required by state law.

3. Uncollateralized.

At December 31, 2008, deposits consisted of the following:

Book Balance	Bank Balance	Category 1	Category 2	Category 3
$ 5,565,248	$ 5,971,662	$ 500,000	$ 5,471,662	$ --

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, 2008 consisted of the following:

	Category 1	Category 2	Category 3	Carrying amount	Market value
Investments	$ --	$ --	$ 2,457,500	$ 2,457,500	$ 2,457,500
Deposits				5,565,248	
				$ 8,022,748	
Restricted assets (excluding accrued interest)				1,482,468	
				$ 6,540,280	

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, 2008 and 2007 are as follows:

	2008	2007
Consumer deposit fund cash	$ 479,005	$ 437,107
Sinking fund cash	84,963	74,265
Consumer deposit fund investments	210,000	210,000
Reserve fund investments	708,500	708,500
Project Fund Cash	- -	337,953
Accrued interest	9,015	16,150
	$ 1,491,483	$ 1,783,975

Note 4. Property, Plant and Equipment

Property, plant and equipment at December 31, 2008 and 2007 consists of the following:

Description	Useful life in years	2008	2007
Land	-	$ 378,608	$ 378,608
Buildings and structures	20-40	13,171,573	9,841,137
Water distribution system	20-40	43,970,279	40,319,126
Meters	25-40	957,220	938,841
Tools and equipment	3-20	5,855,720	5,545,702
Automobiles and trucks	5	1,345,830	1,329,663
Office equipment	15	104,985	104,985
Work in progress		5,678,766	6,885,841
		$ 71,462,981	$ 65,343,903
Less accumulated depreciation		(30,988,306)	(28,616,654)
		$ 40,474,675	$ 36,727,249

As of December 31, 2008 the Water Works had contractual commitments of approximately $7,306,578 for various construction projects of which $2,181,419 has been completed. Funding for $6,681,144 of these projects is payable from long term debt with the remainder payable from general operating funds.

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:

		2008	2007
Water Revenue Refunding, Series 2004			
Financing costs	81 months	$ 44,899	$ 44,899
Less accumulated amortization		(31,595)	(24,945)
Capitalized costs, net		$ 13,304	$ 19,954
Water Revenue Bonds, Series 2005			
Financing costs	180 months	$ 53,740	$ 53,740
Bond Premium		(7,651)	(7,651)
Less accumulated amortization		(7,500)	(5,449)
Capitalized costs, net		$ 38,589	$ 40,640
Water Revenue Bonds, Series 2006			
Financing costs	180 months	$ 16,626	$ 16,626
Bond Discount		34,001	34,001
Less accumulated amortization		(10,125)	(6,749)
Capitalized costs, net		$ 40,502	$ 43,878
State Revolving Funds			
Financing costs	240 months	$ 103,530	$ - -
Less accumulated amortization		(1,425)	- -
Capitalizes costs, net		$ 102,105	$ - -
Total capitalized costs, net		$ 194,500	$ 104,472

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.

Note 6. Revenue Bonds (Continued)

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 years ended December 31, 2008 and 2007 the ratio was 2.48 and 4.19 respectively.

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, 2008 and 2007.

In January 2008, the Water Works was pre-approved for a $29,846,077 construction loan to build a second water treatment facility. As of December 31, 2008, the Water Works executed a loan agreement for $10,353,000, bearing interest at 3.00% due in 2029. The Iowa Finance Authority also charges an annual service fee of 0.25%. As of December 31, 2008 the Water Works had drawn down $1,970,578. In 2009, the Water Works plans to execute loans on the remaining $19,493,077.

The Iowa Finance Authority has also issued an interim loan with balance of $2,088,680 at December 31, 2008. The loan is interest free and matures on January 17, 2011 at which time it will be rolled into the Water Revenue Capital Loan Note.

Principal and interest requirements to maturity on revenue bonds outstanding at December 31, 2008 are as follows:

Year ended December 31,	Principal	Interest	Total Requirements
2009	$ 705,000	$ 314,553	$ 1,019,553
2010	1,120,000	282,833	1,402,833
2011	697,000	247,938	944,938
2012	719,000	223,788	942,788
2013	746,000	198,883	944,883
Thereafter	5,192,258	641,504	5,833,762
	$ 9,179,258	$ 1,909,499	$ 11,088,757

Note 7. Retirement Systems

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.

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, 2009, State statute requires contributions of 4.10 percent by the employee and 6.35 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 $230,000 and $225,000 of compensation in calendar years 2008 and 2007 respectively. The contribution paid by the Water Works totaled $138,721 and $128,579 for the years ended December 31, 2008 and 2007 respectively, and the contribution paid by employees totaled $91,624 and $82,120, respectively. The total payroll for employees covered by IPERS for the years ended December 31, 2008 and 2007 was $2,288,074 and $2,164,599 respectively, and the total Water Works' payroll for 2008 and 2007 was $2,301,224 and $2,166,036 respectively. The Water Works' employer and employee contributions during the years ended December 31, 2008 and 2007 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.

As of July 2007, The Water Works participates in a partially self-funding benefit plan for its employees' health insurance. The plan is administered by a third-party which estimates The Water Works maximum annual exposure to be $249,600. The Water Works contributes funds monthly to a separate bank account to supplement the employee's deductible. The balance in this account as of December 31, 2008 was $ 6,089.

COUNCIL BLUFFS CITY WATER WORKS

Comparison of Cash Basis – Actual with Cash Basis - Budget

Year ended December 31, 2008

Fund	Cash basis – actual: Home and Community Environment Program	Cash basis – actual: Nonprogram	Cash basis - budget
Enterprise – general (revenues)	$ 7,996,563	$ 5,151,892	$ 8,898,400
Enterprise – general (expenses)	$ 10,828,567		$ 16,926,183

Year ended December 31, 2007

Fund	Cash basis – actual: Home and Community Environment Program	Cash basis – actual: Nonprogram	Cash basis - budget
Enterprise – general (revenues)	$ 8,824,150	$ 5,229,549	$ 8,618,900
Enterprise – general (expenses)	$ 12,381,326		$ 13,960,528

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, 2008

	2008 Actual	2008 Budget	Budget Variance Favorable (Unfavorable)
Operating revenues:			
Metered water sales	$ 7,036,788	$ 8,040,000	$ (1,003,212)
Rental	81,115	85,000	(3,885)
Other	677,256	503,400	173,856
Total operating revenues	$ 7,795,159	$ 8,628,400	$ (833,241)
Operating expenses:			
Facilities and maintenance	$ 725,442	$ 775,175	$ 49,733
Inventory adjustment	89,421	10,000	(79,421)
Purification	1,098,354	1,045,250	(53,104)
Distribution and meter	1,101,710	1,119,000	17,290
Customer accounting	376,617	454,025	77,408
Administration and general	1,532,792	1,661,500	128,708
Pension and social security	274,430	275,000	570
Total operating expenses	$ 5,198,766	$ 5,339,950	$ 141,184
Operating income	$ 2,596,393	$ 3,288,450	$ (692,057)
Nonoperating revenues (expenses):			
Interest on investments	$ 217,041	$ 285,000	$ (67,959)
Interest expense	(254,884)	(234,650)	(20,234)
Loss on disposal of equipment	(23,125)	(15,000)	(8,125)
Nonoperating revenues, net	$ (60,968)	$ 35,350	$ (96,318)
Change in net assets before depreciation	$ 2,535,425	$ 3,323,800	$ (788,375)
Depreciation	(2,487,384)		
Contributions in aid of construction	1,058,656		
	$ 1,106,697		
Total net assets beginning	38,570,175		
Total net assets ending	$ 39,676,872		

Hamilton Associates, P.C.
Certified Public Accountants

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

We have audited the financial statements of the Council Bluffs City Water Works, Council Bluffs, Iowa (Water Works) as of and for the year ended December 31, 2008, and have issued our report thereon dated March 31, 2009.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, Chapter 11 of the "Code of Iowa" and the "Government 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.

In planning and performing our audit of the financial statements of the Water Works as of and for the year ended December 31, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the Water Works' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A deficiency in design exists when a control necessary to meet the control objective is missing, or when an existing control is not properly designed so that even if the control operates as designed, the control objective is not always met. A deficiency in operation exists when a properly designed control does not operate as designed or when the person performing the control does not possess the necessary authority or qualifications to perform the control effectively.

A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected.

Our consideration of internal control was for the limited purpose described in the third paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

This communication is intended solely for the information and use of the Board of Trustees and management and is not intended to be and should not be used by anyone other than these specified parties.

Hamilton Associates P.C.

Council Bluffs, IA
March 31, 2009

Hamilton Associates, P.C.
Certified Public Accountants and Consultants
20 PEARL STREET
P.O. BOX 959
COUNCIL BLUFFS, IA 51502
(712) 322-0277

Bill To: Council Bluffs Water Works
P.O. Box 309
Council Bluffs, IA 51502

INVOICE

Invoice No. 9658
Date 4/30/2009
Client No. 3850

Services rendered in connection with the audit for the year ended December 31, 2008	$ 9,600.00

Audit hours 207.0

Payment In Full Due On Receipt

A 1¼% monthly or 15% annual finance charge will be computed on all outstanding balances over 30 days.