

COUNCIL BLUFFS CITY WATER WORKS  
FINANCIAL STATEMENTS AND SCHEDULE  
DECEMBER 31, 2009 and 2008  
(With Independent Auditors' Report Thereon)

COUNCIL BLUFFS CITY WATER WORKS

OFFICIALS

Board of Trustees

Martin L. Brooks	Chairperson	June 30, 2013
Mark Genereux	Member	June 30, 2011
Carl L. Heinrich	Member	June 30, 2010
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



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, 2009 and 2008, 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Water Works' internal control over financial reporting. Accordingly, we express no such opinion. 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, 2009 and 2008, 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 16, 2010 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 16, 2010

# Council Bluffs Water Works Council Bluffs, Iowa

## MANAGEMENT'S DISCUSSION AND ANALYSIS Calendar Year Ending December 31, 2009 (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, 2009. We encourage readers to consider this information in conjunction with our financial statements, which follow.

### FINANCIAL HIGHLIGHTS

- ◆ The Water Works' operating revenues decreased 0.23%, or \$17,622, from calendar year 2008 to 2009.
- ◆ The Water Works' operating expenses increased by 1.5%, or \$112,755, more in calendar year 2008 to 2009.
- ◆ The Water Works' fund equity increased 0.85% or \$335,908, from December 31, 2008 to December 31, 2009.

### 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

### Balance Sheets

The balance sheets present the assets, liabilities, and fund equity 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 balance sheets include year-end information concerning current assets and liabilities, and fund equity (assets less liabilities). Readers of the financial statements are able to determine the Water Works financial position by analyzing the increases and decreases in fund equity. 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' fund equity 78.7% 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 1.9% includes resources that are subject to restrictions. The remaining net assets 19.4% are the unrestricted net assets that can be used to meet the Water Works' obligations as they come due.

Balance Sheets		
December 31, 2009 and 2008		
	<u>2009</u>	<u>2008</u>
Current Assets	\$ 8,901,556	\$ 8,758,918
Restricted Assets	1,576,734	1,491,483
Capital Assets	<u>41,186,349</u>	<u>40,669,175</u>
Total Assets	<u>\$51,664,639</u>	<u>\$50,919,576</u>
Current Liabilities (payable from current assets)	\$1,889,683	\$2,006,666
Current Liabilities (payable from restricted assets)	818,918	761,780
Revenue bonds payable	<u>8,943,258</u>	<u>8,474,258</u>
Total Liabilities	<u>\$11,651,859</u>	<u>\$11,242,704</u>
Net Assets:		
Invested in capital assets, net of related debt	\$31,508,091	\$31,489,917
Restricted	757,816	729,703
Unrestricted	<u>7,746,873</u>	<u>7,457,252</u>
Total Net asset	<u>\$40,012,780</u>	<u>\$39,676,872</u>

Statement of Revenues and Expenses

Changes in total fund equity as presented on the statement of fund equity are based on the activity presented in the statement of revenues and expenses. 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 and expense for the years ending December 31, 2009 and 2008 is presented below:

<u>Statements of Revenues and Expenses</u>		
	<u>2009</u>	<u>2008</u>
Operating revenues:		
Metered water sales	\$ 7,104,303	\$ 7,036,788
Rental	101,063	81,115
Other	<u>572,171</u>	<u>677,256</u>
Total operating revenues	<u>\$ 7,777,537</u>	<u>\$ 7,795,159</u>
Operating expenses:		
Facilities and maintenance	\$ 670,197	\$ 725,442
Inventory adjustment	(15,458)	89,421
Purification	1,074,492	1,098,354
Transmission and distribution	1,093,035	1,101,710
Consumer accounting and meter division	387,871	376,617
Administration and general	1,629,508	1,532,792
Pension and social security	282,050	274,430
Depreciation	<u>2,677,210</u>	<u>2,487,384</u>
Total operating expenses	<u>\$ 7,798,905</u>	<u>\$ 7,686,150</u>
Non-operating revenues (expenses):		
Interest on investments	\$ 163,374	\$ 217,041
Interest expense	(326,980)	(254,884)
Loss on disposal of equipment	<u>( 6,313)</u>	<u>(23,125)</u>
Non-operating revenues, net	<u>\$ (169,919)</u>	<u>\$ (60,968)</u>
Excess of expenses over revenues	<u>\$ (191,287)</u>	<u>\$ 48,041</u>

The Statement of Revenues and Expenses reflects a negative year. However with the contributions from other governments and developers there was an increase in the fund equity at the end of the calendar year.

The Board of Trustees has approved rate increases of 8% for 2010 and 2011 to improve the revenues to a positive change in revenues over expenses.

In calendar year 2009, operating revenues decreased by \$17,622 or 0.23%, 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, 2009, the Water Works had \$74,642,484 invested in capital assets, net of accumulated depreciation of \$33,633,952. Depreciation expense totaled \$2,677,210 for calendar year 2009. More detailed information about the Water Works' capital assets is presented in Note 4 to the financial statements.

### **LONG-TERM DEBT**

At December 31, 2009, the Water Works had \$9,678,258 debt outstanding. See note 6 to the financial statements for more information.

### **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 25<sup>th</sup> Street, P O Box 309, Council Bluffs, Iowa 51502.

COUNCIL BLUFFS CITY WATER WORKS

BALANCE SHEETS  
December 31, 2009 and 2008

ASSETS	2009	2008
CURRENT ASSETS		
Cash (Note 2)	\$ 6,510,514	\$ 5,001,280
Short-term investments (Note 2)	379,000	1,539,000
Inventory	598,290	711,643
Receivables:		
Consumer accounts, net of allowance for doubtful accounts of \$1,000 in 2009 and \$1,000 in 2008	1,045,387	1,057,853
Unbilled revenues	276,641	325,502
Accrued interest	1,807	10,372
	<u>1,323,835</u>	<u>1,393,727</u>
Total receivables	\$ 1,323,835	\$ 1,393,727
Prepaid insurance	89,917	113,268
Restricted assets (Note 3)	<u>1,576,734</u>	<u>1,491,483</u>
Total current assets	\$ 10,478,290	\$ 10,250,401
Property, plant and equipment, net (Note 4)	41,008,532	40,474,675
Capitalized Costs, net (Note 5)	<u>177,817</u>	<u>194,500</u>
	<u>\$ 51,664,639</u>	<u>\$ 50,919,576</u>
LIABILITIES AND FUND EQUITY		
LIABILITIES		
Current liabilities (payable from current assets):		
Accounts payable	\$ 396,055	\$ 483,677
Salaries payable	27,358	28,950
Accrued compensated absences	171,184	162,534
Accrued interest payable	24,477	24,092
Due to City of Council Bluffs	535,609	602,413
Current portion of long term debt (Note 6)	735,000	705,000
Total current liabilities (payable from current assets)	<u>\$ 1,889,683</u>	<u>\$ 2,006,666</u>
Current liabilities (payable from restricted assets):		
Consumer deposits	\$ 588,380	\$ 577,195
Main extension escrow deposit	58,259	34,198
Accrued interest on consumer deposits	172,279	150,387
Total current liabilities (payable from restricted assets)	<u>\$ 818,918</u>	<u>\$ 761,780</u>
Long term debt (Note 6)	<u>\$ 8,943,258</u>	<u>\$ 8,474,258</u>
Total liabilities	<u>\$ 11,651,859</u>	<u>\$ 11,242,704</u>
FUND EQUITY		
Contributed capital:		
Other governments	\$ 1,497,307	\$ 1,566,902
Customers and developers	7,674,180	7,801,949
Total contributed capital	\$ 9,171,487	\$ 9,368,851
Retained earnings	30,841,293	30,308,021
Total fund equity	<u>\$ 40,012,780</u>	<u>\$ 39,676,872</u>
	<u>\$ 51,664,639</u>	<u>\$ 50,919,576</u>

See Notes to Financial Statements.

COUNCIL BLUFFS CITY WATER WORKS  
 STATEMENTS OF REVENUES AND EXPENSES  
 Years Ended December 31, 2009 and 2008

	2009	2008
Operating revenues:		
Metered water sales	\$ 7,104,303	\$ 7,036,788
Rental	101,063	81,115
Other	<u>572,171</u>	<u>677,256</u>
Total operating revenues	<u>\$ 7,777,537</u>	<u>\$ 7,795,159</u>
Operating expenses:		
Facilities and maintenance	\$ 670,197	\$ 725,442
Inventory adjustment	(15,458)	89,421
Purification	1,074,492	1,098,354
Distribution and meter	1,093,035	1,101,710
Customer accounting	387,871	376,617
Administration and general	1,629,508	1,532,792
Pension and social security	282,050	274,430
Depreciation and amortization	<u>2,677,210</u>	<u>2,487,384</u>
Total operating expenses	<u>\$ 7,798,905</u>	<u>\$ 7,686,150</u>
Operating income	<u>\$ (21,368)</u>	<u>\$ 109,009</u>
Nonoperating revenues (expenses):		
Interest on investments	\$ 163,374	\$ 217,041
Interest expense	(326,980)	(254,884)
Loss on disposal of equipment	<u>(6,313)</u>	<u>(23,125)</u>
Nonoperating revenues, net	<u>\$ (169,919)</u>	<u>\$ (60,968)</u>
Excess of revenues over expenses/(expenses over revenues)	<u>\$ (191,287)</u>	<u>\$ 48,041</u>

See Notes to Financial Statements.

COUNCIL BLUFFS CITY WATER WORKS

STATEMENTS OF FUND EQUITY  
Years Ended December 31, 2009 and 2008

	Contributed Capital			Retained Earnings	Total Fund Equity
	Other Governments	Customers and Developers	Total		
Balances at January 1, 2008	\$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	<u>(126,524)</u>	<u>(569,328)</u>	<u>(695,852)</u>	<u>695,852</u>	<u>-</u>
Balances at December 31, 2008	\$1,566,902	\$ 7,801,949	\$ 9,368,851	\$ 30,308,021	\$39,676,872
Excess of expenses over revenues				(191,287)	(191,287)
Contributions-in-aid of construction	59,925	467,270	527,195	-	527,195
Transfers – Depreciation of contributed property, plant and equipment	<u>(129,520)</u>	<u>(595,039)</u>	<u>(724,559)</u>	<u>724,559</u>	<u>-</u>
Balances at December 31, 2009	<u>\$1,497,307</u>	<u>\$ 7,674,180</u>	<u>\$ 9,171,487</u>	<u>\$ 30,841,293</u>	<u>\$40,012,780</u>

See Notes to Financial Statements.

COUNCIL BLUFFS CITY WATER WORKS

STATEMENTS OF CASH FLOWS  
Years Ended December 31, 2009 and 2008

	2009	2008
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from customers and users	\$ 7,165,630	\$ 7,114,649
Cash received from other revenues	673,234	758,371
Cash paid to suppliers for goods and services	(2,652,257)	(2,711,138)
Cash paid to employees and on their behalf	(2,402,112)	(2,419,650)
(Payments) receipts for City sewer services net of collections	(66,804)	57,558
Net cash provided by operating activities:	<u>\$ 2,717,691</u>	<u>\$ 2,799,790</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Principal payment of revenue bonds	\$ (705,000)	\$ (680,000)
Revenue bonds issued	1,204,000	4,059,258
Loan fees, net of bond amortization	-	(103,530)
Interest paid on revenue bonds	(288,682)	(220,583)
Interest paid on consumer deposits	(16,021)	(15,947)
Additions to property, plant, and equipment	(3,200,697)	(6,244,434)
Main extension escrow deposits	24,061	(195,297)
Contributions-in-aid of construction	527,195	1,058,656
Net cash (used in) capital and related financing activities	<u>\$ (2,455,144)</u>	<u>\$ (2,341,877)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Net sales of investments	\$ 1,270,000	\$ -
Interest received on investments	177,477	232,149
Net cash provided by investing activities	<u>\$ 1,447,477</u>	<u>\$ 232,149</u>
Net increase in cash	\$ 1,710,024	\$ 690,062
Cash at beginning of year	<u>5,565,248</u>	<u>4,875,186</u>
Cash at end of year	<u>\$ 7,275,272</u>	<u>\$ 5,565,248</u>
Reconciliation to balance sheets:		
Cash	\$ 6,510,514	\$ 5,001,280
Cash included in restricted assets	764,758	563,968
	<u>\$ 7,275,272</u>	<u>\$ 5,565,248</u>

See Notes to Financial Statements.

## COUNCIL BLUFFS CITY WATER WORKS

### NOTES TO FINANCIAL STATEMENTS Years Ended December 31, 2009 and 2008

#### 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.

COUNCIL BLUFFS CITY WATER WORKS

NOTES TO FINANCIAL STATEMENTS  
Years Ended December 31, 2009 and 2008

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 date 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.

Subsequent Events

Subsequent events have been evaluated through March 16, 2010, which is the date the financial statements were available to be issued.

COUNCIL BLUFFS CITY WATER WORKS

NOTES TO FINANCIAL STATEMENTS  
Years Ended December 31, 2009 and 2008

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, 2009 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, 2009, deposits consisted of the following:

Book Balance	Bank Balance	Category		
		1	2	3
<u>\$ 7,275,272</u>	<u>\$ 7,530,118</u>	<u>\$ 250,000</u>	<u>\$ 7,280,118</u>	<u>\$ --</u>

Investments

For reporting purposes, the Water Works' investments are classified in these three categories of credit risk:

1. Insured or registered, or securities held by the entity, or its agent in the Water Works' name.
2. Uninsured and unregistered with securities held by the counterparty, or by its trust department or agent in the Water Works' name.
3. Uninsured and unregistered with securities held by the counterparty, or by its trust department or agent, but not in the Water Works name.

Investments at December 31, 2009 consisted of the following:

	Category			Carrying amount	Market value
	1	2	3		
Investments	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 1,187,500</u>	\$ 1,187,500	<u>\$ 1,187,500</u>
Deposits				<u>7,275,272</u>	
				\$ 8,462,772	
Restricted assets (excluding accrued interest)				<u>1,573,258</u>	
				<u>\$ 6,889,514</u>	

COUNCIL BLUFFS CITY WATER WORKS

NOTES TO FINANCIAL STATEMENTS  
Years Ended December 31, 2009 and 2008

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, 2009 and 2008 are as follows:

	2009	2008
Consumer deposit fund cash	\$ 642,784	\$ 479,005
Sinking fund cash	121,974	84,963
Consumer deposit fund investments	100,000	210,000
Reserve fund investments	708,500	708,500
Accrued interest	<u>3,476</u>	<u>9,015</u>
	<u>\$ 1,576,734</u>	<u>\$ 1,491,483</u>

Note 4. Property, Plant and Equipment

Property, plant and equipment at December 31, 2009 and 2008 consists of the following:

Description	Useful life in years	2009	2008
Land	-	\$ 2,158,072	\$ 378,608
Buildings and structures	20-40	13,194,979	13,171,573
Water distribution system	20-40	45,413,215	43,970,279
Meters	25-40	1,152,718	957,220
Tools and equipment	3-20	6,658,617	5,855,720
Automobiles and trucks	5	1,345,830	1,345,830
Office equipment	15	104,985	104,985
Work in progress		<u>4,614,068</u>	<u>5,678,766</u>
		\$ 74,642,484	\$ 71,462,981
Less accumulated depreciation		<u>(33,633,952)</u>	<u>(30,988,306)</u>
		<u>\$ 41,008,532</u>	<u>\$ 40,474,675</u>

As of December 31, 2009 the Water Works had contractual commitments of approximately \$22,515,135 for various construction projects of which \$277,282 has been completed. Included in the contractual commitments is \$22.1 million for the construction of a new water treatment facility, which is expected to be complete in May 2012. Funding for the water treatment facility will be through Water Revenue bonds as described in Note 6.

COUNCIL BLUFFS CITY WATER WORKS

NOTES TO FINANCIAL STATEMENTS  
 Years Ended December 31, 2009 and 2008

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:

		2009	2008
Water Revenue Refunding, Series 2004			
Financing costs	81 months	\$ 44,899	\$ 44,899
Less accumulated amortization		<u>(38,247)</u>	<u>(31,595)</u>
Capitalized costs, net		<u>\$ 6,652</u>	<u>\$ 13,304</u>
Water Revenue Bonds, Series 2005			
Financing costs	180 months	\$ 53,740	\$ 53,740
Bond Premium		(7,651)	(7,651)
Less accumulated amortization		<u>(9,274)</u>	<u>(7,500)</u>
Capitalized costs, net		<u>\$ 36,815</u>	<u>\$ 38,589</u>
Water Revenue Bonds, Series 2006			
Financing costs	180 months	\$ 16,626	\$ 16,626
Bond Discount		34,001	34,001
Less accumulated amortization		<u>(13,501)</u>	<u>(10,125)</u>
Capitalized costs, net		<u>\$ 37,126</u>	<u>\$ 40,502</u>
State Revolving Funds			
Financing costs	240 months	\$ 103,530	\$ 103,530
Less accumulated amortization		<u>(6,306)</u>	<u>(1,425)</u>
Capitalizes costs, net		<u>\$ 97,224</u>	<u>\$ 102,105</u>
Total capitalized costs, net		<u>\$ 177,817</u>	<u>\$ 194,500</u>

Note 6. Revenue 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 years ended December 31, 2009 and 2008 the ratio was 2.55 and 2.48 respectively.

COUNCIL BLUFFS CITY WATER WORKS

NOTES TO FINANCIAL STATEMENTS  
Years Ended December 31, 2009 and 2008

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, 2009 and 2008.

In January 2010, the Water Works was pre-approved for \$35,353,000 in Water Revenue Bonds for construction of 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, 2009 and 2008 the Water Works had drawn down \$2,411,909 and \$1,970,578, respectively. In 2010, the Water Works plans to execute loans for the remaining \$25 million.

The Iowa Finance Authority has also issued an interim loan with balance of \$2,851,349 and \$2,088,680 at December 31, 2009 and 2008, respectively. 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, 2009 are as follows:

Year ended December 31,	Principal	Interest	Total Requirements
2010	\$ 735,000	\$ 244,962	\$ 979,962
2011	685,000	295,967	980,967
2012	707,000	272,178	979,178
2013	734,000	247,633	981,633
2014	761,000	222,133	983,133
Thereafter	<u>6,056,258</u>	<u>723,512</u>	<u>6,779,770</u>
	<u>\$ 9,678,258</u>	<u>\$ 2,006,385</u>	<u>\$ 11,684,643</u>

## COUNCIL BLUFFS CITY WATER WORKS

### NOTES TO FINANCIAL STATEMENTS Years Ended December 31, 2009 and 2008

#### 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 4.30 percent by the employee and 6.65 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 \$245,000 and \$230,000 of compensation in calendar years 2009 and 2008 respectively. The contribution paid by the Water Works totaled \$146,234 and \$138,721 for the years ended December 31, 2009 and 2008 respectively, and the contribution paid by employees totaled \$94,507 and \$91,624, respectively. The total payroll for employees covered by IPERS for the years ended December 31, 2009 and 2008 was \$2,250,995 and \$2,288,074 respectively, and the total Water Works' payroll for 2009 and 2008 was \$2,246,413 and \$2,301,224, respectively. The Water Works' employer and employee contributions during the years ended December 31, 2009 and 2008 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.

COUNCIL BLUFFS CITY WATER WORKS

NOTES TO FINANCIAL STATEMENTS  
Years Ended December 31, 2009 and 2008

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, 2009 and 2008 was \$15,056 and \$ 6,089, respectively.

COUNCIL BLUFFS CITY WATER WORKS

Comparison of Cash Basis – Actual with Cash Basis - Budget  
Year ended December 31, 2009

Fund	<u>Cash basis – actual</u>		Cash basis - budget
	Home and Community Environment Program	Non-program	
Enterprise – general (revenues)	<u>\$ 9,238,864</u>	<u>\$ 5,086,731</u>	<u>\$ 20,751,400</u>
Enterprise – general (expenses)	<u>\$ 9,395,621</u>		<u>\$ 20,683,800</u>

Year ended December 31, 2008

Fund	<u>Cash basis – actual</u>		Cash basis - budget
	Home and Community Environment Program	Non-program	
Enterprise – general (revenues)	<u>\$ 11,961,996</u>	<u>\$ 5,151,892</u>	<u>\$ 8,898,400</u>
Enterprise – general (expenses)	<u>\$ 12,315,778</u>		<u>\$ 16,926,183</u>

See Independent Auditors' Report.

COUNCIL BLUFFS CITY WATER WORKS

BUDGETARY COMPARISON OF REVENUES, EXPENDITURES AND  
 CHANGES IN BALANCES  
 BUDGET AND ACTUAL (GAAP BASIS)  
 REQUIRED SUPPLEMENTARY INFORMATION  
 Year Ended December 31, 2009

	2009 <u>Actual</u>	2009 <u>Budget</u>	Budget Variance Favorable <u>(Unfavorable)</u>
Operating revenues:			
Metered water sales	\$ 7,104,303	\$ 7,840,000	\$ (735,697)
Rental	101,063	88,000	13,063
Other	<u>572,171</u>	<u>508,400</u>	<u>63,771</u>
Total operating revenues	<u>\$ 7,777,537</u>	<u>\$ 8,436,400</u>	<u>\$ (658,863)</u>
Operating expenses:			
Facilities and maintenance	\$ 670,197	\$ 792,600	\$ 122,403
Inventory adjustment	(15,458)	(10,000)	5,458
Purification	1,074,492	1,176,600	102,108
Distribution and meter	1,093,035	1,135,500	42,465
Customer accounting	387,871	432,200	44,329
Administration and general	1,629,508	1,624,900	(4,608)
Pension and social security	282,050	285,000	2,950
Total operating expenses	<u>\$ 5,121,695</u>	<u>\$ 5,436,800</u>	<u>\$ 315,105</u>
Operating income	<u>\$ 2,655,842</u>	<u>\$ 2,999,600</u>	<u>\$ (343,758)</u>
Nonoperating revenues (expenses):			
Interest on investments	\$ 163,374	\$ 260,000	\$ (96,626)
Interest expense	(326,980)	(617,000)	290,020
Loss on disposal of equipment	<u>(6,313)</u>	<u>(15,000)</u>	<u>8,687</u>
Nonoperating revenues, net	<u>\$ (169,919)</u>	<u>\$ (372,000)</u>	<u>\$ 202,081</u>
Change in net assets before depreciation	\$ 2,485,923	<u>\$ 2,627,600</u>	<u>\$ (141,677)</u>
Depreciation	(2,677,210)		
Contributions in aid of construction	527,195		
	<u>\$ 335,908</u>		
Total net assets beginning	<u>39,676,872</u>		
Total net assets ending	<u>\$ 40,012,780</u>		

# **Council Bluffs City Water Works**

## **Report to the Board of Trustees**

**March 16, 2010**



***Hamilton Associates, P.C.***

---

*Certified Public Accountants*



March 16, 2010

Board of Trustees  
Council Bluffs City Water Works  
Council Bluffs, Iowa 51502

Attention: Board of Trustees

We are pleased to present this report related to our audit of the financial statements of Council Bluffs City Water Works for the year ended December 31, 2009. This report summarizes certain matters required by professional standards to be communicated to you in your oversight responsibility for Council Bluffs City Water Works' financial reporting process.

This report 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. It will be our pleasure to respond to any questions you have regarding this report. We appreciate the opportunity to continue to be of service to Council Bluffs City Water Works.

*Hamilton Associates P.C.*

Hamilton Associates, P.C.  
Council Bluffs, Iowa

# Contents

## Required Communications

- Summary of Accounting Estimates

- Summary of Recorded Audit Adjustments

## Exhibit A – Certain Written Communications Between Management and Our Firm

- Arrangement Letter

- Representation Letter

## Required Communications

Statement on Auditing Standards No. 114 requires the auditor to communicate certain matters to keep those charged with governance adequately informed about matters related to the financial statement audit that are, in our professional judgment, significant and relevant to the responsibilities of those charged with governance in overseeing the financial reporting process. The following summarizes these communications.

Area	Comments
<b>Auditor's Responsibility Under Professional Standards</b>	Our responsibility under auditing standards generally accepted in the United States of America has been described to you in our arrangement letter dated January 18, 2010.
<b>Accounting Practices</b>	<b>Adoption of, or Change in, Accounting Policies</b> Management has the ultimate responsibility for the appropriateness of the accounting policies used by the Organization. Following is a description of significant accounting policies or their application that were either initially selected or changed during the year: <ul style="list-style-type: none"><li data-bbox="824 968 1406 1136">• FASB Interpretation No. 48 – <i>Accounting for Uncertainty in Income Taxes</i>. The interpretation is required to be adopted in the current period and going forward in accordance with Generally Accepted Accounting Principles.</li><li data-bbox="824 1171 1414 1272">• FASB 157 – <i>Fair Value Measurements</i>, establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value.</li><li data-bbox="824 1308 1393 1472">• Statement of Financial Accounting Standards No. 165 – <i>Subsequent Events</i>. The statement is required to be adopted in the current period and going forward in accordance with Generally Accepted Accounting Principles.</li></ul>
	<b>Significant or Unusual Transactions</b> We did not identify any significant or unusual transactions or significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Area	Comments
<b>Management's Judgments and Accounting Estimates</b>	<p><b>Alternative Treatments Discussed with Management</b></p> <p>We did not discuss with management any alternative treatments within generally accepted accounting principles for accounting policies and practices related to material items during the current audit period.</p> <p>Summary information about the process used by management in formulating particularly sensitive accounting estimates and about our conclusions regarding the reasonableness of those estimates is in the attached "Summary of Accounting Estimates".</p>
<b>Financial Statement Disclosures</b>	<p>In our meeting with you, we will discuss the following items as they relate to the neutrality, consistency, and clarity of the disclosures in the financial statements:</p> <ul style="list-style-type: none"> <li>• Commitments on Water Treatment Facility.</li> <li>• Current maturities on bond debt.</li> </ul>
<b>Audit Adjustments</b>	<p>Audit adjustments recorded by Council Bluffs City Water Works are shown on the attached "Summary of Recorded Audit Adjustments."</p>
<b>Disagreements with Management</b>	<p>We encountered no disagreements with management over the application of significant accounting principles, the basis for management's judgments on any significant matters, the scope of the audit, or significant disclosures to be included in the financial statements.</p>
<b>Consultations with Other Accountants</b>	<p>We are not aware of any consultations management had with other accountants about accounting or auditing matters.</p>
<b>Significant Issues Discussed with Management</b>	<p>No significant issues arising from the audit were discussed or were the subject of correspondence with management.</p>
<b>Difficulties Encountered in Performing the Audit</b>	<p>We did not encounter any difficulties in dealing with management during the audit.</p>
<b>Certain Written Communications Between Management and Our Firm</b>	<p>Copies of certain written communications between our firm and the management of the Organization are attached as Exhibit A.</p>

**Council Bluffs City Water Works  
Summary of Accounting Estimates  
Year Ended December 31, 2009**

Accounting estimates are an integral part of the preparation of financial statements and are based upon management's current judgment. The process used by management encompasses their knowledge and experience about past and current events and certain assumptions about future events. You may wish to monitor throughout the year the process used to compute and record these accounting estimates. The following describes the significant accounting estimates reflected in the Organization's December 31, 2009 financial statements:

<u>Area</u>	<u>Accounting Policy</u>	<u>Estimation Process</u>	<u>Comments</u>
<b>Accounts Receivable Allowance</b>	To reduce receivables to their estimated net collectible amounts.	Collections from water use is relatively certain because the Water Works has a procedure of water shut off after a bill becomes delinquent. Also, most customers are required to make a deposit when the account is set-up. For these reasons, the allowance is set at a low amount of \$1,000.	Based on prior audit experience, this allowance appears reasonable.
<b>Inventory Valuation</b>	To reduce obsolete, damaged, or excess inventories to the estimated net realizable values.	The Water Works values its inventories at the lower of cost (average cost method) or market. As part of its computer software conversion, in January of 2009, management has taken inventory twice during the last fiscal year to verify that the inventory was reflected reasonably accurately in the system.	This valuation appears reasonable. Most of the inventory items are used internally for repairs and capital improvements. When the items are placed into service, they are depreciated over 20 years.
<b>Current Maturities</b>	To report the five-year maturities of principal and interest on bond debt.	Because the Water Revenue bonds are drawn down as funds are needed the current maturities and the bonds payable represent only those funds that have been borrowed and not those that are expected to be borrowed.	The Water Works expects to borrow an additional \$30.3 million. Because of this the current maturities will change substantially as these funds are borrowed.

**Council Bluffs City Water Works  
Summary of Accounting Estimates (Continued)  
Year Ended December 31, 2009**

<u>Area</u>	<u>Accounting Policy</u>	<u>Estimation Process</u>	<u>Comments</u>
<b>Uninsured Losses</b>	A liability for all losses or loss retentions attributable for events occurring through December 31, 2009 should be included in the financial statements.	Any potential loss for self-insured workers' compensation is evaluated on a case-by-case basis and consultation from legal counsel is sought if necessary. For the partially self-insured health insurance, the Water Works' makes monthly deposits in a separate bank account for potential claims. The current annual deposit is equal to 32.66% of its annual maximum exposure as recommended by the third party administer. Adjustments will be made as considered necessary.	Each year, we receive confirmation from the Water Works' legal counsel about potential losses. At December 31, 2009, there were no such instances identified. At December 31, 2009, there was \$15,056 set aside for employee health insurance claims.
<b>Environmental Clean-Up Obligations</b>	The Water Works' management should establish a reserve for the potential of environmental clean-up costs.	The Water Works does not consider there to be a material obligation for environmental clean-up costs.	

**Council Bluffs City Water Works  
Summary of Recorded Audit Adjustments  
Year Ended December 31, 2009**

Description	Effect — Increase (Decrease)				
	Assets	Liabilities	Equity	Revenue	Expense
To adjust for prior year audit adjustments approved by management but not entered into the accounting software	\$ 588,450	\$ 544,381	\$ 44,069	\$	\$
To reverse prior year and record current year accounts payable	(131,158)	(61,916)			69,242
To reverse prior year adjustment made for contributions by developer		46,962	(46,962)		
To adjust accrued interest on certificates of deposit	(14,105)			3,480	17,585
To record bond amortization costs	(16,283)				16,283
To adjust accounts payable for unbilled water accounts	(48,861)			(48,861)	
To adjust allowance for doubtful accounts	(11,618)			(11,618)	
To adjust revenue bonds payable and bond interest expense		(10,018)			(10,018)
To adjust accrued payroll		(44,456)			(44,456)
To adjust accrued vacation payable		8,650			8,650
To adjust IPERS payable		(18)			(18)
<b>Total Effect</b>			(114,267)	\$ (56,999)	\$ 57,268
<b>Balance Sheet Effect</b>	<u>\$ 366,425</u>	<u>\$ 483,585</u>	<u>\$ (117,160)</u>		

## **Exhibit A - Certain Written Communications Between Management and Our Firm**

- Arrangement Letter
- Management Representation Letter



February 12, 2010

Doug Drummey  
Council Bluffs City Water Works  
Council Bluffs, IA

Attention: Mr. Drummey

This letter is to explain our understanding of the arrangements for the services we are to perform for Council Bluffs City Water Works for the year ending December 31, 2009. We ask that you either confirm or amend this understanding.

**Audit Services**

We will perform an audit of Council Bluffs City Water Works' business-type activities as of and for the year ended December 31, 2009 which collectively comprise the basic financial statements. We understand that these financial statements will be prepared in accordance with accounting principles generally accepted in the United States of America. The objective of an audit of financial statements is to express an opinion on those statements.

We are responsible for forming and expressing an opinion about whether the financial statements that have been prepared by management with the oversight of the board of trustees are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America.

We will conduct the audit in accordance with auditing standards generally accepted in the United States of America and "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 rather than absolute, assurance about whether the financial statements are free of material misstatement whether caused by error or fraud. Accordingly, a material misstatement may remain undetected. Also, an audit is not designed to detect errors or fraud that are immaterial to the financial statements. The determination of abuse is subjective; therefore, Government Auditing Standards do not expect us to provide reasonable assurance of detecting abuse.

An audit of financial statements also includes obtaining an understanding of the entity and its environment, including its internal control, sufficient to assess the risks of material misstatement of the financial statements, and to design the nature, timing, and extent of further audit procedures. An audit is not designed to provide assurance on internal control or to identify significant deficiencies or material weaknesses. However, we will communicate to management and the board of trustees any significant deficiencies or material weaknesses that become known to us during the course of the audit.

We will also communicate to the board of trustees (a) any fraud involving senior management and fraud (whether caused by senior management or other employees) that causes a material misstatement of the financial statements, (b) any fraud, illegal acts, violations of provisions of contracts or grant agreements, and abuse that come to our attention (unless they are clearly inconsequential), (c) any disagreements with management and other serious difficulties encountered in performing the audit, and (d) various matters related to the entity's accounting policies and financial statements.

In addition to our report(s) on the Water Works' financial statements, we will also issue the following reports or types of reports:

Report on internal control related to the financial statements and major programs. This report will describe the scope of testing of internal control and the results of our tests of internal controls.

Report on compliance with laws, regulations, and the provision of contracts or grant agreements. We will report on any noncompliance which could have a material effect on the financial statements.

A report on certain agreed upon procedures. The responsibility we are to take for the material included in this report will be the same as that we assume for other supplementary information accompanying the financial statements.

The fund that you have told us are maintained by the Water Works' and that are to be included as part of our audit business type activity.

Our report on internal control will include any significant deficiencies and material weaknesses in the system of which we become aware as a result of obtaining an understanding of internal control and performing tests of internal control consistent with requirements of the standards and circular identified above. Our report on compliance will address material errors, fraud, abuse, violations of compliance requirements, and other responsibilities imposed by state and federal statutes and regulations and assumed by contracts; and any state or federal grant, entitlement of loan program questioned costs of which we become aware, consistent with requirements of the standards and circulars identified above.

#### **Council Bluffs City Water Works' Responsibilities**

Management is responsible for the financial statements, including the selection and application of accounting policies, adjusting the financial statements to correct material misstatements, and for making all financial records and related information available to us. Management is responsible for providing us with a written management representation letter confirming certain representations made during the course of our audit of the financial statements and affirming to us that it believes the effects of any uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole and to the opinion units of the financial statements.

Management is responsible for establishing and maintaining effective internal control over financial reporting and for informing us of all significant deficiencies and material weaknesses in the design or operation of such controls of which it has knowledge.

Management is responsible for identifying and ensuring that the entity complies with the laws and regulations applicable to its activities, and for informing us about all known material violations of such laws or regulations. In addition, management is responsible for the design and implementation of programs and controls to prevent and detect fraud, and for informing us about all known or suspected fraud affecting the entity involving management, employees who have significant roles in internal control, and others where the fraud could have a material effect on the financial statements. Management is also responsible for informing us of its knowledge of any allegations of fraud or suspected fraud affecting the entity received in communications from employees, former employees, analysts, regulators, or others.

The board of trustees is responsible for informing us of its views about the risks of fraud within the entity, and its knowledge of any fraud or suspected fraud affecting the entity.

Council Bluffs City Water Works agrees that our report on the financial statements will not be included in an official statement or other document involved with the sale of debt instruments without our prior consent. Additionally, if Council Bluffs City Water Works intends to publish or otherwise reproduce the financial statements and/or make reference to us or our audit, you agree to provide us with printer's

proofs or a master for our review and consent before reproduction and/or release occurs. You also agree to provide us with a copy of the final reproduced material for our consent before it is distributed or released. Our fees for any additional services that may be required under our quality assurance systems as a result of the above will be established with you at the time such services are determined to be necessary. In the event our auditor/client relationship has been terminated when the Organization seeks such consent, we will be under no obligation to grant such consent or approval.

Our professional standards require that we perform certain additional procedures, on current and previous years' engagements, whenever a partner or professional employee leaves the firm and is subsequently employed by or associated with a client. Accordingly, Council Bluffs City Water Works agrees it will compensate Hamilton Associates, P.C. for any additional costs incurred as a result of the employment of a partner or professional employee of Hamilton Associates, P.C..

During the course of our engagement, we may accumulate records containing data that should be reflected in the Water Works' books and records. The Water Works will determine that all such data, if necessary, will be so reflected. Accordingly, the Water Works will not expect us to maintain copies of such records in our possession.

The assistance to be supplied by Organization personnel, including the preparation of schedules and analyses of accounts, has been discussed and coordinated with Karen Wisniski. The timely and accurate completion of this work is an essential condition to our completion of the audit and issuance of our audit report.

#### **Other Terms of our Engagement**

Council Bluffs City Water Works hereby indemnifies Hamilton Associates, P.C. and its partners, principals, and employees and holds them harmless from all claims, liabilities, losses, and costs arising in circumstances where there has been a known misrepresentation by a member of Council Bluffs City Water Works' management, regardless of whether such person was acting in Council Bluffs City Water Works' interest. This indemnification will survive termination of this letter.

Any claim arising out of services rendered pursuant to this agreement shall be resolved in accordance with the laws of Iowa. It is agreed by Council Bluffs City Water Works and Hamilton Associates, P.C. or any successors in interest that no claim arising out of services rendered pursuant to this agreement by or on behalf of Council Bluffs City Water Works shall be asserted more than two years after the date of the last audit report issued by Hamilton Associates, P.C.

Our fees are based upon the time required by the individuals assigned to the engagement, plus direct expenses. Interim billings will be submitted as work progresses and as expenses are incurred. Billings are due upon submission. Our fee for the services described in the letter will not exceed \$9,900 unless the scope of the engagement is changed, the assistance which the Water Works has agreed to furnish is not provided, or unexpected conditions are encountered, in which case we will discuss the situation with you before proceeding. All other provisions of this letter will survive any fee adjustment.

In the event we are requested or authorized by Council Bluffs City Water Works or are required by Council Bluffs City Water Works or are required by government regulation, subpoena, or other legal process to produce our documents or our personnel as witnesses with respect to our engagements for Council Bluffs City Water Works, Council Bluffs City Water Works will, so long as we are not a party to the proceeding in which the information is sought, reimburse us for our professional time and expenses, as well as the fees and expenses of our counsel, incurred in responding to such requests.

The working papers for this engagement are the property of Hamilton Associates, P.C. However, you acknowledge and grant your assent that representatives of the cognizant or oversight agency or their designee, other government audit staffs, and the U.S. Government Accountability Office shall have

access to the audit working papers upon their request; and that we shall maintain the working papers for a period of at least three years after the date of the report, or for a longer period if we are requested to do so by the cognizant or oversight agency. Access to requested workpapers will be provided under the supervision of Hamilton Associates, P.C. audit personnel and at a location designated by our Firm.

If circumstances arise relating to the conditions of your records, the availability of appropriate audit evidence, or indications of a significant risk of material misstatement of the financial statements because of error, fraudulent financial reporting, misappropriation of assets, or noncompliance which in our professional judgment prevent us from completing the audit or forming an opinion, we retain the unilateral right to take any course of action permitted by professional standards, including declining to express an opinion or issue a report, or withdrawal from the engagement.

The two overarching principles of the independence standards of the "Government Auditing Standards" issued by the Comptroller General of the United States provide that management is responsible for the substantive outcomes of the works, and therefore, has a responsibility and is able to make any informed judgment on the results of the services described above. Accordingly, the Council Bluffs City Water Works agrees to the following:

Karen Wisniski will be accountable and responsible for overseeing the preparation of the financial statements and notes to financial statements.

Council Bluffs City Water Works will establish and monitor the performance of the preparation of the financial statements and notes to financial statements to ensure that they meet management's objectives.

Council Bluffs City Water Works will make any decisions that involve management functions related to the preparation of financial statements and notes to financial statements and accepts full responsibility for such decisions.

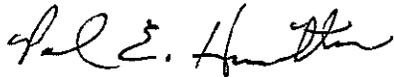
Council Bluffs City Water Works will evaluate the adequacy of services performed and any findings that result.

This letter constitutes the complete and exclusive statement of agreement between Hamilton Associates, P.C. and Council Bluffs City Water Works, superseding all proposals, oral or written, and all other communication, with respect to the terms of the engagement between the parties.

In accordance with *Government Auditing Standards*, a copy of our most recent peer review report is enclosed, for your information.

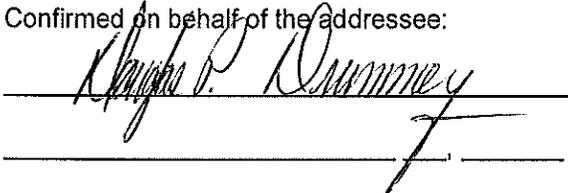
If this letter defines the arrangements as you understand them, please sign and date the enclosed copy, and return it to us. We appreciate your business.

Hamilton Associates, P.C.



Paul E. Hamilton

Confirmed on behalf of the addressee:



---

---



# Council Bluffs Water Works

COUNCIL BLUFFS, IOWA — 51501

*Office*  
2000 NORTH 25TH STREET  
*Mailing Address*  
P.O. BOX No. 309 — 51502

*Board of Trustees:*

MARTIN L. BROOKS, *Chairman*  
GLEN M. MITCHELL  
CARL L. HEINRICH  
MARK A. GENEREUX  
MAUREEN R. KRUSE  
*General Manager & Secretary of Board*  
DOUGLAS P. DRUMBEY

March 16, 2010

Hamilton Associates, P.C.  
20 Pearl Street  
Council Bluffs, Iowa 51503

In connection with your audits of the balance sheets of Council Bluffs City Water Works as of December 31, 2009 and 2008 and the related statements of revenue and expenses, fund equity, and cash flows for the years then ended, we confirm that we are responsible for the fair presentation in the financial statements of financial position, results of operations, and cash flows in conformity with accounting principles generally accepted in the United States of America.

We confirm, to the best of our knowledge and belief, as of March 16, 2010, the following representations made to you during your audit:

1. The financial statements referred to above are fairly presented in conformity with accounting principles generally accepted in the United States of America.
2. We have made available to you all:
  - a. Financial records and related data.
  - b. Minutes of the meetings of stockholders, directors, and committees of directors, or summaries of actions of recent meetings for which minutes have not yet been prepared.
3. We have no knowledge of fraud or suspected fraud affecting the entity involving:
  - a. Management,
  - b. Employees who have significant roles in the internal control, or
  - c. Others where the fraud could have a material effect on the financial statements.
4. We acknowledge our responsibility for the design and implementation of programs and controls to provide reasonable assurance that fraud is prevented and detected.
5. We have no knowledge of any allegations of fraud or suspected fraud affecting the Organization received in communications from employees, former employees, analysts, regulators, short sellers, or others.
6. We are aware of no significant deficiencies, including material weaknesses, in the design or operation of internal controls that could adversely affect the Organization's ability to record, process, summarize, and report financial data.
7. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
8. We have no plans or intentions that may materially affect the carrying value or classification of assets. In that regard:
  - a. The Organization has no significant amounts of idle property and equipment or permanent excess capacity.
  - b. The Organization has no plans or intentions to discontinue the operations of any subsidiary or division or to discontinue any significant product lines.

- c. The Organization has the ability and positive intent to hold to maturity those debt securities classified as "held to maturity."
  - d. Provision has been made to reduce all other investments and other assets that have permanently declined in value to their realizable values.
  - e. Long-lived assets, including intangibles, that are impaired or to be disposed of have been recorded at the lower of their cost or fair value.
9. The following have been properly recorded and/or disclosed in the financial statements:
- a. Related-party relationships, transactions, and related amounts receivable or payable, including sales, purchases, loans, transfers, leasing arrangements, and guarantees, all of which have been recorded in accordance with the economic substance of the transactions.
  - b. Guarantees, whether written or oral, under which the Organization is contingently liable.
  - c. Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances.
  - d. Lines of credit or similar arrangements.
  - e. Agreements to repurchase assets previously sold.
  - f. Security agreements in effect under the Uniform Commercial Code.
  - g. All other liens or encumbrances on assets and all other pledges of assets.
  - h. Amounts of contractual obligations for plant construction and/or purchase of real property, equipment, other assets, and intangibles.
  - i. Investments in debt and equity securities, including their classification as trading, available for sale, and held to maturity.
  - j. All liabilities that are subordinated to any other actual or possible liabilities of the Organization.
  - k. All leases and material amounts of rental obligations under long-term leases.
  - l. All significant estimates and material concentrations known to management that are required to be disclosed in accordance with the Risks and Uncertainties Topic of the FASB Accounting Standards Codification. Significant estimates are estimates at the balance sheet date that could change materially within the next year. Concentrations refer to volumes of business, revenues, available sources of supply, or markets for which events could occur that would significantly disrupt normal finances within the next year.
  - m. Assets and liabilities measured at fair value in accordance with the Fair Value Measurements and Disclosures Topic of the FASB Accounting Standards Codification.
10. We are responsible for making the accounting estimates included in the financial statements. Those estimates reflect our judgment based on our knowledge and experience about past and current events and our assumptions about conditions we expect to exist and courses of action we expect to take. In that regard, adequate provisions have been made:
- a. To reduce receivables to their estimated net collectable amounts.
  - b. To reduce obsolete, damaged, or excess inventories to their estimated net realizable values.
  - c. To reduce deferred tax assets to amounts that are more likely than not to be realized.
  - d. For uninsured losses or loss retentions (deductibles) attributable to events occurring through December 31, 2009 and/or for expected retroactive insurance premium adjustments applicable to periods through December 31, 2009.
  - e. For pension obligations, postretirement benefits other than pensions, and deferred compensation agreements attributable to employee services rendered through December 31, 2009.

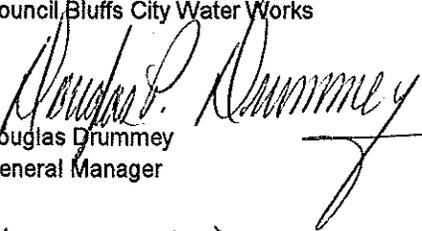
- f. For any material loss to be sustained in the fulfillment of or from the inability to fulfill any sales commitments.
  - g. For any material loss to be sustained as a result of purchase commitments for inventory quantities in excess of normal requirements or at prices in excess of the prevailing market prices.
  - h. For environmental clean up obligations.
11. There are no:
- a. Material transactions that have not been properly recorded in the accounting records underlying the financial statements.
  - b. Violations or possible violations of laws or regulations whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency. In that regard, we specifically represent that we have not been designated as, or alleged to be, a "potentially responsible party" by the Environmental Protection Agency in connection with any environmental contamination.
  - c. Other material liabilities or gain or loss contingencies that are required to be accrued or disclosed by the Contingencies Topic of the FASB Accounting Standards Codification.
12. We are not aware of any pending or threatened litigation, claims, or assessments, or unasserted claims or assessments that are required to be accrued or disclosed in the financial statements in accordance with the Contingencies Topic of the FASB Accounting Standards Codification, and we have not consulted a lawyer concerning litigation, claims, or assessments.
13. The Organization has satisfactory title to all owned assets.
14. We have complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
15. We are responsible for determining that significant events or transactions that have occurred since the balance sheet date and through March 16, 2010, have been recognized or disclosed in the financial statements. No events or transactions have occurred subsequent to the balance sheet date and through March 16, 2010 that would require recognition or disclosure in the financial statements. We further represent that as of March 16, 2010, the financial statements were complete in a form and format that complied with accounting principles generally accepted in the United States of America, and all approvals necessary for issuance of the financial statements had been obtained.
16. During the course of your audit, you may have accumulated records containing data that should be reflected in our books and records. All such data have been so reflected. Accordingly, copies of such records in your possession are no longer needed by us.

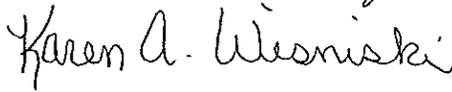
## GAGAS ENGAGEMENT

In connection with your audit, conducted in accordance with Government Auditing Standards, we confirm:

1. We are responsible for:
  - a. Compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to Council Bluffs City Water Works.
  - b. Establishing and maintaining effective internal control over financial reporting.
2. We have identified and disclosed to you:
  - a. All laws, regulations, and provisions of contracts and grant agreements that have a direct and material effect on the determinations of financial statement amounts or other financial data significant to audit objectives.
  - b. Violations (and possible violations) of laws, regulations, and provisions of contracts and grant agreements whose effects should be considered for disclosure in the auditor's report on noncompliance.
3. We have taken timely and appropriate steps to remedy fraud, illegal acts, violations of provisions of contracts or grant agreements, or abuse that has been reported.
4. We have a process to track the status of audit findings and recommendations.
5. We have identified for you previous financial audits, attestation engagements, performance audits, or other studies related to the objectives of the audit being undertaken and the corrective action taken to address significant findings and recommendations.

Council Bluffs City Water Works

  
Douglas Drumme  
General Manager

  
Karen Wisniski  
Administrative Manager



**CONFIDENTIAL**

To the Board of Trustees  
Council Bluffs City Water Works  
Council Bluffs, Iowa

We have applied certain agreed-upon procedures, as discussed below, which were agreed to by the Board of Trustees and management of Council Bluffs City Water Works, Council Bluffs, Iowa (Water Works) solely to assist you with respect to the accounting records of the Water Works. This engagement to provide agreed-upon procedures was performed in accordance with Standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the specified users of the report. Consequently, we make no representations regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose. Our procedures and findings are as follows:

1. Depository Resolution - We reviewed the latest resolution naming official depositories. We found that deposits at Council Bluffs Savings Bank did not exceed the maximum depository amount as of December 31, 2009.
2. Certified Budget - We compared the Water Works disbursements for the twelve months ended December 31, 2009 with the published budget and found that disbursements did not exceed the amount budgeted.
3. Questionable Disbursements - We reviewed all of the invoices for items charged to the education and conferences expense accounts. We noted no disbursements for parties, banquets or other entertainment for employees that may not meet the requirements of public purpose as defined in an Attorney general's opinion dated April 25, 1979.
4. Travel Expense - No disbursements were made and charged to travel expense during 2009.
5. Business Transactions - During the course of our audit of the Water Works as of December 31, 2009 we looked at many records substantiating disbursements. We noted no business transactions between the Water Works and Water Works' officials or employees.
6. Bond Coverage - We reviewed the statutory provisions for surety bond coverage of Water Works' officials and employees. During this audit we contacted the Council Bluffs City Attorney and he confirmed that there are no state mandated coverage for the Water Works. The City has an ordinance allowing the City to set bonding requirements for the Water Works. Resolution 83-475 sets the amount of surety bond coverage for board members at \$500 annually. Water Works maintains public officials' liability insurance, which sufficiently meets bond coverage requirements.

7. Board Minutes – We reviewed the minutes for the Board of Directors meetings for 2009 and found no transactions that we believe should have been approved in the Board minutes but were not.

Because the above procedures do not constitute an audit, we do not express an opinion on any of the accounts or items referred to above. In connection with the procedures referred to above, no matters came to our attention that caused us to believe that the above summaries should be adjusted. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you. This report relates only to the accounts and items specified above and does not extend to any financial statements of the Water Works taken as a whole.

This report is intended solely for the use of the specified users and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of the procedures for their purpose. However, this report is a matter of public record and its distribution is not limited.

*Hamilton Associates P.C.*

Council Bluffs, IA  
March 16, 2010



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