

**Burlington Municipal Waterworks,
A Component Unit of the City of Burlington**

**Independent Auditor's Report
Management's Discussion and Analysis
Financial Statements and Supplemental Information
Independent Auditor's Report on Compliance and Internal Control
Schedule of Findings**

June 30, 2012

C o n t e n t s

	Page
Board of Trustees	1
Independent Auditor's Report	2 - 3
Management's Discussion and Analysis	4 - 7
Financial Statements	
Statements of Net Assets - Proprietary Fund	8
Statements of Revenues, Expenses and Changes in Fund Net Assets - Proprietary Fund	9
Statements of Cash Flows - Proprietary Fund	10
Notes to Financial Statements	11 - 21
Required Supplemental Information	
Comparison of Revenues and Expenses - Actual to Budget	22
Notes to Required Supplemental Information - Budgetary Reporting	23
Supplemental Information	
Supplemental Schedule of Expenses	24
Cash Balance Composition	25
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	26 - 27
Schedule of Findings	28 - 29

**Burlington Municipal Waterworks,
A Component Unit of the City of Burlington
Board of Trustees
June 30, 2012**

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



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Independent Auditor's Report

Board of Trustees
Burlington Municipal Waterworks,
A Component Unit of the City of Burlington
Burlington, Iowa

We have audited the accompanying statements of net assets of the proprietary fund of Burlington Municipal Waterworks (Waterworks), A Component Unit of the City of Burlington, as of June 30, 2012 and 2011, and the related statements of revenues, expenses and changes in fund net assets, and statements of cash flows, of its proprietary fund for the years then ended. These financial statements are the responsibility of the Waterworks' management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *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. 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 opinions.

As discussed in Note 1, the Waterworks did not record or disclose the net annual required contribution for other postemployment benefits (OPEB) or the OPEB net liability obligation as required by Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.

In our opinion, except for the omission of the information described in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the Waterworks at June 30, 2012 and 2011, and the changes in its net assets 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 our report dated September 25, 2012 on our consideration of the Waterworks' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of the audits performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 7 and budgetary comparison information on pages 22 and 23 be present to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audits were conducted for the purpose of forming an opinions on the financial statements that collectively comprise the Waterworks' financial statements as a whole. The supplemental information on pages 24 and 25 is presented for purposes of additional analysis and is not a required part of the financial statements. The supplemental information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

CPA Associates PC

September 25, 2012

**Burlington Municipal Waterworks,
A Component Unit of the City of Burlington
Management's Discussion and Analysis**

The following Management Discussion and Analysis (MD&A) of the Waterworks' activities and financial performance provides the reader with an introduction and overview to the financial statements of the Waterworks for the fiscal year ended June 30, 2012. The information contained in this MD&A should be considered in conjunction with the Waterworks' basic financial statements.

Following this MD&A are the basic financial statements of the Waterworks together with the notes thereto which are essential to a full understanding of the data contained in the financial statements.

Financial Operations Highlights

As a result of this year's operations, assets exceeded liabilities by \$9.2 million (net assets) for the fiscal year reported. This compares to the previous year when assets exceeded liabilities by \$8.1 million. The net assets increased by \$1,143,853 or 14.2%.

Total net assets are comprised of the following:

- Net assets invested in capital assets (e.g., main extensions, buildings, improvements, and equipment), less the related indebtedness outstanding used to acquire those capital assets, is \$7,099,832. This balance represents resources allocated to capital assets.
- Unrestricted net assets of \$2,114,651 include board designated net assets of \$1,027,372, which represents resources that are subject to internal restrictions.

During the year, revenues increased to \$3.76 million or 7.03%, while expenses increased to \$3.41 million or 3.36%.

Nonoperating revenues and capital contributions increased \$848,443 or 1,222.59% and are primarily attributable to the ARRA (Federal Stimulus) loan of \$884,000 that was used to partially finance the 2009 Water System Improvements. This loan was forgiven during FY 2011-2012.

Using This Annual Report

The Waterworks is governed by a Board of Trustees, appointed by the Mayor and approved by the City Council. The Waterworks is organized as an Enterprise Fund and is a component unit of the City of Burlington, Iowa. This discussion and analysis is intended to serve as an introduction to the Waterworks' basic financial statements. 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 Burlington Municipal Waterworks' financial activities.

The Financial Statements consist of Statements of Net Assets, Statements of Revenues, Expenses and Changes in Fund Net Assets, and Statements of Cash Flows. These provide information about the activities of the Waterworks as a whole and present an overall view of the Waterworks' finances.

The Financial Statements tell how services were financed in the short term as well as what remains for future spending.

**Burlington Municipal Waterworks,
A Component Unit of the City of Burlington
Management's Discussion and Analysis**

Using This Annual Report (continued)

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplemental Information further explains and supports the financial statements with a comparison of the Waterworks' budget for the year.

Financial Position Summary

Net assets may serve over time as a useful indicator of the Waterworks' financial position. The Waterworks' assets at the end of fiscal 2012 were approximately \$13.5 million, which was a \$0.1 million decrease from fiscal 2011. A condensed summary of the Waterworks' net assets at June 30, 2012 and June 30, 2011 is shown below:

	2012	2011
Assets:		
Current and other assets	\$ 2,944,751	\$ 2,618,303
Capital assets	<u>10,563,832</u>	<u>10,965,883</u>
Total assets	<u>\$ 13,508,583</u>	<u>\$ 13,584,186</u>
Liabilities:		
Current liabilities	\$ 1,000,100	\$ 1,225,808
Long-term debt	<u>3,294,000</u>	<u>4,287,748</u>
Total liabilities	4,294,100	5,513,556
Net Assets:		
Invested in capital assets, net of related debt	7,099,832	6,456,135
Unrestricted	<u>2,114,651</u>	<u>1,614,495</u>
Total liabilities and net assets	<u>\$ 13,508,583</u>	<u>\$ 13,584,186</u>

The largest portion of the Waterworks' net assets each year represents its investment in capital assets (e.g., main extensions, buildings, improvements, and equipment), less any related indebtedness outstanding used to acquire those capital assets.

Summary of Operations and Changes in Net Assets

	2012	2011
Net operating revenues	\$ 3,758,925	\$ 3,511,939
Net operating expenses	<u>3,414,140</u>	<u>3,303,220</u>
Net operating income	344,785	208,719
Nonoperating income and expenses:		
Interest income	3,534	4,125
Interest expense	(118,772)	(100,451)
Capital contributions	<u>914,306</u>	<u>65,272</u>
Increase in net assets	<u>\$ 1,143,853</u>	<u>\$ 177,665</u>

**Burlington Municipal Waterworks,
A Component Unit of the City of Burlington
Management's Discussion and Analysis**

Revenues

A summary of revenues for the year ended June 30, 2012, and the amount and percentage of change in relation to prior year amounts is as follows:

	<u>Amount</u>	<u>% of Total</u>	Increase (Decrease) from Prior Year	<u>% Increase (Decrease)</u>
Operating:				
Unmetered water	\$ 1,726,951	36.92	\$ 67,200	4.05
Metered water	1,844,406	39.44	127,359	7.42
Other, net	<u>187,568</u>	<u>4.01</u>	<u>52,427</u>	38.79
Total operating	<u>3,758,925</u>	<u>80.37</u>	<u>246,986</u>	7.03
Nonoperating:				
Interest income	3,534	0.08	(591)	(14.33)
Capital contributions	<u>914,306</u>	<u>19.55</u>	<u>849,034</u>	1,300.76
Total nonoperating	<u>917,840</u>	<u>19.63</u>	<u>848,443</u>	1,222.59
Total revenues	<u>\$ 4,676,765</u>	<u>100.00</u>	<u>\$ 1,095,429</u>	30.59

Expenses

A summary of expenses for the year ended June 30, 2012, and the amount and percentage of change in relation to prior year amounts is as follows:

	<u>Amount</u>	<u>% of Total</u>	Increase (Decrease) from Prior Year	<u>% Increase (Decrease)</u>
Operating:				
Power and pumping	\$ 1,075,110	30.43	\$ 30,239	2.89
Purification	923,457	26.14	10,183	1.11
Distribution	1,102,972	31.23	72,518	7.04
General and administrative	428,660	12.13	(1,258)	(0.29)
Sewer reimbursement	<u>(116,059)</u>	<u>(3.29)</u>	<u>(762)</u>	(0.66)
Total operating expenses	3,414,140	96.64	110,920	3.36
Nonoperating:				
Interest expense	<u>118,772</u>	<u>3.36</u>	<u>18,321</u>	18.24
Total expenses	<u>\$ 3,532,912</u>	<u>100.00</u>	<u>\$ 129,241</u>	3.80

The increase in expenses during the fiscal year is attributable to increased personnel costs, increased power and natural gas costs, increased water treatment chemical costs, additional EPA mandated water quality testing, and increased depreciation costs.

**Burlington Municipal Waterworks,
A Component Unit of the City of Burlington
Management's Discussion and Analysis**

Summary of Cash Flow Activities

The following shows a summary of the major sources and uses of cash and cash equivalents for the years ended June 30, 2012 and 2011. Cash equivalents are considered to be cash-on-hand, bank deposits and highly liquid investments with an original maturity of three months or less.

	2012	2011
Cash flow from operating activities	\$ 724,525	\$ 596,949
Cash flow from investing activities	3,149	3,302
Cash flow used by capital and related financing activities	<u>(424,707)</u>	<u>(67,192)</u>
Net increase (decrease) in cash and cash equivalents	302,967	533,059
Cash and cash equivalents, beginning of year	<u>1,927,396</u>	<u>1,394,337</u>
Cash and cash equivalents, end of year	<u>\$ 2,230,363</u>	<u>\$ 1,927,396</u>

Financial Statements

The Waterworks' financial statements are prepared on an accrual basis in accordance with accounting principles generally accepted in the United States of America promulgated by the Governmental Accounting Standards Board (GASB). The Waterworks is structured as a single enterprise fund with revenues recognized when earned, not received. Expenses are recognized when incurred, not when they are paid. Capital assets are capitalized and (except land) are depreciated over their useful lives. See the notes to the financial statements for a summary of the Waterworks' significant accounting policies.

Capital Acquisitions and Construction Activities

During the year ended June 30, 2012, the Waterworks expended \$175,349 on capital activities. A large portion of the capital expenditures for the year was for hazard mitigation measures put in place along the south property line of the Treatment Plant, adjacent to Tama Road, as a result of the damage from the 2010 flash flooding of Flint Creek. This project was partially funded by FEMA, as this event was declared a major disaster by the President. Additional capital expenditure activities included a water main extension on Pawnee Drive in the South Ridge Subdivision, replacement of the distribution shop roof at the Office, the on-going replacement of the softening basin sludge moving equipment (5 of 8 bays now complete), replacement of the Office building heating/air conditioning unit, replacement of the Office server, PCs and printer, and purchase of materials for new water service installations. With the exception of the FEMA funding for the hazard mitigation project, the remainder of the capital projects and purchases were financed with reserves from the Depreciation and Improvement Fund, which comprises a major portion of the Board restricted net assets, and from Maintenance and Operating funds.

Request for Information

This financial report is designed to provide a general overview of the Waterworks' finances for all those interested. Questions concerning any of the information provided in this report or requests for additional information should be addressed in writing to Alan Borden, General Manager, Burlington Municipal Waterworks, 500 North Third Street, Burlington, Iowa 52601.

**Burlington Municipal Waterworks,
A Component Unit of the City of Burlington
Statements of Net Assets - Proprietary Fund
June 30, 2012 and 2011**

	2012	2011
Assets		
Current Assets		
Cash and cash equivalents	\$ 1,202,991	\$ 1,079,700
Accounts receivable, net of allowance for doubtful accounts: \$6,000	306,251	253,610
Inventory, at cost	46,771	52,577
Prepaid expenses	<u>105,656</u>	<u>128,135</u>
Total current assets	<u>1,661,669</u>	<u>1,514,022</u>
Board Designated		
Bond and interest reserve fund:		
Cash and cash equivalents	<u>1,027,372</u>	<u>847,696</u>
Utility Plant in Service		
Property and equipment at cost	23,461,546	23,288,958
Less accumulated depreciation	<u>(12,897,714)</u>	<u>(12,323,075)</u>
	<u>10,563,832</u>	<u>10,965,883</u>
Other Assets		
Prepaid debt issuance costs, net of accumulated amortization	17,260	18,520
Accrued interest receivable	72,844	72,459
Accounts receivable, water main extension	<u>165,606</u>	<u>165,606</u>
	<u>255,710</u>	<u>256,585</u>
	<u>\$ 13,508,583</u>	<u>\$ 13,584,186</u>
Liabilities		
Current Liabilities		
Accounts payable	\$ 20,314	\$ 73,172
Due to City of Burlington	14,023	4,848
Accrued water revenue bond interest payable	8,660	9,064
Salaries and wages payable	23,095	60,615
Compensated absences payable	55,192	51,865
IAAP deposit on main extension	48,373	101,069
Deferred revenue	148,692	143,318
Liability for lime removal	510,201	554,757
Hydrant meter deposits	1,550	5,100
Current portion long-term debt	<u>170,000</u>	<u>222,000</u>
Total current liabilities	<u>1,000,100</u>	<u>1,225,808</u>
Long-term Debt, net of current portion	<u>3,294,000</u>	<u>4,287,748</u>
Net Assets		
Invested in capital assets, net of related debt	7,099,832	6,456,135
Unrestricted	<u>2,114,651</u>	<u>1,614,495</u>
	<u>9,214,483</u>	<u>8,070,630</u>
	<u>\$ 13,508,583</u>	<u>\$ 13,584,186</u>

See notes to financial statements.

**Burlington Municipal Waterworks,
A Component Unit of the City of Burlington
Statements of Revenues, Expenses and Changes in Fund Net Assets - Proprietary Fund
For the Years Ended June 30, 2012 and 2011**

	2012	2011
Operating Revenues		
Unmetered water	\$ 1,726,951	\$ 1,659,751
Metered water	1,844,406	1,717,047
Extra water	4,355	5,798
Service charges	54,155	47,223
Miscellaneous	<u>129,058</u>	<u>82,120</u>
Net operating revenues	<u>3,758,925</u>	<u>3,511,939</u>
Operating Expenses		
Power and pumping	1,075,110	1,044,871
Purification	923,457	913,274
Distribution	1,102,972	1,030,454
General and administrative	<u>428,660</u>	<u>429,918</u>
	3,530,199	3,418,517
Less: Sewer collection reimbursement	<u>(116,059)</u>	<u>(115,297)</u>
Net operating expenses	<u>3,414,140</u>	<u>3,303,220</u>
Net operating income	<u>344,785</u>	<u>208,719</u>
Nonoperating Income (Expense)		
Interest income	3,534	4,125
Interest expense	<u>(118,772)</u>	<u>(100,451)</u>
Total nonoperating expenses	<u>(115,238)</u>	<u>(96,326)</u>
Income before capital contributions	<u>229,547</u>	<u>112,393</u>
Capital contributions - Hazard Mitigation Grant	-	32,675
Capital contributions - Long-term debt forgiveness	884,000	-
Capital contributions - Water main extension	<u>30,306</u>	<u>32,597</u>
Total capital contributions	<u>914,306</u>	<u>65,272</u>
Increase in net assets	1,143,853	177,665
Net assets, beginning of year	<u>8,070,630</u>	<u>7,892,965</u>
Net assets, end of year	<u>\$ 9,214,483</u>	<u>\$ 8,070,630</u>

See notes to financial statements.

**Burlington Municipal Waterworks,
A Component Unit of the City of Burlington
Statements of Cash Flows - Proprietary Fund
For the Years Ended June 30, 2012 and 2011**

	2012	2011
Cash Flows from Operating Activities		
Receipts from customers	\$ 3,535,438	\$ 3,355,620
Receipts from service charges and miscellaneous	183,213	150,415
Hydrant meter deposits (paid) received, net	(3,550)	3,600
Payments to suppliers	(1,776,288)	(1,757,034)
Payments to employees	<u>(1,214,288)</u>	<u>(1,155,652)</u>
Net cash provided by operating activities	<u>724,525</u>	<u>596,949</u>
Cash Flows from Capital and Related Financing Activities		
Purchase of capital assets	(175,349)	(469,340)
Capital contributions received	30,306	65,272
Interest payments on long-term debt	(117,916)	(119,488)
Principal payments on long-term debt	(165,000)	(182,000)
Principal borrowings on long-term debt	<u>3,252</u>	<u>638,364</u>
Net cash used by capital and related financing activities	<u>(424,707)</u>	<u>(67,192)</u>
Cash Flows from Investing Activities		
Interest income	<u>3,149</u>	<u>3,302</u>
Net cash provided by investing activities	<u>3,149</u>	<u>3,302</u>
Net increase in cash and cash equivalents	302,967	533,059
Cash and cash equivalents, beginning of year	<u>1,927,396</u>	<u>1,394,337</u>
Cash and cash equivalents, end of year	<u>\$ 2,230,363</u>	<u>\$ 1,927,396</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating income	\$ 344,785	\$ 208,719
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	574,639	561,764
Changes in assets and liabilities:		
Receivables, inventory and prepaids	(24,356)	(58,531)
Accounts payable and accrued expenses	(175,917)	(120,388)
Deferred revenue	<u>5,374</u>	<u>5,385</u>
Net cash provided by operating activities	<u>\$ 724,525</u>	<u>\$ 596,949</u>
Supplemental Disclosure of Noncash Financing Activities		
Equipment purchases financed through accounts payable	\$ -	\$ 2,761
Capitalized interest on assets under construction	-	21,476
Long-term debt forgiveness	884,000	-

See notes to financial statements.

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

Note 1. Summary of Significant Accounting Policies

The Waterworks was established in 1878 and currently provides water for the residential and commercial needs of locations within the City of Burlington, Iowa. Additionally, water is provided to the cities of West Burlington, Danville, Middletown (all Iowa), the Iowa Army Ammunition Plant at Middletown, Iowa, and the Rathbun Regional Water Association, Inc.

The governing body of the Waterworks is a Board of Trustees consisting of three members appointed by the City of Burlington.

Reporting Entity

For financial reporting purposes, the Waterworks has included all funds, organizations, account groups, agencies, boards, commissions and authorities. The Waterworks has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Waterworks are such that exclusion would cause the Waterworks' financial statements to be misleading or incomplete.

The Governmental Accounting Standards Board (GASB) has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the entity to impose its will on that organization, or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on, the entity.

Based on the above criteria, there are no agencies or entities that should be combined with the financial statements of the Waterworks. However, based on these criteria, the Waterworks is a component unit of the City of Burlington for financial reporting purposes. The City of Burlington has financial accountability for the Waterworks because it appoints a voting majority of the Waterworks' Board of Trustees and provides financial benefit to the Waterworks.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The financial statements of the Waterworks are prepared in accordance with accounting principles generally accepted in the United States of America. The Waterworks' reporting entity applies all relevant GASB pronouncements, except for GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which has not been implemented. The proprietary fund financial statements apply Financial Accounting Standards Board pronouncements and Accounting Principles Board Opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails.

The accounts of the Waterworks are organized on the basis of funds or account groups, each of which is considered to be a separate accounting entity. The transactions of each fund or account group are summarized by providing a separate set of self-balancing accounts which include its assets, liabilities, fund equity, revenues and expenses.

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

Note 1. Summary of Significant Accounting Policies (continued)

The accounts of the Waterworks are primarily organized as an enterprise fund, which is a proprietary fund type. Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The proprietary funds are accounted for using the flow of economic resources measurement focus. The accounting objectives are a determination of net income, financial position and changes in cash flow. All assets and liabilities associated with a proprietary fund's activities are included on its statement of net assets. Operating income reported in the proprietary fund financial statements includes revenues and expenses related to the primary, continuing operations of the fund. Principal operating revenues for the proprietary fund are charges to customers for services or rent. Principal operating expenses are the costs of providing goods or services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as nonoperating in the financial statements.

Assets, Liabilities and Fund Equity

The Statement of Net Assets is based on the following accounting policies:

Cash and Cash Equivalents

The Waterworks considers all short-term investments with an original maturity of three months or less to be cash equivalents.

Accounts Receivable

Accounts receivable are recorded at the time the service is billed. Unbilled water usage for service consumed between periodic scheduled billing dates is estimated and is recognized as revenue in the period in which the service is provided.

The Waterworks grants credit to customers, substantially all of whom are located in Burlington, Iowa. The risk of loss on accounts receivable is the balance due at the time of default. Accounts receivable are considered past due after twenty days and charged off when management determines the account is uncollectible. Bad debts are charged to operations in the year in which the account is determined uncollectible. The Waterworks has the ability to deny continued service to customers with past due bills.

Inventories

Inventories, which consist of chemical supplies and repair materials, are recognized at cost at the time they are purchased.

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

Note 1. Summary of Significant Accounting Policies (continued)

Property and Equipment

Property and equipment are accounted for at historical cost. Property and equipment is defined by the Waterworks as assets with an estimated useful life in excess of one year. Property and equipment is depreciated using the 150% declining balance method over the following estimated useful lives:

Land improvements	15-22 years
Buildings and tanks	7-40 years
Distribution miscellaneous equipment	10-35 years
Distribution mains	10-35 years
Emergency well water	20 years
Filter equipment	5-20 years
Furniture and office equipment	5-10 years
Miscellaneous plant equipment	5-20 years
Power/pumping equipment	10-39 years
Sludge equipment	10-15 years
Vehicles	5-10 years

The cost of assets sold, retired, or otherwise disposed of and the related allowance for depreciation are eliminated from the accounts, and any resulting gain or loss is included in operations.

Expenditures for maintenance and repairs are charged against operations. Renewals and betterments that materially extend the life of an asset are capitalized.

Amortization of Water Revenue Refunding Capital Loan Note Fees

During the year ended June 30, 2010, the Waterworks incurred costs of \$20,820 in connection with the 2009A Series Water Revenue Refunding Capital Loan Notes. These costs are being ratably amortized on a monthly basis over the life of the Capital Loan Notes until the first call date. The amortization expense for the years ended June 30, 2012 and 2011 was \$1,260 and \$1,298, respectively.

Deferred Revenue

The Waterworks has recorded a liability for deferred (billed in advance) unmetered water revenue.

Compensated Absences

Waterworks employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, retirement or death. The Waterworks' liability for accumulated vacation hours has been computed based on the rates in effect at July 1, 2012.

Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplemental Information. During the year ended June 30, 2012, disbursements did not exceed the amount budgeted.

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

Note 1. Summary of Significant Accounting Policies (continued)

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent Events

The Waterworks performed an evaluation of subsequent events through September 25, 2012, which is the date the financial statements were issued. There are no subsequent events that require disclosure or recognition in the financial statements as of June 30, 2012.

Note 2. Property and Equipment

Changes in property and equipment consist of the following:

	June 30, 2012			Balance End of year
	Balance Beginning of year	Increases	Decreases	
Property and equipment not being depreciated/amortized:				
Land	\$ 151,981	\$ -	\$ -	\$ 151,981
Construction in progress	641	-	(641)	-
Total capital assets not being depreciated/amortized	<u>152,622</u>	<u>-</u>	<u>(641)</u>	<u>151,981</u>
Property and equipment being depreciated/amortized:				
Building and tanks	4,531,040	20,756	-	4,551,796
Distribution miscellaneous equipment	127,397	18,239	-	145,636
Distribution mains	12,354,275	27,303	-	12,381,578
Emergency well water	77,072	-	-	77,072
Filter equipment	1,009,122	-	-	1,009,122
Furniture and office equipment	179,327	32,584	-	211,911
Land improvements	715,580	60,015	-	775,595
Miscellaneous plant equipment	185,232	-	-	185,232
Power/pumping equipment	3,387,314	-	-	3,387,314
Sludge equipment	92,314	13,213	-	105,527
Vehicles	477,663	1,119	-	478,782
Total property and equipment being depreciated/amortized	<u>23,136,336</u>	<u>173,229</u>	<u>-</u>	<u>23,309,565</u>
Less accumulated depreciation/amortization for:				
Building and tanks	2,275,888	110,051	-	2,385,939
Distribution miscellaneous equipment	36,281	11,194	-	47,475
Distribution mains	5,778,313	293,421	-	6,071,734
Emergency well water	12,853	4,816	-	17,669
Filter equipment	922,493	12,673	-	935,166
Furniture and office equipment	178,389	7,277	-	185,666
Land improvements	443,120	27,343	-	470,463
Miscellaneous plant equipment	82,322	11,849	-	94,171
Power/pumping equipment	2,108,725	78,206	-	2,186,931
Sludge equipment	29,798	9,402	-	39,200
Vehicles	454,893	8,407	-	463,300
Total accumulated depreciation/amortization	<u>12,323,075</u>	<u>574,639</u>	<u>-</u>	<u>12,897,714</u>
Total property and equipment, net	<u>\$ 10,965,883</u>	<u>\$ (401,410)</u>	<u>\$ (641)</u>	<u>\$ 10,563,832</u>

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

Note 2. Property and Equipment (continued)

	June 30, 2011			Balance End of year
	Balance Beginning of year	Increases	Decreases	
Property and equipment not being depreciated/amortized:				
Land	\$ 151,981	\$ -	\$ -	\$ 151,981
Construction in progress	<u>2,393,137</u>	<u>641</u>	<u>(2,393,137)</u>	<u>641</u>
Total capital assets not being depreciated/amortized	<u>2,545,118</u>	<u>641</u>	<u>(2,393,137)</u>	<u>152,622</u>
Property and equipment being depreciated/amortized:				
Building and tanks	4,526,218	4,822	-	4,531,040
Distribution miscellaneous equipment	108,775	18,622	-	127,397
Distribution mains	9,787,330	2,566,945	-	12,354,275
Emergency well water	51,392	25,680	-	77,072
Filter equipment	1,009,122	-	-	1,009,122
Furniture and office equipment	179,327	-	-	179,327
Land improvements	715,580	-	-	715,580
Miscellaneous plant equipment	170,311	14,921	-	185,232
Power/pumping equipment	3,367,264	20,050	-	3,387,314
Sludge equipment	89,594	2,720	-	92,314
Vehicles	<u>476,706</u>	<u>957</u>	<u>-</u>	<u>477,663</u>
Total property and equipment being depreciated/amortized	<u>20,481,619</u>	<u>2,654,717</u>	<u>-</u>	<u>23,136,336</u>
Less accumulated depreciation/amortization for:				
Building and tanks	2,163,014	112,874	-	2,275,888
Distribution miscellaneous equipment	25,844	10,437	-	36,281
Distribution mains	5,534,620	243,693	-	5,778,313
Emergency well water	7,921	4,932	-	12,853
Filter equipment	905,382	17,111	-	922,493
Furniture and office equipment	171,760	6,629	-	178,389
Land improvements	418,444	24,676	-	443,120
Miscellaneous plant equipment	69,390	12,932	-	82,322
Power/pumping equipment	2,005,401	103,324	-	2,108,725
Sludge equipment	20,649	9,149	-	29,798
Vehicles	<u>438,886</u>	<u>16,007</u>	<u>-</u>	<u>454,893</u>
Total accumulated depreciation/amortization	<u>11,761,311</u>	<u>561,764</u>	<u>-</u>	<u>12,323,075</u>
Total property and equipment, net	<u>\$ 11,265,426</u>	<u>\$ 2,093,594</u>	<u>\$ (2,393,137)</u>	<u>\$ 10,965,883</u>

For the years ended June 30, 2012 and 2011, the Waterworks capitalized interest of none and \$21,476, respectively, for the interest costs incurred relating to the construction of the property prior to its in-service date of January 1, 2011.

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

Note 3. Pension and Retirement Benefits

The Waterworks contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits, which are established by State statute, to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplemental information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306.

Plan members are required to contribute 5.38% of their annual salary and the Waterworks is required to contribute 8.07% of annual covered payroll. Contribution requirements are established by State statute. The Waterworks' contribution to IPERS for the years ended June 30, 2012, 2011 and 2010 was \$20,391, \$12,076 and \$9,400, respectively, which was equal to the required contributions.

The Waterworks established a defined contribution pension plan on February 1, 1989. The plan requires the Waterworks to contribute five percent (5%) of each eligible employee's total pay on a monthly basis. The employee is required to contribute a matching amount. The Waterworks contributed \$48,097, \$49,190, and \$49,308, net of forfeitures, to the plan for the years ended June 30, 2012, 2011, and 2010, respectively. Employees must complete six months of service before being eligible. The plan is funded through separate investment contracts with an insurance company.

Note 4. Deposits

The Waterworks' deposits at June 30, 2012 and 2011 were entirely covered by Federal depository insurance or by the state sinking fund in accordance with Chapter 12C of the Code of Iowa. This Chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Waterworks is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally-insured depository institutions approved by the Waterworks and the Treasurer of the State of Iowa; prime eligible bankers acceptances; certain high-rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

Note 5. Deferred Compensation

The Waterworks offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

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

Note 6. Related Organization

Based on criteria set by the GASB, Burlington Municipal Waterworks is a component unit of the City of Burlington for financial reporting purposes. The City of Burlington has financial accountability for the Waterworks under these criteria because it appoints a voting majority of the Waterworks' Board of Trustees and provides financial benefits to the Waterworks.

The Waterworks provides billing service for sewer, storm water, and trash for the City of Burlington and collects fees for these services. Amounts for the years ended June 30, 2012 and 2011 included as sewer collection reimbursement on the Statement of Revenues, Expenses and Changes in Net Assets amounted to \$116,059 and \$115,297, respectively. Amounts due from the City as of June 30, 2012 and 2011 for water main extensions, including interest, was \$238,450 and \$238,065 for the years ended June 30, 2012 and 2011, respectively. The net payable to the City of Burlington at June 30, 2012 and 2011 was \$14,023 and \$4,848, respectively.

Note 7. Risk Management

The Waterworks is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial liability insurance. Settled claims for these risks have not exceeded commercial insurance coverage for the past three years.

Note 8. Contract with Iowa Army Ammunition Plant

The Waterworks entered into a contract with the Department of the Army as of November 1, 1974, which provides that the Waterworks shall construct, own, and operate a water distribution system to serve the premises of the Iowa Army Ammunition Plant (IAAP) at Middletown, Iowa. As consideration, the Waterworks received a connection fee of \$1,320,000 from the Department of the Army. The contract further provides that the Waterworks shall issue credits against the monthly bills of the IAAP; however, if monthly consumption by the IAAP is reduced at any time to \$4,225 per month or less, the credit will also be reduced to allow the Waterworks to receive a minimum monthly payment of \$3,000. Credit will be issued until total credits of \$1,320,000 have been granted. The amount of credits remaining at June 30, 2012 and 2011 was \$48,373 and \$101,069, respectively. Revenue recorded from the contract for the years ended June 30, 2012 and 2011 was \$113,461 and \$111,516, respectively.

Note 9. Liability for Lime Removal

The water treatment plant generates approximately 10,000 to 15,000 tons of lime per year, which is held primarily in two lagoons. The two lagoons were full, which placed a limitation on additional space for lime storage and necessitated the reduction in the number of tons held in the lagoons. The Department of Natural Resources had asked for a plan to reduce the amount of lime in the lagoons and on the premises.

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

Note 9. Liability for Lime Removal (continued)

During the year ended June 30, 2005, the Board approved a contract for removal of approximately 34,000 tons of wet lime over the two-year period ending December 15, 2006. The contract allows for two additional two-year extensions, with the price and quantity to be negotiated, for a total six-year contract. The final two-year contract extension was granted through December 15, 2010. During the year ended June 30, 2011, a change order was approved modifying the schedule through December 15, 2011. The cost for removal is \$10.35 per ton in the contract extension.

For the years ended June 30, 2012 and 2011, the liability for lime removal decreased as the lime removed exceeded the estimated tonnage added to the lagoons.

	June 30,	
	2012	2011
Liability for lime removal	\$ 554,757	\$ 592,918
Increase (decrease) of liability	(44,556)	(38,161)
Balance accrued	\$ 510,201	\$ 554,757

Note 10. Jointly-governed Organization

The Waterworks is a participant in the Joint Safety Committee (JSC). The JSC is a cooperative effort by the Waterworks, the City of Burlington, Des Moines County and the Des Moines County Regional Solid Waste Commission to monitor and improve on-the-job safety conditions and to assist in complying with Occupational Safety and Health Administration regulations. The Waterworks currently provides one member of the six-member Committee. For each of the years ended June 30, 2012 and 2011, the Waterworks contributed \$5,704 to the JSC for operating expenses.

Note 11. Contract with Rathbun Regional Water Association, Inc.

The Waterworks entered into a contract dated July 29, 1992, to provide a water supply for Rathbun Regional Water Association, Inc. (Rathbun), serving users within a specified area. Rathbun has agreed to purchase a minimum of 350,000 gallons of water per day within one year from the first usage. The Waterworks has agreed to provide up to an average of 1,000,000 gallons per day. This water is sold at a rate of one and one-half times the standard metered rate for industrial users for quantities up to 1,000,000 gallons per day, and a rate of two times this standard metered rate for usage in excess of 1,000,000 gallons per day. The initial term of this contract is forty years, with provisions for an additional twenty years.

Revenue recorded from the contract for the years ended June 30, 2012 and 2011 was \$473,245 and \$412,747, respectively.

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

Note 12. Contract with the City of West Burlington, Iowa

On August 16, 1995, the Waterworks entered into an agreement with the City of West Burlington, Iowa. The contract provides for the sale of water to the City of West Burlington in a range from 290,000 gallons per day to 1,000,000 gallons per day, averaged over each monthly billing cycle. The charge for this water is at a rate of one and one-half times the standard metered rate of industrial users for the first 1,000,000 gallons per day. The contract provides an initial term of twenty years, with four additional terms of five years each, unless cancelled by either party after the initial term expires. Water usage began on January 1, 1996. Revenue recorded from the contract for the years ended June 30, 2012 and 2011 was \$253,205 and \$254,988, respectively.

Note 13. Contract with the City of Danville, Iowa

On November 3, 1983, the Waterworks entered into an agreement with the City of Danville, Iowa. The contract provides for the sale of water to the City of Danville not to exceed 140 gallons per minute. The charge for this water is at a rate of one and one-half times the standard metered rate plus a wheeling charge as required by the Iowa Army Ammunition Plant. The contract provides an initial term of twenty years, with additional terms of five years each, unless cancelled by either party after the initial term expires. Water usage began on October 16, 1984. Revenue recorded from the contract for the years ended June 30, 2012 and 2011 was \$61,399 and \$56,451, respectively.

Note 14. Contract with the City of Middletown, Iowa

On March 13, 2001, the Waterworks entered into an agreement with the City of Middletown, Iowa. The contract provides for the sale of water to the City of Middletown in a range from 14,000 gallons per day to 110,000 gallons per day, averaged over each monthly billing cycle. The charge for this water is at a rate of one and one-half times the standard metered rate plus a wheeling charge as required by the Iowa Army Ammunition Plant. The contract provides an initial term of fifteen years, with continuance of additional terms of five years each, unless cancelled by either party after the initial term expires. Water usage began in March, 2001. Revenue recorded from the contract for the years ended June 30, 2012 and 2011 was \$23,470 and \$27,488, respectively.

Note 15. Bonds and Long-Term Debt

On September 7, 2006, the Waterworks issued \$2,600,000 in Water Revenue Refunding Capital Loan Notes. The Waterworks entered into an escrow agreement with Wells Fargo Bank, N.A., the trustee of the master trust of the Iowa Finance Authority, and deposited the proceeds from the refunding notes. The proceeds were used to advance refund \$2,600,000 of the master trust maturing on June 1, 2027. These notes mature semi-annually from June 1, 2008 through June 1, 2027, with an interest rate of 3.00%. Notes maturing after June 1, 2018 may be called for redemption and paid before maturity on said date or any date thereafter at par plus accrued interest in whole or in part, in inverse order of maturity.

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

Note 15. Bonds and Long-Term Debt (continued)

On January 13, 2010, the Waterworks issued \$2,082,000 in Water Revenue Refunding Capital Loan Notes. The Waterworks entered into an escrow agreement with Wells Fargo Bank, N.A., the trustee of the master trust of the Iowa Finance Authority, and deposited the proceeds from the refunding notes. The proceeds are to be used to advance refund \$2,082,000 of the master trust maturing on June 1, 2030. During the year ended June 30, 2012, the Waterworks completed its drawn downs of \$1,511,000 related to this borrowing. These notes mature semi-annually from June 1, 2010 through June 1, 2030, with an interest rate of 3.00%.

On January 13, 2010, the Waterworks issued \$884,000 in an American Recovery and Reinvestment Act of 2009 (ARRA) Forgivable Water Revenue Bond, Series 2009B. The Waterworks entered into an escrow agreement with Wells Fargo Bank, N.A., the trustee of the master trust of the Iowa Finance Authority, and deposited the proceeds from the refunding notes. The proceeds were used to advance refund \$884,000 of the master trust maturing on June 1, 2030. During the year ended June 30, 2012, the Waterworks received the certificate of completion and the bond was forgiven. Accordingly, the Workworks recognized capital contributions of \$884,000 for the year ended June 30, 2012.

A summary of changes in long-term debt for the year ended June 30, 2012 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year	Due Within One Year
Revenue notes	\$ <u>4,509,748</u>	\$ <u>3,252</u>	\$ <u>(1,049,000)</u>	\$ <u>3,464,000</u>	\$ <u>170,000</u>

Annual debt service requirements to maturity for Water Revenue Bonds/Notes are as follows:

Year Ending June 30,	Revenue Bonds, Series 2006		Revenue Bonds, 2010A Series		Total	
	Principal	Interest	Principal	Interest	Principal	Total
2013	\$ 112,000	\$ 62,550	\$ 58,000	\$ 41,370	\$ 170,000	\$ 103,920
2014	115,000	59,190	60,000	39,000	175,000	98,190
2015	119,000	55,740	61,000	37,830	180,000	93,570
2016	122,000	52,170	63,000	36,000	185,000	88,170
2017	126,000	48,510	65,000	34,110	191,000	82,620
2018-2022	690,000	183,450	361,000	139,800	1,051,000	323,250
2023-2027	801,000	73,530	423,000	86,400	1,224,000	159,930
2028-2030	-	-	288,000	13,140	288,000	13,140
	<u>\$ 2,085,000</u>	<u>\$ 535,140</u>	<u>\$ 1,379,000</u>	<u>\$ 427,650</u>	<u>\$ 3,464,000</u>	<u>\$ 962,790</u>

The resolution providing for the issuance of the revenue notes includes a provision that states that the Waterworks covenants to continue in effect rates for services rendered to be sufficient to produce and maintain Net Revenues at a level not less than 110% of the amount of principal and interest on the revenue bonds as they become due.

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

Note 16. Unrestricted Net Assets Designated by the Board

As of June 30, 2012 and 2011, the Board had designated the following amounts for depreciation, extensions and improvements to the Waterworks system and bond and interest reserve fund:

	Depreciation, Extensions and <u>Improvements</u>	Bond and <u>Interest Reserve</u>	<u>Total</u>
June 30, 2012			
Cash and cash equivalents	\$ <u>688,505</u>	\$ <u>338,867</u>	\$ <u>1,027,372</u>
June 30, 2011			
Cash and cash equivalents	\$ <u>780,347</u>	\$ <u>67,349</u>	\$ <u>847,696</u>

Note 17. Prospective Accounting Change

GASB has issued two Statements not yet implemented by the Waterworks. Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, will be effective for the Waterworks for the fiscal year ending June 30, 2013. This Statement redefines the components of the statement of net assets. In the year that Statement No. 63 is implemented, the prior year financial statements will be retroactively restated for comparison perspective. Statement No. 65, *Items Previously Reported as Assets and Liabilities*, will be effective for the Waterworks for the fiscal year ending June 30, 2014. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. In the year that Statement No. 65 is implemented, the beginning net assets will be retroactively restated for prior periods presented. The Waterworks' management has not yet determined the effect these Statements will have on the Waterworks' financial statements.

**Burlington Municipal Waterworks,
A Component Unit of the City of Burlington
Comparison of Revenues and Expenses - Actual to Budget
Required Supplemental Information
For the Year Ended June 30, 2012**

	<u>Actual</u>	<u>Budgeted Amounts Original/Final</u>	<u>Variance: Favorable (Unfavorable)</u>	<u>Net as Percent of Budget</u>
Operating revenues				
Water sales	\$ 3,575,712	\$ 3,442,680	\$ 133,032	104 %
Main extension and miscellaneous	<u>183,213</u>	<u>96,915</u>	<u>86,298</u>	189 %
Total operating revenues	<u>3,758,925</u>	<u>3,539,595</u>	<u>219,330</u>	
Operating expenses				
Power, pumping and purification	1,886,436	1,978,140	91,704	95 %
Distribution	683,490	708,465	24,975	96 %
General and administration	385,634	414,330	28,696	93 %
Debt service	-	323,500	323,500	-
Sewer collection reimbursement	<u>(116,059)</u>	<u>(105,000)</u>	<u>11,059</u>	111 %
Operating expenses, before depreciation	<u>2,839,501</u>	<u>3,319,435</u>	<u>479,934</u>	
Net operating income	919,424	220,160		
Nonoperating income (expense)				
Interest income	3,534	7,500		
Interest expense	(118,772)	-		
Capital contributions - Long-term debt forgiveness	884,000	-		
Capital contributions - Water main extension	<u>30,306</u>	<u>-</u>		
Increase in net assets before depreciation	1,718,492	227,660		
Depreciation expense	<u>(574,639)</u>	<u>(525,217)</u>		
Increase (decrease) in net assets	<u>\$ 1,143,853</u>	<u>\$ (297,557)</u>		

See accompanying independent auditor's report.

**Burlington Municipal Waterworks,
A Component Unit of the City of Burlington
Required Supplemental Information
Notes to Required Supplemental Information - Budgetary Reporting
For the Year Ended June 30, 2012**

The Board of Trustees annually adopts a budget on the accrual basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

The Waterworks' budget is submitted with the City of Burlington's budget. Formal and legal budgetary control is based upon classes of disbursements known as functions, not by fund or category type. The Waterworks' disbursements are budgeted in the business type activities function. The Waterworks' budget is reflected in the original and final budgeted amount. The Waterworks' budget was not amended during the year.

During the year ended June 30, 2012, disbursements did not exceed the amounts budgeted.

**Burlington Municipal Waterworks,
A Component Unit of the City of Burlington
Supplemental Information
Supplemental Schedule of Expenses
For the Year Ended June 30, 2012**

	<u>Power and Pumping</u>	<u>Purification</u>	<u>Distribution</u>	<u>General and Administrative</u>	<u>Total June 30, 2012</u>	<u>Total July 1, 2011</u>
Salaries and wages	\$ 363,794	\$ 231,881	\$ 414,213	\$ 150,725	\$ 1,160,613	\$ 1,148,299
Group insurance	147,564	-	120,927	48,789	317,280	297,881
Retirement plan	26,717	9,348	22,604	9,819	68,488	61,267
Payroll taxes	<u>42,126</u>	<u>4,229</u>	<u>33,912</u>	<u>11,857</u>	<u>92,124</u>	<u>87,727</u>
Total salaries and related expenses	580,201	245,458	591,656	221,190	1,638,505	1,595,174
Power and fuel	315,124	-	4,506	4,506	324,136	298,464
Supplies and tools	2,986	11,459	4,153	2,238	20,836	27,321
Water main maintenance	-	-	8,119	-	8,119	16,162
Equipment repairs	1,915	5,593	36,831	-	44,339	35,178
Structure repairs	43,405	1,991	2,769	-	48,165	28,369
Lime removal	-	137,900	-	-	137,900	142,984
Ground supplies	3,448	-	1,079	2,518	7,045	4,405
Telephone and leased circuits	7,301	-	14	2,201	9,516	11,596
Professional fees	-	-	-	7,340	7,340	15,440
Dues and subscriptions	204	-	-	2,589	2,793	2,225
Uniforms/cleaning	3,373	-	2,174	-	5,547	7,891
Office supplies and expense	500	-	-	38,789	39,289	39,340
Insurance	-	-	-	85,498	85,498	87,780
Chemicals	-	496,533	-	-	496,533	477,258
Vehicle expense	11,447	-	26,982	-	38,429	33,415
Miscellaneous	<u>17,598</u>	<u>-</u>	<u>5,207</u>	<u>18,765</u>	<u>41,570</u>	<u>33,751</u>
Total expense before depreciation	987,502	898,934	683,490	385,634	2,955,560	2,856,753
Depreciation	<u>87,608</u>	<u>24,523</u>	<u>419,482</u>	<u>43,026</u>	<u>574,639</u>	<u>561,764</u>
Total operating expenses	<u>\$ 1,075,110</u>	<u>\$ 923,457</u>	<u>\$ 1,102,972</u>	<u>\$ 428,660</u>	<u>\$ 3,530,199</u>	<u>\$ 3,418,517</u>

See accompanying independent auditor's report.

**Burlington Municipal Waterworks,
A Component Unit of the City of Burlington
Supplemental Information
Cash Balance Composition
For the Year Ended June 30, 2012**

<u>Depository</u>	<u>Demand Deposits</u>	<u>Total</u>
Farmers & Merchants Bank & Trust:		
Maintenance and operating	\$ 283,320	\$ 283,320
Depreciation, extensions and improvements	688,505	688,505
Revenue bond sinking fund	2,405	2,405
Revenue bond reserve	336,462	336,462
Two Rivers Bank & Trust:		
Maintenance and operating	<u>918,471</u>	<u>918,471</u>
	<u>2,229,163</u>	2,229,163
Petty cash		<u>1,200</u>
		<u>\$ 2,230,363</u>

See accompanying independent auditor's report.



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**Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed In
Accordance with *Government Auditing Standards***

Board of Trustees
Burlington Municipal Waterworks,
A Component Unit of the City of Burlington
Burlington, Iowa

We have audited the accompanying financial statements of the proprietary fund of Burlington Municipal Waterworks (Waterworks), A Component Unit of the City of Burlington, as of and for the year ended June 30, 2012, which collectively comprise the basic financial statements listed in the table of contents, and have issued our report thereon dated September 25, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Waterworks' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the Waterworks' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Waterworks' internal control over financial reporting.

A deficiency in internal control exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Waterworks' financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a certain deficiency in internal control over financial reporting, described in Part I of the accompanying Schedule of Findings, that we consider to be a significant deficiency in internal control over financial reporting. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Waterworks' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance or other matters that are described in Part II of the accompanying Schedule of Findings.

The Waterworks' responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the Waterworks' responses, we did not audit those responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the officials, employees and customers of Burlington Municipal Waterworks and other parties to whom the Waterworks may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the Burlington Municipal Waterworks during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

CPA Associates PC

September 25, 2012

**Burlington Municipal Waterworks,
A Component Unit of the City of Burlington
Schedule of Findings
For the Year Ended June 30, 2012**

Part I: Findings Related to the Financial Statements

SIGNIFICANT DEFICIENCY

I-A-12 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent one individual employee from handling a transaction from its inception to its completion. Management has not separated incompatible activities of personnel, thereby creating risks related to the safeguarding of cash and the accuracy of the financial statements.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, the Board of Trustees and management should continue to provide oversight and direction, based upon their direct knowledge of the Waterworks' operations and day-to-day contact with employees, to control and safeguard assets.

Response - The Waterworks will continue to review operating procedures and segregate employee duties to the extent financially feasible to maximize internal control.

Conclusion - Response accepted.

Instances of Noncompliance:

No matters were noted.

Part II: Other Findings Related to Required Statutory Reporting

II-A-12 Official Depositories - A resolution naming official depositories has been adopted by the Waterworks. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2012.

II-B-12 Deposits and Investments - The Waterworks has adopted a written investment policy as required by Chapter 12B.10B of the Code of Iowa.

II-C-12 Travel Expense - No expenditures of Waterworks money for travel expenses of spouses of Waterworks members or employees were noted.

II-D-12 Board Minutes - No transactions were found that we believe should have been approved in the Waterworks' minutes but were not.

II-E-12 Questionable Disbursements - No disbursements were found that did not meet the requirements of public purpose as defined in the Attorney General's opinion dated April 25, 1979.

II-F-12 Certified Budget - Disbursements during the year ended June 30, 2012 did not exceed budget amounts.

**Burlington Municipal Waterworks,
A Component Unit of the City of Burlington
Schedule of Findings
For the Year Ended June 30, 2012**

II-G-12 Business Transactions with Waterworks Officials and Employees - We noted no evidence of business transactions between Waterworks officials or employees that we believe to be in violation of statutory provisions.

II-H-12 Bond Coverage - Surety bond coverage of Waterworks officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that the coverage is adequate for current operations.

II-I-12 Delinquent Water Bills - Through review of the past due delinquent accounts receivable register at June 30, 2012, we noted delinquent payments not only from the general public but from one City of Burlington council member and one City of Burlington employee.

Recommendation - Consideration should be given to establishing policies that encourage City of Burlington employees and council members to provide positive examples of financial responsibility and ensure their accounts follow the same delinquent bill process as the general public.

Response - All delinquent Waterworks accounts are treated in the same manner by Waterworks employees, regardless of who the customers' employers are or what role they may have within our City government. The Waterworks operates separately from the City of Burlington, so the Waterworks has no authority to set policies for any City of Burlington employee or Council member as to when they should pay an account. All customers are encouraged to remit payment by the due date, but it is at the customers' discretion as to when they do that. Late payment by any customer can lead to water service disconnection, if payment is not remitted by the date shown on the late notice or the hand delivered disconnection notice.

Conclusion - Response accepted.