COUNCIL BLUFFS CITY WATER WORKS

FINANCIAL STATEMENTS AND SCHEDULE

DECEMBER 31, 2012 and 2011

(With Independent Auditors' Report Thereon)

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COUNCIL BLUFFS CITY WATER WORKS

OFFICIALS

Board of Trustees

Martin L. Brooks	Chairperson	June 30, 2013
Michael J Waller	Member	June 30, 2016
Glen M. Mitchell	Member	June 30, 2012
Carl L. Heinrich	Member	June 30, 2015
Maureen R. Kruse	Member	June 30, 2016

Water Works' Officials

Douglas P. Drummey	CEO & General Manager	Indefinite

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying balance sheets of the Council Bluffs City Water Works, Council Bluffs, Iowa (Water Works) as of December 31, 2012 and 2011, and the related statements of revenues and expenses, fund equity and cash flows for the years then ended.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. 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 "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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Council Bluffs City Water Works, as of December 31, 2012 and 2011 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.

Other Matters

Accounting principles generally accepted in the United States of America require that the *management's discussion and analysis and budgetary comparison information* on pages 17 and 18 be presented 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 audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Council Bluffs City Water Works basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by US Office of Management and Budge Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations,* and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements taken as a whole.

The schedule of federal expenditures is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standard

In accordance with *Government Auditing Standards*, we have also issued our report April 12, 2013 on our consideration of the Council Bluffs City Water Works 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Council Bluffs City Water Works internal control over financial reporting and compliance.

Hamilton Associates, P.C.

Council Bluffs, Iowa
April 12, 2013

Council Bluffs Water Works
Council Bluffs, Iowa

MANAGEMENT'S DISCUSSION AND ANALYSIS
Calendar Year Ending December 31, 2012 (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, 2012. We encourage readers to consider this information in conjunction with our financial statements, which follow.

FINANCIAL HIGHLIGHTS

- The Water Works' operating revenues increased 32.45% or $2,956,608 from calendar year 2011 to 2012.
- The Water Works' operating expenses increased by 2.22% or $197,065, more in calendar year 2011 to 2012.
- The Water Works' net assets increased 5.29% or $2,099,820, from December 31, 2011 to December 31, 2012.

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 81.23% 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 5.02% includes resources that are subject to restrictions. The remaining net assets 13.75% are the unrestricted net assets that can be used to meet the Water Works' obligations as they come due.

Balance Sheets
December 31, 2012 and 2011

	2012	2011
Current Assets	$ 6,539,396	$ 4,986,416
Restricted Assets	4,401,205	7,858,515
Capital Assets	67,739,490	61,975,623
Total Assets	$ 78,680,091	$ 74,820,554
Current Liabilities (payable from current assets)	$ 2,381,657	$ 1,619,685
Current Liabilities (payable from restricted assets)	2,298,563	2,894,821
Revenue bonds payable	32,242,018	30,648,015
Total Liabilities	$ 36,922,238	$ 35,162,521
Net Assets		
Invested in capital assets, net of related debt	$ 33,920,472	$ 34,649,469
Restricted	2,097,642	839,833
Unrestricted	5,739,739	4,168,731
Total Net Assets	$ 41,757,853	$ 39,658,033

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.

The Statement of Revenues and Expenses reflects a positive with an increase in the net assets at the end of the calendar year.

The Board of Trustees approved a rate increase of 8% for 2012.

In calendar year 2012, operating revenues increased by $2,956,608 or 32.45%, due to the increase in water sales, water rates, as well as federal grants received related to flooding in 2011.

A summary of revenues and expense for the years ending December 31, 2012 and 2011 is presented below:

Statements of Revenues and Expenses

	2012	2011
Operating Revenues		
Metered water sales	$ 10,242,217	$ 8,519,060
Rental	111,296	106,826
Other	$ 1,713,132	$ 484,151
Total operating revenues	$ 12,066,645	$ 9.110,037
Operating Expenses		
Facilities and Grounds	$ 825,965	$ 743,984
Inventory Adjustment	(15,126)	(563)
Purification	1,239,244	1,107,119
Distribution and Meter	1,333,609	1,218,018
Consumer Accounting	364,150	366,911
Administration and General	2,096,657	2,298,726
Pension and Social Security	350,904	326,806
Depreciation	$ 2,896,518	$ 2,833,855
Total operating expenses	$ 9,091,921	$ 8,894,856
Non-operating revenues (expenses)		
Interest on investments	$ 270,547	$ 323,981
Interest expenses	(1,140,436)	(1,080,971)
Loss on disposal of equipment	$ (22,737)	$ (1,309)
Non-operating revenues, net	$ (829,626)	$ (758,299)
Excess of expenses over revenues	$ 2,082,098	$ (543,118)

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, 2012 the Water Works had $109,387,658 invested in capital assets, net of accumulated depreciation of $42,009,853. Depreciation expense totaled $2,896,518 for calendar year 2012. More detailed information about the Water Works' capital assets is presented in Note 4 to the financial statements.

LONG-TERM DEBT

At December 31, 2012, the Water Works had $33,824,018 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.

Facilities and the distribution system operated by 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.

Vulnerability and security improvement of our system will be an ongoing process.

CONTACTING THE COUNCIL BLUFFS WATER WORKS FINANCIAL MANAGEMENT

This financial report is designed to provide our customers, investors and creditors with a general overview of the Water Works finances and operating activities. If you have any questions or require additional, information please contact the General Manager, 2000 North 25th Street, P O Box 309, Council Bluffs, Iowa 51502.

COUNCIL BLUFFS CITY WATER WORKS

BALANCE SHEETS
December 31, 2012 and 2011

ASSETS	2012	2011
CURRENT ASSETS		
Cash (Note 2)	$ 4,305,286	$ 2,864,566
Inventory	693,347	593,685
Receivables:		
Consumer accounts, net of allowance for doubtful accounts of $1,000 for 2011	1,118,572	1,129,840
Unbilled revenues	322,844	306,182
Total receivables	$ 1,441,416	$ 1,436,022
Prepaid insurance	99,347	92,143
Restricted assets (Note 3)	4,401,205	7,858,515
Total current assets	$ 10,940,601	$ 12,844,931
Property, plant and equipment, net (Note 4)	67,377,805	61,592,718
Capitalized Costs, net (Note 5)	361,685	382,905
	$ 78,680,091	$ 74,820,554
LIABILITIES AND FUND EQUITY		
LIABILITIES		
Current liabilities (payable from current assets):		
Accounts payable	$ 250,962	$ 185,780
Salaries payable	44,378	32,412
Accrued compensated absences	169,428	166,078
Accrued interest payable	93,929	89,019
Retainage payable	14,065	12,674
Due to City of Council Bluffs	226,895	331,722
Current portion of long term debt (Note 6)	1,582,000	802,000
Total current liabilities (payable from current assets)	$ 2,381,657	$ 1,619,685
Current liabilities (payable from restricted assets):		
Consumer deposits	$ 662,950	$ 632,825
Main extension escrow deposit	41,875	33,146
Accrued interest on consumer deposits	201,004	183,449
Construction costs payable	151,897	742,906
Retainage payable from restricted assets	1,240,837	1,302,495
Total current liabilities (payable from restricted assets)	$ 2,298,563	$ 2,894,821
Long term debt (Note 6)	$ 32,242,018	$ 30,648,015
Total liabilities	$ 36,922,238	$ 35,162,521
FUND EQUITY		
Contributed capital:		
Other governments	$ 1,132,808	$ 1,263,662
Customers and developers	6,037,753	6,623,713
Total contributed capital	$ 7,170,561	$ 7,887,375
Retained earnings	34,587,292	31,770,658
Total fund equity	$ 41,757,853	$ 39,658,033
	$ 78,680,091	$ 74,820,554

See Notes to Financial Statements.

COUNCIL BLUFFS CITY WATER WORKS

STATEMENTS OF REVENUES AND EXPENSES
Years Ended December 31, 2012 and 2011

	2012	2011
Operating revenues:		
Metered water sales	$10,242,217	$ 8,519,060
Rental	111,296	106,826
Other	1,713,132	484,151
Total operating revenues	$12,066,645	$ 9,110,037
Operating expenses:		
Facilities and grounds	$ 825,965	$ 743,984
Inventory adjustment	(15,126)	(563)
Purification	1,239,244	1,107,119
Distribution and meter	1,333,609	1,218,018
Customer accounting	364,150	366,911
Administration and general	2,096,657	2,298,726
Pension and social security	350,904	326,806
Depreciation and amortization	2,896,518	2,833,855
Total operating expenses	$ 9,091,921	$ 8,894,856
Operating income	$ 2,974,724	$ 215,181
Nonoperating revenues (expenses):		
Interest on investments	$ 270,547	$ 323,981
Interest expense	(1,140,436)	(1,080,971)
Loss on disposal of equipment	(22,737)	(1,309)
Nonoperating revenues, net	$ (892,626)	$ (758,299)
Excess of revenues over expenses/(expenses over revenues)	$ 2,082,098	$ (543,118)

See Notes to Financial Statements.

COUNCIL BLUFFS CITY WATER WORKS

STATEMENTS OF FUND EQUITY
Years Ended December 31, 2012 and 2011

	Contributed Capital				
	Other Governments	Customers and Developers	Total	Retained Earnings	Total Fund Equity
Balances at January 1, 2011	$1,367,800	$ 7,226,509	$ 8,594,309	$ 31,580,126	$40,174,435
Excess of revenues over expenses				(543,118)	(543,118)
Contributions-in-aid of construction	26,716	-	26,716	-	26,716
Transfers – Depreciation of contributed property, plant and equipment	(130,854)	(602,796)	(733,650)	733,650	-
Balances at December 31, 2011	$1,263,662	$ 6,623,713	$ 7,887,375	$ 31,770,658	$39,658,033
Excess of expenses over revenues				2,082,098	2,082,098
Contributions-in-aid of construction		17,722	17,722	-	17,722
Transfers – Depreciation of contributed property, plant and equipment	(130,854)	(603,682)	(734,536)	734,536	-
Balances at December 31, 2012	$1,132,808	$ 6,037,753	$ 7,170,561	$ 34,587,292	$41,757,853

See Notes to Financial Statements.

COUNCIL BLUFFS CITY WATER WORKS

STATEMENTS OF CASH FLOWS
Years Ended December 31, 2012 and 2011

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers and users	$ 10,236,823	$ 8,419,829
Cash received from other revenues	1,824,428	590,977
Cash paid to suppliers for goods and services	(3,470,476)	(3,559,134)
Cash paid to employees and on their behalf	(2,721,170)	(2,555,176)
(Payments) receipts for City sewer services net of collections	(104,827)	(57,027)
Net cash provided by operating activities:	$ 5,764,778	$ 2,839,469
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Principal payment of long term debt	$ (1,536,000)	$ (300,000)
Long term debt issued	3,910,003	2,043,644
Loan fees paid	-	-
Interest paid on long term debt	(1,100,438)	(1,005,309)
Interest paid on consumer deposits	(17,534)	(20,274)
Additions to property, plant, and equipment	(9,334,397)	(16,306,842)
Main extension escrow deposits	8,729	-
Contributions-in-aid of construction	17,722	26,716
Net cash provided by (used in) capital and related financing activities	$ (8,051,915)	$ (15,562,065)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received on investments	270,547	323,981
Net cash provided by investing activities	$ 270,547	$ 323,981
Net increase (decrease) in cash	$ (2,016,590)	$ (12,398,615)
Cash at beginning of year	10,723,081	23,121,696
Cash at end of year	$ 8,706,491	$ 10,723,081
Reconciliation to balance sheets:		
Cash	$ 4,305,286	$ 2,864,566
Cash included in restricted assets	4,401,205	7,858,515
	$ 8,706,491	$ 10,723,081
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income (loss)	$ 2,974,724	$ 215,181
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	2,896,518	2,833,855
Changes in assets and liabilities:		
(Increase) Decrease in inventory	(99,662)	14,747
(Increase) Decrease in receivables	(5,394)	(99,231)
(Increase) Decrease in prepaid insurance	(7,205)	(44,798)
Increase (Decrease) in accounts payable	65,183	(40,866)
Increase (Decrease) in salaries payable	11,966	(14,302)
Increase (Decrease) in accrued compensated absences	3,350	5,765
Increase (Decrease) in Due to City of Council Bluffs	(104,827)	(57,027)
Increase (Decrease) in consumer deposits	30,125	26,145
Net cash provided by operating activities	$ 5,764,778	$ 2,839,469

See Notes to Financial Statements.

1. Summary of Significant Accounting Policies

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.

Reporting Entity:

For financial reporting purposes, the Water Works has included all funds, organizations, agencies, boards, commissions and authorities. The Water Works 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 Water Works are such that exclusion would cause the Water Works' financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and 1) the ability of the Water Works 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 Water Works. The Water Works has no component units which meet the Governmental Accounting Standards Board criteria.

Basis of Presentation:

The accounts of the Water Works are organized as an Enterprise Fund. Enterprise Funds are used to account for operations (a) financed and operated in a manner similar to private business enterprises, where the intent of the governing body is 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 periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

Measurement Focus and Basis of Accounting:

The financial statements are reported using the economic resources measurement focus and accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider are met.

Water Works applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure.

Water Works distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Water Works' principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

1. Summary of Significant Accounting Policies - Continued

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.

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.

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.

1. Summary of Significant Accounting Policies - Continued

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 April 12, 2013, which is the date the financial statements were available to be issued.

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, 2012 balance sheet including restricted cash and cash equivalents and investments:

Deposits:

At December 31, 2012, deposits consisted of demand deposits and certificates of deposits and had the following balances:

Book Balance	$ 8,706,491
Bank Balance	$ 8,940,163

Of the total deposits, $255,000 was covered by federal depository insurance and $8,685,163 was covered by pledged securities that are being held in the pledging bank's trust department in the Board's name in the form of a joint safekeeping receipt.

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, 2012 and 2011 are as follows:

	2012	2011
Consumer deposit fund cash	$ 910,175	$ 853,769
Sinking fund cash	37,539	148,487
Reserve fund Investments	3,448,491	2,732,398
Build America Bond loan funds	5,000	4,123,861
	$ 4,401,205	$ 7,858,515

4. Property, Plant and Equipment

Property, plant and equipment at December 31, 2012 and 2011 consisted of the following:

Description	Useful Life in Years	2012	2011
Land	-	$ 2,208,406	$ 2,208,406
Buildings and Structures	20 – 40	13,403,529	13,378,714
Water Distribution System	20 – 40	50,516,789	49,637,207
Meters	25 – 40	1,362,642	1,325,472
Tools and equipment	3 – 20	7,229,427	7,093,660
Automobiles and trucks	5	1,338,633	1,358,628
Office equipment	15	104,985	104,985
Work in progress	-	33,223,247	25,705,999
		$ 109,387,658	$ 100,813,071
Less accumulated depreciation		(42,009,853)	(39,220,353)
		$ 67,377,805	$ 61,592,718

As of December 31, 2012 the Water Works had contractual commitments of approximately $29,382,898 for the construction of a new water treatment facility of which $28,075,680 has been completed. The facility is expected to be complete in June 2013. Funding for the water treatment facility will be through Water Revenue bonds as described in Note 6.

5. Capitalized Costs

The costs incurred to obtain long term financing of the Water Revenue Bonds, State Revolving Funds and Build America Bonds have been capitalized and are being amortized as described below:

		2012	2011
Water Revenue Bonds, Series 2005			
Financing costs	180 months	$ 53,740	$ 53,740
Bond Premium		(7,651)	(7,651)
Less accumulated amortization		(14,790)	(12,724)
Capitalized costs, net		$ 31,299	$ 33,365
Water Revenue Bonds, Series 2006			
Financing costs	180 months	$ 16,626	$ 16,626
Bond Premium		34,001	34,001
Less accumulated amortization		(23,626)	(20,251)
Capitalized costs, net		$ 27,001	$ 30,376
State Revolving Funds, $10,353,000			
Financing costs	240 months	$ 103,530	$ 103,530
Less accumulated amortization		(20,950)	(16,069)
Capitalized costs, net		$ 82,580	$ 87,461
Build America Bonds, $20,000,000			
Financing costs	260 months	$ 200,000	$ 200,000
Less accumulated amortization		(24,711)	(15,444)
Capitalized costs, net		$ 175,289	$ 184,556
Build America Bonds, $5,000,000			
Financing costs	369 months	$ 50,000	$ 50,000
Less accumulated amortization		(4,484)	(2,853)
Capitalized costs, net		$ 45,516	$ 47,147
Total capitalized costs, net		$ 361,685	$ 382,905

6. Revenue Bonds

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. On January 6, 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 2005 and 2006 Revenue Bonds require the Water Works to provide net available revenue at an amount not less than 1.25 times the next year's debt service on the then outstanding bonds. For the years ended December 31, 2012 and 2011 this ratio was 2.33 and 1.34 respectively.

The bond resolutions also provide for the maintenance of a revenue fund represented by a cash account into which all monies derived by the Water Works from revenue are to be deposited. These funds are transferred monthly, in amounts to meet specified requirements, to separate accounts for operations and maintenance, bond redemption and interest, bond reserves and capital projects. The Water Works was in compliance with all debt covenants for the years ended December 31, 2012 and 2011.

In 2010, the Water Works executed the final $25 million of its $35.353 million Water Revenue Bonds for construction of a second water treatment facility. The Water Revenue Bonds bear interest at 3.00% due in 2041. The Iowa Finance Authority also charges an annual service fee of 0.25%. As of December 31, 2012 and 2011 the Water Works had drawn down $32,466,019 and $28,556,015, respectively. These bonds require that the Water Works produce and maintain net revenues at a level not less than 110% of the amount of principal and interest on the Revenue Bond falling due in the same year. The Water Works was in compliance with this requirement for the years ended December 31, 2012 and 2011.

Principal and interest requirements to maturity on revenue bonds outstanding at December 31, 2012 are as follows:

Year ended December 31,	Principal	Interest	Total Requirements
2013	$ 1,582,000	$ 1,048,086	$ 2,630,086
2014	1,638,000	997,506	2,635,506
2015	1,696,000	945,101	2,641,101
2016	1,759,000	890,811	2,649,811
2017	1,818,000	834,291	2,652,291
Thereafter	25,331,019	5,505,770	30,836,789
	$ 33,824,019	$ 10,221,565	$ 44,045,584

7. Retirement Systems

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.

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. On July 1, 2011, the State increased the required contributions from 4.50% to 5.38% for the employee and from 6.95% to 8.07% for the employer. On July 1, 2012, the state increased the required contributions again to 5.78% for the employee and 8.67% for 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 $250,000 and $245,000 of compensation in calendar years 2012 and 2011 respectively. The contribution paid by the Water Works totaled $203,809 and $180,961 for the years ended December 31, 2012 and 2011 respectively, and the contribution paid by employees totaled $135,873 and $119,432, respectively. The total payroll for employees covered by IPERS for the years ended December 31, 2012 and 2011 was $2,433,918 and $2,409,203 respectively, and the total Water Works' payroll for 2012 and 2011 was $2,446,298 and $2,425,665, respectively. The Water Works' employer and employee contributions during the years ended December 31, 2012 and 2011 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, 7410 Register Drive, P. O. Box 9117, Des Moines, Iowa 50306. IPERS does not invest in obligations of the State of Iowa or its political subdivisions.

8. Contingencies

The Environmental Protection Agency (EPA) is currently evaluating the method of which the Water Works' discharges treatment plant residuals. As a result of this evaluation, the EPA may require the Water Works' to change it's disposal method. This change could result in significant additional costs to the Water Works' infrastructure and operations. As of the date of this report, Management was not able to reasonably estimate costs, if any, that would be incurred to comply with this regulation. Once management understands the new requirements, they will determine if a liability shall be established.

9. 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 participated in the City workers' compensation self-insurance plan through June 24, 2010 when it enrolled in a fully insured plan with a national insurance group.

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 $246,400. 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, 2012 and 2011 was $12,600 and $4,970, respectively.

COUNCIL BLUFFS CITY WATER WORKS

BUDGETARY COMPARISON SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN BALANCES – BUDGET AND ACTUAL
Required Supplementary Information
Year Ended December 31, 2012

	2012 Actual	2012 Budget	Budget Variance Favorable (Unfavorable)
Operating revenues:			
Metered water sales	$ 10,242,217	$ 9,144,000	$ 1,098,217
Rental	111,296	110,000	1,296
Other	1,713,132	526,000	1,187,132
Total operating revenues	$ 12,066,645	$ 9,780,000	$ 2,286,645
Operating expenses:			
Facilities and grounds	$ 825,965	$ 820,100	$ (5,865)
Inventory adjustment	(15,126)	(5,000)	10,126
Purification	1,239,244	1,309,900	70,656
Distribution and meter	1,333,609	1,252,000	(81,609)
Customer accounting	364,150	374,000	9,850
Administration and general	2,096,657	1,877,500	(219,157)
Pension and social security	350,904	382,760	31,856
Total operating expenses	$ 6,195,403	$ 6,011,260	$ (184,143)
Operating income	$ 5,871,242	$ 3,768,740	$ 2,102,502
Nonoperating revenues (expenses):			
Interest on investments	$ 270,547	$ 340,000	$ (69,453)
Interest expense	(1,140,436)	(1,297,190)	156,754
Loss on disposal of equipment	(22,737)	(10,000)	(12,737)
Nonoperating revenues, net	$ (892,626)	$ (967,190)	$ 74,564
Surplus (Deficit) from Operations	$ 4,978,616	$ 2,801,550	$ 2,177,066
Debt Service	(1,536,000)	(1,528,250)	(7,750)
Capital Outlay	(9,334,397)	(11,952,000)	2,617,603
Bond Proceeds	3,910,003	10,820,960	(6,910,957)
Surplus (Deficit)	$ (1,981,778)	$ 142,260	$ (2,124,038)

Reconcilation to statement of revenues and expenses:

Budget Basis Deficit	$ (1,981,778)
Debt Service	1,536,000
Capital Outlay	9,334,397
Bond Proceeds	(3,910,003)
Depreciation and Amortization	(2,896,518)
Excess of revenues over expenses	$ 2,082,098

See Notes to Required Supplementary Information

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
Year Ended December 31, 2012

1. Budgetary reporting

In accordance with the Code of Iowa, the Water Works' Board of Trustees adopts a budget following required public notice and hearing. The budget is adopted on a budget basis which consists of accrual basis revenues and expenditures plus cash outlay for debt service and capital improvements and cash receipts of bond proceeds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures. In 2012, there were no budget amendments and disbursements did not exceed the amount budgeted.

COUNCIL BLUFFS CITY WATER WORKS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2012

Federal Grantor/Pass-Through Grantor/Program	CFDA Number	Pass-Through Entity Identifying Number	Expenditures
Indirect			
Pass-Through Iowa Finance Authority			
Environmental Protection Agency			
Capitalization Grants for Drinking Water State Revolving Funds	66.468	D0043R	$ 21,787
Pass-Through State of Iowa Emergency Management			
US Department of Homeland Security			
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	155-U59RE-00	$ 518,363
			$ 540,150

Note 1. Basis of Presentation

The accompanying schedule of federal awards includes the federal grant activity of the Council Bluffs City Water Works and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations." Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

INDEPENDENT AUDITOR'S 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

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 as of and for the year ended December 31, 2012, and have issued our report thereon dated April 12, 2013. 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

Management of Council Bluffs City Water Works is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Council Bluffs City 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 Council Bluffs City Water Works' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Council Bluffs City Water Works' internal control over financial reporting.

A *deficiency in internal control* 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 and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Council Bluffs City Water Works' 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*. This report is intended solely for the information and use of management, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

Hamilton Associates, P.C.

Council Bluffs, Iowa
April 12, 2013

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH
REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT
ON EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133

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

Compliance

We have audited the compliance of Council Bluffs City Water Works with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133*, Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2012. The Council Bluffs City Water Works' major federal program is identified in the summary of auditor's results section of the accompanying *Schedule of Findings and Questioned Costs*. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Council Bluffs City Water Works' management. Our responsibility is to express an opinion on Council Bluffs City Water Works' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Council Bluffs City Water Works' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Council Bluffs City Water Works' compliance with those requirements.

In our opinion, Council Bluffs City Water Works complied, in all material respects, with the compliance requirements referred to above that are could have a direct and material effect on each of its major federal programs for the year ended December 31, 2012.

Internal Control over Compliance

Management of Council Bluffs City Water Works is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Council Bluffs City Water Works' internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Council Bluffs City Water Works' internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance 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 compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, board of trustees, others within the entity, and federal awarding agencies and is not intended to be and should not be used by anyone other than those specified parties.

Hamilton Associates, P.C.

Council Bluffs, Iowa
April 12, 2013

COUNCIL BLUFFS CITY WATER WORKS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended December 31, 2012

I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

• Material weakness(es) identified?	Yes	X	No
• Significant deficiency(ies) identified?	Yes	X	None Reported
Noncompliance material to financial statements noted?	Yes	X	No

Federal Awards

Internal control over major programs:

• Material weakness(es) identified?	Yes	X	No
• Significant deficiency(ies) identified?	Yes	X	None Reported

Type of auditor's report issued on compliance for major programs: Unqualified

• Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	Yes	X	No

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
97.036	Disaster Grants – Public Assistance (Presidentially Declared Disasters)

Dollar threshold used to distinguish between type A and type B programs $ 300,000

Auditee qualified as low-risk auditee? X Yes No

II. FINANCIAL STATEMENT FINDINGS - None

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS - None