

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

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

**June 30, 2013**

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**Burlington Municipal Waterworks,  
A Component Unit of the City of Burlington  
Officials  
June 30, 2013**

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



401 South Roosevelt Avenue - Suite 2A, PO Box 547, Burlington, IA 52601 / 319 752 6348 / fax: 319 752 8644 / info@cpaapc.com

## **Independent Auditor's Report**

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

### **Report on the Financial Statements**

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 years ended June 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the Waterworks' basic financial statements as listed in the table of contents.

### **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 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 audits 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 Waterworks' 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 Waterworks' 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 Waterworks as of June 30, 2013 and 2012, and the respective changes in financial position, and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4 through 7 and 23 through 24 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.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Waterworks' basic financial statements. The supplemental schedule of expenses and cash balance composition are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary information is the responsibility of management and is 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 supplemental information is fairly stated in all material respects in relation to the basic financial statements as a whole.

## **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated September 25, 2013, 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 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 Waterworks' internal control over financial reporting and compliance.

*CPA Associates PC*

September 25, 2013

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

The following Management's 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, 2013. 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 \$9.4 million (net position) for the fiscal year reported. This compares to the previous year when assets exceeded liabilities by \$9.2 million. The Net Position increased by \$193,018 or 2.1%.

Total net position is comprised of the following:

- Net investment in capital assets (e.g., main extensions, buildings, improvements, and equipment), less the related indebtedness outstanding used to acquire those capital assets, is \$7,178,335. This balance represents resources allocated to capital assets.
- Unrestricted net position of \$2,229,166 include board designated net position of \$686,752, which represents resources that are subject to internal restrictions.

During the year, revenues increased to \$3.83 million or 1.77%, while expenses increased to \$3.53 million or 3.50%.

Nonoperating income and capital contributions decreased \$903,132 or (98.40)%. The decrease is 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 Position, Statements of Revenues, Expenses and Changes in Fund Net Position, 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 position may serve over time as a useful indicator of the Waterworks' financial position. The Waterworks' assets at the end of fiscal 2013 were approximately \$13.8 million, which was a \$0.3 million increase from fiscal 2012. A condensed summary of the Waterworks' net position at June 30, 2013 and June 30, 2012 is shown below:

	<b>2013</b>	<b>2012</b>
Assets:		
Current and other assets	\$ 3,319,927	\$ 2,944,751
Capital assets	<u>10,472,335</u>	<u>10,563,832</u>
Total assets	<u>\$ 13,792,262</u>	<u>\$ 13,508,583</u>
Liabilities:		
Current liabilities	\$ 1,259,836	\$ 1,000,100
Long-term liabilities	<u>3,124,925</u>	<u>3,294,000</u>
Total liabilities	4,384,761	4,294,100
Net Position:		
Net investment in capital assets	7,178,335	7,099,832
Unrestricted	<u>2,229,166</u>	<u>2,114,651</u>
Total liabilities and net position	<u>\$ 13,792,262</u>	<u>\$ 13,508,583</u>

The largest portion of the Waterworks' net position 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 Position**

	<b>2013</b>	<b>2012</b>
Net operating revenues	\$ 3,825,393	\$ 3,758,925
Net operating expenses	<u>3,533,705</u>	<u>3,414,140</u>
Net operating income	291,688	344,785
Nonoperating income and expenses:		
Interest income	3,491	3,534
Interest expense	(113,378)	(118,772)
Capital contributions	<u>11,217</u>	<u>914,306</u>
Increase in net position	<u>\$ 193,018</u>	<u>\$ 1,143,853</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, 2013, 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	\$ 1,752,402	45.63	\$ 25,451	1.47
Metered water	1,889,698	49.22	45,292	2.46
Other, net	<u>183,293</u>	<u>4.77</u>	<u>(4,275)</u>	(2.28)
Total operating	<u>3,825,393</u>	<u>99.62</u>	<u>66,468</u>	1.77
Nonoperating:				
Interest income	3,491	0.09	(43)	(1.22)
Capital contributions	<u>11,217</u>	<u>0.29</u>	<u>(903,089)</u>	(98.77)
Total nonoperating	<u>14,708</u>	<u>0.38</u>	<u>(903,132)</u>	(98.40)
Total revenues	<u>\$ 3,840,101</u>	<u>100.00</u>	<u>\$ (836,664)</u>	(17.89)

**Expenses**

A summary of expenses for the year ended June 30, 2013, 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	\$ 1,138,176	31.21	\$ 63,066	5.87
Purification	950,753	26.07	27,296	2.96
Distribution	1,107,340	30.37	4,368	0.40
General and administrative	457,739	12.54	29,079	6.78
Sewer reimbursement	<u>(120,303)</u>	<u>(3.30)</u>	<u>(4,244)</u>	(3.66)
Total operating expenses	3,533,705	96.89	119,565	3.50
Nonoperating:				
Interest expense	<u>113,378</u>	<u>3.11</u>	<u>(5,394)</u>	(4.54)
Total expenses	<u>\$ 3,647,083</u>	<u>100.00</u>	<u>\$ 114,171</u>	3.23

The increase in expenses during the fiscal year is attributable to increased personnel costs, increased power and natural gas costs, and increased water treatment chemical 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, 2013 and 2012. Cash equivalents are considered to be cash-on-hand, bank deposits and highly liquid investments with an original maturity of three months or less.

	<b>2013</b>	<b>2012</b>
Cash flow from operating activities	\$ 815,406	\$ 724,525
Cash flow from investing activities	3,390	3,149
Cash flow used by capital and related financing activities	<u>(475,161)</u>	<u>(424,707)</u>
Net increase (decrease) in cash and cash equivalents	343,635	302,967
Cash and cash equivalents, beginning of year	<u>2,230,363</u>	<u>1,927,396</u>
Cash and cash equivalents, end of year	<u>\$ 2,573,998</u>	<u>\$ 2,230,363</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, 2013, the Waterworks expended \$203,798 on capital activities. A large portion of the capital expenditures for the year was for the painting and repair of the Fairgrounds Water Tower, including associated engineering expenses. This project began during this fiscal year and will be finished in the next fiscal year. Additional capital expenditure activities included the on-going replacement of the softening basin sludge moving equipment (7 of 8 bays now complete), an electric drive for the water main tapping machine, a water main extension on Mangolia Lane in the Masters Subdivision, a new base radio for the mobile radio system, a new PC with installation, engineering costs for the upcoming repairs to the Treatment Plan north basin wall, water meters, and materials for new water service installations. These purchases were financed with reserves from the Depreciation and Improvement Fund, which comprises a major portion of the Board designated Net Position, 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 Position - Proprietary Fund  
June 30, 2013 and 2012**

	<b>2013</b>	<b>2012</b>
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 1,887,246	\$ 1,202,991
Accounts receivable, net of allowance for doubtful accounts: 2013 - \$4,000; 2012 - \$6,000	295,613	306,251
Inventory, at cost	58,762	46,771
Prepaid expenses	<u>136,966</u>	<u>105,656</u>
Total current assets	<u>2,378,587</u>	<u>1,661,669</u>
<b>Board Designated</b>		
Bond and interest reserve fund: Cash and cash equivalents	<u>686,752</u>	<u>1,027,372</u>
<b>Capital Assets</b>		
Property and equipment, at cost	23,930,985	23,461,546
Less accumulated depreciation	<u>(13,458,650)</u>	<u>(12,897,714)</u>
	<u>10,472,335</u>	<u>10,563,832</u>
<b>Other Assets</b>		
Prepaid debt issuance costs, net of accumulated amortization	16,037	17,260
Accrued interest receivable	72,945	72,844
Accounts receivable, water main extension	<u>165,606</u>	<u>165,606</u>
	<u>254,588</u>	<u>255,710</u>
	<u>\$ 13,792,262</u>	<u>\$ 13,508,583</u>
<b>Liabilities</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 354,437	\$ 20,314
Due to City of Burlington	61,708	14,023
Accrued water revenue bond interest payable	8,235	8,660
Salaries and wages payable	25,059	23,095
Compensated absences payable	59,795	55,192
IAAP deposit on main extension	-	48,373
Deferred revenue	152,123	148,692
Liability for lime removal	422,479	510,201
Hydrant meter deposits	1,000	1,550
Current portion long-term debt	<u>175,000</u>	<u>170,000</u>
Total current liabilities	<u>1,259,836</u>	<u>1,000,100</u>
<b>Long-term Liabilities</b>		
Long-term debt, net of current portion	3,119,000	3,294,000
Net OPEB liability	<u>5,925</u>	<u>-</u>
	<u>3,124,925</u>	<u>3,294,000</u>
	<u>4,384,761</u>	<u>4,294,100</u>
<b>Net Position</b>		
Net investment in capital assets	7,178,335	7,099,832
Unrestricted	<u>2,229,166</u>	<u>2,114,651</u>
	<u>9,407,501</u>	<u>9,214,483</u>
	<u>\$ 13,792,262</u>	<u>\$ 13,508,583</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 Position - Proprietary Fund  
For the Years Ended June 30, 2013 and 2012**

	<b>2013</b>	<b>2012</b>
<b>Operating Revenues</b>		
Unmetered water	\$ 1,752,402	\$ 1,726,951
Metered water	1,889,698	1,844,406
Extra water	5,995	4,355
Service charges	65,170	54,155
Miscellaneous	<u>112,128</u>	<u>129,058</u>
Net operating revenues	<u>3,825,393</u>	<u>3,758,925</u>
 <b>Operating Expenses</b>		
Power and pumping	1,138,176	1,075,110
Purification	950,753	923,457
Distribution	1,107,340	1,102,972
General and administrative	<u>457,739</u>	<u>428,660</u>
	3,654,008	3,530,199
Less sewer collection reimbursement	<u>(120,303)</u>	<u>(116,059)</u>
Net operating expenses	<u>3,533,705</u>	<u>3,414,140</u>
 Net operating income	 <u>291,688</u>	 <u>344,785</u>
 <b>Nonoperating Income (Expense)</b>		
Interest income	3,491	3,534
Interest expense	<u>(113,378)</u>	<u>(118,772)</u>
Total nonoperating expenses	<u>(109,887)</u>	<u>(115,238)</u>
 Income before capital contributions	 <u>181,801</u>	 <u>229,547</u>
Capital contributions - long-term debt forgiveness	-	884,000
Capital contributions - water main extension	<u>11,217</u>	<u>30,306</u>
Total capital contributions	<u>11,217</u>	<u>914,306</u>
 Increase in net position	 193,018	 1,143,853
 Net position, beginning of year	 <u>9,214,483</u>	 <u>8,070,630</u>
 Net position, end of year	 <u>\$ 9,407,501</u>	 <u>\$ 9,214,483</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, 2013 and 2012**

	<b>2013</b>	<b>2012</b>
<b>Cash Flows from Operating Activities</b>		
Receipts from customers	\$ 3,707,379	\$ 3,535,438
Receipts from service charges and miscellaneous	177,298	183,213
Hydrant meter deposits paid, net	(550)	(3,550)
Payments to suppliers	(1,863,088)	(1,776,288)
Payments to employees	<u>(1,205,633)</u>	<u>(1,214,288)</u>
Net cash provided by operating activities	<u>815,406</u>	<u>724,525</u>
<b>Cash Flows from Capital and Related Financing Activities</b>		
Purchase of capital assets	(203,798)	(175,349)
Capital contributions received	11,217	30,306
Interest payments on long-term debt	(112,580)	(117,916)
Principal payments on long-term debt	(170,000)	(165,000)
Principal borrowings on long-term debt	<u>-</u>	<u>3,252</u>
Net cash used by capital and related financing activities	<u>(475,161)</u>	<u>(424,707)</u>
<b>Cash Flows from Investing Activities</b>		
Interest income	<u>3,390</u>	<u>3,149</u>
Net cash provided by investing activities	<u>3,390</u>	<u>3,149</u>
Net increase in cash and cash equivalents	343,635	302,967
Cash and cash equivalents, beginning of year	<u>2,230,363</u>	<u>1,927,396</u>
Cash and cash equivalents, end of year	<u>\$ 2,573,998</u>	<u>\$ 2,230,363</u>
<b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities</b>		
Operating income	\$ 291,688	\$ 344,785
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	560,936	574,639
Changes in assets and liabilities:		
Receivables, inventory and prepaids	(32,663)	(24,356)
Accounts payable and accrued expenses	(13,911)	(175,917)
Net OPEB liability	5,925	-
Deferred revenue	<u>3,431</u>	<u>5,374</u>
Net cash provided by operating activities	<u>\$ 815,406</u>	<u>\$ 724,525</u>
<b>Supplemental Disclosure of Noncash Financing Activities</b>		
Equipment purchases financed through accounts payable	\$ 265,641	\$ -
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**

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**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. During the year ended June 30, 2013, the Waterworks adopted GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* and GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*.

The accounts of the Waterworks are primarily organized as an enterprise fund. 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.

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

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**Note 1. Summary of Significant Accounting Policies (continued)**

The financial statements are accounted for using the flow of economic resources measurement focus and the 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 have been met.

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

Assets, Liabilities and Net Position

The Statement of Net Position 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, are recognized at cost at the time they are purchased.

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:

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

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**Note 1. Summary of Significant Accounting Policies (continued)**

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
Land improvement	15-22 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, 2013 and 2012 was \$1,223 and \$1,260, 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, 2013.

Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplemental Information. During the year ended June 30, 2013, 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, 2013, 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, 2013.

**Note 2. Property and Equipment**

Changes in property and equipment consist of the following:

	<b>June 30, 2013</b>			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	-	411,805	-	411,805
Total capital assets not being depreciated/amortized	<u>151,981</u>	<u>411,805</u>	<u>-</u>	<u>563,786</u>
Property and equipment being depreciated/amortized:				
Building and tanks	4,551,796	-	-	4,551,796
Distribution miscellaneous equipment	145,636	14,816	-	160,452
Distribution mains	12,381,578	12,322	-	12,393,900
Emergency well water	77,072	-	-	77,072
Filter equipment	1,009,122	-	-	1,009,122
Furniture and office equipment	211,911	950	-	212,861
Land improvements	775,595	-	-	775,595
Miscellaneous plant equipment	185,232	1,770	-	187,002
Power/pumping equipment	3,387,314	-	-	3,387,314
Sludge equipment	105,527	27,776	-	133,303
Vehicles	478,782	-	-	478,782
Total property and equipment being depreciated/amortized	<u>23,309,565</u>	<u>57,634</u>	<u>-</u>	<u>23,367,199</u>
Less accumulated depreciation/amortization for:				
Building and tanks	2,385,939	108,894	-	2,494,833
Distribution miscellaneous equipment	47,475	11,504	-	58,979
Distribution mains	6,071,734	285,870	-	6,357,604
Emergency well water	17,669	4,474	-	22,143
Filter equipment	935,166	12,372	-	947,538
Furniture and office equipment	185,666	6,040	-	191,706
Land improvements	470,463	30,411	-	500,874
Miscellaneous plant equipment	94,171	10,809	-	104,980
Power/pumping equipment	2,186,931	73,879	-	2,260,810
Sludge equipment	39,200	9,512	-	48,712
Vehicles	463,300	7,171	-	470,471
Total accumulated depreciation/amortization	<u>12,897,714</u>	<u>560,936</u>	<u>-</u>	<u>13,458,650</u>
Total property and equipment, net	<u>\$ 10,563,832</u>	<u>\$ (91,497)</u>	<u>\$ -</u>	<u>\$ 10,472,335</u>

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

**Note 2. Property and Equipment (continued)**

	<b>June 30, 2012</b>			<b>Balance End of Year</b>
	<b>Balance Beginning of Year</b>	<b>Increases</b>	<b>Decreases</b>	
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>

As of June 30, 2013, the Waterworks had property that was not in service totaling \$411,805, as it was still being constructed or had significant enhancements.

**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 5.78% of their annual salary and the Waterworks is required to contribute 8.67% of annual covered payroll. Contribution requirements are established by State statute. The Waterworks' contribution to IPERS for the years ended June 30, 2013, 2012 and 2011 was \$25,788, \$20,391 and \$12,076, respectively, which was equal to the required contributions.

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

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**Note 3. Pension and Retirement Benefits (continued)**

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 \$45,422, \$48,097, and \$49,190, net of forfeitures, to the plan for the years ended June 30, 2013, 2012, and 2011, 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, 2013 and 2012 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.

**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, 2013 and 2012 included as sewer collection reimbursement on the Statements of Revenues, Expenses and Changes in Net Position amounted to \$120,303 and \$116,059, respectively. Amounts due from the City of Burlington as of June 30, 2013 and 2012 for water main extensions, including interest, were \$238,551 and \$238,450, respectively. The net payable to the City of Burlington at June 30, 2013 and 2012 was \$61,708 and \$14,023, respectively.

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

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**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. Effective May 1, 2013, management canceled its commercial insurance for workers' compensation. As of May 1, 2013, this risk is covered by membership in a government risk-sharing pool, as allowed by Chapter 670.7 of the Code of Iowa.

The Waterworks is a member of the Iowa Municipalities Workers' Compensation Association (IMWCA). The IMWCA is a local government risk-sharing pool whose members include various governmental entities throughout the State of Iowa. The IMWCA provides coverage and protection for workers' compensation. There have been no reductions in insurance coverage from prior years during the year ended June 30, 2013.

Member premiums paid to the IMWCA are based on the rates approved annually by the Iowa Insurance Commissioner and fund all administrative expenses, claims, claims expenses, and reinsurance expenses. The IMWCA Board of Trustees approves a rating plan each year that applies discounts or surcharges to each member's premium based on its past loss experience. These discounts or surcharges are in addition to each member's experience modification factor. The membership agreement includes the provision that each member will be responsible for its prorata share of any workers' compensation or related employer liability claims which exceed the IMWCA's resources available to pay such claims. Members have never been assessed by the IMWCA and the IMWCA fund balance is in excess of all expenses funded by premiums as well as reserves for future known and unknown claims.

**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. Credit will be issued until total credits of \$1,320,000 have been granted. The amount of credits remaining at June 30, 2012 was \$48,373. There were no credits remaining at June 30, 2013. Revenue recorded from the contract for the years ended June 30, 2013 and 2012 was \$149,563 and \$113,461, respectively.

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

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**Note 9. Liability for Lime Removal**

The water treatment plant generates approximately 2,000 to 5,000 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.

During the year ended June 30, 2013, the Board approved a contract for removal of approximately 8,000 tons of dry lime over the two-year period ending December 15, 2013. The contract allows for an additional two-year extension, with the price and quantity to be negotiated, for a total four-year contract. The current cost for removal is \$35 per dry ton.

For the years ended June 30, 2013 and 2012, the liability for lime removal decreased as the lime removed exceeded the estimated tonnage added to the lagoons.

	June 30,	
	2013	2012
Liability for lime removal	\$ 510,201	\$ 554,757
Decrease of liability	(87,722)	(44,556)
Balance accrued	\$ 422,479	\$ 510,201

**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, 2013 and 2012, the Waterworks contributed \$5,334 and \$5,704, respectively, 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, 2013 and 2012 was \$488,985 and \$473,245, respectively.

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

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**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, 2013 and 2012 was \$281,704 and \$253,205, 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, 2013 and 2012 was \$62,840 and \$61,399, 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, 2013 and 2012 was \$24,360 and \$23,470, 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. 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 Waterworks 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, 2013 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year	Due Within One Year
Revenue notes	\$ <u>3,464,000</u>	\$ <u>-</u>	\$ <u>(170,000)</u>	\$ <u>3,294,000</u>	\$ <u>175,000</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	Interest
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	130,000	44,730	68,000	32,160	198,000	76,890
2018-2022	711,000	162,750	372,000	128,970	1,083,000	291,720
2023-2027	650,000	49,500	437,000	69,390	1,087,000	118,890
2028-2030	-	-	195,000	8,820	195,000	8,820
	<u>\$ 1,973,000</u>	<u>\$ 472,590</u>	<u>\$ 1,321,000</u>	<u>\$ 386,280</u>	<u>\$ 3,294,000</u>	<u>\$ 858,870</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**

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**Note 16. Unrestricted Net Position Designated by the Board**

As of June 30, 2013 and 2012, 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 Interest <u>Reserve</u>	<u>Total</u>
<b>June 30, 2013</b>			
Cash and cash equivalents	\$ <u>630,436</u>	\$ <u>56,316</u>	\$ <u>686,752</u>
<b>June 30, 2012</b>			
Cash and cash equivalents	\$ <u>688,505</u>	\$ <u>338,867</u>	\$ <u>1,027,372</u>

**Note 17. Other Postemployment Benefits (OPEB)**

The Waterworks participates in a multi-government health insurance pool that provides medical, dental benefits, and prescription drug coverage to employees and retirees. The Waterworks' current funding policy is to pay health and dental costs as they occur on a pay-as-you-go basis. The Waterworks establishes and amends contribution requirements.

The Waterworks' annual OPEB cost is calculated based on the annual required contribution (ARC) of the Waterworks, an amount actuarially determined in accordance with GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The Waterworks' ARC is \$1,185 for the year ending June 30, 2013 and 2012, and the Waterworks' net OPEB obligation is \$5,925 as of June 30, 2013, an increase of \$5,925 from June 30, 2012.

As of June 30, 2013, the most recent actuarial valuation date, the actuarial accrued liability was \$12,287, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$12,287. The covered payroll (annual payroll of covered employees by the plan) was approximately \$1,187,000, and the ratio of UAAL to covered payroll was approximately 1%. As of June 30, 2013, there was no trusted assets.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumption about future employment, mortality, and the health care trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the Plan as understood by the employer and the Plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and the Plan members to that point. The actuarial methods and assumptions used include techniques that are used to reduce the effects of short-term volatility in actuarial liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

As of June 30, 2013, the most recent actuarial valuation date, the normal actuarial cost method was used. The actuarial assumptions include a 1% discount rate based on the Waterworks' funding policy.

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

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**Note 18. Prospective Accounting Change**

GASB has issued one Statement not yet implemented by the Waterworks. 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 Position will be retroactively restated for prior periods presented. The Waterworks' management has not yet determined the effect this Statement will have on the Waterworks' financial statements.

**Burlington Municipal Waterworks,  
A Component Unit of the City of Burlington  
Required Supplementary Information  
Comparison of Revenues and Expenses - Actual to Budget  
For the Year Ended June 30, 2013**

	<u>Actual</u>	<u>Budgeted Amounts Original/Final</u>	<u>Variance: Favorable (Unfavorable)</u>	<u>Net as Percent of Budget</u>
<b>Operating Revenues</b>				
Water sales	\$ 3,648,095	\$ 3,518,420	\$ 129,675	104 %
Main extension and miscellaneous	<u>177,298</u>	<u>111,500</u>	<u>65,798</u>	159 %
Total operating revenues	<u>3,825,393</u>	<u>3,629,920</u>	<u>195,473</u>	
<b>Operating Expenses</b>				
Power, pumping and purification	1,982,357	2,013,684	31,327	98 %
Distribution	696,597	734,615	38,018	95 %
General and administrative	414,118	426,221	12,103	97 %
Debt service	-	282,580	282,580	-
Less sewer collection reimbursement	<u>(120,303)</u>	<u>(110,000)</u>	<u>10,303</u>	109 %
Operating expenses, before depreciation	<u>2,972,769</u>	<u>3,347,100</u>	<u>374,331</u>	
Net operating income	852,624	282,820		
<b>Nonoperating Income (Expense)</b>				
Interest income	3,491	4,000		
Interest expense	(113,378)	-		
Capital contributions - water main extension	<u>11,217</u>	<u>-</u>		
Increase in net position before depreciation	753,954	286,820		
Depreciation expense	<u>(560,936)</u>	<u>(561,764)</u>		
Increase (decrease) in net position	<u>\$ 193,018</u>	<u>\$ (274,944)</u>		

See accompanying independent auditor's report.

**Burlington Municipal Waterworks,  
A Component Unit of the City of Burlington  
Required Supplementary Information  
Notes to Required Supplementary Information - Budgetary Reporting  
For the Year Ended June 30, 2013**

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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, 2013, disbursements did not exceed the amounts budgeted.

**Burlington Municipal Waterworks,  
A Component Unit of the City of Burlington  
Supplementary Information  
Supplemental Schedule of Expenses  
For the Year Ended June 30, 2013**

	<u>Power and Pumping</u>	<u>Purification</u>	<u>Distribution</u>	<u>General and Administrative</u>	<u>Total June 30, 2013</u>	<u>Total June 30, 2012</u>
Salaries and wages	\$ 387,466	\$ 229,220	\$ 414,893	\$ 155,502	\$ 1,187,081	\$ 1,160,613
Group insurance	152,234	-	123,450	43,550	319,234	317,280
Retirement plan	27,002	10,306	23,804	16,022	77,134	68,488
Payroll taxes	<u>42,197</u>	<u>4,208</u>	<u>33,448</u>	<u>11,709</u>	<u>91,562</u>	<u>92,124</u>
Total salaries and related expenses	608,899	243,734	595,595	226,783	1,675,011	1,638,505
Power and fuel	364,731	-	4,555	4,555	373,841	324,136
Supplies and tools	3,266	16,831	5,282	2,044	27,423	20,836
Water main maintenance	-	-	5,880	-	5,880	8,119
Equipment repairs	2,537	1,657	39,132	-	43,326	44,339
Structure repairs	27,024	1,006	6,895	-	34,925	48,165
Lime removal	-	96,978	-	-	96,978	137,900
Ground supplies	1,366	-	694	2,588	4,648	7,045
Telephone and leased circuits	8,952	-	-	2,923	11,875	9,516
Professional fees	-	-	-	9,354	9,354	7,340
Dues and subscriptions	204	-	-	2,567	2,771	2,793
Uniforms/cleaning	5,222	-	2,840	-	8,062	5,547
Office supplies and expense	2,726	-	-	40,872	43,598	39,289
Insurance	-	-	-	104,803	104,803	85,498
Chemicals	-	567,366	-	-	567,366	496,533
Vehicle expense	10,228	-	28,503	-	38,731	38,429
Miscellaneous	<u>19,630</u>	<u>-</u>	<u>7,221</u>	<u>17,629</u>	<u>44,480</u>	<u>41,570</u>
Total expenses before depreciation	1,054,785	927,572	696,597	414,118	3,093,072	2,955,560
Depreciation	<u>83,391</u>	<u>23,181</u>	<u>410,743</u>	<u>43,621</u>	<u>560,936</u>	<u>574,639</u>
Total operating expenses	<u>\$ 1,138,176</u>	<u>\$ 950,753</u>	<u>\$ 1,107,340</u>	<u>\$ 457,739</u>	<u>\$ 3,654,008</u>	<u>\$ 3,530,199</u>

See accompanying independent auditor's report.

**Burlington Municipal Waterworks,  
A Component Unit of the City of Burlington  
Supplementary Information  
Cash Balance Composition  
June 30, 2013**

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<u>Depository</u>	<u>Demand Deposits</u>	<u>Total</u>
Farmers & Merchants Bank & Trust:		
Maintenance and operating	\$ 314,253	\$ 314,253
Depreciation, extensions and improvements	630,436	630,436
Revenue bond sinking fund	2,407	2,407
Revenue bond reserve	53,910	53,910
Two Rivers Bank & Trust:		
Maintenance and operating	<u>1,571,792</u>	<u>1,571,792</u>
	<u>2,572,798</u>	2,572,798
Petty cash		<u>1,200</u>
		<u>\$ 2,573,998</u>

See accompanying independent auditor's report.



401 South Roosevelt Avenue - Suite 2A, PO Box 547, Burlington, IA 52601 / 319 752 6348 / fax: 319 752 8644 / info@cpaapc.com

**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***

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

We have audited 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, the financial statements of Burlington Municipal Waterworks (Waterworks), A Component Unit of the City of Burlington, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Waterworks' basic financial statements, and have issued our report thereon dated September 25, 2013.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Waterworks' internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Waterworks' internal control. Accordingly, we do not express an opinion on the effectiveness of the Waterworks' internal control over financial reporting.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified a deficiency in internal control we consider to be a significant deficiency.

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 a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the Waterworks' financial statements will not be prevented or detected and corrected on a timely basis.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in Part I of the accompanying Schedule of Findings and Questioned Costs as item I-A-13 to be a significant deficiency.

## **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 other matters which are described in Part II of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the Waterworks' operations for the year ended June 30, 2013 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Waterworks. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretation of those statutes.

## **Waterworks' Responses to Findings**

The Waterworks' responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. The Waterworks' responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing and not to provide an opinion on the effectiveness of the Waterworks' internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Waterworks' internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the 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, 2013

**Burlington Municipal Waterworks,  
A Component Unit of the City of Burlington  
Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2013**

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**Part I: Findings Related to the Financial Statements**

**SIGNIFICANT DEFICIENCY**

I-A-13 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-13 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, 2013.

II-B-13 Deposits and Investments - The Waterworks has adopted a written investment policy as required by Chapter 12B.10B of the Code of Iowa.

II-C-13 Travel Expense - No expenditures of Waterworks money for travel expenses of spouses of Waterworks members or employees were noted.

II-D-13 Board Minutes - No transactions were found that we believe should have been approved in the Waterworks' minutes but were not.

II-E-13 Questioned Disbursements - Certain disbursements were noted that may not meet the requirements of public purpose as defined in the Attorney General's opinion dated April 25, 1979 since the public benefits to be derived have not been clearly documented. These disbursements are detailed as follows:

<u>Paid To</u>	<u>Purpose</u>	<u>Amount</u>
Casey's General Store	Doughnuts for safety meetings	\$ 98.86
Kay Jewelers	Retirement gift	106.99
Hy-Vee	Hams or turkeys at Christmas	580.80
Tom's Market	Employee Christmas luncheon	45.51
McDonalds	Breakfast for main break repair on holiday	16.75
Wal-Mart	Doughnuts for safety meetings	8.48

**Burlington Municipal Waterworks,  
A Component Unit of the City of Burlington  
Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2013**

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II-E-13 Questionable Disbursements (continued)

According to the opinion, it is possible for such disbursements to meet the test of serving a public purpose under certain circumstances, although such items are certainly subject to a deserved close scrutiny. The line to be drawn between a proper and an improper purpose is very thin.

Recommendation - The Waterworks' Board of Trustees should determine and document the public purpose served by these disbursements before authorizing any further payments. If this practice is continued, the Waterworks should establish written policies and procedures, including the requirements for the proper documentation.

Response - The Waterworks believes the new accounting practices implemented will prevent this from happening in the future.

Conclusion - Response accepted.

II-F-13 Certified Budget - Disbursements during the year ended June 30, 2013 did not exceed budget amounts.

II-G-13 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-13 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-13 Delinquent Water Bills - Through review of the delinquent accounts receivable register at June 30, 2013, we noted delinquent payments not only from the general public but from two City of Burlington council members and one City of Burlington employee.

Recommendation - Consideration should be given to establishing policies that encourage City of Burlington council members and employees 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.

**Burlington Municipal Waterworks,  
A Component Unit of the City of Burlington  
Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2013**

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II-J-13    Settlement with City of Burlington - Through review of general ledger account activity, we noted the Waterworks does not have a process to remit applied billing credits or billing adjustments to the City of Burlington for the City's portion of the monthly and quarterly bills. For the year ended June 30, 2013, the unsettled transactions totaled \$29,384, which were payable to the City of Burlington.

Recommendation - The Waterworks needs to formalize a periodic settlement process for these transactions.

Response - The Waterworks believes that the monthly settlement process being worked on will resolve the issue going forward for the year ended June 30, 2014. The prior periods will be resolved separately for the year ended June 30, 2014.

Conclusion - Response accepted.