

**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, 2014**

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**Burlington Municipal Waterworks,  
A Component Unit of the City of Burlington  
Officials  
June 30, 2014**

<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



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## **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, 2014 and 2013, 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, 2014 and 2013, 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.

## **Emphasis of Matter**

As described in Note 19 to the financial statements, as of July 1, 2013, the Waterworks adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to these matters.

## **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 5 through 9 and 25 through 26 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 audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the Waterworks' basic financial statements. The supplemental schedules 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 supplemental schedules of expenses and cash balance composition are the responsibility of management and were derived from and relate 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 schedules of expenses and cash balance composition are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audits of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated September 29, 2014, 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 the Waterworks' internal control over financial reporting and compliance.

*CPA Associates PC*

September 29, 2014

**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, 2014. 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 and deferred inflows of resources by \$9.0 million (net position) for the fiscal year reported. This compares to the previous year when assets exceeded liabilities and deferred inflows of resources by \$9.4 million. The Net Position decreased by \$(344,839) or (3.7)%.

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 \$7,337,900. This balance represents resources allocated to capital assets.
- Unrestricted net position of \$1,708,725 includes board-designated net position of \$607,827, which represents resources that are subject to internal restrictions.

During the year, revenues decreased to \$3.80 million or (0.75)%, while expenses increased to \$4.10 million or 15.92%.

Nonoperating income and capital contributions increased \$46,578 or 316.68%. The increase is primarily attributable to the amounts received for water main extension fees.

### **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 also 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 Supplementary 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 2014 were approximately \$12.8 million, which was a \$1.0 million decrease from fiscal 2013. A condensed summary of the Waterworks' net position at June 30, 2014 and June 30, 2013 is shown below:

	<b>2014</b>	<b>Restated 2013</b>
Assets:		
Current and other assets	\$ 2,360,000	\$ 3,303,890
Capital assets	<u>10,456,900</u>	<u>10,472,335</u>
Total assets	<u>\$ 12,816,900</u>	<u>\$ 13,776,225</u>
Liabilities:		
Current liabilities	\$ 671,574	\$ 1,107,713
Long-term liabilities	<u>2,946,110</u>	<u>3,124,925</u>
Total liabilities	3,617,684	4,232,638
Deferred Inflow of Resources:		
Water revenue	152,591	152,123
Net Position:		
Net investment in capital assets	7,337,900	7,178,335
Unrestricted	<u>1,708,725</u>	<u>2,213,129</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 12,816,900</u>	<u>\$ 13,776,225</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.

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

**Summary of Operations and Changes in Net Position**

	<b>2014</b>	<b>Restated 2013</b>
Net operating revenues	\$ 3,796,671	\$ 3,825,393
Net operating expenses	<u>4,096,178</u>	<u>3,533,705</u>
Net operating income (loss)	(299,507)	291,688
Nonoperating income and expenses:		
Interest income	2,519	3,491
Interest expense	(106,618)	(112,155)
Capital contributions	<u>58,767</u>	<u>11,217</u>
Increase (decrease) in net position	<u>\$ (344,839)</u>	<u>\$ 194,241</u>

**Revenues**

A summary of revenues for the year ended June 30, 2014, and the amount and percentage of change in relation to prior year amounts, is as follows:

	<u>Amount</u>	<u>% of Total</u>	<u>Increase (Decrease) from Prior Year</u>	<u>% Increase (Decrease)</u>
Operating:				
Unmetered water	\$ 1,759,602	45.61	\$ 7,200	0.41
Metered water	1,844,825	47.82	(44,873)	(2.37)
Other, net	<u>192,244</u>	<u>4.98</u>	<u>8,951</u>	4.88
Total operating	<u>3,796,671</u>	<u>98.41</u>	<u>(28,722)</u>	(0.75)
Nonoperating:				
Interest income	2,519	0.07	(972)	(27.84)
Capital contributions	<u>58,767</u>	<u>1.52</u>	<u>47,550</u>	423.91
Total nonoperating	<u>61,286</u>	<u>1.59</u>	<u>46,578</u>	316.68
Total revenues	<u>\$ 3,857,957</u>	<u>100.00</u>	<u>\$ 17,856</u>	0.46

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

**Expenses**

A summary of expenses for the year ended June 30, 2014, 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	\$ 1,192,721	28.38	\$ 54,545	4.79
Purification	978,156	23.27	27,403	2.88
Distribution	1,600,337	38.09	492,997	44.52
General and administrative	440,202	10.46	(17,537)	(3.83)
Sewer reimbursement	<u>(115,238)</u>	<u>(2.74)</u>	<u>5,065</u>	4.21
Total operating expenses	4,096,178	97.46	562,473	15.92
Nonoperating:				
Interest expense	<u>106,618</u>	<u>2.54</u>	<u>(5,537)</u>	(4.94)
Total expenses	<u>\$ 4,202,796</u>	<u>100.00</u>	<u>\$ 556,936</u>	15.28

The increase in expenses during the fiscal year is attributable to increased distribution repairs due to a large increase in water main breaks from the severe winter temperatures, including a major water main break in Flint Creek, increased personnel costs, and increased water treatment chemical costs.

**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, 2014 and 2013. 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>2014</b>	<b>Restated 2013</b>
Cash flow from operating activities	\$ 135,338	\$ 815,406
Cash flow from investing activities	2,433	3,390
Cash flow used by capital and related financing activities	<u>(1,061,711)</u>	<u>(475,161)</u>
Net increase (decrease) in cash and cash equivalents	(923,940)	343,635
Cash and cash equivalents, beginning of year	<u>2,573,998</u>	<u>2,230,363</u>
Cash and cash equivalents, end of year	<u>\$ 1,650,058</u>	<u>\$ 2,573,998</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 Notes to Financial Statements for a summary of the Waterworks' significant accounting policies.

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

**Capital Acquisitions and Construction Activities**

During the year ended June 30, 2014, the Waterworks expended \$838,423 on capital activities. A large portion of the capital expenditures for the year was for painting and repair of the Fairgrounds Water Tower (including associated engineering expenses) and repairs to the Treatment Plant north basin wall (including the associated engineering expenses). The projects began in the prior fiscal year and were completed during fiscal year 2014. Additional capital expenditure activities included a roof for the Treatment Plant, water mains for the Westbrook Meadow Subdivision, meter reading handheld devices and software, a new truck, a new office copier, a new PC with installation, water meters, materials for new water service installations, a new concrete saw and cart, and new distribution shop lighting. 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, 2014 and 2013**

	<b>2014</b>	<b>Restated 2013</b>
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 1,042,231	\$ 1,887,246
Accounts receivable, net of allowance for doubtful accounts: 2014 - \$6,000; 2013 - \$4,000	282,016	295,613
Due from City of Burlington	18,042	-
Inventory, at cost	44,235	58,762
Prepaid expenses	<u>127,012</u>	<u>136,966</u>
Total current assets	<u>1,513,536</u>	<u>2,378,587</u>
<b>Board Designated</b>		
Bond and interest reserve fund: Cash and cash equivalents	<u>607,827</u>	<u>686,752</u>
<b>Capital Assets</b>		
Property and equipment, at cost	24,501,427	23,930,985
Less accumulated depreciation	<u>(14,044,527)</u>	<u>(13,458,650)</u>
	<u>10,456,900</u>	<u>10,472,335</u>
<b>Other Assets</b>		
Accrued interest receivable	73,031	72,945
Accounts receivable, water main extension	<u>165,606</u>	<u>165,606</u>
	<u>238,637</u>	<u>238,551</u>
	<u>\$ 12,816,900</u>	<u>\$ 13,776,225</u>
<b>Liabilities</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 49,221	\$ 354,437
Due to City of Burlington	-	61,708
Accrued water revenue bond interest payable	7,798	8,235
Salaries and wages payable	29,375	25,059
Compensated absences payable	64,318	59,795
Liability for lime removal	339,712	422,479
Hydrant meter deposits	1,150	1,000
Current portion long-term debt	<u>180,000</u>	<u>175,000</u>
Total current liabilities	<u>671,574</u>	<u>1,107,713</u>
<b>Long-term Liabilities</b>		
Long-term debt, net of current portion	2,939,000	3,119,000
Net OPEB liability	<u>7,110</u>	<u>5,925</u>
	<u>2,946,110</u>	<u>3,124,925</u>
Total liabilities	<u>3,617,684</u>	<u>4,232,638</u>
<b>Deferred Inflows of Resources</b>		
Water revenue	<u>152,591</u>	<u>152,123</u>
<b>Net Position</b>		
Net investment in capital assets	7,337,900	7,178,335
Unrestricted	<u>1,708,725</u>	<u>2,213,129</u>
	<u>9,046,625</u>	<u>9,391,464</u>
	<u>\$ 12,816,900</u>	<u>\$ 13,776,225</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, 2014 and 2013**

	<b>2014</b>	<b>Restated 2013</b>
<b>Operating Revenues</b>		
Unmetered water	\$ 1,759,602	\$ 1,752,402
Metered water	1,844,825	1,889,698
Extra water	4,583	5,995
Service charges	75,615	65,170
Miscellaneous	<u>112,046</u>	<u>112,128</u>
Net operating revenues	<u>3,796,671</u>	<u>3,825,393</u>
<b>Operating Expenses</b>		
Power and pumping	1,192,721	1,138,176
Purification	978,156	950,753
Distribution	1,600,337	1,107,340
General and administrative	<u>440,202</u>	<u>457,739</u>
	4,211,416	3,654,008
Less sewer collection reimbursement	<u>(115,238)</u>	<u>(120,303)</u>
Net operating expenses	<u>4,096,178</u>	<u>3,533,705</u>
Net operating income (loss)	<u>(299,507)</u>	<u>291,688</u>
<b>Nonoperating Income (Expense)</b>		
Interest income	2,519	3,491
Interest expense	<u>(106,618)</u>	<u>(112,155)</u>
Total nonoperating expenses	<u>(104,099)</u>	<u>(108,664)</u>
Income (loss) before capital contributions	(403,606)	183,024
Capital contributions - water main extension	<u>58,767</u>	<u>11,217</u>
Increase (decrease) in net position	(344,839)	194,241
Net position, beginning of year, restated	<u>9,391,464</u>	<u>9,197,223</u>
Net position, end of year	<u>\$ 9,046,625</u>	<u>\$ 9,391,464</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, 2014 and 2013**

	<b>2014</b>	<b>Restated 2013</b>
<b>Cash Flows from Operating Activities</b>		
Receipts from customers	\$ 3,545,583	\$ 3,707,379
Receipts from service charges and miscellaneous	187,661	177,298
Hydrant meter deposits paid, net	150	(550)
Payments to suppliers	(2,357,068)	(1,863,088)
Payments to employees	<u>(1,240,988)</u>	<u>(1,205,633)</u>
Net cash provided by operating activities	<u>135,338</u>	<u>815,406</u>
<b>Cash Flows from Capital and Related Financing Activities</b>		
Purchase of capital assets	(838,423)	(203,798)
Capital contributions received	58,767	11,217
Interest payments on long-term debt	(107,055)	(112,580)
Principal payments on long-term debt	<u>(175,000)</u>	<u>(170,000)</u>
Net cash used by capital and related financing activities	<u>(1,061,711)</u>	<u>(475,161)</u>
<b>Cash Flows from Investing Activities</b>		
Interest income	<u>2,433</u>	<u>3,390</u>
Net cash provided by investing activities	<u>2,433</u>	<u>3,390</u>
Net increase (decrease) in cash and cash equivalents	(923,940)	343,635
Cash and cash equivalents, beginning of year	<u>2,573,998</u>	<u>2,230,363</u>
Cash and cash equivalents, end of year	<u>\$ 1,650,058</u>	<u>\$ 2,573,998</u>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities</b>		
Operating income (loss)	\$ (299,507)	\$ 291,688
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation expense	588,217	560,936
Changes in assets, liabilities and deferred inflows of resources:		
Receivables, inventory and prepaids	20,036	(32,663)
Accounts payable and accrued expenses	(175,061)	(13,911)
Net OPEB liability	1,185	5,925
Deferred inflows of resources	<u>468</u>	<u>3,431</u>
Net cash provided by operating activities	<u>\$ 135,338</u>	<u>\$ 815,406</u>
<b>Supplemental Disclosure of Noncash Financing Activities</b>		
Equipment purchases financed through accounts payable	\$ -	\$ 265,641

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, 2014, the Waterworks adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*.

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, Deferred Inflows of Resources and Net Position

The Statements 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 authority 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 is 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)**

Building 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 improvements	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.

Deferred Inflows of Resources

The Waterworks' deferred inflows of resources consists of unmetered water revenue (billed in advance).

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, 2014.

Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2014, disbursements did not exceed the amount budgeted.

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, liabilities and deferred inflows of resources 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.

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

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

Subsequent Events

The Waterworks performed an evaluation of subsequent events through September 29, 2014, 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, 2014.

**Note 2. Property and Equipment**

Changes in property and equipment consist of the following:

	<b>June 30, 2014</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	<u>411,805</u>	<u>6,189</u>	<u>(411,805)</u>	<u>6,189</u>
Total capital assets not being depreciated/amortized	<u>563,786</u>	<u>6,189</u>	<u>(411,805)</u>	<u>158,170</u>
Property and equipment being depreciated/amortized:				
Building and tanks	4,551,796	872,540	-	5,424,336
Distribution miscellaneous equipment	160,452	27,055	-	187,507
Distribution mains	12,393,900	50,209	-	12,444,109
Emergency well water	77,072	-	-	77,072
Filter equipment	1,009,122	-	-	1,009,122
Furniture and office equipment	212,861	3,198	(2,340)	213,719
Land improvements	775,595	-	-	775,595
Miscellaneous plant equipment	187,002	3,371	-	190,373
Power/pumping equipment	3,387,314	-	-	3,387,314
Sludge equipment	133,303	-	-	133,303
Vehicles	<u>478,782</u>	<u>22,025</u>	<u>-</u>	<u>500,807</u>
Total property and equipment being depreciated/amortized	<u>23,367,199</u>	<u>978,398</u>	<u>(2,340)</u>	<u>24,343,257</u>
Less accumulated depreciation/amortization for:				
Building and tanks	2,494,833	151,192	-	2,646,025
Distribution miscellaneous equipment	58,979	11,724	-	70,703
Distribution mains	6,357,604	277,550	-	6,635,154
Emergency well water	22,143	4,184	-	26,327
Filter equipment	947,538	10,348	-	957,886
Furniture and office equipment	191,706	5,281	(2,340)	194,647
Land improvements	500,874	29,836	-	530,710
Miscellaneous plant equipment	104,980	10,681	-	115,661
Power/pumping equipment	2,260,810	70,108	-	2,330,918
Sludge equipment	48,712	10,752	-	59,464
Vehicles	<u>470,471</u>	<u>6,561</u>	<u>-</u>	<u>477,032</u>
Total accumulated depreciation/amortization	<u>13,458,650</u>	<u>588,217</u>	<u>(2,340)</u>	<u>14,044,527</u>
Total property and equipment, net	<u>\$ 10,472,335</u>	<u>\$ 396,370</u>	<u>\$ (411,805)</u>	<u>\$ 10,456,900</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, 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>

As of June 30, 2014 and 2013, the Waterworks had property totaling \$6,189 and \$411,805, respectively, that was not in service 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 5.95% of their annual salary and the Waterworks is required to contribute 8.93% of annual covered payroll. Contribution requirements are established by State statute. The Waterworks' contribution to IPERS for the years ended June 30, 2014, 2013 and 2012 was \$29,419, \$25,788 and \$20,391, 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 5% of each eligible employee's total pay on a monthly basis. The employee is required to contribute a matching amount. The Waterworks contributed \$45,578, \$45,422, and \$48,097, net of forfeitures, to the plan for the years ended June 30, 2014, 2013, and 2012, 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, 2014 and 2013 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, 2014 and 2013 included as sewer collection reimbursement on the Statements of Revenues, Expenses and Changes in Net Position amounted to \$115,238 and \$120,303, respectively. Amounts due from the City of Burlington as of June 30, 2014 and 2013 for water main extensions, including interest, were \$238,637 and \$238,551, respectively. The net receivable (payable) to the City of Burlington at June 30, 2014 and 2013 was \$18,042 and \$(61,708), 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 were no reductions in insurance coverage from prior years during the year ended June 30, 2014.

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. Revenue recorded from the contract for the years ended June 30, 2014 and 2013 was \$124,482 and \$149,563, respectively.

**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 current cost for removal is \$35 per dry ton.

**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 (continued)**

For the years ended June 30, 2014 and 2013, the liability for lime removal decreased as the lime removed exceeded the estimated tonnage added to the lagoons.

	<b>June 30,</b>	
	<b>2014</b>	<b>2013</b>
Liability for lime removal	\$ 422,479	\$ 510,201
Decrease of liability	<u>(82,767)</u>	<u>(87,722)</u>
Balance accrued	<u>\$ 339,712</u>	<u>\$ 422,479</u>

**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, 2014 and 2013, the Waterworks contributed \$5,344 and \$5,334, 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, 2014 and 2013 was \$516,091 and \$488,985, respectively.

**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, 2014 and 2013 was \$289,848 and \$281,704, respectively.

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

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**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, 2014 and 2013 was \$56,094 and \$62,840, 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, 2014 and 2013 was \$32,486 and \$24,360, 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.

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%.

A summary of changes in long-term debt for the year ended June 30, 2014 is as follows:

	<u>Balance Beginning of Year</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance End of Year</u>	<u>Due Within One Year</u>
Revenue notes	\$ <u>3,294,000</u>	\$ <u>-</u>	\$ <u>(175,000)</u>	\$ <u>3,119,000</u>	\$ <u>180,000</u>

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

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

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
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
2019	134,000	40,830	70,000	30,120	204,000	70,950
2020-2024	732,000	141,420	384,000	117,810	1,116,000	259,230
2025-2029	495,000	30,000	451,000	56,280	946,000	86,280
2030	-	-	99,000	2,970	99,000	2,970
	<u>\$ 1,858,000</u>	<u>\$ 413,400</u>	<u>\$ 1,261,000</u>	<u>\$ 347,280</u>	<u>\$ 3,119,000</u>	<u>\$ 760,680</u>

The resolution providing for the issuance of the revenue notes includes a provision stating 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. For the year ended June 30, 2014, the Waterworks was not in compliance with this covenant.

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

As of June 30, 2014 and 2013, 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 Improvements	Bond and Interest Reserve	Total
<b>June 30, 2014</b>			
Cash and cash equivalents	<u>\$ 551,486</u>	<u>\$ 56,341</u>	<u>\$ 607,827</u>
<b>June 30, 2013</b>			
Cash and cash equivalents	<u>\$ 630,436</u>	<u>\$ 56,316</u>	<u>\$ 686,752</u>

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

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

The Waterworks participates in a multi-government health insurance pool that provides medical, dental 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 costs 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, 2014 and 2013, and the Waterworks' net OPEB obligation is \$7,110 as of June 30, 2014, an increase of \$1,185 from June 30, 2013.

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, 2014 and 2013, there were 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.

**Note 18. Prospective Accounting Change**

GASB has issued one Statement not yet implemented by the Waterworks. Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27*, will be effective for the Waterworks for the fiscal year ending June 30, 2015. The revised requirements establish new financial reporting requirements for state and local governments that provide their employees with pension benefits, including additional note disclosures and required supplementary information. In addition, the Statement of Net Position is expected to include a liability for the Waterworks' proportionate share of the employee pension plan. In the year that Statement No. 68 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  
Notes to Financial Statements**

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**Note 19. Prior Period Adjustment**

During the year ended June 30, 2014, net position was adjusted for the adoption of GASB No. 65, which resulted in the elimination of prepaid debt issuance costs. The effect of the change on net position as of June 30, 2014 and 2013 is a decrease of \$16,037 and \$17,260, respectively.

The financial statements for the year ended June 30, 2013 have been restated as follows:

	Net Investment in Capital <u>Assets</u>	<u>Unrestricted</u>	<u>Net Position</u>
As previously reported, June 30, 2013	\$ 7,178,335	\$ 2,229,166	\$ 9,407,501
Accounting adjustment GASB No. 65	<u>-</u>	<u>(16,037)</u>	<u>(16,037)</u>
As restated	<u>\$ 7,178,335</u>	<u>\$ 2,213,129</u>	<u>\$ 9,391,464</u>

The Statement of Revenues, Expenses and Changes in Fund Net Position - Proprietary Fund for the year ended June 30, 2013 proforma is as follows:

	<u>Change in Net Position</u>
As previously reported, June 30, 2013	\$ 193,018
Accounting adjustment GASB No. 65	<u>1,223</u>
	<u>\$ 194,241</u>

**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, 2014**

	<u>Actual</u>	Budgeted Amounts <u>Original</u>	Budgeted Amounts <u>Final</u>	Budgeted Amounts Favorable (Unfavorable)	Net as Percent of <u>Budget</u>
<b>Operating Revenues</b>					
Water sales	\$ 3,609,010	\$ 3,518,420	\$ 3,518,420	\$ 90,590	103 %
Main extension and miscellaneous	<u>187,661</u>	<u>119,000</u>	<u>119,000</u>	<u>68,661</u>	158 %
Total operating revenues	<u>3,796,671</u>	<u>3,637,420</u>	<u>3,637,420</u>	<u>\$ 159,251</u>	
<b>Operating Expenses</b>					
Power, pumping and purification	2,068,990	2,046,107	2,250,000	\$ 181,010	92 %
Distribution	1,155,686	746,554	1,157,000	1,314	100 %
General and administrative	398,523	420,809	493,000	94,477	81 %
Debt service	-	282,055	282,055	282,055	- %
Less sewer collection reimbursement	<u>(115,238)</u>	<u>(112,000)</u>	<u>(112,000)</u>	<u>3,238</u>	103 %
Operating expenses, before depreciation	<u>3,507,961</u>	<u>3,383,525</u>	<u>4,070,055</u>	<u>\$ 562,094</u>	
Net operating income (loss) before depreciation	288,710	253,895	(432,635)		
<b>Nonoperating Income (Expense)</b>					
Interest income	2,519	3,200	3,200		
Interest expense	(106,618)	-	-		
Capital contributions - water main extension	<u>58,767</u>	<u>-</u>	<u>-</u>		
Increase (decrease) in net position before depreciation	243,378	257,095	(429,435)		
Depreciation expense	<u>(588,217)</u>	<u>(574,639)</u>	<u>(574,639)</u>		
Increase (decrease) in net position	<u>\$ (344,839)</u>	<u>\$ (317,544)</u>	<u>\$ (1,004,074)</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, 2014**

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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. During the year, the budget amendment increased budgeted disbursements by \$686,530. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2014, 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, 2014**

	<u>Power and Pumping</u>	<u>Purification</u>	<u>Distribution</u>	<u>General and Administrative</u>	<u>Total June 30, 2014</u>	<u>Total June 30, 2013</u>
Salaries and wages	\$ 388,240	\$ 242,953	\$ 454,159	\$ 156,770	\$ 1,242,122	\$ 1,187,081
Group insurance	168,200	-	138,009	48,513	354,722	319,234
Retirement plan	28,151	11,360	25,000	11,671	76,182	77,134
Payroll taxes	<u>43,113</u>	<u>4,256</u>	<u>34,953</u>	<u>11,938</u>	<u>94,260</u>	<u>91,562</u>
Total salaries and related expenses	627,704	258,569	652,121	228,892	1,767,286	1,675,011
Power and fuel	395,842	-	5,532	5,532	406,906	373,841
Supplies and tools	2,532	14,499	3,933	1,748	22,712	27,423
Water main maintenance	-	-	389,259	-	389,259	5,880
Equipment repairs	6,769	3,234	57,316	-	67,319	43,326
Structure repairs	30,477	57	5,999	-	36,533	34,925
Lime removal	-	102,604	-	-	102,604	96,978
Ground supplies	2,224	-	779	2,459	5,462	4,648
Telephone and leased circuits	8,608	-	-	3,461	12,069	11,875
Professional fees	-	-	-	9,500	9,500	9,354
Dues and subscriptions	204	-	-	2,669	2,873	2,771
Uniforms/cleaning	5,294	-	4,240	-	9,534	8,062
Office supplies and expense	1,918	-	-	36,653	38,571	43,598
Insurance	-	-	-	86,772	86,772	104,803
Chemicals	-	578,165	-	-	578,165	567,366
Vehicle expense	10,843	-	30,479	-	41,322	38,731
Miscellaneous	<u>19,447</u>	<u>-</u>	<u>6,028</u>	<u>20,837</u>	<u>46,312</u>	<u>44,480</u>
Total expenses before depreciation	1,111,862	957,128	1,155,686	398,523	3,623,199	3,093,072
Depreciation	<u>80,859</u>	<u>21,028</u>	<u>444,651</u>	<u>41,679</u>	<u>588,217</u>	<u>560,936</u>
Total operating expenses	<u>\$ 1,192,721</u>	<u>\$ 978,156</u>	<u>\$ 1,600,337</u>	<u>\$ 440,202</u>	<u>\$ 4,211,416</u>	<u>\$ 3,654,008</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, 2014**

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<u>Depository</u>	<u>Demand Deposits</u>	<u>Total</u>
Farmers & Merchants Bank & Trust:		
Maintenance and operating	\$ 409,353	\$ 409,353
Depreciation, extensions and improvements	551,486	551,486
Revenue bond sinking fund	2,408	2,408
Revenue bond reserve	53,933	53,933
Two Rivers Bank & Trust:		
Maintenance and operating	<u>631,678</u>	<u>631,678</u>
	<u>1,648,858</u>	1,648,858
Petty cash		<u>1,200</u>
		<u>\$ 1,650,058</u>

See accompanying independent auditor's report.



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**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 the *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the proprietary fund of Burlington Municipal Waterworks (Waterworks), A Component Unit of the City of Burlington, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Waterworks' basic financial statements, and have issued our report thereon dated September 29, 2014.

**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 deficiencies 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-14 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.

## **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 results 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 29, 2014

**Burlington Municipal Waterworks,  
A Component Unit of the City of Burlington  
Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2014**

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

**SIGNIFICANT DEFICIENCY**

I-A-14 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-14 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, 2014.

II-B-14 Deposits and Investments - The Waterworks has adopted a written investment policy as required by Chapter 12B.10B of the Code of Iowa.

II-C-14 Travel Expense - No expenditures of Waterworks money for travel expenses of spouses of Waterworks members or employees were noted.

II-D-14 Board Minutes - No transactions were found that we believe should have been approved in the Waterworks' minutes but were not.

II-E-14 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>
Hy-Vee	Doughnuts for safety meetings	\$ 17.98
McDonalds	Breakfast for a main break repair	14.28
Casey's General Store	Doughnuts for safety meetings	14.98

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.

**Burlington Municipal Waterworks,  
A Component Unit of the City of Burlington  
Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2014**

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- II-E-14 Questionable Disbursements (continued)
- Recommendation - The Waterworks' Board of Trustees should determine and document the public purpose served by these disbursements before authorizing any further payments.
- Response - The Waterworks has implemented new accounting practices which has prevented this from happening following issuance of the 2013 audit report.
- Conclusion - Response accepted.
- II-F-14 Certified Budget - Disbursements during the year ended June 30, 2014 did not exceed budget amounts.
- II-G-14 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-14 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-14 Delinquent Water Bills - Through review of the delinquent accounts receivable register during the quarter ending June 30, 2014, we noted delinquent payments not only from the general public but from one City of Burlington council member.
- Recommendation - Consideration should be given to establishing policies that encourage City of Burlington council members to provide positive examples of financial responsibility and ensure their accounts follow the same delinquent bill process as the general public.
- Response - All delinquent Waterworks accounts are treated in the same manner by Waterworks employees, regardless of who the customers' employers are or what role they may have within our City government. The Waterworks operates separately from the City of Burlington, so the Waterworks has no authority to set policies for any City of Burlington 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.
- III-J-14 Revenue Notes - The Waterworks has complied with the provisions of the Water Revenue Refunding Capital Loan Notes except for the rate covenant required by the Water Revenue Refunding Capital Loan Notes Series 2006 and 2010A.
- Recommendation - The Waterworks should establish rates that will result in sufficient funds to meet future obligations.
- Response - Extreme weather conditions contributed to a significant increase in distribution and production expenses for the year. Subsequently water rates were increased to ensure compliance with bond requirements, barring additional unforeseen major expenses beyond our control.
- Conclusion - Response accepted.