COUNCIL BLUFFS CITY WATER WORKS

FINANCIAL STATEMENTS

DECEMBER 31, 2014 and 2013

(With Independent Auditors' Report Thereon)

C O N T E N T S

	Page
OFFICIALS	
INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS	
MANAGEMENT'S DISCUSSION AND ANALYSIS	1-4
FINANCIAL STATEMENTS	
Statements of net position	5
Statements of revenues, expenses and changes in net position	6
Statements of cash flows	7
Notes to financial statements	8-15
REQUIRED SUPPLEMENTARY INFORMATION	
Budgetary comparison of revenues, expenditures, and changes in balances – budget and actual	16
Notes to required supplementary information	17
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	18-19
Schedule of Findings	20

COUNCIL BLUFFS CITY WATER WORKS

OFFICIALS

Board of Trustees

Maureen R. Kruse	Chairperson	June 30, 2016
Carl L. Heinrich	Member	June 30, 2015
Michael J. Waller	Member	June 30, 2016
Caitlin A. Beresford	Member	June 30, 2018
Martin L. Brooks	Member	June 30, 2019

Water Works' Officials

Douglas P. Drummey	CEO & General Manager	Indefinite

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Council Bluffs City Water Works, Council Bluffs, Iowa (Water Works) as of and for the years ended December 31, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the Council Bluffs City Water Works' 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 *Governmental Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Council Bluffs City Water Works, as of December 31, 2014 and 2013 and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Accounting principles generally accepted in the United States of America require that the *management's discussion and analysis and the budgetary comparison information* on pages 1-4 and 16-17 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 Reporting Required by Government Auditing Standard

In accordance with *Government Auditing Standards*, we have also issued our report dated April 10, 2015 on our consideration of the Council Bluffs City Water Works internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Council Bluffs City Water Works internal control over financial reporting and compliance.

Hamilton Associates, P.C.

Council Bluffs, Iowa
April 10, 2015

Council Bluffs Water Works
Council Bluffs, Iowa

MANAGEMENT'S DISCUSSION AND ANALYSIS

Calendar Year Ending December 31, 2014

Council Bluffs Water Works provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the calendar year ending December 31, 2014. We encourage readers to consider this information in conjunction with our financial statements, which follow.

FINANCIAL HIGHLIGHTS

- The Water Works' operating revenues decreased 2.73% or $286,284 from calendar year 2013 to 2014.
- The Water Works' operating expenses increased by 5.86% or $556,794, in calendar year 2013 to 2014.
- The Water Works' net position decreased 0.25% or $103,110, from December 31, 2013 to December 31, 2014.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the Water Works financial activities.

Financial Statements consist of Statements of Net Position, Statements of Revenues, Expenses, and Changes in Net Position, and Statements of Cash Flows. These provide information about the activities of the Council Bluffs Water Works as a whole and present an overall view of the Water Works finances.

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

Required Supplementary Information further explains and supports the financial statement with a comparison of the Water Works' budget for the year.

FINANCIAL ANALYSIS

Statements of Net Position

The statements of net position present the assets, liabilities, and net position of the Water Works, as of the end of the calendar year. The purpose of this statement is to present a summary of the Water Works to the readers of the financial statements. The statements of net position include year-end information concerning current assets and liabilities, and net position (assets less liabilities). Readers of the financial statements are able to determine the Water Works financial position by analyzing the increases and decreases in fund equity. This statement is a good source for readers to determine how much the Water Works owes to outside vendors and creditors. The statement presents the available assets that can be used to satisfy those liabilities.

The largest portion of the Water Works' net position 87.54% is the investment in capital assets (building and structures, furniture and fixtures, tools and equipment, distribution system, meters and automotive equipment), less the related debt. The restricted portion of the net position 1.15% includes resources that are subject to restrictions. The remaining net position 11.31% is the unrestricted position that can be used to meet the Water Works' obligations as they come due.

Statements of Net Position
Decmeber 31, 2014 and 2013

	2014	2013
Current assets	$ 5,696,996	$ 6,218,595
Restricted assets	1,263,474	1,210,589
Capital assets	67,148,150	68,331,440
Total assets	$ 74,108,620	$ 75,760,624
Current liabilities (payable from current assets)	$ 2,357,134	$ 3,440,982
Current liabilities (payable from restricted assets)	784,466	951,005
Revenue bonds payable	29,403,234	29,701,741
Total liabilities	$ 32,544,834	$ 34,093,728
Net Position		
Net investment in capital assets	$ 36,383,916	$ 37,310,699
Restricted	479,008	259,584
Unrestricted	4,700,862	4,096,613
Total net position	$ 41,563,786	$ 41,666,896

Council Bluffs Water Works
Council Bluffs, Iowa

MANAGEMENT'S DISCUSSION AND ANALYSIS

Calendar Year Ending December 31, 2014

Statement of Revenues and Expenses

The Statement of Revenues and Expenses reflects a negative with a decrease in the net assets at the end of the calendar year.

In calendar year 2014, operating revenues increased by $286,284 or 2.73%, due to the increase in water rates. The Board of Trustees approved a rate increase of 6% in 2014.

A summary of revenues and expense for the years ending December 31, 2014 and 2013 is presented below:

Statements of Revenues and Expenses Decmeber 31, 2014 and 2013		
Operating revenues		
Metered water sales	$ 9,693,059	$ 9,449,393
Rental	137,985	117,105
Other	926,693	904,955
Total operating revenues	$ 10,757,737	$ 10,471,453
Operating expenses		
Facilities and grounds	$ 806,166	$ 836,595
Inventory adjustment	(16,367)	(16,167)
Purification	1,776,219	1,552,835
Distribution and meter	1,273,775	1,392,337
Customer accounting	472,790	418,904
Administration and general	2,265,517	2,194,083
Pension and social security	398,491	382,638
Depreciation	3,084,142	2,742,714
Total operating expenses	$ 10,060,733	$ 9,503,939
Nonoperating revenues (expenses)		
Interest on investments	$ 198,819	$ 222,140
Interest expense	(1,075,069)	(1,212,857)
Loss on disposal of equipment	(105)	(4,807)
Nonoperating revenues, net	$ (876,355)	$ (995,524)
Change in net position	$ (179,351)	$ (28,010)

Statement of Cash Flows

The Statement of Cash Flows presents information related to cash inflows and outflows, summarized by operating, capital and related financing and investing activities. Cash provided by operating activities include metered water sales, miscellaneous water sales, penalty charges, and service charges. Cash used from capital and related financing activities includes: principal payment of revenue bonds, interest paid on revenue bonds, interest paid on consumer deposits, additions to property, plant, and equipment, and contributions-in-aid of construction. Cash used by investing activities includes interest income.

CAPITAL ASSETS

At December 31, 2014 the Water Works had $114,035,691 invested in capital assets, net of accumulated depreciation of $46,887,541. Depreciation expense totaled $3,084,142 for calendar year 2014. More detailed information about the Water Works' capital assets is presented in Note 4 to the financial statements.

LONG-TERM DEBT

At December 31, 2014, the Water Works had $30,764,234 debt outstanding. See Note 5 to the financial statements for more information.

ECONOMIC FACTORS

Council Bluffs Water Works continued to support development throughout the community to improve its financial position during the current calendar year.

Facilities and the distribution system operated by Water Works require constant maintenance and upkeep.

Chemical cost, electricity, maintenance of mains and services, and health insurance continue to put pressure on the Water Works resources.

Continued growth in the community requires the Water Works to invest in new infrastructures to meet the growing demands of the community.

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

CONTACTING THE COUNCIL BLUFFS WATER WORKS FINANCIAL MANAGEMENT

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

COUNCIL BLUFFS CITY WATER WORKS

STATEMENTS OF NET POSITION
December 31, 2014 and 2013

ASSETS	2014	2013
CURRENT ASSETS		
Cash (Note 2)	$ 3,284,582	$ 3,934,253
Inventory	864,812	838,783
Receivables:		
Consumer accounts	1,062,313	999,966
Unbilled revenues	385,220	355,615
Total receivables	$ 1,447,533	$ 1,355,581
Prepaid insurance	100,069	89,978
Restricted assets (Note 3)	1,263,474	1,210,589
Total current assets	$ 6,960,470	$ 7,429,184
Property, plant and equipment, net (Note 4)	67,148,150	68,331,440
	$ 74,108,620	$ 75,760,624
LIABILITIES AND NET POSITION		
LIABILITIES		
Current liabilities (payable from current assets):		
Accounts payable	$ 223,170	$ 444,309
Accrued wages and payroll taxes	89,171	32,641
Accrued compensated absences	207,708	208,308
Accrued interest payable	85,505	84,209
Retainage payable	221,970	1,266,216
Due to City of Council Bluffs	168,610	86,299
Current portion of long term debt (Note 5)	1,361,000	1,319,000
Total current liabilities (payable from current assets)	$ 2,357,134	$ 3,440,982
Current liabilities (payable from restricted assets):		
Consumer deposits	$ 707,700	$ 681,400
Main extension escrow deposit	(145,736)	52,194
Accrued interest on consumer deposits	222,459	210,932
Construction costs payable	43	6,479
Total current liabilities (payable from restricted assets)	$ 784,466	$ 951,005
Long term debt (Note 5)	$ 29,403,234	$ 29,701,741
Total liabilities	$ 32,544,834	$ 34,093,728
NET POSITION		
Net investment in capital assets	$ 36,383,916	$ 37,310,699
Restricted	479,008	259,584
Unrestricted	4,700,862	4,096,613
Total net position	$ 41,563,786	$ 41,666,896
Total liabilities and net position	$ 74,108,620	$ 75,760,624

See Notes to Financial Statements.

COUNCIL BLUFFS CITY WATER WORKS

STATEMENTS OF REVENUE, EXPENSES AND CHANGES IN NET POSITION
Years Ended December 31, 2014 and 2013

	2014	2013
OPERATING REVENUES		
Metered water sales	$ 9,693,059	$ 9,449,393
Rental	137,985	117,105
Other	926,693	904,955
Total operating revenues	$ 10,757,737	$ 10,471,453
OPERATING EXPENSES		
Facilities and grounds	$ 806,166	$ 836,595
Inventory adjustment	(16,367)	(16,167)
Purification	1,776,219	1,552,835
Distribution and meter	1,273,775	1,392,337
Customer accounting	472,790	418,904
Administration and general	2,265,517	2,194,083
Pension and social security	398,491	382,638
Depreciation	3,084,142	2,742,714
Total operating expenses	$ 10,060,733	$ 9,503,939
Operating income	$ 697,004	$ 967,514
NONOPERATING REVENUES (EXPENSES)		
Interest on investments	$ 198,819	$ 222,140
Interest expense	(1,075,069)	(1,212,857)
Loss on disposal of equipment	(105)	(4,807)
Nonoperating revenues, net	$ (876,355)	$ (995,524)
Change in net position	$ (179,351)	$ (28,010)
NET POSITION - BEGINNING AS PREVIOUSLY STATED	41,666,896	$ 41,396,168
Adjustment due to correction in useful life of asset	-	103,545
NET POSITION - BEGINNING AS RESTATED	-	$ 41,499,713
Contributions in aid of construction (Note 6)	76,241	195,193
NET POSITION - END OF YEAR	$ 41,563,786	$ 41,666,896

See Notes to Financial Statements.

COUNCIL BLUFFS CITY WATER WORKS

STATEMENTS OF CASH FLOWS
Years Ended December 31, 2014 and 2013

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers and users	$ 9,601,107	$ 9,535,228
Cash received from other revenues	1,064,678	1,022,060
Cash paid to suppliers for goods and services	(4,195,844)	(3,807,428)
Cash paid to employees and on their behalf	(2,955,775)	(2,850,924)
(Payments) receipts for City sewer services net of collections	82,311	(140,596)
Net cash provided by operating activities:	$ 3,596,477	$ 3,758,340
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Principal payment of long term debt	$ (1,306,000)	$ (4,336,000)
Long term debt issued	1,049,493	1,532,723
Interest paid on long term debt	(1,042,816)	(1,184,482)
Interest paid on consumer deposits	(22,530)	(28,166)
Additions to property, plant, and equipment	(2,948,540)	(3,731,716)
Main extension escrow deposits	(197,930)	10,319
Contributions-in-aid of construction	76,241	195,193
Net cash provided by (used in) capital and related financing activities	$ (4,392,082)	$ (7,542,129)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received on investments	198,819	222,140
Net cash provided by investing activities	$ 198,819	$ 222,140
NET INCREASE (DECREASE) IN CASH	$ (596,786)	$ (3,561,649)
CASH - BEGINNING OF YEAR	5,144,842	8,706,491
CASH - END OF YEAR	$ 4,548,056	$ 5,144,842
RECONCILIATION TO BALANCE SHEETS		
Cash	$ 3,284,582	$ 3,934,253
Cash included in restricted assets	1,263,474	1,210,589
	$ 4,548,056	$ 5,144,842
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income (loss)	$ 697,004	$ 967,514
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	3,084,142	2,742,714
Changes in assets and liabilities:		
(Increase) Decrease in inventory	(26,029)	(145,436)
(Increase) Decrease in receivables	(91,952)	85,835
(Increase) Decrease in prepaid insurance	(10,091)	9,368
Increase (Decrease) in accounts payable	(221,139)	193,348
Increase (Decrease) in salaries payable	56,530	(11,737)
Increase (Decrease) in accrued compensated absences	(600)	38,880
Increase (Decrease) in Due to City of Council Bluffs	82,311	(140,596)
Increase (Decrease) in consumer deposits	26,300	18,450
Net cash provided by operating activities	$ 3,596,476	$ 3,758,340

See Notes to Financial Statements.

1. Summary of Significant Accounting Policies

The Council Bluffs City Water Works ("Water Works") is a related organization to the City of Council Bluffs, Iowa ("City") and is not included in the City's financial statements. The Mayor, with City Council concurrence, appoints individuals to the Water Works' Board of Trustees. The Water Works' Board of Trustees maintains oversight responsibility and, therefore, is responsible for selection of management personnel and all financial matters. The authority to adopt the annual budget, to incur debt and to fix rates and charges is vested in the Board of Trustees. The Water Works is exempt from state and Federal income taxes. The Water Works' financial statements are prepared on the accrual basis.

Reporting Entity:

For financial reporting purposes, the Water Works has included all funds, organizations, agencies, boards, commissions and authorities. The Water Works has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the Water Works are such that exclusion would cause the Water Works' financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and 1) the ability of the Water Works to impose its will on that organization or 2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the Water Works. The Water Works has no component units which meet the Governmental Accounting Standards Board criteria.

Basis of Presentation:

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

The Statement of Net Position presents the Water Works assets and liabilities, with the difference reported as net position. Net position is reported in the following categories:

Net investment in capital assets – Consists of capital assets, net of accumulated depreciation/amortization and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.

Restricted – Use of net position is externally imposed.

Unrestricted – The portion of net position that is not in restricted or net of investment in capital assets.

Measurement Focus and Basis of Accounting:

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

1. Summary of Significant Accounting Policies - Continued

Measurement Focus and Basis of Accounting – Continued:

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

Use of estimates:

In preparing the accompanying financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents:

For purposes of the statements of cash flows, the Water Works considers all highly liquid instruments with a maturity date of three months or less when purchased to be cash equivalents.

Consumer Accounts Receivable:

The consumer accounts receivable balance includes an assessment for sewer fees, which the Water Works bills on behalf of the City. A corresponding liability represents the amount of consumer accounts receivable that will be remitted to the City upon collection.

Revenues:

Metered water sales include amounts billed to customers on a monthly and bimonthly cycle basis and unbilled amounts based on estimated usage from the latest meter reading to the end of the accounting period.

Valuation of Inventories:

Inventories are valued at the lower of cost (average cost method) or market.

Contributions-in-Aid of Construction and Contributed Capital:

Contributions of cash by governments, customers or developers are maintained by the Water Works as restricted assets and restricted liabilities until expended. When expended the contributor's costs of construction are recorded as property, plant and equipment and contributed capital. Further, a contribution may be in the form of a completed project in which the contributor's costs of construction is recorded directly into the property, plant and equipment and contributed capital accounts. Depreciation expense recognized on these assets is charged to contributed capital.

1. Summary of Significant Accounting Policies - Continued

Property, Plant and Equipment:

Property, plant and equipment are stated at cost. Depreciation is computed using the straight-line method based on estimated useful lives.

Maintenance and repair of property, plant and equipment are charged to operations and major improvements are capitalized. Upon retirement, sale or other disposition of property, plant and equipment, the cost and accumulated depreciation are eliminated from the accounts and gain or loss is included in operations.

Accrued Compensated Absences:

Accrued compensated absences represent vacation time, which has been earned by employees in the current year to be used in subsequent years. Sick leave does not vest and, therefore, is not accrued.

New Accounting Pronouncements:

In December 2010, the Governmental Accounting Standards Board (GASB) issued Statement No. 61, *The Financial Reporting Entity,* which amends GASB Statement No. 14, *The Financial Reporting Entity,* and GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis – for State and Local Governments.* Changes under Statement No. 61 include an increased emphasis on financial relationships between primary governments and other organizations, clarification of the requirements to blend component units, and clarification of reporting equity interests in legally separate organizations. Statement No. 61 was effective for the Water Works December 31, 2013 financial statements; however, the adoption of this Statement did not have a material impact on the financial statements.

In December 2010, the Governmental Accounting Standards Board (GASB) issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.* That Statement supersedes Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*. Statement No. 62 was effective for the Water Works December 31, 2013 financial statements; however, the adoption of this Statement did not have a material impact on the financial statements.

In June 2011, the Governmental Accounting Standards Board (GASB) issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.* That Statement amends Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis – for State and Local Governments* and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. Statement No. 63 was effective for the Water Works December 31, 2013 financial statements; however, the adoption of this Statement did not have a material impact on the financial statements.

1. Summary of Significant Accounting Policies - Continued

New Accounting Pronouncements – Continued:

In April 2012, the Governmental Accounting Standards Board (GASB) issued Statement No. 65, *Items Previously Reported as Assets and Liabilities.* That Statement amends the financial statement classification of certain items to now be included as deferred inflows and outflows. Statement No. 65 was effective for the Water Works December 31, 2013 financial statements.

Subsequent Events:

Subsequent events have been evaluated through April 10, 2015, which is the date the financial statements were available to be issued.

2. Cash and Short-Term Investments

Listed below is a summary of the deposit and investment portfolios that comprise cash and investments on the December 31, 2014 balance sheet including restricted cash and cash equivalents and investments:

Deposits:

At December 31, 2014, deposits consisted of demand deposits and certificates of deposits and had the following balances:

Book Balance	$ 4,546,256
Bank Balance	$ 4,775,243

Of the total deposits, $255,000 was covered by federal depository insurance and $4,520,243 was covered by pledged securities that are being held in the pledging bank's trust department in the Board's name in the form of a joint safekeeping receipt.

3. Restricted Assets

Restricted assets represent money set aside for payment of bonds, proceeds from bond issues to be used for capital improvements, or contributions of cash by governments, customers, or developers for costs of construction. These contributions are reflected as restricted assets until expended. Details of the accounts comprising restricted assets as of December 31, 2014 and 2013 are as follows:

	2014	2013
Consumer deposit fund cash	$ 945,505	$ 946,364
Build America Bond loan funds	5,000	5,000
Main extension deposit	312,969	259,225
	$ 1,263,474	$ 1,210,589

4. Property, Plant and Equipment

Property, plant and equipment at December 31, 2014 and 2013 consisted of the following:

Description	Useful Life in Years	2014	2013
Land	-	$ 2,208,406	$ 2,208,406
Deposit on Land	-	578,663	-
Building and Structures	20 - 50	35,786,223	13,334,521
Water Distribution System	20 - 75	52,396,232	51,696,510
Meters	25 - 40	1,668,389	1,519,810
Tools and Equipment	3 - 20	18,079,700	6,936,742
Automobiles and Trucks	5	1,365,770	1,352,575
Office Equipment	15	104,985	104,985
Work in Progress	-	1,847,323	35,030,191
		$ 114,035,691	$ 112,183,740
Less Accumulated Depreciation		(46,887,541)	(43,852,300)
		$ 67,148,150	$ 68,331,440

As of December 31, 2014, construction of the new water treatment facility was completed and capitalized.

During 2014 a correction in the estimated useful life of one of the assets was made. This change was applied retroactively to when the item was placed in service which effects prior years reported numbers. The effects of this change can be found in Note 10.

Also during 2014, Water Works made a deposit for additional land in the amount of $578,663 with the closing of the land to take place in 2015 after due diligence and other conditions are satisfied. Total anticipated cost is $1,153,663.

5. Revenue Bonds

In 2010, the Water Works executed the final $25 million of its $35.353 million Water Revenue Bonds for construction of a second water treatment facility. The Water Revenue Bonds bear interest at 3.00% due in 2041. The Iowa Finance Authority also charges an annual service fee of 0.25%. As of December 31, 2013 the Water Works had drawn down the $35,353,000. These bonds require that the Water Works produce and maintain net revenues at a level not less than 110% of the amount of principal and interest on the Revenue Bond falling due in the same year. The Water Works was in compliance with this requirement for the years ended December 31, 2014 and 2013.

5. Revenue Bonds - Continued

Principal and interest requirements to maturity on revenue bonds outstanding at December 31, 2014 are as follows:

Years ended December 31,	Principal	Interest	Total Requirements
2015	$ 1,361,000	$ 906,067	$ 2,267,067
2016	1,403,000	864,757	2,267,757
2017	1,447,000	822,127	2,269,127
2018	1,493,000	778,177	2,271,177
2019	1,541,000	736,717	2,277,717
2020-2024	8,468,000	3,035,645	11,503,645
2025-2029	10,316,944	1,682,465	11,999,409
2030-2034	3,611,000	378,074	3,989,074
2035-2036	1,123,290	60,887	1,184,177
	$ 30,764,234	$ 9,264,916	$ 40,029,150

6. Contributions-in-Aid of Construction and Contributed Capital

The following is a schedule of contributions of cash by governments and customers or developers:

	Other Governments	Customers and Developers	Total
Balances at January 1, 2013	$ 1,132,808	$ 6,037,753	$ 7,170,561
Contributions-in-aid of construction	102,911	92,282	195,193
Transfers – Depreciation of contributed property, plant and equipment	(136,000)	(608,296)	(744,296)
Balances at December 31, 2013	$ 1,099,719	$ 5,521,739	$ 6,621,458
Contributions-in-aid of construction	-	76,241	76,241
Transfers – Depreciation of contributed property, plant and equipment	(136,008)	(612,106)	(748,114)
Balances at December 31, 2014	$ 963,711	$ 4,985,874	$ 5,949,585

7. Retirement Systems

The Water Works 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 supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Most regular plan members are required to contribute 5.95% of their annual covered salary and Water Works is required to contribute 8.93% of covered salary. Contribution requirements are established by state statue. The Water Works contributions to IPERS for the years ended December 31, 2014 and 2013 were $238,914 and $228,372, respectively, equal to the required contributions for each year.

8. Contingencies

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

9. Risk Management

The Water Works is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Water Works carries commercial insurance for all risks of loss, including errors and omissions, destruction of assets and natural disasters. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

The Water Works participates in a partially self-funding benefit plan for its employees' health insurance. The plan is administered by a third-party, which estimates The Water Works maximum annual exposure to be $348,600. The Water Works contributes funds monthly to a separate bank account to supplement the employee's deductible. The balance in this account as of December 31, 2014 and 2013 was $33,474 and $11,575, respectively.

10. Restatement of Prior Period Financial Statements

Net assets as of January 1, 2013 have been increased by $103,545 to correct an error made prior to January 1, 2013 of assigning useful lives of 20 years to certain equipment that should have been assigned useful lives of 75 years. The correction of the error in useful lives lowered previously stated depreciation expense prior to January 1, 2013. The accompanying financial statements for the year ending December 31, 2013 have been restated to reflect the corrections.

Statement of Net Postion at December 31, 2013

	Previously Reported	Increase (Decrease)	Restated
Property, plant and equipment, net	$ 68,139,141	$ 192,299	$ 68,331,440
Total assets	$ 75,568,325	$ 192,299	$ 75,760,624
Net postion, January 1, 2013	41,396,168	103,545	41,499,713
Change in net postion 2013	78,429	88,754	167,183
Net postion, December 31, 2013	$ 41,474,597	$ 192,299	$ 41,666,896
Total liabilites and net position	$ 75,568,325	$ 192,299	$ 75,760,624

Statement of Revenue, Expenses and Changes in Net Position at December 31, 2013

	Previously Reported	Increase (Decrease)	Restated
Depreciation and amortization	$ 2,831,468	$ (88,754)	$ 2,742,714
Change in net position	$ 78,429	$ 88,754	$ 167,183

11. Subsequent Events

On December 15, 2014 Water Works made a deposit for the purchase of land. The purchase of the land was finalized on January 2, 2015 with an additional payment of $575,000.

On January 9, 2015 Water Works obtained an SRF loan in the amount of $2,020,000. Of this amount $1,200,000 was used toward the purchase of the new land with the remaining amount to be used by the Water Works if needed.

COUNCIL BLUFFS CITY WATER WORKS

BUDGETARY COMPARISON SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN BALANCES – BUDGET AND ACTUAL

Year Ended December 31, 2014

	2014 Actual	2014 Budget	Budget Variance Favorable (Unfavorable)
Operating revenues:			
Metered water sales	$ 9,693,059	$ 10,332,000	$ (638,941)
Rental	137,985	130,000	7,985
Other	926,693	548,400	378,293
Total operating revenues	$ 10,757,737	$ 11,010,400	$ (252,663)
Operating expenses:			
Facilities and grounds	$ 806,166	$ 853,000	$ 46,834
Inventory adjustment	(16,367)	5,000	21,367
Purification	1,776,219	2,009,500	233,281
Distribution and meter	1,273,775	1,362,500	88,725
Customer accounting	472,790	396,000	(76,790)
Administration and general	2,265,517	2,469,000	203,483
Pension and social security	398,491	421,700	23,209
Total operating expenses	$ 6,976,591	$ 7,516,700	$ 540,109
Operating income	$ 3,781,146	$ 3,493,700	$ 287,446
Nonoperating revenues (expenses):			
Interest on investments	$ 198,819	$ 198,800	$ 19
Interest expense	(1,075,069)	(1,095,000)	19,931
Loss on disposal of equipment	(105)	(5,000)	4,895
Nonoperating revenues, net	$ (876,355)	$ (901,200)	$ 24,845
Surplus (Deficit) from Operations	$ 2,904,791	$ 2,592,500	$ 312,291
Debt Service	(1,306,000)	(1,306,000)	-
Capital Outlay	(2,948,540)	(4,195,000)	1,246,460
Bond Proceeds	1,049,493	1,276,000	(226,507)
Surplus (Deficit)	$ (300,256)	$ (1,632,500)	$ 1,332,244

Reconcilation to statement of revenues and expenses:

Budget Basis Deficit	$ (300,256)
Debt Service	1,306,000
Capital Outlay	2,948,540
Bond Proceeds	(1,049,493)
Depreciation and Amortization	(3,084,142)
Excess of revenues over expenses	$ (179,351)

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

Year Ended December 31, 2014

1. Budgetary reporting

In accordance with the Code of Iowa, the Water Works' Board of Trustees adopts a budget following required public notice and hearing. The budget is adopted on a budget basis which consists of accrual basis revenues and expenditures plus cash outlay for debt service and capital improvements and cash receipts of bond proceeds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures. In 2014, there were no budget amendments and disbursements did not exceed the amount budgeted.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH "GOVERNMENT AUDITING STANDARDS"

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

We have audited the financial statements of the Council Bluffs City Water Works as of and for the year ended December 31, 2014, and have issued our report thereon dated April 10, 2015. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of Council Bluffs City Water Works is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Council Bluffs City Water Works' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Council Bluffs City Water Works' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Council Bluffs City Water Works' internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Hamilton Associates, P.C.

Council Bluffs, Iowa
April 10, 2015

COUNCIL BLUFFS CITY WATER WORKS

SCHEDULE OF FINDINGS

For the Year Ended December 31, 2014

I. OTHER FINDINGS RELATED TO STATUTORY REPORTING

I-A-13 Certified Budget – We compared the Water Works disbursements for the twelve months ended December 31, 2014 with the published budget and found that disbursements did not exceed the amounts budgeted.

I-B-13 Questionable Disbursements – No disbursements that we believe may not meet the requirements of public purpose as defined in an Attorney general's opinion dated April 25, 1979 were noted.

I-C-13 Travel Expense – No expenditures of funds for travel expenses of spouses of Water Works' officials or employees were noted.

I-D-13 Business Transactions – During the course of our audit of Water Works as of December 31, 2014, we looked at many records substantiating disbursements. We noted no business transactions between the Water Works and Water Works' officials or employees.

I-E-13 Bond Coverage – We reviewed the statutory provisions for surety bond coverage of Water Works' officials and employees. The City has an ordinance allowing the City to set bonding requirements for the Water Works. Resolution 83-475 sets the amount of surety bond coverage for board members at $500 annually. Water Works maintains public officials' liability insurance, which sufficiently meets bond coverage requirements.

I-F-13 Board Minutes – We noted no transactions that we believe should have been approved in the Board minutes but were not.

I-G-13 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City's investment policy were noted.

I-H-13 Revenue Notes – No instances of non-compliance with the revenue bond and note requirements were noted.