

**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, 2015

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**Burlington Municipal Waterworks,
A Component Unit of the City of Burlington
Officials
June 30, 2015**

<u>Trustee</u>	<u>Title</u>
Gary L. Brotherson	Chairman
Jon W. Hart	Trustee
Jack L. Wehrle	Trustee
Alan R. Borden	General Manager, deceased 9/9/2015
Shane Johnson	Interim General Manager
Linda Schneider	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 year ended June 30, 2015, 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 an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 opinion.

Opinion

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, 2015, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 19 to the financial statements, the Waterworks adopted new accounting guidance related to Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions - an Amendment of GASB Statement No. 27*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison and pension information on pages 5 through 9 and 28 through 32 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, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2015, 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 30, 2015

**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, 2015. 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 and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$8.9 million (net position) for the fiscal year reported. This compares to the previous year when assets exceeded liabilities and deferred inflows of resources by \$8.8 million. The Net Position increased by \$92,477 or 1.0%.

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 \$7,200,874. This balance represents resources allocated to capital assets.
- Unrestricted net position of \$1,707,260 includes board-designated net position of \$390,073, which represents resources that are subject to internal restrictions.

During the year, revenues increased to \$3.85 million or 1.36%, while expenses decreased to \$3.66 million or (10.73)%.

Nonoperating income and capital contributions decreased \$59,361 or (96.86)%. Nonoperating income and capital contributions decreased from the previous year, because the Waterworks had more water main extensions in the previous year.

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 and the Waterworks' proportionate share of the net pension liability and related contributions.

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 2015 were approximately \$8.9 million, which was a \$0.1 million decrease from fiscal 2014. A condensed summary of the Waterworks' net position at June 30, 2015 and June 30, 2014 is shown below:

	2015	Not Restated 2014
Assets:		
Current and other assets	\$ 2,754,975	\$ 2,360,000
Capital assets	<u>10,139,874</u>	<u>10,456,900</u>
Total assets	<u>12,894,849</u>	<u>12,816,900</u>
Deferred Outflow of Resources:		
Pension related deferred outflows	<u>61,516</u>	<u>-</u>
Liabilities:		
Current liabilities	1,010,127	824,165
Long-term liabilities	<u>2,961,958</u>	<u>2,946,110</u>
Total liabilities	<u>3,972,085</u>	<u>3,770,275</u>
Deferred Inflow of Resources:		
Pension related deferred inflows	<u>76,146</u>	<u>-</u>
Net Position:		
Net investment in capital assets	7,200,874	7,337,900
Unrestricted	<u>1,707,260</u>	<u>1,708,725</u>
	<u>\$ 8,908,134</u>	<u>\$ 9,046,625</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.

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions - an Amendment of GASB No. 27* was implemented during fiscal year 2015. The beginning net position was restated \$230,968 to retroactively report the net pension liability as of June 30, 2013 and deferred outflows of resources related to contributions made after June 30, 2013 but prior to July 1, 2014. The financial statement amounts for fiscal year 2014 net pension liabilities, pension expense, deferred outflows of resources and deferred inflows of resources were not restated because the information was not available. In the past, pension expense was the amount of the employer contribution. Current reporting provides a more comprehensive measure of pension expense which is more reflective of the amounts employees earned during the year.

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

Summary of Operations and Changes in Net Position

	2015	Not Restated 2014
Net operating revenues	\$ 3,848,182	\$ 3,796,671
Net operating expenses	<u>3,656,712</u>	<u>4,096,178</u>
Net operating income (loss)	191,470	(299,507)
Nonoperating income and expenses:		
Interest income	1,925	2,519
Interest expense	(100,918)	(106,618)
Capital contributions	<u>-</u>	<u>58,767</u>
Increase (decrease) in net position	<u>\$ 92,477</u>	<u>\$ (344,839)</u>

Revenues

A summary of revenues for the year ended June 30, 2015, 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	\$ 1,826,358	47.44 %	\$ 66,756	3.79 %
Metered water	1,838,445	47.75	(6,380)	(0.35)
Other, net	<u>183,379</u>	<u>4.76</u>	<u>(8,865)</u>	(4.61)
Total operating	<u>3,848,182</u>	<u>99.95</u>	<u>51,511</u>	1.36
Nonoperating:				
Interest income	1,925	0.05	(594)	(23.58)
Capital contributions	<u>-</u>	<u>-</u>	<u>(58,767)</u>	(100.00)
Total nonoperating	<u>1,925</u>	<u>0.05</u>	<u>(59,361)</u>	(96.86)
Total revenues	<u>\$ 3,850,107</u>	<u>100.00 %</u>	<u>\$ (7,850)</u>	(0.20)

**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, 2015, 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 <u>Year</u>	<u>% Increase (Decrease)</u>
Operating:				
Power and pumping	\$ 1,146,256	30.50 %	\$ (46,465)	(3.90)%
Purification	937,161	24.94	(40,995)	(4.19)
Distribution	1,234,628	32.87	(365,709)	(22.85)
General and administrative	462,865	12.31	22,663	5.15
Sewer reimbursement	<u>(124,198)</u>	<u>(3.31)</u>	<u>(8,960)</u>	(7.78)
Total operating expenses	3,656,712	97.31	(439,466)	(10.73)
Nonoperating:				
Interest expense	<u>100,918</u>	<u>2.69</u>	<u>(5,700)</u>	(5.35)
Total expenses	<u>\$ 3,757,630</u>	<u>100.00 %</u>	<u>\$ (445,166)</u>	(10.59)

Expenses were not as high as last year, since the main breaks decreased due to a mild winter. Last year the severe winter temperatures caused a major water main break in Flint Creek.

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, 2015 and 2014. Cash equivalents are considered to be cash on hand, bank deposits, and highly liquid investments with an original maturity of three months or less.

	2015	Not Restated 2014
Cash flow from operating activities	\$ 946,101	\$ 135,338
Cash flow from investing activities	1,840	2,433
Cash flow used by capital and related financing activities	<u>(538,654)</u>	<u>(1,061,711)</u>
Net increase (decrease) in cash and cash equivalents	409,287	(923,940)
Cash and cash equivalents, beginning of year	<u>1,650,058</u>	<u>2,573,998</u>
Cash and cash equivalents, end of year	<u>\$ 2,059,345</u>	<u>\$ 1,650,058</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, 2015, the Waterworks expended \$257,286 on capital activities. Capital expenditures for the fiscal year were a new soft start of the high service pump, sludge removing equipment for the plant, refurbishing of Ironwood & Fairgrounds buildings, new SCADA system PLC & set up for plant, filter recording equipment for the plant, new meters for new services, new service material and GIS set up for distribution. Additional capital expenditures were a new furnace at the low lift, new generator for the low lift, two new 24" check valves for the low lift and the water main extension on Lawrence drive that was started in June 2015 and billed in July 2015.

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 Shane Johnson, Interim General Manager, Burlington Municipal Waterworks, 500 North Third Street, Burlington, Iowa 52601.

**Burlington Municipal Waterworks,
A Component Unit of the City of Burlington
Statement of Net Position - Proprietary Fund
June 30, 2015**

Assets	
Current Assets	
Cash and cash equivalents	\$ 1,669,272
Accounts receivable, net of allowance for doubtful accounts - \$5,000	295,782
Due from City of Burlington	8,454
Inventory, at cost	46,624
Prepaid expenses	<u>106,048</u>
Total current assets	<u>2,126,180</u>
Board Designated	
Bond and interest reserve fund:	
Cash and cash equivalents	<u>390,073</u>
Capital Assets	
Property and equipment, at cost	24,749,873
Less accumulated depreciation	<u>(14,609,999)</u>
	<u>10,139,874</u>
Other Assets	
Accrued interest receivable	73,116
Accounts receivable, water main extension	<u>165,606</u>
	<u>238,722</u>
Total assets	<u>12,894,849</u>
Deferred Outflows of Resources	
Pension related deferred outflows	<u>61,516</u>
Liabilities	
Current Liabilities	
Accounts payable	112,156
Accrued water revenue bond interest payable	7,348
Salaries and wages payable	36,068
Compensated absences payable	63,070
Deferred revenue	171,363
Liability for lime removal	433,872
Hydrant meter deposits	1,250
Current portion long-term debt	<u>185,000</u>
Total current liabilities	<u>1,010,127</u>
Long-term Liabilities	
Long-term debt, net of current portion	2,754,000
Net pension liability	199,663
Net OPEB liability	<u>8,295</u>
	<u>2,961,958</u>
Total liabilities	<u>3,972,085</u>
Deferred Inflows of Resources	
Pension related deferred inflows	<u>76,146</u>
Net Position	
Net investment in capital assets	7,200,874
Unrestricted	<u>1,707,260</u>
	<u>\$ 8,908,134</u>

See notes to financial statements.

**Burlington Municipal Waterworks,
A Component Unit of the City of Burlington
Statement of Revenues, Expenses and Changes in Fund Net Position - Proprietary Fund
For the Year Ended June 30, 2015**

Operating Revenues	
Unmetered water	\$ 1,826,358
Metered water	1,838,445
Extra water	4,441
Service charges	56,114
Miscellaneous	<u>122,824</u>
Net operating revenues	<u>3,848,182</u>
 Operating Expenses	
Power and pumping	1,146,256
Purification	937,161
Distribution	1,234,628
General and administrative	<u>462,865</u>
	3,780,910
Less sewer collection reimbursement	<u>(124,198)</u>
Net operating expenses	<u>3,656,712</u>
Net operating income	<u>191,470</u>
 Nonoperating Income (Expense)	
Interest income	1,925
Interest expense	<u>(100,918)</u>
Total nonoperating expenses	<u>(98,993)</u>
Increase in net position	92,477
Net position, beginning of year, restated	<u>8,815,657</u>
Net position, end of year	<u>\$ 8,908,134</u>

See notes to financial statements.

**Burlington Municipal Waterworks,
A Component Unit of the City of Burlington
Statement of Cash Flows - Proprietary Fund
For the Year Ended June 30, 2015**

Cash Flows from Operating Activities	
Receipts from customers	\$ 3,684,918
Receipts from service charges and miscellaneous	178,938
Hydrant meter deposits paid, net	100
Payments to suppliers	(1,675,737)
Payments to employees	<u>(1,242,118)</u>
Net cash provided by operating activities	<u>946,101</u>
Cash Flows from Capital and Related Financing Activities	
Purchase of capital assets	(257,286)
Interest payments on long-term debt	(101,368)
Principal payments on long-term debt	<u>(180,000)</u>
Net cash used by capital and related financing activities	<u>(538,654)</u>
Cash Flows from Investing Activities	
Interest income	<u>1,840</u>
Net cash provided by investing activities	<u>1,840</u>
Net increase in cash and cash equivalents	409,287
Cash and cash equivalents, beginning of year	<u>1,650,058</u>
Cash and cash equivalents, end of year	<u>\$ 2,059,345</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
Operating income	\$ 191,470
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	591,472
Changes in assets, deferred outflows of resources, liabilities, and deferred inflows of resources:	
Receivables, inventory and prepaids	14,397
Accounts payable and accrued expenses	164,252
Net pension liability	(60,724)
Net OPEB liability	1,185
Deferred outflows of resources	(32,097)
Deferred inflows of resources	<u>76,146</u>
Net cash provided by operating activities	<u>\$ 946,101</u>
Supplemental Disclosure of Noncash Financing Activities	
Equipment purchases financed through accounts payable	\$ 17,160

See notes to financial statements.

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

Note 1. Summary of Significant Accounting Policies

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

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

Reporting Entity

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

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

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

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The financial statements of the Waterworks are prepared in accordance with accounting principles generally accepted in the United States of America. The Waterworks' reporting entity applies all relevant GASB pronouncements. During the year ended June 30, 2015, the Waterworks adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB No. 27*.

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.

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 when all eligibility requirements imposed by the provider have been met.

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

Note 1. Summary of Significant Accounting Policies (continued)

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, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position
The Statement of Net Position is based on the following accounting policies:

Cash and Cash Equivalents

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

Accounts Receivable

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

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

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.

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

Note 1. Summary of Significant Accounting Policies (continued)

Deferred Outflows of Resources

Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense/expenditure) until then. Deferred outflows of resources consist of unrecognized items not yet charged to pension expense and contributions from the employer after the measurement date but before the end of the employer's reporting period.

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 on July 1, 2015.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Iowa Public Employees' Retirement System (IPERS) and additions to/deductions from IPERS' fiduciary net position have been determined on the same basis as they are reported by IPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Deferred Inflows of Resources

Deferred inflows of resources represent an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time. Although certain revenues are measurable, they are not available. Available means collected within the current year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Deferred inflows of resources on the fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year.

Deferred inflows of resources in the Statement of Net Position consist of the unamortized portion of the net difference between projected and actual earnings on pension plan investments.

Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2015, 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, deferred outflows of resources, 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 30, 2015, 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, 2015.

Note 2. Property and Equipment

As of June 30, 2015, changes in property and equipment consist of the following:

	<u>Balance Beginning of Year</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance End of Year</u>
Property and equipment not being depreciated/amortized:				
Land	\$ 151,981	\$ -	\$ -	\$ 151,981
Construction in progress	<u>6,189</u>	<u>75,622</u>	<u>(6,189)</u>	<u>75,622</u>
Total capital assets not being depreciated/amortized	<u>158,170</u>	<u>75,622</u>	<u>(6,189)</u>	<u>227,603</u>
Property and equipment being depreciated/amortized:				
Building and tanks	5,424,336	5,994	-	5,430,330
Distribution miscellaneous equipment	187,507	33,880	-	221,387
Distribution mains	12,444,109	25,089	(26,000)	12,443,198
Emergency well water	77,072	-	-	77,072
Filter equipment	1,009,122	-	-	1,009,122
Furniture and office equipment	213,719	4,846	-	218,565
Land improvements	775,595	-	-	775,595
Miscellaneous plant equipment	190,373	49,090	-	239,463
Power/pumping equipment	3,387,314	75,849	-	3,463,163
Sludge equipment	133,303	10,265	-	143,568
Vehicles	<u>500,807</u>	<u>-</u>	<u>-</u>	<u>500,807</u>
Total property and equipment being depreciated/amortized	<u>24,343,257</u>	<u>205,013</u>	<u>(26,000)</u>	<u>24,522,270</u>
Less accumulated depreciation/amortization for:				
Building and tanks	2,646,025	159,096	-	2,805,121
Distribution miscellaneous equipment	70,703	13,302	-	84,005
Distribution mains	6,635,154	269,583	(26,000)	6,878,737
Emergency well water	26,327	3,915	-	30,242
Filter equipment	957,886	8,365	-	966,251
Furniture and office equipment	194,647	5,604	-	200,251
Land improvements	530,710	29,321	-	560,031
Miscellaneous plant equipment	115,661	11,878	-	127,539
Power/pumping equipment	2,330,918	71,312	-	2,402,230
Sludge equipment	59,464	10,257	-	69,721
Vehicles	<u>477,032</u>	<u>8,839</u>	<u>-</u>	<u>485,871</u>
Total accumulated depreciation/amortization	<u>14,044,527</u>	<u>591,472</u>	<u>(26,000)</u>	<u>14,609,999</u>
Total property and equipment, net	<u>\$ 10,456,900</u>	<u>\$ (310,837)</u>	<u>\$ (6,189)</u>	<u>\$ 10,139,874</u>

As of June 30, 2015, the Waterworks had property totaling \$75,622 that was not in service as it was still being constructed or had significant enhancements.

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

Note 3. Deposits

The Waterworks' deposits at June 30, 2015 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 4. 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. For the year ended June 30, 2015, the sewer collection reimbursement included on the Statement of Revenues, Expenses and Changes in Net Position amounted to \$124,198. Amount due, including interest, from the City of Burlington as of June 30, 2015 for water main extensions was \$238,722. The net receivable (payable) to the City of Burlington at June 30, 2015 was \$8,454.

Note 5. 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, Des Moines County Regional Solid Waste Commission and Southeast Iowa Regional Airport 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 the year ended June 30, 2015, the Waterworks contributed \$5,811 to the JSC for operating expenses.

Note 6. 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 to future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

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

Note 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 the commercial insurance for workers' compensation, and also as of that date, 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, 2015.

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. 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.

In August 2015, the Board approved a contract for removal of approximately 10,000 tons of dry lime over the two-year period ending December 15, 2016. The current cost for removal is \$35.91 per dry ton.

For the year ended June 30, 2014, the liability was increased for the estimated tonnage added to the lagoons.

Liability for lime removal	\$ 339,712
Increase of liability	<u>94,160</u>
Balance accrued	<u>\$ 433,872</u>

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

Note 9. 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, 2015 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>\$ 3,119,000</u>	<u>\$ -</u>	<u>\$ (180,000)</u>	<u>\$ 2,939,000</u>	<u>\$ 185,000</u>

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

<u>Year Ending June 30,</u>	<u>Revenue Bonds, Series 2006</u>		<u>Revenue Bonds, 2010A Series</u>		<u>Total</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
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	138,000	36,810	72,000	28,020	210,000	64,830
2021-2025	754,000	119,460	397,000	106,290	1,151,000	225,750
2026-2030	<u>335,000</u>	<u>15,150</u>	<u>465,000</u>	<u>42,750</u>	<u>800,000</u>	<u>57,900</u>
	<u>\$ 1,739,000</u>	<u>\$ 357,660</u>	<u>\$ 1,200,000</u>	<u>\$ 309,450</u>	<u>\$ 2,939,000</u>	<u>\$ 667,110</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, 2015, the Waterworks was in compliance with this covenant.

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

Note 10. 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. For the year ending June 30, 2015, the Waterworks' ARC is \$1,185, and their net OPEB at June 30, 2015 is \$8,295, an increase of \$1,185 from June 30, 2014.

As of June 30, 2015, 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.

Note 11. Pension and Retirement Benefits

Retirement Plan Description

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 \$42,321, \$45,578, and \$45,422, net of forfeitures, to the plan for the years ended June 30, 2015, 2014, and 2013, respectively. Employees must complete six months of service before being eligible. The plan is funded through separate investment contracts with an insurance company.

Pension Plan Description

Iowa Public Employees' Retirement System (IPERS) membership is mandatory for employees, except those covered by the defined contribution pension plan discussed above. Employees of the Waterworks are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by IPERS. IPERS issues a stand-alone financial report which is available to the public by mail at 7401 Register Drive; P.O. Box 9117; Des Moines, Iowa 50306-9117 or at www.ipers.org.

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

Note 11. Pension and Retirement Benefits (continued)

IPERS benefits are established under Iowa Code chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following brief description is provided for general informational purposes only. Refer to the plan documents for more information.

Pension Benefits

A member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is age 65, anytime after reaching age 62 with 20 or more years of covered employment, or when the member's years of service plus the member's age at the last birthday equals or exceeds 88, whichever comes first. (These qualifications must be met on the member's first month of entitlement to benefits.) Members cannot begin receiving retirement benefits before age 55. The formula used to calculate a member's monthly IPERS benefit includes:

- A multiplier (based on years of service).
- The member's highest five-year average salary. (For members with service before June 30, 2012, the highest three-year average salary as of that date will be used if it is greater than the highest five-year average salary.)

If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early-retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25 percent for each month that the member receives benefits before the member's earliest normal retirement age. For service earned starting July 1, 2012, the reduction is 0.50 percent for each month that the member receives benefits before age 65.

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member's lifetime. However, to guard against the effects of inflation, retirees who began receiving benefits prior to July 1990 receive a guaranteed dividend with their regular November benefit payments.

Disability and Death Benefits

A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement, the member's beneficiary will receive a lifetime annuity or a lump-sum payment equal to the present actuarial value of the member's accrued benefit or an amount calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

**Burlington Municipal Waterworks,
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Notes to Financial Statements**

Note 11. Pension and Retirement Benefits (continued)

Contributions

Effective July 1, 2012, as a result of a 2010 law change, the contribution rates are established by IPERS following the annual actuarial valuation, which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization Method. Statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS Contribution Rate Funding Policy requires that the actuarial contribution rate be determined using the "entry age normal" actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll, based on the Actuarial Amortization Method adopted by the Investment Board.

In fiscal year 2015, pursuant to the required rate, members contributed 5.95% of pay and the Waterworks contributed 8.93% for a total rate of 14.88%.

The Waterworks' total contributions to IPERS for the year ended June 30, 2015 were \$35,221.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2015, the Waterworks reported a liability of \$199,663 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Waterworks' proportion of the net pension liability was based on the Waterworks' share of contributions to the pension plan relative to the contributions of all IPERS-participating employers. At June 30, 2014, the Waterworks' collective proportion was 0.004933%, which was an increase of 0.000334% percent from its proportion measured as of June 30, 2013.

For the year ended June 30, 2015, the Waterworks recognized pension expense of \$18,546. At June 30, 2015, the Waterworks reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 2,170	\$ -
Changes in assumptions	8,812	-
Net difference between projected and actual earnings on pension plan investments	-	76,146
Changes in proportion and differences between Waterworks' contributions and proportionate share of contributions	15,313	-
Waterworks' contributions subsequent to the measurement date	<u>35,221</u>	<u>-</u>
	<u>\$ 61,516</u>	<u>\$ 76,146</u>

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

Note 11. Pension and Retirement Benefits (continued)

The \$35,221 reported as deferred outflows of resources related to pensions resulting from the Waterworks' contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended June 30,</u>	
2016	\$ (12,600)
2017	(12,600)
2018	(12,600)
2019	(12,600)
2020	<u>549</u>
	<u>\$ (49,851)</u>

There were no non-employer contributing entities at IPERS.

Actuarial Assumptions

The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Rate of inflation (effective June 30, 2014)	3.00% per annum
Rates of salary increase (effective June 30, 2010)	4.00% to 17.00%, average, including inflation. Rates vary by membership group.
Long-term investment rate of return (effective June 30, 1996)	7.50%, compounded annually, net of investment expense, including inflation

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of actuarial experience studies with dates corresponding to those listed above.

Mortality rates were based on the RP-2000 Mortality Tables Report for males or females, as appropriate, with adjustments for mortality improvements based on Scale AA.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

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

Note 11. Pension and Retirement Benefits (continued)

<u>Asset Class</u>	<u>Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
US Equity	23 %	6.31 %
Non-US Equity	15	6.76
Private Equity	13	11.34
Real Estate	8	3.52
Core Plus Fixed Income	28	2.06
Credit Opportunities	5	3.67
TIPS	5	1.92
Other Real Assets	2	6.27
Cash	<u>1</u>	(0.69)
Total	<u>100 %</u>	

Discount Rate

The discount rate used to measure the total pension liability was 7.5%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the contractually required rate and that contributions from the Waterworks will be made at the contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Association's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the Waterworks' proportionate share of the net pension liability calculated using the discount rate of 7.5%, as well as what the Waterworks' proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.5%) or 1 percentage point higher (8.5%) than the current rate.

	1% Decrease <u>(6.5%)</u>	Discount Rate <u>(7.5%)</u>	1% Increase <u>(8.5%)</u>
Proportionate share of the net pension liability	\$ 377,257	\$ 199,663	\$ 49,755

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS' website at www.ipers.org.

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

Note 12. Unrestricted Net Position Designated by the Board

As of June 30, 2015, 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
Cash and cash equivalents	\$ 333,709	\$ 56,364	\$ 390,073

Note 13. 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 year ended June 30, 2015 was \$104,400.

Note 14. 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 year ended June 30, 2015 was \$470,534.

Note 15. Contract with the City of West Burlington, Iowa

On August 16, 1995, the Waterworks entered into a contract 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 year ended June 30, 2015 was \$309,536.

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

Note 16. Contract with the City of Danville, Iowa

On November 3, 1983, the Waterworks entered into a contract 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 year ended June 30, 2015 was \$52,773.

Note 17. Contract with the City of Middletown, Iowa

On March 13, 2001, the Waterworks entered into a contract 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 year ended June 30, 2015 was \$36,477.

Note 18. Operating Leases - Leasor

The Waterworks has five cell phone tower lease arrangements, which expire between June 30, 2016 and May 1, 2020. For the year ended June 30, 2015, the Waterworks recognized rent income of \$71,811, which is included in Miscellaneous Operating Revenue on the Statement of Revenues, Expenses and Changes in Fund Net Position - Proprietary Fund.

Future minimum rent income is as follows:

<u>Year Ended June 30,</u>	
2016	\$ 82,103
2017	63,000
2018	34,200
2019	16,200
2020	<u>13,500</u>
	<u>\$ 209,003</u>

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

Note 19. Accounting Change/Restatement

GASB No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB No. 27* was implemented during fiscal year 2015. The revision establishes 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, GASB No. 68 requires a state or local government employer to recognize a net pension liability and changes in the net pension liability, deferred outflows of resources and deferred inflows of resources which arise from other types of events related to pensions. During the transition year, as permitted, beginning balances for deferred outflows of resources and deferred inflows of resources will not be reported, except for deferred outflows of resources related to contributions made after the measurement date of the beginning net pension liability which is required to be reported by GASB No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Beginning net position for governmental activities was restated to retroactively report the beginning net pension liability and deferred outflows of resources related to contributions made after the measurement date, as follows:

	Net Investment in Capital		
	<u>Assets</u>	<u>Unrestricted</u>	<u>Net Position</u>
As previously reported, June 30, 2014	\$ 7,337,900	\$ 1,708,725	\$ 9,046,625
Accounting adjustment GASB No. 68	<u> -</u>	<u>(230,968)</u>	<u>(230,968)</u>
As restated	<u>\$ 7,337,900</u>	<u>\$ 1,477,757</u>	<u>\$ 8,815,657</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, 2015**

	<u>Actual</u>	<u>Budgeted Amounts Final</u>	<u>Budgeted Amounts Favorable (Unfavorable)</u>	<u>Net as Percent of Budget</u>
Operating Revenues				
Water sales	\$ 3,669,244	\$ 3,623,970	\$ 45,274	101 %
Main extension and miscellaneous	<u>178,938</u>	<u>126,000</u>	<u>52,938</u>	142 %
Total operating revenues	<u>3,848,182</u>	<u>3,749,970</u>	<u>\$ 98,212</u>	
Operating Expenses				
Power, pumping and purification	1,981,604	2,121,470	\$ 139,866	93 %
Distribution	788,733	763,068	(25,665)	103 %
General and administrative	419,101	431,169	12,068	97 %
Debt service	-	281,368	281,368	- %
Less sewer collection reimbursement	<u>(124,198)</u>	<u>(115,000)</u>	<u>9,198</u>	108 %
Operating expenses, before depreciation	<u>3,065,240</u>	<u>3,482,075</u>	<u>\$ 416,835</u>	
Net operating income before depreciation	782,942	267,895		
Nonoperating Income (Expense)				
Interest income	1,925	3,200		
Interest expense	<u>(100,918)</u>	<u>-</u>		
Increase in net position before depreciation	683,949	271,095		
Depreciation expense	<u>(591,472)</u>	<u>(560,936)</u>		
Increase (decrease) in net position	<u>\$ 92,477</u>	<u>\$ (289,841)</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, 2015**

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

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

During the year ended June 30, 2015, disbursements did not exceed the amounts budgeted.

**Burlington Municipal Waterworks,
A Component Unit of the City of Burlington
Schedule of the Waterworks' Proportionate Share of the Net Pension Liability
Iowa Public Employees Retirement System
Last Fiscal Year*
(In Thousands)
Other Information**

Waterworks' proportion of the net pension liability	0.004933%
Waterworks' proportionate share of the net pension liability	\$199,663
Waterworks' covered-employee payroll	\$329,440
Waterworks' proportionate share of the net pension liability as a percentage of its covered-employee payroll	60.61%
Plan fiduciary net position as a percentage of the total pension liability	87.61%

* The amounts presented for each fiscal year were determined as of June 30.

Note: GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the Waterworks will present information for those years for which information is available.

See accompanying independent auditor's report.

**Burlington Municipal Waterworks,
A Component Unit of the City of Burlington
Schedule of the Waterworks' Contributions
Iowa Public Employees Retirement System
Last 10 Fiscal Years
(In Thousands)
Other Information**

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Statutorily required contribution	\$ 35,221	\$ 29,419	\$ 25,788	\$ 20,391	\$ 12,076	\$ 9,400	\$ 8,437	\$ 5,662	\$ 2,609	\$ 1,994
Contributions in relation to the statutorily required contribution	<u>(35,221)</u>	<u>(29,419)</u>	<u>(25,788)</u>	<u>(20,391)</u>	<u>(12,076)</u>	<u>(9,400)</u>	<u>(8,437)</u>	<u>(5,662)</u>	<u>(2,609)</u>	<u>(1,994)</u>
Contribution deficiency (excess)	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>				
Waterworks' covered-employee payroll	\$ 394,409	\$ 329,440	\$ 297,439	\$ 252,676	\$ 173,756	\$ 141,358	\$ 132,873	\$ 93,591	\$ 45,374	\$ 34,677
Contributions as a percentage of covered-employee payroll	8.93 %	8.93 %	8.67 %	8.07 %	6.95 %	6.65 %	6.35 %	6.05 %	5.75 %	5.75 %

See accompanying independent auditor's report.

**Burlington Municipal Waterworks,
A Component Unit of the City of Burlington
Notes to Other Information – Pension Liability
Year ended June 30, 2015**

Changes in benefit terms:

Legislation passed in 2010 modified benefit terms for current members. The definition of final average salary changed from the highest 3 to the highest 5 years of covered wages. The vesting requirement changed from 4 years of service to 7 years. The early retirement reduction increased from 3% per year measured from the member's first unreduced retirement age to a 6% reduction for each year of retirement before age 65.

Changes in assumptions:

The 2014 valuation implemented the following refinements as a result of a quadrennial experience study:

- Decreased the inflation assumption from 3.25% to 3.00%
- Decreased the assumed rate of interest on member accounts from 4.00% to 3.75% per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Reduced retirement rates for sheriffs and deputies between the ages of 55 and 64.
- Moved from an open 30-year amortization period to a closed 30-year amortization period for the UAL beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20-year period.

The 2010 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted retiree mortality assumptions.
- Modified retirement rates to reflect fewer retirements.
- Lowered disability rates at most ages.
- Lowered employment termination rates.
- Generally increased the probability of terminating members receiving a deferred retirement benefit.
- Modified salary increase assumptions based on various service duration.

The 2007 valuation adjusted the application of the entry age normal cost method to better match projected contributions to the projected salary stream in the future years. It also included in the calculation of the UAL amortization payments the 1-year lag between the valuation date and the effective date of the annual actuarial contribution rate.

The 2006 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted salary increase assumptions to service based assumptions.
- Decreased the assumed interest rate credited on employee contributions from 4.25% to 4.00%.
- Lowered the inflation assumption from 3.50% to 3.25%.
- Lowered disability rates for sheriffs and deputies and protection-occupation members.

See accompanying independent auditor's report.

**Burlington Municipal Waterworks,
A Component Unit of the City of Burlington
Supplementary Information
Supplemental Schedule of Expenses
For the Year Ended June 30, 2015**

	<u>Power and Pumping</u>	<u>Purification</u>	<u>Distribution</u>	<u>General and Administrative</u>	<u>Total June 30, 2015</u>
Salaries and wages	\$ 407,097	\$ 241,077	\$ 435,269	\$ 154,559	\$ 1,238,002
Group insurance	176,604	-	146,472	55,554	378,630
Retirement plan	23,490	8,301	22,529	7,732	62,052
Payroll taxes	<u>44,291</u>	<u>4,359</u>	<u>34,105</u>	<u>11,585</u>	<u>94,340</u>
Total salaries and related expenses	651,482	253,737	638,375	229,430	1,773,024
Power and fuel	345,968	-	4,686	4,686	355,340
Supplies and tools	4,174	29,263	5,772	2,493	41,702
Water main maintenance	-	-	480	-	480
Equipment repairs	(8,899)	1,462	71,234	-	63,797
Structure repairs	16,995	2,269	18,737	-	38,001
Lime removal	-	103,988	-	-	103,988
Ground supplies	1,821	-	562	3,205	5,588
Telephone and leased circuits	8,054	-	320	3,351	11,725
Professional fees	-	-	-	9,558	9,558
Dues and subscriptions	209	-	-	2,859	3,068
Uniforms/cleaning	5,880	-	3,749	-	9,629
Office supplies and expense	1,807	-	-	45,275	47,082
Insurance	-	-	-	100,603	100,603
Chemicals	-	527,002	-	-	527,002
Vehicle expense	11,384	-	33,104	-	44,488
Miscellaneous	<u>25,008</u>	<u>-</u>	<u>11,714</u>	<u>17,641</u>	<u>54,363</u>
Total expenses before depreciation	1,063,883	917,721	788,733	419,101	3,189,438
Depreciation	<u>82,373</u>	<u>19,440</u>	<u>445,895</u>	<u>43,764</u>	<u>591,472</u>
Total operating expenses	<u>\$ 1,146,256</u>	<u>\$ 937,161</u>	<u>\$ 1,234,628</u>	<u>\$ 462,865</u>	<u>\$ 3,780,910</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, 2015**

<u>Depository</u>	<u>Demand Deposits</u>	<u>Total</u>
Farmers & Merchants Bank & Trust:		
Maintenance and operating	\$ 1,216,575	\$ 1,216,575
Depreciation, extensions and improvements	333,709	333,709
Revenue bond sinking fund	2,409	2,409
Revenue bond reserve	53,955	53,955
Two Rivers Bank & Trust:		
Maintenance and operating	<u>451,497</u>	<u>451,497</u>
	<u>2,058,145</u>	2,058,145
Petty cash		<u>1,200</u>
		<u>\$ 2,059,345</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, 2015, and the related notes to the financial statements, which collectively comprise the Waterworks' basic financial statements, and have issued our report thereon dated September 30, 2015.

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 opinion 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, we identified a deficiency in internal control we consider to be a significant deficiency.

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

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in Part I of the accompanying Schedule of Findings as item I-A-15 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.

Waterworks' Responses to Findings

The Waterworks' responses to the findings identified in our audit are described in the accompanying Schedule of Findings. 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 30, 2015

**Burlington Municipal Waterworks,
A Component Unit of the City of Burlington
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2015**

Part I: Findings Related to the Financial Statements

SIGNIFICANT DEFICIENCY

I-A-15 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-15 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, 2015.

II-B-15 Deposits and Investments - The Waterworks has adopted a written investment policy as required by Chapter 12B.10B of the Code of Iowa.

II-C-15 Travel Expense - No expenditures of Waterworks money for travel expenses of spouses of Waterworks members or employees were noted.

II-D-15 Board Minutes - No transactions were found that we believe should have been approved in the Waterworks' minutes but were not.

II-E-15 Questioned Disbursements - No disbursements were found that did not meet the requirements of public purpose as defined in the Attorney General's opinion dated April 25, 1979.

II-F-15 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-G-15 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.