

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

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

**June 30, 2009**

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**Burlington Municipal Waterworks,  
A Component Unit of the City of Burlington  
Board of Trustees  
June 30, 2009**

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



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## **Independent Auditor's Report**

Officials of  
Burlington Municipal Waterworks,  
A Component Unit of the City of Burlington  
Burlington, Iowa

We have audited the accompanying statements of net assets of the proprietary fund of the Burlington Municipal Waterworks (Waterworks), A Component Unit of the City of Burlington, as of June 30, 2009 and 2008, and the related statements of revenues, expenses, changes in fund net assets, and statements of cash flows of its proprietary fund for the years then ended. These financial statements are the responsibility of the Waterworks' management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the Waterworks did not record or disclose the net annual required contribution for other post-employment benefits (OPEB) or the OPEB net liability obligation as required by Government Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits other than Pensions*.

In our opinion, except for the omission of the information in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the Waterworks at June 30, 2009 and 2008, and the changes in its net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 12, 2009 on our consideration of Waterworks' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of the audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis and budgetary comparison information on pages 4 through 7, 21 and 22 are not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were made for the purpose of forming an opinion on the financial statements taken as a whole. The supplemental information included on pages 23 through 24 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audits of the aforementioned financial statements and, in our opinion, is fairly stated in all material respects in relation to the aforementioned financial statements taken as a whole.

*CPA Associates PC*

October 12, 2009

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

The following Management 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, 2009. The information contained in this MD&A should be considered in conjunction with the Waterworks' basic financial statements.

Following this MD&A are the basic financial statements of the Waterworks together with the notes thereto which are essential to a full understanding of the data contained in the financial statements.

**Financial Operations Highlights**

As a result of this year's operations, assets exceeded liabilities by \$7.6 million (net assets) for the fiscal year reported. This compares to the previous year when assets exceeded liabilities by \$7.5 million. The net assets increased by \$58,023 or 0.8%.

Total net assets are comprised of the following:

- Net assets invested in capital assets (e.g., main extensions, buildings, improvements, and equipment), less the related indebtedness outstanding used to acquire those capital assets is \$6,431,522. This balance represents resources allocated to capital assets.
- Restricted net assets of \$182,500 represent resources that are subject to external restrictions such as grantors, laws, debt covenants or regulations.
- Unrestricted net assets of \$966,453 include board designated net assets of \$531,129, which represents resources that are subject to internal restrictions

During the year revenues increased to \$3.22 million or 6.96%, while expenses increased to \$3.12 million or 10.22%.

Non-operating revenues decreased \$14,589 or 30.89% and are primarily attributable to decreased interest rates paid on investments.

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

|                                    | <b>2009</b>      | <b>2008</b>       |
|------------------------------------|------------------|-------------------|
| Net operating revenues             | \$ 3,224,230     | \$ 3,014,560      |
| Net operating expenses             | <u>3,117,746</u> | <u>2,828,600</u>  |
| Net operating income (loss)        | 106,484          | 185,960           |
| Non-operating income and expenses: |                  |                   |
| Interest income                    | 32,638           | 47,227            |
| Interest expense                   | (81,098)         | (90,451)          |
| Capital contributions              | <u>-</u>         | <u>-</u>          |
| Increase (decrease) in Net Assets  | <u>\$ 58,024</u> | <u>\$ 142,736</u> |

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

**Financial Position Summary**

Net assets may serve over time as a useful indicator of the Waterworks' financial position. The Waterworks' net assets exceeded liabilities by \$7.6 million at June 30, 2009, a \$58,024 increase from June 30, 2008.

A condensed summary of the Waterworks' net assets at June 30, 2009 and June 30, 2008 is shown below:

|   | <b>2009</b>          | <b>2008</b>          |
|---|----------------------|----------------------|
| Assets:   |                      |                      |
| Current and other assets                        | \$ 2,222,687         | \$ 2,253,263         |
| Capital assets                                  | <u>8,834,522</u>     | <u>8,935,641</u>     |
| Total assets                                    | <u>\$ 11,057,209</u> | <u>\$ 11,188,904</u> |
| Liabilities:                                    |                      |                      |
| Current liabilities                             | \$ 1,176,734         | \$ 1,263,452         |
| Long-term debt                                  | <u>2,300,000</u>     | <u>2,403,000</u>     |
| Total liabilities                               | 3,476,734            | 3,666,452            |
| Net Assets:                                     |                      |                      |
| Invested in capital assets, net of related debt | 6,431,522            | 6,432,641            |
| Restricted                                      | 182,500              | 36,395               |
| Unrestricted                                    | <u>966,453</u>       | <u>1,053,416</u>     |
| Total liabilities and net assets                | <u>\$ 11,057,209</u> | <u>\$ 11,188,904</u> |

The largest portion of the Waterworks' net assets 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.

**Revenues**

A summary of revenues for the year ended June 30, 2009, and the amount and percentage of change in relation to prior year amounts is as follows:

|                 | <u>Amount</u>       | <u>% of<br/>Total</u> | Increase<br>(Decrease)<br>from Prior<br>Year | <u>% Increase<br/>(Decrease)</u> |
|-----------------|---------------------|-----------------------|--|----------------------------------|
| Operating:      |                     |                       |  |                                  |
| Unmetered water | \$ 1,543,374        | 47.39                 | \$ 86,293                                    | 5.92                             |
| Metered water   | 1,478,309           | 45.39                 | 32,163                                       | 2.22                             |
| Other, net      | <u>202,547</u>      | <u>6.22</u>           | <u>91,214</u>                                | 81.93                            |
| Total operating | 3,224,230           | 99.00                 | 209,670                                      | 6.96                             |
| Non-operating:  |                     |                       |  |                                  |
| Interest income | <u>32,638</u>       | <u>1.00</u>           | <u>(14,589)</u>                              | (30.89)                          |
| Total revenues  | <u>\$ 3,256,868</u> | <u>100.00</u>         | <u>\$ 195,081</u>                            | 6.37                             |

**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, 2009, and the amount and percentage change in relation to prior year amounts is as follows:

|                            | <u>Amount</u>       | <u>% of<br/>Total</u> | <u>Increase<br/>(Decrease)<br/>from Prior<br/>Year</u> | <u>% Increase<br/>(Decrease)</u> |
|----------------------------|---------------------|-----------------------|--|----------------------------------|
| Operating:                 |                     |                       |  |                                  |
| Power and pumping          | \$ 1,047,034        | 32.73                 | \$ 70,972  | 7.27                             |
| Purification               | 868,758             | 27.16                 | 248,140  | 39.98                            |
| Distribution               | 809,593             | 25.31                 | (36,587)   | (4.32)                           |
| General and administrative | 500,963             | 15.66                 | 11,655   | 2.38                             |
| Sewer reimbursement        | <u>(108,602)</u>    | <u>(3.40)</u>         | <u>(5,034)</u>   | <u>(4.86)</u>                    |
| Total operating expenses   | 3,117,746           | 97.46                 | 289,146  | 10.22                            |
| Non-operating:             |                     |                       |  |                                  |
| Interest expense           | <u>81,098</u>       | <u>2.54</u>           | <u>(9,353)</u>   | <u>(10.34)</u>                   |
| Total expenses             | <u>\$ 3,198,844</u> | <u>100.00</u>         | <u>\$ 279,793</u>                                      | <u>9.59</u>                      |

The increase in expenses during the fiscal year is mainly attributable to emergency protection repairs to the water transmission line crossing at Flint Creek as a result of two flash floods, increased power and fuel costs, increased water treatment chemical costs, additional EPA mandated water quality testing, and an increase in depreciation costs.

**Summary of Cash Flow Activities**

The following shows a summary of the major sources and uses of cash and cash equivalents for the years ended June 30, 2009 and 2008. Cash equivalents are considered to be cash-on-hand, bank deposits and highly liquid investments with an original maturity of three months or less.

|  | <b>2009</b>         | <b>2008</b>         |
|--|---------------------|---------------------|
| Cash flow from operating activities                        | \$ 501,618          | \$ 314,369          |
| Cash flow from investing activities                        | 25,998              | 42,837              |
| Cash flow used by capital and related financing activities | <u>(591,468)</u>    | <u>(465,518)</u>    |
| Net increase in cash and cash equivalents                  | (63,852)            | (108,312)           |
| Cash and cash equivalents, beginning of year               | <u>1,685,912</u>    | <u>1,794,224</u>    |
| Cash and cash equivalents, end of year                     | <u>\$ 1,622,060</u> | <u>\$ 1,685,912</u> |



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

**Financial Statements**

The Waterworks' financial statements are prepared on an accrual basis in accordance with accounting principals generally accepted in the United States of America promulgated by the Government Accounting Standards Board (GASB). The Waterworks is structured as a single enterprise fund with revenues recognized when earned, not received. Expenses are recognized when incurred, not when they are paid. Capital assets are capitalized and (except land) are depreciated over their useful lives. See the notes to the financial statements for a summary of the Waterworks' significant accounting policies.

**Capital Acquisitions and Construction Activities**

During the year ended June 30, 2009, the Waterworks expended \$410,120 on capital activities. The largest capital project expenditure for the year was the engineering and subsequent contract awards for the 2009 Water System Improvements and the Emergency Backup Power Generator. These projects will mostly be financed with an Iowa Drinking Water State Revolving Loan through the Iowa Finance Authority. Funding from the American Recovery and Reinvestment Act of 2009 is also expected to be available for both projects. Additional capital activities included rehabilitation of Well #2, replacement of lime sludge moving equipment in two of the eight bays of the softening basins, replacement of the final two flocculator shafts in the primary basins, purchase of two filter turbidimeters, purchase of a riding mower and finish mower, and numerous small equipment and material purchases. The remainder of the projects and purchases were financed with reserves from Depreciation and Improvement Fund, which comprises a major portion of the restricted net assets, and from Maintenance and Operating funds.

**Request for Information**

This financial report is designed to provide a general overview of the Waterworks' finances for all those interested. Questions concerning any of the information provided in this report or request for additional information should be addressed in writing to the Alan Borden, General Manager, Burlington Municipal Waterworks, 500 North Third Street, Burlington, Iowa 52601.

**Burlington Municipal Waterworks,  
A Component Unit of the City of Burlington  
Statements of Net Assets - Proprietary Fund  
June 30, 2009 and 2008**

|   | 2009                 | 2008<br>Restated     |
|---|----------------------|----------------------|
| <b>Assets</b>                                   |                      |                      |
| <b>Current Assets</b>                           |                      |                      |
| Cash and cash equivalents                       | \$ 908,556           | \$ 1,176,853         |
| Accrued interest receivable                     | 69,027               | 62,080               |
| Accounts receivable, water main extension       | 165,606              | 165,606              |
| Accounts receivable, metered water              | 209,404              | 190,524              |
| Other receivables                               | 23,837               | 23,126               |
| Inventory, at cost                              | 44,538               | 38,982               |
| Prepaid expenses                                | <u>88,090</u>        | <u>86,600</u>        |
| Total current assets                            | <u>1,509,058</u>     | <u>1,743,771</u>     |
| <b>Restricted Assets</b>                        |                      |                      |
| Bond and interest reserve fund:                 |                      |                      |
| Cash and cash equivalents                       | 182,450              | 36,222               |
| Accrued interest receivable                     | 50                   | 173                  |
| <b>Board Designated</b>                         |                      |                      |
| Depreciation, extensions and improvements:      |                      |                      |
| Cash and cash equivalents                       | 531,054              | 472,837              |
| Accrued interest receivable                     | <u>75</u>            | <u>260</u>           |
|   | <u>713,629</u>       | <u>509,492</u>       |
| <b>Utility Plant in Service</b>                 |                      |                      |
| Property and equipment at cost                  | 20,070,618           | 19,660,498           |
| Less accumulated depreciation                   | <u>(11,236,096)</u>  | <u>(10,724,857)</u>  |
|   | <u>8,834,522</u>     | <u>8,935,641</u>     |
|   | <u>\$ 11,057,209</u> | <u>\$ 11,188,904</u> |
| <b>Liabilities</b>                              |                      |                      |
| <b>Current Liabilities</b>                      |                      |                      |
| Accounts payable                                | \$ 135,667           | \$ 128,232           |
| Accrued water revenue bond interest payable     | 6,008                | 6,258                |
| Salaries and wages payable                      | 47,778               | 49,733               |
| Compensated absences payable                    | 52,898               | 56,002               |
| IAAP deposit on main extension                  | 196,199              | 245,301              |
| Street main deposit                             | 32,598               | 32,598               |
| Deferred revenue                                | 132,014              | 126,309              |
| Liability for lime removal                      | 469,122              | 517,819              |
| Meter deposits                                  | 1,450                | 1,200                |
| Current portion long-term debt                  | <u>103,000</u>       | <u>100,000</u>       |
| Total current liabilities                       | <u>1,176,734</u>     | <u>1,263,452</u>     |
| <b>Long-Term Debt, net of current portion</b>   | <u>2,300,000</u>     | <u>2,403,000</u>     |
| <b>Net Assets</b>                               |                      |                      |
| Invested in capital assets, net of related debt | 6,431,522            | 6,432,641            |
| Restricted:                                     |                      |                      |
| Reserve fund for water bond retirement          | 182,500              | 36,395               |
| Unrestricted                                    | <u>966,453</u>       | <u>1,053,416</u>     |
|   | <u>7,580,475</u>     | <u>7,522,452</u>     |
|   | <u>\$ 11,057,209</u> | <u>\$ 11,188,904</u> |

See notes to financial statements.

**Burlington Municipal Waterworks,  
A Component Unit of the City of Burlington  
Statements of Revenues, Expenses and Changes in Fund Net Assets - Proprietary Fund  
For the Years Ended June 30, 2009 and 2008**

|                                       | 2009                | 2008<br>Restated    |
|---------------------------------------|---------------------|---------------------|
| <b>Operating Revenues</b>             |                     |                     |
| Unmetered water                       | \$ 1,543,374        | \$ 1,457,081        |
| Metered water                         | 1,478,309           | 1,446,146           |
| Extra water                           | 2,812               | 2,568               |
| Service charges                       | 34,165              | 39,871              |
| Miscellaneous                         | <u>165,570</u>      | <u>68,894</u>       |
| Net operating revenues                | <u>3,224,230</u>    | <u>3,014,560</u>    |
| <b>Operating Expenses</b>             |                     |                     |
| Power and pumping                     | 1,047,034           | 976,062             |
| Purification                          | 868,758             | 620,618             |
| Distribution                          | 809,593             | 846,180             |
| General and administrative            | <u>500,963</u>      | <u>489,308</u>      |
|                                       | 3,226,348           | 2,932,168           |
| Less: Sewer collection reimbursement  | <u>(108,602)</u>    | <u>(103,568)</u>    |
| Net operating expenses                | <u>3,117,746</u>    | <u>2,828,600</u>    |
| Net operating income                  | 106,484             | 185,960             |
| <b>Non-operating Income (Expense)</b> |                     |                     |
| Interest income                       | 32,638              | 47,227              |
| Interest expense                      | <u>(81,098)</u>     | <u>(90,451)</u>     |
| Increase in net assets                | 58,024              | 142,736             |
| Net assets, beginning of year         | <u>7,522,451</u>    | <u>7,379,715</u>    |
| Net assets, end of year               | <u>\$ 7,580,475</u> | <u>\$ 7,522,451</u> |

See notes to financial statements.

**Burlington Municipal Waterworks,  
A Component Unit of the City of Burlington  
Statements of Cash Flows - Proprietary Fund  
For the Years Ended June 30, 2009 and 2008**

|   | <b>2009</b>         | <b>2008</b><br>Restated |
|---|---------------------|-------------------------|
| <b>Cash Flows from Operating Activities</b>   |                     |                         |
| Receipts from customers   | \$ 3,011,399        | \$ 2,913,617            |
| Receipts from service charges and miscellaneous   | 199,024             | 103,493                 |
| Meter deposits received, net  | 250                 | 750                     |
| Payments to suppliers   | (1,199,313)         | (1,670,212)             |
| Payments to employees   | <u>(1,509,742)</u>  | <u>(1,033,279)</u>      |
| Net cash provided by operating activities   | <u>501,618</u>      | <u>314,369</u>          |
| <b>Cash Flows from Capital and Related Financing Activities</b>                         |                     |                         |
| Purchase of capital assets  | (410,120)           | (293,518)               |
| Interest payments on long-term debt   | (81,348)            | (78,000)                |
| Principal payments on long-term debt  | (100,000)           | (97,000)                |
| Principal borrowings on long-term debt  | <u>-</u>            | <u>3,000</u>            |
| Net cash used by capital and related financing activities                               | <u>(591,468)</u>    | <u>(465,518)</u>        |
| <b>Cash Flows from Investing Activities</b>   |                     |                         |
| Interest income   | <u>25,998</u>       | <u>42,837</u>           |
| Net cash provided by investing activities   | <u>25,998</u>       | <u>42,837</u>           |
| Net decrease in cash and cash equivalents   | (63,852)            | (108,312)               |
| Cash and cash equivalents, beginning of year  | <u>1,685,912</u>    | <u>1,794,224</u>        |
| Cash and cash equivalents, end of year  | <u>\$ 1,622,060</u> | <u>\$ 1,685,912</u>     |
| <b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities</b>  |                     |                         |
| Operating income (loss)   | \$ 106,484          | \$ 185,960              |
| Adjustments to reconcile operating income to net cash provided by operating activities: |                     |                         |
| Depreciation expense  | 511,239             | 511,864                 |
| Changes in assets and liabilities:  |                     |                         |
| Receivables, inventory and prepaids   | (26,637)            | (3,296)                 |
| Accounts payable and accrued expenses   | (95,173)            | (386,797)               |
| Deferred revenue  | <u>5,705</u>        | <u>6,638</u>            |
| Net cash provided by operating activities   | <u>\$ 501,618</u>   | <u>\$ 314,369</u>       |
| <b>Supplemental Disclosure of Noncash Financing Activities</b>                          |                     |                         |
| Equipment purchases financed through accounts payable                                   | <u>\$ 64,221</u>    | <u>\$ 436</u>           |

See notes to financial statements.

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

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**Note 1. Summary of Significant Accounting Policies**

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

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

Reporting Entity

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

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

Based on the above criteria, there are no agencies or entities which 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. The proprietary fund financial statements apply Financial Accounting Standards Board pronouncements and Accounting Principles Board Opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails.

The accounts of the Waterworks are organized on the basis of funds or account groups, each of which is considered to be a separate accounting entity. The transactions of each fund or account group are summarized by providing a separate set of self-balancing accounts which include its assets, liabilities, fund equity, revenues and expenses.

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

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

The accounts of the Waterworks are primarily organized as an enterprise fund, which is a proprietary fund type. 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 proprietary funds are accounted for using the flow of economic resources measurement focus. The accounting objectives are a determination of net income, financial position and changes in cash flow. All assets and liabilities associated with a proprietary fund's activities are included on its statement of net assets. Operating income reported in the proprietary fund financial statements includes revenues and expenses related to the primary, continuing operations of the fund. Principal operating revenues for the proprietary fund are charges to customers for services or rent. Principal operating expenses are the costs of providing goods or services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

The Waterworks performed an evaluation of subsequent events through October 12, 2009. There have been no subsequent events that occurred that would require disclosure or recognition in the financial statements as of June 30, 2009.

Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the balance sheet:

Cash and Cash Equivalents

The Waterworks considers all short-term investments with an original maturity of three months or less to be cash equivalents. The Waterworks invested only in certificates of deposit during the years ended June 30, 2009 and 2008.

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. Because of the Waterworks' abilities to deny continued service to customers with past due bills, management believes uncollectible accounts are negligible; therefore, no allowance for uncollectible accounts has been recorded.

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

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

Inventories

Inventories which consist of chemical supplies and repair materials are recognized at cost at the time they are purchased.

Property and Equipment

Property and equipment is stated at cost.

Depreciation expense for the years ended June 30, 2009 and 2008 is \$511,239 and \$511,864, respectively. Depreciation of property and equipment is computed by the 150% declining balance method at rates based on the following estimated useful lives:

|                            |             |
|----------------------------|-------------|
| Land improvements          | 15-30 years |
| Buildings and improvements | 10-33 years |
| Furniture and equipment    | 3-10 years  |
| Distribution system        | 10-50 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.

Changes in property and equipment consist of the following:

|                           | <b>2009</b>          |                   |                 |                      | Estimated<br>Useful Lives |
|---------------------------|----------------------|-------------------|-----------------|----------------------|---------------------------|
|                           | <u>Beginning</u>     | <u>Increase</u>   | <u>Decrease</u> | <u>Ending</u>        |                           |
| Land                      | \$ 151,981           | \$ -              | \$ -            | \$ 151,981           | --                        |
| Land improvements         | 715,580              | -                 | -               | 715,580              | 15-30                     |
| Building and improvements | 1,960,584            | 26,001            | -               | 1,986,585            | 10-33                     |
| Filter equipment          | 303,599              | 3,817             | -               | 307,416              | 15-40                     |
| Purification equipment    | 874,793              | 60,195            | -               | 934,988              | 10-20                     |
| Power/pumping equipment   | 4,718,511            | 106,100           | -               | 4,824,611            | 10-40                     |
| Distribution system       | 10,310,431           | 198,203           | -               | 10,508,634           | 10-50                     |
| Furniture and fixtures    | 179,326              | -                 | -               | 179,326              | 3-10                      |
| Vehicles                  | <u>445,692</u>       | <u>15,804</u>     | <u>-</u>        | <u>461,496</u>       | 6-7                       |
|                           | <u>\$ 19,660,497</u> | <u>\$ 410,120</u> | <u>\$ -</u>     | <u>\$ 20,070,617</u> |                           |

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

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

|                           | <b>2008</b>          |                   |                 |                      | Estimated           |
|---------------------------|----------------------|-------------------|-----------------|----------------------|---------------------|
|                           | <u>Beginning</u>     | <u>Increase</u>   | <u>Decrease</u> | <u>Ending</u>        | <u>Useful Lives</u> |
| Land                      | \$ 151,981           | \$ -              | \$ -            | \$ 151,981           | --                  |
| Land Improvements         | 715,580              | -                 | -               | 715,580              | 15-30               |
| Building and improvements | 1,958,888            | 1,696             | -               | 1,960,584            | 10-33               |
| Filter equipment          | 299,861              | 3,738             | -               | 303,599              | 15-40               |
| Purification equipment    | 833,095              | 41,698            | -               | 874,793              | 10-20               |
| Power/pumping equipment   | 4,600,645            | 117,865           | -               | 4,718,510            | 10-40               |
| Distribution system       | 10,277,290           | 33,142            | -               | 10,310,432           | 10-50               |
| Furniture and fixtures    | 179,326              | -                 | -               | 179,326              | 3-10                |
| Vehicle                   | <u>431,087</u>       | <u>14,605</u>     | <u>-</u>        | <u>445,692</u>       | 6-7                 |
|                           | <u>\$ 19,447,753</u> | <u>\$ 212,744</u> | <u>\$ -</u>     | <u>\$ 19,660,497</u> |                     |

Deferred Revenue

The Waterworks has recorded a liability for deferred (billed in advance) unmetered water revenue.

Compensated Absences

Waterworks employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, retirement or death. The Waterworks liability for accumulated vacation hours has been computed based on the rate in effect at June 30, 2009.

Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2009, 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 and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Recent Accounting Pronouncements

The Government Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, issued June 2004, became effective for the Waterworks for the fiscal year ending June 30, 2009. The Statement establishes standards for measurement, recognition, and display of OPEB expense/expenditures and related liabilities or assets, note disclosures, and if applicable, required supplementary information (RSI) in the financial reports of state and local governmental employers. The Waterworks did not implement GASB Statement No. 45. This is a departure from accounting principles generally accepted in the United States of America. The effect on the financial statements has not been determined.



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

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**Note 2. Pension and Retirement Benefits**

The Waterworks contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306.

Plan members are required to contribute 4.10% of their annual salary and the Waterworks is required to contribute 6.35% of annual covered payroll. Contribution requirements are established by State statute. The Waterworks' contributions to IPERS for the years ended June 30, 2009, 2008 and 2007 was \$8,437, \$5,662 and \$2,609, respectively, which was equal to the required contributions.

The Waterworks established a defined contribution pension plan on February 1, 1989. The plan requires the Waterworks to contribute five percent (5%) of each eligible employee's total pay on a monthly basis. The employee is required to contribute a matching amount. The Waterworks contributed \$47,942, \$47,600, and \$49,000, net of forfeitures, to the plan for the years ended June 30, 2009, 2008, and 2007, respectively. Employees must complete six months of service before being eligible. The plan is funded through separate investment contracts with an insurance company.

**Note 3. Deposits**

The Waterworks' deposits at June 30, 2009 and 2008 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. Deferred Compensation**

The Waterworks offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

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

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**Note 5. Related Organization**

Based on criteria set by the GASB, the Burlington Municipal Waterworks is a component unit of the City of Burlington for financial reporting purposes. The City of Burlington has financial accountability for the Waterworks under these criteria because it appoints a voting majority of the Waterworks' Board of Trustees and provides financial benefits to the Waterworks.

The Waterworks provides billing service for sewer, storm water, and trash for the City of Burlington and collects fees for these services. Amounts for the years ended June 30, 2009 and 2008 included as sewer collection reimbursement on the Statement of Revenues, Expenses and Changes in Net Assets amounted to \$108,602 and \$103,568, respectively. Amounts due from the City as of June 30, 2009 and 2008 in connection with fees was \$8,704 and \$8,448, respectively; due for water main extensions, including interest, was \$234,633 and \$227,686 for the years ended June 30, 2009 and 2008, respectively.

**Note 6. 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.

**Note 7. 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 service the premises of the Iowa Army Ammunition Plant (IAAP) near Burlington, Iowa. As consideration, the Waterworks received a connection fee of \$1,320,000 from the Department of the Army. The contract further provides that the Waterworks shall issue credits against the monthly bills of the IAAP; however, if monthly consumption by the IAAP is reduced at any time to \$4,225 per month or less, the credit will also be reduced to allow Waterworks to receive a minimum monthly payment of \$3,000. Credit will be issued until total credits of \$1,320,000 have been granted. The amount of credits remaining at June 30, 2009 and 2008 was \$196,199 and \$245,301, respectively. Revenue recorded from the contract for the years ended June 30, 2009 and 2008 were \$86,283 and \$86,283, respectively.

**Note 8. Liability for Lime Removal**

The water treatment plant generates approximately 4,000 to 6,000 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.

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

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**Note 8. Liability for Lime Removal (continued)**

During the year ended June 30, 2005, the Board approved a contract for removal of approximately 34,000 tons of wet lime over the two-year period ending December 15, 2006. The contract allows for two additional two-year extensions, with the price and quantity to be negotiated, for a total six-year contract. A two-year contract extension was granted through December 15, 2008. The cost for removal is \$10.25 per ton in the contract extension.

During the current year, the liability for lime removal was decreased as the amount removed was more than the estimated tonnage added to the lagoons.

|                                      | <b>2009</b>       | <b>2008</b>       |
|--------------------------------------|-------------------|-------------------|
| Liability for lime removal, June 30, | \$ 517,820        | \$ 116,442        |
| Increase (decrease) of liability     | <u>(48,698)</u>   | <u>112,958</u>    |
| Balance accrued June 30,             | <u>\$ 469,122</u> | <u>\$ 229,400</u> |

**Note 9. Jointly-governed Organization**

The Waterworks is a participant in the Joint Safety Committee (JSC). The JSC is a cooperative effort by the Waterworks, the City of Burlington, Des Moines County and the Des Moines County Regional Solid Waste Commission to monitor and improve on-the-job safety conditions and to assist in complying with Occupational Safety and Health Administration regulations. The Waterworks currently provides one member of the six member Committee. The Waterworks contributed \$5,299 and \$5,299 for the years ended June 30, 2009 and 2008, respectively, to the JSC for operating expenses.

**Note 10. 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 will be 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.

Water usage began on December 3, 1993, and will increase as customers are gradually added to the system. This contract is expected to provide gross revenues in a range from \$110,000 to \$320,000 per year. Revenue recorded from the contract for the years ended June 30, 2009 and 2008 were \$288,052 and \$288,052, respectively.

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

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**Note 11. Contract with the City of West Burlington, Iowa**

On August 16, 1995, the Waterworks entered into an agreement with the City of West Burlington, Iowa. The contract provides for the sale of water to the City of West Burlington in a range from 290,000 gallons per day to 1,000,000 gallons per day, averaged over each monthly billing cycle. The charge for this water will be 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. The Waterworks has estimated usage to be approximately 400,000 gallons per day, providing gross revenues of \$131,000 per year. Water usage began on January 1, 1996. Revenue recorded from the contract for the years ended June 30, 2009 and 2008 were \$240,296 and \$232,967, respectively.

**Note 12. Contract with the City of Danville, Iowa**

On November 3, 1983, the Waterworks entered into an agreement with the City of Danville, Iowa. The contract provides for the sale of water to the City of Danville not to exceed 140 gallons per minute. The charge for this water will be 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. The first five year contract extension was granted through October 16, 2009. Revenue recorded from the contract for the years ended June 30, 2009 and 2008 were \$51,246 and \$53,649, respectively.

**Note 13. Contract with the City of Middletown, Iowa**

On March 13, 2001, the Waterworks entered into an agreement with the City of Middletown, Iowa. The contract provides for the sale of water to the City of Middletown in a range from 14,000 gallons per month to 110,000 gallons per day, averaged over each monthly billing cycle. The charge for this water will be at a rate of one and one-half times the standard metered rate plus a wheeling charge as required by the Iowa Army Ammunition Plant. The contract provides an initial term of fifteen years, with continuance of additional terms of five years each, unless cancelled by either party after the initial term expires. Water usage began in March, 2001. Revenue recorded from the contract for the years ended June 30, 2009 and 2008 were \$23,899 and \$25,284, respectively.

**Note 14. 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 beginning June 1, 2008 through June 1, 2027 with interest rates of 3.00%. Notes maturing after June 1, 2018 may be called for redemption and paid before maturity on said date or any date thereafter at par plus accrued interest in whole or in part, in inverse order of maturity.

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

**Note 14. Long-Term Debt Note (continued)**

Annual debt service requirements to maturity for Water Revenue Capital Loan Notes are as follows:

| Year<br>Ending<br>June 30, | Principal           | Interest          | Total               |
|----------------------------|---------------------|-------------------|---------------------|
| 2010                       | \$ 103,000          | \$ 72,090         | \$ 175,090          |
| 2011                       | 106,000             | 69,000            | 175,000             |
| 2012                       | 109,000             | 65,820            | 174,820             |
| 2013                       | 112,000             | 62,550            | 174,550             |
| 2014                       | 115,000             | 59,190            | 174,190             |
| 2015-2019                  | 631,000             | 241,980           | 872,980             |
| 2020-2024                  | 732,000             | 156,270           | 888,270             |
| 2025-2027                  | <u>495,000</u>      | <u>15,150</u>     | <u>510,150</u>      |
|                            | <u>\$ 2,403,000</u> | <u>\$ 742,050</u> | <u>\$ 3,145,050</u> |

The resolution providing for the issuance of the revenue notes includes a provision that states that the Waterworks covenants to continue in effect rates for services rendered to be sufficient to produce and maintain Net Revenues at a level not less than 110% of the amount of principal and interest on the revenue bonds as they become due.

**Note 15. Prior Period Adjustment**

During the year ended June 30, 2009, adjustments were made to correct the calculation of the accrued lime removal liability and to capitalize accumulated costs for the Emergency Back-up generator that were expensed in the prior year. The cumulative effect of the change on net assets as of June 30, 2008 is a decrease of \$484,870. Net income for June 30, 2008 increased by \$210,050 as a result of the restatement. The financial statements for the year ended June 30, 2008 have been restated as follows:

|                                       | Property and<br>Equipment | Lime<br>Removal<br>Liability | Net<br>Assets       |
|---------------------------------------|---------------------------|------------------------------|---------------------|
| As previously reported, June 30, 2008 | \$ 19,646,898             | \$ (19,350)                  | \$ 8,007,322        |
| Correction of capitalized costs       | 13,600                    | -                            | 13,600              |
| Correction of lime removal liability  | <u>-</u>                  | <u>(498,470)</u>             | <u>(498,470)</u>    |
| As restated                           | <u>\$ 19,660,498</u>      | <u>\$ (517,820)</u>          | <u>\$ 7,522,452</u> |

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

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

Reserve fund for depreciation, extensions and improvements

As of June 30, 2009 and 2008, the Board had designated \$531,129 and \$473,097, respectively, for depreciation, extensions and improvements to the Waterworks system.

**Note 17. Commitments**

The Waterworks has committed to a subsequent contract award to Shipley Construction for \$2.3 million for the 2009 Water System Improvements project.

**Burlington Municipal Waterworks,  
A Component Unit of the City of Burlington  
Comparison of Revenues and Expenses - Actual to Budget  
Required Supplemental Information  
Year Ended June 30, 2009**

|   | <u>Budgeted Amounts</u> |                     |                     | Variance:<br>Favorable<br>(Unfavorable) | Net as<br>Percent of<br><u>Budget</u> |
|---|-------------------------|---------------------|---------------------|---|---------------------------------------|
|   | <u>Actual</u>           | <u>Original</u>     | <u>Final</u>        |   |                                       |
| <b>Operating revenues</b>                             |                         |                     |                     |   |                                       |
| Water sales   | \$ 3,024,495            | \$ 3,078,257        | \$ 3,078,257        | \$ (53,762)                             | 98 %                                  |
| Main extension & miscellaneous                        | <u>199,735</u>          | <u>105,320</u>      | <u>105,320</u>      | <u>94,415</u>                           | 190 %                                 |
| Total operating revenues                              | <u>3,224,230</u>        | <u>3,183,577</u>    | <u>3,183,577</u>    | <u>40,653</u>                           |                                       |
| <b>Operating expenses</b>                             |                         |                     |                     |   |                                       |
| Power, pumping & purification                         | 1,788,362               | 1,874,368           | 1,968,953           | 180,591                                 | 91 %                                  |
| Distribution  | 582,411                 | 656,239             | 656,239             | 73,828                                  | 89 %                                  |
| General and administration                            | 344,336                 | 388,447             | 519,712             | 175,376                                 | 66 %                                  |
| Debt service  | -                       | 181,348             | 181,348             | 181,348                                 | - %                                   |
| Sewer collection reimbursement                        | <u>(108,602)</u>        | <u>(100,000)</u>    | <u>(100,000)</u>    | <u>8,602</u>                            | 109 %                                 |
| Operating expenses, before depreciation               | <u>2,606,507</u>        | <u>3,000,402</u>    | <u>3,226,252</u>    | <u>619,745</u>                          |                                       |
| Net operating income (loss)                           | 617,723                 | 183,175             | (42,675)            |   |                                       |
| <b>Non-operating income (expense)</b>                 |                         |                     |                     |   |                                       |
| Interest income                                       | 32,638                  | 30,000              | 30,000              |   |                                       |
| Interest expense                                      | <u>(81,098)</u>         | <u>-</u>            | <u>-</u>            |   |                                       |
| Increase (decrease) in net assets before depreciation | 569,263                 | 213,175             | (12,675)            |   |                                       |
| Depreciation expense                                  | <u>511,239</u>          | <u>433,760</u>      | <u>433,760</u>      |   |                                       |
| Decrease in net assets                                | <u>\$ 58,024</u>        | <u>\$ (220,585)</u> | <u>\$ (446,435)</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  
Year Ended June 30, 2009**

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In accordance with the Code of Iowa, the Board of Trustees annually adopts a budget on the cash 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 ten major classes of disbursement known as functions, not by fund or fund type. These the ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, budget amendments increased budgeted disbursements by \$225,850. The budget amendments are reflected in the final budgeted amounts.



**Burlington Municipal Waterworks,  
A Component Unit of the City of Burlington  
Supplementary Schedule of Expenses  
Year Ended June 30, 2009**

|                                     | <u>Power and<br/>Pumping</u> | <u>Purification</u> | <u>Distribution</u> | <u>General and<br/>Administrative</u> | <u>Total<br/>June 30, 2009</u> | <u>Total<br/>June 30, 2008</u> |
|-------------------------------------|------------------------------|---------------------|---------------------|---------------------------------------|--------------------------------|--------------------------------|
| Salaries and wages                  | \$ 343,862                   | \$ 218,548          | \$ 372,731          | \$ 137,033                            | \$ 1,072,174                   | \$ 1,047,582                   |
| Group insurance                     | 140,470                      | -                   | 106,536             | 40,887                                | 287,893                        | 291,510                        |
| Retirement plan                     | 24,653                       | 4,705               | 19,449              | 7,571                                 | 56,378                         | 53,248                         |
| Payroll taxes                       | <u>38,886</u>                | <u>3,784</u>        | <u>29,744</u>       | <u>10,381</u>                         | <u>82,795</u>                  | <u>79,325</u>                  |
| Total salaries and related expenses | 547,871                      | 227,037             | 528,460             | 195,872                               | 1,499,240                      | 1,471,665                      |
| Power and fuel                      | 246,144                      | -                   | 6,463               | 6,463                                 | 259,070                        | 314,531                        |
| Supplies and tools                  | 3,689                        | 12,662              | 2,591               | 2,664                                 | 21,606                         | 37,107                         |
| Water main maintenance              | -                            | -                   | 1,522               | -                                     | 1,522                          | 4,672                          |
| Equipment repairs                   | 10,536                       | 1,093               | 24,179              | -                                     | 35,808                         | 23,507                         |
| Structure repairs                   | 113,798                      | 630                 | (2,892)             | -                                     | 111,536                        | 17,397                         |
| Lime removal                        | -                            | 127,383             | -                   | -                                     | 127,383                        | 126,157                        |
| Ground supplies                     | 1,642                        | -                   | 505                 | 2,983                                 | 5,130                          | 3,874                          |
| Telephone and leased circuits       | 8,469                        | -                   | -                   | 1,999                                 | 10,468                         | 12,939                         |
| Professional fees                   | -                            | -                   | -                   | 7,280                                 | 7,280                          | 8,628                          |
| Dues and subscriptions              | 165                          | -                   | -                   | 2,480                                 | 2,645                          | 2,593                          |
| Uniforms/cleaning                   | 4,429                        | -                   | 3,111               | -                                     | 7,540                          | 6,936                          |
| Office supplies and expense         | 1,983                        | -                   | -                   | 36,115                                | 38,098                         | 31,817                         |
| Insurance                           | -                            | -                   | -                   | 72,754                                | 72,754                         | 76,892                         |
| Chemicals                           | -                            | 446,909             | -                   | -                                     | 446,909                        | 189,434                        |
| Vehicle expense                     | 7,055                        | -                   | 14,032              | -                                     | 21,087                         | 27,926                         |
| Miscellaneous                       | <u>26,867</u>                | <u>-</u>            | <u>4,440</u>        | <u>15,726</u>                         | <u>47,033</u>                  | <u>64,229</u>                  |
| Total expense before depreciation   | 972,648                      | 815,714             | 582,411             | 344,336                               | 2,715,109                      | 2,420,304                      |
| Depreciation                        | <u>74,386</u>                | <u>53,044</u>       | <u>227,182</u>      | <u>156,627</u>                        | <u>511,239</u>                 | <u>511,864</u>                 |
| Total operating expenses            | <u>\$ 1,047,034</u>          | <u>\$ 868,758</u>   | <u>\$ 809,593</u>   | <u>\$ 500,963</u>                     | <u>\$ 3,226,348</u>            | <u>\$ 2,932,168</u>            |

See accompanying independent auditor's report.

**Burlington Municipal Waterworks,  
A Component Unit of the City of Burlington  
Cash Balance Composition  
Year Ended June 30, 2009**

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| <u>Depository</u>                       | <u>Demand<br/>Deposits</u> | <u>Certificates</u> | <u>Total</u>        |
|---|----------------------------|---------------------|---------------------|
| Farmers & Merchants Bank & Trust:       |                            |                     |                     |
| Maintenance & operating                 | \$ 418,624                 | \$ 100,000          | \$ 518,624          |
| Depreciation, extensions & improvements | 223,755                    | 150,000             | 373,755             |
| Revenue bond sinking fund               | 2,398                      | -                   | 2,398               |
| Revenue bond reserve                    | 161,326                    | -                   | 161,326             |
| U.S. Bank, NA:                          |                            |                     |                     |
| Water revenue bond reserve              | 18,648                     | -                   | 18,648              |
| Depreciation, extensions & improvements | 7,377                      | -                   | 7,377               |
| Maintenance & operating                 | 41,362                     | -                   | 41,362              |
| Burlington Bank & Trust:                |                            |                     |                     |
| Maintenance & operating                 | 247,370                    | 100,000             | 347,370             |
| Depreciation, extensions & improvements | <u>-</u>                   | <u>150,000</u>      | <u>150,000</u>      |
|   | <u>1,120,860</u>           | <u>500,000</u>      | 1,620,860           |
| Petty cash                              |                            |                     | <u>1,200</u>        |
|   |                            |                     | <u>\$ 1,622,060</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 the accompanying financial statements of the proprietary fund of Burlington Municipal Waterworks, A Component Unit of the City of Burlington, as of and for the year ended June 30, 2009, which collectively comprise the basic financial statements listed in the table of contents, and have issued our report thereon dated October 12, 2009. Our report expressed an unqualified opinions on the financial statements which were prepared in accounting principles generally accepted in the United States of America. 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**

In planning and performing our audit, we considered Waterworks' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Waterworks' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Waterworks' internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Waterworks' ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood a misstatement of Waterworks' financial statements that is more than inconsequential will not be prevented or detected by Waterworks' internal control. We consider the deficiencies in internal control described in Part II of the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by Waterworks' internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe none are material weaknesses.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Waterworks' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance 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 non-compliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part III of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the Waterworks' operations for the year ended June 30, 2009 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Waterworks. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Waterworks' responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the Waterworks' responses, we did not audit Waterworks' responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Burlington Municipal Waterworks and other parties to whom Burlington Municipal Waterworks may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

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*

October 12, 2009

**Burlington Municipal Waterworks,  
A Component Unit of the City of Burlington  
Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2009**

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**Part I: Summary of the Independent Auditor's Results**

- a) An unqualified opinion was issued on the financial statements.
- b) Significant deficiencies in internal control over financial reporting were disclosed by the audit of the financial statements.
- c) The audit did not disclose any non-compliance which is material to the financial statements.

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

**SIGNIFICANT DEFICIENCIES**

II-A-08 Preparation of Financial Statements - The Waterworks does not have an internal control system designed to provide for the preparation of the financial statements in accordance with accounting principles generally accepted in the United States of America. Therefore, as auditors, we were requested to draft the financial statements and accompanying notes to the financial statements. This circumstance is not unusual for a governmental entity similar in population to the Waterworks. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Recommendation - We realize that obtaining the expertise necessary to prepare the financial statements, including all necessary disclosures, can be considered costly and ineffective. However, the Waterworks' management and those charged with governance should decide whether to accept the degree of risk associated with this condition because of cost or other considerations.

Response - The Waterworks will continue to review and monitor procedures currently in place and evaluate the risks to be accepted in preparation of the financial statements.

Conclusion - Response accepted.

II-B-08 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 Non-Compliance:**

No matters were noted.

**Burlington Municipal Waterworks,  
A Component Unit of the City of Burlington  
Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2009**

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**Part III: Other Findings Related to Required Statutory Reporting**

- III-A-08 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, 2009.
- III-B-08 Deposits and Investments - The Waterworks has adopted a written investment policy as required by Chapter 12B.10B of the Code of Iowa.
- III-C-08 Travel Expense - No expenditures of Waterworks money for travel expenses of spouses of Waterworks members or employees were noted.
- III-D-08 Board Minutes - No transactions were found that we believe should have been approved in the Waterworks minutes but were not.
- III-E-08 Questionable 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.
- III-F-08 Certified Budget - Disbursements during the year ended June 30, 2009 did not exceed budget amounts.
- III-G-08 Business Transactions with Waterworks Officials and Employees - We noted no evidence of business transactions between the Waterworks and Waterworks' officials or employees which we believed to be in violation of statutory provisions.
- III-H-08 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 insure that the coverage is adequate for current operations.