



DES MOINES WATER WORKS  
Board of Water Works Trustees

Agenda Item No. \_\_\_\_\_  
Meeting Date: November 23, 2010  
Chairperson's Signature  Yes  No

**AGENDA ITEM FORM**

**SUBJECT: 2009 Pension Audit**

**SUMMARY:**

Our audit firm, McGladrey & Pullen, LLP, has completed their audit of the financial statements of the pension plan for the year ended December 31, 2009. The reports prepared include:

- Des Moines Water Works Pension Plan Financial Report
- Pension Plan Report to the Board of Water Works Trustees

Christine Grisham, a Director with McGladrey & Pullen, met with the Finance and Audit Committee on June 8, 2010 to review the reports.

**FISCAL IMPACT:**

No impact to budget.

**RECOMMENDED ACTION:**

Receive and file 2009 Pension Plan audit report prepared by McGladrey & Pullen, LLP.

**BOARD REQUIRED ACTION:**

Motion to receive and file 2009 Pension Plan audit report prepared by McGladrey & Pullen, LLP.

<p>_____/_____ Michelle Holland (date) Controller</p>	<p>_____/_____ Peggy Freese (date) Director of Finance</p>	<p>_____/_____ Randall R. Beavers, P.E. (date) CEO and General Manager</p>
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Attachments: 2009 Pension Audit Report

# Des Moines Water Works Pension Plan

Financial Report

12.31.2009

## McGladrey & Pullen

Certified Public Accountants

McGladrey & Pullen, LLP is a member firm of RSM International -  
an affiliation of separate and independent legal entities.

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# McGladrey & Pullen

Certified Public Accountants

## Independent Auditor's Report

To the Board of Water Works Trustees  
Des Moines Water Works Pension Plan  
Des Moines, Iowa

We were engaged to audit the accompanying statements of plan net assets of the Des Moines Water Works Pension Plan as of December 31, 2009 and 2008, and the related statements of changes in plan net assets for the years then ended. These financial statements are the responsibility of the Plan's management.

In accordance with the terms of our engagement, the Plan Administrator instructed us not to perform, and we did not perform, any auditing procedures with respect to the plan investment information summarized in Note 5, which was provided by Principal Life Insurance Company, the custodian of the Plan, except for comparing the information with the related information included in the financial statements.

As described in Note 1, the financial statements present only a pension trust fund of the Des Moines Water Works and do not purport to, and do not, present the financial position of the Des Moines Water Works as of December 31, 2009 and 2008, and the changes in its financial position for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Since we did not perform any auditing procedures with respect to plan investments, as noted in the preceding paragraph, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on these financial statements.

Because the financial statements present only the pension trust fund of the Des Moines Water Works, and do not purport to, and do not, present the financial statements of the Des Moines Water Works, management has chosen not to present a Management's Discussion and Analysis for the Plan.

The schedules of funding progress and contributions from the employer on pages 10 through 12 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiring of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

*McGladrey & Pullen, LLP*

Davenport, Iowa  
June 9, 2010

Des Moines Water Works Pension Plan

Statements of Plan Net Assets  
December 31, 2009 and 2008

	2009	2008
<b>Assets</b>		
Investments, contracts with insurance companies, pooled separate accounts (Note 5)	\$ 33,688,688	\$ 29,201,656
Employer contributions receivable	-	-
	<u>33,688,688</u>	<u>29,201,656</u>
<b>Liabilities</b>		
Net assets held in trust for pension benefits	<u>\$ 33,688,688</u>	<u>\$ 29,201,656</u>

(A schedule of funding progress for the Plan is presented on page 10).

See Notes to Basic Financial Statements.

Des Moines Water Works Pension Plan

Statements of Changes in Plan Net Assets  
Years Ended December 31, 2009 and 2008

	2009	2008
Additions:		
Investment income (loss):		
Net appreciation (depreciation) in the fair value of pooled separate accounts, interest and dividends (Note 5)	\$ 5,450,308	\$ (13,716,994)
Employer contributions	1,023,319	800,000
	<u>6,473,627</u>	<u>(12,916,994)</u>
Deductions:		
Benefit payments	1,924,856	1,820,833
Administrative expenses	61,739	70,596
	<u>1,986,595</u>	<u>1,891,429</u>
<b>Net increase (decrease)</b>	<b>4,487,032</b>	<b>(14,808,423)</b>
Net assets held in trust for pension benefits:		
Beginning of year	29,201,656	44,010,079
End of year	<u>\$ 33,688,688</u>	<u>\$ 29,201,656</u>

See Notes to Basic Financial Statements.

## Des Moines Water Works Pension Plan

### Notes to Basic Financial Statements

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The Plan is administered by the Board of Trustees of Des Moines Water Works. The Plan is a pension trust fund of the Des Moines Water Works.

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

##### Basis of accounting:

The Plan records are maintained on the accrual basis of accounting. Employer contributions to the plan are recognized when due and the employer had made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

##### 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 Plan assets available for benefits and the actuarial present value of accumulated plan benefits as of the date of the financial statements. Actual results could differ from those estimates. The Plan uses an actuary to determine the actuarial present value of accumulated plan benefits. A change in the actuarial assumptions used could significantly change the amount of the actuarial present value of accumulated plan benefits reported in the accompanying financial statements.

##### Deposits and investments:

The Governmental Accounting Standards Board (GASB) Statement No. 40, *Deposit and Investment Risk Disclosures*, requires state and local governments to disclose certain risks. The disclosures required by GASB Statement No. 40 provide readers with information concerning the credit and interest risks associated with the Plan's deposits and investments.

Deposits: As of December 31, 2009 and 2008, the Plan held no deposits.

Investments: The Plan's investments in pooled separate accounts are stated at fair value based on quoted market prices of the investments held in each account as determined by Principal Life Insurance Company (Principal). Purchases and sales of securities are recorded on a trade date basis. Dividends are recorded on the ex-dividend date.

Asset allocation strategy: The Des Moines Water Works Pension Plan's named fiduciary asset allocation strategy shall identify target allocations to eligible asset classes and, where appropriate, suitable ranges within which each asset class can fluctuate as a percent of the total fund. Each asset class is to remain suitably invested at all times in either cash (or cash equivalents) or permitted securities within each class. The asset classes may be rebalanced from time to time to take advantage of tactical misvaluations across major asset classes or investment styles, or to align the current asset mix with strategic targets.

Authorized investments: The Des Moines Water Works Pension Plan's investment policy permits the named fiduciary to consider all asset classes allowed by the Employee Retirement Income Security Act of 1974 (ERISA) as acceptable investment options and to select one or more customized investment portfolios and retain an investment manager to manage the assets of each such portfolio. The following asset classes are permitted for Plan investment options: Stable Value, Domestic Fixed Income, International or Foreign Fixed Income, Real Estate, Domestic Stock, International or Foreign Stock and Balanced/Asset Allocation.

## Des Moines Water Works Pension Plan

### Notes to Basic Financial Statements

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#### Note 1. Summary of Significant Accounting Policies (Continued)

GASB Statement No. 40 requires plan investments to disclose an indication of the level of credit risk, concentration of credit risk and interest rate risk assumed by the Plan. These risk disclosures only pertain to fixed income investments. As of December 31, 2009, the Plan had investments listed in the table below. Amounts are shown in dollars. Effective duration is shown in years. Investments held by the Plan were not subject to custodial credit risk or foreign currency risk.

	Fair Value	Effective Duration
Fixed Income Investments:		
Principal Bond and Mortgage Account	\$ 4,910,186	4.76
Principal Core Plus Bond I Account	5,312,246	4.55
Principal High Yield I Account	1,825,392	3.96
Principal Inflation Protection Account	2,176,926	7.30
U.S. Property Account	1,215,919	N/A
<b>Total fair value of fixed income investments</b>	<b>15,440,669</b>	
Other investments, non-fixed income investments	18,248,019	
<b>Total investments</b>	<b>\$ 33,688,688</b>	

Interest rate risk: Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates.

Credit risk and concentration of credit risk: Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligations to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The pooled separate accounts held by the Plan are commingled pools rather than individual securities. As a result, these investments are not rated. The U.S. Property Account is subject to investment and liquidity risk and other risks inherent in real estate such as those associated with general and local economic conditions. Therefore, an effective duration is not calculated for that Account. See also Note 5 for information regarding concentration of credit risk.

#### Benefits:

Benefits are recognized when due and payable in accordance with the terms of the Plan.

#### Retired life funds:

Based on the contract with Principal, Principal has issued retirement annuity certificates to retirees, but the monthly retirement benefits are paid from the plan assets. Principal requires the Plan to maintain a fund to buy retirement annuities for all currently retired employees and their beneficiaries which are called retired life funds. The Plan includes the retired life funds in the Plan's net assets held in trust for pension benefits and includes the retired employees in the actuarial value of accumulated plan benefits. See also Note 5.



## Des Moines Water Works Pension Plan

### Notes to Basic Financial Statements

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#### Note 2. Plan Description

The following brief summary of the Des Moines Water Works Pension Plan (the Plan) is provided for general information purposes only. Participants should refer to the Plan agreement for more complete information.

General: The Plan is a single-employer, noncontributory defined benefit pension plan providing retirement benefits for all full-time Des Moines Water Works (DMWW) employees and employees who work at least 1,040 hours in a calendar year or work during two consecutive calendar quarters.

The following represents the Plan's membership as of January 1, 2010 and 2009:

	2010	2009
Active employees	187	190
Retirees and beneficiaries currently receiving benefits	131	122
Terminated employees entitled to benefits but not yet receiving them	62	68
<b>Total</b>	<b>380</b>	<b>380</b>

Benefits: Benefits vest after five years of continuous service and normal retirement is allowed at or after age 65. Early retirement is allowed without a reduction in benefits beginning at age 55 if the employee's combined years of service and age are 85 or greater (the rule of 85) and is allowed with reduced benefits for vested employees with less than 30 years of service beginning at age 55. The Plan also provides death and disability benefits to vested employees. The pension benefit formula is based upon a percent of average compensation and the number of years of service with DMWW. A participant's monthly accrued benefit is equal to 1.5 percent of their average monthly compensation times their years of continuous service with DMWW. Average monthly compensation is determined by taking the average monthly compensation for those 60 consecutive full calendar months out of the last 120 latest calendar months which give the highest average. The Plan Administrator is the Board of Trustees of DMWW.

Administrative expenses: Administrative expenses are paid by the Plan.

## Des Moines Water Works Pension Plan

### Notes to Basic Financial Statements

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#### **Note 3. Funding Policy, Funded Status and Funding Progress**

The Plan's funding policy provides for periodic employer contributions at rates that, expressed as percentages of annual covered payroll, are sufficient to accumulate assets to pay benefits when due. However, as the Plan is exempt from ERISA funding requirements, any amount may be contributed to the Plan. The suggested employer contribution rates are determined using the aggregate cost method.

Amounts contributed to the Plan from DMWW are determined by the Board of Trustees of DMWW. The contributions to the Plan in 2009 and 2008 were approximately 8.8 percent and 7.3 percent, respectively, of the total covered payroll in each year.

As of January 1, 2010, the most recent actuarial valuation date, the Plan was 90 percent funded. The actuarial accrued liability for benefits was \$44,385,344 and the actuarial value of assets was \$39,789,839, resulting in an unfunded actuarial accrued liability (UAAL) of \$4,595,505. The covered payroll (annual payroll of active employees covered by the Plan) was \$11,694,902 and the ratio of UAAL to covered payroll was 39 percent.

As of January 1, 2009, the Plan was 98 percent funded. The actuarial accrued liability for benefits was \$42,450,678 and the actuarial value of assets was \$41,513,612, resulting in an unfunded actuarial accrued liability (UAAL) of \$937,066. The covered payroll (annual payroll of active employees covered by the Plan) was \$10,947,799 and the ratio of UAAL to covered payroll was 9 percent.

The schedule of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, presents multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the AALs for benefits. The actuarial value of assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a period of several years. The aggregate actuarial cost method does not identify or separately amortize unfunded actuarial accrued liabilities. Information about the Plan's funded status and funding progress has been prepared using the entry age actuarial cost method and is intended to serve as a surrogate for the funded status and funding progress of the Plan.

#### **Note 4. Plan Termination**

The Plan is not subject to Title IV of ERISA; therefore, no benefits are insured by the Pension Benefit Guaranty Corporation.

Although it has not expressed any intention to do so, DMWW may discontinue the Plan at any time in accordance with the provisions of the Plan. In the event the Plan terminates, participants become 100 percent vested in their accrued benefits as of the termination date. DMWW has elected that the assets of the Plan that are available to provide benefits shall be allocated and applied as of the termination date according to the classifications and order of precedence provided under Title IV of ERISA and under any rules, regulations, interpretations or opinion implementing Title IV of ERISA or any other equitable method as determined by the Board of Trustees.

## Des Moines Water Works Pension Plan

### Notes to Basic Financial Statements

#### Note 5. Investment Information Provided by Custodian

The following information has been provided by Principal Life Insurance Company, the plan custodian, as of and for the years ended December 31, 2009 and 2008:

	2009	2008
Pooled Separate Accounts:		
Fixed Income:		
Principal Bond and Mortgage Account*	\$ 4,910,186	\$ 7,404,213
Principal Core Plus Bond I Account*	5,312,246	1,046,321
Principal High Yield Account*	1,825,392	1,499,981
Principal Inflation Protection Account*	2,176,926	1,776,307
Principal U.S. Property Account	1,215,919	1,777,291
International Equity	3,711,909	3,136,375
Large US Equity:		
Principal Large Cap Growth Account*	2,194,174	1,602,171
Principal Large-Cap Blend I Account	-	2,137,426
Principal Large-Cap Growth I Account*	2,229,032	1,660,577
Principal Large-Cap S&P 500 Index Account*	1,874,685	-
Principal Large-Cap Value I Account*	2,798,841	2,144,273
Principal Large-Cap Value III Account	1,506,470	1,136,004
Small/Mid US Equity	2,551,573	2,215,054
Other	1,381,335	1,665,663
	<u>\$ 33,688,688</u>	<u>\$ 29,201,656</u>
Investment income (loss), including net appreciation (depreciation) in the fair value of investments, interest and dividends, pooled separate accounts	<u>\$ 5,450,308</u>	<u>\$ (13,716,994)</u>

\* Represents an investment that exceeds 5 percent of the net assets available for benefits as of December 31, 2009.

On March 26, 2002, the DMWW Board of Trustees approved a revision to the Principal pension contract to change from an immediate participation guarantee contract to a flexible pension investment fund (FPI) that includes a benefit index feature whereby Principal guarantees the sufficiency of assets for certain retirees. The assets covered by the benefit index (known as retired life funds) totaled \$13,812,198 and \$14,247,150 as of December 31, 2009 and 2008, respectively. The benefit index is available to purchase individual annuities for retired participants and is included in the Plan's net assets held in trust for pension benefits and net pension obligation calculations.

## Des Moines Water Works Pension Plan

### Notes to Basic Financial Statements

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#### Note 6. Tax Status

The Internal Revenue Service (IRS) has ruled in a determination letter dated August 22, 2002 that the Plan is qualified under application sections of the Internal Revenue Code and is, therefore, exempt from federal income taxes. The Plan has been amended since receiving the determination letter. The Plan Administrator believes the Plan is designed and is currently being operated in compliance with the applicable requirements of the Code.

#### Note 7. Annual Pension Cost and Net Pension Obligation

DMWW annual pension cost and net pension obligation for 2009, 2008 and 2007 were as follows:

	2009	2008	2007
Annual required contribution (ARC) *	\$ 1,023,319	\$ 545,782	\$ 679,631
Interest on net pension obligation	8,817	29,130	41,823
Adjustment to annual required contribution	(14,468)	(45,753)	(65,688)
<b>Annual pension cost (APC)</b>	<b>1,017,668</b>	<b>529,159</b>	<b>655,766</b>
Contributions made	1,023,319	800,000	825,000
 <b>Decrease in net pension liability</b>	 <b>5,651</b>	 <b>270,841</b>	 <b>169,234</b>
 Net pension (liability), beginning of year	 (117,563)	 (388,404)	 (557,638)
Net pension (liability), end of year	<u>\$ (111,912)</u>	<u>\$ (117,563)</u>	<u>\$ (388,404)</u>
 Percentage of APC contributed	 100.6%	 151.2%	 125.8%

\* The Annual Required Contribution (ARC) is the amount needed to keep the Plan currently funded as calculated by the Plan's actuary.

The net pension obligation is the pension asset or (liability) that arises from cumulative differences between the ARC and actual employer contributions. The net pension liability amounts above were computed as part of the annual actuarial valuations performed as of January 1, 2010, 2009 and 2008 using the aggregate actuarial cost method, which does not identify or separately amortize unfunded actuarial liabilities. There were no significant differences between December 31, 2009, 2008 and 2007 and January 1, 2010, 2009 and 2008, respectively, which would cause the actuarial valuations not to be representative as of December 31, 2009, 2008 and 2007. The actuarial assumptions used in the January 1, 2010 valuation to compute the pension benefit liability as of December 31, 2009 included (a) 7.5 percent investment rate of return (net of administrative expenses) and (b) projected salary increases of 5.0 percent. These amounts were computed using the RP-2000 combined mortality table with, male and female, projected to 2005 with scale AA, a 3.0 percent cost of living factor increase included. The ARC computed for 2010 is \$1,541,866.

## Des Moines Water Works Pension Plan

### Required Supplementary Information Schedule of Funding Progress

Actuarial Valuation Date	(1) Actuarial Value of Assets	(2) Actuarial Accrued Liability (AAL)	(3) Unfunded AAL (UAAL) (2) - (1)	(4) Funded Ratio (1) / (2)	(5) Annual Covered Payroll	(6) UAAL as a Percentage of Payroll [(2) - (1)] / (5)
01/01/2005	\$ 32,738,546	\$ 32,738,546	\$ -	100.00%	\$ 10,688,495	- %
01/01/2006	35,987,086	35,987,086	-	100.00	10,826,006	-
01/01/2007	39,967,624	39,967,624	-	100.00	10,773,915	-
01/01/2008	43,038,338	40,236,733	(2,801,605)	107.00	11,058,383	(25)
01/01/2009	41,513,612	42,450,678	937,066	98.00	10,947,799	9
01/01/2010	39,789,839	44,385,344	4,595,505	90.00	11,694,902	39

The Actuarial Required Contribution (ARC) is calculated using the aggregate actuarial cost method. Information in the above schedule is calculated using the entry age actuarial cost method as a surrogate for the funding progress of the Plan.

See Note to Required Supplementary Information.

Des Moines Water Works Pension Plan

Required Supplementary Information  
Schedule of Contributions from the Employer

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Plan Year Ended December 31:	Annual Required Contribution	Actual Contribution	Percentage Contribution
2004	\$ 896,193	\$ 800,000	89.27%
2005	941,548	896,000	95.16
2006	885,540	885,990	100.05
2007	679,631	825,000	121.39
2008	545,782	800,000	146.58
<b>2009</b>	<b>1,023,319</b>	<b>1,023,319</b>	<b>100.00</b>

See Note to Required Supplementary Information.

## Des Moines Water Works Pension Plan

### Note to Required Supplementary Information

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The information presented in the required supplementary schedule was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows:

Actuarial valuation:

Frequency	Annual
Latest date	January 1, 2010
Cost method	Aggregate cost method

Amortization Not applicable under Aggregate Cost Method. The Aggregate Cost Method does not identify or separately amortize unfunded actuarial liabilities. They are amortized through normal cost.

Asset valuation method Fair value is adjusted by spreading the expected value minus the actual value over four years. The total actuarial value of assets falls within the applicable corridor limits.

Assumptions:

Investment rate of return	7.5%
Salary increases	5.0% annual increases until retirement.
Retirement age	The later of meeting the rule of 85 or age 58, but not later than age 65.

Mortality RP 2000 Combined Mortality Table, male and female, projected to 2005 with scale AA.

Rate of withdrawal V Table from August 1992 Pension Forum published by the Society of Actuaries, multiplied by 0.60.

Cost of living 3.0% to project benefits and compensation limitations.

In addition to the above assumptions, an estimate of the Plan's expenses is included in normal cost.