



**DES MOINES WATER WORKS**  
**Board of Water Works Trustees**

Agenda Item No. III-A  
 Meeting Date: June 23, 2015  
 Chairperson's Signature  Yes  No

**AGENDA ITEM FORM**

**SUBJECT: 2014 Audit Reports**

**SUMMARY:**

Our audit firm, McGladrey LLP, has completed their audit of our financial statements for the year ended December 31, 2014. The reports prepared include:

- Des Moines Water Works Financial Report
- Report to the Board of Water Works Trustees
  - SAS (Statement of Accounting Standards) letter
  - Management Representation
  - Representation Letter (Billing and Collecting Agent for City of Des Moines)
  - Independent Auditor's Report on Internal Control Over Financial Reporting
- Collection Agent Report for Sewer Treatment Works for the City of Des Moines
- Collection Agent Report for Storm Water Utility for the City of Des Moines
- Collection Agent Report for Solid Waste Collection and Disposal for the City of Des Moines

Within their Independent Auditors' Report, McGladrey has issued an unqualified or "clean opinion" on our financial statements, meaning they found no material misstatements within our financial records. However, McGladrey did find a significant deficiency in internal control relating to the accounting for a capital contribution received in 2014. Jaci Dammeier, from McGladrey reviewed the reports and the deficiency finding at the June 9<sup>th</sup> meeting of the Finance Committee. Details of the significant deficiency can be found on the last three pages of the Report to the Board of Water Works Trustees.

**FISCAL IMPACT:**

No impact to budget.

**RECOMMENDED ACTION:**

Receive and file 2014 Financial Audit Reports prepared by McGladrey LLP, and authorize staff to distribute such reports to the appropriate agencies. This includes the Financial Report, Auditor's Report, and the Collection Agent Reports for the City of Des Moines.

**BOARD REQUIRED ACTION:**

Motion to receive and file 2014 Financial Audit Reports and distribute reports to the appropriate agencies.

_____ / _____ Michelle Holland (date) Controller	_____ / _____ Peggy Freese (date) Director of Finance	_____ / _____ William G. Stowe (date) CEO and General Manager
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# Des Moines Water Works

Financial Report  
December 31, 2014 and 2013

## Contents

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<b>Independent Auditor's Report</b>	1 – 2
Management's discussion and analysis	3 – 9
<b>Basic financial statements</b>	
Statements of net position	10 – 11
Statements of revenues, expenses and changes in net position	12
Statements of cash flows	13 – 14
Statements of plan net position	15
Statements of changes in plan net position	16
Notes to basic financial statements	17 – 36
<b>Required supplementary information</b>	
Other postemployment benefit plan:	
Schedule of funding progress	37
Pension plan:	
Schedule of changes in net position liability	38
Schedule of net pension liability and related ratios	39
Schedule of investment returns	40
Schedule of contributions from the employer	41
Schedule of funding progress	42
Note to required supplementary information	43 – 44

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## Independent Auditor's Report

Board of Water Works Trustees  
Des Moines Water Works  
Des Moines, Iowa

### Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and fiduciary fund of the Des Moines Water Works (Water Works) as of and for the years ended December 31, 2014 and 2013, and the related notes to the basic financial statements, which collectively comprise the Water Works' basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

### Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the fiduciary fund of the Des Moines Water Works as of December 31, 2014 and 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Emphasis of Matter**

The Water Works adopted GASB Statement No. 67, *Financial Reporting for Pension Plans – an Amendment of GASB Statement No. 25*, which changed the standards for the recognition, measurement and presentation of information about the Water Works' Pension Plan.

**Other Matters****Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 9, other postemployment benefit plan schedules on page 37 and pension plan schedules on pages 38 through 42, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's response to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.



Des Moines, Iowa  
June 9, 2015

## **Des Moines Water Works**

### **Management's Discussion and Analysis Year Ended December 31, 2014**

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Our Management's Discussion and Analysis (MD&A) of Des Moines Water Works' (Water Works) financial performance provides an overview of the utility's financial activities for the years ended December 31, 2014 and 2013. Please consider this information in conjunction with the financial statements and the accompanying notes to basic financial statements that follow this section.

#### **Overview of Business**

The service area of the Water Works has expanded significantly since its emergence as a public water utility in 1919. In addition to serving customers within the City of Des Moines, Water Works provides wholesale water service based on long-term water contracts to surrounding municipalities and rural water districts, accounting for roughly 30 percent of total water revenues. This service area spans approximately 400 square miles, including most of Polk County and communities in eastern Dallas County and northern Warren County. The utility also provides billing and collection services on a contractual basis to wholesale customers and billing and collection services to the City of Des Moines for wastewater treatment, solid waste collection and the storm water utility.

As the utility's service area has expanded, so too has the need for water storage facilities, booster stations and additional treatment capacity to meet peak demand requirements. The most economical approach for the Water Works has involved utilizing these facilities to supply multiple customers. Contractual service users share in the cost of these joint-use facilities, which allows for meeting peak use demands and also allows some users to participate in lower off-peak or purchased capacity water rates. Financial participation in the construction of these facilities includes initial cash contributions or payments of debt service for the improvements and annual payments of operating and maintenance costs. Ownership of these facilities is maintained by the Water Works.

The water sources for the system are the Raccoon River, the Des Moines River, an underground infiltration gallery, wells along the Des Moines River and wells along the Raccoon River near Maffitt Reservoir. These sources are used to provide adequate supply in the most cost-effective combination. The utility operates three treatment plants, with two of these plants being operated remotely.

Governance of the Water Works is vested in a five-member Board appointed by the Mayor of the City of Des Moines with the approval of the City Council. Trustees serve for six-year staggered terms. The Board has complete control of Water Works' management and employs approximately 206 full-time and 19 part-time or seasonal employees.

The utility has adopted an annual activity-based budgeting methodology and performs an annual cost of service study to assist the Board in rate-setting policy.

#### **Financial Highlights**

- In 2014, operating revenues of \$51,382,781 decreased 2.85 percent from 2013 while operating expenses increased by 7.56 percent to \$46,322,165 over 2013. Operating revenues of \$52,889,414 in 2013 decreased 2.44 percent from 2012, and operating expenses increased by 3.15 percent to \$43,067,895.
- During the year, Water Works had operating income of \$5,060,616 and change in net position of \$8,466,767. This compares to operating income of \$9,821,519 and change in net position of \$9,370,689 reported in 2013.
- Water Works' net position increased as a result of operations. As of December 31, 2014 and 2013, total assets were \$317,554,979 and \$315,398,467, respectively; total liabilities were \$70,787,121 and \$77,528,822, respectively; resulting in net position of \$249,120,345 and \$240,653,578, respectively.

## Des Moines Water Works

### Management's Discussion and Analysis Year Ended December 31, 2014

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#### Overview of the Financial Statements

Management's Discussion and Analysis (MD&A) serves as an introduction to the financial statements and the MD&A represents management's examination and analysis of the Water Works' financial condition and performance. The financial statements report information about the utility using full accrual accounting methods as utilized by similar entities in the private sector.

The statements of net position provides information about the Water Works' assets, deferred outflows, liabilities, deferred inflows and net position; thereby measuring the Water Works' liquidity and solvency. Liquidity is a measure of the utility's ability to meet current obligations (those due within one year). Solvency is a similar concept, but measures the ongoing ability to meet obligations over a longer term.

The statement of revenues, expenses and changes in net position presents the results of the Water Works' revenues and expenses over the course of the fiscal year and provides information about the utility's recovery of costs. Water rates are established by the Board of Trustees and are based on the utility's annual Cost of Service Study. The Cost of Service Study estimates annual revenue requirements through an analysis of operational and maintenance expenses, debt service requirements, anticipated capital needs and return on capital. The Study provides a core of information not only for the trustees and staff at Des Moines Water Works, but also for the customers ultimately affected by our decisions.

The statement of cash flows presents cash receipts, cash disbursements and net changes in cash resulting from operations, noncapital financing activities, capital and related financing and investing activities. This statement details where cash resources come from and how they are used.

The notes to basic financial statements provide required disclosures and other information that are essential to a full understanding of data provided in the statements. The notes supplement the basic financial statements by presenting information about the Water Works' accounting policies, significant account balances and activities, material risks, obligations, commitments and contingencies.

#### Condensed Financial Information

The following condensed financial information serves as key financial data and indicators for management, monitoring and planning.

#### Condensed Statement of Net Position Information

	2014	2013	2012	% Change 2013 to 2014	% Change 2012 to 2013
Current assets	\$ 12,020,787	\$ 12,673,020	\$ 10,744,768	(5.15)%	17.95%
Capital assets, net	282,879,662	277,033,456	271,847,334	2.11	1.91
Other noncurrent assets	22,654,530	25,691,991	27,449,843	(11.82)	(6.40)
<b>Total assets</b>	<b>317,554,979</b>	<b>315,398,467</b>	<b>310,041,945</b>	<b>0.68</b>	<b>1.73</b>
Deferred outflow of resources	2,352,487	2,783,933	3,248,843	(15.50)	(14.31)
Current liabilities	17,131,218	17,585,615	15,877,150	(2.58)	10.76
Other noncurrent liabilities	13,720,198	14,274,317	14,820,876	(3.88)	(3.69)
Long-term debt, net	39,935,705	45,668,890	51,309,873	(12.55)	(10.99)
<b>Total liabilities</b>	<b>70,787,121</b>	<b>77,528,822</b>	<b>82,007,899</b>	<b>(8.70)</b>	<b>(5.46)</b>
Net investment in capital assets	240,064,444	229,067,422	218,934,233	4.80	4.63
Restricted	15,013,794	16,568,612	18,550,392	(9.38)	(10.68)
Unrestricted	(5,957,893)	(4,982,456)	(6,201,736)	19.58	(19.66)
<b>Total net position</b>	<b>\$ 249,120,345</b>	<b>\$ 240,653,578</b>	<b>\$ 231,282,889</b>	<b>3.52</b>	<b>4.05</b>

## Des Moines Water Works

### Management's Discussion and Analysis Year Ended December 31, 2014

#### Condensed Revenues, Expenses and Changes in Net Position

	2014	2013	2012	% Change 2013 to 2014	% Change 2012 to 2013
Water sales	\$ 45,592,311	\$ 47,044,022	\$ 48,388,978	(3.09)%	(2.78)%
Billing and collection services	1,340,939	1,289,549	1,253,389	3.99	2.88
Connection fees	638,637	659,162	417,057	(3.11)	58.05
Purchased capacity	1,276,299	1,276,293	1,276,293	0.00	-
Other sales and services	2,534,595	2,620,388	2,878,545	(3.27)	(8.97)
<b>Total operating revenues</b>	<b>51,382,781</b>	<b>52,889,414</b>	<b>54,214,262</b>	<b>(2.85)</b>	<b>(2.44)</b>
Investment income	487,631	(83,095)	106,025	(686.84)	(178.37)
Other	199,318	210,020	203,266	(5.10)	3.32
Capital contributions	4,009,473	768,745	274,304	421.56	180.25
Gain (loss) on sale of fixed assets	7,166	58,450	(950,152)	(87.74)	(106.15)
<b>Total revenues</b>	<b>56,086,369</b>	<b>53,843,534</b>	<b>53,847,705</b>	<b>4.17</b>	<b>(1.85)</b>
Labor and benefits	19,195,280	19,355,140	18,677,810	(0.83)	3.63
Chemicals and power	6,968,771	6,624,662	6,643,849	5.19	(0.29)
Corporate Insurance	764,890	876,481	867,749	(12.73)	1.01
Purchased services	7,282,994	4,659,904	4,222,301	56.29	10.36
Materials, supplies and equipment	3,474,926	3,242,441	3,075,024	7.17	5.44
Depreciation	8,218,775	7,978,139	8,037,059	3.02	(0.73)
Other	416,529	331,128	227,542	25.79	45.52
<b>Total operating expenses</b>	<b>46,322,165</b>	<b>43,067,895</b>	<b>41,751,334</b>	<b>7.56</b>	<b>3.15</b>
Interest expense	1,297,437	1,404,950	2,717,967	(7.65)	(48.31)
<b>Total expenses</b>	<b>47,619,602</b>	<b>44,472,845</b>	<b>44,469,301</b>	<b>7.08</b>	<b>(2.21)</b>
<b>Change in net position</b>	<b>8,466,767</b>	<b>9,370,689</b>	<b>9,378,404</b>	<b>(9.65)</b>	<b>(0.08)</b>
Net position, beginning of year	240,653,578	231,282,889	221,904,485	4.05	4.23
Net position, end of year	\$ 249,120,345	\$ 240,653,578	\$ 231,282,889	3.52	4.05

#### Financial Analysis

Year ended December 31, 2014: Current assets decreased 5.15 percent. This is primarily due to the receivable from FEMA relating to the 2008 flood expenses being settled in 2014. Accounts receivable is also down in 2014 versus 2013. This amount can fluctuate year to year based on timing of payments and the year-end holidays. Other noncurrent assets decreased 11.82 percent. Purchased capacity funds were drawn down to reimburse the Water Works for projects benefitting the core network. Deferred outflows of resources decreased 15.50 percent due to the amortization of the difference between the reacquisition price and the net carrying amount of the 2006 bonds which were advanced refunded in 2012. Capital assets increased by 2.11 percent. Overall, total assets as of December 31, 2014 are approximately \$2,150,000 more than December 31, 2013.

Current liabilities decreased 2.58 percent. The amount in accounts payable is lower as of December 31, 2014 which is merely due to timing of invoice receipts and issuing payable checks. The balance in this account can vary widely based on the timing of payments at the end of the year. Year-end construction payables are also lower in 2014. A few older projects in construction payables relating to the I-235 project several years ago were settled and recognized as contributed capital. Offsetting these decreases is a continued increase in the amount collected for tenant water deposits.



## **Des Moines Water Works**

### **Management's Discussion and Analysis Year Ended December 31, 2014**

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Noncurrent liabilities include unearned revenue being amortized over a period of 10 to 20 years, the pension liability which will be paid through future pension contributions and the liability for other postretirement benefits. This shows the liability for providing health care benefits to retirees of Des Moines Water Works. This balance decreased by 3.88 percent due to the amortization of unearned revenue reducing the liability offset by the increase of the liability for other postretirement benefits.

Long-term debt decreased 12.55 percent in 2014 due to the reclassification of \$5,232,000 of the scheduled 2015 debt service payments to short-term liabilities.

Water sales were down 3.09 percent in 2014. Consumption was lower in 2014 due to a relatively cool and wet summer.

Revenue for billing and collection services was up nearly 4 percent due to an increase in customers signing up for Home Serve. They are the provider of the Water Works' water service line protection program, an optional service offered to residential water customers.

Connection fees were down 3.11 percent compared to 2013. These fees can fluctuate widely from year to year depending on the level of development experienced within the utility's service areas.

Purchased capacity revenues were flat compared to 2013. This represents the continued amortization of unearned revenue. This unearned revenue represents cash contributions to fund the water treatment plant located in the north part of the service area and previous years' cash contributions from wholesale customers to fund the L.D. McMullen Water Treatment Facility and to increase capacity in the overall core network. Financial participation in the construction of the plants allows users to participate in lower purchased capacity water rates. Unearned revenue balances are amortized to purchase capacity revenue over the length of the contract, generally 10 to 20 years.

Revenue from other sales and services decreased 3.27 percent in 2014. Included in this line are numerous revenue items in the utility including reconnect fees, stop box repairs, distribution system repairs, operating and maintenance costs for shared-use facilities, lab testing, etc.

Operating labor and benefits decreased approximately one percent. While operating labor costs and employer paid medical insurance premiums increased by \$700,000, the cost for retirement benefits decreased. The Water Works' pension plan was frozen effective 12/31/2013. The Water Works' employees are covered under IPERS (Iowa public employees' retirement plan). The expenses relating to the Water Works' contribution to IPERS resulted in lower expenses compared to the Water Works' pension funding. This decrease more than offset the increase in labor and medical premiums.

Chemicals and power expenses were up 5.19 percent in 2014. Even though consumption was down in 2014 compared to 2013, both chemical and energy prices saw modest increases. Additionally, raw water quality and treatment plant allocations adversely affected costs.

Corporate insurance decreased by 12.73 percent. This is as a result of becoming self-insured for workers' compensation insurance. The Water Works maintains a stop loss policy for workers compensation claims over \$500,000.

Purchased services increased 56.29 percent compared to 2013. This equates to \$2.6 million. The main driver of this increase is the lime residual removal at the McMullen Treatment Plant resulting in \$1.6 million of additional expenses in 2014. Additionally, the number of main breaks was at a record high in 2014. The Water Works had to hire a contractor to help with the repair of some of the main breaks during the winter. A separate contractor was hired in the summer to help with the restoration work from the main breaks, and spent many months helping to restore the hundreds of street holes that resulted from all of the main breaks.

## Des Moines Water Works

### Management's Discussion and Analysis Year Ended December 31, 2014

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Materials, supplies and equipment increased by 7.17 percent. This includes items such as postage, inventory items and repair parts for the maintenance of the treatment facilities, distribution system and fleet vehicles. The record number of main breaks also pushed up this number in 2014 as more concrete, asphalt and inventory repair items were needed.

Other expenses increased nearly 26 percent. This equates to an \$85,000 increase which is primarily due to higher casualty losses in 2014 resulting from damages due to main breaks.

Investment income increased \$570,000. This not only includes investment income, but also accounts for the unrealized gain/loss and truing up of accrued interest and interest received from the City of Altoona for their share of the joint eastside tower project.

Interest expense decreased 7.65 percent due to decreasing interest payments on outstanding debt.

Capital contributions were \$4.0 million in 2014. This is an increase of \$3.2 million over 2013. The Water Works received nearly \$2.4 from the City of Altoona for their share of the joint eastside tower project. Pleasant Hill contributed approximately \$300,000 to install radio frequency meters in their service area. Nearly \$350,000 of contracts payable was written off to contributed capital for projects relating to the I-235 project. Finally, \$1.0 million was recognized as income from FEMA reimbursable projects. These contributions can fluctuate widely from year to year.

The aforementioned fluctuations result in an overall increase in net position of 3.52 percent, the result of a 2.85 percent decrease in operating revenues and an increase in operating expenses of 7.56 percent.

Year ended December 31, 2013: Current assets increased 17.95 percent. This is primarily due to timing of cash in the general checking account and can fluctuate widely. Additionally, prepaid expenses increased due to a few maintenance contracts being renewed for more than one year due to multi-year savings. Other noncurrent assets decreased 6.40 percent. As bonds are being paid down, the amount required in bond reserves also declines. Deferred outflows of resources decreased 14.31 percent due to the amortization of the difference between the reacquisition price and the net carrying amount of the 2006 bonds which were advanced refunded in 2012. Capital assets increased by 1.91 percent. Overall, total assets as of December 31, 2013 are approximately \$5,300,000 more than December 31, 2012.

Current liabilities increased 10.76 percent. The amount in accounts payable is higher as of December 31, 2013 which is merely due to timing of invoice receipts and issuing payable checks. The balance in this account can vary widely based on the timing of payments at the end of the year. In addition, water deposits for tenants continue to increase.

Noncurrent liabilities include unearned revenue being amortized over a period of 10 to 20 years, the pension liability which will be paid through future pension contributions and the liability for other postretirement benefits. This shows the liability for providing health care benefits to retirees of Des Moines Water Works. This balance decreased by 3.69 percent due to the amortization of unearned revenue reducing the liability offset by the increase of the liability for other postretirement benefits.

Long-term debt decreased nearly 11 percent in 2013 due to the reclassification of \$5,089,000 of the scheduled 2014 debt service payments to short-term liabilities.

Water sales were down 2.78 percent in 2013. Consumption in 2013 was lower as 2013 saw more of a typical summer season. The summer of 2012 was a dry year which resulted in record high consumption.

Revenue for billing and collection services was up nearly 3 percent due to the new billing and collecting services for Home Serve. They are the provider of the Water Works' water service line protection program, an optional service offered to residential water customers.

## **Des Moines Water Works**

### **Management's Discussion and Analysis Year Ended December 31, 2014**

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Connection fees increased 58.05 percent or \$242,000. These fees can fluctuate widely from year to year depending on the level of development experienced within the utility's service areas.

Purchased capacity revenues were flat compared to 2012. This represents the continued amortization of unearned revenue. This unearned revenue represents cash contributions to fund the water treatment plant located in the north part of the service area and previous years' cash contributions from wholesale customers to fund the L.D. McMullen Water Treatment Facility. Financial participation in the construction of the plants allows users to participate in lower purchased capacity water rates. Unearned revenue balances are amortized to purchase capacity revenue over the length of the contract, generally 10 to 20 years.

Revenue from other sales and services decreased nearly 9 percent in 2013. Included in this line are numerous revenue items in the utility including reconnect fees, stop box repairs, distribution system repairs, lab testing, Botanical Center revenue, etc. The main driver of the decrease is that the Water Works ceased operating the Botanical Center on December 31, 2012 and therefore is not recognizing the revenue.

Operating labor and benefits increased 3.63 percent which is primarily due to wage rate increases and an increase in the pension funding expense.

Chemicals and power expenses were flat to 2012. Chemical prices were up a modest amount in 2013 but this was offset by lower consumption compared to 2012.

Corporate insurance increased by 1 percent due to normal increase in property values.

Purchased services increased 10.36 percent compared to 2012. The main driver of this increase is the lime residual removal at the McMullen Treatment Plant.

Materials, supplies and equipment increased by 5.44 percent. This includes items such as postage, inventory items and repair parts for the maintenance of the treatment facilities, distribution system and fleet vehicles.

Other expenses increased nearly 45 percent. This equates to a \$104,000 increase which is primarily due to the Water Works offering utility-wide training on employee development.

Investment income decreased \$189,000 and is actually showing as an expense in 2013. While true investment income remained relatively flat to 2012, the accounting for booking the unrealized gain/loss and truing up of accrued interest resulted in this account being an expense.

Interest expense decreased 48.31 percent due primarily to three factors. First, interest expense on the outstanding bonds was lower by \$800,000 in 2013. Second, amortization of the premium on the 2012 bonds resulted in a credit to expense of nearly \$500,000. And finally, there was approximately \$415,000 of expenses relating to writing off bond issue costs to interest expense in 2012 which did not occur in 2013.

Capital contributions increased nearly \$500,000. The Water Works received \$460,000 from the city of Pleasant Hill to perform certain capital projects needed in their service area. Furthermore, these contributions can fluctuate widely from year to year, depending on the status of construction and the timing of inspections performed by Water Works' staff.

The aforementioned fluctuations result in an overall increase in net position of 4.05 percent, the result of a 2.44 percent decrease in operating revenues, an increase in operating expenses of 3.15 percent and a 53.47 percent increase in nonoperating revenues.

## **Des Moines Water Works**

### **Management's Discussion and Analysis Year Ended December 31, 2014**

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#### **Capital Assets and Debt Administration**

During 2014, net capital assets increased \$5,846,206 or 2.11 percent. In addition to replacing deteriorating water mains, the utility continues to reinvest in water treatment, production, storage and capacity. There were no significant changes to the condition of infrastructure assets, nor were there any changes made to standard service lives of those assets.

Water Works' long-term debt was \$39,935,705 and \$45,668,890 as of December 31, 2014 and 2013, respectively. The decrease is due to scheduled principal payments.

During 2013, net capital assets increased \$5,186,122 or 1.91 percent. In addition to replacing deteriorating water mains, the utility continues to reinvest in water treatment, production, storage and capacity. There were no significant changes to the condition of infrastructure assets, nor were there any changes made to standard service lives of those assets.

Water Works' long-term debt was \$45,668,890 and \$51,309,873 as of December 31, 2013 and 2012, respectively. The decrease is due to scheduled principal payments.

#### **Economic Factors**

Due to the Water Works' large concentration of residential customers, weather impacts revenue to a greater degree than do economic cycles. Water Works budgets revenues and expenses based on anticipated consumption for a "normal" weather year. Most service areas received a modest water rate increase in 2014.

#### **Requests for Information**

If the reader has questions or would like additional information, please direct the request to: Peggy Freese, Chief Financial Officer, 2201 George Flagg Parkway, Des Moines, Iowa 50321-1190.

**Des Moines Water Works**

**Statements of Net Position  
December 31, 2014 and 2013**

	2014	2013
<b>Assets</b>		
Current assets:		
Cash	\$ 2,110,287	\$ 2,527,886
Restricted assets, cash	760,951	486,926
Accounts receivable:		
Billed	4,113,977	4,111,110
Unbilled	1,600,197	1,576,107
Due from other governments	-	419,247
Other receivables	308,343	212,955
Inventory, materials and supplies	2,210,269	2,213,999
Prepaid expenses	916,763	1,124,790
<b>Total current assets</b>	<b>12,020,787</b>	<b>12,673,020</b>
Restricted assets, cash and investments:		
Cash	2,831,446	7,111,780
Water revenue bond reserve fund	11,582,348	8,377,829
Water revenue bond improvement fund	600,000	600,000
	<b>15,013,794</b>	<b>16,089,609</b>
Long-term investments:		
Investment in land	624,562	624,562
Board designated funds, investments	6,767,032	8,728,465
	<b>7,391,594</b>	<b>9,353,027</b>
Capital assets:		
Land	6,885,639	6,885,639
Construction-in-progress	6,227,747	10,852,084
Buildings, equipment and machinery	172,823,889	166,237,850
Supply system	53,182,258	50,892,116
Distribution system	198,834,580	189,224,141
	<b>437,954,113</b>	<b>424,091,830</b>
Accumulated depreciation	<b>(155,074,451)</b>	<b>(147,058,374)</b>
<b>Capital assets, net</b>	<b>282,879,662</b>	<b>277,033,456</b>
Other assets		
	<b>249,142</b>	<b>249,355</b>
<b>Total assets</b>	<b>\$ 317,554,979</b>	<b>\$ 315,398,467</b>
Deferred outflow of resources, deferred charge on refunding	<b>\$ 2,352,487</b>	<b>\$ 2,783,933</b>

See Notes to Basic Financial Statements.

	2014	2013
<b>Liabilities and Net Position</b>		
Current liabilities:		
Accounts payable	\$ 2,426,256	\$ 3,201,873
Accrued wages and benefits	812,032	654,005
Compensated absences	2,377,495	2,226,784
Unearned revenue	1,417,768	1,430,276
Special deposits	1,339,490	1,054,369
Construction payables	2,662,541	3,327,428
Water revenue bonds interest payable	102,685	114,954
Current portion of long-term debt, net	5,232,000	5,089,000
Fees collected for other entities	760,951	486,926
<b>Total current liabilities</b>	<b>17,131,218</b>	<b>17,585,615</b>
Noncurrent liabilities:		
Long-term debt, net, less current installments	39,935,705	45,668,890
Compensated absences, less current portion	906,252	860,857
Unearned revenue	6,906,883	8,324,651
Net pension obligation	83,337	89,136
Other postemployment benefits liability	5,823,726	4,999,673
<b>Total noncurrent liabilities</b>	<b>53,655,903</b>	<b>59,943,207</b>
<b>Total liabilities</b>	<b>70,787,121</b>	<b>77,528,822</b>
Net position:		
Net investment in capital assets	240,064,444	229,067,422
Restricted (bond indentures)	15,013,794	16,081,686
Unrestricted (deficit)	(5,957,893)	(4,495,530)
<b>Total net position</b>	<b>249,120,345</b>	<b>240,653,578</b>
<b>Total liabilities and net position</b>	<b>\$ 319,907,466</b>	<b>\$ 318,182,400</b>

## Des Moines Water Works

### Statements of Revenues, Expenses and Changes in Net Position Years Ended December 31, 2014 and 2013

	2014	2013
Operating revenues:		
Water sales	\$ 46,868,610	\$ 48,333,571
Other sales and services	3,875,534	3,896,681
Connection fees	638,637	659,162
<b>Total operating revenues</b>	<b>51,382,781</b>	<b>52,889,414</b>
Operating expenses:		
Labor	12,697,733	12,424,101
Group insurance	2,378,470	1,925,786
Retirement benefits (including social security)	4,119,077	5,005,253
Purchased services	7,282,994	4,659,904
Corporate insurance	764,890	876,481
Materials, supplies and equipment	3,474,926	3,242,441
Chemicals	4,254,259	3,997,873
Utilities	2,714,512	2,626,789
Depreciation	8,218,775	7,978,139
Other	416,529	331,128
<b>Total operating expenses</b>	<b>46,322,165</b>	<b>43,067,895</b>
<b>Operating income</b>	<b>5,060,616</b>	<b>9,821,519</b>
Nonoperating revenue (expense):		
Investment income (loss)	487,631	(83,095)
Interest and amortization expense	(1,297,437)	(1,404,950)
Land use income	196,776	205,568
Gain on sale of capital assets	7,166	58,450
Other	2,542	4,452
<b>Total nonoperating (expense), net</b>	<b>(603,322)</b>	<b>(1,219,575)</b>
<b>Income before capital contributions</b>	<b>4,457,294</b>	<b>8,601,944</b>
Capital contributions	4,009,473	768,745
<b>Change in net position</b>	<b>8,466,767</b>	<b>9,370,689</b>
Net position, beginning of year	240,653,578	231,282,889
Net position, end of year	<b>\$ 249,120,345</b>	<b>\$ 240,653,578</b>

See Notes to Basic Financial Statements.

## Des Moines Water Works

### Statements of Cash Flows Years Ended December 31, 2014 and 2013

	2014	2013
Cash flows from operating activities:		
Cash received from customers	\$ 50,891,624	\$ 51,770,195
Cash paid to suppliers	(19,471,973)	(15,459,030)
Cash paid to employees and for payroll taxes	(18,022,892)	(18,105,925)
<b>Net cash provided by operating activities</b>	<b>13,396,759</b>	<b>18,205,240</b>
Cash flows from capital and related financing activities:		
Principal payments on long-term debt	(5,089,000)	(4,860,000)
Acquisition, construction and removal cost of capital assets	(14,382,278)	(13,049,490)
Contributions received	3,790,714	767,068
Interest paid	(1,379,445)	(1,607,634)
<b>Net cash (used in) capital and related financing activities</b>	<b>(17,060,009)</b>	<b>(18,750,056)</b>
Cash flows from investing activities:		
Proceeds from maturities of investments	16,147,460	20,110,077
Purchase of investments	(17,390,545)	(18,843,307)
Interest received	283,109	19,467
Land use income and other	199,318	210,020
<b>Net cash provided by (used in) investing activities</b>	<b>(760,658)</b>	<b>1,496,257</b>
<b>Net increase (decrease) in cash</b>	<b>(4,423,908)</b>	<b>951,441</b>
Cash, beginning of year	10,126,592	9,175,151
Cash, end of year	<b>\$ 5,702,684</b>	<b>\$ 10,126,592</b>
Reconciliation of cash to the statements of net position:		
Cash	\$ 2,110,287	\$ 2,527,886
Restricted assets, cash current	760,951	486,926
Restricted assets, cash long term	2,831,446	7,111,780
<b>Total cash, end of year</b>	<b>\$ 5,702,684</b>	<b>\$ 10,126,592</b>

(Continued)



## Des Moines Water Works

### Statements of Cash Flows (Continued) Years Ended December 31, 2014 and 2013

	2014	2013
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 5,060,616	\$ 9,821,519
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	8,218,775	7,978,139
Change in:		
Accounts receivable, billed	483,646	170,358
Accounts receivable, unbilled	(24,090)	(62,115)
Other receivables	(79,798)	(83,323)
Inventory, materials and supplies	3,730	(175,834)
Prepaid expenses	208,027	(468,655)
Other assets	213	32,954
Accounts payable	(775,617)	920,075
Accrued wages and benefits and compensated absences	354,133	407,121
Net pension obligation	(5,799)	(5,213)
Other postemployment benefit liability	824,053	847,307
Unearned revenue	(1,430,276)	(1,515,206)
Special deposits	285,121	398,802
Fees collected for other entities	274,025	(60,689)
<b>Net cash provided by operating activities</b>	<b>\$ 13,396,759</b>	<b>\$ 18,205,240</b>
Schedule of noncash capital and related financing activities:		
Acquisition of capital assets through construction payables	\$ 664,887	\$ (56,321)
Capital contribution of construction payable forgiven	340,422	-
Trade-in value towards assets purchased	18,348	58,450
Schedule of noncash investing activities, net depreciation of the fair value of investments	\$ 2,870	\$ 49,716

See Notes to Basic Financial Statements.

**Des Moines Water Works  
Pension Plan**

**Statements of Plan Net Position  
December 31, 2014 and 2013**

	<u>2014</u>	<u>2013</u>
<b>Assets</b>		
Investments, contracts with insurance companies, pooled separate accounts	\$ 50,674,441	\$ 49,788,262
<b>Liabilities</b>	-	-
<b>Net position held in trust for pension benefits</b>	<u>\$ 50,674,441</u>	<u>\$ 49,788,262</u>

See Notes to Basic Financial Statements.

**Des Moines Water Works  
Pension Plan**

**Statements of Changes in Plan Net Position  
Years Ended December 31, 2014 and 2013**

	<b>2014</b>	2013
Additions:		
Investment income, net appreciation in the fair value of pooled separate accounts, interest and dividends	<b>\$ 2,702,829</b>	\$ 6,352,932
Employer contributions	<b>906,542</b>	2,915,710
<b>Total additions</b>	<b>3,609,371</b>	9,268,642
Deductions:		
Benefit payments	<b>2,696,531</b>	2,475,814
Administrative expenses	<b>26,661</b>	24,683
<b>Total deductions</b>	<b>2,723,192</b>	2,500,497
<b>Net increase</b>	<b>886,179</b>	6,768,145
Net position held in trust for pension benefits:		
Beginning of year	<b>49,788,262</b>	43,020,117
End of year	<b>\$ 50,674,441</b>	\$ 49,788,262

See Notes to Basic Financial Statements.

## Des Moines Water Works

### Notes to Basic Financial Statements

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#### Note 1. Nature of Business, Reporting Entity and Significant Accounting Policies

##### Nature of business:

Des Moines Water Works (Water Works) is managed and controlled by the Board of Water Works Trustees of the City of Des Moines, Iowa (the Board), which exists under the provisions of Chapter 388 and other relevant statutes of the Code of Iowa. The five-member Board is appointed by the Mayor of Des Moines with the approval of the City Council. Trustees serve for six-year staggered terms.

Water Works is exempt from federal income tax pursuant to Internal Revenue Code Section 115 which provides for exemption of divisions of state and local governments.

Water Works provides water and other services to retail and wholesale customers in the City of Des Moines (the City) and surrounding communities.

##### Reporting entity:

Accounting principles generally accepted in the United States of America require the reporting entity include (1) the primary government, (2) organizations for which the primary government is financially accountable and (3) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The Water Works has authority to issue bonded debt without the approval of another government. It has the right to sue and be sued, and has the right to buy, sell, lease or mortgage property in its own name. Based on these criteria, the Water Works is considered a primary government and there are no other organizations or agencies whose financial statements should be combined and presented with these financial statements.

##### Significant accounting policies:

Basis of accounting and measurement focus: The economic measurement focus and the accrual basis of accounting are used by the Water Works. Under the accrual basis of accounting, revenue is recognized when earned and expenses are recognized when the liability has been incurred. Under this basis of accounting, all assets and deferred outflows and all liabilities and deferred inflows associated with the operation of the Water Works are included in the statement of net position.

The financial statements of the Water Works are prepared in accordance with generally accepted accounting principles (GAAP) as applied to governmental units. The Government Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards, which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units.

Accounting 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.

## Des Moines Water Works

### Notes to Basic Financial Statements

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#### Note 1. Nature of Business, Reporting Entity and Significant Accounting Policies (Continued)

Cash and investments: For the purpose of the statement of cash flows, Water Works considers cash balances maintained in demand deposit accounts at financial institutions to be cash. Excess cash invested temporarily in financial institutions is considered an investing activity and is not considered to be cash.

Investments as of December 31, 2014 and 2013 were in U.S. government or agency obligations and are stated at fair value, based on quoted market prices.

Revenue recognition: Customers served by Water Works are billed on a monthly cyclical basis based on usage. Water Works accrues estimated unbilled water revenues for services rendered from the last billing date through year-end.

Operating revenues and expenses: Operating revenues include revenues resulting from the sale of water and related services. Revenues from the sale of water are based on billing rates, which are applied to customers' consumption of water. Operating expenses include expenses for water treatment, distribution, depreciation, customer service and sales, administrative and general. Nonoperating revenues and expenses include those derived from capital and related financing activities, noncapital financing activities and investing activities.

Transactions with the City of Des Moines: Water Works provides water service to the City without charge except for the Sewage Treatment Works, Des Moines International Airport and City golf courses. The value (computed at the commercial rate) of the service provided without charge was \$743,084 and \$935,304 in 2014 and 2013, respectively.

Water Works has an agreement to pay the City a Payment in Lieu of Taxes (PILOT). This amount was calculated in 2009 by applying the City millage rate for police and fire to the value of buildings and land operated and controlled by Water Works located within the City at that time. The total PILOT payment was \$755,340 and \$688,445 in 2014 and 2013, respectively.

Water Works has also agreed to match annual contributions of the City (up to \$50,000) toward the Greater Des Moines Partnership to help generate economic development within the City. Payments of \$50,000 were made in 2014 and 2013.

Billings and collection agent services: Water Works serves as the billing and collection agent for fees related to sewage treatment, solid waste and storm water collection for certain political subdivisions (including the City). Separate accounting records are maintained by Water Works for these collection services. Fees collected not yet remitted by Water Works to the applicable entity totaled \$760,951 and \$486,926 as of December 31, 2014 and 2013, respectively. These fees have been reflected in Water Works' statement of net position and were remitted to the City and other political subdivisions subsequent to year-end. Processing fees billed to the City and other political subdivisions for billing and collection services provided by Water Works totaled approximately \$1,341,000 and \$1,290,000 in 2014 and 2013, respectively. The City's fees reflect only the incremental expenses incurred by Water Works to bill and collect the City's charges, rather than an equal sharing of the costs. Water Works bears the total cost of meter reading, cash processing and statement preparation and mailing.

Inventories: Inventories are stated at the lower of average cost or market. The costs of these materials and supplies are recorded as an expense at the time they are relieved from inventory for use.

## Des Moines Water Works

### Notes to Basic Financial Statements

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#### Note 1. Nature of Business, Reporting Entity and Significant Accounting Policies (Continued)

Board designated funds: These assets are reserves held for any contingencies.

Restricted assets, cash and investments: Water Works is required, under the water revenue bond resolutions, to reserve certain assets to provide for payment of the bonds and interest for protection of the bondholders, and for the improvement and extension of facilities. Disbursement of these assets is restricted by the purpose of the respective funds.

Capital assets: Capital assets are recorded at cost and depreciated utilizing the straight-line method over estimated useful lives as follows:

Buildings, equipment and machinery	3-85 years
Supply system	20-85 years
Distribution system	10-85 years

Expenditures for maintenance, repairs and minor replacements are charged to operations. Expenditures for major repairs and betterments are capitalized. Water Works' capitalization threshold is \$1,000. When capital assets are retired or otherwise disposed, the cost and related accumulated depreciation are removed from the accounts and any resulting gains or losses are included in the statement of revenues, expenses and changes in net position. Included in capital assets are the interest capitalized during construction in accordance with accounting principles generally accepted in the United States of America. No capitalized interest was recorded in 2014 or 2013.

Net position: Net position represents the difference between assets and deferred outflows of resources and liabilities in the financial statements. Net investment in capital assets, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt used for acquisition, construction, or improvement of those assets and increased by deferred outflows of resources for deferred charges on refundings and unspent bond proceeds. Net position is reported as restricted when there are limitations imposed on its use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. As of December 31, 2014 and 2013, Water Works had unspent bond proceeds of none and \$7,923, respectively.

The Water Works' policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

Rates: The Board has full authority to establish rates. As part of the rate-setting process, Water Works performs an annual Cost of Service Study to determine the cost of operations. This Study is based on a standard water industry model. Based upon the Study, rates are set to fund future operations. Costs related to operations and maintenance, depreciation based on estimated replacement cost of capital assets (which differs from depreciation expense recorded for financial reporting purposes), debt service and return on capital are factored into the rate design as well as demand factors from various customer classes.

## Des Moines Water Works

### Notes to Basic Financial Statements

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#### Note 1. Nature of Business, Reporting Entity and Significant Accounting Policies (Continued)

Unearned revenue: During 1996 and years subsequent, Water Works entered into contractual agreements with other political subdivisions to sell treatment capacity to these entities. In exchange for purchasing these amounts of capacity, the political subdivisions will be able to purchase water at a lower wholesale water rate. Purchasers were offered the option of cash payment or participating in issues of water revenue bonds. For entities choosing to pay cash in advance, Water Works records these amounts as unearned revenue and amortizes the amounts into income over periods of 10 to 20 years. For entities participating in the bond issues, Water Works recognizes this revenue on a monthly basis as the entities are billed and as the principal and interest payments become due on the bonds. As of December 31, 2014, Water Works had \$8,324,651 of unearned revenue relating to contractual agreements and has recognized \$1,430,276 of revenue during 2014. As of December 31, 2013, Water Works had \$9,754,927 of unearned revenue relating to contractual agreements and has recognized \$1,429,857 of revenue during 2013.

Compensated absences: Vacation and personal leave are accrued as a liability as it is earned. Sick leave benefits do not vest; however, upon retirement, an employee may receive pay for 90 percent of his or her accumulated sick leave up to a maximum of 810 hours. The maximum payable to employees who are eligible for retirement has been recorded as a liability as well as an estimate for employees who are probable of becoming eligible in the future.

Bond premiums and discounts: Bond premiums and discounts are deferred and amortized over the terms of the related bonds utilizing a method which approximates the effective interest method. Debt issuance costs are recognized when incurred.

Deferred outflow of resources: In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to future periods(s) and so will not be recognized as an outflow of resources (expense) until then. The deferred charge on refunding reported in the statement of net position qualifies for reporting in this category. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

Fiduciary fund type: The Water Works also includes a pension trust fund, fiduciary fund type. Pension trust funds are accounted for in essentially the same manner as the enterprise fund, using the same measurement focus and basis of accounting. Plan member contributions are recognized in the period in which contributions are due. Employer contributions to the plan are recognized when due and the employer has 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. The Pension Trust Fund accounts for the assets of the Des Moines Water Works Pension Plan. This plan is included in the reporting entity due to the Water Works' significant administrative involvement and due to the Board of the Plan consisting of the Water Works' Board members.

## Des Moines Water Works

### Notes to Basic Financial Statements

#### Note 2. Cash 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 Water Works' deposits and investments.

Authorized investments: Water Works is authorized to invest in obligations of the US government, its agencies and instrumentalities; certificates of deposit at federally insured Iowa depository institutions approved by the Code of Iowa, Chapter 12C; and repurchase agreements if the underlying collateral consists of obligations of the US government, its agencies and instrumentalities. The Water Works' investment policy prohibits investments in reverse repurchase agreements and futures and options contracts. In addition, investing pursuant to the following investment practices is prohibited: trading of securities for speculation of the realization of short-term trading gains; a contract providing for the compensation of an agent or fiduciary based upon the performance of the invested assets; or if a fiduciary or third party has failed to produce requested records within a reasonable time.

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. In an effort to limit exposure to fair value losses arising from interest rate risk, the Water Works' investment policy places maturity limitations on both operating funds and nonoperating funds. Operating funds are defined as those that are reasonably expected to be expended during the current budget year or within 15 months. Operating funds may only be invested in authorized instruments that mature within 397 days. Funds not identified as operating may be invested in investments with maturities longer than 397 days, but less than 1,726 days. All investments, however, shall have maturities that are consistent with the needs and uses of the Water Works.

Information about the sensitivity of the fair value of the Water Works' investments to market interest rate fluctuations is provided by the tables below for December 31, 2014 and 2013:

Type	Fair Value					
	December 31, 2014	Within 3 Months	Within 6 Months	Within 9 Months	Within 12 Months	Over 12 Months
Federal Home Loan Bank	\$ 6,480,225	\$ -	\$ 1,999,580	\$ -	\$ 1,009,190	\$ 3,471,455
Federal Home Loan Mortgage Corp.	1,801,170	800,280	-	1,000,890	-	-
Federal National Mortgage Assoc.	5,039,195	-	-	2,580,635	2,012,830	445,730
Private Export Funding Corp Series Y	2,625,950	-	-	-	2,625,950	-
Federal Farm Credit Bank	3,002,840	-	-	2,001,760	1,001,080	-
	<u>\$ 18,949,380</u>	<u>\$ 800,280</u>	<u>\$ 1,999,580</u>	<u>\$ 5,583,285</u>	<u>\$ 6,649,050</u>	<u>\$ 3,917,185</u>



## Des Moines Water Works

### Notes to Basic Financial Statements

#### Note 2. Cash and Investments (Continued)

Type	Fair Value					
	December 31, 2013	Within 3 Months	Within 6 Months	Within 9 Months	Within 12 Months	Over 12 Months
Federal Home Loan Bank	\$ 6,477,360	\$ 652,919	\$ 3,553,259	\$ 1,006,770	\$ 1,264,412	\$ -
Federal Home Loan Mortgage Corp.	2,131,045	-	627,475	1,503,570	-	-
Federal National Mortgage Assoc.	7,073,109	626,069	-	4,637,568	176,705	1,632,767
Private Export Funding Corp Series Y	1,021,940	-	-	-	1,021,940	-
Federal Farm Credit Bank	1,002,840	-	-	-	1,002,840	-
	<u>\$ 17,706,294</u>	<u>\$ 1,278,988</u>	<u>\$ 4,180,734</u>	<u>\$ 7,147,908</u>	<u>\$ 3,465,897</u>	<u>\$ 1,632,767</u>

The Water Works also has an investment in land purchased with the intent to sell; however, no commitment for sale existed as of December 31, 2014. The land is recorded at the lower of cost or fair value at \$624,562 as of December 31, 2014 and 2013.

**Credit risk:** Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The Water Works' investment policy does not formally address credit risk.

As of December 31, 2014 and 2013, the Water Works' investments were rated as follows:

2014			
Type		S&P Rating	Moody's Rating
Federal Home Loan Bank		AA+	Aaa
Federal Home Loan Mortgage Corp.		AA+	Aaa
Federal National Mortgage Assoc.		AA+	Aaa
Private Export Funding Corp Series Y		A+	Aaa
Federal Farm Credit Bank		AA+	N/A
2013			
Type		S&P Rating	Moody's Rating
Federal Home Loan Bank		AA+	Aaa
Federal Home Loan Mortgage Corp.		AA+	Aaa
Federal National Mortgage Assoc.		AA+	Aaa
Private Export Funding Corp Series Y		AA+	Aaa
Federal Farm Credit Bank		AA+	N/A

## Des Moines Water Works

### Notes to Basic Financial Statements

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#### Note 2. Cash and Investments (Continued)

Concentration of credit risk: The policy defines diversification requirements for the Water Works' investments. Invested assets shall be diversified to eliminate the risk of loss resulting from over concentration of assets in a specific maturity, a specific issuer or a specific class of security. Portfolio maturities shall be staggered in a way that avoids undue concentration of assets in a specific maturity sector. Liquidity practices shall be followed to ensure that funds required for the next disbursement date and next payroll date are covered through maturity investments, marketable US Treasury bills or cash on hand. Risks of market price volatility shall be controlled through maturity diversification so that aggregate price losses on investments with maturities approaching one year shall not be greater than coupon interest and investment income received from the balance of the portfolio.

More than 5 percent of the Water Works' investments are in the following investments:

Type	2014	2013
Federal Home Loan Bank	34.20%	36.58%
Federal Home Loan Mortgage Corp.	9.50	12.04
Federal National Mortgage Assoc.	26.59	39.95
Private Export Funding Corp Series Y	13.86	5.77
Federal Farm Credit Bank	15.85	5.66

The Water Works' investments during the year did not vary substantially from those at year-end in amounts or level or risk.

Custodial credit risk: The custodial credit risk for deposits and investments is the risk that, in the event of the failure of a depository financial institution or counterparty (for example, broker-dealer) to a transaction, a government will not be able to recover deposits or will not be able to recover collateral securities or the value of investments that are in the possession of an outside party. Deposits in financial institutions as of December 31, 2014 and throughout the year are covered by federal depository insurance or the State Sinking Fund in accordance with Chapter 12C, Code of Iowa. This Chapter provides additional assessments against the depositories to ensure there is no loss of public funds. Water Works' bank balances and book balances of deposits were \$5,717,111 and \$5,702,684, respectively, as of December 31, 2014. Water Works' bank balances and book balances of deposits were \$10,061,037 and \$10,126,592, respectively, as of December 31, 2013. Water Works' investments were not exposed to custodial credit risk as of December 31, 2014 or 2013.

#### Pension Plan Deposits and Investments

Deposits: As of December 31, 2014 and 2013, 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. Net appreciation (depreciation) includes the Plan's gains and losses on investments bought and sold, as well as, held during the year.

## Des Moines Water Works

### Notes to Basic Financial Statements

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#### Note 2. Cash and Investments (Continued)

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 assets 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. The target allocations and long-term expected arithmetic and geometric rates of return for each major asset class are as follows:

Asset Class	Target Allocation	Expected Arithmetic Return	Expected Geometric Return
U.S. Equity - Large Cap	32%	8.80%	7.45%
U.S. Equity - Mid Cap	3	9.10	7.45
U.S. Equity - Small Cap	3	9.55	7.45
Non - U.S. Equity	9	9.20	7.45
REITs	1	8.35	6.55
Real Estate (direct property)	5	6.30	5.95
TIPS	1	4.10	3.90
Core Bond	41	4.25	4.15
High Yield	5	6.30	5.90

Authorized investments: The Des Moines Water Works Pension Plan's investment policy permits the named fiduciary to consider all asset classes allowed by 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 assets 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

### Notes to Basic Financial Statements

#### Note 2. Cash and Investments (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, 2014 and 2013, 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.

	2014		2013	
	Fair Value	Effective Duration	Fair Value	Effective Duration
Fixed income investments:				
Principal Bond and Mortgage Account	\$ 15,934,217	5.43	\$ 10,496,609	5.10
Principal Bond Market Index Account	5,371,044	5.54	-	-
Principal High Yield I Account	2,358,113	4.03	2,332,362	3.87
Principal Core Plus Bond I Account	-	-	10,506,513	5.24
<b>Total fixed income investments</b>	<b>23,663,374</b>		<b>23,335,484</b>	
Other investments, non-fixed income investments	27,011,067		26,452,778	
<b>Total investments</b>	<b>\$ 50,674,441</b>		<b>\$ 49,788,262</b>	

Rate of return: For the year ended December 31, 2014, the annual money weighted rate of return on pension plan investments, net of pension plan investment expense was 5.51 percent. The money weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

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. In accordance with the Water Works' investment policy the Water Works minimizes the market value risk of investments in the portfolio by structuring its investment portfolio so that securities identified for operations mature to meet cash requirements within the next 15 months.

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.

## Des Moines Water Works

### Notes to Basic Financial Statements

#### Note 3. Capital Assets

Capital assets activity for the year ended December 31, 2014 is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	\$ 6,885,639	\$ -	\$ -	\$ 6,885,639
Construction-in-progress	10,852,084	14,057,813	18,682,150	6,227,747
<b>Total capital assets not being depreciated</b>	<b>17,737,723</b>	<b>14,057,813</b>	<b>18,682,150</b>	<b>13,113,386</b>
Capital assets being depreciated:				
Buildings, equipment and machinery	166,237,850	6,799,919	213,880	172,823,889
Supply system	50,892,116	2,290,142	-	53,182,258
Distribution system	189,224,141	9,610,439	-	198,834,580
<b>Total capital assets being depreciated</b>	<b>406,354,107</b>	<b>18,700,500</b>	<b>213,880</b>	<b>424,840,727</b>
Less accumulated depreciation for:				
Buildings, equipment and machinery	78,387,299	4,398,554	202,698	82,583,155
Supply system	16,565,433	693,652	-	17,259,085
Distribution system	52,105,642	3,126,569	-	55,232,211
<b>Total accumulated depreciation</b>	<b>147,058,374</b>	<b>8,218,775</b>	<b>202,698</b>	<b>155,074,451</b>
<b>Total capital assets being depreciated, net</b>	<b>259,295,733</b>	<b>10,481,725</b>	<b>11,182</b>	<b>269,766,276</b>
<b>Net capital assets</b>	<b>\$ 277,033,456</b>	<b>\$ 24,539,538</b>	<b>\$ 18,693,332</b>	<b>\$ 282,879,662</b>

Capital assets activity for the year ended December 31, 2013 is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	\$ 6,405,175	\$ 480,464	\$ -	\$ 6,885,639
Construction-in-progress	11,695,445	13,025,812	13,869,173	10,852,084
<b>Total capital assets not being depreciated</b>	<b>18,100,620</b>	<b>13,506,276</b>	<b>13,869,173</b>	<b>17,737,723</b>
Capital assets being depreciated:				
Buildings, equipment and machinery	158,154,796	8,241,147	158,093	166,237,850
Supply system	50,860,897	31,219	-	50,892,116
Distribution system	183,969,349	5,254,792	-	189,224,141
<b>Total capital assets being depreciated</b>	<b>392,985,042</b>	<b>13,527,158</b>	<b>158,093</b>	<b>406,354,107</b>
Less accumulated depreciation for:				
Buildings, equipment and machinery	74,279,015	4,266,377	158,093	78,387,299
Supply system	15,874,451	690,982	-	16,565,433
Distribution system	49,084,862	3,020,780	-	52,105,642
<b>Total accumulated depreciation</b>	<b>139,238,328</b>	<b>7,978,139</b>	<b>158,093</b>	<b>147,058,374</b>
<b>Total capital assets being depreciated, net</b>	<b>253,746,714</b>	<b>5,549,019</b>	<b>-</b>	<b>259,295,733</b>
<b>Net capital assets</b>	<b>\$ 271,847,334</b>	<b>\$ 19,055,295</b>	<b>\$ 13,869,173</b>	<b>\$ 277,033,456</b>

## Des Moines Water Works

### Notes to Basic Financial Statements

#### Note 4. Noncurrent Liabilities

As of December 31, 2014, Water Works' debt consists of Water Revenue Refunding Bonds, Series 2011, Series 2012A and Series 2012B; and Water Revenue Capital Loan Note, Series 2003 (through the Drinking Water State Revolving Fund (SRF)). Interest on these bonds and note is payable semiannually on June 1 and December 1, with principal payable on December 1. Series 2011 matures on December 1, 2017, Series 2012A matures on December 1, 2023, and Series 2012B matures on December 1, 2025. The Series 2003 note matures on December 1, 2022. The bonds and note are redeemable at the option of Water Works prior to their maturity in whole or, from time to time, in part, in any order of maturity and within a maturity by lot, at a price of par plus accrued interest to call date.

Changes in long-term obligations for the years ended December 31, 2014 and 2013 are as follows:

	2014				
	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Water Revenue Bonds:					
Series 2011	\$ 5,765,000	\$ -	\$ 1,560,000	\$ 4,205,000	\$ 1,590,000
Series 2012 A & B	40,775,000	-	3,405,000	37,370,000	3,515,000
Water Revenue Capital,					
Series 2003	1,256,000	-	124,000	1,132,000	127,000
Unamortized Bond Premium	2,961,890	-	501,185	2,460,705	-
Compensated absences	3,087,641	3,283,747	3,087,641	3,283,747	2,377,495
	<u>\$ 53,845,531</u>	<u>\$ 3,283,747</u>	<u>\$ 8,677,826</u>	<u>\$ 48,451,452</u>	<u>\$ 7,609,495</u>
	2013				
	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Water Revenue Bonds:					
Series 2011	\$ 7,275,000	\$ -	\$ 1,510,000	\$ 5,765,000	\$ 1,560,000
Series 2012 A & B	44,005,000	-	3,230,000	40,775,000	3,405,000
Water Revenue Capital,					
Series 2003	1,376,000	-	120,000	1,256,000	124,000
Unamortized Bond Premium	3,513,873	-	551,983	2,961,890	-
Compensated absences	2,788,447	3,087,641	2,788,447	3,087,641	2,226,784
	<u>\$ 58,958,320</u>	<u>\$ 3,087,641</u>	<u>\$ 8,200,430</u>	<u>\$ 53,845,531</u>	<u>\$ 7,315,784</u>

## Des Moines Water Works

### Notes to Basic Financial Statements

#### Note 4. Noncurrent Liabilities (Continued)

A summary of the aggregate principal and interest requirements outstanding for the Water Revenue Refunding Bonds, Series 2011 is as follows:

Maturing During Year Ending December 31:	Interest Rate	Annual Principal Payment	Annual Interest Payment	Total Annual Payment
2015	3.00%	\$ 1,590,000	\$ 126,150	\$ 1,716,150
2016	3.00	1,655,000	78,450	1,733,450
2017	3.00	960,000	28,800	988,800
		<u>\$ 4,205,000</u>	<u>\$ 233,400</u>	<u>\$ 4,438,400</u>

A summary of the aggregate principal and interest requirements outstanding for the Water Revenue Refunding Bonds, Series 2012A is as follows:

Maturing During Year Ending December 31:	Interest Rate	Annual Principal Payment	Annual Interest Payment	Total Annual Payment
2015	2.00%	\$ 430,000	\$ 75,725	\$ 505,725
2016	2.00	435,000	67,125	502,125
2017	2.00	445,000	58,425	503,425
2018	2.00	450,000	49,525	499,525
2019	2.00	460,000	40,525	500,525
2020-2023	2.00 - 2.125	1,560,000	67,400	1,627,400
		<u>\$ 3,780,000</u>	<u>\$ 358,725</u>	<u>\$ 4,138,725</u>

A summary of the aggregate principal and interest requirements outstanding for the Water Revenue Refunding Bonds, Series 2012B is as follows:

Maturing During Year Ending December 31:	Interest Rate	Annual Principal Payment	Annual Interest Payment	Total Annual Payment
2015	3.00%	\$ 3,085,000	\$ 1,007,700	\$ 4,092,700
2016	3.00	3,185,000	915,150	4,100,150
2017	3.00	2,805,000	819,600	3,624,600
2018	3.00	2,890,000	735,450	3,625,450
2019	3.00	2,990,000	648,750	3,638,750
2020-2024	3.00	16,505,000	1,837,050	18,342,050
2025	3.00	2,130,000	63,900	2,193,900
		<u>\$ 33,590,000</u>	<u>\$ 6,027,600</u>	<u>\$ 39,617,600</u>

## Des Moines Water Works

### Notes to Basic Financial Statements

#### Note 4. Noncurrent Liabilities (Continued)

A summary of the aggregate principal and interest requirements outstanding for the Water Revenue Capital Loan Note is as follows:

Maturing During Year Ending December 31:	Interest Rate	Annual Principal Payment	Annual Interest Payment	Total Annual Payment
2015	1.75%	\$ 127,000	\$ 19,810	\$ 146,810
2016	1.75	131,000	17,588	148,588
2017	1.75	135,000	15,295	150,295
2018	1.75	139,000	12,933	151,933
2019	1.75	143,000	10,500	153,500
2020-2022	1.75	457,000	16,153	473,153
		<u>\$ 1,132,000</u>	<u>\$ 92,279</u>	<u>\$ 1,224,279</u>

The water revenue bond and water revenue capital loan note resolutions (Resolutions) provide that future water customer revenues, net of specified operating expenses of Water Works, are pledged for the purpose of paying Series 2011 and Series 2012 bonds. Proceeds from the bonds were used to provide additional infrastructure needs. The bonds are payable solely from customers net revenues. The Resolutions further require that sufficient monies be set aside to meet current expenses of Water Works. All remaining monies are to be segregated and restricted in separate special reserves. These special reserves are reflected as restricted assets on the statement of net position. The Resolutions also require the issuer maintain insurance coverage of a kind and in an amount which usually would be carried by private companies engaged in a similar kind of business. Water Works maintains fire and extended coverage insurance in the amount of \$379,592,693 per occurrence on building and contents; in addition, liability insurance is maintained.

A summary of the outstanding debt, principal and interest requirements are as follows:

	Issue Date	Year Maturing	Principal and Interest Remaining	Principal and Interest Paid in 2014	Annual Payments as a Percentage of Net Revenues
Water Revenue Bonds:					
Series 2011	3/1/2011	2017	\$ 4,438,400	\$ 1,732,950	13.05%
Series 2012 A	10/30/2012	2023	4,138,725	504,125	3.80
Series 2012 B	10/30/2012	2025	39,617,600	4,082,250	30.74
Water Revenue Capital, Series 2003	4/16/2003	2022	1,224,279	145,980	1.10
			<u>\$ 49,419,004</u>	<u>\$ 6,465,305</u>	<u>48.69%</u>

Total customer net revenues were \$13,279,391. Annual principal and interest payments on the bonds are approximately 49 percent of net revenues.



## Des Moines Water Works

### Notes to Basic Financial Statements

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#### Note 5. Retirement Plans

Iowa Public Employees' Retirement System: The Water Works contributes to the Iowa Public Employees' Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the state of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. All Water Works' employees are eligible to participate IPERS beginning January 1, 2014.

IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117. Details of the plan are provided on a system-wide basis.

Plan members are required to contribute 5.95 percent of their annual salary and the Water Works is required to contribute 8.93 percent of annual covered salaries. Contribution requirements are established by state statute. The Water Works' contributions to IPERS for the year ended December 31, 2014 was \$1,297,394 equal to the required contributions for the year.

Pension plan: Water Works has a frozen noncontributory defined benefit single employer pension plan, established by the Board, called the Des Moines Water Works Pension Plan (the Plan). 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 and is allowed with reduced benefits for vested employees with less than 30 years of service beginning at age 55. The Plan was restated effective December 31, 2013. After that date, accrued plan benefits were frozen and will not increase due to any changes in average compensation or continuous service after such date. The pension benefit formula is based upon a percent of average compensation and the number of years of service with Water Works. A participant's monthly accrued benefit is equal to 1.5 percent of their average monthly compensation times their years of continuous service with Water Works. Average monthly compensation is determined by taking the average monthly pay for the 60 consecutive full calendar months out of the 120 calendar months prior to December 31, 2013 which gives the highest average. The Plan also provides death and disability benefits to vested employees. The Plan Administrator is the Board of Trustees of Des Moines Water Works. The Plan issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to or calling the Water Works.

Implementation of GASB pronouncement: The Water Works adopted GASB Statement No. 67, *Financial Reporting for Pension Plans – an Amendment of GASB Statement No. 25*, which changed the standards for the recognition, measurement and presentation of information about the pension plan. The Water Works presents comparative financial statements, however, management determined the cost benefit of re-evaluating the prior year actuarial information for the year ended December 31, 2013 was cost prohibitive and therefore has determined to repeat the prior year disclosures and required supplementary information in accordance with GASB Statement No. 25.

## Des Moines Water Works

### Notes to Basic Financial Statements

#### Note 5. Retirement Plans (Continued)

Water Works' annual pension cost and net pension obligation for fiscal year 2014 and the two preceding fiscal years are as follows:

	2014	2013	2012
Annual required contribution (ARC)	\$ 906,542	\$ 2,915,710	\$ 2,782,486
Interest	5,794	6,148	7,026
Adjustment to annual required contribution	(11,593)	(11,361)	(12,770)
<b>Annual pension cost (APC)</b>	<b>900,743</b>	<b>2,910,497</b>	<b>2,776,742</b>
Contributions made	906,542	2,915,710	2,782,486
<b>Decrease in net pension obligation</b>	<b>5,799</b>	<b>5,213</b>	<b>5,744</b>
Net pension (obligation), beginning of year	(89,136)	(94,349)	(100,093)
Net pension (obligation), end of year	<u>\$ (83,337)</u>	<u>\$ (89,136)</u>	<u>\$ (94,349)</u>
Percentage of APC contributed	100.6%	100.2%	100.2%

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 obligation above was computed as part of the annual actuarial valuation performed as of January 1, 2015, 2014 and 2013. The actuarial valuations were performed using the entry age normal cost method which does not identify or separately amortize unfunded actuarial liabilities. There were no significant differences between December 31, 2014, 2013 and 2012 and January 1, 2015, 2014 and 2013, respectively, which would cause the actuarial valuations not to be representative as of December 31, 2014, 2013 and 2012. The actuarial assumptions used to compute the pension benefit liability included 6.5 percent investment rate of return (net of administrative expenses).

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 Water Works are determined by the Board of Trustees of Des Moines Water Works. The contributions to the Plan in 2013 were approximately 25.5 percent total covered payroll in that year. As the plan was restated effective December 31, 2013 and accrued plan benefits were frozen, there was no covered payroll for the fiscal year ended December 31, 2014.

Funded status and changes in net pension liability: As of January 1, 2015, the most recent actuarial valuation date, the Plan was 90.1 percent funded. The total pension liability was \$56,238,704; and the plan fiduciary net position was \$50,674,441; resulting in a net pension liability (NPL) of \$5,564,263. As the Plan was frozen to future benefit accruals effective December 31, 2013, annual covered payroll and the ratio of annual covered payroll to NPL are both zero for the year ended December 31, 2014.

Funded status and funding progress as of December 31, 2013: As of January 1, 2013, the Plan was 85 percent funded. The actuarial accrued liability for benefits was \$54,728,852 and the actuarial value of assets was \$46,749,763, resulting in an unfunded actuarial accrued liability of \$7,979,089. The covered payroll was \$11,433,783 and the ratio of UAAL to covered payroll was 70 percent.

## Des Moines Water Works

### Notes to Basic Financial Statements

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#### Note 5. Retirement Plans (Continued)

The schedule of funding progress for the year ended December 31, 2013, 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 actuarial accrued liability 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.

Net pension liability of the Plan: The components of the net pension liability of the Plan at December 31, 2014, was as follows:

Total pension liability	\$ 56,238,704
Plan fiduciary net position	<u>(50,674,441)</u>
Net pension liability	<u>\$ 5,564,263</u>

Plan fiduciary net position as a percent of the total pension liability	90.1%
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Sensitivity: The following presents the net pension liability of the Plan, calculated using the discount rate of 6.5 percent, as well as what the Plan's net pension liability (asset) would be if it were calculated using a discount rate that is 1 percent lower or 1 percent higher than the current rate:

<u>1% Decrease (5.5%)</u>	<u>Current discount rate (6.5%)</u>	<u>1% Increase (7.5%)</u>
\$ 12,988,157	\$ 5,564,263	\$ (533,049)

#### Note 6. Other Postemployment Benefits

Plan description: The Water Works sponsors a single-employer health care plan that provides certain postretirement health care benefits, in accordance with the policy established by the Board, to all employees who retire from Water Works after attaining age 55 with 5 years of service. As of December 31, 2014 and 2013, 75 and 76 retirees, respectively, receive postretirement health care benefits. Water Works provides a Medicare supplement or equivalent amount to all employees who retire after attaining age 55, if the sum of their age and years of service are at least 85 or for those who retire after attaining age 65 regardless of length of service. Employees who retire prior to attaining age 65 with the sum of their age and years of service less than 85 receive a discounted benefit as provided by the plan document. The plan does not issue a stand-alone financial report.

## Des Moines Water Works

### Notes to Basic Financial Statements

#### Note 6. Other Postemployment Benefits (Continued)

Funding policy: The health insurance plan contributions on behalf of employees are negotiated by management and the union and governed by the Water Works' union contracts.

The required contribution is based on projected pay-as-you-go financing requirements. For fiscal year 2014, the Water Works contributed \$175,338. Retirees receiving benefits contributed \$92,800. The Water Works offered a choice of three health insurance plans in 2014. The required contribution for active members and retirees under the age of 65 varied by the plan selected. Retirees over the age of 65 also contributed varying amounts based on the plan selected.

For fiscal year 2013, the Water Works contributed \$168,906. Retirees receiving benefits contributed \$74,956. The Water Works offered a choice of three health insurance plans in 2013. The required contribution for active members and retirees under the age of 65 varied by the plan selected.

Annual OPEB Cost and Net OPEB Obligation: The Water Works' annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance to the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The following table shows the components of the Water Works' annual OPEB cost for the year, the amount actuarially contributed to the plan and changes in the Water Works' annual OPEB obligation:

	2014	2013
Annual required contribution	\$ 1,108,978	\$ 1,032,690
Interest on net OPEB obligation	199,987	166,095
Adjustment to annual required contribution	(309,574)	(182,572)
Annual OPEB cost (expense)	999,391	1,016,213
Contributions and payments made	175,338	168,906
Increase in net OPEB obligation	824,053	847,307
Net OPEB obligation - beginning of year	4,999,673	4,152,366
Net OPEB obligation - end of year	<u>\$ 5,823,726</u>	<u>\$ 4,999,673</u>

The Water Works' annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligations for 2014, 2013 and 2012 follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
December 31, 2012	\$ 973,107	16%	\$ 4,152,366
December 31, 2013	1,016,213	17	4,999,673
December 31, 2014	999,391	18	5,823,726

## Des Moines Water Works

### Notes to Basic Financial Statements

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#### Note 6. Other Postemployment Benefits (Continued)

Funded status and funding progress as of December 31, 2014 and 2013: Postemployment Benefit Obligations under GASB Statement No. 45 calculated as of December 31, 2012, the most recent valuation date, is as follows:

	Total	Members
Actuarial Accrued Liability		
Current retirees, beneficiaries and dependents	\$ (3,416,160)	106
Current active members	<u>(9,924,843)</u>	206
Total Actuarial Accrued Liability (AAL)	(13,341,003)	
OPEB Plan Assets	-	
Unfunded Actuarial Accrued Liability (UAAL)	(13,341,003)	

The covered payroll (annual payroll of active employees covered by the plan) for December 31, 2014 and 2013 was \$14,786,455 and \$14,701,939, respectively. The ratio of the UAAL to the covered payroll for December 31, 2014 and 2013 was 90 percent and 91 percent, respectively.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the health care cost trend. Amounts determined regarding the funded status of the plan and annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial methods and assumptions: Projections and benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and included in the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the December 31, 2012 actuarial valuation, the most recent actuarial valuation, the unit credit method was used. The actuarial assumptions included a 4.0 percent investment rate of return (net of administrative expenses) and an annual health care cost trend rate of 8.0 percent initially, grading down to 4.5 percent in 7 years. The Water Works' unfunded actuarial accrued liability is being amortized over 30 years, with 24 years remaining.

## Des Moines Water Works

### Notes to Basic Financial Statements

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#### Note 7. Risk Management

Water Works is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets, errors and omissions, injuries to employees, natural disasters and malpractice.

Water Works purchases commercial insurance for property and casualty, employee health, life and long-term disability insurance. During the last three years, settled claims have not exceeded insurance coverage.

Beginning in 2014, Water Works is self insured for workers' compensation claims and utilizes a third party administrator to process claims and payments. A stop loss policy limits claims losses to \$1,000,000 per coverage year in the aggregate. During the current year, total claims paid were approximately \$87,000 with no unpaid claims liability as of December 31, 2014 due to the minimal activity.

#### Note 8. Commitments

Approximately \$900,000 related to 2014 contracts has been formally committed as of December 31, 2014. In addition, the Board has approved approximately \$18,400,000 of expenditures for capital acquisitions and improvements, all of which are expected to be expended in 2015.

In 1983, Water Works determined additional water resources would be required for future customer needs. As a result, the Board has contracted with the United States of America – Army Corps of Engineers, through the state of Iowa, for water supply storage in the Saylorville Reservoir Project continuing through the life of the project. Under the contract, Water Works is required to pay a portion of future major renovation costs of the project. Water Works also pays a portion of the annual operation and maintenance costs of the project. Water Works portion of the operation and maintenance costs was approximately \$116,000 and \$114,000 in 2014 and 2013, respectively.

On January 1, 2014, the Water Works and the Greater Des Moines Botanical Gardens (GDMBG) entered into an agreement for Water Works to provide for \$200,000 of in-kind services to be performed for the GDMBG every year for ten years. For the years ended December 31, 2014 and 2013, Water Works provided in-kind services valued at approximately \$162,000 and \$232,000, respectively. Any over/under spending will be offset of expenses in a future year.

#### Note 9. New Governmental Accounting Standards Board (GASB) Statements

As of December 31, 2014, the GASB also had issued several Statements not yet implemented by the Water Works.

- GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, issued June 2012, will be effective for the Water Works beginning with its year ending December 31, 2015. This Statement replaces the requirements of GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, and GASB Statement No. 50, *Pension Disclosures*, as they relate to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. This Statement requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. This Statement also enhances accountability and transparency through revised and new note disclosures and required supplementary information.

## Des Moines Water Works

### Notes to Basic Financial Statements

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#### Note 9. New Governmental Accounting Standards Board (GASB) Statements (Continued)

- GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*, issued November 2013, will be effective for the Water Works beginning with its year ending December 31, 2015. This Statement eliminates a potential source of understatement of restated beginning net position and expense in a government's first year of implementing GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. To correct this potential understatement, Statement 71 requires a state or local government, when transitioning to the new pension standards, to recognize a beginning deferred outflow of resources for its pension contributions made during the time between the measurement date of the beginning net pension liability and the beginning of the initial fiscal year of implementation. This amount will be recognized regardless of whether it is practical to determine the beginning amounts of all other deferred outflows of resources and deferred inflows of resources related to pensions.

As a result of implementing these two Statements, management will record a net pension liability on the financial statements for the plans. The net pension liability as of December 31, 2014 for the Des Moines Water Works Plan was \$5,564,263. Management will also record a liability for the Water Works' proportionate share of the IPERS net pension liability.

- GASB Statement No. 72, *Fair Value Measurement and Application*, issued February 2015, will be effective for the Water Works for its year ending December 31, 2016. This Statement defines fair value and describes how fair value should be measured, what assets and liabilities should be measured at fair value, and what information about fair value should be disclosed in the notes to the financial statements. This Statement defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Investments, which generally are measured at fair value, are defined as a security or other asset that governments hold primarily for the purpose of income or profit and the present service capacity of which are based solely on their ability to generate cash or to be sold to generate cash. The related disclosures have been expanded to categorize fair values according to their relative reliability and to describe positions held in many alternative investments.

The Water Works' management intends to adopt this Statement by the required date and will modify and expand its disclosures accordingly.

**Des Moines Water Works**

**Required Supplementary Information  
Other Postemployment Benefit Plan**

SCHEDULE OF FUNDING PROGRESS

Fiscal Year Ended	Actuarial Valuation Date	Actuarial Value of Net Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded (Over funded) AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
2012	12/31/10	\$ -	\$ 11,456,891	\$ (11,456,891)	- %	\$ 14,370,775	79.7%
2013	12/31/12	-	13,341,003	(13,341,003)	-	14,701,939	90.7
<b>2014</b>	<b>12/31/12</b>	-	<b>13,341,003</b>	<b>(13,341,003)</b>	-	<b>14,786,455</b>	<b>90.2</b>

The information presented in the required supplementary schedule was determined as part of the actuarial valuation as of December 31, 2012.

Additional information follows:

- a. The actuarial method used to determine the ARC is the unit credit method.
- b. There are no plan assets.
- c. The actuarial assumptions included: (a) 4 percent investment rate of return and (b) a health care cost trend rate of 8 percent initially, grading down to 4.5 percent in 7 years.
- d. The unfunded actuarial accrued liability is being amortized over 30 years.



## Des Moines Water Works Pension Plan

### Required Supplementary Information Schedule of Changes in Net Pension Liability For the Year Ended December 31, 2014

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#### Total Pension Liability

Interest	\$ 3,449,503
Benefit payments	(2,696,531)
Difference between expected and actual experience	305,961
Changes in assumptions	542,112
<b>Net change in total pension liability</b>	<u>1,601,045</u>

Total pension liability - beginning of year	54,637,659
Total pension liability - end of year	<u>\$ 56,238,704</u>

#### Plan Net Position

Contributions - employer	\$ 906,542
Investment income, net of investment expenses of \$22,219	2,680,610
Benefit payments	(2,696,531)
Administrative expenses	(4,442)
<b>Net change in plan net position</b>	<u>886,179</u>

Total plan net position - beginning of year	49,788,262
Total plan net position - end of year	<u>\$ 50,674,441</u>

<b>Net pension liability</b>	<u>\$ 5,564,263</u>
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Information for prior years is unavailable.

See Note to Required Supplementary Information.

**Des Moines Water Works Pension Plan**

**Required Supplementary Information  
Schedule of Net Pension Liability and Related Ratio  
For the Year Ended December 31, 2014**

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Total pension liability - end of year	\$ 56,238,704
Plan net position - end of year	50,674,441
Net pension liability	<u>\$ 5,564,263</u>
Plan net position as a percentage of the total pension liability	90.1%
Covered employee payroll	*
Net pension liability as a percentage of covered payroll	N/A

Information for prior years is unavailable.

See Note to Required Supplementary Information.

\*As the Plan was frozen to future benefit accruals effective December 31, 2013, there was no covered payroll for the year ended December 31, 2014.

**Des Moines Water Works Pension Plan**

**Required Supplementary Information**

**Schedule of Investment Returns**

**For the Year Ended December 31, 2014**

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Annual money-weighted rate of return, net of investment expense 5.51%

Information for prior years is unavailable.

See Note to Required Supplementary Information.

**Des Moines Water Works Pension Plan**

**Required Supplementary Information  
Schedule of Contributions from the Employer  
For the Ten Years Ended December 31, 2014**

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Plan Year Ended December 31:	Annual Required Contribution	Actual Contribution	Contribution Deficiency (Excess)	Covered Payroll	Actual Contributions as a Percent of Covered Payroll
2005	\$ 941,548	\$ 896,000	\$ 45,548	\$ 10,826,006	8.28%
2006	885,540	885,990	(450)	10,773,915	8.22
2007	679,631	825,000	(145,369)	11,058,383	7.46
2008	545,782	800,000	(254,218)	10,947,799	7.31
2009	1,023,319	1,023,319	-	11,694,902	8.75
2010	1,541,866	1,541,866	-	12,318,720	12.52
2011	2,204,886	2,204,886	-	12,436,915	17.73
2012	2,782,486	2,782,486	-	12,186,884	22.83
2013	2,915,710	2,915,710	-	11,453,783	25.50
2014	906,542	906,542	-	-	N/A

See Note to Required Supplementary Information.

**Des Moines Water Works Pension Plan**

**Required Supplementary Information  
Schedule of Funding Progress  
For the Six Actuarial Valuation Dates**

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)
01/01/2009	\$ 41,513,612	\$ 42,450,678	\$ 937,066	98%	\$ 10,947,799	9%
01/01/2010	39,789,839	44,385,344	4,595,505	90	11,694,902	39
01/01/2011	38,740,806	47,774,843	9,034,037	81	12,318,720	73
01/01/2012	37,986,291	51,235,945	13,249,654	74	12,436,915	107
01/01/2013	42,327,088	57,855,043	15,527,955	73	12,186,884	127
01/01/2014	46,749,763	54,728,852	7,979,089	85	11,433,783	70

The Actuarial Required Contribution (ARC) is calculated using the entry age normal actuarial cost method beginning January 1, 2013. For years prior to January 1, 2013, the ARC was calculated using the aggregate actuarial cost method.

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 below.

<b>January 1, 2015</b>																	
Actuarial valuation:																	
Frequency	Annual																
Cost method	Entry age normal																
Amortization	The amortization method used is Level Dollar Over a Closed Period. The weighted average remaining period is 15 years.																
Assumptions:																	
Long-term rate of return	6.5% per year																
Salary increases	N/A																
Retirement age	Retirement Age Based Table as follows:																
	<table><thead><tr><th style="text-align: center;">Age</th><th style="text-align: center;">Rate</th></tr></thead><tbody><tr><td style="text-align: center;">55</td><td style="text-align: center;">25%</td></tr><tr><td style="text-align: center;">56</td><td style="text-align: center;">15%</td></tr><tr><td style="text-align: center;">57 - 61</td><td style="text-align: center;">5%</td></tr><tr><td style="text-align: center;">62</td><td style="text-align: center;">20%</td></tr><tr><td style="text-align: center;">63</td><td style="text-align: center;">5%</td></tr><tr><td style="text-align: center;">64</td><td style="text-align: center;">10%</td></tr><tr><td style="text-align: center;">65 and older</td><td style="text-align: center;">100%</td></tr></tbody></table>	Age	Rate	55	25%	56	15%	57 - 61	5%	62	20%	63	5%	64	10%	65 and older	100%
Age	Rate																
55	25%																
56	15%																
57 - 61	5%																
62	20%																
63	5%																
64	10%																
65 and older	100%																
Mortality	RP-2014 Mortality with Scale MP-2014 - Generational Annuitant and Non-annuitant, male and female.																
Disability	1987 Commissioner's Group Disability Table, six month elimination period, male and female.																
Rate of withdrawal	2003 Society of Actuaries Small Plan Age Table, multiplied by 0.45.																

## Des Moines Water Works Pension Plan

### Note to Required Supplementary Information

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	<b>January 1, 2014</b>
Actuarial valuation:	
Frequency	Annual
Cost method	Entry age normal
Amortization	The amortization method used is Level Dollar Over a Closed Period. The weighted average remaining period is 15 years.
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	6.5% per year
Salary increases	N/A
Retirement age	The later of meeting the rule of 85 or age 58, but not later than age 65.
Mortality	IRS Prescribed Static Mortality table, male and female
Disability	1987 Commissioner's Group Disability Table, six month elimination period, male and female
Rate of withdrawal	V Table from August 1992 Pension Forum published by the Society of Actuaries, multiplied by .040.





# Des Moines Water Works

Report to the Board of Water Works Trustees  
June 9, 2015



June 9, 2015

Board of Water Works Trustees  
Des Moines Water Works  
2201 George Flagg Parkway  
Des Moines, Iowa 50321

We are pleased to present this report related to our audit of the basic financial statements of Des Moines Water Works (the Water Works) for the year ended December 31, 2014. This report summarizes certain matters required by professional standards to be communicated to you in your oversight responsibility for Des Moines Water Works' financial reporting process.

This report is intended solely for the information and use of the Board of Water Works Trustees and management and is not intended to be and should not be used by anyone other than these specified parties. It will be our pleasure to respond to any questions you have about this report. We appreciate the opportunity to continue to be of service to Des Moines Water Works.

*McGladrey LLP*

## Contents

<b>Required Communications</b> .....	1 – 2
Summary of Significant Accounting Estimates.....	3 – 4

### **Exhibit A – Significant Written Communications between Management and Our Firm**

Representation Letter of the Des Moines Water Works

Representation Letter of the Board of Water Works Trustees, Billing and Collection Agent for the Sewer Service, Solid Waste Collection and Storm Water Management Charges for the City of Des Moines, Iowa

Industry Insights – Cyber Security

### **Exhibit B – 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***

## Required Communications

Generally accepted auditing standards (AU-C 260, *The Auditor's Communication With Those Charged With Governance*) require the auditor to promote effective two-way communication between the auditor and those charged with governance. Consistent with this requirement, the following summarizes our responsibilities regarding the financial statement audit as well as observations arising from our audit that are significant and relevant to your responsibility to oversee the financial reporting process.

Area	Comments
<b>Our Responsibilities With Regard to the Financial Statement Audit</b>	Our responsibilities under auditing standards generally accepted in the United States of America and <i>Government Auditing Standards</i> issued by the Comptroller General of the United States have been described to you in our arrangement letter dated January 13, 2015. Our audit of the financial statements does not relieve management or those charged with governance of their responsibilities which are also described in that letter.
<b>Overview of the Planned Scope and Timing of the Financial Statement Audit</b>	We have issued a separate communication regarding the planned scope and timing of our audit and have discussed with you our identification of and planned audit response to significant risks of material misstatement in our letter dated January 13, 2015.
<b>Accounting Policies and Practices</b>	<b>Preferability of Accounting Policies and Practices</b> Under generally accepted accounting principles, in certain circumstances, management may select among alternative accounting practices. In our view, in such circumstances, management has selected the preferable accounting practice.  <b>Adoption of, or Change in, Accounting Policies</b> Management has the ultimate responsibility for the appropriateness of the accounting policies used by the Water Works. In the current year the Water Works adopted the following Governmental Accounting Standards Board (GASB) Statement: <ul style="list-style-type: none"><li data-bbox="657 1249 1442 1522">• GASB Statement No. 67, <i>Financial Reporting for Pension Plans</i>. This Statement revises existing guidance for the financial reports of most pension plans. This Statement enhances note disclosures and required supplementary information for both defined benefit and defined contribution pension plans. This Statement also requires the presentation of new information about annual money-weighted rates of return in the notes to the financial statements and in 10-year required supplementary information schedules.</li></ul>
	<b>Significant or Unusual Transactions</b> We identified and discussed one significant transaction relating to a shared use water facility agreement with the City of Altoona as described in Exhibit B. We did not identify any other significant or unusual transactions or significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Area	Comments
	<p><b>Management’s Judgments and Accounting Estimates</b>  Summary information about the process used by management in formulating particularly sensitive accounting estimates and about our conclusions regarding the reasonableness of those estimates is in the attached Summary of Significant Accounting Estimates.</p>
<b>Audit Adjustments</b>	There were no audit adjustments made to the original trial balance presented to us to begin our audit.
<b>Uncorrected Misstatements</b>	Uncorrected misstatements are summarized in the representation letter attached in Exhibit A.
<b>Disagreements With Management</b>	We encountered no disagreements with management over the application of significant accounting principles, the basis for management’s judgments on any significant matters, the scope of the audit, or significant disclosures to be included in the financial statements.
<b>Consultations With Other Accountants</b>	We are not aware of any consultations management had with other accountants about accounting or auditing matters.
<b>Significant Issues Discussed With Management</b>	No significant issues arising from the audit were discussed with or the subject of correspondence with management.
<b>Significant Difficulties Encountered in Performing the Audit</b>	We did not encounter any significant difficulties in dealing with management during the audit.
<b>Accounting Pronouncements</b>	Please refer to Note 9 of the financial statements for new accounting pronouncements that have been recently issued that will impact the Water Works’ financial statements in future periods.
<b>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</b>	We have separately issued a report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with <i>Government Auditing Standards</i> . This communication is attached as Exhibit B.
<b>Significant Written Communications Between Management and Our Firm</b>	<p>Copies of significant written communications between our firm and the management of the Des Moines Water Works, including the representation letter provided to us by management, are attached as Exhibit A.</p> <p>We have also separately issued reports on statements of cash receipts and disbursements of Board of Water Works Trustees, Billing and Collecting Agent for the Sewer Service, Solid Waste Collection and Storm Water Management charges for the City of Des Moines, Iowa.</p>

## Des Moines Water Works

### Summary of Significant Accounting Estimates

#### Year Ended December 31, 2014

Accounting estimates are an integral part of the preparation of financial statements and are based upon management's current judgment. The process used by management encompasses their knowledge and experience about past and current events and certain assumptions about future events. You may wish to monitor throughout the year the process used to determine and record these accounting estimates. The following describes the significant accounting estimates reflected in the Des Moines Water Works' December 31, 2014 basic financial statements.

<b>Estimate</b>	<b>Accounting Policy</b>	<b>Management's Estimation Process</b>	<b>Basis for Our Conclusions on Reasonableness of Estimate</b>
<b>Pension Plan and Other Postemployment Benefit Plan Assumptions</b>	Pension plan and other postemployment benefit plan accounting and disclosures are based upon calculations performed by actuaries and include numerous assumptions and estimates.	The assumptions and employee-related factors include turnover, participation, retirement age and mortality. These factors and the estimated discount rate and rate of return are based upon historical and general market data. The amounts were calculated by actuaries hired by the Water Works and the results are reviewed by management.	We tested the information provided to the actuary and obtained the actuarial reports. We believe the estimates and process used by management of the Water Works are reasonable.
<b>Depreciable Useful Life and Salvage Value of Capital Assets</b>	The depreciable useful life of capital assets is set at the estimated useful life of the related asset. Salvage value is based upon an estimate of what the value of the property will be when the Water Works is through using the related asset.	The determination is made at the time the asset is placed into service and involves various judgments and assumptions, including resale value of used equipment, estimated useful life and prior experience.	We believe the estimates and process used by management of the Water Works are reasonable.
<b>Fair Value of Investments</b>	The Water Works records the estimated fair value of its investments.	Investment securities are based on quoted market prices.	We tested the proprietary of information underlying management's estimates. Based on our procedures, we conclude that management's estimate is reasonable.

<b>Estimate</b>	<b>Accounting Policy</b>	<b>Management's Estimation Process</b>	<b>Basis for Our Conclusions on Reasonableness of Estimate</b>
<b>Unbilled Revenue</b>	The Water Works records a receivable for the estimated amount of revenue related to unbilled water at the end of the year.	The estimated receivable is based on past history and cycles billed after the end of the year.	We tested the information used to calculate the estimated receivable and concluded that management's estimate is reasonable.
<b>Accrued Sick Leave</b>	Ninety percent of any unused sick leave is paid at the time of retirement for eligible employees. The estimated amount to be paid to employees at the time of retirement is recorded as a compensated absence liability.	Des Moines Water Works uses past experience to determine the estimated amount of accrued sick leave.	We analyzed management's methodology and concluded the estimates are reasonable.

**Exhibit A—Significant Written Communications between Management and Our Firm**



June 9, 2015

McGladrey LLP  
400 Locust Street  
Suite 640  
Des Moines, Iowa 50309

This representation letter is provided in connection with your audits of the basic financial statements of Des Moines Water Works, Des Moines, Iowa as of and for the years ended December 31, 2014 and 2013 for the purpose of expressing an opinion on whether the financial statements are presented fairly, in all material respects in accordance with accounting principles generally accepted in the United States (U.S. GAAP).

We confirm, to the best of our knowledge and belief, as of June 9, 2015:

*Financial Statements*

1. We have fulfilled our responsibilities, as set out in the terms of the audit arrangement letter dated January 13, 2015, for the preparation and fair presentation of the financial statements referred to above in accordance with U.S. GAAP.
2. We acknowledge our responsibility for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.
3. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.
4. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable and reflect our judgment based on our knowledge and experience about past and current events and our assumptions about conditions we expect to exist and courses of action we expect to take.
5. Related-party transactions, including those with other organizations for which the nature and significance of their relationship with Des Moines Water Works are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete and interfund transactions, including interfund accounts and advances receivable and payable, sale and purchase transactions, interfund transfers, long-term loans, leasing arrangements, and guarantees, have been recorded in accordance with the economic substance of the transaction and appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP.
6. There are no events subsequent to the date of the financial statements and for which U.S. GAAP requires adjustment or disclosure.
7. The effects of all known actual or possible litigation and claims have been accounted for and disclosed in accordance with U.S. GAAP.

8. The following have been properly recorded and/or disclosed in the financial statements:
  - a. Arrangements with financial institutions involving restrictions on cash balances have been properly disclosed.
  - b. Net position classifications.
  - c. Expenses have been appropriately classified in the statement of revenues, expenses and change in net position.
  - d. Future changes in accounting pronouncements for GASB Statement Nos. 71 and 72, which have been issued, but which we have not yet adopted.
9. There are no unasserted claims or assessments that our lawyer has advised us are probable of assertion and must be disclosed in accordance with the Contingencies Topic of the GASB Accounting Standards Codification.
10. We believe that the actuarial assumptions and methods used to measure other postemployment benefit liabilities and self insurance liabilities are appropriate.
11. We have no direct or indirect, legal or moral obligation for any debt of any organization, public or private that is not disclosed in the financial statement.
12. We have complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance. In connection therewith, we specifically represent that we are responsible for determining that we are not subject to the requirements of the Single Audit Act and OMB Circular No. A-133, because we have not received, expended, or otherwise been the beneficiary of the required amount of federal awards during the period of this audit.
13. We believe the implementation of GASB Statement Nos. 67, 69 and 70 is appropriate, and their effect, if any, is properly disclosed in the basic financial statements of the Water Works.
14. We have informed you of all uncorrected misstatements as of and for the year ended December 31, 2014. We believe that the effects of the uncorrected misstatements aggregated by you and summarized below are immaterial, both individually and in the aggregate to the basic financial statements. For purposes of this representation, we consider items to be material, regardless of their size, if they involve the misstatement or omission of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

Description	Debit (Credit)				
	Assets	Liabilities	Equity	Revenue	Expenses
Current year misstatements, factual errors:					
To capitalize interest on construction in progress	\$ 432,000	\$ -	\$ -	\$ -	\$ (432,000)
To adjust for capital contributions earned in a prior year	-	-	(2,054,000)	2,054,000	-
To adjust for interest income earned in a prior year	-	-	(467,000)	467,000	-
Subtotal net income effect	-	-	2,089,000	\$ 2,521,000	\$ (432,000)
<b>Total</b>	<b>\$ 432,000</b>	<b>\$ -</b>	<b>\$ (432,000)</b>		

*Information Provided*

15. We have provided you with:
  - a. Access to all information, of which we are aware that is relevant to the preparation and fair presentation of the financial statements such as records, documentation and other matters.
  - b. Additional information that you have requested from us for the purpose of the audits.

- c. Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
  - d. Minutes of the meetings of the governing board and committees, or summaries of actions of recent meetings for which minutes have not yet been prepared.
- 16. All transactions have been recorded in the accounting records and are reflected in the financial statements.
- 17. We have disclosed to you the results of our assessment of risk that the financial statements may be materially misstated as a result of fraud.
- 18. We have no knowledge of allegations of fraud or suspected fraud, affecting the Des Moines Water Works' financial statements involving:
  - a. Management.
  - b. Employees who have significant roles in the internal control.
  - c. Others where the fraud could have a material effect on the financial statements.
- 19. We have no knowledge of any allegations of fraud or suspected fraud affecting the Des Moines Water Works' financial statements received in communications from employees, former employees, analysts, regulators or others.
- 20. We have no knowledge of noncompliance or suspected noncompliance with laws and regulations whose effects were considered when preparing financial statements.
- 21. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.
- 22. We have disclosed to you the identity of the Des Moines Water Works' related parties and all the related-party relationships and transactions of which we are aware.
- 23. We have informed you of all significant deficiencies in the design or operation of internal controls that could adversely affect the Des Moines Water Works' ability to record, process, summarize, and report financial data.
- 24. We are aware of no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.

*Supplementary Information*

- 25. With respect to management's discussion and analysis, pension and postemployment information presented as required by the Governmental Accounting Standards Board to supplement the basic financial statements:
  - a. We acknowledge our responsibility for the presentation of such required supplementary information.
  - b. We believe such required supplementary information is measured and presented in accordance with guidelines prescribed by accounting principles generally accepted in the United States of America.
  - c. The methods of measurement or presentation have not changed from those used in the prior period.
  - d. When supplementary information is not presented with the audited financial statements, we will make the audited financial statements readily available to the intended users of the supplementary information no later than the date of the supplementary information and the auditor's report thereon.

*Compliance Considerations*

26. In connection with your audit, conducted in accordance with *Government Auditing Standards*, we confirm that management:
- a. Is responsible for compliance with the laws, regulations and provisions of contracts and grant agreements applicable to Des Moines Water Works.
  - b. Has identified and disclosed to the auditor all instances, that have occurred or are likely to have occurred, of fraud and noncompliance with provisions of laws and regulations that have a material effect on the financial statements or other financial data significant to the audit objectives, and any other instances that warrant the attention of those charged with governance.
  - c. Is unaware of any instances, that have occurred or are likely to have occurred, of noncompliance with provisions of contracts and grant agreements that have a material effect on the determination of financial statement amounts or other financial data significant to the audit objectives.
  - d. Is unaware of any instances that have occurred or are likely to have occurred of abuse that could be quantitatively or qualitatively material to the financial statements or other financial data significant to the audit objectives.
  - e. Is unaware of any fraud; noncompliance with provisions of laws, regulations, contracts, and grant agreements; or abuse that the auditor reports.
  - f. Has a process to track the status of audit findings and recommendations.
  - g. Has provided views on the auditor's reported findings, conclusions, and recommendations, as well as management's planned corrective actions, for the report.
27. During the course of your audits, you may have accumulated records containing data that should be reflected in our books and records. All such data have been so reflected. Accordingly, copies of such records in your possession are no longer needed by us.

**Des Moines Water Works**

William Stowe,  
Chief Executive Officer

  
Peggy Freese  
Chief Financial Officer

  
Michelle Holland  
Controller

June 9, 2015

McGladrey LLP  
400 Locust Street  
Suite 640  
Des Moines, Iowa

This representation letter is provided in connection with your audits of the statements of cash receipts and disbursements (financial statements) of the Board of Water Works Trustees, Billing and Collection Agent for the Sewer Service, Solid Waste Collection and Storm Water Management Charges for the City of Des Moines, Iowa (the Agent) for the years ended December 31, 2014 and 2013, and the related notes to the financial statements, for the purpose of expressing an opinion on whether the financial statements are presented fairly, in all material respects, in accordance with the cash basis of accounting described in Note 2 to the financial statements.

We confirm, to the best of our knowledge and belief, as of June 9, 2015:

*Financial Statements*

1. The financial statements referred to above are prepared on the cash basis of accounting as described in Note 2 to the financial statements (hereafter "cash basis of accounting"), which is a basis of accounting other than accounting principles generally accepted in the United States of America.
2. We have fulfilled our responsibilities, as set out in the terms of the audit arrangement letter dated January 13, 2015, for the preparation and fair presentation of the financial statements referred to above in accordance with the cash basis of accounting.
3. We acknowledge our responsibility for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.
4. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.
5. There are no events subsequent to the date of the financial statements for which disclosure is necessary for fair presentation.
6. There are no known actual or possible litigation or claims to be accounted for in accordance with the cash basis of accounting.
7. We have complied with all aspects of contractual agreements with the City of Des Moines, Iowa, that could have a material effect on the financial statements in the event of noncompliance.
8. We have no knowledge of any uncorrected misstatements in the financial statements.

*Information Provided*

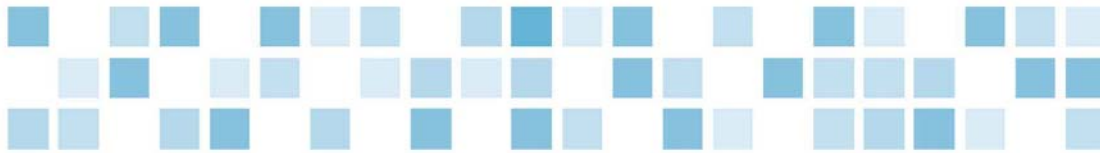
9. We have provided you with:
  - a. Access to all information, of which we are aware that is relevant to the preparation and fair presentation of the financial statements such as records, documentation and other matters.
  - b. Additional information that you have requested from us for the purpose of the audits.
  - c. Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
10. There are no minutes of the meetings of stockholders, directors and committees of directors, or summaries of actions of recent meetings for which minutes have not yet been prepared, other than those of the Des Moines Water Works' minutes which have been provided.
11. All transactions have been recorded in the accounting records and are reflected in the financial statements.
12. We have disclosed to you the results of our assessment of risk that the financial statements may be materially misstated as a result of fraud.
13. We have no knowledge of allegations of fraud or suspected fraud, affecting the Agent's financial statements involving:
  - a. Management.
  - b. Employees who have significant roles in the internal control.
  - c. Others where the fraud could have a material effect on the financial statements.
14. We have no knowledge of any allegations of fraud or suspected fraud affecting the Agent's financial statements received in communications from employees, former employees, regulators or others.
15. We have no knowledge of noncompliance or suspected noncompliance with laws and regulations whose effects should be considered when preparing financial statements.
16. We are not aware of any pending or threatened litigation and claims whose effects should be considered when preparing the financial statements and we have not consulted legal counsel concerning litigation or claims.
17. We are aware of no significant deficiencies, including material weaknesses, in the design or operation of internal controls that could adversely affect the Agent's ability to record, process, summarize and report financial data.
18. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
19. During the course of your audits, you may have accumulated records containing data which should be reflected in our books and records. All such data have been so reflected. Accordingly, copies of such records in your possession are no longer needed by us.

**Des Moines Water Works**

  
William Stowe, Chief Executive Officer

  
Michelle Holland, Controller

  
Peggy Freese, Chief Financial Officer



## Cyber Security

For years, experts have warned about increasing risks to business due to cyber attacks, and 2014 was the year the issue exploded into public view after a number of prominent companies reported significant data breaches. Due to this heightened risk, it's more important than ever for companies to evaluate key threats to information security:

- Cyber attacks can be facilitated in part by social engineering in which the attackers trick employees into providing the attackers with information or access, or even unknowingly assist an attacker by downloading malicious software. Annual security awareness training, ongoing security awareness reminders and periodic mock social engineering attacks are the primary means of defending against such attacks.
  - Cyber attackers are not only seeking credit cards and bank accounts, but also intellectual property (IP), which can take many forms including confidential customer information, manufacturing designs, purchasing information, and other trade secrets. It is important to know where IP is stored and who has access to it so that you can design and implement specific security controls.
  - In today's environment, it is common business practice to have trusted vendors that have access to various systems and applications.
- Examples include an HVAC vendor that may need to access systems to monitor their performance, or a contract payroll management provider that accesses the business network for payroll processing information. A rigorous vendor management program is needed to effectively manage third-party access so as to limit the risk that a third party can compromise your systems or data.
- Not too long ago, businesses would focus completely on preventative controls to attempt to prevent cyber attackers from compromising systems. Today it is important to also implement detective controls, such as security monitoring, which is meant to identify potential issues, and corrective controls for use when incidents do occur. Examples of corrective controls include incident response plans and having forensics specialists on retainer. If we plan for a security "failure," we can "fail" gracefully, minimize damage and recover quickly.

McGladrey is available to help if needed in any of the above areas as well as other cyber defense services. The firm has been offering these services since the mid 1990s and continues to provide high-quality innovative security and privacy protection services.

800.274.3978  
[www.mcgladrey.com](http://www.mcgladrey.com)

McGladrey LLP is the U.S. member firm of RSM International, a global network of independent accounting, tax and consulting firms.

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**Exhibit B—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***





**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**

**Independent Auditor's Report**

Board of Water Works Trustees  
Des Moines Water Works  
Des Moines, Iowa

We have audited, in accordance with the 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, the financial statements of the business-type activities and fiduciary fund of the Des Moines Water Works (Water Works) as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the Water Works' basic financial statements, and have issued our report thereon dated June 9, 2015. Our report includes a reference to the Water Works' adoption of GASB Statement No. 67, *Financial Reporting for Pension Plans – an Amendment of GASB Statement No. 25*. The financial statements of the Water Works' pension trust fund were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with the pension trust fund.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Water Works' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Water Works' internal control. Accordingly, we do not express an opinion on the effectiveness of the Water Works' internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a deficiency in internal control, described in the accompanying schedule of findings and responses as item 2014-001 that we consider to be a significant deficiency.

## **Compliance and Other Matters**

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

## **Des Moines Water Works' Response to Findings**

The Water Works' response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The Water Works' response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*McGladrey LLP*

Des Moines, Iowa  
June 9, 2015

## Des Moines Water Works

### Schedule of Findings and Responses Year Ended December 31, 2014

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#### Findings Relating to the Financial Statement Audit as Reported in Accordance with *Government Auditing Standards*

##### Significant Deficiencies in Internal Control

###### 2014-001

Finding: The Water Works improperly recorded one capital contribution related to a cost sharing project on the cash receipts basis, which is not in accordance with accounting principles generally accepted in the United States of America (US GAAP). Management properly monitored and tracked the project costs and the amounts due from the other participating City contributing to the shared project, however recorded revenue in the financial statements as cash was received according to the payment schedule identified in the agreement. US GAAP requires contribution revenue to be recognized in the financial statements as it is earned (i.e. as eligible project costs are incurred by the Water Works).

Condition and context: Capital contribution revenue and the corresponding interest income related to a cost sharing project to build a water facility under a 28E agreement was not properly recognized as earned, resulting in an approximate \$2,521,000 overstatement of nonoperating revenues in the current year (\$467,000 related to interest income and \$2,054,000 related to capital contributions). The Water Works performed the majority of the construction on this shared project in 2009, and therefore this contribution revenue and corresponding receivable was earned and should have been recorded at that time. The unique terms of this specific 28E agreement however, identified a cash payment schedule for the participating City, which is consistent with how management recorded the revenue in the financial statements.

Criteria: A financial reporting system includes appropriate policies and procedures to provide reasonable assurance that all unusual and unique agreements are accounted for in accordance with accounting principles generally accepted in the United States of America.

Cause: The payment terms identified in this particular 28E agreement were unique in that other agreements have not historically established long-term payment schedules. Management properly monitored and tracked the project's progression, however due to an oversight, the contribution revenue and corresponding interest income was recorded based on the payment terms of the agreement versus the accrual basis of accounting required by US GAAP.

Effect: Contribution revenue is overstated in the current year financial statements by a significant dollar amount, which is considered more than inconsequential to the financial statements.

Recommendation: Water Works should implement processes and controls to ensure that ongoing and future cost sharing projects and other unique arrangements are considered for accrual based accounting, based on the economic substance of the agreement.

Response and corrective action plan: The accounting team will continue to review 28E agreements for unique terms and conditions to ensure they are recorded in the economic substance of the agreement properly.



**Board of Water Works Trustees,  
Billing and Collection Agent for the  
Sewer Service Charges for the  
City of Des Moines, Iowa**

Statements of Cash Receipts and Disbursements  
For the Years Ended December 31, 2014 and 2013  
(With Independent Auditor's Report Thereon)



## Independent Auditor's Report

Board of Water Works Trustees,  
Billing and Collection Agent for the  
Sewer Service Charges for the  
City of Des Moines, Iowa

### **Report on the Financial Statements**

We have audited the accompanying statements of cash receipts and disbursements of Board of Water Works Trustees, Billing and Collection Agent for the Sewer Service Charges for the City of Des Moines, Iowa (the Agent), for the years ended December 31, 2014 and 2013, and the related notes (the financial statements).

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the cash basis of accounting described in Note 2; this includes determining that the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that is free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on the financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

### ***Opinion***

In our opinion, the financial statements referred to above presents fairly, in all material respects, the cash receipts and disbursements of the Agent for the years ended December 31, 2014 and 2013, in accordance with the cash basis of accounting described in Note 2.

**Emphasis of Matter**

As described in Note 1, the financial statements were prepared for the purpose of complying with a contractual agreement with the City of Des Moines, Iowa. The statements do not purport to, and do not present fairly the financial position of the Board of Water Works Trustees or the Des Moines Water Works as of December 31, 2014 and 2013, 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.

**Basis of Accounting**

We draw attention to Note 2 to the financial statements, which describes the basis of accounting. The financial statements are prepared on the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

*McGladrey LLP*

Des Moines, Iowa  
June 9, 2015

**Board of Water Works Trustees, Billing and Collection Agent  
For the Sewer Service Charges for the City of Des Moines, Iowa**

**Statements of Cash Receipts and Disbursements  
For the Years Ended December 31, 2014 and 2013**

	<b>2014</b>	2013
Cash receipts, sewer service charges	<u><b>\$ 34,718,015</b></u>	<u>\$ 32,112,816</u>
Cash disbursements:		
Remittances to the City of Des Moines	<b>34,372,023</b>	31,777,659
Billing and collection services	<b>365,675</b>	364,421
<b>Total disbursements</b>	<u><b>34,737,698</b></u>	<u>32,142,080</u>
<b>Receipts (under) disbursements</b>	<b>(19,683)</b>	(29,264)
Cash balance, beginning of year	<b>276,172</b>	305,436
Cash balance, end of year	<u><b>\$ 256,489</b></u>	<u>\$ 276,172</u>

See Notes to Statements of Cash Receipts and Disbursements.



**Board of Water Works Trustees, Billing and Collection Agent  
For the Sewer Service Charges for the City of Des Moines, Iowa**

**Notes to Statements of Cash Receipts and Disbursements**

---

**Note 1. Reporting Entity and Nature of Business**

The statements of cash receipts and disbursements included in this report reflect only the cash receipts and disbursements related to the agreement with the Des Moines Water Works and the City of Des Moines, Iowa for billing and collection agent service charges for sewer.

The Des Moines Water Works serves as the billing and collection agent for the sewer service charges for the City of Des Moines, Iowa. Billings are prepared monthly in conjunction with water bills and are billed subsequent to the service period covered.

**Note 2. Basis of Accounting**

These statements are prepared on the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America; therefore, uncollected billings for sewer service charges of \$2,600,965 and \$2,266,692 as of December 31, 2014 and 2013, respectively, are not reflected in the statements of cash receipts and disbursements.



**Board of Water Works Trustees,  
Billing and Collection Agent for the  
Solid Waste Collection Charges for the  
City of Des Moines, Iowa**

Statements of Cash Receipts and Disbursements  
For the Years Ended December 31, 2014 and 2013  
(With Independent Auditor's Report Thereon)



## Independent Auditor's Report

Board of Water Works Trustees,  
Billing and Collection Agent for the  
Solid Waste Collection Charges for the  
City of Des Moines, Iowa

### Report on the Financial Statements

We have audited the accompanying statements of cash receipts and disbursements of Board of Water Works Trustees, Billing and Collection Agent for the Solid Waste Collection Charges for the City of Des Moines, Iowa (the Agent), for the years ended December 31, 2014 and 2013, and the related notes (the financial statements).

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the cash basis of accounting described in Note 2; this includes determining that the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that is free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on the financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

### *Opinion*

In our opinion, the financial statements referred to above presents fairly, in all material respects, the cash receipts and disbursements of the Agent for the years ended December 31, 2014 and 2013, in accordance with the cash basis of accounting described in Note 2.

**Emphasis of Matter**

As described in Note 1, the financial statements were prepared for the purpose of complying with a contractual agreement with the City of Des Moines, Iowa. The statements do not purport to, and do not present fairly the financial position of the Board of Water Works Trustees or the Des Moines Water Works as of December 31, 2014 and 2013, 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.

**Basis of Accounting**

We draw attention to Note 2 to the financial statements, which describes the basis of accounting. The financial statements are prepared on the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

The image shows a handwritten signature in cursive script that reads "McGladrey LLP". The signature is written in black ink and is positioned above the typed name and date.

Des Moines, Iowa  
June 9, 2015

**Board of Water Works Trustees, Billing and Collection Agent  
For the Solid Waste Collection Charges for the City of Des Moines, Iowa**

**Statements of Cash Receipts and Disbursements  
For the Years Ended December 31, 2014 and 2013**

	<b>2014</b>	2013
Cash receipts, solid waste collection charges	<u><b>\$ 10,819,578</b></u>	<u>\$ 10,599,613</u>
Cash disbursements:		
Remittances to the City of Des Moines	<b>10,499,603</b>	10,276,789
Billing and collection services	<b>343,509</b>	342,629
<b>Total disbursements</b>	<u><b>10,843,112</b></u>	<u>10,619,418</u>
<b>Receipts (under) disbursements</b>	<b>(23,534)</b>	(19,805)
Cash balance, beginning of year	<b>98,053</b>	117,858
Cash balance, end of year	<u><b>\$ 74,519</b></u>	<u>\$ 98,053</u>

See Notes to Statements of Cash Receipts and Disbursements.

**Board of Water Works Trustees, Billing and Collection Agent  
For the Solid Waste Collection Charges for the City of Des Moines, Iowa**

**Notes to Statements of Cash Receipts and Disbursements**

---

**Note 1. Reporting Entity and Nature of Business**

The statements of cash receipts and disbursements included in this report reflect only the cash receipts and disbursements related to the agreement with the Des Moines Water Works and the City of Des Moines, Iowa for billing and collection agent service charges for solid waste collection (which includes yard waste).

The Des Moines Water Works serves as the billing and collection agent for the solid waste collection charges for the City of Des Moines, Iowa. Billings are prepared monthly in conjunction with water bills and are billed in advance of the service period covered.

**Note 2. Basis of Accounting**

These statements are prepared on the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America; therefore, uncollected billings for solid waste collection charges of \$941,273 and \$982,809 as of December 31, 2014 and 2013, respectively, are not reflected in the statements of cash receipts and disbursements.





**Board of Water Works Trustees,  
Billing and Collection Agent for the  
Storm Water Management Charges for  
the City of Des Moines, Iowa**

Statements of Cash Receipts and Disbursements  
For the Years Ended December 31, 2014 and 2013  
(With Independent Auditor's Report Thereon)



## Independent Auditor's Report

Board of Water Works Trustees,  
Billing and Collection Agent for the  
Storm Water Management Charges for the  
City of Des Moines, Iowa

### **Report on the Financial Statements**

We have audited the accompanying statements of cash receipts and disbursements of Board of Water Works Trustees, Billing and Collection Agent for the Storm Water Management Charges for the City of Des Moines, Iowa (the Agent), for the years ended December 31, 2014 and 2013, and the related notes (the financial statements).

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the cash basis of accounting described in Note 2; this includes determining that the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that is free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on the financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

### ***Opinion***

In our opinion, the financial statements referred to above presents fairly, in all material respects, the cash receipts and disbursements of the Agent for the years ended December 31, 2014 and 2013, in accordance with the cash basis of accounting described in Note 2.

***Emphasis of Matter***

As described in Note 1, the financial statements were prepared for the purpose of complying with a contractual agreement with the City of Des Moines, Iowa. The statements do not purport to, and do not present fairly the financial position of the Board of Water Works Trustees or the Des Moines Water Works as of December 31, 2014 and 2013, 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.

**Basis of Accounting**

We draw attention to Note 2 to the financial statements, which describes the basis of accounting. The financial statements are prepared on the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

*McGladrey LLP*

Des Moines, Iowa  
June 9, 2015

**Board of Water Works Trustees, Billing and Collection Agent  
For the Storm Water Management Charges for the City of Des Moines, Iowa**

**Statements of Cash Receipts and Disbursements  
For the Years Ended December 31, 2014 and 2013**

	<b>2014</b>	2013
Cash receipts, storm water management charges	<u>\$ 19,452,080</u>	<u>\$ 18,351,029</u>
Cash disbursements:		
Remittances to the City of Des Moines	19,102,492	17,994,640
Billing and collection services	<u>369,947</u>	<u>368,802</u>
<b>Total disbursements</b>	<u>19,472,439</u>	<u>18,363,442</u>
<b>Receipts (under) disbursements</b>	<b>(20,359)</b>	<b>(12,413)</b>
Cash balance, beginning of year	182,187	194,600
Cash balance, end of year	<u><u>\$ 161,828</u></u>	<u><u>\$ 182,187</u></u>

See Notes to Statements of Cash Receipts and Disbursements.

**Board of Water Works Trustees, Billing and Collection Agent  
For the Storm Water Management Charges for the City of Des Moines, Iowa**

**Notes to Statements of Cash Receipts and Disbursements**

---

**Note 1. Reporting Entity and Nature of Business**

The statements of cash receipts and disbursements included in this report reflect only the cash receipts and disbursements related to the agreement with the Des Moines Water Works and the City of Des Moines, Iowa for billing and collection agent service charges for storm water.

The Des Moines Water Works serves as the billing and collection agent for the storm water management charges for the City of Des Moines, Iowa. Billings are prepared monthly in conjunction with water bills and are billed subsequent to the service period covered.

**Note 2. Basis of Accounting**

These statements are prepared on the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America; therefore, uncollected billings for storm water management charges of \$1,661,007 and \$1,405,268 as of December 31, 2014 and 2013, respectively, are not reflected in the statements of cash receipts and disbursements.

