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Des Moines Water Works

Financial Report
December 31, 2015

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Independent Auditor's Report

RSM US LLP

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 year ended December 31, 2015, 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 audit. We conducted our audit 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, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter
As explained in Note 5, the Water Works adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, which restated beginning net position of the business-type activities to record the net pension liability and deferred outflows and inflows of resources. Our opinion is not modified with respect to this matter.

Other Matters
Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 8, other postemployment benefit plan schedules on page 43 and pension plan schedules on pages 44 through 48, 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.

RSM US LLP

Des Moines, Iowa
June 14, 2016

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 year ended December 31, 2015. 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.

Water Works operates three surface-water treatment plants for the benefit of roughly 500,000 central Iowans. The source waters for these plants include the Raccoon River, the Des Moines River, and ground water sources that are under the direct influence of each of these rivers. Additionally, a number of off-river storage sites are used that allow water from the Raccoon River to be momentarily stored in ponds, lakes, and reservoirs. These sources are used to provide adequate supply to our customers in a manner that balances the factors of finished water quality, overall treatment expense, and regulatory compliance.

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 208 full-time and 15 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 2015, operating revenues of $54,002,598 increased 5.1 percent from 2014 while operating expenses increased by 7.14 percent to $49,628,430 over 2014.
- During the year, Water Works had operating income of $4,374,168 and change in net position of $9,940,622.
- Water Works' net position increased as a result of operations. As of December 31, 2015, total assets were $324,458,386; total liabilities were $81,405,978; deferred outflows of resources were $15,317,352, deferred inflows of resources were $2,488,452; resulting in net position of $255,881,308.

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.

Water Works implemented GASB Statement No. 68 for the year ended December 31, 2015. This required net position at the beginning of the year to be restated by $3,179,659. The 2014 amounts presented in management's discussion and analysis have not been restated for this GASB implementation.

Condensed Statement of Net Position Information

	2015 (as restated)	2014 (not restated)	% Change 2014 to 2015
Current assets	$ 14,746,563	$ 12,020,787	22.68%
Capital assets, net	296,743,696	282,879,662	4.90
Other noncurrent assets	12,968,127	22,654,530	(42.76)
Total assets	324,458,386	317,554,979	2.17
Deferred outflow of resources	15,317,352	2,352,487	551.11
Current liabilities	17,665,290	17,131,218	3.12
Other noncurrent liabilities	29,591,655	13,720,198	115.68
Long-term debt, net	34,149,033	39,935,705	(14.49)
Total liabilities	81,405,978	70,787,121	15.00
Deferred inflows of resources	2,488,452	-	
Net investment in capital assets	259,124,418	240,064,444	7.94
Restricted	7,934,076	15,013,794	(47.15)
Unrestricted	(11,177,186)	(5,957,893)	87.60
Total net position	$ 255,881,308	$ 249,120,345	2.71

Condensed Revenues, Expenses and Changes in Net Position

	2015 (as restated)	2014 (not restated)	% Change 2014 to 2015
Water sales	$ 47,987,441	$ 45,592,311	5.25%
Billing and collection services	1,442,948	1,340,939	7.61
Connection fees	1,002,826	638,637	57.03
Purchased capacity	1,265,277	1,276,299	(0.86)
Other sales and services	2,304,106	2,534,595	(9.09)
Total operating revenues	54,002,598	51,382,781	5.10
Investment income	34,370	487,631	(92.95)
Other	224,743	199,318	12.76
Capital contributions	6,439,779	4,009,473	60.61
Gain (loss) on sale of fixed assets	36,000	7,166	402.37
Total revenues	60,737,490	56,086,369	8.29
Labor and benefits	22,173,453	19,195,280	15.52
Chemicals and power	4,637,527	4,254,259	9.01
Utilities	2,536,021	2,714,512	(6.58)
Corporate Insurance	1,595,736	764,890	108.62
Purchased services	5,893,788	7,282,994	(19.07)
Materials, supplies and equipment	3,557,085	3,474,926	2.36
Depreciation	8,845,042	8,218,775	7.62
Other	389,778	416,529	(6.42)
Total operating expenses	49,628,430	46,322,165	7.14
Interest expense	1,168,438	1,297,437	(9.94)
Total expenses	50,796,868	47,619,602	6.67
Change in net position	9,940,622	8,466,767	17.41
Net position, beginning of year	245,940,686	240,653,578	2.20
Net position, end of year	$ 255,881,308	$ 249,120,345	2.71

Financial Analysis

Year ended December 31, 2015: Current assets increased 22.68 percent. This is primarily due to receivables from wholesale customers for capital projects being built by DMWW. The first project is an ASR well, well pump, well house and piping being built in the southwestern part of our service area. This will serve the City of West Des Moines and is fully funded by the City of West Des Moines and West Des Moines Water Works. The second project is a joint project with the City of Johnston to design and construct a feeder main from the Saylorville Water Treatment Plant to increase flow to customers in the City of Johnston.

Other lines in the current assets section include cash, accounts receivable, inventory, and prepaid expenses. These accounts fluctuate from year to year and have fairly minor changes from 2014 to 2015.

Other noncurrent assets decreased 42.76 percent. Purchased capacity funds were drawn down to reimburse the Water Works for projects benefitting the core network. Additionally, operating reserves were reduced because of a revenue shortfall due to lower than budgeted consumption in 2015.

Deferred outflows of resources increased nearly $13,000,000. Water Works implemented GASB Statement No. 68 for the year ended December 31, 2015. This requires recognizing deferred outflows/inflows of resources for pension plans. The deferred outflows show the effects of actuarial differences, changes in assumptions, and differences between actual and projected earnings on plan investments. For the DMWW Pension Plan, the net deferred outflows of resources booked in 2015 is nearly $3,300,000. For IPERS, the balance as of December 31, 2015 is approximately $10,100,000. Offsetting the increase in deferred pension outflows is the amortization of the difference between the reacquisition price and the net carrying amount of the 2006 bonds which were advanced refunded in 2012.

Current liabilities increased 3.12 percent. The primary drivers are the increase in construction payables at the end of the year along with a reserve being established for workers' compensation claims. Offsetting the increases is a lower balance in accounts payable as of December 31, 2015 which is merely due to timing of invoice receipts and issuing payable checks. The balance in accounts payable can vary widely based on the timing of payments at the end of the year.

Noncurrent liabilities increased nearly $16,000,000. Another requirement of GASB Statement No. 68 is recognizing a net pension liability for the difference between the total pension liability and fiduciary net position. The net pension liability booked for the DMWW Pension Plan is approximately $5,600,000 while the net pension liability for IPERS is approximately $10,700,000. Other noncurrent liabilities include unearned revenue being amortized over a period of 10 to 20 years and the liability for other postretirement benefits. This shows the liability for providing health care benefits to retirees of Des Moines Water Works.

Long-term debt decreased 14.49 percent in 2015 due to the reclassification of $5,406,000 of the scheduled 2016 debt service payments to short-term liabilities.

Deferred inflows of resources is a new line on the Water Works' financial statements in 2015 due to the implementation of GASB Statement No. 68. This requires recognizing deferred outflows/inflows of resources for pension plans. The deferred inflows show the effects of actuarial differences, changes in assumptions, and differences between actual and projected earnings on plan investments. For December 31, 2015, the amount is nearly $2,500,000 relating to IPERS.

Water sales were up 5.25 percent in 2015. Consumption was relatively flat compared to 2014 but the moderate rate increase in 2015 contributed to the overall increase in sales revenue.

Revenue for billing and collection services was up 7.61 percent due to changing the methodology for billing and collecting for City of Des Moines' services. It is now based on a percentage of collections rather than a per bill fee.

Connection fees were up 57.03 percent compared to 2014. 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 2014. 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 9.09 percent in 2015. Included in this line are numerous revenue items in the utility including reconnect fees, credit card convenience fees, stop box repairs, distribution system repairs, operating and maintenance costs for shared-use facilities, lab testing, etc.

Operating labor and benefits increased 15.52 percent. There were modest increases due to wage rate increases and increased expenses for employer paid medical insurance premiums. The biggest driver of the increase is related to implementing GASB Statement No. 68 to not only recognize contributions to the DMWW pension plan and IPERS but includes expenses for amortizing the net effect of change in proportion and differences between entity contributions and proportionate share of contributions.

Chemical expenses were up 9.01 percent in 2015. Chemical prices saw modest increases while continued raw water quality and treatment plant allocations adversely affected costs as well.

Utilities expense is down 6.58 percent from 2014. Energy costs for the three treatment plants were the biggest driver of the decrease.

Corporate insurance increased $800,000. This increase is related to workers' compensation claims paid in 2015 as well as setting up a reserve for future expenses on existing claims. The Water works became self-insured for workers' compensation insurance in 2014 and also maintains a stop loss policy for workers compensation claims over $500,000.

Purchased services decreased by 19.07 percent compared to 2014. This equates to nearly $1.4 million. The main driver of this decrease is the lime residual removal at the McMullen Treatment Plant. Water Works changed contractors in 2015 and also the timing of payments to the contractor. At the McMullen Treatment Plant, the contractor moves the residuals to a holding area and then is paid once the residuals are applied offsite by end-users. Additionally, the number of main breaks in 2015 was low compared to a record high year in 2014. The need for contractors to repair main breaks and restore street holes was not needed in 2015 as it was in 2014. Offsetting these decreases to purchased services is an increase for legal fees relating to the nitrate lawsuit.

Materials, supplies and equipment increased by 2.36 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 decreased 6.42 percent. This includes costs for casualty losses from damages due to main breaks, bad debt write-off, and utility-wide training.

Investment income decreased $453,000. This not only includes investment income, but also accounts for the unrealized gain/loss and truing up of accrued interest. In 2014, Water Works recognized interest received from the City of Altoona for their share of the joint eastside tower project.

Interest expense decreased nearly 10 percent due to decreasing interest payments on outstanding debt.

Capital contributions were $6.4 million in 2015. This is an increase of $2.4 million over 2014. Water Works recognized $1.9 million from the City of West Des Moines and West Des Moines Water Works for the ASR well being built for the benefit of West Des Moines. Contributions of $1.2 million from the City of Johnston were recognized for their portion of the joint feeder main project from the Saylorville Water Treatment Plant. And finally, $3.1 million was recognized for water mains conveyed by contractors for new development in the Water Works' service areas. These contributions can fluctuate widely from year to year.

The aforementioned fluctuations result in an overall increase in net position of 4.04 percent, the result of a 5.10 percent increase in operating revenues and an increase in operating expenses of 3.88 percent.

Capital Assets and Debt Administration

During 2015, net capital assets increased $13,864,034 or 4.90 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 $34,149,033 as of December 31, 2015. The decrease of $5.8 million 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 2015.

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

Statement of Net Position
December 31, 2015

Assets	
Current assets:	
Cash	$ 2,669,230
Restricted assets, cash	606,667
Accounts receivable:	
Billed	3,933,455
Unbilled	1,621,854
Due from other governments	2,223,629
Other receivables	191,593
Inventory, materials and supplies	2,464,092
Prepaid expenses	1,036,043
Total current assets	14,746,563
Restricted assets, cash and investments:	
Cash	1,957,143
Water revenue bond reserve fund	5,376,933
Water revenue bond improvement fund	600,000
	7,934,076
Long-term investments:	
Investment in land	624,562
Board designated funds, investments	4,177,658
	4,802,220
Capital assets:	
Land	7,332,427
Construction-in-progress	10,952,276
Buildings, equipment and machinery	177,634,732
Supply system	54,829,851
Distribution system	209,698,918
	460,448,204
Accumulated depreciation	(163,704,508)
Capital assets, net	296,743,696
Other assets	231,831
Total assets	324,458,386
Deferred Outflow of Resources	
Deferred charge on refunding	1,956,778
Pension related amounts	13,360,574
	15,317,352

See notes to basic financial statements.

Liabilities	
Current liabilities:	
Accounts payable	$ 1,426,331
Accrued wages and benefits	814,142
Compensated absences	2,494,986
Unearned revenue	867,852
Special deposits	1,488,912
Construction payables	3,932,609
Water revenue bonds interest payable	90,069
Current portion of long-term debt, net	5,427,023
Fees collected for other entities	606,667
Workers' compensation claims payable	516,699
Total current liabilities	17,665,290
Noncurrent liabilities:	
Long-term debt, net, less current installments	34,149,033
Compensated absences, less current portion	880,466
Unearned revenue	6,039,031
Net pension liability	16,313,350
Other postemployment benefits liability	6,358,808
Total noncurrent liabilities	63,740,688
Total liabilities	81,405,978
Deferred inflows of resources, pension related amounts	2,488,452
Net position:	
Net investment in capital assets	259,124,418
Restricted (bond indentures)	7,934,076
Unrestricted (deficit)	(11,177,186)
Total net position	255,881,308
Total liabilities, deferred inflows of resources and net position	$ 339,775,738

Des Moines Water Works

Statement of Revenues, Expenses and Changes in Net Position
Year Ended December 31, 2015

Operating revenues:	
Water sales	$ 49,252,718
Other sales and services	3,747,054
Connection fees	1,002,826
Total operating revenues	54,002,598
Operating expenses:	
Labor	13,360,514
Group insurance	2,585,702
Retirement benefits (including social security)	6,227,237
Purchased services	5,893,788
Corporate insurance	1,595,736
Materials, supplies and equipment	3,557,085
Chemicals	4,637,527
Utilities	2,536,021
Depreciation	8,845,042
Other	389,778
Total operating expenses	49,628,430
Operating income	4,374,168
Nonoperating revenue (expense):	
Investment income	34,370
Interest and amortization expense	(1,168,438)
Land use income	222,660
Gain on sale of capital assets	36,000
Other	2,083
Total nonoperating (expense), net	(873,325)
Income before capital contributions	3,500,843
Capital contributions	6,439,779
Change in net position	9,940,622
Net position, beginning of year, as restated	245,940,686
Net position, end of year	$ 255,881,308

See notes to basic financial statements.

Des Moines Water Works

Statement of Cash Flows
Year Ended December 31, 2015

Cash flows from operating activities:	
Cash received from customers	$ 52,542,778
Cash paid to suppliers	(19,466,265)
Cash paid to employees and for payroll taxes	(19,366,323)
Net cash provided by operating activities	13,710,190
Cash flows from capital and related financing activities:	
Principal payments on long-term debt	(5,273,360)
Acquisition, construction and removal cost of capital assets	(18,158,529)
Contributions received	1,264,438
Interest paid	(1,232,898)
Net cash used in capital and related financing activities	(23,400,349)
Cash flows from investing activities:	
Proceeds from maturities of investments	18,564,705
Purchase of investments	(9,769,916)
Interest received	200,983
Land use income and other	224,743
Net cash provided by investing activities	9,220,515
Net (decrease) in cash	(469,644)
Cash, beginning of year	5,702,684
Cash, end of year	$ 5,233,040
Reconciliation of cash to the statements of net position:	
Cash	$ 2,669,230
Restricted assets, cash current	606,667
Restricted assets, cash long term	1,957,143
Total cash, end of year	$ 5,233,040

(Continued)

Des Moines Water Works

Statement of Cash Flows (Continued)
Year Ended December 31, 2015

Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$	4,374,168
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation		8,845,042
Change in:		
Accounts receivable, billed		(171,913)
Accounts receivable, unbilled		(21,657)
Other receivables		139,069
Inventory, materials and supplies		(253,823)
Prepaid expenses		(119,280)
Other assets		17,311
Accounts payable		(999,925)
Accrued wages and benefits and compensated absences		93,815
Pension related amounts		2,178,232
Other postemployment benefit liability		535,082
Unearned revenue		(1,417,768)
Special deposits		149,422
Fees collected for other entities		(154,284)
Other liabilities		516,699
Net cash provided by operating activities	$	13,710,190
Schedules of noncash capital and related financing activities:		
Acquisition of capital assets through conveyance of mains	$	3,115,216
Acquisition of capital assets through construction payables	$	1,270,068
Trade-in value towards assets purchased	$	36,000
Acquisition of capital assets through capital lease	$	129,265
Schedule of noncash investing activities, net depreciation of the fair value of investments	$	1,895

See notes to basic financial statements.

Des Moines Water Works
Pension Plan

Statement of Plan Net Position
December 31, 2015

Assets	
Investments, contracts with insurance companies, pooled separate accounts	$ 48,124,260
Liabilities	-
Net position held in trust for pension benefits	$ 48,124,260

See notes to basic financial statements.

Des Moines Water Works
Pension Plan

Statement of Changes in Plan Net Position
Year Ended December 31, 2015

Additions:	
Investment income (loss), net appreciation (depreciation) in the fair value of pooled separate accounts, interest and dividends	$ (607,906)
Employer contributions	911,175
Total additions	303,269
Deductions:	
Benefit payments	2,826,683
Administrative expenses	26,767
Total deductions	2,853,450
Net decrease	(2,550,181)
Net position held in trust for pension benefits:	
Beginning of year	50,674,441
End of year	$ 48,124,260

See notes to basic financial statements.

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 Water Works accounts for its activities as an enterprise fund. 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 amounts reported on the financial statements and accompanying notes. Actual results could differ from those estimates.

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, 2015 were in U.S. government or agency obligations and are stated at fair value, based on quoted market prices.

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

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.

Capital contributions: Water Works receives capital contributions under cost sharing arrangements made with area municipalities for capital projects and infrastructure improvements to the water system. These arrangements are formalized in 28E agreements executed and approved the Board of Water Works Trustees. Revenue is recorded for the shared portion of the costs as progress on the related projects is completed. Water Works also receives capital contributions when real estate developers convey constructed water mains. The mains are conveyed by the contractor who constructed them and are approved by the Board of Water Works Trustees. The Water Works records revenue upon conveyance of the mains at their estimated fair value, based on the cost it would have incurred to construct them internally.

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 $761,406 in 2015.

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 in 2015.

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 entities totaled $606,667 as of December 31, 2015. These fees have been reflected in Water Works' statement of net position and were remitted to the City, other political subdivisions and third party provider of the Water Works' service line protection program subsequent to year-end. Processing fees billed to those entities for billing and collection services provided by Water Works totaled approximately $1,443,000 in 2015. 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.

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 2015.

Net position: Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources 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, 2015, Water Works did not have unspent bond proceeds.

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.

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, 2015, Water Works had $6,906,883 of unearned revenue relating to contractual agreements and has recognized $1,417,768 of revenue during 2015.

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.

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

Deferred 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. Deferred outflows of resources for pension related amounts consist of unrecognized items not yet charged to pension expense and contributions from Water Works after the measurement date but before the end of Water Works' reporting period.

Deferred inflows of resources: Deferred inflows of resources represent an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time. Although certain revenues are measurable, they are not available. Available means collected in the current year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. The statement of net position includes pension related amounts as a deferred inflow of resources. The pension related amounts consist of the unamortized portion of the net difference between projected and actual earnings on pension plan investments.

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

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.

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.

Note 2. Cash and Investments (Continued)

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, 2015:

Type	Fair Value December 31, 2015	Within 3 Months	Within 6 Months	Within 9 Months	Within 12 Months	Over 12 Months
Federal Home Loan Bank	$ 3,334,353	$ 1,000,010	$ 803,848	$ 1,530,495	$ -	$ -
Federal Home Loan Mortgage Corp.	2,197,847	-	646,937	-	1,550,910	-
Federal National Mortgage Assoc.	2,594,341	-	467,409	1,323,220	803,712	-
Federal Farm Credit Bank	2,028,050	999,980	-	1,028,070	-	-
	$ 10,154,591	$ 1,999,990	$ 1,918,194	$ 3,881,785	$ 2,354,622	$ -

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, 2015. The land is recorded at the lower of cost or fair value at $624,562 as of December 31, 2015.

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, 2015, the Water Works' investments were rated as follows:

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
Federal Farm Credit Bank	AA+	N/A

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.

Note 2. Cash and Investments (Continued)

More than 5 percent of the Water Works' investments are in the following investments as of December 31, 2015:

Type	
Federal Home Loan Bank	32.84%
Federal Home Loan Mortgage Corp.	21.64
Federal National Mortgage Assoc.	25.55
Federal Farm Credit Bank	19.97

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, 2015 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 $5,674,958 and $5,233,040, respectively, as of December 31, 2015. Water Works' investments were not exposed to custodial credit risk as of December 31, 2015.

Pension Plan Deposits and Investments

Deposits: As of December 31, 2015, 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.

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	33%	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)	6	6.30	5.95
TIPS	1	4.10	3.90
Core Bond	39	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.

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, 2015, the Plan had investments listed in the table below. Amounts are shown in dollars. Effective duration is shown in years. Investments held by the Plan were not subject to custodial credit risk or foreign currency risk.

	Fair Value	Effective Duration
Fixed income investments:		
Principal Core Plus Bond I Account	$ 14,038,547	5.46
Principal Bond Market Index Account	4,765,078	5.70
Principal High Yield I Account	2,285,313	4.24
Total fixed income investments	21,088,938	
Other investments, non-fixed income investments	27,035,322	
Total investments	$ 48,124,260	

Note 2. Cash and Investments (Continued)

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.

Note 3. Capital Assets

Capital assets activity for the year ended December 31, 2015 is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	$ 6,885,639	$ 446,788	$ -	$ 7,332,427
Construction-in-progress	6,227,747	19,557,862	14,833,333	10,952,276
Total capital assets not being depreciated	13,113,386	20,004,650	14,833,333	18,284,703
Capital assets being depreciated:				
Buildings, equipment and machinery	172,823,889	5,025,828	214,985	177,634,732
Supply system	53,182,258	1,647,593	-	54,829,851
Distribution system	198,834,580	10,864,338	-	209,698,918
Total capital assets being depreciated	424,840,727	17,537,759	214,985	442,163,501
Less accumulated depreciation for:				
Buildings, equipment and machinery	82,583,155	4,833,894	214,985	87,202,064
Supply system	17,259,085	720,918	-	17,980,003
Distribution system	55,232,211	3,290,230	-	58,522,441
Total accumulated depreciation	155,074,451	8,845,042	214,985	163,704,508
Total capital assets being depreciated, net	269,766,276	8,692,717	-	278,458,993
Net capital assets	$ 282,879,662	$ 28,697,367	$ 14,833,333	$ 296,743,696

Note 4. Noncurrent Liabilities

As of December 31, 2015, 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.

Note 4. Noncurrent Liabilities (Continued)

Changes in long-term obligations for the year ended December 31, 2015 is as follows:

	Beginning Balance (as restated)	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Water Revenue Bonds:					
Series 2011	$ 4,205,000	$ -	$ 1,590,000	$ 2,615,000	$ 1,655,000
Series 2012 A & B	37,370,000	-	3,515,000	33,855,000	3,620,000
Water Revenue Capital,					
Series 2003	1,132,000	-	127,000	1,005,000	131,000
Unamortized Bond Premium	2,460,705	-	447,554	2,013,151	-
Net pension liability	6,853,542	9,459,808	-	16,313,350	-
Other postemployment benefits					
liability	5,823,726	732,999	197,917	6,358,808	-
Capital lease payable	-	129,265	41,360	87,905	21,023
Compensated absences	3,283,747	3,375,452	3,283,747	3,375,452	2,494,986
	$ 61,128,720	$ 13,697,524	$ 9,202,578	$ 65,623,666	$ 7,922,009

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
2016	3.00%	$ 1,655,000	$ 78,450	$ 1,733,450
2017	3.00	960,000	28,800	988,800
		$ 2,615,000	$ 107,250	$ 2,722,250

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
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	2.00	475,000	31,325	506,325
2021-2023	2.00 - 2.125	1,085,000	36,075	1,121,075
		$ 3,350,000	$ 283,000	$ 3,633,000

Note 4. Noncurrent Liabilities (Continued)

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
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	3.00	3,090,000	559,050	3,649,050
2021-2025	3.00	15,545,000	1,341,900	16,886,900
		$ 30,505,000	$ 5,019,900	$ 35,524,900

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
2016	1.75%	$ 131,000	$ 17,588	$ 148,588
2017	1.75	135,000	15,295	150,295
2018	1.75	139,000	12,932	151,932
2019	1.75	143,000	10,500	153,500
2020	1.75	148,000	7,998	155,998
2021-2022	1.75	309,000	8,155	317,155
		$ 1,005,000	$ 72,468	$ 1,077,468

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 $374,058,693 per occurrence on building and contents; in addition, liability insurance is maintained.

Note 4. Noncurrent Liabilities (Continued)

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 2015	Annual Payments as a Percentage of Net Revenues
Water Revenue Bonds:					
Series 2011	3/1/2011	2017	$ 2,722,250	$ 1,716,150	12.98%
Series 2012 A	10/30/2012	2023	3,633,000	505,725	3.83
Series 2012 B	10/30/2012	2025	35,524,900	4,092,700	30.96
Water Revenue Capital,					
Series 2003	4/16/2003	2022	1,077,468	146,810	1.11
			$ 42,957,618	$ 6,461,385	48.88%

Total customer net revenues were $13,219,208. Annual principal and interest payments on the bonds are approximately 49 percent of net revenues.

The Water Works has financed the acquisition of certain equipment by means of capital leases; therefore the leases were recorded at the inception date as a liability at the present value of the future minimum lease payments. The future minimum lease payments and the present value of the remaining minimum lease payments as of December 31, 2015 are as follows:

Maturing During Year Ending December 31:	Interest Rate	Total Annual Payment
2016	3.30%	$ 21,023
2017	3.30	21,023
2018	3.30	21,023
2019	3.30	21,023
2020	3.30	21,022
Total minimum lease payments		105,114
Less amount representing interest		17,209
Present value of future minimum lease payments		$ 87,905

Equipment as of December 31, 2015 includes the following assets under capital lease:

Equipment	$ 158,265
Less accumulated depreciation	(31,653)
Total	$ 126,612

Note 5. Retirement Plans

As a result of the adoption of GASB Statement Nos. 68 and 71, the beginning net position of the business-type activities was restated. The effect on beginning net position is as follows:

	Business-Type Activities
Net position December 31, 2014, as previously reported	$249,120,345
Restatement due to Water Works Pension Plan	
Net pension liability	(5,564,263)
Changes in attribution method and assumptions	3,904,400
Removal of net pension obligation	83,337
Restatement due to IPERS	
Net pension liability	(5,193,679)
Pension related deferred inflows	(1,980,720)
Pension related deferred outflows	5,571,266
Net position December 31, 2014, as restated	$245,940,686

Des Moines Water Works Pension Plan:

Plan description: 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.

Basis of accounting: The Plan records are maintained on the accrual basis of accounting. Employer contributions to the Plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits are recognized when due and payable in accordance with the terms of the Plan. 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. Interest income is recorded on the accrual 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. Benefits are recognized when due and payable in accordance with the terms of the Plan.

Note 5. Retirement Plans (Continued)

Membership data at December 31, 2015 included:

Active plan members	142
Inactive plan members entitled to but not yet receiving benefits	59
Disabled plan members entitled to but not yet receiving benefits	5
Retired plan members or beneficiaries currently receiving benefits	157
	363

Contributions: The Plan receives an annual actuarial valuation for the purpose of determining recommended contribution rates. The actuarially determined contribution rate is the estimated amount necessary to finance the costs of benefits earned by plan members during the year, with additional amounts to finance any unfunded accrued liability and plan administrative expenses. The Plan's funding policy provides for periodic employer contributions at rates that are sufficient to accumulate assets to pay benefits to Plan participants. Amounts contributed to the Plan from Water Works are determined by the Board of Trustees of Des Moines Water Works. However, as the Plan is exempt from ERISA funding requirements, any amount may be contributed to the Plan.

Rate of return: For the year ended December 31, 2015, the annual money weighted rate of return on Plan investments, net of investment expense was (1.27) percent. The money weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Net pension liability: The total pension liability was determined using an actuarial valuation date of December 31, 2015 using general accepted actuarial principals and methods. In 2015, Water Works adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions.* Water Works is utilizing December 31, 2015 as its measurement date for reporting its net pension liability and related deferred inflows/outflows in their financial statements.

Note 5. Retirement Plans (Continued)

A schedule of the Plan's changes in its net pension liability for the year ended December 31, 2015 is as follows:

Total pension liability	
Service cost	$ 580,106
Interest	3,342,170
Benefit payments	(2,826,683)
Difference between expected and actual experience	320,599
Net change in total pension liability	1,416,192
Total pension liability - beginning of year	52,334,304
Total pension liability - end of year	$ 53,750,496
Plan fiduciary net position	
Contributions - employer	$ 911,175
Investment income, net of investment expenses of $22,091	(629,997)
Benefit payments	(2,826,683)
Administrative expenses	(4,676)
Net change in plan fiduciary net position	(2,550,181)
Total plan fiduciary net position, beginning of year	50,674,441
Total plan fiduciary net position, end of year	$ 48,124,260
Net pension liability	$ 5,626,236
Plan fiduciary net position as a percentage of the total pension liability	89.53%

Note 5. Retirement Plans (Continued)

Actuarial assumptions for the year ended December 31, 2015 are as shown in the table below:

	December 31, 2015
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 - Attribution is made on an individual basis, beginning with the first period in which the employee's service accrues pension benefit through all assumed exit ages through retirement. The projected inflation rate of 2.5% has been used in place of the projected rate of change in salary.
Retirement age	Retirement Age Based Table as follows:

Age	Rate
55	25%
56	15
57 - 61	5
62	20
63	5
64	10
65 and older	100

Mortality	Adjusted RP-2014 Mortality with Scale MP-2015 - Generational MI scale, 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.

Discount rate: The discount rate used to measure the total pension liability was 6.50 percent. The plan's fiduciary net position and benefit payments were projected to determine if the plan's fiduciary net position was greater than or equal to the expected benefit payments for each period from 2015 to 2105. Benefit payments after 2105 are projected to be none. Therefore, the long-term expected rate of return on the pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Note 5. Retirement Plans (Continued)

Sensitivity of the Plan's net pension liability to changes in the discount rate: The following presents the Plan's net pension liability calculated using the single discount rate of 6.50 percent, as well as what the Plan's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.50 percent) or 1-percentage-point higher (7.50 percent) than the current rate.

1% Decrease (5.50%)	Current discount rate (6.50%)	1% Increase (7.50%)
$11,644,484	$5,626,236	$505,381

Pension expense and deferred outflows of resources related to pensions: For the year ended December 31, 2015, Water Works recognized pension expense for the Water Works Pension Plan of $1,580,041. At December 31, 2015, Water Works reported deferred outflows of resources related the Water Works Pension Plan from the following sources:

	Deferred Outflows of Resources
Differences between expected and actual plan experience	$ 220,412
Net differences between expected and actual investment income	3,077,095
Total deferred outflows of resources	$ 3,297,507

Amounts reported as Deferred Outflows of Resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	Deferred Outflows of Resources
2016	$ 869,461
2017	869,461
2018	789,312
2019	769,273
	$ 3,297,507

Deferred outflows of resources for differences between expected and actual plan experience will be recognized over a closed period equal to the average of the expected remaining service lives of all employees (active employees, vested, terminated, and retirees) as of the beginning of the measurement period. Deferred outflows of resources for differences between projected and actual earnings on pension plan investments will be recognized over a closed five-year period.

Note 5. Retirement Plans (Continued)

Iowa Public Employees' Retirement System:

Plan description: IPERS membership is mandatory for employees of the Water Works. Employees of the Water Works are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by Iowa Public Employees' Retirement System (IPERS). IPERS issues a stand-alone financial report which is available to the public by mail at 7401 Register Drive P.O. Box 9117, Des Moines, Iowa 50306-9117 or at www.ipers.og.

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

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

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

If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early-retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is .25 percent for each month that the member receives benefits before the member's earliest normal retirement age. For service earned starting July 1, 2012, the reduction is .50 percent for each month that the member receives benefits before age 65.

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

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

Note 5. Retirement Plans (Continued)

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

In fiscal year 2015, pursuant to the required rate, Regular members contributed 5.95 percent of pay and the Water Works contributed 8.93 percent for a total rate of 14.88 percent.

The Water Works' contributions to IPERS for the year ended December 31, 2015 were $1,404,619.

Pension liabilities, pension expense, and deferred outflows of resources and deferred inflows of resources related to pensions: At December 31, 2015, the Water Works reported a liability of $10,687,114 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Water Works' proportion of the net pension liability was based on the Water Works' share of contributions to the pension plan relative to the contributions of all participating governments. At June 30, 2015, the Water Works' proportion was 0.214970 percent, which was an increase of 0.086639 percent from its proportion measured as of June 30, 2014.

For the year ended December 31, 2015, the Water Works recognized pension expense of $3,582,851. At December 31, 2015, the Water Works reported deferred outflows of resources and deferred inflows of resources related to the IPERS pension from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual plan experience	$ 161,469	$ -
Changes of assumptions	294,243	-
Net difference between projected and actual investment earnings on pension plan investments	1,599,004	2,488,452
Changes in proportion and differences between Water Works contributions and proportionate share of contributions	7,332,170	-
Water Works contributions subsequent to the measurement date	676,181	-
	$ 10,063,067	$ 2,488,452

Note 5. Retirement Plans (Continued)

$676,181 reported as deferred outflows of resources related to pensions resulting from Water Works' contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

	Deferred Outflows of Resources	Deferred Inflows of Resources
2017	$ 2,503,489	$ (829,484)
2018	2,503,489	(829,484)
2019	2,503,489	(829,484)
2020	1,640,926	-
2021	235,493	-
	$ 9,386,886	$ (2,488,452)

Deferred outflows of resources for differences between expected and actual plan experience, changes in assumptions and changes in proportion will be recognized over a closed period equal to the average of the expected remaining service lives of all employees (active employees, vested, terminated and retirees) as of the beginning of the measurement period. Deferred outflows and inflows of resources for differences between projected and actual earnings on pension plan investments will be recognized over a closed five-year period.

Actuarial assumptions: The total pension liability was determined by an actuarial valuation as of June 30, 2015, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.00 percent
Salary increases	4.00 to 17.00 percent, including inflation. Rates vary by membership group
Long-term rate of return	7.50 percent compounded annually, net of investment expense and including inflation

Mortality rates were based on the RP-2000 Combined Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the four-year period ending June 30, 2013.

Note 5. Retirement Plans (Continued)

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Core-plus fixed income	28%	2.04%
Domestic equity	24	6.29
International equity	16	6.75
Private equity/debt	11	11.32
Real estate	8	3.48
Credit opportunities	5	3.63
U.S. TIPS	5	1.91
Other real assets	2	6.24
Cash	1	(0.71)
	100%	

Discount rate: The discount rate used to measure the total pension liability was 7.50 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from Water Works will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Water Works' proportionate share of the net pension liability to changes in the discount rate: The following presents the Water Works' proportionate share of the net pension liability calculated using the discount rate of 7.50 percent, as well as what the Water Works' proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50 percent) or 1-percentage-point higher (8.50 percent) than the current rate:

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Water Works proportionate share of the net pension liability	$ 18,711,215	$ 10,687,114	$ 3,914,198

Note 5. Retirement Plans (Continued)

Pension plan fiduciary net position: Detailed information about the pension plan's fiduciary net position is available in the separately issued IPERS financial report; which can be located at www.ipers.org.

Payables to the pension plan: At December 31, 2015, the Water Works reported payables to the defined benefit pension plan of $156,274 for legally required employer contributions and $104,124 for legally required employee contributions which had been withheld from employee wages but not yet remitted to IPERS.

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, 2015, 116 retirees 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.

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 2015, the Water Works contributed $197,917. Retirees receiving benefits contributed $90,478. The Water Works offered a choice of three health insurance plans in 2015. 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.

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 ending December 31, 2015, the amount actuarially contributed to the plan and changes in the Water Works' annual OPEB obligation:

Annual required contribution	$ 913,060
Interest on net OPEB obligation	227,386
Adjustment to annual required contribution	(407,447)
Annual OPEB cost (expense)	732,999
Contributions and payments made	197,917
Increase in net OPEB obligation	535,082
Net OPEB obligation - beginning of year	5,823,726
Net OPEB obligation - end of year	$ 6,358,808

Note 6. Other Postemployment Benefits (Continued)

The Water Works' annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligations for 2015, 2014 and 2013 follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
December 31, 2013	$ 1,016,213	17%	$ 4,999,673
December 31, 2014	999,391	18	5,823,726
December 31, 2015	732,999	27	6,358,808

Funded status and funding progress as of December 31, 2015: Postemployment Benefit Obligations under GASB Statement No. 45 calculated as of December 31, 2014, the most recent valuation date, is as follows:

	Total	Members
Actuarial Accrued Liability		
Current retirees, beneficiaries and dependents	$ (4,040,083)	76
Current active members	(9,879,267)	201
Total Actuarial Accrued Liability (AAL)	(13,919,350)	
OPEB Plan Assets	-	
Unfunded Actuarial Accrued Liability (UAAL)	(13,919,350)	

The covered payroll (annual payroll of active employees covered by the plan) for December 31, 2015 was $15,729,212. The ratio of the UAAL to the covered payroll for December 31, 2015 was 88.5 percent.

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, 2014 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 7.0 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 22 years remaining.

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.

The claims liability of $516,699 as of December 31, 2015 is based on the requirements of the Governmental Accounting Standards Board Statement No. 10, which requires that a liability for claims be reported if information indicates that it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an estimated amount for claims that have been incurred but not reported (IBNR) which represent estimates of the eventual loss on claims arising prior to year-end. Changes in the balance of claims liability during the year ended December 31, 2015 is as follows:

Unpaid claims, beginning of year	$	-
Current year claims and changes in estimates		809,515
Claim payments		(292,816)
Unpaid claims, end of year	$	516,699

Note 8. Commitments

Approximately $2,048,000 related to 2015 contracts has been formally committed as of December 31, 2015. In addition, the Board has approved approximately $22,200,000 of expenditures for capital acquisitions and improvements, all of which are expected to be expended in 2016.

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 in 2015.

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 year ended December 31, 2015, Water Works provided in-kind services valued at approximately $188,000. 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, 2015, the GASB also had issued several Statements not yet implemented by the Water Works.

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.

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, issued in June 2015, will be effective for the Water Works beginning with its fiscal year ending December 31, 2018. The Statement replaces the requirements of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* and requires governments to report a liability on the face of the financial statements for the OPEB they provide and outlines the reporting requirements by governments for defined benefit OPEB plans administered through a trust, cost-sharing OPEB plans administered through a trust and OPEB not provided through a trust. The Statement also requires governments to present more extensive note disclosures and required supplementary information about their OPEB liabilities. Some governments are legally responsible to make contributions directly to an OPEB plan or make benefit payments directly as OPEB comes due for employees of other governments. In certain circumstances, called special funding situations, the Statement requires these governments to recognize in their financial statements a share of the other government's net OPEB liability.

As a result of implementing this Statement, management will record a net OPEB liability on the financial statements for the plan. The actuarial accrued liability as of December 31, 2014, the most recent valuation date, was $13,919,350.

GASB Statement No. 82, *Pension Issues – An Amendment of GASB Statement Nos. 67, 68 and 73,* issued March 2016, will be effective for the Water Works beginning with its fiscal year ending December 31, 2018. This Statement clarifies that a deviation, as the term is used in Actuarial Standards of Practice issued by the Actuarial Standards Board, from the guidance in an Actuarial Standard of Practice is not considered to be in conformity with the requirements of Statement Nos. 67, 68 or 73 for the selection of assumptions used in determining the total pension liability and related measures. This Statement clarifies that payments that are made by an employer to satisfy contribution requirements that are identified by the pension plan terms as plan member contribution requirements should be classified as plan member contributions for purposes of Statement 67 and as employee contributions for purposes of Statement 68. It also requires that an employer's expense and expenditures for those amounts be recognized in the period for which the contribution is assessed and classified in the same manner as the employer classifies similar compensation other than pensions (for example, as salaries and wages or as fringe benefits).

The Water Works' management has not yet determined the effect this Statement will have on the Water Works' financial statements.

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]
2013	12/31/12	$ -	$ 13,341,003	$ (13,341,003)	- %	$ 14,701,939	90.7%
2014	12/31/12	-	13,341,003	(13,341,003)	-	14,786,455	90.2
2015	**12/31/14**	-	**13,919,350**	**(13,919,350)**	-	**15,729,212**	**88.5**

The information presented in the required supplementary schedule was determined as part of the actuarial valuation as of December 31, 2014.

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 7 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

Required Supplementary Information
Schedule of Changes in Net Pension Liability
For the Years Ended December 31, 2015 and 2014
Des Moines Water Works Pension Plan

	2015	2014
Total pension liability		
Service cost	$ 580,106	$ -
Interest	3,342,170	3,449,503
Benefit payments	(2,826,683)	(2,696,531)
Difference between expected and actual experience	320,599	305,961
Changes in assumptions	-	542,112
Net change in total pension liability	1,416,192	1,601,045
Total pension liability - beginning of year	52,334,304	54,637,659
Total pension liability - end of year	$ 53,750,496	$ 56,238,704
Plan fiduciary net position		
Contributions - employer	$ 911,175	$ 906,542
Investment income (loss), net of investment expenses of $22,091	(629,997)	2,680,610
Benefit payments	(2,826,683)	(2,696,531)
Administrative expenses	(4,676)	(4,442)
Net change in plan fiduciary net position	(2,550,181)	886,179
Total plan fiduciary net position, beginning of year	50,674,441	49,788,262
Total plan fiduciary net position, end of year	$ 48,124,260	$ 50,674,441
Net pension liability	$ 5,626,236	$ 5,564,263

Information for prior years is unavailable.

See note to required supplementary information.

Des Moines Water Works

Required Supplementary Information
Schedule of Net Pension Liability and Related Ratio
For the Years Ended December 31, 2015 and 2014
Des Moines Water Works Pension Plan

	2015	2014
Total pension liability - end of year	**$ 53,750,496**	$ 56,238,704
Plan net position - end of year	**48,124,260**	50,674,441
Net pension liability	**$ 5,626,236**	$ 5,564,263
Plan net position as a percentage of the total pension liability	**89.5%**	90.1%
Covered employee payroll	*	*
Net pension liability as a percentage of covered payroll	**N/A**	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 years ended December 31, 2015 and 2014.

Des Moines Water Works

Required Supplementary Information
Schedule of Investment Returns
For the Years Ended December 31, 2015 and 2014
Des Moines Water Works Pension Plan

	2015	2014
Annual money-weighted rate of return, net of investment expense	**(1.27)%**	5.51%

Information for prior years is unavailable.

See note to required supplementary information.

Des Moines Water Works

Required Supplementary Information
Schedule of Contributions from the Employer
Last Ten Fiscal Years
Des Moines Water Works Pension Plan

Plan Year Ended December 31:	Annual Required Contribution	Actual Contribution	Contribution Deficiency (Excess)	Covered Payroll	Actual Contributions as a Percent of Covered Payroll
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
2015	911,175	911,175	-	-	N/A

See note to required supplementary information.

Des Moines Water Works

Note to Required Supplementary Information
Des Moines Water Works Pension Plan

The information presented in the required supplementary schedule was determined as part of the actuarial valuations at the dates indicated below.

	December 31, 2015
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 - Attribution is made on an individual basis, beginning with the first period in which the employee's service accrues pension benefit through all assumed exit ages through retirement. The projected inflation rate of 2.5% has been used in place of the projected rate of change in salary.
Retirement age	Retirement Age Based Table as follows:

Age	Rate
55	25%
56	15
57 - 61	5
62	20
63	5
64	10
65 and older	100

Mortality	Adjusted RP-2014 Mortality with Scale MP-2015 - Generational MI scale, 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.

	December 31, 2014
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:

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

Required Supplementary Information
Schedule of the Water Work's Proportionate Share of the Net Pension Liability
Iowa Public Employees' Retirement System

	June 30: 2015	2014
Water Works' proportion of the net pension liability	0.214970%	0.128331%
Water Works' proportionate share of the net pension liability	$ 10,687,114	$ 5,193,679
Water Works' covered employee payroll	$ 14,819,686	$ 8,569,339
Water Work's proportionate share of the net pension liability as a percentage of its covered-employee payroll	72.11	60.61
Plan fiduciary net position as a percentage of the total pension liability	85.19%	87.61%

Information for prior years is unavailable.

Des Moines Water Works

Required Supplementary Information
Schedule of Contributions from the Employer
Last Ten Fiscal Years
Iowa Public Employees' Retirement System

Year Ended December 31:	Actuarially Determined Contribution	Actual Contribution	Contribution Deficiency (Excess)	Covered Payroll	Actual Contributions as a Percentage of Covered Payroll
2006	$ 35,795	$ 35,795	$ -	N/A	N/A
2007	45,385	45,382	-	N/A	N/A
2008	60,690	60,690	-	N/A	N/A
2009	76,391	76,391	-	N/A	N/A
2010	84,335	84,335	-	N/A	N/A
2011	97,335	97,335	-	N/A	N/A
2012	120,166	120,166	-	N/A	N/A
2013	189,059	189,059	-	N/A	N/A
2014	1,213,020	1,213,020	-	N/A	N/A
2015	1,351,595	1,351,595	-	15,134,416	8.93%

RSM