Des Moines Water Works

Water You Can Trust for Life

DES MOINES WATER WORKS
Board of Water Works Trustees

Agenda Item No. III A
Meeting Date: June 26, 2018
Chairperson's Signature ☐Yes ☒ No

AGENDA ITEM FORM

SUBJECT: 2017 Audit Reports

SUMMARY:

Our audit firm, RSM US LLP, has completed their audit of our financial statements for the year ended December 31, 2017. The reports prepared include:

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

Within their Independent Auditors' Report, RSM has issued an unqualified or "clean opinion" on our financial statements, meaning they found no material misstatements within our financial records. Andrew Steckel, from RSM, reviewed the reports at the June 19th meeting of the Finance Committee.

FISCAL IMPACT:

No impact to budget.

RECOMMENDED ACTION:

Receive and file 2017 Financial Audit Reports prepared by RSM US LLP, and authorize staff to distribute such reports to the appropriate agencies. This includes the Financial Report, Auditor's Report, and the Collection Agent Reports for the City of Des Moines.

BOARD REQUIRED ACTION:

Motion to receive and file 2017 Financial Audit Reports and distribute reports to the appropriate agencies.

Michelle Holland 6/19/18	Peggy Freese 6/19/18	William G. Stowe 6.20.18
Michelle Holland (date)	Peggy Freese (date)	William G. Stowe (date)
Controller	Chief Financial Officer	CEO and General Manager

Attachments: Des Moines Water Works Financial Report; Des Moines Water Works Report to the Board of Water Works Trustees; Statements of Cash Receipts and Disbursements for Sewer Service; Statements of Cash Receipts and Disbursements for Storm Water Management; Statements of Cash Receipts and Disbursements for Solid Waste.

Des Moines Water Works

Financial Report
December 31, 2017 and 2016

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RSM

Contents

RSM US LLP

Independent Auditor's Report

Board of Water Works Trustees
Des Moines Water Works

Report on the Financial Statements
We have audited the accompanying financial statements of the business-type activities and fiduciary fund of the Des Moines Water Works (Water Works) as of and for the years ended December 31, 2017 and 2016, and the related notes to the basic financial statements, which collectively comprise the Water Works' basic financial statements as listed in the table of contents.

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

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

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

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

Opinions
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the fiduciary fund of the Des Moines Water Works as of December 31, 2017 and 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, other postemployment benefit plan schedules, and pension plan schedules, as listed in the table of contents, 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 19, 2018

Our Management's Discussion and Analysis (MD&A) of Des Moines Water Works' (Water Works or DMWW) financial performance provides an overview of the utility's financial activities for the years ended December 31, 2017 and 2016. 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 as well as total water service to interested customers. Under a total service agreement, the customer retains ownership of their water system infrastructure and Water Works operates and maintains the water system according to the procedures, processes, and standards used in the Water Works' direct service areas. Additionally, Water Works is responsible for distribution system operation and maintenance, customer service, water quality monitoring and reporting, rate setting, and capital improvement planning. Wholesale customers account for nearly 30 percent of total water revenues. Total service customers account for roughly 15 percent of total water revenues, which leaves approximately 55 percent of revenues for City of Des Moines customers. 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 total service 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. Financial participation in the construction or improvement of these facilities includes initial cash contributions or payments of debt service, which then allows for some users to participate in lower off-peak or purchased capacity water rates. Additionally, DMWW receives payments from these users of the shared use facilities for their portion of the 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 temporarily 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 205 full-time and 17 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 2017, operating revenues of $64,742,736 increased 8.06 percent over 2016 while operating expenses increased by 5.74 percent to $55,299,170. Operating revenues of $59,914,662 in 2016 increased by 10.95 percent over 2015 and operating expenses increased by 5.38 percent to $52,298,209.

- During the year, Water Works had operating income of $9,443,566 and change in net position of $16,388,187. This compares to operating income of $7,616,453 and change in net position of $13,897,622 in 2016.
- Water Works' net position increased as a result of operations. As of December 31, 2017, and 2016, total assets were $352,116,323 and $334,705,287, respectively; total liabilities were $73,428,949 and $77,907,700, respectively; deferred outflows of resources were $9,498,069 and $13,142,427, respectively, deferred inflows of resources were $2,018,326 and $161,084, respectively; resulting in net position of $286,167,117 and $269,778,930, respectively.

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 provide 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 Board of Trustees and staff at Des Moines Water Works, but also for the customers ultimately affected by our decisions.

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

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

Condensed Financial Information

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

Condensed Statement of Net Position Information

	2017	2016	2015 (as restated)	% Change 2016 to 2017	% Change 2015 to 2016
Current assets	$ 18,381,126	$ 15,686,984	$ 14,746,563	17.17%	6.38%
Capital assets, net	319,300,723	304,792,032	296,743,696	4.76	2.71
Other noncurrent assets	14,434,474	14,226,271	12,968,127	1.46	9.70
Total assets	352,116,323	334,705,287	324,458,386	5.20	3.16
Deferred outflow of resources	9,498,069	13,142,427	15,317,352	(27.73)	(14.20)
Current liabilities	15,651,689	14,620,294	17,665,290	7.05	(17.24)
Other noncurrent liabilities	32,036,421	33,820,509	29,591,655	(5.28)	14.29
Long-term debt, net	25,740,839	29,466,897	34,149,033	(12.64)	(13.71)
Total liabilities	73,428,949	77,907,700	81,405,978	(5.75)	(4.30)
Deferred inflows of resources	2,018,326	161,084	2,488,452		
Net investment in capital assets	291,294,592	272,544,891	259,124,418	6.88	5.18
Restricted	5,320,412	6,429,359	7,934,076	(17.25)	(18.97)
Unrestricted	(10,447,887)	(9,195,320)	(11,177,186)	13.62	(17.73)
Total net position	$ 286,167,117	$ 269,778,930	$ 255,881,308	6.07	5.43

Condensed Revenues, Expenses and Changes in Net Position

	2017	2016	2015 (as restated)	% Change 2016 to 2017	% Change 2015 to 2016
Water sales	$ 57,857,325	$ 53,777,067	$ 47,987,441	7.59%	12.06%
Billing and collection services	1,654,392	1,590,685	1,442,948	4.01	10.24
Connection fees	1,411,300	1,103,635	1,002,826	27.88	10.05
Purchased capacity	713,825	713,825	1,265,277	-	(43.58)
Other sales and services	3,105,894	2,729,450	2,304,106	13.79	18.46
Total operating revenues	64,742,736	59,914,662	54,002,598	8.06	10.95
Investment income	99,065	55,090	34,370	79.82	60.29
Other	209,065	216,188	224,743	(3.29)	(3.81)
Capital contributions	7,518,209	7,045,322	6,439,779	6.71	9.40
Gain (loss) on sale of fixed assets	24,422	11,628	36,000	110.03	(67.70)
Total revenues	72,593,497	67,242,890	60,737,490	7.96	10.71
Labor and benefits	23,925,696	24,073,366	22,173,453	(0.61)	8.57
Chemicals and power	5,243,784	4,467,220	4,637,527	17.38	(3.67)
Utilities	2,976,525	2,546,133	2,536,021	16.90	0.40
Corporate Insurance	1,099,065	1,078,906	1,595,736	1.87	(32.39)
Purchased services	8,492,021	7,176,095	5,893,788	18.34	21.76
Materials, supplies and equipment	3,760,660	3,404,551	3,557,085	10.46	(4.29)
Depreciation	9,431,565	9,213,709	8,845,042	2.36	4.17
Other	369,854	338,229	389,778	9.35	(13.23)
Total operating expenses	55,299,170	52,298,209	49,628,430	5.74	5.38
Interest expense	906,140	1,047,059	1,168,438	(13.46)	(10.39)
Total expenses	56,205,310	53,345,268	50,796,868	5.36	5.02
Change in net position	16,388,187	13,897,622	9,940,622	17.92	39.81
Net position, beginning of year	269,778,930	255,881,308	245,940,686	5.43	4.04
Net position, end of year	$ 286,167,117	$ 269,778,930	$ 255,881,308	6.07	5.43

Financial Analysis

<u>Year ended December 31, 2017</u>: Current assets increased 17.17 percent. Cash on hand was significantly higher at the end of 2017 than at the end of 2016. This can fluctuate widely from year to year due to timing of receiving customer payments and paying vendors and contractors. A corresponding, partial increase in Accounts Payable and Contracts Payable at the end of 2017 show that invoices were received after the end of the year and were subsequently paid from the cash balance. Accounts receivable and inventory are up at the end of 2017. These accounts fluctuate from year to year due to timing of customer payments, increased water rates and increased cost of inventory items. Offsetting these increases is a decrease in the receivable from wholesale customers for capital projects being built by DMWW. The ASR well being constructed in the southwestern part of the service area is nearing completion and is primarily funded by the City of West Des Moines and West Des Moines Water Works. Therefore, construction costs are wrapping up and the corresponding receivable is lower at the end of 2017.

Other noncurrent assets showed a small increase of 1.46 percent in 2017. This is due to two offsetting variances. First, the operating reserve balance increased in 2017 by approximately $1.3 million. Operating reserves were reduced in 2015 to offset a revenue shortfall because of lower water consumption. Therefore, operating reserves are planned to be replenished each year through 2018. Offsetting this increase is a reduction in the bond reserve fund. By paying off the Series 2011 bonds in 2017, the reserve balance required for the remaining outstanding bonds is reduced by approximately $1.0 million.

Deferred outflows of resources decreased approximately $3.6 million.

The deferred outflows for pensions 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 decreased by nearly $2.0 million. This is primarily due the favorable investment return on pension plan assets compared to the expected return. The actual return for 2017 was 14.40 percent, with the expected return of 6.25 percent. Therefore, the deferred outflow balance related to earnings at the end of 2016 was approximately $2.1 million. Due to the favorable investment returns, the deferred position on investment returns changed from a deferred outflow to a deferred inflow. Thus, the deferred outflow on investment return decreased by approximately $2.1 million and the deferred inflow on investment return increased by approximately $1.7 million – resulting in an overall change to deferred position on investment earnings of approximately $3.8 million. For IPERS, deferred outflows decreased by approximately $1.4 million. Several factors make up this change. First, deferred outflows related to changes in assumptions increased by approximately $2.3 million. The rate of return assumption on the IPERS plan was reduced from 7.50 percent to 7.00 percent. Second, the deferred outflow balance related to earnings was approximately $1.9 million at the end of 2016. Due to favorable investment earnings, the deferred position related to earnings changed to an inflow of approximately $153,000, resulting in a decrease in deferred outflows related to earnings of approximately $1.9 million. And finally, the deferred outflows related to the change in proportionate share decreased by approximately $1.8 million. Each year, DMWW's proportionate share of the overall IPERS collective balances is calculated based on DMWW's contribution to IPERS related to overall employer contributions. This change in proportionate share changes the amounts DMWW needs to recognize on our financial statements for deferred inflows, deferred outflows and net pension liability. The changes to these financial statement balances due to the change in proportionate share are amortized through this deferred outflow. More information on the changes to deferred outflows and inflows can be found in Note 5 of the financial statement, starting on page 34.

The deferred outflows relating to bonds decreased by approximately $322,000. This 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 7.05 percent. Construction payables were nearly $1.0 million higher and accounts payable was approximately $325,000 higher at the end of 2017. The balance in these accounts can vary widely based on timing of receiving invoices and contractor statements as well as timing of issuing payable checks. Other current liabilities increased by approximately $466,000. Two items make up this balance. First, upfront funding was received from the Des Moines Water Works Park Foundation for the design and construction management of the phase 1 park improvements. The balance of unspent funds at the end of 2017 was approximately $263,000. Additionally, an approximate $203,000 liability was recorded to refund the Series 2011 bond reserve funds to Urbandale and Norwalk. These payments were made in 2018. Offsetting these increases is a reduction of the current portion of long-term debt by approximately $0.8 million as the 2011 bonds were paid off in 2017.

Other noncurrent liabilities decreased by approximately $5.5 million in 2017. The decrease relates in part to the net pension liability, which shows the difference between the total pension liability and fiduciary net position. The net pension liability for the DMWW Pension Plan decreased by approximately $3.1 million while the net pension liability for IPERS increased approximately $1.1 million. Other noncurrent liabilities include unearned revenue being amortized over a period of 10 to 20 years and the liability for other post-employment benefits. This shows the liability for providing health care benefits to retirees of Des Moines Water Works.

Long-term debt decreased 12.64 percent in 2017 due to the reclassification of $3,479,000 of the scheduled 2018 debt service payments to short-term liabilities.

Deferred inflows of resources increased by almost $1.9 million. The deferred inflows show the effects of actuarial differences, changes in assumptions, and differences between actual and projected earnings on plan investments. Since 2017 had favorable investment earnings compared to projections, deferred inflows related to investment earnings increased by approximately $1.7 million on the DMWW Pension Plan and by approximately $153,000 for IPERS.

Water sales were up 7.59 percent in 2017. This equates to approximately $4.1 million in additional water revenue. Consumption was approximately 6 percent higher in 2017 compared to 2016. There was a moderate rate increase in 2017 which also contributed to the overall increase in sales revenue.

Revenue for billing and collection services was up 4.01 percent. This is due to higher revenue from the City of Des Moines as their fees are based on a percentage of billed amounts. As rates increase, so does the revenue for billing and collecting.

Connection fees were up 27.88 percent compared to 2016. 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 unchanged in 2017 compared to 2016. This revenue represents the continued amortization of unearned revenue. This unearned revenue represents cash contributions which funded the Saylorville Water Treatment Plant, the L.D. McMullen Water Treatment Facility, and projects 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 increased 13.79 percent in 2017. 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. The drivers of the increase in 2017 are from two main sources. First, there was an increase in tap fee revenue. The number of taps increased as a result of an uptick in recent years of developer-installed mains in our service areas along with an increase in the rates for these taps. Second, DMWW entered into two large submetering contracts. Submetering is where DMWW meters and bills each individual unit of a multi-unit property where there is only one tap and shut off to the property.

Operating labor and benefits decreased less than 1.00 percent. Operating labor expenses were down approximately $300,000. While there were modest increases in wage rates, the number of hours in operating labor projects was down in 2017 as more hours were charged to capital projects. Benefit costs increased by nearly $500,000 due to an increase in expenses for employer paid medical insurance premiums and retirement benefits. The retirement benefits include amounts paid for the employer contribution to IPERS, the actuarial defined contribution to the DMWW Pension Plan, and the statutory amounts paid for Social Security and Medicare taxes. Finally, changes to the balance sheet items related to pensions (both IPERS and the DMWW Pension Plan) and other post-employment benefits, such as deferred inflows of resources, deferred outflows of resources, net pension liability, and other post-employment benefits liability are accounted for in retirement expenses, which are included in retirement benefits on the statements of revenues, expenses and changes in net position.

Chemical expenses were up 17.38 percent in 2017. Several factors contributed to the higher expenses, including higher pumpage/consumption in 2017 versus 2016, continuing reasonable increases in chemical prices, and significant water treatment challenges brought on by dynamic changes in raw water qualities.

Utilities expense is up 16.90 percent in 2017. The main driver is electricity expense which is higher is due to increased pumpage in 2017 as well as additional electricity used in raw water pumping through the treatment process and cycle testing at the ASR well nearing completion.

Corporate insurance is up 1.87 percent in 2017. Insurance premiums were up slightly compared to 2016 premiums. Workers' compensation claims paid in 2017 were lower than 2016 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 increased by 18.34 percent compared to 2016. This equates to approximately $1.3 million. The main driver of this increase is related to lime residual removal expenses. The contractor removed more volume of residuals to empty out the east lagoon at the McMullen Treatment Plant which is necessary to make room for newly produced residual product. Additionally, payment to the contractor is made once the residuals are applied offsite by end-users, which does not always correspond to when the residuals are removed from the treatment plants. These expenses will likely vary from year to year as end-user application may be greater or less than a prior year. Other smaller variances to the prior year include increased fees for processing credit card payments, consulting expenses to review the Cost of Service Study, and higher costs for onsite security, resulting from an increase in services.

Materials, supplies and equipment increased by 10.46 percent. This line includes a multitude of items such as postage, inventory items and repair parts for the maintenance of the treatment facilities, distribution system and fleet vehicles. Many of the materials and inventory items used in the day-to-day operations of the utility had minor cost increases. The cost for asphalt used for street repairs performed by our pipelines crews increased in 2017. Additionally, materials used in the laboratory increased in 2017 due to ongoing and enhanced testing.

Other expenses increased 9.35 percent, by approximately $32,000. This includes costs for casualty losses from damages due to main breaks, bad debt write-off, and utility-wide training.

Investment income increased approximately $44,000. This includes investment income and accounts for the unrealized gain/loss and truing up of accrued interest.

Interest expense decreased 13.46 percent due to decreasing interest payments on outstanding debt.

Capital contributions were approximately $7.5 million in 2017, up 6.71 percent from 2016. Water Works recognized approximately $900,000 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. A contribution of approximately $545,000 was received from Polk County Rural Water District #1 to make capital improvements to their distribution system. Nearly $230,000 was contributed from the DMWW Park Foundation for expenses relating to the design and construction administration costs relating to park improvements. And finally, approximately $5.8 million was recognized for water mains conveyed by contractors for new development in the Water Works' service areas. These contributions, both cash and conveyed water mains, can fluctuate widely from year to year.

The aforementioned fluctuations result in an overall increase in net position of 6.07 percent, the result of an 8.06 percent increase in operating revenues and an increase in operating expenses of 5.74 percent.

<u>Year ended December 31, 2016</u>: Current assets increased 6.38 percent. Several lines in this section are up a moderate amount; including, cash, accounts receivable, and inventory. These accounts fluctuate from year to year due to timing of customer payments, increased water rates and increased cost of inventory items. Offsetting these increases is a decrease in receivables from wholesale customers for capital projects being built by DMWW. The ASR well being constructed in the southwestern part of the service area continues and is entirely funded by the City of West Des Moines and West Des Moines Water Works. The receivable for this project decreased from 2015 to 2016 based on timing of invoicing to those entities. Additionally, a receivable was outstanding at the end of 2015 with the City of Johnston for a feeder main from the Saylorville Water Treatment Plant. This project has been completed and the receivable balance has been paid.

Other noncurrent assets increased 9.70 percent due to the operating reserve balance increasing in 2016. Operating reserves were reduced in 2015 to offset a revenue shortfall because of lower water consumption. Therefore, operating reserves are planned to be replenished each year through 2018. Offsetting the increase is a reduction due to the sale of a parcel of land the Water Works held as an investment. The investment in this land was valued at approximately $625,000.

Deferred outflows of resources decreased approximately $2.2 million. The deferred outflows for pensions 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 decreased by approximately $165,000. For IPERS, deferred outflows decreased by approximately $1.7 million. This decrease is a result of netting the deferred inflows and deferred outflows related to earnings together. And finally, deferred outflows relating to bonds decreased by approximately $360,000. This 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 decreased 17.24 percent. Construction payables at the end of the year were approximately $2.8 million lower than in 2015. This is primarily due to a lower construction-in-progress balance at the end of 2016 due to projects being completed by the end of the year as well as the timing of invoices being received from contractors. The current portion of long-term debt is lower in 2016 by approximately $1.0 million as the 2011 bonds will be paid off in 2017. The reserve for workers' compensation claims was reduced by approximately $240,000 in 2016. Offsetting these decreases, the balance in accounts payable increased by approximately $850,000 in 2016 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 approximately $4,200,000 over 2015. The increase relates to the net pension liability, which shows the difference between the total pension liability and fiduciary net position. The net pension liability for the DMWW Pension Plan increased by approximately $1.4 million while the net pension liability for IPERS increased approximately $2.8 million. Other noncurrent liabilities include unearned revenue being amortized over a period of 10 to 20 years and the liability for other post-employment benefits. This shows the liability for providing health care benefits to retirees of Des Moines Water Works.

Long-term debt decreased 13.71 percent in 2016 due to the reclassification of $4,378,000 of the scheduled 2017 debt service payments to short-term liabilities.

Deferred inflows of resources decreased by approximately $2.3 million. The deferred inflows show the effects of actuarial differences, changes in assumptions, and differences between actual and projected earnings on plan investments. In 2016, deferred inflows related to earnings for the IPERS plan were netted with deferred outflows. The only item remaining as deferred inflows relates to experience differences on the IPERS plan.

Water sales were up 12.06 percent in 2016. Consumption was approximately 8 percent higher in 2016 compared to 2015. There was a moderate rate increase in 2016 which also contributed to the overall increase in sales revenue.

Revenue for billing and collection services was up 10.24 percent. This is primarily due to higher revenue from the City of Des Moines as their fees are based on a percentage of billed amounts. As rates increase, so does the revenue for billing and collecting.

Connection fees were up 10.05 percent compared to 2015. 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 down 43.58 percent, which is approximately $550,000, compared to 2015. This revenue 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. The amortization ended on several of these contributions in 2015 causing lower revenue to be recognized in 2016.

Revenue from other sales and services increased 18.46 percent in 2016. 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. The drivers of the increase in 2016 were the receipt of approximately $106,500 from the City of Des Moines for the settlement of the franchise fee lawsuit, higher tap fees, and an increase in revenue for hit hydrants and damaged mains.

Operating labor and benefits increased 8.57 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 the pension entries which includes expenses for amortizing the net effect of change in proportion, differences between entity contributions and proportionate share of contributions, and the increase in the pension liability which shows the difference between the total pension liability and fiduciary net position.

Chemical expenses were down 3.67 percent in 2016. The biggest driver of the decrease is due to the use of solar salt in 2016 being far lower than in 2015. Solar salt is exclusively used in the nitrate removal facility. In 2015, the Water Works ran the nitrate removal facility 177 days, while in 2016, it ran 65 days.

Utilities expense is flat compared to 2015.

Corporate insurance was down 32.39 percent in 2016. This decrease is related to workers' compensation claims paid in 2016 being lower than 2015 claims as well as reducing the 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 increased by 21.76 percent compared to 2015. This equates to approximately $1.3 million. The main driver of this increase is the lime residual removal at the Fleur Drive Treatment Plant. Payment to the contractor is made once the residuals are applied offsite by end-users, which does not always correspond to when the residuals are removed from the Fleur Drive Treatment Plant. These expenses will likely vary from year to year as end-user application may be greater or less than a prior year. Additionally, there was approximately $385,000 spent on consulting services for a long-range plan being developed. This long-range plan includes water demand projections, water quality trends, current and anticipated regulatory requirements, and an evaluation of and recommendations for improvements to the water treatment facilities.

Materials, supplies and equipment decreased by 4.29 percent, or approximately $150,000. 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 13.23 percent. This includes costs for casualty losses from damages due to main breaks, bad debt write-off, and utility-wide training.

Investment income increased approximately $20,000. This includes investment income and accounts for the unrealized gain/loss and truing up of accrued interest.

Interest expense decreased 10.39 percent due to decreasing interest payments on outstanding debt.

Capital contributions were approximately $7.0 million in 2016, up from approximately $6.4 million in 2015. Water Works recognized approximately $1.8 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 approximately $545,000 from the City of Johnston were recognized for their portion of the joint feeder main project from the Saylorville Water Treatment Plant. And finally, approximately $4.5 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 5.43 percent, the result of a 10.95 percent increase in operating revenues and an increase in operating expenses of 5.38 percent.

Capital Assets and Debt Administration
During 2017, net capital assets increased $14,508,691 or 4.76 percent. In addition to replacing deteriorating water mains, the utility continues to reinvest in water treatment, production, storage and capacity. A capital project began in 2017 to implement a new customer information and billing system. The current system has been in use for 14 years. 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 $25,740,839 as of December 31, 2017. The decrease of approximately $3.7 million is due to scheduled principal payments.

During 2016, net capital assets increased $8,048,336 or 2.71 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 $29,466,897 as of December 31, 2016. The decrease of approximately $4.7 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 2017.

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

Des Moines Water Works

Statements of Net Position
December 31, 2017 and 2016

	2017	2016
Assets		
Current assets:		
Cash	$ 6,736,549	$ 3,094,470
Restricted assets, cash	828,565	877,651
Accounts receivable:		
Billed	4,704,496	4,255,237
Unbilled	1,931,339	1,772,763
Due from other governments	273,601	1,896,666
Other receivables	20,628	78,995
Inventory, materials and supplies	2,905,691	2,797,156
Prepaid expenses	980,257	914,046
Total current assets	18,381,126	15,686,984
Restricted assets, cash and investments:		
Cash	360,278	1,437,667
Water revenue bond reserve fund	4,360,134	4,391,692
Water revenue bond improvement fund	600,000	600,000
	5,320,412	6,429,359
Long-term investments, board designated funds, investments	8,865,767	7,558,919
Capital assets:		
Land	7,332,800	7,332,800
Construction-in-progress	14,499,881	7,085,944
Buildings, equipment and machinery	183,533,727	181,192,412
Supply system	54,919,089	54,834,470
Distribution system	241,105,606	227,173,957
	501,391,103	477,619,583
Accumulated depreciation	(182,090,380)	(172,827,551)
Capital assets, net	319,300,723	304,792,032
Other assets	248,295	237,993
Total assets	352,116,323	334,705,287
Deferred outflow of resources		
Deferred charge on refunding	1,276,145	1,597,781
Pension related amounts	8,221,924	11,544,646
	9,498,069	13,142,427
Total assets and deferred outflows of resources	$ 361,614,392	$ 347,847,714

See notes to basic financial statements.

	2017	2016
Liabilities		
Current liabilities:		
Accounts payable	**$ 2,600,297**	$ 2,274,355
Accrued wages and benefits	**909,980**	850,346
Compensated absences	**2,552,466**	2,556,243
Unearned revenue	**725,625**	681,375
Special deposits	**1,657,379**	1,602,355
Construction payables	**2,016,726**	1,042,502
Water revenue bonds interest payable	**71,343**	77,025
Current portion of long-term debt, net	**3,541,437**	4,378,025
Fees collected for other entities	**828,565**	877,651
Workers' compensation claims payable	**282,109**	280,417
Other current liabilities	**465,762**	-
Total current liabilities	**15,651,689**	14,620,294
Noncurrent liabilities:		
Long-term debt, net, less current installments	**25,740,839**	29,466,897
Compensated absences, less current portion	**754,112**	794,757
Unearned revenue	**4,643,831**	5,357,656
Net pension liability	**18,623,829**	20,561,130
Other postemployment benefits liability	**8,014,649**	7,106,966
Total noncurrent liabilities	**57,777,260**	63,287,406
Total liabilities	**73,428,949**	77,907,700
Deferred inflows of resources, pension related amounts	**2,018,326**	161,084
Net position:		
Net investment in capital assets	**291,294,592**	272,544,891
Restricted, bond indentures	**5,320,412**	6,429,359
Unrestricted deficit	**(10,447,887)**	(9,195,320)
Total net position	**286,167,117**	269,778,930
Total liabilities, deferred inflows of resources and net position	**$ 361,614,392**	$ 347,847,714

Des Moines Water Works

Statements of Revenues, Expenses and Changes in Net Position
Years Ended December 31, 2017 and 2016

	2017	2016
Operating revenues:		
Water sales	**$ 58,571,150**	$ 54,490,892
Other sales and services	**4,760,286**	4,320,135
Connection fees	**1,411,300**	1,103,635
Total operating revenues	**64,742,736**	59,914,662
Operating expenses:		
Labor	**13,171,543**	13,470,866
Group insurance	**2,910,354**	2,724,989
Retirement benefits (including social security)	**7,843,799**	7,877,511
Purchased services	**8,492,021**	7,176,095
Corporate insurance	**1,099,065**	1,078,906
Materials, supplies and equipment	**3,760,660**	3,404,551
Chemicals	**5,243,784**	4,467,220
Utilities	**2,976,525**	2,546,133
Depreciation	**9,431,565**	9,213,709
Other	**369,854**	338,229
Total operating expenses	**55,299,170**	52,298,209
Operating income	**9,443,566**	7,616,453
Nonoperating revenue (expense):		
Investment income	**99,065**	55,090
Interest and amortization expense	**(906,140)**	(1,047,059)
Land use income	**206,722**	214,199
Gain on sale of capital assets	**24,422**	11,628
Other	**2,343**	1,989
Total nonoperating expense, net	**(573,588)**	(764,153)
Income before capital contributions	**8,869,978**	6,852,300
Capital contributions	**7,518,209**	7,045,322
Change in net position	**16,388,187**	13,897,622
Net position, beginning of year	**269,778,930**	255,881,308
Net position, end of year	**$ 286,167,117**	$ 269,778,930

See notes to basic financial statements.

Des Moines Water Works

Statements of Cash Flows
Years Ended December 31, 2017 and 2016

	2017	2016
Cash flows from operating activities:		
Cash received from customers	**$ 63,636,717**	$ 58,738,654
Cash paid to suppliers	**(21,323,259)**	(18,610,456)
Cash paid to employees and for payroll taxes	**(19,760,138)**	(19,577,117)
Net cash provided by operating activities	**22,553,320**	20,551,081
Cash flows from capital and related financing activities:		
Principal payments on long-term debt	**(4,378,025)**	(5,416,412)
Acquisition, construction and removal cost of capital assets	**(17,011,861)**	(15,512,916)
Contributions received	**3,252,390**	3,068,161
Interest paid	**(927,117)**	(1,093,787)
Net cash used in capital and related financing activities	**(19,064,613)**	(18,954,954)
Cash flows from investing activities:		
Proceeds from maturities of investments	**9,189,110**	10,656,402
Purchase of investments	**(10,464,400)**	(12,427,860)
Interest received	**93,122**	135,891
Land use income and other	**209,065**	216,188
Net cash used in investing activities	**(973,103)**	(1,419,379)
Net increase in cash	**2,515,604**	176,748
Cash, beginning of year	**5,409,788**	5,233,040
Cash, end of year	**$ 7,925,392**	$ 5,409,788
Reconciliation of cash to the statements of net position:		
Cash	**$ 6,736,549**	$ 3,094,470
Restricted assets, cash current	**828,565**	877,651
Restricted assets, cash long term	**360,278**	1,437,667
Total cash, end of year	**$ 7,925,392**	$ 5,409,788

(Continued)

Des Moines Water Works

Statements of Cash Flows (Continued)
Years Ended December 31, 2017 and 2016

	2017	2016
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	**$ 9,443,566**	$ 7,616,453
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	**9,431,565**	9,213,709
Change in:		
Accounts receivable, billed	**(449,259)**	(455,862)
Accounts receivable, unbilled	**(158,576)**	(150,909)
Other receivables	**175,755**	(79,648)
Inventory, materials and supplies	**(108,535)**	(333,064)
Prepaid expenses	**(66,211)**	121,997
Other assets	**(10,302)**	(6,162)
Accounts payable	**325,942**	848,024
Accrued wages and benefits and compensated absences	**15,212**	11,752
Pension related amounts	**3,242,663**	3,736,340
Other postemployment benefit liability	**907,683**	748,158
Unearned revenue	**(669,575)**	(867,852)
Special deposits	**55,024**	113,443
Fees collected for other entities	**(49,086)**	270,984
Workers' compensation claims payable	**1,692**	(236,282)
Other current liabilities	**465,762**	-
Net cash provided by operating activities	**$ 22,553,320**	$ 20,551,081
Schedules of noncash capital and related financing activities:		
Acquisition of capital assets through capital contributions	**$ 5,777,439**	$ 4,549,648
Acquisition of capital assets through construction payables	**$ (974,224)**	$ 2,890,108
Trade-in value towards assets purchased	**$ 43,200**	$ 35,950
Acquisition of capital assets through capital lease	**$ 152,310**	$ 77,960
Schedule of noncash investing activities, net depreciation of the fair value of investments	**$ 27,344**	$ 5,234

See notes to basic financial statements.

Des Moines Water Works
Pension Plan

Statements of Plan Net Position
December 31, 2017 and 2016

	2017	2016
Assets		
Investments, contracts with insurance companies, pooled separate accounts	**$ 53,886,381**	$ 48,979,866
Liabilities, none	**-**	-
Net position held in trust for pension benefits	**$ 53,886,381**	$ 48,979,866

See notes to basic financial statements.

Des Moines Water Works
Pension Plan

Statements of Changes in Plan Net Position
Years Ended December 31, 2017 and 2016

	2017	2016
Additions:		
Investment income, net appreciation in the fair value of pooled separate accounts, interest and dividends	**$ 6,907,660**	$ 3,295,965
Employer contributions	**1,228,734**	597,434
Total additions	**8,136,394**	3,893,399
Deductions:		
Benefit payments	**3,174,948**	3,000,082
Administrative expenses	**54,931**	37,711
Total deductions	**3,229,879**	3,037,793
Net increase	**4,906,515**	855,606
Net position held in trust for pension benefits:		
Beginning of year	**48,979,866**	48,124,260
End of year	**$ 53,886,381**	$ 48,979,866

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.

Other Organization: The Des Moines Water Works Park Foundation (Foundation) is a nonprofit organization formed in November 2013 to implement the Master Plan for Water Works Park. The Foundation is a separate entity, with its own Board of Directors and Advisory Council. The primary purpose of The Foundation is to raise awareness and funds to develop, maintain and operate Water Works Park for the benefit of the public in terms of recreation, education and support of Water Works' mission to provide a steady supply of safe water to our customers.

Water Works does not provide any funding to the Foundation and the Foundation does not meet the financial benefit/burden criteria, therefore the Foundation's financial statements are separate from Water Works' financial statements. Water Works is providing engineering support and oversight for the planning and construction of the Master Plan to ensure that park improvements are consistent with Water Works' mission of providing safe water.

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 of resources and all liabilities and deferred inflows of resources 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.

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

Fiduciary fund type: The Water Works also includes a pension trust fund, a 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.

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 and restricted 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, 2017 and 2016 were in U.S. government or agency obligations and are stated at fair value. Fair value is 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. Fair value is a market-based measurement, not an entity-specific measurement. For some assets and liabilities, observable market transactions or market information might be available; for others, it might not be available. However, the objective of a fair value measurement in both cases is the same – that is, to determine the price at which an orderly transaction to sell the asset or to transfer the liability would take place between the market and participants at the measurement date under current market conditions. Fair value is an exit price at the measurement date from the perspective of a market participant that controls the asset or is obligated for the liability. Purchases and sales of securities are recorded on a trade-date basis. See Note 2 for additional information regarding fair value measures.

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 by 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 acquisition value, based on an estimate of the cost it would have incurred to construct them internally.

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

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 $1,068,957 and $1,027,327 in 2017 and 2016, respectively.

Water Works has an agreement to pay the City a Payment in Lieu of Taxes (PILOT). This amount was calculated in 2009 by applying the City millage rate for police and fire to the value of buildings and land operated and controlled by Water Works located within the City at that time. The total PILOT payment was $800,000 and $755,340 in 2017 and 2016, respectively.

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 $828,565 and $877,651 as of December 31, 2017 and 2016, respectively. 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 $1,654,000 and $1,591,000 in 2017 and 2016, respectively. 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.

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:

	Years
Buildings, equipment and machinery	3-85
Supply system	20-85
Distribution system	10-100

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 is any interest capitalized during construction in accordance with accounting principles generally accepted in the United States of America. No capitalized interest was recorded during the years ended December 31, 2017 and 2016.

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

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, 2017, and 2016, 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.

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, 2017, Water Works had $5,369,456 of unearned revenue relating to contractual agreements and has recognized $681,375 of revenue during 2017. As of December 31, 2016, Water Works had $6,039,031 of unearned revenue relating to contractual agreements and had recognized $867,852 of revenue during 2016.

Compensated absences: Vacation is 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 expensed as 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.

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

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 unrecognized items not yet charged against pension expense.

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.

Fair value measurements: The Water Works categorizes its assets and liabilities measured at fair value within the hierarchy established by GAAP. Assets and liabilities valued at fair value are categorized based on inputs to valuation techniques as follows:

Level 1 input: Quoted prices for identical assets or liabilities in an active market that an entity has the ability to access at the measurement date.

Level 2 input: Quoted prices for similar assets or liabilities in active markets and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the asset or liability.

Level 3 input: Inputs that are unobservable for the asset or liability which are typically based upon the Water Works' own assumptions as there is little, if any, related market activity.

Hierarchy: The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs.

Note 2. Cash and Investments (Continued)

Inputs: If the fair value of an asset or a liability is measured using inputs from more than one level of the fair value hierarchy, the measurement is considered to be based on the lowest priority level input that is significant to the entire measurement.

As of December 31, 2017, Water Works held $11,328,396 of U.S. Treasury securities and $2,497,505 of U.S. Government agency securities reported at fair value. As of December 31, 2016, Water Works held $12,550,611 of U.S. Treasury securities reported at fair value. The Water Works utilized Level 1 inputs to measure the fair value of its investments as of both December 31, 2017 and 2016.

U.S. Treasury securities: U.S. Treasury securities are reported at fair value based on quoted market prices obtained from exchanges.

U.S. Government agency securities: U.S. Government agency securities are reported at fair value based on bullet (noncall) spread scale for each issuer for maturities going out to 40 years. These spreads represent credit risk and are obtained from the new issue market, secondary trading, and dealer quotes.

An Option Adjusted Spread (OAS) model is incorporated to adjust spreads of issues that have early redemption features. Final spreads are added to a U.S. Treasury curve. A cash discounting yield/price routine calculates prices from final yields to accommodate odd coupon payment dates typical of medium-term notes.

The Water Works has no assets reported at fair value on a nonrecurring basis and no other investments meeting the fair value disclosure requirements of Governmental Accounting Standards Board (GASB) Statement No. 72.

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

Information about the sensitivity of the fair value of the Water Works' investments to market interest rate fluctuations is provided by the tables below for December 31, 2017 and 2016:

Type	Fair Value December 31, 2017	Within 3 Months	Within 6 Months	Within 9 Months	Within 12 Months	Over 12 Months
Federal Home Loan Bank	$ 1,498,365	$ -	$ -	$ -	$ 1,498,365	$ -
Federal Home Loan Mortgage Corp.	999,140	999,140	-	-	-	-
US Treasury Note Bond	10,034,025	-	4,390,393	2,686,932	1,966,540	990,160
US Treasury Bill	1,294,371	-	1,294,371	-	-	-
	$ 13,825,901	$ 999,140	$ 5,684,764	$ 2,686,932	$ 3,464,905	$ 990,160

Type	Fair Value December 31, 2016	Within 3 Months	Within 6 Months	Within 9 Months	Within 12 Months	Over 12 Months
US Treasury Note Bond	$ 9,279,853	$ 600,066	$ 1,001,140	$ 2,000,540	$ 2,284,028	$ 3,394,079
US Treasury Bill	3,270,758	998,810	1,276,928	995,020	-	-
	$ 12,550,611	$ 1,598,876	$ 2,278,068	$ 2,995,560	$ 2,284,028	$ 3,394,079

Note 2. Cash and Investments (Continued)

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, 2017, the Water Works' investments were rated as follows:

2017		
Type	S&P Rating	Moody's Rating
Federal Home Loan Bank	AA+	Aaa
Federal Home Loan Mortgage Corp.	AA+	Aaa

None of the Water Works' investments held as of December 31, 2016 were subject to credit risk as they were explicitly guaranteed by the U.S. Government, as well as the U.S. Treasury investments held as of December 31, 2017.

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

More than 5 percent of the Water Works' investments are in the following investments as of December 31, 2017:

Type:	
Federal Home Loan Bank	10.8%
Federal Home Loan Mortgage Corp.	7.2

Investments issued or explicitly guaranteed by the U.S. Government are not subject to credit risk. All of Water Works' investments as of December 31, 2016 were issued or explicitly guaranteed by the U.S. Government, as well as the U.S. Treasury investments held as of December 31, 2017.

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

Note 2. Cash and Investments (Continued)

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, 2017 and 2016 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 $8,909,465 and $7,925,392, respectively, as of December 31, 2017. Water Works' bank balances and book balances of deposits were $6,060,930 and $5,409,788, respectively, as of December 31, 2016. Water Works' investments were not exposed to custodial credit risk as of December 31, 2017 or 2016.

Pension Plan Deposits and Investments

Deposits: As of December 31, 2017 and 2016, the Plan held no deposits.

Investments: The Plan's investments in pooled separate accounts are stated at fair value. Purchases and sales of securities are recorded on a trade date basis. Dividends are recorded on the ex-dividend date. Net appreciation includes the Plan's gains and losses on investments bought and sold, as well as, held during the year.

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, 2017 and 2016, 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.

	2017		2016	
	Fair Value	Effective Duration	Fair Value	Effective Duration
Fixed income investments:				
Principal Core Plus BdAccount	$ 16,994,232	5.84	$ 16,642,387	5.69
Principal Bond Market Index Account	5,597,776	5.98	5,518,137	5.91
Principal High Yield I Account	2,646,519	3.48	2,449,765	3.75
Total fixed income investments	25,238,527		24,610,289	
Other investments, non-fixed income investments	28,647,854		24,369,577	
Total investments	$ 53,886,381		$ 48,979,866	

Note 2. Cash and Investments (Continued)

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

Asset Class	Target Allocation	Expected Arithmetic Return	Expected Geometric Return
U.S. Equity - Large Cap	32%	7.85%	6.50%
U.S. Equity - Mid Cap	3	8.10	6.50
U.S. Equity - Small Cap	2	8.55	6.50
Non - U.S. Equity	15	8.10	6.50
REITs	-	7.95	6.10
TIPS	1	3.05	2.85
Core Bond	42	3.75	3.60
High Yield	5	6.70	6.30

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.

Note 2. Cash and Investments (Continued)

Credit risk and concentration of credit risk: Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligations to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The pooled separate accounts held by the Plan are commingled pools, rather than individual securities. As a result, these investments are not rated. The Plan had the following investments as of December 31, 2017 and 2016:

	2017	2016
Principal pooled separate accounts:		
Fixed income:		
Core Plus Bond Account	$ 16,994,232	$ 16,642,387
Bond Market Index Account	5,597,776	5,518,137
Other fixed income	2,646,519	2,449,765
International equity:		
Overseas Account	6,094,617	4,418,166
Other international equity	2,084,116	1,478,851
Large U.S. equity:		
Large-Cap Growth I Account	6,841,424	6,082,787
Equity Income Account	6,841,173	3,085,407
Other Large U.S. equity	2,860,062	5,689,153
Small/Mid U.S. equity	2,835,433	2,625,696
Balanced/Asset allocation	1,091,029	989,517
	$ 53,886,381	$ 48,979,866

Investments measured at net asset value: The following table summarizes investments for which fair value is measured using the net asset value (NAV) per share practical expedient as of December 31, 2017 and 2016, respectively. There are no participant redemption restrictions for these investments.

Investment	2017 Value	2016 Value	Unfunded Commitment	Redemption Frequency	Redemption Notice Period
Fixed income	$ 25,238,527	$ 24,610,289	$ -	Immediate	None
International equity	8,178,733	5,897,017	-	Immediate	None
Large U.S. equity	16,542,659	14,857,347	-	Immediate	None
Small/Mid U.S. equity	2,835,433	2,625,696	-	Immediate	None
Balanced/Asset allocation	1,091,029	989,517	-	Immediate	None
Total investments measured at NAV	$ 53,886,381	$ 48,979,866	$ -		

Note 3. Capital Assets

Capital assets activity for the year ended December 31, 2017 is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	$ 7,332,800	$ -	$ -	$ 7,332,800
Construction-in-progress	7,085,944	18,343,965	10,930,028	14,499,881
Total capital assets not being depreciated	14,418,744	18,343,965	10,930,028	21,832,681
Capital assets being depreciated:				
Buildings, equipment and machinery	181,192,412	2,526,663	185,348	183,533,727
Supply system	54,834,470	84,619	-	54,919,089
Distribution system	227,173,957	14,096,186	164,537	241,105,606
Total capital assets being depreciated	463,200,839	16,707,468	349,885	479,558,422
Less accumulated depreciation for:				
Buildings, equipment and machinery	92,127,500	5,025,519	166,543	96,986,476
Supply system	18,714,567	734,680	-	19,449,247
Distribution system	61,985,484	3,671,366	2,193	65,654,657
Total accumulated depreciation	172,827,551	9,431,565	168,736	182,090,380
Total capital assets being depreciated, net	290,373,288	7,275,903	181,149	297,468,042
Net capital assets	$ 304,792,032	$ 25,619,868	$ 11,111,177	$ 319,300,723

Capital assets activity for the year ended December 31, 2016 is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	$ 7,332,427	$ 373	$ -	$ 7,332,800
Construction-in-progress	10,952,276	12,700,769	16,567,101	7,085,944
Total capital assets not being depreciated	18,284,703	12,701,142	16,567,101	14,418,744
Capital assets being depreciated:				
Buildings, equipment and machinery	177,634,732	3,672,668	114,988	181,192,412
Supply system	54,829,851	4,619	-	54,834,470
Distribution system	209,698,918	17,475,039	-	227,173,957
Total capital assets being depreciated	442,163,501	21,152,326	114,988	463,200,839
Less accumulated depreciation for:				
Buildings, equipment and machinery	87,202,064	5,016,102	90,666	92,127,500
Supply system	17,980,003	734,564	-	18,714,567
Distribution system	58,522,441	3,463,043	-	61,985,484
Total accumulated depreciation	163,704,508	9,213,709	90,666	172,827,551
Total capital assets being depreciated, net	278,458,993	11,938,617	24,322	290,373,288
Net capital assets	$ 296,743,696	$ 24,639,759	$ 16,591,423	$ 304,792,032

Note 4. Noncurrent Liabilities

As of December 31, 2017, Water Works' debt consists of Water Revenue Refunding Bonds 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 2012A matures on December 1, 2023, and Series 2012B matures on December 1, 2025. The Series 2003 note matures on December 1, 2022. The bonds and note are redeemable at the option of Water Works prior to their maturity in whole or, from time to time, in part, in any order of maturity and within a maturity by lot, at a price of par plus accrued interest to call date.

Changes in long-term obligations for the years ended December 31, 2017 and 2016 are as follows:

2017

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Water Revenue Bonds:					
Series 2011	$ 960,000	$ -	$ 960,000	$ -	$ -
Series 2012 A & B	30,235,000	-	3,250,000	26,985,000	3,340,000
Water Revenue Capital,					
Series 2003	874,000	-	135,000	739,000	139,000
Unamortized Bond Premium	1,620,469	-	336,931	1,283,538	-
Net pension liability	20,561,130	-	1,937,301	18,623,829	-
Other postemployment benefits					
liability	7,106,966	907,683	-	8,014,649	-
Capital lease payable	155,453	152,310	33,025	274,738	62,437
Compensated absences	3,351,000	3,306,578	3,351,000	3,306,578	2,552,466
	$ 64,864,018	$ 4,366,571	$ 10,003,257	$ 59,227,332	$ 6,093,903

2016

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Water Revenue Bonds:					
Series 2011	$ 2,615,000	$ -	$ 1,655,000	$ 960,000	$ 960,000
Series 2012 A & B	33,855,000	-	3,620,000	30,235,000	3,250,000
Water Revenue Capital,					
Series 2003	1,005,000	-	131,000	874,000	135,000
Unamortized Bond Premium	2,013,151	-	392,682	1,620,469	-
Net pension liability	16,313,350	4,247,780	-	20,561,130	-
Other postemployment benefits					
liability	6,358,808	748,158	-	7,106,966	-
Capital lease payable	87,905	77,960	10,412	155,453	33,025
Compensated absences	3,375,452	3,351,000	3,375,452	3,351,000	2,556,243
	$ 65,623,666	$ 8,424,898	$ 9,184,546	$ 64,864,018	$ 6,934,268

Note 4. Noncurrent Liabilities (Continued)

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
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	2.00	485,000	21,825	506,825
2022	2.00	500,000	12,125	512,125
2023	2.125	100,000	2,125	102,125
		$ 2,470,000	$ 157,450	$ 2,627,450

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
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	3.00	3,195,000	466,350	3,661,350
2022	3.00	3,295,000	370,500	3,665,500
2023-2025	3.00	9,055,000	505,050	9,560,050
		$ 24,515,000	$ 3,285,150	$ 27,800,150

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
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	1.75	152,000	5,407	157,407
2022	1.75	157,000	2,748	159,748
		$ 739,000	$ 39,585	$ 778,585

Note 4. Noncurrent Liabilities (Continued)

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 2012 bonds. Proceeds from the bonds were used to provide additional infrastructure needs. The bonds are payable solely from customer 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 $397,703,861 per occurrence on building and contents; in addition, liability insurance is maintained.

A summary of the outstanding debt, principal and interest requirements are as follows as of and for the year ended December 31, 2017:

	Issue Date	Year Maturing	Principal and Interest Remaining	Principal and Interest Paid in 2017	Annual Payments as a Percentage of Net Revenues
Water Revenue Bonds:					
Series 2011	3/1/2011	2017	$ -	$ 988,800	5.24%
Series 2012 A	10/30/2012	2023	2,627,450	503,425	2.67
Series 2012 B	10/30/2012	2025	27,800,150	3,624,600	19.20
Water Revenue Capital,					
Series 2003	4/16/2003	2022	778,585	150,295	0.80
			$ 31,206,185	$ 5,267,120	27.91%

Total customer net revenues were $18,875,130. Annual principal and interest payments on the bonds are approximately 28 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, 2017 are as follows:

Maturing During Year Ending December 31:	Interest Rate	Total Annual Payment
2018	3.25% - 3.50%	$ 71,914
2019	3.25% - 3.50%	71,914
2020	3.25% - 3.50%	71,915
2021	3.25% - 3.50%	50,893
2022	3.25% - 3.50%	34,015
Total minimum lease payments		300,651
Less amount representing interest		25,913
Present value of future minimum lease payments		$ 274,738

Note 4. Noncurrent Liabilities (Continued)

Equipment as of December 31, 2017 includes the following assets under capital lease:

Equipment	$	459,535
Less accumulated depreciation		(90,860)
Total	$	368,675

Note 5. Retirement Plans

Plan information is as follows:

Below is a summary of amounts reported by the Water Works as of and for the year ended December 31, 2017:

	Des Moines Water Works Pension Plan	IPERS	Total
Net pension liability	$ 4,001,559	$ 14,622,270	$ 18,623,829
Deferred outflows of resources	1,176,022	7,045,902	8,221,924
Deferred inflows of resources	1,738,911	279,415	2,018,326
Pension expense	1,861,807	4,044,820	5,906,627

Below is a summary of amounts reported by the Water Works as of and for the year ended December 31, 2016:

	Des Moines Water Works Pension Plan	IPERS	Total
Net pension liability	$ 7,063,935	$ 13,497,195	$ 20,561,130
Deferred outflows of resources	3,132,560	8,412,086	11,544,646
Deferred inflows of resources	-	161,084	161,084
Pension expense	2,399,224	3,534,810	5,934,034

Note 5. Retirement Plans (Continued)

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

Membership data at December 31, 2017 and 2016 included:

	2017	2016
Active plan members	127	134
Inactive plan members entitled to but not yet receiving benefits	49	52
Disabled plan members entitled to but not yet receiving benefits	5	6
Retired plan members or beneficiaries currently receiving benefits	172	166
	353	358

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 years ended December 31, 2017 and 2016, the annual money weighted rate of return on Plan investments, net of investment expense was 14.40 percent and 7.00 percent, respectively. The money weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Note 5. Retirement Plans (Continued)

Net pension liability: The total pension liability was determined using an actuarial valuation date of December 31, 2017 using general accepted actuarial principles and methods. Water Works is utilizing December 31, 2017 as its measurement date for reporting its net pension liability and related deferred inflows/outflows in their financial statements.

A schedule of the Plan's changes in its net pension liability for the years ended December 31, 2017 and 2016 are as follows:

	2017	2016
Total pension liability		
Service cost	$ 490,401	$ 523,384
Interest	3,427,064	3,423,314
Benefit payments	(3,174,948)	(3,000,082)
Difference between expected and actual experience	(33,428)	441,617
Change in assumptions	1,135,050	905,072
Net change in total pension liability	1,844,139	2,293,305
Total pension liability - beginning of year	56,043,801	53,750,496
Total pension liability - end of year	$ 57,887,940	$ 56,043,801
Plan fiduciary net position		
Contributions - employer	$ 1,228,734	$ 597,434
Investment income, net of investment expenses		
2017 $23,425; 2016 $21,585	6,884,235	3,274,380
Benefit payments	(3,174,948)	(3,000,082)
Administrative expenses	(31,506)	(16,126)
Net change in plan fiduciary net position	4,906,515	855,606
Total plan fiduciary net position, beginning of year	48,979,866	48,124,260
Total plan fiduciary net position, end of year	$ 53,886,381	$ 48,979,866
Net pension liability	$ 4,001,559	$ 7,063,935
Plan fiduciary net position as a percentage of the total pension liability	93.09%	87.40%

Change in assumptions: In the December 31, 2017 actuary valuation, the discount rate was reduced from 6.25 percent to 6.00 percent.

In the December 31, 2016 actuary valuation, the discount rate was reduced from 6.50 percent to 6.25 percent.

Note 5. Retirement Plans (Continued)

Actuarial assumptions for the years ended December 31, 2017 and 2016 are as shown in the tables below:

	December 31, 2017
Actuarial valuation:	
Frequency	Annual
Cost method	Entry age normal
Assumptions:	
Long-term rate of return	6.00% 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 2.0% has been used in place of the projected rate of change in salary.
Retirement age	Retirement Age Based Tables as follows:

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

Mortality	Adjusted RP-2014 Mortality with Scale MP-2017 - 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.

Note 5. Retirement Plans (Continued)

	December 31, 2016
Actuarial valuation:	
Frequency	Annual
Cost method	Entry age normal
Assumptions:	
Long-term rate of return	6.25% 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 2.0% 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 - 61	15
62	20
63	5
64	10
65 and older	100

Mortality	Adjusted RP-2014 Mortality with Scale MP-2016 - 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 as of December 31, 2017 and 2016 was 6.00 percent and 6.25 percent, respectively. 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 2017 to 2105, and 2016 to 2107, respectively. 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 as of December 31, 2017 and 2016 using the single discount rate of 6.00 percent and 6.25 percent, respectively, 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 or 1-percentage-point higher than the current rate.

	1% Decrease (5.00)%	Current Discount Rate (6.00)%	1% Increase (7.00)%
2017	$10,363,845	$4,001,559	($1,424,591)

	1% Decrease (5.25)%	Current Discount Rate (6.25)%	1% Increase (7.25)%
2016	$ 13,273,493	$ 7,063,935	$ 1,774,841

Pension expense and deferred outflows and inflows of resources related to pensions: For the years ended December 31, 2017 and 2016, Water Works recognized pension expense for the Plan of $1,861,807 and $2,399,224, respectively. At December 31, Water Works reported deferred outflows of resources and deferred inflows of resources related to the Plan from the following sources:

	2017		2016	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 162,253	$ 21,272	$ 412,141	$ -
Effects of changes in assumptions	1,013,769	-	598,268	-
Net differences between expected and actual net investment income	-	1,717,639	2,122,151	-
	$ 1,176,022	$ 1,738,911	$ 3,132,560	$ -

Amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Years ended December 31:	
2018	$ 797,928
2019	244,065
2020	(825,650)
2021	(779,232)
	$ (562,889)

Deferred outflows and inflows of resources for differences between expected and actual plan experience and effects of changes in assumptions 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.

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 years 2017 and 2016, 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 years ended December 31, 2017 and 2016 were $1,435,230 and $1,401,116, respectively.

Pension liabilities, pension expense, and deferred outflows of resources and deferred inflows of resources related to pensions: At December 31, 2017, the Water Works reported a liability of $14,622,270 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, 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, 2017, the Water Works' proportion was 0.219512 percent, which was an increase of 0.005043 percent from its proportion measured as of June 30, 2016.

For the years ended December 31, 2017 and 2016, the Water Works recognized pension expense for IPERS of $4,044,820 and $3,534,810, respectively. At December 31, the Water Works reported deferred outflows of resources and deferred inflows of resources related to the IPERS pension from the following sources:

	2017		2016	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual plan experience	$ 134,246	$ 126,691	$ 119,289	$ 161,084
Changes of assumptions	2,540,676	-	205,925	-
Net difference between projected and actual investment earnings on pension plan investments	-	152,724	1,922,924	-
Changes in proportion and differences between Water Works contributions and proportionate share of contributions	3,647,195	-	5,412,176	-
Water Works contributions subsequent to the measurement date	723,785	-	751,772	-
	$ 7,045,902	$ 279,415	$ 8,412,086	$ 161,084

Note 5. Retirement Plans (Continued)

The $723,785 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 ending December 31, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Years ended December 31:	
2018	$ 2,387,926
2019	2,377,580
2020	958,593
2021	130,462
2022	188,141
	$ 6,042,702

Deferred outflows and inflows 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, 2017. The following actuarial assumptions used in the June 30, 2017 valuation:

Inflation	2.60 percent
Salary increases	3.25 to 16.25 percent, including inflation Rates vary by membership group
Long-term rate of return	7.00 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 demographic actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the four-year period ending June 30, 2013.

At the Investment Board's direction, the experience study of IPERS economic assumptions, including the long-term rate of return, was accelerated a year resulting in a full review of the economic assumptions in early 2017. The findings of the experience study on economic assumptions, along with the resulting recommendations, were included in a report dated March 24, 2017.

Note 5. Retirement Plans (Continued)

The following actuarial assumptions used in the June 30, 2016 valuation are as follows:

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, 2016 valuation were based on the results of an actuarial experience study for the four-year period ending June 30, 2013.

The long-term expected rate of return on pension plan investments was determined using a building-block method on which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and including 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
Domestic equity	24%	6.25%
International equity	16	6.71
Core - plus fixed income	27	2.25
Public credit	4	3.46
Public real assets	7	3.27
Cash	1	(0.31)
Private equity	11	11.15
Private real assets	7	4.18
Private credit	3	4.25
	100%	

Discount rate: The discount rate used to measure the total pension liability as of June 30, 2017 and 2016 was 7.00 and 7.50 percent, respectively. The projection of cash flows used to determine the discount rate assumed that employer and employee contributions will be made at the contractually required rates, which are set by the Contribution Rate Funding Policy and derived from the actuarial valuation. 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.

Note 5. Retirement Plans (Continued)

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 as of June 30, 2017 and 2016 using the discount rate of 7.00 percent and 7.50 percent, respectively, 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 or 1-percentage-point higher than the current rate:

	1% Decrease (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
2017	$ 24,091,635	$ 14,622,270	$ 6,666,184

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
2016	$ 21,836,636	$ 13,497,195	$ 6,458,599

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, 2017 and 2016, respectively, the Water Works reported payables to the defined benefit pension plan of $168,663 and $164,391, for legally required employer contributions and $112,379 and $109,533 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, 2017 and 2016, 88 and 87 retirees, respectively, receive postretirement health care benefits. Water Works provides a Medicare supplement or equivalent amount to all employees who retire after attaining age 55, if the sum of their age and years of service are at least 85 or for those who retire after attaining age 65 regardless of length of service. Employees who retire prior to attaining age 65 with the sum of their age and years of service less than 85 receive a discounted benefit as provided by the plan document. The plan does not issue a stand-alone financial report.

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 2017, the Water Works contributed $214,931. Retirees receiving benefits contributed $135,113. The Water Works offered a choice of three health insurance plans in 2017. 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.

Note 6. Other Postemployment Benefits (Continued)

For fiscal year 2016, the Water Works contributed $207,236. Retirees receiving benefits contributed $129,181. The Water Works offered a choice of three health insurance plans in 2016. 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 years ending December 31, 2017 and 2016, the amount actuarially contributed to the plan and changes in the Water Works' annual OPEB obligation:

	2017	2016
Annual required contribution	$ 1,125,752	$ 969,414
Interest on net OPEB obligation	253,008	254,352
Adjustment to annual required contribution	(256,146)	(268,372)
Annual OPEB cost (expense)	1,122,614	955,394
Contributions and payments made	214,931	207,236
Increase in net OPEB obligation	907,683	748,158
Net OPEB obligation - beginning of year	7,106,966	6,358,808
Net OPEB obligation - end of year	$ 8,014,649	$ 7,106,966

The Water Works' annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligations for 2017, 2016 and 2015 follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
December 31, 2015	$ 732,999	27%	$ 6,358,808
December 31, 2016	955,394	22	7,106,966
December 31, 2017	1,122,614	19	8,014,649

Note 6. Other Postemployment Benefits (Continued)

Funded status and funding progress as of December 31, 2017 and 2016: Postemployment Benefit Obligations under GASB Statement No. 45 calculated as of December 31, 2017, the most recent valuation date, is as follows:

	Total	Members
Actuarial Accrued Liability		
Current retirees, beneficiaries and dependents	$ (4,977,149)	122
Current active members	(9,932,671)	201
Total Actuarial Accrued Liability (AAL)	(14,909,820)	
OPEB Plan Assets	-	
Unfunded Actuarial Accrued Liability (UAAL)	(14,909,820)	

The covered payroll (annual payroll of active employees covered by the plan) for December 31, 2017 and 2016 was $16,072,005 and $15,689,986, respectively. The ratio of the UAAL to the covered payroll for December 31, 2017 and 2016 was 92.8 percent and 88.7 percent, respectively.

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

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

In the December 31, 2017 actuarial valuation, the most recent actuarial valuation, the entry age normal level percentage of salary method was used. The actuarial assumptions included a 3.56 percent investment rate of return (net of administrative expenses) based on a yield for 20-year tax-exempt general obligation municipal bonds with an average rating of Aa or higher and an annual health care cost trend rate of 9.0 percent initially, grading down to 5.0 percent in 9 years. The Water Works' unfunded actuarial accrued liability is being amortized over 30 years.

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.

Note 7. Risk Management (Continued)

Beginning in 2014, Water Works became 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 $2,316,686 per coverage year in the aggregate. The annual aggregate loss limit is a function of the estimated normal premium.

The claims liability of $282,109 and $280,417 as of December 31, 2017 and 2016, respectively, 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, 2017 and 2016 is as follows:

	2017	2016
Unpaid claims, beginning of year	$ 280,417	$ 516,699
Current year claims and changes in estimates	198,681	252,142
Claim payments	(196,989)	(488,424)
Unpaid claims, end of year	$ 282,109	$ 280,417

Note 8. Commitments

Approximately $2,231,000 related to 2017 contracts has been formally committed as of December 31, 2017. In addition, the Board has approved approximately $27,800,000 of expenditures for capital acquisitions and improvements, all of which are expected to be expended in 2018.

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 both 2017 and 2016, respectively.

On January 1, 2014, the Water Works and the Greater Des Moines Botanical Gardens (GDMBG) entered into an agreement for Water Works to provide for $200,000 of in-kind services to be performed for the GDMBG every year for ten years. For the year ended December 31, 2017 and 2016, Water Works provided in-kind services valued at approximately $213,000 and $202,000, respectively. Any over/under spending will be offset against expenses in a future year.

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

As of December 31, 2017, the GASB had issued several Statements not yet implemented by the Water Works.

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, 2017, the most recent valuation date, was $14,909,820.

GASB Statement No. 84, *Fiduciary Activities*, issued January 2017, will be effective for the Water Works beginning with its fiscal year ending December 31, 2019. Statement No. 84 is designed to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities.

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

GASB Statement No. 85, *Omnibus 2017*, issued March 2017, will be effective for the Water Works beginning with its fiscal year ending December 31, 2018. Statement No. 85 is designed to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits.

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

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

GASB Statement No. 86, *Certain Debt Extinguishment Issues*, issued May 2017, will be effective for the Water Works beginning with its fiscal year ending December 31, 2018. Statement No. 86 is designed to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance.

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

GASB Statement No. 87**,** *Leases,* issued June 2017, will be effective for the Water Works beginning with its fiscal year ending December 31, 2020. Statement No 87. Is designed to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

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

GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placement,* issued March 2018, will be effective for the Water Works beginning with its fiscal year ending December 31, 2019, with earlier adoption encouraged. Statement No. 88 clarifies which liabilities governments should include in their note disclosures related to debt. This statement defines debt that must be disclosed in the notes to financial statements as a liability that arises from a contractual obligation to pay cash in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. Governments must also disclose amounts of unused lines of credit, assets pledges as collateral for debt and the terms specified in debt agreements related to significant events of default with finance-related consequences, termination events with finance-related consequences, and subjective acceleration clauses. Within the notes, governments should separate information regarding direct borrowings and direct placements of debt from other debt.

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
2016	12/31/14	-	13,919,350	(13,919,350)	-	15,689,986	88.7
2017	**12/31/17**	-	**14,909,820**	**(14,909,820)**	-	**16,072,005**	**92.8**

The information presented in the required supplementary schedule was determined as part of the actuarial valuation as of December 31, 2017.

Additional information follows:

a. The actuarial method used to determine the ARC is the Entry Age Normal Level Percentage of Salary method.
b. There are no plan assets.
c. The actuarial assumptions included: (a) 3.56 percent investment rate of return and (b) a health care cost trend rate of 9 percent initially, grading down to 5 percent in 9 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, 2017, 2016, 2015 and 2014
Des Moines Water Works Pension Plan

	2017	2016	2015	2014
Total pension liability				
Service cost	**$ 490,401**	$ 523,384	$ 580,106	$ -
Interest	**3,427,064**	3,423,314	3,342,170	3,449,503
Benefit payments	**(3,174,948)**	(3,000,082)	(2,826,683)	(2,696,531)
Difference between expected and actual experience	**(33,428)**	441,617	320,599	305,961
Changes in assumptions	**1,135,050**	905,072	-	542,112
Change in attribution method	**-**	-	-	-
Net change in total pension liability	**1,844,139**	2,293,305	1,416,192	1,601,045
Total pension liability, beginning of year	**56,043,801**	53,750,496	52,334,304	54,637,659
Total pension liability, end of year	**$ 57,887,940**	$ 56,043,801	$ 53,750,496	$ 56,238,704
Plan fiduciary net position				
Contributions - employer	**$ 1,228,734**	$ 597,434	$ 911,175	$ 906,542
Investment income (loss), net of investment expenses				
2017 $23,425; 2016 $21,585; 2015 $22,091; 2014 $22,219	**6,884,235**	3,274,380	(629,997)	2,680,610
Benefit payments	**(3,174,948)**	(3,000,082)	(2,826,683)	(2,696,531)
Administrative expenses	**(31,506)**	(16,126)	(4,676)	(4,442)
Net change in plan fiduciary net position	**4,906,515**	855,606	(2,550,181)	886,179
Total plan fiduciary net position, beginning of year	**48,979,866**	48,124,260	50,674,441	49,788,262
Total plan fiduciary net position, end of year	**$ 53,886,381**	$ 48,979,866	$ 48,124,260	$ 50,674,441
Net pension liability	**$ 4,001,559**	$ 7,063,935	$ 5,626,236	$ 5,564,263

Ultimately 10 fiscal years will be displayed. Information for years prior to 2014 is unavailable.

Change in assumptions: In the December 31, 2017 actuary valuation, the discount rate was reduced from 6.25 percent to 6.00 percent. In the December 31, 2016 actuary valuation, the discount rate was reduced from 6.50 percent to 6.25 percent.

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, 2017, 2016, 2015 and 2014
Des Moines Water Works Pension Plan

	2017	2016	2015	2014
Total pension liability, end of year	**$ 57,887,940**	$ 56,043,801	$ 53,750,496	$ 56,238,704
Plan net position, end of year	**53,886,381**	48,979,866	48,124,260	50,674,441
Net pension liability	**$ 4,001,559**	$ 7,063,935	$ 5,626,236	$ 5,564,263
Plan net position as a percentage of the total pension liability	**93.1%**	87.4%	89.5%	90.1%
Covered employee payroll	*****	*	*	*
Net pension liability as a percentage of covered payroll	**N/A**	N/A	N/A	N/A

Ultimately 10 fiscal years will be displayed. Information for years prior to 2014 is unavailable.

* As the Plan was frozen to future benefit accruals effective December 31, 2013, there was no covered payroll for the years ended December 31, 2017, 2016, 2015 and 2014.

See note to required supplementary information.

Des Moines Water Works

Required Supplementary Information
Schedule of Investment Returns
For the Years Ended December 31, 2017, 2016, 2015 and 2014
Des Moines Water Works Pension Plan

	2017	2016	2015	2014
Annual money-weighted rate of return, net of investment expense	**14.40%**	7.00%	(1.27)%	5.51%

Ultimately 10 fiscal years will be displayed. Information for years prior to 2014 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
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
2016	796,578	597,434	199,144	*	N/A
2017	1,029,588	1,228,734	(199,146)	*	N/A

The final contribution for the plan year ended December 31, 2016 was made by Water Works prior to year-end. However, the contribution was received by the Plan in January 2017.

* As the Plan was frozen to future benefit accruals effective December 31, 2013, there was no covered payroll for the years ended December 31, 2017, 2016, 2015 and 2014.

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 schedule of contributions from employer was determined as part of the annual actuarial valuations using the assumptions summarized below:

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	2017-6.00% per year; 2016-6.25% per year; 2015 and 2014-6.50% 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 2.0% has been used in place of the projected rate of change in salary.
Retirement age	Retirement Age Based Tables as follows:

Years Ended December 31, 2017 and 2016		Years Ended December 31, 2015 and 2014	
Age	Rate	Age	Rate
55	25%	55	25%
56-61	15	56	15
62	20	57-61	5
63	5	62	20
64	10	63	5
65 and older	100	64	10
		65 and older	100

Mortality	Adjusted RP-2014 Mortality Tables with Scale MP-2017 (Scale MP updated annually to correspond with year of valuation) - 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.

Des Moines Water Works

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

	June 30:		June 30:	
	2017	2016	2015	2014
Water Works' proportion of the net pension liability	0.219512%	0.214469%	0.216317%	0.130958%
Water Works' proportionate share of the net pension liability	$ 14,622,270	$ 13,497,195	$ 10,687,114	$ 5,193,679
Water Works' covered employee payroll	$ 16,072,005	$ 15,391,075	$ 14,819,686	$ 8,569,339
Water Works' proportionate share of the net pension liability as a percentage of its covered-employee payroll	90.98%	87.69%	72.11%	60.61%
Plan fiduciary net position as a percentage of the total pension liability	82.21%	81.82%	85.19%	87.61%

Ultimately 10 fiscal years will be displayed. 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
2008	$ 61,973	$ 61,973	$ -	N/A	N/A
2009	76,998	76,998	-	N/A	N/A
2010	85,236	85,236	-	N/A	N/A
2011	98,602	98,602	-	N/A	N/A
2012	123,421	123,421	-	N/A	N/A
2013	196,544	196,544	-	N/A	N/A
2014	1,297,307	1,297,307	-	N/A	N/A
2015	1,404,619	1,404,619	-	$ 15,729,212	8.93%
2016	1,401,116	1,401,116	-	15,689,986	8.93%
2017	1,435,230	1,435,230	-	16,072,005	8.93%

N/A - Not available.

RSM US LLP

400 Locust Street
Suite 640
Des Moines, IA 50309-2354

O +1 515 558 6600
F +1 515 284 1545

www.rsmus.com

June 19, 2018

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

Attention: Mr. William Stowe, Chief Executive Officer
Ms. Peggy Freese, Chief Financial Officer

This letter is to inform the Board of Trustees of Des Moines Water Works (the Water Works) about significant matters related to the conduct of our audit as of and for the year ended December 31, 2017, so that it can appropriately discharge its oversight responsibility and we comply with our professional responsibilities.

The following summarizes various matters that must be communicated to you under auditing standards generally accepted in the United States of America.

The Respective Responsibilities of the Auditor and Management
Our responsibility under auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States have been described to you in our arrangement letter dated January 22, 2018. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities, which are also described in that letter.

Overview of the Planned Scope and Timing of the Financial Statement Audit
We have issued a separate communication dated January 22, 2018 regarding the planned scope and timing of our audit and have discussed with you our identification of, and planned audit response to, significant risks of material misstatement.

Significant Accounting Practices, Including Policies, Estimates and Disclosures
In our meeting with you, we will discuss our views about the qualitative aspects of the Water Works' significant accounting practices, including accounting policies, accounting estimates and financial statement disclosures. The following is a list of significant estimates, which you may wish to monitor for your oversight responsibilities of the financial reporting process:

- Significant Accounting Estimates
    - Depreciable Useful Life of Capital Assets
    - Fair Value of Investments
    - Other Postemployment Benefit Plan (OPEB) Assumptions
    - Net Pension Liability (NPL)
    - Unbilled Revenue
    - Accrued Sick Leave
    - Workers' Compensation Claims and Incurred But Not Reported (IBNR) Liability

Uncorrected Misstatements
We are not aware of any uncorrected misstatements other than misstatements that are clearly trivial.

Internal Control Matters
We have separately issued a report on internal control over financial reporting and on compliance and other matters during our audit of the financial statements, as required by *Government Auditing Standards*, and this communication is attached.

Consultation With Other Accountants
We are not aware of any consultations management had with other accountants about accounting or auditing matters.

Management Representations
Attached is a copy of the management representation letter.

Closing
We will be pleased to respond to any questions you have about the foregoing. We appreciate the opportunity to continue to be of service to Des Moines Water Works.

This report is intended solely for the information and use of the Board of Trustees and is not intended to be, and should not be, used by anyone other than this specified party.

RSM US LLP

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

Independent Auditor's Report

Board of Water Works Trustees
Des Moines Water Works

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities and fiduciary fund of the Des Moines Water Works (Water Works) as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the Water Works' basic financial statements, and have issued our report thereon dated June 19, 2018. The financial statements of the Water Works' pension trust fund were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with the pension trust fund.

Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

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

RSM US LLP

Des Moines, Iowa
June 19, 2018

DES MOINES WATER WORKS
Board of Water Works Trustees
2201 George Flagg Parkway | Des Moines, Iowa 50321-1190 | (515) 283-8700 | www.dmww.com

Des Moines Water Works
Water You Can Trust for Life

June 19, 2018

RSM US LLP
400 Locust Street
Suite 640
Des Moines, IA 50309

This representation letter is provided in connection with your audits of the basic financial statements of Des Moines Water Works, Des Moines, Iowa (Water Works) as of and for the years ended December 31, 2017 and 2016 for the purpose of expressing an opinion on whether the financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

We confirm, to the best of our knowledge and belief, that as of June 19, 2018:

Financial Statements

1. We have fulfilled our responsibilities, as set out in the terms of the audit arrangement letter dated January 22, 2018, for the preparation and fair presentation of the financial statements referred to above in accordance with U.S. GAAP.

2. We acknowledge our responsibility for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

3. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

4. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable and reflect our judgment based on our knowledge and experience about past and current events, and our assumptions about conditions we expect to exist and courses of action we expect to take.

5. Related-party transactions, including those with other organizations for which the nature and significance of their relationship with Des Moines Water Works are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete, have been recorded in accordance with the economic substance of the transaction and appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP.

6. There are no events subsequent to the date of the financial statements for which U.S. GAAP requires adjustment or disclosure.

7. The effects of all known actual or possible litigation and claims have been accounted for and disclosed in accordance with U.S. GAAP, if any.

8. The following have been properly recorded and/or disclosed in the financial statements:

   a. Arrangements with financial institutions involving restrictions on cash balances have been properly disclosed.

   b. Net position classifications.

   c. Expenses have been appropriately classified in the statement of revenues, expenses and change in net position.

   d. Future changes in accounting pronouncements for GASB Statements Nos. 75, 84, 85, 86, 87 and 88, which have been issued, but which we have not yet adopted. GASB Statement No. 83 is not disclosed in the financial statements since the pending standard is not expected to significantly impact Des Moines Water Works' financial statements.

   e. We believe the implementation of GASB Statement Nos. 74, 80, 81 and 82 is appropriate, and their effect, if any, is properly disclosed in the financial statements.

9. We agree with the findings of specialists in evaluating the Water Work's investment valuations, self-insurance liabilities and other postemployment benefits liability under GASB Statement No. 45, and pension related obligations and disclosures, and have adequately considered the qualifications of the specialists in determining the amounts and disclosures used in the financial statements and underlying accounting records. We did not give or cause any instructions to be given to specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an impact on the independence or objectivity of the specialists.

10. We have no direct or indirect legal or moral obligation for any debt of any organization, public or private, that is not disclosed in the financial statements.

11. We have complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance. In connection therewith, we specifically represent that we are responsible for determining that we are not subject to the requirements of the *Single Audit Act* because we have not received, expended or otherwise been the beneficiary of the required amount of federal awards during the period of this audit.

12. We have no knowledge of any uncorrected misstatements in the financial statements.

Information Provided

13. We have provided you with:

    a. Access to all information of which we are aware that is relevant to the preparation and fair presentation of the financial statements such as records, documentation and other matters;

    b. Additional information that you have requested from us for the purpose of the audits;

    c. Unrestricted access to persons within Water Works from whom you determined it necessary to obtain audit evidence; and

    d. Minutes of the meetings of the governing board and committees, or summaries of actions of recent meetings for which minutes have not yet been prepared.

14. All transactions have been recorded in the accounting records and are reflected in the financial statements.

15. We have disclosed to you the results of our assessment of risk that the financial statements may be materially misstated as a result of fraud.

16. We have no knowledge of allegations of fraud or suspected fraud affecting the Water Works' financial statements involving:

    a. Management.

    b. Employees who have significant roles in internal control.

    c. Others where the fraud could have a material effect on the financial statements.

17. We have no knowledge of any allegations of fraud or suspected fraud affecting the Water Works' financial statements received in communications from employees, former employees, analysts, regulators or others.

18. We have no knowledge of noncompliance or suspected noncompliance with laws and regulations whose effects were considered when preparing the financial statements.

19. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

20. We have disclosed to you the identity of the Water Works' related parties and all the related-party relationships and transactions of which we are aware.

21. We are aware of no significant deficiencies or material weaknesses, in the design or operation of internal controls that could adversely affect Water Works' ability to record, process, summarize and report financial data.

22. We are aware of no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.

23. During the course of your audits, you may have accumulated records containing data that should be reflected in our books and records. All such data have been so reflected. Accordingly, copies of such records in your possession are no longer needed by us.

Supplementary Information

24. With respect to management's discussion and analysis, pension, and postemployment information presented as required by Governmental Accounting Standards Board to supplement the basic financial statements:

    a. We acknowledge our responsibility for the presentation of such information.

    b. We believe such required supplementary information is measured and presented in accordance with guidelines prescribed by accounting principles generally accepted in the United States of America.

    c. The methods of measurement or presentation have not changed from those used in the prior period.

Compliance Considerations

25. In connection with your audits, conducted in accordance with *Government Auditing Standards,* we confirm that management:

    a. Is responsible for the preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework.

    b. Is responsible for compliance with the laws, regulations and provisions of contracts and grant agreements applicable to the auditee.

    c. Is unaware of any instances that have occurred or are likely to have occurred, of fraud and noncompliance with provisions of laws and regulations that have a material effect on the financial statements or other financial data significant to the audit objectives, and any other instances that warrant the attention of those charged with governance.

    d. Is unaware of any instances that have occurred or are likely to have occurred, of noncompliance with provisions of contracts and grant agreements that have a material effect on the determination of financial statement amounts.

    e. Is unaware of any instances that have occurred or are likely to have occurred of abuse that could be quantitatively or qualitatively material to the financial statements.

    f. Is responsible for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

    g. Acknowledges its responsibility for the design, implementation and maintenance of internal controls to prevent and detect fraud.

    h. Has a process to track the status of audit findings and recommendations.

Des Moines Water Works

William Stowe,
Chief Executive Officer

Peggy Freese,
Chief Financial Officer

Michelle Holland,
Controller

DES MOINES WATER WORKS
Board of Water Works Trustees
2201 George Flagg Parkway | Des Moines, Iowa 50321-1190 | (515) 283-8700 | www.dmww.com

Des Moines Water Works
Water You Can Trust for Life

June 19, 2018

RSM US LLP
400 Locust Street
Suite 640
Des Moines, IA 50309

This representation letter is provided in connection with your audits of the statements of cash receipts and disbursements (financial statements) of the Board of Water Works Trustees, Billing and Collection Agent for the Sewer Service Charges, Solid Waste Collection Charges and Storm Water Management Charges for the City of Des Moines, Iowa (the Agent) for the years ended December 31, 2017 and 2016, and the related notes to the financial statements, for the purpose of expressing an opinion on whether the financial statements are presented fairly, in all material respects, in accordance with the cash basis of accounting described in Note 2 to the financial statements.

We confirm, to the best of our knowledge and belief, that as of June 19, 2018:

Financial Statements

1. The financial statements referred to above are prepared on the cash basis of accounting, as described in Note 2 to the financial statements (hereafter, cash basis of accounting), which is a basis of accounting other than accounting principles generally accepted in the United States of America.

2. We have fulfilled our responsibilities, as set out in the terms of the audit arrangement letter dated January 22, 2018, for the preparation and fair presentation of the financial statements referred to above in accordance with the cash basis of accounting.

3. We acknowledge our responsibility for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

4. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

5. Related-party relationships and transactions have been appropriately accounted for in accordance with the requirements of the cash basis of accounting and disclosed adequately to achieve fair presentation.

6. There are no events subsequent to the date of the financial statements for which disclosure is necessary for fair presentation.

7. There are no known actual or possible litigation or claims to be accounted for in accordance with the cash basis of accounting.

8. We have complied with all aspects of contractual agreements with the City of Des Moines, Iowa, that could have a material effect on the financial statements in the event of noncompliance.

9. We have no knowledge of any uncorrected misstatements in the financial statements.

Information Provided

10. We have provided you with:

    a. Access to all information of which we are aware that is relevant to the preparation and fair presentation of the financial statements such as records, documentation and other matters;

    b. Additional information that you have requested from us for the purpose of the audits; and

    c. Unrestricted access to persons within the Agent from whom you determined it necessary to obtain audit evidence.

11. There are no minutes of the meetings of directors and committees of directors, or summaries of actions of recent meetings for which minutes have not yet been prepared, other than those of the Des Moines Water Works' minutes which have been provided.

12. All transactions have been recorded in the accounting records and are reflected in the financial statements.

13. We have disclosed to you the results of our assessment of risk that the financial statements may be materially misstated as a result of fraud.

14. We have no knowledge of allegations of fraud or suspected fraud affecting the Agent's financial statements involving:

    a. Management.

    b. Employees who have significant roles in internal control.

    c. Others where the fraud could have a material effect on the financial statements.

15. We have no knowledge of any allegations of fraud or suspected fraud affecting the Agent's financial statements received in communications from employees, former employees, analysts, regulators or others.

16. We have no knowledge of noncompliance or suspected noncompliance with laws and regulations whose effects should be considered when preparing the financial statements.

17. We are not aware of any pending or threatened litigation and claims whose effects should be considered when preparing the financial statements and we have not consulted legal counsel concerning litigation or claims.

18. We have disclosed to you the identity of the Agent's related parties and all the related-party relationships and transactions of which we are aware.

19. We are aware of no significant deficiencies or material weaknesses, in the design or operation of internal controls that could adversely affect the Agent's ability to record, process, summarize and report financial data.

20. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.

21. During the course of your audits, you may have accumulated records containing data that should be reflected in our books and records. All such data have been so reflected. Accordingly, copies of such records in your possession are no longer needed by us.

Des Moines Water Works

William Stowe,
Chief Executive Officer

Peggy Freese
Peggy Freese,
Chief Financial Officer

Michelle Holland
Michelle Holland,
Controller

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

Statements of Cash Receipts and Disbursements
Years Ended December 31, 2017 and 2016
(With Independent Auditor's Report Thereon)

Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying statements of cash receipts and disbursements of Board of Water Works Trustees, Billing and Collection Agent for the Sewer Service Charges for the City of Des Moines, Iowa (the Agent), for the years ended December 31, 2017 and 2016, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial 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 opinion.

Opinion
In our opinion, the financial statements referred to above present fairly, in all material respects, the cash receipts and disbursements of the Agent for the years ended December 31, 2017 and 2016, in accordance with the cash basis of accounting described in Note 2.

Emphasis of Matter
As described in Note 1, the financial statements were prepared for the purpose of complying with a contractual agreement with the City of Des Moines, Iowa. The statements do not purport to, and do not present fairly the financial position of the Board of Water Works Trustees or the Des Moines Water Works as of December 31, 2017 and 2016, and the changes in its financial position for the years then ended, in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

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

RSM US LLP

Des Moines, Iowa
June 19, 2018

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

Statements of Cash Receipts and Disbursements
Years Ended December 31, 2017 and 2016

	2017	2016
Cash receipts, sewer service charges	**$ 41,210,141**	$ 39,447,630
Cash disbursements:		
Remittances to the City of Des Moines	**40,518,286**	38,666,504
Billing and collection services	**734,209**	700,932
Total disbursements	**41,252,495**	39,367,436
Receipts over (under) disbursements	**(42,354)**	80,194
Cash balance, beginning of year	**255,894**	175,700
Cash balance, end of year	**$ 213,540**	$ 255,894

See notes to statements of cash receipts and disbursements.

Note 1. Reporting Entity and Nature of Business

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

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

As part of the agreement with the City of Des Moines, Des Moines Water Works bears the total cost of meter reading, cash processing and statement preparation and mailing. And in exchange for these services performed, Des Moines Water Works charges the entities processing fees for these billing and collection services provided.

Note 2. Basis of Accounting

These statements are prepared on the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. As a result, receipts are recognized when received rather than when earned, and disbursements are recognized when paid rather than when the liability is incurred. Therefore, uncollected billings for sewer service charges of $2,906,678 and $2,955,277 as of December 31, 2017 and 2016, respectively, are not reflected in the statements of cash receipts and disbursements.

RSM

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

Statements of Cash Receipts and Disbursements
Years Ended December 31, 2017 and 2016
(With Independent Auditor's Report Thereon)

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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying statements of cash receipts and disbursements of Board of Water Works Trustees, Billing and Collection Agent for the Storm Water Management Charges for the City of Des Moines, Iowa (the Agent), for the years ended December 31, 2017 and 2016, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial 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 opinion.

Opinion
In our opinion, the financial statements referred to above present fairly, in all material respects, the cash receipts and disbursements of the Agent for the years ended December 31, 2017 and 2016, in accordance with the cash basis of accounting described in Note 2.

Emphasis of Matter
As described in Note 1, the financial statements were prepared for the purpose of complying with a contractual agreement with the City of Des Moines, Iowa. The statements do not purport to, and do not present fairly the financial position of the Board of Water Works Trustees or the Des Moines Water Works as of December 31, 2017 and 2016, and the changes in its financial position for the years then ended, in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

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

RSM US LLP

Des Moines, Iowa
June 19, 2018

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

Statements of Cash Receipts and Disbursements
Years Ended December 31, 2017 and 2016

	2017	2016
Cash receipts, storm water management charges	**$ 23,252,063**	$ 22,285,699
Cash disbursements:		
Remittances to the City of Des Moines	**22,880,044**	21,853,473
Billing and collection services	**412,046**	388,706
Total disbursements	**23,292,090**	22,242,179
Receipts over (under) disbursements	**(40,027)**	43,520
Cash balance, beginning of year	**148,155**	104,635
Cash balance, end of year	**$ 108,128**	$ 148,155

See notes to statements of cash receipts and disbursements.

Note 1. Reporting Entity and Nature of Business

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

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

As part of the agreement with the City of Des Moines, Des Moines Water Works bears the total cost of meter reading, cash processing and statement preparation and mailing. And in exchange for these services performed, Des Moines Water Works charges the entities processing fees for these billing and collection services provided.

Note 2. Basis of Accounting

These statements are prepared on the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. As a result, receipts are recognized when received rather than when earned, and disbursements are recognized when paid rather than when the liability is incurred. Therefore, uncollected billings for storm water management charges of $1,665,292 and $1,650,370 as of December 31, 2017 and 2016, respectively, are not reflected in the statements of cash receipts and disbursements.

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

Statements of Cash Receipts and Disbursements
Years Ended December 31, 2017 and 2016
(With Independent Auditor's Report Thereon)

RSM US LLP

Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying statements of cash receipts and disbursements of Board of Water Works Trustees, Billing and Collection Agent for the Solid Waste Collection Charges for the City of Des Moines, Iowa (the Agent), for the years ended December 31, 2017 and 2016, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial 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 opinion.

Opinion
In our opinion, the financial statements referred to above present fairly, in all material respects, the cash receipts and disbursements of the Agent for the years ended December 31, 2017 and 2016, in accordance with the cash basis of accounting described in Note 2.

Emphasis of Matter
As described in Note 1, the financial statements were prepared for the purpose of complying with a contractual agreement with the City of Des Moines, Iowa. The statements do not purport to, and do not present fairly the financial position of the Board of Water Works Trustees or the Des Moines Water Works as of December 31, 2017 and 2016, and the changes in its financial position for the years then ended, in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

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

RSM US LLP

Des Moines, Iowa
June 19, 2018

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

Statements of Cash Receipts and Disbursements
Years Ended December 31, 2017 and 2016

	2017	2016
Cash receipts, solid waste collection charges	**$ 11,240,811**	$ 11,112,395
Cash disbursements:		
Remittances to the City of Des Moines	**11,044,875**	10,906,704
Billing and collection services	**201,154**	198,381
Total disbursements	**11,246,029**	11,105,085
Receipts over (under) disbursements	**(5,218)**	7,310
Cash balance, beginning of year	**76,530**	69,220
Cash balance, end of year	**$ 71,312**	$ 76,530

See notes to statements of cash receipts and disbursements.

Note 1. Reporting Entity and Nature of Business

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

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

As part of the agreement with the City of Des Moines, Des Moines Water Works bears the total cost of meter reading, cash processing and statement preparation and mailing. And in exchange for these services performed, Des Moines Water Works charges the entities processing fees for these billing and collection services provided.

Note 2. Basis of Accounting

These statements are prepared on the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. As a result, receipts are recognized when received rather than when earned, and disbursements are recognized when paid rather than when the liability is incurred. Therefore, uncollected billings for solid waste collection charges of $958,153 and $957,700 as of December 31, 2017 and 2016, respectively, are not reflected in the statements of cash receipts and disbursements.

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