



**Roll Call Number**

**Agenda Item Number**

**33**

August 9, 2010

**Date**

Receipt of the Des Moines Water Works 2009 Audit Report and Management Letter.

Moved by \_\_\_\_\_ to receive and file.

COUNCIL ACTION	YEAS	NAYS	PASS	ABSENT
COWNIE				
COLEMAN				
GRIESS				
HENSLEY				
MAHAFFEY				
MEYER				
MOORE				
TOTAL				

MOTION CARRIED

APPROVED

\_\_\_\_\_  
Mayor

**CERTIFICATE**

I, DIANE RAUH, City Clerk of said City hereby certify that at a meeting of the City Council of said City of Des Moines, held on the above date, among other proceedings the above was adopted.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my seal the day and year first above written.

\_\_\_\_\_  
City Clerk

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

Des Moines :  
**Water Works**  
Water You Can Trust for Life

2201 George Flagg Parkway | Des Moines, Iowa 50321-1190 | (515) 283-8700 | [www.dmww.com](http://www.dmww.com)

July 27, 2010

Ms. Diane Rauh, City Clerk  
City of Des Moines  
400 Robert D. Ray Drive  
Des Moines, IA 50309

SUBJECT: Des Moines Water Works - 2009 Audit Reports

Dear Diane:

Audited financial statements and accompanying reports for Des Moines Water Works for the 2009 calendar year are enclosed. These reports were prepared by McGladrey & Pullen. The enclosed information was presented and received by the Board of Water Works Trustees at their meeting held June 29, 2010.

Robert Riley, DMWW Board Chair, has asked that you please distribute a copy to the Mayor and to each City Council member.

Sincerely,



Michelle Holland, CPA  
*Controller*

Enclosures

# **Des Moines Water Works**

Report to the Board of Water Works Trustees

June 9, 2010

## **McGladrey & Pullen**

Certified Public Accountants

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

# McGladrey & Pullen

Certified Public Accountants

June 9, 2010

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

We are pleased to present this report related to our audit of the basic financial statements and compliance of Des Moines Water Works for the years ended December 31, 2009 and 2008. This report summarizes certain matters required by professional standards to be communicated to you in your oversight responsibility for Des Moines Water Works' financial and compliance reporting process.

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

*McGladrey & Pullen, LLP*

# Contents

Required Communications	1 – 2
Summary of Accounting Estimates	3
Exhibit A – Certain Written Communications Between Management and Our Firm	
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	
Arrangement Letter	
Representation Letters	

# Required Communications

Auditing guidance requires the auditor to communicate certain matters to keep those charged with governance adequately informed about matters related to the financial statement audit that are, in our professional judgment, significant and relevant to the responsibilities of those charged with governance in overseeing the financial reporting process. The following summarizes these communications:

Area	Comments
<b>Auditor's Responsibility Under Professional Standards</b>	<p>Our responsibility under auditing standards generally accepted in the United States of America and <i>Government Auditing Standards</i>, issued by the Comptroller General of the United States, has been described to you in our arrangement letter dated January 4, 2010.</p>
<b>Accounting Practices</b>	<p><b>Adoption of, or Change in, Accounting Policies</b></p> <p>Management has the ultimate responsibility for the appropriateness of the accounting policies used by the Des Moines Water Works. In the current year, Des Moines Water Works adopted the following Governmental Accounting Standards Board (GASB) Statement.</p> <ul style="list-style-type: none"><li>• GASB Statement No. 52, <i>Land and Other Real Estate Held as Investments by Endowments</i>. This Statement establishes consistent standards for the reporting of land and other real estate held as investments. Endowments were previously required to report their land and other real estate held for investment purposes at historical cost. However, such investments are reported at fair value by similar entities, such as pension plans. The Statement requires endowments to report land and other real estate investments at fair value. The changes in the fair value are to be reported as investment income. This Statement has no effect on the Des Moines Water Works financial statements.</li></ul> <p><b>Significant or Unusual Transactions</b></p> <p>We did not identify any significant or unusual transactions or significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.</p> <p><b>Alternative Treatments Discussed with Management</b></p> <p>We did not discuss with management any alternative treatments within generally accepted accounting principles for accounting policies and practices related to material items during the current audit period.</p>

Area	Comments
<b>Management's Judgments and Accounting Estimates</b>	Summary information about the process used by management in formulating particularly sensitive accounting estimates and about our conclusions regarding the reasonableness of those estimates is in the attached "Summary of Accounting Estimates".
<b>Audit Adjustments</b>	Audit adjustments recorded by Des Moines Water Works are attached with the representation letter included with Exhibit A.
<b>Disagreements with Management</b>	We encountered no disagreements with management over the application of significant accounting principles, the basis for management's judgments on any significant matters, the scope of the audit, or significant disclosures to be included in the financial statements.
<b>Consultations with Other Accountants</b>	We are not aware of any consultations management had with other accountants about accounting or auditing matters.
<b>Significant Issues Discussed with Management</b>	No significant issues arising from the audit were discussed or were the subject of correspondence with management.
<b>Difficulties Encountered in Performing the Audit</b>	We did not encounter any difficulties in dealing with management during the audit.
<b>Accounting Pronouncements</b>	Please refer to Note 9 of the financial statements for new accounting pronouncements that have been recently issued that may affect the entity financial reporting in future periods.
<b>Letter Communicating Significant Deficiencies and Material Weaknesses</b>	We identified no significant deficiencies or material weaknesses during our audit of the financial statements. We have issued a report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with <i>Government Auditing Standards</i> . This report is in Exhibit A.
<b>Certain Written Communications Between Management and Our Firm</b>	<p data-bbox="776 1570 1442 1665">Copies of certain written communications between our firm and the management of Des Moines Water Works are attached as Exhibit A.</p> <p data-bbox="776 1696 1442 1860">We have also separately issued reports on statements of cash receipts and disbursements of Board of Water Works Trustees, Billing and Collecting Agent for the Sewer Service, Solid Waste Collection and Storm Water Management Charges for the City of Des Moines, Iowa.</p>

## Des Moines Water Works

### Summary of Accounting Estimates Year Ended December 31, 2009

Accounting estimates are an integral part of the preparation of financial statements and are based upon management's current judgment. The process used by management encompasses their knowledge and experience about past and current events and certain assumptions about future events. You may wish to monitor throughout the year the process used to compute and record these accounting estimates. The following describes the significant accounting estimates reflected in the entity's December 31, 2009 financial statements:

Area	Accounting Policy	Estimation Process	Comments
<b>Pension Plan and Other Postemployment Benefit Plan Assumptions</b>	Pension plan and other postemployment benefit plan accounting and disclosures are based upon numerous assumptions and estimates, including the expected rate of investment return on retirement plan assets, the interest rate used to determine the present value of liabilities and certain employee-related factors.	The employee-related factors include turnover, participation, retirement age and mortality. These factors and the estimated discount rate and rate of return are based upon historical and general market data. The Water Works used actuary to compute the balances and disclosures.	We tested the information provided to the actuary. We believe the process used by management is reasonable.
<b>Depreciable Life and Salvage Value of Capital Assets</b>	The depreciable life of capital assets is set at the estimated useful life of the related asset. Salvage value is based upon an estimate of what the value of the property will be when the Water Works is through using the related asset.	The determination is made at the time the asset is placed into service and involves various judgments and assumptions, including resale value of used equipment, estimated useful life and prior experience.	We believe the estimates and process used by management is reasonable.
<b>Fair Value of Financial Instruments</b>	The Water Works records the estimated fair value of its investments.	Investment securities are based on quoted market prices.	We tested the propriety of information underlying management's estimates. Based on our procedures, we conclude that management's approach is reasonable.
<b>Unbilled Revenue</b>	The Water Works records a receivable for the estimated amount of revenue related to unbilled water at the end of the year.	The estimated receivable is based on past history and cycles billed after the end of the year.	We tested the information used to calculate the estimated receivable and concluded that management's approach is reasonable.



**Exhibit A – Certain Written Communications Between  
Management and Our Firm**

# McGladrey & Pullen

Certified Public Accountants

## **Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards**

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

We have audited the financial statements of Des Moines Water Works as of and for the year ended December 31, 2009, and have issued our report thereon dated June 9, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

The pension trust fund statement of net assets and statement of changes in net assets were not audited in accordance with *Government Auditing Standards*; therefore, this report does not extend to the pension trust fund.

### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Des Moines Water Works' internal control over financial reporting as a basis for designing our auditing procedures 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 Des Moines Water Works' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Des Moines Water Works' internal control over financial reporting.

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 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether Des Moines Water Works' financial statements are free of 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*.

This report is intended solely for the information and use of management, the Board and others within the entity and is not intended to be and should not be used by anyone other than those specified parties.

*McGladrey & Pullen, LLP*

Davenport, Iowa  
June 9, 2010

# McGladrey & Pullen

Certified Public Accountants

**McGladrey & Pullen, LLP**

201 N. Harrison St., Ste. 300, Davenport, IA 52801-1999

O 563.888.4140 F 563.324.6939

www.mcgladrey.com

January 4, 2010

Board of Trustees  
Des Moines Water Works  
2201 George Flagg Parkway  
Des Moines, Iowa 50321-1190

Attention: Peggy Freese, Director of Finance

This letter is to explain our understanding of the arrangements for the services we are to perform for Des Moines Water Works for the year ended December 31, 2009. We ask that you either confirm or amend this understanding.

## **Audit Services**

We will perform an audit of Des Moines Water Works' basic financial statements as of and for the year ended December 31, 2009. We understand that these financial statements will be prepared in accordance with accounting principles generally accepted in the United States of America. The objective of an audit of financial statements is to express an opinion on those statements.

We are responsible for forming and expressing an opinion about whether the financial statements that have been prepared by management with the oversight of the Board of Trustees and Finance and Audit Committee are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America.

You have informed us that you have not expended more than \$500,000 in federal awards for the fiscal year ended December 31, 2009, the effect of which would require an audit performed in accordance with the Single Audit Act, OMB Circular No. A-133 and OMB's *Compliance Supplement*.

We will conduct the audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement whether caused by error or fraud. Accordingly, a material misstatement may remain undetected. Also, an audit is not designed to detect errors or fraud that are immaterial to the financial statements. The determination of abuse is subjective; therefore, *Government Auditing Standards* do not expect us to provide reasonable assurance of detecting abuse.

An audit of financial statements also includes obtaining an understanding of the entity and its environment, including its internal control, sufficient to assess the risks of material misstatement of the financial statements, and to design the nature, timing, and extent of further audit procedures. An audit is not designed to provide assurance on internal control or to identify significant deficiencies or material weaknesses. However, we will communicate to management and the Board of Trustees and Finance and Audit Committee any significant deficiencies or material weaknesses that become known to us during the course of the audit.

We will also communicate to the Board of Trustees and Finance and Audit Committee (a) any fraud involving senior management and fraud (whether caused by senior management or other employees) that causes a material misstatement of the financial statements, (b) any fraud, illegal acts, violations of provisions of contracts or grant agreements and abuse that come to our attention (unless they are clearly inconsequential), (c) any disagreements with management and other serious difficulties encountered in performing the audit, and (d) various matters related to the entity's accounting policies and financial statements.

In addition to our reports on the Des Moines Water Works' financial statements, we will also issue the following reports or types of reports:

- Reports on internal control related to the financial statements. These report(s) will describe the scope of testing of internal control and the results of our tests of internal controls.
- Reports on compliance with laws, regulations, and the provision of contracts or grant agreements. We will report on any noncompliance which could have a material effect on the financial statements.
- Report on compliance with bond covenants.
- Report to the 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.
- Report to the Board of Water Works Trustees, Agent for Sewer Service Charges for the Storm Water management charges for the City of Des Moines, Iowa, statements of cash receipts and disbursements.
- Report to the Board of Water Works Trustees, Agent for the Storm Water management charges for the City of Des Moines, Iowa, statements of cash receipts and disbursements.

We will also perform an audit of the Des Moines Water Works Pension Plan.

You have informed us there are no component units that are required to be included as part of the Des Moines Water Works' basic financial statements.

Our reports on internal control will include any significant deficiencies and material weaknesses in the system of which we become aware as a result of obtaining an understanding of internal control and performing tests of internal control consistent with requirements of the standards and circulars identified above. Our reports on compliance will address material errors, fraud, abuse, violations of compliance requirements, and other responsibilities imposed by state and federal statutes and regulations and assumed by contracts; and any state or federal grant, entitlement of loan program questioned costs of which we become aware, consistent with requirements of the standards and circulars identified above.

#### **Des Moines Water Works' Responsibilities**

Management is responsible for the financial statements, including the selection and application of accounting policies, adjusting the financial statements to correct material misstatements, and for making all financial records and related information available to us. Management is responsible for providing us with a written management representation letter confirming certain representations made during the course of our audit of the financial statements and affirming to us that it believes the effects of any uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole and to the opinion units of the financial statements.

Management is responsible for establishing and maintaining effective internal control over financial reporting and for informing us of all significant deficiencies and material weaknesses in the design or operation of such controls of which it has knowledge.

Management is responsible for identifying and ensuring that the entity complies with the laws and regulations applicable to its activities, and for informing us about all known material violations of such laws or regulations. In addition, management is responsible for the design and implementation of programs and controls to prevent and detect fraud, and for informing us about all known or suspected fraud affecting the entity involving management, employees who have significant roles in internal control, and others where the fraud could have a material effect on the financial statements. Management is also responsible for informing us of its knowledge of any allegations of fraud or suspected fraud affecting the entity received in communications from employees, former employees, analysts, regulators, or others.

The Board of Trustees and Finance and Audit Committee are responsible for informing us of its views about the risks of fraud within the entity, and its knowledge of any fraud or suspected fraud affecting the entity.

Des Moines Water Works agrees that our report on the financial statements will not be included in an official statement or other document involved with the sale of debt instruments without our prior consent. Additionally, if Des Moines Water Works intends to publish or otherwise reproduce the financial statements and/or make reference to us or our audit, you agree to provide us with printer's proofs or a master for our review and consent before reproduction and/or release occurs. You also agree to provide us with a copy of the final reproduced material for our consent before it is distributed or released. Our fees for any additional services that may be required under our quality assurance systems as a result of the above will be established with you at the time such services are determined to be necessary. In the event our auditor/client relationship has been terminated when the Organization seeks such consent, we will be under no obligation to grant such consent or approval.

Our professional standards require that we perform certain additional procedures, on current and previous years' engagements, whenever a partner or professional employee leaves the firm and is subsequently employed by or associated with a client. Accordingly, Des Moines Water Works agrees it will compensate McGladrey & Pullen, LLP for any additional costs incurred as a result of the employment of a partner or professional employee of McGladrey & Pullen, LLP.

During the course of our engagement, we may accumulate records containing data that should be reflected in the Des Moines Water Works' books and records. The Water Works will determine that all such data, if necessary, will be so reflected. Accordingly, the Water Works will not expect us to maintain copies of such records in our possession.

The assistance to be supplied by District personnel, including the preparation of schedules and analyses of accounts, has been discussed and coordinated with you. The timely and accurate completion of this work is an essential condition to our completion of the audit and issuance of our audit report.

#### **Other Terms of our Engagement**

Des Moines Water Works hereby indemnifies McGladrey & Pullen, LLP and its partners and employees and holds them harmless from all claims, liabilities, losses, and costs arising in circumstances where there has been a known misrepresentation by a member of Des Moines Water Works' management, regardless of whether such person was acting in Des Moines Water Works' interest. This indemnification will survive termination of this letter.

Our fees are based upon the time required by the individuals assigned to the engagement, plus direct expenses. Interim billings will be submitted as work progresses and as expenses are incurred. Billings are due upon submission. Our fee for the services described in the letter will not exceed \$43,550 for the financial statement audit, excluding the Pension Audit, unless the scope of the engagement is changed, the assistance which the Water Works has agreed to furnish is not provided, or unexpected conditions are encountered, in which case we will discuss the situation with you before proceeding. All other provisions of this letter will survive any fee adjustment.

In the event we are requested or authorized by Des Moines Water Works or are required by Des Moines Water Works or are required by government regulation, subpoena, or other legal process to produce our documents or our personnel as witnesses with respect to our engagements for Des Moines Water Works, Des Moines Water Works will, so long as we are not a party to the proceeding in which the information is sought, reimburse us for our professional time and expenses, as well as the fees and expenses of our counsel, incurred in responding to such requests.

The working papers for this engagement are the property of McGladrey & Pullen, LLP. However, you acknowledge and grant your assent that representatives of the cognizant or oversight agency or their designee, other government audit staffs, and the U.S. Government Accountability Office shall have access to the audit working papers upon their request; and that we shall maintain the working papers for a period of at least three years after the date of the report, or for a longer period if we are requested to do so by the cognizant or oversight agency. Access to requested workpapers will be provided under the supervision of McGladrey & Pullen audit personnel and at a location designated by our Firm.

From time to time and depending upon the circumstances, we may use third-party service providers to assist us in providing professional services to you. In such circumstances, it may be necessary for us to disclose confidential client information to them. We enter into confidentiality agreements with all third-party service providers and we are satisfied that they have appropriate procedures in place to prevent the unauthorized release of your confidential information to others.

If circumstances arise relating to the conditions of your records, the availability of appropriate audit evidence, or indications of a significant risk of material misstatement of the financial statements because of error, fraudulent financial reporting, misappropriation of assets, or noncompliance which in our professional judgment prevent us from completing the audit or forming an opinion, we retain the unilateral right to take any course of action permitted by professional standards, including declining to express an opinion or issue a report, or withdrawal from the engagement.

The two overarching principles of the independence standards of the *Government Auditing Standards* issued by the Comptroller General of the United States provide that management is responsible for the substantive outcomes of the works, and therefore, has a responsibility and is able to make any informed judgment on the results of the services described above. Accordingly, the Des Moines Water Works agrees to the following:

- Michelle Holland, Controller, will be accountable and responsible for overseeing the draft of financial statements and trial balance adjustments.
- Des Moines Water Works will establish and monitor the performance of the the draft of financial statements and trial balance adjustments to ensure that they meet management's objectives.
- Des Moines Water Works will make any decisions that involve management functions related to the draft of financial statements and trial balance adjustments and accepts full responsibility for such decisions.
- Des Moines Water Works will evaluate the adequacy of services performed and any findings that result.

In connection with compliance with the Health Insurance Portability and Accountability Act (HIPAA):

- a. McGladrey & Pullen, LLP agrees not to use or disclose Protected Health Information (as defined in 45 CFR 160.103) other than as permitted or required by this arrangement letter (the "Agreement"), as required by operation of law, or as required by auditing standards or accounting principles.
- b. McGladrey & Pullen, LLP agrees to use appropriate safeguards to prevent use or disclosure of the Protected Health Information other than as provided for by this Agreement. The Firm agrees to implement administrative, physical and technical safeguards that reasonably and appropriately protect the confidentiality, integrity, and availability of electronic Protected Health Information that it creates, receives, maintains or transmits.

- c. McGladrey & Pullen, LLP agrees to report to Des Moines Water Works any use or disclosure of the Protected Health Information not provided for by this Agreement and/or any Security Incident (as defined in 45 CFR 164.304) of which it becomes aware.
- d. McGladrey & Pullen, LLP agrees to ensure that any agent, including a subcontractor, to whom it provides Protected Health Information, received from, or created or received by McGladrey & Pullen, LLP on behalf of Des Moines Water Works agrees to the same restrictions and conditions that apply through this Agreement to McGladrey & Pullen, LLP with respect to such information. Moreover, the Firm agrees to ensure that any such agent or subcontractor to whom it provides electronic Protected Health Information agrees to implement reasonable and appropriate safeguards to protect it.
- e. Des Moines Water Works shall not request McGladrey & Pullen, LLP to use or disclose Protected Health Information in any manner that would not be permissible under the Privacy Rule if done by Des Moines Water Works.
- f. McGladrey & Pullen, LLP may use and disclose Protected Health Information (a) for the proper management and administration of its business under this contract, (b) to provide Data Aggregation Services relating to the Health Care Operations of Des Moines Water Works, and (c) to report violations of law to appropriate federal and state authorities, all as provided in the Privacy Rule.
- g. McGladrey & Pullen, LLP agrees to document such disclosures of Protected Health Information made by McGladrey & Pullen, LLP and information related to such disclosures as would be required for Des Moines Water Works to respond to a request by an individual for an accounting of disclosures of Protected Health Information in accordance with the Privacy Rule. McGladrey & Pullen, LLP further agrees to provide Des Moines Water Works or an individual, upon request, with such information to permit Des Moines Water Works to respond to a request by an individual for an accounting of disclosures of Protected Health Information in accordance with 45 CFR Sec. 164.528.
- h. At no time will McGladrey & Pullen, LLP have possession and/or control of Des Moines Water Works' patients' 'Designated Record Sets' or any copies thereof. The Protected Health Information created or maintained by McGladrey & Pullen, LLP is not part of the patient's Designated Record Set and is, therefore, not subject to the Privacy Rule's patient access or amendment rights. Consequently, 45 CFR Part 164.524 and 164.526 [and, therefore, 45 CFR Part 164.504(e)(2)(ii) subparts (E) and (F)] are not applicable to McGladrey & Pullen, LLP.
- i. McGladrey & Pullen, LLP agrees to make its internal practices, books, and records, including policies and procedures and Protected Health Information, relating to the use and disclosures of Protected Health Information received from Des Moines Water Works available to Des Moines Water Works or the Secretary of the U.S. Department of Health and Human Services or his/her designee promptly for purposes of determining the Des Moines Water Works' compliance with the Privacy Regulations.
- j. Term and Termination
  - i. The Term of this Agreement regarding Protected Health Information shall be effective as of January 4, 2010, and shall terminate when all of the Protected Health Information provided by Des Moines Water Works to McGladrey & Pullen, LLP or received by McGladrey & Pullen, LLP on behalf of Des Moines Water Works, is destroyed. If it is infeasible to destroy Protected Health Information, protections of this contract are extended to such information, in accordance with the termination provisions in this Section.
  - ii. Termination for Cause. Upon Des Moines Water Works' knowledge of a material breach by McGladrey & Pullen, LLP, Des Moines Water Works shall either:



1. Provide an opportunity for McGladrey & Pullen, LLP to cure the breach or end the violation and terminate this agreement if McGladrey & Pullen, LLP does not cure the breach or end the violation within the time specified by Des Moines Water Works,
2. Immediately terminate this Agreement, if McGladrey & Pullen, LLP has breached a material term of this Agreement and cure is not possible; or
3. If neither termination nor cure are feasible, Des Moines Water Works shall report the violation to the Secretary of the Department of Health & Human Services.

iii. Effect of Termination.

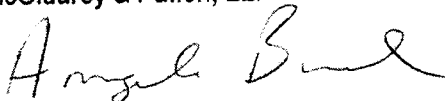
1. Except as provided in paragraph (ii) of this section, upon termination of this Agreement, for any reason, McGladrey & Pullen, LLP shall destroy all Protected Health Information received from Des Moines Water Works, or received by McGladrey & Pullen, LLP on behalf of Des Moines Water Works in accordance with their audit record retention policy. This provision shall apply to Protected Health Information that is in the possession of subcontractors or agents of McGladrey & Pullen, LLP. McGladrey & Pullen, LLP shall retain no copies of the Protected Health Information beyond their normal retention period as required for their compliance with applicable professional standards.
2. In the event that McGladrey & Pullen, LLP determines that destroying the Protected Health Information is infeasible, we shall provide to Des Moines Water Works notification of the conditions that make return or destruction infeasible. Upon any notice that destruction of Protected Health Information is infeasible, McGladrey & Pullen, LLP shall extend the protections of this Agreement to such Protected Health Information and limit further uses and disclosures of such Protected Health Information to those purposes that make destruction infeasible, for so long as McGladrey & Pullen, LLP maintains such Protected Health Information.

This letter constitutes the complete and exclusive statement of agreement between McGladrey & Pullen and Des Moines Water Works, superseding all proposals, oral or written, and all other communication, with respect to the terms of the engagement between the parties.

In accordance with *Government Auditing Standards*, a copy of our most recent peer review report and applicable letter of comment is enclosed for your information.

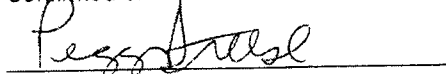
If this letter defines the arrangements as you understand them, please sign and date the enclosed copy, and return it to us. We appreciate your business.

McGladrey & Pullen, LLP



Angela Burch, Director

Confirmed on Des Moines Water Works:



Jan 26, 2010



To the Partners of McGladrey & Pullen, LLP  
and the Center for Public Company Audit Firms Peer Review Committee

We have reviewed the system of quality control for the accounting and auditing practice of McGladrey & Pullen, LLP (the Firm) applicable to non-SEC issuers in effect for the year ended April 30, 2007. The Firm's accounting and auditing practice applicable to SEC issuers was not reviewed by us, since the Public Company Accounting Oversight Board (PCAOB) is responsible for inspecting that portion of the Firm's accounting and auditing practice in accordance with PCAOB requirements. A system of quality control encompasses the Firm's organizational structure and the policies adopted and procedures established to provide it with reasonable assurance of complying with professional standards. The elements of quality control are described in the Statements on Quality Control Standards issued by the American Institute of Certified Public Accountants (the AICPA). The design of the system, and compliance with it, are the responsibilities of the Firm. Our responsibility is to express an opinion on the design of the system, and the Firm's compliance with that system based on our review.

Our review was conducted in accordance with standards established by the Peer Review Committee of the Center for Public Company Audit Firms and included procedures to plan and perform the review that are summarized in the attached description of the peer review process. Our review would not necessarily disclose all weaknesses in the system of quality control or all instances of lack of compliance with it since it was based on selective tests. Because there are inherent limitations in the effectiveness of any system of quality control, departures from the system may occur and not be detected. Also, projection of any evaluation of a system of quality control to future periods is subject to the risk that the system of quality control may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the system of quality control for the accounting and auditing practice applicable to the non-SEC issuers of McGladrey & Pullen, LLP in effect for the year ended April 30, 2007, has been designed to meet the requirements of the quality control standards for an accounting and auditing practice established by the AICPA, and was complied with during the year then ended to provide the Firm with reasonable assurance of complying with applicable professional standards.

\* \* \*

As is customary in a peer review, we have issued a letter under this date that sets forth comments relating to certain policies and procedures or compliance with them. The matters described in the letter were not considered to be of sufficient significance to affect the opinion expressed in this report.

*BKD, LLP*

November 30, 2007

## **Attachment to the Peer Review Report of McGladrey & Pullen, LLP Description of the Peer Review Process**

### **Overview**

Firms enrolled in the AICPA Center for Public Company Audit Firms (the Center) Peer Review Program have their system of quality control periodically reviewed by independent peers. These reviews are system and compliance oriented with the objectives of evaluating the following:

- Whether the reviewed firm's system of quality control for its accounting and auditing practice applicable to non-SEC issuers has been designed to meet the requirements of the Quality Control Standards established by the AICPA.
- Whether the reviewed firm's quality control policies and procedures applicable to non-SEC issuers were being complied with to provide the firm with reasonable assurance of complying with professional standards.

A peer review is based on selective tests and directed at assessing whether the design of and compliance with the firm's system of quality control for its accounting and auditing practice applicable to non-SEC issuers provides the firm with reasonable, not absolute, assurance of complying with professional standards. Consequently a peer review on the firm's system of quality control is not intended to, and does not, provide assurance with respect to any individual engagement conducted by the firm or that none of the financial statements audited by the firm should be restated.

The Center's Peer Review Committee (PRC) establishes and maintains peer review standards. At regular meetings and through report evaluation task forces, the PRC considers each peer review, evaluates the reviewer's competence and performance, and examines every report, letter of comments, and accompanying response from the reviewed firm that states its corrective action plan before the peer review is finalized. The Center's staff plays a key role in overseeing the performance of peer reviews working closely with the peer review teams and the PRC.

Once the PRC accepts the peer review reports, letters of comments, and reviewed firms' responses, these documents are maintained in a file available to the public. In some situations, the public file also includes a signed undertaking by the firm agreeing to specific follow-up action requested by the PRC.

Firms that perform audits or play a substantial role in the audit of one or more SEC issuers, as defined by the Public Company Accounting Oversight Board (PCAOB), are required to be registered with and have their accounting and auditing practice applicable to SEC issuers inspected by the PCAOB. Therefore, we did not review the firm's accounting and auditing practice applicable to SEC issuers.

### **Planning the Review for the Firm's Accounting and Auditing Practice Applicable to Non-SEC Issuers**

To plan the review of McGladrey & Pullen, LLP, we obtained an understanding of (1) the nature and extent of the firm's accounting and auditing practice, and (2) the design of the firm's system of quality control sufficient to assess the inherent and control risks implicit in its practice. Inherent risks were assessed by obtaining an understanding of the firm's practice, such as the industries of its clients and other factors of complexity in serving those clients, and the organization of the firm's personnel into practice units. Control risks were assessed by obtaining an understanding of the design of the firm's system of quality control, including its audit methodology, and monitoring procedures. Assessing control risk is the process of evaluating the effectiveness of the reviewed firm's system of quality control in preventing the performance of engagements that do not comply with professional standards.

### **Performing the Review for the Firm's Accounting and Auditing Practice Applicable to Non-SEC Issuers**

Based on our assessment of the combined level of inherent and control risks, we identified practice units and selected engagements within those units to test for compliance with the firm's system of quality control. The engagements selected for review included engagements performed under the Government Auditing Standards, audits performed under FDICIA, multi-office audits, and audits of Employee Benefit Plans. The engagements selected for review represented a cross-section of the firm's accounting and auditing practice with emphasis on higher-risk engagements. The engagement reviews included examining working paper files and reports and interviewing engagement personnel.

The scope of the peer review also included examining selected administrative and personnel files to determine compliance with the firm's policies and procedures for the elements of quality control pertaining to independence, integrity, and objectivity; personnel management; and acceptance and continuance of clients and engagements. Prior to concluding the review, we reassessed the adequacy of scope and conducted a meeting with firm management to discuss our findings and recommendations.



To the Partners of McGladrey & Pullen, LLP  
and the Center for Public Company Audit Firms Peer Review Committee

We have reviewed the system of quality control for the accounting and auditing practice of McGladrey & Pullen, LLP (the Firm) applicable to non-SEC issuers in effect for the year ended April 30, 2007. The matters described below were not considered to be of sufficient significance to affect the opinion expressed in that report, which should be read in conjunction with this letter.

### **Engagement Performance**

*Comment* – The firm has followed two different methodologies for supporting a low control risk assessment for certain relevant assertions for significant account balances. Substantially all audits in a niche industry practice are performed using one methodology, while the rest of the firm uses the methodology in the firm's commercial audit manual. The alternative niche practice allowed for lower testing requirements than the standard approach in the manual. The support for the alternative approach for sampling is not documented in the manual, however, no departures from generally accepted auditing standards were noted.

*Recommendation* – We believe the alternative approach should be reconsidered. Any approved alternative methodology should be appropriately documented in the audit manual.

*BKD, LLP*

November 30, 2007

# McGladrey & Pullen

Certified Public Accountants

November 30, 2007

Center for Public Company Audit Firms Peer Review Committee  
C/o American Institute of Certified Public Accountants  
Practice Monitoring Department  
220 Leigh Farm Road  
Durham, NC 27707

Ladies and Gentlemen:

This letter represents our response to the letter of comments issued in connection with our firm's peer review for the year ended April 30, 2007 and should be read in conjunction with that letter. Implementation of the actions set out in this letter will be monitored in connection with our annual inspection program.

Prior to January 31, 2008, the Firm's National Office of Audit and Accounting will reconsider the methods used for testing key controls in this niche industry and either conform the methodology to the methodology specified in the commercial audit manual or document the basis for any approved alternative methodology in the respective industry manual.

*McGladrey & Pullen, LLP*

**DES MOINES WATER WORKS**

Board of Water Works Trustees

**Des Moines  
Water Works**  
Water You Can Trust for Life2201 George Flagg Parkway | Des Moines, Iowa 50321-1190 | (515) 283-8700 | [www.dmww.com](http://www.dmww.com)

June 9, 2010

McGladrey & Pullen, LLP  
201 North Harrison Street  
Suite 300  
Davenport, Iowa 52801

In connection with your audit of the basic financial statements of Des Moines Water Works, Iowa as of and for the years ended December 31, 2009 and 2008, we confirm that we are responsible for the fair presentation in the financial statements of financial position, changes in financial position, and cash flows in conformity with accounting principles generally accepted in the United States of America.

We confirm to the best of our knowledge and belief, as of June 9, 2010 the following representations made to you during your audits:

1. The financial statements referred to above are fairly presented in conformity with accounting principles generally accepted in the United States of America.
2. There are no organizations that are a part of this reporting entity or with which we have a relationship, as these organizations are defined in Section 2100 of the Governmental Accounting Standards Board's Codification of Governmental Accounting and Financial Reporting Standards, that are:
  - a. Component units.
  - b. 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.
  - c. Jointly governed organizations in which we participated.
3. We have identified for you all of our funds and identifiable business-type activities.
4. We have properly classified all funds and activities.
5. We are responsible for compliance with laws and regulations applicable to Des Moines Water Works, including adopting, approving and amending budgets.
6. We have identified and disclosed to you all laws and regulations that have a direct and material effect on the determination of financial statement amounts including legal and contractual provisions for reporting specific activities in separate funds.

7. We have made available to you:
  - a. All financial records and related data of all activities, including those of all programs, departments, projects, activities, etc., in existence at any time during the period covered by your audit.
  - b. All minutes of the meetings of the governing board and committees of board members or summaries of actions of recent meetings for which minutes have not yet been prepared.
8. We have no knowledge of fraud or suspected fraud affecting the entity involving:
  - a. Management.
  - b. Employees who have significant roles in the internal control, or
  - c. Others where the fraud could have a material effect on the financial statements.
9. We acknowledge our responsibility for the design and implementation of programs and controls to provide reasonable assurance that fraud is prevented and detected.
10. We have no knowledge of any allegations of fraud or suspected fraud affecting Des Moines Water Works received in communications from employees, former employees, analysts, regulators, short sellers or others.
11. We are aware of no significant deficiencies, including material weaknesses, in the design or operation of internal controls that could adversely affect the entity's ability to record, process, summarize and report financial data.
12. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
13. We have no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.
14. The following have been properly recorded and/or disclosed in the financial statements:
  - a. 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 all as defined in Section 2100 of the Governmental Accounting Standards Board's Codification of Governmental Accounting and Financial Reporting Standards, and interfund transactions, including interfund accounts and advances receivable and payable, sale and purchase transactions, interfund transfers, long-term loans, leasing arrangements, and guarantees, all of which have been recorded in accordance with the economic substance of the transaction and appropriately classified and reported.
  - b. The fair value of investments.
  - c. Amounts of contractual obligations for construction and purchase of real property or equipment not included in the liabilities or encumbrances recorded on the books.

- d. Debt issue provisions.
  - e. All significant estimates and material concentrations known to management which are required to be disclosed in accordance with the AICPA's Statement of Position No. 94-6, *Disclosure of Certain Significant Risks and Uncertainties*. Significant estimates are estimates at the balance sheet date which could change materially within the next year. Concentrations refer to volumes of business, revenues, available sources of supply, or markets for which events could occur which would significantly disrupt normal finances within the next year.
  - f. The effect on the financial statements of GASB Statement Nos. 51 and 53, which have been issued, but which we have not yet adopted.
  - g. Deposits and investment securities category of custodial credit risk.
  - h. Restrictions of cash and investments.
  - i. Arbitrage rebate liabilities.
  - j. Assets and liabilities measured at fair value.
  - k. Risk financing activities.
15. We are responsible for making the accounting estimates included in the financial statements. Those estimates 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. In that regard, adequate provisions have been made:
- a. To reduce receivables to their estimated net collectable amounts.
  - b. To reduce obsolete, damaged, or excess inventories to their estimated net realizable values.
  - c. For risk retention, including uninsured losses or loss retentions (deductibles) attributable to events occurring through December 31, 2009 and/or for expected retroactive insurance premium adjustments applicable to periods through December 31, 2009.
  - d. For pension obligations, post-retirement benefits other than pensions, and deferred compensation agreements attributable to employee services rendered through December 31, 2009.
16. There are no:
- a. Material transactions that have not been properly recorded in the accounting records underlying the financial statements.
  - b. Violations or possible violations of laws or regulations whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency. In that regard, we specifically represent that we have not been designated as, or alleged to be, a "potentially responsible party" by the Federal Environmental Protection Agency or any equivalent state agencies in connection with any environmental contamination.



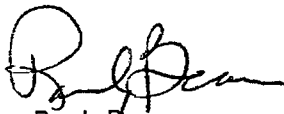
- c. Other material liabilities or gain or loss contingencies that are required to be accrued or disclosed by Statement of Financial Accounting Standards No. 5 and/or GASB Statement No. 10.
  - d. Guarantees, whether written or oral, under which Des Moines Water Works is contingently liable.
  - e. Arrangements with financial institutions involving compensating balances.
  - f. Line of credit or similar arrangements.
  - g. Agreements to repurchase assets previously sold.
  - h. Security agreements in effect under the Uniform Commercial Code.
  - i. Liens or encumbrances on assets or revenues or any assets or revenues which were pledged as collateral for any liability or which were subordinated in any way.
  - j. Liabilities which are subordinated in any way to any other actual or possible liabilities.
  - k. Debt issue repurchase options or agreements, or sinking fund debt repurchase ordinance requirements.
  - l. Leases or material amounts of rental obligations under long-term leases.
  - m. Authorized but unissued bonds and/or notes.
  - n. Derivative financial instruments.
  - o. Special and extraordinary items.
  - p. Impairment of capital assets.
  - q. Investments, intangibles or other assets which have permanently declined in value to their realizable values.
  - r. Material loss to be sustained in the fulfillment of, or from the inability to fulfill, any service commitments.
  - s. Material loss to be sustained as a result of purchase commitments.
  - t. Environmental cleanup obligations.
17. There are no unasserted claims or assessments that our lawyer has advised us are probable of assertion and must be disclosed in accordance with Statement of Financial Accounting Standards No. 5 and/or GASB Statement No.10.
18. We have no direct or indirect, legal or moral, obligation for any debt of any organization, public or private, that is not disclosed in the financial statement.
19. We have satisfactory title to all owned assets.

20. We have complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
21. Net asset components invested in capital assets, net of related debt; restricted and unrestricted are properly classified and, when applicable, approved.
22. Expenses have been appropriately classified.
23. Revenues are appropriately classified.
24. Capital assets, including infrastructure assets, are properly capitalized, reported and depreciated.
25. Required supplementary information is properly measured and presented.
26. We are responsible for and have reviewed and approved the proposed adjustments to the trial balances identified during the audit, which are included in the summarized schedule of posted adjustments and will post all adjustments accordingly. These adjustments are attached. We have reviewed, approved, and are responsible for overseeing the preparation and completion of the basic financial statements and related notes.
27. The adoption of GASB 52 is appropriate. Statement No. 52 had no effect on the financial statements.
28. In connection with your audit, conducted in accordance with *Government Auditing Standards*, we confirm:
  - a. We are responsible for:
    - i. Compliance with the laws, regulations and provisions of contracts and grant agreements applicable to Des Moines Water Works.
    - ii. Establishing and maintaining effective internal control over financial reporting.
  - b. We have identified and disclosed to you:
    - i. All laws, regulations and provisions of contracts and grant agreements that have a direct and material effect on the determinations of financial statement amounts or other financial data significant to audit objectives.
    - ii. Violations (and possible violations) of laws, regulations and provisions of contracts and grant agreements whose effects should be considered for disclosure in the auditor's report on noncompliance.
  - c. We have a process to track the status of audit findings and recommendations.
  - d. We have identified for you previous financial audits, attestation engagements, performance of audits, or other studies related to the objectives of the audit being undertaken and the corrective action taken to address significant findings and recommendations.
  - e. We have reviewed, approved, and take full responsibility for all accrual adjustments and an acknowledgement of the auditor's role in the preparation of the adjustments.

No events or transactions have occurred subsequent to the balance sheet date that would require adjustment to, or disclosure in, the financial statements.

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

**Des Moines Water Works**



Randy Beavers  
Chief Executive Officer



Peggy Freese  
Director of Finance



Michelle Holland  
Controller

# Des Moines Water Works

## Attachment

Number	Date	Name	Account No	Reference	Debit	Credit	Net Income (Loss)	Amount Chg
Net Income (Loss) Before Adjustments							9,546,883.88	
3	12/31/2009	Deferred Revenue Current	202700	8002		395,518.96		
3	12/31/2009	Intergovernmental Revenue	905100	8002	395,518.96			
To adjust for advance received from FEMA					395,518.96	395,518.96	9,153,364.92	(395,518.96)
4	12/31/2009	Construction in Progress	108100	4005		69,808.00		
4	12/31/2009	Interest Expense	902100	4005	69,808.00			
To adjust capitalized interest to actual					69,808.00	69,808.00	9,083,556.92	(69,808.00)
8	12/31/2009	Sales Tax Receivable	105400	208		58,722.29		
8	12/31/2009	Purchased Services	701100	208	58,722.29			
Client provided entry to write off sales tax receivable not collected					58,722.29	58,722.29	8,824,834.63	(58,722.29)
9	12/31/2009	Contracts Payable	201200	2020	2,624,986.00			
9	12/31/2009	Capital Contributions	909110	2020		2,624,986.00		
To reduce contracts payable for amount State of Iowa is not going to request for payment on I-235 project, but is instead contributing to DMWW.					2,624,986.00	2,624,986.00	11,649,820.63	2,624,986.00
							3,149,035.25	3,149,035.25
							11,649,820.63	2,100,935.76

**DES MOINES WATER WORKS**

Board of Water Works Trustees

**Des Moines  
Water Works**  
Water You Can Trust for Life2201 George Flagg Parkway | Des Moines, Iowa 50321-1190 | (515) 283-8700 | [www.dmww.com](http://www.dmww.com)

June 9, 2010

McGladrey & Pullen, LLP  
201 North Harrison Street  
Suite 300  
Davenport, Iowa 52801

In connection with your audits of the statements of cash receipts and disbursements of Board of Water Works Trustees, Billing and Collection Agent for the Sewer Service, Solid Waste Collection and Storm Water Management Charges for the City of Des Moines, Iowa as of and for the years ended December 31, 2009 and 2008, we confirm that we are responsible for the fair presentation in the financial statements of cash receipts and disbursements in conformity with cash basis accounting.

We confirm to the best of our knowledge and belief, as of June 9, 2010 the following representations made to you during your audits:

1. The financial statements referred to above are fairly presented in conformity with the basis of cash receipts and disbursements which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.
2. We are responsible for compliance with the contractual agreement with the City of Des Moines, Iowa.
3. We have made available to you all financial records and related data in existence at any time during the period covered by your audit.
4. We have no knowledge of fraud or suspected fraud affecting the entity involving:
  - a. Management or employees who have significant roles in the internal control.
  - b. Others where the fraud could have a material effect on the financial statements.
5. We acknowledge our responsibility for the design and implementation of programs and controls to provide reasonable assurance that fraud is prevented and detected.
6. We have no knowledge of any allegations of fraud or suspected fraud affecting Des Moines Water Works received in communications from employees, former employees, analysts, regulators, short sellers or others.
7. We are aware of no significant deficiencies, including material weaknesses, in the design or operation of internal controls that could adversely affect the entity's ability to record, process, summarize and report financial data.

8. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
9. There are no material transactions that have not been properly recorded in the accounting records underlying the financial statements.
10. We have complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.

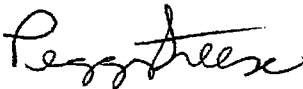
No events or transactions have occurred subsequent to the balance sheet date that would require adjustment to, or disclosure in, the financial statements.

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

**Des Moines Water Works**



Randy Beavers  
Chief Executive Officer



Peggy Freese  
Director of Finance



Michelle Holland  
Controller

# **Des Moines Water Works**

Financial Report

12.31.2009

## Contents

<b>Independent Auditor's Report</b>	1
Management's discussion and analysis	2 – 8
<b>Basic financial statements</b>	
Balance sheets	9 – 10
Statements of revenues, expenses and changes in net assets	11
Statements of cash flows	12 – 13
Statements of plan net assets	14
Statements of changes in plan net assets	15
Notes to basic financial statements	16 – 35
<b>Required supplementary information</b>	
Other postemployment benefit plan	36
Schedule of funding progress	37
Schedule of contributions from the employer	38
Note to required supplementary information	39



# McGladrey & Pullen

Certified Public Accountants

## Independent Auditor's Report

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

We have audited the accompanying basic financial statements of Des Moines Water Works (Water Works) as of and for the years ended December 31, 2009 and 2008, as listed in the table of contents. These financial statements are the responsibility of the Des Moines Water Works' management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Des Moines Water Works as of December 31, 2009 and 2008 and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 2 through 8, other postemployment benefit plan schedule on page 36 and pension plan schedules on pages 37 through 39 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

*McGladrey & Pullen, LLP*

Davenport, Iowa  
June 9, 2010

## **Des Moines Water Works**

### **Management's Discussion and Analysis Year Ended December 31, 2009**

---

Our Management's Discussion and Analysis (MD&A) of Des Moines Water Works' (Water Works) financial performance provides an overview of the utility's financial activities for the years ended December 31, 2009 and 2008. Please consider this information in conjunction with the financial statements and the accompanying notes to basic financial statements that follow this section.

#### **Overview of Business**

The service area of the Water Works has expanded significantly since its emergence as a public water utility in 1919. In addition to serving customers within the City of Des Moines, Water Works provides wholesale water service based on long-term water contracts to surrounding municipalities and rural water districts, accounting for roughly 25 percent of total water revenues. This service area spans approximately 400 square miles, including most of Polk County and communities in eastern Dallas County and northern Warren County. The utility also provides billing and collection services on a contractual basis to wholesale customers and billing and collection services to the City of Des Moines for wastewater treatment, solid waste collection and the storm water utility.

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

The water sources for the system are the Raccoon River, the Des Moines River, an underground infiltration gallery and wells along the Raccoon River near Maffitt Reservoir. These four sources are used to provide adequate supply in the most cost-effective combination. The utility operates two treatment plants, with one of those plants being operated remotely. An additional treatment plant is currently being developed in the northern segment of the utility's service area to meet growing demand in that area.

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 12 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**

- Water Works' net assets increased as a result of operations. As of December 31, 2009 and 2008, total assets were \$295,960,262 and \$290,270,404, respectively; total liabilities were \$92,887,996 and \$98,847,959, respectively, resulting in net assets of \$203,072,266 and \$191,422,445, respectively.
- In 2009, operating revenues of \$41,113,730 increased 6.88 percent over 2008, while operating expenses in 2009 increased 3.04 percent to \$36,009,411. Operating revenues of \$38,468,025 in 2008 decreased less than one percent from 2007, while operating expenses increased approximately 3.06 percent to \$34,946,376.
- During the year, Water Works had operating income of \$5,104,319 and change in net assets of \$11,649,821. This compares to operating income of \$3,521,649 and change in net assets of \$4,752,681 reported in 2008.

## **Des Moines Water Works**

### **Management's Discussion and Analysis Year Ended December 31, 2009**

---

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

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

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

#### **Condensed Financial Information**

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

## Des Moines Water Works

### Management's Discussion and Analysis Year Ended December 31, 2009

#### Condensed Balance Sheet Information

	2009	2008	2007	% Change 2008 to 2009	% Change 2007 to 2008
Current assets	\$ 21,672,708	\$ 24,660,081	\$ 26,902,959	(12.11)%	(8.34)%
Capital assets, net	252,246,879	241,322,908	233,569,476	4.53	3.32
Other noncurrent assets	22,040,675	24,287,415	29,634,514	(9.25)	(18.04)
<b>Total assets</b>	<b>295,960,262</b>	<b>290,270,404</b>	<b>290,106,949</b>	<b>1.96</b>	<b>0.06</b>
Current liabilities	14,119,218	15,769,454	16,187,541	(10.46)	(2.58)
Other noncurrent liabilities	16,218,778	16,488,505	16,747,644	(1.64)	(1.55)
Long-term debt	62,550,000	66,590,000	70,502,000	(6.07)	(5.55)
<b>Total liabilities</b>	<b>92,887,996</b>	<b>98,847,959</b>	<b>103,437,185</b>	<b>(6.03)</b>	<b>(4.44)</b>
Invested in capital assets, net of related debt	189,377,017	179,918,504	178,663,763	5.26	0.70
Restricted	23,751,056	25,988,574	24,849,822	(8.61)	4.58
Unrestricted	(10,055,807)	(14,484,633)	(16,843,821)	(30.58)	(14.01)
<b>Total net assets</b>	<b>\$ 203,072,266</b>	<b>\$ 191,422,445</b>	<b>\$ 186,669,764</b>	<b>6.09</b>	<b>2.55</b>

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

	2009	2008	2007	% Change 2008 to 2009	% Change 2007 to 2008
Water sales	\$ 35,224,878	\$ 32,870,245	\$ 32,649,976	7.16%	0.67%
Billing and collection services	1,009,751	923,930	991,648	9.29	(6.83)
Connection fees	425,167	478,954	725,359	(11.23)	(33.97)
Purchased capacity	1,311,808	1,335,264	1,330,631	(1.76)	0.35
Other sales and services	3,142,126	2,859,632	2,893,530	9.88	(1.17)
<b>Total operating revenues</b>	<b>41,113,730</b>	<b>38,468,025</b>	<b>38,591,144</b>	<b>6.88</b>	<b>(0.32)</b>
Investment income	551,818	1,564,931	2,943,034	(64.74)	(46.83)
Other	192,072	175,862	179,154	9.22	(1.84)
Capital contributions	6,466,848	1,326,051	630,155	387.68	70.17
<b>Total revenues</b>	<b>48,324,468</b>	<b>41,534,869</b>	<b>42,343,487</b>	<b>16.35</b>	<b>(1.91)</b>
Labor and benefits	15,510,531	14,999,615	13,523,064	3.41	10.92
Chemicals and power	5,987,666	5,791,656	5,356,622	3.38	8.12
Corporate Insurance	938,496	864,285	965,607	8.59	(10.49)
Purchased services	3,740,493	3,661,378	3,346,776	2.16	9.40
Materials, supplies and equipment	2,959,322	3,021,496	3,155,726	(2.06)	(4.25)
Depreciation	6,449,683	6,271,439	7,242,073	2.84	(13.40)
Other	423,220	336,507	318,871	25.77	5.53
<b>Total operating expenses</b>	<b>36,009,411</b>	<b>34,946,376</b>	<b>33,908,739</b>	<b>3.04</b>	<b>3.06</b>
Interest expense	606,254	1,835,812	2,660,093	(66.98)	(30.99)
Gain/loss on sale of fixed assets	58,982	-	-	100.00	-
<b>Total expenses</b>	<b>36,674,647</b>	<b>36,782,188</b>	<b>36,568,832</b>	<b>(0.29)</b>	<b>0.58</b>
<b>Change in net assets</b>	<b>11,649,821</b>	<b>4,752,681</b>	<b>5,774,655</b>	<b>145.12</b>	<b>(17.70)</b>
Net assets, beginning of year	191,422,445	186,669,764	180,895,109	2.55	3.19
<b>Net assets, end of year</b>	<b>\$ 203,072,266</b>	<b>\$ 191,422,445</b>	<b>\$ 186,669,764</b>	<b>6.09</b>	<b>2.55</b>

## Des Moines Water Works

### Management's Discussion and Analysis Year Ended December 31, 2009

---

#### Financial Analysis

Year ended December 31, 2009: Current assets decreased 12.11 percent. Other noncurrent assets decreased approximately 9.25 percent. Both of these are as a result of spending bond proceeds on the development of the additional treatment plant and a tower and booster station on the east side of the service area. Offsetting these decreases is an increase of capital assets by 4.53 percent. Overall, total assets as of December 31, 2009 are approximately \$5,690,000 more than December 31, 2008.

Current liabilities decreased 10.46 percent. Construction payables decreased by \$2,193,153 due primarily to payables related to the I-235 project with the Iowa Department of Transportation being written down by \$2.6 million. Offsetting this is an increase in deferred revenue of \$360,000 which is attributable to FEMA money received for flood damages on projects that will occur in 2010.

Noncurrent liabilities include deferred revenue being amortized over a period of 10 to 20 years, the pension liability which will be paid through future pension contributions, and the liability for other postretirement benefits which is a GASB standard implemented in 2008. This shows the actuarial liability for providing health care benefits to retirees of Des Moines Water Works. Additionally, noncurrent liabilities include arbitrage payable on the 2006 bonds of \$390,000.

Long-term debt decreased 6.07 percent in 2009 due to the scheduled payment of the principal and the reclassification of \$4,040,000 of the scheduled 2010 debt service payments to short-term liabilities.

Water sales increased 7.16 percent. The increase is attributed to a rate increase effective May 1<sup>st</sup> for most service areas. Pumpage was relatively flat compared to the prior year.

Revenue for billing and collection services increased by 9.29 percent. This is due to new rates being in effect on July 1<sup>st</sup> for the billing and collecting services done for the City of Des Moines.

Connection fees decreased 11.23 percent or \$54,000. These fees can fluctuate widely from year to year depending on the level of development experienced within the utility's service areas.

Purchased capacity revenues decreased 1.76 percent. This represents the continued amortization of deferred revenue. This deferred revenue represents cash contributions to fund the new water treatment plant under construction and previous years' cash contributions from wholesale customers to fund the L.D. McMullen Water Treatment Facility. Financial participation in the construction of the plants allows users to participate in lower purchased capacity water rates. Deferred 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 by 9.88 percent. Included in this line are numerous revenue items in the utility including reconnect fees, stop box repairs, distribution system repairs, lab testing, Botanical Center revenue, etc.

Effective January 5, 2004, per 28E agreement with the City of Des Moines, Des Moines Water Works assumed management of operations of the Des Moines Botanical Center. Operations include room rentals, catering and café, gift shop and special events. Botanical Center revenues of \$679,085 and \$688,367 for 2009 and 2008, respectively, are included in Water Works' financial results.

## **Des Moines Water Works**

### **Management's Discussion and Analysis Year Ended December 31, 2009**

---

Labor and benefits increased 3.41 percent which is primarily due to wage rate increases. An increase in health insurance costs and pension funding expense is offset by lower expenses related to the liability for other postemployment benefits. Des Moines Water Works implemented this GASB standard in 2008.

Chemicals and power increased 3.38 percent due to an increase in chemical costs of approximately 12 percent offset by a decrease in power costs of 9 percent.

Corporate insurance increased by 8.59 percent due to higher premiums.

Purchased services increased 2.16 percent compared to 2008. The removal of residuals at the McMullen Treatment Plant accounted for \$239,000 in additional expenses. This is due to the beginning of this removal process beginning late in 2008.

Other expenses increased 25.77 due to increased casualty losses of \$75,000. Some of the losses have offsetting revenue from insurance proceeds. Bad debt expense was also higher by \$30,000 in 2009. This fluctuates from year to year and 2008 was a year with lower bad debt expense.

Investment income decreased 64.74 percent due to lower investment balances due to spending of the bond proceeds on the new treatment plant and the eastside project consisting of a tower, booster station and feeder main.

Interest expense decreased 66.98 percent in 2009 primarily due to the capitalization of interest expense for the new treatment plant and the eastside project.

Capital contributions increased 480.67 percent or \$5.1 million dollars. This is due to contracts payable attributable to the I-235 project in the amount of approximately \$2.6 million being written down. Additionally, funds were received from Altoona in the amount of \$2 million for their share of the joint eastside project and from Pleasant Hill in the amount of \$900,000 for capital infrastructure. There were no contributions of water mains from subdividers. These contributions can fluctuate widely from year to year, depending on the status of construction and the timing of inspections performed by Water Works' staff.

The aforementioned fluctuations result in an overall increase in net assets of 6.09 percent, the result of a 6.88 percent increase in operating revenues, an increase in operating expenses of 3.04 percent and a 135.12 percent increase in nonoperating revenues.

Year ended December 31, 2008: Current assets decreased 8.34 percent. Other noncurrent assets decreased approximately 18.04 percent. Both of these are a result of spending bond proceeds on the development of the additional treatment plant. Offsetting these decreases is an increase of capital assets by 3.32 percent. Overall, total assets as of December 31, 2008 are approximately \$163,000 less than December 31, 2007.

Current liabilities decreased 2.58 percent. Accounts payable decreased \$866,050 and fees collected for other entities also decreased by \$293,756. Both of these can be attributed to year-end timing. Offsetting this is the current portion of long-term debt that increased \$134,000 and the compensated absences (leave accruals) that increased \$208,071.

Noncurrent liabilities include deferred revenue being amortized over a period of 10 to 20 years. Noncurrent liabilities also include the pension liability which will be paid through future pension contributions and the liability for other postretirement benefits which is a GASB standard implemented in 2008. This shows the actuarial liability for providing health care benefits to retirees of Des Moines Water Works.

## **Des Moines Water Works**

### **Management's Discussion and Analysis Year Ended December 31, 2009**

---

Long-term debt decreased 5.55 percent in 2008 due to the \$3,912,000 reclassification of the scheduled 2009 debt service payments to short-term liabilities.

Water sales increased less than 1 percent. A rate increase effective May 1<sup>st</sup> for most service areas was offset by lower pumpage due to a very wet summer. Debt service reimbursement decreased \$0.5 million.

Connection fees decreased 33.97 percent. 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 increased less than 1 percent. This represents the continued amortization of deferred revenue. This deferred revenue represents cash contributions to fund the new water treatment plant under construction and previous years' cash contributions from wholesale customers to fund the L.D. McMullen Water Treatment Facility. Financial participation in the construction of the plants allows users to participate in lower purchased capacity water rates. Deferred revenue balances are amortized to purchase capacity revenue over the length of the contract, generally 10 to 20 years.

Effective January 5, 2004, per 28E agreement with the City of Des Moines, Des Moines Water Works assumed management of operations of the Des Moines Botanical Center. Operations include room rentals, catering and café, gift shop and special events. Botanical Center revenues of \$688,367 and \$748,813 for 2008 and 2007, respectively, are included in Water Works' financial results.

Labor and benefits increased 10.92 percent which is primarily due the recognition of a liability and the resulting expense related to other postemployment benefits of \$1,324,347. This is a new GASB standard which was implemented in 2008. Additionally, wage rate increases were offset by a slight headcount reduction.

Chemicals and power increased 8.12 percent due to an increase in chemical costs.

Corporate insurance decreased by 10.49 percent due to lower premiums.

Purchased services increased 9.40 percent compared to 2007 due to increased services performed for stop box repairs. There is an offsetting revenue increase. Additionally, services performed for damages due to summer flooding were approximately \$200,000. Most of this expense is reimbursable by FEMA and the offsetting revenue is shown in the Non-operating revenue section.

Depreciation expense decreased 13.40 percent due to the utility's customer relationship management system (CRM) becoming fully depreciated in 2007.

Other expenses increased 5.53 percent or approximately \$18,000.

Investment income decreased 46.83 percent due to lower investment balances due to spending on the new treatment plant and the eastside project consisting of a tower, booster station and feeder main. Additionally, interest rates were lower in 2008.

Interest expense decreased 30.99 percent in 2008 primarily due to the capitalization of interest expense for the new treatment plant and the eastside project.

## **Des Moines Water Works**

### **Management's Discussion and Analysis Year Ended December 31, 2009**

---

Capital contributions increased 70.17 percent due to funds received in 2008 from Ankeny for construction of water mains and connection. Ankeny agreed to share in the cost of these assets. In 2008, funds received included \$772,350 from Ankeny and \$300,000 from Pleasant Hill for capital infrastructure. There were no contributions of water mains from subdividers. These contributions can fluctuate widely from year to year, depending on the status of construction and the timing of inspections performed by Water Works' staff.

The aforementioned fluctuations result in an overall increase in net assets of 2.55 percent, the result of a 0.32 percent decrease in operating revenues, an increase in operating expenses of 3.06 percent and an 18.27 percent decrease in nonoperating revenues.

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

During 2009, net capital assets increased \$10,923,972 or 4.53 percent. In addition to replacing deteriorating water mains, the utility is building a water treatment plant in the northern part of the service area and an elevated tower, booster station and feeder mains on the east side of the service area. 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 \$66,590,000 and \$70,502,000 as of December 31, 2009 and 2008, respectively. The decrease is due to scheduled principal payments.

During 2008, net capital assets increased \$7,753,432 or 3.32 percent. In addition to replacing deteriorating water mains, the utility is building a water treatment plant in the northern part of the service area and an elevated tower, booster station and feeder mains on the eastside of the service area. 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 \$70,502,000 and \$74,280,000 as of December 31, 2008 and 2007, respectively. The decrease is due to scheduled principal payments.

#### **Economic Factors**

Due to the Water Works' large concentration of residential customers, weather impacts revenue to a greater degree than do economic cycles. Water Works budgets revenues and expenses based on anticipated consumption for a "normal" weather year. Included in the 2010 budget is an increase in water availability charges and an increase in water rates for industrial, commercial and wholesale customers. This was based on the results of the annual cost of service study which indicated costs to serve those customers exceeded their water rates and availability charges.

#### **Requests for Information**

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



# Des Moines Water Works

## Balance Sheets

December 31, 2009 and 2008

	2009	2008
<b>Assets</b>		
Current assets:		
Cash (Note 2)	\$ 3,190,773	\$ 2,222,319
Restricted assets (Note 2):		
Cash	6,398,748	5,617,822
Investments, water revenue bond reserve fund	4,355,204	9,792,072
Accounts receivable:		
Billed	3,672,560	3,071,519
Unbilled	1,130,710	1,134,231
Other receivables	558,507	563,829
Inventory, materials and supplies	1,591,892	1,490,571
Prepaid expenses	774,314	767,718
<b>Total current assets</b>	<b>21,672,708</b>	<b>24,660,081</b>
Restricted assets, investments (Notes 2 and 4):		
Water revenue bond reserve fund	15,870,038	18,803,427
Water revenue bond improvement fund	600,000	600,000
	<b>16,470,038</b>	<b>19,403,427</b>
Long-term investments:		
Investment in land	624,562	624,562
Board designated funds, investments (Note 2)	4,072,764	3,487,624
	<b>4,697,326</b>	<b>4,112,186</b>
Capital assets (Note 3):		
Land	4,890,351	4,911,351
Construction-in-progress	48,420,080	36,617,178
Buildings, equipment and machinery	121,154,478	120,073,217
Supply system	43,588,579	43,078,877
Distribution system	152,479,887	148,661,138
	<b>370,533,375</b>	<b>353,341,761</b>
Accumulated depreciation	(118,286,496)	(112,018,853)
<b>Capital assets, net</b>	<b>252,246,879</b>	<b>241,322,908</b>
Bond issue costs and discounts:		
Bond issue costs	192,643	218,527
Bond issue discounts	247,204	272,849
<b>Bond issue costs and discounts</b>	<b>439,847</b>	<b>491,376</b>
Other assets	433,464	280,426
<b>Total assets</b>	<b>\$ 295,960,262</b>	<b>\$ 290,270,404</b>

See Notes to Basic Financial Statements.

	2009	2008
<b>Liabilities and Net Assets</b>		
Current liabilities:		
Accounts payable	\$ 1,274,303	\$ 1,402,364
Accrued wages and benefits	484,752	427,631
Compensated absences (Note 4)	1,564,166	1,534,324
Deferred revenue (Note 1)	1,671,812	1,311,808
Special deposits	354,898	208,843
Construction payables	4,269,498	6,462,651
Water revenue bonds interest payable	221,526	248,225
Current portion of long-term debt (Note 4)	4,040,000	3,912,000
Fees collected for other entities	238,263	261,608
<b>Total current liabilities</b>	<b>14,119,218</b>	<b>15,769,454</b>
Noncurrent liabilities:		
Long-term debt, less current installments (Note 4)	62,550,000	66,590,000
Compensated absences (Note 4)	601,179	614,547
Deferred revenue (Note 1)	13,155,755	14,432,048
Pension liability (Note 5)	111,912	117,563
Other postemployment benefits liability (Note 6)	1,959,932	1,324,347
Other noncurrent liabilities, arbitrage	390,000	-
<b>Total noncurrent liabilities</b>	<b>78,768,778</b>	<b>83,078,505</b>
<b>Total liabilities</b>	<b>92,887,996</b>	<b>98,847,959</b>
Net assets:		
Invested in capital assets, net of related debt	189,377,017	179,918,504
Restricted (bond indentures)	23,751,056	25,988,574
Unrestricted	(10,055,807)	(14,484,633)
<b>Total net assets</b>	<b>203,072,266</b>	<b>191,422,445</b>
<b>Total liabilities and net assets</b>	<b>\$ 295,960,262</b>	<b>\$ 290,270,404</b>

## Des Moines Water Works

### Statements of Revenues, Expenses and Changes in Net Assets Years Ended December 31, 2009 and 2008

	2009	2008
Operating revenues:		
Water sales	\$ 36,536,686	\$ 34,205,509
Other sales and services	4,151,877	3,783,562
Connection fees	425,167	478,954
<b>Total operating revenues</b>	<b>41,113,730</b>	<b>38,468,025</b>
Operating expenses:		
Labor	\$ 11,105,697	10,556,380
Group insurance	1,710,006	1,597,243
Retirement benefits (including social security)	2,694,828	2,845,992
Purchased services	3,740,493	3,661,378
Corporate insurance	938,496	864,285
Materials, supplies and equipment	2,959,322	3,021,496
Chemicals	3,818,508	3,405,635
Utilities	2,169,158	2,386,021
Depreciation	6,449,683	6,271,439
Other	423,220	336,507
<b>Total operating expenses</b>	<b>36,009,411</b>	<b>34,946,376</b>
<b>Operating income</b>	<b>5,104,319</b>	<b>3,521,649</b>
Nonoperating revenue (expense):		
Investment income	551,818	1,564,931
Interest expense	(606,254)	(1,835,812)
Land use income	187,693	171,434
Loss on sale of fixed assets	(58,982)	-
Other	4,379	4,428
<b>Nonoperating revenue, net</b>	<b>78,654</b>	<b>(95,019)</b>
<b>Income before contributions</b>	<b>5,182,973</b>	<b>3,426,630</b>
Capital contributions	6,466,848	1,326,051
<b>Change in net assets</b>	<b>11,649,821</b>	<b>4,752,681</b>
Net assets, beginning of year	191,422,445	186,669,764
Net assets, end of year	<b>\$ 203,072,266</b>	<b>\$ 191,422,445</b>

See Notes to Basic Financial Statements.

# Des Moines Water Works

## Statements of Cash Flows

Years Ended December 31, 2009 and 2008

	2009	2008
Cash flows from operating activities:		
Cash received from customers	\$ 39,740,345	\$ 37,153,568
Cash paid to suppliers	(14,285,176)	(14,692,933)
Cash paid to employees and for payroll taxes	(14,807,002)	(13,636,789)
<b>Net cash provided by operating activities</b>	<b>10,648,167</b>	<b>8,823,846</b>
Cash flows from capital and related financing activities:		
Principal payments on long-term debt	(3,912,000)	(3,778,000)
Acquisition, construction and removal cost of capital assets	(14,877,244)	(12,742,057)
Proceeds from sale of capital assets	150,000	-
Contributions received	3,885,847	1,072,350
Interest paid	(2,771,418)	(2,903,737)
<b>Net cash (used in) capital and related financing activities</b>	<b>(17,524,815)</b>	<b>(18,351,444)</b>
Cash flows from investing activities:		
Proceeds from maturities of investments	56,309,083	102,761,402
Purchase of investments	(48,523,966)	(95,119,006)
Interest received	648,839	1,663,941
Land use income and other	192,072	175,862
<b>Net cash provided by investing activities</b>	<b>8,626,028</b>	<b>9,482,199</b>
<b>Net increase (decrease) in cash</b>	<b>1,749,380</b>	<b>(45,399)</b>
Cash, beginning of year	7,840,141	7,885,540
Cash, end of year	<b>\$ 9,589,521</b>	<b>\$ 7,840,141</b>
Reconciliation of cash to the balance sheet:		
Cash	\$ 3,190,773	\$ 2,222,319
Restricted assets, cash	6,398,748	5,617,822
<b>Total cash at end of year</b>	<b>\$ 9,589,521</b>	<b>\$ 7,840,141</b>

(Continued)

## Des Moines Water Works

**Statements of Cash Flows (Continued)**  
**Years Ended December 31, 2009 and 2008**

	2009	2008
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 5,104,319	\$ 3,521,649
Adjustments to reconcile operating income to net cash, depreciation	6,449,683	6,271,439
Change in:		
Accounts receivable, billed	(645,026)	365,595
Accounts receivable, unbilled	3,521	(55,027)
Other receivables	(91,699)	(80,937)
Inventories - materials and supplies	(101,321)	(176,999)
Prepaid expense	(6,596)	25,438
Other assets	153,397	(75,402)
Accounts payable	(128,061)	(866,050)
Accrued wages and benefits and compensated absences	73,595	309,320
Pension liability	(5,651)	(270,841)
Other postemployment benefit liability	635,585	1,324,347
Deferred revenue	(916,289)	(1,314,263)
Special deposits	146,055	139,333
Fees collected for other entities	(23,345)	(293,756)
<b>Net cash provided by operating activities</b>	<b>\$ 10,648,167</b>	<b>\$ 8,823,846</b>
Schedule of noncash capital and related financing activities:		
Acquisition of capital assets through construction payables	\$ (431,833)	\$ (171,821)
Capitalized interest	2,579,994	1,110,993
Increase in other receivables for sale of capital assets	250,000	-
Capital contributions through relief of construction payables forgiveness	2,624,986	-
Trade-in value towards assets purchased	56,435	-
Schedule of noncash investing activities, net depreciation of the fair value of investments	270	153,072

See Notes to Basic Financial Statements.

**Des Moines Water Works  
Pension Plan**

**Statements of Plan Net Assets  
December 31, 2009 and 2008**

---

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

See Notes to Basic Financial Statements.

**Des Moines Water Works  
Pension Plan**

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

	2009	2008
Additions:		
Investment income (loss):		
Net appreciation (depreciation) in the fair value of pooled separate accounts, interest and dividends (Note 2)	\$ 5,450,308	\$ (13,716,994)
Employer contributions	1,023,319	800,000
<b>Total additions</b>	<b>6,473,627</b>	<b>(12,916,994)</b>
Deductions:		
Benefit payments	1,924,856	1,820,833
Administrative expenses	61,739	70,596
<b>Total deductions</b>	<b>1,986,595</b>	<b>1,891,429</b>
<b>Net increase (decrease)</b>	<b>4,487,032</b>	<b>(14,808,423)</b>
Net assets held in trust for pension benefits:		
Beginning of year	29,201,656	44,010,079
End of year	<b>\$ 33,688,688</b>	<b>\$ 29,201,656</b>

See Notes to Basic Financial Statements.

## Des Moines Water Works

### 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.

In September 1993, the Governmental Accounting Standards Board (GASB) issued Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*. The Statement provides that Water Works should apply all GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements: Statements and Interpretations of the Financial Accounting Standards Board (FASB), Accounting Principles Board (APB) Opinions and Accounting Research Bulletins (ARB) of the Committee on Accounting Procedures. In addition, Water Works may also apply all FASB Statements and Interpretations issued after November 30, 1989, except for those that conflict with or contradict GASB pronouncements. Water Works has elected to not apply all FASB, APB and ARB materials issued after November 30, 1989.

##### Reporting entity:

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

##### Significant accounting policies:

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

Accounting estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.



## Des Moines Water Works

### Notes to Basic Financial Statements

---

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

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

Investments as of December 31, 2009 were in U.S. government or agency obligations and are stated at fair value, based on quoted market prices.

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

Operating revenues and expenses: Operating revenues include revenues resulting from the sale of water and related services. 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. Revenues from the sale of water are based on billing rates, which are applied to customer's consumption of water.

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 approximately \$648,249 and \$600,617 in 2009 and 2008, respectively.

Water Works has an agreement to pay the City a Payment in Lieu of Taxes (PILOT). This amount was calculated in 1998 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. Due to a change in methodology of computing the amount, no payment was due in 2009. The total PILOT payment was \$234,000 in 2008.

Water Works has also agreed to match annual contributions of the City (up to \$50,000) toward an industrial development corporation. Payments of \$50,000 were made in 2009 and 2008.

Billings and collection agent services: Water Works serves as the billing and collection agent for fees related to sewage treatment, solid waste and storm water collection for certain political subdivisions (including the City). Separate accounting records are maintained by Water Works for these collection services. Fees collected not yet remitted by Water Works to the applicable entity totaled \$238,263 and \$261,608 as of December 31, 2009 and 2008, respectively. These fees have been reflected in Water Works' balance sheet and were remitted to the City and other political subdivisions subsequent to year-end. Processing fees billed to the City and other political subdivisions for billing and collection services provided by Water Works totaled approximately \$1,010,000 and \$924,000 in 2009 and 2008, respectively. The City's fees reflect only the incremental expenses incurred by Water Works to bill and collect the City's charges, rather than an equal sharing of the costs. Water Works bears the total cost of meter reading, cash processing and statement preparation and mailing.

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

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

## Des Moines Water Works

### Notes to Basic Financial Statements

---

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

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

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

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

Expenditures for maintenance, repairs and minor replacements are charged to operations. Expenditures for major repairs and betterments are capitalized. Water Works' capitalization threshold is \$500. 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 assets. Included in capital assets are the interest capitalized during construction in accordance with accounting principles generally accepted in the United States of America. Capitalized interest was \$2,579,994 and \$1,110,993 in 2009 and 2008, respectively.

Net assets: Net assets represent the difference between assets and liabilities in the financial statements. Net assets invested in capital assets, net of related debt, 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. Net assets are reported as restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. As of December 31, 2009 and 2008, Water Works had unspent bond proceeds of \$3,472,934 and \$8,824,747, respectively.

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

Deferred 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 deferred 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, 2009, Water Works has \$14,432,048 of deferred revenue relating to contractual agreements and has recognized \$1,311,808 of revenue during 2009. As of December 31, 2008, Water Works has \$15,743,856 of deferred revenue and has recognized \$1,314,263 of revenue during 2008.

## Des Moines Water Works

### Notes to Basic Financial Statements

---

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

Water Works received funds from FEMA for reimbursement for flooding damages that occurred in 2008. Water Works recognizes this revenue once it has been earned; that is, when expenses have been incurred. As of December 31, 2009, Water Works has \$395,519 of deferred revenue relating to unearned FEMA funds.

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

Debt financing costs and discounts: Costs incurred to issue water revenue bonds and the Water Revenue Capital Loan notes are capitalized. These costs, and the discounts on the water revenue bonds, are amortized over the terms of the bonds and note utilizing a method which approximates the effective interest method.

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

Reclassifications: Certain amounts in the 2008 financial statements have been reclassified with no effect on net assets or change in net assets to conform with current year presentations.

#### 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.

## Des Moines Water Works

### Notes to Basic Financial Statements

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

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

Information about the sensitivity of the fair value of the Water Work's investments to market interest rate fluctuations is provided by the tables below for December 31, 2009 and 2008:

Type	Fair Value December 31, 2009	Within 3 Months	Within 6 Months	Within 9 Months	Within 12 Months	Over 12 Months
Federal Home Loan Bank Federal Home Loan Mortgage Corp.	\$ 9,046,835	\$ -	\$ 509,063	\$ -	\$ -	\$ 8,537,772
Federal National Mortgage Assoc.	4,978,106	-	-	-	464,326	4,513,780
Federal Farm Credit Bank	8,546,127	803,064	203,688	-	-	7,539,375
Government National Mortgage Assoc.	2,185,466	-	-	-	-	2,185,466
	141,472	-	-	-	-	141,472
	<u>\$ 24,898,006</u>	<u>\$ 803,064</u>	<u>\$ 712,751</u>	<u>\$ -</u>	<u>\$ 464,326</u>	<u>\$ 22,917,865</u>

Type	Fair Value December 31, 2008	Within 3 Months	Within 6 Months	Within 9 Months	Within 12 Months	Over 12 Months
Federal Home Loan Bank Federal Home Loan Mortgage Corp.	\$ 14,402,054	\$ 4,513,474	\$ 3,308,165	\$ 2,061,405	\$ 1,218,700	\$ 3,300,310
Federal Home Loan Mortgage Corp. Discount Notes	9,526,134	2,687,601	2,546,810	1,496,482	-	2,795,241
Federal National Mortgage Assoc.	903,728	449,955	453,773	-	-	-
	7,851,207	2,777,586	1,793,591	197,779	723,641	2,358,610
	<u>\$ 32,683,123</u>	<u>\$ 10,428,616</u>	<u>\$ 8,102,339</u>	<u>\$ 3,755,666</u>	<u>\$ 1,942,341</u>	<u>\$ 8,454,161</u>

The Water Works also has an investment in land purchased with the intent to sell; however, no commitment for sale existed as of December 31, 2009 and 2008. The land is recorded at the lower of cost or market at \$624,562.

**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.

## Des Moines Water Works

### Notes to Basic Financial Statements

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

As of December 31, 2009 and 2008, the Water Works' investments were rated as follows:

2009			
Type	S&P Rating	Moody's Rating	
Federal Home Loan Bank	AAA	Aaa	
Federal Home Loan Mortgage Corp.	AAA	Aaa	
Federal National Mortgage Assoc.	AAA	Aaa	
Federal Farm Credit Bank	AAA	Aaa	
Government National Mortgage Assoc.	n/a	n/a	

2008			
Type	S&P Rating	Moody's Rating	
Federal Home Loan Bank	AAA	Aaa	
Federal Home Loan Mortgage Corp.	AAA	Aaa	
Federal Home Loan Mortgage Corp. Discount Notes	AAA	Aaa	
Federal National Mortgage Assoc.	AAA	Aaa	

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 utility's investments are in the following investments:

Type	2009	2008
Federal Home Loan Bank	36.34%	44.07%
Federal Home Loan Mortgage Corp.	19.99	29.15
Federal National Mortgage Assoc.	34.32	24.02
Federal Farm Credit Bank	8.78	N/A

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

## Des Moines Water Works

### Notes to Basic Financial Statements

---

#### 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 value of investments that are in the possession of an outside party. Deposits in financial institutions as of December 31, 2009 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 \$10,082,909 and \$9,589,521 as of December 31, 2009, respectively. Water Works' bank balances and book balances of deposits were \$8,639,968 and \$7,840,141 as of December 31, 2008, respectively. Water Works' investments were not exposed to custodial credit risk as of December 31, 2009 or 2008.

#### Pension Plan Deposits and Investments

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

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

Asset allocation strategy: The Des Moines Water Works Pension Plan's Named Fiduciary asset allocation strategy shall identify target allocations to eligible asset classes and, where appropriate, suitable ranges within which each asset class can fluctuate as a percent of the total fund. Each asset class is to remain suitably invested at all times in either cash (or cash equivalents) or permitted securities within each class. The 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.

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

## Des Moines Water Works

### Notes to Basic Financial Statements

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

GASB Statement No. 40 requires plan investments to disclose an indication of the level of credit risk, concentration of credit risk and interest rate risk assumed by the Plan. These risk disclosures only pertain to fixed income investments. As of December 31, 2009 and 2008, the Plan had investments listed in the tables 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.

	December 31, 2009 Fair Value	Effective Duration
Fixed income investments:		
Core Plus Bond Account	\$ 5,312,246	4.55
Principal Bond and Mortgage Account	4,910,186	4.76
Principal Inflation Protection Account	2,176,926	7.30
Principal High Yield Account	1,825,392	3.96
U.S. Property Account	1,215,919	N/A
<b>Total fair value of fixed income investments</b>	<b>15,440,669</b>	
Other investments, nonfixed income investments	18,248,019	
<b>Total investments</b>	<b>\$ 33,688,688</b>	
	December 31, 2008 Fair Value	Effective Duration
Fixed income investments:		
Core Plus Bond Account	\$ 1,046,321	2.58
Principal Bond and Mortgage Account	7,404,213	3.72
Principal Inflation Protection Account	1,776,307	5.69
Principal High Yield Account	1,499,981	5.69
Principal Preferred Securities Account	398,825	5.63
U.S. Property Account	1,777,291	N/A
<b>Total fair value of fixed income investments</b>	<b>13,902,938</b>	
Other investments, nonfixed income investments	15,298,718	
<b>Total investments</b>	<b>\$ 29,201,656</b>	

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

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

## Des Moines Water Works

### Notes to Basic Financial Statements

#### Note 3. Capital Assets

Capital assets activity for the year ended December 31, 2009 is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	\$ 4,911,351	\$ -	\$ 21,000	\$ 4,890,351
Construction-in-progress	36,617,178	17,819,904	6,017,002	48,420,080
<b>Total capital assets not being depreciated</b>	<b>41,528,529</b>	<b>17,819,904</b>	<b>6,038,002</b>	<b>53,310,431</b>
Capital assets being depreciated:				
Buildings, equipment and machinery	120,073,217	1,757,718	676,457	121,154,478
Supply system	43,078,877	509,702	-	43,588,579
Distribution system	148,661,138	3,818,749	-	152,479,887
<b>Total capital assets being depreciated</b>	<b>311,813,232</b>	<b>6,086,169</b>	<b>676,457</b>	<b>317,222,944</b>
Less accumulated depreciation for:				
Buildings, equipment and machinery	61,046,919	3,063,380	182,040	63,928,259
Supply system	12,841,040	751,708	-	13,592,748
Distribution system	38,130,894	2,634,595	-	40,765,489
<b>Total accumulated depreciation</b>	<b>112,018,853</b>	<b>6,449,683</b>	<b>182,040</b>	<b>118,286,496</b>
<b>Total capital assets being depreciated, net</b>	<b>199,794,379</b>	<b>(363,514)</b>	<b>494,417</b>	<b>198,936,448</b>
<b>Net capital assets</b>	<b>\$ 241,322,908</b>	<b>\$ 17,456,390</b>	<b>\$ 6,532,419</b>	<b>\$ 252,246,879</b>



# Des Moines Water Works

## Notes to Basic Financial Statements

### Note 3. Capital Assets (Continued)

Capital assets activity for the year ended December 31, 2008 is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	\$ 4,911,351	\$ -	\$ -	\$ 4,911,351
Construction-in-progress	33,207,076	14,024,872	10,614,770	36,617,178
<b>Total capital assets not being depreciated</b>	<b>38,118,427</b>	<b>14,024,872</b>	<b>10,614,770</b>	<b>41,528,529</b>
Capital assets being depreciated:				
Buildings, equipment and machinery	118,478,059	1,676,355	81,197	120,073,217
Supply system	39,643,628	3,435,249	-	43,078,877
Distribution system	143,157,973	5,503,165	-	148,661,138
<b>Total capital assets being depreciated</b>	<b>301,279,660</b>	<b>10,614,769</b>	<b>81,197</b>	<b>311,813,232</b>
Less accumulated depreciation for:				
Buildings, equipment and machinery	58,102,437	3,025,679	81,197	61,046,919
Supply system	12,124,592	716,448	-	12,841,040
Distribution system	35,601,582	2,529,312	-	38,130,894
<b>Total accumulated depreciation</b>	<b>105,828,611</b>	<b>6,271,439</b>	<b>81,197</b>	<b>112,018,853</b>
<b>Total capital assets being depreciated, net</b>	<b>195,451,049</b>	<b>4,343,330</b>	<b>-</b>	<b>199,794,379</b>
<b>Net capital assets</b>	<b>\$ 233,569,476</b>	<b>\$ 18,368,202</b>	<b>\$ 10,614,770</b>	<b>\$ 241,322,908</b>

## Des Moines Water Works

### Notes to Basic Financial Statements

#### Note 4. Noncurrent Liabilities

As of December 31, 2009, Water Works' debt consists of Water Revenue Refunding Bonds, Series 2004 A & B and 2006; 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 2004 A & B mature on December 1, 2024 and 2017, respectively, and Series 2006 mature on December 1, 2026. 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, 2009 and 2008 are as follows:

2009					
	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Water Revenue Bonds:					
Series 2004 A & B	\$ 20,020,000	\$ -	\$ 1,695,000	\$ 18,325,000	\$ 1,750,000
Series 2006	48,660,000	-	2,110,000	46,550,000	2,180,000
Water Revenue Capital, Series 2003	1,822,000	-	107,000	1,715,000	110,000
Compensated absences	2,148,871	2,165,345	2,148,871	2,165,345	1,564,166
	<u>\$ 72,650,871</u>	<u>\$ 2,165,345</u>	<u>\$ 6,060,871</u>	<u>\$ 68,755,345</u>	<u>\$ 5,604,166</u>
2008					
	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Water Revenue Bonds:					
Series 2004 A & B	\$ 21,665,000	\$ -	\$ 1,645,000	\$ 20,020,000	\$ 1,695,000
Series 2006	50,690,000	-	2,030,000	48,660,000	2,110,000
Water Revenue Capital, Series 2003	1,925,000	-	103,000	1,822,000	107,000
Compensated absences	1,961,325	2,148,871	1,961,325	2,148,871	1,534,324
	<u>\$ 76,241,325</u>	<u>\$ 2,148,871</u>	<u>\$ 5,739,325</u>	<u>\$ 72,650,871</u>	<u>\$ 5,446,324</u>

# Des Moines Water Works

## Notes to Basic Financial Statements

### Note 4. Noncurrent Liabilities (Continued)

A summary of the aggregate principal and interest requirements outstanding for the Water Revenue Refunding Bonds, Series 2004 A is as follows:

Maturing During Year Ending December 31:	Interest Rate	Annual Principal Payment	Annual Interest Payment	Total Annual Payment
2010	3.25%	\$ 285,000	\$ 221,531	\$ 506,531
2011	3.38	290,000	212,269	502,269
2012	3.50	300,000	202,481	502,481
2013	3.75	315,000	191,981	506,981
2014	4.00	325,000	180,169	505,169
2015-2019	4.00	1,830,000	695,044	2,525,044
2020-2024	4.00-4.25	2,280,000	293,756	2,573,756
		<u>\$ 5,625,000</u>	<u>\$ 1,997,231</u>	<u>\$ 7,622,231</u>

A summary of the aggregate principal and interest requirement outstanding for the Water Revenue Refunding Bonds, Series 2004 B is as follows:

Maturing During Year Ending December 31:	Interest Rate	Annual Principal Payment	Annual Interest Payment	Total Annual Payment
2010	3.00%	\$ 1,465,000	\$ 466,475	\$ 1,931,475
2011	3.00	1,510,000	422,525	1,932,525
2012	3.25	1,570,000	377,225	1,947,225
2013	4.00	1,625,000	326,200	1,951,200
2014	4.00	1,710,000	261,200	1,971,200
2015-2017	4.00	4,820,000	362,400	5,182,400
		<u>\$ 12,700,000</u>	<u>\$ 2,216,025</u>	<u>\$ 14,916,025</u>

## Des Moines Water Works

### Notes to Basic Financial Statements

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

A summary of the aggregate principal and interest requirements outstanding for the Water Revenue Refunding Bonds, Series 2006 is as follows:

Maturing During Year Ending December 31:	Interest Rate	Annual Principal Payment	Annual Interest Payment	Total Annual Payment
2010	4.00%	\$ 2,180,000	\$ 1,914,831	\$ 4,094,831
2011	4.00	2,260,000	1,827,631	4,087,631
2012	4.00	2,355,000	1,737,231	4,092,231
2013	4.00	2,440,000	1,643,031	4,083,031
2014	4.00	2,540,000	1,545,431	4,085,431
2015-2019	4.00	12,920,000	6,171,556	19,091,556
2020-2024	4.00	14,895,000	3,459,738	18,354,738
2025-2026	4.00	6,960,000	460,250	7,420,250
		<u>\$ 46,550,000</u>	<u>\$ 18,759,699</u>	<u>\$ 65,309,699</u>

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
2010	3.00%	\$ 110,000	\$ 51,450	\$ 161,450
2011	3.00	113,000	48,150	161,150
2012	3.00	116,000	44,760	160,760
2013	3.00	120,000	41,280	161,280
2014	3.00	124,000	37,680	161,680
2015-2019	3.00	675,000	130,500	805,500
2020-2022	3.00	457,000	27,690	484,690
		<u>\$ 1,715,000</u>	<u>\$ 381,510</u>	<u>\$ 2,096,510</u>

The water revenue bond and water revenue capital loan note resolutions (Resolutions) provide that future water customer revenues, net of specified operating expenses of Water Works is pledged for the purpose of paying Series 2003, Series 2004 and Series 2006 bonds. Proceeds from the bonds were used to provide additional infrastructure needs. The bonds are payable solely from customers net revenues. The Resolutions further require that sufficient monies be set aside to meet current expenses of Water Works. All remaining monies are to be segregated and restricted in separate special reserves. These special reserves are reflected as restricted assets on the balance sheet. 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 \$305,122,993 per occurrence on building and contents; in addition, liability insurance is maintained.

## Des Moines Water Works

### Notes to Basic Financial Statements

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

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

	Issue Date	Year Maturing	Principal and Interest Remaining	Principal and Interest Paid in 2009	Annual Payments as a Percentage of Net Revenues
Water Revenue Bonds:					
Series 2004 A	12/1/2004	2024	\$ 7,622,231	\$ 504,781	4.37%
Series 2004 B	12/1/2004	2017	14,916,025	1,929,075	16.70
Series 2006	3/1/2006	2026	65,309,699	4,087,902	35.38
Water Revenue Capital, Series 2003	4/16/2003	2022	2,096,510	161,660	1.40
			<u>\$ 89,944,465</u>	<u>\$ 6,683,418</u>	<u>57.85%</u>

Total customer net revenues were \$11,554,001. Annual principal and interest payments on the bonds are approximately 58 percent of net revenues.

#### Note 5. Pension Plan

Water Works has a noncontributory defined benefit single employer pension plan, established by the Board, called the Des Moines Water Works Pension Plan (the Plan). All full-time Water Works employees and employees who work at least 1,040 hours in a calendar year or work during two consecutive calendar quarters are eligible to participate in 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 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 latest calendar months which give 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.

Water Works' annual pension cost and net pension liability for the three years ended 2009 were as follows:

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

## Des Moines Water Works

### Notes to Basic Financial Statements

---

#### Note 5. Pension Plan (Continued)

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

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

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

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

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

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

## Des Moines Water Works

### Notes to Basic Financial Statements

---

#### 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, 2009, 72 retirees receive postretirement health care benefits. As of December 31, 2008, 64 retirees received 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 Work's union contracts.

The required contribution is based on projected pay-as-you-go financing requirements. For fiscal year 2009, the Water Works contributed \$141,115. Retirees receiving benefits contributed \$92,407. The required contribution of \$99.25 per month for single health coverage and \$258.74 for family health coverage is for active members and retirees under the age of 65. Retirees over the age of 65 contribute varying amounts based on the plan selected.

For fiscal year 2008, the Water Works contributed \$128,666. Retirees receiving benefits contributed \$74,965. The required contribution of \$74.41 per month for single health coverage and \$219.85 for family health coverage is for active members and retirees under the age of 65. Retirees over the age of 65 contribute varying amounts based on the plan selected.

Annual OPEB Cost and Net OPEB Obligation: The Water Work's annual other post-employment 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 Work's annual OPEB cost for the year, the amount actuarially contributed to the plan and changes in the Water Work's annual OPEB obligation:

	2009	2008
Annual required contribution	\$ 349,262	\$ 1,587,484
Interest on net OPEB obligation	29,873	-
Adjustment to annual required contribution	397,565	-
Annual OPEB cost (expense)	776,700	1,587,484
Contributions and payments made	141,115	263,137
Increase in net OPEB obligation	635,585	1,324,347
Net OPEB obligation - January 1, 2009	1,324,347	-
Net OPEB obligation - December 31, 2009	\$ 1,959,932	\$ 1,324,347

## Des Moines Water Works

### Notes to Basic Financial Statements

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

The Water Work's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligations for 2009 and 2008 follows. Fiscal year 2008 was the transition year.

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
December 31, 2007	N/A	N/A	N/A
December 31, 2008	\$ 1,587,484	17%	\$ 1,324,347
December 31, 2009	776,700	18	1,959,932

Funded status and funding progress: Postemployment Benefit Obligations under GASB Statement No. 45 calculated as of December 31, 2008, the most recent valuation date is as follows:

	Total	Members
Actuarial Accrued Liability		
Current retirees, beneficiaries and dependents	\$ (2,646,628)	85
Current active members	(5,489,938)	199
Total Actuarial Accrued Liability (AAL)	(8,136,566)	
OPEB Plan Assets	-	
Unfunded Actuarial Accrued Liability (UAAL)	(8,136,566)	

The covered payroll (annual payroll of active employees covered by the plan) was \$13,416,248 and the ratio of the UAAL to the covered payroll was 61 percent.

The funded status and funding progress for fiscal year 2008 was based on an actuarial valuation date of December 31, 2006 and was as follows:

	Total	Members
Actuarial Accrued Liability		
Current retirees, beneficiaries and dependents	\$ (2,499,838)	65
Current active members	(4,649,856)	212
Total Actuarial Accrued Liability (AAL)	(7,149,694)	
OPEB Plan Assets	-	
Unfunded Actuarial Accrued Liability (UAAL)	(7,149,694)	

The covered payroll (annual payroll of active employees covered by the plan) was \$12,052,777 and the ratio of the UAAL to the covered payroll was 59 percent. The results of the December 31, 2006 valuation were rolled forward to December 31, 2008.



## Des Moines Water Works

### Notes to Basic Financial Statements

---

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

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, 2008 actuarial valuation date, the unit credit method was used. The actuarial assumptions included a 4.0 percent investment rate of return (net of administrative expenses) and an annual health care cost trend rate of 8.0 percent initially, grading down to 5.0 percent in 7 years. The Water Work's unfunded actuarial accrued liability is being amortized over 30 years. The remaining amortization period as of December 31, 2008, was 30 years.

In the December 31, 2006 actuarial valuation date, the unit credit method was used. The actuarial assumptions included a 4.0 percent investment rate of return (net of administrative expenses) and an annual health care cost trend rate of 8.0 percent initially, grading down to 5.0 percent in seven years. The Water Work's unfunded actuarial accrued liability is being amortized over 30 years. The remaining amortization period as of December 31, 2006 was 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, workers' compensation, employee health, life and long-term disability insurance. During the last three years, settled claims have not exceeded insurance coverage.

## Des Moines Water Works

### Notes to Basic Financial Statements

---

#### Note 8. Commitments

Approximately \$9,800,000 related to 2009 contracts has been formally committed as of December 31, 2009. In addition, the Board has approved approximately \$10,700,000 of expenditures for capital acquisitions and improvements, all of which are expected to be expended in 2010.

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 operation and maintenance costs was approximately \$6,300 in 2007. Due to a change in methodology of computing the amount, there was no payment in 2009 and 2008.

On January 5, 2004, the Water Works and City of Des Moines, Iowa entered into a 28E Agreement for the operation, management and maintenance of the Botanical Center. The Water Works is responsible for the management and operation of the Botanical Center for the City. All revenues generated and expenses incurred for the operation are retained by Water Works. The agreement exists for an initial term of January 5, 2004 through December 31, 2009 and was renewed on January 1, 2010 for not more than three successive three-year terms.

For the years ended December 31, 2009 and 2008, revenues generated by the Botanical Center were approximately \$679,000 and \$688,000, respectively. Expenses were approximately \$874,000 and \$973,000, respectively.

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

Water Works implemented the following GASB Statements during the year ended December 31, 2009:

- GASB Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*. This Statement establishes consistent standards for the reporting of land and other real estate held as investments. Endowments were previously required to report their land and other real estate held for investment purposes at historical cost. However, such investments are reported at fair value by similar entities, such as pension plans. The Statement requires endowments to report land and other real estate investments at fair value. The changes in the fair value are to be reported as investment income. This Statement had no effect on Water Works in the current year.

As of December 31, 2009, the GASB also had issued several statements not yet implemented by the Water Works. The statements which might impact Water Works are as follows:

- GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, issued July 2007, will be effective for the Water Works beginning with its year ending December 31, 2010. This Statement provides guidance regarding how to identify, account for and report intangible assets. The new standard characterizes an intangible asset as an asset that lacks physical substance, is nonfinancial in nature and has an initial useful life extending beyond a single reporting period.

## Des Moines Water Works

### Notes to Basic Financial Statements

---

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

- GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, issued June 2008, will be effective for the Water Works beginning with its year ending December 31, 2010. This Statement will improve how state and local governments report information about derivative instruments in their financial statements. The Statement specifically requires governments to measure most derivative instruments at fair value in their financial statements that are prepared using the economic resources measurement focus and the accrual basis of accounting. The guidance in this Statement also addresses hedge accounting requirements.

The Water Works' management has not yet determined the effect these Statements will have on 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]
2008	12/31/06	\$ -	\$ 7,149,694	\$ (7,149,694)	- %	\$ 12,052,777	59.3%
<b>2009</b>	<b>12/31/08</b>	-	<b>8,136,566</b>	<b>(8,136,566)</b>	-	<b>13,416,248</b>	<b>60.6</b>

Note: Fiscal year 2008 is the transition year for GASB Statement No. 45

The information presented in the required supplementary schedule was determined as part of the actuarial valuation date as of December 31, 2008.  
Additional information follows:

- The actuarial method used to determine the ARC is the unit credit method.
- There are no plan assets.
- The actuarial assumptions included: (1) 4 percent investment rate of return and (b) a health care cost trend rate of 8 percent initially, grading down to 5 percent in 7 years.
- The unfunded actuarial accrued liability is being amortized over 30 years.

See Note to Required Supplementary Information.

**Des Moines Water Works  
Pension Plan**

**Required Supplementary Information  
Schedule of Funding Progress**

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

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

See Note to Required Supplementary Information.

**Des Moines Water Works  
Pension Plan**

**Required Supplementary Information  
Schedule of Contributions from the Employer**

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

See Note to Required Supplementary Information.

**Des Moines Water Works  
Pension Plan**

**Note to Required Supplementary Information**

---

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

Actuarial valuation:

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

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

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

Assumptions:

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

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

Rate of withdrawal V Table from August 1992 Pension Forum, multiplied by 0.60

Cost of living 3.0% to project benefits and compensation limitations

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