

★ Roll Call Number

Agenda Item Number

33

Date September 22, 2008

Receipt of Des Moines Water Works 2007 Financial Report and Statements of Receipts and Disbursements for Sewer, Solid Waste and Stormwater.

Moved by _____ to

| COUNCIL ACTION | YEAS | NAYS | PASS | ABSENT |
|----------------|------|------|------|--------|
| COWNIE | | | | |
| COLEMAN | | | | |
| HENSLEY | | | | |
| KIERNAN | | | | |
| MAHAFFEY | | | | |
| MEYER | | | | |
| VLASSIS | | | | |
| 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

Report to the Board of Water Works Trustees

July 15, 2008

McGladrey & Pullen
Certified Public Accountants

McGladrey & Pullen

Certified Public Accountants

July 15, 2008

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

We are pleased to present this report related to our audit of the basic financial statements of Des Moines Water Works for the years ended December 31, 2007 and 2006. This report summarizes certain matters required by professional standards to be communicated to you in your oversight responsibility for Des Moines Water Works' financial reporting process. Also included is a summary of recently issued accounting standards that may affect future financial reporting by Des Moines Water Works.

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

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Required Communications

Statement on Auditing Standards No. 114 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 |
|--|---|
| Auditor's Responsibility Under Professional Standards | <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 December 21, 2007.</p> |
| Accounting Practices | <p>Adoption of, or Change in, Accounting Policies</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) Statements.</p> <ul style="list-style-type: none">• GASB Statement No. 43, <i>Financial Reporting For Postemployment Benefit Plans Other Than Pension Plans</i>. This Statement establishes uniform financial reporting standards for other postemployment benefit plans (OPEB plans) and supersedes existing guidance. The adoption of this Statement had no effect on Water Works in the current year.• GASB Statement No. 48, <i>Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues</i>. This Statement establishes accounting and financial reporting standards for transactions in which a government receives, or is entitled to, resources in exchange for future cash flows generated by collecting specific receivables or specific future revenues. It also provides disclosure requirements for a government that pledges or commits future cash flows from a specific revenue source. In addition, this Statement establishes accounting and financial reporting standards for intra-entity transfers of assets and future revenues. The effect of the adoption of this Statement to Water Works was the addition of note disclosures regarding pledged revenue for long-term obligations. |

| Area | Comments |
|---|---|
| | <p>Significant or Unusual Transactions</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>Alternative Treatments Discussed with Management</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> |
| <p>Management's Judgments and Significant Accounting Estimates</p> | <p>Summary information about the process used by management in formulating particularly sensitive accounting estimates and about our conclusions regarding the reasonableness of those estimates is in the attached "Summary of Significant Accounting Estimates".</p> |
| <p>Audit Adjustments</p> | <p>Audit adjustments recorded by Des Moines Water Works are attached with the representation letter included with Exhibit A.</p> |
| <p>Uncorrected Misstatements</p> | <p>Uncorrected misstatements are summarized in the attached Summaries of Uncorrected Misstatements.</p> |
| <p>Disagreements with Management</p> | <p>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.</p> |
| <p>Consultations with Other Accountants</p> | <p>We are not aware of any consultations management had with other accountants about accounting or auditing matters.</p> |
| <p>Significant Issues Discussed with Management</p> | <p>Following is a description of significant issues arising from the audit that were discussed with management:</p> <ul style="list-style-type: none"> • Recording of retainages payable on open contracts. • Inventory being recorded based on purchase order price versus actual invoice price. |
| <p>Difficulties Encountered in Performing the Audit</p> | <p>We did not encounter any difficulties in dealing with management during the audit.</p> |

| Area | Comments |
|--|---|
| Letter Communicating Significant Deficiencies and Material Weaknesses | We have separately communicated the significant deficiency and a material weakness identified during our audit of the financial statements and this communication is attached as Exhibit B. |
| Certain Written Communications Between Management and Our Firm | Copies of certain written communications between our firm and the management of the entity are attached as Exhibit A. |

Des Moines Water Works

Summary of Significant Accounting Estimates Year Ended December 31, 2007

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, 2007 financial statements:

| Area | Accounting Policy | Estimation Process | Comments |
|---|---|--|--|
| Pension Plan Assumptions | Pension plan accounting and disclosure is 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, retirement age and mortality. These factors and the estimated discount rate and rate of return are based upon historical and general market data. | We analyzed the Water Works' methodology and concluded the estimates are reasonable. |
| Depreciable Life and Salvage Value of Capital Assets | 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 the Water Works is proper. |
| Fair Value of Financial Instruments | 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. |

Des Moines Water Works

Summary of Uncorrected Misstatements Year Ended December 31, 2007

During the course of our audit, we accumulated uncorrected misstatements that were determined by management to be immaterial, both individually and in the aggregate, to the balance sheets, statements of revenues, expenses and changes in net assets and cash flows and to the related financial statement disclosures. Following is a summary of those differences:

| Description: | Debit (Credit) to Correct the Misstatements | | | | |
|--|---|-------------|--------------------|-------------|------------------|
| | Assets | Liabilities | Net Assets | Revenue | Expense |
| Carryover impact from previous years: | | | | | |
| Revenue adjustment | \$ - | \$ - | \$ (242,000) | \$ 242,000 | \$ - |
| Inventory overstatement | - | - | 37,000 | - | (37,000) |
| Current misstatement, known errors, revenue adjustment | - | - | 242,000 | (242,000) | - |
| Current misstatement, project error, inventory understatement | 70,000 | - | - | - | 70,000 |
| Subtotal | <u>\$ 70,000</u> | <u>\$ -</u> | <u>37,000</u> | <u>\$ -</u> | <u>\$ 33,000</u> |
| Effect of current year passed adjustments on net assets | | | (107,000) | | |
| Total | | | <u>\$ (70,000)</u> | | |

Recently Issued Accounting Standards

The GASB has issued several statements not yet implemented by Des Moines Water Works. Des Moines Water Works' management has not yet determined the effect these Statements will have on Des Moines Water Works' financial statements. However, Des Moines Water Works plans to implement all standards by the required dates. The Statements which might impact Des Moines Water Works are as follows:

GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions

This Statement, issued June 2004, will be effective for Des Moines Water Works beginning with its year ending December 31, 2008. This Statement establishes standards for the measurement, recognition and display of other postemployment benefits expenses and related liabilities or assets, note disclosures and, if applicable, required supplementary information in the financial reports.

GASB Statement No. 49, Accounting and Financial Reporting for Pollution Remediation Obligations

This Statement, issued November 2006, will be effective for Des Moines Water Works beginning with its year ending December 31, 2008. This Statement addresses accounting and financial reporting standards for pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities, such as site assessments and cleanups. This standard requires the government to estimate the components of expected pollution remediation outlays and determine whether the outlays for those components should be accrued as a liability or, if appropriate, capitalized when goods and services are acquired.

GASB Statement No. 50, Pension Disclosures, an amendment of GASB Statement Nos. 25 and 27

This Statement, issued May 2007, will be effective for Des Moines Water Works beginning with its year ending December 31, 2008. This Statement more closely aligns the financial reporting requirements for pensions with those for other postemployment benefits (OPEB) and, in doing so, enhances information disclosed in notes to the financial statements or presented as required supplementary information (RSI) by pension plans and by employers that provide pension benefits.

GASB Statement No. 51, Accounting and Financial Reporting for Intangible Assets

This Statement, issued July 2007, will be effective for Des Moines 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.

***GASB Statement No. 52, Land and Other
Real Estate Held as Investments by
Endowments***

This Statement, issued November 2007, will be effective for Des Moines Water Works beginning with its year ending December 31, 2009. 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.

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

**DES MOINES WATER WORKS**

Board of Water Works Trustees

L.D. McMullen, Ph.D., P.E., CEO and General Manager

2201 George Flagg Parkway • Des Moines, Iowa 50321-1190 • (515) 283-8755 • www.dmnww.com

July 15, 2008

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

In connection with your audits of the basic financial statements of Des Moines Water Works, Iowa as of and for the years ended December 31, 2007 and 2006, 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 July 15, 2008, 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 are responsible for compliance with laws and regulations applicable to Des Moines Water Works including adopting, approving and amending budgets.
4. 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.
5. We have made available to you:
 - a. All financial records and related data of all funds and 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.

6. 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.
7. We acknowledge our responsibility for the design and implementation of programs and controls to provide reasonable assurance that fraud is prevented and detected.
8. 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.
9. We have informed you of all 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.
10. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
11. We have no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.
12. 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 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. 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 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. 45, 49, 50, 51 and 52 which have been issued, but which we have not yet adopted.
 - g. Deposits and investment securities category of custodial credit risk.

13. 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, 2007 and/or for expected retroactive insurance premium adjustments applicable to periods through December 31, 2007.
 - d. For pension obligations, post-retirement benefits other than pensions and deferred compensation agreements attributable to employee services rendered through December 31, 2007.
14. 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 the Government is contingently liable.
 - e. Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash 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. Any other 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. Any 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. All leases and material amounts of rental obligations under long-term leases.
 - m. Authorized but unissued bonds and/or notes.
 - n. Risk financing activities.

- o. Derivative financial instruments.
 - p. Special and extraordinary items.
 - q. Arbitrage rebate liabilities.
 - r. Impairment of capital assets.
 - s. Investments, intangibles, and other assets which have permanently declined in value to their realizable values.
 - t. Material losses to be sustained in the fulfillment of, or from the inability to fulfill, any service commitments.
 - u. Material losses to be sustained as a result of purchase commitments.
 - v. Environmental clean up obligations.
15. 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.
16. 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.
17. We have satisfactory title to all owned assets.
18. We have complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
19. Net asset components invested in capital assets, net of related debt; restricted; and unrestricted are properly classified and, if applicable, approved.
20. Capital assets, including infrastructure assets, are properly capitalized, reported and depreciated.
21. Required supplementary information is properly measured and presented.
22. 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 as Appendix A. We have reviewed, approved, and are responsible for overseeing the preparation and completion of the basic financial statements and related notes.
23. We appropriately adopted:
- a. GASB Statement No. 43, *Financial Reporting For Postemployment Benefit Plans Other Than Pension Plans*, issued April 2004. This Statement establishes uniform financial reporting standards for other postemployment benefit plans (OPEB plans) and supersedes existing guidance. The adoption of this statement had no effect on Water Works in the current year.

- b. Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, issued September 2006. This Statement establishes accounting and financial reporting standards for transactions in which a government receives, or is entitled to, resources in exchange for future cash flows generated by collecting specific receivables or specific future revenues. It also provides disclosure requirements for a government that pledges or commits future cash flows from a specific revenue source. In addition, this Statement establishes accounting and financial reporting standards for intra-entity transfers of assets and future revenues. The effect of the adoption of this Statement to Water Works was the addition on note disclosures regarding pledged revenue for long-term obligations.
24. 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 taken timely and appropriate steps to remedy fraud, illegal acts, violations of provisions of contracts or grant agreements, or abuse that has been reported.
 - d. We have a process to track the status of audit findings and recommendations.
 - e. We have identified for you previous financial audits, attestation engagements, performance audits, or other studies related to the objectives of the audit being undertaken and the corrective action taken to address significant findings and recommendations.
 - f. We have provided you with our views on your reported findings, conclusions, and recommendations, as well as our planned corrective actions.
 - g. We have reviewed, approved and taken full responsibility for the financial statements and related notes.
 - h. We have reviewed, approved and taken full responsibility for all accrual adjustments and an acknowledgement of the auditor's role in the preparation of the adjustments.
25. In connection with the reports on Billing and Collection Agent for the City of Des Moines, Iowa for the Storm Management charges, Sewer Service charges and Solid Waste Collection charges:
- a. The financial statements are prepared on 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.
 - b. We are responsible for compliance with the contract with the City of Des Moines, Iowa.

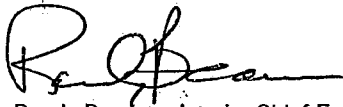
No events or transactions have occurred subsequent to the balance sheet date that would require adjustment to, or disclosure in, the financial statements.

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.

As of and for the year ended December 31, 2007, we believe the effects of the uncorrected misstatements aggregated by you and summarized below are immaterial, both individually and in the aggregate, to the basic financial statements. For purposes of this representation, we consider items to be material, regardless of their size, if they involve the misstatement or omission of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

| Description: | Debit (Credit) to Correct the Misstatements | | | | |
|---|---|-------------|--------------------|-------------|------------------|
| | Assets | Liabilities | Net Assets | Revenues | Expense |
| Carryover impact from previous years: | | | | | |
| Revenue adjustment | \$ - | \$ - | \$ (242,000) | \$ 242,000 | \$ - |
| Inventory overstatement | - | - | 37,000 | - | (37,000) |
| Current misstatement, known errors, revenue adjustment | - | - | 242,000 | (242,000) | - |
| Current misstatement, project error, inventory understatement | 70,000 | - | - | - | 70,000 |
| Subtotal | \$ 70,000 | \$ - | 37,000 | \$ - | \$ 33,000 |
| Effect of current year passed adjustments on net assets | | | (107,000) | | |
| Total | | | \$ (70,000) | | |

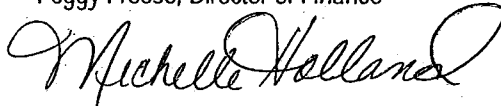
Des Moines Water Works



Randy Beavers, Interim Chief Executive Officer



Peggy Freese, Director of Finance



Michelle Holland, Controller

Des Moines Water Works:DMWW

Year End: December 31, 2007

Trial balance

Date: 01/01/2007 To 12/31/2007

0204

| | | | |
|-----------------------------------|-----------------------------------|---------------|----------------------------------|
| Prepared by 1 on 04/07/2008 | Prepared by 2 | Prepared by 3 | Incharge Review on 04/07/2008 |
| Manager Review AB41 04/28/2008 | Partner Review AB41 04/28/2008 | Reviewed by 4 | Reviewed by 5 |

| Number | Date | Name | Account No | Reference | Debit | Credit | Net Income (Loss) | Amount Chg |
|--------------------------------------|------------|--|------------|-----------|--------------|--------------|-------------------|------------|
| Net Income (Loss) Before Adjustments | | | | | | | 5,582,183.74 | |
| 2 | 12/31/2007 | Construction In Progress | 108100 | | 150,981.13 | | | |
| 2 | 12/31/2007 | Transfer to Capital | 805100 | | | 150,981.13 | | |
| | | Client entry (To transfer remaining balance of Capital Expenditures to CIP.) | | | 150,981.13 | 150,981.13 | 5,713,164.87 | 150,981.13 |
| 3 | 12/31/2007 | Investment Income | 901100 | 4005 | 392,661.19 | | | |
| 3 | 12/31/2007 | Interest Expense | 902100 | 4005 | | 392,661.19 | | |
| | | To properly show capitalized Interest as a reduction of interest expense instead of an increase in Investment Income. | | | 392,661.19 | 392,661.19 | 5,713,164.87 | 0.00 |
| 5 | 12/31/2007 | Construction In Progress | 108100 | 4005 | 61,490.00 | | | |
| 5 | 12/31/2007 | Capital Services | 801500 | 4005 | 61,490.00 | | | |
| 5 | 12/31/2007 | Transfer to Capital | 805100 | 4005 | | 61,490.00 | | |
| 5 | 12/31/2007 | Interest Expense | 902100 | 4005 | | 61,490.00 | | |
| | | Client entry (Adjust capitalized Interest to actual.) | | | 122,980.00 | 122,980.00 | 5,774,654.87 | 61,490.00 |
| 6 | 12/31/2007 | Construction In Progress | 108100 | | 716,058.44 | | | |
| 6 | 12/31/2007 | Contracts Payable | 201200 | | | 716,058.44 | | |
| 6 | 12/31/2007 | Capital Services | 801500 | | 716,058.44 | | | |
| 6 | 12/31/2007 | Transfer to Capital | 805100 | | | 716,058.44 | | |
| | | To record retainages payable on open contracts. | | | 1,432,116.88 | 1,432,116.88 | 5,774,654.87 | 0.00 |
| | | | | | | | 2,098,739.20 | 212,471.13 |
| | | | | | | | 2,098,739.20 | 212,471.13 |

McGladrey & Pullen

Certified Public Accountants

Randy Beavers, Interim CEO
Peggy Freese, CFO
Des Moines Water Works
Des Moines, Iowa

In connection with our audit of the financial statements of Des Moines Water Works as of and for the year ended December 31, 2007, we identified deficiencies in internal control over financial reporting (control deficiencies).

A control deficiency 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 financial statement misstatements on a timely basis. A deficiency in design exists when a control necessary to meet the control objective is missing, or when an existing control is not properly designed so that even if the control operates as designed, the control objective is not always met. A deficiency in operation exists when a properly designed control does not operate as designed or when the person performing the control does not possess the necessary authority or qualifications to perform the control effectively.

A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to authorize, initiate, record, process or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected.

We have separately communicated, to you and the Board of Water Works Trustees, an identified deficiency that we determined to be a material weakness. Certain control deficiencies that have been orally communicated to you by us are not repeated herein.

Following is a description of another identified control deficiency that we determined did not constitute a significant deficiency or material weakness:

- The inventory system used by Des Moines Water Works calculates inventory costs using purchase order price rather than actual invoice price. There are some compensating controls in place by Water Works to mitigate the instances of having differences between the two prices before the inventory is ordered. However, it is still possible, as noted through our sample testing of inventory, for inventory to be recorded at a price that is different than actual invoice. We recommend Des Moines Water Works investigate with their inventory software vendor as to whether a change could be made within the software program to calculate using actual invoice price to ensure inventory is being valued properly.

This communication is intended solely for the information and use of management, the Board of Water Works Trustees and is not intended to be and should not be used by anyone other than these specified parties.

McGladrey & Pullen, LLP

Davenport, Iowa
July 15, 2008

Exhibit B – (If significant deficiencies and material weaknesses are not part of the financial statements and is issued as a separate letter, include letter here).

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 years ended December 31, 2007 and 2006, and have issued our report thereon dated July 15, 2008. 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.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential, will not be prevented or detected by the entity's internal control. We consider the deficiency described below to be a significant deficiency in internal control over financial reporting.

Finding: Des Moines Water Works did not record retainages payable on construction projects that had not been completed as of year-end.

Condition: Des Moines Water Works had several open construction projects as of December 31, 2007 in which retainages payable had not been accrued for or construction-in-progress recorded for the services completed as of year-end.

Context: Pervasive to all open construction projects/contracts. Based on invoices received by Des Moines Water Works subsequent to year-end, an additional \$716,000 of retainages payable and construction-in-progress was recorded by Water Works during the audit.

Effect: Contracts payable and construction-in-progress for the year was understated.

Recommendation: We recommend Des Moines Water Works record retainages payable on all construction projects for the period when services were performed.

Response and corrective action plan: Des Moines Water Works had been recording retainages payable for construction contracts that were completed as of year-end. Des Moines Water Works will start recording retainages payable and the related construction-in-progress for all construction projects still in progress at year-end.

The Des Moines Water Works response to the above finding identified in our audit is described above.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe the significant deficiency described above is a material weakness.

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*.

We noted certain matters that we reported to management of Des Moines Water Works in a separate letter dated July 15, 2008.

We did not audit Des Moines Water Works' response above and, accordingly, we express no opinion on it.

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
July 15, 2008

Des Moines Water Works

Financial Report

12.31.2007

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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, 2007 and 2006, 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 and the standards applicable to financial audits contained in *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 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, 2007 and 2006 and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 15, 2008, on our consideration of Water Work's internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

The Management's Discussion and Analysis on pages 3 through 9 and pension plan schedule on pages 33 and 34 is 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
July 15, 2008

Des Moines Water Works

Management's Discussion and Analysis Year Ended December 31, 2007

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, 2007 and 2006. 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 operating and maintenance costs. Ownership of these facilities is maintained by the Water Works.

The water sources for the system are the Raccoon River, 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 215 full-time and 15 part-time or seasonal employees.

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

Financial Highlights

- Water Works' net assets increased as a result of operations. As of December 31, 2007 and 2006, total assets were \$290,106,949 and \$290,201,832, respectively; total liabilities were \$103,437,185 and \$109,306,723, respectively, resulting in net assets of \$186,669,764 and \$180,895,109, respectively.
- In 2007, operating revenues of \$38,591,144 decreased 2.69 percent over 2006, while operating expenses in 2007 decreased approximately 1.97 percent to \$33,908,739. Operating revenues of \$39,659,080 in 2006 increased 13.25 percent over 2005, while operating expenses increased approximately 4.47 percent to \$34,591,868.

Des Moines Water Works

Management's Discussion and Analysis Year Ended December 31, 2007

- During the year, Water Works had operating income of \$4,682,405 and change in net assets of \$5,774,655. This compares to operating income of \$5,067,212 and change in net assets of \$12,236,233 reported in 2006.

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, 2007

Condensed Balance Sheet Information

| | 2007 | 2006 | 2005 | % Change 2006 to 2007 | % Change 2005 to 2006 |
|---|-----------------------|-----------------------|-----------------------|--------------------------|--------------------------|
| Current assets | \$ 26,902,959 | \$ 38,185,510 | \$ 7,515,627 | (29.55)% | 408.08% |
| Capital assets, net | 233,569,476 | 216,030,583 | 198,755,238 | 8.12 | 8.69 |
| Other noncurrent assets | 29,634,514 | 35,985,739 | 23,397,366 | (17.65) | 53.80 |
| Total assets | 290,106,949 | 290,201,832 | 229,668,231 | (0.03) | 26.36 |
| Current liabilities | 16,187,541 | 16,679,862 | 14,063,412 | (2.95) | 18.60 |
| Other noncurrent liabilities | 16,747,644 | 18,346,861 | 19,755,943 | (8.72) | (7.13) |
| Long-term debt | 70,502,000 | 74,280,000 | 27,190,000 | (5.09) | 173.19 |
| Total liabilities | 103,437,185 | 109,306,723 | 61,009,355 | (5.37) | 79.16 |
| Invested in capital assets, net of related debt | 187,343,763 | 180,243,279 | 167,080,017 | 3.94 | 7.88 |
| Restricted | 16,169,822 | 17,136,157 | 19,372,427 | (5.64) | (11.54) |
| Unrestricted | (16,843,821) | (16,484,327) | (17,793,568) | 2.18 | (7.36) |
| Total net assets | \$ 186,669,764 | \$ 180,895,109 | \$ 168,658,876 | 3.19 | 7.26 |

Condensed Revenues, Expenses and Changes in Net Assets

| | 2007 | 2006 | 2005 | % Change 2006 to 2007 | % Change 2005 to 2006 |
|-----------------------------------|-----------------------|-----------------------|-----------------------|--------------------------|--------------------------|
| Water sales | \$ 32,649,976 | \$ 33,964,194 | \$ 30,001,396 | (3.87)% | 13.21% |
| Billing and collection services | 991,648 | 892,455 | 807,839 | 11.11 | 10.47 |
| Connection fees | 725,359 | 591,950 | 500,542 | 22.54 | 18.26 |
| Purchased capacity | 1,330,631 | 1,321,967 | 968,347 | 0.66 | 36.52 |
| Other sales and services | 2,893,530 | 2,888,514 | 2,740,760 | 0.17 | 5.39 |
| Total operating revenues | 38,591,144 | 39,659,080 | 35,018,884 | (2.69) | 13.25 |
| Investment income | 2,943,034 | 3,001,447 | 517,567 | (1.95) | 479.91 |
| Other | 179,154 | 166,722 | 173,043 | 7.46 | (3.65) |
| Capital contributions | 630,155 | 6,904,658 | 2,116,739 | (90.87) | 226.19 |
| Total revenues | 42,343,487 | 49,731,907 | 37,826,233 | (14.86) | 31.47 |
| Labor and benefits | 13,523,064 | 13,146,601 | 13,566,345 | 2.86 | (3.09) |
| Chemicals and power | 5,356,622 | 5,100,647 | 4,162,646 | 5.02 | 22.53 |
| Insurance | 965,607 | 940,458 | 899,619 | 2.67 | 4.54 |
| Purchased services | 3,346,776 | 3,179,056 | 2,559,800 | 5.28 | 24.19 |
| Materials, supplies and equipment | 3,155,726 | 3,127,030 | 3,003,276 | 0.92 | 4.12 |
| Depreciation | 7,242,073 | 8,891,789 | 8,734,782 | (18.55) | 1.80 |
| Other | 318,871 | 206,287 | 185,291 | 54.58 | 11.33 |
| Total operating expenses | 33,908,739 | 34,591,868 | 33,111,759 | (1.97) | 4.47 |
| Interest expense | 2,660,093 | 2,903,806 | 1,530,012 | (8.39) | 89.79 |
| Total expenses | 36,568,832 | 37,495,674 | 34,641,771 | (2.47) | 8.24 |
| Change in net assets | 5,774,655 | 12,236,233 | 3,184,462 | (52.81) | 284.25 |
| Net assets, beginning of year | 180,895,109 | 168,658,876 | 165,474,414 | 7.26 | 1.92 |
| Net assets, end of year | \$ 186,669,764 | \$ 180,895,109 | \$ 168,658,876 | 3.19 | 7.26 |

Des Moines Water Works

Management's Discussion and Analysis Year Ended December 31, 2007

Financial Analysis

Year ended December 31, 2007: Current assets decreased 29.55 percent. Other noncurrent assets decreased approximately 17.65 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 8.12 percent. Overall, total assets as of December 31, 2007 are approximately \$100,000 less than December 31, 2006.

Current liabilities decreased 2.95 percent. The current portion of long-term debt decreased \$992,000 while construction payables increased \$938,198 due to work performed on the new treatment plant. Finally, fees collected for other entities increased \$214,114 and accounts payable decreased \$532,613.

Noncurrent liabilities include deferred revenue being amortized over a period of 10 to 20 years. Noncurrent liabilities include the pension liability which will be paid through future pension contributions.

Long-term debt decreased 5.09 percent in 2007 due to the \$3,778,000 reclassification of the scheduled 2008 debt service payments to short-term liabilities.

Water sales decreased 3.87 percent. Debt service reimbursement decreased \$1.3 million due to the retirement of the Water Revenue Bonds, Series 2001. The participants of this bond issue were reimbursed their portion of the bond reserve which equated to approximately \$800,000. In addition, one of the participants of this bond issue had their portion paid off in 2006, thus reducing the amount of income when comparing 2007 to 2006.

Connection fees increased 22.54 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 \$748,813 and \$684,642 for 2007 and 2006, respectively, are included in Water Works' financial results.

Labor and benefits increased 2.86 percent which is primarily due to wage rate increases.

Chemicals and power increased 5.02 percent due to an increase in chemical costs.

Purchased services increased 5.28 percent compared to 2006 due to increased credit card fees of \$48,000 as usage of credit cards for payments is increasing. Additionally, higher expenses were incurred for Information Technology (I.T.) application support, maintenance contracts and service line installations in the Southeast Polk service area.

Des Moines Water Works

Management's Discussion and Analysis Year Ended December 31, 2007

Depreciation expense decreased 18.55 percent due to the utility's customer relationship management system (CRM) becoming fully depreciated.

Other expenses increased 54.58 percent due to an increase in casualty losses of \$96,631 over 2006. Loss on bad debt increased \$38,668 from 2006.

Investment income decreased 1.95 percent due to slightly lower investment returns. Interest expense decreased 8.39 percent in 2007 primarily due to the capitalization of interest expense for the new treatment plant.

Capital contributions decreased 90.87 percent due to funds received in 2006 from Polk County for the purchase of the Southeast Polk Rural Water District. In 2007, funds received included \$300,000 from Pleasant Hill for capital infrastructure and \$175,000 from East Dallas Water for converting and connecting into our system. All other capital contributions received for 2007 are related to contributions of water mains by 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 3.19 percent, the result of a 2.69 percent decrease in operating revenues, a decrease in operating expenses of 1.97 percent and a 62.75 percent decrease in nonoperating revenues.

Year Ended December 31, 2006: Current assets increased 408.08 percent. Other noncurrent assets increased approximately 53.80 percent. Both of these are a result of receiving \$52,435,000 in water revenue bond proceeds which were not all spent as of December 31, 2006.

Current liabilities increased 18.60 percent due to increases in construction contracts payable of \$1,350,182. The current portion of long-term debt also increased due to the issuance of Water Revenue Bonds, Series 2006. Fees collected for other entities also increased \$102,022 over 2005 due to the timing of year-end remittances.

Noncurrent liabilities include deferred revenue being amortized over a period of 10 to 20 years. Noncurrent liabilities include the pension liability which will be paid through future pension contributions.

Long-term debt increased 173.19 percent in 2006 due to the issuance of the Water Revenue Bonds, Series 2006.

Water sales increased 13.21 percent. Two retail service areas, Southeast Polk and Runnells, were added in 2006. Both of these areas previously purchased water on a wholesale basis. In addition, debt service reimbursement increased \$2.6 million due to the issuance of Water Revenue Bonds, Series 2006.

Connection fees increased 18.26 percent due to more connection fees after the takeover of the Southeast Polk Rural Water District. 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 36.52 percent as a result of the continued amortization of deferred revenue. This deferred revenue represents current year 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.

Des Moines Water Works

Management's Discussion and Analysis Year Ended December 31, 2007

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 \$684,642 and \$492,942 for 2006 and 2005, respectively, are included in Water Works' financial results.

Chemicals and power increased 22.53 percent due to an increase in chemical costs.

Purchased services increased 24.19 percent compared to 2005 due to repairs to the Botanical Center dome and service line installations in the Southeast Polk service area.

Other expenses increased 11.33 percent due to an increase in casualty losses of \$10,569 over 2005. Loss on bad debt decreased \$17,511 from 2005.

Investment income increased 479.91 percent due to higher investment balances as a result of funds received from the issuance of the 2006 Series Bonds and slightly higher investment returns. Interest expense increased 89.79 percent in 2006 primarily due to the interest due on the Water Revenue Bonds Series 2006.

Capital contributions increased 226.19 percent in 2006 due to funds received from Polk County in the purchase of the Southeast Polk Rural Water District. All other capital contributions of \$1,795,062 in 2006 are related to contributions of water mains by 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 7.26 percent, the result of a 13.25 percent increase in operating revenues, an increase in operating expenses of 4.47 percent and a 258.80 percent increase in nonoperating revenues.

Capital Assets and Debt Administration

During 2007, net capital assets increased \$17,538,893 or 8.12 percent. In addition to replacing deteriorating water mains, the utility is building a water treatment plant in the northern part of the service area. The utility is also engaged in a multi-year capital project to implement radio frequency meter reading for all customers within the City of Des Moines. 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 \$74,280,000 and \$79,050,000 as of December 31, 2007 and 2006, respectively. The decrease is due to scheduled principal payments.

During 2006, net capital assets increased \$17,275,345 or 8.69 percent. In addition to replacing deteriorating water mains, the utility is responsible for relocating mains affected by the I-235 freeway expansion project. The utility is also engaged in a multi-year capital project to implement radio frequency meter reading for all customers within the City of Des Moines. 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 \$79,050,000 and \$31,788,000 as of December 31, 2006 and 2005, respectively. The increase was due to the issuance of the Water Revenue Bonds, Series 2006.

Des Moines Water Works

Management's Discussion and Analysis Year Ended December 31, 2007

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. A water rate increase was budgeted for 2008. The increase was budgeted at primarily 3 percent for residential rate classes and 6 percent for 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.

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.

| | 2007 | 2006 |
|--|-----------------------|-----------------------|
| Liabilities and Net Assets | | |
| Current liabilities: | | |
| Accounts payable | \$ 2,268,414 | \$ 2,801,027 |
| Accrued wages and benefits | 305,857 | 422,181 |
| Compensated absences (Note 4) | 1,326,253 | 1,283,031 |
| Deferred revenue (Note 1) | 1,333,951 | 1,330,632 |
| Special deposits | 69,510 | 105,712 |
| Construction payables | 6,290,830 | 5,352,632 |
| Water revenue bonds interest payable | 259,362 | 273,397 |
| Current portion of long-term debt (Note 4) | 3,778,000 | 4,770,000 |
| Fees collected for other entities | 555,364 | 341,250 |
| Total current liabilities | 16,187,541 | 16,679,862 |
| Noncurrent liabilities: | | |
| Long-term debt, less current installments (Note 4) | 70,502,000 | 74,280,000 |
| Compensated absences (Note 4) | 635,072 | 731,103 |
| Deferred revenue (Note 1) | 15,724,168 | 17,058,120 |
| Pension liability (Note 5) | 388,404 | 557,638 |
| Total noncurrent liabilities | 87,249,644 | 92,626,861 |
| Total liabilities | 103,437,185 | 109,306,723 |
| Net assets: | | |
| Invested in capital assets, net of related debt | 187,343,763 | 180,243,279 |
| Restricted (bond indentures) | 16,169,822 | 17,136,157 |
| Unrestricted | (16,843,821) | (16,484,327) |
| Total net assets | 186,669,764 | 180,895,109 |
| Total liabilities and net assets | \$ 290,106,949 | \$ 290,201,832 |

Des Moines Water Works

Statements of Revenues, Expenses and Changes in Net Assets Years Ended December 31, 2007 and 2006

| | 2007 | 2006 |
|--|-----------------------|-----------------------|
| Operating revenues: | | |
| Water sales | \$ 33,980,607 | \$ 35,286,161 |
| Other sales and services | 3,885,178 | 3,780,969 |
| Connection fees | 725,359 | 591,950 |
| Total operating revenues | 38,591,144 | 39,659,080 |
| Operating expenses: | | |
| Labor | 10,407,304 | 9,956,210 |
| Insurance | 965,607 | 940,458 |
| Group insurance | 1,472,393 | 1,369,792 |
| Pension benefits (including social security) | 1,643,367 | 1,820,599 |
| Purchased services | 3,346,776 | 3,179,056 |
| Materials, supplies and equipment | 3,155,726 | 3,127,030 |
| Chemicals | 2,966,033 | 2,673,600 |
| Utilities, net | 2,390,589 | 2,427,047 |
| Depreciation | 7,242,073 | 8,891,789 |
| Other | 318,871 | 206,287 |
| Total operating expenses | 33,908,739 | 34,591,868 |
| Operating income | 4,682,405 | 5,067,212 |
| Nonoperating revenue (expense): | | |
| Investment income | 2,943,034 | 3,001,447 |
| Interest expense | (2,660,093) | (2,903,806) |
| Land use income | 175,188 | 162,132 |
| Other | 3,966 | 4,590 |
| Nonoperating revenue, net | 462,095 | 264,363 |
| Income before contributions | 5,144,500 | 5,331,575 |
| Capital contributions | 630,155 | 6,904,658 |
| Change in net assets | 5,774,655 | 12,236,233 |
| Net assets, beginning of year | 180,895,109 | 168,658,876 |
| Net assets, end of year | <u>\$ 186,669,764</u> | <u>\$ 180,895,109</u> |

See Notes to Basic Financial Statements.

Des Moines Water Works

Statements of Cash Flows

Years Ended December 31, 2007 and 2006

| | 2007 | 2006 |
|--|---------------------|---------------------|
| Cash flows from operating activities: | | |
| Cash received from customers | \$ 37,842,647 | \$ 37,983,371 |
| Cash paid to suppliers | (12,781,088) | (11,168,903) |
| Cash paid to employees and for payroll taxes | (14,827,038) | (13,981,547) |
| Net cash provided by operating activities | 10,234,521 | 12,832,921 |
| Cash flows from capital and related financing activities: | | |
| Proceeds from long-term debt | - | 52,435,000 |
| Principal payments on long-term debt | (4,770,000) | (5,173,000) |
| Acquisition, construction and removal cost of capital assets | (23,687,613) | (23,021,890) |
| Contributions received | 475,000 | 5,109,596 |
| Interest paid | (2,614,627) | (3,215,563) |
| Net cash provided by (used in) capital and related financing activities | (30,597,240) | 26,134,143 |
| Cash flows from investing activities: | | |
| Proceeds from maturities of investments | 151,192,792 | 127,005,089 |
| Purchase of investments | (129,176,792) | (167,840,750) |
| Interest received | 2,840,927 | 2,765,656 |
| Land use income and other | 179,154 | 166,722 |
| Net cash provided by (used in) investing activities | 25,036,081 | (37,903,283) |
| Net increase in cash | 4,673,362 | 1,063,781 |
| Cash, beginning of year | 3,212,178 | 2,148,397 |
| Cash, end of year | \$ 7,885,540 | \$ 3,212,178 |
| Reconciliation of cash to the balance sheet: | | |
| Cash | \$ 256,926 | \$ 1,452,914 |
| Restricted assets, cash | 7,628,614 | 1,759,264 |
| Total cash at end of year | \$ 7,885,540 | \$ 3,212,178 |

(Continued)

Des Moines Water Works

Statements of Cash Flows (Continued)

Years Ended December 31, 2007 and 2006

| | 2007 | 2006 |
|---|----------------------|----------------------|
| Reconciliation of operating income to net cash provided by operating activities: | | |
| Operating income | \$ 4,682,405 | \$ 5,067,212 |
| Adjustments to reconcile operating income to net cash, depreciation | 7,242,073 | 8,891,789 |
| Change in: | | |
| Accounts receivable, billed | 300,719 | (355,829) |
| Accounts receivable, unbilled | 14,251 | (132,739) |
| Other receivables | (5,571) | (40,198) |
| Inventories - materials and supplies | (71,831) | (205,085) |
| Prepaid expense | 1,351 | 32,480 |
| Other assets | 94,825 | 70,651 |
| Accounts payable | (532,613) | 616,722 |
| Accrued wages and benefits and compensated absences | (169,133) | 130,914 |
| Pension liability | (169,234) | (25,402) |
| Deferred revenue | (1,330,633) | (1,312,216) |
| Special deposits | (36,202) | (7,400) |
| Fees collected for other entities | 214,114 | 102,022 |
| Net cash provided by operating activities | \$ 10,234,521 | \$ 12,832,921 |
| Schedule of noncash capital and related financing activities: | | |
| Contributions of water mains from contractors in aid of construction | \$ 155,155 | \$ 1,795,062 |
| Acquisition of capital assets through construction payables | 938,198 | 1,350,182 |
| Schedule of noncash investing activities, net depreciation of the fair value of investments | 22,540 | 15,332 |

See Notes to Basic Financial Statements.

**Des Moines Water Works
Pension Plan**

**Statements of Plan Net Assets
December 31, 2007 and 2006**

| | 2007 | 2006 |
|--|----------------------|----------------------|
| Assets | | |
| Investments, contracts with insurance companies, pooled separate accounts | \$ 44,010,079 | \$ 42,053,324 |
| Employer contributions receivable | - | 221,385 |
| | <u>44,010,079</u> | <u>42,274,709</u> |
| Liabilities | | |
| Net assets held in trust for pension benefits | <u>\$ 44,010,079</u> | <u>\$ 42,274,709</u> |

See Notes to Basic Financial Statements.

**Des Moines Water Works
Pension Plan**

**Statements of Changes in Plan Net Assets
Years Ended December 31, 2007 and 2006**

| | <u>2007</u> | <u>2006</u> |
|--|----------------------|----------------------|
| Additions: | | |
| Investment income: | | |
| Net appreciation in the fair value of pooled separate accounts, interest and dividends (Note 2) | \$ 2,656,473 | \$ 4,985,894 |
| Gain on sale of stock | - | 323,002 |
| Employer contributions | 825,000 | 885,990 |
| Total additions | <u>3,481,473</u> | <u>6,194,886</u> |
| Deductions: | | |
| Benefit payments | 1,676,726 | 1,549,594 |
| Administrative expenses | 69,377 | 67,174 |
| Total deductions | <u>1,746,103</u> | <u>1,616,768</u> |
| Net increase | 1,735,370 | 4,578,118 |
| Net assets held in trust for pension benefits: | | |
| Beginning of year | 42,274,709 | 37,696,591 |
| End of year | <u>\$ 44,010,079</u> | <u>\$ 42,274,709</u> |

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, 2007 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 \$591,590 and \$660,282 in 2007 and 2006, 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. Total PILOT payments were \$234,000 in 2007 and 2006.

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 2007 and 2006.

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 \$555,364 and \$341,250 as of December 31, 2007 and 2006, 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 \$992,000 and \$892,000 in 2007 and 2006, 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 \$454,152 and a negative \$44,236 in 2007 and 2006, 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, 2007 and 2006, Water Works had unspent bond proceeds of \$27,754,747 and \$42,934,747, 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, 2007, Water Works has \$17,058,119 of deferred revenue and has recognized \$5,296,010 of revenue during 2007. As of December 31, 2006, Water Works had \$18,388,752 of deferred revenue and has recognized \$6,595,968 of revenue during 2006.

Des Moines Water Works

Notes to Basic Financial Statements

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

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 note 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.

Note 2. Cash and Investments

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

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

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

Des Moines Water Works

Notes to Basic Financial Statements

Note 2. Cash and Investments (Continued)

Information about the sensitivity of the fair value of the Water Work's investments to market interest rate fluctuations is provided by the table below:

| Type | Fair Value December 31, 2007 | Within 3 Months | Within 6 Months | Within 9 Months | Within 12 Months | Over 12 Months |
|--|------------------------------------|----------------------|----------------------|---------------------|---------------------|---------------------|
| Federal Farm Credit Bank | \$ 1,447,141 | \$ 998,670 | \$ 448,471 | \$ - | \$ - | \$ - |
| Federal Home Loan Bank | 18,035,291 | 9,233,386 | 2,696,004 | 1,106,761 | 749,140 | 4,250,000 |
| Federal Home Loan Mortgage Corp. | 6,857,774 | 3,221,204 | 3,288,638 | 347,932 | | |
| Federal Home Loan Mortgage Corp. Discount Notes | 1,999,000 | 1,999,000 | - | - | - | - |
| Federal National Mortgage Assoc. | 11,786,475 | 6,030,900 | 3,755,575 | - | - | 2,000,000 |
| Tenn Valley Authority Series Mtn Electronotes | 199,838 | 199,838 | - | - | - | - |
| | <u>\$ 40,325,519</u> | <u>\$ 21,682,998</u> | <u>\$ 10,188,688</u> | <u>\$ 1,454,693</u> | <u>\$ 749,140</u> | <u>\$ 6,250,000</u> |

The Water Works also has an investment in land purchased with the intent to sell; however, no commitment for sale exists as of December 31, 2007. 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.

As of December 31, 2007, the Water Works' investments were rated as follows:

| Type | S&P Rating | Moody's Rating |
|---|------------|----------------|
| Federal Farm Credit Bank | AAA | Aaa |
| Federal Home Loan Bank | AAA | Aaa |
| Federal Home Loan Mortgage Corp. | AAA | Aaa |
| Federal Home Loan Mortgage Corp. Discount Notes | A-1+ | Prime-1 |
| Federal National Mortgage Assoc. | AAA | Aaa |
| Tennessee Valley Authority | 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.

Des Moines Water Works

Notes to Basic Financial Statements

Note 2. Cash and Investments (Continued)

More than 5 percent of the utility's investments are in the following investments:

| Type | Percent of Total |
|--|---------------------|
| Federal Home Loan Bank | 44.72% |
| Federal Home Loan Mortgage Corporation | 17.01 |
| Federal National Mortgage Association | 29.23 |

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

Custodial credit risk: The custodial credit risk for deposits and investments is the risk that, in the event of the failure of a depository financial institution or counterparty (for example, broker-dealer) to a transaction, a government will not be able to recover deposits or will not be able to recover collateral securities or value of investments that are in the possession of an outside party. Deposits in financial institutions as of December 31, 2007 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 \$9,166,961 and \$7,885,540 as of December 31, 2007, respectively. Water Works' bank balances and book balances of deposits were \$4,933,847 and \$3,212,178 as of December 31, 2006, respectively. Water Works' investments were not exposed to custodial credit risk as of December 31, 2007 or 2006.

Pension Plan Deposits and Investments

Deposits: As of December 31, 2007 and 2006, 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, 2007, the Plan had investments listed in the table below. Amounts are shown in dollars. Effective duration is shown in years. Investments held by the Plan were not subject to custodial credit risk or foreign currency risk.

| | Fair Value | Effective Duration |
|---|-----------------------------|-----------------------|
| Fixed income investments: | | |
| Principal Bond and Mortgage Account | \$ 11,688,299 | 4.71 |
| Principal Inflation Protection Account | 2,768,747 | 6.69 |
| Principal High Yield Account | 2,148,830 | 2.95 |
| Principal Preferred Securities Account | 515,308 | 7.24 |
| Total fair value of fixed income investments | <u>17,121,184</u> | |
| Other investments, nonfixed income investments | <u>26,888,895</u> | |
| Total investments | <u><u>\$ 44,010,079</u></u> | |

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, 2007 is as follows:

| | Beginning Balance | Increases | Decreases | Ending Balance |
|--|-----------------------|----------------------|---------------------|-----------------------|
| Capital assets not being depreciated: | | | | |
| Land | \$ 4,911,351 | \$ - | \$ - | \$ 4,911,351 |
| Construction-in-progress | 13,872,969 | 24,625,811 | 5,291,704 | 33,207,076 |
| Total capital assets not being depreciated | 18,784,320 | 24,625,811 | 5,291,704 | 38,118,427 |
| Capital assets being depreciated: | | | | |
| Buildings, equipment and machinery | 118,022,971 | 688,106 | 233,018 | 118,478,059 |
| Supply system | 39,643,628 | - | - | 39,643,628 |
| Distribution system | 138,399,220 | 4,758,753 | - | 143,157,973 |
| Total capital assets being depreciated | 296,065,819 | 5,446,859 | 233,018 | 301,279,660 |
| Less accumulated depreciation for: | | | | |
| Buildings, equipment and machinery | 54,284,637 | 4,050,818 | 233,018 | 58,102,437 |
| Supply system | 11,407,227 | 717,365 | - | 12,124,592 |
| Distribution system | 33,127,692 | 2,473,890 | - | 35,601,582 |
| Total accumulated depreciation | 98,819,556 | 7,242,073 | 233,018 | 105,828,611 |
| Total capital assets being depreciated, net | 197,246,263 | (1,795,214) | - | 195,451,049 |
| Net capital assets | \$ 216,030,583 | \$ 22,830,597 | \$ 5,291,704 | \$ 233,569,476 |

Des Moines Water Works

Notes to Basic Financial Statements

Note 3. Capital Assets (Continued)

Capital assets activity for the year ended December 31, 2006 is as follows:

| | Beginning Balance | Increases | Decreases | Ending Balance |
|--|-----------------------|----------------------|----------------------|-----------------------|
| Capital assets not being depreciated: | | | | |
| Land | \$ 4,835,402 | \$ 75,949 | \$ - | \$ 4,911,351 |
| Construction-in-progress | 11,552,484 | 15,994,536 | 13,674,051 | 13,872,969 |
| Total capital assets not being depreciated | 16,387,886 | 16,070,485 | 13,674,051 | 18,784,320 |
| Capital assets being depreciated: | | | | |
| Buildings, equipment and machinery | 116,088,644 | 1,934,327 | - | 118,022,971 |
| Supply system | 39,344,208 | 299,420 | - | 39,643,628 |
| Distribution system | 116,862,267 | 21,536,953 | - | 138,399,220 |
| Total capital assets being depreciated | 272,295,119 | 23,770,700 | - | 296,065,819 |
| Less accumulated depreciation for: | | | | |
| Buildings, equipment and machinery | 48,372,867 | 5,911,770 | - | 54,284,637 |
| Supply system | 10,690,968 | 716,259 | - | 11,407,227 |
| Distribution system | 30,863,932 | 2,263,760 | - | 33,127,692 |
| Total accumulated depreciation | 89,927,767 | 8,891,789 | - | 98,819,556 |
| Total capital assets being depreciated, net | 182,367,352 | 14,878,911 | - | 197,246,263 |
| Net capital assets | \$ 198,755,238 | \$ 30,949,396 | \$ 13,674,051 | \$ 216,030,583 |

Des Moines Water Works

Notes to Basic Financial Statements

Note 4. Noncurrent Liabilities

As of December 31, 2007, 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. Revenue Refunding Bonds, Series 2001, matured on December 1, 2007.

Changes in long-term obligations for the year ended December 31, 2007 are as follows:

| | Beginning Balance | Additions | Reductions | Ending Balance | Amounts Due Within One Year |
|---------------------------------------|----------------------|---------------------|---------------------|----------------------|--------------------------------|
| Water Revenue Bonds: | | | | | |
| Series 2001 | \$ 2,270,000 | \$ - | \$ 2,270,000 | \$ - | \$ - |
| Series 2004 A & B | 22,895,000 | - | 1,230,000 | 21,665,000 | 1,645,000 |
| Series 2006 | 51,860,000 | - | 1,170,000 | 50,690,000 | 2,030,000 |
| Water Revenue Capital, Series 2003 | 2,025,000 | - | 100,000 | 1,925,000 | 103,000 |
| Compensated absences | 2,014,134 | 1,961,325 | 2,014,134 | 1,961,325 | 1,326,253 |
| | <u>\$ 81,064,134</u> | <u>\$ 1,961,325</u> | <u>\$ 6,784,134</u> | <u>\$ 76,241,325</u> | <u>\$ 5,104,253</u> |

Changes in long-term obligations for the year ended December 31, 2006 are as follows:

| | Beginning Balance | Additions | Reductions | Ending Balance | Amounts Due Within One Year |
|---------------------------------------|----------------------|----------------------|---------------------|----------------------|--------------------------------|
| Water Revenue Bonds: | | | | | |
| Series 2001 | \$ 5,595,000 | \$ - | \$ 3,325,000 | \$ 2,270,000 | \$ 2,270,000 |
| Series 2004 A & B | 24,070,000 | - | 1,175,000 | 22,895,000 | 1,230,000 |
| Series 2006 | - | 52,435,000 | 575,000 | 51,860,000 | 1,170,000 |
| Water Revenue Capital, Series 2003 | 2,123,000 | - | 98,000 | 2,025,000 | 100,000 |
| Compensated absences | 1,912,217 | 2,014,134 | 1,912,217 | 2,014,134 | 1,283,031 |
| | <u>\$ 33,700,217</u> | <u>\$ 54,449,134</u> | <u>\$ 7,085,217</u> | <u>\$ 81,064,134</u> | <u>\$ 6,053,031</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 |
|--|---------------|--------------------------------|-------------------------------|----------------------------|
| 2008 | 3.00% | \$ 265,000 | \$ 237,731 | \$ 502,731 |
| 2009 | 3.00 | 275,000 | 229,781 | 504,781 |
| 2010 | 3.25 | 285,000 | 221,531 | 506,531 |
| 2011 | 3.375 | 290,000 | 212,269 | 502,269 |
| 2012 | 3.50 | 300,000 | 202,481 | 502,481 |
| 2013-2017 | 3.75 - 4.00 | 1,695,000 | 832,456 | 2,527,456 |
| 2018-2022 | 4.00-4.125 | 2,080,000 | 466,044 | 2,546,044 |
| 2023-2024 | 4.20 - 4.25 | 975,000 | 62,450 | 1,037,450 |
| | | <u>\$ 6,165,000</u> | <u>\$ 2,464,743</u> | <u>\$ 8,629,743</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 |
|--|---------------|--------------------------------|-------------------------------|----------------------------|
| 2008 | 3.00% | \$ 1,380,000 | \$ 550,475 | \$ 1,930,475 |
| 2009 | 3.00 | 1,420,000 | 509,075 | 1,929,075 |
| 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 |
| 2013-2017 | 4.00 | 8,155,000 | 949,800 | 9,104,800 |
| | | <u>\$ 15,500,000</u> | <u>\$ 3,275,575</u> | <u>\$ 18,775,575</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 |
|--|---------------|--------------------------------|-------------------------------|----------------------------|
| 2008 | 4.00% | \$ 2,030,000 | \$ 2,080,431 | \$ 4,110,431 |
| 2009 | 4.00 | 2,110,000 | 1,999,231 | 4,109,231 |
| 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 |
| 2013-2017 | 4.00 | 12,795,000 | 7,197,356 | 19,992,356 |
| 2018-2022 | 4.00 | 13,650,000 | 4,601,381 | 18,251,381 |
| 2023-2026 | 4.00 | 13,310,000 | 1,481,269 | 14,791,269 |
| | | <u>\$ 50,690,000</u> | <u>\$ 22,839,361</u> | <u>\$ 73,529,361</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 |
|--|---------------|--------------------------------|-------------------------------|----------------------------|
| 2008 | 3.00% | \$ 103,000 | \$ 57,750 | \$ 160,750 |
| 2009 | 3.00 | 107,000 | 54,660 | 161,660 |
| 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 |
| 2013-2017 | 3.00 | 637,000 | 169,290 | 806,290 |
| 2018-2022 | 3.00 | 739,000 | 67,860 | 806,860 |
| | | <u>\$ 1,925,000</u> | <u>\$ 493,920</u> | <u>\$ 2,418,920</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 2001, 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 \$269,273,674 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 2007 | Annual Payments as a Percentage of Net Revenues |
|------------------------|------------|---------------|-------------------------------------|---|---|
| Water Revenue Bonds: | | | | | |
| Series 2004 A | 12/1/2004 | 2024 | \$ 8,626,743 | 505,531 | 3.27% |
| Series 2004 B | 12/1/2004 | 2017 | 18,775,575 | 1,549,575 | 10.01 |
| Series 2006 | 3/1/2006 | 2026 | 73,529,361 | 3,297,231 | 21.30 |
| Water Revenue Capital, | | | | | |
| Series 2003 | 4/16/2003 | 2022 | 2,418,920 | 160,750 | 1.04 |
| | | | <u>\$ 103,350,599</u> | <u>\$ 5,513,087</u> | <u>35.62%</u> |

Total customer net revenues were \$15,481,380. Annual principal and interest payments on the bonds are approximately 36 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 of monthly compensation for those five consecutive years which give the highest average out of the latest 10 years of service. 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 2007 were as follows:

| | 2007 | 2006 | 2005 |
|---|---------------------|---------------------|---------------------|
| Annual required contribution (ARC) | \$ 679,631 | \$ 885,540 | \$ 941,548 |
| Interest | 41,823 | 43,728 | 41,917 |
| Adjustment to annual required contribution | (65,688) | (68,680) | (63,315) |
| Annual pension cost (APC) | <u>655,766</u> | <u>860,588</u> | <u>920,150</u> |
| Contributions made | 825,000 | 885,990 | 896,000 |
| (Increase) decrease in net pension liability | <u>169,234</u> | <u>25,402</u> | <u>(24,150)</u> |
| Net pension (liability), beginning of year | (557,638) | (583,040) | (558,890) |
| Net pension (liability), end of year | <u>\$ (388,404)</u> | <u>\$ (557,638)</u> | <u>\$ (583,040)</u> |
| Percentage of APC contributed | 125.8% | 103.0% | 97.4% |

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, 2007 using the aggregate actuarial cost method. The aggregate actuarial cost method does not identify or separately amortize unfunded actuarial liabilities. 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.

Note 6. Postretirement Health Care Benefits

Water Works 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. As of December 31, 2007, 68 retirees receive postretirement health care benefits. Water Works provides a Medicare supplement or equivalent amount to all employees who retire after attaining age 55, if the sum of their age and years of service are at least 85 or for those who retire after attaining age 65 regardless of length of service. Employees who retire prior to attaining age 65 with the sum of their age and years of service less than 85 receive a discounted benefit as provided by the plan document. Water Works recognizes the cost of providing postretirement health care benefits by expensing the annual insurance premiums which were approximately \$129,000 and \$112,000 for 2007 and 2006, respectively.

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.

Note 8. Commitments

Approximately \$2,313,400 related to 2007 contracts has been formally committed as of December 31, 2007. In addition, the Board has approved approximately \$19,300,000 of expenditures for capital acquisitions and improvements, all of which are expected to be expended in 2008.

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 and 2006.

Des Moines Water Works

Notes to Basic Financial Statements

Note 8. Commitments (Continued)

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 may renew on and after January 1, 2010 for not more than three successive three-year terms.

For the years ended December 31, 2007 and 2006, revenues generated by the Botanical Center were approximately \$749,000 and \$685,000, respectively. Expenses were approximately \$916,000 and \$877,000, respectively.

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

Water Works implemented the following GASB Statements during the year ended December 31, 2007:

- GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. This Statement establishes uniform financial reporting standards for other postemployment benefit plans (OPEB plans) and supercedes existing guidance. The adoption of this Statement had no effect on Water Works in the current year.
- GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*. This Statement establishes accounting and financial reporting standards for transactions in which a government receives, or is entitled to, resources in exchange for future cash flows generated by collecting specific receivables or specific future revenues. It also provides disclosure requirements for a government that pledges or commits future cash flows from a specific revenue source. In addition, this Statement establishes accounting and financial reporting standards for intra-entity transfers of assets and future revenues. The effect of the adoption of this statement to Water Works was the addition of note disclosures regarding pledged revenue for long-term obligations.

As of December 31, 2007, 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. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, issued June 2004, will be effective for Water Works beginning with its year ending December 31, 2008. This Statement establishes standards for the measurement, recognition and display of other postemployment benefits expenses and related liabilities or assets, note disclosures and, if applicable, required supplementary information in the financial reports.
- GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, issued November 2006, will be effective for Water Works beginning with its year ending December 31, 2008. This Statement addresses accounting and financial reporting standards for pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities, such as site assessments and cleanups. This standard requires the government to estimate the components of expected pollution remediation outlays and determine whether the outlays for those components should be accrued as a liability or, if appropriate, capitalized when goods and services are acquired.

Des Moines Water Works

Notes to Basic Financial Statements

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

- GASB Statement No. 50, *Pension Disclosures*, an amendment of GASB Statement Nos. 25 and 27, issued May 2007, will be effective for the Water Works beginning with its year ending December 31, 2008. This Statement more closely aligns the financial reporting requirements for pensions with those for other postemployment benefits (OPEB) and, in doing so, enhances information disclosed in notes to the financial statements or presented as required supplementary information (RSI) by pension plans and by employers that provide pension benefits.
- 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.
- GASB Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*, issued November 2007, will be effective for the Water Works beginning with its year ending December 31, 2009. 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.

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

**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 |
|-------------------------|---------------------------------|------------------------|----------------------------|
| 2000 | \$ 629,754 | \$ 547,685 | 86.97% |
| 2001 | 793,691 | 478,000 | 60.22 |
| 2002 | 735,168 | 466,000 | 63.39 |
| 2003 | 931,470 | 735,000 | 78.91 |
| 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 |

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, 2008 |
| 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.

Since the Plan uses the Aggregate Cost Method, a schedule of funding progress is not required as that method does not identify or separately amortize unfunded actuarial liabilities.