★ **Roll Call Number**

Agenda Item Number

50

Date August 13, 2012

Receipt of Des Moines Water Works Audit Report and Management Letter for calendar year ending December 31, 2011.

Moved by ______________________ to

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

MOTION CARRIED APPROVED

______________________ Mayor

CERTIFICATE

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

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

______________________ City Clerk

50

DES MOINES WATER WORKS
Board of Water Works Trustees

Des Moines Water Works
Water You Can Trust for Life

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

July 17, 2012

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

SUBJECT: Des Moines Water Works - 2011 Audit Reports

Dear Ms. Rauh:

Audited financial statements and accompanying reports for Des Moines Water Works for the 2011 calendar year are enclosed. These reports were prepared by McGladrey & Pullen. The enclosed information was presented and received by the Board of Water Works Trustees at their meeting held June 26, 2012.

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

Sincerely,

Michelle Holland

Michelle Holland, CPA
Controller

Enclosures

11 copies
2 reports

Des Moines Water Works

Report to the Board of Water Works Trustees

June 21, 2012

McGladrey

Assurance • Tax • Consulting

McGladrey

June 21, 2012

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

We are pleased to present this report related to our audit of the basic financial statements and compliance of Des Moines Water Works for the years ended December 31, 2011 and 2010. This report summarizes certain matters required by professional standards to be communicated to you in your oversight responsibility for Des Moines Water Works' financial and compliance reporting process.

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

McGladrey LLP

Contents

Required Communications

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

Area	Comments
Auditor's Responsibility Under Professional Standards	Our responsibility under auditing standards generally accepted in the United States of America and *Government Auditing Standards,* issued by the Comptroller General of the United States has been described to you in our arrangement letter dated November 4, 2011, a copy of which is included in Exhibit A.
Accounting Practices	**Adoption of, or Change in, Accounting Policies** Management has the ultimate responsibility for the appropriateness of the accounting policies used by the Des Moines Water Works. In the current year, Des Moines Water Works adopted the following Governmental Accounting Standards Board (GASB) Statement: • GASB Statement No. 59, *Financial Instruments Omnibus*. This Statement provides guidance for updating and improving existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools for which significant issues have been identified in practice. This Statement had no effect on the Des Moines Water Works' financial statements in the current year. **Significant or Unusual Transactions** 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. **Alternative Treatments Discussed with Management** 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.
Management's Judgments and Accounting Estimates	Summary information about the process used by management in formulating particularly sensitive accounting estimates and about our conclusions regarding the reasonableness of those estimates is in the attached "Summary of Accounting Estimates."
Audit Adjustments	There were no audit adjustments made to the original trial balance presented to us to begin our audit.

Area	Comments
Uncorrected Misstatements	Uncorrected misstatements are summarized in the attached "Summary of Uncorrected Misstatements."
Disagreements with Management	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.
Consultations with Other Accountants	We are not aware of any consultations management had with other accountants about accounting or auditing matters.
Significant Issues Discussed with Management	No significant issues arising from the audit were discussed or were the subject of correspondence with management.
Difficulties Encountered in Performing the Audit	We did not encounter any difficulties in dealing with management during the audit.
Accounting Pronouncements	Please refer to Note 9 of the financial statements for new accounting pronouncements that have been recently issued that may affect Des Moines Water Works' financial reporting in future periods.
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*	We have separately issued a report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with *Government Auditing Standards*. This communication is attached as Exhibit B.
Significant Written Communications Between Management and Our Firm	Copies of significant written communications between our firm and the management of the Des Moines Water Works are attached as Exhibit A. We have also separately issued reports on statements of cash receipts and disbursements of Board of Water Works Trustees, Billing and Collecting Agent for the Sewer Service, Solid Waste Collection and Storm Water Management Charges for the City of Des Moines, Iowa.

Des Moines Water Works

Summary of Accounting Estimates

Year Ended December 31, 2011

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 Des Moines Water Works' December 31, 2011 basic financial statements:

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

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

Des Moines Water Works

Summary of Uncorrected Misstatements

Year Ended December 31, 2011

	Debit (Credit) to Correct the Misstatements				
	Assets	Liabilities	Net Assets	Revenue	Expense
Description:					
Carryover impact from previous years	$ -	$ -	$ 612,000	$ (612,000)	$ -
Current misstatements, known errors:					
To adjust capitalized interest overstated in a prior year	-	-	202,000	-	(202,000)
To adjust for capitalization of assets expensed in a prior year	-	-	(1,253,000)	-	1,253,000
Subtotal	$ -	$ -	(439,000)	$ (612,000)	$ 1,051,000
Effect of current year passed adjustments on net assets			439,000		
Total			$ -		

Exhibit A – Significant Written Communications Between Management and Our Firm

McGladrey

McGladrey & Pullen, LLP
Certified Public Accountants

201 North Harrison Street, Suite 300
Davenport, Iowa 52801-1999
O 563.888.4000 F 563.324.6939
www.mcgladrey.com

November 4, 2011

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

Attention: Peggy Freese, Director of Finance

This letter is to explain our understanding of the arrangements for the services we are to perform for Des Moines Water Works for the year ending December 31, 2011. We ask that you either confirm or amend this understanding.

Audit Services

We will perform an audit of Des Moines Water Works' basic financial statements as of and for the year ending December 31, 2011. We understand that the financial statements will be prepared in accordance with accounting principles generally accepted in the United States of America. The objective of an audit of financial statements is to express an opinion on those statements.

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

We will also perform the audit of Des Moines Water Works as of December 31, 2011, so as to satisfy the audit requirements imposed by the Single Audit Act and the U.S. Office of Management and Budget (OMB) Circular No. A-133.

We will conduct the audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States and the provisions of the Single Audit Act, OMB Circular A-133 and OMB's Compliance Supplement. Those standards, circulars, supplements or guides require that we plan and perform the audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement whether caused by error or fraud. Accordingly, a material misstatement may remain undetected. Also, an audit is not designed to detect errors or fraud that are immaterial to the financial statements. The determination of abuse is subjective; therefore, *Government Auditing Standards* do not expect us to provide reasonable assurance of detecting abuse.

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

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

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

- A report on the fairness of the presentation of Des Moines Water Works' schedule of expenditures of federal awards for the year ending December 31, 2011.
- Reports on internal control related to the financial statements and major programs. These reports will describe the scope of testing of internal control and the results of our tests of internal controls.
- Reports on compliance with laws, regulations, and the provision of contracts or grant agreements. We will report on any noncompliance which could have a material effect on the financial statements and any noncompliance which could have a direct and material effect on each major program.
- A schedule of findings and questioned costs.
- Report to the Board of Water Works Trustees, Billing and Collection Agent for the Storm Water management charges for the City of Des Moines, Iowa, statements of cash receipts and disbursements.
- Report to the Board of Water Works Trustees, Agent for Sewer Service Charges for the City of Des Moines, Iowa, statements of cash receipts and disbursements.
- Report to the Board of Water Works Trustees, Agent for the Solid Waste Collection charges for the City of Des Moines, Iowa, statements of cash receipt and disbursements.

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

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

The federal financial assistance programs that you have told us that Des Moines Water Works participates in and that are to be included as part of the single audit is Federal Emergency Management Agency (FEMA).

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

Des Moines Water Works' Responsibilities

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

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

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

Management is also responsible for *(a)* making us aware of significant vendor relationships where the vendor is responsible for program compliance, *(b)* following up and taking corrective action on audit findings, including the preparation of a summary schedule of prior audit findings, and a corrective action plan, and *(c)* report distribution including submitting the reporting packages.

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

Des Moines Water Works agrees that it will not associate us with any public or private securities offering without first obtaining our consent. Therefore, Des Moines Water Works agrees to contact us before it includes our reports or otherwise makes reference to us, in any public or private securities offering. We may conclude that we are not otherwise associated with the proposed offering and that our association with the proposed offering is not necessary, providing the entity agrees to clearly indicate that we are not associated with the contents of the official statement or memorandum. The entity agrees that the following disclosure will be prominently displayed in the official statement or memorandum:

> *McGladrey & Pullen*, LLP, *our independent auditor, has not been engaged to perform, and has not performed, since the date of its report included herein, any procedures on the financial statements addressed in that report. McGladrey & Pullen*, LLP *also has not performed any procedures relating to this official statement or memorandum.*

Our association with an official statement or memorandum is a matter for which separate arrangements will be necessary. Des Moines Water Works agrees to provide us with printer's proofs or masters of such offering documents for our review and approval before printing and with a copy of the final reproduced material for our approval before it is distributed. In the event our auditor/client relationship has been terminated when the entity seeks such consent, we will be under no obligation to grant such consent or approval.

Because McGladrey & Pullen, LLP will rely on Des Moines Water Works and its management and audit committee to discharge the forgoing responsibilities, Des Moines Water Works holds harmless and releases McGladrey & Pullen, LLP, its partners, and employees from all claims, liabilities, losses, and costs arising in circumstances where there has been a knowing misrepresentation by a member of Des Moines Water Works' management that has caused, in any respect, McGladrey & Pullen, LLP's breach of contract or negligence. This provision shall survive the termination of this arrangement for services.

Des Moines Water Works' Records and Assistance

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

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

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

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

Fees, Costs and Access to Audit Documentation

Our fees for the audit and accounting services described above are based upon the time required by the individuals assigned to the engagement, plus direct expenses. Interim billings will be submitted as work progresses and as expenses are incurred. Billings are due upon submission. Our fee for services described in the letter will not exceed $48,100 for the financial statement audit plus $7,500 for each major program tested under the Single Audit Act, excluding the Pension Audit, unless the scope of the engagement is changed, the assistance which the Water Works has agreed to furnish is not provided, or unexpected conditions are encountered, in which case we will discuss the situation with you before proceeding. All other provisions of this letter will survive any fee adjustments.

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

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

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

We will assist with the draft of the financial statements and propose trial balance adjustments, if necessary.

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

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

Claim Resolution

Des Moines Water Works and McGladrey & Pullen, LLP agree that no claim arising out of services rendered pursuant to this agreement shall be filed more than two years after the date of the audit report issued by McGladrey & Pullen, LLP or the date of this arrangement letter if no report has been issued. Des Moines Water Works waives any claim for punitive damages. McGladrey & Pullen, LLP's liability for all claims, damages and costs of Des Moines Water Works arising from this engagement is limited to the amount of fees paid by Des Moines Water Works to McGladrey & Pullen, LLP for the services rendered under this arrangement letter.

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

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

If this letter defines the arrangements as Des Moines Water Works understands them, please sign and date the enclosed copy and return it to us.

McGladrey & Pullen, LLP

Heidi Hobkirk

Heidi Hobkirk, Director

Confirmed on behalf of Des Moines Water Works:

Peggy Freese

November 11, 2011

Des Moines Water Works
Water You Can Trust for Life

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

June 21, 2012

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

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, 2011 and 2010, we confirm that we are responsible for the fair presentation in the financial statements of financial position, changes in financial position, and cash flows in conformity with accounting principles generally accepted in the United States of America.

We confirm to the best of our knowledge and belief, as of June 21, 2012, 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 (GASB) Codification of Governmental Accounting and Financial Reporting Standards, that are:
   a. Component units.
   b. Other organizations for which the nature and significance of their relationship with Des Moines Water Works are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.
   c. Jointly governed organizations in which we participated.
3. We have identified for you all identifiable business-type activities.
4. We have properly classified all activities.
5. We are responsible for compliance with laws and regulations applicable to Des Moines Water Works, including adopting, approving and amending budgets.
6. We have identified and disclosed to you all laws and regulations that have a direct and material effect on the determination of financial statement amounts including legal and contractual provisions.
7. We have made available to you:
   a. All financial records and related data of all activities, including those of all special 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.

c. All communications from grantors, lenders, other funding sources, or regulatory agencies concerning noncompliance with:

    i. Statutory, regulatory or contractual provisions or requirements.

    ii. Financial reporting practices that could have a material effect on the financial statements.

8. We have no knowledge of fraud or suspected fraud affecting the entity involving:

    a. Management.

    b. Employees who have significant roles in the internal control, or

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

9. We acknowledge our responsibility for the design and implementation of programs and controls to provide reasonable assurance that fraud is prevented and detected.

10. We have no knowledge of any allegations of fraud or suspected fraud affecting Des Moines Water Works received in communications from employees, former employees, analysts, regulators or others.

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

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

13. We have no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.

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

    a. Related-party transactions, including those with other organizations for which the nature and significance of their relationship with Des Moines Water Works are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete all as defined in Section 2100 of the GASB's Codification of Governmental Accounting and Financial Reporting Standards, and interfund transactions, including interfund accounts and advances receivable and payable, sale and purchase transactions, interfund transfers, long-term loans, leasing arrangements, and guarantees, all of which have been recorded in accordance with the economic substance of the transaction and appropriately classified and reported.

    b. The fair value of investments.

    c. Amounts of contractual obligations for construction and purchase of real property or equipment not included in the liabilities or encumbrances recorded on the books.

    d. Debt issue provisions.

    e. All significant estimates and material concentrations known to management which are required to be disclosed in accordance with the AICPA's Statement of Position No. 94-6, *Disclosure of Certain Significant Risks and Uncertainties*. Significant estimates are estimates at the balance sheet date which could change materially within the next year. Concentrations refer to volumes of business, revenues, available sources of supply, or markets for which events could occur which would significantly disrupt normal finances within the next year.

f. Deposits and investment securities category of custodial credit risk, interest rate risk, credit risk and concentration of credit risk.

g. Risk financing activities.

h. The effect on the financial statements of GASB Statement Nos. 60, 62, 63, 65 and 66, which have been issued, but which we have not yet adopted.

i. Restrictions of cash and investments.

j. Debt issue repurchase options or agreements, or sinking fund debt repurchase ordinance requirements.

k. Net asset classifications.

l. Arbitrage rebate liabilities.

15. We are responsible for making the accounting estimates included in the financial statements. Those estimates reflect our judgment based on our knowledge and experience about past and current events and our assumptions about conditions we expect to exist and courses of action we expect to take. In that regard, adequate provisions have been made:

a. To reduce receivables to their estimated net collectable amounts.

b. To reduce obsolete, damaged or excess inventories to their estimated net realizable values.

c. For risk retention, including uninsured losses or loss retentions (deductibles) attributable to events occurring through December 31, 2011, and/or for expected retroactive insurance premium adjustments applicable to periods through December 31, 2011.

d. For pension obligations, postretirement benefits other than pensions, and deferred compensation agreements attributable to employee services rendered through December 31, 2011.

16. There are no:

a. Material transactions that have not been properly recorded in the accounting records underlying the financial statements.

b. Violations or possible violations of laws or regulations whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency. In that regard, we specifically represent that we have not been designated as, or alleged to be, a "potentially responsible party" by the Federal Environmental Protection Agency or any equivalent state agencies in connection with any environmental contamination.

c. Other material liabilities or gain or loss contingencies that are required to be accrued or disclosed by the Contingencies Topic of the FASB Accounting Standards Codification and/or GASB Statement No. 10.

d. Guarantees, whether written or oral, under which Des Moines Water Works is contingently liable.

e. Arrangements with financial institutions involving compensating balances.

f. Lines of credit or similar arrangements.

g. Agreements to repurchase assets previously sold.

h. Security agreements in effect under the Uniform Commercial Code.

i. Liens or encumbrances on assets or revenues or any assets or revenues which were pledged as collateral for any liability or which were subordinated in any way.

j. Liabilities which are subordinated in any way to any other actual or possible liabilities.

k. Leases or material amounts of rental obligations under long-term leases.

l. Authorized but unissued bonds and/or notes.

m. Derivative financial instruments.

n. Special and extraordinary items.

o. Impairment of capital assets.

p. Investments, intangibles and other assets which have permanently declined in value.

q. Material losses to be sustained in the fulfillment of, or from the inability to fulfill, any service commitments.

r. Material losses to be sustained as a result of purchase commitments.

s. Environmental cleanup obligations.

17. There are no unasserted claims or assessments that our lawyer has advised us are probable of assertion and must be disclosed in accordance with the Contingencies Topic of the FASB Accounting Standards Codification and/or GASB Statement No. 10.

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

19. We have satisfactory title to all owned assets.

20. We have complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.

21. Net asset components (invested in capital assets, net of related debt; restricted; and unrestricted) are properly classified and, when applicable, approved.

22. Expenses have been appropriately classified.

23. Revenues are appropriately classified.

24. Capital assets, including infrastructure assets, are properly capitalized, reported and depreciated.

25. With respect to management's discussion and analysis, schedules of funding progress and employer contributions presented as required by Governmental Accounting Standards Board to supplement the basic financial statements:

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

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

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

26. We believe the adoption of GASB Statement No. 59 to be appropriate and had no effect on the financial statements of Des Moines Water Works in the current year.

27. In connection with your audits, 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 are not aware of any 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 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.

28. The arrangement letter dated November 4, 2011 states that a Single Audit will be performed for the year ended December 31, 2011, and that the federal financial assistance program and award that is to be included within the scope of our single audit is Federal Emergency Management Agency (FEMA). Subsequent to us signing the arrangement letter, it was confirmed that a Single Audit would not be required to be performed for the year ended December 31, 2011. We have expended approximately $850,000 - $900,000 in the current year on projects initially planned to be reimbursed by FEMA. However, approximately $750,000 of these current year expenditures relate to projects currently de-obligated by FEMA for which reimbursement by FEMA has not been approved, and therefore not considered federal expenditures at this time. As these expenditures have not been approved by the federal awarding agency, we have not met the audit requirements imposed by the Single Audit Act and the U.S. Office of Management and Budget (OMB) Circular No. A-133 for the year ended December 31, 2011.

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

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

As of and for the year ended December 31, 2011, we believe that the effects of the uncorrected misstatements aggregated by you and summarized below are immaterial, both individually and in the aggregate to the opinion units of the 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.

	Debit (Credit) to Correct the Misstatements				
	Assets	Liabilities	Net Assets	Revenue	Expense
Description:					
Carryover impact from previous years	$ -	$ -	$ 612,000	$ (612,000)	$ -
Current misstatements, known errors:					
To adjust capitalized interest overstated in a prior year	-	-	202,000	-	(202,000)
To adjust for capitalization of assets expensed in a prior year	-	-	(1,253,000)	-	1,253,000
Subtotal	$ -	$ -	(439,000)	$ (612,000)	$ 1,051,000
Effect of current year passed adjustments on net assets			439,000		
Total			$ -		

Des Moines Water Works

Randy Beavers, Chief Executive Officer

Peggy Freese, Director of Finance

Michelle Holland

Michelle Holland, Controller

DES MOINES WATER WORKS
Board of Water Works Trustees

Des Moines Water Works
Water You Can Trust for Life

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

June 21, 2012

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

In connection with your audits of the statements of cash receipts and disbursements of Board of Water Works Trustees, Billing and Collection Agent for the Sewer Service, Solid Waste Collection and Storm Water Management Charges for the City of Des Moines, Iowa as of and for the years ended December 31, 2011 and 2010, we confirm that we are responsible for the fair presentation in the financial statements of cash receipts and disbursements in conformity with cash basis accounting.

We confirm to the best of our knowledge and belief, as of June 21, 2012 the following representations made to you during your audits:

1. The financial statements referred to above are presented in conformity with the basis of cash receipts and disbursements which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.
2. We are responsible for compliance with the contractual agreement with the City of Des Moines, Iowa.
3. We have made available to you all financial records and related data in existence at any time during the period covered by your audit.
4. We have no knowledge of fraud or suspected fraud affecting the entity involving:
    a. Management.
    b. Employees who have significant roles in the internal control, or
    c. Others where the fraud could have a material effect on the financial statements.
5. We acknowledge our responsibility for the design and implementation of programs and controls to provide reasonable assurance that fraud is prevented and detected.
6. We have no knowledge of any allegations of fraud or suspected fraud affecting Des Moines Water Works received in communications from employees, former employees, analysts, regulators or others.
7. We are aware of no significant deficiencies, including material weaknesses, in the design or operation of internal controls that could adversely affect the entity's ability to record, process, summarize and report financial data.
8. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
9. There are no material transactions that have not been properly recorded in the accounting records underlying the financial statements.
10. We have complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.

No events or transactions have occurred subsequent to the date of the statements of cash receipts and disbursements that would require adjustment to, or disclosure in, the financial statements.

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

Des Moines Water Works

Randy Beavers, Chief Executive Officer

Peggy Freese, Director of Finance

Michelle Holland, Controller

Exhibit B – 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

McGladrey

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 basic financial statements of Des Moines Water Works as of and for the year ended December 31, 2011, and have issued our report thereon dated June 21, 2012. 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

Management of Des Moines Water Works is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Des Moines Water Works ' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Des Moines Water Works ' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Des Moines Water Works ' internal control over financial reporting.

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

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

Compliance and Other Matters

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

This report is intended solely for the information and use of management, the Board of Water Works Trustees, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

McGladrey LLP

Des Moines, Iowa
June 21, 2012

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Des Moines Water Works

Financial Report
December 31, 2011 and 2010

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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, 2011 and 2010, 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. The pension trust fund statement of net assets and statement of changes in plan net assets were not audited in accordance with *Government Auditing Standards*. 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 opinions.

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, 2011 and 2010 and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our reports for the years ended December 31, 2011 and 2010 dated June 21, 2012 and June 21, 2011, respectively, 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 those reports are 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. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 2 through 8, other postemployment benefit plan schedules on page 36 and pension plan schedules on pages 37 through 39, be presented to supplement of the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operations, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's response to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

McGladrey LLP

Des Moines, Iowa
June 21, 2012

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, 2011 and 2010. Please consider this information in conjunction with the financial statements and the accompanying notes to basic financial statements that follow this section.

Overview of Business

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

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

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

Governance of the Water Works is vested in a five-member Board appointed by the Mayor of the City of Des Moines with the approval of the City Council. Trustees serve for six-year staggered terms. The Board has complete control of Water Works' management and employs approximately 207 full-time and 12 part-time or seasonal employees.

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

Financial Highlights

- Water Works' net assets increased as a result of operations. As of December 31, 2011 and 2010, total assets were $303,981,038 and $298,889,992, respectively; total liabilities were $82,076,553 and $87,073,308, respectively; resulting in net assets of $221,904,485 and $211,816,684, respectively.
- In 2011, operating revenues of $49,890,743 increased 12.54 percent over 2010, while operating expenses in 2011 decreased 0.53 percent to $38,162,428. Operating revenues of $44,330,446 in 2010 increased 7.82 percent from 2009, while operating expenses increased approximately 6.55 percent to $38,366,261.
- During the year, Water Works had operating income of $11,728,315 and change in net assets of $10,087,801. This compares to operating income of $5,964,185 and change in net assets of $8,744,418 reported in 2010.

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.

Condensed Balance Sheet Information

	2011	2010	2009	**% Change 2010 to 2011**	% Change 2009 to 2010
Current assets	**$ 11,803,149**	$ 11,433,463	$ 21,672,708	**3.23%**	(47.24)%
Capital assets, net	**268,341,029**	263,496,657	252,246,879	**1.84**	4.46
Other noncurrent assets	**23,836,860**	23,959,872	21,793,471	**(0.51)**	9.94
Total assets	**303,981,038**	298,889,992	295,713,058	**1.70**	1.07
Current liabilities	**14,107,983**	13,735,396	14,119,218	**2.71**	(2.72)
Other noncurrent liabilities	**14,791,900**	15,183,446	16,218,778	**(2.58)**	(6.38)
Long-term debt, net	**53,176,670**	58,154,466	62,302,796	**(8.56)**	(6.66)
Total liabilities	**82,076,553**	87,073,308	92,640,792	**(5.74)**	(6.01)
Invested in capital assets, net of related debt	**210,861,210**	201,720,168	189,377,017	**4.53**	6.52
Restricted	**17,605,399**	19,426,970	23,751,056	**(9.38)**	(18.21)
Unrestricted	**(6,562,124)**	(9,330,454)	(10,055,807)	**(29.67)**	(7.21)
Total net assets	**$ 221,904,485**	$ 211,816,684	$ 203,072,266	**4.76**	4.31

Condensed Revenues, Expenses and Changes in Net Assets

	2011	2010	2009	% Change 2010 to 2011	% Change 2009 to 2010
Water sales	$ 44,146,447	$ 38,614,215	$ 35,224,878	14.33%	9.62%
Billing and collection services	1,250,618	1,250,614	1,009,751	0.00	23.85
Connection fees	333,021	267,034	425,167	24.71	(37.19)
Purchased capacity	1,276,293	1,276,293	1,311,808	-	(2.71)
Other sales and services	2,884,364	2,922,290	3,142,126	(1.30)	(7.00)
Total operating revenues	49,890,743	44,330,446	41,113,730	12.54	7.82
Investment income	233,205	297,062	551,818	(21.50)	(46.17)
Other	191,203	186,457	192,072	2.55	(2.92)
Capital contributions	193,954	2,841,825	6,466,848	(93.18)	(56.06)
Total revenues	50,509,105	47,655,790	48,324,468	5.99	(1.38)
Labor and benefits	17,471,163	16,730,625	15,510,531	4.43	7.87
Chemicals and power	6,255,976	5,703,687	5,987,666	9.68	(4.74)
Corporate Insurance	851,245	881,853	938,496	(3.47)	(6.04)
Purchased services	3,115,285	5,328,241	3,740,493	(41.53)	42.45
Materials, supplies and equipment	2,857,640	2,988,356	2,959,322	(4.37)	0.98
Depreciation	7,311,994	6,390,991	6,449,683	14.41	(0.91)
Other	299,125	342,508	423,220	(12.67)	(19.07)
Total operating expenses	38,162,428	38,366,261	36,009,411	(0.53)	6.55
Interest expense	2,271,809	608,768	606,254	273.18	0.41
(Gain) loss on sale of fixed assets	(12,933)	(63,657)	58,982	(79.68)	(207.93)
Total expenses	40,421,304	38,911,372	36,674,647	3.88	6.10
Change in net assets	10,087,801	8,744,418	11,649,821	15.36	(24.94)
Net assets, beginning of year	211,816,684	203,072,266	191,422,445	4.31	6.09
Net assets, end of year	$ 221,904,485	$ 211,816,684	$ 203,072,266	4.76	4.31

Financial Analysis

Year ended December 31, 2011: Current assets increased 3.23 percent while other noncurrent assets decreased approximately 0.51 percent. These offsetting changes are a result of investments being held in cash at 12/31/2010, while they were invested at 12/31/2011. This is a timing difference of when investments mature and when the proceeds are used to purchase additional investments. Capital assets increased by 1.84 percent. Overall, total assets as of December 31, 2011 are approximately $5,091,000 more than December 31, 2010.

Current liabilities increased 2.71 percent. Fees collected for other entities increased by nearly $350,000. As the billing and collecting agent for city services, primarily the City of Des Moines, Water Works collects this money and remits it back to the City. The balance in this account can vary widely based on the timing of payments at the end of the year.

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

Long-term debt decreased 8.56 percent in 2011 due to the scheduled payment of the principal and the reclassification of $4,246,000 of the scheduled 2012 debt service payments to short-term liabilities.

Water sales increased 14.33 percent. The increase is attributed to a rate increase and an increase to availability charges effective May 1st for most service areas. Pumpage was also up slightly compared to the prior year.

Revenue for billing and collection services remained flat to 2010. The rates for billing and collecting services did not change in 2011 as well as the number of bills did not change much.

Connection fees increased 24.71 percent or $66,000. These fees can fluctuate widely from year to year depending on the level of development experienced within the utility's service areas.

Purchased capacity revenues were flat compared to 2010. This represents the continued amortization of unearned revenue. This unearned 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. Unearned revenue balances are amortized to purchase capacity revenue over the length of the contract, generally 10 to 20 years.

Revenue from other sales and services remained relatively flat in 2011. Included in this line are numerous revenue items in the utility including reconnect fees, stop box repairs, distribution system repairs, lab testing, Botanical Center revenue, etc.

Effective January 5, 2004, per 28E agreement with the City of Des Moines, Des Moines Water Works assumed management of operations of the Des Moines Botanical Center. Operations include room rentals, catering and café, gift shop and special events. Botanical Center revenues of $736,990 and $762,179 for 2011 and 2010, respectively, are included in Water Works' financial results.

Operating labor and benefits increased 4.43 percent which is primarily due to wage rate increases and an increase in the pension funding expense. Offsetting this increase is that more labor was charged to capital projects in 2011 than 2010.

Chemicals and power increased 9.68 percent. Some of this increase was due to higher consumption in 2011 resulting in more usage of chemicals and utilities in the treatment process. Chemical prices also increased approximately $318,000 over 2010.

Corporate insurance decreased by 3.47 percent due to lower premiums and broker fees.

Purchased services decreased 41.53 percent or approximately $2.2 million compared to 2010. In 2011, $1.3 million of prior year operating expenses were reclassed to capital expenses. This reclass was for riverbank projects at McMullen and Saylorville resulting from the 2008 floods.

Materials, supplies and equipment decreased by 4.37 percent. This includes items such as postage, inventory items and repair parts for the maintenance of the treatment facilities, distribution system and fleet vehicles.

Other expenses decreased 12.67 percent. This includes bad debt expense which is approximately $40,000 higher than 2010 and casualty losses which is approximately $56,000 lower than 2010. Both these items can fluctuate from year to year.

Investment income decreased 21.50 percent due to lower investment balances. The lower investment balances are a result of spending of the bond proceeds on the large capital projects in recent years.

Interest expense increased by nearly $1.7 million in 2011. While the interest expense on the outstanding bonds was relatively flat, the amount of interest expense that could be capitalized with the capital projects being built was considerably lower. While an asset is being constructed with bond proceeds, a part of the interest expense can be capitalized with the cost of the asset. This reduces the amount of expense on the income statement. This capitalization of interest stops when the assets become operational. The eastside project was put into operation in late 2010 and the new treatment plant went on-line in mid-2011.

Capital contributions decreased 93.18 percent or $2.6 million dollars. There were only a few capital contributions in 2011. These included reimbursement from FEMA on 2008 flood expenses and a contribution from the City of Alleman for improvements in their service area. In 2010, there were a few large entries including contracts payable was written down approximately $600,000 for the I-235 project. Income from FEMA reimbursable projects was recognized in the amount of $1.7 million. There were no contributions of water mains from subdividers. These contributions can fluctuate widely from year to year, depending on the status of construction and the timing of inspections performed by Water Works' staff.

The aforementioned fluctuations result in an overall increase in net assets of 4.76 percent, the result of a 12.54 percent increase in operating revenues, a decrease in operating expenses of less than one percent and a 81.40 percent decrease in nonoperating revenues.

Year ended December 31, 2010: Current assets decreased 47.2 percent. Other noncurrent assets increased approximately 9.94 percent. Both of these are a result of spending bond proceeds on the development of the additional treatment plant and a tower and booster station on the east side of the service area. Offsetting these decreases is an increase of capital assets by 4.46 percent. Overall, total assets as of December 31, 2010 are approximately $3,152,000 more than December 31, 2009.

Current liabilities decreased 2.72 percent. Construction payables decreased by $961,216 due to an additional payable related to the I-235 project with the Iowa Department of Transportation being written down by $600,000 and a receivable from the City of Des Moines for the Birdland Levee relocation in the amount of $500,000 being netted against the payable.

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

Long-term debt decreased 6.67 percent in 2010 due to the scheduled payment of the principal and the reclassification of $4,173,000 of the scheduled 2011 debt service payments to short-term liabilities.

Water sales increased 9.62 percent. The increase is attributed to a rate increase effective May 1st for most service areas. Pumpage was relatively flat compared to the prior year.

Revenue for billing and collection services increased by 23.85 percent. The rate for billing and collecting services done for the City of Des Moines increased on July 1, 2009. Therefore, 2010 is the first full year with the new rate. In addition, the City of Pleasant Hill began paying a monthly fee for billing and collection services beginning in January, 2010.

Connection fees decreased 37.19 percent or $158,000. These fees can fluctuate widely from year to year depending on the level of development experienced within the utility's service areas.

Purchased capacity revenues decreased 2.71 percent. This represents the continued amortization of unearned revenue. This unearned 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. Unearned revenue balances are amortized to purchase capacity revenue over the length of the contract, generally 10 to 20 years.

Revenue from other sales and services decreased by 7.00 percent. Included in this line are numerous revenue items in the utility including reconnect fees, stop box repairs, distribution system repairs, lab testing, Botanical Center revenue, etc. The largest drivers of this decrease are a reduction in termination fees and stop box repairs. This can be partially attributed to a pre-termination courtesy call program reminding customers to pay their bill prior to termination.

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 $762,179 and $679,085 for 2010 and 2009, respectively, are included in Water Works' financial results.

Labor and benefits increased 7.87 percent which is primarily due to wage rate increases and an increase in the pension funding expense.

Chemicals and power decreased 4.74 percent due to a decrease in chemical costs of approximately $273,000. Power costs were relatively flat from year to year.

Corporate insurance decreased by 6.04 percent due to lower premiums and broker fees.

Purchased services increased 42.45 percent or approximately $1.6 million compared to 2009. Nearly $1.3 million of the increase is due to expenses relating to the 2008 floods and was expected to be reimbursed by FEMA. The PILOT payment is also in this category and was $612,680 in 2010. No payment was due in 2009. Offsetting these increases are lower expenses for residual removal at the McMullen Treatment Plant. This is due to timing and may vary from year to year.

Materials, supplies and equipment increased by less than one percent over 2009. This includes items such as postage, inventory items and repair parts for the maintenance of the treatment facilities, distribution system and fleet vehicles.

Other expenses decreased 19.07 percent due to decreased casualty losses of $128,000. This amount fluctuates from year to year and 2009 was a relatively high year for casualty losses. Offsetting this decrease is higher bad debt expense in 2010.

Investment income decreased 46.17 percent due to lower investment balances from spending the bond proceeds on the new treatment plant and the eastside project consisting of a tower, booster station and feeder main.

Interest expense remained at relatively the same level as in 2009. Interest expense on the bond issues was $154,000 lower in 2010. Additionally, the difference in interest expense to calculate the arbitrage liability was $821,000 lower for 2010 than 2009. Offsetting this is the capitalized interest credit which was $948,000 less than 2009. This entry reduced the amount of interest expense on the income statement and added it to the asset cost of the new treatment plant and the eastside project.

Capital contributions decreased 56.06 percent or $3.8 million dollars. In 2010, contracts payable was written down approximately $600,000 for the I-235 project. Income from FEMA reimbursable projects was recognized in the amount of $1.7 million. Contributions recognized in 2009 included: contracts payable attributable to the I-235 project in the amount of approximately $2.6 million being written down, funds were received from Altoona in the amount of $2 million for their share of the joint eastside project and from Pleasant Hill in the amount of $900,000 for capital infrastructure. There were no contributions of water mains from subdividers. These contributions can fluctuate widely from year to year, depending on the status of construction and the timing of inspections performed by Water Works' staff.

The aforementioned fluctuations result in an overall increase in net assets of 4.31 percent, the result of a 7.82 percent increase in operating revenues, an increase in operating expenses of 6.55 percent and a 53.88 percent decrease in nonoperating revenues.

Capital Assets and Debt Administration

During 2011, net capital assets increased $4,844,372 or 1.84 percent. In addition to replacing deteriorating water mains, the utility placed in service a water treatment plant in the northern part of the service area. This new treatment plant has been a multi-year project. 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 $57,402,000 and $62,550,000 as of December 31, 2011 and 2010, respectively. The decrease is due to scheduled principal payments and refinancing of the 2004A bonds.

During 2010, net capital assets increased $11,249,778 or 4.46 percent. In addition to replacing deteriorating water mains, the utility is building a water treatment plant in the northern part of the service area and an elevated tower, booster station and feeder mains on the east side of the service area. There were no significant changes to the condition of infrastructure assets, nor were there any changes made to standard service lives of those assets.

Water Works' long-term debt was $62,550,000 and $66,590,000 as of December 31, 2010 and 2009, respectively. The decrease is due to scheduled principal payments.

Economic Factors

Due to the Water Works' large concentration of residential customers, weather impacts revenue to a greater degree than do economic cycles. Water Works budgets revenues and expenses based on anticipated consumption for a "normal" weather year. Included in the 2012 budget is an increase in water rates for nearly all customers. This was based on the results of the annual cost of service study which indicated costs to serve those customers exceeded their water rates and availability charges.

Requests for Information

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

Des Moines Water Works

Balance Sheets
December 31, 2011 and 2010

	2011	2010
Assets		
Current assets:		
Cash	**$ 2,675,178**	$ 2,226,925
Restricted assets, cash	**411,037**	60,455
Accounts receivable:		
Billed	**3,534,073**	3,410,562
Unbilled	**1,430,444**	1,284,927
Due from other governments	**373,512**	1,668,553
Other receivables	**771,018**	243,826
Inventory, materials and supplies	**1,775,147**	1,699,633
Prepaid expenses	**832,740**	838,582
Total current assets	**11,803,149**	11,433,463
Restricted assets, cash and investments:		
Cash	**1,573,673**	7,425,150
Water revenue bond reserve fund	**15,028,625**	11,892,342
Water revenue bond improvement fund	**600,000**	600,000
	17,202,298	19,917,492
Long-term investments:		
Investment in land	**624,562**	624,562
Board designated funds, investments	**5,522,500**	2,928,091
	6,147,062	3,552,653
Capital assets:		
Land	**6,405,175**	4,925,798
Construction-in-progress	**9,924,084**	56,928,361
Buildings, equipment and machinery	**155,081,618**	122,748,999
Supply system	**50,370,785**	43,591,494
Distribution system	**178,069,390**	159,744,655
	399,851,052	387,939,307
Accumulated depreciation	**(131,510,023)**	(124,442,650)
Capital assets, net	**268,341,029**	263,496,657
Bond issue costs	**181,841**	168,380
Other assets	**305,659**	321,347
Total assets	**$ 303,981,038**	$ 298,889,992

See Notes to Basic Financial Statements.

	2011	2010
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	**$ 1,475,569**	$ 1,411,424
Accrued wages and benefits	**559,357**	565,172
Compensated absences	**1,979,865**	1,986,337
Unearned revenue	**1,386,521**	1,456,946
Special deposits	**523,291**	441,494
Construction payables	**3,273,677**	3,308,282
Water revenue bonds interest payable	**187,581**	209,549
Current portion of long-term debt, net	**4,311,085**	4,175,429
Fees collected for other entities	**411,037**	60,455
Other current liabilities, arbitrage	**-**	122,737
Total current liabilities	**14,107,983**	13,737,825
Noncurrent liabilities:		
Long-term debt, net, less current installments	**53,176,670**	58,152,037
Compensated absences	**755,065**	606,107
Unearned revenue	**10,603,169**	11,879,462
Pension liability	**100,093**	105,837
Other postemployment benefits liability	**3,333,573**	2,592,040
Total noncurrent liabilities	**67,968,570**	73,335,483
Total liabilities	**82,076,553**	87,073,308
Net assets:		
Invested in capital assets, net of related debt	**210,861,210**	201,720,168
Restricted (bond indentures)	**17,605,399**	19,426,970
Unrestricted	**(6,562,124)**	(9,330,454)
Total net assets	**221,904,485**	211,816,684
Total liabilities and net assets	**$ 303,981,038**	$ 298,889,992

Des Moines Water Works

Statements of Revenues, Expenses and Changes in Net Assets
Years Ended December 31, 2011 and 2010

	2011	2010
Operating revenues:		
Water sales	**$ 45,422,740**	$ 39,890,508
Other sales and services	**4,134,982**	4,172,904
Connection fees	**333,021**	267,034
Total operating revenues	**49,890,743**	44,330,446
Operating expenses:		
Labor	**11,541,994**	11,734,643
Group insurance	**1,872,670**	1,754,517
Retirement benefits (including social security)	**4,056,499**	3,241,465
Purchased services	**3,115,285**	5,328,241
Corporate insurance	**851,245**	881,853
Materials, supplies and equipment	**2,857,640**	2,988,356
Chemicals	**3,863,260**	3,545,412
Utilities	**2,392,716**	2,158,275
Depreciation	**7,311,994**	6,390,991
Other	**299,125**	342,508
Total operating expenses	**38,162,428**	38,366,261
Operating income	**11,728,315**	5,964,185
Nonoperating revenue (expense):		
Investment income	**233,205**	297,062
Interest expense	**(2,271,809)**	(608,768)
Land use income	**188,660**	182,586
Gain on sale of capital assets	**12,933**	63,657
Other	**2,543**	3,871
Nonoperating revenue (expense), net	**(1,834,468)**	(61,592)
Income before capital contributions	**9,893,847**	5,902,593
Capital contributions	**193,954**	2,841,825
Change in net assets	**10,087,801**	8,744,418
Net assets, beginning of year	**211,816,684**	203,072,266
Net assets, end of year	**$ 221,904,485**	$ 211,816,684

See Notes to Basic Financial Statements.

Des Moines Water Works

Statements of Cash Flows
Years Ended December 31, 2011 and 2010

	2011	2010
Cash flows from operating activities:		
Cash received from customers	**$ 48,103,718**	$ 42,780,699
Cash paid to suppliers	**(13,384,798)**	(15,279,534)
Cash paid to employees and for payroll taxes	**(16,598,704)**	(15,597,072)
Net cash provided by operating activities	**18,120,216**	11,904,093
Cash flows from capital and related financing activities:		
Principal payments on long-term debt	**(15,398,000)**	(4,040,000)
Proceeds from long-term debt	**10,250,000**	-
Acquisition, construction and removal cost of capital assets	**(12,148,892)**	(16,322,419)
Proceeds from sale of capital assets	**125,000**	191,761
Contributions received	**1,488,997**	731,553
Interest paid	**(2,150,831)**	(2,470,311)
Net cash (used in) capital and related financing activities	**(17,833,726)**	(21,909,416)
Cash flows from investing activities:		
Proceeds from maturities of investments	**22,339,389**	39,049,906
Purchase of investments	**(28,070,082)**	(29,572,333)
Interest received	**200,358**	464,302
Land use income and other	**191,203**	186,457
Net cash provided by (used in) investing activities	**(5,339,132)**	10,128,332
Net increase (decrease) in cash	**(5,052,642)**	123,009
Cash, beginning of year	**9,712,530**	9,589,521
Cash, end of year	**$ 4,659,888**	$ 9,712,530
Reconciliation of cash to the balance sheet:		
Cash	**$ 2,675,178**	$ 2,226,925
Restricted assets, cash	**1,984,710**	7,485,605
Total cash at end of year	**$ 4,659,888**	$ 9,712,530

(Continued)

Des Moines Water Works

Statements of Cash Flows (Continued)
Years Ended December 31, 2011 and 2010

	2011	2010
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	**$ 11,728,315**	$ 5,964,185
Adjustments to reconcile operating income to net cash, depreciation	**7,311,994**	6,390,991
Change in:		
Accounts receivable, billed	**(123,513)**	52,283
Accounts receivable, unbilled	**(145,517)**	(154,217)
Other receivables	**(619,345)**	22,441
Inventories - materials and supplies	**(75,514)**	(107,741)
Prepaid expense	**5,842**	(64,268)
Other assets	**15,688**	112,117
Accounts payable	**64,145**	137,121
Accrued wages and benefits and compensated absences	**136,671**	507,519
Pension liability	**(5,744)**	(6,075)
Other postemployment benefit liability	**741,533**	632,108
Unearned revenue	**(1,346,718)**	(1,491,159)
Special deposits	**81,797**	86,596
Fees collected for other entities	**350,582**	(177,808)
Net cash provided by operating activities	**$ 18,120,216**	$ 11,904,093
Schedule of noncash capital and related financing activities:		
Acquisition of capital assets through construction payables	**$ 34,605**	$ 309,782
Capitalized interest	**29,146**	1,631,235
Increase (decrease) in other receivables for sale of capital assets	**(125,000)**	(125,000)
Capital contributions through relief of construction payables forgiveness	**-**	651,434
Trade-in value towards assets purchased	**17,260**	39,550
Schedule of noncash investing activities, net depreciation of the fair value of investments	**18,549**	60,700

See Notes to Basic Financial Statements.

Des Moines Water Works
Pension Plan

Statements of Plan Net Assets
December 31, 2011 and 2010

	2011	2010
Assets		
Investments, contracts with insurance companies, pooled separate accounts	**$ 37,739,872**	$ 37,698,280
Net assets held in trust for pension benefits	**$ 37,739,872**	$ 37,698,280

See Notes to Basic Financial Statements.

Des Moines Water Works
Pension Plan

Statements of Changes in Plan Net Assets
Years Ended December 31, 2011 and 2010

	2011	2010
Additions:		
Investment income:		
Net appreciation (depreciation) in the fair value of pooled separate accounts, interest and dividends (Note 2)	**$ (4,425)**	$ 4,525,380
Employer contributions	**2,204,886**	1,541,866
Total additions	**2,200,461**	6,067,246
Deductions:		
Benefit payments	**2,095,099**	1,996,442
Administrative expenses	**63,770**	61,212
Total deductions	**2,158,869**	2,057,654
Net increase	**41,592**	4,009,592
Net assets held in trust for pension benefits:		
Beginning of year	**37,698,280**	33,688,688
End of year	**$ 37,739,872**	$ 37,698,280

See Notes to Basic Financial Statements.

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

Nature of business:

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

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

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

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 guidance, as well as the following guidance issued on or before November 30, 1989, unless that guidance conflicts with or contradicts GASB guidance: 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 conflicts with or contradicts GASB guidance. 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.

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, 2011 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 $821,233 and $719,591 in 2011 and 2010, respectively.

Water Works has an agreement to pay the City a Payment in Lieu of Taxes (PILOT). This amount was calculated in 2009 by applying the City millage rate for police and fire to the value of buildings and land operated and controlled by Water Works located within the City at that time. The total PILOT payment was $647,645 and $612,680 in 2011 and 2010, respectively.

Water Works has also agreed to match annual contributions of the City (up to $50,000) toward the Greater Des Moines Partnership to help generate economic development within the City. Payments of $50,000 were made in 2011 and 2010.

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 $411,037 and $60,455 as of December 31, 2011 and 2010, respectively. These fees have been reflected in Water Works' balance sheet and were remitted to the City and other political subdivisions subsequent to year-end. Processing fees billed to the City and other political subdivisions for billing and collection services provided by Water Works totaled approximately $1,251,000 in both 2011 and 2010. 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.

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 $29,146 and $1,631,235 in 2011 and 2010, 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, 2011 and 2010, Water Works had unspent bond proceeds of $7,936 and $550,977, 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.

Unearned revenue: During 1996 and years subsequent, Water Works entered into contractual agreements with other political subdivisions to sell treatment capacity to these entities. In exchange for purchasing these amounts of capacity, the political subdivisions will be able to purchase water at a lower wholesale water rate. Purchasers were offered the option of cash payment or participating in issues of water revenue bonds. For entities choosing to pay cash in advance, Water Works records these amounts as unearned revenue and amortizes the amounts into income over periods of 10 to 20 years. For entities participating in the bond issues, Water Works recognizes this revenue on a monthly basis as the entities are billed and as the principal and interest payments become due on the bonds. As of December 31, 2011, Water Works has $11,879,462 of unearned revenue relating to contractual agreements and has recognized $1,276,293 of revenue during 2011. As of December 31, 2010, Water Works has $13,155,755 of unearned revenue relating to contractual agreements and has recognized $1,276,293 of revenue during 2010.

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

Water Works received funds from FEMA for reimbursement for flooding damages that occurred in 2008. Water Works recognizes this revenue once it has been earned; that is, when expenses have been incurred. As of December 31, 2011 and 2010, Water Works has unearned revenue relating to unearned FEMA funds of $110,228 and $180,653, respectively.

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

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

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

Reclassifications: Certain amounts in the 2010 financial statements have been reclassified with no effect on net assets or change in net assets to conform with current year presentations.

Note 2. Cash and Investments

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

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

Note 2. Cash and Investments (Continued)

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

Information about the sensitivity of the fair value of the Water Work's investments to market interest rate fluctuations is provided by the tables below for December 31, 2011 and 2010:

Type	Fair Value December 31, 2011	Within 3 Months	Within 6 Months	Within 9 Months	Within 12 Months	Over 12 Months
Federal Home Loan Bank	$ 2,920,492	$ -	$ -	$ 750,090	$ 499,925	$ 1,670,477
Federal Home Loan Mortgage Corp.	3,381,214	-	-	-	-	3,381,214
Federal National Mortgage Assoc.	12,678,773	-	-	-	-	12,678,773
Federal Farm Credit Bank	516,735	-	-	-	516,735	-
Federal Agricultural Mortgage Corp.	653,381	-	-	151,776	-	501,605
Internatl Bank for Reconstruction & Develop Step Up Coupon	1,000,530	-	-	-	-	1,000,530
	$ 21,151,125	$ -	$ -	$ 901,866	$ 1,016,660	$ 19,232,599

Type	Fair Value December 31, 2010	Within 3 Months	Within 6 Months	Within 9 Months	Within 12 Months	Over 12 Months
Federal Home Loan Bank	$ 3,309,090	$ 3,009,090	$ -	$ -	$ -	$ 300,000
Federal Home Loan Mortgage Corp.	2,279,297	-	-	-	-	2,279,297
Federal National Mortgage Assoc.	9,446,945	-	-	-	-	9,446,945
Federal Farm Credit Bank	385,101	385,101	-	-	-	-
	$ 15,420,433	$ 3,394,191	$ -	$ -	$ -	$ 12,026,242

The Water Works also has an investment in land purchased with the intent to sell; however, no commitment for sale existed as of December 31, 2011 and 2010. The land is recorded at the lower of cost or fair value at $624,562 as of December 31, 2011 and 2010.

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.

Note 2. Cash and Investments (Continued)

As of December 31, 2011 and 2010, the Water Works' investments were rated as follows:

2011

Type	S&P Rating	Moody's Rating
Federal Home Loan Bank	AA+	Aaa
Federal Home Loan Mortgage Corp.	AA+	Aaa
Federal National Mortgage Assoc.	AA+	Aaa
Federal Farm Credit Bank	AA+	Aaa
Federal Agricultural Mortgage Corp	NR	NR
International Bank for Reconstruction and Dev	AAA	Aaa

2010

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

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

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

Type	2011	2010
Federal Home Loan Bank	13.81%	21.46%
Federal Home Loan Mortgage Corp.	15.99	14.78
Federal National Mortgage Assoc.	59.94	61.26

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

Note 2. Cash and Investments (Continued)

Custodial credit risk: The custodial credit risk for deposits and investments is the risk that, in the event of the failure of a depository financial institution or counterparty (for example, broker-dealer) to a transaction, a government will not be able to recover deposits or will not be able to recover collateral securities or the value of investments that are in the possession of an outside party. Deposits in financial institutions as of December 31, 2011 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 $4,895,216 and $4,659,888, respectively, as of December 31, 2011. Water Works' bank balances and book balances of deposits were $11,611,919 and $9,712,930, respectively, as of December 31, 2010. Water Works' investments were not exposed to custodial credit risk as of December 31, 2011 or 2010.

Pension Plan Deposits and Investments

Deposits: As of December 31, 2011 and 2010, the Plan held no deposits.

Investments: The Plan's investments in pooled separate accounts are stated at fair value based on quoted market prices of the investments held in each account as determined by Principal Life Insurance Company (Principal). Purchases and sales of securities are recorded on a trade date basis. Dividends are recorded on the ex-dividend date. Net appreciation (depreciation) includes the Plan's gains and losses on investments bought and sold, as well as, held during the year.

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.

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, 2011 and 2010, the Plan had investments listed in the tables below. Amounts are shown in dollars. Effective duration is shown in years. Investments held by the Plan were not subject to custodial credit risk or foreign currency risk.

	December 31, 2011 Fair Value	Effective Duration
Fixed income investments:		
Principal Core Plus Bond Account	$ 7,975,861	6.67
Principal Bond and Mortgage Account	7,394,538	4.94
Principal High Yield Account	1,829,576	4.07
Total fixed income investments	17,199,975	
Other investments, nonfixed income investments	20,539,897	
Total investments	$ 37,739,872	

	December 31, 2010 Fair Value	Effective Duration
Fixed income investments:		
Principal Core Plus Bond Account	$ 5,964,196	5.17
Principal Bond and Mortgage Account	6,006,089	5.18
Principal Inflation Protection Account	2,387,274	7.55
Principal High Yield Account	1,641,280	4.11
Total fair value of fixed income investments	15,998,839	
Other investments, nonfixed income investments	21,699,441	
Total investments	$ 37,698,280	

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.

Note 3. Capital Assets

Capital assets activity for the year ended December 31, 2011 is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	$ 4,925,798	$ 1,479,377	$ -	$ 6,405,175
Construction-in-progress	56,928,361	12,143,433	59,147,710	9,924,084
Total capital assets not being depreciated	61,854,159	13,622,810	59,147,710	16,329,259
Capital assets being depreciated:				
Buildings, equipment and machinery	122,748,999	32,581,567	248,948	155,081,618
Supply system	43,591,494	6,779,291	-	50,370,785
Distribution system	159,744,655	18,324,735	-	178,069,390
Total capital assets being depreciated	326,085,148	57,685,593	248,948	383,521,793
Less accumulated depreciation for:				
Buildings, equipment and machinery	66,657,941	3,701,173	244,621	70,114,493
Supply system	14,344,605	774,002	-	15,118,607
Distribution system	43,440,104	2,836,819	-	46,276,923
Total accumulated depreciation	124,442,650	7,311,994	244,621	131,510,023
Total capital assets being depreciated, net	201,642,498	50,373,599	4,327	252,011,770
Net capital assets	$ 263,496,657	$ 63,996,409	$ 59,152,037	$ 268,341,029

Note 3. Capital Assets (Continued)

Capital assets activity for the year ended December 31, 2010 is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	$ 4,890,351	$ 35,447	$ -	$ 4,925,798
Construction-in-progress	48,420,080	17,653,621	9,145,340	56,928,361
Total capital assets not being depreciated	53,310,431	17,689,068	9,145,340	61,854,159
Capital assets being depreciated:				
Buildings, equipment and machinery	121,154,478	1,837,212	242,691	122,748,999
Supply system	43,588,579	2,915	-	43,591,494
Distribution system	152,479,887	7,299,568	34,800	159,744,655
Total capital assets being depreciated	317,222,944	9,139,695	277,491	326,085,148
Less accumulated depreciation for:				
Buildings, equipment and machinery	63,928,259	2,963,243	233,561	66,657,941
Supply system	13,592,748	751,857	-	14,344,605
Distribution system	40,765,489	2,675,891	1,276	43,440,104
Total accumulated depreciation	118,286,496	6,390,991	234,837	124,442,650
Total capital assets being depreciated, net	198,936,448	2,748,704	42,654	201,642,498
Net capital assets	$ 252,246,879	$ 20,437,772	$ 9,187,994	$ 263,496,657

Note 4. Noncurrent Liabilities

As of December 31, 2011, Water Works' debt consists of Water Revenue Refunding Bonds, Series 2004 A, Series 2006, and Series 2011; 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 matures on December 1, 2024, Series 2006 matures on December 1, 2026, and Series 2011 matures on December 1, 2017. The Series 2003 note matures on December 1, 2022. The bonds and note are redeemable at the option of Water Works prior to their maturity in whole or, from time to time, in part, in any order of maturity and within a maturity by lot, at a price of par plus accrued interest to call date.

Changes in long-term obligations for the years ended December 31, 2011 and 2010 are as follows:

2011

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Water Revenue Bonds:					
Series 2004 A & B	$ 16,575,000	$ -	$ 11,525,000	$ 5,050,000	$ 300,000
Series 2006	44,370,000	-	2,260,000	42,110,000	2,355,000
Series 2011	-	10,250,000	1,500,000	8,750,000	1,475,000
Water Revenue Capital,					
Series 2003	1,605,000	-	113,000	1,492,000	116,000
Unamortized Bond Premium	32,400	419,690	141,142	310,948	93,171
Unamortized Bond Discount	(254,934)	-	(29,741)	(225,193)	(28,086)
Compensated absences	2,592,444	2,734,930	2,592,444	2,734,930	1,979,865
	$ 64,919,910	$ 13,404,620	$ 18,101,845	$ 60,222,685	$ 6,290,950

2010

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Water Revenue Bonds:					
Series 2004 A & B	$ 18,325,000	$ -	$ 1,750,000	$ 16,575,000	$ 1,800,000
Series 2006	46,550,000	-	2,180,000	44,370,000	2,260,000
Water Revenue Capital,					
Series 2003	1,715,000	-	110,000	1,605,000	113,000
Unamortized Bond Premium	39,170	-	6,770	32,400	6,111
Unamortized Bond Discount	(286,372)	-	(31,438)	(254,934)	(3,682)
Compensated absences	2,165,345	2,592,444	2,165,345	2,592,444	1,986,337
	$ 68,508,143	$ 2,592,444	$ 6,180,677	$ 64,919,910	$ 6,161,766

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
2012	3.50%	$ 300,000	$ 202,481	$ 502,481
2013	3.75	315,000	191,981	506,981
2014	4.00	325,000	180,169	505,169
2015	4.00	340,000	167,169	507,169
2016	4.00	350,000	153,569	503,569
2017-2021	4.00	1,990,000	545,644	2,535,644
2022-2024	4.00-4.25	1,430,000	122,419	1,552,419
		$ 5,050,000	$ 1,563,432	$ 6,613,432

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
2012	4.00%	$ 2,355,000	$ 1,737,231	$ 4,092,231
2013	4.00	2,440,000	1,643,031	4,083,031
2014	4.00	2,540,000	1,545,431	4,085,431
2015	4.00	2,650,000	1,443,831	4,093,831
2016	4.00	2,765,000	1,337,831	4,102,831
2017-2021	4.00	13,080,000	5,131,550	18,211,550
2022-2026	4.00	16,280,000	2,178,331	18,458,331
		$ 42,110,000	$ 15,017,236	$ 57,127,236

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

Maturing During Year Ending December 31:	Interest Rate	Annual Principal Payment	Annual Interest Payment	Total Annual Payment
2012	3.00%	$ 1,475,000	$ 262,500	$ 1,737,500
2013	3.00	1,510,000	218,250	1,728,250
2014	3.00	1,560,000	172,950	1,732,950
2015	3.00	1,590,000	126,150	1,716,150
2016	3.00	1,655,000	78,450	1,733,450
2017	3.00	960,000	28,800	988,800
		$ 8,750,000	$ 887,100	$ 9,637,100

Note 4. Noncurrent Liabilities (Continued)

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

Maturing During Year Ending December 31:	Interest Rate	Annual Principal Payment	Annual Interest Payment	Total Annual Payment
2012	3.00%	$ 116,000	$ 44,760	$ 160,760
2013	3.00	120,000	41,280	161,280
2014	3.00	124,000	37,680	161,680
2015	3.00	127,000	33,960	160,960
2016	3.00	131,000	30,150	161,150
2017-2021	3.00	717,000	89,370	806,370
2022	3.00	157,000	4,710	161,710
		$ 1,492,000	$ 281,910	$ 1,773,910

The water revenue bond and water revenue capital loan note resolutions (Resolutions) provide that future water customer revenues, net of specified operating expenses of Water Works, are pledged for the purpose of paying Series 2003, Series 2004, Series 2006 and Series 2011 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 $351,724,172 per occurrence on building and contents; in addition, liability insurance is maintained.

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

	Issue Date	Year Maturing	Principal and Interest Remaining	Principal and Interest Paid in 2011	Annual Payments as a Percentage of Net Revenues
Water Revenue Bonds:					
Series 2004 A	12/1/2004	2024	$ 6,613,432	$ 502,269	2.64%
Series 2006	3/1/2006	2026	57,127,236	4,087,631	21.47
Series 2011	3/1/2011	2017	9,637,100	1,736,604	9.12
Water Revenue Capital,					
Series 2003	4/16/2003	2022	1,773,910	161,150	0.85
			$ 75,151,678	$ 6,487,654	34.08%

Total customer net revenues were $19,040,308. Annual principal and interest payments on the bonds are approximately 34 percent of net revenues.

In March 2011, Water Works issued $10,250,000 of Water Revenue Refunding Bonds, Series 2011 with an average interest rate of 3 percent to current refund $11,235,000 of outstanding water revenue bonds. Water Works will pay approximately $1,610,846 less to service the new debt. Both the old and new maturity schedules end in 2017. The economic gain (difference between present values of the new and old debt payments) resulting from the transaction was approximately $1,492,140.

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 and work during two consecutive calendar quarters are eligible to participate in the Plan. Benefits vest after five years of continuous service and normal retirement is allowed at or after age 65. Early retirement is allowed without a reduction in benefits beginning at age 55 if the employee's combined years of service and age are 85 or greater and is allowed with reduced benefits for vested employees with less than 30 years of service beginning at age 55. The pension benefit formula is based upon a percent of average compensation and the number of years of service with Water Works. A participant's monthly accrued benefit is equal to 1.5 percent of their average monthly compensation times their years of continuous service with Water Works. Average monthly compensation is determined by taking the average monthly pay for the 60 consecutive full calendar months out of the 120 latest calendar months which give the highest average. The Plan also provides death and disability benefits to vested employees. The Plan Administrator is the Board of Trustees of Des Moines Water Works. The Plan issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to or calling the Water Works.

Water Works' annual pension cost and net pension liability for fiscal year 2011 and the two preceding fiscal years are as follows:

	2011	2010	2009
Annual required contribution (ARC)	$ 2,204,886	$ 1,541,866	$ 1,023,319
Interest	7,938	8,393	8,817
Adjustment to annual required contribution	(13,682)	(14,468)	(14,468)
Annual pension cost (APC)	2,199,142	1,535,791	1,017,668
Contributions made	2,204,886	1,541,866	1,023,319
Decrease in net pension liability	5,744	6,075	5,651
Net pension (liability), beginning of year	(105,837)	(111,912)	(117,563)
Net pension (liability), end of year	$ (100,093)	$ (105,837)	$ (111,912)
Percentage of APC contributed	100.3%	100.4%	100.6%

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, 2012, 2011 and 2010 using the aggregate actuarial cost method. The aggregate actuarial cost method does not identify or separately amortize unfunded actuarial liabilities. There were no significant differences between December 31, 2011, 2010 and 2009 and January 1, 2012, 2011 and 2010, respectively, which would cause the actuarial valuations not to be representative as of December 31, 2011, 2010 and 2009. 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 IRS Prescribed– Static Mortality, male and female, with a 3.0 percent cost of living factor increase included.

Note 5. Pension Plan (Continued)

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

Amounts contributed to the Plan from Water Works are determined by the Board of Trustees of Des Moines Water Works. The contributions to the Plan in 2011 and 2010 were approximately 17.7 percent and 12.5 percent, respectively, of the total covered payroll in each year.

As of January 1, 2012, the most recent actuarial valuation date, the Plan was 74 percent funded. The actuarial accrued liability for benefits was $51,235,945 and the actuarial value of assets was $37,986,291, resulting in an unfunded actuarial accrued liability (UAAL) of $13,249,654. The covered payroll (annual payroll of active employees covered by the Plan) was $12,436,915 and the ratio of UAAL to covered payroll was 107 percent.

As of January 1, 2011, the Plan was 81 percent funded. The actuarial accrued liability for benefits was $47,774,843 and the actuarial value of assets was $38,740,806, resulting in an unfunded actuarial accrued liability (UAAL) of $9,034,037. The covered payroll (annual payroll of active employees covered by the Plan) was $12,318,720 and the ratio of UAAL to covered payroll was 73 percent.

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

Note 6. Other Postemployment Benefits

Plan description: The Water Works sponsors a single-employer health care plan that provides certain postretirement health care benefits, in accordance with the policy established by the Board, to all employees who retire from Water Works after attaining age 55 with 5 years of service. As of December 31, 2011, 69 retirees receive postretirement health care benefits. As of December 31, 2010, 71 retirees receive postretirement health care benefits. Water Works provides a Medicare supplement or equivalent amount to all employees who retire after attaining age 55, if the sum of their age and years of service are at least 85 or for those who retire after attaining age 65 regardless of length of service. Employees who retire prior to attaining age 65 with the sum of their age and years of service less than 85 receive a discounted benefit as provided by the plan document. The plan does not issue a stand-alone financial report.

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

The required contribution is based on projected pay-as-you-go financing requirements. For fiscal year 2011, the Water Works contributed $147,479. Retirees receiving benefits contributed $70,175. The Water Works offered a choice of three health insurance plans in 2011. The required contribution for active members and retirees under the age of 65 varied by the plan selected. Retirees over the age of 65 also contributed varying amounts based on the plan selected.

Note 6. Other Postemployment Benefits (Continued)

For fiscal year 2010, the Water Works contributed $144,592. Retirees receiving benefits contributed $66,095. The Water Works offered a choice of three health insurance plans in 2010. The required contribution for active members and retirees under the age of 65 varied by the plan selected. Retirees over the age of 65 also contributed varying amounts based on the plan selected.

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

	2011	2010
Annual required contribution	$ 889,012	$ 349,262
Interest on net OPEB obligation	103,682	29,873
Adjustment to annual required contribution	(103,682)	397,565
Annual OPEB cost (expense)	889,012	776,700
Contributions and payments made	147,479	144,592
Increase in net OPEB obligation	741,533	632,108
Net OPEB obligation - beginning of year	2,592,040	1,959,932
Net OPEB obligation - end of year	$ 3,333,573	$ 2,592,040

The Water Work's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligations for 2011, 2010 and 2009 follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
December 31, 2009	$ 776,700	18%	$ 1,959,932
December 31, 2010	776,700	19	2,592,040
December 31, 2011	889,012	17	3,333,573

Note 6. Other Postemployment Benefits (Continued)

Funded status and funding progress as of December 31, 2011 and 2010: Postemployment Benefit Obligations under GASB Statement No. 45 calculated as of December 31, 2010, the most recent valuation date, is as follows:

	Total	Members
Actuarial Accrued Liability		
Current retirees, beneficiaries and dependents	$ (3,253,356)	106
Current active members	(8,203,535)	190
Total Actuarial Accrued Liability (AAL)	(11,456,891)	
OPEB Plan Assets	-	
Unfunded Actuarial Accrued Liability (UAAL)	(11,456,891)	

The covered payroll (annual payroll of active employees covered by the plan) for December 31, 2011 and 2010 was $14,150,767 and $13,694,936, respectively. The ratio of the UAAL to the covered payroll for December 31, 2011 and 2010 was 81 percent and 59 percent, respectively.

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

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

In the December 31, 2010 actuarial valuation date, the unit credit method was used. The actuarial assumptions included a 4.0 percent investment rate of return (net of administrative expenses) and an annual health care cost trend rate of 8.0 percent initially, grading down to 4.5 percent in 7 years. The Water Work's unfunded actuarial accrued liability is being amortized over 30 years. The remaining amortization period as of December 31, 2010, was 28 years.

Note 7. Risk Management

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

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

Note 8. Commitments

Approximately $1,961,000 related to 2011 contracts has been formally committed as of December 31, 2011. In addition, the Board has approved approximately $15,948,000 of expenditures for capital acquisitions and improvements, all of which are expected to be expended in 2012.

In 1983, Water Works determined additional water resources would be required for future customer needs. As a result, the Board has contracted with the United States of America – Army Corps of Engineers, through the state of Iowa, for water supply storage in the Saylorville Reservoir Project continuing through the life of the project. Under the contract, Water Works is required to pay a portion of future major renovation costs of the project. Water Works also pays a portion of the annual operation and maintenance costs of the project. Water Works portion of the operation and maintenance costs was approximately $114,000 in 2011 and 2010.

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

For the years ended December 31, 2011 and 2010, revenues generated by the Botanical Center were approximately $737,000 and $762,000 and expenses were approximately $953,000 and $1,033,000, respectively.

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

Water Works implemented the following GASB Statements during the year ended December 31, 2011:

- GASB Statement No. 59, *Financial Instruments Omnibus*. This Statement is intended to update and improve existing standards regarding financial reporting of certain financial instruments and external investment pools. Specifically, this Statement provides financial reporting guidance by emphasizing the applicability of SEC requirements to certain external investment pools, addressing the applicability of GASB 53, Accounting and Financial Reporting for Derivative Instruments, and applying the reporting provisions for interest-earning investment contracts of GASB 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools. This Statement had no effect on Water Work's financial statements in the current year.

As of December 31, 2011, the GASB also had issued several Statements not yet implemented by the Water Works.

- GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, issued November 2010, will be effective for the Water Works beginning with its year ending December 31, 2012. This Statement is intended to improve financial reporting by addressing issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. Specifically, this Statement improves financial reporting by establishing recognition, measurement and disclosure requirements SCAs for both transferors and governmental operators, requiring governments to account for and report SCAs in the same manner, which improves the comparability of financial statements. This Statement also improves the decision usefulness of financial reporting by requiring that specific relevant disclosures be made by transferors and governmental operators about SCAs.

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

- GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30,1989 FASB and AICPA Pronouncements,* issued January 2011, will be effective for the Water Works beginning with its year ending December 31, 2012. This Statement is intended to enhance the usefulness of the Codification of Governmental Accounting and Financial Reporting Standards by incorporating guidance that previously could only be found in certain FASB and AICPA pronouncements. This Statement incorporates into the GASB's authoritative literature the applicable guidance previously presented in the following pronouncements issued before November 30, 1989: FASB Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the AICPA's Committee on Accounting Procedure. By incorporating and maintaining this guidance in a single source, the GASB believes that GASB 62 reduces the complexity of locating and using authoritative literature needed to prepare state and local government financial reports.

- GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, issued July 2011, will be effective for the Water Works beginning with its year ending December 31, 2012. This Statement is intended to improve financial reporting by providing citizens and other users of state and local government financial reports with information about how past transactions will continue to impact a government's financial statements in the future. This Statement provides a new statement of net position format to report all assets, deferred outflows of resources, liabilities deferred inflows of resources, and net position (which is the net residual amount of the other elements). The Statement requires that deferred outflows of resources and deferred inflows of resources be reported separately from assets and liabilities. This Statement also amends certain provisions of Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments,* and related pronouncements to reflect the residual measure in the statement of financial position as net position, rather than net assets.

- GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, issued April 2012, will be effective for the Water Works beginning with its year ending December 31, 2013. This Statement clarifies the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. GASB Concepts Statement (CON) No. 4, Elements of Financial Statements, specifies that recognition of deferred outflows and deferred inflows should be limited to those instances specifically identified in authoritative GASB pronouncements. Consequently, guidance was needed to determine which balances being reported as assets and liabilities should actually be reported as deferred outflows of resources or deferred inflows of resources, according to the definitions in CON 4. Based on those definitions, this Statement reclassifies certain items currently being reported as assets and liabilities as deferred outflows of resources and deferred inflows of resources. In addition, the Statement recognizes certain items currently being reported as assets and liabilities as outflows of resources and inflows of resources.

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

- GASB Statement No. 66, *Technical Corrections – 2012*, issued April 2012, will be effective for the Water Works beginning with its year ending December 31, 2013. This Statement enhances the usefulness of financial reports by resolving conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting. This Statement amends GASB Statement No. 10, Accounting and Financial Reporting for Risk Financing and Related Insurance Issues, by removing the provision that limits fund-based reporting of a state or local government's risk financing activities to the general fund and the internal service fund types. As a result, governments would base their decisions about governmental fund type usage for risk financing activities on the definitions in GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions. This Statement also amends GASB Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements, by modifying the specific guidance on accounting for: (a) operating lease payments that vary from a straight-line basis; (b) the difference between the initial investment (purchase price) and the principal amount of a purchased loan or group of loans; and (c) servicing fees related to mortgage loans that are sold when the stated service fee rate differs significantly from a current (normal) servicing fee rate. These changes would eliminate any uncertainty regarding the application of GASB Statement No. 13, Accounting for Operating Leases with Scheduled Rent Increases, and result in guidance that is consistent with the requirements in GASB Statement No. 48, Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues, respectively.

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

Des Moines Water Works

Required Supplementary Information
Other Postemployment Benefit Plan

SCHEDULE OF FUNDING PROGRESS

Fiscal Year Ended	Actuarial Valuation Date	Actuarial Value of Net Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded (Over funded) AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
2009	12/31/08	$ -	$ 8,136,566	$ (8,136,566)	- %	$ 13,416,248	60.6%
2010	12/31/08	-	8,136,566	(8,136,566)	-	13,694,936	59.4
2011	**12/31/10**	**-**	**11,456,891**	**(11,456,891)**	**-**	**14,150,757**	**81.0**

The information presented in the required supplementary schedule was determined as part of the actuarial valuation date as of December 31, 2010.

Additional information follows:

a. The actuarial method used to determine the ARC is the unit credit method.
b. There are no plan assets.
c. The actuarial assumptions included: (1) 4 percent investment rate of return and (b) a health care cost trend rate of 8 percent initially, grading down to 4.5 percent in 7 years.
d. The unfunded actuarial accrued liability is being amortized over 30 years.

Des Moines Water Works
Pension Plan

Required Supplementary Information
Schedule of Funding Progress

Actuarial Valuation Date	(1) Actuarial Value of Assets	(2) Actuarial Accrued Liability (AAL)	(3) Unfunded AAL (UAAL) (2) - (1)	(4) Funded Ratio (1) / (2)	(5) Annual Covered Payroll	(6) UAAL as a Percentage of Payroll [(2) - (1)] / (5)
1/1/2007	$ 39,967,624	$ 39,967,624	$ -	100.00%	$ 10,773,915	- %
1/1/2008	43,038,338	40,236,733	(2,801,605)	107.00	11,058,383	(25)
1/1/2009	41,513,612	42,450,678	937,066	98.00	10,947,799	9
1/1/2010	39,789,839	44,385,344	4,595,505	90.00	11,694,902	39
1/1/2011	38,740,806	47,774,843	9,034,037	81.00	12,318,720	73
1/1/2012	**37,986,291**	**51,235,945**	**13,249,654**	**74.00**	**12,436,915**	**107**

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

See Note to Required Supplementary Information.

Des Moines Water Works
Pension Plan

Required Supplementary Information
Schedule of Contributions from the Employer

Year Ended December 31:	Annual Required Contribution	Actual Contribution	Percentage Contribution
2006	$ 885,540	$ 885,990	100.05%
2007	679,631	825,000	121.39
2008	545,782	800,000	146.58
2009	1,023,319	1,023,319	100.00
2010	1,541,866	1,541,866	100.00
2011	**2,204,886**	**2,204,886**	**100.00**

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, 2012
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	7.25%
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	IRS Prescribed Static Mortality table, male and female
Rate of withdrawal	V Table from August 1992 Pension Forum, multiplied by 0.40
Cost of living	2.25% to project benefits and compensation limitations

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