★ **Roll Call Number**

Agenda Item Number

31

Date August 11, 2014

Receipt of Des Moines Water Works Financial Report for the calendar year ending December 31, 2013 and 2012.

Moved by ________________________________ to

COUNCIL ACTION	YEAS	NAYS	PASS	ABSENT
COWNIE				
COLEMAN				
GATTO				
GRAY				
HENSLEY				
MAHAFFEY				
MOORE				
TOTAL				

MOTION CARRIED APPROVED

________________________________ Mayor

CERTIFICATE

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

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

________________________________ City Clerk

Des Moines Water Works

Financial Report
December 31, 2013 and 2012

McGladrey

Assurance · Tax · Consulting

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McGladrey LLP

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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Des Moines Water Works (Water Works) as of and for the years ended December 31, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the Water Works' basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America 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 from material misstatement. The financial statements of the Pension Trust Fund were not audited in accordance with *Government Auditing Standards.*

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Des Moines Water Works as of December 31, 2013 and 2012, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 9, other postemployment benefit plan schedules on page 35 and pension plan schedules on pages 36 through 37, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's response to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards,* we have also issued our reports for the years ended December 31, 2013 and 2012 dated June 17, 2014 and June 12, 2013, respectively, on our consideration of the Water Works' internal control over financial reporting and our tests of its 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 internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Water Works' internal control over financial reporting and compliance.

McGladrey LLP

Des Moines, Iowa
June 17, 2014

Des Moines Water Works

Management's Discussion and Analysis
Year Ended December 31, 2013

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, 2013 and 2012. Please consider this information in conjunction with the financial statements and the accompanying notes to basic financial statements that follow this section.

Overview of Business

The service area of the Water Works has expanded significantly since its emergence as a public water utility in 1919. In addition to serving customers within the City of Des Moines, Water Works provides wholesale water service based on long-term water contracts to surrounding municipalities and rural water districts, accounting for roughly 30 percent of total water revenues. This service area spans approximately 400 square miles, including most of Polk County and communities in eastern Dallas County and northern Warren County. The utility also provides billing and collection services on a contractual basis to wholesale customers and billing and collection services to the City of Des Moines for wastewater treatment, solid waste collection and the storm water utility.

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

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 206 full-time and 18 part-time or seasonal employees.

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

Financial Highlights

- In 2013, operating revenues of $52,889,414 decreased 2.44 percent from 2012 while operating expenses increased by 3.15 percent to $43,067,895 over 2012. Operating revenues of $54,214,262 in 2012 increased 8.67 percent from 2011, and operating expenses also increased by9.40 percent to $41,751,334.
- During the year, Water Works had operating income of $9,821,519 and change in net position of $9,370,689. This compares to operating income of $12,462,928 and change in net position of $9,378,404 reported in 2012.
- Water Works' net position increased as a result of operations. As of December 31, 2013 and 2012, total assets were $315,398,167 and $310,041,945, respectively; total liabilities were $77,528,822 and $82,007,899, respectively; resulting in net position of $240,653,578 and $231,282,889, respectively.

Des Moines Water Works

Management's Discussion and Analysis
Year Ended December 31, 2013

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 statements of net position provides information about the Water Works' assets, deferred outflows, liabilities, deferred inflows and net position; thereby measuring the Water Works' liquidity and solvency. Liquidity is a measure of the utility's ability to meet current obligations (those due within one year). Solvency is a similar concept, but measures the ongoing ability to meet obligations over a longer term.

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

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

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

Condensed Financial Information

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

Condensed Statement of Net Position Information

	2013	2012	2011	% Change 2012 to 2013	% Change 2011 to 2012
Current assets	$ 12,673,020	$ 10,744,768	$ 11,803,149	17.95%	(8.97)%
Capital assets, net	277,033,456	271,847,334	268,341,029	1.91	1.31
Other noncurrent assets	25,691,991	27,449,843	23,836,860	(6.40)	15.16
Total assets	315,398,467	310,041,945	303,981,038	1.73	2.00
Deferred outflow of resources	2,783,933	3,248,843	-	(14.31)	100.00
Current liabilities	17,585,615	15,877,150	14,107,983	10.76	12.54
Other noncurrent liabilities	14,274,317	14,820,876	14,791,900	(3.69)	0.20
Long-term debt, net	45,668,890	51,309,873	53,176,670	(10.99)	(3.51)
Total liabilities	77,528,822	82,007,899	82,076,553	(5.46)	(0.08)
Net investment in capital assets	229,067,422	218,934,233	210,861,210	4.63	3.83
Restricted	16,568,612	18,550,392	17,605,399	(10.68)	5.37
Unrestricted	(4,982,456)	(6,201,736)	(6,562,124)	(19.66)	(5.49)
Total net position	$ 240,653,578	$ 231,282,889	$ 221,904,485	4.05	4.23

Condensed Revenues, Expenses and Changes in Net Position

	2013	2012	2011	% Change 2012 to 2013	% Change 2011 to 2012
Water sales	$ 47,044,022	$ 48,388,978	$ 44,146,447	(2.78)%	9.61%
Billing and collection services	1,289,549	1,253,389	1,250,618	2.88	0.22
Connection fees	659,162	417,057	333,021	58.05	25.23
Purchased capacity	1,276,293	1,276,293	1,276,293	-	-
Other sales and services	2,620,388	2,878,545	2,884,364	(8.97)	(0.20)
Total operating revenues	52,889,414	54,214,262	49,890,743	(2.44)	8.67
Investment income	(83,095)	106,025	233,205	(178.37)	(54.54)
Other	210,020	203,266	191,203	3.32	6.31
Capital contributions	768,745	274,304	193,954	180.25	41.43
Total revenues	53,785,084	54,797,857	50,509,105	(1.85)	8.49
Labor and benefits	19,355,140	18,677,810	17,471,163	3.63	6.91
Chemicals and power	6,624,662	6,643,849	6,255,976	(0.29)	6.20
Corporate Insurance	876,481	867,749	851,245	1.01	1.94
Purchased services	4,659,904	4,222,301	3,115,285	10.36	35.53
Materials, supplies and equipment	3,242,441	3,075,024	2,857,640	5.44	7.61
Depreciation	7,978,139	8,037,059	7,311,994	(0.73)	9.92
Other	331,128	227,542	299,125	45.52	(23.93)
Total operating expenses	43,067,895	41,751,334	38,162,428	3.15	9.40
Interest expense	1,404,950	2,717,967	2,271,809	(48.31)	19.64
(Gain) loss on sale of fixed assets	(58,450)	950,152	(12,933)	(106.15)	(7,446.73)
Total expenses	44,414,395	45,419,453	40,421,304	(2.21)	12.37
Change in net position	9,370,689	9,378,404	10,087,801	(0.08)	(7.03)
Net position, beginning of year	231,282,889	221,904,485	211,816,684	4.23	4.76
Net position, end of year	$ 240,653,578	$ 231,282,889	$ 221,904,485	4.05	4.23

Financial Analysis

Year ended December 31, 2013: Current assets increased 17.95 percent. This is primarily due to timing of cash in the general checking account and can fluctuate widely. Additionally, prepaid expenses increased due to a few maintenance contracts being renewed for more than one year due to multi-year savings. Other noncurrent assets decreased 6.40 percent. As bonds are being paid down, the amount required in bond reserves also declines. Deferred outflows of resources decreased 14.31 percent due to the amortization of the difference between the reacquisition price and the net carrying amount of the 2006 bonds which were advanced refunded in 2012. Capital assets increased by 1.91 percent. Overall, total assets as of December 31, 2013 are approximately $5,300,000 more than December 31, 2012.

Current liabilities increased 10.76 percent. The amount in accounts payable is higher as of December 31, 2013 which is merely due to timing of invoice receipts and issuing payable checks. The balance in this account can vary widely based on the timing of payments at the end of the year. In addition, water deposits for tenants continue to increase.

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. This balance decreased by 3.69 percent due to the amortization of unearned revenue reducing the liability offset by the increase of the liability for other postretirement benefits.

Long-term debt decreased nearly 11 percent in 2013 due to the reclassification of $5,089,000 of the scheduled 2014 debt service payments to short-term liabilities.

Water sales were down 2.78 percent in 2013. Consumption in 2013 was lower as 2013 saw more of a typical summer season. The summer of 2012 was a dry year which resulted in record high consumption.

Revenue for billing and collection services was up nearly 3 percent due to the new billing and collecting services for Home Serve. They are the provider of DMWW's water service line protection program, an optional service offered to residential water customers.

Connection fees increased 58.05 percent or $242,000. 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 2012. This represents the continued amortization of unearned revenue. This unearned revenue represents cash contributions to fund the water treatment plant located in the north part of the service area and previous years' cash contributions from wholesale customers to fund the L.D. McMullen Water Treatment Facility. 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 nearly 9 percent in 2013. 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 main driver of the decrease is that DMWW ceased operating the Botanical Center on December 31, 2012 and therefore is not recognizing the revenue.

Operating labor and benefits increased 3.63 percent which is primarily due to wage rate increases and an increase in the pension funding expense.

Chemicals and power expenses were flat to 2012. Chemical prices were up a modest amount in 2013 but this was offset by lower consumption compared to 2012.

Corporate insurance increased by 1 percent due to normal increase in property values.

Purchased services increased 10.36 percent compared to 2012. The main driver of this increase is the lime residual removal at the McMullen Treatment Plant.

Materials, supplies and equipment increased by 5.44 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 increased nearly 45 percent. This equates to a $104,000 increase which is primarily due to DMWW offering utility-wide training on employee development.

Investment income decreased $189,000 and is actually showing as an expense in 2013. While true investment income remained relatively flat to 2012, the accounting for booking the unrealized gain/loss and truing up of accrued interest resulted in this account being an expense.

Interest expense decreased 48.31 percent due primarily to three factors. First, interest expense on the outstanding bonds was lower by $800,000 in 2013. Second, amortization of the premium on the 2012 bonds resulted in a credit to expense of nearly $500,000. And finally, there was approximately $415,000 of expenses relating to writing off bond issue costs to interest expense in 2012 which did not occur in 2013.

Capital contributions increased nearly $500,000. DMWW received $460,000 from the city of Pleasant Hill to perform certain capital projects needed in their service area. Furthermore, 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 position of 4.05 percent, the result of a 2.44 percent decrease in operating revenues, an increase in operating expenses of 3.15 percent and a 53.47 percent increase in nonoperating revenues.

Year ended December 31, 2012: Current assets decreased 8.97 percent. This is primarily due to timing of cash in the general checking account as well as investments being invested rather than in cash at December 31, 2012. Other noncurrent assets increased 15.16 percent. Additional revenue due to the dry summer resulted in money being invested in operating reserves. Deferred outflows of resources totaling approximately $3,250,000 relates to the 2012 advanced refunding of the 2006 bonds. This is the difference between the reacquisition price and the net carrying amount of the old debt. Capital assets increased by 1.31 percent. Overall, total assets as of December 31, 2012 are approximately $6,100,000 more than December 31, 2011.

Current liabilities increased 12.54 percent. This is primarily due to the current portion of the long-term debt being higher in 2012 than in 2011. The amount to be paid in 2013 (which is shown as a current payable as of December 31, 2012) for bond payments are nearly $615,000 higher than what was paid in 2012. The amount in accounts payable is also higher as of December 31, 2012 which is merely due to timing of invoice receipts and issuing payable checks. 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 3.51 percent in 2012 due to the reclassification of $4,860,000 of the scheduled 2013 debt service payments to short-term liabilities.

Water sales increased 9.61 percent. There was a very minimal rate increase in 2012 for most service areas. However, due to the very dry summer, consumption was up 11% compared to the prior year.

Revenue for billing and collection services remained flat as compared to 2011. The rates for billing and collecting services did not change in 2012 as well as the number of bills, which determines the fee.

Connection fees increased nearly 25 percent or $84,000. 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 2011. This represents the continued amortization of unearned revenue. This unearned revenue represents cash contributions to fund the water treatment plant located in the north part of the service area and previous years' cash contributions from wholesale customers to fund the L.D. McMullen Water Treatment Facility. 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 2012. 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 $635,457 and $736,990 for 2012 and 2011, respectively, are included in Water Works' financial results.

Operating labor and benefits increased 6.91 percent which is primarily due to wage rate increases and an increase in the pension funding expense.

Chemicals and power increased 6.20 percent. Most of this increase was due to higher consumption in 2012 resulting in more usage of chemicals and utilities in the treatment process.

Corporate insurance increased by less than 2 percent due to normal increase in property values.

Purchased services increased 35.53 percent or approximately $1.1 million compared to 2011. Nearly $1.3 million of prior years' operating expenses were reclassed to capital expenses in 2011 thus reducing the expense on this line. This reclass was for riverbank projects at McMullen and Saylorville resulting from the 2008 floods.

Materials, supplies and equipment increased by 7.61 percent. This includes items such as postage, inventory items and repair parts for the maintenance of the treatment facilities, distribution system and fleet vehicles. The number of main breaks was higher in 2012 than in 2011 requiring the use of more materials and inventory to repair.

Other expenses decreased nearly 24 percent. This includes bad debt expense which is approximately $70,000 lower than 2011 and casualty losses which are approximately $14,000 lower than 2011. Both these items can fluctuate from year to year.

Investment income decreased 54.54 percent due to lower investment balances. The lower investment balances are a result of spending the bond proceeds on the large capital projects in recent years.

Interest expense increased 19.64 percent in 2012. While the interest expense on the outstanding bonds was relatively flat, there was approximately $415,000 of expenses relating to writing off bond issue costs to interest expense. This is as a result of GASB Statement No. 65 implementation.

Capital contributions increased 41.43 percent or $80,000. 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 position of 4.23 percent, the result of a 8.67 percent increase in operating revenues, an increase in operating expenses of 9.4 percent and a 5.62 percent decrease in nonoperating revenues.

Capital Assets and Debt Administration

During 2013, net capital assets increased $5,186,122 or 1.91 percent. In addition to replacing deteriorating water mains, the utility continues to reinvest in water treatment, production, storage and capacity. There were no significant changes to the condition of infrastructure assets, nor were there any changes made to standard service lives of those assets.

Water Works' long-term debt was $45,668,890 and $51,309,873 as of December 31, 2013 and 2012, respectively. The decrease is due to scheduled principal payments.

During 2012, net capital assets increased $3,506,305 or 1.31 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 $51,309,873 and $53,176,670 as of December 31, 2012 and 2011, respectively. The decrease is due to scheduled principal payments and refinancing of the 2004B and 2006 bonds.

Economic Factors

Due to the Water Works' large concentration of residential customers, weather impacts revenue to a greater degree than do economic cycles. Water Works budgets revenues and expenses based on anticipated consumption for a "normal" weather year. Most service areas received a modest water rate increase in 2014.

Requests for Information

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

Des Moines Water Works

Statements of Net Position
December 31, 2013 and 2012

	2013	2012
Assets		
Current assets:		
Cash	$ 2,527,886	$ 1,057,628
Restricted assets, cash	486,926	547,615
Accounts receivable:		
Billed	4,111,110	4,281,468
Unbilled	1,576,107	1,513,992
Due from other governments	419,247	417,570
Other receivables	212,955	232,195
Inventory, materials and supplies	2,213,999	2,038,165
Prepaid expenses	1,124,790	656,135
Total current assets	12,673,020	10,744,768
Restricted assets, cash and investments:		
Cash	7,111,780	7,569,908
Water revenue bond reserve fund	8,377,829	9,840,798
Water revenue bond improvement fund	600,000	600,000
	16,089,609	18,010,706
Long-term investments:		
Investment in land	624,562	624,562
Board designated funds, investments	8,728,465	8,532,266
	9,353,027	9,156,828
Capital assets:		
Land	6,885,639	6,405,175
Construction-in-progress	10,852,084	11,695,445
Buildings, equipment and machinery	166,237,850	158,154,796
Supply system	50,892,116	50,860,897
Distribution system	189,224,141	183,969,349
	424,091,830	411,085,662
Accumulated depreciation	(147,058,374)	(139,238,328)
Capital assets, net	277,033,456	271,847,334
Other assets	249,355	282,309
Total assets	$ 315,398,467	$ 310,041,945
Deferred outflow of resources, deferred charge on refunding	$ 2,783,933	$ 3,248,843

See Notes to Basic Financial Statements.

	2013	2012
Liabilities and Net Position		
Current liabilities:		
Accounts payable	**$ 3,201,873**	$ 2,281,798
Accrued wages and benefits	**654,005**	546,078
Compensated absences	**2,226,784**	1,969,212
Unearned revenue	**1,430,276**	1,515,207
Special deposits	**1,054,369**	655,567
Construction payables	**3,327,428**	3,271,107
Water revenue bonds interest payable	**114,954**	230,566
Current portion of long-term debt, net	**5,089,000**	4,860,000
Fees collected for other entities	**486,926**	547,615
Total current liabilities	**17,585,615**	15,877,150
Noncurrent liabilities:		
Long-term debt, net, less current installments	**45,668,890**	51,309,873
Compensated absences, less current portion	**860,857**	819,235
Unearned revenue	**8,324,651**	9,754,926
Pension liability	**89,136**	94,349
Other postemployment benefits liability	**4,999,673**	4,152,366
Total noncurrent liabilities	**59,943,207**	66,130,749
Total liabilities	**77,528,822**	82,007,899
Net position:		
Net investment in capital assets	**229,067,422**	218,934,233
Restricted (bond indentures)	**16,081,686**	18,550,392
Unrestricted (deficit)	**(4,495,530)**	(6,201,736)
Total net position	**240,653,578**	231,282,889
Total liabilities and net position	**$ 318,182,400**	$ 313,290,788

Des Moines Water Works

Statements of Revenues, Expenses and Changes in Net Position
Years Ended December 31, 2013 and 2012

	2013	2012
Operating revenues:		
Water sales	$ 48,333,571	$ 49,665,271
Other sales and services	3,896,681	4,131,934
Connection fees	659,162	417,057
Total operating revenues	52,889,414	54,214,262
Operating expenses:		
Labor	12,424,101	12,041,547
Group insurance	1,925,786	1,888,181
Retirement benefits (including social security)	5,005,253	4,748,082
Purchased services	4,659,904	4,222,301
Corporate insurance	876,481	867,749
Materials, supplies and equipment	3,242,441	3,075,024
Chemicals	3,997,873	4,052,550
Utilities	2,626,789	2,591,299
Depreciation	7,978,139	8,037,059
Other	331,128	227,542
Total operating expenses	43,067,895	41,751,334
Operating income	9,821,519	12,462,928
Nonoperating revenue (expense):		
Investment income (loss)	(83,095)	106,025
Interest and amortization expense	(1,404,950)	(2,717,967)
Land use income	205,568	200,779
Gain (loss) on sale of capital assets	58,450	(950,152)
Other	4,452	2,487
Nonoperating revenue (expense), net	(1,219,575)	(3,358,828)
Income before capital contributions	8,601,944	9,104,100
Capital contributions	768,745	274,304
Change in net position	9,370,689	9,378,404
Net position, beginning of year	231,282,889	221,904,485
Net position, end of year	$ 240,653,578	$ 231,282,889

See Notes to Basic Financial Statements.

Des Moines Water Works

Statements of Cash Flows
Years Ended December 31, 2013 and 2012

	2013	2012
Cash flows from operating activities:		
Cash received from customers	**$ 51,770,195**	$ 53,449,223
Cash paid to suppliers	**(15,459,030)**	(14,316,648)
Cash paid to employees and for payroll taxes	**(18,105,925)**	(17,824,524)
Net cash provided by operating activities	**18,205,240**	21,308,051
Cash flows from capital and related financing activities:		
Principal payments on long-term debt	**(4,860,000)**	(48,751,000)
Proceeds from long-term debt	**-**	44,005,000
Acquisition, construction and removal cost of capital assets	**(13,049,490)**	(12,496,087)
Contributions received	**767,068**	230,246
Interest paid	**(1,607,634)**	(2,313,866)
Net cash (used in) capital and related financing activities	**(18,750,056)**	(19,325,707)
Cash flows from investing activities:		
Proceeds from maturities of investments	**20,110,077**	18,331,997
Purchase of investments	**(18,843,307)**	(16,153,936)
Interest received	**19,467**	151,592
Land use income and other	**210,020**	203,266
Net cash provided by investing activities	**1,496,257**	2,532,919
Net increase in cash	**951,441**	4,515,263
Cash, beginning of year	**9,175,151**	4,659,888
Cash, end of year	**$ 10,126,592**	$ 9,175,151
Reconciliation of cash to the statement of net position:		
Cash	**$ 2,527,886**	$ 1,057,628
Restricted assets, cash current	**486,926**	547,615
Restricted assets, cash long term	**7,111,780**	7,569,908
Total cash, end of year	**$ 10,126,592**	$ 9,175,151

(Continued)

Des Moines Water Works

Statements of Cash Flows (Continued)
Years Ended December 31, 2013 and 2012

	2013	2012
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	**$ 9,821,519**	$ 12,462,928
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	**7,978,139**	8,037,059
Change in:		
Accounts receivable, billed	**170,358**	(747,395)
Accounts receivable, unbilled	**(62,115)**	(83,548)
Other receivables	**(83,323)**	493,257
Inventory, materials and supplies	**(175,834)**	(263,018)
Prepaid expenses	**(468,655)**	176,605
Other assets	**32,954**	23,350
Accounts payable	**920,075**	806,229
Accrued wages and benefits and compensated absences	**407,121**	40,238
Pension liability	**(5,213)**	(5,744)
Other postemployment benefit liability	**847,307**	818,793
Unearned revenue	**(1,515,206)**	(719,557)
Special deposits	**398,802**	132,276
Fees collected for other entities	**(60,689)**	136,578
Net cash provided by operating activities	**$ 18,205,240**	$ 21,308,051
Schedule of noncash capital and related financing activities:		
Acquisition of capital assets through construction payables	**$ (56,321)**	$ 2,570
Trade-in value towards assets purchased	**58,450**	-
Schedule of noncash investing activities, net depreciation of the fair value of investments	**$ 49,716**	$ 87,696

See Notes to Basic Financial Statements.

Des Moines Water Works
Pension Plan

Statements of Plan Net Position
December 31, 2013 and 2012

	2013	2012
Assets		
Investments, contracts with insurance companies, pooled separate accounts	**$ 49,788,262**	$ 43,020,117
Liabilities	-	-
Net position held in trust for pension benefits	**$ 49,788,262**	$ 43,020,117

See Notes to Basic Financial Statements.

Des Moines Water Works
Pension Plan

Statements of Changes in Plan Net Position
Years Ended December 31, 2013 and 2012

	2013	2012
Additions:		
Investment income, net appreciation in the fair value of pooled separate accounts, interest and dividends	$ **6,352,932**	$ 4,825,703
Employer contributions	**2,915,710**	2,782,486
Total additions	**9,268,642**	7,608,189
Deductions:		
Benefit payments	**2,475,814**	2,282,100
Administrative expenses	**24,683**	45,844
Total deductions	**2,500,497**	2,327,944
Net increase	**6,768,145**	5,280,245
Net position held in trust for pension benefits:		
Beginning of year	**43,020,117**	37,739,872
End of year	$ **49,788,262**	$ 43,020,117

See Notes to Basic Financial Statements.

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

Nature of business:

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

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

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

Reporting entity:

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

Significant accounting policies:

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

The financial statements of the Water Works are prepared in accordance with generally accepted accounting principles (GAAP) as applied to governmental units. The Government Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards, which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units.

Accounting estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the 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, 2013 and 2012 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. Revenues from the sale of water are based on billing rates, which are applied to customer's consumption of water. Operating expenses include expenses for water treatment, distribution, depreciation, customer service and sales, administrative and general. Nonoperating revenues and expenses include those derived from capital and related financing activities, noncapital financing activities and investing activities.

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 $935,304 and $987,025 in 2013 and 2012, 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 $688,445 and $675,381 in 2013 and 2012, 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 2013 and 2012.

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 $486,926 and $547,615 as of December 31, 2013 and 2012, respectively. These fees have been reflected in Water Works' statement of net position 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 $1,290,000 and $1,253,000 in 2013 and 2012, respectively. The City's fees reflect only the incremental expenses incurred by Water Works to bill and collect the City's charges, rather than an equal sharing of the costs. Water Works bears the total cost of meter reading, cash processing and statement preparation and mailing.

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

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

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

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

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

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

Expenditures for maintenance, repairs and minor replacements are charged to operations. Expenditures for major repairs and betterments are capitalized. Water Works' capitalization threshold is $1,000. When capital assets are retired or otherwise disposed, the cost and related accumulated depreciation are removed from the accounts and any resulting gains or losses are included in the statement of revenues, expenses and changes in net position. Included in capital assets are the interest capitalized during construction in accordance with accounting principles generally accepted in the United States of America. No capitalized interest was recorded in 2013 or in 2012.

Net position: Net position represents the difference between assets and deferred outflows of resources and liabilities in the financial statements. Net investment in capital assets, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt used for acquisition, construction, or improvement of those assets and increased by deferred outflows of resources for deferred charges on refundings and unspent bond proceeds. Net position is reported as restricted when there are limitations imposed on its use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. As of December 31, 2013 and 2012, Water Works had unspent bond proceeds of $7,923 and $7,929, 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.

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

Unearned revenue: During 1996 and years subsequent, Water Works entered into contractual agreements with other political subdivisions to sell treatment capacity to these entities. In exchange for purchasing these amounts of capacity, the political subdivisions will be able to purchase water at a lower wholesale water rate. Purchasers were offered the option of cash payment or participating in issues of water revenue bonds. For entities choosing to pay cash in advance, Water Works records these amounts as unearned revenue and amortizes the amounts into income over periods of 10 to 20 years. For entities participating in the bond issues, Water Works recognizes this revenue on a monthly basis as the entities are billed and as the principal and interest payments become due on the bonds. As of December 31, 2013, Water Works had $9,754,927 of unearned revenue relating to contractual agreements and has recognized $1,429,857 of revenue during 2013. As of December 31, 2012, Water Works had $11,184,784 of unearned revenue relating to contractual agreements and has recognized $1,419,017 of revenue during 2012.

Water Works has 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, 2013 and 2012, Water Works has unearned revenue relating to unearned FEMA funds of none and $85,349, 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.

Bond premiums and discounts: Bond premiums and discounts are deferred and amortized over the terms of the bonds utilizing a method which approximates the effective interest method.

Deferred outflow of resources: In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to future periods(s) and so will not be recognized as an outflow of resources (expense) until then. The deferred charge on refunding reported in the statement of net position qualifies for reporting in this category. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

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

Note 2. Cash and Investments

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

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

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

Information about the sensitivity of the fair value of the Water Works' investments to market interest rate fluctuations is provided by the tables below for December 31, 2013 and 2012:

Type	Fair Value December 31, 2013	Within 3 Months	Within 6 Months	Within 9 Months	Within 12 Months	Over 12 Months
Federal Home Loan Bank	$ 6,477,360	$ 652,919	$ 3,553,259	$ 1,006,770	$ 1,264,412	$ -
Federal Home Loan Mortgage Corp.	2,131,045	-	627,475	1,503,570	-	-
Federal National Mortgage Assoc.	7,073,109	626,069	-	4,637,568	176,705	1,632,767
Private Export Funding Corp Series Y	1,021,940	-	-	-	1,021,940	-
Federal Farm Credit Bank	1,002,840	-	-	-	1,002,840	-
	$ 17,706,294	$ 1,278,988	$ 4,180,734	$ 7,147,908	$ 3,465,897	$ 1,632,767

Note 2. Cash and Investments (Continued)

Type	Fair Value December 31, 2012	Within 3 Months	Within 6 Months	Within 9 Months	Within 12 Months	Over 12 Months
Federal Home Loan Bank	$ 10,220,932	$ 2,004,275	$ 7,271,733	$ -	$ 693,209	$ 251,715
Federal Home Loan Mortgage Corp.	1,498,896	-	500,875	-	-	998,021
Federal National Mortgage Assoc.	6,146,375	501,935	1,512,420	-	2,011,520	2,120,500
Private Export Funding Corp Series Y	504,905	-	504,905	-	-	-
Tennessee Valley Authority	601,956	601,956	-	-	-	-
	$ 18,973,064	$ 3,108,166	$ 9,789,933	$ -	$ 2,704,729	$ 3,370,236

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, 2013. The land is recorded at the lower of cost or fair value at $624,562 as of December 31, 2013 and 2012.

Credit risk: Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization.

As of December 31, 2013 and 2012, the Water Works' investments were rated as follows:

2013

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
Private Export Funding Corp Series Y	AA+	Aaa
Federal Farm Credit Bank	AA+	N/A

2012

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
Private Export Funding Corp Series Y	AA+	Aaa
Tennessee Valley Authority	AA+	Aaa

Note 2. Cash and Investments (Continued)

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	2013	2012
Federal Home Loan Bank	36.58%	53.87%
Federal Home Loan Mortgage Corp.	12.04	7.90
Federal National Mortgage Assoc.	39.95	32.40
Private Export Funding Corp Series Y	5.77	-
Federal Farm Credit Bank	5.66	-

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

Custodial credit risk: The custodial credit risk for deposits and investments is the risk that, in the event of the failure of a depository financial institution or counterparty (for example, broker-dealer) to a transaction, a government will not be able to recover deposits or will not be able to recover collateral securities or the value of investments that are in the possession of an outside party. Deposits in financial institutions as of December 31, 2013 and throughout the year are covered by federal depository insurance or the State Sinking Fund in accordance with Chapter 12C, Code of Iowa. This Chapter provides additional assessments against the depositories to ensure there is no loss of public funds. Water Works' bank balances and book balances of deposits were $10,061,037 and $10,126,592, respectively, as of December 31, 2013. Water Works' bank balances and book balances of deposits were $9,544,062 and $9,175,151, respectively, as of December 31, 2012. Water Works' investments were not exposed to custodial credit risk as of December 31, 2013 or 2012.

Pension Plan Deposits and Investments

Deposits: As of December 31, 2013 and 2012, 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.

Note 2. Cash and Investments (Continued)

Authorized investments: The Des Moines Water Works Pension Plan's investment policy permits the named fiduciary to consider all asset classes allowed by Employee Retirement Income Security Act of 1974 (ERISA) as acceptable investment options and to select one or more customized investment portfolios and retain an investment manager to manage the assets of each such portfolio. The following assets classes are permitted for Plan investment options: Stable Value, Domestic Fixed Income, International or Foreign Fixed Income, Real Estate, Domestic Stock, International or Foreign Stock and Balanced/Asset allocation.

GASB Statement No. 40 requires plan investments to disclose an indication of the level of credit risk, concentration of credit risk and interest rate risk assumed by the Plan. These risk disclosures only pertain to fixed income investments. As of December 31, 2013 and 2012, 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, 2013 Fair Value	Effective Duration
Fixed income investments:		
Principal High Yield I Account	$ 2,332,362	3.87
Principal Bond and Mortgage Account	10,496,609	5.10
Principal Core Plus Bond I Account	10,506,513	5.24
Total fixed income investments	23,335,484	
Other investments, nonfixed income investments	26,452,778	
Total investments	$ 49,788,262	

	December 31, 2012 Fair Value	Effective Duration
Fixed income investments:		
Principal High Yield I Account	$ 8,151,146	3.83
Principal Bond and Mortgage Account	9,356,556	5.01
Principal Core Plus Bond I Account	2,159,354	3.83
Total fixed income investments	19,667,056	
Other investments, nonfixed income investments	23,353,061	
Total investments	$ 43,020,117	

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

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

Des Moines Water Works

Notes to Basic Financial Statements

Note 3. Capital Assets

Capital assets activity for the year ended December 31, 2013 is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	$ 6,405,175	$ 480,464	$ -	$ 6,885,639
Construction-in-progress	11,695,445	13,025,812	13,869,173	10,852,084
Total capital assets not being depreciated	18,100,620	13,506,276	13,869,173	17,737,723
Capital assets being depreciated:				
Buildings, equipment and machinery	158,154,796	8,241,147	158,093	166,237,850
Supply system	50,860,897	31,219	-	50,892,116
Distribution system	183,969,349	5,254,792	-	189,224,141
Total capital assets being depreciated	392,985,042	13,527,158	158,093	406,354,107
Less accumulated depreciation for:				
Buildings, equipment and machinery	74,279,015	4,266,377	158,093	78,387,299
Supply system	15,874,451	690,982	-	16,565,433
Distribution system	49,084,862	3,020,780	-	52,105,642
Total accumulated depreciation	139,238,328	7,978,139	158,093	147,058,374
Total capital assets being depreciated, net	253,746,714	5,549,019	-	259,295,733
Net capital assets	$ 271,847,334	$ 19,055,295	$ 13,869,173	$ 277,033,456

Capital assets activity for the year ended December 31, 2012 is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	$ 6,405,175	$ -	$ -	$ 6,405,175
Construction-in-progress	9,924,084	12,431,940	10,660,579	11,695,445
Total capital assets not being depreciated	16,329,259	12,431,940	10,660,579	18,100,620
Capital assets being depreciated:				
Buildings, equipment and machinery	155,081,618	3,252,619	179,441	158,154,796
Supply system	50,370,785	490,112	-	50,860,897
Distribution system	178,069,390	7,340,303	1,440,344	183,969,349
Total capital assets being depreciated	383,521,793	11,083,034	1,619,785	392,985,042
Less accumulated depreciation for:				
Buildings, equipment and machinery	70,114,493	4,338,844	174,322	74,279,015
Supply system	15,118,607	755,844	-	15,874,451
Distribution system	46,276,923	2,942,371	134,432	49,084,862
Total accumulated depreciation	131,510,023	8,037,059	308,754	139,238,328
Total capital assets being depreciated, net	252,011,770	3,045,975	1,311,031	253,746,714
Net capital assets	$ 268,341,029	$ 15,477,915	$ 11,971,610	$ 271,847,334

Note 4. Noncurrent Liabilities

As of December 31, 2013, Water Works' debt consists of Water Revenue Refunding Bonds, Series 2011, Series 2012A and Series 2012B; and Water Revenue Capital Loan Note, Series 2003 (through the Drinking Water State Revolving Fund (SRF)). Interest on these bonds and note is payable semiannually on June 1 and December 1, with principal payable on December 1. Series 2011 matures on December 1, 2017, Series 2012A matures on December 1, 2023, and Series 2012B matures on December 1, 2025. The Series 2003 note matures on December 1, 2022. The bonds and note are redeemable at the option of Water Works prior to their maturity in whole or, from time to time, in part, in any order of maturity and within a maturity by lot, at a price of par plus accrued interest to call date.

Changes in long-term obligations for the years ended December 31, 2013 and 2012 are as follows:

2013

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Water Revenue Bonds:					
Series 2011	$ 7,275,000	$ -	$ 1,510,000	$ 5,765,000	$ 1,560,000
Series 2012 A & B	44,005,000	-	3,230,000	40,775,000	3,405,000
Water Revenue Capital,					
Series 2003	1,376,000	-	120,000	1,256,000	124,000
Unamortized Bond Premium	3,513,873	-	551,983	2,961,890	-
Compensated absences	2,788,447	3,087,641	2,788,447	3,087,641	2,226,784
	$ 58,958,320	$ 3,087,641	$ 8,200,430	$ 53,845,531	$ 7,315,784

2012

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Water Revenue Bonds:					
Series 2004 A & B	$ 5,050,000	$ -	$ 5,050,000	$ -	$ -
Series 2006	42,110,000	-	42,110,000	-	-
Series 2011	8,750,000	-	1,475,000	7,275,000	1,510,000
Series 2012 A & B	-	44,005,000	-	44,005,000	3,230,000
Water Revenue Capital,					
Series 2003	1,492,000	-	116,000	1,376,000	120,000
Unamortized Bond Premium	310,948	3,296,096	93,171	3,513,873	-
Unamortized Bond Discount	(225,193)	-	(225,193)	-	-
Compensated absences	2,734,930	2,788,447	2,734,930	2,788,447	1,969,212
	$ 60,222,685	$ 50,089,543	$ 51,353,908	$ 58,958,320	$ 6,829,212

Note 4. Noncurrent Liabilities (Continued)

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
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
		$ 5,765,000	$ 406,350	$ 6,171,350

A summary of the aggregate principal and interest requirements outstanding for the Water Revenue Refunding Bonds, Series 2012A is as follows:

Maturing During Year Ending December 31:	Interest Rate	Annual Principal Payment	Annual Interest Payment	Total Annual Payment
2014	2.00%	$ 420,000	$ 84,125	$ 504,125
2015	2.00	430,000	75,725	505,725
2016	2.00	435,000	67,125	502,125
2017	2.00	445,000	58,425	503,425
2018	2.00	450,000	49,525	499,525
2019-2023	2.00 - 2.125	2,020,000	107,925	2,127,925
		$ 4,200,000	$ 442,850	$ 4,642,850

A summary of the aggregate principal and interest requirements outstanding for the Water Revenue Refunding Bonds, Series 2012B is as follows:

Maturing During Year Ending December 31:	Interest Rate	Annual Principal Payment	Annual Interest Payment	Total Annual Payment
2014	3.00%	$ 2,985,000	$ 1,097,250	$ 4,082,250
2015	3.00	3,085,000	1,007,700	4,092,700
2016	3.00	3,185,000	915,150	4,100,150
2017	3.00	2,805,000	819,600	3,624,600
2018	3.00	2,890,000	735,450	3,625,450
2019-2023	3.00	15,975,000	2,316,300	18,291,300
2024-2025	3.00	5,650,000	233,400	5,883,400
		$ 36,575,000	$ 7,124,850	$ 43,699,850

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
2014	1.75%	$ 124,000	$ 21,980	$ 145,980
2015	1.75	127,000	19,810	146,810
2016	1.75	131,000	17,588	148,588
2017	1.75	135,000	15,295	150,295
2018	1.75	139,000	12,933	151,933
2019-2022	1.75	600,000	26,653	626,653
		$ 1,256,000	$ 114,259	$ 1,370,259

The water revenue capital loans charged an interest rate of 3 percent through June 1, 2013 at which time it adjusted down to 1.75 percent.

The water revenue bond and water revenue capital loan note resolutions (Resolutions) provide that future water customer revenues, net of specified operating expenses of Water Works, are pledged for the purpose of paying Series 2011 and Series 2012 bonds. Proceeds from the bonds were used to provide additional infrastructure needs. The bonds are payable solely from customers net revenues. The Resolutions further require that sufficient monies be set aside to meet current expenses of Water Works. All remaining monies are to be segregated and restricted in separate special reserves. These special reserves are reflected as restricted assets on the statement of net position. The Resolutions also require the issuer maintain insurance coverage of a kind and in an amount which usually would be carried by private companies engaged in a similar kind of business. Water Works maintains fire and extended coverage insurance in the amount of $379,604,299 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 2013	Annual Payments as a Percentage of Net Revenues
Water Revenue Bonds:					
Series 2011	3/1/2011	2017	$ 6,171,350	$ 1,728,250	9.71%
Series 2012 A	10/30/2012	2023	4,642,850	505,167	2.84
Series 2012 B	10/30/2012	2025	43,699,850	4,078,097	22.91
Water Revenue Capital,					
Series 2003	4/16/2003	2022	1,370,259	156,120	0.88
			$ 55,884,309	$ 6,467,634	36.34%

Total customer net revenues were $17,799,658. Annual principal and interest payments on the bonds are approximately 36 percent of net revenues.

Note 4. Noncurrent Liabilities (Continued)

In October 2012, Water Works issued $4,605,000 of Water Revenue Current Refunding Bonds, Series 2012A with an average interest rate of 2 percent to refund $5,050,000 of outstanding water revenue bonds.

Water Works also issued in October 2012 $39,400,000 of Water Revenue Advanced Refunding Bonds, Series 2012B with an average interest rate of 3 percent to refund $39,755,000 of outstanding water revenue bonds. This Advanced Refunding defeased the 2006 series water revenue bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and liability for the defeased bonds are not included in the Water Works' financial statements. The refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $3,248,843. This difference, reported in the accompanying financial statements as a deferred outflow of resources, is being amortized over the life of the bonds.

Water Works will pay approximately $5,649,000 less to service the new debt. The old debt matured in December 2024 and December 2026 with the new debt maturing in December 2023 and December 2025. The economic gain (difference between present values of the new and old debt payments) resulting from the transaction was approximately $4,505,000.

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.

The Plan was frozen effective September 26, 2012 so that no new or former employees or former inactive participants may enter the Plan after such date.

The Plan was restated effective December 31, 2013. After that date, accrued plan benefits were frozen and will not increase due to any changes in average compensation or continuous service after such date.

Note 5. Pension Plan (Continued)

Water Works' annual pension cost and net pension liability for fiscal year 2013 and the two preceding fiscal years are as follows:

	2013	2012	2011
Annual required contribution (ARC)	$ 2,915,710	$ 2,782,486	$ 2,204,886
Interest	6,148	7,026	7,938
Adjustment to annual required contribution	(11,361)	(12,770)	(13,682)
Annual pension cost (APC)	2,910,497	2,776,742	2,199,142
Contributions made	2,915,710	2,782,486	2,204,886
Decrease in net pension liability	5,213	5,744	5,744
Net pension (liability), beginning of year	(94,349)	(100,093)	(105,837)
Net pension (liability), end of year	$ (89,136)	$ (94,349)	$ (100,093)
Percentage of APC contributed	100.2%	100.2%	100.3%

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 liability above was computed as part of the annual actuarial valuation performed as of January 1, 2014, 2013 and 2012. The actuarial valuations performed as of January 1, 2014 and 2013 used the entry age normal cost method. The 2012 actuarial valuation used 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, 2013, 2012 and 2011 and January 1, 2014, 2013 and 2012, respectively, which would cause the actuarial valuations not to be representative as of December 31, 2013, 2012 and 2011. The actuarial assumptions used to compute the pension benefit liability included 6.5 percent investment rate of return (net of administrative expenses).

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 2013 and 2012 were approximately 25.5 percent and 22.8 percent, respectively, of the total covered payroll in each year.

As of January 1, 2014, the most recent actuarial valuation date, the Plan was 85 percent funded. The actuarial accrued liability for benefits was $54,728,852 and the actuarial value of assets was $46,749,763, resulting in an unfunded actuarial accrued liability (UAAL) of $7,979,089. The covered payroll (annual payroll of active employees covered by the Plan) was $11,433,783 and the ratio of UAAL to covered payroll was 70 percent.

As of January 1, 2013, the most recent actuarial valuation date, the Plan was 73 percent funded. The actuarial accrued liability for benefits was $57,855,043 and the actuarial value of assets was $42,327,088, resulting in an unfunded actuarial accrued liability (UAAL) of $15,527,955. The covered payroll (annual payroll of active employees covered by the Plan) was $12,186,884 and the ratio of UAAL to covered payroll was 127 percent.

Note 5. Pension Plan (Continued)

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, 2013 and 2012, 106 retirees receive postretirement health care benefits. Water Works provides a Medicare supplement or equivalent amount to all employees who retire after attaining age 55, if the sum of their age and years of service are at least 85 or for those who retire after attaining age 65 regardless of length of service. Employees who retire prior to attaining age 65 with the sum of their age and years of service less than 85 receive a discounted benefit as provided by the plan document. The plan does not issue a stand-alone financial report.

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

The required contribution is based on projected pay-as-you-go financing requirements. For fiscal year 2013, the Water Works contributed $168,906. Retirees receiving benefits contributed $74,956. The Water Works offered a choice of three health insurance plans in 2013. 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.

For fiscal year 2012, the Water Works contributed $154,314. Retirees receiving benefits contributed $63,419. The Water Works offered a choice of three health insurance plans in 2012. 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)

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

	2013	2012
Annual required contribution	$ 1,032,690	$ 947,599
Interest on net OPEB obligation	166,095	133,343
Adjustment to annual required contribution	(182,572)	(107,835)
Annual OPEB cost (expense)	1,016,213	973,107
Contributions and payments made	168,906	154,314
Increase in net OPEB obligation	847,307	818,793
Net OPEB obligation - beginning of year	4,152,366	3,333,573
Net OPEB obligation - end of year	$ 4,999,673	$ 4,152,366

The Water Works' annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligations for 2013, 2012 and 2011 follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
December 31, 2011	$ 889,012	17%	$ 3,333,573
December 31, 2012	973,107	16	4,152,366
December 31, 2013	1,016,213	17	4,999,673

Funded status and funding progress as of December 31, 2013 and 2012: Postemployment Benefit Obligations under GASB Statement No. 45 calculated as of December 31, 2012, the most recent valuation date, is as follows:

	Total	Members
Actuarial Accrued Liability		
Current retirees, beneficiaries and dependents	$ (3,416,160)	106
Current active members	(9,924,843)	206
Total Actuarial Accrued Liability (AAL)	(13,341,003)	
OPEB Plan Assets	-	
Unfunded Actuarial Accrued Liability (UAAL)	(13,341,003)	

The covered payroll (annual payroll of active employees covered by the plan) for December 31, 2013 and 2012 was $14,701,939 and $14,370,775, respectively. The ratio of the UAAL to the covered payroll for December 31, 2013 and 2012 was 91 percent and 80 percent, respectively.

Note 6. Other Postemployment Benefits (Continued)

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

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

In the December 31, 2012 actuarial valuation, the most recent actuarial valuation, the unit credit method was used. The actuarial assumptions included a 4.0 percent investment rate of return (net of administrative expenses) and an annual health care cost trend rate of 8.0 percent initially, grading down to 4.5 percent in 7 years. The Water Works' unfunded actuarial accrued liability is being amortized over 30 years. The remaining amortization period as of December 31, 2012, was 26 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 $1,500,000 related to 2013 contracts has been formally committed as of December 31, 2013. In addition, the Board has approved approximately $16,100,000 of expenditures for capital acquisitions and improvements, all of which are expected to be expended in 2014.

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 2013 and 2012.

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. This 28E Agreement was terminated effective January 1, 2013 and a new agreement was entered into with the Greater Des Moines Botanical Gardens. This agreement provided for $200,000 of in-kind services to be performed for the GDMBG every year for ten years.

Note 8. Commitments (Continued)

For the year ended December 31, 2013, Water Works provided approximately $232,000 of in-kind services. This overspend will be offset by a reduction of expenses in a future year. In 2012, revenues generated by the Botanical Center were approximately $635,000 and expenses were $885,000.

Note 9. Subsequent Event

Subsequent to year-end the Water Works received approximately $2,177,000 from FEMA in settlement for a lawsuit settlement on deobligated funds. Approximately $1 million of these proceeds will be remitted to the state.

Note 10. New Governmental Accounting Standards Board (GASB) Statements

As of December 31, 2013, the GASB also had issued several Statements not yet implemented by the Water Works.

- GASB Statement No. 67, *Financial Reporting for Pension Plans*, issued June 2012, will be effective for the Water Works beginning with its year ending December 31, 2014. This Statement replaces the requirements of GASB Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and GASB Statement No. 50, *Pension Disclosures*, as they relate to pension plans that are administered through trusts or similar arrangements meeting certain criteria. This Statement builds upon the existing framework for financial reports of defined benefit pension plans, which includes a statement of fiduciary net position (the amount held in a trust for paying retirement benefits) and a statement of changes in fiduciary net position. This Statement enhances note disclosures and required supplementary information for both defined benefit and defined contribution pension plans. This Statement also requires the presentation of new information about annual money-weighted rates of return in the notes to the financial statements and in 10-year required supplementary information schedules.

- GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, issued June 2012, will be effective for the Water Works beginning with its year ending December 31, 2015. This Statement replaces the requirements of GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, and GASB Statement No. 50, *Pension Disclosures*, as they relate to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. This Statement requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. This Statement also enhances accountability and transparency through revised and new note disclosures and required supplementary information.

- GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*, issued November 2013, will be effective for the Water Works beginning with its year ending December 31, 2015. This Statement eliminates a potential source of understatement of restated beginning net position and expense in a government's first year of implementing GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. To correct this potential understatement, Statement 71 requires a state or local government, when transitioning to the new pension standards, to recognize a beginning deferred outflow of resources for its pension contributions made during the time between the measurement date of the beginning net pension liability and the beginning of the initial fiscal year of implementation. This amount will be recognized regardless of whether it is practical to determine the beginning amounts of all other deferred outflows of resources and deferred inflows of resources related to pensions.

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]
2011	12/31/10	$ -	$ 11,456,891	$ (11,456,891)	- %	$ 14,150,757	81.0%
2012	12/31/10	-	11,456,891	(11,456,891)	-	14,370,775	79.7
2013	**12/31/12**	-	**13,341,003**	**(13,341,003)**	-	**14,701,939**	**90.7**

The information presented in the required supplementary schedule was determined as part of the actuarial valuation as of December 31, 2012.

Additional information follows:

a. The actuarial method used to determine the ARC is the unit credit method.
b. There are no plan assets.
c. The actuarial assumptions included: (a) 4 percent investment rate of return and (b) a health care cost trend rate of 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)
01/01/2009	$ 41,513,612	$ 42,450,678	$ 937,066	98%	$ 10,947,799	9%
01/01/2010	39,789,839	44,385,344	4,595,505	90	11,694,902	39
01/01/2011	38,740,806	47,774,843	9,034,037	81	12,318,720	73
01/01/2012	37,986,291	51,235,945	13,249,654	74	12,436,915	107
01/01/2013	42,327,088	57,855,043	15,527,955	73	12,186,884	127
01/01/2014	**46,749,763**	**54,728,852**	**7,979,089**	**85**	**11,433,783**	**70**

The Actuarial Required Contribution (ARC) is calculated using the entry age normal actuarial cost method beginning January 1, 2013. For years prior to January 1, 2013, the ARC was calculated using the aggregate actuarial cost.

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
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
2012	2,782,486	2,782,486	100.00
2013	**2,915,710**	**2,915,710**	**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, 2014
Cost method	Entry Age Normal
Amortization	The amortization method used is Level Dollar over a Closed Period. The weighted average remaining period is 15 years.
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	6.5%
Salary increases	N/A
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 published by the Society of Actuaries, multiplied by 0.40
Cost of living	N/A

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

The actuarial valuation assumptions used in the January 1, 2014 report differ from those used in previous reports as a salary scale and cost of living assumptions are no longer needed since benefits were frozen as of December 31, 2013.

Des Moines Water Works

Report to the Board of Water Works Trustees
June 17, 2014

McGladrey LLP

McGladrey

June 17, 2014

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

We are pleased to present this report related to our audit of the basic financial statements of Des Moines Water Works for the year ended December 31, 2013. This report summarizes certain matters required by professional standards to be communicated to you in your oversight responsibility for Des Moines Water Works' financial reporting process.

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 about this report. We appreciate the opportunity to continue to be of service to Des Moines Water Works.

McGladrey LLP

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Representation Letter of the Des Moines Water Works

Representation Letter of the 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

Exhibit B – 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*

Required Communications

Generally accepted auditing standards (AU-C 260, *The Auditor's Communication With Those Charged With Governance*) require the auditor to promote effective two-way communication between the auditor and those charged with governance. Consistent with this requirement, the following summarizes our responsibilities regarding the financial statement audit as well as observations arising from our audit that are significant and relevant to your responsibility to oversee the financial reporting process.

Area	Comments
Our Responsibilities With Regard to the Financial Statement Audit	Our responsibilities under auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States have been described to you in our arrangement letter dated January 31, 2014.
Overview of the Planned Scope and Timing of the Financial Statement Audit	We have issued a separate communication regarding the planned scope and timing of our audit and have discussed with you our identification of and planned audit response to significant risks of material misstatement in our letter dated January 31, 2014.
Accounting Policies and Practices	**Preferability of Accounting Policies and Practices** Under generally accepted accounting principles, in certain circumstances, management may select among alternative accounting practices. In our view, in such circumstances, management has selected the preferable accounting practice. **Adoption of, or Change in, Accounting Policies** Management has the ultimate responsibility for the appropriateness of the accounting policies used by the Water Works. The Water Works did not adopt any significant new accounting policies, nor have there been any changes in existing significant accounting policies during the current period. **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. **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 Significant Accounting Estimates.
Audit Adjustments	There were no audit adjustments made to the original trial balance presented to us to begin our audit.
Uncorrected Misstatements	We are not aware of any uncorrected misstatements other than misstatements that are clearly trivial.
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.

Area	Comments
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 with or the subject of correspondence with management.
Significant Difficulties Encountered in Performing the Audit	We did not encounter any significant difficulties in dealing with management during the audit.
Accounting Pronouncements	Please refer to Note 10 of the financial statements for new accounting pronouncements that have been recently issued that will impact the Water Work's financial statements 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, including the representation letter provided to us by management, 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 Significant Accounting Estimates

Year Ended December 31, 2013

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 determine and record these accounting estimates. The following describes the significant accounting estimates reflected in the Des Moines Water Works' December 31, 2013 basic financial statements.

Estimate	Accounting Policy	Management's Estimation Process	Basis for Our Conclusions on Reasonableness of Estimate
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 and the results are reviewed by management.	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 Investments	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.

Estimate	Accounting Policy	Management's Estimation Process	Basis for Our Conclusions on Reasonableness of Estimate
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 the estimated amount of accrued sick leave.	We analyzed management's methodology and concluded the estimates are reasonable.

Exhibit A—Significant Written Communications between Management and Our Firm

June 17, 2014

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

This representation letter is provided 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, 2013 and 2012 for the purpose of expressing an opinion on whether the financial statements are presented fairly, in all material respects in accordance with accounting principles generally accepted in the United States (U.S. GAAP).

We confirm, to the best of our knowledge and belief, as of June 17, 2014:

Financial Statements

1. We have fulfilled our responsibilities, as set out in the terms of the audit arrangement letter dated January 31, 2014, for the preparation and fair presentation of the financial statements referred to above in accordance with U.S. GAAP.
2. We acknowledge our responsibility for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.
3. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.
4. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable and reflect our judgment based on our knowledge and experience about past and current events and our assumptions about conditions we expect to exist and courses of action we expect to take.
5. Related-party transactions, including those with other organizations for which the nature and significance of their relationship with Des Moines Water Works are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete and interfund transactions, including interfund accounts and advances receivable and payable, sale and purchase transactions, interfund transfers, long-term loans, leasing arrangements, and guarantees, have been recorded in accordance with the economic substance of the transaction and appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP.
6. There are no events subsequent to the date of the financial statements and for which U.S. GAAP requires adjustment or disclosure.
7. The effects of all known actual or possible litigation and claims have been accounted for and disclosed in accordance with U.S. GAAP.

8. The following have been properly recorded and/or disclosed in the financial statements:
    a. Arrangements with financial institutions involving restrictions on cash balances have been properly disclosed.
    b. Net position classifications.
    c. Expenses have been appropriately classified in the statement of revenues, expenses and change in net position.
9. 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 GASB Accounting Standards Codification.
10. We have no direct or indirect, legal or moral obligation for any debt of any organization, public or private, that is not disclosed in the financial statement.
11. We have complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance. In connection therewith, we specifically represent that we are responsible for determining that we are not subject to the requirements of the Single Audit Act and OMB Circular No. A-133, because we have not received, expended, or otherwise been the beneficiary of the required amount of federal awards during the period of this audit.
12. We believe that the actuarial assumptions and methods used to measure other postemployment benefit liabilities and self insurance liabilities are appropriate.
13. We have no knowledge of any uncorrected misstatements in the financial statements.

Information Provided

14. We have provided you with:
    a. Access to all information, of which we are aware that is relevant to the preparation and fair presentation of the financial statements such as records, documentation and other matters.
    b. Additional information that you have requested from us for the purpose of the audits.
    c. Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
    d. Minutes of the meetings of the governing board and committees, or summaries of actions of recent meetings for which minutes have not yet been prepared.
15. All transactions have been recorded in the accounting records and are reflected in the financial statements.
16. We have disclosed to you the results of our assessment of risk that the financial statements may be materially misstated as a result of fraud.
17. We have no knowledge of allegations of fraud or suspected fraud, affecting the Des Moines Water Works' financial statements involving:
    a. Management.
    b. Employees who have significant roles in the internal control.
    c. Others where the fraud could have a material effect on the financial statements.
18. We have no knowledge of any allegations of fraud or suspected fraud affecting the Des Moines Water Works' financial statements received in communications from employees, former employees, analysts, regulators or others.

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

20. We are not aware of any pending or threatened litigation and claims whose effects should be considered when preparing the financial statements.

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

22. We are not aware of any significant deficiencies, including material weaknesses, in the design or operation of internal controls that could adversely affect the Des Moines Water Works' ability to record, process, summarize and report financial data.

23. We are not aware of any communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.

Supplementary Information

24. With respect to management's discussion and analysis, schedules of funding progress and employer's contributions presented as required by the 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.

    d. When supplementary information is not presented with the audited financial statements, we will make the audited financial statements readily available to the intended users of the supplementary information no later than the date of issuance of the supplementary information and the auditor's report thereon.

Compliance Considerations

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

    a. We are responsible for:

        i. Compliance with the laws, regulations and provisions of contracts and other agreements applicable to Des Moines Water Works.

        ii. Establishing and maintaining effective internal control over financial reporting.

26. We have identified and disclosed to you all laws, regulations and provisions of contracts and other agreements that have a direct and material effect on the determinations of financial statement amounts or other financial data significant to audit objectives.

27. We are aware of no violations (and possible violations) of laws, regulations, or provisions of contracts and other agreements whose effects should be considered for disclosure in the auditor's report on noncompliance.

28. We are not aware of any fraud, illegal acts, violations of provisions of contracts or other agreements, or abuse that has been reported.

29. We have a process to track the status of audit findings and recommendations.

30. We have identified for you previous financial audits, attestation engagements, performance audits, or other studies related to the objectives of the audit being undertaken and the corrective action taken to address significant findings and recommendations, if any.

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

Des Moines Water Works

William Stowe, Chief Executive Officer

Peggy Freese, Chief Financial Officer

Michelle Holland, Controller

June 17, 2014

McGladrey LLP
400 Locust Street
Suite 640
Des Moines, Iowa

This representation letter is provided in connection with your audits of the statements of cash receipts and disbursements (financial statements) of the Board of Water Works Trustees, Billing and Collection Agent for the Sewer Service, Solid Waste Collection and Storm Water Management Charges for the City of Des Moines, Iowa (the Agent) for the years ended December 31, 2013 and 2012, and the related notes to the financial statements, for the purpose of expressing an opinion on whether the financial statements are presented fairly, in all material respects, in accordance with the cash basis of accounting described in Note 2 to the financial statements.

We confirm, to the best of our knowledge and belief, as of June 17, 2014:

Financial Statements

1. The financial statements referred to above are prepared on the cash basis of accounting as described in Note 2 to the financial statements (hereafter "cash basis of accounting"), which is a basis of accounting other than accounting principles generally accepted in the United States of America.
2. We have fulfilled our responsibilities, as set out in the terms of the audit arrangement letter dated January 31, 2014, for the preparation and fair presentation of the financial statements referred to above in accordance with the cash basis of accounting.
3. We acknowledge our responsibility for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.
4. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.
5. There are no events subsequent to the date of the financial statements for which disclosure is necessary for fair presentation.
6. There are no known actual or possible litigation and claims to be accounted for in accordance with the cash basis of accounting.
7. We have complied with all aspects of contractual agreements with the City of Des Moines, Iowa, that could have a material effect on the financial statements in the event of noncompliance.
8. We have no knowledge of any uncorrected misstatements in the financial statements.

Information Provided

9. We have provided you with:
   a. Access to all information, of which we are aware that is relevant to the preparation and fair presentation of the financial statements such as records, documentation and other matters.
   b. Additional information that you have requested from us for the purpose of the audits.
   c. Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
10. There are no minutes of the meetings of stockholders, directors and committees of directors, or summaries of actions of recent meetings for which minutes have not yet been prepared.
11. All transactions have been recorded in the accounting records and are reflected in the financial statements.
12. We have disclosed to you the results of our assessment of risk that the financial statements may be materially misstated as a result of fraud.
13. We have no knowledge of allegations of fraud or suspected fraud, affecting the Agent's financial statements involving:
    a. Management.
    b. Employees who have significant roles in the internal control.
    c. Others where the fraud could have a material effect on the financial statements.
14. We have no knowledge of any allegations of fraud or suspected fraud affecting the Agent's financial statements received in communications from employees, former employees, regulators or others.
15. We have no knowledge of noncompliance or suspected noncompliance with laws and regulations whose effects should be considered when preparing financial statements.
16. We are not aware of any pending or threatened litigation and claims whose effects should be considered when preparing the financial statements and we have not consulted legal counsel concerning litigation or claims.
17. We are aware of no significant deficiencies, including material weaknesses, in the design or operation of internal controls that could adversely affect the Agent's ability to record, process, summarize and report financial data.
18. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
19. 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

William Stowe, Chief Executive Officer

Peggy Freese, Chief Financial Officer

Michelle Holland, Controller

Exhibit B — 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

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

Independent Auditor's Report

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Des Moines Water Works as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise Des Moines Water Works' basic financial statements, and have issued our report thereon dated June 17, 2014. The financial statements of the pension trust fund were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with the pension trust fund.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

McGladrey LLP

Des Moines, Iowa
June 17, 2014