

★ Roll Call Number

Agenda Item Number

60

Date September 14, 2009

Receipt of Des Moines Water Works 2008 Financial Report.

Moved by _____ to receive and file

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

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.

MOTION CARRIED APPROVED

Mayor

City Clerk

60

DES MOINES WATER WORKS
Board of Water Works Trustees

Des Moines
Water Works
Water You Can Trust for Life

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

September 3, 2009

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

SUBJECT: Des Moines Water Works - 2008 Audit Reports

Dear Diane:

Audited financial statements and accompanying reports for Des Moines Water Works for the 2008 calendar year are enclosed. These reports were prepared by McGladrey & Pullen. The enclosed information was presented and received by the Board of Water Works Trustees at their meeting held June 23, 2009.

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

Sincerely,



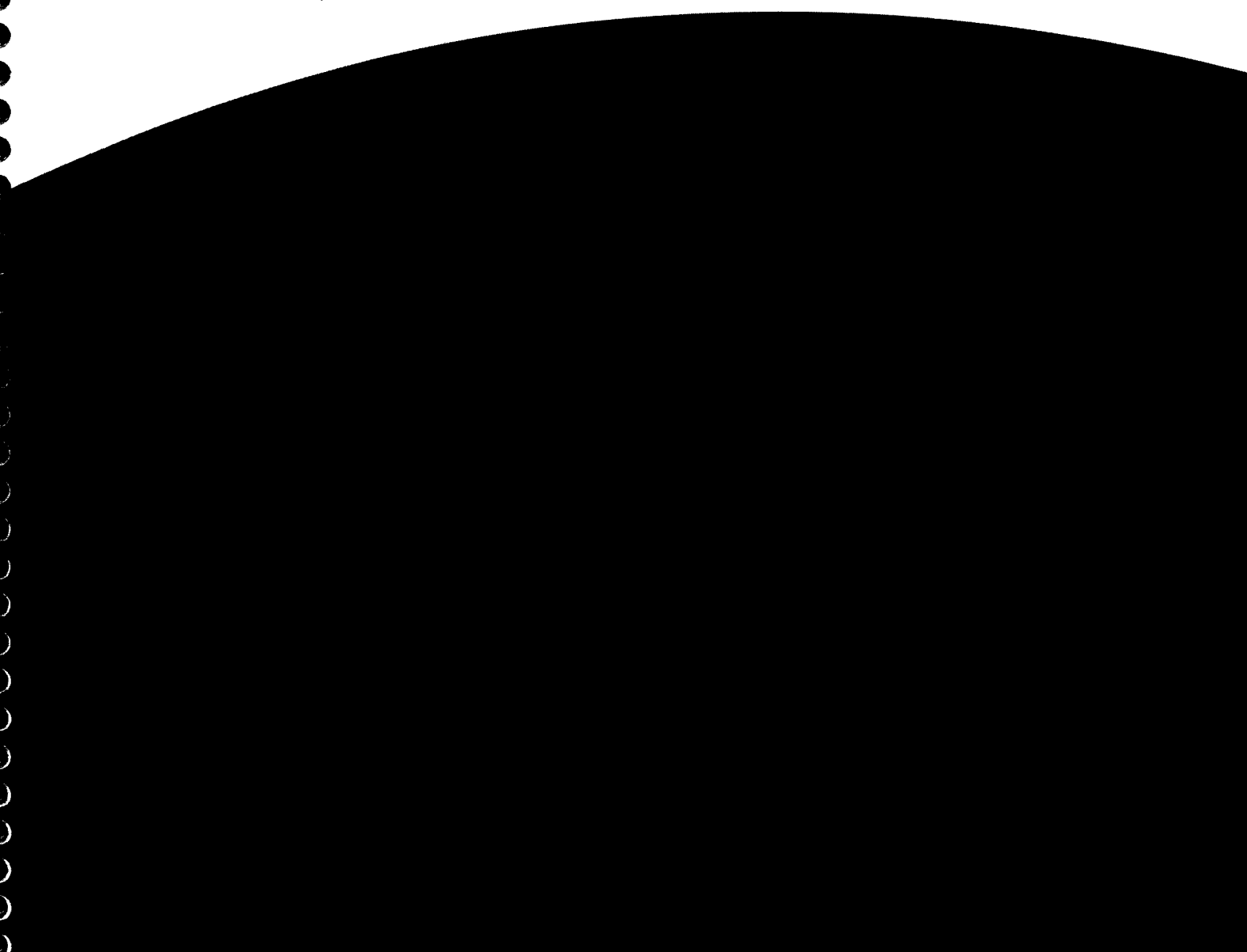
Michelle Holland, CPA
Controller

Enclosures

Des Moines Water Works

Financial Report

12.31.2008



Contents

Independent Auditor's Report	1 – 2
Management's discussion and analysis	3 – 9
Basic financial statements	
Balance sheets	10 – 11
Statements of revenues, expenses and changes in net assets	12
Statements of cash flows	13 – 14
Statements of plan net assets	15
Statements of changes in plan net assets	16
Notes to basic financial statements	17 – 34
Required supplementary information	
Other postemployment benefit plan	35
Schedule of funding progress	36
Schedule of contributions from the employer	37
Note to required supplementary information	38

McGladrey & Pullen

Certified Public Accountants

Independent Auditor's Report

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

We have audited the accompanying basic financial statements of Des Moines Water Works (Water Works) as of and for the years ended December 31, 2008 and 2007, as listed in the table of contents. These financial statements are the responsibility of the Des Moines Water Works' management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Des Moines Water Works as of December 31, 2008 and 2007 and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As explained in Note 6 to the basic financial statements, the City changed its method of accounting for other postemployment benefits.

In accordance with *Government Auditing Standards*, we have also issued our reports for the years ended December 31, 2008 and 2007 dated June 12, 2009 and July 15, 2008, respectively, on our consideration of Water Work's internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of those reports are to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

The Management's Discussion and Analysis on pages 3 through 9, other postemployment benefit plan schedule on page 35 and pension plan schedule on pages 36 through 38 is not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

McGladrey & Pullen, LLP

Davenport, Iowa
June 12, 2009

Des Moines Water Works

Management's Discussion and Analysis Year Ended December 31, 2008

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, 2008 and 2007. Please consider this information in conjunction with the financial statements and the accompanying notes to basic financial statements that follow this section.

Overview of Business

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

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

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

Governance of the Water Works is vested in a five-member Board appointed by the Mayor of the City of Des Moines with the approval of the City Council. Trustees serve for six-year staggered terms. The Board has complete control of Water Works' management and employs approximately 212 full-time and 15 part-time or seasonal employees.

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

Financial Highlights

- Water Works' net assets increased as a result of operations. As of December 31, 2008 and 2007, total assets were \$290,270,404 and \$290,106,949, respectively; total liabilities were \$98,847,959 and \$103,437,185, respectively, resulting in net assets of \$191,422,445 and \$186,669,764, respectively.
- In 2008, operating revenues of \$38,468,025 decreased less than one percent over 2007, while operating expenses in 2008 increased 3.06 percent to \$34,946,376. Operating revenues of \$38,591,144 in 2007 decreased 2.69 percent over 2006, while operating expenses decreased approximately 1.97 percent to \$33,908,739.

Des Moines Water Works

Management's Discussion and Analysis Year Ended December 31, 2008

- During the year, Water Works had operating income of \$3,521,649 and change in net assets of \$4,752,681. This compares to operating income of \$4,682,405 and change in net assets of \$5,774,655 reported in 2007.

Overview of the Financial Statements

Management's Discussion and Analysis (MD&A) serves as an introduction to the financial statements, and the MD&A represents management's examination and analysis of the Water Work's financial condition and performance. The financial statements report information about the utility using full accrual accounting methods as utilized by similar entities in the private sector.

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

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

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

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

Condensed Financial Information

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

Des Moines Water Works

Management's Discussion and Analysis Year Ended December 31, 2008

Condensed Balance Sheet Information

	2008	2007	2006	% Change 2007 to 2008	% Change 2006 to 2007
Current assets	\$ 24,660,081	\$ 26,902,959	\$ 38,185,510	(8.34)%	(29.55)%
Capital assets, net	241,322,908	233,569,476	216,030,583	3.32	8.12
Other noncurrent assets	24,287,415	29,634,514	35,985,739	(18.04)	(17.65)
Total assets	290,270,404	290,106,949	290,201,832	0.06	(0.03)
Current liabilities	15,769,454	16,187,541	16,679,862	(2.58)	(2.95)
Other noncurrent liabilities	16,488,505	16,747,644	18,346,861	(1.55)	(8.72)
Long-term debt	66,590,000	70,502,000	74,280,000	(5.55)	(5.09)
Total liabilities	98,847,959	103,437,185	109,306,723	(4.44)	(5.37)
Invested in capital assets, net of related debt	179,918,504	178,663,763	180,243,279	0.70	(0.88)
Restricted	25,988,574	24,849,822	17,136,157	4.58	45.01
Unrestricted	(14,484,633)	(16,843,821)	(16,484,327)	(14.01)	2.18
Total net assets	\$ 191,422,445	\$ 186,669,764	\$ 180,895,109	2.55	3.19

Condensed Revenues, Expenses and Changes in Net Assets

	2008	2007	2006	% Change 2007 to 2008	% Change 2006 to 2007
Water sales	\$ 32,870,245	\$ 32,649,976	\$ 33,964,194	0.67%	(3.87)%
Billing and collection services	923,930	991,648	892,455	(6.83)	11.11
Connection fees	478,954	725,359	591,950	(33.97)	22.54
Purchased capacity	1,335,264	1,330,631	1,321,967	0.35	0.66
Other sales and services	2,859,632	2,893,530	2,888,514	(1.17)	0.17
Total operating revenues	38,468,025	38,591,144	39,659,080	(0.32)	(2.69)
Investment income	1,564,931	2,943,034	3,001,447	(46.83)	(1.95)
Intergovernmental income	253,701	-	-	100.00	-
Other	175,862	179,154	166,722	(1.84)	7.46
Capital contributions	1,072,350	630,155	6,904,658	70.17	(90.87)
Total revenues	41,534,869	42,343,487	49,731,907	(1.91)	(14.86)
Labor and benefits	14,999,615	13,523,064	13,146,601	10.92	2.86
Chemicals and power	5,791,656	5,356,622	5,100,647	8.12	5.02
Corporate Insurance	864,285	965,607	940,458	(10.49)	2.67
Purchased services	3,661,378	3,346,776	3,179,056	9.40	5.28
Materials, supplies and equipment	3,021,496	3,155,726	3,127,030	(4.25)	0.92
Depreciation	6,271,439	7,242,073	8,891,789	(13.40)	(18.55)
Other	336,507	318,871	206,287	5.53	54.58
Total operating expenses	34,946,376	33,908,739	34,591,868	3.06	(1.97)
Interest expense	1,835,812	2,660,093	2,903,806	(30.99)	(8.39)
Total expenses	36,782,188	36,568,832	37,495,674	0.58	(2.47)
Change in net assets	4,752,681	5,774,655	12,236,233	(17.70)	(52.81)
Net assets, beginning of year	186,669,764	180,895,109	168,658,876	3.19	7.26
Net assets, end of year	\$ 191,422,445	\$ 186,669,764	\$ 180,895,109	2.55	3.19

Des Moines Water Works

Management's Discussion and Analysis Year Ended December 31, 2008

Financial Analysis

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

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

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

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

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

Connection fees decreased 33.97 percent. These fees can fluctuate widely from year to year depending on the level of development experienced within the utility's service areas.

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

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

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

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

Corporate insurance decreased by 10.49 percent due to lower premiums.

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

Des Moines Water Works

Management's Discussion and Analysis Year Ended December 31, 2008

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

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

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

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

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

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

Year ended December 31, 2007: Current assets decreased 29.55 percent. Other noncurrent assets decreased approximately 17.65 percent. Both of these are a result of spending bond proceeds on the development of the additional treatment plant. Offsetting these decreases is an increase of capital assets by 8.12 percent. Overall, total assets as of December 31, 2007 are approximately \$100,000 less than December 31, 2006.

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

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

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

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

Connection fees increased 22.54 percent. These fees can fluctuate widely from year to year depending on the level of development experienced within the utility's service areas.

Des Moines Water Works

Management's Discussion and Analysis Year Ended December 31, 2008

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

Effective January 5, 2004, per 28E agreement with the City of Des Moines, Des Moines Water Works assumed management of operations of the Des Moines Botanical Center. Operations include room rentals, catering and café, gift shop and special events. Botanical Center revenues of \$748,813 and \$684,642 for 2007 and 2006, respectively, are included in Water Works' financial results.

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

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

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

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

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

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

Capital contributions decreased 90.87 percent due to funds received in 2006 from Polk County for the purchase of the Southeast Polk Rural Water District. In 2007, funds received included \$300,000 from Pleasant Hill for capital infrastructure and \$175,000 from East Dallas Water for converting and connecting into our system. All other capital contributions received for 2007 are related to contributions of water mains by subdividers. These contributions can fluctuate widely from year to year, depending on the status of construction and the timing of inspections performed by Water Works' staff.

The aforementioned fluctuations result in an overall increase in net assets of 3.19 percent, the result of a 2.69 percent decrease in operating revenues, a decrease in operating expenses of 1.97 percent and a 62.75 percent decrease in nonoperating revenues.

Capital Assets and Debt Administration

During 2008, net capital assets increased \$7,753,432 or 3.32 percent. In addition to replacing deteriorating water mains, the utility is building a water treatment plant in the northern part of the service area and an elevated tower, booster station and feeder mains on the eastside of the service area. There were no significant changes to the condition of infrastructure assets, nor were there any changes made to standard service lives of those assets.

Des Moines Water Works

Management's Discussion and Analysis Year Ended December 31, 2008

Water Works' long-term debt was \$70,502,000 and \$74,280,000 as of December 31, 2008 and 2007, respectively. The decrease is due to scheduled principal payments.

During 2007, net capital assets increased \$17,538,893 or 8.12 percent. In addition to replacing deteriorating water mains, the utility is building a water treatment plant in the northern part of the service area. The utility is also engaged in a multi-year capital project to implement radio frequency meter reading for all customers within the City of Des Moines. There were no significant changes to the condition of infrastructure assets, nor were there any changes made to standard service lives of those assets.

Water Works' long-term debt was \$74,280,000 and \$79,050,000 as of December 31, 2007 and 2006, respectively. The decrease is due to scheduled principal payments.

Economic Factors

Due to the Water Works' large concentration of residential customers, weather impacts revenue to a greater degree than do economic cycles. Water Works budgets revenues and expenses based on anticipated consumption for a "normal" weather year. A water rate increase was budgeted for 2009. The increase was budgeted at primarily 15 percent for most of the large rate classes. This was based on the results of the annual cost of service study which indicated costs to serve those customers exceeded their water rates.

Requests for Information

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

Des Moines Water Works

Balance Sheets

December 31, 2008 and 2007

	2008	2007
Assets		
Current assets:		
Cash (Note 2)	\$ 2,222,319	\$ 256,926
Restricted assets (Note 2):		
Cash	5,617,822	7,628,614
Investments, water revenue bond reserve fund	9,792,072	12,066,172
Accounts receivable:		
Billed	3,071,519	3,183,413
Unbilled	1,134,231	1,079,204
Other receivables	563,829	581,902
Inventory, materials and supplies	1,490,571	1,313,572
Prepaid expenses	767,718	793,156
Total current assets	24,660,081	26,902,959
Restricted assets, investments (Notes 2 and 4):		
Water revenue bond reserve fund	18,803,427	23,629,783
Water revenue bond improvement fund	600,000	600,000
	19,403,427	24,229,783
Long-term investments:		
Investment in land	624,562	624,562
Board designated funds, investments (Note 2)	3,487,624	4,029,564
	4,112,186	4,654,126
Capital assets (Note 3):		
Land	4,911,351	4,911,351
Construction-in-progress	36,617,178	33,207,076
Buildings, equipment and machinery	120,073,217	118,478,059
Supply system	43,078,877	39,643,628
Distribution system	148,661,138	143,157,973
	353,341,761	339,398,087
Accumulated depreciation	(112,018,853)	(105,828,611)
Capital assets, net	241,322,908	233,569,476
Bond issue costs and discounts:		
Bond issue costs	218,527	246,041
Bond issue discounts	272,849	299,540
Bond issue costs and discounts	491,376	545,581
Other assets		
	280,426	205,024
Total assets	\$ 290,270,404	\$ 290,106,949

See Notes to Basic Financial Statements.

	2008	2007
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	\$ 1,402,364	\$ 2,268,414
Accrued wages and benefits	427,631	305,857
Compensated absences (Note 4)	1,534,324	1,326,253
Deferred revenue (Note 1)	1,311,808	1,333,951
Special deposits	208,843	69,510
Construction payables	6,462,651	6,290,830
Water revenue bonds interest payable	248,225	259,362
Current portion of long-term debt (Note 4)	3,912,000	3,778,000
Fees collected for other entities	261,608	555,364
Total current liabilities	15,769,454	16,187,541
Noncurrent liabilities:		
Long-term debt, less current installments (Note 4)	66,590,000	70,502,000
Compensated absences (Note 4)	614,547	635,072
Deferred revenue (Note 1)	14,432,048	15,724,168
Pension liability (Note 5)	117,563	388,404
Other postemployment benefits liability (Note 6)	1,324,347	-
Total noncurrent liabilities	83,078,505	87,249,644
Total liabilities	98,847,959	103,437,185
Net assets:		
Invested in capital assets, net of related debt	179,918,504	178,663,763
Restricted (bond indentures)	25,988,574	24,849,822
Unrestricted	(14,484,633)	(16,843,821)
Total net assets	191,422,445	186,669,764
Total liabilities and net assets	\$ 290,270,404	\$ 290,106,949

Des Moines Water Works

Statements of Revenues, Expenses and Changes in Net Assets
Years Ended December 31, 2008 and 2007

	2008	2007
Operating revenues:		
Water sales	\$ 34,205,509	\$ 33,980,607
Other sales and services	3,783,562	3,885,178
Connection fees	478,954	725,359
Total operating revenues	38,468,025	38,591,144
Operating expenses:		
Labor	10,556,380	10,407,304
Group insurance	1,597,243	1,472,393
Retirement benefits (including social security)	2,845,992	1,643,367
Purchased services	3,661,378	3,346,776
Corporate Insurance	864,285	965,607
Materials, supplies and equipment	3,021,496	3,155,726
Chemicals	3,405,635	2,966,033
Utilities, net	2,386,021	2,390,589
Depreciation	6,271,439	7,242,073
Other	336,507	318,871
Total operating expenses	34,946,376	33,908,739
Operating income	3,521,649	4,682,405
Nonoperating revenue (expense):		
Investment income	1,564,931	2,943,034
Interest expense	(1,835,812)	(2,660,093)
Land use income	171,434	175,188
Intergovernmental income	253,701	-
Other	4,428	3,966
Nonoperating revenue, net	158,682	462,095
Income before contributions	3,680,331	5,144,500
Capital contributions	1,072,350	630,155
Change in net assets	4,752,681	5,774,655
Net assets, beginning of year	186,669,764	180,895,109
Net assets, end of year	\$ 191,422,445	\$ 186,669,764

See Notes to Basic Financial Statements.

Des Moines Water Works

Statements of Cash Flows

Years Ended December 31, 2008 and 2007

	2008	2007
Cash flows from operating activities:		
Cash received from customers	\$ 37,153,568	\$ 37,842,647
Cash paid to suppliers	(14,692,933)	(13,746,695)
Cash paid to employees and for payroll taxes	(13,636,789)	(13,861,431)
Net cash provided by operating activities	8,823,846	10,234,521
Cash flows from capital and related financing activities:		
Principal payments on long-term debt	(3,778,000)	(4,770,000)
Acquisition, construction and removal cost of capital assets	(12,742,057)	(23,233,461)
Contributions received	1,072,350	475,000
Interest paid	(2,903,737)	(3,068,779)
Net cash (used in) capital and related financing activities	(18,351,444)	(30,597,240)
Cash flows from investing activities:		
Proceeds from maturities of investments	102,761,402	151,192,792
Purchase of investments	(95,119,006)	(129,176,792)
Interest received	1,663,941	2,840,927
Land use income and other	175,862	179,154
Net cash provided by investing activities	9,482,199	25,036,081
Net increase in cash	(45,399)	4,673,362
Cash, beginning of year	7,885,540	3,212,178
Cash, end of year	\$ 7,840,141	\$ 7,885,540
Reconciliation of cash to the balance sheet:		
Cash	\$ 2,222,319	\$ 256,926
Restricted assets, cash	5,617,822	7,628,614
Total cash at end of year	\$ 7,840,141	\$ 7,885,540

(Continued)

Des Moines Water Works

Statements of Cash Flows (Continued)
 Years Ended December 31, 2008 and 2007

	2008	2007
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 3,521,649	\$ 4,682,405
Adjustments to reconcile operating income to net cash, depreciation	6,271,439	7,242,073
Change in:		
Accounts receivable, billed	365,595	300,719
Accounts receivable, unbilled	(55,027)	14,251
Other receivables	(80,937)	(5,571)
Inventories - materials and supplies	(176,999)	(71,831)
Prepaid expense	25,438	1,351
Other assets	(75,402)	94,825
Accounts payable	(866,050)	(532,613)
Accrued wages and benefits and compensated absences	309,320	(169,133)
Pension liability	(270,841)	(169,234)
Other postemployment benefit liability	1,324,347	-
Deferred revenue	(1,314,263)	(1,330,633)
Special deposits	139,333	(36,202)
Fees collected for other entities	(293,756)	214,114
Net cash provided by operating activities	\$ 8,823,846	\$ 10,234,521
Schedule of noncash capital and related financing activities:		
Contributions of water mains from contractors in aid of construction	\$ -	\$ 155,155
Acquisition of capital assets through construction payables	(171,821)	938,198
Capitalized interest	1,110,993	454,152
Schedule of noncash investing activities, net depreciation of the fair value of investments	153,072	22,540

See Notes to Basic Financial Statements.

Des Moines Water Works
Pension Plan

Statements of Plan Net Assets
December 31, 2008 and 2007

	2008	2007
Assets		
Investments, contracts with insurance companies, pooled separate accounts	\$ 29,201,656	\$ 44,010,079
Employer contributions receivable	-	-
	<u>29,201,656</u>	<u>44,010,079</u>
Liabilities		
Net assets held in trust for pension benefits	<u>\$ 29,201,656</u>	<u>\$ 44,010,079</u>

See Notes to Basic Financial Statements.

**Des Moines Water Works
Pension Plan**

**Statements of Changes in Plan Net Assets
Years Ended December 31, 2008 and 2007**

	<u>2008</u>	<u>2007</u>
Additions:		
Investment income (loss):		
Net appreciation (depreciation) in the fair value of pooled separate accounts, interest and dividends (Note 2)	\$ (13,716,994)	\$ 2,656,473
Employer contributions	800,000	825,000
Total additions	<u>(12,916,994)</u>	<u>3,481,473</u>
Deductions:		
Benefit payments	1,820,833	1,676,726
Administrative expenses	70,596	69,377
Total deductions	<u>1,891,429</u>	<u>1,746,103</u>
Net increase (decrease)	(14,808,423)	1,735,370
Net assets held in trust for pension benefits:		
Beginning of year	44,010,079	42,274,709
End of year	<u>\$ 29,201,656</u>	<u>\$ 44,010,079</u>

See Notes to Basic Financial Statements.

Des Moines Water Works

Notes to Basic Financial Statements

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

Nature of business:

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

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

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

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

Reporting entity:

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

Significant accounting policies:

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

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

