



# **Des Moines Metropolitan Wastewater Reclamation Authority**

Financial Report  
June 30, 2017

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## Independent Auditor's Report

RSM US LLP

To the WRA Board Members  
Des Moines Metropolitan  
Wastewater Reclamation Authority

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the Des Moines Metropolitan Wastewater Reclamation Authority (WRA), as of and for the years ended June 30, 2017 and 2016, and the related notes to the basic financial statements, which collectively comprise the WRA's 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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 respective financial position of the Des Moines Metropolitan Wastewater Reclamation Authority, as of June 30, 2017 and 2016, 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 and the other postemployment benefit plan schedule of funding progress, as listed in the table of contents, 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 responses 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.

*RSM US LLP*

Des Moines, Iowa  
December 18, 2017

## **Des Moines Metropolitan Wastewater Reclamation Authority**

### **Management's Discussion and Analysis Years Ended June 30, 2017 and 2016**

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The management of the Wastewater Reclamation Authority (WRA) is pleased to offer readers of the WRA's financial statements this narrative overview and analysis of the financial position and activities of the WRA as of and for the fiscal years ended June 30, 2017 and 2016.

#### **Overview of the WRA**

A regional treatment plant and conveyance system to nine members of the Integrated Community Area (ICA) was constructed between 1982 and 1994 with a plan of operating through 2005. On July 1, 2004, the Wastewater Reclamation Authority reorganized under a new 28E agreement to be a legal entity that is separate from the member communities and governed by its own Board. This reorganization enabled considerable change in the conveyance system and additions to the treatment plant that allowed the connection of the remaining ICA communities to the regional treatment plant, greater/better treatment at times of over flows, and three new communities to join the WRA. During fiscal year 2014 an updated 28E agreement was adopted that will increase capacity at the regional treatment plant, improve interceptors and add a force main and gravity sewer to the conveyance system. This updated 28E agreement extends the WRA to June 30, 2064 and provides planned improvements through 2032.

Participants in the WRA include the cities of Des Moines, West Des Moines, Clive, Altoona, Ankeny, Bondurant, Johnston, Pleasant Hill, Norwalk, Cumming, Waukee and Polk City; the Urbandale Sanitary Sewer District, Urbandale-Windsor Heights Sanitary District, Greenfield Plaza/Hills of Coventry Sanitary District, Polk County and Warren County in the state of Iowa.

#### **Overview of the financial statements**

This discussion and analysis is intended to serve as an introduction to the WRA's basic financial statements. The WRA's basic financial statements comprise three components: 1) basic financial statements, 2) notes to the financial statements and 3) required supplementary information.

#### **Basic financial statements**

The basic financial statements are designed to provide readers with a broad overview of the WRA's finances in a manner similar to a private-sector business. The basic financial statements are prepared using the same basis of accounting as private-sector business enterprises. Under this method of accounting, an economic resources measurement focus and an accrual basis of accounting is used. Revenue is recorded when earned and expenses are recorded when incurred. The basic financial statements include a statement of net position, a statement of revenues, expenses and changes in net position, and a statement of cash flows, followed by notes to the financial statements and required supplementary information.

The statement of net position presents information on all the WRA's assets plus deferred outflows of resources and liabilities plus deferred inflows of resources, with the difference between them reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the WRA is improving or deteriorating.

The statement of revenues, expenses and changes in net position reports the operating revenues and expenses and non-operating revenues and expenses of the WRA for the fiscal year which determines the change in net position for the fiscal year.

The statement of cash flows reports cash and cash equivalents for the fiscal year resulting from operating activities, capital and related financing activities, investing activities, and noncash activities.

## Des Moines Metropolitan Wastewater Reclamation Authority

### Management's Discussion and Analysis Years Ended June 30, 2017 and 2016

The basic financial statements include only the WRA. There are no other organizations or agencies whose financial statements should be combined and presented with the financial statements of the WRA. The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

#### Financial highlights

Assets plus deferred outflows of resources exceeded liabilities plus deferred inflows of resources (net position) by \$296,526,790, \$295,925,156, and \$288,343,997 as of June 30, 2017, 2016 and 2015, respectively. At June 30, 2017, 2016, and 2015, the WRA showed \$18,369,712, \$19,546,662 and \$10,945,491, respectively, as unrestricted net position, which were available to meet current and future obligations of the WRA.

During the years ended June 30, 2017, 2016 and 2015, the WRA's cash provided by operating activities was \$27,302,874, \$26,038,647, and \$20,020,929, respectively.

#### Government-wide financial analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. At the end of the current fiscal year, the WRA is able to report positive balances in all categories of net position. The same situation held true for the prior fiscal years. In 2017, the WRA's net position increased \$601,634 from 2016. In 2016, the WRA's net position increased \$7,581,159 from 2015.

Table 1

	2017	2016	2015
<b>Assets</b>			
Current and other assets	\$ 65,444,544	\$ 58,897,199	\$ 47,959,137
Capital assets	594,856,419	596,632,267	603,398,575
<b>Total assets</b>	<b>660,300,963</b>	<b>655,529,466</b>	<b>651,357,712</b>
<b>Deferred outflows of resources</b>			
Deferred charge on refunding	813,312	892,629	974,416
<b>Liabilities</b>			
Current liabilities	20,695,880	16,727,862	18,987,097
Noncurrent liabilities	343,891,605	343,769,077	345,001,034
<b>Total liabilities</b>	<b>364,587,485</b>	<b>360,496,939</b>	<b>363,988,131</b>
<b>Net position</b>			
Net investment in capital assets	240,037,079	243,640,494	248,974,506
Restricted assets	38,120,000	32,738,000	28,424,000
Unrestricted assets	18,369,711	19,546,662	10,945,491
<b>Total net position</b>	<b>\$ 296,526,790</b>	<b>\$ 295,925,156</b>	<b>\$ 288,343,997</b>

The increase in net position during the years ended June 30, 2017, 2016 and 2015 is primarily the result of cash collected for capital assets and debt servicing.

## Des Moines Metropolitan Wastewater Reclamation Authority

### Management's Discussion and Analysis Years Ended June 30, 2017 and 2016

Highlights of the WRA's revenues and expenses for the years ended June 30, 2017, 2016 and 2015 are presented in Table 2:

	2017	2016	2015
Operating revenues, charges for sales and services	<b>\$ 46,719,216</b>	\$ 45,410,454	\$ 42,725,316
Operating expenses:			
Cost of sales and services	<b>21,460,744</b>	20,800,471	21,277,871
Depreciation	<b>20,305,956</b>	16,947,442	14,262,544
<b>Total operating expenses</b>	<b>41,766,700</b>	37,747,913	35,540,415
<b>Operating income</b>	<b>4,952,516</b>	7,662,541	7,184,901
Nonoperating revenues (expenses):			
Sales tax	<b>3,809,344</b>	5,996,430	-
Investment earnings	<b>255,609</b>	386,875	168,093
Amortization	<b>254,046</b>	264,798	171,080
Gain (loss) on disposal of capital assets	<b>(959,745)</b>	215,672	(288,195)
Interest and bond issuance expense	<b>(7,710,136)</b>	(6,945,157)	(4,170,663)
<b>Nonoperating (loss)</b>	<b>(4,350,882)</b>	(81,382)	(4,119,685)
Capital grants and contributions	-	-	150,875
<b>Change in net position</b>	<b>\$ 601,634</b>	\$ 7,581,159	\$ 3,216,091

Total revenues were \$51,038,215 and total expenses were \$50,436,582 for the year ended June 30, 2017. Total revenues were \$51,793,759 and total expenses were \$44,212,600 for the year ended June 30, 2016. Total revenues were \$43,044,284 and total expenses were \$39,828,193 for the year ended June 30, 2015. The WRA's net operating income was \$4,952,516 for the year ended June 30, 2017, \$7,662,541 for the year ended June 30, 2016 and \$7,184,901 for the year ended June 30, 2015.

The WRA receives contributions from the member communities for debt servicing, capital and operations. The total received from the communities during the years ended June 30, 2017, 2016 and 2015 was \$41,567,651, \$40,300,478 and \$37,707,955, respectively.

#### Capital assets

Capital assets (net) decreased by \$1,775,848 in 2017, decreased by \$6,766,308 in 2016 and increased by \$9,408,827 in 2015.

Bond proceeds provided funding for the long-term construction commitments for these purposes: a) to accommodate the anticipated population growth in the metro area, b) to make improvements to the wastewater facility and the conveyance system following the WRA Facility Plan Update – 2012, and 3) to fund WRA's portion of Des Moines' long-term control plan for separation of the combined sewer system.

Concentration on the capital improvements and expansion planned through the year 2032 will allow the WRA to continue its mission of protecting the public health and enhancing the environment by recycling wastewater and being the preferred treatment facility for hauled liquid waste. Please refer to Note 4 for more information on the WRA's capital assets.

## **Des Moines Metropolitan Wastewater Reclamation Authority**

### **Management's Discussion and Analysis Years Ended June 30, 2017 and 2016**

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#### **Long-term debt**

In October 2004, the WRA authorized \$26,850,000 of sewer revenue bonds, Series 2004A and \$66,830,000 on sewer revenue bonds, Series 2004B. The proceeds of the Series 2004A bonds were used to acquire from the City of Des Moines the Wastewater Reclamation Facility (WRF) located at 3000 Vandalia Road, Des Moines, Iowa, and also to acquire all existing WRA sanitary sewer conveyance facilities, and all rights comprised of or used as part of the WRA System. The proceeds of the Series 2004B bonds are to be used for constructing improvements or additions to the WRA System and paying project costs. The Series 2004A was retired in 2012 and the 2004B was partially advance refunded in 2013 and retired in 2014. In December 2006, the WRA authorized \$38,050,000 of sewer revenue bonds, Series 2006 with the proceeds to be used for constructing improvements or additions to the WRA System and paying project costs.

In 2008, the WRA authorized sewer revenue bonds under the Iowa Finance Authority's (IFA) state revolving loan program (SRF). Proceeds of the Series 2008A bonds were used to construct a sewer to connect a member community's sanitary sewer system to the WRF. WRA's active participation in IFA's program serves to finance the necessary improvements to connect more communities under the Facility Plan and to separate combined sewers of the WRA system.

In fiscal year ended June 30, 2017, the WRA authorized \$41,804,000 of debt. In fiscal year ended June 30, 2016, the WRA authorized \$10,820,000 of debt. The proceeds were used to fund construction improvement projects and additions to the WRA System. In fiscal year ended June 30, 2015, the WRA authorized \$44,490,000 of debt. The proceeds were used to retire/refund Series 2006 sewer revenue bonds and to fund construction improvement projects and additions to the WRA System.

In May 2013, the WRA issued \$56,420,000 of sewer revenue refunding bonds, Series 2013B to partially advance refund \$57,450,000 of the outstanding Sewer Revenue Bonds, Series 2004B.

In May 2015, WRA issued \$32,020,000 Series 2015E bonds to partially advance refund \$31,440,000 of the outstanding Sewer Revenue Bonds, Series 2006. Proceeds were placed into an irrevocable trust with an escrow agent and the partially refunded liability of the Series 2006 bonds was removed from the WRA's statement of net position.

Revenue bonds payable increased by \$2,081,613 in 2017, decreased by \$1,113,864 in 2016 and increased by \$9,295,656 in 2015. Please refer to Note 5 for more information on the WRA's long-term debt.

#### **Economic factors**

Investment earnings were \$254,046, \$386,875, and \$168,093 for the years ended June 30, 2017, 2016 and 2015, respectively. Users of the WRA Facility consist of the regional communities including waste haulers and industries based in those communities. The WRA will not impose sewer rates and charges. The communities will continue to provide revenue to the WRA.

#### **Request for information**

These financial statements and discussions are designed to provide interested user a complete disclosure of the WRA's finances. If you have questions about this report contact Robert Fagan, 400 E. Court Avenue, Des Moines, Iowa 50309.

**Des Moines Metropolitan Wastewater Reclamation Authority**

**Statements of Net Position  
June 30, 2017 and 2016**

	2017	2016
<b>Assets</b>		
Current assets:		
Unrestricted current assets:		
Cash and pooled cash	\$ 20,920,709	\$ 19,917,317
Accounts receivable, net	1,086,078	834,404
Interest receivable	44,597	21,234
Due from other governmental units	4,856,032	4,959,171
Prepaid expenses	417,128	435,073
<b>Unrestricted current assets</b>	<b>27,324,544</b>	<b>26,167,199</b>
Restricted current assets:		
Cash and pooled cash investments	1,680,206	6,148,523
Investments	18,656,862	14,072,790
<b>Restricted current assets</b>	<b>20,337,068</b>	<b>20,221,313</b>
<b>Total current assets</b>	<b>47,661,612</b>	<b>46,388,512</b>
Noncurrent assets:		
Restricted noncurrent assets:		
Cash and pooled cash	5,091,210	5,555,320
Investments	12,691,722	6,953,367
Capital assets:		
Land	9,218,391	9,196,291
Construction in progress	19,495,491	128,310,300
Plant	320,351,883	270,096,287
Sewer system	379,538,739	317,729,520
Machinery and equipment	79,382,974	65,648,311
	<b>807,987,478</b>	<b>790,980,709</b>
Less accumulated depreciation	213,131,059	194,348,442
<b>Capital assets, net</b>	<b>594,856,419</b>	<b>596,632,267</b>
<b>Total noncurrent assets</b>	<b>612,639,351</b>	<b>609,140,954</b>
<b>Total assets</b>	<b>660,300,963</b>	<b>655,529,466</b>
<b>Deferred outflows of resources</b> , deferred charge on refunding	<b>813,312</b>	<b>892,629</b>

See notes to financial statements.

	2017	2016
<b>Liabilities</b>		
Current liabilities:		
Accounts payable	\$ 909,366	\$ 499,156
Accrued wages payable	397,779	369,579
Accrued employee benefits	685,696	438,183
Contracts payable	4,849,514	3,096,697
Due to other governments	-	134,517
Revenue bonds payable	13,008,760	11,351,000
Accrued interest payable	844,765	838,730
<b>Total current liabilities</b>	<b>20,695,880</b>	<b>16,727,862</b>
Noncurrent liabilities:		
Accrued employee benefits	890,065	874,307
Other postemployment benefits obligation	377,648	361,368
Revenue bonds payable	339,240,719	338,816,866
Unamortized bond premium	3,383,173	3,716,536
<b>Total noncurrent liabilities</b>	<b>343,891,605</b>	<b>343,769,077</b>
<b>Total liabilities</b>	<b>364,587,485</b>	<b>360,496,939</b>
<b>Net position</b>		
Net investment in capital assets	240,037,079	243,640,494
Restricted:		
Debt service	28,582,436	28,479,682
Capital projects	9,537,564	4,258,318
Unrestricted	18,369,711	19,546,662
<b>Total net position</b>	<b>\$ 296,526,790</b>	<b>\$ 295,925,156</b>

**Des Moines Metropolitan Wastewater Reclamation Authority**

**Statements of Revenues, Expenses and Changes in Net Position  
Years Ended June 30, 2017 and 2016**

	2017	2016
Operating revenues, charges for sales and services	<b>\$ 46,719,216</b>	\$ 45,410,454
Operating expenses:		
Salary and personal services	<b>10,197,431</b>	10,011,808
Contractual services	<b>8,836,702</b>	8,469,592
Commodities	<b>2,426,611</b>	2,319,071
Depreciation	<b>20,305,956</b>	16,947,442
<b>Total operating expenses</b>	<b>41,766,700</b>	37,747,913
<b>Operating income</b>	<b>4,952,516</b>	7,662,541
Nonoperating revenues (expenses):		
Sales tax	<b>3,809,344</b>	5,996,430
Investment earnings	<b>255,609</b>	386,875
Amortization of bond premium and deferred charge on refunding	<b>254,046</b>	264,798
Gain (loss) on disposal of capital assets	<b>(959,745)</b>	215,672
Interest and bond issuance expense	<b>(7,710,136)</b>	(6,945,157)
<b>Total nonoperating (expenses)</b>	<b>(4,350,882)</b>	(81,382)
<b>Change in net position</b>	<b>601,634</b>	7,581,159
Net position, beginning of year	<b>295,925,156</b>	288,343,997
Net position, end of year	<b>\$ 296,526,790</b>	\$ 295,925,156

See notes to financial statements.

**Des Moines Metropolitan Wastewater Reclamation Authority**

**Statements of Cash Flows**  
**Years Ended June 30, 2017 and 2016**

	2017	2016
Cash flows from operating activities:		
Receipts from users	\$ 46,463,201	\$ 46,995,117
Payments to employees	(9,889,681)	(9,859,469)
Payments to suppliers	(10,969,675)	(11,097,001)
<b>Net cash provided by operating activities</b>	<b>25,603,845</b>	<b>26,038,647</b>
Cash flows from investing activities:		
Investment earnings	399,074	255,545
Purchase of investments	(24,595,508)	(14,720,848)
Sales of investments	14,106,253	15,481,745
<b>Net cash provided by (used in) investing activities</b>	<b>(10,090,181)</b>	<b>1,016,442</b>
Cash flows from capital and related financing activities:		
Purchase of capital assets	(14,530,661)	(8,022,775)
Receipts from sale of capital assets	41,750	354,006
Receipts from SRF drawdowns	13,586,575	12,328,571
Sales tax payments received	5,508,373	4,297,401
Principal payments on revenue bonds	(13,096,511)	(12,015,000)
Interest payments on revenue bonds	(10,793,730)	(11,048,331)
Payment of bond issuance costs	(158,495)	(109,754)
<b>Net cash used in capital and related financing activities</b>	<b>(19,442,699)</b>	<b>(14,215,882)</b>
<b>Increase (decrease) in cash and pooled cash</b>	<b>(3,929,035)</b>	<b>12,839,207</b>
Cash and pooled cash, beginning of year	31,621,160	18,781,953
Cash and pooled cash, end of year	<b>\$ 27,692,125</b>	<b>\$ 31,621,160</b>

(Continued)

**Des Moines Metropolitan Wastewater Reclamation Authority**

**Statements of Cash Flows (Continued)  
Years Ended June 30, 2017 and 2016**

	2017	2016
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 4,952,516	\$ 7,662,541
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	20,305,956	16,947,442
(Increase) decrease in accounts receivable	(251,674)	56,434
(Increase) decrease in due from other governmental units	(4,342)	1,528,229
(Increase) in prepaid expenses	17,945	(41,491)
Increase (decrease) in accounts payable and due to other governments	275,693	(266,847)
Increase in accrued wages payable	28,200	88,434
Increase (decrease) in accrued employee benefits	263,271	48,326
Increase in other postemployment benefits	16,280	15,579
<b>Net cash provided by operating activities</b>	<b>\$ 25,603,845</b>	<b>\$ 26,038,647</b>
Noncash investing activities, net appreciation (depreciation) in fair value of investments	\$ (166,828)	\$ 123,211
Noncash capital and related financing activities:		
Amounts in contracts payable for purchase of capital assets	\$ 4,849,514	\$ 3,096,697
Amounts in due from other governmental units for SRF draws	\$ 4,681,111	\$ 3,219,536
Amounts of interest expense capitalized to new assets	\$ 3,248,125	\$ 4,061,350
Amounts in due from other governmental units for sales tax	\$ -	\$ 1,699,029

See notes to financial statements.

## Des Moines Metropolitan Wastewater Reclamation Authority

### Notes to Basic Financial Statements

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#### Note 1. Summary of Significant Accounting Policies and Related Matters

**General:** The Des Moines Metropolitan Wastewater Reclamation Authority (WRA) is a separate legal entity with its own Board. A joint venture was formed in 1979 in accordance with the provisions of Chapter 28E of the Code of Iowa. The WRA has been established for the purposes of planning, constructing, operating and managing regional sanitary sewer facilities. On July 1, 2004, a 28E agreement was adopted which amended and restated the previous agreement, created a separate entity, and set forth provisions to carry the WRA beyond 2005 to June 30, 2054. Three communities have joined the WRA since 2004. Supplements to the WRA agreement admitted the City of Cumming effective July 1, 2006; the City of Waukee effective July 1, 2007; and the City of Polk City July 1, 2010.

In 2014, an updated 28E agreement was adopted: the second amended and restated WRA Agreement became effective on June 11, 2014. It extends the WRA to June 30, 2064. The WRA contains the following entities: the Iowa cities of Altoona, Ankeny, Bondurant, Clive, Cumming, Des Moines, Johnston, Norwalk, Pleasant Hill, Polk City, Waukee and West Des Moines; Urbandale Sanitary Sewer District; Urbandale-Windsor Heights Sanitary District, Greenfield Plaza/Hills of Coventry Sanitary District; the Iowa counties of Polk County and Warren County, (collectively referred to as the "participating communities"). Each participating community has one representative on the Board and additional representatives for each 25,000 population.

On July 1, 2004, the City of Des Moines, Iowa (Des Moines) was designated the "operating contractor". As operating contractor Des Moines operates, maintains and manages the Wastewater Reclamation Facility and the WRA System. The employees assigned to WRA are Des Moines employees. The 20-year contract between WRA and Des Moines terminates June 30, 2024.

The first amended and restated 28E agreement set forth a schedule to fund sewer improvements and construction through 2020 that would connect all participating communities except the three communities joining the WRA since 2004 to the WRA Facility at 3000 Vandalia Road and provided funding of plant improvements. Conveyance improvements included a diversion facility west of Norwalk for storage during high flow events and a separation facility west of the main WRA Facility for treatment during high flow events with a new main outfall to bring combined flows to this facility. The improvements were detailed in the WRA Facility Plan Update-2004.

Additionally, the second amended and restated 28E agreement sets forth a schedule through 2032 that allows additional flows from North to the WRA Facility by construction of an Eastside interceptor and improvements at the existing Westside interceptor. Improvements at the main WRA Facility are planned to meet new and continuing requirements of the operating permit and to increase plant capacity. These improvements are detailed in the WRA Facility Plan Update-2012. The second amended and restated 28E agreement revised the borrowing capacity of the WRA and allows all bonds authorized and issued by the Board to be scheduled to mature so that the aggregate principal amount of all revenue bonds payable on June 30 of each year does not exceed \$675 million.

**Reporting entity:** Accounting principles generally accepted in the United States of America require that the financial reporting entity include (1) the primary government, (2) organizations for which the primary government is financially accountable and (3) other organizations for which the 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 WRA is considered to be a primary government and there are no other organizations, agencies, boards, commissions or authorities which are required to be included in the financial reporting entity of the WRA.

## Des Moines Metropolitan Wastewater Reclamation Authority

### Notes to Basic Financial Statements

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#### Note 1. Summary of Significant Accounting Policies and Related Matters (Continued)

**Basis of presentation:** These financial statements have been prepared in conformity with the accounting principles generally accepted in the United States of America (GAAP) that apply to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The economic resources measurement focus and the accrual basis of accounting are used by WRA. Under this basis of accounting, assets, deferred outflows of resources, liabilities and deferred inflows of resources associated with the operation of WRA are included on the statement of net position. Revenues are recorded when earned which is when the service is provided and expenses are recorded at the time liabilities are incurred. Annually, WRA charges the participating communities for operations including maintenance and debt service in accordance with the 28E agreement, primarily based on budgeted wastewater reclamation facility flows. Sales taxes associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period.

**Operating and nonoperating revenues and expenses:** Operating revenues result from exchange transactions of WRA such as charges to participating communities. Operating revenue received from the major participating communities for the years ended June 30, 2017 and 2016 are as follows:

	2017	2016
City of Des Moines	34%	34%
City of West Des Moines	14	13
City of Ankeny	14	14

Nonoperating revenues result from nonexchange transactions such as investment earnings. Expenses associated with operating WRA and providing services are considered operating.

**Cash and pooled cash:** WRA maintains deposits with Des Moines as the operating contractor, which invests these deposits on a short-term basis. Des Moines allocates investment income to WRA based upon Des Moines' rate of return on pooled cash and investments and WRA's average monthly deposits balance.

**Investments:** Des Moines purchases investments on behalf of WRA. The investments consist of U.S. Government Agency Securities and are valued at fair value as defined in Note 3.

**Accounts receivable:** WRA accrues unbilled revenues from commercial customers for industrial pretreatment services and from Fat, Oil, Grease (FOG) inspection fees based upon services rendered between the last billing date in the current year and year-end. An allowance account was established for uncollectible FOG inspection fees with annual increases computed as 10 percent of each year's fees. The balance in the allowance for doubtful accounts was approximately \$79,700 and \$82,500 at June 30, 2017 and 2016, respectively. \$(3,000) and approximately \$(700) was (recovered)/written off during the years ended June 30, 2017 and 2016, respectively.

**Due from other governments:** WRA accrues draws submitted under the state revolving loan program based upon service dates of the contract work performed. As of June 30, 2017 and 2016, the amount due from Iowa Finance Authority (SRF Program) was \$4,681,111 and \$3,219,536, respectively. WRA also accrues any unpaid balances from participating communities at year-end and sales tax revenues owed by the State of Iowa. As of June 30, 2017 and 2016, the amount due from the State of Iowa for sales tax was none and \$1,699,029, respectively.

## Des Moines Metropolitan Wastewater Reclamation Authority

### Notes to Basic Financial Statements

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#### Note 1. Summary of Significant Accounting Policies and Related Matters (Continued)

**Prepays:** Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenses in the statement of net position.

**Restricted assets:** Restricted assets represent \$28,582,436 of required reserve funds as established by the debt agreement and \$9,537,564 of unspent sales tax funds restricted for future capital projects.

**Capital assets:** Land, plant and sewer systems are stated at cost. Depreciation has been provided using the straight-line method over the estimated useful lives of 3-50 years. The cost of repairs and maintenance is charged to expense when incurred. The cost of renewals or substantial improvements in excess of \$5,000 are capitalized. The cost and accumulated depreciation of assets disposed are deleted, with any gain or loss recorded in current operations. Interest cost associated with self-constructed assets is capitalized when significant to WRA. For fiscal years 2017 and 2016, \$3,248,125 and \$4,061,350 of interest costs were capitalized.

**Deferred outflows 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, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense) until then. WRA has one item that qualifies for reporting in this category, which is the deferred charge on refunding reported in the statement of net position. 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 debt or refunding debt.

**Net position:** Net position represents the difference between assets plus deferred outflows of resources and liabilities plus deferred inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by any outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets and adjusted for any deferred charges on refundings. Net investment in capital assets excludes unspent bond proceeds. There were no unspent bond proceeds as of June 30, 2017 or 2016. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net position restricted through enabling legislation consists of unspent sales tax funds restricted for future capital projects totaling \$9,537,564 and \$4,258,318 as of June 30, 2017 and 2016, respectively. WRA first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

**Use of estimates:** The preparation of the 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, deferred outflows of resources and liabilities in the financial statements and accompanying notes. Actual results may differ from those estimates.

**Compensated absences and deferred compensation plan:** Employees assigned to WRA are employees of Des Moines, the Operating Contractor. Wages and benefits are paid by WRA as a direct allocation. Employee benefits are provided under the policies of Des Moines. Under these policies, employees accumulate vacation and sick leave hours for subsequent use or for payment upon termination, death or retirement. If paid upon death or retirement, the total accumulated hours are paid at one-half of the then effective hourly rate for that employee, with a maximum of 750 hours per employee. These accumulations are recorded as expenses and accrued employee benefits in the fiscal year earned.

## Des Moines Metropolitan Wastewater Reclamation Authority

### Notes to Basic Financial Statements

#### Note 1. Summary of Significant Accounting Policies and Related Matters (Continued)

Employees working for WRA also participate in Des Moines' deferred compensation plan created in accordance with *Internal Revenue Code*, Section 457 and also Section 401(a). The Section 457 plan, available to all WRA employees, and the Section 401(a) plan, available only to the SPM employment group, permits them to defer a portion of their salary until future years. The deferred compensation is available to employees at termination, retirement, death, unforeseeable emergency, loan or via in-service contributions at age 70½. The WRA matches 100 percent of employee contributions up to 2.0 percent or 2.5 percent of the employee's salary, depending upon the governing employment agreement. Under the terms of the plan, WRA makes contributions to the plan equal to the employees' contributions; up to 4.5 percent for the employees referred to as supervisory, professional, and management (SPM); up to 2.5 percent for the employees of the Central Iowa Public Employee's Council (CIPEC); and up to 2 percent for the employees of the Municipal Employee's Association (MEA). In 2017 and 2016, WRA contributed approximately \$150,800 and \$154,600, respectively, to the plan.

**Due to other governments:** A liability is recorded in the statement of net position for amounts due to participating communities for sewer design and construction that arise from an expedited 28E agreement approved by WRA.

**Long-term obligations:** Long-term debt is recorded as a liability in the statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bond issuance costs are expensed at the time of bond issuance.

#### Note 2. Related Party Transactions

WRA shares certain expenses with Des Moines in accordance with the provisions of the WRA Operating Contract. WRA incurred wages and employee benefit costs in 2017 and 2016 of approximately \$10,197,400 and \$10,012,000, respectively, for employees working for WRA. During the years ended June 30, 2017 and 2016, WRA paid allocations of approximately \$1,406,500 (23 percent) and \$1,228,100 (23 percent), respectively, to Des Moines for shared expenses relating to pumping stations maintenance.

#### Note 3. Deposits and Investments

As of June 30, 2017 and 2016, WRA had the following investments and maturities:

Security Description	2017			
	Fair Value	Less than One	Investment Maturities in Years	
			1 - 2	3 - 5
FHLB	\$ 11,943,094	\$ 2,961,643	\$ 8,981,451	\$ -
Federal farm credit	11,231,368	6,243,688	4,987,680	-
FNMA	1,986,660	-	1,986,660	-
FHLMC	6,187,462	2,993,040	2,198,592	995,830
Grand total	\$ 31,348,584	\$ 12,198,371	\$ 18,154,383	\$ 995,830

  

Security Description	2016			
	Fair Value	Less than One	Investment Maturities in Years	
			1 - 2	3 - 5
FHLB	\$ 10,192,153	\$ 5,009,440	\$ 2,983,440	\$ 2,199,273
Federal farm credit	9,328,634	-	6,293,324	3,035,310
FHLMC	1,505,370	1,505,370	-	-
Grand total	\$ 21,026,157	\$ 6,514,810	\$ 9,276,764	\$ 5,234,583

## Des Moines Metropolitan Wastewater Reclamation Authority

### Notes to Basic Financial Statements

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#### Note 3. Deposits and Investments (Continued)

**Authorized investments:** WRA appointed the City Treasurer of Des Moines as the WRA Treasurer. The investment policy of WRA directs the funds to be invested in the same manner as Des Moines Funds are invested under the Des Moines investment policy. WRA is authorized by state statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by Des Moines and the Treasurer of the State of Iowa; prime eligible bankers acceptances; commercial paper rated P-1 by Moody's Commercial Paper Record and A-1 by Standard & Poor's Corporation with a maturity of 270 days; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of drainage districts.

**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 the fair value is to changes in market interest rates. In accordance with WRA's investment policy, WRA minimizes the interest rate risk of investments in the portfolio by structuring its investment portfolio so that investments mature to meet cash requirements for operations. The WRA investment policy defines operating funds as those funds that can be reasonably expended during a current budget year or within 15 months of receipt. Operating funds are limited to a maturity of 397 days. Non-operating funds are to be invested to coincide with the expected use of the funds. WRA's investment policy requires that nonoperating funds not exceed a five year maturity.

**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 June 30, 2017, WRA's investments were rated as follows:

Security Description	Moody's	Standard & Poor's
Federal Farm Credit	Aaa	AA+
FHLB	Aaa	AA+
FNMA	Aaa	AA+
FHLMC	Aaa	AA+

**Concentration of credit risk:** The WRA's investment policy seeks diversification to reduce overall portfolio risk while attaining market rates of return to enable the WRA to meet all anticipated cash requirements. The policy limits investments in order to avoid over-concentration in securities of a specific issuer. No more than 10 percent of the investment portfolio may be invested in commercial paper and no more than 50 percent of the investment portfolio is invested in securities of a single issuer. As of June 30, 2017, WRA had invested 38 percent in FHLB, 20 percent in FHLMC, 6 percent in FNMA and 36 percent Federal Farm Credit securities. As of June 30, 2016, WRA had invested 49 percent in FHLB, 7 percent in FHLMC and 44 percent Federal Farm Credit securities.

**Custodial credit risk:** Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g. broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. As of June 30, 2017 and 2016, WRA's deposits with financial institutions were entirely covered by the federal depository insurance or collateralized by the State Sinking Fund in accordance with Chapter 12c of the Code of Iowa.

## Des Moines Metropolitan Wastewater Reclamation Authority

### Notes to Basic Financial Statements

#### Note 3. Deposits and Investments (Continued)

As of June 30, 2017 and 2016, WRA's investments are unregistered and uninsured and held by the counter party's trust department or their agent in the name of WRA.

**Fair value:** Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application* provides guidance for determining a fair value measurement for financial reporting purposes.

The WRA uses the fair value hierarchy established by generally accepted accounting principles based on the valuation inputs used to measure the fair value of the asset. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value hierarchy categorizes the inputs to valuation techniques used to measure fair value into three levels. Level 1 inputs are quoted prices (unadjusted) for identical assets or liabilities in active markets that a government can access at the measurement date. Level 2 inputs are inputs—other than quoted prices included within Level 1—that are observable for an asset or liability, either directly or indirectly. Level 2 inputs include: a) quoted prices for similar assets or liabilities in active markets; b) quoted prices for identical or similar assets or liabilities in markets that are not active; and c) inputs other than quoted prices that are observable for the asset or liability, such as: (1) interest rates and yield curves observable at commonly quoted intervals; (2) implied volatilities and (3) credit spreads. Level 3 inputs are unobservable inputs for an asset or liability. The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs. If the fair value of an asset or a liability is measured using inputs from more than one level of the fair value hierarchy, the measurement is considered to be based on the lowest priority level input that is significant to the entire measurement.

The WRA has the following recurring fair value measurements as of June 30, 2017:

Security Description	2017			
	Fair Value	Level 1	Level 2	Level 3
FHLB	\$ 11,943,094	\$ -	\$ 11,943,094	\$ -
Federal farm credit	11,231,368	-	11,231,368	-
FNMA	1,986,660	-	1,986,660	-
FHLMC	6,187,462	-	6,187,462	-
Grand total	\$ 31,348,584	\$ -	\$ 31,348,584	\$ -

Security Description	2016			
	Fair Value	Level 1	Level 2	Level 3
FHLB	\$ 10,192,153	\$ -	\$ 10,192,153	\$ -
Federal farm credit	9,328,634	-	9,328,634	-
FHLMC	1,505,370	-	1,505,370	-
Grand total	\$ 21,026,157	\$ -	\$ 21,026,157	\$ -

The WRA level two investments are valued using inputs that are either directly or indirectly observable as of the reporting date and fair value can be determined through the use of models or other valuation methodologies. The WRA has no assets reported at fair value on a nonrecurring basis and no other investments meeting the fair value disclosure requirements of GASB Statement No. 72.

## Des Moines Metropolitan Wastewater Reclamation Authority

### Notes to Basic Financial Statements

#### Note 4. Capital Assets

The following tables show the changes in capital assets for the years ended June 30, 2017 and 2016:

	2017			
	Beginning Balance	Additions and Transfers	Retirements and Transfers	Ending Balance
Nondepreciable capital assets:				
Land	\$ 9,196,291	\$ 22,100	\$ -	\$ 9,218,391
Construction in progress	128,310,300	18,281,839	(127,096,648)	19,495,491
	<u>137,506,591</u>	<u>18,303,939</u>	<u>(127,096,648)</u>	<u>28,713,882</u>
Depreciable capital assets:				
Plant	270,096,287	50,255,596	-	320,351,883
Sewer system	317,729,520	61,809,219	-	379,538,739
Machinery and equipment	65,648,311	16,259,497	(2,524,834)	79,382,974
	<u>653,474,118</u>	<u>128,324,312</u>	<u>(2,524,834)</u>	<u>779,273,596</u>
Less accumulated depreciation:				
Plant	(101,465,077)	(8,635,525)	-	(110,100,602)
Sewer system	(62,007,174)	(7,123,668)	-	(69,130,842)
Machinery and equipment	(30,876,191)	(4,546,763)	1,523,339	(33,899,615)
	<u>(194,348,442)</u>	<u>(20,305,956)</u>	<u>1,523,339</u>	<u>(213,131,059)</u>
Net capital assets	<u>\$ 596,632,267</u>	<u>\$ 126,322,295</u>	<u>\$ (128,098,143)</u>	<u>\$ 594,856,419</u>
2016				
	Beginning Balance	Additions and Transfers	Retirements and Transfers	Ending Balance
Nondepreciable capital assets:				
Land	\$ 9,196,291	\$ -	\$ -	\$ 9,196,291
Construction in progress	204,295,240	9,847,970	(85,832,910)	128,310,300
	<u>213,491,531</u>	<u>9,847,970</u>	<u>(85,832,910)</u>	<u>137,506,591</u>
Depreciable capital assets:				
Plant	237,387,328	32,708,959	-	270,096,287
Sewer system	279,440,939	38,447,081	(158,500)	317,729,520
Machinery and equipment	53,839,343	15,148,368	(3,339,400)	65,648,311
	<u>570,667,610</u>	<u>86,304,408</u>	<u>(3,497,900)</u>	<u>653,474,118</u>
Less accumulated depreciation:				
Plant	(94,490,412)	(6,974,665)	-	(101,465,077)
Sewer system	(55,906,410)	(6,124,275)	23,511	(62,007,174)
Machinery and equipment	(30,363,744)	(3,848,502)	3,336,055	(30,876,191)
	<u>(180,760,566)</u>	<u>(16,947,442)</u>	<u>3,359,566</u>	<u>(194,348,442)</u>
Net capital assets	<u>\$ 603,398,575</u>	<u>\$ 79,204,936</u>	<u>\$ (85,971,244)</u>	<u>\$ 596,632,267</u>

## Des Moines Metropolitan Wastewater Reclamation Authority

### Notes to Basic Financial Statements

#### Note 5. Employee Benefits and Revenue Bonds

The following tables show the changes in long-term debt and employee benefits for the years ended June 30, 2017 and 2016:

	2017				
	Beginning Balance	Additions	Retirements	Ending Balance	Due Within One Year
Revenue bonds:					
SRF loans	\$ 868,000	\$ -	\$ (425,000)	\$ 443,000	\$ 443,000
Series 2013B	52,405,000	-	(1,815,000)	50,590,000	1,860,000
Series 2015E	31,865,000	-	(1,075,000)	30,790,000	1,125,000
New SRF loans	261,693,839	13,967,763	(8,102,487)	267,559,115	8,342,000
Subordinate SRF	3,336,027	1,210,361	(1,679,024)	2,867,364	1,238,760
Add premiums	3,716,536	-	(333,363)	3,383,173	-
Total revenue bonds, net	353,884,402	15,178,124	(13,429,874)	355,632,652	13,008,760
Accrued employee benefits	1,312,490	1,010,100	(746,830)	1,575,760	685,696
Total	\$ 355,196,892	\$ 16,188,224	\$ (14,176,704)	\$ 357,208,412	\$ 13,694,456

  

	2016				
	Beginning Balance	Additions	Retirements	Ending Balance	Due Within One Year
Revenue bonds:					
SRF loans	\$ 2,105,000	\$ -	\$ (1,237,000)	\$ 868,000	\$ 425,000
Series 2006	935,000	-	(935,000)	-	-
Series 2013B	54,170,000	-	(1,765,000)	52,405,000	1,815,000
Series 2015E	32,020,000	-	(155,000)	31,865,000	1,075,000
New SRF loans	261,043,826	8,573,013	(7,923,000)	261,693,839	8,036,000
Subordinate SRF	1,007,904	2,328,123	-	3,336,027	-
Add premiums	4,063,121	-	(346,585)	3,716,536	-
Total revenue bonds, net	355,344,851	10,901,136	(12,361,585)	353,884,402	11,351,000
Accrued employee benefits	1,264,164	1,337,340	(1,289,014)	1,312,490	438,183
Total	\$ 356,609,015	\$ 12,238,476	\$ (13,650,599)	\$ 355,196,892	\$ 11,789,183

**Revenue bonds:** All senior revenue bonds require principal and interest payments annually each June 1st based on amortization schedules approved by the WRA Board when debt is authorized. Subordinate debt has no principal payment scheduled but will be refunded by issuing senior debt for the same construction project. Principal payments for bonds in the SRF program begin after construction is completed and the project is accepted by the WRA Board.

In December 2006, the WRA issued \$38,050,000 Series 2006 bonds for construction projects. The Series 2006 bonds were partially refunded in 2015 with the issuance of the Series 2015E bonds. The remaining balance was paid off during fiscal year ending June 30, 2016.

In May 2013, WRA issued \$56,420,000 Series 2013B bonds with interest rates ranging from 2 percent to 4 percent to partially advance refund \$57,450,000 of the outstanding Sewer Revenue Bonds, Series 2004B.

## Des Moines Metropolitan Wastewater Reclamation Authority

### Notes to Basic Financial Statements

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#### **Note 5. Employee Benefits and Revenue Bonds (Continued)**

In May 2015, WRA issued \$32,020,000 Series 2015E bonds with interest rates ranging from 2.25 percent to 5 percent to partially advance refund \$31,440,000 of the outstanding Sewer Revenue Bonds, Series 2006. Proceeds were placed into an irrevocable trust with an escrow agent and the partially refunded liability of the Series 2006 bonds was removed from the WRA's statement of net position.

In February 2008, WRA issued bonds under the Iowa Finance Authority state revolving loan program (SRF) to finance various construction projects. Each bond series under the state revolving loan program is issued for specific projects with repayments scheduled over the life of the asset or up to thirty years. WRA draws the proceeds as needed for the projects with principal payments on the bonds beginning after completion of the construction.

Bonds issued during the years ended June 30, 2017 and June 30, 2016 totaled \$15,178,124 and \$8,573,013, respectively. During fiscal years 2017 and 2016, WRA also issued \$1,937,033 and \$2,328,123, respectively, subordinate bonds under the SRF planning and design program scheduled to be refunded into a permanent loan after July 1, 2017. The interim loan and disbursement agreement with Iowa Finance Authority for the subordinate bonds state these are noninterest bearing until they are refunded into a permanent loan.

The state revolving loans require WRA to produce and maintain net revenues at a level not less than 100 percent of the amount of principal and interest on the revenue bonds. In addition, the revenue bonds require that monies be deposited into various restricted reserve accounts and that these deposits be used only for the payment of principal and interest on the related bonds when due or for other purposes as set forth in the bond agreement. The deposits in these restricted reserve accounts total \$28,590,374 and \$28,479,682 as of June 30, 2017 and 2016, respectively.

Included within the SRF loans are \$2,000,000 Series 2010 C1 bonds, which are Build America Bonds, issued in June 2010. The WRA has elected to receive future payments from the federal government to offset the 3 percent interest. The payments are equal to 35 percent of the interest paid; the net interest rate is 1.95 percent.

**Des Moines Metropolitan Wastewater Reclamation Authority**

**Notes to Basic Financial Statements**

**Note 5. Employee Benefits and Revenue Bonds (Continued)**

The following tables show the detail of revenue bonds payable.

2017						
Series	Date Issued or Assumed	Amount Issued	Maturity Date	Interest Rates	New SRF Only Amount Drawn	Amount Outstanding June 30, 2017
SRF 7	12/1/2004	*	6/1/2018	3	N/A	\$ 443,000
2008 A	6/4/2008	\$ 16,520,000	6/1/2039	3	\$ 16,520,000	13,721,000
2008 B	6/4/2008	6,575,000	6/1/2039	3	6,575,000	5,459,000
2008 D	6/4/2008	2,650,000	6/1/2038	3	2,332,000	2,122,000
2009 B	3/18/2009	8,400,000	6/1/2039	3	8,400,000	7,020,000
2009 C	7/5/2009	9,200,000	6/1/2039	3	9,200,000	7,688,000
2010 A	5/12/2010	8,500,000	6/1/2040	3	8,500,000	7,322,000
2010 B	5/12/2010	7,000,000	6/1/2040	3	7,000,000	6,029,000
2010 C1	6/30/2010	2,000,000	6/1/2032	3	2,000,000	1,995,000
2010 C2	6/30/2010	21,500,000	6/1/2032	3	21,384,582	16,839,583
2011 A	5/25/2011	60,000,000	6/1/2042	3	60,000,000	54,642,000
2011 B	3/23/2011	16,000,000	6/1/2041	3	15,890,000	14,073,000
2011 C	5/25/2011	9,600,000	6/1/2041	3	9,600,000	8,509,000
2011 D	12/2/2011	15,470,000	6/1/2043	3	15,232,126	14,348,860
2012 B	5/16/2012	2,772,000	6/1/2042	3	2,772,000	2,523,000
2012 C	5/16/2012	18,000,000	6/1/2043	3	18,000,000	16,813,000
2012 D	5/16/2012	7,000,000	6/1/2042	3	7,000,000	6,373,000
2012 E	11/16/2012	12,300,000	6/1/2043	2.75	12,192,473	11,350,474
2012 F	11/16/2012	1,428,000	6/1/2043	2.75	1,428,000	1,329,000
2012 G	11/16/2012	24,200,000	6/1/2044	2.75	24,200,000	22,991,000
2013 A	4/5/2013	7,700,000	6/1/2043	2.75	7,700,000	7,240,000
2013 B	5/2/2013	56,420,000	6/1/2034	2 to 4	N/A	50,590,000
2014 A	3/7/2014	1,800,000	6/1/2034	1.75	1,800,000	1,574,000
2014 C	3/7/2014	5,400,000	6/1/2034	1.75	4,785,880	4,307,880
2014 D	3/7/2014	6,000,000	6/1/2034	1.75	6,000,000	5,468,000
2015A	1/30/2015	9,300,000	6/1/2035	1.75	8,252,287	8,406,587
2015B	1/30/2015	370,000	6/1/2034	1.75	370,000	318,000
2015C	1/30/2015	1,600,000	6/1/2035	1.75	1,600,000	1,603,000
2015D	1/30/2015	3,000,000	1/30/2018	0	2,601,776	1,238,759
2015E	5/11/2015	32,020,000	6/1/2036	2.25 to 5	N/A	30,790,000
2016A	2/5/2016	8,000,000	6/1/2035	1.75	5,618,408	5,746,048
2016E	12/16/2016	660,000	6/1/2036	1.75	630,904	578,904
2016F	12/16/2016	40,000,000	6/1/2048	2.75	11,169,779	11,168,779
2016B	4/1/2016	1,000,000	4/1/2019	0	1,000,000	703,031
2016C	4/1/2016	750,000	4/1/2019	0	750,000	738,541
2016D	10/28/2016	220,000	10/28/2019	0	187,033	187,033
<b>Balance due</b>						<b>352,249,479</b>
Amount due within one year						13,008,760
Long-term revenue bonds payable						<u><u>\$ 339,240,719</u></u>

\* Series SRF 7 was assumed from the City of Des Moines.

## Des Moines Metropolitan Wastewater Reclamation Authority

### Notes to Basic Financial Statements

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#### Note 5. Employee Benefits and Revenue Bonds (Continued)

The outstanding revenue bonds mature as follows:

Fiscal year:	Principal	Interest
2018	\$ 13,008,760	\$ 10,465,694
2019	13,971,571	10,130,049
2020	13,385,033	9,782,849
2021	13,874,000	9,419,984
2022	14,290,000	9,048,072
2023 - 2027	78,025,000	39,287,783
2028 - 2032	86,743,410	28,330,306
2033 - 2037	67,622,371	15,476,785
2038 - 2042	46,494,000	5,875,310
2043 - 2045	4,835,334	482,375
	<u>\$ 352,249,479</u>	<u>\$ 138,299,207</u>

#### Note 6. Commitments and Contingencies

**Construction contracts:** WRA has signed construction contracts with remaining commitments of approximately \$23,670,400 as of June 30, 2017. Commitments on construction projects are funded primarily by state revolving loan program funds.

**Litigation:** WRA is subject to litigation in the normal course of operations. Management does not expect a material adverse outcome as a result of these actions.

#### Note 7. Risk Management

The WRA system is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; errors and omissions, and natural disasters. WRA carries commercial insurance for general liability claims. Settled claims did not exceed commercial coverage in the past three years.

Des Moines is self-insured for medical benefits. WRA makes monthly contributions to Des Moines' Self Insurance Fund for medical claims based on a budgeted per-member amount. Any unpaid claims, or incurred but not reported claims, are a liability of Des Moines' Insurance Fund.

#### Note 8. Retirement System

As a direct allocation from Des Moines, WRA contributes the current required contributions as stated in the operating contractor agreement for the employees working for WRA related to the Iowa Public Employees' Retirement System (IPERS). IPERS is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits, which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Plan members for the years ended June 30, 2017 and 2016 were required to contribute 5.95 percent of their annual covered salary and Des Moines was required to contribute 8.93 percent of annual payroll for the years ended June 30, 2017 and 2016. Contribution requirements are established by State statute. The WRA's direct allocation of the contribution to IPERS for the years ended June 30, 2017, 2016, and 2015 were approximately \$624,200, \$612,000 and \$595,000, respectively, equal to the required contributions for each year.

## Des Moines Metropolitan Wastewater Reclamation Authority

### Notes to Basic Financial Statements

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#### Note 9. Other Postemployment Benefits

**Plan description:** Des Moines has a multi-employer health care plan that provides medical, prescription drugs and dental benefits to all active and retired employees and their eligible dependents including employees working for WRA. Employees who have attained age 55 and retire from active employment are eligible for retiree benefits. Eligible retirees and their dependents receive medical and prescription coverage through a fully-insured plan with Wellmark BCBS and dental benefits through a self-insured plan. These are the same plans that are available for active employees.

Contributions are required for both retiree and dependent coverage. The contributions for each insured group is assumed to be the expected, composite per capita cost for the group. This composite is then disaggregated into an age-specific starting cost curve based on the average age of the group and for assumptions for age-based morbidity. The average age of the pre-65 retiree group is 62. Retiree expenses are then offset by monthly contributions. The plan does not issue a publicly available financial report.

**Funding policy:** Des Moines establishes and amends contribution requirements. The current funding policy of Des Moines is to pay health claims as they occur. This arrangement does not qualify as other postemployment benefits (OPEB) plan assets under GASB Statement No. 43 for current GASB reporting. The required contribution is based on projected pay-as-you-go financing. For fiscal years 2017 and 2016, WRA contributed \$61,519.

**Annual OPEB cost and net OPEB obligation:** WRA's allocation of Des Moines' annual 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 thirty years.

The following table shows the components of WRA's annual OPEB cost for the year, the amount actuarially contributed to the plan, and changes in the WRA's annual OPEB obligation for the years ended June 30, 2017 and 2016:

	2017	2016
Annual required contribution	\$ 82,765	\$ 82,765
Interest on net OPEB obligation	16,262	15,561
Adjustment to annual required contribution	(21,228)	(21,228)
Annual OPEB cost (expense)	77,799	77,098
Contributions and payments made	61,519	61,519
Increase in net OPEB obligation	16,280	15,579
Net OPEB obligation, beginning of year	361,368	345,789
Net OPEB obligation, end of year	<u>\$ 377,648</u>	<u>\$ 361,368</u>

## Des Moines Metropolitan Wastewater Reclamation Authority

### Notes to Basic Financial Statements

#### Note 9. Other Postemployment Benefits (Continued)

WRA's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal years 2017, 2016 and 2015 follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2017	\$ 77,799	79.1%	\$ 377,648
June 30, 2016	77,098	79.8	361,368
June 30, 2015	81,810	27.3	345,789

**Funding status and funding progress as of June 30, 2017:** As of July 1, 2015, the most recent actuarial valuation date, the plan was not funded. WRA's actuarial accrued liability for benefits was \$776,075 and the actuarial value of assets is zero resulting in an unfunded actuarial accrued liability (UAAL) of \$776,075. The covered payroll (annual payroll of active employees covered by the plan) was \$6,784,494 and the ratio of the UAAL to the covered payroll was 11 percent.

**Funding status and funding progress as of June 30, 2016:** As of July 1, 2015, the most recent actuarial valuation date, the plan was not funded. WRA's actuarial accrued liability for benefits was \$776,075 and the actuarial value of assets is zero resulting in an unfunded actuarial accrued liability (UAAL) of (\$776,075). The covered payroll (annual payroll of active employees covered by the plan) was \$6,455,654 and the ratio of the UAAL to the covered payroll was 12 percent.

Actuarial estimates 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 the future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the 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 information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits. There are no plan assets.

**Actuarial methods and assumptions:** Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and included 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 July 1, 2015 actuarial valuation, project unit credit method was used. The actuarial assumptions in both valuations included a 4.5 percent discount rate, an inflation rate of 3 percent and an annual health care cost trend rate of 9.0 percent reduced by decrements of .5 percent annually to an ultimate rate of 5 percent. The UAAL is being amortized as an open level dollar. The amortization of UAAL is done over a period of 30 years.

## Des Moines Metropolitan Wastewater Reclamation Authority

### Notes to Basic Financial Statements

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#### Note 10. New Pronouncements

As of June 30, 2017, the GASB has issued several statements not yet implemented by WRA. The statements which may impact WRA are as follows:

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, issued in June 2015, will be effective for the WRA beginning with its fiscal year ending June 30, 2018. The Statement replaces the requirements of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* and requires governments to report a liability on the face of the financial statements for the OPEB they provide and outlines the reporting requirements by governments for defined benefit OPEB plans administered through a trust, cost-sharing OPEB plans administered through a trust and OPEB not provided through a trust. The Statement also requires governments to present more extensive note disclosures and required supplementary information about their OPEB liabilities. Some governments are legally responsible to make contributions directly to an OPEB plan or make benefit payments directly as OPEB comes due for employees of other governments. In certain circumstances, called special funding situations, the Statement requires these governments to recognize in their financial statements a share of the other government's net OPEB liability.

GASB Statement No. 83, *Certain Asset Retirement Obligations*, issued December 2016, will be effective for the WRA beginning with its fiscal year ending June 30, 2019. Under Statement No. 83, a government that has legal obligations to perform future asset retirement activities related to its tangible capital assets is required to recognize a liability and a corresponding deferred outflow of resources. The Statement identifies the circumstances that trigger the recognition of these transactions. The Statement also requires the measurement of an asset retirement obligation to be based on the best estimate of the current value of outlays expected to be incurred while the deferred outflow of resources associated with the asset retirement obligation will be measured at the amount of the corresponding liability upon initial measurement and generally recognized as an expense during the reporting periods that the asset provides service. The Statement requires disclosures including a general description of the asset retirement obligation and associated tangible capital assets; the source of the obligation to retire the assets; the methods and assumptions used to measure the liability; and other relevant information.

GASB Statement No. 85, *Omnibus 2017*, issued March 2017, will be effective for the WRA beginning with its fiscal year ending June 30, 2018. Statement No. 85 is designed to address the practice issues that have been identified during implementation and application of certain GASB Statements. This statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits).

GASB Statement No. 86, *Certain Debt Extinguishment Issues*, issued May 2017, will be effective for the WRA beginning with its fiscal year ending June 30, 2018. Statement No. 86 is designed to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources, other than the proceeds of refunding debt, are placed in an irrevocable trust for the sole purpose of extinguishing debt. This statement also requires the inclusion of any remaining prepaid insurance related to extinguished debt in the net carrying amount of the debt when calculating the difference between the reacquisition price and the net carrying amount of the debt for debt that is extinguished through a legal extinguishment or an in-substance defeasance. This Statement also improves notes to financial statements for debt that is defeased in substance.

## Des Moines Metropolitan Wastewater Reclamation Authority

### Notes to Basic Financial Statements

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#### **Note 10. New Pronouncements (Continued)**

GASB Statement No. 87, *Leases*, issued June 2017, will be effective for the WRA beginning with its fiscal year ending June 30, 2021, with earlier adoption encouraged. Statement No. 87 establishes a single approach to accounting for and reporting leases by state and local governments. Under this statement, a government entity that is a lessee must recognize (1) a lease liability and (2) an intangible asset representing the lessee's right to use the leased asset. In addition, the WRA must report the (1) amortization expense for using the lease asset over the shorter of the term of the lease or the useful life of the underlying asset, (2) interest expense on the lease liability and (3) note disclosures about the lease. The Statement provides exceptions from the single-approach for short-term leases, financial purchases, leases of assets that are investments, and certain regulated leases. This statement also addresses accounting for lease terminations and modifications, sale-leaseback transactions, non-lease components embedded in lease contracts (such as service agreements), and leases with related parties.

The WRA's management has not yet determined the impact of the Statements not yet implemented except for GASB Statement No. 75, which will not have a material effect on the WRA.

#### **Note 11. Subsequent Events**

On November 21, 2017 the WRA's Board authorized the issuance of \$38,000,000 sewer revenue bonds, Subordinate Series 2017A, and \$1,600,000 sewer revenue bonds, Subordinate Series 2017B. The bond issuances and amendments are for the purpose of constructing, equipping, installing and extending certain facilities and improvements to the WRA system.

**Des Moines Metropolitan Wastewater Reclamation Authority**

**Required Supplementary Information  
Other Postemployment Benefit Plan**

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
7/1/2011	\$ -	\$ 604,122	\$ 604,122	- %	\$ 6,336,200	9.5%
7/1/2013	-	598,220	598,220	-	\$ 6,655,131	9.0
7/1/2015	-	776,075	776,075	-	6,455,654	12.0

The information presented in the required supplementary schedule was determined as part of the actuarial valuation as of July 1, 2015.

Additional information follows:

1. The cost method used to determine the ARC is the Project Unit Credit Actuarial Cost Method.
2. The amortization method is level dollar, over thirty years based on an open group.
3. Economic assumptions are as follows: health care cost trend rates of 9.0 percent reduced by decrements of .5 percent annually to an ultimate rate of 5.0 percent; discount rate of 4.5 percent; and inflation rate of 3 percent.

