

**The Des Moines Metropolitan  
Wastewater Reclamation Authority**

**Financial and Compliance Report**

**For the year ended June 30, 2005**



**DES MOINES METROPOLITAN  
WASTEWATER RECLAMATION AUTHORITY**

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# McGladrey & Pullen

Certified Public Accountants

## Independent Auditor's Report

To the Board of Participating Communities  
Des Moines Metropolitan Wastewater Reclamation Authority  
Des Moines, Iowa

We have audited the accompanying basic financial statements of the Des Moines Metropolitan Wastewater Reclamation Authority (WRA) as of and for the year ended June 30, 2005, as listed in the table of contents. These financial statements are the responsibility of the WRA's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 audit provides 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 Metropolitan Wastewater Reclamation Authority as of June 30, 2005, 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.

The management's discussion and analysis on pages 2 through 5 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. 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.

In accordance with *Government Auditing Standards*, we have also issued our reports dated October 28, 2005, on our consideration of the WRA's internal control over financial reporting and our test of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

*McGladrey & Pullen, LLP*

Davenport, Iowa  
October 28, 2005

# DES MOINES METROPOLITAN WASTEWATER RECLAMATION AUTHORITY

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## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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 year ended June 30, 2005. Professional standards require the inclusion of certain comparative information in the Management's Discussion and Analysis (MD&A). Since this is the first year of operation under the amended and restated 28E agreement, some comparative information is not available. Future Management's Discussion and Analysis will include comparative information.

### **Overview of the WRA**

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. Founded in 1979, under a 28E agreement between the eight cities, two sanitary sewer districts, and two counties, the WRA operated under the Integrated Community Area (ICA) Agreement. A regional treatment plant and conveyance system to nine members of the ICA was constructed between 1982 and 1994 with a plan of operating through 2005. Reorganization enabled consideration of change in the conveyance system and additions to the treatment plant that will allow the remaining members to connect to the WRA System.

Participants in the WRA include the cities of Des Moines, West Des Moines, Clive, Altoona, Ankeny, Bondurant, Johnston, Pleasant Hill and Norwalk; 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 two components: 1) basic financial information and 2) notes to the financial statements.

### **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 assets, a statement of revenues, expenses, and changes in net assets, and a statement of cash flows, followed by notes to the financial statements.

The statement of net assets presents information on all the WRA's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets 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 assets 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 assets for the fiscal year.

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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 non-cash activities.

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 exceeded liabilities (net assets) by \$235,083,335 as of June 30, 2005. At June 30, 2005, the WRA showed \$11,220,347 as unrestricted assets, which were available to meet current and future obligations of the WRA. The net investment in capital assets decreased to \$199,013,986 as the WRA assumed debt.

During the year ended June 30, 2005, the WRA's cash provided by operating activities was \$14,156,934.

**Government - Wide Financial Analysis**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The WRA's total net assets have decreased (\$29,989,060) from the net assets prior to reorganization and prior to the issuance of bonds.

At the end of the current fiscal year, the WRA is able to report positive balances in all categories of net assets. The same situation held true for the prior fiscal year.

	<b>Table 1</b>	
	<u>2005</u>	<u>2004</u>
Assets		
Current and other assets	\$ 94,043,589	\$ 27,609,392
Capital assets	256,487,369	244,910,219
Total assets	<u>350,530,958</u>	<u>272,519,611</u>
Liabilities		
Current liabilities	10,558,469	3,848,903
Non-current liabilities	104,889,154	3,598,313
Total liabilities	<u>115,447,623</u>	<u>7,447,216</u>
Net assets		
Invested in capital assets, net	199,013,986	244,910,219
Restricted assets	24,849,002	15,533,335
Unrestricted assets	11,220,347	4,628,841
Total net assets	<u>\$ 235,083,335</u>	<u>\$ 265,072,395</u>

The decrease in net assets during the year ended June 30, 2005, is a result of reducing a cash balance formerly reserved by management for construction projects and issuance of debt as part of the reorganization.

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Highlights of the WRA's revenues and expenses for the year ended June 30, 2005 are below:

**Table 2**

	<u>2005</u>
<u>Operating Revenues</u>	
Charges for sales and services	\$ 30,186,283
Operating Expenses:	
Cost of sales and services	12,390,884
Depreciation	6,978,868
Total operating expenses	<u>19,369,752</u>
Operating Income	10,816,531
<u>Non-operating Revenues (Expenses):</u>	
Investment earnings	1,836,345
Gain on disposal of capital assets	7,327
Donations and contributions	36,750
Interest expense	(3,053,407)
Other	186,445
Non-operating (loss)	<u>(986,540)</u>
<u>Special Items</u>	<u>(39,819,051)</u>
Change in net assets	<u>\$ (29,989,060)</u>

Total revenues were \$38,848,560 and total expenses were \$68,837,620 for the year ended June 30, 2005. The WRA's net operating income was \$10,816,531 for the year ended June 30, 2005.

The WRA receives contributions from the member communities for debt servicing, capital and operations. The total received from the communities during the year ended June 30, 2005 was \$27,282,581.

**Capital Assets**

Capital assets increased by \$11,577,150 over those of the WRA prior to reorganization. A bond issue provided funds to a long-term commitment to system construction. Capital projects are planned to increase the capacity of both the wastewater facility and the conveyance system to accommodate the anticipated population growth in the metro area and extend connections to Ankeny, Altoona, Bondurant, Cumming, and Norwalk. Concentration on the capital improvements and expansion planned through the year 2020 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.

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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 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. Revenue bonds payable at June 30, 2005 was \$103,902,000.

**Economic Factors**

Interest earnings have declined during the past years as a result of declining interest rates. Investment earnings were \$1,836,345 for the year ended June 30, 2005.

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 Merrill Stanley, 401 Robert D. Ray Drive, Des Moines, Iowa 50309.

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**Statement of Net Assets**

ASSETS	<u>2005</u>
Current assets:	
Unrestricted current assets:	
Cash and pooled cash investments	\$ 17,152,995
Accounts receivable	342,395
Interest receivable	437,902
Due from other governmental units	196,951
Unrestricted current assets	<u>18,130,243</u>
Restricted current assets:	
Cash and pooled cash investments	4,942,695
Investments	52,828,187
Restricted current assets	<u>57,770,882</u>
Total current assets	<u>75,901,125</u>
Non-current assets:	
Unamortized bond issue costs	980,660
Restricted non-current assets:	
Cash and pooled cash investments	6,689,449
Investments	10,472,355
Capital assets:	
Land	1,933,773
Construction in progress	26,103,496
Plant	190,540,765
Sewer system	96,895,957
Machinery and equipment	18,414,292
	<u>333,888,283</u>
Less accumulated depreciation	77,400,914
Capital assets, net	<u>256,487,369</u>
Total non-current assets	<u>274,629,833</u>
 TOTAL ASSETS	 <u>\$ 350,530,958</u>

LIABILITIES AND NET ASSETS	<u>2005</u>
Current liabilities:	
Accounts Payable	\$ 538,573
Accrued wages payable	201,253
Accrued employee benefits	301,299
Contracts payable	3,193,663
Due to other governmental units	1,707,646
Revenue bonds payable	4,218,000
Accrued interest payable	398,035
Total current liabilities	<u>10,558,469</u>
Non-current liabilities:	
Accrued employee benefits	569,427
Revenue bonds payable	99,684,000
Unamortized bond premium	4,635,727
Total non-current liabilities	<u>104,889,154</u>
 TOTAL LIABILITIES	 <u>\$ 115,447,623</u>
Net assets:	
Investment in capital assets, net of related debt	\$ 199,013,986
Restricted	24,849,002
Unrestricted	11,220,347
TOTAL NET ASSETS	<u>\$ 235,083,335</u>

See accompanying notes to basic financial statements.

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**Statements of Revenues, Expenses, and Changes in Net Assets**

	<u><b>2005</b></u>
Operating Revenues:	
Charges for sales and services	\$ 30,186,283
Total operating revenues	<u>30,186,283</u>
Operating Expenses:	
Salary and personal services	6,744,068
Contractual services	4,543,110
Commodities	1,103,706
Depreciation	6,978,868
Total operating expenses	<u>19,369,752</u>
Operating Income	<u>10,816,531</u>
Non-operating revenues (expenses):	
Investment earnings	1,836,345
Amortization of bond premium	160,045
Gain on disposal of capital assets	7,327
Donations and contributions	36,750
Interest expense	(3,053,407)
Other	26,400
Total non-operating revenues (expenses)	<u>(986,540)</u>
Income before special items	<u>9,829,991</u>
Special items:	
Payment to escrow for debt refunding	(31,714,461)
Reassignment of SRF debt	(14,700,000)
Donations and contributions	6,595,410
Total special items	<u>(39,819,051)</u>
Change in net assets	(29,989,060)
Net assets, beginning of year	<u>265,072,395</u>
Net assets, end of year	<u>\$ 235,083,335</u>

See accompanying notes to basic financial statements.

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**Statement of Cash Flow**

**2005**

Cash flows from operating activities:	
Receipts from users	\$ 26,276,989
Payments to employees	(6,798,625)
Payments to suppliers	(5,321,430)
Net cash provided by operating activities	<u>14,156,934</u>
Cash flows from investing activities:	
Investment earnings	1,589,966
Purchase of investments	(72,684,735)
Sales of investments	20,067,267
Net cash (used in) investing activities	<u>(51,027,502)</u>
Cash flows from capital and related financing activities:	
Purchase of capital assets	(15,902,215)
Receipts from sale of capital assets	10,810
Other receipts	26,400
Receipts from donations and contributions	6,632,160
Receipts from bond proceeds, including \$4,795,772 premium	98,475,772
Principal payments on revenue bonds	(4,478,000)
Interest payments on revenue bonds	(2,655,372)
Payment of bond issuance costs	(1,014,517)
Payment to escrow account for 2004A	(31,714,461)
Net cash provided by capital and related financing activities	<u>49,380,577</u>
Increase in cash and pooled cash investments	12,510,009
Cash and pooled cash investments, beginning of year	<u>16,275,130</u>
Cash and pooled cash investments, end of year	<u>\$ 28,785,139</u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 10,816,531
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	6,978,868
Decrease in accounts receivable	9,737
(Increase) in due from other governmental units	(55,560)
Increase in accounts payable	325,386
Increase in accrued wages payable	2,162
(Decrease) in accrued employee benefits	(56,718)
(Decrease) in due to other governmental units	(3,863,472)
Net cash provided by operating activities	<u>\$ 14,156,934</u>
Noncash investing activities:	
Net appreciation in fair value of investments	(40,935)
Noncash capital and related financing activities:	
Increase in contracts payable for purchase of capital assets	2,657,286
Increase in SRF bonds payable	14,700,000

See accompanying notes to basic financial statements.

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## Notes to Financial Statements

### 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. On July 1, 2004, a new 28E was adopted which amended and restated the previous agreement and set forth provisions to carry the WRA beyond 2005. The WRA has been established for the purposes of planning, constructing, operating, and managing regional sanitary sewer facilities.

The WRA contains the following entities: the Iowa cities of Altoona, Ankeny, Bondurant, Clive, Des Moines, Johnston, Norwalk, Pleasant Hill, Urbandale, West Des Moines and Windsor Heights; Urbandale Sanitary Sewer District; Urbandale-Windsor Heights Sanitary District, Greenfield Plaza/Hills of Coventry Sanitary District; 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.

In accordance with the new 28E, the City of Des Moines has been designated the "operating contractor". As operating contractor, the City of Des Moines operates, maintains and manages the Wastewater Reclamation Facility and the WRA System.

*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 WRA.

*Basis of Presentation* - The economic resources measurement focus and the accrual basis of accounting are used by the WRA. Under this basis of accounting, all assets and all liabilities associated with the operation of the WRA are included on the statement of net assets. Revenues are recorded when earned which is when service is provided and expenses are recorded at the time liabilities are incurred. Annually, the WRA charges the participating communities for operations including maintenance and debt service in accordance with the amended and restated 28E agreement, primarily based on budgeted wastewater reclamation facility flows.

*Operating and non-operating revenues and expenses*—Operating revenues result from exchange transactions of the WRA and charges to participating communities. Non-operating revenues result from non-exchange transactions such as investment earnings. Expenses associated with operating the WRA and providing services are considered operating.

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

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covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to ensure there will be no loss of public funds.

*Investments* - The operating contractor purchases investments on behalf of the WRA. The investments consist of U.S. Government Securities and are shown at fair value. Securities traded on the national or international exchange are valued at the last reported sales price at current exchange rates. The investments are unregistered and uninsured; they are held by the counterparty's trust department or their agent in the name of the WRA. The amount of investments of the WRA during the year increased after receipt of bond proceeds. The investments did not vary from those at year-end in level of risk.

*GASB Pronouncement* - The WRA has elected to apply all GASB pronouncements, Statements and Interpretations of the Financial Accounting Standards Board (FASB), Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARBs) of the Committee on Accounting Procedure issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

*Accounts Receivable* - The WRA accrues unbilled revenues from commercial customers for industrial pretreatment services based upon services rendered subsequent to the last billing date prior to year-end. An allowance for doubtful accounts was not considered necessary at June 30, 2005.

*Restricted Assets* - Restricted assets represent required reserve funds as established by the debt agreement.

*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 is capitalized. The cost and accumulated depreciation of assets disposed are deleted, with any gain or loss recorded in current operations. Interest cost associated with constructing of fixed assets is capitalized when significant to the WRA. For fiscal year 2005, \$310,256 of interest costs were capitalized.

*Compensated Absences* - Employees working for the WRA are employees of the City of Des Moines, the Operating Contractor but wages and benefits are paid by the WRA. Employee benefits are therefore provided under policies of the City 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 liabilities in the fiscal year earned.

Employees working for the WRA also participate in the City of Des Moines' deferred compensation plan. The plan permits employees to defer a portion of their salary until future years. Under the terms of the plan, the WRA makes contributions to the plan equal to the employees' contributions; up to 4 percent for the employees referred to as supervisory, professional, and management (SPM); and up to 2 percent for the employees of the Municipal Employee's Association (MEA) and the Central Iowa Public Employee's Council (CIPEC). In 2005 the WRA contributed \$90,285 to the plan.

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*Net Assets* – Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, 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. Net assets invested in capital assets, net of related debt, excludes unspent bond proceeds. Unspent bond proceeds as of June 30, 2005 were \$50,083,684. Net assets are 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.

The WRA applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets 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 and liabilities in the financial statements and accompanying notes. Actual results may differ from those estimates.

*Long-Term Obligations* – Long-term Debt is recorded as a liability in the statement of net assets. Bond premiums, discounts, and issuance costs are deferred and amortized over the life of the bonds using the effective interest method.

**2. CAPITAL ASSETS**

The following is a summary of the capital assets as of June 30, 2005:

	Beginning Balance	Additions	Retirements	Ending Balance
<i>Non-depreciable capital assets:</i>				
Land	\$ 1,933,773	\$ -	\$ -	\$ 1,933,773
Construction in progress	10,234,316	17,861,179	(1,991,999)	26,103,496
	<u>12,168,089</u>	<u>17,861,179</u>	<u>(1,991,999)</u>	<u>28,037,269</u>
<i>Depreciable capital assets:</i>				
Plant	189,233,160	1,307,605	-	190,540,765
Sewer system	96,333,129	562,828	-	96,895,957
Machinery & equipment	17,637,700	819,888	(43,296)	18,414,292
	<u>303,203,989</u>	<u>2,690,321</u>	<u>(43,296)</u>	<u>305,851,014</u>
	315,372,078	20,551,500	(2,035,295)	333,888,283
<i>Less accumulated depreciation:</i>				
Plant	(43,155,487)	(3,772,795)	-	(46,928,282)
Sewer system	(22,301,111)	(1,867,448)	-	(24,168,559)
Machinery & equipment	(5,005,261)	(1,338,625)	39,813	(6,304,073)
	<u>(70,461,859)</u>	<u>(6,978,868)</u>	<u>39,813</u>	<u>(77,400,914)</u>
Net capital assets	<u>\$ 244,910,219</u>	<u>\$ 13,572,632</u>	<u>\$ (1,995,482)</u>	<u>\$ 256,487,369</u>

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**3. RELATED PARTY TRANSACTIONS**

The WRA shares certain expenses with the City of Des Moines, which are allocated to the City of Des Moines in accordance with the provisions of the operating contract. During the years ended June 30, 2005, shared expenses relating to pumping stations maintenance and administrative charges of \$977,700 were allocated to the City of Des Moines from the WRA. In addition, the WRA paid wages and employee benefit costs of approximately \$6,744,100, for City of Des Moines employees working for the WRA system.

**4. EMPLOYEE BENEFITS & LONG TERM DEBT**

The following table shows the changes in employee benefits and long term debt.

	Beginning Balance	Additions	Retirements	Ending Balance	Due within One Year	Range of Interest Rates
Revenue bonds	\$ -	\$ 108,380,000	\$ (4,478,000)	\$ 103,902,000	\$ 4,218,000	3% to 5%
Accrued employee benefits	927,444	694,979	(751,697)	870,726	301,299	n.a.
	<u>\$ 927,444</u>	<u>\$ 109,074,979</u>	<u>\$ (5,229,697)</u>	<u>\$ 104,772,726</u>	<u>\$ 4,519,299</u>	

On July 1, 2004, the WRA adopted a new 28E agreement, which amended and restated the previous Integrated Community Area agreement. The new agreement creates an independent governance structure, establishes an independent bonding authority, and provides a framework for additional communities to participate.

As a result of the new agreement, the WRA issued Series 2004A to advance refund the City of Des Moines, Iowa's sewer revenue refunding bonds Series 1997C and 2002D and the state revolving loans SRF2 and SRF3. Proceeds of \$31,714,461 were placed into an irrevocable trust and the liability was removed from the City of Des Moines, Iowa's financial statements. State revolving loans SRF4, SRF6, and SRF7 with a balance of \$14,700,000 on July 1, 2004, were reassigned from the City of Des Moines, Iowa to the WRA. The City of Des Moines, Iowa contributed cash and investments \$6,595,410 to the WRA from debt reserves the City had on-hand to service the advance refunded debt. These transactions are reported as special items since the transactions were within the control of management.

The Series 2004A bonds of \$26,850,000 require principal payments each June 1<sup>st</sup> through 2012 and bear interest rates of 3-5%. The WRA issued \$66,830,000 Series 2004B for construction projects. The Series 2004B bonds require principal payments each June 1<sup>st</sup> through 2034 and bear interest rates of 3-5%. As of June 30, 2005, the outstanding balance of the Series 2004A and Series 2004B was \$23,290,000 and \$66,830,000, respectively. The balance of the SRF loans as of June 30, 2005, was \$13,782,000.

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. As of June 30, 2005, the deposits in these restricted reserve accounts total \$24,849,002.

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The state revolving loans require the WRA to produce and maintain net revenues at a level not less than 110% of the amount of principal and interest on the revenue bonds.

The outstanding revenue bonds mature as follows:

<b>Year</b>	<b>Principal</b>	<b>Interest</b>
2006	\$4,218,000	\$4,838,107
2007	5,395,000	4,699,176
2008	5,594,000	4,490,634
2009	5,758,000	4,239,931
2010	5,985,000	3,981,750
2011-2015	18,757,000	16,541,598
2016-2020	10,335,000	13,394,781
2021-2025	13,735,000	10,635,000
2026-2030	17,280,000	6,858,025
2031-2034	16,845,000	2,139,950
	<u>103,902,000</u>	<u>71,818,952</u>

**5. DEPOSITS AND INVESTMENTS**

As of June 30, 2005, the WRA had the following investments and maturities:

Security Description	Current Market Value	Investment Maturities (in Years)			
		Less than One	1-2	3-5	More than Five
Federal Farm Credit total	\$ 2,691,576	\$ 2,691,576	\$ -	\$ -	\$ -
FHLB total	24,047,806	21,652,120	2,395,686	-	-
FHLB Discount total	3,014,111	3,014,111	-	-	-
FHLMC total	1,730,063	247,023	543,769	939,271	-
FHLMC Discount total	14,843,306	14,843,306	-	-	-
Treasury STRIP total	1,973,680	-	1,973,680	-	-
Grand total	<u>\$ 48,300,542</u>	<u>42,448,136</u>	<u>4,913,135</u>	<u>939,271</u>	<u>-</u>

Investments on the statement of net assets include \$15,000,000 of certificates of deposit.

*Authorized Investments* – The WRA appointed the City Treasurer of the City of Des Moines, Iowa as the WRA Treasurer. The investment policy of the WRA requires the funds to be invested in the same manner as funds of the City of Des Moines and to be invested under the City of Des Moines, Iowa’s investment policy. The 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 the City of Des Moines, Iowa 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 district.

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*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 to its fair value to changes in market interest rates. In accordance with the WRA’s investment policy, the 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. The WRA’s investment policy requires that non-operating 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, 2005, the WRA’s investments were rated as follows:

Security <u>Description</u>	<u>Moody's</u>	<u>Standard &amp; Poor's</u>
Federal Farm Credit	Aaa	AAA / A-1+
Federal Home Loan Bank	Aaa	AAA
FHLB Discount	Aaa	AAA
Federal Home Loan Mortgage Corp.	Aaa	AA -
FHLMC Discount	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% of the investment portfolio may be invested in commercial paper and no more than 50% of the City of Des Moines investment portfolio is invested in securities of a single issuer. As of June 30, 2005, the WRA has invested 4% in Federal Farm Credit, 43% FHLB, and 26% FHLMC 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. Chapter 12c of the Code of Iowa requires all WRA funds be deposited into an approved depository and be either insured or collateralized. As of June 30, 2005, the WRA’s deposits with financial institutions were entirely covered by the federal depository insurance or insured by the state through pooled collateral, state sinking funds and by the state’s ability to assess for lost funds.

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**6. COMMITMENTS**

*Construction Contracts* - The City of Des Moines, as Operating Contractor for the WRA, has signed WRA System construction contracts with remaining commitments of approximately \$16,071,200 as of June 30, 2005. Commitments on construction projects specifically identified in the bond statement will be funded by the proceeds of the 2004B bond issue.

**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. The WRA carries commercial insurance for general liability claims. Settled claims have not exceeded commercial coverage in the last three fiscal years.

**8. RETIREMENT SYSTEM**

The WRA contributes to the Iowa Public Employees' Retirement System (IPERS) which 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 are required to contribute 3.70% of their annual covered salary and the WRA is required to contribute 5.75% of annual payroll. Contribution requirements are established by State statute. The WRA's contribution to IPERS for the years ended June 30, 2005, 2004, and 2003 were \$270,500, \$298,100, and \$268,100, respectively, equal to the required contributions for each year.

**9. POSTRETIREMENT HEALTH AND DENTAL CARE BENEFITS**

Retiree health and dental benefits are available to all full-time employees of the City of Des Moines who retire at the normal retirement age. The group health insurance plan provided to full-time City of Des Moines employees allows retirees to continue medical coverage if such election is made within 31 days subsequent to retirement. Retirees are required to reimburse the City of Des Moines for the entire cost of this coverage. At June 30, 2005, 620 retirees are covered under the City of Des Moines' group health plan. Such benefits are accounted for on a cash basis.

**10. NEW PRONOUNCEMENTS**

The WRA implemented Governmental Accounting Standards Board (GASB) Statement No. 40, *Deposit and Investment Risk Disclosures*. This Statement establishes and modifies disclosure requirements related to investment risks related to credit risk, concentration of credit risk, interest rate risk and foreign currency risk. As an element of interest, this statement requires certain disclosures of investments that have fair values that are highly sensitive to changes in interest rate risk.

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The GASB has issued the following statements:

GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, issued November 2003, will be effective for the WRA beginning with its year ending June 30, 2006. This Statement requires governments to report the effects of capital asset impairment in their financial statements when it occurs and requires all governments to account for insurance recoveries in the same manner.

GASB Statement No. 43, *Financial Reporting for Post-employment Benefit Plans Other than Pension Plans*, issued April 2004, will be effective for the WRA beginning with its year ending June 30, 2007. This Statement establishes uniform financial reporting standards for other post-employment benefit plans (OPEB) and supercedes existing guidance.

GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Post-employment Benefits other than Pensions*, issued June 2004, will be effective for the WRA beginning with its year ending June 30, 2008. This Statement establishes standards for measurement, recognition and display of other post-employment benefits expenses and related liabilities or assets, note disclosures and, if applicable, required supplementary information in the financial reports.

GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation*, issued December 2004, will be effective for the WRA beginning with its year ending June 30, 2006. This Statement establishes and modifies requirements related to restrictions of net assets resulting from enabling legislation.

GASB Statement No. 47, *Accounting for Termination benefits*, issued June 2005, will be effective for the WRA beginning with its year ending June 30, 2006. This Statement establishes accounting standards for termination benefits. In financial statements prepared on the accrual basis of accounting, employers should recognize a liability and expense for voluntary termination benefits (early retirement incentives) when the offer is accepted and the amount can be estimated. A liability for involuntary termination benefits (severance benefits) should be recognized when a plan of termination has been approved by those with the authority to commit the government to the plan, the plan has been communicated to the employees, and the amount can be estimated. In financial statements prepared on the modified accrual basis of accounting, liabilities and expenditures for termination benefits should be recognized to the extent the liabilities are normally expected to be liquidated with expendable available financial resources.

The WRA's management has not yet determined the effect these statements will have on the WRA's financial statements.

# McGladrey & Pullen

Certified Public Accountants

## **Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards**

To the Board of Participating Communities  
Des Moines Metropolitan Wastewater Reclamation Authority  
Des Moines, Iowa

We have audited the financial statements of Des Moines Metropolitan Wastewater Reclamation Authority (WRA) as of and for the year ended June 30, 2005, and have issued our report thereon dated October 28, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered WRA's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

### **Compliance and Other Matters**

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

Comments involving statutory and other legal matters about the WRA's operations for the year ended June 30, 2005, are based exclusively on knowledge obtained from procedures performed during our audit of the basic financial statements of the WRA. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretation of those statutes.

- Official Depositories

Finding: A resolution naming official depositories and maximum deposit amounts was not approved by the Board.

Recommendation: We recommend approving a formal resolution naming official depositories and maximum deposit amounts on an annual basis.

Response: The WRA will approve a formal resolution naming official depositories and maximum deposit amounts on an annual basis.

Conclusion: Response accepted.

- Business Transactions

Business transactions between the WRA and the WRA Officials are as follows:

Tom Hadden, WRA Board Chair	Landfill expenses	\$56,041.17
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The transaction does not appear to be a conflict of interest since this is the only landfill located in the Des Moines area and all expenses were approved by the Board.

This report is intended solely for the information and use of management and the Board and is not intended to be and should not be used by anyone other than those specified parties.

*McGladrey & Pullen, LLP*

Davenport, Iowa  
October 28, 2005