



**Des Moines Metropolitan  
Wastewater Reclamation Authority**

**Financial and Compliance Report**

**For the years ended June 30, 2007 and 2006**

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 years ended June 30, 2007 and 2006, 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 audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our 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 the Des Moines Metropolitan Wastewater Reclamation Authority as of June 30, 2007 and 2006, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 15, 2007, on our consideration of the WRA's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of 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.

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 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.

*McGladrey & Pullen, LLP*

Davenport, Iowa  
November 15, 2007

# DES MOINES METROPOLITAN WASTEWATER RECLAMATION AUTHORITY

FOR THE YEARS ENDED JUNE 30, 2007 and 2006

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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 years ended June 30, 2007 and 2006. Fiscal year 2005 was the first year of operation under the Amended and Restated 28E Agreement.

### **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, Norwalk, Cumming and Waukee; 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.

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.

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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 \$250,200,761, \$244,451,069, and \$235,083,335 as of June 30, 2007, 2006, and 2005, respectively. At June 30, 2007, 2006, and 2005, the WRA showed \$11,191,984, \$9,135,188, and \$11,220,347, respectively, as unrestricted assets, which were available to meet current and future obligations of the WRA. The net investment in capital assets decreased in 2005 when the WRA assumed debt.

During the years ended June 30, 2007, 2006, and 2005, the WRA's cash provided by operating activities was \$11,627,469, \$14,512,063, and \$14,156,934, respectively.

**Government-Wide Financial Analysis**

As noted earlier, net assets 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 assets. The same situation held true for the prior fiscal years. In 2007, the WRA's net assets increased \$5,749,692 from 2006. In 2006, the WRA's net assets increased \$9,367,734 from 2005.

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Assets			
Current and other assets	\$ 96,143,060	\$ 74,361,511	\$ 94,043,589
Capital assets	300,007,875	281,742,698	256,487,369
Total assets	<u>396,150,935</u>	<u>356,104,209</u>	<u>350,530,958</u>
Liabilities			
Current liabilities	11,001,404	12,057,680	10,558,469
Non-current liabilities	134,948,770	99,595,460	104,889,154
Total liabilities	<u>145,950,174</u>	<u>111,653,140</u>	<u>115,447,623</u>
Net assets			
Invested in capital assets, net	210,065,510	209,419,431	199,013,986
Restricted assets	28,943,267	25,896,450	24,849,002
Unrestricted assets	11,191,984	9,135,188	11,220,347
Total net assets	<u>\$ 250,200,761</u>	<u>\$ 244,451,069</u>	<u>\$ 235,083,335</u>

The increase in net assets during the years ended June 30, 2007 and 2006, is the result of cash collected for capital assets and debt servicing. During the year ended June 30, 2005, net assets decreased (\$29,989,060) as 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 years ended June 30, 2007 and 2006 are below:

	<b>Table 2</b>		
	2007	2006	2005
Operating Revenues			
Charges for sales and services	\$ 26,460,421	\$ 28,075,966	\$ 30,186,283
Operating Expenses:			
Cost of sales and services	14,171,302	13,270,530	12,390,884
Depreciation	7,818,393	7,061,109	6,978,868
Total operating expenses	21,989,695	20,331,639	19,369,752
Operating Income	4,470,726	7,744,327	10,816,531
Nonoperating Revenues (Expenses):			
Investment earnings	4,911,532	3,070,738	1,836,345
Gain (loss) on disposal of capital assets	7,645	(59,040)	7,327
Donations and contributions	1,512	1,026	36,750
Interest expense	(3,974,075)	(3,412,645)	(3,053,407)
Other	332,352	283,568	186,445
Nonoperating (loss)	1,278,966	(116,353)	(986,540)
Capital grants and contributions	-	1,739,760	-
Special Items	-	-	(39,819,051)
Change in net assets	\$ 5,749,692	\$ 9,367,734	\$ (29,989,060)

Total revenues were \$31,727,670 and total expenses were \$25,977,678 for the year ended June 30, 2007. Total revenues were \$33,171,058 and total expenses were \$23,803,324 for the year ended June 30, 2006. 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 \$4,470,726 for the year ended June 30, 2007, \$7,744,327 for the year ended June 30, 2006, and \$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, 2007, 2006, and 2005 was \$22,136,211, \$24,904,712, and \$27,282,581, respectively.

**Capital Assets**

Capital assets increased by \$18,265,177 in 2007, \$25,255,329 in 2006, and \$11,577,150 in 2005. A bond issue provided funds for 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, Norwalk, Cumming, and Waukee. 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 (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.

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. Revenue bonds payable at June 30, 2007 were \$132,339,000, June 30, 2006 were \$99,684,000, and June 30, 2005 were \$103,902,000.

**Economic Factors**

Interest rates have fluctuated during the past years. Investment earnings were \$4,911,532, \$3,070,738, and \$1,836,345 for the years ended June 30, 2007, 2006, and 2005, respectively. The increased earnings is due to investment of unspent bond proceeds.

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 Allen McKinley, 401 Robert D. Ray Drive, Des Moines, Iowa 50309.

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**Statements of Net Assets**

ASSETS

	<u>2007</u>	<u>2006</u>
Current assets:		
Unrestricted current assets:		
Cash and pooled cash investments	\$ 15,146,559	\$ 15,756,711
Accounts receivable	952,815	411,706
Interest receivable	999,182	493,288
Due from other governmental units	99,600	86,927
Unrestricted current assets	<u>17,198,156</u>	<u>16,748,632</u>
Restricted current assets:		
Cash and pooled cash investments	7,688,488	5,045,313
Investments	51,655,156	33,514,232
Restricted current assets	<u>59,343,644</u>	<u>38,559,545</u>
Total current assets	<u>76,541,800</u>	<u>55,308,177</u>
Non-current assets:		
Unamortized bond issue costs	1,266,570	921,422
Restricted non-current assets:		
Cash and pooled cash investments	10,137,936	5,758,060
Investments	8,196,754	12,373,852
Capital assets:		
Land	4,173,901	4,151,985
Construction in progress	46,653,568	45,442,077
Plant	205,004,383	191,779,954
Sewer system	113,897,908	105,251,837
Machinery and equipment	22,432,372	19,535,908
	<u>392,162,132</u>	<u>366,161,761</u>
Less accumulated depreciation	92,154,257	84,419,063
Capital assets, net	<u>300,007,875</u>	<u>281,742,698</u>
Total non-current assets	<u>319,609,135</u>	<u>300,796,032</u>
TOTAL ASSETS	<u>\$ 396,150,935</u>	<u>\$ 356,104,209</u>

LIABILITIES AND NET ASSETS

	<u>2007</u>	<u>2006</u>
Current liabilities:		
Accounts payable	\$ 261,234	\$ 373,122
Accrued wages payable	229,105	237,242
Accrued employee benefits	372,531	339,166
Contracts payable	3,892,474	4,242,730
Due to other governmental units	130,036	1,083,818
Revenue bonds payable	5,612,000	5,395,000
Accrued interest payable	504,024	386,602
Total current liabilities	<u>11,001,404</u>	<u>12,057,680</u>
Non-current liabilities:		
Accrued employee benefits	616,134	595,346
Revenue bonds payable	126,727,000	94,289,000
Due to other governmental units	1,267,204	355,418
Unamortized bond premium	6,338,432	4,355,696
Total non-current liabilities	<u>134,948,770</u>	<u>99,595,460</u>
 TOTAL LIABILITIES	 <u>\$ 145,950,174</u>	 <u>\$ 111,653,140</u>
 Net assets:		
Investment in capital assets, net of related debt	\$ 210,065,510	\$ 209,419,431
Restricted	28,943,267	25,896,450
Unrestricted	11,191,984	9,135,188
TOTAL NET ASSETS	<u>\$ 250,200,761</u>	<u>\$ 244,451,069</u>

See accompanying notes to basic financial statements.

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

	<u>2007</u>	<u>2006</u>
Operating Revenues:		
Charges for sales and services	\$ 26,460,421	\$ 28,075,966
Total operating revenues	<u>26,460,421</u>	<u>28,075,966</u>
Operating Expenses:		
Salary and personal services	7,186,516	7,149,536
Contractual services	5,626,428	4,999,329
Commodities	1,358,358	1,121,665
Depreciation	7,818,393	7,061,109
Total operating expenses	<u>21,989,695</u>	<u>20,331,639</u>
Operating Income	<u>4,470,726</u>	<u>7,744,327</u>
Non-operating revenues (expenses):		
Investment earnings	4,911,532	3,070,738
Amortization of bond premium	346,560	280,031
Gain (loss) on disposal of capital assets	7,645	(59,040)
Donations and contributions	1,512	1,026
Interest expense	(3,974,075)	(3,412,645)
Other	(14,208)	3,537
Total non-operating revenues (expenses)	<u>1,278,966</u>	<u>(116,353)</u>
Income before capital grants and contributions	5,749,692	7,627,974
Capital grants and contributions	<u>-</u>	<u>1,739,760</u>
Change in net assets	5,749,692	9,367,734
Net assets, beginning of year	244,451,069	235,083,335
Net assets, end of year	<u>\$ 250,200,761</u>	<u>\$ 244,451,069</u>

See accompanying notes to basic financial statements.

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**Statements of Cash Flow**

	<u>2007</u>	<u>2006</u>
Cash flows from operating activities:		
Receipts from users	\$ 25,923,771	\$ 27,848,269
Payments to employees	(7,140,499)	(7,049,761)
Payments to suppliers	(7,155,803)	(6,286,445)
Net cash provided by operating activities	<u>11,627,469</u>	<u>14,512,063</u>
Cash flows from investing activities:		
Investment earnings	4,405,638	3,015,352
Purchase of investments	(62,859,671)	(140,896,779)
Sales of investments	48,895,845	158,427,713
Net cash provided by (used in) investing activities	<u>(9,558,188)</u>	<u>20,546,286</u>
Cash flows from capital and related financing activities:		
Purchase of capital assets	(26,460,181)	(31,342,911)
Receipts from sale of capital assets	34,000	16,500
Other	(14,208)	3,537
Receipts from donations and contributions	1,512	1,026
Receipts from SRF drawdowns	-	1,739,760
Receipts from bond proceeds, including \$2,329,296 premium	40,379,296	-
Principal payments on revenue bonds	(5,395,000)	(4,218,000)
Interest payments on revenue bonds	(3,785,070)	(3,483,316)
Payment of bond issuance costs	(416,731)	-
Net cash provided by (used in) capital and related financing activities	<u>4,343,618</u>	<u>(37,283,404)</u>
Increase (decrease) in cash and pooled cash investments	6,412,899	(2,225,055)
Cash and pooled cash investments, beginning of year	<u>26,560,084</u>	<u>28,785,139</u>
Cash and pooled cash investments, end of year	<u>\$ 32,972,983</u>	<u>\$ 26,560,084</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 4,470,726	\$ 7,744,327
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	7,818,393	7,061,109
(Increase ) in accounts receivable	(541,109)	(69,311)
(Increase) decrease in due from other governmental units	(12,673)	110,024
(Decrease) in accounts payable	(111,888)	(165,451)
(Decrease) increase in accrued wages payable	(8,137)	35,989
Increase in accrued employee benefits	54,153	63,786
(Decrease) in due to other governmental units	(41,996)	(268,410)
Net cash provided by operating activities	<u>\$ 11,627,469</u>	<u>\$ 14,512,063</u>
Noncash investing activities:		
Net appreciation (depreciation) in fair value of investments	579,446	118,476
Noncash capital and related financing activities:		
Increase (decrease) in contracts payable for purchase of capital assets	(350,256)	1,049,067

See accompanying notes to basic financial statements.

# DES MOINES METROPOLITAN WASTEWATER RECLAMATION AUTHORITY

FOR THE YEARS ENDED JUNE 30, 2007 and 2006

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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. On June 21, 2005, a supplement to the WRA agreement admitted the city of Cumming as a participating community effective July 1, 2006. On December 20, 2005, a second supplement was adopted to admit the city of Waukee. Waukee will be a non-voting member until July 1, 2007, but participates financially.

The WRA contains the following entities: the Iowa cities of Altoona, Ankeny, Bondurant, Clive, Cumming, Des Moines, Johnston, Norwalk, Pleasant Hill, Urbandale, West Des Moines, Waukee, 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.

The amended and restated 28E agreement sets forth a schedule for sewer improvements and construction which provides for all of the participating communities connection to the WRF at 3000 Vandalia. The WRA Board has approved additional 28E agreements to expedite construction for specific phases of the scheduled improvements in which a participating community can finance the construction ahead of schedule and wait for reimbursement from the WRA bonding schedule.

*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.

# DES MOINES METROPOLITAN WASTEWATER RECLAMATION AUTHORITY

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*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 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 investments did not vary from these 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 and from Fat, Oil, Grease (FOG) inspection fees. At June 30, 2007, an allowance account was established for uncollectible FOG inspection fees with a balance of \$1,628 computed as 10% of this fiscal year's fees. An allowance for doubtful accounts was not considered necessary at June 30, 2006.

*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 capitalized assets is capitalized when significant to the WRA. For fiscal years 2007 and 2006, \$1,586,753 and \$1,372,037 of interest costs were capitalized.

*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.

# DES MOINES METROPOLITAN WASTEWATER RECLAMATION AUTHORITY

## FOR THE YEARS ENDED JUNE 30, 2007 and 2006

Net assets invested in capital assets, net of related debt, excludes unspent bond proceeds. Unspent bond proceeds as of June 30, 2007 and 2006 were \$48,735,067 and \$30,795,007 respectively. 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.

*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 2007 and 2006, the WRA contributed \$98,000 and \$93,600, respectively, to the plan.

*Due to Other Governments* – A liability is recorded in the statement of net assets for amounts due to participating communities for sewer design and construction that arise from an expedited 28E agreement approved by the WRA. The payment will be made from future bond proceeds.

*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. 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, 2007 and 2006, shared expenses relating to pumping stations maintenance and administrative charges of \$918,200 and \$1,010,500, respectively, were allocated to the City of Des Moines from the WRA. In addition, the WRA paid wages and employee benefit costs of approximately \$7,186,500, and \$7,149,500 in 2007 and 2006, for City of Des Moines employees working for the WRA system.

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3. CAPITAL ASSETS

The following tables show the changes in the capital assets.

<u>2007</u>	Beginning <u>Balance</u>	<u>Additions</u>	<u>Retirements</u>	Ending <u>Balance</u>
<u>Non-depreciable capital assets:</u>				
Land	\$ 4,151,985	\$ 21,916	\$ -	\$ 4,173,901
Construction in progress	45,442,077	25,788,960	(24,577,469)	46,653,568
	<u>49,594,062</u>	<u>25,810,876</u>	<u>(24,577,469)</u>	<u>50,827,469</u>
<u>Depreciable capital assets:</u>				
Plant	191,779,954	13,224,429	-	205,004,383
Sewer system	105,251,837	8,646,071	-	113,897,908
Machinery & equipment	19,535,908	3,006,018	(109,554)	22,432,372
	<u>316,567,699</u>	<u>24,876,518</u>	<u>(109,554)</u>	<u>341,334,663</u>
	366,161,761	50,687,394	(24,687,023)	392,162,132
Less accumulated depreciation:				
Plant	(50,573,960)	(4,008,144)	-	(54,582,104)
Sewer system	(26,003,937)	(2,005,398)	-	(28,009,335)
Machinery & equipment	(7,841,166)	(1,804,851)	83,199	(9,562,818)
	<u>(84,419,063)</u>	<u>(7,818,393)</u>	<u>83,199</u>	<u>(92,154,257)</u>
Net capital assets	<u>\$ 281,742,698</u>	<u>\$ 42,869,001</u>	<u>\$ (24,603,824)</u>	<u>\$ 300,007,875</u>

<u>2006</u>	Beginning <u>Balance</u>	<u>Additions</u>	<u>Retirements</u>	Ending <u>Balance</u>
<u>Non-depreciable capital assets:</u>				
Land	\$ 1,933,773	\$ 2,218,212	\$ -	\$ 4,151,985
Construction in progress	26,103,496	31,921,941	(12,583,360)	45,442,077
	<u>28,037,269</u>	<u>34,140,153</u>	<u>(12,583,360)</u>	<u>49,594,062</u>
<u>Depreciable capital assets:</u>				
Plant	190,540,765	1,239,189	-	191,779,954
Sewer system	96,895,957	8,355,880	-	105,251,837
Machinery & equipment	18,414,292	1,240,116	(118,500)	19,535,908
	<u>305,851,014</u>	<u>10,835,185</u>	<u>(118,500)</u>	<u>316,567,699</u>
	333,888,283	44,975,338	(12,701,860)	366,161,761
Less accumulated depreciation:				
Plant	(46,928,282)	(3,645,678)	-	(50,573,960)
Sewer system	(24,168,559)	(1,835,378)	-	(26,003,937)
Machinery & equipment	(6,304,073)	(1,580,053)	42,960	(7,841,166)
	<u>(77,400,914)</u>	<u>(7,061,109)</u>	<u>42,960</u>	<u>(84,419,063)</u>
Net capital assets	<u>\$ 256,487,369</u>	<u>\$ 37,914,229</u>	<u>\$ (12,658,900)</u>	<u>\$ 281,742,698</u>

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4. EMPLOYEE BENEFITS & LONG-TERM DEBT

The following table shows the changes in long-term debt, employee benefits, and due to other governmental units.

	<u>2007</u>				Due within One Year	Range of Interest Rates
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>		
Revenue bonds:						
Series 2006	\$ -	\$ 38,050,000	\$ -	\$ 38,050,000	-	3.75% to 5%
Series 2004A	20,030,000	-	(3,345,000)	16,685,000	3,465,000	3% to 5%
Series 2004B	66,830,000	-	(1,050,000)	65,780,000	1,085,000	3% to 5%
SRF Loans	12,824,000	-	(1,000,000)	11,824,000	1,062,000	3%
Due to other gov't units	1,439,236	1,362,494	(1,404,490)	1,397,240	130,036	n.a.
Accrued employee benefits	934,512	774,151	(719,998)	988,665	372,531	n.a.
	<u>\$ 102,057,748</u>	<u>\$ 40,186,645</u>	<u>\$ (7,519,488)</u>	<u>\$ 134,724,905</u>	<u>\$ 6,114,567</u>	

	<u>2006</u>				Due within One Year	Range of Interest Rates
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>		
Revenue bonds:						
Series 2004A	\$ 23,290,000	\$ -	\$ (3,260,000)	\$ 20,030,000	3,345,000	3% to 5%
Series 2004B	66,830,000	-	-	66,830,000	1,050,000	3% to 5%
SRF Loans	13,782,000	-	(958,000)	12,824,000	1,000,000	3% to 5%
Due to other gov't units	1,707,646	1,439,236	(1,707,646)	1,439,236	1,083,818	n.a.
Accrued employee benefits	870,726	758,819	(695,033)	934,512	339,166	n.a.
	<u>\$ 106,480,372</u>	<u>\$ 2,198,055</u>	<u>\$ (6,620,679)</u>	<u>\$ 102,057,748</u>	<u>\$ 6,817,984</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. Reserves were established and amounts collected from the participating communities based on budgeted flows. If actual expenses for operation and maintenance of the WRA system facilities for any year differ from the budgeted amount, the difference between the actual and budgeted amount shall be credited or charged to future budgets. The amount due to other governmental units at June 30, 2005 was applied to the budget allocation during the year ended June 30, 2006.

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The amount due to other governmental units at June 30, 2006 and 2007 relates to commitments and 28E agreements that expedite sewer construction scheduled for future bond issues. The long term amount at June 30, 2007 of \$1,267,204 will settle with proceeds from a future bond issue scheduled no sooner than January 1<sup>st</sup>, 2010.

As a result of the amended and restated 28E 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.

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%. In December 2006, the WRA issued \$38,050,000 Series 2006 bonds for construction projects. The Series 2006 bonds require principal payments each June 1<sup>st</sup> through 2036 and bear interest rates of 3.75-5%.

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 \$28,943,267 and \$25,896,450 as of June 30, 2007 and 2006.

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:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>
2008	5,612,000	6,131,701
2009	6,499,000	5,894,065
2010	6,747,000	5,622,618
2011	6,388,000	5,340,612
2012	6,005,000	5,072,628
2013-2017	17,043,000	22,870,417
2018-2022	16,330,000	19,463,288
2023-2027	22,140,000	14,796,250
2028-2032	27,845,000	8,718,075
2033-2036	17,730,000	1,802,350
	<u>132,339,000</u>	<u>95,712,004</u>

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5. DEPOSITS AND INVESTMENTS

As of June 30, 2007 and 2006, the WRA had the following investments and maturities:

<u>2007</u> Security Description	Current Market Value	Investment Maturities (in Years)			
		Less than One	1-2	3-5	More than Five
Federal Farm Credit total	\$ 1,596,496	\$ -	\$ 1,596,496	\$ -	\$ -
FHLB total	14,999,672	14,999,672	-	-	-
FHLB Discount total	2,447,250	2,447,250	-	-	-
FNMA total	5,470,460	3,470,460	2,000,000	-	-
FNMA Discount total	3,101,120	3,101,120	-	-	-
FHLMC total	14,865,403	14,865,403	-	-	-
FHLMC Discount total	11,299,950	11,299,950	-	-	-
Grand total	\$ 53,780,351	50,183,855	3,596,496	-	-

<u>2006</u> Security Description	Current Market Value	Investment Maturities (in Years)			
		Less than One	1-2	3-5	More than Five
FHLB total	\$ 12,316,377	\$ 12,316,377	\$ -	\$ -	\$ -
FNMA total	9,898,198	9,898,198	-	-	-
FNMA Discount total	1,997,400	1,997,400	-	-	-
FHLMC total	11,074,075	2,295,350	8,778,725	-	-
Treasury STRIP total	1,980,700	1,980,700	-	-	-
Grand total	\$ 37,266,750	28,488,025	8,778,725	-	-

Investments on the statement of net assets include certificates of deposit totaling \$6,071,559 and \$8,621,334 at June 30, 2007 and 2006, respectively.

*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, 2007, the WRA’s investments were rated as follows:

<u>Security Description</u>	<u>Moody's</u>	<u>Standard &amp; Poor's</u>
Federal Farm Credit	Aaa	AAA
Federal Home Loan Bank	Aaa	AAA
FHLB Discount	Aaa	A-1+
FNMA	Aaa	AAA
FNMA Discount	Aaa	A-1+
FHLMC	Aaa	AAA
FHLMC Discount	Aaa	A-1+

*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, 2007, the WRA has invested 3% in Federal Farm Credit, 28% FHLB, 4% in FHLB Discount, 10% in FNMA, 6% in FNMA Discount, 28% in FHLMC, and 21% FHLMC Discount securities. As of June 30, 2006, the WRA has invested 33% in FHLB, 27% in FNMA, 5% in FNMA Discount, 30% in FHLMC, and 5% in Treasury STRIP.

*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, 2007 and 2006, 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. As of June 30, 2007 and 2006, the WRA’s investments were not exposed to custodial credit risk.

# DES MOINES METROPOLITAN WASTEWATER RECLAMATION AUTHORITY

## FOR THE YEARS ENDED JUNE 30, 2007 and 2006

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### **6. COMMITMENTS AND CONTINGENCIES**

*Construction Contracts* - The City of Des Moines, as Operating Contractor for the WRA, has signed WRA System construction contracts with remaining commitments of approximately \$9,094,900 and \$15,906,400 as of June 30, 2007 and 2006. Commitments on construction projects specifically identified in the bond statement will be funded by the proceeds of both the 2006 and 2004B bond issues.

*28E Agreements* - The WRA has entered into agreements with member communities to purchase sewers with future bond issue proceeds and approved commitments of approximately \$3,600,900 and \$4,423,300 as of June 30, 2007 and 2006, respectively.

*Litigation* - On August 15, 2006, the Iowa Environmental Protection Commission and Iowa Department of Natural Resources referred the WRA and the City of Des Moines, Iowa, to the Iowa Office of the Attorney General for an enforcement action. The referral sought penalties and injunctive relief and indicates that Iowa Code Section 455B.191 authorizes the assessment of civil penalties up to \$5,000 per day of violation for water quality violations. In August 2007, the State Attorney General's office sent a draft Petition at Law and a draft Consent Order, Judgment, and Decree to the WRA and to the City of Des Moines. The WRA and the City of Des Moines intend to negotiate with the State Attorney General's office and determine whether consensus can be reached. The initial indications from these documents are that the State Attorney General's office does not believe civil penalties to be appropriate but will be seeking to have future obligations of the WRA and the City of Des Moines set forth in a Consent Order, Judgment, and Decree subject to stipulated penalties. At this time the parties have not come to an agreement, and therefore, an evaluation of the likelihood of a specific outcome cannot be provided with certainty.

### **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, 2007, 2006, and 2005 were \$288,000, \$281,700, and \$270,500, respectively, equal to the required contributions for each year.

# DES MOINES METROPOLITAN WASTEWATER RECLAMATION AUTHORITY

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## **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, 2007 and 2006, the retirees covered under the City of Des Moines' group health plan are 199 and 187, respectively. Such benefits are accounted for on a cash basis.

## **10. NEW PRONOUNCEMENTS**

The WRA implemented the following Governmental Accounting Standards Board (GASB) Statements:

GASB Statement No. 43, *Financial Reporting for Post-employment Benefit Plans Other than Pension Plans*: This Statement establishes uniform financial reporting standards for other post-employment benefit plans (OPEB) and supercedes existing guidance. This Statement had no effect to the WRA's financial statements.

The GASB has issued the following statements:

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. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenue*, issued September 2006, will be effective for the WRA beginning with its year ending June 30, 2008. This statement establishes accounting and financial reporting standards for transactions in which a government receives, or is entitled to, resources in exchange for future cash flows generated by collecting specific receivables or specific future revenues. It also provides disclosure requirements for a government that pledges or commits future cash flows from a specific revenue source. In addition this Statement establishes accounting and financial reporting standards for intra-entity transfers of assets and future revenues.

GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, issued November 2006, will be effective for the WRA beginning with its year ending June 30, 2009. This Statement addresses accounting and financial reporting standards for pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation outlays and determine whether the outlays for those components should be accrued as a liability or, if appropriate, capitalized when goods and services are acquired.

GASB Statement No. 50, *Pension Disclosures*, issued May 2007, will be effective for the WRA beginning with its year ending June 30, 2008. This Statement more closely aligns the financial reporting requirements for pensions with those for other postemployment benefits (OPEB) and, in doing so, enhances information (RSI) by pension plans and by employers that provide pension benefits.

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GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, issued July 2007, will be effective for the WRA beginning with its year ending June 30, 2010. This Statement provides guidance regarding how to identify, account for, and report intangible assets. The new standard characterizes an intangible asset as an asset that lacks physical substance, is nonfinancial in nature, and has an initial useful life extending beyond a single reporting period.

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 the Des Moines Metropolitan Wastewater Reclamation Authority (WRA) as of and for the year ended June 30, 2007, and have issued our report thereon dated November 15, 2007. 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 the WRA's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the WRA's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the WRA's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

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

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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*.

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  
November 15, 2007