

Des Moines Metropolitan Wastewater Reclamation Authority

Financial Report
June 30, 2013

Contents

Independent auditor's report	1 – 2
Management's discussion and analysis	3 – 6
Basic financial statements	
Statements of net position	7 – 8
Statements of revenues, expenses and changes in net position	9
Statements of cash flows	10 – 11
Notes to financial statements	12 – 25
Required supplementary information	26



Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Des Moines Metropolitan Wastewater Reclamation Authority (WRA), as of and for the years ended June 30, 2013 and 2012, and the related notes to the basic financial statements, which collectively comprise the WRA's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our 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 from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Des Moines Metropolitan Wastewater Reclamation Authority, as of June 30, 2013 and 2012, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As explained in Note 12 to the basic financial statements, the WRA adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which restated the WRA's beginning net position. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 6 and the other postemployment benefit plan schedule of funding progress on page 26 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our reports for the years ended June 30, 2013 and 2012 dated December 20, 2013 and December 7, 2012, respectively, on our consideration of the WRA's internal control over financial reporting and on 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 internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the WRA's internal control over financial reporting and compliance.

McGladrey LLP

Des Moines, Iowa
December 20, 2013

Des Moines Metropolitan Wastewater Reclamation Authority

Management's Discussion and Analysis Years Ended June 30, 2013 and 2012

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, 2013 and 2012.

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, Waukee and Polk City; the Urbandale Sanitary Sewer District, Urbandale-Windsor Heights Sanitary District, Greenfield Plaza/Hills of Coventry Sanitary District, Polk County and Warren County in the state of Iowa.

Overview of the financial statements

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

Basic financial statements

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

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

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

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

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.

Des Moines Metropolitan Wastewater Reclamation Authority

Management's Discussion and Analysis Years Ended June 30, 2013 and 2012

Financial highlights

Assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources (net position) by \$279,492,186, \$273,928,033 and \$267,939,056 as of June 30, 2013, 2012 and 2011, respectively. At June 30, 2013, 2012 and 2011, the WRA showed \$11,988,103, \$12,393,440 and \$16,361,261, respectively, as unrestricted net position, which were available to meet current and future obligations of the WRA.

During the years ended June 30, 2013, 2012 and 2011, the WRA's cash provided by operating activities was \$16,506,963, \$21,936,916 and \$18,780,729, respectively.

Government-wide financial analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. At the end of the current fiscal year, the WRA is able to report positive balances in all categories of net position. The same situation held true for the prior fiscal years. In 2013, the WRA's net position increased \$5,564,153 from 2012. In 2012, the WRA's net position increased \$6,315,648 from 2011.

Table 1

	2013	2012	2011
Assets			
Current and other assets	\$ 66,377,443	\$ 70,989,588	\$ 79,329,564
Capital assets	552,957,465	477,361,227	424,657,393
Total assets	619,334,908	548,350,815	503,986,957
Deferred outflows of resources			
Deferred charge on refunding	1,186,672	-	-
Liabilities			
Current liabilities	26,615,936	20,213,731	23,819,269
Noncurrent liabilities	314,413,458	254,209,051	212,228,632
Total liabilities	341,029,394	274,422,782	236,047,901
Net position			
Net investment in capital assets	239,201,658	232,900,930	221,177,295
Restricted assets	28,302,425	28,633,663	30,400,500
Unrestricted assets	11,988,103	12,393,440	16,361,261
Total net position	\$279,492,186	\$273,928,033	\$267,939,056

The increase in net position during the years ended June 30, 2013, 2012 and 2011 is primarily the result of cash collected for capital assets and debt servicing.

Des Moines Metropolitan Wastewater Reclamation Authority

Management's Discussion and Analysis Years Ended June 30, 2013 and 2012

Highlights of the WRA's revenues and expenses for the years ended June 30, 2013, 2012 and 2011 are presented in Table 2:

	2013	2012	2011
Operating revenues, charges for sales and services	\$ 38,074,851	\$ 38,280,784	\$ 36,912,893
Operating expenses:			
Cost of sales and services	17,249,600	17,383,794	17,057,300
Depreciation	12,021,733	11,567,531	11,447,651
Total operating expenses	29,271,333	28,951,325	28,504,951
Operating income	8,803,518	9,329,459	8,407,942
Nonoperating revenues (expenses):			
Investment earnings	207,678	69,412	348,767
Gain (loss) on disposal of capital assets	(23,926)	16,951	34,769
Interest expense and bond issuance expense	(5,073,294)	(4,463,650)	(5,029,578)
Other, including insurance recoveries	1,359,720	328,696	356,264
Nonoperating (loss)	(3,529,822)	(4,048,591)	(4,289,778)
Capital grants and contributions	290,457	708,109	249,269
Change in net position, as restated	\$ 5,564,153	\$ 5,988,977	\$ 4,367,433

Total revenues were \$39,932,706 and total expenses were \$34,368,553 for the year ended June 30, 2013. Total revenues were \$39,403,952 and total expenses were \$33,414,975 for the year ended June 30, 2012. Total revenues were \$37,901,962 and total expenses were \$33,534,529 for the year ended June 30, 2011. The WRA's net operating income was \$8,803,518 for the year ended June 30, 2013, \$9,329,459 for the year ended June 30, 2012 and \$8,407,942 for the year ended June 30, 2011.

The WRA receives contributions from the member communities for debt servicing, capital and operations. The total received from the communities during the years ended June 30, 2013, 2012 and 2011 was \$33,399,626, \$33,637,959 and \$32,095,194, respectively.

Capital assets

Capital assets (net) increased by \$75,596,238 in 2013, \$52,703,834 in 2012 and \$51,210,946 in 2011. 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. Please refer to Note 4 for more information on the WRA's capital assets.

Des Moines Metropolitan Wastewater Reclamation Authority

Management's Discussion and Analysis Years Ended June 30, 2013 and 2012

Long-term debt

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

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

The WRA authorized and issued \$99,848,000 debt in 2013. The proceeds were used to retire/refund Series 2004B sewer revenue bonds and to fund construction improvement projects and additions to the WRA System. The WRA authorized and issued \$42,372,000 debt in 2012. The proceeds were used to retire/refund subordinate debt issue Series 2008E and to fund construction improvement projects and additions to the WRA System. In 2011, the WRA authorized and issued \$85,600,000 debt; between 2008 and 2010, the WRA authorized \$82,345,000 SRF debt (senior revenue bonds).

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

Revenue bonds payable increased by \$61,769,418 in 2013, \$40,075,552 in 2012 and \$44,592,091 in 2011. Please refer to Note 5 for more information on the WRA's long-term debt.

Economic factors

Interest rates have declined in recent years. Investment earnings were \$207,678, \$69,412 and \$348,767 for the years ended June 30, 2013, 2012 and 2011, respectively. Users of the WRA Facility consist of the regional communities including waste haulers and industries based in those communities. The WRA will not impose sewer rates and charges. The communities will continue to provide revenue to the WRA.

Request for information

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

Des Moines Metropolitan Wastewater Reclamation Authority

**Statements of Net Position
June 30, 2013 and 2012**

Assets	2013	2012
Current assets:		
Unrestricted current assets:		
Cash and pooled cash	\$ 15,497,834	\$ 20,923,892
Accounts receivable, net	1,034,136	762,501
Interest receivable	34,313	12,928
Due from other governmental units	13,578,702	5,751,667
Unrestricted current assets	30,144,985	27,450,988
Restricted current assets:		
Cash and pooled cash investments	14,056,312	5,207,390
Investments	5,928,688	14,629,020
Restricted current assets	19,985,000	19,836,410
Total current assets	50,129,985	47,287,398
Noncurrent assets:		
Restricted noncurrent assets:		
Cash and pooled cash	2,619,827	8,724,010
Investments	13,627,631	14,978,180
Capital assets:		
Land	8,920,652	8,920,652
Construction in progress	210,164,295	163,256,377
Plant	221,554,681	221,499,249
Sewer system	220,540,872	183,055,868
Machinery and equipment	45,684,517	43,287,133
	706,865,017	620,019,279
Less accumulated depreciation	153,907,552	142,658,052
Capital assets, net	552,957,465	477,361,227
Total noncurrent assets	569,204,923	501,063,417
Total assets	619,334,908	548,350,815
Deferred Outflows of Resources, deferred charge on refunding	1,186,672	-

See Notes to Financial Statements.

Liabilities	2013	2012
Current liabilities:		
Accounts payable	\$ 614,226	\$ 886,913
Accrued wages payable	154,266	185,672
Accrued employee benefits	497,940	446,255
Contracts payable	15,550,223	8,400,561
Due to other governmental units	625,000	3,441,246
Revenue bonds payable	8,318,000	6,077,000
Accrued interest payable	856,281	776,084
Total current liabilities	26,615,936	20,213,731
Noncurrent liabilities:		
Accrued employee benefits	822,901	742,985
Other postemployment benefits	222,717	177,832
Revenue bonds payable	308,280,117	248,751,699
Unamortized bond premium	5,087,723	4,536,535
Total noncurrent liabilities	314,413,458	254,209,051
Total liabilities	341,029,394	274,422,782
Net Position		
Net investment in capital assets	239,201,658	232,900,930
Restricted	28,302,425	28,633,663
Unrestricted	11,988,103	12,393,440
Total net position	\$ 279,492,186	\$ 273,928,033

Des Moines Metropolitan Wastewater Reclamation Authority

**Statements of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2013 and 2012**

	<u>2013</u>	<u>2012</u>
Operating revenues, charges for sales and services	\$ 38,074,851	\$ 38,280,784
Operating expenses:		
Salary and personal services	9,173,905	8,477,688
Contractual services	6,324,909	7,116,455
Commodities	1,750,786	1,789,651
Depreciation	12,021,733	11,567,531
Total operating expenses	29,271,333	28,951,325
Operating income	8,803,518	9,329,459
Nonoperating revenues (expenses):		
Investment earnings	207,678	69,412
Amortization of bond premium	1,359,720	328,296
Gain (loss) on disposal of capital assets	(23,926)	16,951
Interest and bond issuance expense	(5,073,294)	(4,463,650)
Other	-	400
Total nonoperating (expenses)	(3,529,822)	(4,048,591)
Income before capital grants and contributions	5,273,696	5,280,868
FEMA recovery contributions (payments)	(211,245)	133,130
Capital grants and contributions	501,702	574,979
Total capital grants and contributions	290,457	708,109
Change in net position	5,564,153	5,988,977
Net position, beginning of year, as restated	273,928,033	267,939,056
Net position, end of year	\$ 279,492,186	\$ 273,928,033

See Notes to Financial Statements.

Des Moines Metropolitan Wastewater Reclamation Authority

**Statements of Cash Flows
Years Ended June 30, 2013 and 2012**

	<u>2013</u>	<u>2012</u>
Cash flows from operating activities:		
Receipts from users	\$ 36,830,197	\$ 39,127,772
Payments to employees	(9,028,825)	(8,615,186)
Payments to suppliers	(11,294,409)	(8,575,670)
Net cash provided by operating activities	16,506,963	21,936,916
Cash flows from investing activities:		
Investment earnings	73,403	97,892
Purchase of investments	(7,347,043)	(29,966,173)
Sales of investments	17,510,814	42,715,651
Net cash provided by investing activities	10,237,174	12,847,370
Cash flows from capital and related financing activities:		
Purchase of capital assets	(74,293,724)	(60,872,115)
Receipts from sale of capital assets	9,335	16,951
Other	-	400
Receipts from SRF drawdowns	62,022,402	57,779,592
Grant payments received, net of payments	290,457	708,109
Proceeds from bonds, including premiums and deferred amount on refunding of \$724,236	57,144,236	-
Principal payments on revenue bonds	(63,527,000)	(8,652,489)
Interest payments on revenue bonds	(10,432,008)	(8,951,410)
Payment of bond issuance costs	(639,154)	(476,803)
Net cash (used in) capital and related financing activities	(29,425,456)	(20,447,765)
Increase (decrease) in cash and pooled cash	(2,681,319)	14,336,521
Cash and pooled cash, beginning of year	34,855,292	20,518,771
Cash and pooled cash, end of year	\$ 32,173,973	\$ 34,855,292

(Continued)

Des Moines Metropolitan Wastewater Reclamation Authority

Statements of Cash Flows (Continued)
Years Ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 8,803,518	\$ 9,329,459
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	12,021,733	11,567,531
(Increase) decrease in accounts receivable	(271,635)	199,963
(Increase) decrease in due from other governmental units	(973,019)	647,025
Increase (decrease) in accounts payable and due to other governmental units	(3,218,714)	330,436
(Decrease) in accrued wages payable	(31,406)	(196,413)
Increase in accrued employee benefits	131,601	23,327
Increase in other postemployment benefits	44,885	35,588
Net cash provided by operating activities	\$ 16,506,963	\$ 21,936,916
Noncash investing activities, net appreciation in fair value of investments	\$ 112,890	\$ 162,553
Noncash capital and related financing activities:		
Amounts in contracts payable for purchase of capital assets	15,550,223	8,400,561
Amounts in due from other governmental units for SRF draws	12,100,692	5,246,676
Increase in due to other governmental units for construction in progress	129,781	228,304
Amounts of interest expense capitalized to new assets	6,078,065	5,062,659

See Notes to Financial Statements.

Des Moines Metropolitan Wastewater Reclamation Authority

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies and Related Matters

General:

The Des Moines Metropolitan Wastewater Reclamation Authority (WRA) is a separate legal entity with its own Board. A joint venture was formed in 1979 in accordance with the provisions of Chapter 28E of the Code of Iowa. 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 as a participating community effective July 1, 2007. On October 20, 2009, the WRA Board approved and authorized execution of the supplement to admit Polk City to the WRA as a participating community effective July 1, 2010.

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

On July 1, 2004, the City of Des Moines, Iowa (Des Moines) was designated the "operating contractor". As operating contractor Des Moines operates, maintains and manages the Wastewater Reclamation Facility and the WRA System.

The 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 WRA Facility at 3000 Vandalia Road. 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 the WRA.

Basis of presentation:

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

Des Moines Metropolitan Wastewater Reclamation Authority

Notes to Financial Statements

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

The economic resources measurement focus and the accrual basis of accounting are used by the WRA. Under this basis of accounting, assets, deferred outflows of resources, liabilities and deferred inflows of resources associated with the operation of the WRA are included on the statement of net position. Revenues are recorded when earned which is when the service is provided and expenses are recorded at the time liabilities are incurred. Annually, 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.

WRA adopted GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, in the current year. The adoption of these Statements changed the presentation of the basic financial statements to a statement of net position format and restated net position as disclosed in Note 12.

Operating and nonoperating revenues and expenses: Operating revenues result from exchange transactions of the WRA and charges to participating communities. The City of Des Moines provided 41 percent and 42 percent for the years ended June 30, 2013 and 2012, respectively, and the City of West Des Moines provided 12 percent of operating revenues for the years ended June 30, 2013 and 2012. Nonoperating revenues result from nonexchange transactions such as investment earnings. Expenses associated with operating the WRA and providing services are considered operating.

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

Investments: Des Moines purchases investments on behalf of 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.

Accounts receivable: The WRA accrues unbilled revenues from commercial customers for industrial pretreatment services based upon services rendered between the last billing date in the current year and year-end and from Fat, Oil, Grease (FOG) inspection fees. An allowance account was established for uncollectible FOG inspection fees with annual increases computed as 10 percent of each year's fees. The balance in the allowance for doubtful accounts was approximately \$3,600 and \$76,000 at June 30, 2013 and 2012, respectively. Approximately \$72,000 and none were written off during the years ended June 30, 2013 and 2012, respectively.

Due from other governments: The WRA accrues draws submitted under the state revolving loan program based upon service dates of the contract work performed. As of June 30, 2013 and 2012, the amount due from Iowa Finance Authority (SRF Program) was approximately \$12,100,700 and \$5,246,700, respectively. The WRA also accrues any unpaid balances from participating communities at year-end.

Restricted assets: Restricted assets represent required reserve funds as established by the debt agreement.

Des Moines Metropolitan Wastewater Reclamation Authority

Notes to Financial Statements

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

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 self-constructed assets is capitalized when significant to the WRA. For fiscal years 2013 and 2012, approximately \$6,078,100 and \$5,062,700 of interest costs were capitalized.

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

Net position: Net position represents the difference between assets, deferred outflows of resources, liabilities and deferred inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by any outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets.

Net investment in capital assets excludes unspent bond proceeds. Unspent bond proceeds as of June 30, 2013 and 2012 were \$7,930,033 and \$14,904,937, respectively. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The WRA applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is 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 Des Moines, the Operating Contractor, wages and benefits are paid by the WRA as a direct allocation. Employee benefits are provided under the policies of Des Moines. Under these policies, employees accumulate vacation and sick leave hours for subsequent use or for payment upon termination, death or retirement. If paid upon death or retirement, the total accumulated hours are paid at one-half of the then effective hourly rate for that employee, with a maximum of 750 hours per employee. These accumulations are recorded as expenses and accrued employee benefits in the fiscal year earned.

Employees working for the WRA also participate in 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 4.5 percent for the employees referred to as supervisory, professional, and management (SPM); up to 2.5 percent for the employees of the Central Iowa Public Employee's Council (CIPEC); and up to 2 percent for the employees of the Municipal Employee's Association (MEA). In 2013 and 2012, the WRA contributed \$141,400 and \$129,000, respectively, to the plan.

Des Moines Metropolitan Wastewater Reclamation Authority

Notes to Financial Statements

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

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

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

Note 2. Related Party Transactions

The WRA shares certain expenses with Des Moines in accordance with the provisions of the WRA Operating Contract. WRA incurred wages and employee benefit costs in 2013 and 2012 of approximately \$9,174,000 and \$8,477,700, respectively, for employees working for the WRA system. During the years ended June 30, 2013 and 2012, WRA paid allocations of \$1,081,400 (20 percent) and \$1,041,900 (23 percent), respectively, to Des Moines for shared expenses relating to pumping stations maintenance.

Note 3. Deposits and Investments

As of June 30, 2013 and 2012, the WRA had the following investments and maturities:

Security Description	2013		
	Current Market Value	Less than One	Investment Maturities in Years 1 - 2
FHLB	\$ 6,776,745	\$ -	\$ 6,776,745
FNMA	1,478,068	-	1,478,068
Federal farm credit	5,344,948	-	5,344,948
FHLMC	5,956,558	-	5,956,558
Grand total	\$ 19,556,319	\$ -	\$ 19,556,319

Security Description	2012		
	Current Market Value	Less than One	Investment Maturities in Years 1 - 2
FHLB	\$ 18,630,505	\$ 1,700,111	\$ 16,930,394
FNMA	1,488,305	-	1,488,305
Federal farm credit	1,520,205	-	1,520,205
FHLMC	7,968,185	-	7,968,185
Grand total	\$ 29,607,200	\$ 1,700,111	\$ 27,907,089

Des Moines Metropolitan Wastewater Reclamation Authority

Notes to Financial Statements

Note 3. Deposits and Investments (Continued)

Authorized investments: The WRA appointed the City Treasurer of Des Moines as the WRA Treasurer. The investment policy of the WRA directs the funds to be invested in the same manner as like funds of Des Moines are invested under the Des Moines 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 Des Moines and the Treasurer of the State of Iowa; prime eligible bankers acceptances; commercial paper rated P-1 by Moody's Commercial Paper Record and A-1 by Standard & Poor's Corporation with a maturity of 270 days; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of drainage districts.

Interest rate risk: Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity 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 nonoperating funds not exceed a five year maturity.

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

As of June 30, 2013, the WRA's investments were rated as follows:

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

Concentration of credit risk: The WRA's investment policy seeks diversification to reduce overall portfolio risk while attaining market rates of return to enable the WRA to meet all anticipated cash requirements. The policy limits investments in order to avoid over-concentration in securities of a specific issuer. No more than 10 percent of the investment portfolio may be invested in commercial paper and no more than 50 percent of the investment portfolio is invested in securities of a single issuer. As of June 30, 2013, the WRA has invested 35 percent FHLB, 8 percent in FNMA, 30 percent in FHLMC, and 27 percent Federal Farm Credit securities. As of June 30, 2012, the WRA has invested 63 percent FHLB, 27 percent in FHLMC, 5 percent in FNMA and 5 percent Federal Farm Credit securities.

Des Moines Metropolitan Wastewater Reclamation Authority

Notes to Financial Statements

Note 3. Deposits and Investments (Continued)

Custodial credit risk: Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g. broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. As of June 30, 2013 and 2012, the WRA's deposits with financial institutions were entirely covered by the federal depository insurance or collateralized by the State Sinking Fund in accordance with Chapter 12c of the Code of Iowa.

As of June 30, 2013 and 2012, the WRA's investments are unregistered and uninsured and held by the counter party's trust department or their agent in the name of the WRA.

Note 4. Capital Assets

The following tables show the changes in capital assets for the years ended June 30, 2013 and 2012:

	2013			
	Beginning Balance	Additions and Transfers	Retirements and Transfers	Ending Balance
Nondepreciable capital assets:				
Land	\$ 8,920,652	\$ -	\$ -	\$ 8,920,652
Construction in progress	163,256,377	87,128,146	(40,220,228)	210,164,295
	<u>172,177,029</u>	<u>87,128,146</u>	<u>(40,220,228)</u>	<u>219,084,947</u>
Depreciable capital assets:				
Plant	221,499,249	55,432	-	221,554,681
Sewer system	183,055,868	37,485,004	-	220,540,872
Machinery and equipment	43,287,133	3,202,878	(805,494)	45,684,517
	<u>447,842,250</u>	<u>40,743,314</u>	<u>(805,494)</u>	<u>487,780,070</u>
Less accumulated depreciation:				
Plant	(78,487,867)	(5,066,093)	-	(83,553,960)
Sewer system	(42,300,275)	(3,849,868)	-	(46,150,143)
Machinery and equipment	(21,869,910)	(3,105,772)	772,233	(24,203,449)
	<u>(142,658,052)</u>	<u>(12,021,733)</u>	<u>772,233</u>	<u>(153,907,552)</u>
Net capital assets	<u>\$ 477,361,227</u>	<u>\$ 115,849,727</u>	<u>\$ (40,253,489)</u>	<u>\$ 552,957,465</u>

Des Moines Metropolitan Wastewater Reclamation Authority

Notes to Financial Statements

Note 4. Capital Assets (Continued)

	2012			
	Beginning Balance	Additions and Transfers	Retirements and Transfers	Ending Balance
Nondepreciable capital assets:				
Land	\$ 8,491,721	\$ 428,931	\$ -	\$ 8,920,652
Construction in progress	113,088,598	63,888,727	(13,720,948)	163,256,377
	<u>121,580,319</u>	<u>64,317,658</u>	<u>(13,720,948)</u>	<u>172,177,029</u>
Depreciable capital assets:				
Plant	219,317,449	2,181,800	-	221,499,249
Sewer system	173,964,059	9,091,809	-	183,055,868
Machinery and equipment	40,940,279	2,401,046	(54,192)	43,287,133
	<u>434,221,787</u>	<u>13,674,655</u>	<u>(54,192)</u>	<u>447,842,250</u>
Less accumulated depreciation:				
Plant	(73,481,723)	(5,006,144)	-	(78,487,867)
Sewer system	(38,916,175)	(3,384,100)	-	(42,300,275)
Machinery and equipment	(18,746,815)	(3,177,287)	54,192	(21,869,910)
	<u>(131,144,713)</u>	<u>(11,567,531)</u>	<u>54,192</u>	<u>(142,658,052)</u>
Net capital assets	\$ 424,657,393	\$ 66,424,782	\$ (13,720,948)	\$ 477,361,227

Des Moines Metropolitan Wastewater Reclamation Authority

Notes to Financial Statements

Note 5. Employee Benefits and Long-Term Debt

The following tables show the changes in long-term debt, employee benefits, and due to other governmental units for the years ended June 30, 2013 and 2012:

	2013				
	Beginning Balance	Additions	Retirements	Ending Balance	Due Within One Year
Revenue bonds:					
SRF loans	\$ 6,139,000	\$ -	\$ (1,289,000)	\$ 4,850,000	\$ 1,344,000
Series 2004B	60,025,000	-	(58,715,000)	1,310,000	1,310,000
Series 2006	34,985,000	-	(840,000)	34,145,000	870,000
Series 2013B	-	56,420,000	-	56,420,000	540,000
New SRF loans	153,662,274	68,693,843	(2,683,000)	219,673,117	4,254,000
Subordinate SRF	17,425	182,575	-	200,000	-
Total revenue bonds	254,828,699	125,296,418	(63,527,000)	316,598,117	8,318,000
Accrued employee benefits	1,189,240	1,068,099	(936,498)	1,320,841	497,940
Total	\$ 256,017,939	\$ 126,364,517	\$ (64,463,498)	\$ 317,918,958	\$ 8,815,940

	2012				
	Beginning Balance	Additions	Retirements	Ending Balance	Due Within One Year
Revenue bonds:					
SRF loans	\$ 7,373,000	\$ -	\$ (1,234,000)	\$ 6,139,000	\$ 1,289,000
Series 2004A	2,735,000	-	(2,735,000)	-	-
Series 2004B	61,245,000	-	(1,220,000)	60,025,000	1,265,000
Series 2006	35,795,000	-	(810,000)	34,985,000	840,000
New SRF loans	106,537,068	48,370,206	(1,245,000)	153,662,274	2,683,000
Subordinate SRF	1,068,079	357,835	(1,408,489)	17,425	-
Total revenue bonds	214,753,147	48,728,041	(8,652,489)	254,828,699	6,077,000
Accrued employee benefits	1,165,913	999,596	(976,269)	1,189,240	446,255
Total	\$ 215,919,060	\$ 49,727,637	\$ (9,628,758)	\$ 256,017,939	\$ 6,523,255

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

In November 2004 as a result of the amended and restated 28E agreement, the WRA issued \$26,850,000 Series 2004A to advance refund Des Moines' sewer revenue refunding bonds Series 1997C and 2002D and the state revolving loans SRF2 and SRF3. Proceeds were placed into an irrevocable trust and the liability was removed from Des Moines' financial statements. Series 2004A was retired in 2012.

In November 2004, the WRA issued \$66,830,000 Series 2004B for construction projects. In December 2004, the WRA assumed debt for WRA projects previously issued in City of Des Moines' name. State revolving loans SRF4, SRF6, and SRF7 with a balance of \$14,700,000 on July 1, 2004, were reassigned from Des Moines to the WRA and are included in WRA's debt payable. Series 2004B was partially refunded in 2013 with the issuance of the Series 2013B bonds.

In December 2006, the WRA issued \$38,050,000 Series 2006 bonds for construction projects.

Des Moines Metropolitan Wastewater Reclamation Authority

Notes to Financial Statements

Note 5. Employee Benefits and Long-Term Debt (Continued)

In May 2013, the WRA issued \$56,420,000 Series 2013B bonds with interest rates ranging from 2 percent to 4 percent to partially advance refund \$57,450,000 of the outstanding Sewer Revenue Bonds, Series 2004B. Proceeds were placed into an irrevocable trust with an escrow agent and the partially refunded liability of the Series 2004B bonds has been removed from the WRA's statement of net position. The advanced refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$1,186,672. This difference is being reported as a deferred outflow of resources on the WRA's statement of net position. The WRA completed the advance refunding to reduce its total debt service payments by \$13,337,584 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$10,141,166.

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

Bonds issued during the years ended June 30, 2013 and June 30, 2012 totaled \$68,693,843 and \$48,370,206, respectively. During fiscal years 2013 and 2012, the WRA also issued \$182,575 and \$357,835, respectively, subordinate bonds under the SRF planning and design program scheduled to be refunded into a permanent loan after July 1, 2013.

The state revolving loans require the WRA to produce and maintain net revenues at a level not less than 110 percent of the amount of principal and interest on the revenue bonds. In addition, the revenue bonds require that monies be deposited into various restricted reserve accounts and that these deposits be used only for the payment of principal and interest on the related bonds when due or for other purposes as set forth in the bond agreement. The deposits in these restricted reserve accounts total \$28,302,425 and \$28,633,663 as of June 30, 2013 and 2012, respectively.

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

Des Moines Metropolitan Wastewater Reclamation Authority

Notes to Financial Statements

Note 5. Employee Benefits and Long-Term Debt (Continued)

The following tables show the detail of revenue bonds payable.

2013						
Series	Date Issued or Assumed	Amount Issued	Maturity Date	Interest Rates	New SRF Only Amount Drawn	Amount Outstanding June 30, 2013
SRF 4	12/1/2004	*	6/1/2015	3%	N/A	\$ 427,000
SRF 6	12/1/2004	*	6/1/2016	3	N/A	2,380,000
SRF 7	12/1/2004	*	6/1/2018	3	N/A	2,043,000
2004B	11/20/2004	\$ 66,830,000	6/1/2034	3 to 5	N/A	1,310,000
2006	12/19/2006	38,050,000	6/1/2036	3.75 to 5	N/A	34,145,000
2008 A	6/4/2008	16,520,000	6/1/2039	3	\$ 16,520,000	15,390,000
2008 B	6/4/2008	6,575,000	6/1/2038	3	6,575,000	6,125,000
2008 D	6/4/2008	2,650,000	6/1/2039	3	2,332,000	2,327,000
2009 B	3/18/2009	8,400,000	6/1/2039	3	8,400,000	7,846,000
2009 C	7/5/2009	9,200,000	6/1/2039	3	9,200,000	8,592,000
2010 A	5/12/2010	8,500,000	6/1/2040	3	8,500,000	8,131,000
2010 B	5/12/2010	7,000,000	6/1/2040	3	7,000,000	6,696,000
2010 C1	6/30/2010	2,000,000	6/1/2032	3	2,000,000	1,999,000
2010 C2	6/30/2010	21,500,000	6/1/2032	3	17,123,908	16,271,906
2011 A	5/25/2011	60,000,000	6/1/2042	3	54,351,493	54,350,493
2011 B	3/23/2011	16,000,000	6/1/2041	3	15,544,553	15,203,553
2011 C	5/25/2011	9,600,000	6/1/2041	3	9,600,000	9,395,000
2011 D	12/2/2011	14,400,000	6/1/2043	3	11,116,967	11,116,967
2012 A	5/16/2012	200,000	5/2/2015	-	200,000	200,000
2012 B	5/16/2012	2,772,000	6/1/2042	3	2,772,000	2,771,000
2012 C	5/16/2012	18,000,000	6/1/2043	3	17,887,748	17,887,748
2012 D	5/16/2012	7,000,000	6/1/2042	3	7,000,000	6,999,000
2012 E	11/16/2012	12,300,000	6/1/2043	2.75	9,041,097	9,041,097
2012 F	11/16/2012	1,428,000	6/1/2043	2.75	908,725	908,725
2012 G	11/16/2012	22,000,000	6/1/2044	2.75	13,763,705	13,763,705
2013 A	4/5/2013	7,700,000	6/1/2043	2.75	4,857,923	4,857,923
2013 B	5/2/2013	56,420,000	6/1/2034	2 to 4	N/A	56,420,000
Balance due						316,598,117
Amount due within one year						8,318,000
Long-term revenue bonds payable						<u>\$ 308,280,117</u>

* Series SRF 4, 6 and 7 were assumed, not issued, therefore, they are not included in the computation of WRA's bonding authority under the Amended and Restated 28E Agreement.

Des Moines Metropolitan Wastewater Reclamation Authority

Notes to Financial Statements

Note 5. Employee Benefits and Long-Term Debt (Continued)

The outstanding revenue bonds mature as follows:

<u>Fiscal Year:</u>	<u>Principal</u>	<u>Interest</u>
2014	\$ 8,318,000	\$ 10,839,295
2015	9,756,000	10,824,269
2016	10,219,000	10,549,053
2017	9,695,000	10,250,735
2018	9,992,000	9,960,098
2019 - 2023	54,774,000	44,968,893
2024 - 2028	65,417,000	35,474,565
2029 - 2033	71,370,908	23,434,753
2034 - 2038	57,227,450	10,719,610
2039 - 2043	19,828,759	1,841,760
	<u>\$316,598,117</u>	<u>\$168,863,031</u>

Note 6. Commitments and Contingencies

Construction contracts: The WRA has signed construction contracts with remaining commitments of approximately \$42,961,900 as of June 30, 2013. Commitments on construction projects specifically identified in the bond statement will be funded by the proceeds of both the 2006 and 2013B bond issues. Commitments on certain construction projects are funded with Clean Water funds under the State Revolving Loan program.

28E Agreements: The WRA has entered into agreements with member communities to purchase land and sewers with current and future bond issue proceeds and approved commitments of approximately \$625,000 and \$3,411,300 as of June 30, 2013 and 2012, respectively.

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

Note 7. Defeased Debt

In prior years, the WRA defeased certain sewer revenue refunding bonds and state revolving loans by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and liability for the defeased bonds are not included in the WRA's financial statements. On June 30, 2013 and 2012, \$57,450,000 and none, respectively, bonds outstanding are considered defeased, respectively.

Note 8. 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 did not exceed commercial coverage in the past three years.

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

Des Moines Metropolitan Wastewater Reclamation Authority

Notes to Financial Statements

Note 9. Retirement System

As a direct allocation from Des Moines, 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 for the years ended June 30, 2013 and 2012 are required to contribute 5.78 percent and 5.38 percent, respectively, of their annual covered salary and the WRA is required to contribute 8.67 percent and 8.07 percent, respectively, of annual payroll for the years ended June 30, 2013 and 2012. Contribution requirements are established by State statute. The WRA's contribution to IPERS for the years ended June 30, 2013, 2012, and 2011 were \$538,000, \$465,000 and \$401,000, respectively, equal to the required contributions for each year.

Note 10. Other Postemployment Benefits

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

Contributions are required for both retiree and dependent coverage. The contributions for each insured group is assumed to be the expected, composite per capita cost for the group. This composite is then disaggregated into an age-specific starting cost curve based on the average age of the group and for assumptions for age-based morbidity. The average age of the pre-65 retiree group is 62. Retiree expenses are then offset by monthly contributions.

Funding policy: Des Moines establishes and amends contribution requirements. The current funding policy of Des Moines is to pay health claims as they occur. This arrangement does not qualify as other post employment benefits (OPEB) plan assets under Governmental Accounting Standards Board (GASB) Statement No. 45 for current GASB reporting. For fiscal years 2013 and 2012, the WRA contributed \$37,718 and \$45,414, respectively.

Annual OPEB cost and net OPEB obligation: WRA's allocation of Des Moines' annual OPEB cost (expense) is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance to the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years.

Des Moines Metropolitan Wastewater Reclamation Authority

Notes to Financial Statements

Note 10. Other Postemployment Benefits (Continued)

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

	2013	2012
Annual required contribution	\$ 83,334	\$ 83,334
Interest on net OPEB obligation	8,002	6,401
Adjustment to annual required contribution	(8,733)	(8,733)
Annual OPEB cost (expense)	82,603	81,002
Contributions and payments made	37,718	45,414
Increase in net OPEB obligation	44,885	35,588
Net OPEB obligation, beginning of year	177,832	142,244
Net OPEB obligation, end of fiscal year	\$ 222,717	\$ 177,832

The WRA's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal years 2013, 2012 and 2011 follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2013	\$ 82,603	45.7%	\$ 222,717
June 30, 2012	81,002	56.1	177,832
June 30, 2011	75,809	37.5	142,244

Funding status and funding progress as of June 30, 2013: As of July 1, 2011, the most recent actuarial valuation date, the plan was not funded. The WRA's actuarial accrued liability for benefits was \$604,122 and the actuarial value of assets is zero resulting in an unfunded actuarial accrued liability (UAAL) of \$(604,122). The covered payroll (annual payroll of active employees covered by the plan) was \$6,336,200 and the ratio of the UAAL to the covered payroll was 9.5 percent.

Funding status and funding progress as of June 30, 2012: As of July 1, 2011, the most recent actuarial valuation date, the plan was not funded. The WRA's actuarial accrued liability for benefits was \$604,122 and the actuarial value of assets is zero resulting in an unfunded actuarial accrued liability (UAAL) of \$(604,122). The covered payroll (annual payroll of active employees covered by the plan) was \$5,788,000 and the ratio of the UAAL to the covered payroll was 10.4 percent.

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

Des Moines Metropolitan Wastewater Reclamation Authority

Notes to Financial Statements

Note 10. Other Postemployment Benefits (Continued)

Actuarial methods and assumptions: Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and included the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point.

In the July 1, 2011 actuarial valuation, project unit credit method was used. The actuarial assumptions included a 4.5 percent discount rate, an annual health care cost trend rate of 9.0 percent reduced by decrements of .5 percent annually to an ultimate rate of 5 percent. The UAAL is being amortized as an open level dollar. The amortization of UAAL is done over a period of 30 years.

Note 11. New Pronouncements

As of June 30, 2013, the GASB has issued several statements not yet implemented by the WRA. The statement which might impact the WRA is as follows:

- GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, issued June 2012, will be effective for the WRA beginning with its year ending June 30, 2015. This Statement replaces the requirements of GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, and GASB Statement No. 50, *Pension Disclosures*, as they relate to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. This Statement requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. This Statement also enhances accountability and transparency through revised and new note disclosures and required supplementary information.

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

Note 12. Restatement

As a result of the adoption of GASB Statement No. 65, the beginning net position was restated. The effect on fiscal year 2012 is as follows:

Net position June 30, 2011, as previously reported	\$ 270,771,824
Bond issuance costs previously reported as assets	<u>(2,832,768)</u>
Net position June 30, 2011, as restated	267,939,056
2012 change in net position as previously reported	6,315,648
Change in 2012 bond issuance expense	<u>(326,671)</u>
Net position June 30, 2012, as restated	<u><u>\$ 273,928,033</u></u>

Note 13. Subsequent Event

On December 17, 2013, WRA authorized the issuance of \$1,800,000 of Sewer Revenue Bonds, Series 2014A, which will be used for construction projects and their related project costs and the bond issuance costs.

Des Moines Metropolitan Wastewater Reclamation Authority

**Required Supplementary Information
Other Postemployment Benefit Plan**

Schedule of Funding Progress

Fiscal Year Ended	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
2011	07/01/2009	\$ -	\$ 592,267	\$ 592,267	- %	\$ 5,728,000	10.3%
2012	07/01/2011	-	604,122	604,122	-	5,788,000	10.4
2013	07/01/2011	-	604,122	604,122	-	6,336,200	9.5

The information presented in the required supplementary schedule was determined as part of the actuarial valuation as of July 1, 2011. Additional information follows:

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

Des Moines Metropolitan Wastewater Reclamation Authority

Compliance Report
June 30, 2013

Contents

Report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with <i>Government Auditing Standards</i>	1 – 2
Report on compliance for each major federal program, on internal control over compliance and on the schedule of expenditures of federal awards required by OMB Circular A-133	3 – 5
Schedule of expenditures of federal awards	6
Notes to schedule of expenditures of federal awards	7
Summary schedule of prior audit findings	8
Schedule of findings and questioned costs	9 – 10
Corrective action plan	11



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

Independent Auditor's Report

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Des Moines Metropolitan Wastewater Authority (WRA), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the WRA's basic financial statements, and have issued our report thereon dated December 20, 2013. The WRA's June 30, 2012 financial statements have been restated due to the implementation of GASB Statement No. 65.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

The image shows a handwritten signature in cursive script that reads "McGladrey LLP". The signature is written in black ink and is positioned above the typed name and date.

Des Moines, Iowa
December 20, 2013



**Report on Compliance for Each Major
Federal Program, on Internal Control Over Compliance
and on the Schedule of Expenditures of
Federal Awards Required by OMB Circular A-133**

Independent Auditor's Report

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

Report on Compliance for Each Major Federal Program

We have audited the Des Moines Metropolitan Wastewater Reclamation Authority's (WRA) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of WRA's major federal programs for the year ended June 30, 2013. The WRA's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of WRA's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about WRA's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of WRA's compliance.

Opinion on Each Major Federal Program

In our opinion, WRA complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with OMB Circular No. A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2013-1. Our opinion on each major federal program is not modified with respect to this matter.

WRA's response to the noncompliance finding identified in our audit is described in the accompanying corrective action plan. WRA's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of WRA is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered WRA's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of WRA's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of WRA as of and for the year ended June 30, 2013, and have issued our report thereon dated December 20, 2013, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

McGladrey LLP

Des Moines, Iowa
December 20, 2013

Des Moines Metropolitan Wastewater Reclamation Authority

**Schedule of Expenditures of Federal Awards
Year Ended June 30, 2013**

Federal Grantor/ Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. Environmental Protection Agency:			
Passed through the Iowa Department of Natural Resources:			
State Revolving Fund Loan Program:			
Contract Number: CS1920499-01 C0384R	66.458	N/A	\$ 5,438,167
Contract Number: CS1920445-02 C0310R	66.458	N/A	543,616
Contract Number: CS1920457-01 C0452R	66.458	N/A	760,389
Contract Number: CS1920457-02 C0453R	66.458	N/A	3,965,860
Contract Number: CS1920425-04 C0496R	66.458	N/A	426,833
Total U.S. Environmental Protection Agency			<u>11,134,865</u>
Department of Energy:			
Passed through the Iowa Office of Energy Independence,			
ARRA - Energy Efficiency Conservation Block Grant	81.128	N/A	40,203
Passed through the Iowa Economic Development Authority,			
ARRA - VDF Replacement on Main Raw Water Pumps	81.041	SEP 11-49051	461,499
Total U.S. Department of Energy			<u>501,702</u>
Total Expenditures of Federal Awards			<u>\$ 11,636,567</u>

See Notes to Schedule of Expenditures of Federal Awards.

Des Moines Metropolitan Wastewater Reclamation Authority

Notes to Schedule of Expenditures of Federal Awards

Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the WRA for the year ended June 30, 2013. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Nonprofit Organizations*.

Note 2. Significant Accounting Policies

Revenue from federal awards is recognized when the WRA has done everything necessary to establish its right to revenue. Expenditures of federal awards are recognized in the accounting period when the liability is incurred and approved for reimbursement.

Des Moines Metropolitan Wastewater Reclamation Authority

Summary Schedule of Prior Audit Findings

Year Ended June 30, 2013

Number	Comment	Status	Corrective Action or Other Explanation
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No items were reported.

Des Moines Metropolitan Wastewater Reclamation Authority

**Schedule of Findings and Questioned Costs
Year Ended June 30, 2013**

I. Summary of the Independent Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified? Yes None Reported
- Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified? Yes None Reported

Type of auditor's report issued on compliance for major programs: Unmodified

- Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? Yes No

Identification of major programs:

CFDA Number	Name of Federal Program or Cluster
66.458	State Revolving Fund Loan Program
81.041	ARRA - VDF Replacement on Main Raw Water Pumps

Dollar threshold used to distinguish between type A and type B programs: \$349,097

Auditee qualified as low-risk auditee? Yes No

(Continued)

Des Moines Metropolitan Wastewater Reclamation Authority

**Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2013**

II. Findings Related to Financial Statement Audit as Required to be Reported in Accordance with Generally Accepted *Government Auditing Standards*

A. Internal Control

None reported

B. Compliance Findings

None reported

III. Findings and Questioned Costs for Federal Awards

A. Internal Control

None reported

B. Compliance Findings

2013-1

**U.S. Environmental Protection Agency
State Revolving Fund Loan Program (CFDA 66.458)
Award Years: Multiple**

Finding: WRA did not receive and review certified payroll transcripts weekly from all contractors as required by the Davis-Bacon Act.

Criteria: The Office of Management and Budget Circular A-133 states, nongeneral entities shall include in their construction contracts that are subject to the Davis-Bacon Act, a requirement that the contractor or subcontractor comply with the requirements of the Davis-Bacon Act and the DOL regulations. This includes a requirement for the contractor to submit to the nonfederal entity weekly a copy of the payroll and a statement of compliance (certified payrolls) for each week in which any contract work is performed.

Condition and context: For one of the three projects tested, WRA did not obtain the certified payrolls from the contractor or subcontractor, nor did they review reports to ensure the prevailing wage rate was being paid.

Cause: The WRA did not properly verify certified payroll due to an administrative error in dealing with a project consultant.

Effect: Payroll information is not available timely in order to review reports for compliance.

Questioned costs: None

Recommendation: We recommend WRA obtain all certified payrolls and adequately review these payrolls to ensure compliance with the Davis-Bacon Act before payment is submitted to the contractor.

Response and corrective action plan: WRA will ensure that the certified payroll requirements are met before submitting payment to contractors.

Des Moines Metropolitan Wastewater Reclamation Authority

**Corrective Action Plan
Year Ended June 30, 2013**

Current Number	Comment	Corrective Action Plan	Anticipated Date of Completion	Contact Person
2013-1	WRA did not receive and review certified payroll transcripts weekly from all contractors as required by the Davis-Bacon Act.	See response and corrective action plan at 2013-1.	June 30, 2014	Nicholas Carter