



DES MOINES WATER WORKS  
Board of Water Works Trustees

Agenda Item No.     PEN-II      
Meeting Date: July 25, 2017  
Chairperson's Signature  Yes  No

**AGENDA ITEM FORM**

**SUBJECT: 2016 DMWW Pension Plan Audit Reports**

**SUMMARY:**

Our audit firm, RSM US LLP, has completed their audit of our pension plan financial statements for the year ended December 31, 2016. The reports prepared include:

- Des Moines Water Works Pension Plan Financial Report
- Des Moines Water Works Pension Plan Report to the Board of Water Works Trustees

Within their Independent Auditors' Report, RSM has issued an unqualified or "clean opinion" on the financial statements of the pension plan, meaning they found no material misstatements within the financial records.

Kristen Hughes, from RSM, reviewed the reports at the June 19<sup>th</sup> meeting of the Finance Committee.

**FISCAL IMPACT:**

No impact to budget.

**RECOMMENDED ACTION:**

Receive and file 2016 DMWW Pension Plan Financial Audit Reports prepared by RSM US LLP.

**BOARD REQUIRED ACTION:**

Motion to receive and file 2016 Pension Plan Financial Audit Reports.

_____ Michelle Holland Controller	_____ Peggy Freese Chief Financial Officer	_____ William G. Stowe CEO and General Manager
/_____ (date)	/_____ (date)	/_____ (date)

Attachments: Des Moines Water Works Pension Plan Financial Report; Des Moines Water Works Pension Plan Report to the Board of Water Works Trustees

# Des Moines Water Works Pension Plan

Financial Report  
December 31, 2016

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RSM US LLP

## Independent Auditor's Report

To the Board of Water Works Trustees  
Des Moines Water Works Pension Plan

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

We have audited the accompanying financial statements of Des Moines Water Works Pension Plan (the Plan), a pension trust fund of Des Moines Water Works, which comprise the statements of plan net position as of December 31, 2016 and 2015, and the related statements of changes in plan net position for the years then ended and the related notes to the basic financial statements.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 plan net position of the Plan, a pension trust fund of Des Moines Water Works, as of December 31, 2016 and 2015, and the changes in plan net position for the years ended December 31, 2016 and 2015, in accordance with accounting principles generally accepted in the United States of America.

**Emphasis of Matter**

As described in Note 1, the financial statements present only a pension trust fund of Des Moines Water Works and do not purport to, and do not, present the financial position of Des Moines Water Works as of December 31, 2016 and 2015, and the changes in its financial position for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

**Other Matters – Report on Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the schedules on pages 13-18 be presented to supplement the Plan financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board (GASB) who considers it to be an essential part of financial reporting for placing the Plan 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 Plan financial statements, and other knowledge we obtained during our audits of the Plan 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.

Management has omitted Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the GASB 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. Our opinion on the basic financial statements is not affected by this missing information.

*RSM US LLP*

Davenport, Iowa  
June 19, 2017

**Des Moines Water Works Pension Plan**

**Statements of Plan Net Position  
December 31, 2016 and 2015**

	<b>2016</b>	<b>2015</b>
<b>Assets</b>		
Investments, contracts with insurance companies, pooled separate accounts	<b>\$ 48,979,866</b>	\$ 48,124,260
<b>Liabilities, none</b>	<b>-</b>	-
<b>Net position held in trust for pension benefits</b>	<b>\$ 48,979,866</b>	\$ 48,124,260

See notes to basic financial statements.

## Des Moines Water Works Pension Plan

### Statements of Changes in Plan Net Position Years Ended December 31, 2016 and 2015

	2016	2015
Additions:		
Investment income (loss), including net appreciation (depreciation) in the fair value of pooled separate accounts, interest and dividends	\$ 3,295,965	\$ (607,906)
Employer contributions	597,434	911,175
<b>Total additions</b>	<b>3,893,399</b>	<b>303,269</b>
Deductions:		
Benefit payments	3,000,082	2,826,683
Investment and administrative expenses	37,711	26,767
<b>Total deductions</b>	<b>3,037,793</b>	<b>2,853,450</b>
<b>Net increase (decrease)</b>	<b>855,606</b>	<b>(2,550,181)</b>
Net position held in trust for pension benefits:		
Beginning of year	48,124,260	50,674,441
End of year	\$ 48,979,866	\$ 48,124,260

See notes to basic financial statements.

## Des Moines Water Works Pension Plan

### Notes to Basic Financial Statements

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#### Note 1. Plan Description

The Plan is administered by the Board of Trustees of Des Moines Water Works. The Plan is a pension trust fund of the Des Moines Water Works.

The following brief summary of the Des Moines Water Works Pension Plan (Plan) is provided for general information purposes only. Participants should refer to the Plan agreement for more complete information.

**General:** The Plan is a single-employer, noncontributory defined benefit pension plan providing retirement benefits for all full-time Des Moines Water Works (DMWW) employees and employees who worked at least 1,040 hours in a calendar year or worked during two consecutive calendar quarters prior to September 26, 2012.

The Plan was frozen effective September 26, 2012. After that date, no employee or former employee became an active participant, and no inactive participant or former participant shall again become an active participant in the Plan.

The Plan was restated effective December 31, 2013. After that date, accrued plan benefits were frozen and will not increase due to any changes in average compensation or continuous service after such date.

The following represents the Plan's membership as of December 31, 2016 and 2015:

	2016	2015
Active employees	134	142
Retirees and beneficiaries currently receiving benefits	166	157
Terminated employees entitled to benefits but not yet receiving them	58	64
Total	358	363

**Benefits:** Benefits vest after five years of continuous service and normal retirement is allowed at or after age 65. Early retirement is allowed without a reduction in benefits beginning at age 55 if the employee's combined years of service and age are 85 or greater (the rule of 85) and is allowed with reduced benefits for vested employees with less than 30 years of service beginning at age 55. The Plan also provides death and disability benefits to vested employees.

As part of the Plan restatement, an active participant's retirement benefit on his or her retirement date shall be equal to their accrued benefit at December 31, 2013 increased by 5.5 percent per year from the later of a) December 31, 2013 or b) earlier of Normal Retirement date or when they meet the rule of 85 (defined above).

Prior to the Plan restatement, the pension benefit formula was based upon a percent of average compensation and the number of years of service with DMWW. A participant's monthly accrued benefit was equal to 1.5 percent of their average monthly compensation times their years of continuous service with DMWW. Average monthly compensation was determined by taking the average monthly compensation for those 60 consecutive full calendar months out of the last 120 latest calendar months which give the highest average.

## Des Moines Water Works Pension Plan

### Notes to Basic Financial Statements

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#### Note 2. Summary of Significant Accounting Policies

**Basis of accounting:** The Plan records are maintained on the accrual basis of accounting. Employer contributions to the Plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits are recognized when due and payable in accordance with the terms of the Plan.

**Use of estimates:** The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of Plan net position and the Net Pension Liability (NPL) as of the date of the financial statements. Actual results could differ from those estimates. The Plan uses an actuary to determine the NPL. A change in the actuarial assumptions used could significantly change the amount of the NPL reported in the accompanying notes to the financial statements and required supplementary information.

**Investment valuation and income recognition:** The Plan's investments in pooled separate accounts are stated at net asset value based on the estimated fair value of the investments held in each account as determined by Principal Life Insurance Company (Principal). Purchases and sales of securities are recorded on a trade date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Net appreciation (depreciation) includes the Plan's gains and losses on investments bought and sold, as well as, held during the year.

**Benefits:** Benefits are recognized when due and payable in accordance with the terms of the Plan.

**Retired life funds:** Based on the contract with Principal, Principal has issued retirement annuity certificates to retirees, but the monthly retirement benefits are paid from the plan assets. Principal requires the Plan to maintain a fund to buy retirement annuities for all currently retired employees and their beneficiaries which are called retired life funds. The Plan includes the retired life funds in the Plan's net assets held in trust for pension benefits and includes the retired employees in the actuarial value of accumulated plan benefits. See also Note 6.

**Current year GASB implementations:** GASB Statement No. 72, *Fair Value Measurement and Application*. This statement addresses accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This statement provides guidance for determining a fair value measurement for financial reporting purposes. This statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements.

## Des Moines Water Works Pension Plan

### Notes to Basic Financial Statements

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#### Note 3. Funding Policy and Funded Status

The Plan's funding policy provides for periodic employer contributions at rates that are sufficient to accumulate assets to pay benefits to Plan participants. The Plan receives an annual actuarial valuation for the purpose of determining recommended contribution rates. The actuarially-determined recommended contributions for 2016 and 2015 were \$796,578 and \$911,175, respectively.

The total pension liability as of December 31, 2016 was determined using an actuarial valuation date of December 31, 2016. As of December 31, 2016, the total pension liability was \$56,043,801 and the Plan net position was \$48,979,866 resulting in an NPL of \$7,063,935 and 87.4 percent funded (plan net position as a percentage of the total pension liability).

The total pension liability as of December 31, 2015 was determined using an actuarial valuation date of December 31, 2015. As of December 31, 2015, the total pension liability was \$53,750,496 and the Plan net position was \$48,124,260 resulting in an NPL of \$5,626,236 and 89.5 percent funded (plan net position as a percentage of the total pension liability).

As the Plan was frozen to future benefit accruals effective December 31, 2013, annual covered payroll and the ratio of annual covered payroll to NPL are both zero for the years ended December 31, 2016 and 2015.

#### Note 4. Net Pension Liability and Actuarial Assumptions

The components of the net pension liability of the Plan at December 31, 2016 and 2015 were as follows:

##### Net Pension Liability of the Plan:

	2016	2015
Total pension liability	\$ 56,043,801	\$ 53,750,496
Plan net position	(48,979,866)	(48,124,260)
Net pension liability	<u>\$ 7,063,935</u>	<u>\$ 5,626,236</u>
Plan net position as a percent of the total pension liability	87.4%	89.5%

**Sensitivity analysis:** The following presents the net pension liability of the Plan, calculated using the discount ratio of 6.25 percent, as well as what the Plan's net pension liability (asset) would be if it were calculated using a discounted rate that is 1 percent lower or 1 percent higher than the current rate:

	1% Decrease (5.25)%	Current Discount Rate (6.25)%	1% Increase (7.25)%
2016	\$ 13,273,493	\$ 7,063,935	\$ 1,774,841
	1% Decrease (5.50)%	Current Discount Rate (6.50)%	1% Increase (7.50)%
2015	\$ 11,644,484	\$ 5,626,236	\$ 505,381

## Des Moines Water Works Pension Plan

### Notes to Basic Financial Statements

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#### Note 4. Net Pension Liability and Actuarial Assumptions (Continued)

The actuarial assumptions used in the December 31, 2016 and 2015 valuations are presented in the tables below.

December 31, 2016															
Actuarial valuation:															
Frequency	Annual														
Cost method	Entry age normal														
Amortization	The amortization method used is Level Dollar Over a Closed Period. The weighted average remaining period is 15 years.														
Assumptions:															
Long-term rate of return	6.25% per year														
Salary increases	N/A - Attribution is made on an individual basis, beginning with the first period in which the employee's service accrues pension benefit through all assumed exit ages through retirement. The projected inflation rate of 2.0% has been used in place of the projected rate of change in salary.														
Retirement age	Retirement Age Based Table as follows:														
	<table border="1" style="margin-left: auto; margin-right: auto; border-collapse: collapse;"> <thead> <tr> <th style="text-align: center;">Age</th> <th style="text-align: center;">Rate</th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">55</td> <td style="text-align: center;">25%</td> </tr> <tr> <td style="text-align: center;">56 - 61</td> <td style="text-align: center;">15</td> </tr> <tr> <td style="text-align: center;">62</td> <td style="text-align: center;">20</td> </tr> <tr> <td style="text-align: center;">63</td> <td style="text-align: center;">5</td> </tr> <tr> <td style="text-align: center;">64</td> <td style="text-align: center;">10</td> </tr> <tr> <td style="text-align: center;">65 and older</td> <td style="text-align: center;">100</td> </tr> </tbody> </table>	Age	Rate	55	25%	56 - 61	15	62	20	63	5	64	10	65 and older	100
Age	Rate														
55	25%														
56 - 61	15														
62	20														
63	5														
64	10														
65 and older	100														
Mortality	Adjusted RP-2014 Mortality with Scale MP-2016 - Generational MI scale, annuitant, male and female.														
Disability	1987 Commissioner's Group Disability Table, six month elimination period, male and female.														
Rate of withdrawal	2003 Society of Actuaries Small Plan Age Table, multiplied by 0.45.														

## Des Moines Water Works Pension Plan

### Notes to Basic Financial Statements

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#### Note 4. Net Pension Liability and Actuarial Assumptions (Continued)

December 31, 2015

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Actuarial valuation:

Frequency	Annual
Cost method	Entry age normal

Amortization                      The amortization method used is Level Dollar Over a Closed Period.  
The weighted average remaining period is 15 years.

Assumptions:

Long-term rate of return	6.5% per year
Salary increases	N/A - Attribution is made on an individual basis, beginning with the first period in which the employee's service accrues pension benefit through all assumed exit ages through retirement. The projected inflation rate of 2.5% has been used in place of the projected rate of change in salary.

Retirement age                      Retirement Age Based Table as follows:

Age	Rate
55	25%
56	15
57 - 61	5
62	20
63	5
64	10
65 and older	100

Mortality                              Adjusted RP-2014 Mortality with Scale MP-2015 - Generational MI scale, annuitant, male and female.

Disability                              1987 Commissioner's Group Disability Table, six month elimination period, male and female.

Rate of withdrawal                      2003 Society of Actuaries Small Plan Age Table, multiplied by 0.45.

#### Note 5. Plan Termination

The Plan is not subject to Title IV of ERISA; therefore, no benefits are insured by the Pension Benefit Guaranty Corporation.

Although it has not expressed any intention to do so, DMWW may discontinue the Plan at any time in accordance with the provisions of the Plan. In the event the Plan terminates, participants become 100 percent vested in their accrued benefits as of the termination date. DMWW has elected that the assets of the Plan that are available to provide benefits shall be allocated and applied as of the termination date according to the classifications and order of precedence provided under Title IV of ERISA and under any rules, regulations, interpretations or opinion implementing Title IV of ERISA or any other equitable method as determined by the Board of Trustees.

## Des Moines Water Works Pension Plan

### Notes to Basic Financial Statements

#### Note 6. Investment Information

The Plan had the following investments as of December 31, 2016 and 2015.

	2016	2015
Principal Pooled Separate Accounts:		
Fixed Income:		
Core Plus Bond Account	\$ 16,642,387	\$ 14,038,548
Bond Market Index Account	5,518,137	4,765,078
Other Fixed Income	2,449,765	2,285,313
International Equity:		
Overseas Account	4,418,166	3,582,517
Other International Equity	1,478,851	805,650
Large U.S. Equity:		
Large-Cap Growth I Account	6,082,787	5,141,917
Other Large U.S. Equity	8,774,560	6,832,760
Small/Mid U.S. Equity	2,625,696	2,891,728
Balanced/Asset Allocation	989,517	2,056,207
Real Estate	-	2,817,541
Other, Principal Financial Group Inc. Stock	-	2,907,001
	<u>\$ 48,979,866</u>	<u>\$ 48,124,260</u>

**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 of its fair value to changes in market interest rates.

**Credit risk and concentration of credit risk:** Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligations to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The pooled separate accounts held by the Plan are commingled pools rather than individual securities. As a result, these investments are not rated. See the table above for information regarding concentration of credit risk.

As of December 31, 2016 and 2015, the Plan had investments listed in the table below. Amounts are shown in dollars. Effective duration is shown in years.

	2016		2015	
	Fair Value	Effective Duration	Fair Value	Effective Duration
Fixed Income Investments:				
Core Plus Bond Account	\$ 16,642,387	5.69	\$ 14,038,547	5.46
Bond Market Index Account	5,518,137	5.91	4,765,078	5.70
High Yield I Account	2,449,765	3.75	2,285,313	4.24
Total fixed income investments	<u>24,610,289</u>		<u>21,088,938</u>	
Other investments, non-fixed income investments	24,369,577		27,035,322	
Total investments	<u>\$ 48,979,866</u>		<u>\$ 48,124,260</u>	

## Des Moines Water Works Pension Plan

### Notes to Basic Financial Statements

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#### Note 6. Investment Information (Continued)

**Investments measured at net asset value:** The following table summarizes investments for which fair value is measured using the net asset value per share practical expedient as of December 31, 2016 and 2015, respectively. There are no participant redemption restrictions for these investments.

Investment	2016 Value	2015 Value	Unfunded Commitment	Redemption Frequency	Redemption Notice Period
Fixed income	\$ 24,610,289	\$ 21,088,939	\$ -	Immediate	None
International equity	5,897,017	4,388,167	-	Immediate	None
Large U.S. equity	14,857,347	11,974,677	-	Immediate	None
Small/Mid U.S. equity	2,625,696	2,891,728	-	Immediate	None
Balanced/Asset allocation	989,517	2,056,207	-	Immediate	None
Real estate	-	2,817,541	-	Immediate	None
Other	-	2,907,001	-	Immediate	None
Total investments measured at NAV	<u>\$ 48,979,866</u>	<u>\$ 48,124,260</u>	<u>\$ -</u>		

**Rate of return:** For the years ended December 31, 2016 and 2015, the annual money weighted rate of return on Plan investments, net of investment expense was 7.00 percent and (1.27) percent, respectively. The money weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

**Authorized investments:** The Des Moines Water Works Pension Plan's investment policy permits the named fiduciary to consider all asset classes allowed by the Employee Retirement Income Security Act of 1974 (ERISA) as acceptable investment options and to select one or more customized investment portfolios and retain an investment manager to manage the assets of each such portfolio. The following asset classes are permitted for Plan investment options: Stable Value, Domestic Fixed Income, International or Foreign Fixed Income, Real Estate, Domestic Stock, International or Foreign Stock and Balanced/Asset Allocation.

**Asset allocation strategy:** The Des Moines Water Works Pension Plan's named fiduciary asset allocation strategy shall identify target allocations to eligible asset classes and, where appropriate, suitable ranges within which each asset class can fluctuate as a percent of the total fund. Each asset class is to remain suitably invested at all times in either cash (or cash equivalents) or permitted securities within each class. The asset classes may be rebalanced from time to time to take advantage of tactical misvaluations across major asset classes or investment styles, or to align the current asset mix with strategic targets.

## Des Moines Water Works Pension Plan

### Notes to Basic Financial Statements

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#### Note 6. Investment Information (Continued)

The target allocations and long-term expected arithmetic and geometric rates of return for each major asset class are as follows:

Asset Class	Target Allocation	Expected Arithmetic Return	Expected Geometric Return
U.S. Equity - Large Cap	31%	7.85%	6.50%
U.S. Equity - Mid Cap	4	8.10	6.50
U.S. Equity - Small Cap	2	8.55	6.50
Non - U.S. Equity	12	8.10	6.50
REITs	0	7.95	6.10
TIPS	1	3.05	2.85
Core Bond	45	3.75	3.60
High Yield	5	6.70	6.30

**Custodial credit risk:** Custodial credit risk 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. Investments held by the Plan are not subject to custodial credit risk.

On March 26, 2002, the DMWW Board of Trustees approved a revision to the Principal pension contract to change from an immediate participation guarantee contract to a flexible pension investment fund (FPI) that includes a benefit index feature whereby Principal guarantees the sufficiency of assets for certain retirees. The assets covered by the benefit index (known as retired life funds) totaled \$9,180,008 and \$9,442,628 as of December 31, 2016 and 2015, respectively. The benefit index is available to purchase individual annuities for retired participants and is included in the Plan's net position held in trust for pension benefits and net pension obligation calculations.

#### Note 7. Tax Status

The Internal Revenue Service (IRS) has ruled in a determination letter dated November 21, 2014 that the Plan is qualified under applicable sections of the Internal Revenue Code and is, therefore, exempt from federal income taxes. The Plan Administrator believes the Plan is designed and is currently being operated in compliance with the applicable requirements of the Code.

**Des Moines Water Works Pension Plan**

**Required Supplementary Information  
Schedule of Changes in Net Pension Liability  
For the Years Ended December 31, 2016, 2015 and 2014**

	2016	2015	2014
<b>Total Pension Liability</b>			
Interest	\$ 3,423,314	\$ 3,342,170	\$ 3,449,503
Benefit payments	(3,000,082)	(2,826,683)	(2,696,531)
Service cost	523,384	580,106	-
Difference between expected and actual experience	441,617	320,599	305,961
Changes in assumptions	905,072	(600,245)	542,112
Change in attribution method	-	(3,304,155)	-
<b>Net change in total pension liability</b>	<b>2,293,305</b>	<b>(2,488,208)</b>	<b>1,601,045</b>
Total pension liability - beginning of year	<b>53,750,496</b>	56,238,704	54,637,659
Total pension liability - end of year	<b>\$ 56,043,801</b>	<b>\$ 53,750,496</b>	<b>\$ 56,238,704</b>
<b>Plan Net Position</b>			
Contributions - employer	\$ 597,434	\$ 911,175	\$ 906,542
Investment income (loss), net of investment expenses 2016 \$21,585; 2015 \$22,091; 2014 \$22,219	3,274,380	(629,997)	2,680,610
Benefit payments	(3,000,082)	(2,826,683)	(2,696,531)
Administrative expenses	(16,126)	(4,676)	(4,442)
<b>Net change in plan net position</b>	<b>855,606</b>	<b>(2,550,181)</b>	<b>886,179</b>
Total plan net position - beginning of year	<b>48,124,260</b>	50,674,441	49,788,262
Total plan net position - end of year	<b>\$ 48,979,866</b>	<b>\$ 48,124,260</b>	<b>\$ 50,674,441</b>
<b>Net pension liability</b>	<b>\$ 7,063,935</b>	<b>\$ 5,626,236</b>	<b>\$ 5,564,263</b>

Ultimately 10 fiscal years will be displayed. Information for prior years is unavailable.

See note to required supplementary information.

**Des Moines Water Works Pension Plan**

**Required Supplementary Information  
Schedule of Net Pension Liability and Related Ratio  
For the Years Ended December 31, 2016, 2015 and 2014**

	2016	2015	2014
Total pension liability - end of year	\$ 56,043,801	\$ 53,750,496	\$ 56,238,704
Plan net position - end of year	48,979,866	48,124,260	50,674,441
Net pension liability	\$ 7,063,935	\$ 5,626,236	\$ 5,564,263
Plan net position as a percentage of the total pension liability	87.4%	89.5%	90.1%
Covered employee payroll	*	*	*
Net pension liability as a percentage of covered payroll	N/A	N/A	N/A

Ultimately 10 fiscal years will be displayed. Information for prior years is unavailable.

See note to required supplementary information.

\*As the Plan was frozen to future benefit accruals effective December 31, 2013, there was no covered payroll for the years ended December 31, 2016, 2015 and 2014.

**Des Moines Water Works Pension Plan**

**Required Supplementary Information**

**Schedule of Investment Returns**

**For the Years Ended December 31, 2016, 2015 and 2014**

	2016	2015	2014
Annual money-weighted rate of return, net of investment expense	<b>7.00%</b>	(1.27)%	5.51%

Ultimately 10 fiscal years will be displayed. Information for prior years is unavailable.

See note to required supplementary information.

**Des Moines Water Works Pension Plan**

**Required Supplementary Information  
Schedule of Contributions from the Employer  
For the Ten Years Ended December 31, 2016**

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Plan Year Ended December 31:	Annual Required Contribution	Actual Contribution	Contribution Deficiency (Excess)	Covered Payroll	Actual Contributions as a Percent of Covered Payroll
2007	\$ 679,631	\$ 825,000	\$ (145,369)	\$ 11,058,383	7.46%
2008	545,782	800,000	(254,218)	10,947,799	7.31
2009	1,023,319	1,023,319	-	11,694,902	8.75
2010	1,541,866	1,541,866	-	12,318,720	12.52
2011	2,204,886	2,204,886	-	12,436,915	17.73
2012	2,782,486	2,782,486	-	12,186,884	22.83
2013	2,915,710	2,915,710	-	11,433,783	25.50
2014	906,542	906,542	-	-	N/A
2015	911,175	911,175	-	-	N/A
2016	796,578	597,434	199,144	-	N/A

See note to required supplementary information.

## Des Moines Water Works Pension Plan

### Note to Required Supplementary Information

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The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated below.

	December 31, 2016														
Actuarial valuation:															
Frequency	Annual														
Cost method	Entry age normal														
Amortization	The amortization method used is Level Dollar Over a Closed Period. The weighted average remaining period is 15 years.														
Assumptions:															
Long-term rate of return	6.25% per year														
Salary increases	N/A - Attribution is made on an individual basis, beginning with the first period in which the employee's service accrues pension benefit through all assumed exit ages through retirement. The projected inflation rate of 2.0% has been used in place of the projected rate of change in salary.														
Retirement age	Retirement Age Based Table as follows:														
	<table><thead><tr><th>Age</th><th>Rate</th></tr></thead><tbody><tr><td>55</td><td>25%</td></tr><tr><td>56 - 61</td><td>15</td></tr><tr><td>62</td><td>20</td></tr><tr><td>63</td><td>5</td></tr><tr><td>64</td><td>10</td></tr><tr><td>65 and older</td><td>100</td></tr></tbody></table>	Age	Rate	55	25%	56 - 61	15	62	20	63	5	64	10	65 and older	100
Age	Rate														
55	25%														
56 - 61	15														
62	20														
63	5														
64	10														
65 and older	100														
Mortality	Adjusted RP-2014 Mortality with Scale MP-2016 - Generational MI scale, annuitant, male and female.														
Disability	1987 Commissioner's Group Disability Table, six month elimination period, male and female.														
Rate of withdrawal	2003 Society of Actuaries Small Plan Age Table, multiplied by 0.45.														

## Des Moines Water Works Pension Plan

### Note to Required Supplementary Information

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December 31, 2015

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Actuarial valuation:

Frequency Annual  
Cost method Entry age normal

Amortization The amortization method used is Level Dollar Over a Closed Period.  
The weighted average remaining period is 15 years.

Assumptions:

Long-term rate of return 6.5% per year  
Salary increases N/A - Attribution is made on an individual basis, beginning with the first period in which the employee's service accrues pension benefit through all assumed exit ages through retirement. The projected inflation rate of 2.5% has been used in place of the projected rate of change in salary.

Retirement age Retirement Age Based Table as follows:

Age	Rate
55	25%
56	15
57 - 61	5
62	20
63	5
64	10
65 and older	100

Mortality Adjusted RP-2014 Mortality with Scale MP-2015 - Generational MI scale, annuitant, male and female.

Disability 1987 Commissioner's Group Disability Table, six month elimination period, male and female.

Rate of withdrawal 2003 Society of Actuaries Small Plan Age Table, multiplied by 0.45.

# Des Moines Water Works Pension Plan

Report to the Board of Water Works Trustees  
June 19, 2017





RSM US LLP

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June 19, 2017

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

We are pleased to present this report related to our audit of the financial statements of Des Moines Water Works Pension Plan (Plan) for the year ended December 31, 2016. This report summarizes certain matters required by professional standards to be communicated to you in your oversight responsibility for Des Moines Water Works Pension Plan's financial reporting process.

This report is intended solely for the information and use of the Board of Water Works Trustees and management and is not intended to be, and should not be, used by anyone other than these specified parties. It will be our pleasure to respond to any questions you have about this report. We appreciate the opportunity to continue to be of service to Des Moines Water Works Pension Plan.

*RSM US LLP*

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## Required Communications

Generally accepted auditing standards (AU-C 260, *The Auditor's Communication With Those Charged With Governance*) require the auditor to promote effective two-way communication between the auditor and those charged with governance. Consistent with this requirement, the following summarizes our responsibilities regarding the financial statement audit as well as observations arising from our audit that are significant and relevant to your responsibility to oversee the financial reporting process.

Area	Comments
<b>Our Responsibilities With Regard to the Financial Statement Audit</b>	Our responsibilities under auditing standards generally accepted in the United States of America have been described to you in our arrangement letter dated April 3, 2017. Our audit of the financial statements does not relieve management or those charged with governance of their responsibilities which are also described in that letter.
<b>Overview of the Planned Scope and Timing of the Financial Statement Audit</b>	We have issued a separate communication regarding the planned scope and timing of our audit and have discussed with you our identification of and planned audit response to significant risks of material misstatement.
<b>Accounting Policies and Practices</b>	<p data-bbox="592 865 1421 1014"><b>Preferability of Accounting Policies and Practices</b> Under generally accepted accounting principles, in certain circumstances, management may select among alternative accounting practices. In our view, in such circumstances, management has selected the preferable accounting practice.</p> <p data-bbox="592 1050 1421 1199"><b>Adoption of, or Change in, Accounting Policies</b> Management has the ultimate responsibility for the appropriateness of the accounting policies used by the Plan. Following is a description of significant accounting policies or their application that were either initially selected or changed during the year.</p> <ul data-bbox="592 1234 1421 1444" style="list-style-type: none"><li data-bbox="592 1234 1421 1444">• GASB Statement No. 72, <i>Fair Value Measurement and Application</i>, defines fair value and describes how fair value should be measured, what assets and liabilities should be measured at fair value, and what information about fair value should be disclosed in the notes to the financial statements. The Plan's investments are reported at fair value with the required disclosures added to the financial statements.</li></ul> <p data-bbox="592 1480 1421 1600"><b>Significant or Unusual Transactions</b> We did not identify any significant or unusual transactions or significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.</p> <p data-bbox="592 1635 1421 1780"><b>Management's Judgments and Accounting Estimates</b> Summary information about the process used by management in formulating particularly sensitive accounting estimates and about our conclusions regarding the reasonableness of those estimates is in the attached Summary of Significant Accounting Estimates.</p>
<b>Audit Adjustments</b>	There were no audit adjustments made to the original trial balance presented to us to begin our audit.

<b>Area</b>	<b>Comments</b>
<b>Uncorrected Misstatements</b>	Uncorrected misstatements are summarized in the attached Summary of Uncorrected Misstatements
<b>Other Information in Documents Containing Audited Financial Statements</b>	Our responsibility for other information in documents containing the Plan's audited financial statements is to read the information and consider whether its content or manner of its presentation is materially inconsistent with the financial information covered by our auditor's report or whether it contains a material misstatement of fact. However, we are aware that the Plan's financial statements are included in the Des Moines Water Works' financial report.
<b>Disagreements With Management</b>	We encountered no disagreements with management over the application of significant accounting principles, the basis for management's judgments on any significant matters, the scope of the audit, or significant disclosures to be included in the financial statements.
<b>Consultations With Other Accountants</b>	We are not aware of any consultations management had with other accountants about accounting or auditing matters.
<b>Significant Issues Discussed With Management</b>	No significant issues arising from the audit were discussed with or the subject of correspondence with management.
<b>Significant Difficulties Encountered in Performing the Audit</b>	We did not encounter any significant difficulties in dealing with management during the audit.
<b>Significant Written Communications Between Management and Our Firm</b>	Copies of a significant written communication between our firm and the management of the Plan, the representation letter provided to us by management, is attached as Exhibit A.

## Summary of Significant Accounting Estimates

Accounting estimates are an integral part of the preparation of financial statements and are based upon management's current judgment. The process used by management encompasses their knowledge and experience about past and current events and certain assumptions about future events. You may wish to monitor throughout the year the process used to determine and record these accounting estimates. The following describes the significant accounting estimates reflected in the Plan's December 31, 2016 financial statements.

Estimate	Accounting Policy	Management's Estimation Process	Basis for Our Conclusions on Reasonableness of Estimate
<b>Fair Value of Investments</b>	The Plan's investments are stated at fair value and the net appreciation or depreciation in fair value is recognized in the statement of changes in plan net position.	Investments in pooled separate accounts are reported at fair value, using net asset value (NAV) as a practical expedient.	We tested the fair value of a sample of underlying investments in pooled separate accounts, using an independent pricing source, and found the fair value of the investments reported to be consistent with fair values we obtained. Based on our procedures, we conclude that management's estimate is reasonable.
<b>Net Pension Liability and Actuarial Assumptions</b>	Net pension liability is disclosed in the notes to the financial statements.	The Plan uses an actuary to calculate the net pension liability based on assumptions established by the Plan from past history. Assumptions and estimates include the expected rate of investment return on plan assets, the interest rate used to determine the present value of liabilities, and certain employee-related factors. The employee-related factors include turnover, retirement age and mortality. These factors and the estimated rate of return are based upon historical and general market data. Management and the Board of Waterworks Trustees review the actuarial results.	We tested census data used by the actuary in their valuation; agreed the total fair market value of investments used for the valuation to Plan trust statements; and used an internal valuation specialist to review the methodology and assumptions used by the actuary. We concluded the estimate is reasonable.

# Summary of Uncorrected Misstatements

During the course of our audit, we accumulated an uncorrected misstatement that was determined by management to be immaterial to the statements of plan net position and changes in plan net position and to the related financial statement disclosures. Following is a summary of those differences.

Description:	Debit (Credit) to Correct the Misstatements				
	Assets	Liabilities	Net Position	Revenue	Expense
Carryover impact from previous years	\$ -	\$ -	\$ -	\$ -	\$ -
Current misstatement, factual error:					
understatement of required employer contributions	199,000	-	-	(199,000)	-
<b>Subtotal</b>	<u>\$ 199,000</u>	<u>\$ -</u>	<u>-</u>	<u>\$ (199,000)</u>	<u>\$ -</u>
Effect of current year passed adjustments on net position			(199,000)		
<b>Total</b>			<u>\$ (199,000)</u>		

**Exhibit A—Significant Written Communications between Management and Our Firm**

June 19, 2017

RSM US LLP  
201 N. Harrison Street, Suite 300  
Davenport, IA 52801

This representation letter is provided in connection with your audits of the financial statements of Des Moines Water Works Pension Plan (the Plan), which comprise the statements of plan net position as of December 31, 2016 and 2015; the related statements of changes in plan net position for the years then ended; and the related notes to the financial statements, for the purpose of expressing an opinion on whether the financial statements present fairly, in all material respects, the plan net position and changes in plan net position in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

We confirm, to the best of our knowledge and belief, that as of June 19, 2017:

**Financial Statements**

1. We have fulfilled our responsibilities, as set out in the terms of the audit arrangement letter dated April 3, 2017, for the preparation and fair presentation of the financial statements referred to above in accordance with U.S. GAAP.
2. The Plan is a pension trust fund of Des Moines Water Works.
3. We acknowledge our responsibility for 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.
4. We acknowledge our responsibility for the design, implementation and maintenance of internal controls and programs to provide reasonable assurance that fraud is prevented and detected.
5. We are responsible for making the accounting estimates included in the financial statements. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable and reflect our judgment based on our knowledge and experience about past and current events, and our assumptions about conditions we expect to exist and courses of action we expect to take.

In that regard, we are responsible for the estimation methods and assumptions used in measuring assets and liabilities reported or disclosed at fair value, including information obtained from brokers, pricing services or other third parties. The methods and significant assumptions used to determine fair values of the financial instruments are as follows:

The Plan's investments in pooled separate accounts are stated at net asset value.

Our valuation methodologies have been consistently applied from period to period. The methods and assumptions used result in a measure of fair value appropriate for financial statement measurement and disclosure purposes.

6. Related-party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP.
7. There have been no events subsequent to the date of the financial statements for which U.S. GAAP requires adjustment or disclosure.
8. We are not aware of any known actual or possible litigation and claims that would be required to be disclosed in accordance with U.S. GAAP.
9. We have no intention to terminate the Plan.
10. We have properly reported and disclosed amendments to the Plan instrument, if any.
11. We agree with the findings of specialist in evaluating the Actuarially Determined Contribution (ADC) and Net Pension Liability (NPL) and have adequately considered the qualifications of the specialists in determining the amounts and disclosures used in the financial statements and underlying accounting records. We did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an impact on the independence or objectivity of the specialist.
12. We have informed you of an uncorrected misstatement as of and for the year ended December 31, 2016. We believe that the effects of the uncorrected misstatement summarized below is immaterial, to the basic financial statements. For purposes of this representation, we consider items to be material, regardless of their size, if they involve the misstatements or omission of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatements.

Description:	Debit (Credit) to Correct the Misstatements				
	Assets	Liabilities	Net Position	Revenue	Expense
Carryover impact from previous years	\$ -	\$ -	\$ -	\$ -	\$ -
Current misstatement, factual error: understatement of required employer contributions	199,000	-	-	(199,000)	-
<b>Subtotal</b>	<u>\$ 199,000</u>	<u>\$ -</u>	<u>-</u>	<u>\$ (199,000)</u>	<u>\$ -</u>
Effect of current year passed adjustments on net position			(199,000)		
<b>Total</b>			<u>\$ (199,000)</u>		

**Supplementary Information**

13. With respect to supplementary information presented in relation to the financial statements as a whole:
- a. We acknowledge our responsibility for the presentation of such information.
  - b. We believe such required supplementary information is measured and presented in accordance with guidelines prescribed by accounting principles generally accepted in the United States of America.
  - c. We believe that the supplementary information, including its form and content, is fairly stated in all material respects.
  - d. The methods of measurement or presentation have not changed from those used in the prior period.
  - e. We will only present the supplemental schedules together with the audited financial statements and auditor's report thereon and will not separate the supplementary information from the audited financial statements and auditor's report thereon in any document that contains such information.

**Information Provided**

14. We have provided you with:
- a. Access to all information of which we are aware that is relevant to the preparation and fair presentation of the financial statements such as records, documentation and other matters;
  - b. Additional information that you have requested from us for the purpose of the audits;
  - c. Unrestricted access to persons within the Plan from whom you determined it necessary to obtain audit evidence;
  - d. The currently effective version of the Plan document, the trust agreement or insurance contracts, and all related amendments. The Plan was most recently amended on December 15, 2015, and effective as of January 1, 2015;
  - e. All correspondence, filings, reports and determinations with the Internal Revenue Service (IRS) and the maintenance of its tax-exempt status;
  - f. All Plan financial records and related data;
  - g. All minutes of the meetings of the Finance and Audit Committee of the Board of Des Moines Water Works Trustees;
  - h. Actuarial valuation reports and other reports prepared by the actuary for the Plan and the Plan Sponsor.

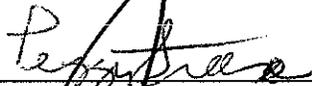
15. All transactions have been recorded in the accounting records and are reflected in the financial statements. The Sponsor's management designated an individual with sufficient skills, knowledge and experience to oversee the financial statement preparation process and to take responsibility for the results of the financial statement preparation services. This individual performed a detailed review of the financial statements consisting of the following procedures:
  - a. Reconciliation of the trust activity to the financial statements.
  - b. Review and approval of the adequacy of financial statement disclosures.
  - c. Review and approval of schedules and calculations supporting the amounts included in the notes to the financial statements.
  - d. Applying analytical procedures to financial statements.
16. We have disclosed to you the results of our assessment of risk that the financial statements may be materially misstated as a result of fraud.
17. We have no knowledge of any allegations of fraud or suspected fraud affecting the Plan involving:
  - a. Management.
  - b. Employees who have significant roles in internal control.
  - c. Others where the fraud could have a material effect on the financial statements.
18. We have no knowledge of any allegations of fraud or suspected fraud affecting the Plan received in communications from employees, former employees, participants, regulators, beneficiaries, service providers, third-party administrators or others.
19. We are not aware of any pending or threatened litigation and claims, violations or possible violations of laws and regulations, or other matters, including gain or loss contingencies, whose effects should be considered when preparing the financial statements, and neither we nor the Plan Sponsor, or others acting on behalf of the Plan, have consulted a lawyer concerning litigation and claims or other matters affecting the Plan.
20. We have disclosed to you the identity of the Plan's related parties and parties in interest and all the related-party and party-in-interest relationships and transactions of which we are aware.
21. We are aware of no significant deficiencies, including material weaknesses, in the design or operation of internal controls that could adversely affect the Plan's ability to record, process, summarize and report financial data.
22. We have no plans or intentions that may materially affect the carrying value or classification of assets or liabilities.
23. The Plan has satisfactory title to all owned assets that are recorded at fair value.
24. Investment securities category of custodial credit risk, interest rate risk, and concentrations of credit risk have been properly disclosed.

25. With respect to the actuarial liabilities reflected in the financial statements:
  - a. The information provided to the Plan's actuary to perform the valuation is accurate and there have been no omissions from the participants' data provided to the Plan's actuary for the purpose of determining the Net Pension Liability and other actuarially determined amounts in the financial statements.
  - b. There have been no changes in the actuarial methods or assumptions used in calculating amounts recorded or disclosed in the financial statements other than those disclosed in the actuary's report and financial statements.
  - c. There have been no changes in Plan provisions between the actuarial valuation date and the date of this letter.
26. We have answered your questions about the Plan's tax compliance to the best of our knowledge and belief.
27. There have been no communications, whether written or oral, from regulatory agencies concerning noncompliance or deficiencies in the operation of the Plan.
28. We have complied with (a) all aspects of contractual agreements, including provisions of the Plan, that would have a material effect on the financial statements in the event of noncompliance, and (b) all participant eligibility and coverage requirements of the Plan.
29. We are not aware of any instances of noncompliance or suspected noncompliance with laws and regulations whose effects should be considered when preparing financial statements.
30. The Internal Revenue Service has determined and informed the Plan Sponsor, by a letter dated November 21, 2014, that the Plan is qualified and the trust established under the Plan is tax-exempt under the appropriate sections of the IRC. We have operated the Plan and trust in a manner that did not jeopardize this tax status.
31. We have reviewed the complementary user entity control considerations of the Service Organization Controls (SOC 1) Report for Principal Life Insurance Company Retirement Plan Processing Services dated December 1, 2016 for the period ended September 30, 2016, and we believe all applicable controls are properly designed and implemented and operating effectively.
32. There are no:
  - a. Material period-end adjusting entries affecting prior annual periods.
  - b. Investments in default or considered to be uncollectible.
  - c. Guarantees, whether written or oral, under which the Plan is contingently liable to a bank or other lending institution.
  - d. Financial instruments with off-balance-sheet-risk.
33. We have omitted Management's Discussion and Analysis, which is required to supplement the basic financial statements. We do not believe this missing information has any impact on the basic financial statements.

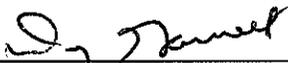
34. During the course of your audits, you may have accumulated records containing data that should be reflected in our books and records. All such data have been so reflected. Accordingly, copies of such records in your possession are no longer needed by us.

Des Moines Water Works

 6.10.17  
\_\_\_\_\_  
William Stowe, Chief Executive Officer

  
\_\_\_\_\_  
Peggy Freese, Chief Financial Officer

  
\_\_\_\_\_  
Michelle Holland, Controller

  
\_\_\_\_\_  
Doug Garhett, Human Resources, Manager, Plan Administrator

