Office of the Washington State Auditor
Pat McCarthy

Financial Statements and Federal Single Audit Report

City of Des Moines

King County

For the period January 1, 2016 through December 31, 2016

Published August 15, 2017

Report No. 1019681

Office of the Washington State Auditor
Pat McCarthy

August 15, 2017

Council
City of Des Moines
Des Moines, Washington

Report on Financial Statements and Federal Single Audit

Please find attached our report on the City of Des Moines' financial statements and compliance with federal laws and regulations.

We are issuing this report in order to provide information on the City's financial condition.

Sincerely,

Pat McCarthy

Pat McCarthy

State Auditor

Olympia, WA

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

City of Des Moines
King County
January 1, 2016 through December 31, 2016

SECTION I – SUMMARY OF AUDITOR'S RESULTS

The results of our audit of the City of Des Moines are summarized below in accordance with Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

Financial Statements

We issued an unmodified opinion on the fair presentation of the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information in accordance with accounting principles generally accepted in the United States of America (GAAP).

Internal Control over Financial Reporting:

- *Significant Deficiencies:* We reported no deficiencies in the design or operation of internal control over financial reporting that we consider to be significant deficiencies.
- *Material Weaknesses:* We identified no deficiencies that we consider to be material weaknesses.

We noted no instances of noncompliance that were material to the financial statements of the City.

Federal Awards

Internal Control over Major Programs:

- *Significant Deficiencies:* We reported no deficiencies in the design or operation of internal control over major federal programs that we consider to be significant deficiencies.
- *Material Weaknesses:* We identified no deficiencies that we consider to be material weaknesses.

We issued an unmodified opinion on the City's compliance with requirements applicable to its major federal program.

We reported no findings that are required to be disclosed in accordance with 2 CFR 200.516(a).

Identification of Major Federal Programs:

The following program was selected as a major program in our audit of compliance in accordance with the Uniform Guidance.

CFDA No.	Program or Cluster Title
20.205	Highway Planning and Construction

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by the Uniform Guidance, was $750,000.

The City qualified as a low-risk auditee under the Uniform Guidance.

SECTION II – FINANCIAL STATEMENT FINDINGS

None reported.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

City of Des Moines
King County
January 1, 2016 through December 31, 2016

Council
City of Des Moines
Des Moines, Washington

We have audited, 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, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Des Moines, King County, Washington, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated August 15, 2017.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered the City'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 the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City'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 City'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 the City's financial statements are free from material misstatement, we performed tests of the City's 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 City'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 City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Pat McCarthy

Pat McCarthy

State Auditor

Olympia, WA

August 15, 2017

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH THE UNIFORM GUIDANCE

City of Des Moines
King County
January 1, 2016 through December 31, 2016

Council
City of Des Moines
Des Moines, Washington

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

We have audited the compliance of the City of Des Moines, King County, Washington, with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended December 31, 2016. The City's major federal programs are identified in the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City'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 the audit requirements of Title 2 *U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 the City'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. Our audit does not provide a legal determination on the City's compliance.

Opinion on Each Major Federal Program

In our opinion, the City 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 December 31, 2016.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Management of the City 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 the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program in order 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 the Uniform Guidance, 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 the City'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 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.

Purpose of this Report

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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Pat McCarthy

State Auditor

Olympia, WA

August 15, 2017

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

City of Des Moines
King County
January 1, 2016 through December 31, 2016

Council
City of Des Moines
Des Moines, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Des Moines, King County, Washington, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed on page 14.

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 opinions 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 City'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 City'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 opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Des Moines, as of December 31, 2016, and the respective changes in financial position and, where applicable, cash flows thereof, and the budgetary comparison for the General Fund, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

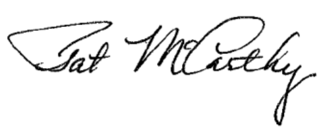
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 15 through 25, information on postemployment benefits other than pensions on page 69 and pension plan information on pages 70 through 73 be presented to supplement the 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.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). This schedule is not a required part of the basic 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 basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated August 15, 2017 on our consideration of the City'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. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



Pat McCarthy

State Auditor

Olympia, WA

August 15, 2017

FINANCIAL SECTION

City of Des Moines
King County
January 1, 2016 through December 31, 2016

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2016

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2016
Statement of Activities – 2016
Balance Sheet – Governmental Funds – 2016
Statements of Revenues, Expenditures and Changes in Fund Balance – Governmental Funds – 2016
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of Governmental Funds to the Statement of Activities – 2016
Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – General Fund – 2016
Statement of Net Position – Proprietary Funds – 2016
Statement of Revenues, Expenses and Changes in Net Position – Proprietary Funds – 2016
Statement of Cash Flows – Proprietary Funds – 2016
Notes to Financial Statements – 2016

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Contributions and Schedule of Funding Progress – 2016
Schedule of Proportionate Share of the Net Pension Liability – PERS 1 and PERS 2&3 – 2016
Schedule of Proportionate Share of the Net Pension Assets – LEOFF 1 and LEOFF 2 – 2016
Schedule of Employer Contributions – PERS 1 and PERS 2 – 2016
Schedule of Employer Contributions – LEOFF 1 and LEOFF 2 – 2016

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Expenditures of Federal Awards – 2016
Notes to the Schedule of Expenditures of Federal Awards – 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Des Moines, we offer readers of the financial statements this narrative overview and analysis of the financial activities of the City of Des Moines for the fiscal year ended December 31, 2016. We encourage readers to consider the information furnished in our letter of transmittal which can be found starting on page 1 of this report. **All amounts, unless otherwise indicated are expressed in thousands of dollars.**

FINANCIAL HIGHLIGHTS

Government-wide

- The assets and deferred outflows of resources of the City of Des Moines exceeded its liabilities and deferred inflows by $201,505. Of this amount $5,907 ($2,093 for governmental activities and $3,814 for business-type activities) represents unrestricted net position which may be used to meet the City's ongoing obligations to citizens and creditors.

- The City's total net position increased by $16,891 in 2016. The business-type activities increased net position by $2,344 while the government activities increased net position by $14,468.

Fund Level

- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of $10,200, an increase of $4,758 in comparison with the prior year. $3,102 of the increase comes from the general funds (significant improvement in all revenue sources other than fines and forfeitures); $794 from the construction fund and $863 from increases in the nonmajor governmental funds. Approximately 29% of the combined governmental fund balance, or $2,927 is unrestricted. $134 is assigned and the remainder, $2,793 is unassigned and available for general appropriation.

- In order to reverse the past continued decline in the General Fund's ending fund balance, City Council took several significant actions late 2015 to increase 2016's revenues and to contain costs. To contain costs, the city eliminated 1 FTE code enforcement position, .5 FTE court clerk position and downgraded and reduced by .25 FTE to a recreational specialist/Sr. Center position. Additionally service levels were reduced to provide budgeted savings of $18,150 in park maintenance, $9,600 in janitorial maintenance and city wide furloughs were implemented which saved the city about $120,000. To generate new revenues the city raised existing utility taxes, increased various fees and added a Red Light Running public safety program at three intersections.

- At the end of the current fiscal year, the unrestricted fund balance for the general fund was $2,793 which represents 15% of total general fund annual expenditures. $2,793 is unassigned and available for general appropriation.

Capital Projects

Spending on governmental activities included in the Capital Improvement Plan during 2016 totaled $8,953 with $8,622 of that spent on transportation construction projects. Some of the larger projects are:

- **24th Ave South** ($27)**.** This is an $8.5 million dollar project that constructs a five-lane roadway with pedestrian and bicycle facilities to replace a two lane road. Numerous development projects are planned along this corridor including the Des Moines Creek Business Park and aviation logistics facilities in the neighboring City of SeaTac. Approximately $3 million comes from grant funding, another $3.5 million from the Port another $1.5 million from right of way fees and the rest from various sources.
- **South 216th St Segment 1A** ($3,412). This is a $6.3 million dollar project to widen the roadway to provide an additional two travel lanes in each direction, a continuous left turn lane, a U-turn pocket, bicycle lanes, planter strips and sidewalks. Approximately $3.6 million of this project is grant funded.

- **Redondo Boardwalk** ($4,051). This is a $4.7 million dollar project to replace the boardwalk located in the Redondo area and which runs above the tide flats. The boardwalk was destroyed in a 2014 storm. Approximately $4.2 of this project is grant funded.
- **Barnes Creek Trail/SR 509** ($90). This is a $1 million dollar project to develop the SR 509 right-of-way from South 216th Street to Kent-Des Moines Road for a two mile multi-use trail connecting the Des Moines Creek Trail and Highline College. Approximately $708 is grant funded with the rest from various sources.

Long-Term Debt

The City's total debt decreased by $849. This amount represents the net difference between net issuances, payments, refunding of outstanding bonded debt, external loans and leases payable and amortization of debt premiums. Debt principal retirements on notes, loans, bonds and capital leases during 2016 totaled $819.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City of Des Moines's basic financial statements. The basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) the notes to the financial statements. This report also includes supplementary information intended to furnish additional detail to support the basic financial statements themselves.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the City of Des Moines' finances in a manner similar to a private-sector business. The *Statement of Net Position* presents information on all of the City's assets and deferred outflows as well as liabilities and deferred inflows with the difference between the two groups 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 City is improving or deteriorating.

The statement of activities presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of the related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. uncollected taxes and earned but unused vacation leave).

The government-wide financial statements distinguish functions of the City of Des Moines that are principally supported by taxes and intergovernmental revenues (Governmental Activities) from activities that are supported by fees and charges (Business-Type Activities). The governmental activities of the City of Des Moines include general government, judicial, public safety, transportation, natural and economic environment, social services, culture and recreation and interest on long-term debt. The business-type activities include the Marina and Surface Water Utility.

The government-wide financial statements can be found on pages **22-23** of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Des Moines, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the City funds can be divided into two categories: governmental funds and proprietary funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statements of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City of Des Moines maintains 12 individual governmental funds including the general fund. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the general fund, which is a major fund as defined by the Governmental Accounting Standards Board. In 2016 the general fund and the construction fund are major governmental funds. Data from the other funds are combined into a single, aggregate presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *Combining Statements* elsewhere in this report.

The City of Des Moines adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found starting on page **24** of this report.

Proprietary funds. The City of Des Moines maintains two types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses an enterprise funds to account for the Marina and Surface Water Utility. *Internal service funds* are an accounting device used to accumulate and allocate costs internally to the City's various functions. The City uses internal service funds to account for it equipment maintenance and replacement, facility repair and replacement, computer equipment and software replacement, self- insurance programs and unemployment compensation. As these internal activities predominantly benefit governmental rather than business-type functions, they have been included with *governmental activities* in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. Data from the internal service funds are combined into a single, aggregated presentation in the basic proprietary fund financial statements starting on page **28.**

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found starting on page **31**.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net Position. As noted earlier, net position over time may serve as a useful indicator of a government's financial position. In the case of the City of Des Moines, assets and deferred outflows of resources exceeded liabilities and deferred inflows by $201,505 at December 31, 2016.

The largest portion of the City's net position (93%) reflects its investment in capital assets (e.g., land, infrastructure, buildings, machinery and equipment) less any related outstanding debt to acquire those assets. The City of Des Moines uses these assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City's investment in its capital assets are reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other resources, since the capital assets themselves cannot be used to liquidate these liabilities. 4% of net position represents resources that are subject to constitutional or external restrictions on how they may be used. The remaining balance of unrestricted net position (3%) may be used to meet the City's ongoing obligations to citizens and creditors. 2015 ending balances for Deferred Outflows, Deferred Inflows and Net Position in the table below have been restated to include the effect of a prior period adjustment. See Note 5 E.

City of Des Moines Net Position (in thousands)

	Governmental Activities		Business Activities		Total Primary Government	
	2016	2015	2016	2015	2016	2015
Current assets	$ 17,033	$ 10,388	$ 5,727	$ 5,337	$ 22,760	$ 15,725
Capital assets	167,986	158,976	28,290	27,575	196,276	186,551
Other assets	975	2,214	795		1,770	2,214
Total assets	185,994	171,578	34,812	32,912	220,806	204,490
Deferred outflows	1,477	858	338	265	1,815	1,123
Current liabilities	2,816	1,917	1,118	1,008	3,934	2,925
Noncurrent liabilities	9,671	9,032	7,337	7,678	17,008	16,710
Total liabilities	12,487	10,949	8,455	8,686	20,942	19,635
Deferred inflows	139	1,109	35	176	174	1,285
Net position:						
Investment in capital assets	165,480	156,178	22,845	20,796	188,325	176,974
Restricted	7,273	4,056			7,273	4,056
Unrestricted	2,093	144	3,814	3,519	5,907	3,663
Total net position -2015 Restated See Note 5.E.	$ 174,846	$ 160,378	$ 26,659	$ 24,315	$ 201,505	$ 184,693

Changes in Net Position. At the end of the current fiscal year, the City of Des Moines is able to report positive balances in all three categories of net position, both the government as a whole, as well as for its separate governmental and business-type activities. The same held true for the prior fiscal year prior to the restatement of 2015 balances.

During the current fiscal year the government's net position increased by $16,812 (from the restated 2015 ending balances). The increase represents the degree to which ongoing revenues have exceeded increases in ongoing expenses through cost containment measures and increasing revenues.

Increase in Restricted net position is in the most part due to a $794 increase in restricted capital funding sources accumulated for future capital use and a $1,648 increase in restricted fund balance in the General Fund (which represent fees and permit revenue still on hand at December 31, 2016 which will be used to pay for services performed after December 31, 2016 and unspent donations). See the FINANCIAL ANALYSIS OF THE CITY'S FUNDS section starting on page **16** for more information relating to specific funds.

Increases in Unrestricted net position and Current assets increased as the overall financial health of the city increased. With increased revenues and steady expenses, current assets such as Cash and Investments on hand at December 31 has significantly increased over the prior year. See the FINANCIAL ANALYSIS OF THE CITY'S FUNDS section starting on page **16** for more information relating to specific funds.

The changes to Deferred Inflows/Outflows are primarily related to actuarial activity related to pensions. Deferred Inflows/Outflows are affected by such things as the difference between actuarially expected and actual experience, differences between expected and actual investment earnings and changes in actuarial assumptions.

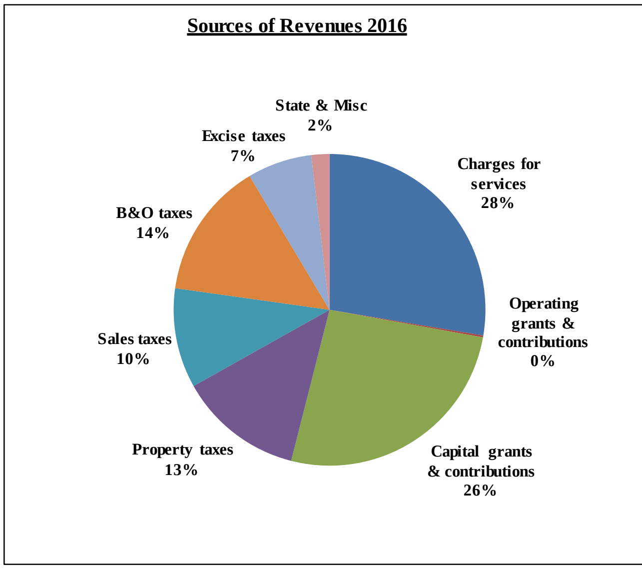
City of Des Moines Change in Net Position (in thousands)

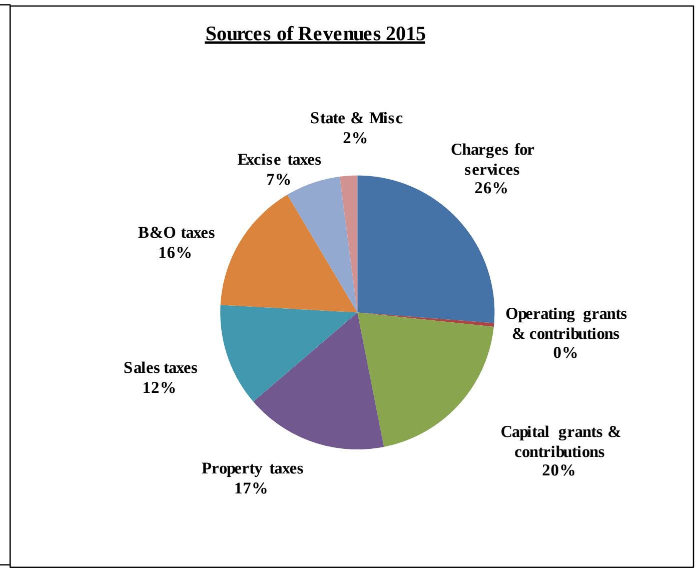
	Governmental Activities		Business Activities		Total Primary Government	
	2016	2015	2016	2015	2016	2015
Revenues						
Program revenues:						
Charges for services	$ 10,122	$ 6,920	$ 7,215	$ 6,833	$ 17,337	$ 13,753
Operating grants & contributions	70	113	23	90	93	203
Capital grants & contributions	9,569	5,337	1,619	376	11,188	5,713
General revenues:						
Property taxes	4,726	4,434			4,726	4,434
Other taxes	11,444	9,024			11,444	9,024
Investment and misc	689	545	32	6	721	551
Total revenues	36,620	26,373	8,889	7,305	45,509	33,678
Program expenses:						
General government	3,595	3,570			3,595	3,570
Public safety	9,173	8,504			9,173	8,504
Transportation	4,070	3,859			4,070	3,859
Natural & economic environment	1,908	1,738			1,908	1,738
Social services	391	432			391	432
Culture and recreation	2,945	2,873			2,945	2,873
Interest on long term debt	100	109			100	109
Marina			3,377	3,573	3,377	3,573
Surface water management			3,138	2,704	3,138	2,704
Total expenses	22,182	21,085	6,515	6,277	28,697	27,362
Changes in net position	14,438	5,288	2,374	1,028	16,812	6,316
Transfers	30	1	(30)	(1)	-	-
Total changes in net position	$ 14,468	$ 5,289	$ 2,344	$ 1,027	$ 16,812	$ 6,316

Governmental activities. Governmental activities increased net position by $14,438 plus transfers in of $30 from enterprise funds to capital funds to pay for their share of the financial systems replacement project. While expenses increased slightly ($30) due to net effect of cost containment measures offsetting contractual personnel cost and by $623 in one-time write-off of SCORE jail start up costs, most of the change is due to the $10,247 increase in revenues. Taxes have increased 20% overall. Property tax revenues increased 7% with the continued rise in property values and new construction activity. Sales tax revenues have increased 18% and B&O taxes by 27% due to two factors: 1) the general economic recovery which allows citizens to spend more of their disposable income and additional sales tax on the upturn in construction activity within the City limits. Excise taxes are up 44% due to 2016 utility service rate increases, utility tax rate increases and real estate excise taxes are up with the increase in real estate sales activity. City council raised utility taxes as follows: Sanitation tax from 8% to 18% with the increase going to the Street Maintenance fund; Cable tax from 8% to 10% with the increase going to the General Fund and Surface Water Management tax from 8% to 15% with 2% of the 15% rate going to the Street Fund and 13% of the 15% rate going to the General Fund. See the FINANCIAL ANALYSIS OF THE CITY'S FUNDS section starting on page **16** for more information relating to specific funds.

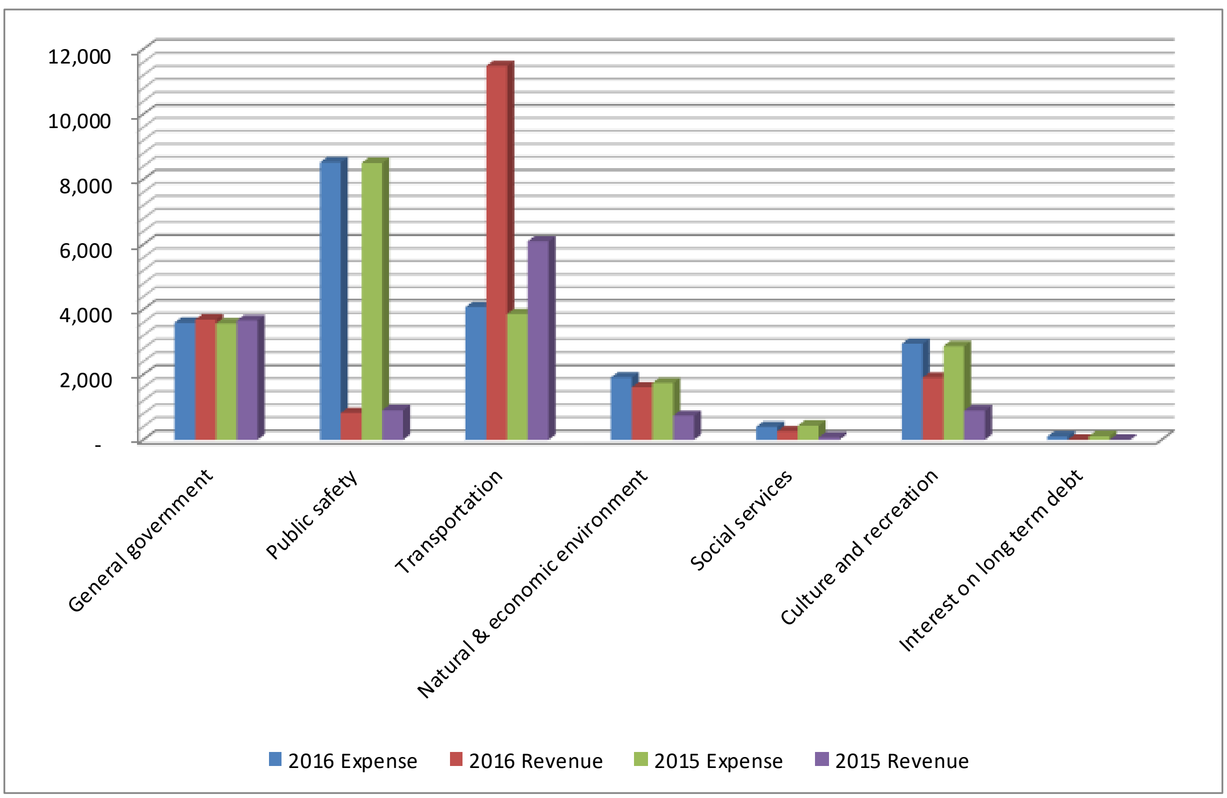
Capital grant activity fluctuates year to year based on grant awards and construction projects. Most grant awards are related to transportation projects. A major grant funded project with nearly all revenues occurring in 2016 was the Boardwalk Replacement project which resulted in over $4 million grant revenues. See the FINANCIAL ANALYSIS OF THE CITY'S FUNDS section starting on page **16** for more information relating to specific funds.

GOVERNMENTAL ACTIVITIES – REVENUES BY SOURCE



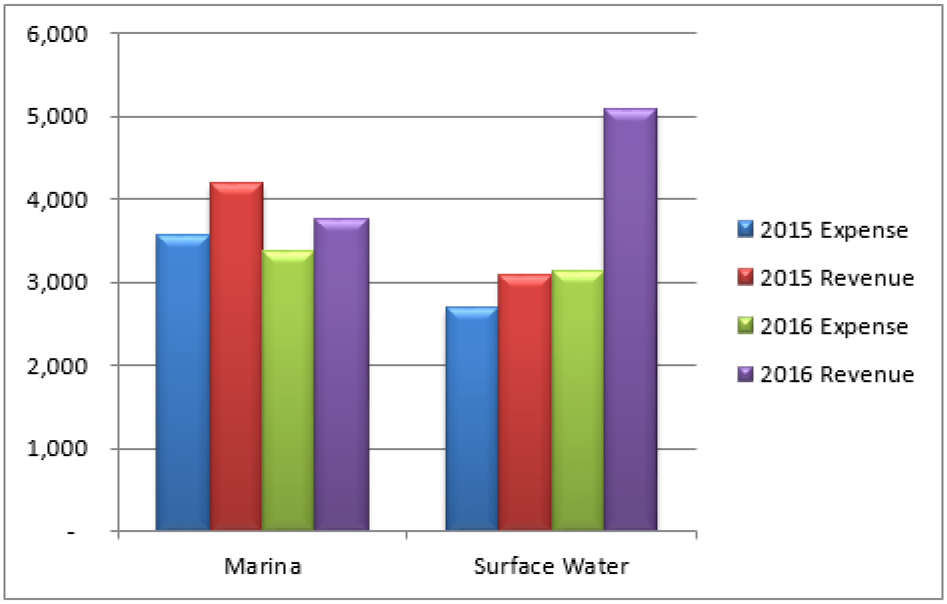


GOVERNMENTAL ACTIVITIES – EXPENSES AND PROGRAM REVENUES
(in thousands)



Business-type activities. Business-type activities increased the City of Des Moines's net position by $2,344 as compared to the 2015 increase of $1,027 or $1,317. $1,243 of the increase in net position as compared to the prior year increase is through capital grants and contributions. $370 was donated infrastructure for the Surface Water Management utility in the current year and there was none in the prior year.

ENTERPRISE ACTIVITIES – EXPENSES AND PROGRAM REVENUE COMPARISON
(in thousands)



FINANCIAL ANALYSIS OF THE CITY'S FUNDS

The City of Des Moines uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds.

The focus of the City of Des Moines' *governmental funds* is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the governmental funds reported combined ending fund balances of $10,200. The City had $2,793 unassigned fund balance. Total fund balance increased $4,758 from the prior year: $3,102 by the general fund, $794 by the capital and construction fund and $863 in the other, nonmajor governmental funds.

General Fund

The general fund is the primary operating fund of the City of Des Moines**.** Revenues increased sufficiently to end the year with unassigned fund balance ($2,793) which fully funding the stabilization reserve ($1,005). The stabilization reserve target is defined as 5% of recurring revenues. The City defines “one time” sales tax and “one time” business and occupation taxes as taxes associated with development projects with an assessed value greater than $15 million. In addition to the stabilization reserve, the City’s ending fund balance policy requires an ending fund balance of 7% on annual expenditures for the General Fund ($1,298) and the Street Fund ($95). The general fund fully recovered in 2016 and the ending, unassigned fund balance was $2,793 and was thus on target. The Street Fund’s fund balance was 41% of its operating expenditures for 2016.

The fund balance of the general fund increased by $3,101 during the current fiscal year; which is 14% of total revenues. Overall, revenues increased by 24% ($4,330), expenses by 7% ($1,245), and other financing uses from net transfers was $645.

General fund tax revenue increased by $1,593 (14%). Property tax increased $362 (8%) as the assessed valuation of all the property in the City continued to climb and strong construction activity continues. Sales tax revenue was up 17% ($527) as the City’s focus on economic development targeting sales tax generating companies resulted in new business growth and due to the sale tax from construction activity. The business growth increases both the one time sales tax from construction activities and from the on-going business operating sales activities. Business & Occupation taxes overall increased $671 (16%). B&O Taxes increased mainly due to the following factors: 1) increases in tax rates as cable tax from 8% to 10% with the increase going to the General Fund and Surface Water Management tax from 8% to 15% with 2% of the 15% rate going to the Street Fund and 13% of the 15% rate going to the General Fund and 2) service fee rate increases imposed by the utilities for service to their customers.

License and permit revenues increased $1,020 driven by the continued increase in development activity and includes $107 of increase due to new franchise fees implemented late 2016 on certain water and sewer districts operating within the city limits. 2016 business license fee rates were increased approximately 25% but decreased volume of permits offset some of the anticipated revenues.

Increases in charges for services also includes increases for development related charges (e.g. plan review, SEPA and zoning fees). $140 reflects a full year of the Technical Services division as part of the General Fund in 2016 whereas it was an internal service fund until the end of 2015. There was an increase of approximately $231 in interfund administrative services provided by the General Fund to other funds. Recreation program fees were increased approximately 10% with a staggered implementation dates throughout 2016 which resulted in approximately $111 of new revenues. Most of the remaining change is due to the increased level of development related fees.

The change in General Fund program costs ($896) was mostly due to the inclusion of the Technology Services division ($820) as part of the General Fund rather than as an internal service fund (until the end of 2015).

Construction Fund. Fund balance was $4,371. Change is normal and expected based on the nature of the construction fund as larger projects draw to completion and different size projects start. Transportation construction is heavily dependent on grant funding with $7,289 of the current year’s $9,412 revenue coming from governmental revenues such as state, federal and local grants.

Proprietary Funds. The City of Des Moines’s proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Marina – Unrestricted net position was $799 at the end of the year; a decrease of $406 from the prior year. Operating revenues decreased $326 (8%) predominately due to the decrease in revenues from the resale of fuel. Fuel costs were down and so the related revenues are also down as compared to 2015. The City uses a flat $0.25 mark up on fuel to determine the resale price. Thus with the drop in the cost of fuel purchases, the fuel sales have also decreased. Moorage, rents and related services decreased 1% as moorages rates due to slightly higher 2016 vacancies. Net operating income was $673.

Surface Water Management – Unrestricted net position totaled $3,016; an increase of $1,951 from the prior year. Operating income was $330 as compared to $22 in the prior year. Service expenses increased $434. The City contracted to perform a rate study which was submitted to the City Council in 2016. This rate study looked at capital and operating needs for the next ten years and made rate recommendations necessary to implement those changes to ensure necessary funding to cover those future needs.

GENERAL FUND BUDGETARY HIGHLIGHTS

The legal level of appropriation is at the fund level. The budget by function is shown to provide more detailed information. Total expenditures in the general fund were $441 less than the original and $435 less than the final budget. Most of the savings is related positions left vacant during the year with the goal of increasing ending fund balances (e.g. City Manager Administrative Asst.) and others due to lack of qualified, currently available applicants (Patrol positions) There was only $6 change between the original and the final budget as actual activity was generally anticipated to fall within the original appropriation.

On the revenue side, the city has changed its budgeting practice to estimated development related permits, licenses and fees conservatively. Actual license and permit revenues exceed budget by $470 or about 18%. Actual tax revenues exceeded budgeted by $810 or about 6.5%.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets. The City of Des Moines's net investment in capital assets for its governmental and business-type activities as of December 31, 2016 totals $188,325; an increase of $11,353 from the prior year. This investment in capital assets includes such things as land, buildings and structures, machinery and equipment, park facilities, sidewalks, roads, highways, and bridges.

Spending on governmental activities included in the Capital Improvement Plan during 2016 totaled $8,953 with $8,622 of that spent on transportation construction projects. Some of the larger projects are:

- **24th Ave South** ($27)**.** This is an $8.5 million dollar project that constructs a five-lane roadway with pedestrian and bicycle facilities to replace a two lane road. Numerous development projects are planned along this corridor including the Des Moines Creek Business Park and aviation logistics facilities in the neighboring City of SeaTac. Approximately $3 million comes from grant funding, another $3.5 million from the Port another $1.5 million from right of way fees and the rest from various sources.
- **South 216th St Segment 1A** ($3,412). This is a $6.3 million dollar project to widen the roadway to provide an additional two travel lanes in each direction, a continuous left turn lane, a U-turn pocket, bicycle lanes, planter strips and sidewalks. Approximately $3.6 million of this project is grant funded.
- **Redondo Boardwalk** ($4,051). This is a $4.7 million dollar project to replace the boardwalk located in the Redondo area and which runs above the tide flats. The boardwalk was destroyed in a 2014 storm. Approximately $4.2 of this project is grant funded.
- **Barnes Creek Trail/SR 509** ($90). This is a $1 million dollar project to develop the SR 509 right-of-way from South 216th Street to Kent-Des Moines Road for a two mile multi-use trail connecting the Des Moines Creek Trail and Highline College. Approximately $708 is grant funded with the rest from various sources.
- Additional information on the City of Des Moines capital assets can be found in note 4.C. starting on page 45 of this report.

City of Des Moines Capital Assets at Year-End (in thousands)
(Net of Depreciation)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2016	2015	2016	2015	2016	2015
Land	$ 103,650	$ 103,650	$ 3,791	$ 3,791	$ 107,441	$ 107,441
Construction work in progress	7,007	10,204	431	410	7,438	10,614
Buildings and structures	7,323	7,540	2,168	2,270	9,491	9,810
Other improvements	8,364	11,548	8,838	9,231	17,202	20,779
Infrastructure	39,329	24,255	12,896	11,646	52,225	35,901
Machinery and equipment	2,314	1,779	166	226	2,480	2,005
Total capital assets	$ 167,987	$ 158,976	$ 28,290	$ 27,574	$ 196,277	$ 186,550

Long-term debt. At the end of the current fiscal year, the City of Des Moines had total bonded debt outstanding of $8,204 (including premium) which is backed by the full faith and credit of the government. Of this amount, $6,334 (including premium) is also backed by revenues of the Marina. The remainder of the City's debt includes two Public Works Trust Fund Loans and a financing lease.

City of Des Moines Bonds and Notes (in dollars; not in thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2016	2015	2016	2015	2016	2015
General Obligation Bonds	$ 1,870,000	$ 2,095,000	$ 6,334,300	$ 6,889,073	$ 8,204,300	$ 8,984,073
Loans & Notes	635,571	704,898	-	-	635,571	704,898
Total	$ 2,505,571	$ 2,799,898	$ 6,334,300	$ 6,889,073	$ 8,839,871	$ 9,688,971

On February 15, 2017, Moody's Investors Service upgraded its long-term underlying rating on the limited tax general obligation ("LTGO") debt of the City of Des Moines, Washington (the "City"). The upgrade was done pursuant to Moody's publication of a new methodology for the sector. As a result of this rating action, the City's LTGO rating was upgraded from "A2" to "A1.". More detailed information about the City's long-term liabilities can be found in note 4.F. starting on page **50** of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

The City's 2017 budget process for the City's General and Street Funds focused primarily on long term sustainability and as such the budget matches on-going revenues to on-going expenditures. One time sales and B&O tax revenues are budgeted for capital projects. Per City Council direction the 2017 budget and accounting systems will be updated to match revenues to department spending areas. Thus revenues and expenses generated from development activities are specifically tracked and any difference results in a use of or addition to restricted fund balances. Restricted fund balance related to development activities is $1,508 as of December 31, 2016. This new process will be used to monitor activity throughout the year and to provide relevant information to help manage the budget if, for example, fee revenues in one area decrease then a related decrease in spending in that area would be considered.

Also, the new city manager implemented a reorganization late December and which will be in effect for 2017. A second phase of reorganization is anticipated during 2017. The reorganization plan is to keep FTE's level but re-arrange certain reporting structures to gain overall future efficiencies.

The 2017 budget includes two new Patrol Officer positions to reach council's short term goal of 5 officers per shift and provides for a .4 FTE Domestic Violence Advocate position. It dedicates the franchise fees from water and sewer utilities to the Street Pavement fund. The new franchise payments which started late 2016 were included in the General Fund in 2016 and will be included in the Street Pavement fund in 2017.

The 2017 budget includes a new special revenue fund: the Waterfront Zone fund. This fund will be used to collect revenues and pay the operating and maintenance costs of this zone. This fund's budget includes revenue related to the new Paid Parking Program for this zone (public access area at the Marina and surrounding waterfront area). The Paid Parking Program is budgeted to provide excess revenues of $100,000 over operating costs which is to be transferred to the General Fund.

The 2017 General Fund budget matches on-going revenues to on-going expenditures but does include several one-time or temporary spending items. These items include such things as new equipment for the new Patrol Officer positions, police signing bonuses, an upgrade to court and police software and purchase of a Genie Lift Platform. These one-time amounts total about $55. Additionally, there is $69 in funding for Public Information Officer and Legislative Affairs contractual services. $53 is budgeted as a one-time transfer of donated proceeds to the Facility Repair fund to paint and repair the Activity Center used to provide senior services.

The economic outlook continues to improve. Sales tax revenue growth is recovering. The Puget Sound region reports improved real property valuations, the City's total assessed valuation is increasing as well. As stated previously, new construction activity from development projects occurring in 2016 will also help to improve the revenue base for the City.

The Marina and Surface Water Management Utility will implement their annual rate increases on moorage and surface water management fees. The Marina has contracted for a utility rate analysis to be performed starting February with an anticipated rate implementation date of April 1, 2017.

REQUESTS FOR INFORMATION

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Dunyele Mason, Finance Director, 21630 11th Ave. S., Suite A, Des Moines, Washington, 98198.

Statement of Net Position
December 31, 2016

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current assets:			
Cash & cash equivalents	$ 10,761,149	$ 4,245,117	$ 15,006,266
Restricted cash & cash equivalents:			
Customer deposits/vendor retainage	362,186	207,153	569,339
Unspent donations	140,018	-	140,018
Debt service covenants	-	68,378	68,378
Investments	2,200,000	1,000,000	3,200,000
Investments restricted per debt coventants	-	5,260	5,260
Receivables (net of allowances):			
Taxes	1,600,959		1,600,959
Customers	1,059,909	167,450	1,227,359
Grants	882,939	-	882,939
Special assessments	7,403		7,403
Inventories	18,029	34,077	52,106
Total current assets	17,032,592	5,727,435	22,760,027
Noncurrent assets:			
Restricted cash - debt reserve		500,000	500,000
Restricted investments - debt reserve	-	294,740	294,740
Net pension asset	808,765		808,765
Joint ventures	166,583		166,583
Capital assets not being depreciated:			
Land	103,650,224	3,791,287	107,441,511
Construction work in progress	7,006,737	430,512	7,437,249
Capital assets net of accumulated depreciation:			
Buildings and structures	7,322,666	2,168,004	9,490,670
Other improvements	8,363,695	8,838,295	17,201,990
Infrastructure	39,328,983	12,895,918	52,224,901
Machinery and equipment	2,313,718	166,048	2,479,766
Total noncurrent assets	168,961,371	29,084,804	198,046,175
Total assets	185,993,963	34,812,239	220,806,202
DEFERRED OUTFLOWS			
Deferred loss on refunding	-	94,464	94,464
Deferred pension outflows	1,477,156	243,179	1,720,335
Total deferred outflows	1,477,156	337,643	1,814,799
LIABILITIES			
Current liabilities:			
Accounts payable	1,888,063	289,268	2,177,331
Prepaid revenues	177,960		177,960
Payable from restricted assets	362,186	207,153	569,339
Accrued interest payable from restricted assets	-	22,960	22,960
Compensated absences - current	79,204	28,189	107,393
Loans - current	73,355	-	73,355
Bonds - current	235,000	570,920	805,920
Total current liabilities	2,815,768	1,118,490	3,934,258
Noncurrent liabilities:			
Compensated absences	1,253,895	212,115	1,466,010
Net pension obligation	5,447,518	1,361,879	6,809,397
Net OPEB obligation	772,473		772,473
Loans	562,216	-	562,216
Bonds	1,635,000	5,763,380	7,398,380
Total noncurrent liabilities	9,671,102	7,337,374	17,008,476
Total liabilities	12,486,870	8,455,864	20,942,734
DEFERRED INFLOWS OF RESOURCES			
Deferred pension inflows	138,602	34,651	173,253
Total deferred inflows	138,602	34,651	173,253
NET POSITION			
Net investment in capital assets	165,480,452	22,844,968	188,325,420
Restricted for:			
Public safety	163,362		163,362
Transportation	5,409,774		5,409,774
Natural and economic	1,525,059		1,525,059
Recreation & Sr Services	140,018		140,018
General obligation debt	34,450		34,450
Unrestricted	2,092,532	3,814,399	5,906,931
Total Net Position	$ 174,845,647	$ 26,659,367	$ 201,505,014

The notes to the financial statements are an integral part of this statement.

Statement of Activities
For the Year Ended December 31, 2016

		Program Revenues			Net Revenue (Expenses) and Changes in Net Position Primary Government		
Functional Programs	Expenses	Charges for Services, Fines & Licenses	Operating Grants and Contributions	Capital Grants & Contributions	Governmental Activities	Business-Type Activities	Total
Primary Government:							
Governmental Activities:							
General government	$ 3,595,007	$ 3,682,451	$ 7,738	$ -	$ 95,182		$ 95,182
Public safety	9,173,408	803,991	14,892	-	(8,354,525)		(8,354,525)
Transportation	4,070,236	2,078,030	-	9,406,817	7,414,611		7,414,611
Natural & economic environment	1,907,869	1,579,787	26,798	-	(301,284)		(301,284)
Social services	390,691	259,754	-	-	(130,937)		(130,937)
Culture and recreation	2,944,600	1,718,106	20,400	162,378	(1,043,716)		(1,043,716)
Interest on long term debt	100,276	-	-	-	(100,276)		(100,276)
Total Governmental Activities	22,182,087	10,122,119	69,828	9,569,195	(2,420,945)	-	(2,420,945)
Business-type Activities:							
Marina	3,377,089	3,762,705	8,046	-		393,662	393,662
Surface water management	3,137,876	3,452,437	15,025	1,618,627		1,948,213	1,948,213
Total Business-Type Activities	6,514,965	7,215,142	23,071	1,618,627	-	2,341,875	2,341,875
Total Primary Government	$ 28,697,052	$17,337,261	$ 92,899	$ 11,187,822	(2,420,945)	2,341,875	(79,070)
General Revenues:							
Taxes:							
Property taxes					4,725,949		4,725,949
Sales taxes					3,789,673		3,789,673
B&O taxes					5,205,172		5,205,172
Excise taxes					2,448,932		2,448,932
Intergovermental					629,125	-	629,125
Investment & interest					60,069	32,579	92,648
Transfers					30,000	(30,000)	-
Total general revenues					16,888,920	2,579	16,891,499
Change in Net Position					14,467,975	2,344,454	16,812,429
Net Position Beginning (Restated See Note 5.E.)					160,377,672	24,314,913	184,692,585
Net Position Ending					$ 174,845,647	$ 26,659,367	$ 201,505,014

The notes to the financial statements are an integral part of this statement.

Balance Sheet
Governmental Funds
December 31, 2016

	General	Capital & Construction	Other Governmental	Total
ASSETS				
Cash and cash equivalents	$ 2,009,400	$ 4,031,992	$ 1,264,747	$ 7,306,139
Restricted cash:				
Customer deposits & retainage	205,566	143,237	8,456	357,259
Unspent donations	140,018			140,018
Investments	2,000,000	200,000	-	2,200,000
Receivables (net of allowances):				
Taxes	1,136,879	296,469	167,611	1,600,959
Customers	662,611	22,691	310,783	996,085
Grants	11,874	871,065	-	882,939
Special assessments & loans	7,403	-	-	7,403
Total assets	6,173,751	5,565,454	1,751,597	13,490,802
LIABILITIES				
Accounts payable	898,265	871,650	78,078	1,847,993
Prepaid revenues	177,960			177,960
Deposits & retainage payable from restricted assets	205,566	143,237	8,456	357,259
Total liabilities	1,281,791	1,014,887	86,534	2,383,212
DEFERRED INFLOWS OF RESOURCES				
Unavailable Revenues	451,236	179,238	277,379	907,853
FUND BALANCES				
Restricted:				
Public Safety		-	163,362	163,362
Transportation		3,881,264	1,038,445	4,919,709
Natural & economic development	1,507,685	-	17,374	1,525,059
Recreation & Sr. Services	140,018	-		140,018
General obligation debt		-	34,450	34,450
Committed:		-		-
General government		490,065		490,065
Natural & economic development		-	134,053	134,053
Unassigned	2,793,021	-		2,793,021
Total fund balances	4,440,724	4,371,329	1,387,684	10,199,737
Total liabilities, deferred inflows of resources and fund balances	$ 6,173,751	$ 5,565,454	$ 1,751,597	

Amounts reported for governmental activities in the statements of net position are different because:	
Long-term assets used in governmental activities are not financial resources and therefore are not reported in the government funds.	167,986,023
Deferred pension outflows are not available to pay for current period expenditures and, therefore, are not reported in governmental funds.	1,477,156
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds. Proceeds from new debt and repayments of exisiting debts are recorded as resources and expenditures for fund reporting but are additions and reductions of liabilities for government wide reporting.	(10,058,661)
Other long-term assests such as Joint Ventures and Net Penision Asset are not available to pay for current period expenditures and, therefore, are not reported in the governmental funds	975,348
Deferred inflows in governmental funds is susceptible to full accrual and therefore not reported in the Statement of Activities. Other expenses are suspectible to full accrual and are reported in the Statement of Activities but not in the governmental funds.	769,251
Internal Service funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of some internal service funds are included in the governmental activities in the statement of net position. Interfund loans between governmental activities are excluded.	3,496,793
Net position of governmental activities (see page 22)	$ 174,845,647

The notes to the financial statements are an integral part of this statement.

Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2016

	General Fund	Capital & Construction	Other Governmental	Total
REVENUES				
Taxes	$ 13,324,912	$ 1,418,476	$ 1,419,355	$ 16,162,743
Licenses and permits	3,067,867	-	-	3,067,867
Intergovernmental revenue	755,611	7,289,142	680,739	8,725,492
Charges for services	4,367,150	508,253	675,620	5,551,023
Fines and forfeitures	208,957	50,000	377,974	636,931
Miscellaneous & rental revenue	636,820	146,224	59,105	842,149
Total revenues	22,361,317	9,412,095	3,212,793	34,986,205
EXPENDITURES				
Current:				
General government	4,729,660	-	15,920	4,745,580
Public safety	8,460,406	-	252,870	8,713,276
Transportation	734,225	43,115	1,852,935	2,630,275
Natural & economic environment	1,885,630	-	202,289	2,087,919
Social services	342,558	-		342,558
Culture and recreation	2,343,570	-	74,043	2,417,613
Capital outlay:				
General government	41,374	-	-	41,374
Transportation		8,622,139	-	8,622,139
Culture and recreation	-	287,849	-	287,849
Debt service:				
Principal		-	290,773	290,773
Interest		-	100,276	100,276
Total expenditures	18,537,423	8,953,103	2,789,106	30,279,632
Excess of revenues over (under) expenditures	3,823,894	458,992	423,687	4,706,573
OTHER FINANCING SOURCES (USES)				
Transfers in	-	765,564	692,886	1,458,450
Transfers out	(722,436)	(430,970)	(253,979)	(1,407,385)
Total other financing sources (uses)	(722,436)	334,594	438,907	51,065
Net change in fund balances	3,101,458	793,586	862,594	4,757,638
Fund balances - beginning	1,339,266	3,577,743	525,090	5,442,099
Fund balances - ending	$ 4,440,724	4,371,329	$ 1,387,684	$ 10,199,737

The notes to the financial statements are an integral part of this statement.

Reconciliation of the Statement of Revenues, Expenditures, and
Changes in Fund Balance of Governmental Funds to the Statement of Activities
For the Year Ended December 31, 2016

(Continued from prior page)

Net change in fund balances - total governmental funds	$	4,757,638
Amounts reported for governmental activities in the Statement of Activities are different because of the following reconciling items:		
Governmental funds report capital outlays as expenditures. However, in the Statement of Net Position they are reported net of depreciation as a capital asset. Capital assets contributed by private developers do not provide current resources and are not reported as revenues in the funds.		8,412,344
The Statement of Net Position shows a decrease in joint ventures not reported in the funds.		(651,810)
The issuance of long-term debt (e.g. bonds, notes) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes current financial resources of governmental funds. Neither transaction, however, has any affect on net assets. There was no new issuance of governmental debt for the year.		290,773
Revenues reported in the Statement of Activies that do not provide current financial resources are not reported as revenues in the funds.		252,300
Some expenses (such as for compensated absences, amortization of deferred loss, pension expense, etc.) reported in the Statement of Activities do not the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.		10
Internal service funds are used by management to charge the costs of certain activities to individual funds. The net revenue of internal service funds is reported with governmental activities. This amount comes from the Combining Statement of Revenues, Expenditures and Changes in Net Position for Internal Service Funds, Net Operating Income.		1,406,720
Change in net position of governmental activities (see page 23)	$	14,467,975

The notes to the financial statements are an integral part of this statement.

Statement of Revenues, Expenditures, and Changes in Fund Balances-Budget to Actual
General Fund
For the Year Ended December 31, 2016

	Original Budget	Final Budget	Actual	Variance to Final Budget
REVENUES				
Taxes	$ 12,514,977	$ 12,514,977	$ 13,324,912	$ 809,935
Licenses and permits	2,597,670	2,597,670	3,067,867	470,197
Intergovernmental revenue	642,875	642,875	755,611	112,736
Charges for services	4,268,986	4,268,986	4,367,150	98,164
Fines and forfeitures	221,350	221,350	208,957	(12,393)
Miscellaneous revenue	631,800	631,800	636,820	5,020
Total revenues	20,877,658	20,877,658	22,361,317	1,483,659
EXPENDITURES				
Current:				
General government	4,955,513	4,955,513	4,729,660	(225,853)
Public safety	8,619,954	8,619,954	8,460,406	(159,548)
Transportation	749,177	749,177	734,225	(14,952)
Natural & economic environment	1,982,747	1,982,747	1,885,630	(97,117)
Social services	349,768	349,768	342,558	(7,210)
Culture and recreation	2,273,506	2,273,506	2,343,570	70,064
Capital outlay:				
General government	20,000	20,000	41,374	21,374
Public safety	22,000	22,000	-	(22,000)
Culture and recreation	6,000	-	-	-
Total expenditures	18,978,665	18,972,665	18,537,423	(435,242)
Excess of revenues over (under) expenditures	1,898,993	1,904,993	3,823,894	1,918,901
OTHER FINANCING SOURCES (USES)				
Transfers out	(872,440)	(872,440)	(722,436)	150,004
Total other financing uses	(872,440)	(872,440)	(722,436)	150,004
Net change in fund balances	1,026,553	1,032,553	3,101,458	2,068,905
Fund balances - beginning	1,128,584	1,128,584	1,339,266	210,682
Fund balances - ending	$ 2,155,137	$ 2,161,137	$ 4,440,724	$2,279,587

The notes to the financial statements are an integral part of this statement.

Statement of Net Position
Proprietary Funds
December 31, 2016

	Marina	Surface Water Management	Total	Gov't Activities Internal Service
ASSETS				
Current assets:				
Cash and cash equivalents	$ 952,037	$ 3,293,080	$ 4,245,117	$ 3,455,010
Restricted cash equivalents:				
Customer deposits & retainage	163,077	44,076	207,153	4,927
Debt service covenants	68,378	-	68,378	
Investments	500,000	500,000	1,000,000	-
Restricted Investments debt service covenants	5,260	-	5,260	
Receivables (net of allowances):				
Customers	72,133	95,317	167,450	63,824
Inventory	34,077	-	34,077	18,029
Total current assets	1,794,962	3,932,473	5,727,435	3,541,790
Noncurrent assets:				
Restricted cash - debt reserve	500,000	-	500,000	
Restricted investments - debt reserve	294,740	-	294,740	
Capital assets not being depreciated:				
Land	3,226,925	564,362	3,791,287	
Construction work in progress	-	430,512	430,512	
Capital assets net of accumulated depreciation:				
Buildings and structures	2,168,004	-	2,168,004	
Other improvements	8,589,539	248,756	8,838,295	
Infrastructure	-	12,895,918	12,895,918	
Machinery and equipment	77,317	88,731	166,048	1,729,086
Total noncurrent assets	14,856,525	14,228,279	29,084,804	1,729,086
Total assets	16,651,487	18,160,752	34,812,239	5,270,876
DEFERRED OUTFLOW OF RESOURCES				
Deferred loss on refunding	94,464		94,464	
Deferred pension outflows	109,431	133,748	243,179	
Total deferred outflows	203,895	133,748	337,643	-
LIABILITIES				
Current liabilities:				
Accounts payable	123,760	165,508	289,268	40,070
Deposits& retainage payable from restricted assets	163,077	44,076	207,153	4,927
Accrued interest payable from restricted assets	22,960	-	22,960	
Compensated absences - current portion	23,979	4,210	28,189	3,678
Loans - current portion	-	-	-	3,585
Bonds - current portion (net premium)	570,920	-	570,920	
Total current liabilities	904,696	213,794	1,118,490	52,260
Noncurrent liabilities:				
Compensated absences	143,411	68,704	212,115	11,763
Net pension obligation	612,846	749,033	1,361,879	
Loans payable	-	-	-	2,709
Bonds payable (net premium)	5,763,380	-	5,763,380	-
Total noncurrent liabilities	6,519,637	817,737	7,337,374	14,472
Total liabilities	7,424,333	1,031,531	8,455,864	66,732
DEFERRED INFLOW OF RESOURCES				
Deferred pension inflows	15,593	19,058	34,651	
NET POSITION				
Net investment in capital assets	8,616,689	14,228,279	22,844,968	1,722,792
Unrestricted	798,767	3,015,632	3,814,399	3,481,352
Total net position	$ 9,415,456	$ 17,243,911	$ 26,659,367	$ 5,204,144

The notes to the financial statements are an integral part of this statement.

Statement of Revenues, Expenses, and Changes in Net Position
Proprietary Funds
For the Year Ended December 31, 2016

	Marina	Surface Water Management	Total	Gov't Activities Internal Service
OPERATING REVENUES				
Intergovernmental revenues	$ 8,046	$ 15,025	$ 23,071	
Charges for services	938,630	3,450,877	4,389,507	$ 2,834,194
Fines and forefitures	17,038		17,038	
Moorage, rents and misc	2,807,037	1,560	2,808,597	-
Total operating revenues	3,770,751	3,467,462	7,238,213	2,834,194
OPERATING EXPENSES				
Depreciation	566,047	448,794	1,014,841	290,725
Salaries and wages	587,852	805,884	1,393,736	99,634
Personnel benefits	202,581	343,511	546,092	69,736
Supplies	845,183	78,609	923,792	209,423
Services	896,015	1,461,078	2,357,093	873,312
Total operating expenses	3,097,678	3,137,876	6,235,554	1,542,830
OPERATING INCOME	673,073	329,586	1,002,659	1,291,364
NONOPERATING REVENUES (EXPENSES)				
Interest and collection fees	14,297	18,282	32,579	15,129
Gain on sale of capital assets	-	-	-	22,273
Insurance repair recovery	-		-	99,019
Interest expense	(279,411)	-	(279,411)	
Total nonoperating revenues (expense)	(265,114)	18,282	(246,832)	136,421
Income (loss) before contributions, extraordinary item and transfers	407,959	347,868	755,827	1,427,785
Capital contributions	-	1,618,627	1,618,627	-
Transfers in	-	-	-	49,935
Transfers out	(15,000)	(15,000)	(30,000)	(71,000)
Changes in net position	392,959	1,951,495	2,344,454	1,406,720
Net position - beginning (Restated See Note 5.E.)	9,022,497	15,292,416	24,314,913	3,797,424
Net position - ending	$ 9,415,456	$17,243,911	$26,659,367	$ 5,204,144

The notes to the financial statements are an integral part of this statement.

Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2016

	Marina	Surface Water Management	Total	Gov't Activities Internal Service
CASH FLOW FROM OPERATING ACTIVITIES				
Receipts from customers	$ 3,875,552	$ 3,464,619	$ 7,340,171	$ 2,868,343
Payments to employees	(742,343)	(1,166,084)	(1,908,427)	(165,692)
Payments to suppliers	(1,815,409)	(1,416,541)	(3,231,950)	(1,096,803)
Net cash provided by operating activities	1,317,800	881,994	2,199,794	1,605,848
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
Transfers in	-			(61,065)
Insurance recoveries	-		-	40,327
Net cash provided from noncapital financial activities	-		-	(20,738)
CASH FLOW FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Proceeds from disposal of assets	-	-		22,273
Transfer in for capital				40,000
Acquisition of capital assets	(46,815)	(1,313,717)	(1,360,532)	(888,119)
Principal paid on debt	(554,773)	-	(554,773)	(3,552)
Interest paid on debt	(263,445)	-	(263,445)	
Transfers (out) for debt service	(15,000)	(15,000)	(30,000)	
Capital charges	-	731,195	731,195	
Capital grant and contribution proceeds	-	517,923	517,923	
Net cash used by capital and related financing activities	(880,033)	(79,599)	(959,632)	(829,398)
CASH FLOWS FROM INVESTING ACTIVITIES				
Investments (purchased)	-	-	-	715,129
Investments sold and earnings	14,297	418,282	432,579	
Net cash provided from investing activities	14,297	418,282	432,579	715,129
Net increase in cash & cash equivalents	452,064	1,220,677	1,672,741	1,470,841
Beginning cash & cash equivalents	1,231,428	2,116,479	3,347,907	1,989,096
Ending cash & cash equivalents	1,683,492	3,337,156	5,020,648	$ 3,459,937
NON CASH ACTIVITIES				
Capital contributions		369,509	369,509	
Total noncash activities	$ -	$ 369,509	$ 369,509	
RECONCILATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES				
Net Operating Income	673,073	329,586	1,002,659	1,291,364
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES				
Depreciation	566,047	448,794	1,014,841	290,725
Changes in assets, liabilities, deferred inflows & deferred outflows				
(Increase)/decrease in customer receivables	104,801	(2,843)	101,958	34,149
(Increase)/decrease in deferred pension outflows	(39,735)	(48,565)	(88,300)	
(Increase)/decrease in inventories	(14,279)	-	(14,279)	(263)
Increase/(decrease) in accounts payable and deposits	(22,948)	117,980	95,032	(13,805)
Increase/(decrease) in compensated absences	23,978	4,211	28,189	3,678
Increase/(decrease) in pension obligation	90,668	110,815	201,483	
Increase/(decrease) in pension inflows	(63,805)	(77,984)	(141,789)	
Net cash provide by operating activities	$ 1,317,800	$ 881,994	$ 2,199,794	$ 1,605,848

The notes to the financial statements are an integral part of this statement.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Des Moines have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The significant accounting policies are described below.

A. Reporting Entity

The City of Des Moines, King County, Washington was incorporated on June 1959 and operates under the laws of the State of Washington applicable to a Non-Charter Code City (Title 35A RCW) with a council/manager form of government. As required by the generally accepted accounting principles the financial statements present the City of Des Moines as a primary government unit. The City of Des Moines does not have any discretely presented component units.

The City is a general purpose government and provides police, a municipal court, engineering, street construction and maintenance, planning and zoning, parks and recreation services, and general administrative functions. Fire protection for the City of Des Moines is provided by South King Fire and Rescue, an entity established on September 21, 2005 when voters approved the merger of King County Fire Protection District No. 26 and the Federal Way Fire Department. The City also owns and operates a marina and a surface water management utility. The City's basic financial statements include the financial position and results of operations of all funds that are controlled by the City.

B. Government-wide and fund financial statements

The government–wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Exceptions to this general rule are for charges between the government's utility functions and certain other service functions and various other functions of the government. These transactions that are for products and services rendered have not been eliminated. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Our policy is to not allocate indirect costs to a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements for a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate fund financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Agency funds, a type of fiduciary fund, have no measurement focus as the purpose of this type of fund is to simply receive and disburse funds belonging to another organization. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 31 days of the end of the current fiscal period with the exception of grant revenues which are considered available if received within 90 days of year end. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claim and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Property taxes, licenses, interest and various customer billings associated with the current period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period when available. The availability period for these revenues is 31 days past year end. Entitlements, such as grants, are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period (within 90 days of year end) for this revenue source. Only the portion of special assessment receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the City.

The proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting for reporting its assets and liabilities. Proprietary revenues and expenses are shown with different reporting groups than as presented in prior years.

The City reports the *General fund* and the *Construction fund* as major governmental funds. The general fund is the city's primary operating fund. It accounts for all governmental financial resources, except those required to be accounted for in a separate fund. The construction fund accounts for resources and expenditures for all governmental fund related projects. Proprietary funds record their own construction activities.

The City reports the *Marina fund* and the *Surface Water Management* utility fund as major proprietary funds.

Additionally, the City reports the following fund types:

Special Revenue funds are used to account for revenues that are raised for a specific purpose.

Debt Service fund which accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

Internal Service funds account for vehicle & equipment replacement and operation, computer replacement, facility repair, self-insurance and unemployment insurance services provided to other departments of the City on a cost reimbursement basis.

As a general rule the effect of the interfund activity has been eliminated for the government-wide financial statements. Exceptions are for business taxes the utility pays to the general fund. Likewise, other charges between the government's utility functions and certain other service functions and various other functions of the government have not been eliminated. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as *program revenues* include 1) charges to customers, fines, forfeitures and miscellaneous 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. General revenues include all taxes and state shared revenues. The state shared revenues are not subject to restriction and therefore are included as general revenues and not program revenues.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the marina and surface water management utility are charges to customers. The major services provided by the proprietary funds are moorage and fuel sales at the marina and surface water management throughout the city. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The statement of net position is presented in a classified balance sheet format which differs from the prior year that presented elements on the statement in the order of relative liquidity.

D. Assets, liabilities, deferred outflows/inflows of resources, and net position/fund balance

1. *Deposits and investments*

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes and the city's investment policies authorize the city to invest in obligations of the U.S. treasury, repurchase agreements and the State Treasurer's Local Government Investment Pool (LGIP). The interest on these investments is prorated to the various funds on a monthly basis.

The City's deposits are covered by federal depository insurance (FDIC and FSLIC) or by collateral held in the multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC).

Investments are generally reported at par which approximates fair value for the items held. The LGIP operates in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the fair value of the pool shares. See additional deposit investment and restricted asset information in note 4. A.

2. *Receivables and payables*

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "interfund loans payable/receivable". All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

Loans between funds, as reported in the fund financial statements, are included as a liability in applicable governmental funds so that the indicated fund balance represents amounts available for appropriation and expendable available financial resources.

Taxes receivable consist of property taxes, sales taxes, interfund taxes, business and occupation taxes, and excise taxes. Property taxes are levied January 1 on property values assessed as of December of the prior year. The tax levy is divided into two billings; the first billing is due April 30 and the second is due October 31.

Customer accounts receivable consist of amounts owed from private individuals or organizations for goods and services. It also includes municipal court receivables.

Grants receivable are reported for grants where qualified expenditures have been made prior to the end of the year.

Other receivables include interest receivable. Accrued interest at year end consists of amounts earned by investments, notes and contracts at the end of the year. There were no other receivables at the end of the year.

Special assessments are recorded when levied. Special assessments receivable consist of delinquent assessments and related interest and penalties as the final installment of all special assessments were billed mid-year in 2016. As of December 31, 2016 $7,403 of Governmental special assessments including penalties and interest were delinquent. Assessed property owners are responsible for debt repayment. The city guarantee's the debt to the extent of the LID guarantee fund. Governmental-type special assessments are for street improvements.

3. ***Inventories***
Inventories in both the governmental funds and marina fund are for fuel. They are valued at cost using the first in/first out (FIFO) method.

4. ***Restricted assets and liabilities***
These accounts contain resources for construction and debt service in enterprise funds, unspent donations in the General Fund and customer deposits in various funds.

5. ***Capital assets.*** Capital assets, which include property, plant, and equipment and infrastructure assets, are reported in the applicable governmental or business-type columns in the government-wide financial statements. Capital assets, other than infrastructure, are defined by the City as assets with an initial, individual cost of more than $5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. The government reports infrastructure assets on a network and subsystem basis. Such assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. The cost of normal maintenance and repairs and street preservation activities that do not add to the value of the asset or materially extend asset lives are not capitalized. Assets are depreciated over their useful lives using the straight line depreciation method. Capital assets are presented by asset category net of each category's accumulated depreciation. This presentation differs from the past which presented gross cost by asset type and a combined sum for all asset types' accumulated depreciation.

Major outlays for capital assets and improvements are reported as Construction Work in Progress as projects are constructed. Interest, if material to the cost of the asset that is incurred during the construction phase of the capital assets of business-type activities, is included as part of the capitalized value of the assets constructed. Capital Assets and improvements are capitalized once the project is completed. There were no capitalized interest costs capitalized by the City during fiscal year 2016.

Capitalization thresholds (the dollar value above which an asset acquisitions are added to the capital asset accounts and estimated useful lives of capital assets are as follows:

Assets	Threshold	Useful Lives
Land	$5,000	
Building & Structure	$5,000	10 - 50
Other improvements	$5,000	10 - 50
Machinery & Equipment & Vehicles	$5,000	5 - 15
Infrastructure	$5,000	25 - 50

6. ***Compensated absences***
The City accrues accumulated unpaid vacation and sick leave and associated employee related costs when earned (or estimated to be earned) by the employee. All vacation and sick pay is accrued when incurred in the government-wide and proprietary statements. In governmental funds, such amounts are not accrued using the modified accrual basis of accounting but are reported as a liability in the government-wide financial statements.

A non-exempt employee may request compensatory time off in lieu of overtime payment. Compensatory time is accrued at a rate of one and one-half hours for each hour of overtime worked, to a maximum of forty hours. Compensatory time must be used within sixty days of the time it was earned and authorized, excluding the Police Guild. Compensatory time for the Police Guild can be carried over from year to year. Vacation leave may be accumulated up to a maximum of 315 hours (or more with City Manager approval). The employee's annual vacation is payable upon resignation, retirement or death. The city incurs a liability for sick leave up to 25% of the employee's sick leave balance or 200 hours, whichever is less for those employees with ten years of service, or upon death of the employee regardless of service and for some executive staff with less than ten years of service. For employees with at least 20 years of service, the city incurs a liability for sick leave up to 50% of the employee's sick leave balance or 400 hours, whichever is less.

7. Long-term obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position.

Bond premiums and discounts, as well as issuance costs, when material, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, during the current period. The face amount of debt issued is reported as other financial sources. Premiums received on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from actual debt proceeds received, are reported as professional service costs.

8. Deferred outflows/inflows of resources

In addition to assets, the statement of financial 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.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The city has only one type (in addition to items included in "9. Pensions" below) of item which arises under a modified accrual basis of accounting and which qualifies for reporting in the category. Accordingly, the item, unavailable revenue is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues for 2016 for uncollected property taxes levied and other receivables billed but not collected within the availability period.

9. ***Pensions***

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of all state sponsored pension plans and additions to/deductions form those plans' fiduciary net position have been determined on the same basis as they are reported by the Washington State Department of Retirement Systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

10. ***Fund balance and fund flow policies***

The city established an ending fund balance policy with enactment of Ordinance No. 1144 section 2 on September 20, 1995. The policy requires the City Manager to establish expenditure policies that will result in an ending fund balance or operating reserve of seven percent (7%) of the cumulative total of the general and street operating funds for each fiscal year. The seven percent consists of two percent (2%) operating reserve generally designated for unanticipated expenditures incurred during the fiscal year, with a five percent (5%) operating reserve intended to account for unanticipated shortfalls. Expenditures within the two percent operating reserve limitation may be paid at the discretion of the city manager. Expenditures within the five percent operating reserve limitation require council approval.

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The government itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes amounts that can be used only for specific purposes determine by formal action of the government's highest level of decision-making authority. The city council is the highest level of decision making authority for the government that can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

The General Fund Revenue Stabilization Account ("Account") was authorized by the city council on February 11, 2011 by Ordinance No. 1504 and codified in Des Moines Municipal Code chapter 3.50. The Account at the end of December 31, 2016 was $1,005, which represented the target level of five percent of budgeted, recurring general fund revenues. Additions to the Account is dependent upon proper targeted funding level going forward in relation to changing conditions and prudent fiscal policies. Disbursements from the Account must meet three criteria: (1) the revenue shortfall results from revenue collections considered to be materially short of the amount budgeted or the revenue shortfall results from projected baseline (existing) budgeted revenues for any ensuing year increasing by less than the assumed long-term growth rate as projected based on the average growth rate in revenues for the prior five years, and (2) the revenue shortfall is expected to persist through the end of the fiscal year, and (3) the revenue shortfall is reasonably expected to persist for a period no longer than three years. Appropriations from the Account is by enactment of an ordinance by City Council.

Amounts in the assigned fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as committed. The council may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

The City has not adopted a specific flow of funds policy relating to the use of restricted and unrestricted resources when both are available and has not taken formal action to delegate the process of assigning fund balance to another official. Therefore the statements are prepared using the default option provided in GASB 54 which provides that when both restricted and unrestricted resources are available, restricted resources are used first.

In the fund financial statements, governmental funds report restrictions of fund balance as follows:

Nonspendable fund balance - includes amounts that are not in spendable form such as inventory or are required to be maintained intact such as the principal of a permanent fund.

Restricted fund balance **-** includes amounts that can be spent only for the specific purpose stipulated by external resource providers such as for grant providers, bondholders, higher levels of government, or through enabling legislation.

Committed fund balance – includes amounts that can be used only for the specific purposes determined by a formal action of the city council. Commitments may be changed or lifted only by the City Council taking the same formal action that imposed the constraint originally.

Assigned fund balance – includes amounts intended to be used by the government for specific purposes. Intent can be expressed by the governing body or by an official designated by the governing body to which the governing body designates authority.

Unassigned fund balance - includes amounts that are available for any purpose.

The general fund is the only fund that reports a positive unassigned fund balance amount. In other governmental funds it is not appropriate to report a positive unassigned fund balance amount. However, in governmental funds other than the general fund, if expenditures incurred for specific purposes exceed the amounts that are restricted, committed, or assigned to those purposes, it may be necessary to report a negative unassigned fund balance in that fund.

NOTE 2–RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Explanation of certain differences between the governmental funds balance sheet and the government-wide statement of net position.

The governmental fund balance sheets includes a reconciliation between fund balance – total governmental funds and net position – governmental activities as reported in the government-wide statement of net position. One element of that reconciliation explains that "Long-term assets used in governmental activities are not financial resources and, therefore, are not reported in the funds". The following shows the detail of these capital asset changes net of accumulated depreciation:

Beginning balance of capital assets excluded from fund level:	
Land	103,650,224
Construction in process	10,204,047
Building	7,539,758
Other improvements	9,266,401
Equipment	2,376,627
Infrastructure	28,739,506
Current year spending in construction work in progress	8,909,988
Current year capital purchases	41,374
Current year depreciation	(2,741,902)
Net adjustment to add to government-wide fund balance to arrive at *Net position-governmental activities*	$167,986,023

Another element of that reconciliation explains that "Long-term liabilities are not due and payable in the current period and are not reported in the funds." The following show the detail of these liability changes:

Beginning balance of long-term liabilities excluded from fund level:	
Compensated absences	$ (1,261,252)
Net pension obligation	(4,641,584)
OPEB obligation	(646,974)
Bonds and notes payable	(2,796,344)
Current year principal payments & other reductions in liabilities	290,773
Current year additions to pension obligation	(805,934)
Current year OPEB and other expense recognized	(197,346)
Net adjustment to reduce government-wide fund balance to arrive at *Net position-governmental activities*	$ (10,058,661)

B. Explanation of certain differences between the governmental funds statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities

The governmental funds' statement of revenues, expenditures and changes in fund balances includes reconciliation between net changes in fund balances – total governmental funds and changes in net position of governmental activities as reported in the government-wide statement of activities. The first element of that reconciliation relates to capital activity as follows:

Capital outlays for:	
Construction in process	$ 8,909,988
Other Improvements	18,582
Machinery and equipment	22,793
Donated Capital:	
Other Improvements	622,799
Infrastructure	1,580,085
Current year depreciation:	
Building	(217,092)
Other improvements	(921,288)
Infrastructure	(1,517,821)
Equipment	(85,702)
Net capital activity	$8,412,344

NOTE 3 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary information

Scope of budget

Annual revenue and appropriated expenditure budgets are adopted for the general, special revenue, debt service, construction and proprietary and funds. Additionally, project basis budgets are adopted for capital projects. All annual appropriations lapse at the fiscal year end. For governmental funds, the only difference between the budgetary basis and generally accepted accounting principles (GAAP) is that proceeds from interfund loans are treated as budged revenue and repayment of interfund loans are treated as budgetary expenditures (except for loans that are issued one day and repaid the next). There were no interfund loans outstanding at the end of the year. Budgetary accounts are integrated in fund ledgers for all budgeted funds. Budgets for debt service and capital project funds are adopted at the level of the individual debt issue or projects and for the fiscal periods that correspond to the lives of debt issues or projects and the annual expenditure piece is also included in the appropriate fund's annual budget. Budgets established for proprietary funds are "management budgets" and are not legally required to be reported. However, for management purpose the City Council does budget the funding levels of proprietary funds in order to monitor the performance and expense levels of such funds.

Annual appropriated budgets are adopted at the level of the fund and budgets constitute the legal authority for expenditures at that level. Subsidiary revenue and expenditure records are used to compare the budgeted amounts with actual revenues and expenditures. As a management control device, the subsidiary ledgers monitor expenditures for individual functions and activities by object class. Annual appropriations for all funds lapse at year end.

Procedures for adopting the original budget

The City's budget procedures are mandated by RCW 35A.33. The steps in the budget process are:

- By late July, notice is submitted to operating departments to prepare for current level service budgets and a preliminary financial forecast.

- By late August, the finance department prepares preliminary revenue estimates to define resources available to finance coming year expenditure programs and updates salaries, benefits and other centralized cost projections.

- By the second week of September, operating departments submit their preliminary expenditure estimates. A proposed budget is prepared for the City Manager's review. The City Manager conducts individual budget sessions with operating departments to discuss their proposed expenditures.

- Prior to November 1, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following January 1.

- Work sessions and public hearings are conducted by the City Council from October to December to review the budget and to obtain taxpayer comments.

- Two public hearings on the proposed budget are also held during November and December. The final hearing must begin on or before the first Monday of December and may continue until the 25th day prior to the beginning of the next fiscal year.

- By December 31, the City Council formulates its adjustments to the proposed budget and adopts a final budget through the passage of an ordinance.

- The final operating budget, as adopted, is published and distributed within the first three months of the following year. Copies of the adopted budget are made available to the public.

Amending the budget
The budget, as adopted, constitutes the legal authority for expenditures. The City's budget is adopted at the fund level, so that expenditures may not legally exceed appropriations at that level of detail. The City Manager is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total expenditures of a fund must be approved by the City Council.

When the City Council determines that it is in the best interest of the City to increase or decrease the appropriation for a particular fund, it may do so by ordinance approved by one more than the majority after holding one public hearing.

The budget amounts shown in the financial statements are the final authorized amounts as revised during the year. The financial statements contain the original and final budget information. The original budget is the first complete appropriated budget. The final budget is the original budget adjusted by all reserves, transfers, allocations, supplemental appropriations, and other legally authorized changes applicable for the fiscal year.

B. Budgetary Compliance.

The city incurred expenditures in excess of budget for the Transportation Benefit District special revenue fund for the year ended December 31, 2016 by $58,206. This was due to unexpected expenditures occurring in December and after the last city council meeting of the year. There were no expenditures in excess of budget for the year ended December 31, 2015.

NOTE 4 – DETAILED NOTES ON ALL FUNDS

A. Deposits, investments and restricted assets

As of December 31, 2016 the government had the following:

Demand deposits at Key Bank	$7,437,600
Trust deposit (Retainage) at Opus Bank	$ 135,832
Investments measured at amortized cost:	
Local Government Investment Pool	$8,804,356
Investments measured at fair value:	
(Quoted prices in active markets for identical assets (Level 1)	
Investments in Federal Agencies	$ 3,479,595

Investments measured at fair value. The city reports investments at par value ($3.5 million) which does not materially differ from the measure of investments at fair value using the valuation input hierarch established by generally accepted accounting principles, as follows:

Level 1: Quoted prices in active markets for identical assets or liabilities;
Level 2: Quoted market prices for similar assets, quoted for similar assets in markets not active, or other than quoted prices that are not observable.
Level 3: Unobservable inputs for an asset.

Interest rate risk. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. In accordance with its investment policy, the City manages its exposure to declines in fair value by limiting the maturity of investments. The city's investment policy limits investment maturities to eighteen months or less unless matched to a specific cash flow. The city's investment policy does not specifically address interest rate risk.

Credit risk. Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The city investment policy allows the following types of investments in accordance with state law: demand or investment deposits in qualified public depositories located within the state; United States' government bonds, notes bills; certificates of deposits from financial institutions that participate in Washington State's Public Deposit Protection Commission's list of "Qualified Public Depositories"; bankers acceptances, repurchase agreements and the Washington State Treasurer's Office Local Government Investment Pool (LGIP). The investment policy for "credit risk" does not extend beyond the types of authorized investments and the concentration of credit risk described below. As of December 31, 2016 the City's investments in agency securities were all rated Aaa by Moody's Investor Services. The LGIP is not registered with the SEC and the fair value of the city's position in the pool is the same as the value of the pool shares. The LGIP is regulated by the state of Washington's state finance committee. Credit risk is limited as most investments are either obligations of the U.S. Government, government sponsored enterprises, insured demand deposit accounts or certificates of deposit.

Concentration of credit risk. Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. It is the policy of the city to diversify its investment portfolio to eliminate the risk of loss resulting from overconcentration of assets in a specific class of securities. With the Exception of U.S. Treasury securities and the State Treasurer's Local Government Investment Pool (LGIP) no more than twenty-five percent of the city's total investment portfolio should be invested in a single security type. Concentration of credit risk as a percentage of total investments:

Issuer	% of Total	Fair Value
Federal Farm Credit Bank	18%	3,479,595
Key Bank	38%	7,437,600
LGIP	45%	8,804,356
TOTAL	100%	19,721,551

Custodial credit risk – deposits. This is the risk that in the event of a bank failure, the governments' deposits may not be returned. The city's policy states that the maximum amount to be placed with any one depositary shall not exceed the net worth of the institution (at the time of investment) as determined by the State of Washington Public Deposit Protection Commission (PDPC). According to the PDPC Act implemented August 11, 1969 financial institutions holding public funds have requirements to collateralize those funds. The maximum liability of a public depository is equal to ten percent of all public deposits held by that depositary at the time of the most recent Commission report date or the average of the balances of public deposits on the four most recent Commission report dates, whichever is greater. This amount, which is subject to audit, represents the maximum amount the Commission can assess each depository in the event of a loss due to default of a participating depositary. The city had $7,437,600 on deposit with Key Bank on December 31, 2016. The FDIC insures those deposits up to $250,000. Key Bank is required to collateralize 10% of the remaining funds which is $718,760. The temporary custodial credit risk for uncollateralized was $6,718,840 at December 31, 2016.

Custodial credit risk – investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the government will be able to recover the value of its investments or other collateral securities that are in the possession of an outside party. The city limits its custodial credit risk by holding investments that are insured and are registered or held by the city's agent in the city's name. Certificates of deposits are entirely covered by federal depository insurance (FDIC and FSLIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC). Per the city investment policy, with the exception of the United State Treasury and the LGIP, no more than 25% of the total investment portfolio shall be invested in a single institution.

Restricted assets. Certain resources set aside for the repayment of revenue bonds are classified as restricted assets on the balance sheet because they are maintained in a separate account and their use is limited by applicable bond covenants. The "bond debt service" account is used by the Marina fund to report resources set aside to subsidize potential deficiencies from operations that could adversely affect debt service payments. Cash provided from customers as deposits are also restricted. Restricted assets are composed of the following (there are no permanent restrictions):

	Temporary Restrictions
Customer deposits	368,642
Contractor retainage	200,697
Unspent donations on hand	140,018
Marina debt service covenants	868,378
Total	$1,577,735

B. Receivables

Taxes receivable. Taxes receivable consist of several types of taxes: property taxes, sales taxes and business & occupation taxes, excise taxes, gambling and admission taxes.

Property taxes. The county treasurer acts as an agent to collect property taxes levied in the county for all taxing authorities. Collections are distributed by the 10th day of the following month.

Property Tax Calendar

January 1	Taxes are levied and become an enforceable lien against properties.
February 14	Tax bills are mailed
April 30	First of two equal installment payments is due.
May 31	Assessed value of property established for next year's levy at 100% of market value.
October 31	Second installment is due.

Property taxes are recorded as a receivable when levied, offset by deferred revenue. During the year property tax revenues are recognized when cash is collected and deferred property tax revenue is reduced. Prior year tax levies were recorded using the same principal. The reported balances include tax payments from the county received through December 31, 2016. Tax receipts received by the county in December but remitted to the City in January are not material and are included as part of the tax receivable amount reported. Delinquent taxes totaled $138,899 and since these funds are not available revenue recognition is deferred. Subsequent collections of delinquent amounts will be recorded in revenue in the period actually received.

The City may levy up to $3.60 per $1,000 of assessed valuation for general governmental services subject to three limitations:

a. Except as otherwise provided for, the levy for taxing districts in any year shall be set so that the regular property taxes payable in the following year shall not exceed the limit factor of 101% multiplied by the amount of regular property taxes lawfully levied for such district in the highest of the three most recent years in which such taxes were levied for such district plus an additional dollar amount calculated by multiplying the increase in assessed value in that district resulting from new construction, improvements to property, and any increase in the assessed value of state-assessed property by the regular property tax levy rate of that district for the preceding year.
b. The Washington State Constitution limits the total regular property taxes to one percent of assessed valuation or $10 per $1,000 of value. If the taxes of all districts exceed this amount, each is proportionately reduced until the total is at or below the one percent limit.
c. Of the $3.60 maximum allowed, $1.50 is allocated to the Fire District and $0.50 to the Library District. To the extent either of these districts does not assess the full limit the difference is available to the city to assess.

In November 2015, the City approved Ordinance 1632 establishing the operating levy for 2016 of $4,745,000 based on an assessed valuation of $2,871,886,336 and using an estimated maximum levy rate of $1.68 per $1,000 of assessed value. In November 2016, the City approved ordinance 1667 establishing the operating levy for 2017 of $4,856,774 based on an assessed valuation of $3,194,299,789 using an estimated maximum rate of $1.70 per $1,000 of assessed value.

Sales and excise taxes. The state is the collection agent for sales and real estate excise taxes in the State of Washington. The vendor has until approximately the end of the following month to remit sales tax to the state for taxable sales. The state then has approximately another month to remit the city's portion of the tax to the city. The city's basic sales tax rate is one-half of one percent plus an optional one-half of one percent.

Business & Occupation taxes. The city implemented this tax effective for 2005 with the adoption of Ordinance No. 1355 on December 2, 2004. A tax rate of two tenths of one cent ($0.002) of gross revenues was established. Businesses with annual gross receipts of $50,000 or less are exempt from taxes, but must still file an informational return, businesses earning $75,000 or more are required to file their returns and remit their taxes within 30 days from the end of each quarter. All other active businesses file annual returns.

Utility occupation taxes. The city assessed a gross revenue tax and use on certain utilities within the city. City council raised utility taxes as follows: Sanitation tax from 8% to 18% with the increase going to the Street Maintenance fund; Cable tax from 8% to 10% with the increase going to the General Fund and Surface Water Management tax from 8% to 15% with 2% of the 15% rate going to the Street Fund and 13% of the 15% rate going to the General Fund.

Customer receivables. As of December 31, 2016 the city's funds contain no allowance for uncollectible accounts as uncollectible amounts are routinely written off and the remaining amounts are expected to be fully collected with the exception of Municipal Court receivables. As of December 31, 2016 municipal court receivables were $2,977,982 of which $2,322,272 is estimated to be uncollectible.

Special assessments and deferred inflows. Governmental funds report *unavailable revenue* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue reported in the governmental funds were as follows:

Unavailable Revenue (not received in availability period):	
Taxes	$ 138,899
Court fines	567,501
Customer charges	37,502
Grants	156,547
Special assessments	7,404
Total	$907,853

C. Capital Assets and Joint Venture

Capital asset activity for the year ended December 31, 2016 was as follows:

DEPRECIATION EXPENSE BY FUNCTION:	
Governmental Activities:	
General Government	$ 340,071
Public Safety	204,054
Transportation	1,624,180
Natural & Economic	42,336
Social Services	36,874
Culture & Recreation	785,112
Total	$ 3,032,627
Business-Type Activities:	
Marina	$ 566,048
Surface Water Mgmt	448,794
Total	$ 1,014,842

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital assets not being depreciated:				
Land	$ 103,650,224	$ -	$ -	$ 103,650,224
Construction in progress	10,204,046	8,909,988	(12,107,297)	7,006,737
Total capital assets not depreciated	113,854,270	8,909,988	(12,107,297)	110,656,961
Capital assets, being depreciated				
Buildings & structures	11,415,247	-	-	11,415,247
Other improvements	17,539,319	641,381	-	18,180,700
Infrastructure	48,109,730	13,687,383	-	61,797,113
Machinery and equipment	6,284,845	910,912	(511,707)	6,684,050
Total depreciable capital assets	83,349,141	15,239,676	(511,707)	98,077,110
Less accumulated depreciation:				
Buildings & structures	(3,875,489)	(217,092)	-	(4,092,581)
Other improvements	(8,895,717)	(921,288)	-	(9,817,005)
Infrastructure	(20,950,309)	(1,517,821)	-	(22,468,130)
Machinery and equipment	(4,505,613)	(376,426)	511,707	(4,370,332)
Total accumulated depreciation	(38,227,128)	(3,032,627)	511,707	(40,748,048)
Governmental activities capital assets, net	$ 158,976,283	$ 21,117,037	$ (12,107,297)	$ 167,986,023

	Beginning Balance	Increases	Decreases	Ending Balance
Business-Type Activities:				
Capital assets not being depreciated:				
Land	$ 3,791,287	$ -	$ -	$ 3,791,287
Construction in progress	410,499	1,360,532	(1,340,519)	430,512
Total capital assets not depreciated	4,201,786	1,360,532	(1,340,519)	4,221,799
Other capital assets:				
Buildings & structures	6,145,340	46,816	-	6,192,156
Other improvements	15,370,716	-	-	15,370,716
Infrastructure	20,356,774	1,663,213	-	22,019,987
Machinery and equipment	865,243	-	(12,378)	852,865
Total depreciable capital assets	42,738,073	1,710,029	(12,378)	44,435,724
Less accumulated depreciation:				
Buildings & structures	(3,875,483)	(148,669)	-	(4,024,152)
Other improvements	(6,139,422)	(392,999)	-	(6,532,421)
Infrastructure	(8,710,821)	(413,248)	-	(9,124,069)
Machinery and equipment	(639,269)	(59,926)	12,378	(686,817)
Total accumulated depreciation	(19,364,995)	(1,014,842)	12,378	(20,367,459)
Business activities capital assets, net	$ 27,574,864	$ 2,055,719	$ (1,340,519)	$ 28,290,064

Construction & Other Contractual Commitments

The City of Des Moines has active construction projects as of December 31, 2016. The projects include street construction, utility constructions and park facility construction contracts. There are also several consulting contracts. At year end, the city's contract commitments are as follows:

CONTRACT COMMITMENTS			
FUND TYPE	CONTRACT COMMITMENT	SPENT TO DATE	REMAINING COMMITMENTS
General Fund	1,011,850	765,584	246,265
Major Construction	19,260,909	16,508,378	2,752,531
Major Proprietary	2,927,717	1,664,339	1,263,378
TOTAL	**23,200,476**	**18,938,302**	**4,262,174**

SOUTH CORRECTIONAL ENTITY (SCORE)

The South Correctional Entity (SCORE) consolidated correctional facility was established February 25, 2009, when an Interlocal Agreement (the "Original Interlocal Agreement") was entered into by seven participating municipal governments, the "Member Cities" of Auburn, Burien, Des Moines, Federal Way, Renton, SeaTac and Tukwila, under the authority of the "Interlocal Cooperation Act" (RCW 39.34). This "Original Interlocal Agreement" was amended and restated October 1, 2009 and named the City of Des Moines as the "Host City" and the remaining Member Cities as "Owner Cities". This interlocal agreement is known as the "Formation Interlocal Agreement". Pursuant to a separate "Host City Agreement" dated October 1, 2009, the Host City will not enjoy the same equity position as the Owner Cities until all debts issued are paid and the Host City fulfills all of its obligations as outlined in the Host City Agreement. Pursuant to SCORE financial policies, all unexpected funds or reserve funds shall be distributed based on the percentage of the Member City's average daily population at the SCORE Facility for the last three (3) years regardless of its Owner City or Host City status.

SCORE, a governmental administrative agency pursuant to RCW 39.34.030(3), has the power to acquire, construct, own, operate, maintain, equip, and improve a correctional facility known as the "SCORE Facility" and to provide correctional services and functions incidental thereto, for the purpose of detaining arrestees and sentenced offenders in the furtherance of public safety and emergencies within the jurisdiction of the Member Cities. The SCORE Facility may serve the Member Cities and Subscribing Agencies which are in need of correctional facilities. Any agreement with a Subscribing Agency shall be in writing and approved by SCORE as provided within the SCORE Formation Interlocal Agreement.

Financing for the acquisition, construction, equipping, and improvement of the SCORE Facility was provided by bonds issued by the South Correctional Entity Facility Public Development Authority (the "SCORE PDA"), a public development authority chartered by the City of Renton pursuant to RCW 35.21.730 through 35.21.755. The SCORE PDA issued $86 million in special obligation bonds in 2009 (the "Bonds") to construct, develop, acquire and equip the SCORE Facility. Pursuant to the Formation Interlocal Agreement and the ordinances of each city, each Owner City (which includes the Cities of Auburn, Burien Federal Way, Renton, SeaTac, and Tukwila) is obligated to budget for and pay its share, and only its share, of the principal of and interest on the Bonds as the same become due and payable. Each Owner City's obligation to pay its portion is an irrevocable, unconditional full faith and credit obligation of such Owner City, payable from property taxes levied within the constitutional and statutory authority provided without a vote of the electors of the Owner City on all of the taxable property within the Owner City and other sources of revenues available therefor. The following is a summary of the debt service requirements for the Bonds:

Summary of Debt Service Requirements										
Debt Service Schedule					Debt Service Allocation to Owner Cities					
Year	Principal	Interest	BABs Subsidy	Total	Auburn 31%	Burien 4%	Federal Way 18%	Renton 36%	SeaTac 3%	Tukwila 8%
2017	$ 2,145,000	$ 4,820,241	$ (1,510,874)	$ 5,454,367	$ 1,690,854	$ 218,175	$ 981,786	$ 1,963,572	$ 163,631	$ 436,349
2018	2,240,000	4,715,979	(1,510,063)	5,445,916	1,688,234	217,837	980,265	1,960,530	163,377	435,673
2019	2,310,000	4,602,229	(1,473,568)	5,438,661	1,685,985	217,546	978,959	1,957,918	163,160	435,093
2020	2,385,000	4,484,854	(1,435,933)	5,433,921	1,684,516	217,357	978,106	1,956,212	163,018	434,714
2021	2,465,000	4,363,604	(1,397,075)	5,431,529	1,683,774	217,261	977,675	1,955,350	162,946	434,522
2022-2026	13,945,000	19,586,127	(6,994,733)	26,536,394	8,226,282	1,061,456	4,776,551	9,553,102	796,092	2,122,912
2027-2031	17,010,000	14,723,464	(5,346,730)	26,386,734	8,179,888	1,055,469	4,749,612	9,499,224	791,602	2,110,939
2032-2036	20,955,000	8,498,417	(3,217,063)	26,236,354	8,133,270	1,049,454	4,722,544	9,445,087	787,091	2,098,908
2037-2039	14,860,000	1,502,494	(697,922)	15,664,572	4,856,017	626,583	2,819,623	5,639,246	469,937	1,253,166
Totals	$ 78,315,000	$ 67,297,409	$ (23,583,961)	$ 122,028,448	$ 37,828,820	$ 4,881,138	$ 21,965,121	$ 43,930,241	$ 3,660,854	$ 9,762,276

The City of Des Moines reports its share of equity interest in the Governmental Activities column within the Government-wide financial statements as a non-current asset. The equity balance as shown on the table below includes only the portion of the equity interest from annual operating activity. The investment in joint venture reflects the 2016 write-off of $621,126 of start-up costs as well as other net 2016 activity and so the reported investment in joint ventures as of December 31, 2016 is $166,583 as indicated below.

South Correctional Entity (SCORE)				
Member City	Percent of Equity	2015 Equity Balance	2016 Apportionment	2016 Equity Balance
Auburn	31.00%	$ 3,331,777	$ (216,443)	$ 3,115,334
Burien	3.00%	376,841	(52,239)	$ 324,602
Des Moines	2.00%	197,267	(30,684)	$ 166,583
Federal Way	23.00%	2,620,575	(328,310)	$ 2,292,265
Renton	30.00%	3,222,670	(281,167)	$ 2,941,503
SeaTac	4.00%	498,467	(64,438)	$ 434,029
Tukwila	7.00%	788,541	(85,218)	$ 703,323
Grand Totals	100.00%	$ 11,036,138	$ (1,058,499)	$ 9,977,639

The City of Des Moines as a "Member City" under the original interlocal agreement pledged its full faith and credit toward the payment of its allocable proportion (5%) of the debt service on the bonds issued by the SCORE PDA. Under the "Formation Interlocal Agreement" the City's allocable proportion (5%) was allocated to the cities of Renton (2%), Auburn (2%) and Federal Way (1%). In consideration, under the "Host Agreement" the city is required to pay a "Host City Fee" equal to the 5% allocable share for the availability of the SCORE facility. While the City of Des Moines is not contractually obligated for the debt service of the SCORE PDA, it is the City's intent to make the allocable proportion (5%) payment via the Host City Fee. The Host City Fee requirement is as follows:

Total	6,114,862	Remaining payments of December 31, 2016

Year	Host Fee	Year	Host Fee
2017	267,163	2022-2026	1,333,926
2018	267,680	2027-2031	1,329,013
2019	267,483	2032-2036	1,323,949
2020	267,418	2037-2041	791,831
2021	266,399		

In consideration for payment of the Host City Fee when the bonds are paid off and the Host City Fee Agreement terminates, the cities of Renton, Auburn and Federal Way's interest in the real and personal property of the SCORE facility will be reduced and the City of Des Moines will receive a 5% interest.

Complete financial statements for SCORE and SCORE PDA can be obtained at the following address:

SCORE
20817 17th Ave South
Des Moines, WA 98198

D. Interfund loans receivable, payable and transfers

Interfund transfers

Transfers between funds during the year ended December 31, 2016 are as follows:

		TRANSFERS TO					
	FUND TYPE	General	Nonmajor Spec	Nonmajor Debt	Major Construction	Internal Service	Total
TRANSFERS FROM	General		46,000	11,436	625,000	40,000	722,436
	Nonmajor Spec Revenue		214,415		39,564		253,979
	Major Construction		27,197	393,840		9,935	430,972
	Marina				15,000		15,000
	Surface Water Mgmt				15,000		15,000
	Internal Service Fund				71,000		71,000
	Total	-	287,612	405,276	765,564	49,935	1,508,387

Transfers are used to 1) move unrestricted general fund revenues to finance various programs that the government must account for in other funds in accordance with budgetary authorizations, including amounts provided as subsidies or matching funds for various grant programs; 2) move investment earnings or operating subsidies from one fund to its designated, authorized purpose carried out by another fund; 3) move resources designated for construction to and from construction funds as projects are created and/or completed.

There were one time transfers for the purpose of construction and funding major repairs between the construction funds, the general fund and the internal service (insurance) funds. There was a transfer of real estate excise taxes from the general construction fund to the general fund to cover various park and city facility operations and maintenance costs, to the debt service fund to pay debt service on qualified projects and to the self-insurance fund to cover repair costs not covered by insurance.

E. Capital Lease

In 2013 the city entered into a lease agreement for a document management system. The system is included in net capital assets in governmental activities at cost of $17,821 less accumulated depreciation of $11,287.

The future minimum lease obligations for each year are $3,624 in 2017 and $2,718 in 2018. $49 of those payments represents interest. Thus the net present value of these minimum lease payments is $9,849.

F. Long-term Debt

Changes in long-term liabilities. For the governmental activities, compensated balances and net pension obligations are generally liquidated by the General, Streets and Equipment Operations funds while compensated and net pension obligation balances for the proprietary funds are normally liquidated in the Marina and Surface Water Management funds. The net OPEB (other post-employment benefits) obligation is generally liquidated by the General fund. Long-term liability activity for the year ended December 31, 2016:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
GOVERNMENTAL ACTIVITIES					
General obligation bonds	$ 2,095,000		$ (225,000)	$ 1,870,000	$ 235,000
External Loans & Notes	695,050		(65,773)	629,277	66,185
Capital lease	9,848		(3,555)	6,293	3,585
Compensated absences	1,257,574	1,343,911	(1,268,385)	1,333,100	79,204
Net pension obligation	4,641,584	1,562,420	(756,486)	5,447,518	
Net OPEB obligation*	646,974	177,075	(51,576)	772,473	
Governmental activity long-term liabilities	$ 9,346,030	$ 3,083,406	$ (2,370,775)	$ 10,058,661	$ 383,974
BUSINESS ACTIVITIES					
Revenue bonds	$ 6,765,000		$ (525,000)	$ 6,240,000	$ 545,000
Premiums	124,073		(29,773)	94,300	25,920
Total bonds payable	$ 6,889,073	$ -	$ (554,773)	$ 6,334,300	$ 570,920
Compensated absences	212,115	263,829	(235,640)	240,304	28,189
Net pension obligation	1,160,396	390,605	(189,122)	1,361,879	
Business activity long-term liabilities	$ 8,261,584	$ 654,434	$ (979,535)	$ 7,936,483	$ 599,109

Long-term debt. The city issues general obligation bonds to finance capital improvements such as bridges, streets, municipal buildings and enterprise facilities such as marina facilities. Bonded indebtedness has also been entered into (currently and in prior years) to advance refund general obligation and revenue bonds. Proprietary fund revenues are used to repay revenue and refunding bonds as well as certain loans.

Governmental Activities – Debt in this classification is paid from property taxes, sales taxes and real estate excise taxes and is a general obligation of the City. Moody's Investor Service on April 23, 2010 assigned its Global Scale rating of A2 for the 2008 transportation general obligation bonds. The City has two loans with the Washington State Public Works Board, a division of the Department of Commerce. The loan proceeds were used to fund two major transportation projects. On February 15, 2017, Moody's Investors Service upgraded the City's limited tax general obligation debt from "A2" to "A1" pursuant to Moody's publication of a new methodology for the sector.

Business-type Activities – Operating revenues of the Marina Fund are pledged to retire this debt. Moody's Investors Service on April 23, 2010 assigned its rating of A2 to the Marina 2008 limited tax general obligation bonds. On April 2, 2012, Moody's Investor Service assigned a rating of A2 to the Marina 2012 limited tax general obligation refunding bonds. On February 15, 2017, Moody's Investors Service upgraded the City's limited tax general obligation debt from "A2" to "A1." This upgrade was done pursuant to Moody's publication of a new methodology for the sector.

GENERAL OBLIGATION BONDS

PURPOSE	MATURITY RANGE	INTEREST RATE RANGE	ORIGINAL AMOUNT	INSTALLMENT 2016 AMOUNT
2008 LTGO - Transportation	12/1/2028	4.00% - 4.70%	$ 2,515,000	$ 194,300
2009 LTGO - Refunding	12/1/2017	4.00% - 4.25%	935,000	124,988
YEAR ENDING	GOVERNMENTAL ACTIVITIES		BUSINESS-TYPE ACTIVITIES	
DECEMBER 31	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST
2017	235,000	84,725		
2018	120,000	74,738		
2019	125,000	69,488		
2020	130,000	64,019		
2021	135,000	58,331		
2022-2026	765,000	194,369		
2027-2031	360,000	25,615		
TOTAL	$ 1,870,000	$ 571,285	$ -	$ -

GENERAL OBLIGATION NOTES & LOANS

PURPOSE	MATURITY RANGE	INTEREST RATE RANGE	ORIGINAL AMOUNT	INSTALLMENT 2016 AMOUNT
2004 PWTF Loan - Pacific Hwy Construct	7/1/2024	0.50%	$ 2,250,000	$ 24,681
2009 PWTF Loan - Gateway Constructior	7/1/2028	0.50%	1,000,000	33,934
2011 Wa State LOCAL - Energy Equipment	12/1/2021	2.46%	106,138	13,148
YEAR ENDING	GOVERNMENTAL ACTIVITIES		BUSINESS-TYPE ACTIVITIES	
DECEMBER 31	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST
2017	66,185	5,301		
2018	66,613	4,595		
2019	67,059	3,873		
2020	67,522	3,132		
2021	68,003	2,373		
2022-2026	230,169	4,691		
2027-2031	63,726	478		
TOTAL	$ 629,277	$ 24,443	$ -	$ -

REVENUE BONDS

PURPOSE	MATURITY RANGE	INTEREST RATE RANGE	ORIGINAL AMOUNT	INSTALLMENT 2016 AMOUNT
2008 LTGO - Marina	12/1/2028	4.00% - 4.70%	6,080,000	511,429
2012 LTGO - Marina Refunding	12/1/2022	2.00% - 4.00%	2,810,000	308,400
YEAR ENDING	GOVERNMENTAL ACTIVITIES		BUSINESS-TYPE ACTIVITIES	
DECEMBER 31	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST
2017			545,000	275,516
2018			560,000	255,416
2019			590,000	233,016
2020			610,000	206,916
2021			640,000	179,116
2022-2026			2,340,000	524,900
2027-2031			955,000	67,683
TOTAL			$ 6,240,000	$ 1,742,563

Federal Arbitrage. The Federal Tax Reform Act of 1986 requires issuers of tax-exempt debt over $5 million to make payments to the United States Treasury of investment interest received at yields that exceed the issuer's tax-exempt borrowing rates. Payments of arbitrage rebate amounts due under these regulations must be made to the U.S. Treasury every five years. The City has no arbitrage liability as of December 31, 2016.

NOTE 5 - OTHER INFORMATION

A. Risk Management

The City of Des Moines maintains insurance against most normal hazards except for unemployment, where it has elected to become self-insured. The City of Des Moines is a member of the Washington Cities Insurance Authority (WCIA).

Purchased Insurance. Utilizing Chapter 48.62 RCW (self-insurance regulation) and Chapter 39.3 RCW (Interlocal Cooperation Act), nine cities originally formed WCIA on January 1, 1981. WCIA was created for the purpose of providing a pooling mechanism for jointly purchasing insurance, jointly self-insuring, and/or jointly contracting for risk management services. WCIA has a total of over 179 members.

New members initially contract for a three-year term, and thereafter automatically renew on an annual basis. A one-year withdrawal notice is required before membership can be terminated. Termination does not relieve a former member from its unresolved loss history incurred during membership.

Liability coverage is written on an occurrence basis without deductibles. Coverage includes general, automobile, police professional, public officials' errors and omissions, stop gap, and employee benefits liability. WCIA limits are $4 million per occurrence in the self-insured layer, and $16 million per occurrence in the re-insured layer. The excess layer is insured by the purchase of reinsurance and is subject to aggregate sub-limits in the excess layers. Total limits are $20 million per occurrence subject to aggregate sub-limits in the excess layers. The Board of Directors determines the limits and terms of coverage annually.

Property, Inland Marina, boiler, machinery and employee fidelity insurance is purchased through commercial insurance brokers.

In-house services include risk management consultation, loss control field services, claims and litigation administration, and loss analyses. WCIA contracts for the claims investigation consultants for personnel issues and land use problems, insurance brokerage and lobbyist services.

WCIA is fully funded by its members, who make annual assessments on a prospectively rated basis, as determined by an outside, independent actuary. The assessment covers loss, loss adjustment, and administrative expenses. As outlined in the interlocal, WCIA retains the right to additionally assess the membership for any funding shortfall.

An investment committee, using investment brokers, produces additional revenue by investment of WCIA's assets in financial instruments which comply with all State guidelines.

A Board of Directors governs WCIA, which is comprised of one designated representative from each member. The Board elects an Executive Committee and appoints a Treasurer to provide general policy direction for the organization. The WCIA Executive Director reports to the Executive Committee and is responsible for conducting the day-to-day operations of WCIA.

There have been no claims in excess of insurance coverage for the last three years.

Self –Insurance. In addition to the insurance coverage through WCIA, the city is exposed to risks of losses to property not covered by the insurance pool such as deductibles. To provide additional cash reserves to fund those losses not covered by WCIA, the city established a Self- Insurance fund. The main activities of the self-insurance fund consist of employee education, payment of commercial insurance premiums, payment of WCIA deductibles for insured claims and payment of litigation costs and/or damage claims against the city for which coverage may be denied by insurance carriers. Premiums are assessed to other city funds based on each fund or departments' assumed risk.

In 2004 the City of Des Moines joined the Association of Washington Cities' (AWC) Worker's Compensation Retrospective Rating Program. The program provides cities with expertise and services to lower their claims experience resulting in potential refund of a portion of their Washington State Department of Labor and Industries (L&I) premiums. Membership criteria includes being a member of the AWC, be in good standing with L&I, adoption of the AWC membership agreement, once a year attendance at a regional training workshop and a return to work/light duty policy. Fees are 6.5% of the City's prior year's L&I premium. The 6.5% fee is refunded to the City the following year if the group received a refund from L&I.

The city has also established an Unemployment Insurance fund. The purpose of this fund is to accumulate money for the payment of claims for unemployment compensation. Unemployment claims are processed by the State of Washington and billed to the City on a quarterly basis. Each department contributes 0.5% of its annual payroll to cover future claims.

Ordinance No. 879 adopted in 1991 established the reserve requirement for the payment of unemployment claims. The optimum reserve calculation is based on a formula derived by multiplying the average number of employees times five percent times the annual maximum unemployment benefits per employee times three years plus the average annual payout for the last ten years. As of December 31, 2016 the reserve requirement was $481,460 and actual fund balance was $369,825. The amounts payable at December 31, 2016 was $0.

	Self- Insurance		Unemployment Insurance	
Item	**2015**	**2016**	**2015**	**2016**
Claims liabilities at beginning of year	$ -	$ -	$ -	$ -
Claims expenses:				
Current year and changes in estimates	(45,014)	20,000	2,451	26,884
Claims payments	45,014	(20,000)	(2,451)	(26,884)
Claims liabilities at end of the year	$ -	$ -	$ -	$ -

B. Employee retirement systems and pension plans

The following table represents the aggregate pension amounts for all plans subject to the requirements of the GASB Statement 68, *Accounting and Financial Reporting for Pensions* for the year 2016:

Aggregate Pension Amounts – All Plans	
Pension liabilities	$6,809,397
Pension assets	$ 808,765
Deferred outflows of resources	$1,720,335
Deferred inflows of resources	$ 173,253
Pension expense	$ 836,659

State Sponsored Pension Plans

Substantially all full-time and qualifying part-time employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing, multiple-employer public employee defined benefit and defined contribution retirement plans. The state Legislature establishes, and amends, laws pertaining to the creation and administration of all public retirement systems.

The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to:

Department of Retirement Systems
Communications Unit
P.O. Box 48380
Olympia, WA 98540-8380

Or the DRS CAFR may be downloaded from the DRS website at www.drs.wa.gov.

Public Employees' Retirement System (PERS)

PERS members include elected officials; state employees; employees of the Supreme, Appeals and Superior Courts; employees of the legislature; employees of district and municipal courts; employees of local governments; and higher education employees not participating in higher education retirement programs. PERS is comprised of three separate pension plans for membership purposes. PERS plans 1 and 2 are defined benefit plans, and PERS plan 3 is a defined benefit plan with a defined contribution component.

PERS Plan 1 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the member's average final compensation (AFC) times the member's years of service. The AFC is the average of the member's 24 highest consecutive service months. Members are eligible for retirement from active status at any age with at least 30 years of service, at age 55 with at least 25 years of service, or at age 60 with at least five years of service. Members retiring from active status prior to the age of 65 may receive actuarially reduced benefits. Retirement benefits are actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and non-duty disability payments, an optional cost-of-living adjustment (COLA), and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. PERS 1 members were vested after the completion of five years of eligible service. The plan was closed to new entrants on September 30, 1977.

Contributions

The **PERS Plan 1** member contribution rate is established by State statute at 6 percent. The employer contribution rate is developed by the Office of the State Actuary and includes an administrative expense component that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates. The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for 2016 were as follows:

PERS Plan 1		
Actual Contribution Rates:	**Employer**	**Employee***
PERS Plan 1	6.23%	6.00%
PERS Plan 1 UAAL	4.77%	6.00%
Administrative Fee	0.18%	
Total	**11.18%**	**6.00%**

The city's actual contributions to the plan were $333,338 for the year ended December 31, 2016.

PERS Plan 2/3 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the member's average final compensation (AFC) times the member's years of service for Plan 2 and 1 percent of AFC for Plan 3. The AFC is the average of the member's 60 highest-paid consecutive service months. There is no cap on years of service credit. Members are eligible for retirement with a full benefit at 65 with at least five years of service credit. Retirement before age 65 is considered an early retirement. PERS Plan 2/3 members who have at least 20 years of service credit and are 55 years of age or older, are eligible for early retirement with a benefit that is reduced by a factor that varies according to age for each year before age 65. PERS Plan 2/3 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions:

- With a benefit that is reduced by three percent for each year before age 65; or
- With a benefit that has a smaller (or no) reduction (depending on age) that imposes stricter return-to-work rules.

PERS Plan 2/3 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of five percent for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service credit. PERS Plan 2/3 retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit. Other PERS Plan 2/3 benefits include duty and non-duty disability payments, a cost-of-living allowance (based on the CPI), capped at three percent annually and a one-time duty related death benefit, if found eligible by the Department of Labor and Industries. PERS 2 members are vested after completing five years of eligible service. Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years of service if 12 months of that service are earned after age 44.

PERS Plan 3 defined contribution benefits are totally dependent on employee contributions and investment earnings on those contributions. PERS Plan 3 members choose their contribution rate upon joining membership and have a chance to change rates upon changing employers. As established by statute, Plan 3 required defined contribution rates are set at a minimum of 5 percent and escalate to 15 percent with a choice of six options. Employers do not contribute to the defined contribution benefits. PERS Plan 3 members are immediately vested in the defined contribution portion of their plan.

Contributions

The **PERS Plan 2/3** employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include a component to address the

PERS Plan 1 UAAL and an administrative expense that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates. The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2016 were as follows:

PERS Plan 2/3		
Actual Contribution Rates:	**Employer 2/3**	**Employee 2**
PERS Plan 2/3	6.23%	6.12%
PERS Plan 1 UAAL	4.77%	
Administrative Fee	0.18%	
Employee PERS Plan 3		varies
Total	**11.18%**	**6.12%**

The city's actual contributions to the plan were $427,454 for the year ended December 31, 2016.

Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF)

LEOFF membership includes all full-time, fully compensated, local law enforcement commissioned officers, firefighters, and as of July 24, 2005, emergency medical technicians. LEOFF is comprised of two separate defined benefit plans.

LEOFF Plan 1 provides retirement, disability and death benefits. Retirement benefits are determined per year of service calculated as a percent of final average salary (FAS) as follows:

- 20+ years of service – 2.0% of FAS
- 10-19 years of service – 1.5% of FAS
- 5-9 years of service – 1% of FAS

The FAS is the basic monthly salary received at the time of retirement, provided a member has held the same position or rank for 12 months preceding the date of retirement. Otherwise, it is the average of the highest consecutive 24 months' salary within the last ten years of service. Members are eligible for retirement with five years of service at the age of 50. Other benefits include duty and non-duty disability payments, a cost-of living adjustment (COLA), and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. LEOFF 1 members were vested after the completion of five years of eligible service. The plan was closed to new entrants on September 30, 1977.

Contributions

Starting on July 1, 2000, **LEOFF Plan 1** employers and employees contribute zero percent, as long as the plan remains fully funded. The LEOFF Plan I had no required employer or employee contributions for fiscal year 2016. Employers paid only the administrative expense of 0.18 percent of covered payroll.

LEOFF Plan 2 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the final average salary (FAS) per year of service (the FAS is based on the highest consecutive 60 months). Members are eligible for retirement with a full benefit at 53 with at least five years of service credit. Members who retire prior to the age of 53 receive reduced benefits. If the member has at least 20 years of service and is age 50, the reduction is three percent for each year prior to age 53. Otherwise, the benefits are actuarially reduced for each year prior to age 53. LEOFF 2 retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and non-duty disability payments, a cost-of-living allowance (based on the CPI), capped at three percent annually and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. LEOFF 2 members are vested after the completion of five years of eligible service.

Contributions

The **LEOFF Plan 2** employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2. The employer rate included an administrative expense component set at 0.18 percent. Plan 2 employers and employees are required to pay at the level adopted by the LEOFF Plan 2 Retirement Board. The LEOFF Plan 2 required contribution rates (expressed as a percentage of covered payroll) for 2016 were as follows:

LEOFF Plan 2		
Actual Contribution Rates:	**Employer**	**Employee**
State and local governments	5.05%	8.41%
Administrative Fee	0.18%	
Total	**5.23%**	**8.41%**
Ports and Universities	8.41%	8.41%
Administrative Fee	0.18%	
Total	**8.59%**	**8.41%**

The city's actual contributions to the plan were $184,816 for the year ended December 31, 2016.

The Legislature, by means of a special funding arrangement, appropriates money from the state General Fund to supplement the current service liability and fund the prior service costs of Plan 2 in accordance with the recommendations of the Pension Funding Council and the LEOFF Plan 2 Retirement Board. This special funding situation is not mandated by the state constitution and could be changed by statute. For the state fiscal year ending June 30, 2016, the state contributed $60,375,158 to LEOFF Plan 2. The amount recognized by the City of Des Moines as its proportionate share of this amount is $117,010.

Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2016 with a valuation date of June 30, 2015. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's (OSA) *2007-2012 Experience Study*.

Additional assumptions for subsequent events and law changes are current as of the 2015 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2016. Plan liabilities were rolled forward from June 30, 2015, to June 30, 2016, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

- **Inflation:** 3% total economic inflation; 3.75% salary inflation
- **Salary increases**: In addition to the base 3.75% salary inflation assumption, salaries are also expected to grow by promotions and longevity.
- **Investment rate of return:** 7.5%

Mortality rates were based on the RP-2000 report's Combined Healthy Table and Combined Disabled Table, published by the Society of Actuaries. The OSA applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100 percent Scale BB. Mortality rates are applied on a generational basis; meaning, each member is assumed to receive additional mortality improvements in each future year throughout his or her lifetime.

There were minor changes in methods and assumptions since the last valuation.

- For all systems, except LEOFF Plan 2, the assumed valuation interest rate was lowered from 7.8% to 7.7%. Assumed administrative factors were updated.
- Valuation software was corrected on how the nonduty disability benefits for LEOFF Plan 2 active members is calculated.
- New LEOFF Plan 2 benefit definitions were added within the OSA valuation software to model legislation signed into law during the 2015 legislative session.

Discount Rate

The discount rate used to measure the total pension liability for all DRS plans was 7.5 percent. To determine that rate, an asset sufficiency test included an assumed 7.7 percent long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. (All plans use 7.7 percent except LEOFF 2, which has assumed 7.5 percent). Consistent with the long-term expected rate of return, a 7.5 percent future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue being made at contractually required rates (including PERS 2/3, PSERS 2, SERS 2/3, and TRS 2/3 employers, whose rates include a component for the PERS 1, and TRS 1 plan liabilities). Based on these assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.5 percent was used to determine the total liability.

Long-Term Expected Rate of Return

The long-term expected rate of return on the DRS pension plan investments of 7.5 percent was determined using a building-block-method. The Washington State Investment Board (WSIB) used a best estimate of expected future rates of return (expected returns, net of pension plan investment expense, including inflation) to develop each major asset class. Those expected returns make up one component of WSIB's capital market assumptions. The WSIB uses the capital market assumptions and their target asset allocation to simulate future investment returns at various future times. The long-term expected rate of return of 7.5 percent approximately equals the median of the simulated investment returns over a 50-year time horizon.

Estimated Rates of Return by Asset Class

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2016, are summarized in the table below. The inflation component used to create the table is 2.2 percent and represents the WSIB's most recent long-term estimate of broad economic inflation.

Asset Class	Target Allocation	% Long-Term Expected Real Rate of Return Arithmetic
Fixed Income	20%	1.70%
Tangible Assets	5%	4.40%
Real Estate	15%	5.80%
Global Equity	37%	6.60%
Private Equity	23%	9.60%
	100%	

Sensitivity of NPL

The table below presents the city's proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the city's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.5 percent) or 1-percentage point higher (8.5 percent) than the current rate.

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
PERS 1	3,790,224	3,143,068	2,586,151
PERS 2/3	6,750,371	3,666,329	(1,908,536)
LEOFF 1	(75,084)	(126,395)	(170,255)
LEOFF 2	1,913,549	(682,368)	(2,638,936)

Pension Plan Fiduciary Net Position

Detailed information about the State's pension plans' fiduciary net position is available in the separately issued DRS financial report.

Pension Liabilities (Assets), Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2016, the city reported a total pension liability of $6,809,397 and a net pension asset of $808,765 for its proportionate share of the net pension liabilities as follows:

	Liability (or Asset)
PERS 1	3,143,068
PERS 2/3	3,666,329
LEOFF 1	(126,396)
LEOFF 2	(682,369)

The amount of the (asset) reported above for LEOFF Plans 1 and 2 reflects a reduction for State pension support provided to the city. The amount recognized by the city as its proportionate share of the net pension (asset), the related State support, and the total portion of the net pension (asset) that was associated with the city were as follows:

	LEOFF 1 (Asset)	LEOFF 2 (Asset)
Employer's proportionate share	(126,395)	(682,368)
State's proportionate share of the net pension asset associated with the employer	(854,936)	(444,855)
TOTAL	(981,331)	(1,127,223)

At June 30, the city's proportionate share of the collective net pension liabilities was as follows:

	Proportionate Share 6/30/16	Proportionate Share 6/30/15	Change in Proportion
PERS 1	.058525%	.060047%	-.001522%
PERS 2/3	.072818%	.074473%	-.001655%
LEOFF 1	.012268%	.012137%	-.0000131%
LEOFF 2	.117320%	.121535%	-.004215%

Employer contribution transmittals received and processed by the DRS for the fiscal year ended June 30 are used as the basis for determining each employer's proportionate share of the collective pension amounts reported by the DRS in the *Schedules of Employer and Nonemployer Allocations* for all plans except LEOFF 1.

LEOFF Plan 1 allocation percentages are based on the total historical employer contributions to LEOFF 1 from 1971 through 2000 and the retirement benefit payments in fiscal year 2016. Historical data was obtained from a 2011 study by the Office of the State Actuary (OSA). In fiscal year 2016, the state of Washington contributed 87.12 percent of LEOFF 1 employer contributions and all other employers contributed the remaining 12.88 percent of employer contributions. LEOFF 1 is fully funded and no further employer contributions have been required since June 2000. If the plan becomes underfunded, funding of the remaining liability will require new legislation. The allocation method the plan chose reflects the projected long-term contribution effort based on historical data.

In fiscal year 2016, the state of Washington contributed 39.46 percent of LEOFF 2 employer contributions pursuant to RCW 41.27.726 and all other employers contributed the remaining 60.54 percent of employer contributions.

The collective net pension liability (asset) was measured as of June 30, 2016, and the actuarial valuation date on which the total pension liability (asset) is based was as of June 30, 2015, with update procedures used to roll forward the total pension liability to the measurement date.

Pension Expense

For the year ended December 31, 2016, the city recognized pension expense as follows:

	Pension Expense (Revenue)
PERS 1	86,055
PERS 2/3	531,707
LEOFF 1	(17,660)
LEOFF 2	236,557
TOTAL	836,659

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2016, the city reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

PERS 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience		
Net difference between projected and actual investment earnings on pension plan investments	79,138	
Changes of assumptions		
Changes in proportion and differences between contributions and proportionate share of contributions		
Contributions subsequent to the measurement date	166,034	
TOTAL	245,171	

PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	195,229	(121,032)
Net difference between projected and actual investment earnings on pension plan investments	448,653	
Changes of assumptions	37,894	
Changes in proportion and differences between contributions and proportionate share of contributions	76,134	(52,220)
Contributions subsequent to the measurement date	212,814	
TOTAL	970,724	(173,252)

LEOFF 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience		
Net difference between projected and actual investment earnings on pension plan investments	12,848	
Changes of assumptions		
Changes in proportion and differences between contributions and proportionate share of contributions		
Contributions subsequent to the measurement date		
TOTAL	12,848	

LEOFF 2	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	93,503	
Net difference between projected and actual investment earnings on pension plan investments	245,202	
Changes of assumptions	2,573	
Changes in proportion and differences between contributions and proportionate share of contributions	55,488	
Contributions subsequent to the measurement date	94,825	
TOTAL	491,592	

Deferred outflows of resources related to pensions resulting from the contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2017. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Net Effect on Future Pension Expense					
Year ended December 31	PERS 1	PERS 2/3	LEOFF 1	LEOFF 2	TOTAL PLANS
2017	(19,485)	17,936	(2,655)	9,123	6,935
2018	(19,485)	17,936	(2,655)	9,123	6,936
2019	72,679	339,417	11,127	215,061	640,304
2020	45,429	209,371	7,031	151,947	415,797
2021	-	-	-	11,513	13,534
Thereafter	-	-	-	-	-
TOTAL	**79,138**	**584,659**	**12,848**	**396,766**	**1,083,506**

C. Contingencies and litigation

The City has recorded in its financial statements all material liabilities, including applicable estimates for situations that are not yet resolved but where, based on available information, management believes it is probable that the City will have to make payment. In the opinion of management, the City's insurance policies and self-insurance reserves are adequate to pay all material known or pending claims.

The City participates in a number of Federal and State assisted programs. These grants are subject to audit by the grantor or representative. Such audits could result in requests for reimbursement to grantor agencies for expenditures disallowed under the terms of the grants. However, City management believes that such disallowances, if any, will be immaterial.

D. Other postemployment benefits

LEOFF 1 - Medical

In addition to the pension benefits outlined in Note 5.C, the City of Des Moines provides post-retirement health care benefits via a single employer defined benefit plan in accordance with state statute for retired police officers and firefighters who are eligible under the Law Enforcement Officers' and Firefighters' (LEOFF) plan 1 retirement system.

Medical Plan Description

As required by the Revised Code of Washington (RCW) Chapter 41.26, the City provides lifetime medical care for members of the Law Enforcement Officers and Firefighters (LEOFF) retirement system hired before October 1, 1977 under a defined benefit healthcare plan administered by the City. The members' necessary hospital, medical, and nursing care expenses not payable by worker's compensation, social security, insurance provided by another employer, or other pension plan, or any other similar source are covered. Currently there are 6 retirees who receive this coverage.

Funding Policy

Pursuant to state statute, the City reimburses 100% of authorized LEOFF 1 retiree healthcare costs. Employer contributions are financed on a pay-as-you-go basis. In 2006 the city purchased a long-term care insurance policy for its LEOFF 1 retirees. The 2014 annual premium for the long-term care insurance policy was $6,418.

Annual OPEB Costs and Net OPEB Obligation

The City's annual Other Post Employment Benefits (OPEB) cost is calculated based upon the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of Governmental Accounting Standards Board (GASB) Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal costs each year and amortize any unfunded actuarial liabilities over a period of ten years.

Entities with fewer than 100 retired LEOFF members have the option under GASB 45 to either hire an actuary to perform a valuation of the plan or do the valuation in-house. The Office of the State Actuary for Washington State has provided a tool for City to perform an in-house evaluation. Actuarial evaluations involve estimates and assumptions about the distant future that are continually revised. The schedule of funding progress, located following the notes, provides multi-year trend data to help determine whether net plan assets are increasing or decreasing over time. Benefits are projected based on benefit levels and cost-sharing arrangements as of the date of the valuation and do not explicitly reflect the potential effects of legal or contractual funding limitations. Actuarial valuations take a long-term perspective that involves the use of techniques designed to reduce volatility.

The City of Des Moines has a total of 6 LEOFF 1 members in this plan; all of whom are retired. The City uses the alternative measurement method permitted under GASB Statement No. 45. Mortality rates were assumed to follow the LEOFF 1 mortality rates used in the September 30, 2009 actuarial valuation report issued by the office of the State Actuary (OSA). Healthcare costs and trends were determined by Milliman and used by OSA in the State-wide LEOFF 1 medical study performed in 201. The actuarial cost method used to determine the actuarial accrued liability was Projected Unit Credit. The Actuarial Accrued Liability and the Net OPEB Obligation are amortized on an open basis as a level dollar over 15 years. Assumptions include an inflation rate of 3.5%, an investment return of 4.5% and a health care trend rate of 5%. These assumptions are individually and collectively reasonable for the purpose of this valuation. As the year ended December 31, 2008 was the first year of implementation of GASB 45, annual OPEB cost was equal to the ARC for the year.

	2014	2015	2016
Annual required contribution (ARC)	$175,232	$170,696	$209,385
Interest on Net OPEB Obligation (NOO)	18,354	22,112	25,880
Adjustments to ARC	(41,268)	(49,721)	(58,190)
Annual OPEB cost (expense)	$152,318	$143,087	$177,075
Contributions made	58,337	48,932	51,576
Increase NOO	93,981	94,155	125,499
NOO at Beginning of Year	458,839	552,819	646,974
NOO at End of Year	$552,819	$646,974	$772,473

The City's OPEB cost, the percentage of OPEB cost contributed to the plan, and the net OPEB obligation for the years ending December 31 are shown on the following schedule:

Fiscal Year Ended	Annual OPEB Cost	% of Annual OPEB Contributed	Net OPEB Obligation
12/31/16	$177,075	29%	$772,473
12/31/15	$143,087	34%	$646,974
12/31/14	$152,318	38%	$552,819

E. Accounting changes, reporting changes and prior period adjustments

a. A review of the capital asset system identified a prior misclassification of the beginning accumulated depreciation balances between Governmental Activity's Other Improvements and Infrastructure. This classification issue was corrected which affected the financial statement presentation of these asset classes reported ending net book value amounts on the Statement of Net Position, the tables in the Management Discussion and Analysis section and the beginning balances as listed in the Note 4C. The beginning balances have been restated as follows:

Accumulated Depreciation:	2015	2015 Restated
Other improvements	(5,991,046)	(8,895,717)
Infrastructure	(23,854,980)	(20,950,309)

b. The city implemented GASB 68 in 2015 which mandated changes in pension accounting and financial statement presentation. Calculations of the December 31, 2015 ending balances for Deferred Inflows, Deferred Outflows and Net Position as listed on the Statement of Net position and the tables in the Management Discussion. The amount of the changes to beginning balances are as follows:

	Statement of Net Position	*Marina*	*Surface Water Management*
Deferred Outflows	145,051	12,312	15,046
Deferred Inflows	25,377	2,855	3,490
Net Position	170,428	15,167	18,536

Required Supplementary Information
LEOFF 1 OPEB

The following is a schedule of contibutions from the employer and other contributing entites for LEOFF 1:

Fiscal Year Ending	Actual Employer Contributions	Annual Required Contribution (ARC)	Percentage of ARC Contributed
December 31, 2014	$58,337	$175,232	33.3%
December 31, 2015	$48,932	$170,696	28.7%
December 31, 2016	$51,576	$209,385	24.6%

Schedule of Funding Progress for the LEOFF 1 OPEB

Fiscal Year End	Actuarial Value of Assets	Actuarial Accrued Liabilities	Unfunded Actuarial Accrued Liabilities (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
December 31, 2014	-	$1,948,292	$1,948,292	0.0%	N/A	N/A
December 31, 2015	-	$1,897,863	$1,897,863	0.0%	N/A	N/A
December 31, 2016	-	$2,328,027	$2,328,027	0.0%	N/A	N/A

Schedule of Proportionate Share of the Net Pension Liability
As of June 30, 2016
Last 3 Fiscal Years

PERS 1 PLAN	2014	2015	2016
Employer's proportion of the net pension liability	0.059429%	0.060047%	0.058525%
Employer's proportionate share of the net pension liability	$ 2,993,764	$ 3,141,017	$ 3,143,068
Employer's covered employee payroll*	$ 6,356,187	$ 6,731,306	$ 6,916,369
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	47.10%	46.66%	45.44%
Plan fiduciary net position as a percentage of the total pension liability	61.19%	59.10%	57.03%

*2014 and 2015 Restated.

Schedule of Proportionate Share of the Net Pension Liability
As of June 30, 2016
Last 3 Fiscal Years

PERS 2&3 PLAN	2014	2015	2016
Employer's proportion of the net pension liability	0.071121%	0.074473%	0.072818%
Employer's proportionate share of the net pension liability	$ 1,437,612	$ 2,660,963	$ 3,666,329
Employer's covered employee payroll	$ 6,146,411	$ 6,608,499	$ 6,861,302
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	23.39%	40.27%	53.43%
Plan fiduciary net position as a percentage of the total pension liability	93.29%	89.20%	85.82%

Schedule of Proportionate Share of the Net Pension Asset
As of June 30, 2016
Last 3 Fiscal Years

LEOFF 1 PLAN	2014	2015	2016
Employer's proportion of the net pension asset	0.012205%	0.012137%	0.012268%
Employer's proportionate share of the net pension asset	$ 148,021	$ 146,278	$ 126,395
State's proportionate share of the net pension asset associated with the employer	$ 1,092,391	$ 989,419	$ 854,936
TOTAL	$ 1,240,412	$ 1,135,697	$ 981,331
Employer's covered employee payroll	$ -	$ -	$ -
Employer's proportionate share of the net pension asset as a percentage of covered employee payroll	0.00%	0.00%	0.00%
Plan fiduciary net position as a percentage of the total pension liability	126.91%	127.36%	123.74%

Notes to Schedule:
This is a closed plan and is fully funded. Therefore there is no employer covered payroll, no employer or employee contributions required.

Schedule of Proportionate Share of the Net Pension Liability
As of June 30, 2016
Last 3 Fiscal Years

LEOFF 2 PLAN	2014	2015	2016
Employer's proportion of the net pension asset	0.012205%	0.012137%	0.117320%
Employer's proportionate share of the net pension asset	$ 1,699,040	$ 1,249,137	$ 682,368
State's proportionate share of the net pension asset associated with the employer	$ 1,092,391	$ 825,926	$ 444,855
TOTAL	$ 2,791,431	$ 2,075,063	$ 1,127,223
Employer's covered employee payroll	$ 3,480,180	$ 3,527,418	$ 3,659,657
Employer's proportionate share of the net pension asset as a percentage of covered employee payroll	80.21%	58.83%	30.80%
Plan fiduciary net position as a percentage of the total pension asset	116.75%	111.67%	106.04%

Schedule of Employer Contributions
As of December 31, 2016
Last 3 Fiscal Years

PERS 1 PLAN	2014	2015	2016
Statutorily or contractually required contributions*	$ 189,440	$ 382,894	$ 333,338
Contributions made in relation to the statutorily or contractually required contributions	$ (189,440)	$ (382,894)	$ (333,338)
Contribution deficiency (excess)	-	-	-
Covered employer payroll	$ 6,356,187	$ 6,731,306	$ 6,916,369
Contributions as a percentage of covered employee payroll	2.98%	5.69%	4.82%

*2014 and 2015 restated.

Schedule of Employer Contributions
As of December 31, 2016
Last 3 Fiscal Years

PERS 2 PLAN	2014	2015	2016
Statutorily or contractually required contributions	$ 189,440	$ 382,894	$ 427,454
Contributions made in relation to the statutorily or contractually required contributions	$ (189,440)	$ (382,894)	$ (427,454)
Contribution deficiency (excess)	-	-	-
Covered employer payroll	$ 6,146,411	$ 6,608,499	$ 6,861,302
Contributions as a percentage of covered employee payroll	3.08%	5.79%	6.23%

Schedule of Employer Contributions
As of December 31, 2016
Last 3 Fiscal Years

LEOFF 1 PLAN	2014	2015	2016
Statutorily or contractually required contributions	$ -	$ -	$ -
Contributions made in relation to the statutorily or contractually required contributions	$ -	$ -	$ -
Contribution deficiency (excess)	-	-	-
Covered employer payroll	$ -	$ -	$ -
Contributions as a percentage of covered employee payroll	N/A	N/A	N/A

Schedule of Employer Contributions
As of December 31, 2016
Last 3 Fiscal Years

LEOFF 2 PLAN	2014	2015	2016
Statutorily or contractually required contributions	$ 91,113	$ 177,745	$ 184,816
Contributions made in relation to the statutorily or contractually required contributions	$ (91,113)	$ (177,745)	$ (184,816)
Contribution deficiency (excess)	-	-	-
Covered employer payroll	$ 6,146,411	$ 6,608,499	$ 6,861,302
Contributions as a percentage of covered employee payroll	1.48%	2.69%	2.69%

CITY OF DES MOINES
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2016

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures: From Pass-Through Awards	Expenditures: From Direct Awards	Expenditures: Total	Passed through to Subrecipients	Note
CDBG - Entitlement Grants Cluster								
Office Of Community Planning And Development, Department of Housing And Urban Development (via Office of Community Development)	Community Development Block Grant/Entitlement Grant	14.218	D37833D	26,798		26,798	-	1,2,3
Office Of Community Planning And Development, Department of Housing And Urban Development (via Office of Community Development)	Community Development Block Grant/Entitlement Grant	14.218	B-15-UY-53-0001	50,000		50,000	-	1,2,3,4
			Total CDBG - Entitlements Grants Cluster:	**76,798**	**-**	**76,798**		
Bureau Of Justice Assistance, Department of Justice	Bullet Proof Vest Partnership Program	16.607	OMB1121-0235 - NIJ# AXIIIA & TD06-IIIA		2,656	2,656	-	1,2,3
National Highway Traffic Safety Administration (nhtsa), Department of Transportation (via WA State Traffic Safety Commission)	State and Community Highway Safety	20.600	N/A WTSC Target Zero	5,850		5,850	-	1,2,3
			Total Highway Safety Cluster:	**5,850**		**5,850**		
Highway Planning and Construction Cluster								
Federal Highway Administration (fhwa), Department of Transportation (via WSDOT)	Highway Planning and Construction	20.205	LA8049	158,303		158,303	-	1,2,3,5
Federal Highway Administration (fhwa), Department of Transportation (via WSDOT)	Highway Planning and Construction	20.205	LA8556	90,077		90,077	-	1,2,3,6
Federal Highway Administration (fhwa), Department of Transportation (via WSDOT)	Highway Planning and Construction	20.205	LA8083	77,849		77,849	-	1,2,3
Federal Highway Administration (fhwa), Department of Transportation (via WSDOT)	Highway Planning and Construction	20.205	LA8801	429,914		429,914	-	1,2,3
Federal Highway Administration (fhwa), Department of Transportation (via WSDOT)	Highway Planning and Construction	20.205	LA8609	2,100,220		2,100,220	-	1,2,3
			Total Highway Planning and Construction Cluster	**2,856,362**		**2,856,362**		
			Total Federal Awards Expended:	**2,939,010**	**2,656**	**2,941,666**		

The accompanying notes are an integral part of this schedule.

CITY OF DES MOINES, WASHINGTON

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 1 - BASIS OF ACCOUNTING

These schedules are prepared on the same basis of accounting as the city's financial statements. The city uses the modified accrual basis of accounting for governmental funds. The accrual basis of accounting is followed in all proprietary funds.

NOTE 2 - PROGRAM COSTS

The amounts shown as current year expenditures represent only federal grant portions of the program costs. Entire program costs, including the city's portion, may be more than shown.

NOTE 3 - INDIRECT COST RATE

The City has not elected to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

NOTE 4 - PRIOR YEAR COSTS

$4,323.02 of the $50,000 Community Development Block Grant relate to 2015 activity that became eligible for reimbursement in 2016.

NOTE 5 - PRIOR YEAR COSTS

$114,201.07 of the $158,303 Highway Planning and Construction Grant LA8049 relate to 2015 activity that became eligible for reimbursement in 2016.

NOTE 6 - PRIOR YEAR COSTS

$3,622.10 & $85,029.50 of the $90,077 Community Development Block Grant LA8556 relate to 2015 and 2014 activity that became eligible for reimbursement in 2016.

ABOUT THE STATE AUDITOR'S OFFICE

The State Auditor's Office is established in the state's Constitution and is part of the executive branch of state government. The State Auditor is elected by the citizens of Washington and serves four-year terms.

We work with our audit clients and citizens to achieve our vision of government that works for citizens, by helping governments work better, cost less, deliver higher value, and earn greater public trust.

In fulfilling our mission to hold state and local governments accountable for the use of public resources, we also hold ourselves accountable by continually improving our audit quality and operational efficiency and developing highly engaged and committed employees.

As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

Our audits look at financial information and compliance with state, federal and local laws on the part of all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits of state agencies and local governments as well as fraud, state whistleblower and citizen hotline investigations.

The results of our work are widely distributed through a variety of reports, which are available on our website and through our free, electronic subscription service.

We take our role as partners in accountability seriously, and provide training and technical assistance to governments, and have an extensive quality assurance program.

Contact information for the State Auditor's Office	
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