Washington State Auditor's Office

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Financial Statements and Federal Single Audit Report

City of Des Moines

King County

For the period January 1, 2014 through December 31, 2014

Published August 24, 2015

Report No. 1014859

Washington State Auditor's Office

August 24, 2015

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,

JAN M. JUTTE, CPA, CGFM

ACTING STATE AUDITOR

OLYMPIA, WA

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FEDERAL SUMMARY

City of Des Moines
King County
January 1, 2014 through December 31, 2014

The results of our audit of the City of Des Moines are summarized below in accordance with U.S. Office of Management and Budget Circular A-133.

Financial Statements

An unmodified opinion was issued on the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information.

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 under section 510(a) of OMB Circular A-133.

Identification of Major Programs:

The following was a major program during the period under audit:

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

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by OMB Circular A-133, was $300,000.

The City qualified as a low-risk auditee under OMB Circular A-133.

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, 2014 through December 31, 2014

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, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 26, 2015.

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.

JAN M. JUTTE, CPA, CGFM

ACTING STATE AUDITOR

OLYMPIA, WA

June 26, 2015

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

City of Des Moines
King County
January 1, 2014 through December 31, 2014

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) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2014. The City's major federal programs are identified in the accompanying Federal Summary.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about 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, 2014.

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 OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of 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 OMB Circular A-133. 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.

JAN M. JUTTE, CPA, CGFM

ACTING STATE AUDITOR

OLYMPIA, WA

July 31, 2015

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

City of Des Moines
King County
January 1, 2014 through December 31, 2014

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, 2014, 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, 2014, 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 24 and information on postemployment benefits other than pensions on page 69 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 U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. 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 June 26, 2015 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.

Jan M Jutte

JAN M. JUTTE, CPA, CGFM

ACTING STATE AUDITOR

OLYMPIA, WA

June 26, 2015

FINANCIAL SECTION

City of Des Moines
King County
January 1, 2014 through December 31, 2014

REQUIRED SUPPLEMENTARY INFORMATION

BASIC FINANCIAL STATEMENTS

REQUIRED SUPPLEMENTARY INFORMATION

SUPPLEMENTARY AND OTHER INFORMATION

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, 2014. **All amounts, unless otherwise indicated are expressed 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 $183,311. Of this amount $7,645 ($3,496 for governmental activities and $4,149 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 $3,490 in 2014. The business-type activities increased net position by $784 while the government activities increased net position by $2,706.

Fund Level

- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of $4,388, a decrease of $2,009 in comparison with the prior year. Most of the decrease is due to consumption of resources for completion of construction projects and approximately $398 is related to the consumption of general fund resources for operating purposes. Approximately 15% of the combined governmental fund balance, or $678, is available in the general fund for continuing appropriations and spending at the government's discretion.
- At the end of the current fiscal year, the unrestricted fund balance for the general fund was $678 which represents 4% of total general fund annual expenditures. This fund balance is 100% committed to the revenue stabilization reserve. The general fund had no unassigned fund balance at year end.

Capital Projects

Spending on governmental activities included in the Capital Improvement Plan during 2014 totaled $7,135 with $6,296 of that spent on transportation construction projects. Some of the larger projects are:

- **24th Ave South** ($4,338)**.** This is an $8.8 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.
- **Saltwater St Park Bridge Seismic Retrofit** ($908). This is a $4,743 dollar project that is $4,001 grant funded. This bridge is one of three bridges the city owns and maintains. It was built in 1934 and has a span of 570 feet. The bridge needs seismic retrofitting and repairs based on recent inspections. This project replaces the pin and hanger system for both suspended sections of the bridge.
- **South 251st St Slide** ($354). Heavy spring rains caused a slide and the shoulder of the road was compromised. This project will install and MSE structural wall to repair the roadway slide and to improve existing storm water facilities.
- **South 216th St Segment 1A** ($217). This is a $7.5 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. This project has secured $1 million in grant funding and will require an additional $2.8 million in grants to move to the construction phase.

- **Beach Park Rehabilitation – Dining Hall** ($721). The Des Moines Beach Park is listed on the State and National Historic Register. This is one of several projects to continue to rehabilitate the historic buildings on this site. The Dining Hall was originally built in 1934. This is a $2.6 million dollar project and $1.75 million is grant funded.

Long-Term Debt

The City's total debt decreased by $739. This amount represents the net difference between net issuances, payments, refunding of outstanding bonded debt and external loans payable and amortization of debt premiums/discounts. Debt principal retirements on notes, loans, bonds and capital leases during 2014 totaled $807.

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 liabilities with the difference between the two 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.

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 21 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 2014 the general fund and the Transportation 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.

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 operations and 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**.**

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.

Proprietary Funds. The City of Des Moines maintains two different 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 enterprise funds to account for its Marina and Surface Water Management utility. *Internal service funds* represent an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for its equipment rental operations and equipment replacement, facility repair and replacement, computer operations and equipment and software replacement, self-insurance programs, and unemployment compensation reserves. Because internal service funds predominantly benefit governmental rather than business-type activities, they have been included within governmental activities in the government-wide financial statements.

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 $183,311 at December 31, 2014.

The largest portion of the City's net position (93.9%) 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. 2.0% 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 4.1% may be used to meet the City's ongoing obligations to citizens and creditors.

City of Des Moines Net Position (in thousands)

	Governmental Activities		Business Activities		Total Primary Government	
	2014	2013	2014	2013	2014	2013
Current assets	$ 10,575	$ 13,214	$ 4,969	$ 5,015	$ 15,544	$ 18,229
Capital assets	154,790	150,223	27,638	27,529	182,428	177,752
Other assets	915	737		34	915	771
Total assets	166,280	164,174	32,607	32,578	198,887	196,752
Deferred outflows			126	142	126	142
Current liabilities	2,800	2,738	1,193	1,164	3,993	3,902
Noncurrent liabilities	4,581	5,095	7,060	7,640	11,641	12,735
Total liabilities	7,381	7,833	8,253	8,804	15,634	16,637
Deferred inflows	68	216	-	220	68	436
Net position:						
Investment in capital assets	151,710	146,816	20,332	19,598	172,042	166,414
Restricted	3,625	5,153		2,537	3,625	7,690
Unrestricted	3,496	4,156	4,149	1,561	7,645	5,717
Total net position	$ 158,831	$ 156,125	$ 24,481	$ 23,696	$ 183,312	$ 179,821

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.

During the current fiscal year the government's net position increased by $3,490. The increase represents the degree to which ongoing revenues have exceeded increases in ongoing expenses mostly through cost containment measures. The increase was due primarily to additional construction of capital assets, particularly transportation assets, in a continued effort to improve infrastructure to stimulate economic development.

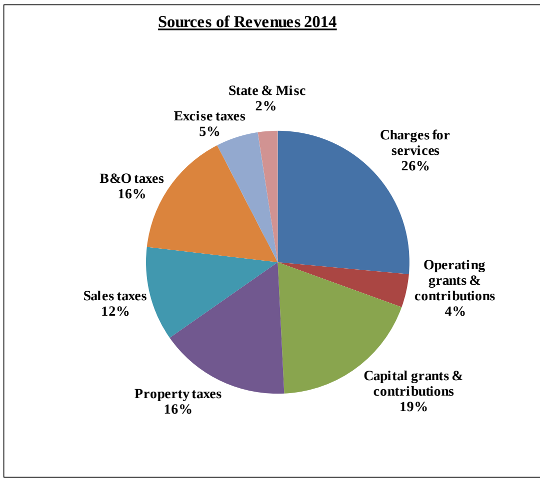
City of Des Moines Change in Net Position (in thousands)

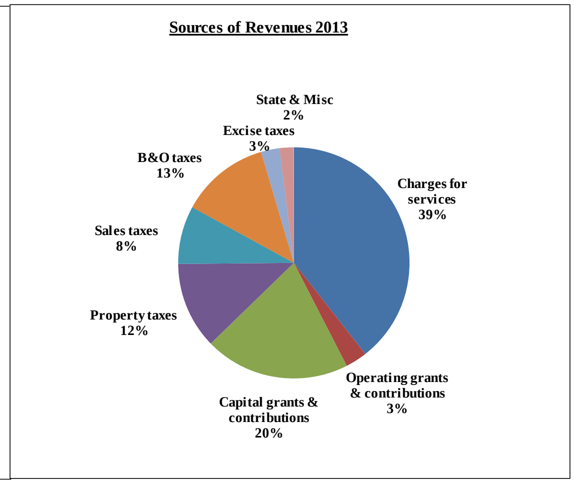
	Governmental Activities		Business Activities		Total Primary Government	
	2014	2013	2014	2013	2014	2013
Revenues						
Program revenues:						
Charges for services	$ 5,890	$ 11,787	$ 6,874	$ 6,745	$ 12,764	$ 18,532
Operating grants & contributions	909	908	102		1,011	908
Capital grants & contributions	4,159	6,062	301	216	4,460	6,278
General revenues:						
Property taxes	3,573	3,625			3,573	3,625
Other taxes	7,190	6,924			7,190	6,924
Investment, misc, extraordinary item	539	593	516		1,055	593
Total revenues	22,260	29,899	7,793	6,961	30,053	36,860
Program expenses:						
General government	2,605	2,892			2,605	2,892
Public safety	8,416	8,295			8,416	8,295
Transportation	4,024	3,692			4,024	3,692
Natural & economic environment	1,611	1,566			1,611	1,566
Social services	434	431			434	431
Culture and recreation	2,498	2,313			2,498	2,313
Interest on long term debt	110	123			110	123
Marina			4,261	4,248	4,261	4,248
Surface water management			2,604	2,321	2,604	2,321
Total expenses	19,698	19,312	6,865	6,569	26,563	25,881
Changes in net position	2,562	10,587	928	392	3,490	10,979
Transfers	144	1	(144)	(1)	-	-
Total changes in net position	$ 2,706	$ 10,588	$ 784	$ 391	$ 3,490	$ 10,979

Governmental activities. As stated, governmental activities increased net position by $2,706. Most of the city's growth in net position is through capital grant funding. Excluding the capital grant and contribution revenue, the change in net position for the city was a decrease of $970. While operating revenues did increase overall, fixed cost spending (such as wage escalation clauses in labor contracts and increased medical benefit costs) increased faster than new revenues resulting in an operating deficit. General government operating costs were lowered from the prior year by eliminating and freezing positions. Culture and recreation functions' operating revenues are sufficient to cover their operating costs but do not contribute to the capital costs of running those programs.

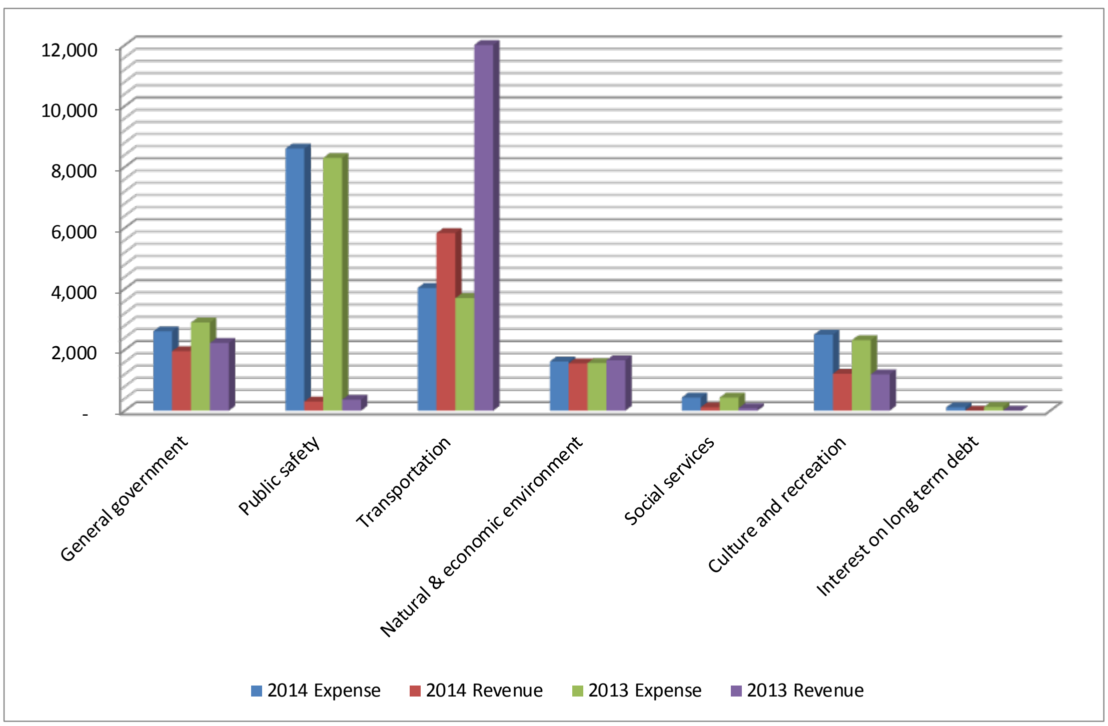
The significant decrease in Charges for Services from $11,787 to $5,890 is due to a one-time $6 million payment of developer impact fees in 2013 related to the construction of a new business park. These funds are used to rebuild and enhance an existing road and related improvements leading to the business park.

GOVERNMENTAL ACTIVITIES – REVENUES BY SOURCE



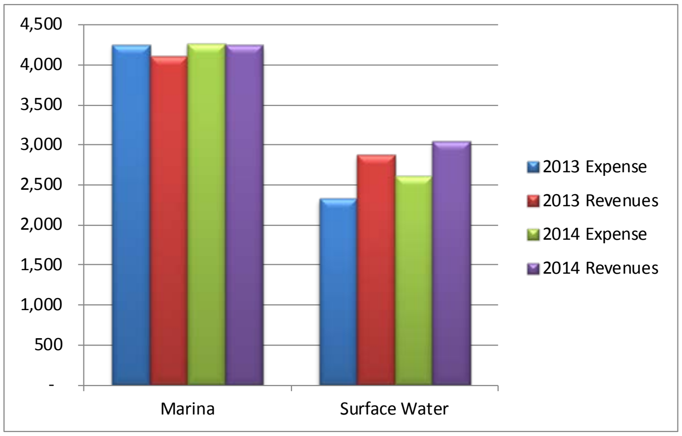


GOVERNMENTAL ACTIVITIES – EXPENSES AND PROGRAM REVENUES (in thousands)



Business-type activities. Business-type activities increased the City of Des Moines's net position by $784. $607 of the growth in net position is through net capital investment. There was a fire at one of the docks in the Marina. Replacement of that dock was in process. At the end of 2014 $386 of unspent insurance proceeds was still on hand.

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 $4,388. The city had no unassigned fund balance though it does report $678 (approximately 0.2% of this total amount), as committed fund balance in its revenue stabilization account. Total fund balance decreased $2,010 from the prior year much it from decreased fund balances assigned to construction projects.

General Fund

The *general fund* is the primary operating fund of the City of Des Moines. The *unassigned fund balance* was consumed in 2014 along with $128 of *committed fund balance* from the revenue stabilization account. The remaining revenue stabilization account represents 4% of operating expenditures (excludes capital expenditures). The City's ending fund balance policy requires an ending fund balance of 7% on annual expenditures for the General Fund and Street Fund. The Street Fund's fund balance was 21% of its operating expenditures for 2014.

The fund balance of the general fund decreased by $302 during the current fiscal year; which is 1.8% of total revenues. Overall, revenues increased by 0.5% ($84), expenses by 4.7% ($766), other financing sources from net transfers in and out was $279.

General fund tax revenue decreased by $139 (1.4%). Sales tax revenue was up 6% ($150) as the city's focus on economic development targeting sales tax generating companies resulted in new business growth. Utility taxes were down $250. Major components of this decrease were for: $84 in B&O taxes, $77 in electricity, $23 in natural gas, $27 for cable and $43 for telephone. License and permit revenues decreased $103. Much of these decreases are attributable to the change in definition of the "availability period" used to either recognize revenues in the current year or defer them to the next year. In 2014, the city changed its definition of "available" from sixty days to thirty days for revenues that are not grant reimbursements. Grant reimbursements' availability period remains unchanged at sixty days. Offsetting the decrease in taxes is a $261 increase in charges for services and a $129 increase in miscellaneous (approximately half of which is attributable to increased facility rentals now that the Beach Park auditorium rehabilitation is finished).

General fund program costs were mostly for increases ($458) in public safety costs and $175 in culture and recreation costs. Increases in public safety were $183 for wage increases, $95 for benefit increases and $130 for increases to replace police vehicles. Increases in culture and recreation program costs were offset by increased rental revenues.

Transportation Construction Fund. Fund balance was $2,924 at the end of the year; a decrease of $1,292 from the prior year. This is normal and expected based on the nature of the construction fund as larger projects draw to completion. Transportation construction is heavily dependent on grant funding with $4,327 of the current year's $4,409 revenue coming from 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 $2,015 at the end of the year; an increase of $1,590 from the prior year. Operating revenues increased $141 as moorage vacancies decreased and fuel sales increased with the improving economy. Operating expenses (excluding depreciation) increased just $29. Net operating income was $287. Due to the dock fire in 2103 the Marina received $254 in insurance proceeds and in 2014 received an additional $494. The replacement dock was installed in 2015. Due to the large sum, the fire being infrequent nature and unusual in occurrence, the insurance proceeds are reported as an extraordinary item in the Marina's Statement of Revenues, Expenses and Changes in Net Position.

Surface Water Management – Restricted and unrestricted net position totaled $2,260; a decrease of $186 from the prior year. Operating income was $135 as compared to $326 in the prior year. The city has contracted to perform a rate study which will be submitted to the city council in 2015. This rate study will look at capital and operating needs for the next ten years and make rate recommendations necessary to implement those changes.

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 $834 less than the final budget and $725 less than the original budget.

Most of the changes between the original and the final budget were changes to lower revenue estimates ($1,412) with only $109 net increase in expenditure authority (which was not required). The budget adjustments were made to bring the annual budget closer in line with the expected, calculated ending fund balance.

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, 2014 totals $172; an increase of $4,582 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 2014 totaled $7,135 with $6,296 of that spent on transportation construction projects. Some of the larger projects are:

- **24th Ave South** ($4,338)**.** This is an $8.8 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 $1.25 from right of way fees and the rest from various sources.
- **Saltwater St Park Bridge Seismic Retrofit** ($908). This is a $4,744 dollar project that is $4,001 grant funded. This bridge is one of three bridges the city owns and maintains. It was built in 1934 and has a span of 570 feet. The bridge needs seismic retrofitting and repairs based on recent inspections. This project replaces the pin and hanger system for both suspended sections of the bridge.
- **South 251st St Slide** ($354). Heavy spring rains caused a slide and the shoulder of the road was compromised. This project will install and MSE structural wall to repair the roadway slide and to improve existing storm water facilities.
- **South 216th St Segment 1A** ($217). This is a $7.5 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. This project has secured $1 million in grant funding and will require an additional $2.8 million in grants to move to the construction phase.
- **Beach Park Rehabilitation – Dining Hall** ($721). The Des Moines Beach Park is listed on the State and National Historic Register. This is one of several projects to continue to rehabilitate the historic buildings on this site. The Dining Hall was originally built in 1934. This is a $2.6 million dollar project and $1.75 million is grant funded.

Some of the larger capital projects in the business-type activities were for the J-Dock replacement in the Marina ($56) and various Surface Water Management utility improvements. Some of the more significant surface water infrastructure improvements were: $249 towards the Des Moines Marine Drive pipeline, $135 for replacement of the culvert at 216th and $107 towards modifications of the Lower Massey Creek channel.

Additional information on the City of Des Moines capital assets can be found in note 4.C.

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

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2014	2013	2014	2013	2014	2013
Land	$ 103,650	$ 103,650	$ 3,791	$ 3,791	$ 107,441	$ 107,441
Construction work in progress	12,308	12,181	1,238	1,068	13,546	13,249
Buildings and structures	7,757	7,996	1,365	1,465	9,122	9,461
Other improvements	8,851	9,310	9,514	9,832	18,365	19,142
Infrastructure	20,884	15,934	11,473	11,239	32,357	27,173
Machinery and equipment	1,338	1,135	257	288	1,595	1,423
Total capital assets	$ 154,788	$ 150,206	$ 27,638	$ 27,683	$ 182,426	$ 177,889

Long-term debt. At the end of the current fiscal year, the City of Des Moines had total bonded debt outstanding of $9,738 which is backed by the full faith and credit of the government. Of this amount, $7,432 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

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2014	2013	2014	2013	2014	2013
General Obligation Bonds	$ 2,305,000	$ 2,510,000	$ 7,275,000	$ 7,770,000	$ 9,580,000	$ 10,280,000
Loans & Notes	774,190	875,559	-	5,685	774,190	881,244
Total	$ 3,079,190	$ 3,385,559	$ 7,275,000	$ 7,775,685	$ 10,354,190	$ 11,161,244

The City's received its latest bond rating of A2 in April 2012. The rating was assigned to its 2012 Limited Tax General Obligation Refunding bonds. More detailed information about the City's long-term liabilities can be found in note 4.F.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

The City's 2014 budget process for the City's General and Street Funds focused primarily on closing a structural deficit of approximately $1.4 million. Strategies employed to close the deficit included freezing vacant positions, reducing vehicle and equipment replacement assessments, and reducing cost-of-living and personnel benefit increases. In addition, the 2015 budget includes expected one time revenues from building and development fees from projects expected to be developed in the Des Moines Creek Business Park valued at $45.8 million, as well as, a mixed use development valued at $43.2 million.

The economic outlook continues to be moderate. Sales tax revenue growth is partly recovering with the City benefiting from sales tax sourcing rules that require sales tax to be sourced to the city where delivery occurs. While the Puget Sound region reports improved real property valuations, the City's total assessed valuation continues to lag behind other communities. Therefore, property tax collections will not see improvement for a very long time with increases limited by law to the lower of 1% or the implicit price deflator. As stated previously, new construction activity from development projects occurring in 2014 will 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. Additionally the city has contracted to perform a surface water rate study which will be submitted to the city council in 2015. This rate study will look at capital and operating needs for the next ten years and make rate recommendations necessary to implement those changes. The effective date of any rate changes resulting from this study are likely to be January 1, 2016.

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, 2014

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current assets:			
Cash & cash equivalents	$ 5,804,245	$ 2,255,137	$ 8,059,382
Restricted cash & cash equivalents:			
Customer deposits/vendor retainage	504,981	186,964	691,945
Debt service by covenant		68,452	68,452
Investments	1,809,056	2,221,470	4,030,526
Receivables (net of allowances):			
Taxes	793,457		793,457
Customers	929,650	104,129	1,033,779
Grants	707,632	88,729	796,361
Special assessments	11,804		11,804
Inventories	14,327	44,193	58,520
Total current assets	10,575,152	4,969,074	15,544,226
Noncurrent assets:			
Joint Ventures	914,976		914,976
Capital assets not being depreciated:			
Land	103,650,224	3,791,287	107,441,511
Construction work in progress	12,308,454	1,237,782	13,546,236
Capital assets net of accumulated depreciation:			
Buildings and structures	7,757,111	1,364,546	9,121,657
Other improvements	8,851,295	9,514,323	18,365,618
Infrastructure	20,883,504	11,473,263	32,356,767
Machinery and equipment	1,338,368	256,958	1,595,326
Total noncurrent assets	155,703,932	27,638,159	183,342,091
Total assets	166,279,084	32,607,233	198,886,317
DEFERRED OUTFLOWS			
Deferred loss on refunding	-	126,396	126,396
LIABILITIES			
Current liabilities:			
Accounts payable	2,006,153	424,471	2,430,624
Deposits payable from restricted assets	220,296	186,964	407,260
Retainage payable from restricted assets	284,685		284,685
Accrued interest payable from restricted assets	-	25,352	25,352
Compensated absences - current	9,754	12,933	22,687
Loans - current	68,997	-	68,997
Bonds - current	210,000	543,710	753,710
Total current liabilities	2,799,885	1,193,430	3,993,315
Noncurrent liabilities:			
Compensated absences	1,228,326	170,494	1,398,820
Net OPEB obligation	552,819		552,819
Loans	705,193	-	705,193
Bonds	2,095,000	6,889,073	8,984,073
Total noncurrent liabilities	4,581,338	7,059,567	11,640,905
Total liabilities	7,381,223	8,252,997	15,634,220
DEFERRED INFLOWS OF RESOURCES			
Prepaid revenues	67,525		67,525
NET POSITION			
Net investment in capital assets	151,709,766	20,331,772	172,041,538
Restricted for:			
Streets	3,608,825		3,608,825
Public safety - drug related	7,545		7,545
Natural and economic	8,162		8,162
Unrestricted	3,496,038	4,148,860	7,644,898
Total Net Position	$ 158,830,336	$ 24,480,632	$ 183,310,968

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

Statement of Activities
For the Year Ended December 31, 2014

Functional Programs	Expenses	Program Revenues: Charges for Services, Fines & Licenses	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants & Contributions	Net Revenue (Expenses) and Changes in Net Position — Primary Government: Governmental Activities	Business-Type Activities	Total
Primary Government:							
Governmental Activities:							
General government	$ 2,604,462	$ 1,914,058	$ 39,597	$ -	$ (650,807)		$ (650,807)
Public safety	8,416,068	246,402	50,273	-	(8,119,393)		(8,119,393)
Transportation	4,023,670	1,056,304	667,393	4,102,467	1,802,494		1,802,494
Natural & economic environment	1,611,296	1,486,411	67,774	-	(57,111)		(57,111)
Social services	433,979	79,391	33,480	-	(321,108)		(321,108)
Culture and recreation	2,498,390	1,105,946	50,376	56,920	(1,285,148)		(1,285,148)
Interest on long term debt	109,866	-	-	-	(109,866)		(109,866)
Total Governmental Activities	19,697,731	5,888,512	908,893	4,159,387	(8,740,939)	-	(8,740,939)
Business-type Activities:							
Marina	4,261,962	4,224,937	13,040	-		(23,985)	(23,985)
Surface water management	2,603,807	2,650,117	88,729	301,394		436,433	436,433
Total Business-Type Activities	6,865,769	6,875,054	101,769	301,394	-	412,448	412,448
Total Primary Government	$ 26,563,500	$ 12,763,566	$ 1,010,662	$ 4,460,781	(8,740,939)	412,448	(8,328,491)
General Revenues:							
Taxes:							
Property taxes					3,572,655		3,572,655
Sales taxes					2,576,067		2,576,067
B&O taxes					3,465,371		3,465,371
Excise taxes					1,149,022		1,149,022
Intergovermental					433,600	-	433,600
Investment income					105,813	21,714	127,527
Extraordinary Item:							
Fire proceeds						494,276	494,276
Transfers					144,400	(144,400)	-
Total general revenues					11,446,928	371,590	11,818,518
Change in Net Position					2,705,989	784,038	3,490,027
Net Position Beginning					156,124,347	23,696,594	179,820,941
Net Position Ending					$ 158,830,336	$ 24,480,632	$ 183,310,968

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

Balance Sheet
Governmental Funds
December 31, 2014

	General	Transportation Construction	Other Governmental	Total
ASSETS				
Cash and cash equivalents	$ 874,968	$ 2,012,036	$ 828,672	$ 3,715,676
Restricted cash:				
Customer deposits	220,296			220,296
Retainage		259,228	25,457	284,685
Investments		1,000,286	99,892	1,100,178
Receivables (net of allowances):				
Taxes	673,616		119,841	793,457
Customers	716,897	180,530	25,252	922,679
Grants		666,812	40,820	707,632
Special assessments & loans			11,804	11,804
Total assets	2,485,777	4,118,892	1,151,738	7,756,407
LIABILITIES				
Accounts payable	851,981	758,466	327,912	1,938,359
Deposits payable from restricted assets	220,296			220,296
Retainage payable from restricted assets		259,228	25,457	284,685
Total liabilities	1,072,277	1,017,694	353,369	2,443,340
DEFERRED INFLOWS OF RESOURCES				
Unavailable & prepaid revenues	735,944	177,620	11,395	924,959
FUND BALANCES				
Restricted:				
Streets		2,923,578	685,247	3,608,825
Public Safety - drug related			7,545	7,545
Natural & economic development			8,162	8,162
General obligation debt			36,664	36,664
Committed - revenue stabilization account	677,556			677,556
Assigned:				
Construction projects			49,356	49,356
Total fund balances	677,556	2,923,578	786,974	4,388,108
Total liabilities, deferred inflows of resources and fund balances	$ 2,485,777	$ 4,118,892	$ 1,151,738	

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.	154,788,956
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.	(4,870,089)
Other long-term assests are not available to pay for current period expenditures and, therefore, are not reported in the governmental funds	914,976
Deferred inflows in governmental funds is susceptible to full accrual and therefore not reported in the Statement of Net Activities. Other expenses are suspectible to full accrual and are reported in the Statement of Net Activities but not in the governmental funds.	857,434
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.	2,750,951
Net position of governmental activities (see page 22)	$ 158,830,336

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, 2014

	General Fund	Transportation Construction	Other Governmental	Total
REVENUES				
Taxes	$ 9,747,013		$ 1,491,886	$ 11,238,899
Licenses and permits	1,839,716			1,839,716
Intergovernmental revenue	627,087	4,326,787	702,861	5,656,735
Charges for services	3,264,700	60,000	921,590	4,246,290
Fines and forfeitures	673,797		59	673,856
Miscellaneous revenue	394,042	22,347	25,704	442,093
Total revenues	16,546,355	4,409,134	3,142,100	24,097,589
EXPENDITURES				
Current:				
General government	3,778,479		2,617	3,781,096
Public safety	8,465,685		2,528	8,468,213
Transportation	627,191	89,867	1,578,611	2,295,669
Natural & economic environment	1,656,511		20,239	1,676,750
Social services	403,662			403,662
Culture and recreation	2,013,132		635	2,013,767
Capital outlay:				
General government			70,150	70,150
Transportation		6,296,468		6,296,468
Social services			28,730	28,730
Culture and recreation			739,201	739,201
Debt service:				
Principal	31,549		270,183	301,732
Interest	1,060		118,957	120,017
Total expenditures	16,977,269	6,386,335	2,831,851	26,195,455
Excess of revenues over (under) expenditures	(430,914)	(1,977,201)	310,249	(2,097,866)
OTHER FINANCING SOURCES (USES)				
Transfers in	300,000	937,078	434,919	1,671,997
Transfers out	(171,436)	(252,152)	(1,160,008)	(1,583,596)
Total other financing sources (uses)	128,564	684,926	(725,089)	88,401
Net change in fund balances	(302,350)	(1,292,275)	(414,840)	(2,009,465)
Fund balances - beginning	979,906	4,215,853	1,201,814	6,397,573
Fund balances - ending	$ 677,556	$ 2,923,578	$ 786,974	$ 4,388,108

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, 2014

(Continued from prior page)

Net change in fund balances - total governmental funds	$	(2,009,465)
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.		4,560,233
The statement of net position shows a decrease in joint ventures not reported in the funds.		184,190
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 ended December 31, 2014.		302,116
Revenues reported in the statement of activies that do not provide current financial resources are not reported as revenues in the funds.		(514,279)
Some expenses such as for compensated absences and amortization of deferred loss reported in the statement of net activities do not the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.		(86,783)
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 Fund Assets for Internal Service Funds, Net Operating Income.		269,977
Change in net position of governmental activities (see page 23)	$	2,705,989

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, 2014

	Original Budget	Final Budget	Actual	Variance to Final Budget
REVENUES				
Taxes	$ 10,543,610	$ 10,016,244	$ 9,747,013	$ (269,231)
Licenses and permits	2,660,343	2,224,912	1,839,716	(385,196)
Intergovernmental revenue	582,060	596,569	627,087	30,518
Charges for services	3,764,371	3,252,126	3,264,700	12,574
Fines and forfeitures	735,000	735,000	673,797	(61,203)
Miscellaneous revenue	252,638	301,438	394,042	92,604
Total revenues	18,538,022	17,126,289	16,546,355	(579,934)
EXPENDITURES				
Current:				
General government	3,873,895	4,082,643	3,778,479	(304,164)
Public safety	8,910,223	8,821,424	8,465,685	(355,739)
Transportation	649,719	648,952	627,191	(21,761)
Natural & economic environment	1,722,289	1,751,164	1,656,511	(94,653)
Social services	428,336	404,281	403,662	(619)
Culture and recreation	2,109,881	2,094,904	2,013,132	(81,772)
Capital outlay:				
General government	7,500	7,500		(7,500)
Debt service:				
Principal			31,549	31,549
Interest			1,060	1,060
Total expenditures	17,701,843	17,810,868	16,977,269	(833,599)
Excess of revenues over (under) expenditures	836,179	(684,579)	(430,914)	253,665
OTHER FINANCING SOURCES (USES)				
Transfers in		300,000	300,000	-
Transfers out	(351,786)	(198,107)	(171,436)	26,671
Total other financing uses	(351,786)	101,893	128,564	26,671
Net change in fund balances	484,393	(582,686)	(302,350)	280,336
Fund balances - beginning	1,456,139	1,456,139	979,906	(476,233)
Fund balances - ending	$ 1,940,532	$ 873,453	$ 677,556	$ (195,897)

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

Statement of Net Position
Proprietary Funds
December 31, 2014

	Marina	Surface Water Management	Total	Gov't Activities Internal Service
ASSETS				
Current assets:				
Cash and cash equivalents	$ 1,061,097	$ 1,194,040	$ 2,255,137	$ 2,088,569
Restricted cash equivalents:				
Customer deposits	186,964	-	186,964	
Debt service covenants	68,452	-	68,452	
Investments	1,009,727	1,211,743	2,221,470	708,878
Receivables (net of allowances):				
Customers	14,545	89,584	104,129	6,971
Grants	-	88,729	88,729	-
Inventory	44,193	-	44,193	14,327
Total current assets	2,384,978	2,584,096	4,969,074	2,818,745
Noncurrent assets:				
Capital assets not being depreciated:				
Land	3,226,925	564,362	3,791,287	
Construction work in progress	365,112	872,670	1,237,782	
Capital assets net of accumulated depreciation:				
Buildings and structures	1,364,546	-	1,364,546	
Other improvements	9,255,022	259,301	9,514,323	
Infrastructure	-	11,473,263	11,473,263	
Machinery and equipment	136,934	120,024	256,958	706,544
Total noncurrent assets	14,348,539	13,289,620	27,638,159	706,544
Total assets	16,733,517	15,873,716	32,607,233	3,525,289
DEFERRED OUTFLOW OF RESOURCES				
Deferred loss on refunding	126,396		126,396	
LIABILITIES				
Current liabilities:				
Accounts payable	172,041	252,430	424,471	67,794
Deposits payable from restricted assets	186,964	-	186,964	
Accrued interest payable from restricted assets	25,352	-	25,352	
Compensated absences - current portion	10,933	2,000	12,933	7,351
Loans - current portion	-	-	-	3,523
Bonds - current portion (net premium)	543,710	-	543,710	
Total current liabilities	939,000	254,430	1,193,430	78,668
Noncurrent liabilities:				
Compensated absences	101,317	69,177	170,494	59,530
Loans payable			-	10,143
Bonds payable (net premium)	6,889,073	-	6,889,073	
Total noncurrent liabilities	6,990,390	69,177	7,059,567	69,673
Total liabilities	7,929,390	323,607	8,252,997	148,341
NET POSITION				
Net investment in capital assets	7,042,152	13,289,620	20,331,772	692,878
Unrestricted	1,888,371	2,260,489	4,148,860	2,684,070
Total net position	$ 8,930,523	$ 15,550,109	$ 24,480,632	$ 3,376,948

The notes are an integral part of this statement.

Statement of Revenues, Expenses, and Changes in Net Position
Proprietary Funds
For the Year Ended December 31, 2014

	Marina	Surface Water Management	Total	Gov't Activities Internal Service
OPERATING REVENUES				
Intergovernmental revenues	$ 13,040	$ 88,729	$ 101,769	
Charges for services	1,428,920	2,650,117	4,079,037	$ 693,412
Fines and forefitures	18,162		18,162	
Moorage, rental and misc	2,777,855	-	2,777,855	1,484,234
Total operating revenues	4,237,977	2,738,846	6,976,823	2,177,646
OPERATING EXPENSES				
Depreciation	517,601	414,397	931,998	241,502
Salaries and wages	631,367	750,134	1,381,501	275,845
Personnel benefits	268,135	328,284	596,419	132,873
Supplies	1,356,100	75,465	1,431,565	328,842
Services	1,177,323	1,035,527	2,212,850	1,000,154
Total operating expenses	3,950,526	2,603,807	6,554,333	1,979,216
OPERATING INCOME	287,451	135,039	422,490	198,430
NONOPERATING REVENUES (EXPENSES)				
Interest and collection fees	10,031	11,683	21,714	8,547
Interest expense	(311,436)	-	(311,436)	
Total nonoperating revenues (expense)	(301,405)	11,683	(289,722)	8,547
Income (loss) before contributions, extraordinary item and transfers	(13,954)	146,722	132,768	206,977
Capital contributions	-	301,394	301,394	7,000
Extraordinary item	494,276		494,276	
Transfers in	-	-	-	56,000
Transfers out	-	(144,400)	(144,400)	
Changes in net position	480,322	303,716	784,038	269,977
Net position - beginning	8,450,201	15,246,393	23,696,594	3,106,971
Net position - ending	$ 8,930,523	$15,550,109	$24,480,632	$ 3,376,948

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, 2014

	Marina	Surface Water Management	Total	Gov't Activities Internal Service
CASH FLOW FROM OPERATING ACTIVITIES				
Receipts from customers	$ 4,234,310	$ 2,677,370	$ 6,911,680	$ 2,175,830
Payments to employees	(884,662)	(1,087,454)	(1,972,116)	(404,035)
Payments to suppliers	(2,484,184)	(1,109,886)	(3,594,070)	(1,362,195)
Net cash provided by operating activities	865,464	480,030	1,345,494	409,600
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
Transfers in				56,000
Insurance recoveries	494,276		494,276	
Net cash provided from noncapital financial activities	494,276		494,276	56,000
CASH FLOW FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Acquisition of capital assets	(139,553)	(722,036)	(861,589)	(267,148)
Principal paid on debt	(496,610)	(2,108)	(498,718)	(4,638)
Interest paid on debt	(321,565)		(321,565)	
Transfers in (out) for capital		(144,400)	(144,400)	
Capital grant and contribution proceeds		121,691	121,691	
Net cash used by capital and related financing activities	(957,728)	(746,853)	(1,704,581)	(271,786)
CASH FLOWS FROM INVESTING ACTIVITIES				
Investments (purchased) sold and earnings	(87,251)	(184,701)	(271,952)	(100,331)
Net cash provided from investing activities	(87,251)	(184,701)	(271,952)	(100,331)
Net increase in cash & cash equivalents	314,761	(451,524)	(136,763)	93,483
Beginning cash & cash equivalents	1,001,752	1,645,564	2,647,316	1,995,086
Ending cash & cash equivalents	1,316,513	1,194,040	2,510,553	$ 2,088,569
NON CASH ACTIVITIES				
Capital contributions		179,703		
Total noncash activities		$ 179,703		
RECONCILATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES				
Net Operating Income	287,451	135,039	422,490	198,430
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES				
Depreciation	517,601	414,397	931,998	241,502
Changes in assets, liabilities and deferred inflows				
(Increase)/decrease in customer receivables	215,979	(61,476)	154,503	(1,816)
Decrease in customer deferred inflows	(219,646)		(219,646)	
Decrease in prepaid expenses	60,864		60,864	
Decrease in inventories	15,116		15,116	3,123
Increase/(decrease) in accounts payable and deposits	(26,741)	1,106	(25,635)	(36,322)
Increase/(decrease) in compensated absences	14,840	(9,036)	5,804	4,683
Net cash provide by operating activities	$ 865,464	$ 480,030	$ 1,345,494	$ 409,600

The accompanying notes are an integral part of this financial 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 Des Moines Transportation Benefit District is reported as a blended component unit.

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. 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 60 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 *Transportation 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 transportation construction fund accounts for resources and expenditures for transportation related projects.

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

Capital Project funds are used to report significant (non-transportation related) capital acquisition and construction separate from ongoing operating activities.

Internal Service funds account for vehicle & equipment replacement and operation, computer operations and 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, 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.

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 cost 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.

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

Other receivables include municipal court receivables, and interest receivable. Accrued interest at year end consists of amounts earned by investments, notes and contracts at the end of the year.

Special assessments are recorded when levied. Special assessments receivable consist of current and delinquent assessments and related interest and penalties. Deferred assessments consist of unbilled special assessments that are liens against the property benefitted. As of December 31, 2014 $3,299 of Governmental special assessments was 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; Business Type special assessments are for sewer infrastructure.

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 and customer deposits.

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 estimated fair market 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 2014.

   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 accrual rate and 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 25% 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 of item, which arises only under a modified accrual basis of accounting, 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 2014 as follows:

a. Uncollected property taxes levied and other receivables billed but not collected within the availability period.
b. Unbilled special assessments levied against benefited property for the cost of local improvements. An allowance for uncollectible accounts is not necessary since the assessments are liens against the property benefited.
c. Class and registration fees received in the current year for services to be performed in the subsequent year.

9. *Fund balance and fund flow policies*

The city established an ending fund balance policy with enactment of Ordinance No. 1144 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. The Account initially consisted of a specific portion of the unappropriated general fund balance in the amount of $805,175 which represented a 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. 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.

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	12,180,823
Building	7,996,713
Other improvements	9,309,569
Equipment	1,124,256
Infrastructure	15,934,494
Current year spending in construction work in progress	7,134,549
Current year capital purchases	274,147
Current year capital donations received	154,402
Current year capital asset disposals	(0)
Current year depreciation	(2,970,221)
Net adjustment to add to government-wide fund balance to arrive at *Net position-governmental activities*	$154,788,956

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	$ (1,228,327)
OPEB obligation	(458,839)
Bonds and notes payable	(3,395,710)
Current year principal payments & other reductions in liabilities	1,679,594
Current year OPEB and other expense recognized	(1,466,807)
Net adjustment to reduce government-wide fund balance to arrive at *Net position-governmental activities*	$ (4,870,089)

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	7,134,549
Contributed capital assets	154,402
Current year depreciation:	
Building	(239,602)
Other improvements	(520,158)
Infrastructure	(1,868,261)
Equipment	(100,697)
Net capital activity	$4,560,233

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. Final hearing son the budget 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. Deficit fund equity. The Computer Operations fund had deficit fund equity of $26,416. This is an internal service fund. Interfund charges will be increased in 2015 to correct this deficit.

NOTE 4 – DETAILED NOTES ON ALL FUNDS

A. Deposits, investments and restricted assets

As of December 31, 2014 the government had the following:

Demand deposits at Key Bank	$2,096,307	
	Fair Value	Weighted Average Maturities (Months)
Local Government Investment Pool Total Invested Cash Equivalents	$6,828,065	N/A
Investments in Federal Agencies	4,030,526	9.33
Total fair value	$10,858,591	
Portfolio weighted average maturity		9.33

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, 2014 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 Home Loan Bank	16%	2,023,687
Federal Home Loan Mtg Corp	8%	1,005,186
Federal Natl Mtg Assoc	8%	1,001,653
Key Bank	16%	2,096,307
LGIP	52%	6,828,065
TOTAL	100%	12,954,898

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 $2,096,307 on deposit with Key Bank on

December 31, 2014. The FDIC insures those deposits up to $250,000. Key Bank is required to collateralize 10% of the remaining funds which is $184,631. The temporary custodial credit risk for uncollateralized deposits at US Bank was $1,661,676 at December 31, 2014.

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
Proprietary customer deposits	186,964
Marina debt service covenants	68,452
Governmental funds customer deposits	220,296
Retainage for vendors	259,228

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, 2014. 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 $112,290 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 2013, the City approved Ordinance 1586 establishing the operating levy for 2014 of $3,541,584 based on an assessed valuation of $2,213,490,306 and using an estimated maximum levy rate of $1.60 per $1,000 of assessed value. In November 2014, the City approved ordinance 1613 establishing the operating levy for 2015 of $4,371,100 based on an assessed valuation of $2,641,915,375 using an estimated maximum rate of $1.65 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 additional one-half of once 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 earing $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. The rate is for electricity, gas, cable, solid waste, surface water management and telephone is 6%. Ordinances were passed in 2014 with a January 1, 2015 effective date increasing the rate for cable, solid waste and surface water management taxes an additional 2%. The increase contains a five year sunset clause.

Other receivables. As of December 31, 2014 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.

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	$ 112,391
Court fines	525,446
Customer charges	30,683
Grant reimbursements	177,620
Special assessments	11,294
Prepaid Revenue (received for next year)	67,525
Total	$924,959

C. Capital Assets and Joint Venture

Capital asset activity for the year ended December 31, 2014 was as follows:

Depreciation expense by function:

Governmental Activities:		
General Government	$	336,256
Public Safety		220,259
Transportation		1,801,150
Natural & Economic		39,620
Social Services		27,759
Culture & Recreation		545,177
Total	$	2,970,221
Business-Type Activities:		
Marina	$	517,601
Surface Water Mgmt		414,397
Total	$	931,998

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital assets not being depreciated:				
Land	$ 103,650,224	$ -	$ -	$ 103,650,224
Construction in progress	12,180,823	7,134,549	(7,006,918)	12,308,454
Total capital assets not being depreciated	115,831,047	7,134,549	(7,006,918)	115,958,678
Capital assets, being depreciated				
Buildings & structures	11,415,247	-	-	11,415,247
Other improvements	14,302,740	61,885	-	14,364,625
Infrastructure	36,300,254	6,817,271	-	43,117,525
Machinery and equipment	5,600,640	556,313	-	6,156,953
Total depreciable capital assets	67,618,881	7,435,469	-	75,054,350
Less accumulated depreciation:				
Buildings & structures	(3,418,534)	(239,602)	-	(3,658,136)
Other improvements	(4,993,171)	(520,158)	-	(5,513,329)
Infrastructure	(20,365,760)	(1,868,261)	-	(22,234,021)
Machinery and equipment	(4,476,385)	(342,200)	-	(4,818,585)
Total accumulated depreciation	(33,253,850)	(2,970,221)	-	(36,224,071)
Governmental activities capital assets, net	$ 150,196,078	$ 11,599,797	$ (7,006,918)	$ 154,788,957

	Beginning Balance	Increases	Decreases	Ending Balance
Business-Type Activities:				
Capital assets not being depreciated:				
Land	$ 3,791,288	$ -	$ -	$ 3,791,288
Construction in progress	1,068,363	661,309	(491,891)	1,237,781
Total capital assets not being depreciated	4,859,651	661,309	(491,891)	5,029,069
Other capital assets:				
Buildings & structures	5,140,436	-	-	5,140,436
Other improvements	15,209,875	68,251	-	15,278,126
Infrastructure	19,164,044	618,289	-	19,782,333
Machinery and equipment	807,738	29,807	-	837,545
Total depreciable capital assets	40,322,093	716,347	-	41,038,440
Less accumulated depreciation:				
Buildings & structures	(3,675,120)	(100,769)	-	(3,775,889)
Other improvements	(5,378,021)	(385,785)	-	(5,763,806)
Infrastructure	(7,924,633)	(384,436)	-	(8,309,069)
Machinery and equipment	(519,578)	(61,008)	-	(580,586)
Total accumulated depreciation	(17,497,352)	(931,998)	-	(18,429,350)
Business activities capital assets, net	$ 27,684,392	$ 445,658	$ (491,891)	$ 27,638,159

Construction & Other Contractual Commitments

The City of Des Moines has active construction projects as of December 31, 2014. The projects include street construction, utility constructions and park facility construction contracts. There are also several consulting contracts. At year end, the city's commitments with contractors are as follows:

CATEGORY	CONTRACT	SPENT TO DATE	REMAINING COMMITMENTS
General Fund	195,000	137,367	57,633
NonMajor Construction	1,161,521	670,736	490,785
Major Construction	15,164,481	8,431,200	6,733,281
Major Proprietary	2,296,404	1,037,211	1,259,192
Internal Service	314,775	311,409	3,366
TOTAL	**19,132,181**	**10,587,923**	**8,544,257**

Joint Venture

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%
2015	$ 1,990,000	$ 4,995,069	$ (1,514,410)	$ 5,470,659	$ 1,695,904	$ 218,826	$ 984,719	$ 1,969,437	$ 164,120	$ 437,653
2016	2,065,000	4,911,886	(1,513,594)	5,463,292	1,693,621	218,532	983,393	1,966,785	163,899	437,063
2017	2,145,000	4,820,241	(1,503,576)	5,461,665	1,693,116	218,467	983,100	1,966,199	163,850	436,933
2018	2,240,000	4,715,979	(1,503,576)	5,452,403	1,690,245	218,096	981,433	1,962,865	163,572	436,192
2019	2,310,000	4,602,229	(1,467,237)	5,444,992	1,687,948	217,800	980,099	1,960,197	163,350	435,599
2020-2024	12,905,000	21,102,168	(7,183,090)	26,824,078	8,315,464	1,072,963	4,828,334	9,656,668	804,722	2,145,926
2025-2029	15,675,000	16,833,706	(6,067,796)	26,440,910	8,196,682	1,057,636	4,759,364	9,518,728	793,227	2,115,273
2030-2034	19,265,000	11,158,380	(4,128,483)	26,294,897	8,151,418	1,051,796	4,733,081	9,466,163	788,847	2,103,592
2035-2039	23,775,000	4,064,705	(1,697,914)	26,141,791	8,103,955	1,045,672	4,705,522	9,411,045	784,254	2,091,343
Totals	$ 82,370,000	$ 77,204,363	$ (26,579,676)	$ 132,994,687	$ 41,228,353	$ 5,319,788	$ 23,939,045	$ 47,878,087	$ 3,989,841	$ 10,639,574

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. Additionally, the investment in joint venture also includes $622,816 of start-up costs.

South Correctional Entity (SCORE) 2014 Member Cities Equity Allocation				
Member City	Percent of Equity	2013 Equity Balance	2014 Apportionment	2014 Equity Balance
Auburn	29.00%	$ 2,517,237	$ 1,725,997	$ 4,243,234
Burien	3.00%	294,323	221,087	515,410
Des Moines	2.00%	107,970	184,190	292,160
Federal Way	25.00%	1,820,940	1,855,784	3,676,724
Renton	29.00%	2,548,219	1,672,186	4,220,405
SeaTac	5.00%	331,708	380,958	712,666
Tukwila	7.00%	601,934	478,536	1,080,470
Grand Totals	100.00%	$ 8,222,331	$ 6,518,740	$ 14,741,071

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	1,354,817

Remaining payments as of December 31, 2014.

Year	Host Fee	Year	Host Fee	Year	Host Fee	Year	Host Fee	Year	Host Fee
2015	277,007	2020	269,356	2025	269,480	2030	269,295	2035	269,371
2016	269,374	2021	269,481	2026	269,464	2031	269,444	2036	269,235
2017	269,576	2022	269,568	2027	269,448	2032	269,259	2037	269,202
2018	269,500	2023	269,597	2028	269,422	2033	269,242	2038	269,249
2019	269,360	2024	269,376	2029	269,374	2034	269,370	2038	269,356

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, 2014 are as follows:

TRANSFER FROM	FUND TYPE	TRANSFER TO: General	Major Construct	Nonmajor Construct	Nonmajor Debt Service	Internal Service	Total
	General		108,456	30,624	27,014	6,000	172,094
	Nonmajor Debt Srvice		5,452		345		5,797
	Nonmajor Special Rev		417,641				417,641
	Major Construction				252,153		252,153
	Nonmajor Construction	300,000	262,181		123,732	50,000	735,913
	Surface Water Mgmt		143,348		1,052		144,400
	Total	300,000	937,078	30,624	404,296	56,000	1,727,998

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 $4,158.

The future minimum lease obligations for each year 2015-2017 are $3,624 and $3,020 in 2018. $226 of those payments represents interest. Thus the net present value of these minimum lease payments is $13,666.

F. Long-term Debt

Changes in long-term liabilities. For the governmental activities, compensated balances are generally liquidated by the General and Streets funds while worker's compensation claims are liquidated by the Medical/Dental internal services fund. The net pension obligation is generally liquidated by the Fire Pension Trust Fund and the net OPEB obligation is also generally liquidated by the general fund.

Long-term liability activity for the year ended December 31, 2014 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
GOVERNMENTAL ACTIVITIES					
General obligation bonds	$ 2,510,000		$ (205,000)	$ 2,305,000	$ 210,000
Premiums	12,616		(12,616)	-	-
Discounts	(2,465)		2,465	-	-
Total Bonds Payable	$ 2,520,151	$ -	$ (215,151)	$ 2,305,000	$ 210,000
External Loans & Notes	825,706		(65,183)	760,523	65,474
Capital lease	49,854		(36,186)	13,668	3,523
Compensated absences	1,228,327	1,314,490	(1,304,737)	1,238,080	9,754
Net OPEB obligation	458,839	152,317	(58,337)	552,819	
Governmental activity long-term liabilities	$ 5,082,877	$ 1,466,807	$ (1,679,594)	$ 4,870,090	$ 288,751
BUSINESS ACTIVITIES					
Revenue bonds	$ 7,770,000		$ (495,000)	$ 7,275,000	$ 510,000
Premiums	195,847		(38,064)	157,783	33,710
Total Bonds Payable	$ 7,965,847	$ -	$ (533,064)	$ 7,432,783	$ 543,710
Capital lease	5,685		(5,686)	-	
Compensated absences	170,494	219,534	(206,601)	183,427	12,933
Business activity long-term liabilities	$ 8,142,026	$ 219,534	$ (745,351)	$ 7,616,210	$ 556,643

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 l 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 outstanding 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.

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.

GENERAL OBLIGATION BONDS

PURPOSE	MATURITY RANGE	INTEREST RATE RANGE	ORIGINAL AMOUNT	INSTALLMENT 2014 AMOUNT
2008 LTGO - Transportation	12/1/2028	4.00% - 4.70%	$ 2,515,000	$ 192,763
2009 LTGO - Refunding	12/1/2017	4.00% - 4.25%	935,000	123,650
YEAR ENDING	GOVERNMENTAL ACTIVITIES		BUSINESS-TYPE ACTIVITIES	
DECEMBER 31	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST
2015	210,000	103,213		
2016	225,000	94,288		
2017	235,000	84,725		
2018	120,000	74,738		
2019	125,000	69,488		
2020-2024	705,000	259,969		
2025-2029	685,000	82,365		
TOTAL	$ 2,305,000	$ 768,786	$ -	$ -

GENERAL OBLIGATION NOTES & LOANS

PURPOSE	MATURITY RANGE	INTEREST RATE RANGE	ORIGINAL AMOUNT	INSTALLMENT 2014 AMOUNT
2004 PWTF Loan - Pacific Hwy Construction	7/1/2024	0.50%	$ 2,250,000	$ 24,917
2009 PWTF Loan - Gateway Construction	7/1/2028	0.50%	1,000,000	34,252
2011 Wa State LOCAL - Energy Equipment	12/1/2021	2.46%	106,138	11,425
YEAR ENDING	GOVERNMENTAL ACTIVITIES		BUSINESS-TYPE ACTIVITIES	
DECEMBER 31	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST
2015	65,474	6,567		
2016	65,773	5,990		
2017	66,185	5,301		
2018	66,613	4,595		
2019	67,059	3,873		
2020-2024	301,968	9,081		
2025-2029	127,452	1,593		
TOTAL	$ 760,524	$ 37,000	$ -	$ -

REVENUE BONDS

PURPOSE	MATURITY RANGE	INTEREST RATE RANGE	ORIGINAL AMOUNT	INSTALLMENT 2014 AMOUNT
2008 LTGO - Marina	12/1/2028	4.00% - 4.70%	6,080,000	513,716
2012 LTGO - Marina Refunding	12/1/2022	2.00% - 4.00%	2,810,000	303,100
YEAR ENDING	GOVERNMENTAL ACTIVITIES		BUSINESS-TYPE ACTIVITIES	
DECEMBER 31	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST
2015			510,000	311,216
2016			525,000	294,829
2017			545,000	275,516
2018			560,000	255,416
2019			590,000	233,016
2020-2024			2,720,000	761,030
2025-2029			1,825,000	217,585
TOTAL			$ 7,275,000	$ 2,348,608

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, 2014.

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 175 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 WDIA, 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, 2014 the optimum reserve is $528,969 and actual fund balance was $284,432. The amounts payable at December 31, 2014 were $8,829.

Item	Self- Insurance 2013	Self- Insurance 2014	Unemployment Insurance 2013	Unemployment Insurance 2014
Claims liabilities at beginning of year	$ -	$ -	$ 7,473	$ -
Claims expenses:				
Current year and changes in estimates	10,000	(10,747)	2,958	25,911
Claims payments	(10,000)	10,747	(10,431)	(17,082)
Claims liabilities at end of the year	$ -	$ -	$ -	$ 8,829

B. Blended Component Unit - Des Moines Transportation Benefit District

On November 20, 2008 the City Council adopted Ordinance No. 1447 establishing the Des Moines Transportation Benefit District (DMTBD) within the city boundaries in order to enact an annual vehicle license fee to provide funding for maintenance and preservation of existing transportation improvements. The DMTBD is an independent taxing district and the governing board is the Des Moines City Council. The DMTBD was established primarily to benefit the City of Des Moines transportation functions. In 2014, the DMTBD received vehicle license fees totaling $424,531. The complete financial statements of the DMTBD can be obtained from the Finance Department at the following address:

City of Des Moines
21630 11th Ave S
Des Moines, WA 98198

C. Employee retirement systems and pension plans

Substantially all (city/county/district) 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 retirement plans. 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 98504-8380; or it may be downloaded from the DRS website at www.drs.wa.gov.

Public Employees' Retirement System (PERS) Plans 1, 2, and 3

Plan Description

The Legislature established PERS in 1947. Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior courts; employees of legislative committees; employees of district and municipal courts; and employees of local governments. Membership also includes higher education employees not participating in higher education retirement programs. Approximately 49 percent of PERS salaries are accounted for by state employment. PERS retirement benefit provisions are established in Chapters 41.34 and 41.40 RCW and may be amended only by the State Legislature.

PERS is a cost-sharing multiple-employer retirement system comprised of three separate plans for membership purposes: Plans 1 and 2 are defined benefit plans and Plan 3 is a defined benefit plan with a defined contribution component.

PERS members who joined the system by September 30, 1977 are Plan 1 members. Those who joined on or after October 1, 1977 and by either, February 28, 2002 for state and higher education employees, or August 31, 2002 for local government employees, are Plan 2 members unless they exercised an option to transfer their membership to Plan 3. PERS members joining the system on or after March 1, 2002 for state and higher education employees, or September 1, 2002 for local government employees have the irrevocable option of choosing membership in either PERS Plan 2 or Plan 3. The option must be exercised within 90 days of employment. Employees who fail to choose within 90 days default to Plan 3.

PERS is comprised of and reported as three separate plans for accounting purposes: Plan 1, Plan 2/3, and Plan 3. Plan 1 accounts for the defined benefits of Plan 1 members. Plan 2/3 accounts for the defined benefits of Plan 2 members, and the defined benefit portion of benefits for Plan 3 members. Plan 3 accounts for the defined contribution portion of benefits for Plan 3 members. Although members can only be a member of either Plan 2 or Plan 3, the defined benefit portions of Plan 2 and Plan 3 are accounted for in the same pension trust fund. All assets of this Plan 2/3 may legally be used to pay the defined benefits of any of the Plan 2 or Plan 3 members or beneficiaries, as defined by the terms of the plan. Therefore, Plan 2/3 is considered to be a single plan for accounting purposes.

PERS Plan 1 and Plan 2 retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to the PERS Plan 1 and Plan 2 defined benefit plans accrue interest at a rate specified by the Director of DRS. During DRS' Fiscal Year 2013, the rate was five and one-half percent compounded quarterly. Members in PERS Plan 1 and Plan 2 can elect to withdraw total employee contributions and interest thereon, in lieu of any retirement benefit, upon separation from PERS-covered employment. PERS Plan 1 members are vested after the completion of five years of eligible service.

PERS Plan 1 members are eligible for retirement from active status at any age with at least 30 years of service, at age 55 with 25 years of service, or at age 60 with at least 5 years of service. Plan 1 members retiring from inactive status prior to the age of 65 may receive actuarially reduced benefits.

The monthly benefit is 2 percent of the average final compensation (AFC) per year of service, but the benefit may not exceed 60 percent of the AFC. The AFC is the monthly average of the 24 consecutive highest-paid service credit months. PERS Plan 1 retirement benefits are actuarially reduced to reflect the choice, if made, of a survivor option.

Plan 1 members may elect to receive an optional COLA that provides an automatic annual adjustment based on the Consumer Price Index. The adjustment is capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 1 provides duty and non-duty disability benefits. Duty disability retirement benefits for disablement prior to the age of 60 consist of a temporary life annuity. The benefit amount is $350 a month, or two-thirds of the monthly AFC, whichever is less. The benefit is reduced by any workers' compensation benefit and is payable as long as the member remains disabled or until the member attains the age of 60, at which time the benefit is converted to the member's service retirement amount.

A member with five years of covered employment is eligible for non-duty disability retirement. Prior to the age of 55, the benefit amount is 2 percent of the AFC for each year of service reduced by 2 percent for each year that the member's age is less than 55. The total benefit is limited to 60 percent of the AFC and is actuarially reduced to reflect the choice of a survivor option. Plan 1 members may elect to receive an optional COLA amount (based on the Consumer Price Index), capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 2 members are vested after the completion of five years of eligible service. Plan 2 members are eligible for normal retirement at the age of 65 with five years of service. The monthly benefit is 2 percent of the AFC per year of service. The AFC is the monthly average of the 60 consecutive highest-paid service months. There is no cap on years of service credit; and a cost-of-living allowance is granted (based on the Consumer Price Index), capped at 3 percent annually.

PERS Plan 2 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 reduced benefit. The benefit is reduced by an early retirement factor (ERF) that varies according to age, for each year before age 65.

PERS Plan 2 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions, if hired prior to May 1, 2013: with a benefit that is reduced by 3 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 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of 5 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.

PERS Plan 2 retirement benefits are actuarially reduced to reflect the choice, if made, of a survivor option.

PERS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component and member contributions finance a defined contribution component. As established by Chapter 41.34 RCW, employee contribution rates to the defined contribution component range from 5 percent to 15 percent of salaries, based on member choice. Members who do not choose a contribution rate default to a 5 percent rate. There are currently no requirements for employer contributions to the defined contribution component of PERS Plan 3.

PERS Plan 3 defined contribution retirement benefits are dependent upon the results of investment activities. Members may elect to self-direct the investment of their contributions. Any expenses incurred in conjunction with self-directed investments are paid by members. Absent a member's self-direction, PERS Plan 3 contributions are invested in the Retirement Strategy Fund that assumes the member will retire at age 65.

For DRS' Fiscal Year 2013, PERS Plan 3 employee contributions were $99.0 million, and plan refunds paid out were $69.4 million.

The defined benefit portion of PERS Plan 3 provides members a monthly benefit that is 1 percent of the AFC per year of service. The AFC is the monthly average of the 60 consecutive highest-paid service months. There is no cap on years of service credit, and Plan 3 provides the same cost-of-living allowance as Plan 2.

Effective June 7, 2006, PERS 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 twelve months of that service are earned after age 44; or after five service credit years earned in PERS Plan 2 by June 1, 2003. Plan 3 members are immediately vested in the defined contribution portion of their plan.

Vested Plan 3 members are eligible for normal retirement at age 65, or they may retire early with the following conditions and benefits:

- If they have at least ten service credit years and are 55 years old, the benefit is reduced by an ERF that varies with age, for each year before age 65.
- If they have 30 service credit years and are at least 55 years old, and were hired before May 1, 2013, they have the choice of a benefit that is reduced by 3 percent for each year before age 65; or a benefit with a smaller (or no) reduction factor (depending on age) that imposes stricter return-to-work rules.
- If they have 30 service credit years, are at least 55 years old, and were hired after May 1, 2013, they have the option to retire early by accepting a reduction of 5 percent for each year before age 65.

PERS Plan 3 benefits are actuarially reduced to reflect the choice, if made, of a survivor option.

PERS Plan 2 and Plan 3 provide disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 monthly benefit amount is 2 percent of the AFC per year of service. For Plan 3, the monthly benefit amount is 1 percent of the AFC per year of service. These disability benefit amounts are actuarially reduced for each year that the member's age is less than 65, and to reflect the choice of a survivor option. There is no cap on years of service credit, and a cost-of-living allowance is granted (based on the Consumer Price Index) capped at 3 percent annually.

PERS members meeting specific eligibility requirements have options available to enhance their retirement benefits. Some of these options are available to their survivors.

A one-time duty-related death benefit is provided to the beneficiary or the estate of a PERS member who dies as a result of injuries sustained in the course of employment, or if the death resulted from an occupational disease or infection that arose naturally and proximately out of the member's covered employment, if found eligible by the Department of Labor and Industries.

From January 1, 2007 through December 31, 2007, judicial members of PERS were given the choice to elect participation in the Judicial Benefit Multiplier (JBM) Program enacted in 2006. Justices and judges in PERS Plan 1 and Plan 2 were able to make an irrevocable election to pay increased contributions that would fund a retirement benefit with a 3.5 percent multiplier. The benefit would be capped at 75 percent of AFC. Judges in PERS Plan 3 could elect a 1.6 percent of pay per year of service benefit, capped at 37.5 percent of AFC.

Newly elected or appointed justices and judges who chose to become PERS members on or after January 1, 2007, or who had not previously opted into PERS membership, were required to participate in the JBM Program.

There are 1,176 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2013:

Retirees and Beneficiaries Receiving Benefits	85,328
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	31,047
Active Plan Members Vested	150,706
Terminated Plan Members Nonvested	101,191
Total	**368,272**

Funding Policy

Each biennium, the state Pension Funding Council adopts PERS Plan 1 employer contribution rates, PERS Plan 2 employer and employee contribution rates, and PERS Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statute at 6 percent for state agencies and local government unit employees, and at 7.5 percent for state government elected officials. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. Under PERS Plan 3, employer contributions finance the defined benefit portion of the plan and member contributions finance the defined contribution portion. The Plan 3 employee contribution rates range from 5 percent to 15 percent.

As a result of the implementation of the Judicial Benefit Multiplier Program in January 2007, a second tier of employer and employee rates was developed to fund, along with investment earnings, the increased retirement benefits of those justices and judges that participate in the program

The methods used to determine the contribution requirements are established under state statute in accordance with Chapters 41.40 and 41.45 RCW.

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2014, are as follows:

Members Not Participating in JBM:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer*	9.21%**	9.21%**	9.21%***
Employee	6.00%****	4.92%****	*****

* The employer rates include the employer administrative expense fee currently set at 0.18%.
** The employer rate for state elected officials is 13.73% for Plan 1 and 9.21% for Plan 2 and Plan 3.
*** Plan 3 defined benefit portion only.
**** The employee rate for state elected officials is 7.50% for Plan 1 and 4.92% for Plan 2.
***** Variable from 5.0% minimum to 15.0% maximum based on rate selected by the PERS 3 member.

Members Participating in JBM:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer-State Agency*	11.71%	11.71%	11.71%**
Employer-Local Gov't Units*	9.21%	9.21%	9.21%**
Employee-State Agency	9.76%	9.80%	7.50%***
Employee-Local Gov't Units	12.26%	12.30%	7.50%***

* The employer rates include the employer administrative expense fee currently set at 0.18%.
** Plan 3 defined benefit portion only.
***Minimum rate.

Both the city and the employees made the required contributions. The city's required contributions for the years ended December 31 were as follows:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
2014	$24,058	$512,527	$78,609
2013	$19,385	$429,532	$68,629
2012	$22,925	$374,461	$61,025

Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF) Plans 1 and 2

Plan Description

LEOFF was established in 1970 by the Legislature. Membership includes all full-time, fully compensated, local law enforcement commissioned officers, firefighters and, as of July 24, 2005, emergency medical technicians. LEOFF membership is comprised primarily of non-state employees, with Department of Fish and Wildlife enforcement officers, who were first included effective July 27, 2003, being an exception. LEOFF retirement benefit provisions are established in chapter 41.26 RCW and may be amended only by the State Legislature.

LEOFF is a cost-sharing multiple-employer retirement system comprised of two separate defined benefit plans. LEOFF members who joined the system by September 30, 1977 are Plan 1 members. Those who joined on or after October 1, 1977 are Plan 2 members.

Effective July 1, 2003, the LEOFF Plan 2 Retirement Board was established by Initiative 790 to provide governance of LEOFF Plan 2. The Board's duties include adopting contribution rates and recommending policy changes to the Legislature.

LEOFF retirement benefits are financed from a combination of investment earnings, employer and employee contributions, and a special funding situation in which the state pays through legislative appropriations. Employee contributions to the LEOFF Plan 1 and Plan 2 defined benefit plans accrue interest at a rate specified by the Director of DRS. During DRS' Fiscal Year 2013, the rate was five and one-half percent compounded quarterly. Members in LEOFF Plan 1 and Plan 2 can elect to withdraw total employee contributions and interest earnings, in lieu of any retirement benefit, upon separation from LEOFF-covered employment.

LEOFF Plan 1 members are vested after the completion of five years of eligible service. Plan 1 members are eligible for retirement with five years of service at the age of 50.

The benefit per year of service calculated as a percent of final average salary (FAS) is as follows:

Term of Service	Percent of Final Average Salary
20 or more years	2.0%
10 but less than 20 years	1.5%
5 but less than 10 years	1.0%

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 10 years of service. A cost-of-living allowance is granted (based on the Consumer Price Index).

LEOFF Plan 1 provides death and disability benefits. Death benefits for survivors of Plan 1 members on active duty consist of the following: (1) If there is an eligible spouse, 50 percent of the FAS, plus 5 percent of the FAS for each eligible surviving child, with a limitation on the combined benefit of 60 percent of the FAS; or (2) If there is no eligible spouse, eligible children receive 30 percent of the FAS for the first child plus 10 percent for each additional child, subject to a 60 percent limitation of the FAS, divided equally.

A one-time duty-related death benefit is provided to the beneficiary or the estate of a LEOFF Plan 1 member who dies as a result of injuries or illness sustained in the course of employment, or if the death resulted from an occupational disease or infection that arose naturally and proximately out of the member's covered employment, if found eligible by the Department of Labor and Industries.

The LEOFF Plan 1 disability benefit is 50 percent of the FAS plus 5 percent for each child up to a maximum of 60 percent. Upon recovery from disability before the age of 50, a member is restored to service with full credit for service while disabled. Upon recovery after the age of 50, the benefit continues as the greater of the member's disability benefit or service retirement benefit.

LEOFF Plan 2 members are vested after the completion of five years of eligible service.

Plan 2 members are eligible for retirement at the age of 53 with five years of service, or at age 50 with 20 years of service. Plan 2 members receive a benefit of 2 percent of the FAS per year of service (the FAS is based on the highest consecutive 60 months), actuarially reduced to reflect the choice of a survivor option. 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 3 percent for each year prior to age 53. Otherwise, the benefits are actuarially reduced for each year prior to age 53. A cost-of-living allowance is granted (based on the Consumer Price Index), capped at 3 percent annually.

LEOFF Plan 2 provides disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 benefit amount is 2 percent of the FAS for each year of service. Benefits are reduced to reflect the choice of survivor option and for each year that the member's age is less than 53, unless the disability is duty-related. If the member has at least 20 years of service and is age 50, the reduction is 3 percent for each year prior to age 53.

A disability benefit equal to 70 percent of their FAS, subject to offsets for workers' compensation and Social Security disability benefits received, is also available to those LEOFF Plan 2 members who are catastrophically disabled in the line of duty and incapable of future substantial gainful employment in any capacity. Effective June 2010, benefits to LEOFF Plan 2 members who are catastrophically disabled include payment of eligible health care insurance premiums.

Members of LEOFF Plan 2 who leave service because of a line of duty disability are allowed to withdraw 150 percent of accumulated member contributions. This withdrawal benefit is not subject to federal income tax. Alternatively, members of LEOFF Plan 2 who leave service because of a line of duty disability may be eligible to receive a retirement benefit of at least 10 percent of FAS and 2 percent per year of service beyond five years. The first 10 percent of the FAS is not subject to federal income tax.

LEOFF Plan 2 retirees may return to work in an eligible position covered by another retirement system, choose membership in that system and suspend their pension benefits, or not choose membership and continue receiving pension benefits without interruption.

A one-time duty-related death benefit is provided to the beneficiary or the estate of a LEOFF Plan 2 member who dies as a result of injuries or illness sustained in the course of employment, or if the death resulted from an occupational disease or infection that arose naturally and proximately out of the member's covered employment, if found eligible by the Department of Labor and Industries.

Benefits to eligible surviving spouses and dependent children of LEOFF Plan 2 members killed in the course of employment include the payment of eligible health care insurance premiums.

Legislation passed in 2009 provides to the Washington state registered domestic partners of LEOFF Plan 2 members the same treatment as married spouses, to the extent that the treatment is not in conflict with federal laws.

LEOFF members meeting specific eligibility requirements have options available to enhance their retirement benefits. Some of these options are available to their survivors. There are 374 participating employers in LEOFF. Membership in LEOFF consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2013:

Retirees and Beneficiaries Receiving Benefits	10,511
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	699
Active Plan Members Vested	16,830
Terminated Plan Members Nonvested	1,600
Total	**29,640**

Funding Policy

Employer and employee contribution rates are developed by the Office of the State Actuary to fully fund the plans. Starting on July 1, 2000, Plan 1 employers and employees contribute zero percent, as long as the plan remains fully funded. Plan 2 employers and employees are required to pay at the level adopted by the LEOFF Plan 2 Retirement Board.

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 DRS' Fiscal Year 2014, the state contributed $55.6 million to LEOFF Plan 2.

The methods used to determine the contribution requirements are established under state statute in accordance with Chapters 41.26 and 41.45 RCW.

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2014, are as follows:

	LEOFF Plan 1	LEOFF Plan 2
Employer*	0.18%	5.23%**
Employee	0.00%	8.41%
State	N/A	3.36%

*The employer rates include the employer administrative expense fee currently set at 0.18%.
** The employer rate for ports and universities is 8.59%.

Both the city and the employees made the required contributions. The city's required contributions for the years ended December 31 were as follows:

	LEOFF Plan 1	LEOFF Plan 2
2014	$0	$184,047
2013	$0	$179,129
2012	$0	$181,914

D. 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.

E. 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. A single retirement age of 56.22 was assumed for all active members for the purpose of determining the actuarial accrued liability. Termination and mortality rates were assumed to follow the LEOFF 1 termination and 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 2011. The results were based on grouped data with 4 active groupings and 4 inactive groupings. 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.

	2012	2013	2014
Annual required contribution (ARC)	$156,054	$179,691	$175,232
Interest on Net OPEB Obligation (NOO)	14,922	17,570	18,354
Adjustments to ARC	(30,876)	(37,069)	(41,268)
Annual OPEB cost (expense)	$140,100	$160,192	$152,318
Contributions made	81,254	91,799	58,337
Increase NOO	58,846	68,393	93,981
NOO at Beginning of Year	331,600	390,446	458,839
NOO at End of Year	$390,446	$458,839	$552,820

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
12/31/14	$152,318	38%	$552,820
12/31/13	$160,192	57%	$458,839
12/31/12	$140,100	58%	$390,446

Required Supplementary Information
LEOFF 1 OPEB

The following is a schedule of contributions from the employer and other contributing entities for the Other LEOFF 1 :

Fiscal Year Ending	Actual Employer Contributions	Annual Required Contribution (ARC)	Percentage of ARC Contributed
12/31/2014	58,337	175,232	33%
12/31/2013	91,799	179,691	51%
12/31/2012	81,254	156,054	52%

Schedule of Funding Progress for the LEOFF 1 OPEB Fund (rounded to thousands)

Valuation Date	Actuarial Asset Value	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%	N/A	N/A %
December 31, 2013	$ -	$ 1,997,879	$ 1,997,879	0%	N/A	N/A %
December 31, 2012	$ -	$ 1,675,953	$ 1,675,953	0%	N/A	N/A %

CITY OF DES MOINES
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2014

Federal Agency Name/Pass-Through Agency Name	Federal Program Name	CFDA Number	Other I.D. Number	From Pass-Through Awards	From Direct Awards	Total
U.S. Department of Health and Human Services/Pass-Through from King County Housing and Community Development	Community Development Block Grant	14.218	D37833D Joint Minor Home Repair Program	21,321		21,321
U. S. Department of Justice	Criminal Alien Assistance Program	16.606	2014-AP-BX-0261		368	368
	Bullet Proof Vest Partnership Program	16.607	OMB1121-0235		1,696	1,696
			Subtotal	**-**	**2,064**	**2,064**
U. S. Department of Transportation/Pass-Through from WSDOT	Highway Planning & Construction	20.205	LA7951 Connecting 24th/28th Avenue South	2,182,716		2,182,716
		20.205	LA7853 Citywide Arterial Street	60,810		60,810
		20.205	LA8049 Saltwater State Park Bridge	697,480		697,480
		20.205	LA8083 Barnes Creek Trail	41,882		41,882
			Subtotal	**2,982,889**		**2,982,889**
U.S. Department of Health and Human Services/Center for Disease Control & Prevention/Pass-Through from Seattle Children's Hospital	Community Transformation Grants Small Communities Program	93.737	1H75DP00459501	6,810		6,810
		Total Federal Awards Expended		**$ 3,011,019**	**$ 2,064**	**$ 3,013,083**

The accompanying notes to the Schedule of Expenditures of Federal Awards 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, 2013

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.

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.

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