Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

City of Des Moines

King County

For the period January 1, 2017 through December 31, 2017

Published July 26, 2018

Report No. 1021612

Office of the Washington State Auditor
Pat McCarthy

July 26, 2018

Council
City of Des Moines
Des Moines, Washington

Report on Financial Statements

Please find attached our report on the City of Des Moines financial statements.

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

Sincerely,

Pat McCarthy

State Auditor

Olympia, WA

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City of Des Moines
King County
January 1, 2017 through December 31, 2017

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, 2017, 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 19, 2018.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of the City's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Pat McCarthy

Pat McCarthy

State Auditor

Olympia, WA

June 19, 2018

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

City of Des Moines
King County
January 1, 2017 through December 31, 2017

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, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed on page 9.

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, 2017, 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 and required supplementary information listed on page 9 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated June 19, 2018 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Pat McCarthy

State Auditor

Olympia, WA

June 19, 2018

FINANCIAL SECTION

City of Des Moines
King County
January 1, 2017 through December 31, 2017

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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, 2017. We encourage readers to consider the information furnished in our letter of transmittal which can be found starting on page 1 of this report.

FINANCIAL HIGHLIGHTS

- Total government-wide net position – the difference between assets plus deferred outflows and liabilities plus deferred inflows – equals $215,217,933, an increase of $13,712,919 or 6.8%. Of this amount, a total of $190,800,795, or 88.7% of total net position, represents net investment in capital assets and includes assets such as surface water management systems, marina, streets, buildings, land, vehicles and equipment. An additional $7,384,905 or 3.4% of net position is restricted for purposes of public safety, transportation, recreation & senior services, and debt service. Of the remaining $17,032,233 or 7.9% of net position ($11,649,381 for governmental activities and $5,382,852 for business-type activities) represents unrestricted net position which may be used to meet the City's ongoing obligations to citizens and creditors.

- The net increase in government-wide net position during 2017 was $13,712,919. Of this amount, $2,473,375 was directly related to the increase in City-owned net investment in capital assets, restricted net position increased by $112,242, and unrestricted net position increased by $11,125,302.

- Business-type net position increased by $2,355,673 to $29,015,040 during 2017 as a result of net capital investment and net earnings related to the City's marina and surface water management utility.

- Governmental fund balances at year-end totaled $17,089,908. Of this amount, $8,311,073, or 48.6% is unassigned and available to fund ongoing activities. Compared to 2016, total governmental fund balances increase by $6,890,162. This is a result of past efforts to contain costs and increase revenues which have greatly improved the City's financial position and has been able to fully fund a 7% fund balance reserve requirement and a 5% revenue stabilization reserve account.

- Total City debt payments during the year, net of compensated absences, net pension obligation and other post-employment benefits, were $875,690. Total long-term liabilities, including bonds, loans and leases, totaled $7,964,180 at December 31, 2017. The ending long-term liabilities decreased by the amount of the debt payments. See note 4.F. on page 57 of this report for further information on long-term liability activity during the year.

Other City Highlights:

- The City collaborated with the Port of Seattle to develop 87 acres of Port-owned land into the Des Moines Creek Business Park.
- The City implemented a paid parking system in the Marina and Beach Park with the proceeds to be used for future improvements to the marina.
- The City received an Economic Development grant from the Port of Seattle to review Marina development options.
- The City created several development zones in its waterfront areas to spur commercial development that is compatible with the City's residential character.
- The City created a Sustainable Paving Program.
- The City established a Development Fund to protect and smooth out impacts from macro-economic phenomenon reflective of both growth and potential contraction in the economy.
- The City completed the Lower Massey Creek Channel Modification project.

- The City completed the transportation gateway project at S 216th Street Segment 1-A (24th Avenue S to SR-99). A gateway celebration was held on October 12th, whereby the City thanked many partners who helped fund and support implementation of this project.
- The City implemented a new a recreational management software which includes online registration, scheduling and payment system.

OVERVIEW OF THE FINANCIAL STATEMENTS

The discussion and analysis provided here are intended to serve as an introduction to the City of Des Moines's basic financial statements which are presented in three parts: 1) government-wide financial statements, 2) fund financial statements, and 3) 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 financial statements are presented in conformity with Governmental Accounting Standards Board (GASB), which establishes Generally Accepted Accounting Principles (GAAP) for governmental entities. The City adopted the provisions of Statement No. 82 – *Pension Issues-an amendment of GASB Statements No. 67, No. 68, and No. 73.* GASB Statement No. 82 amends the definition of covered payroll for pensions reported in required supplementary information. There is no material impact to the City of implementing this standard.

The government-wide financial statements are designed to provide readers with a broad overview of the City of Des Moines' finances in a manner similar to a private-sector business. The *Statement of Net Position* presents information on all of the City's assets and deferred outflows as well as liabilities and deferred inflows with the difference between the two groups reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

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

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

The government-wide financial statements can be found on pages 27-28 of this report.

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

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

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

The City of Des Moines maintains 14 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 2017, the General Fund and the Capital & 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 non-major governmental funds is provided in the form of *Combining Statements* elsewhere in this report.

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

The basic governmental fund financial statements can be found starting on page 29 of this report.

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

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. Data from the internal service funds are combined into a single, aggregated presentation in the basic proprietary fund financial statements starting on page 33.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found starting on page 36.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The statement of net position may serve as a useful indicator of the City's financial position. The overall financial position has improved for the City of Des Moines over the prior year. Changes in net position from 2016 to 2017 show an increase in total net position of $13,712,919 or 6.8%. Following is the condensed version of the government-wide statement of net position with a comparison to 2016:

City of Des Moines
Statement of Net Position

	Governmental Activities		Business Activities		Total Primary Government	
	2017	2016	2017	2016	2017	2016
Current assets	$ 25,817,790	$ 17,032,592	$ 7,110,060	$ 5,727,435	$ 32,927,850	$ 22,760,027
Capital assets	169,369,407	167,986,023	28,520,758	28,290,064	197,890,165	196,276,087
Other assets	2,068,526	975,348	796,312	794,740	2,864,838	1,770,088
Total assets	197,255,723	185,993,963	36,427,130	34,812,239	233,682,853	220,806,202
Deferred outflows	850,508	1,477,156	235,230	337,643	1,085,738	1,814,799
Current liabilities	2,663,784	2,815,768	1,155,953	1,118,490	3,819,737	3,934,258
Noncurrent liabilities	7,957,877	9,671,102	6,300,524	7,337,374	14,258,401	17,008,476
Total liabilities	10,621,661	12,486,870	7,456,477	8,455,864	18,078,138	20,942,734
Deferred inflows	1,281,677	138,602	190,844	34,651	1,472,521	173,253
Net position:						
Investment in capital assets	167,168,607	165,480,452	23,632,188	22,844,968	190,800,795	188,325,420
Restricted	7,384,905	7,272,663	-	-	7,384,905	7,272,663
Unrestricted	11,649,381	2,092,532	5,382,852	3,814,399	17,032,233	5,906,931
Total net position	$ 186,202,893	$ 174,845,647	$ 29,015,040	$ 26,659,367	$ 215,217,933	$ 201,505,014

The largest portion of the City's net position (88.7%) 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. Restricted net position (3.4%) represents resources that are subject to constitutional or external restrictions on how they may be used. The remaining balance of unrestricted net position (7.9%) may be used to meet the City's ongoing obligations to citizens and creditors.

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.

During the current fiscal year the government's net position increased by $13,712,919. The increase represents the degree to which ongoing revenues have exceeded increases in ongoing expenses through cost containment measures and increasing revenues.

The increase in restricted net position is in the most part due to an $112,242 increase in restricted funding which represent fees collected for the red light camera program and will be used to pay for law enforcement services performed after December 31, 2017.

The increases in unrestricted net position and current assets increased as the overall financial health of the city increased. With increased revenues and steady expenses, current assets such as cash and investments on hand at December 31 has significantly increased over the prior year.

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

See the FINANCIAL ANALYSIS OF THE CITY'S FUNDS section starting on page 19 for more information relating to specific funds.

Following is a condensed version of the City's changes in net position. The table shows the revenues, expenses and related changes in net position for both governmental-type and business-type activities:

City of Des Moines
Changes in Net Position

	Governmental Activities		Business Activities		Total Primary Government	
	2017	2016	2017	2016	2017	2016
Revenues						
Program revenues:						
Charges for services	14,726,777	10,122,119	7,611,128	7,215,142	22,337,905	17,337,261
Operating grants & contributions	196,689	69,828	-	23,071	196,689	92,899
Capital grants & contributions	2,615,722	9,569,195	1,180,771	1,618,627	3,796,493	11,187,822
General revenues:						
Property taxes	4,818,554	4,725,949			4,818,554	4,725,949
Other taxes	12,686,672	11,443,777			12,686,672	11,443,777
Investment and misc	684,571	689,194	38,906	32,579	723,477	721,773
Total revenues	35,728,985	36,620,062	8,830,805	8,889,419	44,559,790	45,509,481
Program expenses:						
General government	1,506,250	3,595,007			1,506,250	3,595,007
Public safety	10,968,443	9,173,408			10,968,443	9,173,408
Transportation	5,548,986	4,070,236			5,548,986	4,070,236
Natural & economic environment	1,912,880	1,907,869			1,912,880	1,907,869
Social services	547,167	390,691			547,167	390,691
Culture and recreation	3,827,987	2,944,600			3,827,987	2,944,600
Interest on long term debt	90,026	100,276			90,026	100,276
Marina			3,334,849	3,377,089	3,334,849	3,377,089
Surface water management			3,110,283	3,137,876	3,110,283	3,137,876
Total expenses	24,401,739	22,182,087	6,445,132	6,514,965	30,846,871	28,697,052
Changes in net position	11,327,246	14,467,975	2,385,673	2,344,454	13,712,919	16,812,429
Transfers	30,000	30,000	(30,000)	(30,000)	-	-
Total changes in net position	11,357,246	14,497,975	2,355,673	2,314,454	13,712,919	16,812,429
Net position - beginning	174,845,647	160,377,672	26,659,367	24,314,913	201,505,014	184,692,585
Net position - ending	186,202,893	174,875,647	29,015,040	26,629,367	215,217,933	201,505,014

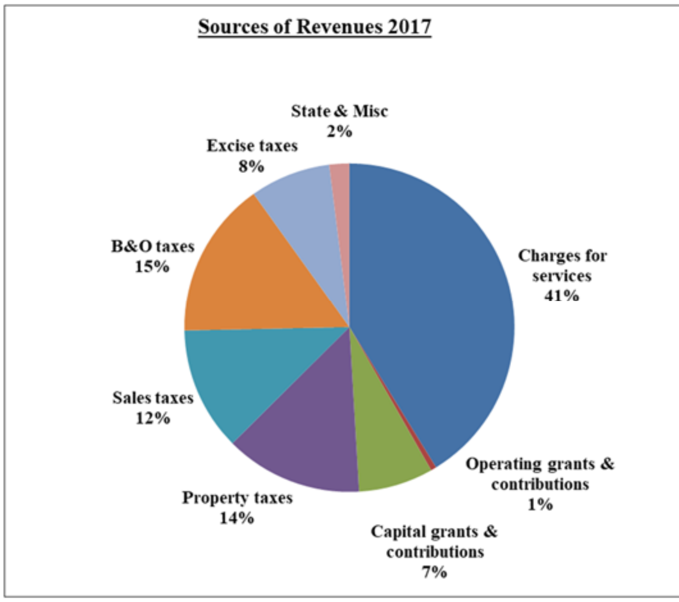
Governmental activities.

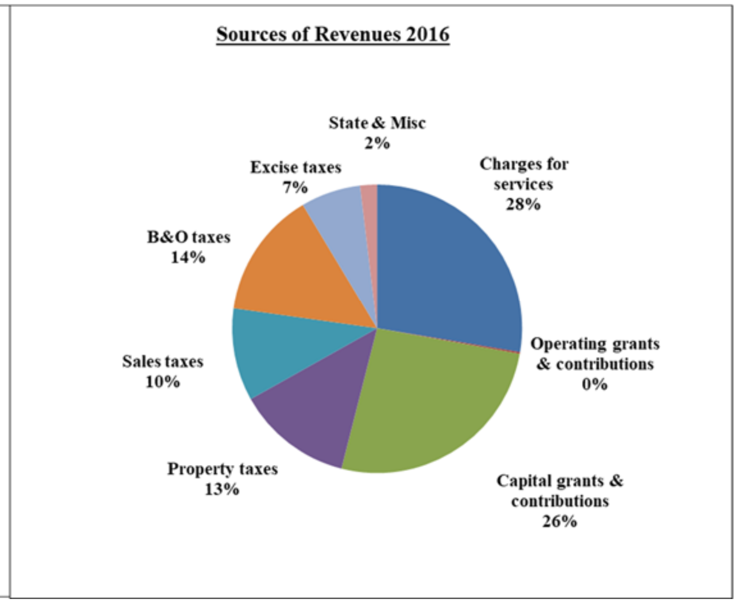
Governmental activities increased net position by $11,357,246, including transfers in of $30,000 from enterprise funds to capital funds to pay for their share of the financial systems replacement project. The primary reason for the increase in net position is from total revenues exceeding total expenses by $11,327,246. This was due to the City's continued discipline in matching ongoing expenses to ongoing revenues to ensure a sustainable financial plan into the future. Overall revenues show a decrease of $949,691 or 2.1%. There was a total increase in taxes of $1,335,500 or 8.3% which consists of an increase in property tax revenues of $92,605 or 2.0% due to continued rise in property values and new construction activity; an increase in sales tax revenues of $544,533 or 14.4% and an increase in B&O taxes of $326,664 or 6.3% due to two factors: 1) the continued improvement in the local economy over previous years and additional sales tax on construction activity within the City limits; and an increase in excise taxes of $371,698 or 5.2% due to increase in activity in utility services provided within the city. There was an increase in charges for services of $5,000,644 or 28.8% due to the new traffic infraction red light running program, a full year of franchise fees collected in 2017 for utility districts and growth management act impact fees collected for commercial development; as well as, an increase in operating grants & contributions of $103,790 or 111.7%. While these revenues increased there was a significant decrease in capital grants & contributions of $7,391,329 or

66.1% from 2016. Capital grant activity fluctuates from year to year based on grant awards and construction projects. The City had a few major capital projects with most of the costs and reimbursements occurring in 2016, which were the Redondo Boardwalk and S. 216th street improvements. Overall expenses increased by $2,149,819 or 7.5%. This increase is primarily attributed to additional public safety personnel and increasing domestic violence and probations services.

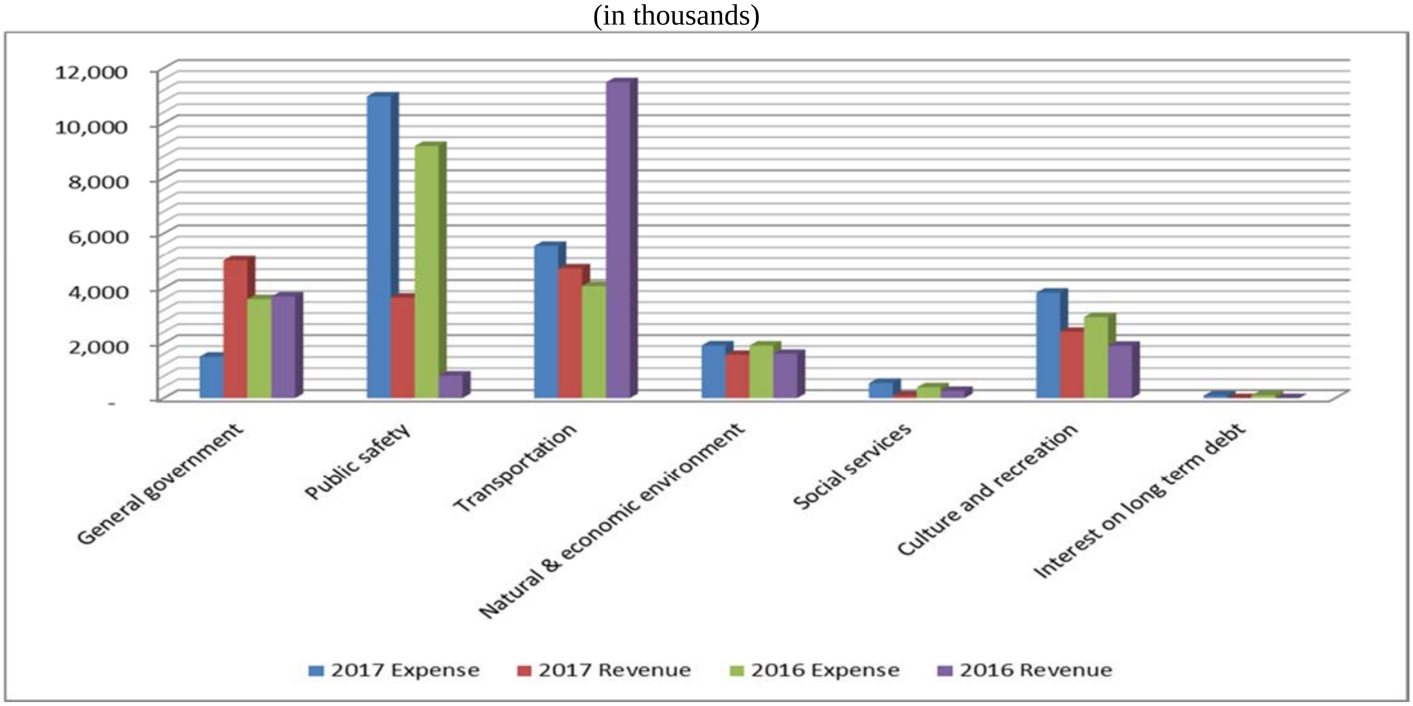
See the FINANCIAL ANALYSIS OF THE CITY'S FUNDS section starting on page 19 for more information relating to specific funds.

GOVERNMENTAL ACTIVITIES – REVENUES BY SOURCE



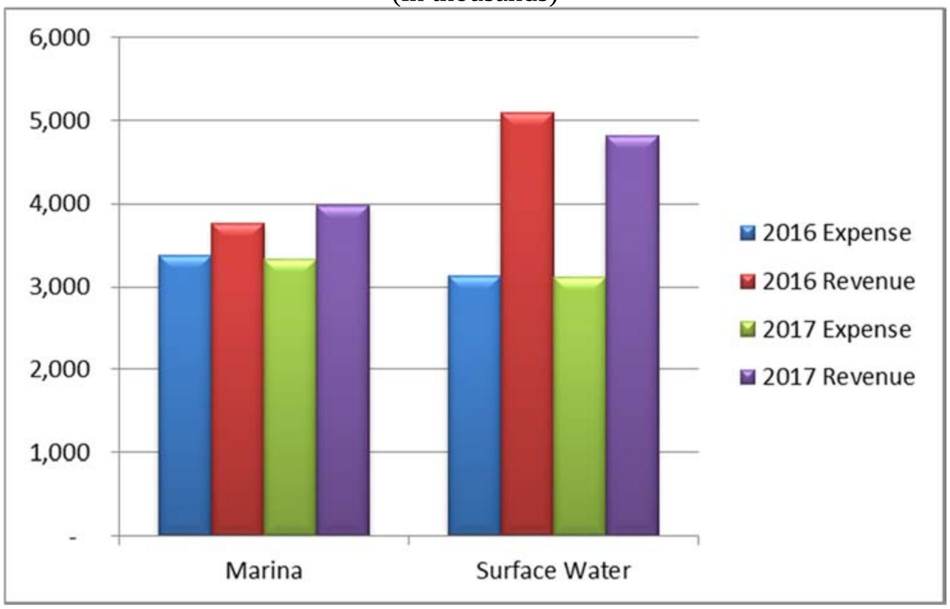


GOVERNMENTAL ACTIVITIES – EXPENSES AND PROGRAM REVENUES
(in thousands)



Business-type activities. Business-type activities increased the City of Des Moines's net position by $2,355,673 as compared to the 2016. This increase is due to operating income of $1,430,095, capital contributions of donated infrastructure for the surface water management utility of $1,180,771 and other non-operating expenses and transfers out of $255,193.

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 $17,089,908. The City had $8,311,073 in unassigned fund balance. Total fund balance increased $6,890,162 from the prior year: $3,961,713 by the general fund, $1,830,313 by the capital and construction fund and $1,098,136 in the other, non-major governmental funds.

General Fund

The General Fund is the primary operating fund of the City of Des Moines**.** Revenues increased sufficiently to end the year with unassigned fund balance of $8,402,438, which fully funded the city council's policy for a minimum fund balance level of 12% which equals $2,444,932. This 12% minimum fund balance level is a combination of a stabilization reserve target as defined as 5% of recurring revenues and calculates to $1,019,458; in addition, an ending fund balance policy of 7% on annual expenditures calculates to $1,425,474. The fund balance of the General Fund increased by $3,961,714 during the current fiscal year; which is 14.3% of total revenues. Overall, revenues increased by 23.6% or $5,282,317, expenses by 22.6% or $4,184,307, and other financing uses from net transfers was $(237,755).

General Fund tax revenue increased by $829,545 or 6.2%. Property tax increased $66,774 or 1.4% as the assessed valuation of all the property in the City continued to climb and strong construction activity continues. Sales tax revenue was up 511,365 or 13.8% as the City's focus on economic development targeting sales tax generating companies resulted in new business growth and sales tax from construction activity. Business growth increases both the one-time sales tax from construction activities and from the on-going business operating sales activities. Business & Occupation (B&O) taxes overall increased $233,996 or 4.9%.

License and permit revenues decreased by $(26,047) or (0.8%) due to a change in recording franchise fees to the Arterial Street for pavement program.

Charges for services increased by $1,956,045 or 44.8% is primarily due to the interfund administrative services provided by the General Fund to other funds determined by the City's indirect cost allocation plan

Fines and forfeitures increased by $2,652,656 due to a full year of activity for the traffic red light running program.

Construction Fund. Fund balance was $6,201,646 at year end. Change is normal and expected based on the nature of the construction fund as larger projects draw to completion and different size projects start. Transportation construction is heavily dependent on grant funding with $1,042,775 or 23.8% of the current year's revenue of $4,382,747 coming from governmental revenues such as state, federal and local grants. However, grant funding in 2017 of $1,042,755 was significantly less than the amount of $7,289,142 received in 2016. This was due to the Redondo Boardwalk being completed in 2016 and the S. 216th street improvements project being started in 2016 and was substantially completed in 2017 but not yet closed.

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 $1,397,713 at the end of the year; an increase of $647,655 from the prior year. Operating revenue increased $211,773 or 5.6% due to an increase in revenues from the resale of fuel and a rate increase on moorage and operating expenses decreased by $28,991 or 0.9% due to the continued efforts to contain costs.

Surface Water Management – Unrestricted net position totaled $3,985,138; an increase of $1,708,018 from the prior year. Operating revenue increased by $159,079 or 4.6% which are due to an increase in rates and operating expenses decreased by $27,593 or 0.9% due to the continued efforts to contain costs.

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 $697,465 less than the final budget. Most of the savings is related positions left vacant during the year, mainly in the Police and Finance departments. While the City intends to maintain full staffing in the Police Department, it has difficulty doing so due to a lack of qualified, currently available applicants (Patrol positions) and a lack of openings in the Police Academy.

On the revenue side, actual revenues exceeded final budgeted revenues by $1,304,309. This results from higher than expected one-time sales taxes, one-time B&O taxes and franchise fees. Interest revenues exceeded projections mainly due to higher cash balances and State-shared Liquor Board profits were greater than originally announced.

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, 2017 totals $197,890,165; an increase of $1,614,083 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 2017 totaled $2,971,311 with $1,491,622 of that spent on transportation construction projects. Some of the larger projects were:

- **Marine View Drive Roundabout** ($37,626)**.** This is a $2 million dollar project to install a modern roundabout at the intersection of Marine View Drive and South 240th.
- **South 216th St Segments 1A & 3** ($972,577). This is a $6.8 million dollar project to widen the roadway to provide an additional two travel lanes in each direction, a continuous left turn lane, a U-turn pocket, bicycle lanes, planter strips and sidewalks. Approximately $3.6 million of this project is grant funded.
- **Midway Elementary Safe Route to School (SRTS)** ($35,701). This is a $395 thousand dollar project that provides safer pedestrian mobility especially for school aged children.
- **South 268th Sidewalk Installation** ($189,098). This is an $880,000 project to install sidewalks on the north side of South 268th Street between 16th Ave S and Pacific Highway South.
- **Barnes Creek Trail/SR 509** ($256,620). This is a $1 million dollar project to develop the SR 509 right-of-way from South 216th Street to Kent-Des Moines Road for a two mile multi-use trail connecting the Des Moines Creek Trail and Highline College. Approximately $708,000 is grant funded with the rest from various sources.
- Additional information on the City of Des Moines capital assets can be found in note 4.C. starting on page 52 of this report.

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

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2017	2016	2017	2016	2017	2016
Land	$ 103,650,224	$ 103,650,224	$ 3,791,287	$ 3,791,287	$ 107,441,511	$ 107,441,511
Construction work in progress	9,978,047	7,006,736	728,295	430,512	10,706,342	$ 7,437,248
Buildings and structures	7,097,878	7,322,666	2,016,993	2,168,003	9,114,871	$ 9,490,669
Other improvements	7,666,779	8,363,694	8,447,844	8,838,295	16,114,623	$ 17,201,989
Infrastructure	38,598,028	39,328,983	13,365,029	12,895,919	51,963,057	$ 52,224,902
Machinery and equipment	2,378,451	2,313,716	171,312	166,049	2,549,763	$ 2,479,765
Total capital assets	$ 169,369,407	$ 167,986,019	$ 28,520,760	$ 28,290,065	$ 197,890,167	$ 196,276,084

Long-term debt. At the end of the current fiscal year, the City of Des Moines had total bonded debt outstanding of $7,398,380 (including premium) which is backed by the full faith and credit of the government. Of this amount, $5,763,380 (including premium) is also backed by a pledge of the net revenue of the Marina.

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

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2017	2016	2017	2016	2017	2016
General Obligation Bonds	$ 1,635,000	$ 1,870,000	$ 5,763,380	$ 6,334,300	$ 7,398,380	$ 8,204,300
Loans & Notes	565,800	635,571	-	-	565,800	635,571
Total	$ 2,200,800	$ 2,505,571	$ 5,763,380	$ 6,334,300	$ 7,964,180	$ 8,839,871

On February 15, 2017, Moody's Investors Service upgraded its long-term underlying rating on the limited tax general obligation ("LTGO") debt of the City of Des Moines, Washington (the "City"). The upgrade was done pursuant to Moody's publication of a new methodology for the sector. As a result of this rating action, the City's LTGO rating was upgraded from "A2" to "A1." More detailed information about the City's long-term liabilities can be found in note 4.F. starting on page 57 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

The City's 2018 budget process focused primarily on long term sustainability and, as such, the 2018 budget identifies sustainable, recurring revenues to pay for all recurring expenditures while maintaining a General Fund ending fund balance of nearly $3.4 million (which meets the City Council's current policy for minimum fund balance levels). This $3.4 million fund balance does not include the Development Fund of $1.5 million which was a transfer of estimated permit revenue from the General Fund. In the future, the Development Fund will receive revenue directly from permitting fees. The Development Fund provides an ongoing resource from fees paid by applicants to support the processing of building permits and land use approvals in an expeditious manner.

In the long term, the City still faces challenges, including uncertainty regarding state shared revenues as well as increasing costs relating to medical and retirement compensation. Most importantly, the annual budgetary shortfalls experienced over the last decade have been eliminated through policies adopted by the City Council that have emphasized sustainability and establishing and maintaining balance between structural expenditures and structural revenues, as the overarching principle of choices made during the budget process.

Using this conservative and sustainable approach in the City's financial planning, the 2018 budget and the long term 2017-2022 financial forecast were prepared without inclusion of revenues from "one-time" sources. As the five year financial forecast is updated each year, annual increases in spending levels (recurring costs) will be authorized only after the City knows exactly how much is available from these new revenue sources. Thus the 2018 budget includes several one-time transfers from the General Fund accumulated fund balance to support various 2018 one-time capital expenditures.

While most of the City staffing re-organization was initiated in 2017, the 2018 budget reflects the first year of the full impacts of those personnel changes. As such, there are no new positions included in the 2018 budget from the General Fund

In addition to sustainable fund balances, the 2018 budget continues to fund increases for Public Safety in order to protect people and property. The budget also provides for the creation of a new Emergency Management Services department. This department does not contain City personnel, but rather provides interagency joint funding as the City works with neighboring and overlapping jurisdictional agencies to form prepared, coordinated responses to natural disaster and emergency management events.

Another public safety enhancement is the City joining the regional SWAT organization in 2018 thereby providing and receiving additional SWAT resources. Public safety and quality of life enhancements include additional funding for the Abatement Fund. This fund allows the City to clean up (under specific circumstances) abandoned properties which pose a threat to public safety.

Existing General Fund balances will also be used to fund several Public Safety and Capital Improvement Projects: 1) Police Building Security Improvements, 2) Court Building Security Improvements, and 3) $1 million for the North Bulkhead Marina replacement.

The 2018 budget provides additional resources to improve and enhance the City's communication and transparency through one-time funding for communication consultant services and the purchase of new communication software.

A significant City Council goal is to promote economic stability, growth and vitality. To support this outcome, the 2018 budget includes continued funding for 1) the Metro Pilot Project to enhance employee and citizen mobility throughout the City, 2) Parking/Event signs for the Marina area, and 3) $393,650 support for Economic Development related capital projects.

The economic outlook continues to show significant improvement over previous years. This City is benefitting from a booming regional economy. Ongoing sales tax revenue now exceeds any previous year and is additionally benefitted from one-time construction-related sales tax from major commercial construction. The City's total assessed valuation continues to grow significantly with the construction of major commercial construction.

The Marina and the Surface Water Management Utility will implement their annual rate increases on moorage and surface water management fees.

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 Beth Anne Wroe, Finance Director, 21630 11th Ave. S., Suite A, Des Moines, Washington, 98198.

Statement of Net Position
December 31, 2017

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current assets:			
Cash & cash equivalents	$ 15,405,713	$ 5,587,219	$ 20,992,932
Restricted cash & cash equivalents:			
Customer deposits/vendor retainage	527,847	214,778	742,625
Unspent donations	91,365	-	91,365
Debt service covenants	-	67,952	67,952
Investments	5,681,052	991,141	6,672,193
Receivables (net of allowances):			
Taxes	1,269,204		1,269,204
Customers	2,359,106	208,236	2,567,342
Grants	461,586	-	461,586
Special assessments	7,403		7,403
Inventories	14,514	40,734	55,248
Total current assets	25,817,790	7,110,060	32,927,850
Noncurrent assets:			
Restricted investments - debt reserve	-	796,312	796,312
Net pension asset	1,905,191		1,905,191
Joint ventures	163,335		163,335
Capital assets not being depreciated:			
Land	103,650,224	3,791,287	107,441,511
Construction work in progress	9,978,047	728,295	10,706,342
Capital assets net of accumulated depreciation:			
Buildings and structures	7,097,878	2,016,993	9,114,871
Other improvements	7,666,779	8,453,116	16,119,895
Infrastructure	38,598,028	13,359,756	51,957,784
Machinery and equipment	2,378,451	171,311	2,549,762
Total noncurrent assets	171,437,933	29,317,070	200,755,003
Total assets	197,255,723	36,427,130	233,682,853
DEFERRED OUTFLOWS			
Deferred loss on refunding	-	78,498	78,498
Deferred pension outflows	850,508	156,732	1,007,240
Total deferred outflows	850,508	235,230	1,085,738
LIABILITIES			
Current liabilities:			
Accounts payable	1,482,206	238,041	1,720,247
Prepaid revenues	156,445		156,445
Payable from restricted assets	527,847	214,778	742,625
Accrued interest payable from restricted assets	-	22,960	22,960
Compensated absences - current	307,964	97,819	405,783
Loans - current	69,322	-	69,322
Bonds - current	120,000	582,355	702,355
Total current liabilities	2,663,784	1,155,953	3,819,737
Noncurrent liabilities:			
Compensated absences	964,331	100,321	1,064,652
Net pension obligation	4,076,720	1,019,178	5,095,898
Net OPEB obligation	905,348		905,348
Loans	496,478	-	496,478
Bonds	1,515,000	5,181,025	6,696,025
Total noncurrent liabilities	7,957,877	6,300,524	14,258,401
Total liabilities	10,621,661	7,456,477	18,078,138
DEFERRED INFLOWS OF RESOURCES			
Deferred pension inflows	1,281,677	190,844	1,472,521
Total deferred inflows	1,281,677	190,844	1,472,521
NET POSITION			
Net investment in capital assets	167,168,607	23,632,188	190,800,795
Restricted for:			
Public safety	277,593		277,593
Transportation	6,956,038		6,956,038
Recreation & Sr Services	91,365		91,365
General obligation debt	59,909		59,909
Unrestricted	11,649,381	5,382,852	17,032,233
Total Net Position	$ 186,202,893	$ 29,015,040	$ 215,217,933

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

Statement of Activities
For the Year Ended December 31, 2017

		Program Revenues			Net Revenue (Expenses) and Changes in Net Position — Primary Government		
Functional Programs	Expenses	Charges for Services, Fines & Licenses	Operating Grants and Contributions	Capital Grants & Contributions	Governmental Activities	Business-Type Activities	Total
Primary Government:							
Governmental Activities:							
General government	$ 1,506,250	$ 5,014,146	$ 26,345	$ -	$ 3,534,241		$ 3,534,241
Public safety	10,968,443	3,624,993	26,575	-	(7,316,875)		(7,316,875)
Transportation	5,548,986	2,683,589	-	2,050,449	(814,948)		(814,948)
Natural & economic environment	1,912,880	1,542,737	26,371	-	(343,772)		(343,772)
Social services	547,167	86,681	-	-	(460,486)		(460,486)
Culture and recreation	3,827,987	1,774,631	117,398	565,273	(1,370,685)		(1,370,685)
Interest on long term debt	90,026	-	-	-	(90,026)		(90,026)
Total Governmental Activities	24,401,739	14,726,777	196,689	2,615,722	(6,862,551)	-	(6,862,551)
Business-type Activities:							
Marina	3,334,849	3,984,587	-	-		649,738	649,738
Surface water management	3,110,283	3,626,541	-	1,180,771		1,697,029	1,697,029
Total Business-Type Activities	6,445,132	7,611,128	-	1,180,771	-	2,346,767	2,346,767
Total Primary Government	$ 30,846,871	$22,337,905	$ 196,689	$ 3,796,493	(6,862,551)	2,346,767	(4,515,784)
		General Revenues:					
		Taxes:					
		Property taxes			4,818,554		4,818,554
		Sales taxes			4,334,206		4,334,206
		B&O taxes			5,531,836		5,531,836
		Excise taxes			2,820,630		2,820,630
		Intergovermental			567,422	-	567,422
		Investment & interest			117,149	38,906	156,055
		Transfers			30,000	(30,000)	-
		Total general revenues and transfers			18,219,797	8,906	18,228,703
		Change in Net Position			11,357,246	2,355,673	13,712,919
		Net Position Beginning			174,845,647	26,659,367	201,505,014
		Net Position Ending			$ 186,202,893	$ 29,015,040	$ 215,217,933

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

Balance Sheet
Governmental Funds
December 31, 2017

	General	Capital & Construction	Other Governmental	Total
ASSETS				
Cash and cash equivalents	$ 4,213,133	$ 5,434,662	$ 2,384,649	$ 12,032,444
Restricted cash:				
Customer deposits & retainage	312,771	211,699	-	524,470
Unspent donations	91,365			91,365
Investments	4,000,000	600,000	-	4,600,000
Receivables (net of allowances):				
Taxes	1,009,839	100,180	159,185	1,269,204
Customers	1,835,484	22,691	493,072	2,351,247
Grants	20,719	440,867	-	461,586
Special assessments & loans	7,403	-	-	7,403
Total assets	11,490,714	6,810,099	3,036,906	21,337,719
LIABILITIES				
Accounts payable	1,056,912	190,251	181,788	1,428,951
Prepaid revenues	156,445			156,445
Deposits & retainage payable from restricted assets	312,771	211,699	-	524,470
Total liabilities	1,526,128	401,950	181,788	2,109,866
DEFERRED INFLOWS OF RESOURCES				
Unavailable Revenues	1,562,148	206,503	369,294	2,137,945
FUND BALANCES				
Restricted:				
Public Safety	-	-	277,593	277,593
Transportation	-	5,017,970	1,938,068	6,956,038
Recreation & Sr. Services	91,365	-	-	91,365
General obligation debt	-	-	59,909	59,909
Committed:				
General government	-	1,183,676	-	1,183,676
Natural & economic development	-	-	210,254	210,254
Unassigned	8,311,073	-	-	8,311,073
Total fund balances	8,402,438	6,201,646	2,485,824	17,089,908
Total liabilities, deferred inflows of resources and fund balances	$ 11,490,714	$ 6,810,099	$ 3,036,906	

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.	169,369,407
Deferred pension outflows are not available to pay for current period expenditures and, therefore, are not reported in governmental funds.	850,508
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.	(8,455,163)
Other long-term assests such as Joint Ventures and Net Penision Asset are not available to pay for current period expenditures and, therefore, are not reported in the governmental funds	2,051,874
Deferred inflows in governmental funds is susceptible to full accrual and therefore not reported in the Statement of Activities. Other expenses are suspectible to full accrual and are reported in the Statement of Activities but not in the governmental funds.	856,268
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.	4,440,091
Net position of governmental activities (see page 27)	$ 186,202,893

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, 2017

	General Fund	Capital & Construction	Other Governmental	Total
REVENUES				
Taxes	$ 14,154,457	$ 1,738,796	$ 1,566,571	$ 17,459,824
Licenses and permits	3,041,820	-	527,397	3,569,217
Intergovernmental revenue	738,018	1,042,775	694,774	2,475,567
Charges for services	6,323,195	1,580,311	201,750	8,105,256
Fines and forfeitures	2,861,613	-	388,419	3,250,032
Miscellaneous & rental revenue	524,531	20,865	655,572	1,200,968
Total revenues	27,643,634	4,382,747	4,034,483	36,060,864
EXPENDITURES				
Current:				
General government	5,246,452	-	16,400	5,262,852
Public safety	11,075,296	-	270,491	11,345,787
Transportation	1,165,391	105,265	2,221,247	3,491,903
Natural & economic environment	1,852,381	-	175,346	2,027,727
Social services	525,135	-		525,135
Culture and recreation	2,848,370	196,566	216,103	3,261,039
Capital outlay:				
General government	8,705	-	-	8,705
Transportation		1,491,622	-	1,491,622
Culture and recreation	-	1,474,704	-	1,474,704
Debt service:				
Principal		-	301,185	301,185
Interest		-	90,026	90,026
Total expenditures	22,721,730	3,268,157	3,290,798	29,280,685
Excess of revenues over (under) expenditures	4,921,904	1,114,590	743,685	6,780,179
OTHER FINANCING SOURCES (USES)				
Transfers in	-	1,136,403	1,104,204	2,240,607
Transfers out	(960,191)	(420,680)	(749,753)	(2,130,624)
Total other financing sources (uses)	(960,191)	715,723	354,451	109,983
Net change in fund balances	3,961,713	1,830,313	1,098,136	6,890,162
Fund balances - beginning	4,440,725	4,371,329	1,387,688	10,199,742
Fund balances - ending	$ 8,402,438	6,201,646	$ 2,485,824	$ 17,089,908

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, 2017

Net change in fund balances - total governmental funds	$ 6,890,162
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.	1,245,116
The Statement of Net Position shows a decrease in joint ventures not reported in the funds.	(3,248)
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.	301,185
Revenues reported in the Statement of Activies that do not provide current financial resources are not reported as revenues in the funds.	1,213,449
Some expenses (such as for compensated absences, amortization of deferred loss, pension expense, etc.) reported in the Statement of Activities do not the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.	624,827
Internal service funds are used by management to charge the costs of certain activities to individual funds. The net revenue of internal service funds is reported with governmental activities. This amount comes from the Combining Statement of Revenues, Expenditures and Changes in Net Position for Internal Service Funds, Net Operating Income.	1,085,755
Change in net position of governmental activities (see page 27)	$ 11,357,246

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, 2017

	Original Budget	Final Budget	Actual	Variance to Final Budget
REVENUES				
Taxes	$ 12,118,764	$ 14,069,539	$ 14,154,457	$ 84,918
Licenses and permits	1,967,225	2,473,157	3,041,820	568,663
Intergovernmental revenue	641,051	666,208	738,018	71,810
Charges for services	3,276,603	5,908,508	6,323,195	414,687
Fines and forfeitures	1,289,685	2,772,084	2,861,613	89,529
Miscellaneous revenue	456,016	449,829	524,531	74,702
Total revenues	19,749,344	26,339,325	27,643,634	1,304,309
EXPENDITURES				
Current:				
General government	5,518,268	5,331,772	5,246,452	(85,320)
Public safety	9,039,949	11,502,817	11,075,296	(427,521)
Transportation	936,338	1,179,770	1,165,391	(14,379)
Natural & economic environment	1,758,293	1,746,558	1,852,381	105,823
Social services	354,281	532,786	525,135	(7,651)
Culture and recreation	2,356,913	2,944,894	2,848,370	(96,524)
Capital outlay:				
General government	9,456	9,456	8,705	(751)
Total expenditures	19,973,498	23,248,053	22,721,730	(526,323)
Excess of revenues over (under) expenditures	(224,154)	3,091,272	4,921,904	1,830,632
OTHER FINANCING SOURCES (USES)				
Transfers out	(53,000)	(1,131,333)	(960,191)	171,142
Total other financing uses	47,000	(1,131,333)	(960,191)	171,142
Net change in fund balances	(177,154)	1,959,939	3,961,713	2,001,774
Fund balances - beginning	3,385,912	4,440,725	4,440,725	-
Fund balances - ending	$ 3,208,758	$ 6,400,664	$ 8,402,438	$ 2,001,774

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

Statement of Net Position
Proprietary Funds
December 31, 2017

	Marina	Surface Water Management	Total	Gov't Activities Internal Service
ASSETS				
Current assets:				
Cash and cash equivalents	$ 1,511,892	$ 4,075,327	$ 5,587,219	$ 3,373,269
Restricted cash equivalents:				
Customer deposits & retainage	165,422	49,356	214,778	3,377
Debt service covenants	67,952	-	67,952	
Investments	494,570	496,571	991,141	1,097,704
Receivables (net of allowances):				
Customers	80,609	127,627	208,236	7,859
Inventory	40,734	-	40,734	14,514
Total current assets	2,361,179	4,748,881	7,110,060	4,496,723
Noncurrent assets:				
Restricted investments - debt reserve	796,312	-	796,312	
Capital assets not being depreciated:				
Land	3,226,925	564,362	3,791,287	
Construction work in progress	-	728,295	728,295	
Capital assets net of accumulated depreciation:				
Buildings and structures	2,016,993	-	2,016,993	
Other improvements	8,204,360	248,756	8,453,116	
Infrastructure	-	13,359,756	13,359,756	
Machinery and equipment	105,688	65,623	171,311	1,867,357
Total noncurrent assets	14,350,278	14,966,792	29,317,070	1,867,357
Total assets	16,711,457	19,715,673	36,427,130	6,364,080
DEFERRED OUTFLOW OF RESOURCES				
Deferred loss on refunding	78,498		78,498	
Deferred pension outflows	70,530	86,202	156,732	
Total deferred outflows	149,028	86,202	235,230	-
LIABILITIES				
Current liabilities:				
Accounts payable	134,203	103,838	238,041	53,255
Deposits& retainage payable from restricted assets	165,422	49,356	214,778	3,377
Accrued interest payable from restricted assets	22,960	-	22,960	
Compensated absences - current portion	89,307	8,512	97,819	1,746
Loans - current portion	-	-	-	2,709
Bonds - current portion (net premium)	582,355	-	582,355	
Total current liabilities	994,247	161,706	1,155,953	61,087
Noncurrent liabilities:				
Compensated absences	77,593	22,728	100,321	13,095
Net pension obligation	458,631	560,547	1,019,178	
Bonds payable (net premium)	5,181,025	-	5,181,025	-
Total noncurrent liabilities	5,717,249	583,275	6,300,524	13,095
Total liabilities	6,711,496	744,981	7,456,477	74,182
DEFERRED INFLOW OF RESOURCES				
Deferred pension inflows	85,880	104,964	190,844	
NET POSITION				
Net investment in capital assets	8,665,396	14,966,792	23,632,188	1,864,648
Unrestricted	1,397,713	3,985,138	5,382,851	4,425,250
Total net position	$ 10,063,109	$ 18,951,930	$ 29,015,039	$ 6,289,898

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

Statement of Revenues, Expenses, and Changes in Net Position
Proprietary Funds
For the Year Ended December 31, 2017

	Business Type			Gov't Activities
	Marina	Surface Water Management	Total	Internal Service
OPERATING REVENUES				
Intergovernmental revenues	$ 590	$ -	$ 590	$ -
Charges for services	1,061,151	3,626,541	4,687,692	2,941,620
Fines and forefitures	18,782		18,782	
Moorage, rents and misc	2,902,001	-	2,902,001	-
Total operating revenues	3,982,524	3,626,541	7,609,065	2,941,620
OPERATING EXPENSES				
Depreciation	562,538	474,892	1,037,430	479,929
Salaries and wages	604,863	765,423	1,370,286	99,012
Personnel benefits	179,096	302,641	481,737	52,966
Supplies	971,998	94,952	1,066,950	308,573
Services	750,192	1,472,375	2,222,567	922,897
Total operating expenses	3,068,687	3,110,283	6,178,970	1,863,377
OPERATING INCOME	913,837	516,258	1,430,095	1,078,243
NONOPERATING REVENUES (EXPENSES)				
Interest and collection fees	12,917	25,989	38,906	$ 26,528
Gain on sale of capital assets	-	-	-	22,796
Insurance repair recovery	2,063	-	2,063	38,209
Interest expense	(266,162)	-	(266,162)	(39)
Total nonoperating revenues (expense)	(251,182)	25,989	(225,193)	87,494
Income (loss) before contributions, extraordinary item and transfers	662,655	542,247	1,204,902	1,165,737
Capital contributions	-	1,180,771	1,180,771	-
Transfers in	-	-	-	41,017
Transfers out	(15,000)	(15,000)	(30,000)	(121,000)
Changes in net position	647,655	1,708,018	2,355,673	1,085,754
Net position - beginning	9,415,456	17,243,911	26,659,367	5,204,144
Net position - ending	$10,063,109	$18,951,930	$29,015,039	$ 6,289,898

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, 2017

	Marina	Surface Water Management	Total	Gov't Activities Internal Service
CASH FLOW FROM OPERATING ACTIVITIES				
Receipts from customers	$ 3,974,048	$ 3,594,231	$ 7,568,279	$ 2,997,586
Payments to employees	(870,353)	(1,167,775)	(2,038,128)	(152,578)
Payments to suppliers	(1,675,181)	(1,620,714)	(3,295,895)	(1,216,323)
Net cash provided by operating activities	1,428,514	805,742	2,234,256	1,628,685
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
Transfers in	-			(79,983)
Insurance recoveries	2,063		2,063	38,209
Net cash provided from noncapital financial activities	2,063		2,063	(41,774)
CASH FLOW FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Proceeds from disposal of assets	-	-		22,796
Acquisition of capital assets	(54,720)	(32,634)	(87,354)	(618,200)
Principal paid on debt	(570,920)	-	(570,920)	(3,624)
Interest paid on debt	(250,196)	-	(250,196)	
Transfers (out) for debt service	(15,000)	(15,000)	(30,000)	
Net cash used by capital and related financing activities	(890,836)	(47,634)	(938,470)	(599,028)
CASH FLOWS FROM INVESTING ACTIVITIES				
Investments (purchased)	(1,115)	-	(1,115)	(1,097,704)
Investments sold and earnings	23,150	29,418	52,568	26,528
Net cash provided from investing activities	22,035	29,418	51,453	(1,071,176)
Net increase in cash & cash equivalents	561,776	787,526	1,349,302	(83,293)
Beginning cash & cash equivalents	1,183,490	3,337,157	4,520,647	3,459,939
Ending cash & cash equivalents	1,745,266	4,124,683	5,869,949	$ 3,376,646
NON CASH ACTIVITIES				
Capital contributions		1,180,771	1,180,771	
Total noncash activities	$ -	$ 1,180,771	$ 1,180,771	
RECONCILATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES				
Net Operating Income	913,837	516,258	1,430,095	1,078,243
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES				
Depreciation	562,538	474,892	1,037,430	479,929
Changes in assets, liabilities, deferred inflows & deferred outflows				
(Increase)/decrease in customer receivables	(8,476)	(32,310)	(40,786)	55,966
(Increase)/decrease in deferred pension outflows	38,901	47,546	86,447	
(Increase)/decrease in inventories	(6,656)	-	(6,656)	3,511
Increase/(decrease) in accounts payable and deposits	12,788	(56,391)	(43,603)	11,636
Increase/(decrease) in compensated absences	(490)	(41,673)	(42,163)	(600)
Increase/(decrease) in pension obligation	(154,215)	(188,486)	(342,701)	
Increase/(decrease) in pension inflows	70,287	85,906	156,193	
Net cash provide by operating activities	$ 1,428,514	$ 805,742	$ 2,234,256	$ 1,628,685

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

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Des Moines, King County, Washington was incorporated on June 15, 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. 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 accounting and reporting policies of the City of Des Moines, which conform to Generally Accepted Accounting Principles (GAAP) for governments, are regulated by the Washington State Auditor's Office.

The 2017 financial statements have been presented in accordance with the following new Governmental Accounting Standards Board (GASB) Statements:

GASB Statement No. 82 – *Pension Issues-an amendment of GASB Statements No. 67, No. 68, and No. 73.* GASB Statement No. 82 amends the definition of covered payroll for pensions reported in required supplementary information. Instead of presenting covered-employee payroll, which is the payroll of employees that are provided with pensions through the pension plan, the required supplementary information will present covered payroll, defined as the payroll on which contributions to a pension plan are based. There is no material impact to the City in implementing this standard.

The City's significant accounting policies are described in the following notes:

A. Reporting Entity

In accordance with the criteria set forth in Statement No. 14 of the Governmental Accounting Standards Board (GASB) the City's Comprehensive Annual Financial Report (CAFR) includes all funds controlled by the City.

The City's basic financial statements include the financial position and results of operations of all funds that are controlled by the City.

Joint Ventures – Based on the criteria of Governmental Accounting Standards Board (GASB) Statement No. 14 as modified by GASB Statements No. 34 and No. 61, the South Correctional Entity Facility (SCORE) is included in the accompanying government-wide statement of net position as a joint venture. (Refer to Note 4C).

B. Basic Financial Statements

The City's basic financial statements consist of government-wide financial statements and fund financial statements. The government-wide financial statements, which include the statement of net position and the statement of activities, summarize the entire operation of the City. The governmental fund financial statements, which include the balance sheet, statement of revenues, expenditures and changes in fund balance, and statement of revenues, expenditures and changes in fund balance-budget and actual, provide a more detailed level of reporting. The proprietary fund financial statements, which include the statement of net position, statement of revenues, expenses, and changes in net position and statement of cash flows, provide a more detailed level of reporting.

The government-wide financial statements report information on all of the non-fiduciary activities of the City. For the most part, the effect of interfund activity has been eliminated 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 net position reports the assets, deferred outflows or resources, and liabilities of the primary government. The net position section of this statement represents the residual amount of assets and their associated liabilities, and deferred outflow of resources. The net position section is divided into three categories. The first category is Net Investment in Capital Assets, which includes all capital assets, net of accumulated depreciation, less the outstanding balances of any borrowing (bonds and/or loans) used for acquisition, construction, or improvement of those assets. Capital assets cannot readily be sold and converted into cash. The second category is Restricted Net Position, which includes those assets, net of their related debt that have a constraint placed on their use. The constraints are either: 1) externally imposed by creditors, such as through debt covenants, grantors, contributors, or laws and regulations of other governments, or 2) imposed by law through constitutional provisions or enabling legislation. The final section is Unrestricted Net Position, and this represents net position that generally can be used for any purpose. However, they are not necessarily in a spendable form, such as cash.

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 government 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 accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. Each fund is accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance/equity, revenue, expenditures or expenses, as appropriate. The City resources are allocated to, and accounted for in, individual funds according to the purpose for which they are spent and how they are controlled.

The basis of accounting refers to the timing of when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. 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 for this revenue source. Only the portion of special assessment receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the City.

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

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

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

Additionally, the City reports the following fund types:

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

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

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

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

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

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

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

1. *Deposits and investments*

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.
State statutes and the city's investment policies authorize the city to invest in obligations of the U.S. treasury, repurchase agreements and the State Treasurer's Local Government Investment Pool (LGIP). The interest on these investments is prorated to the various funds on a monthly basis.

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

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

2. *Receivables and payables*

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

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

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

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

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

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

Special assessments are recorded when levied. Special assessments receivable consist of delinquent assessments and related interest and penalties as the final installment of all special assessments were billed mid-year in 2016. As of December 31, 2017 $7,403 of governmental special assessments including penalties and interest were delinquent. Assessed property owners are responsible for debt repayment. The city guarantee's the debt to the extent of the LID guarantee fund. Governmental-type special assessments are for street improvements.

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

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

5. ***Capital assets.*** Capital assets, which include property, plant, and equipment and infrastructure assets, are reported in the applicable governmental or business-type columns in the government-wide financial statements. Capital assets, other than infrastructure, are defined by the City as assets with an initial, individual cost of more than $5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. The government reports infrastructure assets on a network and subsystem basis. Such assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. The cost of normal maintenance and repairs and street preservation activities that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are presented by asset category net of each category's 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 2017.

   Land and construction work in progress are not depreciated. Other assets are depreciated using the straight line method over the following estimated useful lives:

Assets	Useful Lives
Land	
Building & Structure	10 - 50
Other improvements	10 - 50
Machinery & Equipment & Vehicles	5 - 15
Infrastructure	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 240 hours (or more with City Manager approval). The employee's annual vacation is payable upon resignation, retirement or death. The city incurs a liability for sick leave up to 25% of the employee's sick leave balance or 200 hours, whichever is less for those employees with ten years of service, or upon death of the employee regardless of service and for some executive staff with less than ten years of service. For employees with at least 20 years of service, the city incurs a liability for sick leave up to 50% of the employee's sick leave balance or 400 hours, whichever is less.

7. ***Long-term obligations***

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

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

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

8. ***Deferred outflows/inflows of resources***

Deferred outflows of resources is the consumption of net position by the government that is applicable to a future reporting period and so will not be recognized as an outflow of resources (expense/expenditure) until that time. The deferred loss on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

Deferred inflow of resources is the acquisition of net position by the government that is applicable to a future reporting period and so will not be recognized as an inflow of resources (revenue) until that time. The city has an item which arises under a modified accrual basis of accounting and qualifies for reporting in this category. Accordingly, the item, unavailable revenue is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from two sources: property taxes and other receivables. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. Deferred outflows and deferred inflows of resources related to pensions are reported for differences between expected and actual experience, changes of assumptions, and differences between projected and actual returns on pension plan investments.

9. Pensions

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

10. Fund balance and fund flow policies

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

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

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

The General Fund Revenue Stabilization Account ("Account") was authorized by the city council on February 11, 2011 by Ordinance No. 1504 and codified in Des Moines Municipal Code chapter 3.50. The Account at the end of December 31, 2017 was $1,085,800 which represented the target level of five percent of budgeted, recurring general fund revenues. Additions to the Account is dependent upon proper targeted funding level going forward in relation to changing conditions and prudent fiscal policies. Disbursements from the Account must meet three criteria: (1) the revenue shortfall results from revenue collections considered to be materially short of the amount budgeted or the revenue shortfall results from projected baseline (existing) budgeted revenues for any ensuing year increasing by less than the assumed long-term growth rate as projected based on the average growth rate in revenues for the prior five years, and (2) the revenue shortfall is expected to persist through the end of the fiscal year, and (3) the revenue shortfall is reasonably expected to persist for a period no longer than three years. Appropriations from the Account is by enactment of an ordinance by City Council.

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

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

Beginning with the most restrictive constraints, fund balance amounts are reported in the following categories:

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	7,006,736
Building	7,322,666
Other improvements	8,363,694
Equipment	2,313,716
Infrastructure	39,328,983
Current year spending in construction work in progress	2,966,107
Current year capital purchases	2,256,150
Current year depreciation	(3,838,869)
Net adjustment to add to government-wide fund balance to arrive at *Net position-governmental activities*	$169,369,407

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	$ (1,333,099)
Net pension obligation	(5,447,518)
OPEB obligation	(772,473)
Bonds and notes payable	(2,505,571)
Current year principal payments & other reductions in liabilities	365,575
Current year additions to pension obligation	1,370,798
Current year OPEB and other expense recognized	(132,875)
Net adjustment to reduce government-wide fund balance to arrive at *Net position-governmental activities*	$ (8,455,163)

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	$ 2,966,107
Machinery and equipment	8,705
Donated capital:	
Other improvements	332,789
Infrastructure	1,296,455
Curent year depreciation:	
Building	(224,787)
Other improvements	(1,029,704)
Infrastructure	(2,022,206)
Machinery & equipment	(82,243)
Net capital activity	$ 1,245,116

NOTE 3 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary information

Scope of budget

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

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

Procedures for adopting the original budget

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

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

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

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

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

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

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

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

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

Amending the budget

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

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

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

B. Budgetary Compliance.

The city incurred expenditures in excess of budget, for the year ended December 31, 2017, for the following funds:

Fund Name	2017 Revised Budget	2017 Actual Expenditures	Variance
Hotel/Motel Tax Fund	$ 121,986	$ 159,457	$ (37,471)
Redondo Zone	113,872	114,061	(189)
Abatement	2,350	15,889	(13,539)

The city has taken steps to monitor the 2018 budget to actual results to ensure expenditures are within legal appropriations.

NOTE 4 – DETAILED NOTES ON ALL FUNDS

A. Deposits, investments and restricted assets

As of December 31, 2017 the government had the following:

Demand Deposits at Key Bank	$	4,813,703
Trust deposit (retainage) at Opus Bank	$	151,723
Petty Cash	$	5,800
Investments measured at amortized cost:		
Local Government Investment Pool	$	16,923,648
Investments measured at fair value:		
(Quoted prices in active markets for identical assets-Level 1)		
Investments in Federal Agencies	$	7,468,500

During 2017, the net decrease in the fair value of investments being held was $31,500 at year-end.

The city measures and reports investments at fair value using the valuation input hierarch established by generally accepted accounting principles, as follows:

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

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

Credit risk. Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The city investment policy allows the following types of investments in accordance with state law: demand or investment deposits in qualified public depositories located within the state; United States' government bonds, notes bills; certificates of deposits from financial institutions that participate in Washington State's Public Deposit Protection Commission's list of "Qualified Public Depositories"; bankers acceptances, repurchase agreements and the Washington State Treasurer's Office Local Government Investment Pool (LGIP). The investment policy for "credit risk" does not extend beyond the types of authorized investments and the concentration of credit risk described below. As of December 31, 2017 the City's investments in agency securities were all rated Aaa by Moody's Investor Services. The LGIP is not registered with the SEC and the fair value of the city's position in the pool is the same as the value of the pool shares. The LGIP is regulated by the state of Washington's state finance committee. Credit risk is limited as most investments are either obligations of the U.S. Government, government sponsored enterprises, insured demand deposit accounts or certificates of deposit.

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

Issuer	% of Total	Fair Value
Federal Farm Credit Bank	12%	3,475,995
Federal Home Loan Mtg Corp	14%	3,992,510
Key Bank	16%	4,812,933
LGIP	58%	16,923,648
TOTAL	100%	29,205,086

Custodial credit risk. Custodial credit risk is the risk associated with the failure of a depository financial institution. In the event of a depository financial institution's failure, it is the risk that the City would not be able to recover its deposits or collateralized securities that are in the possession of the outside parties.

The City minimizes custodial credit risk by following the restrictions set forth in state law. As well as, 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.

The Federal Deposit Insurance Corporation (FDIC) insures the City's deposits up to $250,000. The Washington Public Deposit Protection Commission (WPDPC) (established under Chapter 39.58 of the Revised Code of Washington) constitutes a multiple financial institution collateral pool. Pledged securities under the WPDPC collateral pool are held by the WPDPC's agent in the name of the collateral pool.

As required by State law, all investments of the City's funds are obligations of the U.S. Government, or deposits with Washington State banks that participate in the WPDPC. All investments are shown on the statement of net position at fair value. Investments that were not at par value (cost) as of December 31, 2017 are reported at fair value. The fair value of the position in the state investment pool is the same as the value of shares held by the City in the pool at amortized cost because it is operated in a manner consistent with the Securities and Exchange Commission's Rule 2a-7 of the Investment Company Act of 1940.

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

	Temporary Restrictions
Customer deposits and retainage	$ 742,625
Unspent donations on hand	91,365
Marina debt service covenants	867,952
Total	$ 1,701,942

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, 2017. 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 $171,714 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 2016, the City approved Ordinance 1667 establishing the operating levy for 2017 of $4,856,774 based on an assessed valuation of $3,194,299,789 and using an estimated maximum levy rate of $1.70 per $1,000 of assessed value. In November 2017, the City approved ordinance 1690 establishing the operating levy for 2018 of $4,934,661 based on an assessed valuation of $3,775,263,840 using an estimated maximum rate of $1.79 per $1,000 of assessed value.

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

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

Utility occupation taxes. The city assessed a gross revenue tax and use on certain utilities within the city. City utility taxes as follows: Sanitation tax of 18%; Cable tax of 10% and Surface Water Management tax of 15%.

Customer receivables. As of December 31, 2017 the city's funds contain no allowance for uncollectible accounts as uncollectible amounts are routinely written off and the remaining amounts are expected to be fully collected with the exception of Municipal Court receivables. As of December 31, 2017 municipal court receivables were $3,836,729 of which $2,586,018 is estimated to be uncollectible.

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

Unavailable revenue (not received within availability period):

Taxes	$	171,714
Court fines		1,571,355
Customer charges		182,941
Grants		204,532
Special assessments		7,403
	$	2,137,945

C. Capital Assets and Joint Venture

Capital asset activity for the year ended December 31, 2017 was as follows:

DEPRECIATION EXPENSE BY FUNCTION:

Governmental Activities:			
	General Government	$	351,467
	Public Safety		372,797
	Transportation		2,266,633
	Natural & Economic		43,617
	Social Services		35,216
	Culture & Recreation		769,139
	Total	$	3,838,869
Business-Type Activities:			
	Marina	$	562,537
	Surface Water Mgmt		474,892
	Total	$	1,037,429

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital assets not being depreciated:				
Land	$ 103,650,224	$ -	$ -	$ 103,650,224
Construction in progress	7,006,736	2,971,311		9,978,047
Total capital assets not being depreciated	110,656,960	2,971,311	-	113,628,271
Capital assets, being depreciated				
Buildings & structures	11,415,247	-	-	11,415,247
Other improvements	18,180,699	332,789	-	18,513,488
Infrastructure	61,797,113	1,291,251	-	63,088,364
Machinery and equipment	6,684,048	626,906	(266,877)	7,044,077
Total depreciable capital assets	98,077,107	2,250,946	(266,877)	100,061,176
Less accumulated depreciation:				
Buildings & structures	(4,092,581)	(224,787)	-	(4,317,368)
Other improvements	(9,817,005)	(1,029,704)	-	(10,846,709)
Infrastructure	(22,468,130)	(2,022,206)	-	(24,490,336)
Machinery and equipment	(4,370,332)	(562,172)	266,877	(4,665,627)
Total accumulated depreciation	(40,748,048)	(3,838,869)	266,877	(44,320,040)
Governmental activities capital assets, net	$ 167,986,019	$ 1,383,388	$ -	$ 169,369,407

	Beginning Balance	Increases	Decreases	Ending Balance
Business-Type Activities:				
Capital assets not being depreciated:				
Land	$ 3,791,287	$ -	$ -	$ 3,791,287
Construction in progress	430,512	342,916	(45,133)	728,295
Total capital assets not being depreciated	4,221,799	342,916	(45,133)	4,519,582
Other capital assets:				
Buildings & structures	6,192,155	-	-	6,192,155
Other improvements	15,370,716	-	-	15,370,716
Infrastructure	22,019,987	915,622	-	22,935,609
Machinery and equipment	852,866	54,719	-	907,585
Total depreciable capital assets	44,435,724	970,341	-	45,406,065
Less accumulated depreciation:				
Buildings & structures	(4,024,152)	(151,010)	-	(4,175,162)
Other improvements	(6,532,421)	(390,451)	-	(6,922,872)
Infrastructure	(9,124,068)	(446,512)	-	(9,570,580)
Machinery and equipment	(686,817)	(49,456)	-	(736,273)
Total accumulated depreciation	(20,367,458)	(1,037,429)	-	(21,404,887)
Business activities capital assets, net	$ 28,290,065	$ 275,828	$ (45,133)	$ 28,520,760

Construction & Other Contractual Commitments

The City of Des Moines has active construction projects as of December 31, 2017. The projects include street construction, utility constructions and park facility construction contracts. There are also several consulting contracts. At year end, the city's contract commitments are as follows:

CATEGORY	CONTRACT COMMITMENT	SPENT TO DATE	REMAINING COMMITMENTS
General Fund	334,289	204,381	129,908
Major Construction	14,139,245	11,707,470	2,431,774
Major Proprietary	3,125,307	1,406,068	1,719,239
Internal Service	54,795	54,686	109
TOTAL	**17,653,636**	**13,372,605**	**4,281,031**

<u>SOUTH CORRECTIONAL ENTITY (SCORE)</u>

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					
					Auburn	Burien	Federal Way	Renton	SeaTac	Tukwila
Year	Principal	Interest	BABS Subsidy	Total	31%	4%	18%	36%	3%	8%
2018	$ 2,240,000	$ 4,715,979	$ (1,512,496)	$ 5,443,483	$ 1,687,480	$ 217,739	$ 979,827	$ 1,959,654	$ 163,304	$ 435,479
2019	2,310,000	4,602,229	(1,478,317)	5,433,912	1,684,513	217,356	978,104	1,956,209	163,017	434,713
2020	2,385,000	4,484,854	(1,440,560)	5,429,294	1,683,081	217,172	977,273	1,954,545	162,879	434,344
2021	2,465,000	4,363,604	(1,401,577)	5,427,027	1,682,378	217,081	976,865	1,953,730	162,811	434,162
20.22	2,590,000	4,233,250	(1,500,618)	5,322,632	1,650,016	212,905	958,074	1,916,147	159,679	425,811
2023-2027	14,485,000	18,727,798	(6,710,481)	26,502,317	8,215,718	1,060,093	4,770,417	9,540,834	795,070	2,120,185
2028-2032	17,725,000	13,590,870	(4,959,695)	26,356,175	8,170,414	1,054,247	4,744,112	9,488,223	790,685	2,108,494
2033-2037	21,855,000	7,082,263	(2,731,829)	26,205,434	8,123,685	1,048,217	4,716,978	9,433,956	786,163	2,096,435
2038-2039	10,115,000	676,321	(353,824)	10,437,497	3,235,624	417,500	1,878,749	3,757,499	313,125	835,000
Totals	$ 76,170,000	$ 62,477,168	$ (22,089,397)	$ 116,557,771	$ 36,132,909	$ 4,662,310	$ 20,980,399	$ 41,960,797	$ 3,496,733	$ 9,324,623

The City of Des Moines reports its share of equity interest in the Governmental Activities column within the Government-wide financial statements as a non-current asset. The equity balance as shown on the table below includes only the portion of the equity interest from annual operating activity. The investment in joint venture as of December 31, 2017 is $163,335 as indicated below.

South Correctional Entity (SCORE)				
Member City	Percent of Equity	2016 Equity Balance	2017 Apportionment	2017 Equity Balance
Auburn	31.00%	$ 3,115,334	$ 32,413	$ 3,147,747
Burien	3.00%	324,602	22,263	346,865
Des Moines	2.00%	166,583	(3,248)	163,335
Federal Way	23.00%	2,292,265	61,482	2,353,747
Renton	30.00%	2,941,503	74,665	3,016,168
SeaTac	4.00%	434,029	22,947	456,976
Tukwila	7.00%	703,323	16,099	719,422
Grand Totals	100.00%	$ 9,977,639	$ 226,621	$ 10,204,260

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	5,847,697	Remaining payments of December 31, 2017

Year	Host Fee	Year	Host Fee
2018	267,680	2023-2027	1,332,903
2019	267,483	2028-2032	1,327,953
2020	267,418	2033-2037	1,322,924
2021	266,399	2038-2041	527,730
2022	267,207		

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
ATTN: Finance Director
20817 17th Avenue South
Des Moines, WA 98198

D. Interfund loans receivable, payable and transfers

Interfund transfers

Transfers between funds during the year ended December 31, 2017 are as follows:

TRANSFERS FROM	FUND TYPE	TRANSFERS TO: Nonmajor Spec Revenue	Nonmajor Debt Service	Major Construction	Internal Service	**Total**
	General	59,000	12,389	847,786	41,017	**960,192**
	Nonmajor Spec Revenue	612,135		137,618		**749,752**
	Major Construction		420,680			**420,680**
	Marina			15,000		**15,000**
	Surface Water Mgmt			15,000		**15,000**
	Internal Service Fund			121,000		**121,000**
	Total	**671,135**	**433,069**	**1,136,403**	**41,017**	**2,281,624**

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 $14,851.

The future minimum lease obligation for 2018 is $2,718 and $10 of this payment represents interest. Thus the net present value of these minimum lease payments is $2,686.

F. Long-term Debt

Changes in long-term liabilities. For the governmental activities, compensated balances and net pension obligations are generally liquidated by the General, Streets and Equipment Operations funds while compensated and net pension obligation balances for the proprietary funds are normally liquidated in the Marina and Surface Water Management funds. The net OPEB (other post-employment benefits) obligation is generally liquidated by the General fund. Long-term liability activity for the year ended December 31, 2017:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
GOVERNMENTAL ACTIVITIES					
General obligation bonds	$ 1,870,000		$ (235,000)	$ 1,635,000	$ 120,000
External Loans & Notes	629,277		(66,185)	563,092	66,613
Capital lease	6,294		(3,585)	2,709	2,709
Compensated absences	1,333,099	997,379	(1,058,183)	1,272,295	307,963
Net pension obligation	5,447,518	849,942	(2,220,740)	4,076,720	
Net OPEB obligation*	772,473	172,519	(39,644)	905,348	
Governmental activity long-term liabilities	$ 10,058,661	$ 2,019,840	$ (3,623,337)	$ 8,455,164	$ 497,285
BUSINESS ACTIVITIES					
Revenue bonds	$ 6,240,000		$ (545,000)	$ 5,695,000	$ 560,000
Premiums	94,300		(25,920)	68,380	22,355
Total bonds payable	$ 6,334,300	$ -	$ (570,920)	$ 5,763,380	$ 582,355
Compensated absences	240,304	74,329	(116,492)	198,141	97,819
Net pension obligation	1,361,879	212,484	(555,185)	1,019,178	
Business activity long-term liabilities	$ 7,936,483	$ 286,813	$ (1,242,597)	$ 6,980,699	$ 680,174

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

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

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

GENERAL OBLIGATION BONDS

PURPOSE	MATURITY RANGE	INTEREST RATE RANGE	ORIGINAL AMOUNT	INSTALLMENT 2017 AMOUNT
2008 LTGO - Transportation	12/1/2028	4.00% - 4.70%	$ 2,515,000	$ 194,625
2009 LTGO - Refunding	12/1/2017	4.00% - 4.25%	935,000	125,100

YEAR ENDING DECEMBER 31	GOVERNMENTAL ACTIVITIES		BUSINESS-TYPE ACTIVITIES	
	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST
2018	120,000	74,738		
2019	125,000	69,488		
2020	130,000	64,019		
2021	135,000	58,331		
2022	140,000	52,425		
2023-2027	800,000	158,864		
2028-2032	185,000	8,695		
TOTAL	$ 1,635,000	$ 486,560	$ -	$ -

GENERAL OBLIGATION NOTES & LOANS

PURPOSE	MATURITY RANGE	INTEREST RATE RANGE	ORIGINAL AMOUNT	INSTALLMENT 2017 AMOUNT
2004 PWTF Loan - Pacific Hwy Constructi	7/1/2024	0.50%	$ 2,250,000	$ 24,563
2009 PWTF Loan - Gateway Constructior	7/1/2028	0.50%	1,000,000	33,775
2011 Wa State LOCAL - Energy Equipmen	12/1/2021	2.46%	106,138	13,148

YEAR ENDING DECEMBER 31	GOVERNMENTAL ACTIVITIES		BUSINESS-TYPE ACTIVITIES	
	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST
2018	66,613	4,595		
2019	67,059	3,873		
2020	67,522	3,132		
2021	68,003	2,373		
2022	55,481	1,469		
2023-2027	206,551	3,541		
2028-2032	31,863	159		
TOTAL	$ 563,092	$ 19,142	$ -	$ -

REVENUE BONDS

PURPOSE	MATURITY RANGE	INTEREST RATE RANGE	ORIGINAL AMOUNT	INSTALLMENT 2017 AMOUNT
2008 LTGO - Marina	12/1/2028	4.00% - 4.70%	6,080,000	514,316
2012 LTGO - Marina Refunding	12/1/2022	2.00% - 4.00%	2,810,000	306,200

YEAR ENDING DECEMBER 31	GOVERNMENTAL ACTIVITIES		BUSINESS-TYPE ACTIVITIES	
	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST
2018			560,000	255,416
2019			590,000	233,016
2020			610,000	206,916
2021			640,000	179,116
2022			670,000	149,966
2023-2027			2,135,000	419,587
2028-2032			490,000	23,030
TOTAL			$ 5,695,000	$ 1,467,047

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, 2017.

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). 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 161 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, errors or omissions, stop gap, employment practices and employee benefits liability. Limits are $4 million per occurrence in the self-insured layer, and $21 million in limits above the self-insured layer provided by reinsurance. Total limits are $25 million per occurrence subject to aggregates and sublimits. The Board of Directors determines the limits and terms of coverage annually.

Insurance for property, automobile physical damage, fidelity, inland marine, and boiler and machinery coverage are purchased on a group basis. Various deductibles apply by type of coverage. Property coverage is self-funded from the members' deductible to $750,000, for all perils other than flood and earthquake, and insured above that to $300 million per occurrence subject to aggregates and sublimits. Automobile physical coverage is self-funded from the members' deductible to $250,000 and insured above that to $100 million per occurrence subject to aggregates and sublimits.

In-house services include risk management consultation, loss control field services, and claims and litigation administration. WCIA contracts for certain claims investigations, consultants for personnel and land use issues, insurance brokerage, actuarial, 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, reinsurance and other administrative expenses. As outlined in the interlocal, WCIA retains the right to additionally assess the membership for any funding shortfall.

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

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

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

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

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

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

Ordinance No. 879 adopted in 1991 established the reserve requirement for the payment of unemployment claims. The optimum reserve calculation is based on a formula derived by multiplying the average number of employees' times five percent times the annual maximum unemployment benefits per employee times three years plus the average annual payout for the last ten years. As of December 31, 2017 the reserve requirement was $522,676 and actual fund balance was $437,543. The amounts payable at December 31, 2017 was $0.

	Self- Insurance		Unemployment Insurance	
	2016	**2017**	**2016**	**2017**
Claims liabilities at beginning of year	$ -	$ 27,708	$ -	$ -
Claims expenses:				
Current year and changes in estimates	20,000	32,199	26,884	149
Claims payments	(20,000)	(45,100)	(26,884)	(149)
Claims liabilities at end of the year	$ -	$ 14,807	$ -	$ -

B. Employee retirement systems and pension plans

The following table represents the aggregate pension amounts for all plans subject to the requirements of the GASB Statement 68, *Accounting and Financial Reporting for Pensions* for the year 2017:

Aggregate Pension Amounts – All Plans	
Pension liabilities	$ (5,095,901)
Pension assets	$ 1,905,190
Deferred outflows of resources	$ 1,007,240
Deferred inflows of resources	$ (1,472,519)
Pension expense	$ 393,730

State Sponsored Pension Plans

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

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

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

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

Public Employees' Retirement System (PERS)

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

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

Contributions

The **PERS Plan 1** member contribution rate is established by State statute at 6 percent. The employer contribution rate is developed by the Office of the State Actuary and includes an administrative expense component that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates. The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for 2017 were as follows:

PERS Plan 1		
Actual Contribution Rates	**Employer**	**Employee***
January - June 2017:		
PERS Plan 1	6.23%	6.00%
PERS Plan 1 UAAL	4.77%	
Administrative Fee	0.18%	
Total	**11.18%**	**6.00%**
July - December 2017:		
PERS Plan 1	7.49%	6.00%
PERS Plan 1 UAAL	5.03%	
Administrative Fee	0.18%	
Total	**12.70%**	**6.00%**

* For employees participating in JBM, the contribution rate is 12.26%.

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

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

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

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

Contributions

The **PERS Plan 2/3** employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 UAAL and an administrative expense that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates. The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2017 were as follows:

PERS Plan 2/3		
Actual Contribution Rates	**Employer 2/3**	**Employee 2***
January – June 2017:		
PERS Plan 2/3	6.23%	6.12%
PERS Plan 1 UAAL	4.77%	
Administrative Fee	0.18%	
Employee PERS Plan 3		varies
Total	**11.18%**	**6.12%**
July – December 2017:		
PERS Plan 2/3	7.49%	7.38%
PERS Plan 1 UAAL	5.03%	
Administrative Fee	0,18%	
Employee PERS Plan 3		Varies
Total	**12.70%**	**7.38%**

* For employees participating in JBM, the contribution rate was 15.30% for January – June 2017 and 18.45% for July - December 2017.

The city's actual PERS plan contributions were $362,284 to PERS Plan 1 and $495,582 to PERS Plan 2/3 for the year ended December 31, 2017.

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

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

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

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

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

Contributions

Starting on July 1, 2000, **LEOFF Plan 1** employers and employees contribute zero percent, as long as the plan remains fully funded. The LEOFF Plan I had no required employer or employee contributions for fiscal year 2017. Employers paid only the administrative expense of 0.18 percent of covered payroll.

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

Contributions

The **LEOFF Plan 2** employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2. The employer rate included an administrative expense component set at 0.18 percent. Plan 2 employers and employees are required to pay at the level adopted by the LEOFF Plan 2 Retirement Board. The LEOFF Plan 2 required contribution rates (expressed as a percentage of covered payroll) for 2017 were as follows:

LEOFF Plan 2		
Actual Contribution Rates	**Employer**	**Employee**
January – June 2017:		
State and local governments	5.05%	8.41%
Administrative Fee	0.18%	
Total	**5.23%**	**8.41%**
Ports and Universities	8.41%	8.41%
Administrative Fee	0.18%	
Total	**8.59%**	**8.41%**
July – December 2017:		
State and local governments	5.25%	8.75%
Administrative Fee	0.18%	
Total	**5.43%**	**8.75%**
Ports and Universities	8.75%	8.75%
Administrative Fee	0.18%	
Total	**8.93%**	**8.75%**

The city's actual contributions to the plan were $203,911 for the year ended December 31, 2017.

The Legislature, by means of a special funding arrangement, appropriates money from the state General Fund to supplement the current service liability and fund the prior service costs of Plan 2 in accordance with the recommendations of the Pension Funding Council and the LEOFF Plan 2 Retirement Board. This special funding situation is not mandated by the state constitution and could be changed by statute. For the state fiscal year ending June 30, 2017, the state contributed $62,155,262 to LEOFF Plan 2. The amount recognized by the City of Des Moines as its proportionate share of this amount is $126,947.

Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2017 with a valuation date of June 30, 2016. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's (OSA) *2007-2012 Experience Study and the 2015 Economic Experience Study*.

Additional assumptions for subsequent events and law changes are current as of the 2016 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2017. Plan liabilities were rolled forward from June 30, 2016, to June 30, 2017, reflecting each plan's normal cost (using the entry age cost method), assumed interest and actual benefit payments.

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

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

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

- For all plans except LEOFF Plan 1, how terminated and vested member benefits are valued was corrected.
- How the basic minimum COLA in PERS Plan 1 is valued for legal order payees was improved.
- For all plans, the average expected remaining service lives calculation was revised.

Discount Rate
The discount rate used to measure the total pension liability for all DRS plans was 7.5%.

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

Long-Term Expected Rate of Return
The long-term expected rate of return on the DRS pension plan investments of 7.5% was determined using a building-block-method. In selecting this assumption, the Office of the State Actuary (OSA) reviewed the historical experience data, considered the historical conditions that produced past annual investment returns, and considered capital market assumptions (CMAs) and simulated expected investment returns provided by the Washington State Investment Board (WSIB). The WSIB uses the CMAs and their target asset allocation to simulate future investment returns over various time horizons.

Estimated Rates of Return by Asset Class
Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2017, are summarized in the table below. The inflation component used to create the table is 2.2% and represents the WSIB's most recent long-term estimate of broad economic inflation.

Asset Class	Target Allocation	% Long-Term Expected Real Rate of Return Arithmetic
Fixed Income	20.00%	1.70%
Tangible Assets	5.00%	4.90%
Real Estate	15.00%	5.80%
Global Equity	37.00%	6.30%
Private Equity	23.00%	9.30%
	100.00%	

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

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
PERS 1	3,224,834	2,647,232	2,146,904
PERS 2/3	6,596,972	2,448,669	(950,249)
LEOFF 1	(140,036)	(188,788)	(230,654)
LEOFF 2	371,427	(1,716,402)	(3,417,479)

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

Pension Liabilities (Assets), Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions
At June 30, 2017, the city reported a total pension liability of $(5,095,898) and a net pension asset of $1,905,191 for its proportionate share of the net pension liabilities as follows:

	Liability (or Asset)
PERS 1	(2,647,232)
PERS 2/3	(2,448,666)
LEOFF 1	188,788
LEOFF 2	1,716,403

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

	LEOFF 1 (Asset)	LEOFF 2 (Asset)
Employer's proportionate share	(188,788)	(1,716,403)
State's proportionate share of the net pension asset associated with the employer	(1,276,957)	(1,113,398)

TOTAL	(1,465,745)	(2,829,801)

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

	Proportionate Share 6/30/17	Proportionate Share 6/30/16	Change in Proportion
PERS 1	0.055789%	0.058525%	(0.002736%)
PERS 2/3	0.070475%	0.072818%	(0.002343%)
LEOFF 1	0.012443%	0.012268%	(0.000175%)
LEOFF 2	0.123689%	0.117320%	(0.006369%)

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

LEOFF Plan 1 allocation percentages are based on the total historical employer contributions to LEOFF 1 from 1971 through 2000 and the retirement benefit payments in fiscal year 2017. Historical data was obtained from a 2011 study by the Office of the State Actuary (OSA). In fiscal year 2017, the state of Washington contributed 87.12 percent of LEOFF 1 employer contributions and all other employers contributed the remaining 12.88 percent of employer contributions. LEOFF 1 is fully funded and no further employer contributions have been required since June 2000. If the plan becomes underfunded, funding of the remaining liability will require new legislation. The allocation method the plan chose reflects the projected long-term contribution effort based on historical data.

In fiscal year 2017, the state of Washington contributed 39.35 percent of LEOFF 2 employer contributions pursuant to RCW 41.27.726 and all other employers contributed the remaining 60.65 percent of employer contributions.

The collective net pension liability (asset) was measured as of June 30, 2017, and the actuarial valuation date on which the total pension liability (asset) is based was as of June 30, 2016, with update procedures used to roll forward the total pension liability to the measurement date.

Pension Expense

For the year ended December 31, 2017, the city recognized pension expense as follows:

	Pension Expense (Revenue)
PERS 1	22,401
PERS 2/3	337,734
LEOFF 1	(32,002)
LEOFF 2	65,597
TOTAL	393,730

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2017, the city reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

PERS 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience		
Net difference between projected and actual investment earnings on pension plan investments		(98,787)
Changes of assumptions		
Changes in proportion and differences between contributions and proportionate share of contributions		
Contributions subsequent to the measurement date	188,005	
TOTAL	188,005	(98,787)

PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	248,108	(80,532)
Net difference between projected and actual investment earnings on pension plan investments		(652,757)
Changes of assumptions	26,010	
Changes in proportion and differences between contributions and proportionate share of contributions	44,412	(122,138)
Contributions subsequent to the measurement date	274,559	
TOTAL	593,089	(855,427)

LEOFF 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience		
Net difference between projected and actual investment earnings on pension plan investments		(17,544)
Changes of assumptions		
Changes in proportion and differences between contributions and proportionate share of contributions		
Contributions subsequent to the measurement date		
TOTAL		(17,544)

LEOFF 2	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	75,439	(65,089)
Net difference between projected and actual investment earnings on pension plan investments		(385,345)
Changes of assumptions	2,067	
Changes in proportion and differences between contributions and proportionate share of contributions	43,037	
Contributions subsequent to the measurement date	103,037	
TOTAL	223,580	(450,434)

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

Net Effect on Future Pension Expense					
Year ended December 31	PERS 1	PERS 2 and 3	LEOFF 1	LEOFF 2	TOTAL PLANS
2018	$ (66,774)	$ (336,032)	$ (11,010)	$ (195,085)	$ (608,901)
2019	21,082	41,477	2,969	22,034	87,562
2020	(4,895)	(73,601)	(1,186)	(44,506)	(124,188)
2021	(48,200)	(284,601)	(8,317)	(167,788)	(508,906)
TOTAL	$ (98,787)	$ (652,757)	$ (17,544)	$ (385,345)	$ (1,154,433)

C. Other postemployment benefits

Plan Description

In accordance with the Revised Code of Washington (RCW) Chapter 41.26, the City provides lifetime medical care for members of the law enforcement officers employed prior to October 1, 1977. Under this requirement the City provides medical prescription drug, dental, Medicare Part B premiums, long-term care, and vision expenses for LEOFF 1 retirees. The City of Des Moines has a total of 5 LEOFF 1 members in this plan; all of whom are retired. Dependent spouses and children are not covered. The retiree does not contribute towards the cost of their medical care.

Funding Policy

Funding for LEOFF 1 retiree healthcare costs are provided entirely by the City as required by RCW. The City's funding policy is on a pay-as-you-go basis. In 2006 the city purchased a long-term care insurance policy for its LEOFF 1 retirees. The annual premium for the long-term care insurance policy, for the period of November 1, 2016 through October 31, 2017, was $8,241.

Annual OPEB Costs and Net OPEB Obligation

The basis for the City's annual other postemployment benefit (OPEB) cost (expense) is the annual required contribution (ARC). The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed ten years.

The City used the alternative measurement method permitted under GASB Statement No. 45. A single retirement age of 55.3 was assumed for all active members for the purpose of determining the Actuarial Accrued Liability (AAL) and normal cost. Retirement, disablement, termination, and mortality rates were assumed to follow the LEOFF 1 rates used in the June 30, 2014, 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 2013. The results were based on grouped data with four active groupings and four inactive groupings. The actuarial cost method used to determine the actuarial accrued liability (AAL) was the Projected Unit Credit. The actuarial accrued liability and the Net OPEB Obligation (NOO) are amortized on an open basis as a level dollar over 15 years. These assumptions are individually and collectively reasonable for the purpose of this valuation.

The following table shows the components of the City's annual OPEB cost, the estimated amount contributed, and changes in the City's net OPEB obligation:

	Fiscal Year Ending		
	12/31/2015	12/31/2016	12/31/2017
Determination of Net OPEB Obligation (NOO)			
Annual required contribution (ARC)	$ 170,696	$ 209,385	$ 211,097
Interest on Net OPEB Obligation (NOO)	22,112	25,880	30,899
Adjustments to ARC	(49,721)	(58,190)	(69,477)
Annual OPEB cost (expense)	$ 143,087	$ 177,075	$ 172,519
Contributions made	48,932	51,576	39,644
Increase Net OPEB Obligation (NOO)	94,155	125,499	132,875
Net OPEB Obligation - beginning	552,818	646,974	772,473
Net OPEB Obligation - ending	$ 646,973	$ 772,473	$ 905,348

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
December 31, 2017	$ 172,519	23.0%	$ 905,348
December 31, 2016	$ 177,075	29.1%	$ 772,473
December 31, 2015	$ 143,087	34.2%	$ 646,973

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.

The City entered into a memorandum of understanding in August 2017 with Forterra, a Washington non-profit corporation to secure immediate funding for property located at 402 S. 222nd in Des Moines with important open space, viewshed, scenic, recreational and community values that are of great importance to the people of the City of Des Moines. The purchase price of the property was $1,190,000 which was paid by Forterra. The City has the option of purchasing this property from Forterra on or before December 31, 2020. If the City does not purchase the property from Forterra and it is sold to another party, any decrease in value from the purchase price will be the City's responsibility. The City's intent is to secure funding by seeking grants and other sources to purchase the property from Forterra. In addition, the City is responsible for some administrative costs to Forterra (capped at $10,000) as well as, a 5-6% opportunity fee due at the time the City is able to purchase the property.

Required Supplementary Information
LEOFF 1 OPEB

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

Fiscal Year Ending	Actual Employer Contributions	Annual Required Contribution (ARC)	Percentage of ARC Contributed
December 31, 2015	$48,932	$170,696	28.7%
December 31, 2016	$51,576	$209,385	24.6%
December 31, 2017	$39,644	$211,097	18.8%

Schedule of Funding Progress for the LEOFF 1 OPEB

Fiscal Year End	Actuarial Value of Assets	Actuarial Accrued Liabilities	Unfunded Actuarial Accrued Liabilities (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
December 31, 2015	-	$1,897,863	$1,897,863	0.0%	N/A	N/A
December 31, 2016	-	$2,328,027	$2,328,027	0.0%	N/A	N/A
December 31, 2017	-	$2,347,059	$2,347,059	0.0%	N/A	N/A

Schedule of Proportionate Share of the Net Pension Liability
As of June 30, 2017
Last 4 Fiscal Years

PERS 1 PLAN	2014	2015	2016	2017
Employer's proportion of the net pension liability	0.059429%	0.060047%	0.058525%	0.055789%
Employer's proportionate share of the net pension liability	$ 2,993,764	$ 3,141,017	$ 3,143,068	$ 2,647,232
Employer's covered employee payroll*	$ 6,356,187	$ 6,731,306	$ 6,920,926	$ 7,021,598
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	47.10%	46.66%	45.41%	37.70%
Plan fiduciary net position as a percentage of the total pension liability	61.19%	59.10%	57.03%	61.24%

*2016 Restated.

Schedule of Proportionate Share of the Net Pension Liability
As of June 30, 2017
Last 4 Fiscal Years

PERS 2&3 PLAN	2014	2015	2016	2017
Employer's proportion of the net pension liability	0.071121%	0.074473%	0.072818%	0.070475%
Employer's proportionate share of the net pension liability	$ 1,437,612	$ 2,660,963	$ 3,666,329	$ 2,448,669
Employer's covered employee payroll	$ 6,146,411	$ 6,608,499	$ 6,843,135	$ 6,964,752
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	23.39%	40.27%	53.58%	35.16%
Plan fiduciary net position as a percentage of the total pension liability	93.29%	89.20%	85.82%	90.97%

*2016 Restated.

Schedule of Proportionate Share of the Net Pension Liability
As of June 30, 2017
Last 4 Fiscal Years

LEOFF 1 PLAN	2014	2015	2016	2017
Employer's proportion of the net pension liability (asset)	0.012205%	0.012137%	0.012268%	0.012268%
Employer's proportionate share of the net pension liability (asset)	$ (148,021)	$ (146,278)	$ (126,395)	$ (188,788)
State's proportionate share of the net pension liability (asset) associated with the employer	$ 1,092,391	$ 989,419	$ 854,936	$ (1,276,957)
TOTAL	$ 944,370	$ 843,141	$ 728,541	$ (1,465,745)
Employer's covered employee payroll	$ -	$ -	$ -	$ -
Plan fiduciary net position as a percentage of the total pension liability	126.91%	127.36%	123.74%	135.96%

Schedule of Proportionate Share of the Net Pension Liability
As of June 30, 2017
Last 4 Fiscal Years

LEOFF 2 PLAN	2014	2015	2016	2017
Employer's proportion of the net pension liability (asset)	0.012205%	0.012137%	0.117320%	0.123689%
Employer's proportionate share of the net pension liability (asset)	$ (1,699,040)	$ (1,249,137)	$ (682,368)	$ (1,716,402)
State's proportionate share of the net pension liability (asset) associated with the employer	$ (1,092,391)	$ (825,926)	$ (444,855)	$ (1,113,398)
TOTAL	$ (2,791,431)	$ (2,075,063)	$ (1,127,223)	$ (2,829,800)
Employer's covered employee payroll	$ 3,480,180	$ 3,527,418	$ 3,659,657	$ 3,875,240
Employer's proportionate share of the net pension asset as a percentage of covered employee payroll	80.21%	58.83%	30.80%	73.02%
Plan fiduciary net position as a percentage of the total pension liability (asset)	116.75%	111.67%	106.04%	113.36%

Schedule of Employer Contributions
As of December 31, 2017
Last 4 Fiscal Years

PERS 1 PLAN	2014	2015	2016	2017
Statutorily or contractually required contributions*	$ 189,440	$ 382,894	$ 333,338	$ 362,284
Contributions made in relation to the statutorily or contractually required contributions	$ (189,440)	$ (382,894)	$ (333,338)	$ (362,284)
Contribution deficiency (excess)	-	-	-	-
Covered employer payroll	$ 6,356,187	$ 6,731,306	$ 6,920,926	$ 7,021,598
Contributions as a percentage of covered employee payroll	2.98%	5.69%	4.82%	5.16%

*2016 restated.

Schedule of Employer Contributions
As of December 31, 2017
Last 4 Fiscal Years

PERS 2 PLAN	2014	2015	2016	2017
Statutorily or contractually required contributions	$ 189,440	$ 382,894	$ 427,454	$ 495,582
Contributions made in relation to the statutorily or contractually required contributions	$ (189,440)	$ (382,894)	$ (427,454)	$ (495,582)
Contribution deficiency (excess)	-	-	-	-
Covered employer payroll	$ 6,146,411	$ 6,608,499	$ 6,843,135	$ 6,964,752
Contributions as a percentage of covered employee payroll	3.08%	5.79%	6.25%	7.12%

Schedule of Employer Contributions
As of December 31, 2017
Last 4 Fiscal Years

LEOFF 1 PLAN	2014	2015	2016	2017
Statutorily or contractually required contributions	$ -	$ -	$ -	$ -
Contributions made in relation to the statutorily or contractually required contributions	$ -	$ -	$ -	$ -
Contribution deficiency (excess)	-	-	-	-
Covered employer payroll	$ -	$ -	$ -	$ -
Contributions as a percentage of covered employee payroll	N/A	N/A	N/A	N/A

Schedule of Employer Contributions
As of December 31, 2017
Last 4 Fiscal Years

LEOFF 2 PLAN	2014	2015	2016	2017
Statutorily or contractually required contributions	$ 91,113	$ 177,745	$ 184,816	$ 195,699
Contributions made in relation to the statutorily or contractually required contributions	$ (91,113)	$ (177,745)	$ (184,816)	$ (195,699)
Contribution deficiency (excess)	-	-	-	-
Covered employer payroll	$ 6,146,411	$ 6,608,499	$ 6,843,135	$ 6,964,752
Contributions as a percentage of covered employee payroll	1.48%	2.69%	2.70%	2.81%

ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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

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

Contact information for the State Auditor's Office	
Public Records requests	PublicRecords@sao.wa.gov
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