Washington State Auditor's Office

Troy Kelley

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Financial Statements and Federal Single Audit Report

City of Des Moines

King County

For the period January 1, 2013 through December 31, 2013

Published September 29, 2014

Report No. 1012704

Washington State Auditor
Troy Kelley

September 29, 2014

Council
City of Des Moines
Des Moines, Washington

Report on Financial Statements and Federal Single Audit

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

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

Sincerely,

TROY KELLEY

STATE AUDITOR

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King County
January 1, 2013 through December 31, 2013

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Federal Summary

City of Des Moines
King County
January 1, 2013 through December 31, 2013

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

FINANCIAL STATEMENTS

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

Internal Control Over Financial Reporting:

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

- ***Material Weaknesses:*** We identified no deficiencies that we consider to be material weaknesses.

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

FEDERAL AWARDS

Internal Control Over Major Programs:

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

- ***Material Weaknesses:*** We identified no deficiencies that we consider to be material weaknesses.

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

We reported no findings that are required to be disclosed under section 510(a) of OMB Circular A-133.

Identification of Major Programs:

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

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

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

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

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

City of Des Moines
King County
January 1, 2013 through December 31, 2013

City 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, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated September 19, 2014. As discussed in Note 1 to the financial statements, during the year ended December 31, 2013, the City implemented Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*.

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.

TROY KELLEY
STATE AUDITOR

September 19, 2014

Independent Auditor's Report on Compliance for Each Major Federal Program and on Internal Control over Compliance in Accordance with OMB Circular A-133

City of Des Moines
King County
January 1, 2013 through December 31, 2013

City Council
City of Des Moines
Des Moines, Washington

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

We have audited the compliance of the City of Des Moines, King County, Washington, with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2013. The City's major federal programs are identified in the accompanying Federal Summary.

Management's Responsibility

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

Auditor's Responsibility

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

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination on the City's compliance.

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2013.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

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

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

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

PURPOSE OF THIS REPORT

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

It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

TROY KELLEY
STATE AUDITOR

September 19, 2014

Independent Auditor's Report on Financial Statements

City of Des Moines
King County
January 1, 2013 through December 31, 2013

City 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, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed on page 14.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Des Moines, as of December 31, 2014, and the respective changes in financial position and, where applicable, cash flows thereof, and the respective budgetary comparison for the General Fund and Street Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Matters of Emphasis

As discussed in Note 1 to the financial statements, in 2013, the City adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 15 through 26, information on postemployment benefits other than pensions on page 79 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

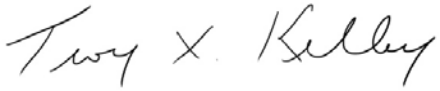
Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. This schedule is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to

prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated September 19, 2014 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.



TROY KELLEY
STATE AUDITOR

September 19, 2014

Financial Section

City of Des Moines
King County
January 1, 2013 through December 31, 2013

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2013

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2013
Statement of Activities – 2013
Balance Sheet – 2013
Reconciliation of the Balance Sheet to the Statement of Net Position – Governmental Funds – 2013
Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental Funds – 2013
Reconciliation of Statement of Revenues, Expenditures and Changes in Fund Balance to the Statement of Activities – Governmental Funds – 2013
Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget (GAAP Basis) and Actual – General Fund – 2013
Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget (GAAP Basis) and Actual – Street Fund – 2013
Statement of Net Position – Proprietary Funds – 2013
Statement of Revenues, Expenses and Changes in Net Position – Proprietary Funds – 2013
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Notes to Financial Statements – 2013

REQUIRED SUPPLEMENTARY INFORMATION

Retiree Medical and Long-Term Care Benefits for LEOFF 1 Employees – Schedule of Funding Progress and Schedule of Employer Contributions – 2013

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Expenditures of Federal Awards – 2013
Notes to the Schedule of Expenditures of Federal Awards – 2013

CITY OF DES MOINES
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended December 31, 2013

The management discussion and analysis section of this report provides a narrative overall review of the City of Des Moines's (the "City") financial performance for the fiscal year ended December 31, 2013. The intent of this discussion and analysis is to assist the reader in focusing on significant financial issues and trends impacting the current financial activities of the City and should be read in conjunction with the independent auditor's report, basic financial statements, and notes to the financial statements.

FINANCIAL HIGHLIGHTS

The City implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* in 2013. This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources, or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The requirements of this statement will improve financial reporting by clarifying the appropriate use of the financial statement elements deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting.

Government-wide

- The assets and deferred outflows of resources of the City of Des Moines exceeded its liabilities by $179,820,938. Of this amount, $5,716,529 represents unrestricted net position, which may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's total net position increased by $10,794,244 in 2013. The business-type activities increased net position by $204,116 while the government activities increased net position by $10,590,128.

Fund Level

- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of $6,397,574, an increase of $3,659,965 in comparison with the prior year. Approximately 2.6% of this total amount, or $168,695, is available in the general fund for continuing appropriations for spending at the government's discretion.
- At the end of the current fiscal year, the City reported no unassigned fund balance for the general fund.

Long-Term Debt

- The City's total debt decreased by $591,106. This amount represents the net difference between net issuances, payments, and refunding of outstanding bonded debt. Debt principal retirements during 2013 totaled $739,210. During 2013, the City entered into a long-term lease for a document management system recognizing a lease obligation of $17,739. The remainder of the long-term debt activity primarily relates to compensated absences.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

The first two statements, *Statement of Net Position* and *Statement of Activities*, comprise the *government-wide financial statements*. These statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The remaining statements are *fund financial statements* that focus on individual parts of the city government, reporting the City's operations in more detail than the government-wide statements. These statements are presented with a focus on major funds. All other nonmajor funds are presented in total in one column.

The financial statements include *notes* that provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

Other supplementary information, in addition to the basic financial statements, is also contained in this report. This section of the management's discussion and analysis is intended to introduce and explain the basic financial statements.

Figure A-1 provides a summary of the major features of the City's financial statements, including the portion of the City government they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements.

Figure A-1
Major Features of the City of Des Moines's Government-wide and Fund Financial Statements

	Government-Wide Statements	Fund Statements	
		Governmental Funds	Proprietary Funds
Scope	Entire City government	The activities of the City that are not proprietary, such as police, public works, and parks	Activities the City operates similar to private businesses: Marina and the Surface Water Management Utility
Required financial Statements	●Statement of net position ●Statement of activities	●Balance sheet ●Statement of revenues, expenditures, and changes in fund balances	●Statement of net position ●Statement of revenues, expenses, and changes in net position ●Statement of cash flows
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during year, regardless of when cash is received or paid

Government-wide Financial Statements

The government-wide financial statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. The government-wide financial statements include not only the activities of the City of Des Moines, Washington, but also a legally separate transportation district for which the City of Des Moines is financially accountable. The Des Moines Transportation Benefit District functions for all practical purposes as a department of the City of Des Moines, and therefore has been included as an integral part of the primary government.

The statement of net position presents financial information on all of the City's assets, liabilities, and deferred inflows/outflows of resources, with the difference reported as net position. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid. The two government-wide statements report the City's net position and how they have changed. Overtime, increases or decreases in net position provide a measure of the financial position of the City. The change in net position provides an indication of whether the City's financial health is improving or deteriorating.

Governmental activities include most of the City's basic services such as judicial, public safety, engineering (transportation and natural environment), public works, building regulation, community land use planning (economic environment), social services (human services and senior services), culture and recreation, and general administration. These activities are primarily supported by taxes, licenses and permits, intergovernmental revenues, charges for services including plan review and zoning fees, user fees, and fines and forfeits.

Business-type activities are financed primarily from user fees and charges. The Marina and Surface Water Management Utility are included under this category.

Fund Financial Statements

Traditional users of governmental financial statements will find the *Fund Financial Statements* presentation familiar. However, the focus for these presentations is on major funds, rather than fund types.

A *fund* is an accounting device for grouping related accounts used to maintain control over resources that are segregated for specific activities or objectives. Some funds are required by State law and by bond covenants. The City Council establishes other funds to control and manage money for particular purposes. All of the funds of the City 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 provide a short-term view focusing 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 ability to finance the City's programs in the near future.

Because the focus of the governmental funds is short-term versus long-term, we have provided additional information that explains the differences between the government-wide financial statements and the fund financial statements. This additional information is provided in a reconciliation format on both the governmental balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances.

The City of Des Moines's maintains thirteen individual governmental funds. 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, Street Fund, and Transportation Capital Improvement Fund. The General Fund and Transportation Capital Improvement Fund are considered major funds based on the criteria established by GASB Statement No. 34. The Street Fund does not meet the criteria for a major fund but is shown separately at the discretion of the City. All remaining nonmajor governmental funds' data are combined into a single, aggregated presentation.

The City of Des Moines adopts an annual appropriated budget for its major funds: General Fund, Street Fund, and Transportation Capital Improvement Fund. Budget comparison statements have been provided for the General Fund and Special Revenue funds to demonstrate budgetary compliance.

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

Proprietary fund financial statements provide the same type of information as the government-wide financial statements, but in greater detail. The internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found at the end of the financial statements.

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning a schedule of funding progress and schedule of employer contributions for other post-employment benefits.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net Position. As noted earlier, net position over time may serve as a useful indicator of a government's financial position. In the case of the City of Des Moines, assets and deferred outflows of resources exceeded liabilities by $179,820,938 at December 31, 2013.

Table A-1 displays the City's net position for the current fiscal year.

Table A-1
City of Des Moines' Net Position

	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
Current and other assets	$ 7,155,579	$ 8,132,435	$ 5,049,190	$ 4,859,234	$ 12,204,769	$ 12,991,669
Capital assets	150,206,664	144,636,348	27,528,866	27,919,895	177,735,530	172,556,243
Deferred outflows of resources	6,140	7,708	142,361	158,327	148,501	166,035
Total assets & deferred outflows of resources	157,368,384	152,776,491	32,720,417	32,937,456	190,088,801	185,713,947
Long-term debt outstanding	5,094,913	5,281,597	8,134,628	8,631,450	13,229,541	13,913,047
Other liabilities	2,954,124	1,849,378	889,198	722,074	3,843,322	2,571,452
Total liabilities	8,049,037	7,130,975	9,023,826	9,353,524	17,072,863	16,484,499
Net position						
Net investment in capital assets	146,815,388	141,021,245	19,598,546	19,581,376	166,413,934	160,602,621
Restricted	5,153,038	1,589,048	2,537,436	2,284,223	7,690,474	3,873,271
Unrestricted	4,155,921	3,035,222	1,560,608	1,718,335	5,716,529	4,753,557
Total net position	$ 156,124,347	$ 145,645,515	$ 23,696,590	$ 23,583,934	$179,820,938	$169,229,449

The largest portion of the City's net position (92.5 percent) reflects its investment in capital assets (e.g., land, infrastructure, buildings, machinery and equipment) less any related outstanding debt to acquire those assets.

A portion of the City's net position (3.2 percent) represents resources that are subject to constitutional or external restrictions on how they may be used. The remaining balance of unrestricted net position may be used to meet the City's ongoing obligations to citizens and creditors.

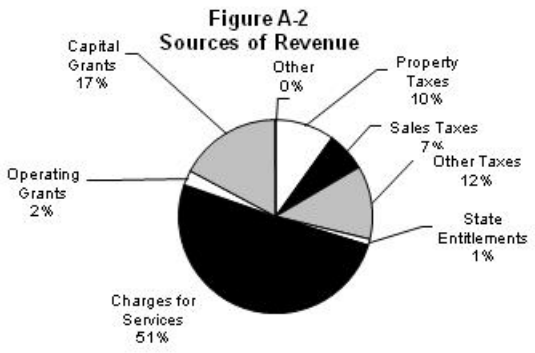
Changes in Net Position. Governmental activities increased the City of Des Moines net position by $10,590,128. Key elements of this net increase are provided in Table A-2.

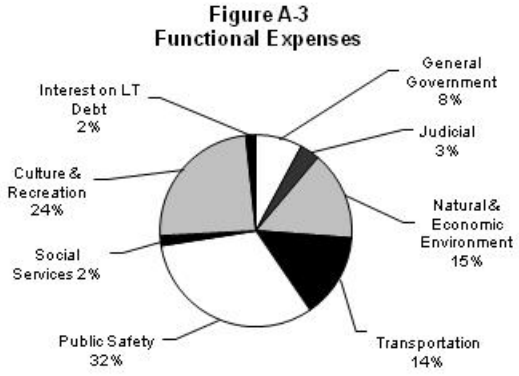
Table A-2
City of Des Moines' Changes in Net Position

	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
Revenues:						
Program revenues:						
Charges for services	$ 11,786,712	$ 4,727,705	$ 6,745,077	$ 6,435,074	18,531,789	$11,162,779
Operating grants and contributions	908,341	1,400,674	-	59,334	908,341	1,460,008
Capital grants and contributions	6,061,664	1,857,638	215,619	159,997	6,277,283	2,017,635
General revenues:						
Property taxes	3,625,404	3,923,750	-	-	3,625,404	3,923,750
Retail sales and use taxes	2,426,258	2,201,110	-	-	2,426,258	2,201,110
Business taxes	3,723,790	3,689,555	-	-	3,723,790	3,689,555
Excise taxes	615,625	417,632	-	-	615,625	417,632
Other taxes	158,324	127,421			158,324	127,421
State entitlements	380,046	471,378	-	-	380,046	471,378
Unrestricted investment earnings	35,494	27,504	82	10,754	35,577	38,259
Miscellaneous	55,723	90,855	4,510	7,158	60,233	98,013
Equity interest in joint venture	107,970	-	-	-	107,970	-
Total Revenues	**29,885,351**	**18,935,222**	**6,965,288**	**6,672,317**	**36,850,638**	**25,607,540**
Program expenses:						
General government	2,033,914	1,871,956	-	-	2,033,914	1,871,956
Judicial	857,665	989,089	-	-	857,665	989,089
Public safety	8,294,573	8,460,564	-	-	8,294,573	8,460,564
Transportation	3,691,607	3,383,381	-	-	3,691,607	3,383,381
Natural & economic environment	1,566,237	1,858,866	-	-	1,566,237	1,858,866
Social services	430,516	507,538	-	-	430,516	507,538
Culture and recreation	2,312,635	2,396,268	-	-	2,312,635	2,396,268
Interest on long-term debt	123,374	132,417	-	-	123,374	132,417
Marina	-	-	4,248,064	4,259,474	4,248,064	4,259,474
Surface Water Utility	-	-	2,321,296	2,149,231	2,321,296	2,149,231
Total Expenses	**19,310,521**	**19,600,079**	**6,569,360**	**6,408,705**	**25,879,881**	**26,008,784**
Increase (decrease) in net position before special items, extraordinary item and transfers	10,574,830	(664,857)	395,928	263,613	10,970,758	(401,244)
Special items:						
Loss on disposal of capital asset	-	-	(454,920)	-	(454,920)	-
Gain (loss) on sale of capital assets	9,245	19,057	-	2,798	9,245	21,855
Extraordinary item:						
Insurance Recoveries	5,000	13,279	264,160	-	269,160	13,279
Transfers	1,052	(232,423)	(1,052)	232,423	-	-
Increase (decrease) in net position	**$ 10,590,128**	**$ (864,945)**	**$ 204,116**	**$ 498,834**	**$ 10,794,244**	**$ (366,112)**

Property and other taxes total $10,549,401 and represent 28.6 percent of the total revenues of the City. The other major revenue sources are charges for services and operating and capital grants and contributions. Combined, these revenue sources total $27,717,413, or 69.8 percent of the City's total revenues. Figure A-2 provides the percentage distribution of revenue sources for the City.

The City's expenses cover a range of services, with about 32 percent related to public safety. Figure A-3 provides the percentage allocation of functional expenses for the City.





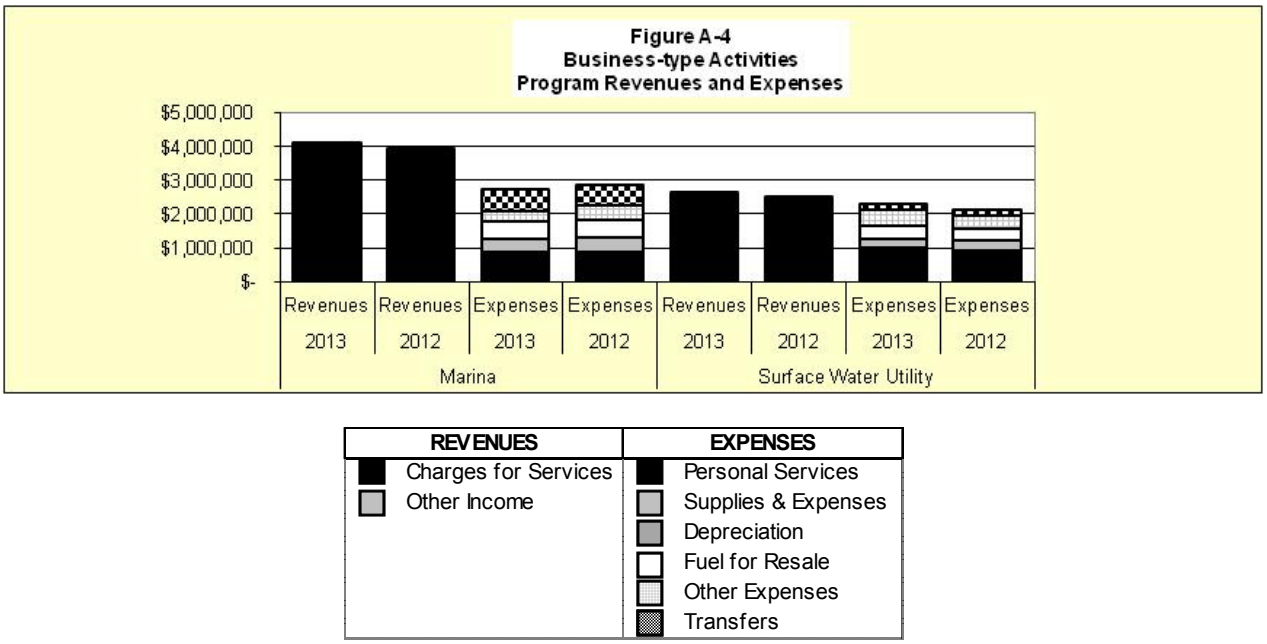
Governmental activities. As stated, governmental activities increased net position by $10,590,128. Key elements of this net increase are as follows:

- Charges for services increased by $7,059,007, or 149.3%. The increase primarily relates to $6 million received from the Port of Seattle for in lieu fees to provide frontage improvements along South 216th Street and 24th Avenue South. A portion of the remainder or $622,652 relates to building and development activity fees for construction of a 250 room four star hotel complex.
- Operating grants and contributions decreased by $492,333, or 35.1%. The decrease primarily relates to federal programs expiring in 2013.
- Capital grants and contributions increased $4,204,026, or 226.3%. The increase primarily relates to transportation improvements along South 216th Street and 24th Avenue South, and the Landmarque residential development.
- Property taxes decreased $298,346, or 7.6%. The City's total taxable assessed valuation declined 6.9% in 2013.
- Sales tax collections increased $225,148, or 10.2 percent, and business taxes increased $34,235, or 0.9%. The increases are attributable to a modest improvement in economic activity.
- Decrease in governmental activity expenses by $289,558 or 1.5 percent due to budget constraints.

Business-type activities. Business-type activities increased the City of Des Moines's net position by $204,116. Key elements of this net increase are as follows:

- The net increase is primarily attributable to the Landmarque residential development storm sewer improvements of $215,619 offset by net operating income of $489,066 less a net non-operating loss of $499,517 that includes writing off $454,920 of design work for the Barnes Creek Detention Facility project that will not be constructed.

Figure A-4 provides the elements comprising the sources of revenues in comparison to the functional expenses for the business-type activities of the City compared with the prior year.



FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As noted earlier, the City of Des Moines uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds. As discussed earlier, the focus of the City of Des Moines's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City of Des Moines's financing requirements. As of December 31, 2013, governmental funds reported fund balances of $6,397,574.

General Fund

The General Fund is the primary operating fund of the City of Des Moines. At the end of the fiscal year, total fund balance for the General Fund equaled $979,907, an increase of $19,332 from 2012. The amount of $811,213 is constrained as a result of a nonspendable balance of $6,038, and a committed balance of $805,175. The City's General Fund ending fund balance policy requires an ending fund balance of seven percent of the General Fund's operating expenditures, net of capital expenditures, equipment and computer replacement assessments, and transfers. At the end of the fiscal year, the City reported $168,695 as assigned fund balance representing 15 percent of the General Fund's ending fund balance policy requirement of $1,125,556, or 1.1 percent of the General Fund's operating expenditures, net of capital expenditures, equipment and computer replacement assessments and transfers.

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.

GENERAL FUND BUDGETARY HIGHLIGHTS

The differences from original and final revenue budgets are due to both economic and legislative reasons. Reasons for the significant variances in the General Fund between the final budget and actual results include:

- Taxes decreased $70,680 primarily from lower than expected utility taxes on electricity, natural gas, and telecommunications.
- Charges for services decreased $428,417 from the final budget. Revenues primarily contributing to the decrease were engineering and development fees, interfund revenues received from capital improvement funds for engineering services, and park and recreation fees.
- Decreases in various expenditure categories of $847,674 from the final budget due primarily to contractual obligations.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets. The City of Des Moines's investment in capital assets for its governmental and business-type activities as of December 31, 2013 totals $177,735,530 (net of accumulated depreciation). This investment in capital assets includes land, buildings and structures, machinery and equipment, park facilities, sidewalks, roads, highways, and bridges as shown in Table A-3.

During the fiscal year, major capital asset additions included:

- South 216th Street corridor right-of-way acquisitions, pedestrian and mobility improvements totaling $5,929,932.
- Landmarque residential development infrastructure and park land totaling $1,592,712.
- 24th Avenue South Improvements totaling $1,252,990.
- Traffic safety improvements including school flashing beacons, sidewalks, pavement markings, and signage totaling $282,453.
- Vehicle and equipment acquisitions totaling $200,515.
- Surface Water Management Utility storm drainage improvements totaling $355,014.

In 2013, the Marina incurred capital improvement additions of $127,735. Capital projects included replacing two of the Redondo ramp boarding floats, adding four more security cameras, completing the custom canopy for the guest moorage new activity float and fabrication and installing two gates on the Sixth Avenue stairway. In addition, the Marina incurred $270,313 mitigating the impact of damages sustained to J Dock from the June 23, 2013 fire. More detailed information about the City's capital assets is presented in Note 7 to the financial statements.

Table A-3
City of Des Moines' Capital Assets
(net of depreciation)

	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
Land	$ 103,650,224	$ 103,490,340	$ 3,791,287	$ 3,791,287	$ 107,441,511	$ 107,281,627
Art Collections	149,074	138,500	-	-	149,074	138,500
Buildings & structures	7,996,713	8,238,440	1,465,315	1,484,778	9,462,028	9,723,218
Capital lease	48,071	45,993	5,364	7,839	53,435	53,833
Other improvements	4,283,380	4,771,437	20,908,317	20,731,498	25,191,697	25,502,935
Machinery & equipment	937,698	1,180,981	257,333	235,653	1,195,031	1,416,634
Leasehold improvements	-	-	162,949	173,424	162,949	173,424
Infrastructure	20,960,681	21,623,440	-	-	20,960,681	21,623,440
Construction in progress	12,180,823	5,147,216	912,837	1,461,391	13,093,660	6,608,607
Intangible assets	-	-	25,464	34,024	25,464	34,024
Total	$ 150,206,664	$ 144,636,348	$ 27,528,866	$ 27,919,895	$ 177,735,530	$ 172,556,243

Long-term debt. At the end of the current fiscal year, the City of Des Moines had total bonded debt outstanding of $10,280,000 which is backed by the full faith and credit of the government. Of this amount, $7,770,000 is also backed by revenues of the Marina. The remainder of the City's debt includes two Public Works Trust Fund Loans, a financing lease, and two capital Leases. Table A-4 provides a breakdown of the City's outstanding debt.

Table A-4
City of Des Moines' Outstanding Debt

	Governmental Activities		Business-type Activities		Total	Total
	2013	2012	2013	2012	2013	2012
General obligation bonds	$ 2,510,000	$ 2,705,000	$ 7,770,000	$ 8,225,000	$ 10,280,000	$ 10,930,000
Public Works Trust Fund Loans	737,742	793,224	-	-	737,742	793,224
WA State LOCAL Prg Financing Lease	87,963	97,382	-	-	87,963	97,382
Capital Leases	49,853	46,804	5,686	8,140	55,539	54,944
Total	$ 3,385,558	$ 3,642,410	$ 7,775,686	$ 8,233,140	$ 11,161,244	$ 11,875,551

The City's received its latest bond rating of A2 in April 2012. The rating was assigned to its 2012 Limited Tax General Obligation Refunding bonds. More detailed information about the City's long-term liabilities is presented in Note 13 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's 2014 budget process for the City's General and Street Funds focused primarily on closing a structural deficit of approximately $1.2 million. Strategies employed to close the deficit included freezing vacant positions, reducing vehicle and equipment replacement assessments, and reducing cost-of-living and personnel benefit increases. In addition, the 2014 budget includes approximately $2.3 million in building and development fees from projects expected to be developed in the Des Moines Creek Business Park valued at $45.8 million, as well as, a mixed use development valued at $43.2 million.

The economic outlook continues to be moderate. Sales tax revenue growth is partly recovering with the City benefiting from sales tax sourcing rules that require sales tax to be sourced to the city where delivery occurs. While the Puget Sound region reports improved real property valuations, the City's total assessed valuation continues to lag behind other communities.

Therefore, property tax collections will not see improvement for a very long time with increases limited by law to the lower of 1% or the implicit price deflator. As stated previously, new construction activity from development projects occurring in 2014 will help to improve the revenue base for the City.

Also, the Marina and 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 Paula A. Henderson, Finance Director, 21630 11th Ave. S., Suite A, Des Moines, Washington, 98198.

STATEMENT OF NET POSITION
December 31, 2013

DESCRIPTION	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
ASSETS			
Cash and cash equivalents	$ 7,561,140	$ 1,759,709	$ 9,320,849
Investments	2,110,455	1,723,520	3,833,975
Receivables:			
Taxes	1,058,386	-	1,058,386
Customer accounts	582,265	286,973	869,238
Interest	3,081	2,713	5,794
Other	349,104	5,162	354,266
Due from other governments	1,530,815	4,819	1,535,634
Inventories	17,450	59,309	76,759
Prepaid items	1,438	27,049	28,487
Restricted assets:			
Cash and cash equivalents	-	887,605	887,605
Investments	-	203,985	203,985
Interest receivable	-	303	303
Other receivable	-	54,228	54,228
Equity interest in joint venture	730,786	-	730,786
Capital assets:			
Land	103,650,224	3,791,287	107,441,511
Art Collections	149,074	-	149,074
Depreciable capital assets, net	34,226,543	22,824,742	57,051,285
Construction in progress	12,180,823	912,837	13,093,660
Other noncurrent assets	15,659	33,815	49,474
Total Assets	$ 164,167,244	$ 32,578,056	$ 196,745,299
DEFERRED OUTFLOW OF RESOURCES			
Deferred Outflow of Resources	$ 6,140	$ 142,361	$ 148,501
COMBINED ASSETS & DEFERRED OUTFLOW OF RESOURCES	$ 164,173,384	$ 32,720,417	$ 196,893,801
LIABILITIES			
Accounts payable	$ 1,630,333	$ 372,691	$ 2,003,024
Due to other governments	71,184	-	71,184
Accrued interest payable	11,416	26,618	38,033
Other current liabilities	1,025,114	108,330	1,133,444
Liabilities payable from restricted assets:			
General obligation bonds principal	-	495,000	495,000
Deposits	-	161,913	161,913
Unearned revenues	216,077	219,646	435,723
Noncurrent liabilities:			
Due within one year	445,346	22,559	467,905
Due in more than one year	4,649,567	7,617,069	12,266,637
Other non-current liabilities	-	-	-
Total Liabilities	$ 8,049,037	$ 9,023,826	$ 17,072,863
DEFERRED INFLOW OF RESOURCES			
Deferred Inflow of Resources	$ -	$ -	$ -
COMBINED LIABILITIES & DEFERRED INFLOW OF RESOURCES	$ 8,049,037	$ 9,023,826	$ 17,072,863
NET POSITION			
Net investment in capital assets	$ 146,815,388	$ 19,598,546	$ 166,413,934
Restricted for:			
Capital projects	4,709,515	1,389,032	6,098,547
Debt service	21,480	837,268	858,748
Repair and replacement	-	311,136	311,136
Other purposes	422,043	-	422,043
Unrestricted	4,155,921	1,560,608	5,716,529
TOTAL NET POSITION	$ 156,124,347	$ 23,696,590	$ 179,820,938

The notes to financial statements are an integral part of this statement.
Note: Due to rounding, numbers may not add up precisely to totals provided.

STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2013

		PROGRAM REVENUES			NET (EXPENSES) REVENUE AND CHANGES IN NET POSITION		
FUNCTIONS/PROGRAMS	**EXPENSES**	**CHARGES FOR SERVICES**	**OPERATING GRANTS AND CONTRIBUTIONS**	**CAPITAL GRANTS AND CONTRIBUTIONS**	**GOVERNMENTAL ACTIVITIES**	**BUSINESS-TYPE ACTIVITIES**	**TOTAL**
Governmental activities:							
General government	$ 2,033,914	$ 1,139,223	$ 433	$ -	$ (894,258)	$ -	$ (894,258)
Judicial	857,665	1,024,433	55,742	-	222,510	-	222,510
Public safety	8,294,573	287,939	70,403	-	(7,936,231)	-	(7,936,231)
Transportation	3,691,607	6,829,892	616,344	5,801,903	9,556,532	-	9,556,532
Natural & economic environment	1,566,237	1,581,729	72,619	-	88,111	-	88,111
Social services	430,516	55,743	28,068	-	(346,704)	-	(346,704)
Culture and recreation	2,312,635	867,753	64,733	259,761	(1,120,389)	-	(1,120,389)
Interest on long-term debt	123,374	-	-	-	(123,374)	-	(123,374)
Total governmental activities	19,310,520	11,786,712	908,341	6,061,664	(553,804)	-	(553,803)
Business-type activities:							
Marina	4,248,064	4,097,070	-	-	-	(150,994)	(150,994)
Surface water utility	2,321,296	2,648,007	-	215,619	-	542,330	542,330
Total business-type activities	6,569,360	6,745,077	-	215,619	-	391,336	391,336
Total government	$ 25,879,880	$ 18,531,789	$ 908,341	$ 6,277,283	$ (553,804)	$ 391,336	$ (162,467)
General revenues:							
Property taxes					$ 3,625,404	$ -	$ 3,625,404
Sales and use taxes					2,426,258	-	2,426,258
Business and occupation taxes					3,723,790	-	3,723,790
Excise taxes					615,625	-	615,625
Other taxes					158,324	-	158,324
State entitlements					380,046	-	380,046
Unrestricted investment earnings					35,494	82	35,576
Miscellaneous					55,723	4,510	60,233
Equity Interest in Joint Venture					107,970		107,970
Special item:							
Loss on disposal of capital assets					-	(454,920)	(454,920)
Gain on sale of capital assets					9,245	-	9,245
Extraordinary Item:							
Insurance Recoveries					5,000	264,160	269,160
Transfers					1,052	(1,052)	-
Total general revenues, special items, and transfers					11,143,932	(187,220)	10,956,711
Change in net position					10,590,128	204,116	10,794,244
Net position beginning of the year					145,645,515	23,583,934	169,229,449
Prior year adjustments					(111,296)	(91,459)	(202,755)
Net position beginning of the year as restated					145,534,219	23,492,475	169,026,694
Net position end of the year					$ 156,124,347	$ 23,696,590	$ 179,820,937

The notes to financial statements are an integral part of this statement.
Note: Due to rounding, numbers may not add up precisely to totals provided.

BALANCE SHEET
December 31, 2013

DESCRIPTION	GENERAL FUND	STREET FUND	TRANS CAPITAL IMPRV FUND	NONMAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
ASSETS					
Cash and cash equivalents	$ 1,343,388	$ 421,878	$ 2,902,431	$ 910,356	$ 5,578,053
Investments	-		1,501,542	-	1,501,542
Receivables:					
Taxes	990,455	-	-	55,534	1,045,989
Customer accounts	564,045		-	18,220	582,265
Interest	-		2,173	-	2,173
Other	167,645	9,249	172,210	-	349,104
Due from other governments	62,235	2,289	1,450,794	-	1,515,318
Prepaid items	1,438	-		-	1,438
Deferred outflows of resources	-	-	-	-	0
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	$ 3,129,206	$ 433,416	$ 6,029,150	$ 984,110	$ 10,575,881
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES					
Liabilities:					
Accounts payable	$ 352,182	$ 132,382	$ 1,000,050	$ 28,533	$ 1,513,147
Due to other governments	71,184	-		-	71,184
Customer deposits	134,107	-		-	134,107
Other current liabilities	602,344	27,157	242,511	70	872,082
Unearned revenues	216,077	-	-	-	216,077
Deferred inflows of resources	773,405	9,249	570,737	18,321	1,371,712
Total liabilities and deferred inflows of resources	2,149,299	168,788	1,813,298	46,924	4,178,309
Fund balances:					
Nonspendable	$ 6,038	$ -	$ -	$ -	$ 6,038
Restricted		264,629		107,940	372,569
Committed	805,175			335,351	1,140,526
Assigned reported in:					
General fund	168,695			-	168,695
Debt service funds				232	232
Capital projects funds			4,215,852	493,663	4,709,515
Unassigned	-	0	-	-	0
Total fund balances	979,907	264,629	4,215,852	937,187	6,397,574
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	$ 3,129,206	$ 433,416	$ 6,029,150	$ 984,110	$ 10,575,881

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

CITY OF DES MOINES, WASHINGTON
FUND FINANCIAL STATEMENTS

RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET POSITION GOVERNMENTAL FUNDS
December 31, 2013

Fund balances - total governmental funds		$ 6,397,574
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.		
Land	$ 103,650,224	
Art Collections	149,074	
Depreciable capital assets, net	34,226,543	
Construction in progress	12,180,823	
		150,206,664
Other assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.		
Due from other governments	11,250	
Interest receivable	7,499	
Unamortized bond insurance	15,659	
Investment in joint venture	730,786	
		765,194
Unamortized deferred outflow for loss on refunding		6,140
Current liabilities includes amounts not payable in the current period and therefore are not reported in the governmental funds.		
Accounts payable and other accrued liabilities	(34,420)	
Accrued interest payable	(11,416)	
		(45,836)
Deferred revenue in governmental funds is susceptible to full accrual and therefore are not reported in the governmental funds.		
Deferred revenue - current period	74,939	
Deferred revenue - prior period	1,296,773	
		1,371,711
Long-term liabilities, including bonds, notes, and loans payable are not due and payable in the current period and therefore are not reported in fund balance in the governmental funds.		
Governmental bonds, notes, and loans payable	(3,841,329)	
Compensated absences	(1,168,797)	
		(5,010,126)
Internal service funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of internal service funds are included in governmental activities in the statement of net position.		2,433,027
Net position of governmental activities		$ 156,124,347

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

Note: Due to rounding, numbers may not add up precisely to totals provided.

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended December 31, 2013

DESCRIPTION	GENERAL FUND	STREET FUND	TRANS CAPITAL IMPR FUND	NONMAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
REVENUES					
Taxes	$ 9,886,470	$ 20,581	$ -	$ 666,936	$ 10,573,987
Licenses and permits	1,942,938	-	-	-	1,942,938
Intergovernmental	614,664	1,031,084	4,321,730	101,545	6,069,023
Charges for services	3,003,189	33,057	6,000,000	714,470	9,750,716
Fines and penalties	750,282	-	-	-	750,282
Investment earnings	27,720	411	8,246	842	37,219
Miscellaneous	237,467	6,900	164,093	174,203	582,663
TOTAL REVENUES	16,462,730	1,092,033	10,494,069	1,657,995	29,706,828
EXPENDITURES					
Current:					
General government	2,915,900	-		2,292	2,918,192
Judicial	843,318			-	843,318
Public safety	8,007,940	-		2,390	8,010,330
Transportation	511,614	1,065,998	1,336	428,674	2,007,622
Natural & economic environment	1,626,551	-		19,822	1,646,373
Social services	394,723	-		-	394,723
Culture and recreation	1,837,890	-		871	1,838,761
Debt service:				-	
Principal	-	-		273,517	273,517
Interest and fiscal charges	-	-		128,856	128,856
Capital outlay	73,609	19,912	7,674,614	187,817	7,955,952
Other operating expenditures	-	-	-	-	-
TOTAL EXPENDITURES	16,211,545	1,085,910	7,675,950	1,044,239	26,017,644
Excess (deficiency) of revenues over (under) expenditures	251,185	6,123	2,818,119	613,756	3,689,184
OTHER FINANCING SOURCES (USES)					
Capital related debt issued	-	-	-	-	-
Transfers in	14,361	-	767,582	402,372	1,184,315
Transfers out	(164,720)	(1,002)	(251,229)	(796,582)	(1,213,532)
Sale of capital assets	-	-	-	-	-
Insurance recoveries	-	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	(150,359)	(1,002)	516,353	(394,210)	(29,217)
Net change in fund balances	100,826	5,121	3,334,472	219,546	3,659,965
Fund balances beginning of year	960,575	276,022	881,380	722,030	2,840,008
Prior Period Adjustment	(81,495)	(16,513)	-	(4,391)	(102,399)
Fund balances beginning of year, as restated	879,080	259,509	881,380	717,639	2,737,609
FUND BALANCES END OF YEAR	$ 979,907	$ 264,630	$ 4,215,852	$ 937,186	$ 6,397,574

The notes to financial statements are an integral part of this statement.
Note: Due to rounding, numbers may not add up precisely to totals provided.

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2013

Net change in fund balances as presented in this statement			$	3,659,965
Amounts reported for governmental activities in the statement of activities are different because:				
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense.				
Capital outlay	$	7,955,952		
Capital outlay reimbursement from private utilities		(462,472)		
Capital outlay contributed to business-type activities		-		
Depreciation expense		(2,717,733)		
Excess of capital outlay over depreciation expense				4,775,747
The City has an equity interest in a joint venture. This investment is not a current financial resource and therefore is not reported in the funds.				107,970
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.				
Debt principal retirement		273,517		
Accrued interest		1,332		
Amortization of bond insurance costs		1,151		
Amortization of bond premium and discount		3,083		279,083
Internal service funds are used by management to charge the costs of certain activities to individual funds. The net revenue (expense) of the internal service funds is reported with governmental activities.				(25,597)
Revenues related to prior periods				(17,792)
Revenues reported in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds.				2,065,809
Expenses reported in the statement of activities that do not require the use of current financial resources are not reported as expenditures in the governmental funds.				(255,059)
Change in net position of governmental activities as reported on the Statement of Activities			$	10,590,128

The notes to financial statements are an integral part of this statement.
Note: Due to rounding, numbers may not add up precisely to totals provided.

GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET (GAAP BASIS) AND ACTUAL
For the Year Ended December 31, 2013

DESCRIPTION	BUDGETED AMOUNTS ORIGINAL	BUDGETED AMOUNTS FINAL	ACTUAL AMOUNTS	Variance with Final Budget - Positive (Negative)
REVENUES				
Taxes	$ 9,957,150	$ 9,957,150	$ 9,886,470	$ (70,680)
Licenses and permits	1,954,742	1,954,742	1,942,938	(11,804)
Intergovernmental	564,429	651,473	614,664	(36,809)
Charges for services	3,444,106	3,431,606	3,003,189	(428,417)
Fines and penalties	1,094,550	1,094,550	750,282	(344,268)
Investment income	26,000	26,000	27,720	1,720
Miscellaneous	224,766	251,030	237,467	(13,563)
TOTAL REVENUES	$ 17,265,743	$ 17,366,551	$ 16,462,730	$ (903,821)
EXPENDITURES				
Current:				
General government	$ 2,999,372	$ 3,023,980	$ 2,915,900	$ 108,080
Judicial	780,957	800,393	843,318	(42,925)
Public safety	8,404,934	8,448,561	8,007,940	440,621
Transportation	523,586	523,586	511,614	11,972
Natural & economic environment	1,760,610	1,807,830	1,626,551	181,279
Social services	400,970	400,970	394,723	6,247
Culture and recreation	1,934,694	1,993,495	1,837,890	155,605
Debt service:				
Principal	-	-	-	-
Interest and fiscal charges	-	-	-	-
Capital outlay	30,000	60,404	73,609	(13,205)
Other operating expenditures	-	-	-	-
TOTAL EXPENDITURES	$ 16,835,123	$ 17,059,219	$ 16,211,545	$ 847,674
Excess (deficiency) of revenues over (under) expenditures	$ 430,620	$ 307,332	$ 251,185	$ (56,147)
OTHER FINANCING SOURCES (USES)				
Capital related debt issued	$ -	$ -	$ -	$ -
Transfers in	-	14,362	14,361	(1)
Transfers out	(198,370)	(198,370)	(164,720)	33,650
Insurance recoveries	5,000	5,000	-	(5,000)
Sale of capital assets	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	(193,370)	(179,008)	(150,359)	28,649
Net change in fund balances	$ 237,250	$ 128,324	$ 100,826	$ (27,498)
Fund balances beginning of year	977,052	960,575	960,575	-
Prior Period Adjustment	-	-	(81,495)	(81,495)
Fund balances beginning of year, as restated	977,052	960,575	879,080	(81,495)
FUND BALANCES END OF YEAR	$ 1,214,302	$ 1,088,899	$ 979,906	$ (108,993)

The notes to financial statements are an integral part of this statement.
Note: Due to rounding, numbers may not add up precisely to totals provided.

STREET FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET (GAAP BASIS) AND ACTUAL
For the Year Ended December 31, 2013

DESCRIPTION	BUDGETED AMOUNTS ORIGINAL	BUDGETED AMOUNTS FINAL	ACTUAL AMOUNTS	Variance with Final Budget - Positive (Negative)
REVENUES				
Taxes	$ 19,000	$ 19,000	$ 20,581	$ 1,581
Licenses and permits	-	-	-	-
Intergovernmental	1,064,847	1,064,847	1,031,084	(33,763)
Charges for services	26,640	26,640	33,057	6,417
Fines and forfeits	-	-	-	-
Investment income	350	350	411	61
Miscellaneous	1,000	1,000	6,900	5,900
TOTAL REVENUES	$ 1,111,837	$ 1,111,837	$ 1,092,033	$ (19,804)
EXPENDITURES				
Current:				
General government	$ -	$ -	$ -	$ -
Physical environment	-	-	-	-
Transportation	1,066,705	1,110,689	1,065,998	44,691
Natural & economic environment	-	-	-	-
Social services	-	-	-	-
Culture and recreation	-	-	-	-
Debt service:	-	-	-	
Principal	-	-	-	-
Interest and fiscal charges	-	-	-	-
Capital outlay	-	-	19,912	(19,912)
TOTAL EXPENDITURES	$ 1,066,705	$ 1,110,689	$ 1,085,910	$ 24,779
Excess (deficiency) of revenues over (under) expenditures	$ 45,132	$ 1,148	$ 6,123	$ 4,975
OTHER FINANCING SOURCES (USES)				
Capital related debt issued	$ -	$ -	$ -	$ -
Transfers in	-	-	-	-
Transfers out	-	(1,397)	(1,002)	395
Insurance recoveries	5,000	5,000	-	(5,000)
Sale of capital assets		-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	$ 5,000	$ 3,603	$ (1,002)	$ (4,605)
Net change in fund balances	$ 50,132	$ 4,751	$ 5,121	$ 370
Fund balances beginning of year	221,026	276,022	276,022	-
Prior Period Adjustment	-	-	(16,513)	(16,513)
Fund balances beginning of year, as restated	221,026	276,022	259,509	(16,513)
FUND BALANCES END OF YEAR	$ 271,158	$ 280,773	$ 264,630	$ (16,143)

The notes to financial statements are an integral part of this statement.
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PROPRIETARY FUNDS
STATEMENT OF NET POSITION
December 31, 2013

DESCRIPTION	BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS MARINA	SURFACE WATER UTILITY	TOTAL	GOVERNMENTAL ACTIVITIES INTERNAL SERVICE FUNDS
ASSETS				
Current assets:				
Cash and cash equivalents	$ 114,145	$ 1,645,564	$ 1,759,709	$ 1,983,087
Investments	708,160	1,015,360	1,723,520	611,955
Receivables:				
Customer accounts, net of uncollectible amounts	176,697	110,276	286,973	-
Interest	1,149	1,564	2,713	908
Other	165	4,997	5,162	-
Due from other governments	4,819	-	4,819	4,247
Inventories	59,309	-	59,309	17,450
Prepaid items	27,049	-	27,049	-
Total current assets	1,091,493	2,777,760	3,869,253	2,617,647
Noncurrent assets:				
Restricted assets:				
Cash and cash equivalents	887,605	-	887,605	-
Investments	203,985	-	203,985	-
Interest receivable	303	-	303	-
Other receivables	54,228	-	54,228	
Capital assets:				
Land	3,226,925	564,362	3,791,287	-
Buildings and structure	5,140,436	-	5,140,436	-
Other improvements	14,784,757	19,379,663	34,164,420	-
Capital leases, net	7,787	4,591	12,378	19,719
Leasehold improvements	209,500		209,500	-
Machinery and equipment	426,889	219,990	646,879	3,666,456
Construction in progress	275,625	637,213	912,837	-
Intangible assets	148,482	-	148,482	-
Less accumulated depreciation and amortization	(9,493,811)	(8,003,541)	(17,497,352)	(3,012,276)
Total capital assets, net	14,726,590	12,802,277	27,528,867	673,899
Other noncurrent assets	33,815	-	33,815	-
Total noncurrent assets	15,906,526	12,802,277	28,708,803	673,899
TOTAL ASSETS	$ 16,998,019	$ 15,580,037	$ 32,578,056	$ 3,291,546
DEFERRED OUTFLOWS OF RESOURCES				
Deferred loss on refunding	$ 142,361	$ -	$ 142,361	$ -
LIABILITIES				
Current liabilities:				
Accounts payable	$ 179,555	$ 193,135	$ 372,691	$ 80,910
Accrued interest payable	26,618	-	26,618	-
Capital lease obligation	1,610	949	2,559	4,009
Loans payable	-	-	-	6,951
Other current liabilities	45,959	62,371	108,330	18,925
Total current liabilities	253,742	256,456	510,197	110,795
Noncurrent liabilities:				
Liabilities payable from restricted assets:				
General obligation bonds principal	495,000	-	495,000	-
Deposits	161,913	-	161,913	-
Total liabilities payable from restricted assets	656,913	-	656,913	-
General obligation bonds payable, net of unamortized premiums and discounts	7,463,449	-	7,463,449	-
Compensated absences	94,463	76,030	170,493	59,530
Unearned revenues	219,646	-	219,646	-
Long-term capital lease obligation	1,967	1,159	3,126	14,296
Other noncurrent liabilities	-	-	-	-
Total noncurrent liabilities	8,436,438	77,191	8,513,629	73,826
TOTAL LIABILITIES	8,690,180	333,647	9,023,826	184,621
NET POSITION				
Net investment in capital assets	6,798,378	12,800,168	19,598,546	673,899
Restricted for:				
Capital projects	78,274	1,310,758	1,389,032	-
Debt service	837,268	-	837,268	-
Repair and replacement	311,136	-	311,136	-
Unrestricted	425,144	1,135,465	1,560,608	2,433,026
Total net position	8,450,199	15,246,392	23,696,590	3,106,925
TOTAL LIABILITIES AND NET POSITION	$ 17,140,379	$ 15,580,039	$ 32,720,417	$ 3,291,546

The notes to financial statements are an integral part of this statement.
Note: Due to rounding, numbers may not add up precisely to totals provided.

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
For the year Ended December 31, 2013

	BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS			GOVERNMENTAL ACTIVITIES INTERNAL SERVICE FUNDS
DESCRIPTION	**MARINA**	**SURFACE WATER UTILITY**	**TOTAL**	
OPERATING REVENUES				
Charges for services	$ 4,097,070	$ 2,648,007	$ 6,745,077	$ 1,887,440
Other operating revenues	-	-	-	6,675
TOTAL OPERATING REVENUES	4,097,070	2,648,007	6,745,077	1,894,115
OPERATING EXPENSES				
Personal services	856,479	1,017,495	1,873,974	456,300
Contractual services	60,341	186,547	246,888	68,534
Utilities	68,896	39,641	108,537	3,070
Insurance	-	-	-	494,340
Repairs and maintenance	38,561	61,552	100,113	195,629
Fuel for resale	1,208,355		1,208,355	
Other supplies and expenses	398,915	274,590	673,505	364,464
Interfund services	772,768	345,231	1,117,999	44,521
Depreciation and amortization	530,510	396,130	926,640	324,492
TOTAL OPERATING EXPENSES	3,934,825	2,321,186	6,256,011	1,951,350
OPERATING INCOME (LOSS)	162,245	326,821	489,066	(57,235)
NON-OPERATING REVENUE (EXPENSE)				
Investment income	168	(86)	82	996
Interest and fiscal charges	(313,239)	(110)	(313,349)	(85)
Arbitrage interest rebate	-		-	
Amortization of deferred charges	-	-	-	-
Insurance recoveries	265,411		265,411	
Gain (loss) on sale of capital assets	-	(454,920)	(454,920)	(9,245)
Other non-operating revenues (expenses)	-	3,259	3,259	9,702
TOTAL NON-OPERATING REVENUES (EXPENSES)	(47,660)	(451,857)	(499,517)	1,368
INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS	114,585	(125,036)	(10,452)	(55,867)
Capital contributions	-	215,619	215,619	-
Transfers in	483,017	709,484	1,192,501	38,264
Transfers out	(483,017)	(710,536)	(1,193,553)	(7,994)
Eliminations	-			
Change in net position	114,584	89,531	204,115	(25,597)
Total net position - beginning	8,425,404	15,158,528	23,583,933	3,133,712
Prior year adjustments	(89,790)	(1,668)	(91,458)	(1,189)
Total net position - beginning, as restated	8,335,614	15,156,860	23,492,475	3,132,523
TOTAL NET POSITION - ENDING	$ 8,450,198	$ 15,246,391	$ 23,696,590	$ 3,106,926

The notes to financial statements are an integral part of this statement.
Note: Due to rounding, numbers may not add up precisely to totals provided.

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the year Ended December 31, 2013

DESCRIPTION	BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS MARINA	SURFACE WATER UTILITY	TOTAL	GOVERNMENTAL ACTIVITIES INTERNAL SERVICE FUNDS
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	$ 4,117,440	$ 2,668,222	$ 6,785,662	$ 1,890,705
Payments to suppliers	(1,821,973)	(586,503)	(2,408,476)	(1,088,350)
Payments to employees	(865,414)	(1,007,367)	(1,872,781)	(464,219)
Internal activity - payments to other funds	(772,768)	(345,231)	(1,117,999)	(44,521)
Other receipts (payments)	-	-	-	5,269
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	657,284	729,121	1,386,405	298,883
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Operating subsidies and transfers from (to) other funds	-	(1,052)	(1,052)	30,270
Other receipts (payments)	1,251	-	1,251	-
NET CASH PROVIDED (USED) FROM NONCAPITAL FINANCING ACTIVITIES	1,251	(1,052)	199	30,270
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Capital contributions	-	215,619	215,619	-
Proceeds from sales of capital assets	-	-	-	-
Purchases of capital assets	(441,061)	(380,614)	(821,675)	(96,387)
Purchases of capital assets related to other governments	-	-	-	-
Principal paid on capital debt	(456,544)	(910)	(457,454)	(4,166)
Interest paid on capital debt	(339,526)	(110)	(339,636)	(84)
Other receipts (payments)	254,359	1,591	255,950	8,513
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	(982,772)	(164,424)	(1,147,196)	(92,124)
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from sales and maturities of investments	1,000,000	1,100,000	2,100,000	600,000
Purchase of investments	(916,560)	(1,020,091)	(1,936,652)	(615,133)
Interest	4,859	5,077	9,936	3,817
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	88,299	84,986	173,284	(11,316)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(235,939)	648,630	412,692	225,713
BALANCES - BEGINNING OF THE YEAR	1,237,688	996,933	2,234,621	1,757,375
BALANCES - END OF THE YEAR	$ 1,001,750	$ 1,645,564	$ 2,647,311	$ 1,983,087
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES				
Operating income (loss)	$ 162,245	$ 326,821	$ 489,066	$ (57,235)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:				
Depreciation/amortization expense	530,510	396,130	926,639	324,495
Other non-cash operating expense	-		-	
Change in assets and liabilities:				
Account receivable	14,769	6,941	21,710	1,189
Due from other funds/governmental units	(3,101)	13,274	10,173	2,075
Inventories	(36,753)	-	(36,753)	2,094
Other prepayments	(27,049)	-	(27,049)	-
Accounts payable and other accrued expenses	16,716	(24,172)	(7,456)	35,117
Accrued payroll/employee leave benefits	(8,936)	10,128	1,192	(8,851)
Customer deposits	6,247	-	6,247	-
Unearned revenue	2,455	-	2,455	-
Other current liabilities	181	-	181	-
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	$ 657,284	$ 729,121	$ 1,386,405	$ 298,883
NON CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES				
Capital assets contributed by developer	$ -	$ 215,619	$ 215,619	$ -
Increase (Decrease) in fair value of investments	$ (5,121)	$ (5,596)	$ (10,717)	$ (3,371)
Disposal of capital assets	$ -	$ (454,920)	$ (454,920)	$ (43,578)
Capital asset trade-ins	$ -	$ -	$ -	$ -
Acquisition of equipment under capital lease	$ -	$ -	$ -	$ 17,821

The notes to financial statements are an integral part of this statement.
Note: Due to rounding, numbers may not add up precisely to totals provided.

CITY OF DES MOINES
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended December 31, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Des Moines, King County, Washington was incorporated in June 1959 and operates under the Revised Code of Washington (RCW) as an Optional Municipal Non-charter City (Title 35A RCW). The City utilizes a Council-Manager form of government. Under this form of government, the voters elect at-large, a seven member City Council, and the Council elects one of its members to serve as Mayor. All seven City Council positions are elected for terms of four years allowing for Council member consistency and staggered elections. The City Manager is appointed by the City Council to act as the chief executive officer of the City and is responsible to the City Council for proper administration of all City affairs. The City of Des Moines is a general-purpose government with its fiscal year ending December 31.

The City of Des Moines provides law enforcement, road improvement, park and recreation, judicial administration, health and social services, and general administration services. In addition, the City owns and operates a marina and a surface water management utility. Fire protection for the City of Des Moines is provided by South King Fire and Rescue, an entity established on September 20, 2005 when voters approved the merger of King County Fire Protection District No. 26 and the Federal Way Fire Department.

The financial statements of the City of Des Moines have been prepared in accordance with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). Financial reporting for the City is based on all GASB pronouncements, as well as accounting and financial reporting guidance contained in pre-November 30, 1989 Financial Accounting Standards Board (FASB) statements and AICPA pronouncements codified by GASB Statement No. 62.

The City implemented GASB statement No.65 in 2013. GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, establishes accounting and financial reporting standards that reclassify, as deferred outflows or resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities

The City's significant accounting policies are described in this note.

A. The Reporting Entity

The City's annual financial report includes all funds, account groups, agencies and boards controlled by or dependent on the City. In conformance with Governmental Accounting Standards Board (GASB) Statement 14, *The Financial Reporting Entity*, the primary basis of determining whether outside agencies and organizations should be considered component units of the City is financial accountability. Financial accountability is defined as appointment of a voting majority of an agency's or organization's board, and either the City's ability to impose will on the agency or organization, or the possibility that the agency or organization will provide a financial benefit to or impose a financial burden on the City.

The City established the Des Moines Transportation Benefit District in 2008 that meets the criteria of a component unit. See Note 9 for discussion of the Des Moines Transportation Benefit District.

See Note 8 – Joint Ventures for discussion of the South Correctional Entity (SCORE), a consolidated correctional facility formed by seven cities. A joint venture is a legal entity or organization which results from a contractual arrangement that is owned, operated, or governed by two or more participants as a separate entity subject to joint control, in which participants retain an ongoing financial interest or an ongoing financial responsibility. Also, see Note 17 – Risk Management for discussion of the Washington Cities Insurance Authority.

B. Basis of Presentation

The City's basic financial statements consist of government-wide statements, including a statement of net position and statement of activities, and fund financial statements that provide a more detailed level of financial information.

Government-wide Financial Statements

The statement of net position and the statement of activities display information about the City as a whole. The governmental activities column incorporates financial transactions from governmental funds and internal service funds, while business-type activities incorporate financial transactions from the government's enterprise funds. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely primarily on fees and charges for support.

The statement of net position presents the financial condition of the governmental and business-type activities of the City at year end. The statement of activities presents a comparison between direct expenses and program activity of the City. Direct expenses are those that are specifically associated with a service, program or department and, therefore, clearly identifiable to a specific function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or program, and interest earned on grants that is required to be used to support a particular function or program. Revenues which are not classified as program revenues are presented as general revenues of the City. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the City.

Fund Financial Statements

During the year, the City segregates transactions related to certain City functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the City at this more detailed level. The focus of governmental and enterprise fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Internal service funds are combined and the totals are presented in a single column on the face of the proprietary fund financial statements.

C. Fund Accounting

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 equity, revenues and expenditures or expenses, as appropriate. The City's resources are allocated to and accounted for in individual funds according to the purpose for which they are spent and how they are controlled. There are three categories of funds: *governmental, proprietary,* and *fiduciary*.

Governmental Funds

All governmental funds are accounted for on a "flow of current financial resources" measurement focus. This means that only current assets and current liabilities are generally included on their balance sheets. Their reported fund balance (net current assets) is considered a measure of "available spendable resources." Governmental fund operating statements focus on measuring changes in financial position, rather than net income; they present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. The City's major governmental funds are:

1) The General Fund is the general operating fund of the City. It accounts for all financial resources and transactions except those required to be accounted for in another fund.

2) The Street Fund is a general government service fund that accounts for the receipt and disbursement of State-levied motor vehicle fuel taxes. All resources of this fund are utilized for the administration of street-oriented maintenance and repair.

3) The Transportation Capital Improvement Fund was established in 2008 to account for the disbursement of the net bond proceeds received from the December 1, 2008 issuance of $2,515,000 limited tax general obligation bonds. The Transportation Capital Improvement Fund provides for all transportation infrastructure improvements.

The other governmental funds of the City account for grants and other resources whose use is restricted to a particular purpose.

Proprietary Funds

Proprietary Funds are accounted for on a "flow of economic resources" measurement focus. This means that all assets and liabilities (whether current or noncurrent) associated with their activity are included on their statements of net position. Proprietary fund operating statements present increases (revenues and gains) and decreases (expenses and losses) in net total assets. Proprietary funds' measurement focus is based upon determination of net income, financial position, and cash flows.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal on-going operations. The principal operating revenues of the City's enterprise and internal service funds are charges to customers, both internal and external, for sales and services. Operating expenses for the enterprise and internal service funds include the costs of sales and services, administrative expenses, and depreciation on capital assets. All revenues and

expenses not meeting this definition are reported as nonoperating revenues and expenses. As described below, there are two generic fund types in this category.

The City's **Enterprise Funds** account for services to the general public where all or most of the costs including depreciation are to be financed or recovered from users of such services. The City maintains separate funds for the Marina and the Surface Water Management Utility. These funds are each reported as major funds in the proprietary funds' financial statements.

The City has seven **Internal Service Funds**. The Equipment Rental Operations and Replacement Funds are used to account for the costs of maintaining and replacing all City vehicles and auxiliary equipment. The Facility Repair and Replacement Fund is used to account for costs of major repair and maintenance of City-owned administrative, park and public works facility buildings. The Computer Equipment Operations and Replacement Funds are use to account for the costs of maintaining and replacing the city-wide information systems network & computer hardware and software. The Self-Insurance Fund is used to account for the costs of the City's liability and property coverage. The Unemployment Compensation Fund is used to account for the costs of unemployment claims.

Restricted assets shown in the government-wide financial statements and the proprietary funds statements of net position include general obligation bond proceeds reserved for future capital construction, monies reserved for payment of the bond debt, and deposits for customer accounts. When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, than unrestricted resources as they are needed.

The government-wide statement of net position reported $7,690,474 of restricted resources, of which $1,591,927 is restricted by enabling legislation.

Fiduciary Funds

Fiduciary Funds account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governments, and other funds.

During the fiscal year, the City did not maintain any trust or agency funds.

D. Measurement Focus

The government-wide financial statements are prepared using the economic resources measurement focus. All assets and liabilities associated with the operation of the City are included on the statement of net position.

All fund financial statements are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the statement of net position. The statement of revenues, expenditures, and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the government activities of the government-wide financial statements are prepared. Governmental fund financial statements, therefore, include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and statements for governmental funds.

Like the government-wide statements, all proprietary fund types are accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of these funds are included on the statement of net position. The statement of revenues, expenses, and changes in net position presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the City finances and meets the cash flow needs of its proprietary activities.

Fiduciary funds are reported using the economic resources measurement focus.

E. Basis of Accounting

Basis of accounting refers to the recognition of revenues and expenditures or expenses in the accounts and reporting them in the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds use the accrual basis of accounting.

Revenues – Exchange and Non-exchange Transactions

Revenues resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. The modified accrual basis of accounting is followed in all governmental funds of the City. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual, i.e., both measurable and available. “Measurable” means the amount of the transaction can be determined and “available” means collectible within the current period or soon enough thereafter to pay current liabilities. For the City, available means expected to be received within sixty (60) days of year end.

Nonexchange transactions, in which the City receives value without directly giving equal value in return, include property taxes, sales and use taxes, business and occupation taxes, franchise fees, utility taxes, gambling taxes, hotel-motel taxes, grants, entitlements, and donations. These revenues are on an accrual basis in the government-wide financial statements. On the accrual basis, the revenue is recognized in the period in which the income is earned. Revenue from property taxes is recognized in the fiscal year for which the taxes are levied. (See Note 4 on receivables).

Other Revenue Sources

Revenue sources which are not considered to meet the measurable and available criteria for revenue recognition include licenses and permits, fines and forfeitures, and other miscellaneous revenues since they are not measurable until received.

Under the modified accrual basis, expenditures are recorded when the fund liability is incurred, except for principal and interest on general long-term debt and vacation and sick pay which are recorded when paid. Inventory items are reported as expenditures when consumed.

The effect of interfund activity has been eliminated from the government-wide financial statements so that expenses are not reported twice. Amounts reported on the government-wide statements as program revenues include, charges to customers or applicants for

goods, operating grants and contributions, and capital grants and contributions. General revenues include all taxes.

The accrual basis of accounting is followed in all proprietary funds. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when incurred. All assets and liabilities are recorded in the fund.

F. Budgets and Budgetary Accounting

The City of Des Moines budgets its funds in accordance with the Revised Code of Washington (RCW) Chapter 35A.33. In compliance with the code, annual appropriated budgets are adopted for the general, special revenue, debt service, and capital project funds. For governmental funds, there are no substantial differences between the budgetary basis and generally accepted accounting principles. Budgetary accounts are integrated in fund ledgers for all budgeted funds, but the financial statements include budgetary comparisons for annually budgeted operating governmental funds only. Budgets established for proprietary and trust funds are “management budgets” and are not legally required to be reported. However, for management purposes 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 the 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.

The City of Des Moines’s budget procedures are mandated by RCW 35A.33. The steps in the budget process are as follows:

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

2. 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.

3. By second week of September, 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 Departments to discuss their proposed expenditures.

4. 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.

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

6. During the first two weeks of November, the City Clerk publishes a notice of filing of the preliminary budget and notices of public hearings to be held during preliminary budget deliberations.

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

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

9. 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.

The City Manager may authorize transfers within funds, however, the City Council must approve by ordinance any amendments that increase or decrease the total for the fund. The budget was amended once during 2013. Budget amounts presented in the basic financial statements include both the original adopted amounts and the final amended budget as approved by the City Council.

Expenditure Categories

General Government – includes executive, finance, records services, personnel, legal, and facilities maintenance.

Judicial –- includes expenditures for municipal court, and public defender services.

Public Safety – includes all police activities, jail services, and fire protection fees to South King Fire and Rescue.

Transportation – includes all engineering, street, and arterial street maintenance and construction.

Natural and Economic Environment – includes expenditures for planning, building and public works administration, building inspection activities, animal control, pollution control fees, and recycling programs, citizen information services, joint minor home repair program and the planning and development review activities.

Social Services – includes human services, senior services, and senior recreation programs.

Culture and Recreation – includes parks administration, parks recreation programs, parks maintenance activities, and arts commission.

G. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance

Cash and Cash Equivalents

All cash and cash equivalents, restricted and unrestricted, consists of cash balances in the City's checking account, imprest funds, demand deposits with banks or other financial institutions, investments with the State Treasurers Local Government Investment Pool, and investments with original maturities of less than three months. Interest earned on pooled investments is allocated to funds based on the average monthly equity in the pooled balances.

Investments

Investments are held separately by each of the funds with interest earned directly for the benefit of each fund, unless authorization by the City Council allows interest earnings from unrestricted sources from various other general governmental funds to be received by the General Fund. Investments are reported on the financial statements at fair value, cost or amortized cost, depending on the type and maturity length of each investment as required by GASB Statement No. 31. Washington State statutes provide for the City to hold investments consisting of obligations of the federal government, repurchase agreements, prime banker's acceptances, time certificates of deposit. Gains or losses due to market valuation changes are netted against interest earnings. Premiums and discounts on investment purchases are amortized on a straight-line basis over the life of the investment, or to the first call date if one exists and the purchase is at a premium. Additional deposit and investment information is presented in Note 3.

Receivables

Taxes receivable consist of measurable and available locally levied property taxes, sales taxes, business and occupation taxes, utility taxes, real estate excise taxes and related interest and penalties. No allowance for uncollectible property taxes is established because delinquent taxes are considered fully collectible due to foreclosure requirements in State Law.

Special assessments are recorded when levied. Special assessment receivables consist of deferred and delinquent assessments and related interest and penalties. Deferred assessments consist of unbilled special assessments that are liens against the property benefited.

Customer accounts receivable consists of amounts owed from private individuals or organizations for goods and/or services provided by the end of the fiscal year. Uncollectible amounts are considered immaterial and the direct write-off method is primarily used.

Other accounts receivable includes franchise fees due from the television cable and solid waste providers, and right-of-way permit fees.

Due from other governments reflects measurable and available intergovernmental grants, entitlements, or state shared revenues, loans, and charges for services rendered by the City for another government unit. These amounts are reported as intergovernmental revenues in the year when the related expenditures are incurred.

Interfund Transactions

During the course of normal operations, the City has numerous transactions between City funds. Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either interfund loans receivable/payable or advances to/from other funds. 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 governmental-wide statement of net position as internal balances. See Note 6 for additional information.

Inventories and Prepaid Items

Governmental funds use the "purchase method" whereby inventory items are considered expenditures when purchased. Inventories in proprietary funds are valued at cost using the first-in/first-out (FIFO) method. Prepaid items reflect payments for costs applicable to future accounting periods and are recorded in both government-wide financial statements and fund financial statements, when applicable.

Restricted Assets

These monies include other resources the use of which is restricted by legal or contractual requirements, and therefore essentially beyond the government's control. These accounts contain resources for debt service (general obligation and revenue bonds) and construction in enterprise funds. These funds can only be used for the purposes specified in the ordinances and resolutions requiring restriction.

Capital Assets and Depreciation

The accounting and reporting treatment applied to the capital assets associated with a fund are determined by its measurement focus. Capital assets acquired in governmental funds are accounted for as expenditures in the fund when the asset is purchased. These assets are reported in the governmental activities column of the government-wide statement of net position but are not reported in the fund balance sheet. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net position and in the respective proprietary fund financial statements.

Capital assets include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items). Capital assets are defined by the City as assets with an initial, individual cost of $5,000 or greater and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at time of acquisition.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. The total interest and fiscal charges expense for the business-type activities incurred by the City during the current fiscal year was $313,349.

Depreciation is computed using the straight line method over estimated service lives, as follows:

Assets	Estimated Service Life
Buildings and structures	10 to 50 years
Capital leases	5 Years
Leasehold improvements	5 Years
Other improvements	10 to 50 years
Vehicles	3 to 10 years
Communication systems	7 to 10 years

Computer infrastructure	6 Years
Machinery and equipment	3 to 24 years
Infrastructure	10 to 50 years
Intangible assets	5 to 10 years
Storm drainage systems	20 to 50 years

See Note 7 for additional information.

Other Noncurrent Assets

Other noncurrent assets represent the unamortized portion of bond issuance costs for financial guaranty insurance policies in the government-wide financial statements for both governmental and business-type activities.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City only has one item that qualifies for reporting in this category. It is the deferred amount on refunding reported in the government-wide statement of net position. A deferred amount of 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. The City's deferred amount of refunding results from the 2008 refunding bond issue and the 2012 refunding bond issue.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to future periods and so will not be recognized as an inflow of resources (revenue) until that time. For the year ended December 31, 2013, the City has no reportable deferred inflows of resources in the government-wide statement of net position.

Compensated Absences

It is the City of Des Moines's policy to permit employees to accumulate earned but unused vacation, compensatory time, and sick leave benefits.

The City records a liability for all outstanding vacation pay. The payment is based on current wages at termination. Employees with the required length of service may receive cash payouts for all accumulated vacation leave to a maximum of 315 hours.

Accrued vacation pay for governmental fund employees incurred within sixty days is recorded as a fund liability in the fund 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.

The City records 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 at least ten years of service with the city, or upon death of any employee regardless of service, and for some executive staff with less than 10 years of service with the City. For employees with at least 20 years of service, the City records a liability for sick leave up to 25% of the employee's sick leave balance or 400 hours, whichever is less.

The entire compensated absence liability is reported on the government-wide financial statements. In the proprietary funds, the entire amount of compensated absences is reported as a fund liability. This reporting format is in compliance with GASB Statement No. 16.

Short-term Debt

As of December 31, 2013, the City of Des Moines had not incurred any short-term debt.

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, are deferred and amortized over the life of the bonds using the "bonds-outstanding" method, which approximates 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, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums or discounts received on debt issuances are reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Unearned Revenues

Unearned revenues consist of amounts collected before revenue recognition criteria are met, and receivables, which, under the modified accrual basis of accounting, are measurable but not yet available. When the receivable amounts are collected in future periods, this liability account is reduced and corresponding revenues is recorded.

Net Position and Fund Balances

The City's net position in the government-wide financial statements is displayed in three components:

(1) Net Investment in Capital Assets. This consists of capital assets, including restricted capital assets, net of accumulated depreciation/amortization and reduced by the outstanding balances of bonds, mortgages, notes or other debt attributable to the acquisition, construction or improvement of such assets. Significant unspent related debt proceeds are not included in the calculation of invested in capital assets, net of related debt. The unspent portion of the debt is included in restricted for capital assets.

(2) Restricted Net Position. Resources subject to constraints placed on their use due to either (a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or, (b) imposed by law through constitutional provisions or enabling legislation.

(3) Unrestricted Net Position. Resources available for any government purpose.

Fund balances for governmental funds are classified as nonspendable, restricted, committed, assigned or unassigned. When an expenditure is incurred for purposes for which both restricted and unrestricted resources are available, the City's policy is to use its restricted resources first. This will be followed by committed, assigned and unassigned resources in that order.

Nonspendable Fund Balance. Amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

Restricted Fund Balance. Amounts that have constraints placed on the use of resources. These constraints must be either (a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

Committed Fund Balance. Amounts that can only be used for specific purposes pursuant to constraints imposed by formal action at a City Council Meeting, and cannot be used for any other purpose unless the government removes or changes the specified use by taking the same type of action it employed to previously commit those amounts.

Assigned Fund Balance. Amounts that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed.

Unassigned Fund Balance. Amounts that have not been restricted, committed, or assigned to specific purposes. The General Fund is the only fund that can report a positive unassigned fund balance.

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Compliance

There have been no material violations of finance-related legal and contractual provisions. Expenditures in the Hotel-Motel Tax Fund, a nonmajor governmental fund, exceeded legal appropriations by $2,575.

NOTE 3 – DEPOSITS AND INVESTMENTS

As required by state law, all deposits and investments of the City's funds are either obligations of the United States Government, the State Treasurer's Local Government Investment Pool (LGIP), bankers' acceptances, or deposits with Washington State banks or savings and loan institutions.

External Investment Pool. The LGIP is a voluntary program administered by the State Treasurer's Office. The LGIP operates as a 2a7-like unrated pool. Investments in 2a7-like pools are measured at the net asset value per share provided by the pool. The net asset value per share generally is calculated on a basis other than fair value, such as by the "amortized cost" method that provides a net asset value per share that approximates fair value. Positions in the LGIP are approximately equivalent to the value of the pool shares due to the investments' high quality and short maturities. Interest earned on pooled investments is credited to the participating funds in proportion to their respective cash balances in the pool. Note 1 describes the investment policies of the City.

Deposits in approved banks are covered by the Federal Deposit Insurance Corporation up to a limit of $250,000 permanently per account with enactment of the Dodd-Frank Wall Street Reform and Consumer Protection Act signed into law on July 21, 2010. On November 9, 2010, the FDIC issued a Final Rule implementing section 343 of the Dodd-Frank Wall Street Reform and Consumer Protection Act that provides for unlimited insurance coverage on noninterest-bearing transaction accounts from December 31, 2010 through December 31, 2013. The remaining deposits are insured by the Washington Public Deposit Protection Commission (WPDPC). The WPDPC is a multiple financial institution collateral pool. State statute permits additional amounts to be assessed on a pro rata share basis to members of the pool in the event the pool's collateral should be insufficient to cover a loss.

Cash and Deposits

At December 31, 2013, the City had in cash and cash equivalents which consisted of investments with the LGIP of $8,027,687; the City's checking account bank balance of $1,938,705; cash held in escrow accounts of $236,862; and petty cash and change funds, and investigative fund totaling $5,200. No deposits were uninsured or uncollateralized.

Investments

The City has few investments and chooses to disclose its investments by specifically identifying each individually. As stated in Note 1, investments are held separately by each of the funds with interest earned directly for the benefit of each fund, unless authorization by the City Council allows interest earnings from unrestricted sources from various other general governmental funds to be received by the General Fund. Investments are reported at fair value based on quoted market prices. At December 31, 2013, the City held the following investments.

Item	Call Date	Maturity Date	Fair Value
Federal National Mortgage Association Notes	2/26/15	2/26/16	$ 999,220
Federal National Mortgage Association Notes	3/28/14	3/2/16	998,890
Federal Home Loan Bank	N/A	6/10/16	1,036,390
Federal Home Loan Mortgage Corporation	N/A	10/14/16	1,003,460
Total investments at fair value			$ 4,037,960

Interest Rate Risk. As a means of limiting its exposure to fair value losses arising from rising interest rates, the City's investment policy limits investment maturities to eighteen months or less unless matched to a specific cash flow. As of December 31, 2013,

investments with maturities greater than eighteen months were primarily limited to capital and reserve funds.

Credit Risk. State statutes and the City's investment policy limit the types of securities authorized for investment by the City. The principal governing statutes are RCW 39.59 and RCW 39.60. Authorized investments include:

1) U.S. Treasury Securities.
2) U.S. Agency Securities (i.e., obligations of any government-sponsored corporation eligible for collateral purposes at the Federal Reserve).
3) Certificates of Deposit, Money Market Deposit Accounts and savings deposits with qualified depositories within statutory limits as promulgated by the WPDPC at the time of investment.
4) Bankers Acceptances (BA's) purchased on the secondary market with a rating of A-1, P-1, it's equivalent or better.
5) General Obligation Bonds of a state or local government which have at the time of the investment one of the three highest credit ratings of a nationally-recognized rating agency.
6) The Washington State Local Government Investment Pool (LGIP).

As of December 31, 2013, the City's two Federal National Mortgage Association Notes investments were rated Aaa by Moody's Investor Services and AA+ by Standard and Poor's. The City's Federal Home Loan Bank investment was rated Aaa by Moody's Investors Service and AA+ by Standard and Poor's. The City's Federal Home Loan Mortgage Corporation Reference Notes investment was rated Aaa by Moody's Investor Service and AA+ by Standard and Poor's.

Concentration of Credit Risk. With the exception of U.S. Treasuries, and the State Investment Pool, the City's investment policy limits investing in a single security type or with a single financial institution to no more than 25 percent of the City's total investment portfolio.

	Cash & Cash Equivalents	Investments	Total
From Statement of Net Position:			
Cash and cash equivalents	$ 9,320,849	$ -	$ 9,320,849
Investments		3,833,975	3,833,975
Restricted assets:			
Cash and cash equivalents	887,605		887,605
Investments		203,985	203,985
Total all cash, deposits, and investments from statement of net position	$ 10,208,454	$ 4,037,960	$ 14,246,414

NOTE 4 – RECEIVABLES AND PAYABLES

Property Taxes Receivable

The King County Treasurer acts as an agent to collect property taxes levied in the County for all taxing authorities. Taxes are levied annually on January 1 on all property listed as of the prior August 31 and billed on April 1 and October 1. Amounts collected by the County on the City's behalf are remitted daily.

Property taxes levied by the City and collected by the King County Treasurer (County) become a lien on the first day of the levy year and may be paid in two equal installments if the total amount exceeds thirty dollars. The first half of the real property taxes is due April 30 and the balance is due October 31. Delinquent taxes bear interest at the rate of 12% and are subject to additional penalties if not paid as scheduled.

During the year, property tax revenue is recognized when cash is received. At year end, property tax revenues are recognized for collections to be distributed by the County in January and February. Property taxes not expected to be collected within 60 days after the current period are reported as a deferred inflow of resources.

Under state law, cities may levy up to $3.60 per $1,000 of assessed valuation for general government services, of which $1.50 is allocated to the local fire district and $0.50 to library services. The City of Des Moines is served by South King Fire and Rescue and the King County Library System and therefore is limited to $1.60 per $1,000 of assessed valuation for general purposes.

The payment of principal and interest on Limited Tax (non-voted) General Obligation Bonds issued by the City is made from the general levy. Accordingly, the issuance of Limited Tax General Obligation Bonds has the effect of reducing property taxes available for the general operations of city government.

State law also provides that the City's operating levy may not exceed 106% of the largest single levy of the previous three years. In addition, the state constitution provides that the total of all taxes upon real and personal property by the state and all taxing entities, including the City, shall not in any year exceed 1% ($10 per $1,000) of the true and fair monetary value of such property. The limitation may be exceeded upon the 60% approval of the City voters at an election in which the total vote exceeds 40% of the votes cast at the last general election.

In 2013, the City levied $1.60 per $1,000 of assessed valuation for general purposes on a total regular levy assessed value of $2,261,359,089.

Actual property taxes levied in 2013 were as follows:

Item	Property Taxes
General Levy	$3,625,404
Total	**$3,625,404**

Sales Taxes and Other Locally Levied Taxes

During the year, sales tax, hotel-motel tax, business and occupation tax, utility tax, and gambling tax revenues are recognized when cash is received. Sales tax and hotel-motel tax revenues are collected by the State's Department of Revenue and remitted monthly. Timing of receipts for sales tax and hotel-motel tax revenues follows a two month lag in reporting period. November and December 2013 revenues were remitted in January and February 2014, respectively. The City collects utility tax and gambling tax revenues and they are remitted monthly following the month earned. At year end, unpaid taxes are recorded as a receivable.

The City implemented a business and occupation tax effective for 2005 with the adoption of Ordinance No. 1355 on December 2, 2004. A tax rate of two tenths of one cent ($.002) was

established exempting businesses with annual gross receipts of $50,000 or less. Businesses earning $75,000 or more are required to file their tax returns and submit their remittances 30 days following the end of each quarter. All other active businesses file annual returns. Business and occupation taxes reported in 2013 totaled $592,187.

On January 13, 2005, the City Council adopted Ordinance No. 1358 imposing a one percent (1%) hotel-motel tax per RCW 67.28.180. The hotel-motel tax is a special excise tax imposed upon the sale of or charge made for the furnishing of lodging by a hotel, rooming house, tourist court, motel, bed and breakfast, or trailer camp for less than 30 days. The hotel-motel tax revenue collections are earmarked for marketing services in promoting tourism to the City. Hotel-motel tax revenues reported in 2013 totaled $20,234.

The King County Treasurer acts as an agent for the collection of the locally-imposed real estate excise taxes. Cities are authorized to levy one quarter percent and an additional one quarter percent if they are planning under the Growth Management Act. The City levies both the first ¼% and second ¼% (optional) real estate excise taxes. The tax is levied on all sales of real estate, measured by the full selling price including the amount of any liens, mortgages, and other debts given to secure the purchase. Amounts collected by the County on the City's behalf are remitted monthly.

During the year, real estate excise tax revenue is recognized when cash is received. Real estate excise taxes are collected by King County and remitted monthly. Timing of receipts follows a one month lag in reporting period. At year end, unpaid taxes are recorded as a receivable. Real estate excise taxes not expected to be collected within 60 days after the current period are reported as a deferred inflow of resources.

The following outlines taxes receivable for the year ended December 31, 2013.

Item	Taxes Receivable
Property Taxes	$ 158,116
Sales Taxes	280,650
Hotel-Motel Taxes	3,157
B&O Taxes	205,980
Utility Taxes	349,538
Gambling Taxes	8,669
Real Estate Excise Taxes	52,276
	$ 1,058,386

Customer Accounts and Other Receivables

As of December 31, 2013, the City has included a receivable for court fines and forfeits under customer accounts for $546,686 related to 2013 and prior years. A deferred inflow of resources account for these court fines and forfeits has been established in the fund financial statements. These revenues represent the estimated collectible amount of the total court outstanding revenues of $3,535,841 at December 31, 2013.

The City collects a 5% franchise fee from the cable television provider and a 13% franchise fee from the solid waste provider as payment for using the City's rights-of-way. Franchise fees are remitted monthly following the month earned. At December 31, 2013, a receivable of $104,145 for franchise fees is included under other receivables.

Due from Other Governments

The City receives various grant awards from federal, state, and local governmental agencies. Most of the awards are reimbursable after expenditures are incurred; reimbursements not yet received at year end are reported as intergovernmental revenues and due from other governments. Grant revenues from cost reimbursement grants are considered earned and therefore available when the expenditure is incurred. Grants received before the revenue recognition criteria have been met are reported as deferred inflow of resources.

Due to Other Governments

At December 31, 2013, the City recorded $71,184 as due to other governmental units. Included in this total is $70,560 due King County for overpayment of property taxes with the remainder due the Washington State Department of Licensing for concealed pistol licenses.

Other Current Liabilities

As of December 31, 2013, other current liabilities were as follows:

Item	General Fund	Street Fund	Transportation CIP Fund	Nonmajor Governmental Funds	Marina	Surface Water Utility	Total
Retainage	$ -	$ -	$ 242,511	$ -	$ -	$ 6,256	$ 248,767
Payroll	458,990	22,196		15,086	31,513	40,198	567,983
Employee benefits	41,744	3,516		1,193	6,078	11,734	64,265
Taxes	211			(23)			188
Banking fees	4,733				4,110		8,843
Compensated absences	66,344	1,445		2,670	2,948	4,183	77,590
Unclaimed property	12,292			70	1,310		13,672
Court trust bails	4,324						4,324
Custodial Acct/Evidence Rm	5,705						5,705
Zayo Group Security Fund	8,000						8,000
Customer deposits	134,107						134,107
Total other current liabilities	$ 736,450	$ 27,157	$ 242,511	$ 18,996	$ 45,959	$ 62,371	$ 1,133,444

Unearned Revenues

Unearned revenue for the year ended December 31, 2013 as reported on the government-wide statement of net position is detailed below:

Item	Governmental Activities	Business-Type Activities	Total
Business licenses	$ 109,517	$ -	$ 109,517
Recreation programs	72,387		72,387
Mitigation Fees	13,413		13,413
King County	20,760		20,760
Customer moorage		219,646	219,646
Total	$ 216,077	$ 219,646	$ 435,723

NOTE 5 – PREPAID ITEMS

As of December 31, 2013, the City recorded $28,487 in vendor prepayments for services that will occur in 2013.

NOTE 6 – INTERFUND TRANSACTIONS

Interfund transactions are classified as follows:

Reciprocal Interfund Activity. Interfund loans are reciprocal interfund activity between funds and blended component units with a requirement for repayment. These loans are reported as interfund receivables/payables. Interfund services are sales and purchases of goods and services between funds for a price approximating their external exchange value. This activity is reported as revenues in seller funds and expenditures or expenses in purchaser funds. Unpaid amounts are reported as receivables and payables.

Nonreciprocal Interfund Activity. Interfund transfers are nonreciprocal interfund activity. This activity refers to flows of assets without equivalent flows of assets in return and without a requirement for repayment. In governmental funds, transfers are reported as other financing sources or uses. In proprietary funds, transfers are reported after nonoperating revenues and expenses. Transfers between governmental and business-type activities are netted and presented in the government-wide statement of net position labeled as internal balances.

Interfund Transfers

The principal purposes for interfund transfers include interfund subsidies and transfers into debt service and capital project funds.

Interfund transfers at December 31, 2013 were as follows:

Fund Category	Transfers In	Transfers Out
General Fund	$ 14,361	$ 144,450
Street Fund		1,002
Police Services Restoration Fund		14,361
Transportation Capital Imprv	767,582	251,229
Nonmajor Governmental Funds	402,372	782,221
Surface Water Mgt Utility		1,052
Internal Service Funds	38,264	28,264
Totals	$ 1,222,579	$ 1,222,579

The following describes the significant amounts transferred during 2013:

General fund transfers in:

- $14,362 in reserve balances from the Police Services Restoration Fund.

General fund transfers out:

- $108,092 in Automated Speed Enforcement Program net revenues to the Transportation Capital Improvement Fund.

Transportation Capital Improvement fund transfers in:

- $643,413 in municipal capital improvements and transportation impact fees.

Transportation Capital Improvement fund transfers out:

- $251,229 for debt service in the nonmajor governmental funds.

NOTE 7 – CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2013 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital assets not being depreciated:				
Land	$ 103,490,340	$ 159,883	$ -	$ 103,650,224
Art Collections	138,500	10,574		149,074
Construction in progress	5,147,216	7,866,929	(833,322)	12,180,823
Total capital assets not being depreciated	108,776,056	8,037,386	(833,322)	115,980,120
Other capital assets:				
Buildings & structures	11,415,247			11,415,247
Capital leases	71,177	17,821		88,998
Other improvements	9,121,870	-		9,121,870
Leasehold Improvements	154,682			154,682
Machinery and equipment	5,233,432	182,694	(42,984)	5,373,142
Infrastructure	40,109,232	1,217,209		41,326,442
Intangible assets	-			-
Total other capital assets at historical cost	66,105,640	1,417,724	(42,984)	67,480,380
Less accumulated depreciation:				
Buildings & structures	(3,176,807)	(241,727)		(3,418,534)
Capital leases	(26,098)	(14,830)		(40,928)
Other improvements	(4,350,433)	(488,056)		(4,838,489)
Leasehold Improvements	(154,682)			(154,682)
Machinery and equipment	(4,051,538)	(418,238)	34,333	(4,435,444)
Infrastructure	(18,485,792)	(1,879,968)		(20,365,760)
Total accumulated depreciation	(30,245,350)	(3,042,819)	34,333	(33,253,837)
Other capital assets, net	35,860,290	(1,625,095)	(8,651)	34,226,544
Governmental activities capital assets, net	$ 144,636,346	$ 6,412,292	$ (841,974)	$ 150,206,664

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type Activities:				
Capital assets not being depreciated:				
Land	$ 3,791,287	$ -	$ -	$ 3,791,287
Construction in progress	1,461,392	753,062	(1,301,616)	912,837
Total capital assets not being depreciated	5,252,679	753,062	(1,301,616)	4,704,124
Other capital assets:				
Buildings & structures	5,062,196	78,240		5,140,436
Capital leases	12,378			12,378
Other improvements	33,228,727	935,693		34,164,420
Leasehold improvements	209,500			209,500
Machinery and equipment	576,647	70,232	-	646,878
Intangible assets	148,482			148,482
Total other capital assets at historical cost	39,237,929	1,084,165	-	40,322,093
Less accumulated depreciation:				
Buildings & structures	(3,577,418)	(97,703)		(3,675,121)
Capital leases	(4,539)	(2,476)		(7,015)
Other improvements	(12,497,229)	(758,875)		(13,256,103)
Leasehold improvements	(36,075)	(10,475)		(46,550)
Machinery and equipment	(340,994)	(48,552)		(389,546)
Intangible assets	(114,458)	(8,560)		(123,018)
Total accumulated depreciation	(16,570,713)	(926,640)	-	(17,497,352)
Other capital assets, net	22,667,215	157,525	-	22,824,742
Business-type activities capital assets, net	$ 27,919,895	$ 910,586	$ (1,301,616)	$ 27,528,866

All reported capital assets of the City are depreciated, excluding the art collection. Improvements are depreciated over the remaining useful lives of the related capital assets. Useful lives for infrastructure were estimated based on the City's historical records of necessary improvements and replacement.

Depreciation expense for 2013 was charged to functions/programs as follows:

Governmental Activities:	
General Government	$ 78,206
Judicial	14,028
Public Safety	155,600
Transportation	1,937,551
Natural and Economic Environment	4,581
Social Services	31,759
Culture and Recreation	496,602
In addition, depreciation on capital assets held by the City's internal service funds is charged to the various functions based on their usage of the assets.	324,492
Total governmental activities depreciation and amortization expense	$ 3,042,819
Business-type Activities:	
Marina	$ 530,510
Surface Water Utility	396,130
Total business-type activities depreciation and amortization expense	$ 926,640

Marina Fire. On June 23, 2013, a boat fire caused structural damage to a section of covered boat moorage at the City of Des Moines Marina. The estimated time to complete repairs and return the structure to its previous condition has been estimated at 16-18 months. The estimated total cost to repair the damaged section is approximately $754,000. During this period the Marina has reduced the cost of monthly moorage to reflect the dock's current condition. The loss of monthly moorage revenue, for the period, is estimated to be $25,775.

NOTE 8 – JOINT VENTURES

South Correctional Entity ("SCORE")

The South Correctional Entity (SCORE) consolidated correctional facility was established February 25, 2009, when an Interlocal Agreement (the "Original Interlocal Agreement") was entered into by seven participating municipal governments, the "Member Cities" of Auburn, Burien, Des Moines, Federal Way, Renton, SeaTac and Tukwila, under the authority of the "Interlocal Cooperation Act" (RCW 39.34). This "Original Interlocal Agreement" was amended and restated October 1, 2009 and named the City of Des Moines as the "Host City" and the remaining Member Cities as "Owner Cities". This Interlocal agreement is known as the "Formation Interlocal Agreement". Pursuant to a separate "Host City Agreement" dated October 1, 2009, the Host City will not enjoy the same equity position as the Owner Cities until all debts issued are paid and the Host City fulfills all of its obligations as outlined in the Agreement.

SCORE, an 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 will be 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 and secured by the full faith and credit of the Cities of Auburn, Burien, Federal Way, Renton, SeaTac, and Tukwila (the "Owner Cities"). The SCORE PDA issued $86 million in special obligation bonds in 2009 to carry out the facility development project. The following is a summary of the debt service requirements for the bond issue:

Summary of Debt Service Requirements										
Debt Service Schedule					Debt Service Allocation to Owner Cities					
			35% BABs		Auburn	Burien	Federal Way	Renton	SeaTac	Tukwila
Year	Principal	Interest	Subsidy	Total	31%	4%	18%	36%	3%	8%
2014	1,950,000	5,066,566	(1,654,975)	5,361,591	1,662,093	214,464	965,086	1,930,173	160,848	428,927
2015	1,990,000	4,995,069	(1,632,787)	5,352,282	1,659,207	214,091	963,411	1,926,822	160,568	428,183
2016	2,065,000	4,911,886	(1,632,787)	5,344,099	1,656,671	213,764	961,938	1,923,876	160,323	427,528
2017	2,145,000	4,820,241	(1,621,980)	5,343,261	1,656,411	213,730	961,787	1,923,574	160,298	427,461
2018	2,240,000	4,715,979	(1,621,980)	5,333,999	1,653,540	213,360	960,120	1,920,240	160,020	426,720
2019-2023	12,435,000	21,771,988	(7,583,953)	26,623,035	8,253,141	1,064,921	4,792,146	9,584,293	798,691	2,129,843
2024-2028	15,060,000	17,809,677	(6,398,978)	26,470,699	8,205,917	1,058,828	4,764,726	9,529,452	794,121	2,117,656
2029-2033	18,475,000	12,403,424	(4,553,914)	26,324,510	8,160,598	1,052,980	4,738,412	9,476,824	789,735	2,105,961
2034-2038	22,795,000	5,605,241	(2,225,755)	26,174,486	8,114,091	1,046,979	4,711,407	9,422,815	785,235	2,093,959
2039	5,165,000	170,858	(119,601)	5,216,257	1,617,040	208,650	938,926	1,877,853	156,488	417,301
Totals	$ 84,320,000	$ 82,270,929	$ (29,046,710)	$ 137,544,219	$ 42,638,709	$ 5,501,767	$ 24,757,959	$ 49,515,922	$ 4,126,327	$ 11,003,539

The City of Des Moines reports its share of equity interest in the Governmental Activities column within the Government-wide financial statements. The following is condensed (unaudited) financial information as of December 31, 2013 related to SCORE:

South Correctional Entity (SCORE) 2013 Owner Cities Equity Allocation				
Member City	Percent of Equity	2012 Equity Balance	2013 Distribution	2013 Equity Balance
Auburn	31.00%	$ 1,368,859	$ 1,148,378	$ 2,517,237
Burien	4.00%	176,627	117,696	294,323
Des Moines	1.00%	-	107,970	107,970
Federal Way	22.00%	794,820	1,026,120	1,820,940
Renton	31.00%	1,589,644	958,575	2,548,219
SeaTac	4.00%	132,469	199,239	331,708
Tukwila	7.00%	353,254	248,680	601,934
Grand Totals	100.00%	$ 4,415,673	$ 3,806,658	$ 8,222,331

The City's equity interest in joint venture as reported on the Statement of Net Position totals $730,786, where $622,816 represents the City's allocated portion of start-up costs for the SCORE facility.

The City of Des Moines as "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 bonds issued by the Authority. Under the "Formation Interlocal Agreement", the City's allocable proportion (5%) was reallocated to the Cities of Renton (2%), Auburn (2%), and Federal Way (1%). In consideration under the "Host City Agreement" entered into with the Cities of Renton, Auburn, and Federal Way, 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 is not contractually obligated for the debt service of the Authority, it is the City's intent to make the allocable proportion (5%) of the required debt service payments. The City's "Host City Fee" requirements are as follows:

Year	Host City Fee
2014	268,080
2015	267,614
2016	267,205
2017	267,163
2018	266,700
2019-2023	1,331,152
2024-2028	1,323,535
2029-2033	1,316,226
2034-2038	1,308,724
2039	260,813
Totals	$ 6,877,212

Completed financial statements for SCORE and SCORE PDA can be obtained at SCORE, 20817 17th Avenue South, Des Moines, WA 98198.

NOTE 9 – COMPONENT UNIT

On November 20, 2008, the City Council adopted Ordinance No. 1447 establishing a Transportation Benefit District (TBD) within the city boundaries in order to enact an annual vehicle license fee to provide funding for maintenance and preservation of existing transportation improvements. The TBD is an independent taxing district and the governing board is the Des Moines City Council. The TBD was established primarily to benefit the City of Des Moines satisfying GASB Statement No. 14's criteria for the recognition of the TBD as a blended component unit of the city. In 2013, the TBD received total collections from vehicle license fees of $417,583.

NOTE 10 – PENSION PLANS

Washington State Department of Retirement Systems

Substantially all City of Des Moines full-time and qualifying part-time employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit retirement plans. The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to: Department of Retirement Systems, Communications Unit, P.O. Box 48380, Olympia, WA 98504-8380; or it may be downloaded from the DRS website at www.drs.wa.gov. The following disclosures are made pursuant to GASB Statements 27, *Accounting for Pensions by State and Local Government Employers* and 50*, Pension Disclosures, an Amendment of GASB Statements 25 and 27*.

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

Plan Description
The Legislature established PERS in 1947. Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior courts; employees of legislative committees; employees of district and municipal courts; and employees of local

governments. Membership also includes higher education employees not participating in higher education retirement programs. Approximately 49 percent of PERS salaries are accounted for by state employment. PERS retirement benefit provisions are established in Chapters 41.34 and 41.40 RCW and may be amended only by the State Legislature.

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

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

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

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

PERS Plan 1 members are vested after the completion of five years of eligible service.

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

The monthly benefit is 2 percent of the average final compensation (AFC) per year of service, but the benefit may not exceed 60 percent of the AFC. The AFC is the monthly average of the 24 consecutive highest-paid service credit months.

PERS Plan 1 retirement benefits are actuarially reduced to reflect the choice, if made, of a survivor option.

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

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

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

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

PERS Plan 2 members who have at least 20 years of service credit, and are 55 years of age or older, are eligible for early retirement with a reduced benefit. The benefit is reduced by an early retirement factor (ERF) that varies according to age, for each year before age 65.

PERS Plan 2 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions, if hired prior to May 1, 2013:

- With a benefit that is reduced by 3 percent for each year before age 65; or
- With a benefit that has a smaller (or no) reduction (depending on age) that imposes stricter return-to-work rules.

PERS Plan 2 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of 5 percent for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service.

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

PERS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component and member contributions finance a defined contribution component. As established by Chapter 41.34 RCW, employee contribution rates to the defined contribution component range from 5 percent to 15 percent of salaries, based on member choice. Members

who do not choose a contribution rate default to a 5 percent rate. There are currently no requirements for employer contributions to the defined contribution component of PERS Plan 3.

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

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

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

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

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

- If they have at least ten service credit years and are 55 years old, the benefit is reduced by an ERF that varies with age, for each year before age 65.

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

- If they have 30 service credit years, are at least 55 years old, and were hired after May 1, 2013, they have the option to retire early by accepting a reduction of 5 percent for each year before age 65.

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

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

A one-time duty-related death benefit is provided to the beneficiary or the estate of a PERS member who dies as a result of injuries sustained in the course of employment, or if the death

resulted from an occupational disease or infection that arose naturally and proximately out of the member's covered employment, if found eligible by the Department of Labor and Industries.

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

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

There are 1,176 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2012:

Retirees and Beneficiaries Receiving Benefits	82,242
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	30,515
Active Plan Members Vested	106,317
Active Plan Members Nonvested	44,273
Total	**263,347**

Funding Policy

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

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

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

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2013, are as follows:

Members Not Participating in JBM:

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

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

Members Participating in JBM:

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

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

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

	PERS Plan 1	PERS Plan 2	PERS Plan 3
2013	$19,385	$429,532	$68,629
2012	22,925	374,461	61,025
2011	18,672	330,761	47,301

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

Plan Description

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

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

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

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

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

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

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

The FAS is the basic monthly salary received at the time of retirement, provided a member has held the same position or rank for 12 months preceding the date of retirement. Otherwise, it is the average of the highest consecutive 24 months' salary within the last 10 years of service. A cost-of-living allowance is granted (based on the Consumer Price Index).

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

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

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

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

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

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

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

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

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

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

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

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

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

There are 374 participating employers in LEOFF. Membership in LEOFF consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2012:

Retirees and Beneficiaries Receiving Benefits	10,189
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	689
Active Plan Members Vested	14,273
Active Plan Members Nonvested	2,633
Total	**27,784**

Funding Policy

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

The Legislature, by means of a special funding arrangement, appropriates money from the state General Fund to supplement the current service liability and fund the prior service costs of Plan 2 in accordance with the recommendations of the Pension Funding Council and the LEOFF Plan 2 Retirement Board. This special funding situation is not mandated by the state constitution and could be changed by statute. For DRS' Fiscal Year 2013, the state contributed $54.2 million to LEOFF Plan 2.

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

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2013, are as follows:

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

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

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

	LEOFF Plan 1	LEOFF Plan 2
2013	$0	$179,086
2012	0	179,129
2011	0	181,914

NOTE 11 – OTHER POST EMPLOYMENT BENEFITS

Plan Description. The City provides other post-employment benefits (OPEB) in accordance with State statute to all LEOFF 1 (law enforcement officers) retirees. Currently, there are six LEOFF 1 retirees who receive necessary medical and hospitalization coverage. The City of Des Moines implemented GASB Statement No. 45 in 2008 prospectively and, therefore, the net OPEB obligation was equal to zero in the year of transition.

Funding Policy. The City currently funds OPEB on a pay-as-you-go basis. During 2013, expenditures of $91,799 were recognized for post-employment health care. In 2006, the City purchased a long-term care insurance policy for its LEOFF 1 retirees. The 2013 annual premium for the long-term care insurance policy was $6,418.

Alternative Measurement Method. The City used the alternative measurement method permitted under GASB Statement No. 45. A single retirement age of 56.24 was assumed for all active members for the purpose of determining the actuarial accrued liability. Retirement, disablement, termination, and mortality rates were assumed to follow the LEOFF 1 rates used in the June 30, 2009 actuarial valuation report issued by the Office of the State Actuary (OSA). Healthcare costs and trends were determined by Milliman and used by OSA in the state-wide LEOFF 1 medical study performed in 2012. 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 was Projected Unit Credit. The actuarial accrued liability and net OPEB obligation are amortized on an open basis as a level dollar over 15 years. These assumptions are individually and collectively reasonable for the purposes of this valuation.

Annual OPEB Cost and Net OPEB Obligation. Based on the alternative measurement method, the City's annual cost for the year ended December 31, 2013, the amount of expected contributions, and changes in net obligation are as follows:

Annual Required Contribution	$ 179,691
Interest on Net OPEB Obligation	17,570
Adjustment to Annual Required Contribution	(37,069)
Annual OPEB Cost	160,192
Expected Contribution (Employer Paid Benefits)	(91,799)
Increase in Net OPEB Obligation	63,393
Net OPEB Obligation - Beginning of Year	390,446
Net OPEB Obligation - End of Year	$ 458,839

The City's annual OPEB cost, the percentage of annual OPEB cost contributed, and the net OPEB obligation for 2013 are as follows:

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2009	$162,757	47.8%	$161,742
2010	163,049	43.8%	253,380
2011	157,914	50.5%	331,600
2012	140,100	58.0%	390,446
2013	160,192	57.0%	458,839

The net OPEB obligation of $458,839 is included as a noncurrent liability on the Statement of net position.

NOTE 12 – CAPITAL LEASES

The City of Des Moines entered into a lease agreement for copiers in February 2011. This lease agreement qualifies as a capital lease for accounting purposes, and, therefore, has been recorded at the present value of the minimum lease payments as of the inception date. In 2013, the City entered into a lease agreement for a document management system.

The equipment acquired through the capital leases is included as assets as follows:

	Governmental Activities	Business-type Activities	Total
Capital Leases:			
Copiers/Document Mgmt.	$ 88,998	$ 12,378	$ 101,376
Less accumulated depreciation	(40,928)	(7,015)	(47,943)
Total	$ 48,070	$ 5,363	$ 53,433

The future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2013, were as follows:

Year Ending December 31	Governmental Activities	Business-type Activities	Total
2014	19,441	2,751	22,192
2015	19,441	2,751	22,192
2016	6,260	458	,718
2017	3,624		3,624
2018	3,020		3,020
Total minimum lease payments	51,786	5,960	57,746
Less: amount representing interest	(1,933)	(274)	,207)
Present value of minimum lease payments	$ 49,853	$ 5,686	$ 55,539

NOTE 13 – LONG-TERM DEBT

The City's long-term debt consists of governmental activities long-term debt and business-type activities long-term debt. The City is in compliance with all Washington State Debt Limitation statutes and bond indenture agreements. The long-term debt of the City is accounted for in two areas:

1. Governmental Activities Long-term Debt – 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 Investors Service on April 23, 2010 assigned its Global Scale rating of A2 for the 2008 transportation general obligation bonds. The City has two outstanding loans with the Washington State Public Works Board, a division of the Department of Commerce. The loan proceeds were used to fund two major transportation projects. The interest rates for each loan are 0.5 percent. In 2011, $250,000 was drawn down on the loan for the Des Moines Transportation Gateway project. In 2011, the City entered into a financing lease with the State of Washington Local Option Capital Asset Lending

(LOCAL) program administered by the Washington State Treasurer's Office for energy efficiency equipment. The lease amount financed is $106,138 and nets the City $115,726 for the cost of the project. The all inclusive cost of the financing lease is 2.46% with a term of ten years. The LOCAL program is rated Aa2 by Moody's Investors Service.

2. Business-Type Activities Long-term debt – Operating revenues of the individual proprietary funds are used 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 issue. On April 2, 2012, Moody's Investors Service assigned a rating of A2 to the Marina 2012 limited tax general obligation refunding bonds, discussed under advance refunding.

The following schedules summarize the long-term debt transactions of the City for the year ended December 31, 2013.

Changes in Long-term Liabilities

	Balance 1/1/13	Added	Retired	Balance 12/31/13
General obligation bonds	$ 11,177,509	$ -	$ 698,908	$ 10,478,601
Public works trust fund loans	793,224	-	55,481	737,743
WA State LOCAL financing lease	104,230	-	11,182	93,048
Capital lease	54,944	17,739	17,144	55,539
Installment plan	14,116	-	7,165	6,951
OPEB obligation	390,446	160,192	91,799	458,839
Compensated absences	1,378,580	1,529,489	1,509,248	1,398,821
Totals	$ 13,913,049	1,707,420	2,390,927	$ 13,229,542

Detail of Outstanding Long-term Debt

Item	Interest Rates	Maturity	Authorized	Outstanding 1/1/13	Issued	Redeemed	Outstanding 12/31/13	Due Within One Year
Governmental Activities:								
General Obligation Bonds:								
2008 Limited G.O. - Transportation	4.00%-4.70%	12/1/28	$ 2,515,000	$ 2,160,000	$ -	$ 95,000	$ 2,065,000	$ 100,000
2008 Limited G.O. - Refunding	4.00%-4.25%	12/1/17	935,000	545,000		100,000	445,000	105,000
Unamortized premium on bonds			-	18,897		6,281	12,616	-
Unamortized discount on bonds			-	(2,642)		(177)	(2,465)	-
Total general obligation bonds			3,450,000	2,721,255	-	201,104	2,520,151	205,000
General Obligation Notes and Loans:								
2004 PWTF Loan-Pac Hwy construction	0.50%	7/1/24	5,000,000	283,420		23,618	259,802	23,619
2009 PWTF Loan-DM Gateway	0.50%	7/1/28	1,000,000	509,804		31,863	477,941	31,863
2011 Capital Lease - Copiers	4.23%	2/28/16	71,177	46,804		14,111	32,693	14,719
2011 WA State LOCAL-Energy Efficient Eqp	2.46%	12/1/21	115,000	97,382		9,419	87,963	9,702
2013 Capital Lease - Doc Management Sys	5.81%	10/15/18	17,821	-	17,739	579	17,160	3,493
Unamortized premium on WA ST LOCAL			-	6,848		1,763	5,085	-
Total general obligation notes and loans			6,203,998	944,258	17,739	81,353	880,644	83,395
CivicPlus Website Payment Plan	5.00%	12/1/14	25,555	14,116		7,165	6,951	6,951
OPEB Obligation				390,446	160,192	91,799	458,839	
Compensated Absences:				1,211,523	1,324,150	1,307,346	1,228,327	150,000
Governmental activities long-term liabilities			$ 9,679,553	$ 5,281,598	$ 1,502,081	$ 1,688,767	$ 5,094,912	$ 445,346

Internal service funds predominantly serve the governmental funds. Accordingly, long-term liabilities for them are included as part of the above totals for governmental activities. At year end, internal service funds compensated absences are included in the above amounts.

Detail of Outstanding Long-term Debt

Item	Interest Rates	Maturity	Authorized	Outstanding 1/1/13	Issued	Redeemed	Outstanding 12/31/13	Due Within One Year
Business-type Activities:								
General Obligation Bonds:								
2008 Limited G.O. - Marina	4.00%-4.70%	12/1/28	6,080,000	5,680,000		225,000	5,455,000	265,000
2012 Limited G.O. - Marina Refunding	2.00%-4.00%	12/1/22	2,810,000	2,545,000	-	230,000	2,315,000	230,000
Unamortized premium on bonds				239,313	-	43,466	195,847	-
Unamortized discount on bonds				(8,059)		(662)	(7,397)	-
Total general obligation bonds			8,890,000	8,456,254	-	497,804	7,958,450	495,000
2011 Capital Lease - Copiers	4.23%	2/28/16	12,378	8,140		2,454	5,686	2,559
Compensated Absences:				167,057	205,339	201,902	170,494	20,000
Business-type activities long-term liabilities			$ 8,902,378	$ 8,631,451	$ 205,339	$ 702,160	$ 8,134,630	$ 517,559
Total governmental and business-type activities long-term liabilities			$ 18,581,931	$ 13,913,049	$ 1,707,420	$ 2,390,927	$ 13,229,542	$ 962,905

Federal Arbitrage Rebate

The Federal Tax Reform Act of 1986 requires issuers of tax-exempt debt of 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 reported no estimated arbitrage liability as of December 31, 2013.

Debt Service to Maturity

Following is a schedule showing the debt service requirements to maturity for the City's long-term debt, excluding capital leases, installment plan, compensated absences and unamortized bond premium and discount.

	Governmental Activities							
	General Obligation Debt		WA State LOCAL Prg Financing Lease		Public Works Trust Fund Loans		Totals	
Year	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2014	205,000	111,413	9,701	3,447	55,481	3,689	270,182	118,549
2015	210,000	103,213	9,993	3,156	55,481	3,411	275,474	109,780
2016	225,000	94,288	10,292	2,856	55,481	3,134	290,773	100,278
2017	235,000	84,725	10,704	2,444	55,481	2,857	301,185	90,026
2018	120,000	74,738	11,132	2,016	55,481	2,579	186,613	79,333
2019-2023	675,000	290,213	36,141	3,305	277,409	8,734	988,550	302,252
2024-2028	840,000	121,609	-	-	182,929	2,508	1,022,929	124,117
Totals	$ 2,510,000	$ 880,199	$ 87,963	$ 17,224	$ 737,743	$ 26,912	$ 3,335,706	$ 924,335

	……Business-type Activities……			
	General Obligation Debt		Totals	
Year	Principal	Interest	Principal	Interest
2014	495,000	326,416	495,000	326,416
2015	510,000	311,216	510,000	311,216
2016	525,000	294,829	525,000	294,829
2017	545,000	275,516	545,000	275,516
2018	560,000	255,416	560,000	255,416
2019-2023	2,900,000	890,305	2,900,000	890,305
2024-2028	2,235,000	321,326	2,235,000	321,326
Totals	$ 7,770,000	$ 2,675,024	$ 7,770,000	$ 2,675,024

Prior Years' Debt Defeasance

In prior years, the City has defeased various bond issues by creating separate irrevocable trust funds. New debt has been issued and the proceeds have been used to purchase U.S. government securities that were placed in the trust funds. The investments and fixed earnings from the investments are sufficient to fully service the defeased debt until the debt is called or matures. For financial reporting purposes, the debt has been considered defeased and therefore removed as a liability from the City's government-wide financial statements. As of December 31, 2013, all defeased debt outstanding has been redeemed.

Marina Bond Reserve Requirements

The Marina is required by Ordinance No. 1445 (2008 limited tax general obligation bond issue) and Ordinance No. 1535 (2012 limited tax general obligation and refunding bond issue) to maintain the least of (1) 1.25 times the average annual debt service of all outstanding bonds; (2) maximum annual debt service; or (3) 10% of the proceeds of all outstanding bonds. As of December 31, 2013, the Marina's debt service reserve requirement was $768,816.

Item	Bond Reserve 12/31/13	1.25 * Ave Annual Debt Service	Maximum Annual Debt Service	10% Proceeds Outstanding Bonds
2008 GO Bonds	$ 514,316	$ 632,747	$ 514,316	$ 545,500
2012 GO Bonds	254,500	385,616	308,850	254,500

Debt Limit Capacities

State law provides that debt cannot be incurred in excess of the following percentages of the value of the taxable property of the City: 1.5% without a vote of the people; 2.5% with a vote of the people; 5.0% with a vote of the people, provided the indebtedness in excess of 2.5% is for utilities; 7.5% with a vote of the people, provided the indebtedness in excess of 5.0% is for parks or open space development.

At December 31, 2013, the debt limits for the City were as follows:

Item	Without a Vote 1.5%	With a Vote of the People 2.5%	5.0%	7.5%
Legal Limit	$ 33,920,386	$ 56,533,977	$ 113,067,954	$ 169,601,932
Less:				
Limited tax debt outstanding	(11,364,931)	(11,364,931)	(11,364,931)	(11,364,931)
Add:				
Cash available in debt service funds	21,250	230	21,480	21,480
Delinquent property taxes	-	101	101	101
Remaining legal debt capacity	$ 22,576,705	$ 45,169,377	$ 101,724,604	$ 158,258,581

NOTE 14 – CLASSIFICATION OF FUND BALANCES

The following table presents a summary of the December 31, 2013 governmental fund balances by fund type and specific purpose.

The classifications of nonspendable, restricted, committed, assigned, and unassigned are the new fund balance classifications according to GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which was implemented in 2012. With the exception of nonspendable fund balances, fund balances are presented based on specific purpose as required by GASB No. 54.

Fund Balances Classifications	Nonspendable	Restricted	Committed	Assigned	Unassigned	Totals
Major Funds						
General Fund:						
Imprest funds	$ 6,038	$ -	$ -	$ -	$ -	$ 6,038
Revenue stabilization			805,175			805,175
Continuing appropriations				168,695		168,695
Street Fund:						
Continuing appropriations		-				-
Transportation		264,629				264,629
Transportation Capital Improvement Fund:						
Transportation				4,215,852		4,215,852
Total Major Funds	$ 6,038	$ 264,629	$ 805,175	$ 4,384,547	$ -	$ 5,460,388
Nonmajor Funds						
Special Revenue Funds:						
Public safety	$ -	$ 9,476	$ -	$ -	$ -	$ 9,476
Park facilitiies				$ 493,663		493,663
Transportation		68,842	335,351			404,193
Tourism		8,374				8,374
Debt Service Funds:						
Debt service		21,248		232		21,480
Public safety				-		-
Total Nonmajor Funds	$ -	$ 107,940	$ 335,351	$ 493,895	$ -	$ 937,186
Total Fund Balances	$ 6,038	$ 372,569	$ 1,140,526	$ 4,878,442	$ -	$ 6,397,574

Revenue Stabilization Account

The General Fund Revenue Stabilization Account was authorized by the City Council on February 10, 2011 by Ordinance No. 1504. The Revenue Stabilization Account consists of a specific portion of the unappropriated General Fund balance in the amount of $805,175, which represents an initial targeted funding level of five percent of budgeted reoccurring

General Fund revenues. Additions to the Revenue Stabilization Account is dependent upon revenue growth and is annually reviewed during the City's budget process to determine the proper targeted funding level going forward in relation to changing conditions and prudent fiscal practices. Disbursements from the Revenue Stabilization 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 Revenue Stabilization Account is by enactment of an ordinance by the City Council.

Fund Balance Policies

The City established an ending fund balance policy with enactment of Ordinance No. 1144. The policy requires the City Manager to establish expenditure policies that will result in an ending fund balance or operating reserve amounting to seven percent of the cumulative total of the general and street operating funds for each year. The seven percent consists of two percent operating reserve generally designated for unanticipated expenditures that have been incurred during the year, and five percent operating reserve intended to account for unanticipated revenue shortfalls.

The total operating reserve requirement for the General Fund at December 31, 2013 equaled $979,907 with $168,695 available for continuing appropriations. As of December 31, 2013, the amount of $264,629 was restricted and available in the Street Fund for continuing appropriations.

NOTE 15 – MARINA RESTRICTED NET POSITION

The City's Marina 2013 restricted net position are detailed below.

Item	Total
Facility Repair, Improvement & Replacement	$ 311,136
Debt Service	68,453
Debt Service Reserves	768,816
Construction Account	78,274
Total Restricted Net Position	**$1,226,679**

NOTE 16 – CONTRACTUAL OBLIGATIONS, CONTINGENCIES AND LITIGATION

As of December 31, 2013, there were a small number of claims for damages and lawsuits pending against the City. In the opinion of the City's legal counsel, however, neither the potential liability for any single claim or lawsuit, nor the aggregate potential liability arising from all actions currently pending would materially affect the financial condition of the City.

As of December 31, 2013, the City had $4,322,655 contractual obligations on the 24th Avenue South improvements construction project.

NOTE 17 – RISK MANAGEMENT

Public Entity Risk Pool

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 39.34 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 currently has a total of 162 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, public officials' errors or omissions, stop-gap, and employee benefits liability. Limits are $4 million per occurrence self-insured layer, and $16 million per occurrence in the re-insured excess layer. The excess layer is insured by the purchase of reinsurance and insurance and is subject to aggregate limits. Total limits are $20 million per occurrence subject to aggregate sublimits in the excess layers. The Board of Directors determines the limits and terms of coverage annually.

Insurance coverage for property, automobile physical damage, fidelity, inland marine, and boiler and machinery are purchased on a group basis. Various deductibles apply by type of coverage. Property insurance and auto physical damage coverage are self-funded from the members' deductible to $750,000, for all perils other than flood and earthquake, and insured above that amount by the purchase of reinsurance.

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

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

An investment committee, using investment brokers, produces additional revenue by investment of WCIA's assets in financial statements 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 the WCIA.

Self-Insurance Fund

In addition to the insurance coverage afforded through the Washington Cities Insurance Authority, the City is exposed to risks of losses to property not covered by the insurance pool. To provide additional cash reserves to fund those losses not covered by the insurance pool the City established a Self-Insurance Fund. The main activities of the Self-Insurance Fund consist of (1) employee education (2) disbursing premium payments for insurance pool and commercial insurance coverage (3) disbursing of claims for property and vehicle damage and (4) pay deductibles, litigation defense costs and/or damage claims against the City for which coverage may be denied by insurance carriers. Funding revenues are primarily contributions from other funds based on each fund or department's assumed risk. The City recognizes insurance claims expenses based upon claims reported. At December 31, 2013, there was $148,469 in cash reserves available to pay for future uninsured claims and to provide training in risk management to city personnel.

For claims not covered by the insurance pool, a liability for a claim is established if information indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of loss is reasonably estimable. As of December 31, 2013, there was no obligation outstanding in the Self Insurance Fund.

There were no significant reductions in insurance coverage from coverage in 2013 in any of the major categories of risk. Also, the amount of settlements has not exceeded insurance coverage for the past three years.

In 2004, the City 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 receives a refund from L&I. The City's 2013 Worker's Compensation Retrospective payment was $13,090. The City received $5,269 in 2013 representing the return of 50% of the 2011 service fee.

Unemployment Insurance Fund

The second self-insurance fund that the City utilizes is the Unemployment Compensation Insurance Fund. The purpose of the 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. Through the budget process each department contributes 0.50% 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, 2013, the optimum reserve is $505,979. Cash and investments at December 31, 2013 total $247,711 representing 49.0 percent of the optimum reserve. The amounts payable at December 31, 2013 represent unemployment claims for the fourth quarter.

The City's changes in estimated claims liabilities for 2013 and 2012 is provided below:

	Self- Insurance		Unemployment Insurance	
Item	**2013**	**2012**	**2013**	**2012**
Claims liabilities at beginning of year	$ -	$ -	$ 7,473	$ 12,585
Claims expenses:				
Current year and changes in estimates	10,000	105,257	10,431	37,601
Claims payments	(10,000)	(105,257)	(17,904)	(42,713)
Claims liabilities at end of the year	$ -	$ -	$ -	$ 7,473

NOTE 18 – RESTATEMENT OF BEGINNING BALANCES

During 2013, certain accounting changes and adjustments were made that required the restatement of fund balances or net position. These restatements are to recognize changes in the application of accounting principles and methodologies, and to improve financial reporting consistency within the City. A portion of the restatement amount is due to the City's implementation of GASB 65 *Items Previously Reported as Assets and Liabilities.* GASB 65 required the reclassification of certain items previously reported as either an asset or a liability, the remaining restatement is due to the downward adjustment of account receivables for balances no longer determined to be collectable.

End of Note Disclosures

RETIREE MEDICAL AND LONG-TERM CARE BENEFITS FOR LEOFF 1 EMPLOYEES

Schedule of Funding Progress:

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
12/31/2013	-	$1,997,879	$1,997,879	0.0%	N/A	N/A

Schedule of Employer Contributions:

Fiscal Year Ending	Employer Contributions	Annual Required Contribution (ARC)	Percentage of ARC Contributed
December 31, 2008	$91,818	$168,586	54.5%
December 31, 2009	$77,783	$168,586	46.1%
December 31, 2010	$71,411	$168,586	42.4%
December 31, 2011	$79,694	$170,105	46.8%
December 31, 2012	$81,254	$156,054	52.1%
December 31, 2013	$91,799	$179,691	51.1%

CITY OF DES MOINES
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2013

1	2	3	4	5			6
Federal Agency Name/Pass-Through Agency Name	**Federal Program Name**	**CFDA Number**	**Other I.D. Number**	**From Pass-Through Awards**	**From Direct Awards**	**Total**	**Foot-note Ref.**
National Highway Traffic Safety Administration/ Pass-Through from Washington State Traffic Safety Commission	State & Community Highway Safety	20.600	WSTC	$ 890	$ -	$ -	
		20.600	WSTC	2,084			
			Subtotal	2,974		2,974	
U.S. Department of Health and Human Services/Pass-Through from King County Housing and Community Development	Community Development Block Grant	14.218	D37833D Joint Minor Home Repair Program	18,096		18,096	
U. S. Department of Justice	Bullet Proof Vest Partnership Program	16.607	OMB1121-0235		4,739		
U.S. Department of Justice	Edward Byrne Memorial Justice Assistance Grant	16.738	2012-DJ-BX-0526	10,436			
		16.738	2011-DJ-BX-3261		14,600		
		16.738	2010-DJ-BX-0663	-	9,285		
			Subtotal	**10,436**	**28,624**	**39,060**	2
U. S. Department of Transportation/Pass-Through from WSDOT	Highway Planning & Construction	20.205	LA7951 Connecting 24th/28th Avenue	817,284			
		20.205	LA7853 Citywide Arterial Street	113,890			
		20.205	LA8049 Saltwater State Park Bridge	196,960			
			Subtotal	**1,128,134**		**1,128,134**	2
U.S. Department of Health and Human Services/Center for Disease Control & Prevention/Pass-Through from Seattle Children's Hospital	Community Transformation Grants Small Communities Program	93.737	1H75DP00459501	40,884		40,884	2
U.S. Department of Homeland Security/Pass-Through from the WA State Military Department	Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	FEMA # 033-17635.00 Jan 2012 Storm Assistance	250		250	
		97.036	State Contract #D09-038/FEMA # 033-17635-00 Des Moines Beach Park Slide Repair	1,973		1,973	
			Subtotal	**2,223**		**2,223**	2
	Total Federal Awards Expended			**$ 1,202,748**	**$ 33,363**	**$ 1,231,371**	

The accompanying notes to the Schedule of Expenditures of Federal Awards are an integral part of this schedule.

CITY OF DES MOINES, WASHINGTON

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2013

NOTE 1 - BASIS OF ACCOUNTING

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

NOTE 2 - PROGRAM COSTS

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

ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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

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

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