



Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

City of Des Moines

For the period January 1, 2022 through December 31, 2022

Published March 28, 2024

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**Office of the Washington State Auditor
Pat McCarthy**

March 28, 2024

Mayor and City Council
City of Des Moines
Des Moines, Washington

Report on Financial Statements

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

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

Sincerely,

Pat McCarthy, State Auditor
Olympia, WA

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SCHEDULE OF AUDIT FINDINGS AND RESPONSES

City of Des Moines January 1, 2022 through December 31, 2022

2022-001 The City did not have adequate internal controls over its financial statement preparation process to ensure accurate financial reporting.

Background

State and federal agencies, the City Council, and the public rely on information included in the City's financial statements and reports to make decisions. Management is responsible for designing and following internal controls that provide reasonable assurance the City's financial reporting is reliable and the financial statements and notes to the financial statements are accurate.

Prior to fiscal year 2022, the City prepared its financial statements following generally accepted accounting principles (GAAP). For fiscal year 2022, the City switched to preparing its financial statements in accordance with the cash-basis accounting method as prescribed by the State Auditor's Office's *Budgeting, Accounting and Reporting System* (BARS) Manual.

When governments convert from one basis of accounting to another, we would expect them to report their financial statements under the new basis as if they have always used that accounting method.

Our audit found deficiencies in internal controls over accounting and financial reporting that affected the City's ability to produce reliable financial statements. *Government Auditing Standards* requires the State Auditor's Office to communicate significant deficiencies as a finding.

Description of Condition

We identified the following deficiencies in internal controls that, when taken together, represent a significant deficiency:

- The City did not conduct adequate research when it converted to cash-basis accounting to ensure accurate financial reporting.
- Although the City has procedures in place for staff to perform a final review of the prepared financial statements and notes prior to audit, the review was ineffective in detecting significant errors.

Cause of Condition

The City did not dedicate the necessary staff time or resources, including training, to ensure its financial reports were accurate under the cash-basis accounting method. As a result, City staff did not have adequate knowledge of cash-basis accounting principles to identify inaccurate or unnecessary entries on the financial statements related to the change in its basis of accounting.

Effect of Condition

To account for the change in accounting basis, the City should have reported its financial statements as if it has always been a cash-basis government. However, the City incorrectly reported prior period adjustments related to prior year payables and receivables, which is not how these amounts are reported under the cash-basis method. As a result, the City misclassified \$3,344,737 as prior period adjustments when it should have been reported as beginning cash.

The City subsequently corrected the misstatement.

Recommendation

We recommend the City strengthen its internal controls over financial reporting. This should include:

- Conducting an appropriate amount of research on cash-basis accounting and reporting to determine the proper reporting or accounting treatment for unique transactions
- Providing adequate training to employees who oversee financial reporting to ensure compliance with the cash-basis BARS Manual and applicable accounting standards
- Conduct an effective, independent review of the financial statements, notes and schedules to ensure they are accurately prepared in accordance with current accounting standards and the cash-basis BARS Manual

City's Response

The City looks forward to the annual audit and appreciates the relationship with the local audit team and the Washington State Auditor's Office (SAO). We regularly reach out to seek guidance and are quick to implement any recommendations from the state auditors. However, we disagree with both the basis of the finding and the assertions that the City "did not conduct adequate research when it converted to cash-basis accounting to ensure accurate financial reporting" and "the City did

not dedicate the necessary staff time or resources, including training, to ensure its financial reports were accurate under the cash-basis accounting method.”

The first step the City took after deciding to convert to a cash-basis accounting method was to contact the State Auditor’s Office. The local audit team informed the City that the State Auditor’s Office does not provide guidance for entities that convert from GAAP accrual-based accounting to cash-basis accounting. However, the local audit team did recommend the City contact the SAO’s Center for Government Innovation; a recommendation the City followed. The Center for Government Innovation then suggested the City reach out to the City of Ellensburg who had recently converted to cash-basis reporting. The City also contacted the City of Puyallup, as they had also made the same conversion recently.

The City of Ellensburg was incredibly helpful in the City’s efforts to convert to cash-basis accounting by providing spreadsheet models and frequent consultation. In addition to this consultation, multiple staff attended multiple training seminars on cash-basis accounting and reporting. Learning how to convert from GAAP accounting to cash-basis accounting was a high priority for the City’s Finance Department.

The SAO states above “When governments convert from one basis of accounting to another, we would expect them to report their financial statements under the new basis as if they have always used that accounting method”. This principal was mentioned often in the training received by the City’s Finance staff in preparing for the conversion to cash-basis accounting. However, it is a statement made in relation to unwinding the prior year’s accruals and does not necessarily relate to Beginning Cash balances.

While studying the first audited financial statements under cash-basis reporting for the City of Ellensburg and the City of Puyallup, we noticed that the Beginning Cash balances were reported differently by each city. Ellensburg’s Beginning Cash did not match their prior year’s Ending Cash balances while Puyallup’s did. The issue at hand was: when the GAAP accruals are unwound, is the resulting adjustment reported in Beginning Cash or in Prior Period Adjustments? Lacking guidance, the City chose to match Beginning Cash to the prior year’s Ending Cash and report the adjustments on the Prior Period Adjustment line as the user of the financial information would be informed of the change in cash from the prior year. This finding is the result of that decision.

The City disagrees with this finding as:

- 1) the City is being held accountable to an expectation of the SAO where the SAO refrains from communicating the substance of the expectation;*

- 2) *the item resulting in the finding was below the materiality threshold and “not material” according to the SAO;*
- 3) *training and research does not become inadequate based on one decision made in the absence of authoritative guidance.*

The City asserts that this finding is not a result of a lack of research, training, or controls. It is the result of a lack of authoritative guidance.

Auditor’s Remarks

We reaffirm our finding. We appreciate the City’s commitment to resolving this finding, and thank the City for its cooperation and assistance during the audit. We will review the corrective action taken during the next regular audit.

Applicable Laws and Regulations

Government Auditing Standards, July 2018 Revision, paragraphs 6.40 and 6.41 establish reporting requirements related to significant deficiencies or material weaknesses in internal control, instances of fraud, and noncompliance with provisions of laws, regulations, contracts, or grant agreements.

The American Institute of Certified Public Accountants defines significant deficiencies and material weaknesses in its *Codification of Statements on Auditing Standards*, section 265, Communicating Internal Control Related Matters Identified in an Audit, paragraph 7.

RCW 43.09.200, Local government accounting – Uniform system of accounting, requires the state auditor to prescribe the system of accounting and reporting for all local governments.

The *Budgeting, Accounting and Reporting System (BARS) Manual*, 3.1.3, Internal Control, requires each local government to establish and maintain an effective system of internal controls that provides reasonable assurance that the government will achieve its objectives.

City of Des Moines



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SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

City of Des Moines January 1, 2022 through December 31, 2022

This schedule presents the status of findings reported in prior audit periods.

Audit Period: January 1, 2021 through December 31, 2021	Report Ref. No.: 1031256	Finding Ref. No.: 2021-001
Finding Caption: The City's internal controls were inadequate for ensuring proper revenue recognition for grant funds received in advance.		
Background: The City typically receives grant funding on a reimbursement basis, under which it incurs eligible expenditures before receiving grant funding. City employees were not familiar with the revenue recognition criteria for the unspent ARPA funds, which should be reported as unearned revenue, a liability, until the applicable eligibility requirements are met. American Rescue Plan Fund Intergovernmental Revenue and Restricted Fund balances were overstated by \$3,516,858 each, and the Unearned Revenue was understated by the same amount. The Governmental Activities Operating Grants and Contributions revenue and Restricted Net Position were overstated by \$3,516,858, and the Unearned Revenue was understated by the same amount.		
Status of Corrective Action: (check one) <input type="checkbox"/> Fully Corrected <input type="checkbox"/> Partially Corrected <input type="checkbox"/> Not Corrected <input checked="" type="checkbox"/> Finding is considered no longer valid		
Corrective Action Taken: <i>The finding was valid under Generally Accepted Accounting Principles. However, beginning with the 2022 financial statements, the City now reports on a cash basis. Under cash basis reporting, funds received from the ARPA grants would be recognized as revenue upon receipt.</i>		

INDEPENDENT AUDITOR'S REPORT

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 January 1, 2022 through December 31, 2022

Mayor and 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 City of Des Moines, as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise the City's financial statements, and have issued our report thereon dated March 20, 2024.

We issued an unmodified opinion on the fair presentation of the City's financial statements in accordance with its regulatory basis of accounting. We issued an adverse opinion on the fair presentation with regard to accounting principles generally accepted in the United States of America (GAAP) because the financial statements are prepared by the City using accounting practices prescribed by state law and the State Auditor's *Budgeting, Accounting and Reporting System* (BARS) Manual described in Note 1, which is a basis of accounting other than GAAP. The effects on the financial statements of the variances between the basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

REPORT ON 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) as a basis for designing 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 above and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified.

Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, we identified certain deficiencies in internal control, described in the accompanying Schedule of Audit Findings and Responses as Finding 2022-001 that we consider to be significant deficiencies.

REPORT ON 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 its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. 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*.

CITY'S RESPONSE TO FINDINGS

Government Auditing Standards requires the auditor to perform limited procedures on the City's response to the findings identified in our audit and described in the accompanying Schedule of Audit Findings and Responses. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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.

A handwritten signature in black ink that reads "Pat McCarthy". The signature is written in a cursive style with a large, stylized initial "P".

Pat McCarthy, State Auditor

Olympia, WA

March 20, 2024

INDEPENDENT AUDITOR'S REPORT

Report on the Audit of the Financial Statements

City of Des Moines January 1, 2022 through December 31, 2022

Mayor and City Council
City of Des Moines
Des Moines, Washington

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Unmodified and Adverse Opinions

We have audited the financial statements of the City of Des Moines, as of and for the year ended December 31, 2022, and the related notes to the financial statements, as listed in the financial section of our report.

Unmodified Opinion on the Regulatory Basis of Accounting (BARS Manual)

As described in Note 1, the City has prepared these financial statements to meet the financial reporting requirements of state law and accounting practices prescribed by the State Auditor's *Budgeting, Accounting and Reporting System* (BARS) Manual. Those accounting practices differ from accounting principles generally accepted in the United States of America (GAAP). The differences in these accounting practices are also described in Note 1.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the cash and investments of the City of Des Moines, and its changes in cash and investments, for the year ended December 31, 2022, on the basis of accounting described in Note 1.

Adverse Opinion on U.S. GAAP

The financial statements referred to above were not intended to, and in our opinion, they do not, present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the City of Des Moines, as of December 31, 2022, or the changes in financial position or cash flows thereof for the year then ended, because of the significance of the matter discussed below.

Basis for Unmodified and Adverse Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and *Government Auditing Standards*. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit unmodified and adverse opinions.

Matter Giving Rise to Adverse Opinion on U.S. GAAP

Auditing standards issued by the American Institute of Certified Public Accountants (AICPA) require auditors to formally acknowledge when governments do not prepare their financial statements, intended for general use, in accordance with GAAP. As described in Note 1 of the financial statements, the financial statements are prepared by the City in accordance with state law using accounting practices prescribed by the BARS Manual, which is a basis of accounting other than accounting principles generally accepted in the United States of America. The effects on the financial statements of the variances between the regulatory basis of accounting and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material and pervasive.

Matters of Emphasis

As discussed in Note 14 to the financial statements, the City elected to change its method of accounting from generally accepted accounting principles to a special purpose framework during the year ended December 31, 2022. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting provisions of state law and the BARS Manual described in Note 1. This includes determining that the basis of accounting is acceptable for the presentation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

Performing an audit in accordance with GAAS and *Government Auditing Standards* includes the following responsibilities:

- Exercise professional judgment and maintain professional skepticism throughout the audit;
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements;
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed;
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements;
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for a reasonable period of time; and
- We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's financial statements. The Schedule of Liabilities is presented for purposes of additional analysis, as required by the prescribed BARS Manual. This schedule is not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements as a whole.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated March 20, 2024 on our consideration of the City's internal control over financial reporting and on the 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 the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



Pat McCarthy, State Auditor

Olympia, WA

March 20, 2024

FINANCIAL SECTION

City of Des Moines January 1, 2022 through December 31, 2022

FINANCIAL STATEMENTS

Fund Resources and Uses Arising from Cash Transactions – 2022
Fiduciary Fund Resources and Uses Arising from Cash Transactions – 2022
Notes to Financial Statements – 2022

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Liabilities – 2022

City of Des Moines
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2022

		<u>Total for All Funds (Memo Only)</u>	<u>001 General Fund</u>	<u>101 Street Fund</u>	<u>102 Arterial Pavement</u>
Beginning Cash and Investments					
308	Beginning Cash and Investments	51,867,124	5,688,850	911,056	1,882,552
388 / 588	Net Adjustments	-	-	-	-
Revenues					
310	Taxes	19,569,176	15,875,189	723,349	-
320	Licenses and Permits	2,772,577	1,558,831	-	602,932
330	Intergovernmental Revenues	7,301,906	1,412,606	680,033	-
340	Charges for Goods and Services	15,949,676	2,146,706	-	-
350	Fines and Penalties	1,754,066	1,326,754	-	-
360	Miscellaneous Revenues	1,796,171	664,294	23,731	37,247
Total Revenues:		<u>49,143,572</u>	<u>22,984,380</u>	<u>1,427,113</u>	<u>640,179</u>
Expenditures					
510	General Government	8,594,224	7,923,081	-	-
520	Public Safety	11,295,754	11,045,329	-	-
530	Utilities	2,774,853	-	-	-
540	Transportation	4,744,686	161,210	1,620,667	588,049
550	Natural/Economic Environment	2,696,130	485,506	-	-
560	Social Services	964,035	663,416	-	-
570	Culture and Recreation	6,160,734	2,512,666	-	-
Total Expenditures:		<u>37,230,416</u>	<u>22,791,208</u>	<u>1,620,667</u>	<u>588,049</u>
Excess (Deficiency) Revenues over Expenditures:		11,913,156	193,172	(193,554)	52,130
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	3,600,901	1,452,033	242	-
385	Special or Extraordinary Items	-	-	-	-
381, 382, 389, 395, 398	Other Resources	23,309	-	9,892	-
Total Other Increases in Fund Resources:		<u>3,624,210</u>	<u>1,452,033</u>	<u>10,134</u>	<u>-</u>
Other Decreases in Fund Resources					
594-595	Capital Expenditures	10,083,614	9,456	-	-
591-593, 599	Debt Service	1,232,176	-	-	-
597	Transfers-Out	3,600,901	1,490,867	-	-
585	Special or Extraordinary Items	-	-	-	-
581, 582, 589	Other Uses	-	-	-	-
Total Other Decreases in Fund Resources:		<u>14,916,691</u>	<u>1,500,323</u>	<u>-</u>	<u>-</u>
Increase (Decrease) in Cash and Investments:		<u>620,675</u>	<u>144,882</u>	<u>(183,420)</u>	<u>52,130</u>
Ending Cash and Investments					
50821	Nonspendable	-	-	-	-
50831	Restricted	13,926,218	361,067	27,209	2,468
50841	Committed	2,084,483	-	-	-
50851	Assigned	31,004,434	-	700,429	1,932,215
50891	Unassigned	5,472,667	5,472,667	-	-
Total Ending Cash and Investments		<u>52,487,802</u>	<u>5,833,734</u>	<u>727,638</u>	<u>1,934,683</u>

The accompanying notes are an integral part of this statement.

City of Des Moines
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2022

	105 Development Fund	107 Police Drug Sizure Fund	111 Hotel Motel Tax Fund	113 Affordable Housing Sales Tax Fund	
Beginning Cash and Investments					
308	Beginning Cash and Investments	3,937,034	107,382	150,049	51,777
388 / 588	Net Adjustments	-	-	-	-
Revenues					
310	Taxes	-	-	90,053	34,301
320	Licenses and Permits	610,814	-	-	-
330	Intergovernmental Revenues	58,915	-	-	-
340	Charges for Goods and Services	1,099,993	-	-	-
350	Fines and Penalties	4,337	-	-	-
360	Miscellaneous Revenues	97,241	42,055	3,322	-
Total Revenues:		1,871,300	42,055	93,375	34,301
Expenditures					
510	General Government	-	-	-	-
520	Public Safety	-	-	-	-
530	Utilities	-	-	-	-
540	Transportation	945,968	-	-	-
550	Natural/Economic Environment	1,954,346	-	50,297	-
560	Social Services	-	-	-	-
570	Culture and Recreation	-	-	-	-
Total Expenditures:		2,900,314	-	50,297	-
Excess (Deficiency) Revenues over Expenditures:		(1,029,014)	42,055	43,078	34,301
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	-	-	-	-
385	Special or Extraordinary Items	-	-	-	-
381, 382, 389, 395, 398	Other Resources	-	-	-	-
Total Other Increases in Fund Resources:		-	-	-	-
Other Decreases in Fund Resources					
594-595	Capital Expenditures	-	-	-	-
591-593, 599	Debt Service	-	-	-	-
597	Transfers-Out	-	-	-	-
585	Special or Extraordinary Items	-	-	-	-
581, 582, 589	Other Uses	-	-	-	-
Total Other Decreases in Fund Resources:		-	-	-	-
Increase (Decrease) in Cash and Investments:		(1,029,014)	42,055	43,078	34,301
Ending Cash and Investments					
50821	Nonspendable	-	-	-	-
50831	Restricted	542,119	149,437	193,128	86,078
50841	Committed	-	-	-	-
50851	Assigned	2,365,897	-	-	-
50891	Unassigned	-	-	-	-
Total Ending Cash and Investments		2,908,016	149,437	193,128	86,078

The accompanying notes are an integral part of this statement.

City of Des Moines
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2022

	114 ARPA	140 Redondo Zone	141 Waterfront Zone	142 PBPW Automation Fee	
Beginning Cash and Investments					
308	Beginning Cash and Investments	3,266,247	27,404	309,275	436,857
388 / 588	Net Adjustments	-	-	-	-
Revenues					
310	Taxes	-	-	-	-
320	Licenses and Permits	-	-	-	-
330	Intergovernmental Revenues	4,519,350	-	-	-
340	Charges for Goods and Services	-	-	81,035	120,891
350	Fines and Penalties	-	2,640	1,420	-
360	Miscellaneous Revenues	-	62,020	32,674	9,857
	Total Revenues:	4,519,350	64,660	115,129	130,748
Expenditures					
510	General Government	-	-	-	-
520	Public Safety	-	-	-	-
530	Utilities	-	-	-	-
540	Transportation	-	-	428,981	-
550	Natural/Economic Environment	142,500	-	-	-
560	Social Services	300,619	-	-	-
570	Culture and Recreation	-	75,245	57,064	-
	Total Expenditures:	443,119	75,245	486,045	-
	Excess (Deficiency) Revenues over Expenditures:	4,076,231	(10,585)	(370,916)	130,748
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	-	-	272,500	-
385	Special or Extraordinary Items	-	-	-	-
381, 382, 389, 395, 398	Other Resources	-	-	-	-
	Total Other Increases in Fund Resources:	-	-	272,500	-
Other Decreases in Fund Resources					
594-595	Capital Expenditures	-	-	-	-
591-593, 599	Debt Service	-	-	-	-
597	Transfers-Out	1,576,030	-	-	-
585	Special or Extraordinary Items	-	-	-	-
581, 582, 589	Other Uses	-	-	-	-
	Total Other Decreases in Fund Resources:	1,576,030	-	-	-
	Increase (Decrease) in Cash and Investments:	2,500,201	(10,585)	(98,416)	130,748
Ending Cash and Investments					
50821	Nonspendable	-	-	-	-
50831	Restricted	5,766,448	-	-	-
50841	Committed	-	16,819	210,860	567,605
50851	Assigned	-	-	-	-
50891	Unassigned	-	-	-	-
	Total Ending Cash and Investments	5,766,448	16,819	210,860	567,605

The accompanying notes are an integral part of this statement.

City of Des Moines
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2022

		180 Abatement Fund	190 ASE Automated Speed	199 Transport Benefit District	200 Debt Service Fund
Beginning Cash and Investments					
308	Beginning Cash and Investments	30,518	243,774	2,030,531	130,702
388 / 588	Net Adjustments	-	-	-	-
Revenues					
310	Taxes	-	-	955,568	-
320	Licenses and Permits	-	-	-	-
330	Intergovernmental Revenues	-	-	-	-
340	Charges for Goods and Services	-	-	-	-
350	Fines and Penalties	2,383	401,627	-	-
360	Miscellaneous Revenues	4,800	9,005	50,695	-
Total Revenues:		7,183	410,632	1,006,263	-
Expenditures					
510	General Government	-	-	-	-
520	Public Safety	-	250,425	-	-
530	Utilities	-	-	-	-
540	Transportation	-	-	-	-
550	Natural/Economic Environment	806	-	-	-
560	Social Services	-	-	-	-
570	Culture and Recreation	-	-	-	-
Total Expenditures:		806	250,425	-	-
Excess (Deficiency) Revenues over Expenditures:		6,377	160,207	1,006,263	-
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	-	-	-	461,083
385	Special or Extraordinary Items	-	-	-	-
381, 382, 389, 395, 398	Other Resources	-	-	-	-
Total Other Increases in Fund Resources:		-	-	-	461,083
Other Decreases in Fund Resources					
594-595	Capital Expenditures	-	-	-	-
591-593, 599	Debt Service	-	-	-	461,184
597	Transfers-Out	-	1,676	-	7,870
585	Special or Extraordinary Items	-	-	-	-
581, 582, 589	Other Uses	-	-	-	-
Total Other Decreases in Fund Resources:		-	1,676	-	469,054
Increase (Decrease) in Cash and Investments:		6,377	158,531	1,006,263	(7,971)
Ending Cash and Investments					
50821	Nonspendable	-	-	-	-
50831	Restricted	-	-	3,036,794	122,730
50841	Committed	36,895	402,304	-	-
50851	Assigned	-	-	-	-
50891	Unassigned	-	-	-	-
Total Ending Cash and Investments		36,895	402,304	3,036,794	122,730

The accompanying notes are an integral part of this statement.

City of Des Moines
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2022

		<u>300 Capital Projects Fund</u>	<u>401 Marina Fund</u>	<u>450 Surface Water Management</u>	<u>500 Equipment Rental Operations</u>
Beginning Cash and Investments					
308	Beginning Cash and Investments	13,575,309	5,600,930	7,783,267	327,756
388 / 588	Net Adjustments	-	-	-	-
Revenues					
310	Taxes	1,890,716	-	-	-
320	Licenses and Permits	-	-	-	-
330	Intergovernmental Revenues	317,359	15,522	298,121	-
340	Charges for Goods and Services	480,027	5,252,885	4,739,855	593,411
350	Fines and Penalties	-	14,905	-	-
360	Miscellaneous Revenues	323,374	146,626	195,147	537
Total Revenues:		<u>3,011,476</u>	<u>5,429,938</u>	<u>5,233,123</u>	<u>593,948</u>
Expenditures					
510	General Government	-	-	-	-
520	Public Safety	-	-	-	-
530	Utilities	-	-	2,774,853	-
540	Transportation	293,412	-	-	706,399
550	Natural/Economic Environment	-	-	-	-
560	Social Services	-	-	-	-
570	Culture and Recreation	-	3,515,759	-	-
Total Expenditures:		<u>293,412</u>	<u>3,515,759</u>	<u>2,774,853</u>	<u>706,399</u>
Excess (Deficiency) Revenues over Expenditures:		2,718,064	1,914,179	2,458,270	(112,451)
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	1,415,043	-	-	-
385	Special or Extraordinary Items	-	-	-	-
381, 382, 389, 395, 398	Other Resources	-	-	-	13,417
Total Other Increases in Fund Resources:		<u>1,415,043</u>	<u>-</u>	<u>-</u>	<u>13,417</u>
Other Decreases in Fund Resources					
594-595	Capital Expenditures	7,895,048	323,118	1,349,302	-
591-593, 599	Debt Service	-	770,992	-	-
597	Transfers-Out	507,583	-	-	-
585	Special or Extraordinary Items	-	-	-	-
581, 582, 589	Other Uses	-	-	-	-
Total Other Decreases in Fund Resources:		<u>8,402,631</u>	<u>1,094,110</u>	<u>1,349,302</u>	<u>-</u>
Increase (Decrease) in Cash and Investments:		<u>(4,269,524)</u>	<u>820,069</u>	<u>1,108,968</u>	<u>(99,034)</u>
Ending Cash and Investments					
50821	Nonspendable	-	-	-	-
50831	Restricted	3,364,495	194,200	71,923	-
50841	Committed	-	850,000	-	-
50851	Assigned	5,941,293	5,376,794	8,820,314	228,722
50891	Unassigned	-	-	-	-
Total Ending Cash and Investments		<u>9,305,788</u>	<u>6,420,994</u>	<u>8,892,237</u>	<u>228,722</u>

The accompanying notes are an integral part of this statement.

City of Des Moines
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2022

		501 Equipment Rental Replacement	506 Facility Repair and Replacement	511 Computer Equipment Capital Fund	520 Self- Insurance Fund
Beginning Cash and Investments					
308	Beginning Cash and Investments	2,165,348	457,682	1,394,066	844,026
388 / 588	Net Adjustments	-	-	-	-
Revenues					
310	Taxes	-	-	-	-
320	Licenses and Permits	-	-	-	-
330	Intergovernmental Revenues	-	-	-	-
340	Charges for Goods and Services	389,999	98,600	134,432	796,488
350	Fines and Penalties	-	-	-	-
360	Miscellaneous Revenues	37,354	8,404	23,378	15,171
Total Revenues:		427,353	107,004	157,810	811,659
Expenditures					
510	General Government	-	-	-	633,394
520	Public Safety	-	-	-	-
530	Utilities	-	-	-	-
540	Transportation	-	-	-	-
550	Natural/Economic Environment	-	-	-	62,675
560	Social Services	-	-	-	-
570	Culture and Recreation	-	-	-	-
Total Expenditures:		-	-	-	696,069
Excess (Deficiency) Revenues over Expenditures:		427,353	107,004	157,810	115,590
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	-	-	-	-
385	Special or Extraordinary Items	-	-	-	-
381, 382, 389, 395, 398	Other Resources	-	-	-	-
Total Other Increases in Fund Resources:		-	-	-	-
Other Decreases in Fund Resources					
594-595	Capital Expenditures	285,851	9,384	211,455	-
591-593, 599	Debt Service	-	-	-	-
597	Transfers-Out	-	-	16,875	-
585	Special or Extraordinary Items	-	-	-	-
581, 582, 589	Other Uses	-	-	-	-
Total Other Decreases in Fund Resources:		285,851	9,384	228,330	-
Increase (Decrease) in Cash and Investments:		141,502	97,620	(70,520)	115,590
Ending Cash and Investments					
50821	Nonspendable	-	-	-	-
50831	Restricted	-	8,122	-	-
50841	Committed	-	-	-	-
50851	Assigned	2,306,850	547,180	1,323,547	959,616
50891	Unassigned	-	-	-	-
Total Ending Cash and Investments		2,306,850	555,302	1,323,547	959,616

The accompanying notes are an integral part of this statement.

City of Des Moines
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2022

		530
		Unemployment
		Insurance Fund
Beginning Cash and Investments		
308	Beginning Cash and Investments	514,732
388 / 588	Net Adjustments	-
Revenues		
310	Taxes	-
320	Licenses and Permits	-
330	Intergovernmental Revenues	-
340	Charges for Goods and Services	15,354
350	Fines and Penalties	-
360	Miscellaneous Revenues	9,239
Total Revenues:		24,593
Expenditures		
510	General Government	37,749
520	Public Safety	-
530	Utilities	-
540	Transportation	-
550	Natural/Economic Environment	-
560	Social Services	-
570	Culture and Recreation	-
Total Expenditures:		37,749
Excess (Deficiency) Revenues over Expenditures:		(13,156)
Other Increases in Fund Resources		
391-393, 596	Debt Proceeds	-
397	Transfers-In	-
385	Special or Extraordinary Items	-
381, 382, 389, 395, 398	Other Resources	-
Total Other Increases in Fund Resources:		-
Other Decreases in Fund Resources		
594-595	Capital Expenditures	-
591-593, 599	Debt Service	-
597	Transfers-Out	-
585	Special or Extraordinary Items	-
581, 582, 589	Other Uses	-
Total Other Decreases in Fund Resources:		-
Increase (Decrease) in Cash and Investments:		(13,156)
Ending Cash and Investments		
50821	Nonspendable	-
50831	Restricted	-
50841	Committed	-
50851	Assigned	501,577
50891	Unassigned	-
Total Ending Cash and Investments		501,577

The accompanying notes are an integral part of this statement.

City of Des Moines
Fiduciary Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2022

		Custodial
308	Beginning Cash and Investments	33,393
388 & 588	Net Adjustments	-
310-390	Additions	273,984
510-590	Deductions	274,305
	Net Increase (Decrease) in Cash and Investments:	(321)
508	Ending Cash and Investments	33,072

The accompanying notes are an integral part of this statement.

NOTES TO THE FINANCIAL STATEMENTS

Note 1 – Summary of Significant Accounting Policies

The City of Des Moines, King County, Washington was incorporated on June 15, 1959 and operates under the laws of the State of Washington applicable to a Non-Charter Code City (Title 35A RCW) with a council/manager form of government. The City is a general purpose government and provides police, a municipal court, engineering, street construction and maintenance, planning and zoning, parks and recreation services, and general administrative functions. Fire protection for the City of Des Moines is provided by South King Fire and Rescue, an entity established on September 21, 2005 when voters approved the merger of King County Fire Protection District No. 26 and the Federal Way Fire Department. The City also owns and operates a marina and a surface water management utility.

The financial statements of the City of Des Moines have been prepared in conformity with the Cash Basis Budgeting, Accounting and Reporting System (BARS) Manual prescribed by the Washington State Auditor's Office under the authority of Washington State law, Chapter 43.09 RCW. This manual prescribes a financial reporting framework that differs from generally accepted accounting principles in the following manner:

- Financial transactions are recognized on a cash basis of account as described below
- Component units are required to be disclosed, but are not included in the financial statements
- Government-wide statements, as defined in GAAP, are not presented.
- All funds are presented, rather than a focus on major funds.
- The *Schedule of Liabilities* is required to be presented with the financial statements as supplementary information.
- Supplementary information required by GAAP is not presented.
- Ending balances for proprietary and fiduciary funds are presented using classifications that are different from the ending net position classifications in GAAP.

A. Fund Accounting

Financial transactions of the government are reported in individual funds. Each fund uses a separate set of self-balancing accounts that comprises its cash and investments and revenues and expenditures. The government's resources are allocated to and accounted for in individual funds depending on their intended purpose. Each fund is reported as a separate column in the financial statements, except for fiduciary funds, which are presented by fund types. The total column is presented as "memo only" because any interfund activities are not eliminated. The following fund types are used:

GOVERNMENTAL FUND TYPES

The **General Fund** is the primary operating fund of the government. It accounts for all financial resources except those required or elected to be accounted for in another fund.

Special Revenue Funds account for specific revenue sources that are restricted or committed to expenditures for specified purposes of the government.

The **Debt Service Fund** accounts for the financial resources that are restricted, committed, or assigned to expenditures for principal, interest and related costs on general long-term debt.

The **Capital Projects Fund** accounts for financial resources which are restricted, committed, or assigned for the acquisition or construction of capital facilities or other capital assets.

PROPRIETARY FUND TYPES

The **Enterprise Funds** account for operations that provide goods or services to the general public and are supported primarily through user charges.

The **Internal Service Funds** account for operations that provide goods or services to other departments or funds of the government on a cost reimbursement basis.

FIDUCIARY FUND TYPES

Fiduciary funds account for assets held by the government in a trustee capacity or as an agent on behalf of others.

The **Custodial Funds** are used to account for assets that the government holds on behalf of others in a custodial capacity.

B. Basis of Accounting and Measurement Focus

Financial statements are prepared using the cash basis of accounting and measurement focus. Revenues are recognized when cash is received and expenditures are recognized when paid. In accordance with state law the City also recognizes expenditures paid during the twenty day period after the close of the fiscal year for claims incurred during the previous period.

C. Cash and Investments

See Note 4, *Deposits and Investments* for additional details.

D. Capital Assets

Capital assets are assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Capital assets and inventory are recorded as capital expenditures when purchased.

E. Compensated Absences

It is the City's policy to permit employees to accumulate earned but unused vacation and sick leave benefits. Vacation leave is accumulated at various rates, depending upon date of hire, contract and City policy. Vacation leave is payable upon termination of employment. Sick leave accumulates at four hours per pay period. Employees may receive some of all of accumulated sick leave upon termination of employment, depending upon date of hire, contract and City policy. Payments are recognized as expenditures when paid.

F. Long-Term Debt

See Note 8 – Long-term Debt.

G. Restricted and Committed Portion of Ending Cash and Investments

Beginning and Ending Cash and Investments are reported as restricted or committed when it is subject to restrictions on use imposed by external parties or due to internal commitments established by the City Council. When expenditures that meet restrictions are incurred, the City intends to use the most restricted resources first.

Restrictions and commitments of Ending Cash and Investments consist of the following:

2022 Restrictions and Commitments of Ending Cash and Investments							
	General Fund	Debt Service	Special Revenue	Operations	Capital Projects	Fiduciary	Total
Restricted for:	361,067	122,730	9,231,885	768,869	3,441,667	33,072	13,959,289
Street					27,209		27,209
Arterial Pavement					2,468		2,468
Development				542,119			542,119
Seizure and Forfeiture			149,437				149,437
Affordable Housing			86,078				86,078
Motel Tax			193,128				193,128
American Rescue Plan Act			5,766,448				5,766,448
Transportation Benefits District			3,036,794				3,036,794
REET 2 Eligible Debt Service		9,378					9,378
2018 LTGO and Refunding Bonds		113,352					113,352
REET First Quarter					1,777,558		1,777,558
REET Second Quarter					1,578,998		1,578,998
Municipal Capital Improvements					7,939		7,939
Marina Operations				194,200			194,200
Surface Water management				32,550	39,373		71,923
Facility Repair and Maintenance					8,122		8,122
Deposits	341,412						341,412
Donations	8,015						8,015
Court Trust Bails	11,640						11,640
Custodial						33,072	33,072
Committed for:	-	-	1,234,483	-	850,000	-	2,084,483
Redondo Zone			16,819				16,819
Waterfront Zone			210,860				210,860
PBPW Automation Fee			567,605				567,605
Abatement			36,895				36,895
Automated Speed Enforcement			402,304				402,304
Marina Operations					850,000		850,000
Total	361,067	122,730	10,466,367	768,869	4,291,667	33,072	16,043,772

Note 2 – Budget Compliance

The City adopts annual appropriated budgets for the general, special revenue, enterprise, internal service and fiduciary funds. These budgets are appropriated at the fund level. The budget constitutes the legal authority for expenditures at that level. Annual appropriations for these funds lapse at the fiscal year end.

Annual appropriated budgets are adopted on the same basis of accounting as used for financial reporting.

The appropriated and actual expenditures for the legally adopted budgets were as follows:

2022					
Funds	Original Adopted Budget	Final Adopted Budget	Actual Expenditures	Variance	
General Fund	\$ 24,888,320	\$ 25,929,494	\$ 24,291,530	\$ 1,637,964	
Special Revenue Funds					
Street Fund	2,071,415	2,086,415	1,620,666	465,749	
Arterial Pavement	1,082,000	1,082,000	588,049	493,951	
Development Fund	3,475,407	3,475,407	2,900,318	575,089	
Police Drug Seizure Fund	11,000	11,000	-	11,000	
Hotel Motel Tax Fund	117,000	117,000	50,297	66,703	
Affordable Housing Sales Tax Fund	30,000	30,000	-	30,000	
ARPA	4,174,665	2,319,665	2,019,149	300,516	
Redondo Zone	86,785	104,785	75,244	29,541	
Waterfront Zone	117,233	636,733	486,044	150,689	
Urban Forestry Fund	5,000	5,000	-	5,000	
Abatement Fund	1,000	1,000	806	194	
ASE Automated Speed Enforcement	140,000	365,000	252,101	112,899	
Transport Benefit District	950,000	950,000	-	950,000	
Debt Service Fund	461,242	469,112	469,054	58	
REET 1 Eligible Debt Service	-	7,870	7,870	0	
REET 2 Eligible Debt Service	235,242	235,242	235,185	57	
2018 LTGO & Refunding Bonds	226,000	226,000	226,000	-	
Capital Project Fund	14,184,365	16,882,865	8,696,042	8,186,823	
Proprietary Funds					
Marina	12,513,999	12,513,999	4,609,872	7,904,127	
Surface Water Management	12,137,346	12,173,346	4,124,153	8,049,193	
Internal Service Funds					
Equipment Rental Operations	610,436	757,436	706,399	51,037	
Equipment Rental Replacement	905,000	905,000	285,850	619,150	
Facility Repair and Replacement Fund	385,000	389,000	9,384	379,616	
Computer Equipment Capital Fund	286,620	303,120	228,329	74,791	
Self-Insurance Fund	778,365	778,365	696,069	82,296	
Unemployment Insurance Fund	90,000	90,000	37,749	52,251	
	\$ 79,502,198	\$ 82,375,742	\$ 52,147,105	\$ 30,228,637	

Budgeted amounts are authorized to be transferred between object classes within departments; however; any revisions that alter the total expenditures of a fund, or that affect the number of authorized employee positions, salary ranges, hours, or other conditions of employment must be approved by the City's legislative body.

Note 3 – COVID-19 Pandemic

In February 2020, the Governor of the State of Washington declared a state of emergency in response to the spread of the deadly new virus known as COVID-19. In the months following the declaration, precautionary measures to slow the spread of the virus were ordered. These measures included closing schools, cancelling public events, limiting public and private gatherings, and restricting business operations, travel and non-essential activities.

On October 31, 2022, the Governor's COVID-19 emergency orders were lifted.

As the COVID-19 pandemic has worn down, the City had been able to reopen City Hall to the public, resume capital projects, end previous hiring freezes, and restart programs that had been halted.

While the City was the recipient of funds from the federal government's efforts at economic relief (Coronavirus Aid, Relief, and Economic Security Act, American Rescue Plan Act), the City was also challenged by the inflationary pressures and labor shortages related to recovering from the COVID-19 pandemic. As such, the City continues to be budget strategically to face these challenges, while also positioning itself to attract job candidates and retain current employees.

The length of time the City will face these specific challenges, and the full extent of the financial impact on the City of Des Moines is unknown at this time.

Note 4 – Deposits and Investments

Investments are reported at original cost. Deposits and investments by type at December 31, 2022 are as follows:

Type of Deposit or Investment	City of Des Moines' own deposits and investments	Deposits and investments held by the City as custodian for other local governments, individuals, or private organizations	Total
Bank Deposits	\$ 3,873,495	\$ 33,072	\$ 3,906,567
L.G.I.P.	17,193,610	-	17,193,610
U.S. Government Securities	31,420,695	-	31,420,695
	\$ 52,487,801	\$ 33,072	\$ 52,520,873

Investments in Local Government Investment Pool (LGIP)

The City is a participant in the Local Government Investment Pool was authorized by Chapter 294, Laws of 1986, and is managed and operated by the Washington State Treasurer. The State Finance Committee is the administrator of the statute that created the pool and adopts rules. The State Treasurer is responsible for establishing the investment policy for the pool and reviews the policy annually and proposed changes are reviewed by the LGIP advisory Committee.

Investments in the LGIP, a qualified external investment pool, are reported at amortized cost which approximates fair value. The LGIP is an unrated external investment pool. The LGIP does not have any legally binding guarantees of share values. The LGIP does not impose liquidity fees or redemption gates on participant withdrawals.

The Office of the State Treasurer prepares a stand-alone LGIP financial report. A copy of the report is available from the Office of the State Treasurer, PO Box 40200, Olympia, Washington 98504-0200, online at <http://www.tre.wa.gov>.

Note 5 - Joint Venture

On March 25, 2009, the Cities of Auburn, Burien, Des Moines, Federal Way, Renton, SeaTac and Tukwila, Washington (Member Cities) entered into a SCORE Facility Interlocal Agreement (as amended and restated on October 1, 2009, the "2009 Interlocal Agreement") pursuant to chapter 39.34 RCW (Interlocal Cooperation Act) to jointly construct, equip, maintain and operate a consolidated regional misdemeanor correctional facility located in Des Moines, Washington (SCORE Facility) to serve the parties to the 2009 Interlocal Agreement and state agencies and other local governments (Subscribing Agencies) to provide correctional services essential to the preservation of the public health, safety and welfare. To carry out the purposes of the 2009 Interlocal Agreement and to operate, manage and maintain the SCORE Facility, the Member Cities formed the South Correctional Entity (SCORE), a separate governmental administrative agency pursuant to the 2009 Interlocal Agreement and RCW 39.34.030(3).

The 2009 Interlocal Agreement named the City of Des Moines as the "Host City" and the remaining Member Cities as the "Owner Cities". Pursuant to a separate "Host City Agreement" dated October 1, 2009, the Host City will not enjoy the same equity position as the Owner Cities until all debts issued are paid and the Host City fulfills all of its obligations as outlined in the Host City Agreement. Pursuant to SCORE financial policies, all unexpected funds or reserve funds shall be distributed based on the percentage of the Member City's average daily population at the SCORE Facility for the last three (3) years regardless of its Owner City or Host City status.

SCORE and 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.

SCORE, as a governmental administrative agency formed under the Interlocal Cooperation Act, is not expressly authorized to issue bonds. To finance and refinance the costs of the SCORE Facility, the City of Renton, Washington, chartered the South Correctional Entity Facility Public Development Authority as a public corporation pursuant to RCW 35.21.730 through 35.21.757 (Public Corporation Act) and Ordinance No. 5444, passed on February 2, 2009 (Charter Ordinance).

2009 Bonds. The SCORE PDA issued its Bonds, Series 2009A (2009A Bonds) and Bonds, Series 2009B (Taxable Build America Bonds—Direct Payment) (2009B Bonds, and, together the 2009 Bonds) on November 4, 2009 in the aggregate principal amount of \$86,235,000. Proceeds of the 2009 Bonds were used to finance a portion of the costs of acquiring, constructing, developing, equipping and improving the SCORE Facility, to capitalize interest during construction, and to pay costs of issuance for the 2009 Bonds.

Pursuant to the 2009 Interlocal Agreement and the ordinances of each city, each Owner City (which includes the Cities of Auburn, Burien, Federal Way, Renton, SeaTac, and Tukwila) is obligated to budget for and pay its share, and only its share, of the principal of and interest on the 2009 Bonds as the same become due and payable (referred to as each Owner City's 2009 Capital Contribution). Each Owner City's obligation to pay its 2009 Capital Contribution is an irrevocable, unconditional full faith and credit obligation of such Owner City, payable from regular property taxes levied within the constitutional and statutory authority provided without a vote of the electors of the Owner City on all of the taxable property within the Owner City and other sources of revenues available therefor.

Pursuant to the 2009 Interlocal Agreement, on September 5, 2018, the City of Federal Way gave its notice of intent to withdraw from SCORE effective December 31, 2019. The remaining Member Cities (including the cities of Auburn, Burien, Des Moines, Renton, SeaTac and Tukwila) entered into an Amended and Restated SCORE Interlocal Agreement (2019 Interlocal Agreement), which amended and restated the 2009 Interlocal Agreement in its entirety, removed Federal Way as a Member City (effective December 31, 2019) and an Owner City (effective immediately), added the City of Des Moines as an Owner City, terminated the Host City Agreement, and made other revisions to provide for the issuance of bonds to refund the 2009 Bonds.

On December 11, 2019, the Authority issued its Refunding Bonds, Series 2019 in the aggregate principal amount of \$51,055,000 (2019 Bonds). The 2019 Interlocal Agreement became effective on the date of issuance of the 2019 Bonds. Proceeds of the 2019 Bonds were used, together with a contribution from Federal Way to fully pay its 2009 Capital Contribution, to defease and refund all of the outstanding 2009 Bonds.

As a result, Federal Way has satisfied its 2009 Capital Contribution and as of December 31, 2019, will no longer be considered a Member City of SCORE.

Pursuant to the 2019 Interlocal Agreement and the ordinances of each city, each remaining Owner City (including the Cities of Auburn, Burien, Des Moines, Renton, SeaTac, and Tukwila) is obligated to budget for and pay its share, and only its share, of the principal of and interest on the 2019 Bonds as the same become due and payable (referred to as each Owner City's 2019 Capital Contribution). Each Owner City's obligation to pay its 2019 Capital Contribution is an irrevocable, unconditional full faith and credit obligation of such Owner City, payable from regular property taxes levied within the constitutional and statutory authority provided without a vote of the electors of the Owner City on all of the taxable property within the Owner City and other sources of revenues available therefor. The City of Federal Way is not obligated, under the 2019 Interlocal Agreement or otherwise, to pay debt service on the 2019 Bonds or other debt of the Authority.

The following is a summary of the debt service requirements for the 2019 Bonds:

Summary of Debt Service Requirements - Refunding Bonds, 2019 (Ref 2009A & 2009B)										
Debt Service Schedule				Debt Service Allocation to Owner Cities						
Year	Principal	Interest	Total	Auburn 34.94%	Burien 4.82%	Des Moines 6.02%	Renton 40.96%	SeaTac 3.62%	Tukwila 9.64%	
2023	1,990,000	1,919,500	\$ 3,909,500	\$ 1,365,979	\$ 188,438	\$ 235,352	\$ 1,601,331	\$ 141,524	\$ 376,876	
2024	2,070,000	1,839,900	3,909,900	1,366,119	188,457	235,376	1,601,495	141,538	376,914	
2025	2,155,000	1,757,100	3,912,100	1,366,888	188,563	235,508	1,602,396	141,618	377,126	
2026	2,260,000	1,649,350	3,909,350	1,365,927	188,431	235,343	1,601,270	141,518	376,861	
2027	2,375,000	1,536,350	3,911,350	1,366,626	188,527	235,463	1,602,089	141,591	377,054	
2028-2032	13,770,000	5,778,500	19,548,500	6,830,246	942,238	1,176,820	8,007,066	707,656	1,884,475	
2033-2037	17,060,000	2,485,800	19,545,800	6,829,303	942,108	1,176,657	8,005,960	707,558	1,884,215	
2038	3,795,000	113,850	3,908,850	1,365,752	188,407	235,313	1,601,065	141,500	376,813	
Totals	\$ 45,475,000	\$ 17,080,350	\$ 62,555,350	\$ 21,856,840	\$ 3,015,169	\$ 3,765,832	\$ 25,622,672	\$ 2,264,503	\$ 6,030,334	

The City of Des Moines reports its share of equity interest in the Governmental Activities column within the Government-wide financial statements under non-current assets. The following is condensed (unaudited) financial information as of December 31, 2022 related to the old refunded 2009 Bonds:

South Correctional Entity (SCORE)					
Member City	2021 Percent of Equity	2021 Equity Balance	2022 Percent of Equity	2022 Apportionment	2022 Equity Balance
Auburn	41.93%	\$ 13,728,641	41.48%	\$ 367,485	\$ 14,096,126
Burien	5.30%	1,736,041	5.39%	95,847	1,831,888
Des Moines	4.95%	1,619,395	5.02%	88,153	1,707,548
Renton	31.93%	10,449,372	32.11%	464,559	10,913,931
SeaTac	8.13%	2,661,310	8.27%	151,004	2,812,314
Tukwila	7.76%	2,541,785	7.73%	85,550	2,627,335
Grand Totals	100.00%	\$ 32,736,544	100.00%	\$ 1,252,598	\$ 33,989,142

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

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

Note 6 – Leases

During the year ended 2022, the City of Des Moines adopted guidance for the presentation and disclosure of leases, as required by the BARS manual. This requirement resulted in the addition of a lease liability reported on the Schedule of Liabilities.

The City leases aquatic lands from the State of Washington for \$19,761 per quarter under a 30-year lease agreement that expires on June 30, 2041.

The City leases a building from Redondo Square GRF2 LLC for \$1,857 per month for use as a Police Substation that expires on March 31, 2025.

The City leases a postage machine from Pitney Bowes Inc. for \$152 per month under a 60-month agreement that expires on March 3, 2027.

The City leases a multi-function mail processing machine from Quadient Leasing for \$660 per month under a 60-month agreement that expires on July 2, 2025.

The total amount paid for leases in 2022 was \$102,383. As of December 31, 2022, the future lease payments are as follows (assuming leases terminate and are not renewed):

Year ended December 31	Total
2023	\$ 108,808
2024	108,808
2025	94,517
2026	80,868
2027	79,500
2028-2032	395,220
2033-2037	395,220
2038-2042	276,498
Total	\$ 1,539,440

Note 7 – Long-term Debt

The accompanying Schedule of Liabilities provides more details of the outstanding debt and liabilities of the City and summarizes the City's debt transactions for year ended December 31, 2022.

The debt service requirement for general obligation bonds and public works loans are as follows:

Year	Principal	Interest	Total
2023	805,279	359,148	1,164,427
2024	840,095	328,879	1,168,974
2025	846,594	297,215	1,143,809
2026	877,915	263,470	1,141,385
2027	919,838	227,807	1,147,644
2028 - 2032	2,290,817	604,015	2,894,832
2033 - 2037	2,007,012	314,244	2,321,256
2038 - 2042	448,461	15,654	464,115
Totals	\$ 9,036,010	\$ 2,410,432	\$ 11,446,442

Note 8 – Contingencies and Litigation

The City carries liability and property insurance through the Washington Cities Insurance Authority (WCIA). In the opinion of management, the City's insurance policies and self-insurance reserves are adequate to pay all material known or pending claims.

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

State v Blake – In 2021, the Washington State Supreme Court held that the statute criminalizing drug possession is unconstitutional. The underlying RCW's determined to be unconstitutional by

the Blake decision date back to 1971. In addition to receiving a vacate of their criminal conviction, Blake requires all legal financial obligations (LFO's) paid by an impacted individual tied to a Blake conviction be refunded. The Legislature has specified in a budget proviso that this amount includes collection costs. The city has been proactively reviewing potential Blake convictions.

The Legislature has appropriated funds to reimburse District and Municipal courts for the costs of processing the vacates and refunding of LFOs. Specifically, the Administrative Office of the Courts (AOC) will reimburse extraordinary judicial, prosecutorial, and defense related costs associated with vacating convictions applicable to the State v Blake decision. Additionally, AOC will reimburse District and Municipal Courts who have reimbursed or will reimburse LFOs to defendants whose convictions or sentences in Municipal Court are affected by the State v Blake decision. The Washington State Legislature has provided ample funding for the city to process vacations and refund LFOs on behalf of the state, including funding for FY 2023 and proviso language that suggests an ongoing state responsibility.

Note 9 - Construction & Other Contractual Commitments

The City of Des Moines had active construction projects as of December 31, 2022. The projects include street construction, utility construction and park facility construction contracts. There are also several consulting contracts. At year end, the City's contract commitments are as follows:

Project		Spent to Date	Remaining Commitment
BDCIP0015	COURT ENTRY IMPROVEMENTS	\$ 14,388.00	\$ 24,796.59
MACIP0002	MARINA GUEST MOORAGE POWER UPGRADE	12,705.70	2,294.30
MACIP0005	MARINA DOCK REPLACEMENT	399,007.26	198,796.74
MACIP0006	FUEL & ELECTRICAL REPLACEMENT	189,526.26	1,798.40
MCCIP0003	SOUND VIEW PARK	1,408,330.08	62,089.23
MCCIP0005	FIELD HOUSE PLAY EQUIPMENT	18,966.21	1,801.79
MCCIP0012	REDONDO FISHING PIER	309,753.98	178,119.98
MCCIP0017	REDONDO FSH PR BH/PLZ	57,580.02	42,419.98
MCCIP0018	REDONDO RESTROOM	54,480.31	7,519.69
MCCIP0019	NORTH BULKHEAD	10,150,620.19	1,781,386.33
MCCIP0020	N LOT RR/PLZ/PROM	600,531.28	172,263.56
MCCIP0022	MARINA REDEVELOPMENT	102,297.77	82,452.23
SWCIP0001	BARNES CREEK/KDM CULVERT	704,661.02	621,410.18
SWCIP0002	24 AV PIPELINE REPLACEMENT/UPGRADE	148,279.18	31,746.53
SWCIP0004	DEEPDENE PLAT OUTFALL REPLACEMENT	25,418.77	4,870.23
SWCIP0008	6th Ave/239th PIPE REPLACEMENT	65,816.78	66,225.23
SWCIP0009	8TH AV (264TH TO 265TH)	817,340.44	127,126.41
SWCIP0011	SNDVW DR/R BEACH DR PIPE UPGRADE	213,241.13	45,604.51
SWCIP0015	DMMD/208TH - 212TH PIPE PROJECT	66,778.88	117,538.12
SWCIP0016	KDM /16TH AVENUE A PIPE REPL	40,642.00	163,841.92
SWCIP0025	MASSEY CRK POCKET EST AND FISH PASS	1,641.94	200,174.90
SWCIP0027	SOUTH 256TH PLACE SLIDE REPAIR	42,286.06	6,886.34
TRCIP0001	ADA COMPLIANCE PROGRAM	-	13,688.00
TRCIP0003	ARTERIAL STRT PAVEMENT PRESERVATION	729,123.46	67,495.67
TRCIP0010	24TH AVE S IMPR - SEGMENT 2	538,377.29	74,642.24
Total		\$ 16,711,794.01	\$ 4,096,989.10

Note 10 – Other Postemployment Benefits

The LEOFF I Retiree Medical Plan is a closed, single-employer, defined-benefit OPEB plan administered by the City of Des Moines as required by RCW 41.26. The plan pays for 100% of eligible retirees' healthcare costs on a pay-as-you-go basis. As of December 31, 2022, the plan had four members, all retirees. As of December 31, 2022, the City's total OPEB liability was \$ 1,847,829, as calculated using the alternative measurement method. For the year ended December 31, 2022, the City paid \$ 276,967 in benefits.

Note 11 – Pension Plans

A. State Sponsored Pension Plans

Substantially all the City's full-time and qualifying part-time employees participate in the following statewide retirement systems administered by the Washington State Department of Retirement Systems (DRS), under cost-sharing, multiple-employer public employee defined benefit and defined contribution retirement plans:

Public Employees' Retirement System (PERS)
Public Safety Employees' Retirement System (PSERS)
Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF)

The State Legislature establishes, and amends, laws pertaining to the creation and administration of all public retirement systems.

The Department of Retirement Systems, a department within the primary government of the State of Washington, issues a publicly available Annual Comprehensive Financial Report (ACFR) that includes financial statements and required supplementary information for each plan.

The DRS ACFR may be downloaded from the DRS website at www.drs.wa.gov.

At June 30, 2022, the City's proportionate share of the collective net pension liabilities (assets), was as follows:

Pension Plan	Employer Contributions	Allocation %	Liability (Asset)
PERS 1	\$ 381,646	0.062273%	\$ 1,733,909
PERS 2/3	\$ 640,976	0.079786%	\$ (2,959,088)
PSERS 2	\$ 10,001	0.022605%	\$ (16,163)
LEOFF 1	\$ -	0.013770%	\$ (395,008)
LEOFF 2	\$ 229,623	0.110913%	\$ (3,014,280)

Only the net pension liabilities are reported on the Schedule 09.

LEOFF Plan 1

The City also participates in LEOFF Plan 1. The LEOFF Plan 1 is fully funded and no further employer contributions have been required since June 2000. If the plan becomes underfunded, funding of the remaining liability will require new legislation. Starting on July 1, 2000, employers and employees contribute zero percent.

LEOFF Plan 2

The City also participates in the LEOFF Plan 2. 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.

Note 12 – Property Tax

The county treasurer acts as an agent to collect property tax levied in the county for all taxing authorities. Collections are distributed after the end of each month.

Property tax revenues are recognized when cash is received by the City. Delinquent taxes are considered fully collectible because a lien affixes to the property after tax is levied. The City's regular levy for the year 2022 was \$1.00410 per \$1,000 on an assessed valuation of \$ 5,395,531,562 for a total regular levy of \$5,416,455.

Note 13 – Risk Management

The City of Des Moines maintains insurance against most normal hazards except for unemployment, where it has elected to become self-insured.

The City of Des Moines is a member of the Washington Cities Insurance Authority (WCIA). Utilizing Chapter 48.62 RCW (self-insurance regulation) and Chapter 39.34 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 has a total of 166 members.

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

Liability coverage is written on an occurrence basis, without deductibles. Coverage includes general, automobile, police, errors or omissions, stop gap, employment practices, prior wrongful acts, and employee benefits liability. Limits are \$4 million per occurrence in the self-insured layer, and \$16 million in limits above the self-insured layer is provided by reinsurance. Total limits are \$20 million per occurrence subject to aggregates and sublimits. The Board of Directors determines the limits and terms of coverage annually.

All Members are provided a separate cyber risk policy and premises pollution liability coverage group purchased by WCIA. The cyber risk policy provides coverage and separate limits for security & privacy, event management, and cyber extortion, with limits up to \$1 million and subject to member deductibles, sublimits, and a \$5 million pool aggregate. Premises pollution liability provides Members with a \$2 million incident limit and \$10 million pool aggregate subject to a \$100,000 per incident Member deductible.

Insurance for property, automobile physical damage, fidelity, inland marine, and equipment breakdown coverage are purchased on a group basis. Various deductibles apply by type of coverage. Property coverage is self-funded from the members' deductible to \$750,000, for all perils other than flood and earthquake, and insured above that to \$400 million per occurrence subject to aggregates and sublimits. Automobile physical damage coverage is self-funded from the members' deductible to \$250,000 and insured above that to \$100 million per occurrence subject to aggregates and sublimits.

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

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

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

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

	Self-Insurance		Unemployment Insurance	
	2022	2021	2022	2021
Claims liabilities at beginning of year	-	-	-	-
Claims expenses:				
Current year changes in estimates	23,108	-	(37,749)	(31,828)
Claims payments	-	-	5,214	31,828
Claims liabilities at end of year	<u>23,108</u>	<u>-</u>	<u>(32,535)</u>	<u>-</u>

Note 14 – Change in Accounting Method

In 2022, the City transitioned from Generally Accepted Accounting Principles (GAAP) to the cash basis of accounting as allowed by the Washington State Auditor’s Office (SAO) under the authority of RCW 43.09.200. The City employs the 20-day open period as prescribed by RCW 35.33.151. Beginning Cash balances for each fund were adjusted for transactions having cash impacts in 2022 but were originally reported in the prior year under GAAP to guarantee that the 2022 financial information include a fair presentation of a full twelve months of regular operating revenues and expenses.

Note 15 – Subsequent Events

On June 8, 2023, the City Council approved the issuance of bonds in an amount not to exceed \$26 million. The bonds are anticipated to be issued in order to fund the replacement of Marina Docks (docks L, M, and N), the Marina Steps and Plaza project, Redondo and Marina paid parking systems, the Redondo Fishing Pier and Restroom, and the Flag Triangle.

**City of Des Moines
Schedule of Liabilities
For the Year Ended December 31, 2022**

ID. No.	Description	Due Date	Beginning Balance	Additions	Reductions	Ending Balance
General Obligation Debt/Liabilities						
251.11	2012 Marina GO & Refunding Bonds	12/1/2022	295,000	-	295,000	-
251.11	2018 Limited GO Bonds & Refunding Bonds	12/1/2028	3,841,112	-	250,488	3,590,624
251.11	2018 Limited GO Bonds & Refunding Bonds	12/1/2038	2,828,888	-	359,512	2,469,376
263.85	SCORE - Host City Interlocal Agreement	1/1/2039	2,852,878	-	115,283	2,737,595
263.87	2004 PWTf Loan-Pac Hwy #2	7/1/2024	70,857	-	23,618	47,239
263.87	2009 PWTf Loan-DM Gateway	7/1/2028	223,039	-	31,863	191,176
Total General Obligation Debt/Liabilities:			10,111,774	-	1,075,764	9,036,010
Revenue and Other (non G.O.) Debt/Liabilities						
263.57	Redondo PD Substation Lease	3/31/2025	3,713	64,904	19,463	49,154
263.57	Dept of Natural Resources - Marina Tidelands/Bedlands Lease	6/30/2041	1,536,375	-	74,089	1,462,286
263.57	Neopost West Postage Machine Lease	7/2/2025	27,716	-	7,919	19,797
263.57	Pitney Bowes Equipment Lease	3/3/2027	-	9,115	912	8,203
263.57	De Lage Landen Barracuda Software Lease	9/3/2026	98,451	-	24,613	73,838
259.12	Compensated Absences-Business Activities		230,724	178,252	194,421	214,555
259.12	Compensated Absences		1,788,728	1,382,799	1,351,663	1,819,864
264.30	Net Pension Obligation-Net Business Activities		93,541	-	93,541	-
264.30	Net Pension Obligation		618,878	1,733,909	618,878	1,733,909
264.40	OPEB Liability		1,786,166	1,847,829	1,786,166	1,847,829
Total Revenue and Other (non G.O.) Debt/Liabilities:			6,184,292	5,216,808	4,171,665	7,229,435
Total Liabilities:			16,296,066	5,216,808	5,247,429	16,265,445

ABOUT THE STATE AUDITOR'S OFFICE

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

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In fulfilling our mission to provide citizens with independent and transparent examinations of how state and local governments use public funds, we hold ourselves to those same standards by continually improving our audit quality and operational efficiency, and by developing highly engaged and committed employees.

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