INTRODUCTORY SECTION
December 5, 2018

The Honorable Mayor  
Members of the City Council  
Citizens of Des Moines, Iowa

State law requires that cities, such as Des Moines, publish each fiscal year a complete set of audited financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP), and that their financial condition and transactions be examined by the Auditor of State or by a certified public accountant. This report is published to fulfill that requirement for the fiscal year ended June 30, 2018.

Management assumes full responsibility for the completeness and reliability of the information contained in this report. In order to do so, the City has established a comprehensive framework of internal control that is designed to protect against loss, theft, or misuse of assets and compile reliable information for preparation of the financial statements. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

The City’s financial statements have been audited by RSM US LLP. They have issued an unmodified (“clean”) opinion on the City of Des Moines’s financial statements for the year ended June 30, 2018. The independent auditor’s report is present at the front of the financial section of this report.

Management’s Discussion and Analysis (MD&A) immediately follows the independent auditor’s report and provides a narrative introduction, overview, and analysis of the basic financial statements. MD&A complements this letter of transmittal and should be read in conjunction with it.
Profile of the Government

The City of Des Moines, Iowa was incorporated as a town in 1851 and as a city in 1857. Extending over 80 square miles, it is home to an estimated 217,000 people and the central city of a metropolitan area of approximately 645,000. It is a river city, intersected by the Des Moines and Raccoon Rivers.

Des Moines is the capital of Iowa, and operates under the council-manager-ward form of government. The Mayor and two Council Members are elected at-large, while another four Council Members each represent one of the four wards into which the City is divided. A City Manager is appointed by the Council, as well as the City Clerk and City Attorney.

Des Moines provides a full range of services, including police and fire protection, sanitation services, park and recreational programs and facilities; construction and maintenance of infrastructure including streets, roads, bridges, and a storm water utility; enforcement of building code regulations; traffic control and parking; housing and other community improvements and social services; economic development and library services. The Public Library of Des Moines Foundation, which raises funds for the benefit of the City’s libraries, and the Des Moines Airport Authority, which runs the airport that serves central Iowa, are discretely presented component units in this report. The Des Moines Independent Community School District, Des Moines Water Works, Des Moines Area Regional Transit, The Des Moines Metropolitan Wastewater Reclamation Authority and Metro Waste Authority — while providing other services to the citizens of Des Moines — do not meet the established criteria for component entities of the City, and thus, are excluded from this report.

The City benefits from strong and diverse neighborhoods and a citizenry deeply involved in its government. The development of 53 recognized neighborhood associations and 20 active boards and commissions strengthen the basic framework of the City’s governmental structure. The City Council is required by Chapter 384 of the Code of Iowa to adopt an annual budget on or before March 15 of each year. This annual budget serves as the foundation for the City of Des Moines’s financial planning and control. The adopted budget provides appropriations (authority to spend) for program operations for the fiscal year that begins on July 1 and ends on June 30 of the following year. Budget amendments (revisions to the adopted budget) must be prepared and adopted in the same manner as the original budget. State law requires that expenditures be controlled at the program level. The budget is also prepared by department, fund and sub activity levels.

Local Economy and Living Conditions

Des Moines is the industrial, commercial, financial, trade, transportation, and governmental center of Iowa. The City’s insurance industry is the third largest in the world – after London and Hartford – and growing. There are over 200 insurance offices
and headquarters located in Des Moines employing more than 20,000 people. Insurance activities are part of a strong local economy that is also based in agriculture, manufacturing, technology, education, health care, and other services.

During calendar year 2018, Des Moines continued to receive praise from various outlets. Accolades include:

- #8 Best City to Find Small Business Jobs – ZipRecruiter
- #4 Best Place to Live – U.S. News & World Report
- #1 Most Popular City for Millennial Homebuyers – Lending Tree
- Top 10 Most-Artistic Medium-Sized City – Expedia
- #8 Best Job Market for 2018 – ZipRecruiter
- One of “5 Up-and-Coming Tech Hotspots” – Livability
- One of “12 Surprisingly Great Places to Retire in the Midwest” – Kiplinger

While Iowa is an agricultural state, the City’s economic diversification insulates it from the farm economy. Further, as many of the state’s rural communities experience population decreases, the Des Moines metropolitan area continues to grow, with much of the expansion resulting from the relocation of residents to Des Moines from rural areas. The variety of components contributing to the City’s economy creates a stability that is apparent from unemployment figures. The City has historically enjoyed a relatively low unemployment rate for each of the last three years: 2.9 percent in 2017, 3.3 percent in 2016, and 3.6 percent in 2015.

The overall strength of the local economy has allowed the City to improve its unemployment rates and property valuations since the recent recession. Additional background data is included in the statistical section of this report. Des Moines’ underlying economic base remains strong and calendar year 2016 permit valuation activity hit record levels.

**Long-term Financial Planning**

The City Council and administration routinely consider the long-term view regarding financial matters. Operating budget decisions are based on long-term sustainability. A budget plan considers multi-year trends for all major revenues and expenditures. The city has a detailed Capital Improvement Plan (CIP) that considers the impact of the investment in infrastructure, the associated debt burden, and any changes in operating costs associated with maintaining new assets. The CIP shows funding for current year and five years out. Some of the issues identified and funding provided in the CIP:

- Flood Mitigation projects - $69.5 million in improvements
- Sewer Separation projects - $52 million in improvements
• Bridges - replacement or restoration of several downtown bridges
• Emerald Ash Borer Response Plan - $5.3 million for treatment or removal of the 7,100 ash trees. A tree inventory is being completed.
• Planning – professional studies are under way or completed for future replacement, construction, and operation planning for City pools, libraries, fire services, and municipal building needs. A multimodal transportation plan is in the current budget as well as a comprehensive parks plan.

Relevant Financial Policies

The City regards General Fund unassigned fund balance as a critical component of fiscal health and improves the credit metric to continue strong bond rating. City policy for the General Fund unassigned fund balance has changed and now targets a minimum of 15% of annual expenditures, as opposed to 10% previously in place. The June 30, 2018 balance is 19.98% of expenditures, up from 17.78% in 2017.

Enterprise funds are monitored regularly and user fees adjusted to maintain required revenue bond coverage and sufficient working capital balances. The policy for the major enterprise funds is to maintain a working capital balance of 20% of annual expenditures.

The City investment policy is to invest public funds not currently needed in a manner which will provide protection of principal, meet the daily cash flow demands of the city and provide market returns. The primary objectives in priority order are safety of principal, liquidity, and return on investments.

Major Initiatives

The Council has undertaken a new strategic planning process which guides the funding choices in the capital and operating budgets ahead. Pursuit of past Council established goals has resulted in the City successfully moving forward in facilitating downtown development, neighborhood improvements, and environmental sustainability projects. Corporations have started or have plans in place for headquarters renovations, new building projects, or plans to locate their headquarters in downtown Des Moines. The largest transportation project, extension of Martin Luther King /Southeast Connector eastward across SE 14th Street to SE 30th Street, has reached its midpoint of construction. Along that route the City completed the construction of a new Municipal Service Center. Other new development has started along the connector: commercial, residential, hotels and restaurants.

The downtown housing stock remains strong for rental units and owner-occupied condominiums. Desire for downtown residential living continues to increase, turning the downtown into a vibrant “24/7” location. New construction projects continue to take
place on the east and west side of the Des Moines River, which divides the downtown. New projects on the edge of the central business district are starting. Council has approved plans or support to match private investment in streetscape and corridor enhancement projects that will provide for beautification and walkability improvements of the areas.

Awards and Acknowledgements

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Des Moines for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2017. This was the 41st consecutive year that the City has received this prestigious award. In order to be awarded a Certificate of Achievement, the government has to publish an easily readable and efficiently organized CAFR that satisfied both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR continues to meet the Certificate of Achievement Program’s requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

Preparation and publication of the Comprehensive Annual Financial Report were the responsibility of a team led by Finance Department Comptroller Tim McCarthy. This team consisted of colleagues in the Finance Department, the audit team from RSM US LLP, and many others in the City’s operating departments, particularly the Housing, Engineering, and Community Development Departments. All members of the team have our deep appreciation and respect for their outstanding contributions to this report—both individually and collectively.

Respectfully submitted,

Scott E. Sanders
City Manager

Robert L. Fagen
Finance Director/Treasurer
Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Des Moines
Iowa

For its Comprehensive Annual Financial Report for the Fiscal Year Ended

June 30, 2017

Christopher P. Morrill
Executive Director/CEO
City of Des Moines, Iowa
Table of Organization

Citizens of Des Moines

ELECT

Des Moines City Council
Frank Cownie, Mayor
Chris Coleman, At-Large
Connie Boesen, At-Large
Bill Gray, Ward I
Linda Westergaard, Ward II
Josh Mandelbaum, Ward III
Joe Gatto, Ward IV

APPOINTS

City Attorney
City Manager
City Clerk
Boards, Commissions and Committees

Community Development
Finance
Housing Services
Information Technology
Police
Engineering
Fire
Human Resources
Park and Recreation
Public Works

Access Advisory Board
Airport Board
Citizen Odor Board
Civil Service Commission
Enterprise Community Steering Committee
Historic Preservation Commission
Housing Appeals Board
Human Rights Commission
Board of Library Trustees
Licensing and Appeals Board
Metro Advisory Council
Des Moines Area Regional Transit
Neighborhood Revitalization Board
Park and Recreation Board
Plan and Zoning Commission
Power Engineers Examining Board
Public Housing Advisory Board
Sister City Commission
Skywalk Committee
Strategic Planning Commission
Traffic Safety Commission
Urban Design Review Board
Water Works Board of Trustees
Youth Advisory Board
Zoning Board of Adjustment

As of 6/30/18
CITY OF DES MOINES, IOWA
ELECTED AND APPOINTED OFFICIALS
For the Fiscal Year Ended June 30, 2018

Elected Officials:

<table>
<thead>
<tr>
<th>Name</th>
<th>Position</th>
<th>Term Expires</th>
</tr>
</thead>
<tbody>
<tr>
<td>Frank Cownie</td>
<td>Mayor</td>
<td>1/1/2020</td>
</tr>
<tr>
<td>Chris Coleman</td>
<td>Council Member, At-Large</td>
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<td>1/1/2022</td>
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<td>Joe Gatto</td>
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<td>1/1/2020</td>
</tr>
</tbody>
</table>

Council-Appointed Officials:

<table>
<thead>
<tr>
<th>Name</th>
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<tbody>
<tr>
<td>Scott Sanders</td>
<td>City Manager</td>
</tr>
<tr>
<td>Jeffrey D. Lester</td>
<td>City Attorney</td>
</tr>
<tr>
<td>Diane Rauh</td>
<td>City Clerk</td>
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</tbody>
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