



City of Lacey, Washington
**2007 Comprehensive Annual
Financial Report**
for the year ended December 31, 2007

City of Lacey, Washington

Comprehensive Annual Financial Report

For the Year Ended December 31, 2007



PREPARED BY THE FINANCE DEPARTMENT

BLAINE L. MARTIN
FINANCE DIRECTOR

TIMOTHY F. McGUIRE
FINANCIAL SERVICES MANAGER

PAMELA S. MEREDITH
ACCOUNTING MANAGER

CHUN K. SAUL, CPA
SENIOR ACCOUNTANT



This Page Intentionally Left Blank

**COMPREHENSIVE ANNUAL FINANCIAL REPORT
OF THE CITY OF LACEY, WASHINGTON
FOR THE YEAR ENDING DECEMBER 31, 2007**

TABLE OF CONTENTS

| I. INTRODUCTORY SECTION | PAGE |
|--|-------------|
| Letter of transmittal | 1-1 |
| Certificate of achievement | 1-6 |
| City of Lacey organizational chart | 1-7 |
| List of officials | 1-8 |
| II. FINANCIAL SECTION | |
| Independent auditor's report..... | 2-1 |
| A. MANAGEMENT DISCUSSION AND ANALYSIS | 3-1 |
| B. BASIC FINANCIAL STATEMENTS | |
| Government-wide Financial Statements | |
| Statement of Net Assets | 4-1 |
| Statement of Activities | 4-2 |
| Fund Statements | |
| Governmental Fund Financial Statements | |
| Balance Sheet..... | 4-4 |
| Reconciliation of the Balance Sheet to the Statement of Net Assets Governmental Funds | 4-5 |
| Statement of Revenues, Expenditures and Changes in Fund Balances | 4-6 |
| Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities | 4-7 |
| Proprietary Fund Financial Statements | |
| Statement of Net Assets - Proprietary Funds | 4-8 |
| Statement of Revenues, Expenses, and Changes in Net Assets - Proprietary Funds | 4-10 |
| Statement of Cash Flows - Proprietary Funds | 4-11 |
| Fiduciary Fund Statements | |
| Statement of Fiduciary Net Assets | 4-13 |
| Notes to Financial Statements | 4-15 |
| C. REQUIRED SUPPLEMENTAL INFORMATION OTHER THAN MD&A | |
| Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget to Actual | |
| General Fund | 5-1 |
| Arterial Street Fund | 5-2 |
| Note to Required Supplemental Information | 5-3 |
| D. COMBINING & INDIVIDUAL FUND STATEMENTS & SCHEDULES | |
| Non-Major Funds - Other Governmental Funds | 6-1 |
| Combining Balance Sheet - Other Governmental Funds | 6-2 |
| Combining Statement of Revenues, Expenditures and Changes in Fund Balance - Other Governmental Funds | 6-4 |
| Budget to Actual Comparison Non-Major - Other Governmental Funds | |
| Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget to Actual | |
| Street Fund | 6-6 |

D. COMBINING & INDIVIDUAL FUND STATEMENTS & SCHEDULES (CONTINUED)

| | |
|--|-------------|
| Lodging Tax Fund | 6-7 |
| Community Development Block Grant Fund | 6-8 |
| General Obligation Bond Fund | 6-9 |
| Building Improvement Fund | 6-10 |
| Capital Expenditure Fund | 6-11 |
| L.I.D. Redemption Fund | 6-12 |
| Parks & Open Space Fund | 6-13 |
| Internal Service Funds | 6-15 |
| Combining Statement of Net Assets | 6-16 |
| Combining Statement of Revenues, Expenditures and Changes in Fund Net Assets | 6-17 |
| Combining Statement of Cash Flows | 6-18 |
| Fiduciary Funds - Agency Funds | 6-19 |
| Combining Statement of Changes in Assets and Liabilities - Agency Funds | 6-20 |
| Combining Statement of Fiduciary Net Assets-Agency Funds | 6-22 |

E. SUPPLEMENTAL INFORMATION

Budget to Actual Comparison for the Operating Accounts of the Enterprise and Internal Service Funds of the Primary Government

| | |
|---|-----|
| Schedule of Operations - Water Fund | 7-1 |
| Schedule of Operations - Wastewater Fund | 7-2 |
| Schedule of Operations - Stormwater Fund | 7-3 |
| Schedule of Operations - Reclaimed Water Fund | 7-4 |
| Schedule of Operations - Equipment Rental Fund | 7-5 |
| Schedule of Operations - Information Management Services Fund | 7-6 |

Schedules

| | |
|--|------|
| Schedule of Expenditures of Federal Awards | 7-7 |
| Schedule of State and Local Financial Assistance | 7-8 |
| City of Lacey General Obligation Bond Debt, Unlimited Tax 2002 | 7-9 |
| City of Lacey General Obligation Bond Debt, Unlimited Tax 2003 | 7-10 |
| City of Lacey Local Improvement District # 19 Bonds - 2001 | 7-11 |
| City of Lacey Public Works Trust Fund Loan | 7-12 |
| City of Lacey Animal Services Revenue Bond | 7-13 |
| City of Lacey General Obligation Bond Debt, Limited Tax 2006 | 7-14 |
| City of Lacey General Obligation Bond Debt, Unlimited Tax 2006 | 7-15 |
| City of Lacey General Obligation Bond Debt, Limited Tax 2007 | 7-16 |

III. STATISTICAL SECTION

| | |
|---|------|
| Statistical Section Table of Contents | 8-1 |
| Table 1 - Net Assets by Component | 8-3 |
| Table 2 - Changes in Net Assets | 8-4 |
| Table 3 - Fund Balances of Governmental Funds | 8-5 |
| Table 4 - Changes in Fund Balances of Governmental Funds | 8-6 |
| Table 5 - Governmental Activities Tax Revenues by Source | 8-7 |
| Table 6 - Assessed Value and Estimated Actual Value of Taxable Property | 8-8 |
| Table 7 - Property Tax Rates | 8-9 |
| Table 8 - Principal Property Taxpayers | 8-10 |
| Table 9 - Property Tax Levies and Collections | 8-11 |
| Table 10 - Ratio of Outstanding Debt by Type | 8-12 |
| Table 11 - Ratios of General Bonded Debt Outstanding | 8-13 |
| Table 12 - Direct and Overlapping Government Activities Debt | 8-14 |
| Table 13 - Legal Debt Margin Information | 8-15 |
| Table 14 - Pledged-Revenue Coverage | 8-16 |
| Table 15 - Demographic and Economic Statistics | 8-17 |
| Table 16 - Principal Employers | 8-18 |
| Table 17 - Full-time Equivalent City Government Employees by Function | 8-19 |
| Table 18 - Operating Indicators by Function | 8-20 |
| Table 19 - Capital Asset Statistics by Function | 8-21 |



CITY COUNCIL

GRAEME SACKRISON
Mayor
JOHN DARBY
Deputy Mayor
ANN BURGMAN
VIRGIL S. CLARKSON
MARY DEAN
THOMAS L. NELSON
NANCY J. PETERSON

CITY MANAGER
GREG J. CUOIO

June 30, 2008

Honorable Mayor and City Councilmembers
To the Citizens of Lacey, Washington:

The Comprehensive Annual Financial Report of the City of Lacey for the fiscal year ended December 31, 2007, is submitted herewith. Management assumes full responsibility for the completeness and reliability of the information contained in this report, based upon a comprehensive framework of internal control that it has established for this purpose. 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.

State statute requires an annual audit by the Washington State Auditor's Office. In addition to meeting the requirements set forth in state statutes, the audit also was designed to meet the requirements of the Federal Single Audit Act amendments of 1996 and related Office of Management and Budget Circular A-133. The independent auditor's report is located 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 complement this letter of transmittal and should be read in conjunction with it.

Profile of the Government

The City of Lacey Incorporated in 1966, and is the twenty-eighth largest of 281 cities in the state of Washington. It is located approximately 60 miles south of Seattle on Interstate 5 and encompasses an area of 17 square miles. The cities of Olympia and Tumwater are adjacent to Lacey, and together, the three cities constitute the major population center within Thurston County. Lacey has grown from a population of 7,650 in 1967 to a 2007 population of 35,870.

The City of Lacey is a non-charter code city, operating under Section 35A of the Revised Code of Washington. It has a Council/Manager form of government with the seven-member City Council, including the position of Mayor, elected for staggered four-year terms. Councilmembers are elected on a non-partisan, at-large basis rather than by district. Policy-making and legislative authority are vested in the City Council. The Council appoints the City Manager as the City's chief administrative officer responsible for carrying out the policies and direction set by the Council. This includes the enforcement of laws and ordinances, the execution of contracts and agreements, and maintenance of peace and order in the city. The City Manager appoints the heads of the various departments.

The City of Lacey provides a full range of municipal services either directly or through contracts. The City provides police, parks and recreation, planning and zoning, building inspection, street maintenance and construction, engineering and general administrative services. The City also operates legally separated enterprise funds for water, wastewater services, storm water management and reclaimed water. Emergency medical, fire suppression and inspection services are provided under contract with Lacey Fire District 3. By agreement with Thurston County, Olympia, and Tumwater, Lacey provides administrative support services to Joint Animal Services and the Thurston County Drug Enforcement Task Force. The City also entered into an agreement with the Capital Area Regional Public Facilities District to provide administrative support services and distribute PFD revenues to the cities of Olympia and Lacey for their agreed upon projects.

The Council is required to adopt a final budget by no later than the close of the fiscal year. This annual budget serves as the foundation for the City of Lacey financial planning and control. The budget is prepared by fund, department (e.g., Police), and program (e.g., protection and enforcement patrol). Periodic amendments to the adopted budget are approved by the City Council.

Local Economy

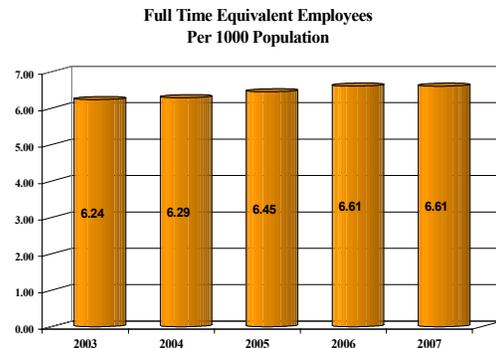
Lacey’s economy remains predominately retail/commercial and service oriented. State government is the single largest employer in the region. This past year has brought the opening of a Kohl’s, Cabela’s, Lowe’s, and various other familiar but smaller retail outlets. Other employers include St. Peter’s Hospital (regional), North Thurston Public Schools, Target Stores import/distribution center, Home Depot distribution center, Econet, Fred Meyer, Wal-Mart, Safeway, Weyerhaeuser container factory, Ostrom Mushroom Company, VeriSign, Port of Olympia (regional), State Farm (regional), and Intel (regional). Economic influence of nearby Fort Lewis Army Post and McChord Air Force Base has been present for many years in the Lacey area. Lacey is also the home to Panorama, a large full-service retirement community, and St. Martin’s University and abbey/seminary.



It has been Lacey’s policy to encourage and facilitate diversification in the region’s employment base. The development of Lacey’s northeast area has been the major key to success in this goal. Because of the impact of state government employment in the region, unemployment rates have been stable and are consistently in the 4.4 to 5.0 percent. It is anticipated that unemployment statistics will remain stable for the foreseeable future.

During the past five years, Lacey’s population growth has placed significant demands on services. General government staffing has grown 16 percent (165 to 192 FTE’s) and 25 percent (36 to 45 FTE’s) in the utility or enterprise funds. This higher growth rate in the utilities is indicative of the fact that the city’s utilities have a significant customer base outside its corporate limits. Other general government departments (e.g., Community Development, Parks and Recreation, and Public Works Maintenance) have also experienced double digit growth rates. This is mainly due to accelerated commercial and residential development activity and the addition of parks and right-of-way improvements.

During this same period of time, cost of providing



services, while continuing to increase, has been matched by increased general fund revenues. Charges for services (specifically in planning and building inspection fees) have also generated revenue to cover the impact of expenses. Property and sales taxes continue to provide 42 to 50 percent of the revenue needs for general government services. Although the property levy rate has declined, adjustments for new construction value coupled with allowable 1 percent adjustment have generated a 34 percent increase during the past five years. Sales tax revenues during this same period of time have improved 88 percent.

Long-term Financial Planning

Unreserved, designated fund balances in the governmental funds (66 percent of total governmental fund revenues) are set aside for specific budgetary and capital improvements that are planned and selected by the City Council. Although this amount varies from year to year, it has enabled the Council to reduce and/or eliminate the need for long-term borrowing.

As part of a long-term economic development plan, the Council envisions the development of a regional retail/commercial center to be located on property north of Interstate 5. This has become known as the Gateway Project. Property owners have begun work on the first phase of development which now includes the completed construction of a Cabela's outdoor sporting goods store. Coordinated efforts between the City, property owner, and retailer have resulted in a successful grant application to assist with the cost of transportation and infrastructure improvements. The grant has been funded by the 2007 State legislature and totals \$9.9 million. Current estimates place the total cost of improvements for the Gateway Project in the \$35 to \$50 million range. Of that amount, the City has committed to fund \$5 million for transportation and utility services. The City has future obligations to develop a civic center and park as certain milestones in development are reached by the developer.



GATEWAY TOWN CENTER PROPOSED PLAN

In partnership with Thurston County, the second phase of development of the regional sports and activities complex is now under construction. This will complete the improvements to the



REGIONAL ATHLETIC COMPLEX

original 68 acre complex. Additional property was acquired in 2007 to bring the total project to 93 acres. Funding of the improvement cost has and will come from a special Public Facilities District revenue source taken from the State's portion of the retail sales tax. Other revenues have come from general obligation bonds approved by voters as well as general fund revenues. Upon completion, this complex will likely incur significant additional operating costs to staff, operate, and maintain. It is anticipated that user fees, excess PFD revenues over debt service needs, and dedicated revenues from the City's hotel/motel tax will substantially address these increased costs.

Relevant Financial Policies

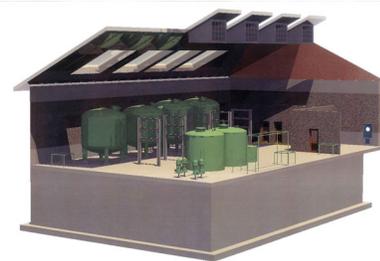
It is the City of Lacey's policy that "onetime" revenue inflows not be used for operating purposes. As a result, Lacey has been able to construct many facilities or enhance its residential street overlay program. The Council and city administration clearly recognize that significant growth in revenues directly or indirectly associated with increased housing starts can and should be considered "onetime" revenues. Unrestricted fund balances demonstrate this commitment.

Major Initiatives

The State of Washington will be implementing the requirements of the national Streamlined Sales Tax (SST) initiative. In doing so, a change in the method of sales tax distribution will take place that will effect cities. Currently, sales tax collection is distributed on the basis of "point of sale." Under SST, sales tax will be distributed based on "point of delivery." Fortunately, Lacey will not experience any significant impact from this change in distribution methods.

With approximately 21,000 water accounts, the City's Water Utility serves a population approaching 55,000. In 2007, construction was completed on permanent chlorination facilities at various well sites. This required a significant capital investment in equipment and facilities in excess of \$4.5 million. Delays in the City's acquisition and approval of additional water rights has required the development of water treatment facility for the Hawks Prairie well and future well. This facility is currently under construction at a cost of approximately \$12 million. Because of these substantial costs, it will be necessary for the Water Construction Fund to have a source of short-term cash to supplement its available resources. An interfund loan was set in place from the Wastewater Fund so that the Utility can avoid some of the costs associated with the impact of long-term debt. By the end of 2008, the Water Utility may seek long-term financing from the bond market.

Current transportation projects include the Carpenter Road Capacity improvements (right-of-way acquisition stage) and reconstruction of Mullen Road east of Ruddell Road. The expansion of the south-bound exit lanes for Interstate 5 and SR 510 was completed in 2007. A substantial enhancement was made to the residential street overlay program in 2007 for a total of \$1 million. A like amount was also budgeted in 2008. The resources to cover these improvements include \$1.25 million in Real Estate Excise Tax revenues, a transfer in of \$1 million from the General Fund and miscellaneous revenues from State Fuel tax and collected mitigation fees.



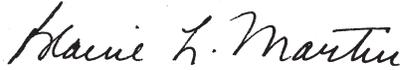
Awards and Acknowledgments

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Lacey for its comprehensive annual financial report (CAFR) for the fiscal year ended December 31, 2006. This is the eighth consecutive year that the City has received this prestigious award. In order to be awarded a Certificate of Achievement, the government had to publish an easily readable and efficiently organized CAFR that satisfied both the 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 of this report could not have been accomplished without the professional, efficient, and dedicated services of the staff of the Finance Department. We wish to express our appreciation to all members of the department who assisted and contributed to the preparation of this report. Credit also must be given to the City Manager and Council for their unfailing support for maintaining the highest standards of professionalism in the management of the City of Lacey's finances.

Respectfully submitted,



Blaine L. Martin
Finance Director

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Lacey
Washington

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
December 31, 2006

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



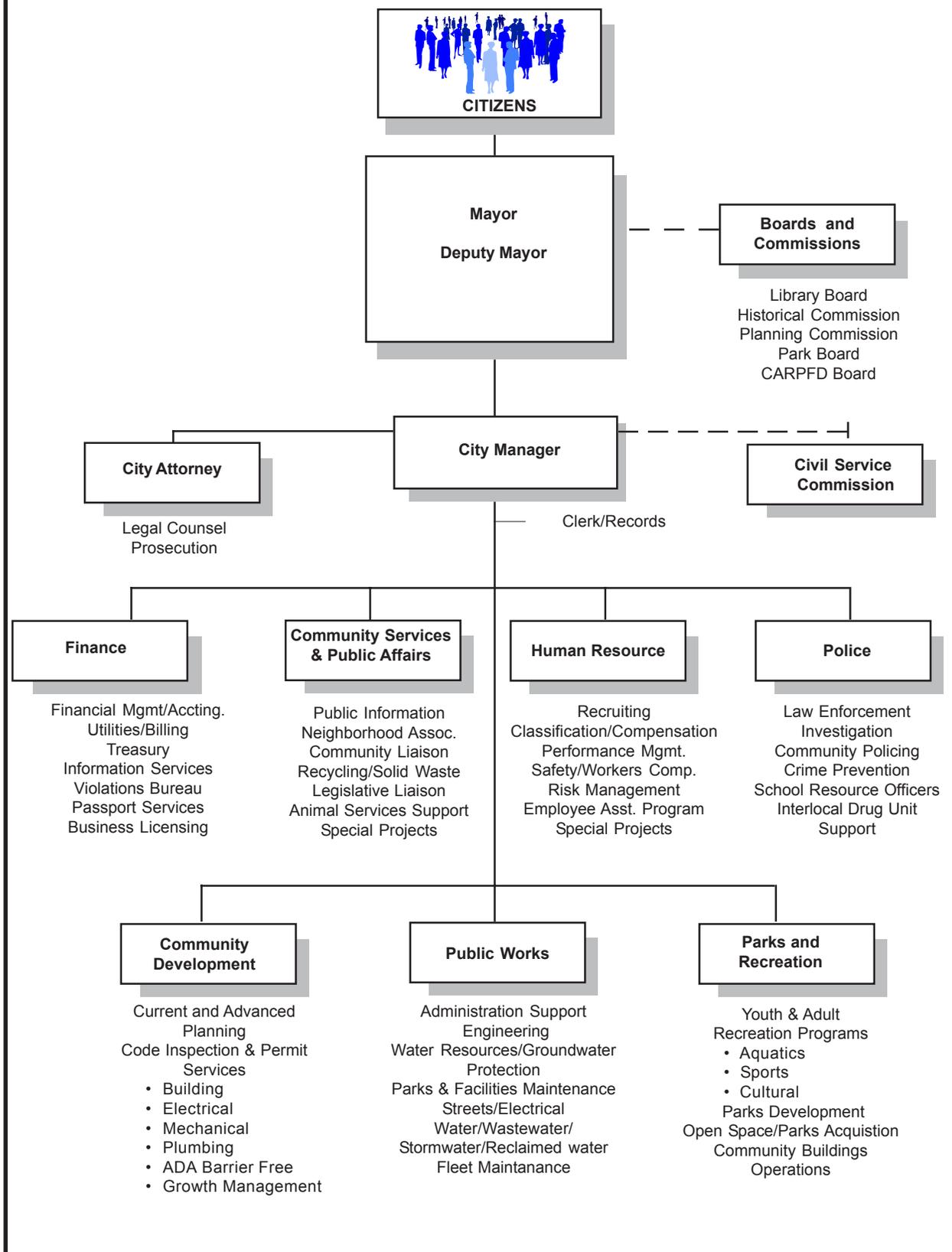
Charles S. Cox

President

Jeffrey R. Emer

Executive Director

LACEY CITY GOVERNMENT



CITY OF LACEY, WASHINGTON

Mayor

Virgil Clarkson Term - Dec. 2009

Deputy Mayor

Nancy Peterson Term - Dec. 2007

Council

| | |
|------------------|------------------|
| Ann Burgman | Term - Dec. 2009 |
| John Darby | Term - Dec. 2009 |
| Mary Dean | Term - Dec. 2007 |
| Thomas Nelson | Term - Dec. 2007 |
| Graeme Sackrison | Term - Dec. 2009 |

City Manager

Greg J. Cuoio

ADMINISTRATION

| | |
|-------------------|--------------------------------|
| Scott H. Spence | Assistant City Manager |
| Kenneth R. Ahlf | City Attorney |
| Jerald R. Litt | Community Development Director |
| Blaine L. Martin | Finance Director |
| Merri A. Lannoye | Human Resource Director |
| Jim L. Sheler | Parks & Recreation Director |
| Dusty D Pierpoint | Police Chief |
| Scott Egger | Public Works Director |



Washington State Auditor
Brian Sonntag

INDEPENDENT AUDITOR'S REPORT

June 19, 2007

Mayor and City Council
City of Lacey
Lacey, Washington

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Lacey, Thurston County, Washington, as of and for the year ended December 31, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Lacey, Thurston County, Washington, as of December 31, 2006, and the respective changes in financial position and, where applicable, cash flows thereof, for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 3.1 through 3.16 and budgetary comparison information on pages 5.1 through 5.3 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying information listed as combining financial statements and supplemental information on pages 6.1 through 7.16 is presented for purposes of additional analysis and is not a required part of the basic financial statements. This information has been subjected to auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The information identified in the table of contents as the Introductory and Statistical Sections is presented for purposes of additional analysis and is not a required part of the basic financial statements of the City. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

Sincerely,

A handwritten signature in black ink, appearing to read "Brian Sonntag". The signature is fluid and cursive, with the first name "Brian" and last name "Sonntag" clearly distinguishable.

BRIAN SONNTAG, CGFM
STATE AUDITOR

Management's Discussion and Analysis

As management of the City of Lacey, we offer readers of the City of Lacey's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended December 31, 2007. We encourage readers to consider the information presented herein conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages 1-1 to 1-5 of this report.

Financial Highlights

- The government's overall financial position improved in 2007 as compared to 2006.
- At the end of the fiscal year the assets of the City exceeded its liabilities by \$542.3 million. Net assets invested in capital assets (net of depreciation and related debt) account for 83 percent of the amount (\$452.4 million). Of the remaining assets \$89.9 million, \$16.8 million are subject to external restrictions and \$73.1 million may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's total net assets increased by \$49.9 million. The governmental net assets increased by \$25.6 million over the previous year. Business-type net assets increased by \$24.3 million. The business-type increase included net income for the Water Utility of \$6.6 million, \$4.1 million for the Wastewater Utility, \$11.0 million for the Stormwater Utility and \$2.4 million for the Reclaimed Water Utility. The balance of the offset is the result of the consolidation of the Internal Service Funds' activities related to the Enterprise Funds.
- At the close of 2007 the City's governmental funds reported a combined ending fund balance of \$58.6 million, an increase of \$9.6 million (20 percent). Of the major funds, the fund balance of the General Fund increased \$3.5 million and the Parks and Open Space Fund increased \$6.2 million. The fund balance increases were offset by a decrease of \$.12 million in the L.I.D. Redemption Fund and \$2.7 in the Arterial Street Fund. The fund balances of the nonmajor governmental funds increased by \$2.7 million. The overall increase reflects an improved regional economic condition in 2007. Strong growth in retail sales and new construction added significantly to the City's tax revenues. Approximately \$57.1 million (97 percent) of the combined ending fund balance is unreserved fund balance available to the City for discretionary spending.
- At the end of 2007 the unreserved fund balance for the General Fund was \$21.8 million and increase of \$3.5 million over the prior year's amount of \$18.5 million, again reflecting a strong economic situation in 2007.
- The City's total outstanding bonded debt increased \$5.44 million (23 percent) to \$29.15 million during the current fiscal year. While there were new general obligation bonds issued totaling \$8.0 million, redemptions totaled \$2.56 million. The City issued \$8.0 million in limited general obligation (G.O.) bonds to complete the Regional Athletic Complex in the Parks & Open Space Fund.
- Revenues from local tax sources, including property, sales, business excise, and miscellaneous other taxes increased by \$3.5 million to \$29.73 million, an 13.3 percent increase over 2006.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the City of Lacey's basic financial statements. The City of Lacey's basic financial statements comprise of

three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements

The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The **Statement of Net Assets** presents information on all of the City's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

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

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include general government, public safety, transportation and streets, physical environment, economic development and culture and recreation. The business-type activities of the City of Lacey include Water, Wastewater, Stormwater, and Reclaimed water operations.

The government-wide financial statements can be found on pages 4-1 to 4-3 of this report.

Fund Financial Statements

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

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

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

The City maintains ten individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, arterial street fund, L.I.D. redemption and parks and open space fund, of which are considered to be major funds. Data from the other six governmental funds are combined into a singular, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

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

The basic governmental fund financial statements can be found on pages 4-4 to 4-7 of this report.

Proprietary Funds. The City maintains two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses enterprise funds to account for its Water, Wastewater, Stormwater, and Reclaimed water operations. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for its fleet of vehicles and for its management information systems. Because both of these services predominantly benefit governmental rather than business-type functions, they have been included within *governmental activities* in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Water, Wastewater, Stormwater, and Reclaimed water operations, which are considered to be major funds of the City. Conversely, both internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds is provided in the form of *combining statements* elsewhere in this report.

The basic proprietary fund financial statements can be found on pages 4-8 to 4-12 of this report.

Fiduciary Funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statement because the resources of those funds are *not* available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statement can be found on page 4-13 of this report.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 4-15 to 4-44 of this report.

Required Supplementary Information

This report also contains other required supplementary information (RSI) on budgetary comparisons for major governmental funds.

Combining Statements

The combining statements referred to earlier in connection with the nonmajor funds, internal service funds and fiduciary funds are presented immediately following the required supplementary information.

Government-wide Financial Analysis

Net Assets

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Lacey, assets exceeded liabilities by \$542.3 million at the close of the most recent fiscal year.

Statement of Net Assets

Table 1

Condensed Statement of Net Assets (in Millions)

| | Governmental Activities | | Business-type Activities | | Total Primary Government | |
|-------------------------------------|----------------------------|----------|-----------------------------|----------|-----------------------------|----------|
| | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 |
| Current and other Capital assets | \$ 87.3 | \$ 70.2 | \$ 25.0 | \$ 26.9 | \$ 112.3 | \$ 97.1 |
| Total assets | \$ 374.6 | \$ 340.3 | \$ 207.6 | \$ 182.8 | \$ 582.2 | \$ 523.1 |
| Payables | \$ 7.3 | \$ 4.6 | \$ 2.5 | \$ 1.7 | \$ 9.8 | \$ 6.3 |
| Long-term Debt | 30.0 | 24.0 | 0.1 | 0.4 | 30.1 | 24.4 |
| Total liabilities | \$ 37.3 | \$ 28.6 | \$ 2.6 | \$ 2.1 | \$ 39.9 | \$ 30.7 |
| Net assets: | | | | | | |
| Invested in capital, net of debt | \$ 269.7 | \$ 254.4 | \$ 182.7 | \$ 155.6 | \$ 452.4 | \$ 410.0 |
| Restricted | 16.8 | 10.1 | - | 0.4 | 16.8 | 10.5 |
| Unrestricted | 50.8 | 47.2 | 22.3 | 24.7 | 73.1 | 71.9 |
| Total net assets | \$ 337.3 | \$ 311.7 | \$ 205.0 | \$ 180.7 | \$ 542.3 | \$ 492.4 |

By far the largest portion of the City of Lacey's net assets (83 percent) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment), less any related debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net assets (\$16.8 million) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* (\$73.1 million) may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior fiscal year.

Changes in Net Assets

The City's total net assets increased by \$49.9 million in 2007. The increase is explained in the following discussion of governmental and business-type activities.

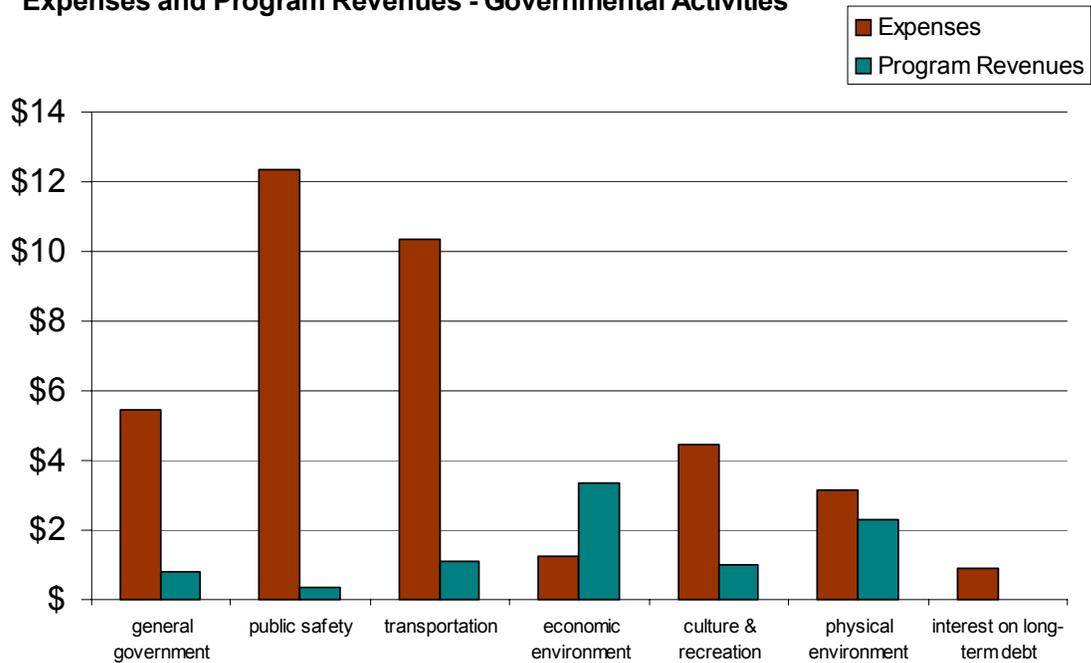
Table 2

Changes in Net Assets (In Millions)

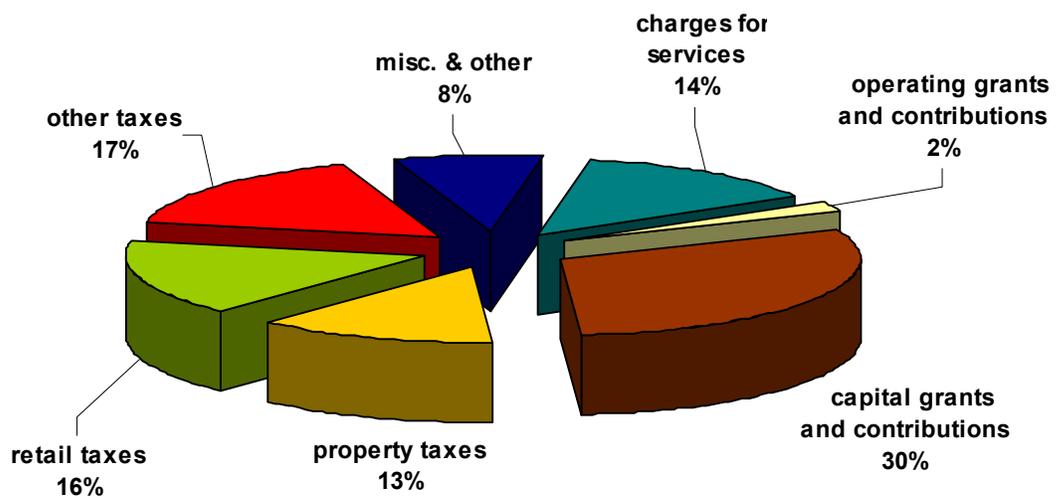
| | Governmental Activities | | Business-type Activities | | Total Primary Government | |
|---|----------------------------|-----------|-----------------------------|-----------|-----------------------------|-----------|
| | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 |
| Revenues | | | | | | |
| Program Revenues: | | | | | | |
| Charges for services | \$ 8.84 | \$ 6.75 | \$ 22.90 | \$ 23.77 | \$ 31.74 | \$ 30.52 |
| Operating grants and contributions | 1.48 | 3.78 | 0.05 | - | 1.53 | 3.78 |
| Capital grants and contributions | 19.50 | 38.12 | 18.67 | 20.31 | 38.17 | 58.43 |
| General revenues: | | | | | | |
| Property taxes | 8.52 | 7.39 | - | - | 8.52 | 7.39 |
| Retail taxes | 10.51 | 8.81 | - | - | 10.51 | 8.81 |
| Business taxes | 7.40 | 6.58 | - | - | 7.40 | 6.58 |
| Excise | 3.30 | 3.45 | - | - | 3.30 | 3.45 |
| Interest and investment earnings | 3.58 | 2.46 | 1.24 | 1.09 | 4.82 | 3.55 |
| Miscellaneous | 1.66 | 5.12 | 0.77 | 0.66 | 2.43 | 5.78 |
| Total revenues | \$ 64.79 | \$ 82.46 | \$ 43.63 | \$ 45.83 | \$ 108.42 | \$ 128.29 |
| Program expenses including indirect expenses: | | | | | | |
| General government | \$ 5.46 | \$ 4.85 | \$ - | \$ - | \$ 5.46 | \$ 4.85 |
| Security of persons and property | 12.34 | 11.91 | - | - | 12.34 | 11.91 |
| Physical environment | 3.14 | 2.83 | - | - | 3.14 | 2.83 |
| Transportation | 10.34 | 10.12 | - | - | 10.34 | 10.12 |
| Economic environment | 1.28 | 1.14 | - | - | 1.28 | 1.14 |
| Culture and recreation | 4.43 | 4.82 | - | - | 4.43 | 4.82 |
| Interest on long-term debt | 0.92 | 0.72 | - | - | 0.92 | 0.72 |
| Water | - | - | 8.47 | 7.49 | 8.47 | 7.49 |
| Wastewater | - | - | 9.51 | 8.80 | 9.51 | 8.80 |
| Stormwater | - | - | 2.35 | 1.96 | 2.35 | 1.96 |
| Reclaimed water | - | - | 0.33 | - | 0.33 | - |
| Total expenses | \$ 37.91 | \$ 36.39 | \$ 20.66 | \$ 18.25 | \$ 58.57 | \$ 54.64 |
| Increase in net assets before transfers | \$ 26.88 | \$ 46.07 | \$ 22.97 | \$ 27.58 | \$ 49.85 | \$ 73.65 |
| Transfers in (out) | (1.34) | 0.40 | 1.34 | (0.40) | - | - |
| Changes in net assets | \$ 25.54 | \$ 46.47 | \$ 24.31 | \$ 27.18 | \$ 49.85 | \$ 73.65 |
| Net Assets - Beginning Balance | \$ 311.74 | \$ 265.27 | \$ 180.67 | \$ 153.49 | \$ 492.41 | \$ 418.76 |
| Net Assets - Ending Balance | \$ 337.28 | \$ 311.74 | \$ 204.98 | \$ 180.67 | \$ 542.26 | \$ 492.41 |

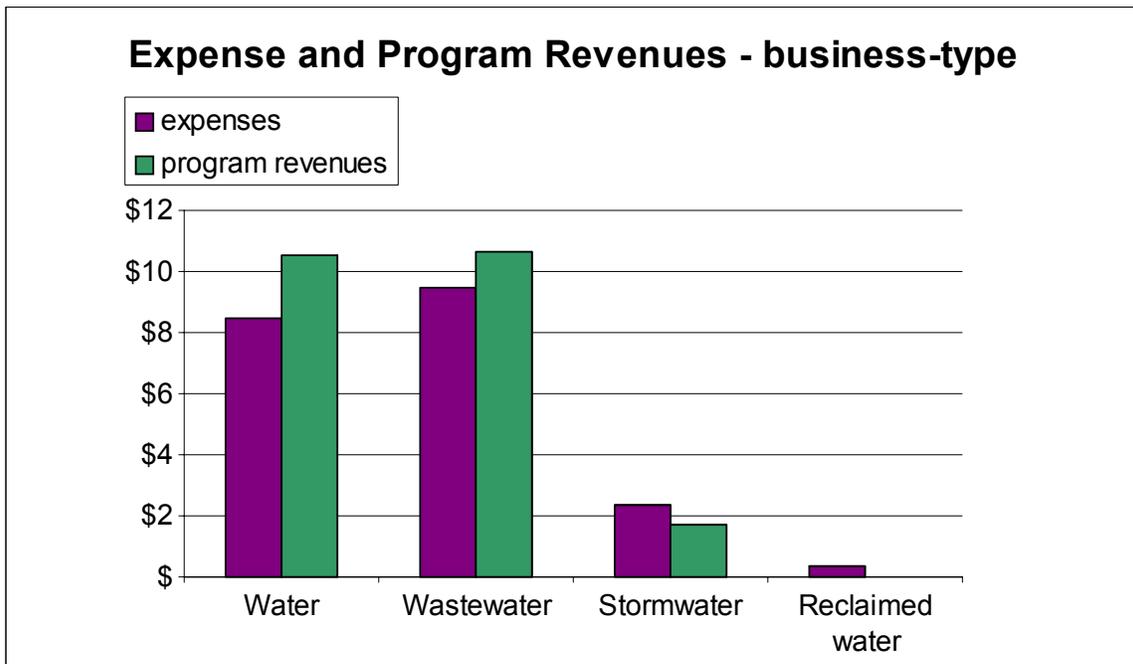
Note: Does not include any separate lines for Capital Contributions, Special & Extraordinary Items, or Transfer Balances. These amounts were either zero or very small in amount and therefore not presented.

Expenses and Program Revenues - Governmental Activities

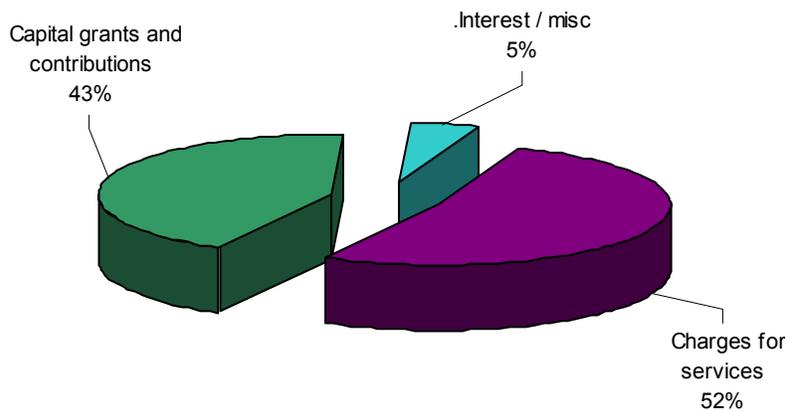


Revenues by Source - Governmental Activities





Revenues by Source - Business-type Activities



Note: Does not include any separate lines for contributions to term and permanent endowments or special and extraordinary items. These amounts were either zero or very small in amount and therefore are not presented.

Governmental Activities

Governmental activities increased the City's net assets by \$25.5 million, thereby accounting for 51 percent of the total growth in the net assets of the City of Lacey.

- Operating revenues (charges for services) increased \$2.09 million. General government, security of persons and property and culture and recreation incurred moderate increases in the combined amount of \$.65 million. Physical environment experienced an increase of \$.31 million as a result of moving internal service charges for engineering services out of miscellaneous revenue and into this category. Transportation and economic environment incurred an increase of \$.36 million due to a reduction in traffic mitigation revenues and building permits issued.
- Operating grants and contributions decreased \$2.3 million mostly due to an one time \$.65 million grant received in 2006 and a \$2.0 million (including a \$.98 million one time distribution) from the Capital Area Public Facilities District (PFD) distribution in 2006. Current year PFD distribution \$1.1 million is reported in the capital grants and distributions. State entitlements for vehicle fuel tax, public safety grants, and other contributions had a moderate increase of \$.35 million.
- Capital grants and contributions decreased \$18.6 million. Cultural recreation had an increase of \$3.3 million which consist of a \$1.1 million in PFD distribution and a \$2.2 million capital asset contributed by the Thurston County for the Regional Athletic Complex. Whereas, transportation reported a \$21.8 million decrease in 2007. This decrease is mostly from decrease in developer contributed assets. Developer contributed assets were \$10.3 million in 2007, a \$26.4 million decrease from \$36.7 million in previous year. A new \$5.5 million state Job Development Fund grant was reported in 2007, whereas various transportation grants and contributions, including Department of Transportation and the Transportation Improvement Board, decreased approximately \$1.0 million in 2007.
- General revenues increased \$1.16 million. Property, retail sales and business taxes combined increased by \$3.65 million, mostly due to one time tax on new construction, as well as new retail development in the City's northeast area. Interest and investment earnings increased \$1.12 million and miscellaneous revenue decreased by \$3.46 million as a result of moving internal service charges into the appropriate charges for services revenue category.
- Expenses increased \$1.52 million (4 percent), mostly due to increase staffing (8 FTE's) to support an increased demand for services. For the most part, other increases in expenses closely paralleled inflation and growth.

Business-type Activities

Business-type activities increased the City's net assets by \$24.3 million, accounting for 49 percent of the total growth in the government's net assets. Key elements of this increase are as follows:

- Water, Wastewater and Stormwater sales decreased 3.6 percent (\$.87 million). This is a result of increased rates and the implementation of a new tiered water rate system which is designed to encourage conservation. These new rates place greater emphasis on the relationship of water usage to the amount paid by the customer.

- Contributed Capital attributed to 43 percent (\$18.67 million) of business-type revenues and interest and investment earnings totaled \$1.24 million.

Financial Analysis of City Funds

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

Table 3

Revenue, Expenditure, and Fund Balance Summary Governmental Funds (In Millions)

| | Major Funds | | | |
|--|-------------------|----------|----------------------|--------|
| | General Fund | | Arterial Street Fund | |
| | 2007 | 2006 | 2007 | 2006 |
| Revenues | | | | |
| Taxes | \$ 19.6 | \$ 17.0 | \$ 2.9 | \$ 2.9 |
| License and permits | 2.8 | 3.2 | - | - |
| Intergovernmental revenues | 1.1 | 0.8 | 1.4 | 2.2 |
| Charges for services | 5.9 | 5.3 | 1.1 | 1.3 |
| Fines & forfeitures | 0.4 | 0.3 | - | - |
| Other revenue | 1.1 | 0.9 | 0.6 | 0.5 |
| Total revenues | \$ 30.9 | \$ 27.5 | \$ 6.0 | \$ 6.9 |
| Expenditures | \$ 24.9 | \$ 22.3 | \$ 9.7 | \$ 4.9 |
| Other Financing Sources and Uses | | | | |
| Transfers | \$ (2.5) | \$ (1.6) | \$ 1.0 | \$ 1.3 |
| Total other financing sources and uses | \$ (2.5) | \$ (1.6) | \$ 1.0 | \$ 1.3 |
| Fund Balances | | | | |
| Reserved | \$ 0.1 | \$ 0.1 | \$ 0.5 | \$ 0.5 |
| Unreserved, designated | 8.4 | 8.4 | - | - |
| Unreserved, undesignated | 13.4 | 10.0 | 5.3 | 8.1 |
| Total fund balances | \$ 21.9 | \$ 18.5 | \$ 5.8 | \$ 8.6 |
| | | | | |
| | Major Funds | | | |
| | L.I.D. Redemption | | Parks & Open Space | |
| | 2007 | 2006 | 2007 | 2006 |
| Revenues | | | | |
| Taxes | \$ - | \$ - | \$ 0.8 | \$ 0.7 |
| Intergovernmental revenues | - | - | 1.0 | 2.1 |
| Other revenue | 1.5 | 1.3 | 0.4 | 0.1 |
| Total revenues | \$ 1.5 | \$ 1.3 | \$ 2.2 | \$ 2.9 |
| Expenditures | \$ 1.6 | \$ 1.8 | \$ 3.3 | \$ 1.4 |
| Other Financing Sources and Uses | | | | |
| G.O bond premium & proceeds | \$ - | \$ - | \$ 8.1 | \$ 5.1 |
| Transfers | - | - | (0.8) | (0.2) |
| Total other financing sources and uses | \$ - | \$ - | \$ 7.3 | \$ 4.9 |
| Fund Balances | | | | |
| Unreserved, designated | \$ - | \$ - | \$ 13.0 | \$ 5.6 |
| Unreserved, undesignated | 0.2 | 0.3 | 1.2 | 2.3 |
| Total fund balances | \$ 0.2 | \$ 0.3 | \$ 14.2 | \$ 7.9 |

Table 3

Table 4-continued

**Revenue, Expenditure, and Fund Balance Summary
Governmental Funds
(In Millions)**

| | Nonmajor Funds | | | |
|--|-----------------------|---------------|--------------------|---------------|
| | Special Revenue Funds | | Debt Service Funds | |
| | 2007 | 2006 | 2007 | 2006 |
| Revenues | | | | |
| Taxes | \$ 2.3 | \$ 2.0 | \$ 1.1 | \$ 0.8 |
| Intergovernmental revenues | 0.6 | 1.1 | - | - |
| Other revenue | 0.2 | 0.3 | 0.1 | - |
| Total revenues | <u>\$ 3.1</u> | <u>\$ 3.4</u> | <u>\$ 1.2</u> | <u>\$ 0.8</u> |
| Expenditures | <u>\$ 2.5</u> | <u>\$ 2.8</u> | <u>\$ 1.5</u> | <u>\$ 0.9</u> |
| Other Financing Sources and Uses | | | | |
| Transfers | \$ - | \$ 0.3 | \$ - | \$ - |
| Total other financing sources and uses | <u>\$ -</u> | <u>\$ 0.3</u> | <u>\$ -</u> | <u>\$ -</u> |
| Fund Balances | | | | |
| Reserved | \$ 0.9 | \$ 0.7 | \$ - | \$ - |
| Unreserved, designated | 0.4 | 0.4 | - | - |
| Unreserved, undesignated | 2.0 | 1.5 | 0.4 | 0.7 |
| Total fund balances | <u>\$ 3.3</u> | <u>\$ 2.6</u> | <u>\$ 0.4</u> | <u>\$ 0.7</u> |

| | Nonmajor Funds | | | |
|--|-----------------------|----------------|--------------------------|----------------|
| | Capital Project Funds | | Total Governmental Funds | |
| | 2007 | 2006 | 2007 | 2006 |
| Revenues | | | | |
| Taxes | \$ 3.0 | \$ 2.9 | \$ 29.7 | \$ 26.3 |
| License and permits | - | - | 2.8 | 3.2 |
| Intergovernmental revenues | 0.1 | 0.1 | 4.2 | 6.3 |
| Charges for services | - | - | 7.0 | 6.6 |
| Fines & forfeitures | - | - | 0.4 | 0.3 |
| Other revenue | 0.5 | 0.2 | 4.4 | 3.3 |
| Total revenues | <u>\$ 3.6</u> | <u>\$ 3.2</u> | <u>\$ 48.5</u> | <u>\$ 46.0</u> |
| Expenditures | <u>\$ 2.1</u> | <u>\$ 1.8</u> | <u>\$ 45.6</u> | <u>\$ 35.9</u> |
| Other Financing Sources and Uses | | | | |
| Bond premium & proceeds | \$ - | \$ 3.5 | \$ 8.1 | \$ 8.6 |
| Transfers | 0.8 | 0.2 | (1.5) | - |
| Total other financing sources and uses | <u>\$ 0.8</u> | <u>\$ 3.7</u> | <u>\$ 6.6</u> | <u>\$ 8.6</u> |
| Fund Balances | | | | |
| Reserved | \$ - | \$ - | \$ 1.5 | \$ 1.3 |
| Unreserved, designated | 10.2 | 5.6 | 32.0 | 20.0 |
| Unreserved, undesignated | 2.6 | 4.7 | 25.1 | 27.6 |
| Total fund balances | <u>\$ 12.8</u> | <u>\$ 10.3</u> | <u>\$ 58.6</u> | <u>\$ 48.9</u> |

Governmental Funds

The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$58.6 million, an increase of \$9.7 million in comparison with the prior year. Approximately 43 percent (\$25 million) of this total amount constitutes *unreserved, undesignated fund balance*, which is available for spending at the government's discretion. The remainder (\$33.5 million) of the fund balance is *reserved or designated* to indicate that it is not available for new spending because it has already been committed for 1) lodging tax total fund balance (\$0.8 million), 2) debt service (\$0.65 million), 3) a variety of other restricted purposes (\$0.04 million), or 4) a variety of other *fund designated* purposes (\$32.0 million). Additional information on the City's designated purposes can be found on page 4-36 of this report.

The **General Fund** is the chief operating fund of the City. At the end of the current fiscal year, unreserved, undesignated fund balance of the general fund was \$13.4 million, while the total fund balance reached \$21.9 million. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved, undesignated fund balance represents 54 percent of the total general fund expenditures, while total fund balance represents 88 percent of that same amount.

The fund balance of the City's General Fund increased by \$3.4 million during the current fiscal year. Key factors in this growth are as follows:

- An increase in property, retail sales and business tax revenues of \$2.6 million, were mostly due to one time tax on new construction, as well as new retail development in the City's northeast area and increased activity.
- Current expenditures increased by 12 percent (\$2.6 million). Approximately 63 percent (\$1.7 million) is from an increase in payroll expenditures due to the addition of 8 new budgeted FTE's, cost of living and market increases as well as contractual increases for benefits.

The **Arterial Street Fund** has a total fund balance of \$5.8 million, of which \$0.5 million is reserved for the payment of debt service, and the remaining \$5.3 million is unreserved to indicate that it is available for new spending. Revenues decreased \$0.9 million due to decreased activity in Intergovernmental revenues (grants), Expenditures increased by \$4.8 million, which is attributable to the Gateway project, which is being funded by a JFD grant. Those revenues will not be collected until 2008. The net decrease in the fund balance during the current year was \$2.8 million.

The **Parks and Open Space Fund** had an ending fund balance of \$14.2 million of which 13 million is reserved for the Regional Athletic Complex (RAC). Total fund balance increased \$6.3 million due to the issuance of \$8.0 million in limited general obligation bonds for completion of phase II of the RAC. Capital outlay expenditures increased by \$1.9 due to completion of Woodland and Meridian parks in 2007.

The **Local Improvement District Bond Fund** has a total fund balance of \$0.2 million as of the end of current fiscal year. There is one remaining improvement in this fund as of the

end of current fiscal year: NE area transportation improvements (L.I.D.19).

Proprietary Funds

The City of Lacey's proprietary funds provide the same type of information found in the government-wide financial statements but in more detail.

Unrestricted net assets of the Water, Wastewater, Stormwater and Reclaimed Water operations at the end of the year amounted to \$22.6 million. The total growth in net assets for these funds was \$24.1 million. Other factors regarding the finances of these funds have already been addressed in the discussion of the City of Lacey's business-type activities.

General Fund Budgetary Highlights

During the year there was a \$.7 million increase in appropriations between the original and final amended budget. Following are the components of the increase:

- A \$.26 million increase was used to cover unexpected contracts and professional services for jail and prisoner medical services, advertising, repairs to equipment and utility (electric) increases.
- The Police Department budget increased \$.14 million for overtime spent on investigations and short staffing.
- The Public Works Engineering Department increased \$.02 million due to overtime related inspection services to contractors and projects specifically related to the Gateway project.
- Allocated \$.19 million to Community Development for overtime and professional service contracts related to the Gateway project and Northeast area growth.
- The Park and Recreation Department increased \$.09 million due to increased activity in their youth and outdoor programs. Expenditures were offset by program revenues.

The total increase was possible because of additional anticipated revenues. Those revenues included an increase in permit application and plan check revenues (\$.63 million), increased program registration revenues (\$.03 million), State and Federal grants for police related programs and FEMA reimbursements for storm related damages to facilities (\$.03 million) and property tax collections (\$.01 million).

Capital Assets and Debt Administration

Capital assets

The City's investment in capital assets for its governmental and business-type activities as of December 31, 2007, amounts to \$469.89 million (net of accumulated depreciation). This investment in capital assets includes land, buildings and system improvements, machinery and equipment, park facilities, and infrastructure. The City's investments in capital assets were increased by \$43.83 million or 10.3% (4.0 % from governmental activities and 6.3% from business-type activities) from previous year. The following schedule shows the City's investment in capital assets.

Table 4

| | City of Lacey's Capital Assets (Net of Depreciation) (In Millions) | | | | | |
|--------------------------|--|-----------|-----------------------------|-----------|-----------|-----------|
| | Governmental Activities | | Business-type Activities | | Totals | |
| | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 |
| Land and improvements | \$ 112.68 | \$ 107.95 | \$ 4.76 | \$ 4.42 | \$ 117.44 | \$ 112.37 |
| Buildings | 9.5 | 9.85 | 1.3 | 1.33 | 10.8 | 11.18 |
| Improvements | 9.03 | 5.76 | 162.16 | 147.63 | 171.19 | 153.39 |
| Infrastructure | 140.04 | 140.74 | - | - | 140.04 | 140.74 |
| Machinery and equipment | 3.81 | 3.12 | 0.27 | 0.29 | 4.08 | 3.41 |
| construction in progress | 12.18 | 2.68 | 14.16 | 2.29 | 26.34 | 4.97 |
| Total | \$ 287.24 | \$ 270.10 | \$ 182.65 | \$ 155.96 | \$ 469.89 | \$ 426.06 |

Major capital asset events during the current fiscal year included the following:

- Land improvement increased by \$5.07 million which includes a \$2.15 million from the 26 acres of land purchased by Thurston County and dedicated to the City for the Regional Athletic Complex, \$2.24 million from developer contributed rights of way, and the remainder of \$0.68 millions from rights of way purchased by the City for the City's various projects.
- Construction in progress increased by \$21.37 million. About \$9.5 million is from governmental activities including about \$3.2 million in various city street projects, a \$5.4 million for the gateway infrastructure projects, and a \$0.9 million for the city hall expansion project. Remaining \$11.87 million is from business-type activities that consist of a \$1.25 million for the College Street stormwater facility project, \$3.34 million for water chlorination project, \$4.16 million for Hawks Prairie water evaluation project, \$0.78 million for 380 zone conversion project, and the remaining \$2.34 million for various other water and wastewater improvement projects added during 2007.
- Infrastructure assets decreased by \$0.7 million. The City recorded \$7.8 million in developer contributed streets in 2007; whereas the total depreciation for infrastructure asset for 2007 was \$8.5 million resulting in a net decrease of \$0.7 million.
- Improvements include park facilities, water, sewer and wastewater lines and facilities, as well as other improvements. Improvements assets increased by \$23.0 million, whereas the depreciation for the fiscal year was \$5.2 million which resulted in a net increase of \$17.8 million. Approximately \$3.5 million (15 percent) of the \$23.0 million increase was attributable to various parks improvement projects that were completed in 2007 and about \$17.6 million (76 percent) of the increase is attributable to the developer contributed water and sewer lines.

Additional information on the City's capital assets can be found in Note 3-D starting on page 4-28 of this report.

Debt Administration

The City of Lacey is authorized to issue debt pursuant to the Acts of the State of Washington. The City has three types of debt issues outstanding: general obligation, revenue, and special assessment debt. With voter approval, the City can issue debt up to 2.5 percent of

the assessed valuation. Without a vote, the City can incur debt up to an amount equal to 1.5 percent of the assessed valuation of taxable property within the City. The combination of unlimited tax and limited tax general obligation debt for all purposes cannot exceed 7.5 percent of assessed valuation. Further, voted indebtedness is permitted for water, artificial lights, and sewerage up to 2.5 percent of assessed valuation, with an additional 2.5 percent available for acquiring open space for parks facilities. Table 13 in the statistical section illustrates the City's Limitation of Indebtedness.

The ratios of general obligation debt to assessed valuation and the amount of debt per capita are useful to citizens, management and investors as indicators of the City's debt position. The City's total debt and debt ratios for the last ten years are illustrated on Table 10 in the statistical section of this report.

Special assessment debt created from the formation of a local improvement district (LID) is another form of debt issued and administered by the City. LID debt assists property owners in making significant public improvements (streets, sidewalks, street lighting, and some associated water, wastewater, and stormwater improvements) that benefit their property. Upon the formation of the local improvement district, improvements are constructed. When all improvement costs and administrative expenses are determined, a special benefit appraisal is conducted to determine the amount to be assessed each property according to the benefit received. Property owners may finance the cost of these improvements for a period of years through the City. The City sells LID bonds to recover the cost of constructing the improvements. These bonds are backed by liens on the benefiting property and a guarantee fund established by the City.

The City is authorized to issue revenue bonds to finance capital improvements for its various enterprise activities, requiring only a majority approval vote of the Council. The City has a revenue bond coverage ratio requirement of 120 percent of maximum annual debt. For the year ended December 31, 2007, the City's water and sewer revenue bonds were paid off in full, and there was no outstanding balance at the end of December 31, 2007. Ratios for prior years can be found in the statistical section on Table 14.

The City of Lacey maintains an "AAA" rating from Standard & Poor's and "Aaa" rating from Moody's Investors Service for general obligation debt. Previous revenue bonds of the City's water and sewer utilities funds have been rated "A" by Standard & Poor's and "Aaa" from Moody's Investors Service.

As mentioned previously, the City issued \$8 million in G.O. debt to fund the Regional Athletic Complex and will be funded by property taxes, sales taxes including the sales and use tax levied by the Capital Area Regional Public Facilities District.

As the demand for public sector investment in infrastructure continues to grow, the issuance of debt has become an increasingly important component of state and local government capital programs. While the issuance of debt is frequently an appropriate method of financing capital projects at the local level, it also entails careful monitoring of such obligations to ensure an erosion of the City's credit quality does not result. Lacey's general facilities connection charges for water and wastewater services have minimized the need to issue debt.

Long-term Debt

At the end of the current fiscal year, the City of Lacey had total bonded debt outstanding of \$27.0 million and a State of Washington (Public Works projects) loan of \$2.16 million. Of the \$27.0 million bonded debt, \$25.38 million comprises debt backed by the full faith and credit of the government and \$1.41 million is special assessment debt for which the gov-

ernment is liable in the event of default by the property owners subject to the assessment. The remainder of the City of Lacey's debt represents bonds secured solely by specified revenue sources (i.e. revenue bonds).

**City of Lacey's Outstanding Debt
Bonds and Notes
(In Millions)**

| | Governmental Activities | | Business-type Activities | | Total | |
|--|----------------------------|-----------------|-----------------------------|----------------|-----------------|-----------------|
| | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 |
| General obligation bonds | \$ 25.38 | \$ 18.19 | \$ - | \$ - | \$ 25.38 | \$ 18.19 |
| Revenue bonds (Animal Services) | 0.21 | 0.23 | - | 0.33 | 0.21 | 0.56 |
| Special assessment debt with governmental commitment | 1.41 | 2.61 | - | - | 1.41 | 2.61 |
| PWTF loan | 2.16 | 2.36 | - | - | 2.16 | 2.36 |
| Total | \$ 29.16 | \$ 23.39 | \$ - | \$ 0.33 | \$ 29.16 | \$ 23.72 |

The City's total outstanding debt increased by \$5.44 million (23 percent) during the current fiscal year. The key factors in this increase were:

- Issued \$8 million of 2007 G.O. debt to fund the Regional Athletic Complex project.
- Total debt redemption during 2007 was \$2.56 million.

Additional information on the City of Lacey's long-term debt can be found in note 3-I on pages 4-33 to 4-36.

Economic Factors and Next Year's Budgets and Rates

- The unemployment rate for the County is currently 5.2 percent, which is an increase from a rate of 5.0 percent a year ago. This is slightly higher compared to the state's average unemployment rate of 4.9 percent and the national average rate of 5.1 percent.
- The City's population continues to grow, (35,870 in the current fiscal year) and is placing more demand on services. Fortunately, even though the cost of providing services has increased, revenues (specifically in planning and building inspection fees) have grown to offset the costs, matching this increase. Property tax and sales tax revenues have also increased to keep up with this growth.

During the current fiscal year, unreserved, undesignated fund balance in the general fund increased \$3.4 million (34 percent) to \$13.4 million. This increase is contributed by the net increase in fund balance in 2007.

The Water utility rates in the 2007 budget year increased by 5 percent. The City is phasing in a new water rate schedule that places more emphasis on conservation. The new rates place greater emphasis on the relationship of water usage to the amount paid by the customer. This change rewards the conservative customer while encouraging, through a higher rate, the high-end consumer to conserve water resources. The new rates will have four tiers instead of the past two tiers. Wastewater rates increased \$1.75 per month in the 2007 budget. These rates along with general facility charges, fund the current operating expenses, maintenance of the system, replacement, and/or emergency repairs, and fund needed capital improvements.

Requests for Information

This financial report is designed to provide a general overview of the City of Lacey's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City's Finance Department, 420 College Street SE, P.O. Box 3400, Lacey, Washington, 98509-3400.

Statement of Net Assets
December 31, 2007

| | Primary Government | | Total |
|--|----------------------------|-----------------------------|-----------------------|
| | Governmental Activities | Business-Type Activities | |
| ASSETS | | | |
| Cash and cash equivalents | \$ 66,424,580 | \$ 4,633,699 | \$ 71,058,279 |
| Receivables (net) | 17,961,798 | 2,204,997 | 20,166,795 |
| Internal balances | (553,750) | 553,750 | - |
| Inventories | - | 642,722 | 642,722 |
| Prepayments | 14,441 | 325 | 14,766 |
| Deferred charges | 200,370 | - | 200,370 |
| Restricted: | | | |
| Cash and cash equivalents | 191,801 | 16,930,719 | 17,122,520 |
| Investment in joint venture | 3,079,401 | - | 3,079,401 |
| Capital assets: | | | |
| Non-depreciable | 124,854,999 | 18,923,652 | 143,778,651 |
| Depreciable, net | 162,385,789 | 163,722,638 | 326,108,427 |
| Total assets | \$ 374,559,429 | \$ 207,612,502 | \$ 582,171,931 |
| LIABILITIES | | | |
| Accounts payable | \$ 2,204,234 | \$ 2,490,953 | \$ 4,695,187 |
| Short-term loan payable | 790,417 | - | 790,417 |
| Interest payable | 163,814 | - | 163,814 |
| Unearned revenue | 3,899,423 | - | 3,899,423 |
| Unamortized premium | 234,489 | - | 234,489 |
| Long-term liabilities: | | | |
| Due within one year | 1,643,932 | 64,281 | 1,708,213 |
| Due in more than one year | 26,934,411 | 74,905 | 27,009,316 |
| Special assessment debt: | | | |
| Due within one year | 740,000 | - | 740,000 |
| Due in more than one year | 665,000 | - | 665,000 |
| Total liabilities | \$ 37,275,720 | \$ 2,630,139 | \$ 39,905,859 |
| NET ASSETS | | | |
| Invested in capital assets, net of related debt | \$ 269,716,944 | \$ 182,646,290 | \$ 452,363,234 |
| Restricted for: | | | |
| Culture and recreation | 802,195 | - | 802,195 |
| Debt service | 650,000 | - | 650,000 |
| Capital projects | 15,305,806 | - | 15,305,806 |
| Other purposes | 22,123 | - | 22,123 |
| Unrestricted | 50,786,641 | 22,336,073 | 73,122,714 |
| Total net assets | \$ 337,283,709 | \$ 204,982,363 | \$ 542,266,072 |

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

Statement of Activities
For the Year Ended December 31, 2007

| Functions/Program | Expenses | Program Revenues | | |
|---------------------------------------|----------------------|----------------------|------------------------------------|--------------------------------|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants & Contributions |
| Primary government: | | | | |
| Governmental activities: | | | | |
| General government | \$ 5,459,026 | \$ 812,116 | \$ 504 | \$ - |
| Security of persons and property | 12,336,966 | 336,309 | 782,408 | - |
| Physical environment | 3,138,790 | 2,284,822 | - | - |
| Transportation | 10,342,716 | 1,097,165 | 605,409 | 16,223,049 |
| Economic environment | 1,271,489 | 3,328,100 | - | 11,745 |
| Mental and physical health | 9,993 | - | - | - |
| Culture and recreation | 4,428,945 | 988,324 | 89,586 | 3,264,087 |
| Interest on long-term debt | 924,220 | - | - | - |
| Total governmental activities | \$ 37,912,145 | \$ 8,846,836 | \$ 1,477,907 | \$ 19,498,881 |
| Business-type activities: | | | | |
| Water | \$ 8,468,284 | \$ 10,556,071 | \$ 7,055 | \$ 3,742,585 |
| Wastewater | 9,512,811 | 10,651,092 | 40,336 | 3,075,566 |
| Stormwater | 2,342,570 | 1,685,010 | 3,328 | 11,673,267 |
| Reclaimed water | 332,391 | - | - | 184,047 |
| Total business-type activities | \$ 20,656,056 | \$ 22,892,173 | \$ 50,719 | \$ 18,675,465 |
| Total primary government | \$ 58,568,201 | \$ 31,739,009 | \$ 1,528,626 | \$ 38,174,346 |

General revenues:
 Property taxes
 Timber taxes
 Retail taxes
 Business taxes
 Excise taxes
 Penalties & interest
 Interest and investment earnings
 Miscellaneous
 Transfers

Total general revenues, special items, and transfers

Change in net assets

Net assets - beginning

Net assets - ending

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

| Net(Expense)Revenues and Changes in Net Assets Primary Government | | |
|---|-----------------------------|-----------------------|
| Governmental Activities | Business-Type Activities | Total |
| \$ (4,646,406) | \$ - | \$ (4,646,406) |
| (11,218,249) | - | (11,218,249) |
| (853,968) | - | (853,968) |
| 7,582,907 | - | 7,582,907 |
| 2,068,356 | - | 2,068,356 |
| (9,993) | - | (9,993) |
| (86,948) | - | (86,948) |
| (924,220) | - | (924,220) |
| <u>\$ (8,088,521)</u> | <u>\$ -</u> | <u>\$ (8,088,521)</u> |
| \$ - | \$ 5,837,427 | \$ 5,837,427 |
| - | 4,254,183 | 4,254,183 |
| - | 11,019,035 | 11,019,035 |
| - | (148,344) | (148,344) |
| <u>\$ -</u> | <u>\$ 20,962,301</u> | <u>\$ 20,962,301</u> |
| <u>\$ (8,088,521)</u> | <u>\$ 20,962,301</u> | <u>\$ 12,873,780</u> |
| | | |
| \$ 8,523,674 | \$ - | \$ 8,523,674 |
| 160 | - | 160 |
| 10,506,656 | - | 10,506,656 |
| 7,400,047 | - | 7,400,047 |
| 3,300,639 | - | 3,300,639 |
| 7,089 | - | 7,089 |
| 3,578,734 | 1,237,560 | 4,816,294 |
| 1,647,858 | 773,928 | 2,421,786 |
| (1,336,092) | 1,336,092 | - |
| <u>\$ 33,628,765</u> | <u>\$ 3,347,580</u> | <u>\$ 36,976,345</u> |
| | | |
| \$ 25,540,244 | \$ 24,309,881 | \$ 49,850,125 |
| | | |
| \$ 311,743,465 | \$ 180,672,482 | \$ 492,415,947 |
| | | |
| <u>\$ 337,283,709</u> | <u>\$ 204,982,363</u> | <u>\$ 542,266,072</u> |

Balance Sheet
Governmental Funds
December 31, 2007

| | General | Arterial Street | L.I.D. Redemption | Parks and Open Space | Other Governmental Funds | Total Governmental Funds |
|---|----------------------|----------------------|----------------------|-------------------------|--------------------------------|--------------------------------|
| ASSETS | | | | | | |
| Current cash & cash equivalents | \$ 19,583,112 | \$ 9,683,078 | \$ 196,076 | \$ 13,886,547 | \$ 15,760,865 | \$ 59,109,678 |
| Receivables (net of allowances) | | | | | | |
| Taxes | 3,153,018 | 330,276 | - | 138,868 | 845,572 | 4,467,734 |
| Customer accounts | 217,218 | 126,348 | - | - | 414,908 | 758,474 |
| Accrued interest & penalty | 195,529 | 20,949 | 13,829 | 2,260 | 33,028 | 265,595 |
| Due from other governmental units | 44,059 | 6,174,414 | 212,509 | 183,504 | - | 6,614,486 |
| Prepayments | 14,441 | - | - | - | - | 14,441 |
| Restricted assets: | | | | | | |
| Cash deposits | 190,351 | 600 | - | 850 | - | 191,801 |
| Special assessments deferred | - | - | 5,830,772 | - | - | 5,830,772 |
| Total assets | \$ 23,397,728 | \$ 16,335,665 | \$ 6,253,186 | \$ 14,212,029 | \$ 17,054,373 | \$ 77,252,981 |
| LIABILITIES AND FUND BALANCES | | | | | | |
| Liabilities: | | | | | | |
| Accounts payable | \$ 730,414 | \$ 447,930 | \$ - | \$ 34,586 | \$ 298,283 | \$ 1,511,213 |
| Due to other | | | | | | |
| Due to other governmental units | 142,067 | 253,288 | - | 393 | 409 | 396,157 |
| Advance payments | 139,123 | - | - | - | - | 139,123 |
| Short-term loans payable | - | 790,417 | - | - | - | 790,417 |
| Custodial accounts deposits | 190,351 | 600 | - | 850 | - | 191,801 |
| Long-term liabilities: | | | | | | |
| Deferred revenue | 196,206 | 5,474,772 | 6,043,281 | - | 370,652 | 12,084,911 |
| Unearned revenue | - | 3,568,499 | - | - | - | 3,568,499 |
| Total liabilities | \$ 1,398,161 | \$ 10,535,506 | \$ 6,043,281 | \$ 35,829 | \$ 669,344 | \$ 18,682,121 |
| Fund balances | | | | | | |
| Reserved for: | | | | | | |
| Culture and recreation | \$ - | \$ - | \$ - | \$ - | \$ 802,195 | \$ 802,195 |
| Debt service | 100,000 | 500,000 | - | - | 50,000 | 650,000 |
| Other purposes | 22,124 | - | - | - | - | 22,124 |
| Prepaid items | 14,441 | - | - | - | - | 14,441 |
| Unreserved, designated for, reported in: | | | | | | |
| Budget adjustments | 575,000 | - | - | - | - | 575,000 |
| Criminal bail | 53,506 | - | - | - | - | 53,506 |
| Furniture and equipment | 217,500 | - | - | - | - | 217,500 |
| Property acquisitions | 1,000,000 | - | - | - | - | 1,000,000 |
| Insurance | 200,000 | - | - | - | - | 200,000 |
| Parks | 139,944 | - | - | - | - | 139,944 |
| Community center | 51,125 | - | - | - | - | 51,125 |
| PFD-Sports complex | - | - | - | 12,945,435 | - | 12,945,435 |
| Gateway project | 5,200,000 | - | - | - | - | 5,200,000 |
| Senior center addition | 1,000,000 | - | - | - | - | 1,000,000 |
| Special revenue funds | - | - | - | - | 435,000 | 435,000 |
| Capital project funds | - | - | - | - | 10,197,404 | 10,197,404 |
| Unreserved, undesignated for: | | | | | | |
| General fund | 13,425,927 | - | - | - | - | 13,425,927 |
| Special revenue funds | - | 5,300,159 | - | - | 1,967,559 | 7,267,718 |
| Debt service funds | - | - | 209,905 | - | 375,158 | 585,063 |
| Capital project funds | - | - | - | 1,230,765 | 2,557,713 | 3,788,478 |
| Total fund balances | \$ 21,999,567 | \$ 5,800,159 | \$ 209,905 | \$ 14,176,200 | \$ 16,385,029 | \$ 58,570,860 |
| Total liabilities and fund balances | \$ 23,397,728 | \$ 16,335,665 | \$ 6,253,186 | \$ 14,212,029 | \$ 17,054,373 | \$ 77,252,981 |

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

Reconciliation of the Balance Sheet
To the Statement of Net Assets
Governmental Funds
For the Year Ended December 31, 2007

| | | |
|--|----------------|----------------|
| Fund balances - total governmental funds | | \$ 58,570,860 |
| Amounts reported for governmental activities in the statement of net assets are different because: | | |
| Certain assets used in governmental activities are not financial resources and therefore are not reported in the fund statement: | | |
| Deferred charges | \$ 200,370 | |
| Investment in joint venture | 3,079,401 | 3,279,771 |
| | <hr/> | |
| Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds. | | |
| Non-depreciable assets | \$ 124,854,999 | |
| Depreciable assets (net) | 158,751,860 | 283,606,859 |
| | <hr/> | |
| Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the governmental funds. | | |
| Deferred revenues: | | |
| Grants earned but not available | \$ 5,480,680 | |
| Property taxes | 215,173 | |
| Special assessments | 6,176,549 | 11,872,402 |
| | <hr/> | |
| Long-term liabilities, including bonds payable are not due and payable in the current period and therefore are not reported in the governmental funds. | | |
| Interest payable | \$ (163,814) | |
| Bonds and loans payable, including unamortized bond premium \$234,489 | (29,175,061) | |
| Compensated absences | (695,338) | (30,034,213) |
| | <hr/> | |
| Internal service funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the internal service funds are reported in the statement of net assets. | | |
| | \$ 9,988,030 | 9,988,030 |
| | <hr/> | |
| Net assets of government activities. | | \$ 337,283,709 |
| | | <hr/> <hr/> |

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

Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2007

| | General | Arterial Street | L.I.D. Redemption | Parks and Open Space | Other Governmental Funds | Total Governmental Funds |
|---|-----------------------|-----------------------|----------------------|-------------------------|--------------------------------|--------------------------------|
| REVENUES | | | | | | |
| Taxes | \$ 19,626,538 | \$ 2,856,510 | \$ - | \$ 821,382 | \$ 6,413,595 | \$ 29,718,025 |
| Licenses and permits | 2,849,140 | - | - | - | - | 2,849,140 |
| Intergovernmental revenues | 1,051,181 | 1,423,867 | - | 1,014,566 | 647,996 | 4,137,610 |
| Charges for services | 5,904,591 | 1,037,884 | - | - | 35,942 | 6,978,417 |
| Fines and forfeitures | 443,820 | - | - | - | - | 443,820 |
| Other revenues | 1,096,401 | 621,671 | 1,501,623 | 372,900 | 817,314 | 4,409,909 |
| Total revenues | \$ 30,971,671 | \$ 5,939,932 | \$ 1,501,623 | \$ 2,208,848 | \$ 7,914,847 | \$ 48,536,921 |
| EXPENDITURES | | | | | | |
| Current: | | | | | | |
| General government | \$ 4,215,854 | \$ - | \$ - | \$ - | \$ - | \$ 4,215,854 |
| Security of persons and property | 12,295,436 | - | - | - | - | 12,295,436 |
| Physical environment | 3,168,910 | - | - | - | - | 3,168,910 |
| Transportation | - | - | - | - | 2,280,636 | 2,280,636 |
| Economic environment | 1,196,152 | - | - | - | - | 1,196,152 |
| Mental and physical health | 9,993 | - | - | - | - | 9,993 |
| Culture and recreation | 3,976,824 | - | - | (16,704) | 196,598 | 4,156,718 |
| Capital outlay | 39,803 | 9,691,248 | - | 3,144,736 | 2,074,849 | 14,950,636 |
| Debt service: | | | | | | |
| Principal retirement | - | - | 1,401,416 | - | 815,000 | 2,216,416 |
| Interest | - | - | 223,829 | - | 709,553 | 933,382 |
| Debt issue costs | - | - | - | 135,232 | - | 135,232 |
| Total expenditures | \$ 24,902,972 | \$ 9,691,248 | \$ 1,625,245 | \$ 3,263,264 | \$ 6,076,636 | \$ 45,559,365 |
| Excess (deficiency) of revenue over (under) expenditures | \$ 6,068,699 | \$ (3,751,316) | \$ (123,622) | \$ (1,054,416) | \$ 1,838,211 | \$ 2,977,556 |
| OTHER FINANCING SOURCES (USES) | | | | | | |
| Proceeds from sale of assets | \$ 3,767 | \$ - | \$ - | \$ - | \$ - | \$ 3,767 |
| Premium on sale of bonds | - | - | - | 128,213 | - | 128,213 |
| Debt issuance | - | - | - | 8,000,000 | - | 8,000,000 |
| Transfers in | 324,151 | 1,000,000 | - | - | 2,300,000 | 3,624,151 |
| Transfers out | (2,850,000) | - | - | (824,151) | (1,450,000) | (5,124,151) |
| Total other financing sources | \$ (2,522,082) | \$ 1,000,000 | \$ - | \$ 7,304,062 | \$ 850,000 | \$ 6,631,980 |
| Net change in fund balances | \$ 3,546,617 | \$ (2,751,316) | \$ (123,622) | \$ 6,249,646 | \$ 2,688,211 | \$ 9,609,536 |
| FUND BALANCES JANUARY 1 | \$ 18,452,950 | \$ 8,551,475 | \$ 333,527 | \$ 7,926,554 | \$ 13,696,818 | \$ 48,961,324 |
| FUND BALANCES DECEMBER 31 | \$ 21,999,567 | \$ 5,800,159 | \$ 209,905 | \$ 14,176,200 | \$ 16,385,029 | \$ 58,570,860 |

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

Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances of Governmental Funds
To the Statement of Activities
Governmental Funds
For the Year Ended December 31, 2007

| | | |
|--|---------------|-------------------|
| Net changes in total fund balances per fund financial statements | \$ | 9,609,536 |
| Amounts reported for governmental activities in the statement of activities are different because: | | |
| <p>Governmental funds report capital outlays as expenditures; however, in the statement of activities the cost of those assets are depreciated over their estimated useful lives. This is the amount by which depreciation exceeded capital outlays in the current period.</p> | | |
| Expenditures for capital assets | \$ 13,709,646 | |
| Current year depreciation | (9,800,437) | 3,909,209 |
| <hr style="width: 100%;"/> | | |
| <p>Issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.</p> | | |
| Debt principal repayments | \$ 2,231,113 | |
| Debt issue proceeds, net of unamortized bond premium | (8,114,870) | |
| Unamortized debt issuance costs | 124,167 | (5,759,590) |
| <hr style="width: 100%;"/> | | |
| <p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the fund statement.</p> | | |
| Deferred revenue - property taxes | \$ 20,238 | |
| Deferred revenue - special assessments | (1,009,061) | |
| Deferred revenue - grants earned but not available | 5,480,681 | 4,491,858 |
| <hr style="width: 100%;"/> | | |
| <p>Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.</p> | | |
| Changes in investment in joint venture | \$ (31,502) | |
| Changes in compensated absences | (70,779) | |
| Changes in accrued interest payable | (4,181) | (106,462) |
| <hr style="width: 100%;"/> | | |
| <p>Internal service funds or activities are used by management to charge the costs of certain activities to individual funds. The net revenue of certain activities of internal service funds is reported with governmental activities.</p> | | |
| | | 883,416 |
| <p>Donated capital assets are included in the statement of activities but are not included in the governmental funds as they do not provide current financial resources.</p> | | |
| | | 12,512,277 |
| <hr style="width: 100%;"/> | | |
| Changes in net assets of governmental activities | \$ | <u>25,540,244</u> |

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

Statement of Net Assets
Proprietary Funds
December 31, 2007

| | Business-type Activities Enterprise Funds | | | | Total | Governmental Activities Internal Service Funds |
|---------------------------------------|--|----------------------|----------------------|---------------------|-----------------------|---|
| | Water | Waste- Water | Storm Water | Reclaimed Water | | |
| ASSETS | | | | | | |
| Current assets: | | | | | | |
| Cash and cash equivalents | \$ 235,089 | \$ 3,646,955 | \$ 651,655 | \$ 100,000 | \$ 4,633,699 | \$ 7,314,902 |
| Restricted cash and cash equivalents | | | | | | |
| Customer deposits | 128,050 | - | - | - | 128,050 | - |
| Receivables (net of allowances) | | | | | | |
| Customer accounts | 312,026 | 522,379 | 102,443 | - | 936,848 | - |
| Accrued interest & penalty | 12,041 | 47,598 | 7,012 | 5,773 | 72,424 | 12,227 |
| Prepayments | 325 | - | - | - | 325 | - |
| Due from governmental units | 417,143 | 483,406 | - | 184,047 | 1,084,596 | 12,508 |
| Inventory | 642,722 | - | - | - | 642,722 | - |
| Total current assets: | <u>\$ 1,747,396</u> | <u>\$ 4,700,338</u> | <u>\$ 761,110</u> | <u>\$ 289,820</u> | <u>\$ 7,498,664</u> | <u>\$ 7,339,637</u> |
| Non-current assets: | | | | | | |
| Restricted cash and cash equivalents: | | | | | | |
| Capital acquisition | \$ 2,764,904 | \$ 10,825,625 | \$ 1,086,356 | \$ 2,125,784 | \$ 16,802,669 | \$ - |
| Special assessments | 8,197 | 35,952 | - | - | 44,149 | - |
| Special assessments deferred | 40,940 | 26,040 | - | - | 66,980 | - |
| Interfund loan receivable | - | 4,000,000 | - | - | 4,000,000 | - |
| Capital assets, net of depreciation: | | | | | | |
| Land | 3,218,416 | 770,599 | 770,851 | - | 4,759,866 | - |
| Buildings | 512,157 | 788,947 | - | - | 1,301,104 | 98,185 |
| Improvements other than buildings | 72,968,785 | 51,907,067 | 37,280,417 | - | 162,156,269 | 8,343 |
| Equipment | 188,691 | 61,665 | 14,909 | - | 265,265 | 3,527,401 |
| Construction in progress | 11,975,458 | 838,174 | 1,350,154 | - | 14,163,786 | - |
| Total non-current assets | <u>\$ 91,677,548</u> | <u>\$ 69,254,069</u> | <u>\$ 40,502,687</u> | <u>\$ 2,125,784</u> | <u>\$ 203,560,088</u> | <u>\$ 3,633,929</u> |
| Total assets | <u>\$ 93,424,944</u> | <u>\$ 73,954,407</u> | <u>\$ 41,263,797</u> | <u>\$ 2,415,604</u> | <u>\$ 211,058,752</u> | <u>\$ 10,973,566</u> |

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

Statement of Net Assets
Proprietary Funds
December 31, 2007

| | Business-type Activities Enterprise Funds | | | | Total | Governmental Activities Internal Service Funds |
|--|--|----------------------|----------------------|---------------------|-----------------------|---|
| | Water | Waste- Water | Storm Water | Reclaimed Water | | |
| LIABILITIES | | | | | | |
| Current liabilities: | | | | | | |
| Accounts payable | \$ 1,179,143 | \$ 74,283 | \$ 317,899 | \$ 20,532 | \$ 1,591,857 | \$ 296,443 |
| Due to other governmental units | 24,248 | 744,319 | 2,479 | - | 771,046 | 420 |
| Compensated absences | 40,405 | 20,347 | 3,529 | - | 64,281 | 15,249 |
| Deposits | 128,050 | - | - | - | 128,050 | - |
| Current portion of loans payable | - | - | - | - | - | 48,825 |
| Total current liabilities | \$ 1,371,846 | \$ 838,949 | \$ 323,907 | \$ 20,532 | \$ 2,555,234 | \$ 360,937 |
| Non-current liabilities | | | | | | |
| Compensated absences | \$ 45,877 | \$ 24,954 | \$ 4,074 | \$ - | \$ 74,905 | \$ 20,209 |
| Long term portion of capital lease | - | - | - | - | - | 50,640 |
| Interfund loan payable | 4,000,000 | - | - | - | 4,000,000 | - |
| Total non-current liabilities | \$ 4,045,877 | \$ 24,954 | \$ 4,074 | \$ - | \$ 4,074,905 | \$ 70,849 |
| Total liabilities | \$ 5,417,723 | \$ 863,903 | \$ 327,981 | \$ 20,532 | \$ 6,630,139 | \$ 431,786 |
| NET ASSETS | | | | | | |
| Investment in capital assets, net of related debt | \$ 88,007,221 | \$ 54,366,452 | \$ 39,416,331 | \$ - | \$ 181,790,004 | \$ 3,633,929 |
| Unrestricted | - | 18,724,052 | 1,519,485 | 2,395,072 | 22,638,609 | 6,907,851 |
| Total net assets | \$ 88,007,221 | \$ 73,090,504 | \$ 40,935,816 | \$ 2,395,072 | \$ 204,428,613 | \$ 10,541,780 |
| Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds. | | | | | 553,750 | |
| Net assets of business-type activities. | | | | | \$ 204,982,363 | |

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

Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended December 31, 2007

| | Business-Type Activities Enterprise Funds | | | | Total | Governmental Activities Internal Service Funds |
|--|--|----------------------|----------------------|---------------------|----------------------|---|
| | Water | Waste- Water | Storm Water | Reclaimed Water | | |
| OPERATING REVENUES | | | | | | |
| Charges for services | \$ 10,556,071 | \$ 10,651,092 | \$ 1,685,010 | \$ - | \$ 22,892,173 | \$ 2,620,614 |
| Total operating revenue | <u>\$ 10,556,071</u> | <u>\$ 10,651,092</u> | <u>\$ 1,685,010</u> | <u>\$ -</u> | <u>\$ 22,892,173</u> | <u>\$ 2,620,614</u> |
| OPERATING EXPENSES | | | | | | |
| Operating expense | \$ 2,675,936 | \$ 6,500,855 | \$ 878,740 | \$ - | \$ 10,055,531 | \$ 1,548,390 |
| Maintenance expense | 2,959,438 | 1,472,094 | 430,881 | 332,391 | 5,194,804 | 271,536 |
| Debt discount amortization | 1,663 | 2,403 | - | - | 4,066 | - |
| Depreciation expense | 2,509,693 | 1,438,000 | 1,038,070 | - | 4,985,763 | 791,853 |
| Taxes | 383,343 | 151,943 | 26,520 | - | 561,806 | - |
| Total operating expenses | <u>\$ 8,530,073</u> | <u>\$ 9,565,295</u> | <u>\$ 2,374,211</u> | <u>\$ 332,391</u> | <u>\$ 20,801,970</u> | <u>\$ 2,611,779</u> |
| OPERATING INCOME (LOSS) | <u>\$ 2,025,998</u> | <u>\$ 1,085,797</u> | <u>\$ (689,201)</u> | <u>\$ (332,391)</u> | <u>\$ 2,090,203</u> | <u>\$ 8,835</u> |
| NON-OPERATING REVENUES (EXPENSES) | | | | | | |
| Intergovernmental revenue | \$ 412,074 | \$ 480,500 | \$ - | \$ 184,047 | \$ 1,076,621 | \$ - |
| Investment earnings | 195,552 | 884,445 | 114,147 | 43,416 | 1,237,560 | 372,727 |
| Miscellaneous non-operating revenues | 559,592 | 260,674 | 4,378 | - | 824,644 | 45,857 |
| Interest expense | (4,352) | (6,292) | - | - | (10,644) | (6,124) |
| Gain (loss) on sale of assets | - | - | - | - | - | 13,089 |
| Total non-operating Revenues (expenses) | <u>\$ 1,162,866</u> | <u>\$ 1,619,327</u> | <u>\$ 118,525</u> | <u>\$ 227,463</u> | <u>\$ 3,128,181</u> | <u>\$ 425,549</u> |
| Income (loss) before contributions and transfers | <u>\$ 3,188,864</u> | <u>\$ 2,705,124</u> | <u>\$ (570,676)</u> | <u>\$ (104,928)</u> | <u>\$ 5,218,384</u> | <u>\$ 434,384</u> |
| Capital contributions | \$ 3,330,512 | \$ 2,595,067 | \$ 11,673,267 | \$ - | \$ 17,598,846 | \$ 441,683 |
| Transfers in | 1,088,270 | 602,405 | 250,000 | 2,500,000 | 4,440,675 | 163,908 |
| Transfers out | (1,026,872) | (1,775,643) | (302,068) | - | (3,104,583) | - |
| Changes in net assets | <u>\$ 6,580,774</u> | <u>\$ 4,126,953</u> | <u>\$ 11,050,523</u> | <u>\$ 2,395,072</u> | <u>\$ 24,153,322</u> | <u>\$ 1,039,975</u> |
| NET ASSETS - BEGINNING | <u>\$ 81,426,447</u> | <u>\$ 68,963,551</u> | <u>\$ 29,885,293</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 9,501,805</u> |
| NET ASSETS - ENDING | <u>\$ 88,007,221</u> | <u>\$ 73,090,504</u> | <u>\$ 40,935,816</u> | <u>\$ 2,395,072</u> | <u>\$ -</u> | <u>\$ 10,541,780</u> |
| Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds. | | | | | <u>\$ 156,559</u> | |
| Change in net assets of business-type activities. | | | | | <u>\$ 24,309,881</u> | |

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

Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2007

| | Business-type Activities Enterprise Funds | | | | Total | Governmental Activities Internal Services Funds |
|---|--|-----------------------|-----------------------|---------------------|------------------------|--|
| | Water | Waste- Water | Storm Water | Reclaimed Water | | |
| CASH FLOW FROM OPERATING ACTIVITIES: | | | | | | |
| Receipts from customers and users | \$ 11,091,294 | \$ 11,059,496 | \$ 1,664,243 | \$ - | \$ 23,815,033 | \$ 2,660,281 |
| Payments to suppliers | (2,927,767) | (6,672,699) | (490,577) | (311,859) | (10,402,902) | (730,631) |
| Payments to employees | (2,137,520) | (1,249,361) | (536,735) | - | (3,923,616) | (811,899) |
| Payments for taxes | (383,343) | (151,943) | (26,520) | - | (561,806) | - |
| Net cash provided by operating activities | <u>\$ 5,642,664</u> | <u>\$ 2,985,493</u> | <u>\$ 610,411</u> | <u>\$ (311,859)</u> | <u>\$ 8,926,709</u> | <u>\$ 1,117,751</u> |
| CASH FLOW FROM NON-CAPITAL FINANCING ACTIVITIES: | | | | | | |
| Transfers in from (out to) other funds | 61,399 | (1,173,238) | (52,068) | 2,500,000 | 1,336,093 | - |
| Net cash provided by non-capital financing activities | <u>\$ 61,399</u> | <u>\$ (1,173,238)</u> | <u>\$ (52,068)</u> | <u>\$ 2,500,000</u> | <u>\$ 1,336,093</u> | <u>\$ -</u> |
| CASH FLOW FROM CAPITAL AND RELATED FINANCING ACTIVITIES: | | | | | | |
| Acquisition and construction of capital assets | \$ (11,892,771) | \$ (926,364) | \$ (1,250,017) | \$ - | \$ (14,069,152) | \$ (1,333,168) |
| Advances from (to) other funds | 4,000,000 | (4,000,000) | - | - | - | - |
| Proceeds from sales of capital assets | - | - | - | - | - | 15,529 |
| Principal paid on revenue bonds | (314,853) | (15,147) | - | - | (330,000) | - |
| Principal paid on capital leases | - | - | - | - | - | (59,617) |
| Interest paid on capital leases | - | - | - | - | - | (6,124) |
| Interest paid on revenue bonds | (5,887) | (8,510) | - | - | (14,397) | - |
| Principal payments received on special assessments | 18,590 | 49,328 | - | - | 67,918 | - |
| Interest and penalties payments received on special assessments | 3,419 | 4,855 | - | - | 8,274 | - |
| capital acquisitions | - | - | - | - | - | 588,886 |
| Net cash used by capital and related financing activities | <u>\$ (8,191,502)</u> | <u>\$ (4,895,838)</u> | <u>\$ (1,250,017)</u> | <u>\$ -</u> | <u>\$ (14,337,357)</u> | <u>\$ (794,494)</u> |

(Continued)

The Accompanying Notes Are an Integral Part Of This Statement.

Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2007

| | Business-type Activities Enterprise Funds | | | | Total | Governmental Activities Internal Services Funds |
|--|--|-----------------|----------------|--------------------|---------------|--|
| | Water | Waste- Water | Storm Water | Reclaimed Water | | |
| CASH FLOW FROM INVESTING ACTIVITIES: | | | | | | |
| Interest received on investments | \$ 206,196 | \$ 898,243 | \$ 117,018 | \$ 37,643 | \$ 1,259,100 | \$ 376,723 |
| Net cash provided (used) by investing activities | \$ 206,196 | \$ 898,243 | \$ 117,018 | \$ 37,643 | \$ 1,259,100 | \$ 376,723 |
| Net increase (decrease) in cash and cash equivalents | (2,281,243) | (2,185,340) | (574,656) | 2,225,784 | (2,815,455) | 699,980 |
| Cash and cash equivalents January 1 | \$ 5,409,286 | \$ 16,657,920 | \$ 2,312,667 | \$ - | \$ 24,379,873 | \$ 6,614,922 |
| Cash and cash equivalents December 31 | \$ 3,128,043 | \$ 14,472,580 | \$ 1,738,011 | \$ 2,225,784 | \$ 21,564,418 | \$ 7,314,902 |
| CASH PROVIDED BY OPERATING ACTIVITIES: | | | | | | |
| Net operating income | \$ 2,025,998 | \$ 1,085,797 | \$ (689,201) | \$ (332,391) | \$ 2,090,203 | \$ 8,835 |
| ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES: | | | | | | |
| Depreciation | \$ 2,509,693 | \$ 1,438,000 | \$ 1,038,070 | \$ - | \$ 4,985,763 | \$ 791,853 |
| (Increase)/decrease in customer receivables | (46,417) | (138,394) | (25,145) | - | (209,956) | - |
| (increase)/decrease in customer deposits | 4,870 | - | - | - | 4,870 | - |
| (Increase)/decrease in due from other funds | - | - | - | - | - | (6,190) |
| (increase) decrease in intergovernmental receivable | 17,178 | 286,124 | - | - | 303,302 | - |
| (increase) decrease in prepaids | 12 | - | - | - | 12 | - |
| (Increase)/decrease in inventories | 130,043 | - | - | - | 130,043 | - |
| (Increase)/decrease in deferred charges | 1,663 | 2,403 | - | - | 4,066 | - |
| Miscellaneous non-operating revenues | 559,592 | 260,674 | 4,378 | - | 824,644 | 45,857 |
| Increase/(decrease) in accounts payable | 416,339 | (691,812) | 280,451 | 20,532 | 25,510 | 270,434 |
| Increase/(decrease) in intergovernmental payables | 6,825 | 734,222 | 1,195 | - | 742,242 | 420 |
| Increase/(decrease) in due to other funds | - | - | - | - | - | - |
| Increase/(decrease) in compensated absences | 16,868 | 8,479 | 663 | - | 26,010 | 6,542 |
| Net cash provided by operating activities | \$ 5,642,664 | \$ 2,985,493 | \$ 610,411 | \$ (311,859) | \$ 8,926,709 | \$ 1,117,751 |
| Noncash investing, capital and financing activities: | | | | | | |
| Borrowing under capital leases | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 99,465 |
| Capital asset transferred from (to) other funds | - | - | - | - | - | 16,704 |
| Contributions of capital assets from developers | 3,330,512 | 2,595,067 | 11,673,267 | - | 17,598,346 | - |

The Accompanying Notes Are an Integral Part Of This Statement.

Statement of Fiduciary Net Assets
Fiduciary Funds
December 31, 2007

| | <u>Agency Funds</u> |
|--|-------------------------|
| ASSETS | |
| Cash and cash equivalents | \$ 2,474,773 |
| Accounts receivables, net of uncollectible accounts | 12,905 |
| Due from other governmental units | <u>55,185</u> |
| Total assets | <u>\$ 2,542,863</u> |
| LIABILITIES | |
| Accounts payable | \$ 119,537 |
| Accrued employee leave payable | 71,019 |
| Notes payable | 212,508 |
| Due to other governmental units | <u>2,139,799</u> |
| Total liabilities | <u>\$ 2,542,863</u> |

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



This page intentionally left blank

**Notes to the Financial Statements
December 31, 2007**

Basic Financial Statements

| Notes | page |
|--|-------------|
| 1. Summary of significant accounting policies | 16 |
| A. Reporting entity | 16 |
| B. Basic financial statements | 16 |
| C. Measurement focus, basis of accounting and financial presentation | 19 |
| D. Assets, liabilities and net assets or equities | 20 |
| E. Revenues, expenditures and expenses | 22 |
| 2. Stewardship, compliance, and accountability | 23 |
| A. Procedures for adopting the original budget | 23 |
| B. Amending the budget | 24 |
| 3. Detailed notes on all funds | 25 |
| A. Deposits and investments | 25 |
| B. Receivables | 27 |
| C. Property taxes | 27 |
| D. Capital assets | 28 |
| E. Interfund receivables, payables and transfers | 30 |
| F. Restricted assets | 32 |
| G. Short-term debt | 32 |
| H. Leases | 32 |
| I. Long-term liabilities | 33 |
| J. Fund Equity | 36 |
| 4. Other Information | 37 |
| A. Employee retirement systems and pension plans | 37 |
| B. Deferred compensation | 40 |
| C. Other postemployment benefits | 40 |
| D. Contingencies | 41 |
| E. Risk management | 42 |
| F. Interlocal agreements and joint ventures | 43 |

City of Lacey
Notes to the Financial Statements
December 31, 2007

Note I. Summary of significant accounting policies

The financial statements of the City of Lacey have been prepared in conformity with generally accepted accounting principles (GAAP) applicable to state and local governments. GAAP for local governments include those principles prescribed by the Governmental Accounting Standards Board (GASB), the Financial Accounting Standards Board (FASB), when applicable, and the American Institute of Certified Public Accountants (AICPA) pronouncements that have been made applicable by GASB Statements or Interpretation.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

The significant accounting policies are described below.

A. Reporting entity

The City of Lacey was incorporated on December 5, 1966. The City operates under a Council-Manager form of government. The City's major operations, as authorized under the laws of the State of Washington applicable to a non-charter code city, includes planning and zoning, public safety, public works, recreation and culture, and utilities.

As required by GAAP the City's financial statements present the City of Lacey – the primary government. There are no component units (either blended or discretely presented) included in these statements.

B. Basic financial statements

The City's basic financial statements include both government-wide (reporting the City as a whole) and fund financial statements (reporting the City's major funds). Both the government-wide and fund financial statements categorize primary activities as either governmental or business-type.

Government-wide financial statements

The focus of government-wide financial statements is on the overall financial position and activities of the City of Lacey. The government-wide financial statements (i.e. the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government.

The primary government is further divided into governmental activities and business-type activities. Governmental activities are generally financed through taxes, inter-government revenues, and other nonexchange revenues, while business-type activities are financed to some degree by charging external parties for the goods or services they acquire from the City. Governmental activities include programs/ activities such as general government, public safety, streets, physical environment, transportation, culture and recreation, and health and welfare. Business-type activities, an integral part of the City's activities and responsibilities, include the City's Water utilities, Wastewater utilities, Stormwater utilities and Reclaimed Water utilities. For the most part, the effect of interfund activity has been removed from these statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Our policy is not to allocate indirect costs to a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Fund financial statements

Unlike government-wide financial statements, the focus of fund financial statements is directed to specific activities of the City rather than the City as a whole. The City's fund financial statements are divided into three broad categories, namely, (1) governmental funds, (2) proprietary funds, and (3) fiduciary funds. The City's fiduciary funds are excluded from the government-wide financial statements, because resources of these funds cannot be used to finance the City's activities. However, the financial statements of fiduciary funds are included in the City's financial statements, because the City is financially accountable for those resources, even though they belong to other parties.

GASB Statement 34 sets forth the minimum criteria for the determination of a major fund. For consistency purposes, the City has elected to add the Parks and Open Space fund in addition to the required major funds. The following describes each fund as presented in the fund financial statements:

Major funds

Governmental funds

General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. The general fund includes police, health and social services, parks and recreation, finance and administration, planning, building inspection, community development, park maintenance, public works and engineering management, and services contracted to other agencies such as Lacey Fire District #3, CAPCOM 911, district court, and jail services.

Arterial Street Fund provides funding for street construction and transportation improvement projects. Work accomplished includes right-of-way acquisition, design, and construction of roadways, storm drainage, sidewalks, street lighting, traffic signals, and landscaping.

Local Improvement District (L.I.D.) Bond Fund was created to provide for the retirement of all local improvement district bonds issued for City facilities or equipment. Debt issued or bonds received without the guarantee of City tax revenues must depend on special assessments against property owners. There is one remaining improvement in this fund as of the end of the current fiscal year for the NE area transportation improvements.

Parks and Open Space Fund accounts for the resources accumulated by council action to set aside the revenue generated by a one percent of utility tax rate for acquisition of property for future parks and open space, and/or the development of existing parks sites.

Enterprise funds

Water Utility Fund accounts for revenues and reserve dollars to construct or replace the water production and distribution system. The funds provide high quality drinking water in sufficient quantity and pressure to support the citizens of Lacey and service areas outside the City. Water

comes primarily from wells that are owned and operated by the Utility. Water is also purchased from the City of Olympia.

Wastewater Utility Fund accounts for revenues and reserve dollars to construct new or replace portions of the wastewater collection and treatment system including sewer lines, lift stations and holding tanks. These facilities serve to collect, initiate treatment and transport wastewater to the LOTT Treatment Facility located in Olympia.

Stormwater Utility Fund accounts for activities for the operations and maintenance of the City-owned storm drainage and flood control systems as well as the activities for the planning, design, property acquisition and construction of capital projects.

Reclaimed Water Utility Fund was created to utilize alternative water supply for non-portable water application. The fund accounts for revenues and expenses to construct new or replace reclaimed water system and maintenance and operations.

Non-major funds

Governmental funds

City Street Fund. The public works street division is responsible for evaluating, maintaining and repairing all roadways, traffic control devices, drainage systems, sidewalks and roadsides. The division is also responsible for street cleaning, snow and ice removal, and removing road debris from traffic lanes. Additionally, the street division performs special projects such as the Christmas tree pickup and hanging the street banners.

Lodging Tax Fund is authorized by state law and must operate under the restrictive provision thereof. Revenue is generated from a use tax based on hotel/motel room rentals. Expenditures of lodging tax dollars are limited to tourist promotion and for the acquisition and/or maintenance of tourism-related facilities.

Community Development Block Grant Fund provides for the accounting of state and federal grant dollars awarded to qualifying agencies serving Lacey citizens.

General Obligation (G.O.) Bond Fund was created to provide for the retirement of all general purpose bonds issued for city facilities or equipment. When capital expenditures are funded by debt authorized by voter approval, the revenues generated to retire this debt come from property taxes. Debt issued or bonds received without guarantee to the city property tax revenues, must depend on all sources of general city revenue to retire debt.

Building Improvement Fund is only used when there is a need to account for a significant building project or equipment acquisition that is usually funded by a bond sale. Each year, an amount equivalent to \$1.00 per capita is deposited into this fund from sales tax revenue for the purpose of acquiring public art.

Capital Expenditure Fund accounts for special revenue dedicated to capital and capital equipment purchases that are required for general operation purposes. Utility taxes are the main sources of revenue.

Other fund types

Internal Service Funds

Equipment Rental Fund accounts for fleet management services provided to other departments within the City of Lacey, on a cost reimbursement basis. Activities of the fund include the

maintenance and replacement of City owned vehicles and equipment. The City's finance department provides administrative and accounting services while the public works department provides maintenance and repair services.

Information Management Services Fund is responsible for keeping all computer and office automation equipment and programs operating and responsive to the City's needs. This is accomplished through researching new computer techniques; correcting and revising programs to meet changing needs; managing computer techniques; and managing computer equipment to achieve maximum performance.

Fiduciary funds

Joint Animal Services Fund accounts for cash and investments held by the City of Lacey for Animal Services in an agency capacity.

Interlocal Drug Unit Fund accounts for cash and investments held by the City of Lacey for the Thurston County Narcotics Task Force (Drug Unit) in an agency capacity.

Capital Area Regional Public Facilities District (Capital Area PFD) Fund accounts for cash and investments held by the City of Lacey for the Capital Area Regional Public Facilities District in an agency capacity.

C. Measurement focus, basis of accounting and financial statement presentation

Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurement made regardless of the measurement focus applied:

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Agency funds are reported using the accrual basis of accounting, however, are unlike all other types of funds, reporting only assets and liabilities; therefore, have no measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, licenses, and interest associated within the current period are considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessment receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the City.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Assets, liabilities and net assets or equities

1. Cash, deposits and investments

The City has defined cash and cash equivalents as cash on hand, demand deposits, and all highly liquid short-term investments (including restricted assets) with a maturity of three months or less from the date of acquisition. These amounts are classified on the balance sheet or in the statement of net assets within cash and cash equivalents or investments in the various funds. The interest income on these investments is prorated to the applicable funds that report the underlying investments.

Investments for the City are reported at fair value, based on the fair market value at fiscal year end. The State Treasurer's Investment Pool operates in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the fair value of the pool shares. For purposes of the statement of cash flows, the City considers cash on hand and the state investment pools to be cash equivalents.

2. Receivables and payables (amounts owed/payable to/by the City at year-end.)

Taxes receivable consists of property taxes and *related interest and penalties*. *Accrued interest receivable* consists of amounts earned on investments, notes, and contracts. *Accrued interest payable* consists of amounts owed on notes, loans, and contracts.

Customer accounts receivable/payable consist of amounts owed from/to private individuals or organizations for goods and services. If the transaction is with another governmental unit, it is accounted for within "*due from/to other governments*".

Special assessments are recorded when levied and are liens against the property benefited. Special assessments receivable consist of current and delinquent assessments and related interest and penalties. *Deferred assessments* consist of special assessments not due within one year.

Receivables have been reported net of estimated uncollectible accounts. Because property taxes, special assessments, and utility billings are considered liens on property, no estimated uncollectible amounts are established.

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to either "*due to/from other funds*" (i.e., the current portion of interfund loans) or "*advances to/from other funds*" (i.e., the non-current portion of interfund loans). All other outstanding balances between the governmental activities and business-type activities are reported in the government-wide financial statements as "*internal balances*".

Loans/advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

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

3. Inventories and prepaid items

All City inventories are maintained on a consumption basis of accounting where items are purchased for inventory and charged to the budgetary accounts as the items are consumed. Any material inventories at year-end are included in the balance sheet of the appropriate fund. Inventories are

carried at cost on the first in, first out – FIFO basis.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund statements using consumption method.

4. Restricted assets

Enterprise funds have accounts that contain resources for construction and debt services. Certain proceeds of the water and sewer fund's revenue bonds set aside for their repayment, as well as certain resources set aside for capital acquisitions are, classified as restricted assets on the statement of net assets. The current portion of related liabilities are shown as payable from restricted assets. Specific debt service reserve requirements are described in the long-term debt note.

5. Capital assets and depreciation

Capital assets include property, plant, equipment, and infrastructure assets (i.e., roads, sidewalks and similar items). Capital assets, other than the infrastructure assets, are defined by the government as assets with an initial, individual cost of \$5,000 or more (land is capitalized regardless of value), and an estimated useful life in excess of two years. Major outlays for capital assets and improvements are capitalized as projects are constructed. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

The City has three sculptures capitalized as art and historical treasures. Art and historical treasures are expected to be maintained or enhanced over time and thus, are not depreciated.

Capital assets are recorded at historical cost, estimated historical cost if purchased or constructed, or the lower of cost or fair market value when transferred between proprietary and governmental funds. Donated capital assets are recorded at estimated fair value at the date of donation.

The City has acquired certain assets with funding provided by federal financial assistance programs. Depending on the terms of the agreements involved, the federal government could retain an equity interest in these assets. However, the City has sufficient legal interest to accomplish the purposes for which the assets were acquired, and has included such assets within the applicable statements.

The City implemented the general provisions of GASB Statement No. 34 in fiscal year 1999 and the infrastructure acquired prior to fiscal years ended after June 30, 1980, is reported. These assets were reported at estimated historical costs through back-trending method (i.e. estimating the current replacement cost of the infrastructure to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year).

Governmental capital assets of the city purchased, leased, or constructed are recorded as expenditures in the governmental funds and are capitalized, net of depreciation, in the government-wide statements. Capital assets of proprietary funds are capitalized in their respective statement of net assets.

Depreciation on all assets is provided on the straight-line basis over the following useful lives:

| <u>Type of Asset</u> | <u>Number of Years</u> |
|-----------------------------|-------------------------------|
| Building and structures | 15-40 |
| Other improvements | 05-50 |
| Machinery and equipment | 02-15 |
| Infrastructure | 20-50 |

6. Deferred revenues

This account includes amounts recognized as assets but not revenues in governmental funds because the revenue recognition criterion has not been met. Deferred revenues are further distinguished for amounts that are deferred because they are not available (deferred revenues), from amounts that are deferred because they are unearned (unearned revenues) in the governmental funds statements.

7. Custodial accounts

This account reflects the liability for net monetary assets being held by the City in its agency capacity.

8. Compensated absences

It is the City's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. Vacation pay may accumulate up to 240 hours at December 31 and is payable upon resignation, retirement or death. Sick leave may accumulate up to 960 hours or as provided by contract. Sick leave does not vest until retirement. All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements. The liabilities for compensated absences are considered to be long-term liabilities and are included in Note 3-I

9. Long-term obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payables are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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

10. Fund balance designations and reservations

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

In case where a governmental fund does not have enough available unreserved fund balance, the fund balance reserved for that fund is limited to the extent of the amount available.

E. Revenues, expenditures and expenses

1. Program revenues

Program revenues include 1) charges for services to customers for goods or services provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments.

2. General revenues

Internally dedicated resources are reported as general revenues rather than program revenues. Likewise, general revenues include all taxes and associated penalties and interest and investment earnings.

3. Interfund transfers

Permanent reallocations of resources between funds of the reporting entity are classified as interfund transfers. As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes where the amounts are reasonably equivalent in value to the interfund services provided and other charges between the government's water, wastewater and stormwater function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

4. Expenditures/expenses

Expenses in the government-wide statement of activities are reported by function as a governmental activities (general government, security of persons and property, physical environment, transportation, economic environment, culture and recreation, or interest on long-term debt) or business-type activities (water, wastewater, stormwater, or reclaimed water). In the fund financial statements, expenditures of governmental funds are classified by functions, debt service principal and interest payments, or purchases of capital items.

5. Operating and non-operating revenues and expenses

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise funds and of the City's internal services funds are charges to customers for sales and services. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Note 2. Stewardship, compliance and accountability

There have been no material violations of finance-related legal or contractual provisions, and there have been no expenditures exceeding legal appropriations in any of the funds of the City.

A. Procedures for adopting the original budget

The City's budget procedures are mandated by the Revised Code of Washington 35A.33. The steps in the budget process are as follows:

- (1) Prior to October 1, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following January 1. The operating budget includes proposed expenditures/expenses and the means of financing them.
- (2) A public hearing is conducted at City Hall to obtain taxpayer comments.
- (3) During the month of December, the budget is legally enacted through passage of an ordinance.
- (4) Any revisions that alter the total amount of expenditures/expenses of any fund must be approved by the City Council.

B. Amending the budget

The budget, as adopted, constitutes the legal authority for expenditures. Budgets are reported according to Generally Accepted Accounting Principles (GAAP). The City's budget is adopted at the fund level, so that expenditures may not legally exceed appropriations at that level of detail. Transfers or revisions within funds are allowed, but the legislative authority following a hearing must approve supplemental or additional appropriations. The City's budget was amended once during the fiscal year. The accompanying supplementary information presents both the original and amended budgetary information as approved. All appropriations, except for capital projects, lapse at year-end. Unexpended resources must be re-appropriated in the subsequent period.

Original budgeted inflows as compared to the final budgeted inflows for the year ended December 31, 2007, are as follows:

| Fund | Original Budgeted Inflows | Final Budgeted Inflows | Increase (Decrease) Budgeted Inflows |
|-------------------------------------|---------------------------------|------------------------------|--|
| General Fund | \$ 26,269,285 | \$ 27,000,381 | \$ 731,096 |
| City Street Fund | 2,191,860 | 2,321,595 | 129,735 |
| Arterial Fund | 12,175,060 | 12,175,060 | - |
| Lodging Fund | 286,530 | 286,530 | - |
| Community Development Block Fund | - | - | - |
| G.O. Bond Redemption | 808,660 | 1,131,090 | 322,430 |
| L.I.D. Redemption | 1,615,250 | 1,625,250 | 10,000 |
| Building Fund | 3,335,060 | 3,335,060 | - |
| Capital Expenditure | 1,525,673 | 1,778,623 | 252,950 |
| Parks & Open Space | 1,586,135 | 9,586,135 | 8,000,000 |
| Equipment Rental | 1,592,293 | 1,592,293 | - |
| Information Services | 993,944 | 993,944 | - |
| Water | 16,448,698 | 16,889,698 | 441,000 |
| Wastewater | 9,786,740 | 10,335,275 | 548,535 |
| Stormwater | 1,757,655 | 2,027,671 | 270,016 |
| Reclaimed Water | 2,500,000 | 2,500,000 | - |
| Totals | \$ 82,872,843 | \$ 93,578,605 | \$ 10,705,762 |

The original budgeted outflows as compared to the final budgeted outflows for the year ended December 31, 2007 are as follows:

| Fund | Original Budgeted Outflows | Final Budgeted Outflows | Increase (Decrease) Budgeted Outflows |
|-----------------------|----------------------------------|-------------------------------|---|
| General Fund | \$ 27,928,271 | \$ 28,659,367 | \$ 731,096 |
| City Street Fund | 2,191,860 | 2,321,595 | 129,735 |
| Arterial Fund | 12,945,576 | 12,945,576 | - |
| Lodging Fund | 271,954 | 271,954 | - |
| Community Development | | | |

| Fund | Original Budgeted Outflows | Final Budgeted Outflows | Increase (Decrease) Budgeted Outflows |
|----------------------|----------------------------------|-------------------------------|---|
| Block Fund | - | - | - |
| G.O. Bond Redemption | 1,202,125 | 1,524,555 | 322,430 |
| L.I.D. Redemption | 1,615,250 | 1,625,250 | 10,000 |
| Building Fund | 8,034,060 | 8,034,060 | - |
| Capital Expenditure | 3,075,473 | 3,328,423 | 252,950 |
| Parks & Open Space | 15,113,873 | 15,113,873 | - |
| Equipment Rental | 1,620,848 | 1,761,358 | 140,510 |
| Information Services | 1,224,999 | 1,317,799 | 92,800 |
| Water | 21,408,327 | 22,325,369 | 917,042 |
| Wastewater | 21,321,305 | 22,053,419 | 732,114 |
| Stormwater | 4,060,754 | 4,330,860 | 270,106 |
| Reclaimed Water | 2,500,000 | 2,500,000 | - |
| Totals | \$ 124,514,675 | \$ 128,113,458 | \$ 3,598,783 |

Note 3. Detailed notes on all funds

A. Deposits and investments

The City's deposits and certificates of deposit are entirely covered by the federal depository insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (WPDPC). The WPDPC is a statutory authority established under Chapter 39.58 of the Revised Code of Washington. The FDIC insures the City's deposits up to \$100,000, and the WPDPC covers amounts over \$100,000.

The City's investments are in compliance with all applicable state investment laws and City investment policies. As required by state law and the City's investment policies, all investments of the City's funds are obligations of the U.S. Government, U.S. agency issues, obligations of the State of Washington, general obligations of Washington State municipalities (the State Treasurer's Local Government Investment Pool (LGIP)), or certificates of deposit with commercial banks and savings and loan associations that are approved by the Washington Public Protection Commission (WPDPC).

The State Treasurer's Local Government Investment Pool (LGIP) operates in accordance with appropriate state laws and regulations (RWC 43.250.020). In its management of LGIP the State Treasurer adheres, at all times, to the principles appropriate for the prudent investment of public funds. In priority order, they are the safety of principal, the assurance of sufficient liquidity to meet cash flow demands and attainment of the highest possible yield within the constraints of the first two goals. Historically, the LGIP has had sufficient liquidity to meet all cash flow demands. The interest rate risks of participants' balances in the LGIP are limited as the weighted average maturity of the portfolio will not exceed 90 days. Per GASB 40 guidelines the balances are also not subject to custodial credit risk. The credit risk of the LGIP is limited as most investments are either obligations of the US government, government sponsored enterprises, or insured demand deposit accounts and certificates of deposit. Investments or deposits held by the LGIP are either insured or held by a third-party custody provider in the LGIP's name. The reported value of the pool is the same as the fair value of the pool shares. Investments are shown on the government-wide statement of net assets at fair value.

As of December 31, 2007, the City had the following investments:

| Investment Type | Fair Value | Average Weighted Maturity (Days) |
|--|---------------|----------------------------------|
| Washington State Local Government Investment Pool (LGIP) | \$ 40,960,000 | 46 days |

Custodial credit risk- investments. This is the risk that, in event of a failure of the counterparty to an investment transaction, the City would not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. It is the City's policy that if the City enters into a repurchase agreement, the City must have a signed master repurchase agreement approved by the Public Securities Association. Transactions will be conducted with primary dealers or financial institutions qualified by the Washington Public Deposit Protection Commission. As stated beginning of this section, the City's deposits and certificates of deposits are covered by federal depository insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission.

Interest rate risk. In accordance with its investment policy, the City manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to less than 24 months.

Credit risk. As required by state law, it is the City's policy to limit its investments in debt securities to the obligations of U.S. Government, U.S. agency issues, obligations of the State of Washington, general obligations of Washington State municipalities (the State Treasurer's Local Government Investment Pool (LGIP)). The policy of the LGIP is to invest in securities and instruments that are rated A-1 by Standard and Poor's Corporation and P-1 by Moody's Investors Services, Inc.

Amounts reported in the fund statements for the year ended December 31, 2007 are as follows:

Governmental Funds

| | |
|--------------------------------------|----------------------|
| Cash and cash equivalents | \$ 59,109,678 |
| Restricted cash and cash equivalents | 191,801 |
| Total governmental funds | <u>\$ 59,301,479</u> |

Proprietary Funds

| | |
|--|----------------------|
| Cash and cash equivalents | \$ 11,948,601 |
| Restricted cash and cash equivalents (deposits) | 128,050 |
| Restricted cash and cash equivalents (capital acquisition) | 16,802,669 |
| Total proprietary funds | <u>\$ 28,879,320</u> |

Fiduciary Funds

| | |
|---------------------------|-----------------------------|
| Cash and cash equivalents | \$ 2,474,773 |
| Total fiduciary funds | <u>\$ 2,474,773</u> |
| Total all funds | <u><u>\$ 90,655,572</u></u> |

Cash, deposits, and investments for the year ended December 31, 2007 are as follows:

| | | |
|------------------------------|--------|------------------------------|
| Cash on hand | \$ | 15,800 |
| Checking accounts | | 2,304,528 |
| Money market accounts | | 44,813,184 |
| Certificates of deposits | | 2,562,060 |
| State Investment Pool (LGIP) | | <u>40,960,000</u> |
| Total | \$ | <u><u>90,655,572</u></u> |

B. Receivables

At the end of the current fiscal year, the City's arterial street fund reports \$6,174,414 in due from other governmental units. A \$5,474,772 of that balance is in connection with grants that have met all eligibility requirements, therefore earned, but were not yet available to liquidate liabilities of the current period.

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

| | <u>Unavailable</u> | <u>Unearned</u> |
|--|--------------------------|-------------------------|
| Delinquent property taxes receivable (general fund) | \$ 190,297 | \$ - |
| Grants met all eligibility requirements not yet collected (general fund) | 5,909 | - |
| Grants met all eligibility requirements not yet collected (arterial street fund) | 5,474,772 | - |
| Mitigation fees collected but earnings process not yet complete (arterial street fund) | - | 3,568,499 |
| Special assessments not yet due (community block grant) | 345,776 | - |
| Delinquent property taxes receivable (debt service fund) | 24,876 | - |
| Special assessments not yet due (debt service fund) | <u>6,043,281</u> | <u>-</u> |
| Total deferred/unearned revenue for governmental funds | <u>\$ 12,084,911</u> | <u>\$ 3,568,499</u> |

C. Property taxes

The county treasurer acts as an agent to collect property taxes levied in the county for all taxing authorities.

Taxes are levied annually on January 1 on property values listed as of the prior May 31. Assessed values are established by the county assessor at 100 percent of fair market value. A revaluation of all property is required every four years.

Taxes are due in two equal installments on April 30 and October 31. Tax liens are automatic at the point the taxes are levied. No allowance for uncollectible taxes is established because delinquent taxes are considered fully collectible. The county treasurer remits collections monthly to the appropriate district.

The City is permitted by law to levy up to \$3.60 minus library rate of \$.50 per \$1,000 of assessed valuation for general governmental services. This amount may be reduced for any of the following three reasons:

1. The Levy Limit: The levy limit calculation applies to a taxing district's budget, and not to increases

in the assessed value or tax bill of individual properties. Initiative 747 restricts individual taxing districts from collecting, in any year, more than one percent increase in their regular, non-voted, levy over the highest levy amount since 1985. New construction, annexations, and excess levies approved by the voters are not included in the levy limit calculation. If the assessed valuation increases by more than one percent due to revaluation, the levy rate will be decreased.

2. The One Percent Constitutional Limit: The Washington State Constitution limits the regular (non-voted) combined property tax rate applied to an individual's property to one percent (\$10 per \$1,000) of the market valuation. Voters may vote special levies that are added to this figure. If the taxes of all districts exceed this amount, each is proportionately reduced until the total is at or below the one-percent limit.

3. The City may voluntarily levy taxes below the legal limit.

Special levies approved by the voters are not subject to the above limitations. The City's regular levy for 2007 was slightly over \$2.14 per \$1,000 on an assessed valuation of \$3,530,872,203 for a total regular levy of \$7,554,484. Additionally, special levies for G.O. bond obligations totaled \$1,002,835.

D. Capital assets

Capital asset activity for the year ended December 31, 2007 was as follows:

| Governmental Activities | Beginning Balance 01/01/2007 | Increases | Decreases | Ending Balance 12/31/2007 |
|---|------------------------------------|---------------|--------------|---------------------------------|
| Non-depreciable Capital Assts | | | | |
| Land and improvements | \$ 107,954,777 | \$ 4,780,813 | \$ 56,697 | \$ 112,678,893 |
| Construction in progress | 2,682,074 | 13,024,195 | 3,530,163 | 12,176,106 |
| Total non-depreciable assets | 110,636,851 | 17,805,008 | 3,586,860 | 124,854,999 |
| Depreciable Capital Assets: | | | | |
| Buildings | 16,103,124 | 113,792 | - | 16,216,916 |
| Improvements | 6,416,869 | 3,643,240 | - | 10,060,109 |
| Infrastructure | 229,779,399 | 8,204,134 | 399,134 | 237,584,399 |
| Machinery & equipment | 7,742,761 | 1,593,130 | 433,554 | 8,902,337 |
| Total depreciable assets at cost | 260,042,153 | 13,554,296 | 832,688 | 272,763,761 |
| Less accumulated depreciation: | | | | |
| Buildings | 6,256,571 | 461,569 | - | 6,718,140 |
| Improvements | 653,039 | 379,778 | - | 1,032,817 |
| Infrastructure | 89,044,765 | 8,892,264 | 399,134 | 97,537,895 |
| Machinery & equipment | 4,619,988 | 858,679 | 389,547 | 5,089,120 |
| Total accumulated depreciation | 100,574,363 | 10,592,290 | 788,681 | 110,377,972 |
| Total Depreciable assets, net | 159,467,790 | 2,962,006 | 44,007 | 162,385,789 |
| Governmental activities capital assets, net | \$ 270,104,641 | \$ 20,767,014 | \$ 3,630,867 | \$ 287,240,788 |

| Business-type activities | Beginning Balance 1/1/2007 | Increase | Decrease | Ending Balance 12/31/2007 |
|--|----------------------------------|---------------|------------|---------------------------------|
| Non-depreciable Capital Assets | | | | |
| Land and improvements | \$ 4,422,184 | \$ 337,682 | \$ - | \$ 4,759,866 |
| Construction in process | 2,288,026 | 12,087,672 | 211,912 | 14,163,786 |
| Total non-depreciable assets | 6,710,210 | 12,425,354 | 211,912 | 18,923,652 |
| Depreciable Capital Assets: | | | | |
| Buildings | 1,520,813 | - | - | 1,520,813 |
| Improvements | 176,079,311 | 19,370,506 | 849,305 | 194,600,512 |
| Machinery & equipment | 2,416,821 | 84,049 | 92,306 | 2,408,564 |
| Total depreciable assets at cost | 180,016,945 | 19,454,555 | 941,611 | 198,529,889 |
| Less accumulated depreciation: | | | | |
| Buildings | 182,634 | 37,075 | - | 219,709 |
| Improvements | 28,452,336 | 4,841,212 | 849,305 | 32,444,243 |
| Machinery & equipment | 2,128,129 | 107,476 | 92,306 | 2,143,299 |
| Total accumulated depreciation | 30,763,099 | 4,985,763 | 941,611 | 34,807,251 |
| Total depreciable assets, net | 149,253,846 | 14,468,792 | - | 163,722,638 |
| Business-type activities capital assets, net | \$ 155,964,056 | \$ 26,894,146 | \$ 211,912 | \$ 182,646,290 |

Depreciation expenses were charged to functions/programs of the primary government as follows:

| Governmental activities | Amount |
|---|----------------------|
| General Government | \$ 134,581 |
| Security of persons and property | 135,246 |
| Physical environment | |
| Transportation | 8,907,273 |
| Economic environment | 84,177 |
| Culture and recreation | 539,160 |
| Internal services funds | 791,853 |
| Total governmental-type activities depreciation expense | <u>\$ 10,592,290</u> |
| Business-type activities | Amount |
| Water | \$ 2,509,693 |
| Wastewater | 1,438,000 |
| Stormwater | 1,038,070 |
| Total business-type activities depreciation expense | <u>\$ 4,985,763</u> |

Construction in progress included in proprietary fund balance sheets represents expenditures to date on projects for which authorizations total \$17,470,800. Of the committed balance of \$3,307,013 the proprietary funds will not require future financing.

E. Interfund receivables, payables, and transfers

Interfund transactions are classified as follows:

1. Due to/from other funds result from goods issued, work performed, or services rendered to or for the benefit of another fund of the same government when cash is not immediately moved between the funds.
2. Transfers in/out include transfers to support the operations of other funds, contributions to the capital of enterprise or internal service funds, transfers of capital assets between proprietary and governmental funds, transfers to establish or reduce working capital in other funds, and transfers of remaining balances when funds are closed. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the Government-wide financial statements.
3. Loans/advances - Loans between funds are classified as interfund loans receivable and payable or as advances to and from other funds in the fund statements. Loans/advances between funds must be authorized by the City Council.

The composition of interfund balances as of December 31, 2007, is as follows:

Loans/advances from/to other funds:

| Receivable Fund | Payable Fund | Amount |
|-----------------|--------------|--------------|
| Wastewater Fund | Water Fund | \$ 4,000,000 |

The outstanding balances between funds relate to working capital loans for capital acquisition purposes. The amount loaned shall be repaid from funds becoming available to the Water Capital Fund together with interest at a rate equal to that earned on the City's investment in the Local Government Investment Pool of the State Treasurer. None of the balance is scheduled to be collected in the subsequent year.

Interfund transfers:

| Fund | Purpose | Amounts Transferred Out | Amounts Transferred In |
|---|---|-------------------------|------------------------|
| Governmental Funds <u>General Fund</u> | Non-routine transfers out: \$850,000 to Arterial Street Fund for street improvements; \$1,000,000 to Building Improvement Fund for city hall expansion project; and \$1,000,000 to Reclaimed Water Fund for operating and capital projects. | \$ 2,850,000 | |
| | Routine transfer in from Parks and Open Space Fund for maintenance of Rainier Vista Park. | | \$ 324,151 |
| <u>Arterial Street Fund</u> | Non-routine transfers: \$850,000 from General Fund and \$150,000 from Capital Expenditure Fund for street improvements. | | \$ 1,000,000 |
| <u>Parks and Open Space Fund</u> | Routine transfers out: \$324,151 to General Fund for maintenance of Rainier Vista | \$ 824,151 | |

| Fund | Purpose | Amounts Transferred Out | Amounts Transferred In |
|-------------------------------------|--|-------------------------|------------------------|
| | Park; and non-routine transfer out \$500,000 to Reclaimed Water Fund for capital projects. | | |
| <u>Non-major Governmental Funds</u> | Non-routine transfer of \$1,450,000 from Capital Expenditure Fund: \$1,300,000 to Building Improvement Fund for city hall expansion and \$150,000 to Arterial Street Fund for street improvements. | \$ 1,450,000 | |
| | Non-routine transfers of \$2,300,000 to Building Improvement Fund: \$1,000,000 from General Fund and \$1,300,000 from Capital Improvement Fund for city hall expansion project. | | \$ 2,300,000 |
| Total Governmental Funds | | \$ 5,124,151 | \$ 3,624,151 |
| Proprietary Funds | | | |
| Internal Service Fund | Non-routine transfers of \$129,577 to Equipment Rental Fund and \$34,331 to Information Services Fund for capital assets acquisition: \$66,601 from Water Fund, \$45,238 Wastewater Fund; and \$52,068 from Stormwater Fund. | | \$ 163,908 |
| Enterprise Funds Water Fund | Routine transfer to Equipment Rental Fund \$41,879 and to Internal Service fund \$24,723 for capital asset acquisitions. | \$ 66,602 | |
| | Non-routine transfer from Wastewater Fund for capital expenses. | | \$ 128,000 |
| Wastewater Fund | Non-routine transfers for capital acquisitions: \$1,000,000 to Reclaimed Water Fund, \$128,000 to Water Fund, and routine transfer of \$37,765 to Equipment Rental Fund, and \$7,473 to Information Services Fund. | \$ 1,173,238 | |
| Stormwater Fund | Routine transfers to Equipment Rental Fund \$49,933 and to Information Services Fund \$2,135 for capital assets. | \$ 52,068 | |
| Reclaimed Water Fund | Non-routine transfers: \$1,000,000 from General Fund, \$500,000 from Parks and Open Space Fund, and \$1,000,000 from Wastewater Fund for operating and capital purposes. | | \$ 2,500,000 |
| Total Proprietary Funds | | \$ 1,291,908 | \$ 2,791,908 |
| Total | | \$ 6,416,059 | \$ 6,416,059 |

F. Restricted assets

The balances of the restricted assets accounts as of December 31, 2007 were as follows:

| | Governmental Funds | Enterprise Fund |
|---------------------------------------|--------------------|----------------------|
| Customer deposits | \$ 191,801 | \$ 128,050 |
| Capital acquisitions and replacements | - | 16,802,669 |
| Total | <u>\$ 191,801</u> | <u>\$ 16,930,719</u> |

G. Short-term debt

On July 31, 2007, the City entered into a contractual agreement to advance funds in the amount of \$790,417 for the construction of the City's Gateway Town Center project utility installation. The advance is to be reimbursed through arterial street fund from the first proceeds of the state Jobs Development Grant received by the City, which is expected to be paid in year 2008.

| Name of issuance | Purpose | Issue date | Maturity date | Interest rates | Debt outstanding |
|--------------------------------------|-------------------------|------------|---------------|----------------|------------------|
| Gateway project utility installation | Governmental activities | 7/31/07 | - | - | \$ 790,417 |

H. Leases

Capital Leases

The City has entered into a lease agreement as lessee for financing the acquisition of computer equipment for its information services fund. The lease agreement qualifies as capital lease for accounting purposes and, therefore, has been recorded at the present value of their future minimum lease payments as of the inception date.

The assets acquired through capital lease are as follows:

| | |
|--------------------------------|-------------------------|
| Asset: | Governmental Activities |
| Machinery and equipment | \$ 159,082 |
| Less: Accumulated depreciation | <u>(59,656)</u> |
| Total | <u>\$ 99,426</u> |

The future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2007, were as follows:

| <u>Year Ending December 31</u> | Governmental Activities |
|---|-------------------------|
| 2008 | \$ 51,656 |
| 2009 | 51,656 |
| Total minimum lease payments | <u>103,312</u> |
| Less: amount representing interest | <u>(3,847)</u> |
| Present value of minimum lease payments | <u>\$ 99,465</u> |

I. Long-term liabilities

The City's long-term liabilities are segregated between the amounts to be repaid from governmental activities and amounts to be repaid from business-type activities. For the governmental funds, long-term liabilities other than debt (i.e. compensated absences) are generally liquidated by the general fund.

Governmental Activities:

As of December 31, 2007, the long-term liabilities of the City's governmental activity consisted of the following:

| | |
|--|--------------|
| 2002 Unlimited Tax General Obligation Bonds original issue amount of \$5,990,000; dated February 2002; interest rate of 3.0% to 5.0% with final maturity dated December 2021. <i>Issued to provide for fire safety improvements. Payments are funded by special property tax levies. Interest rates are; 3.625% in 2008; 3.875% in 2009; 4.0% in 2010; 4.125% in 2011 & 2012; 4.375% in 2013 & 2014; 4.55% in 2015; 4.625% in 2016; 4.75% in 2017 & 2018; 4.875% in 2019; and 5.0% in 2020 & 2021.</i> | \$ 4,725,000 |
| 2003 Unlimited Tax General Obligation Bonds original issue amount of \$5,000,000; dated July 2003; interest rate of 2.50-4.00% with final maturity date of December 2023. <i>Purpose was to provide funds for parks improvements. Payments are funded by special property tax levies. interest rates are 2.5% in 2003-2009; 2.7% in 2010; 2.9% in 2011; 3% in 2012; 3.1% in 2013; 3.2% in 2014; 3.4% in 2015; 3.5% in 2016; 3.65% in 2017; 3.75% in 2018; 3.875% in 2019; 3.9% in 2020; 4% in 2021-2023.</i> | \$ 4,165,000 |
| 2006 Limited Tax General Obligation Bonds issued amount of \$3,500,000 dated November 30, 2006; interest rate of 4% with final maturity date of December 1, 2021. <i>Issued to provide funds to construct an addition to City Hall. Payments are funded by tax levies and transfers in from other funds.</i> | \$ 3,500,000 |
| 2006 Unlimited Tax General Obligation Bonds issue amount of \$4,985,000; dated November 30, 2006; interest rate of 4% with final maturity date of December 1, 2026. <i>Issued to provide funds to make improvements to multiple park locations within the City, including improvements to athletic fields, swimming beaches, and picnic facilities. Payments are funded by special property tax levies.</i> | \$ 4,985,000 |
| 2007 Limited Tax General Obligation Bonds issue amount of \$8,000,000; dated December 20, 2007; interest rate of 3.75-5.00% with final maturity date of December 1, 2017. <i>Issued to provide funds for the Phase 2 of the Regional Athletic Complex construction. Payments are funded by special property taxes together with the sales and use tax levied by the Capital Area Regional Public Facilities, pursuant to RCW 82.14.390. Interest rates are: 4.00% in 2008-2015, 5.00% in 2006 & 2017, 3.75-3.90% in 2018-2021, and 4.00% in 2022-2027.</i> | \$ 8,000,000 |
| Special Assessment Bonds original issue amount of \$6,565,198; dated August 2001; interest rate of 4.00-6.00% with final maturity date October 2016. <i>Purpose was to fund Street/Utility Improvements. Payments funded from the Arterial Street Fund and LID#19. Interest rates are: 5.85-5.95% in 2008; 5.95% in 2009-2012; 6.00% in 2013-2016</i> | \$ 1,405,000 |

| | |
|---|----------------------|
| Washington State Public Works Trust Fund Loan original draw down amount of \$620,006; dated April 1998; (the final draw down of \$2,948,110 was made in 2001), interest rate 3.00% with final maturity date July 2018. Purpose was to fund Street/Utility Improvements. Payments funded from the Arterial Street Fund and LID #19. | \$ 2,160,572 |
| 1997 Animal Services Revenue Bonds original issue amount of \$1,800,000; dated September 1997; original interest rate of 6%; refinanced at interest rate 3.978% in September 2003 with final maturity dated April 2019. In December 2005, the principal balance was reduced and the monthly payment was adjusted to \$1,955.60. The payment amount will remain the same until the interest rate is re-priced August 1, 2008, at which time the payment will be adjusted in accordance with the original amortization. Issued to provide funds for the acquisition, remodeling, and equipping of the animal service facility. Payments funded by an interlocal agreement from the City of Olympia. | \$ 212,509 |
| Total bonded debt | \$ 29,153,081 |
| Compensated absences – Compensated absences are considered long-term liability. Payments are generally liquidated by the general fund | 695,339 |
| Total for governmental activities without internal service fund liability. | \$ 29,848,420 |
| Internal service fund long-term liability (compensated absences) | 35,458 |
| Capital lease obligations (funded by internal services fund) | 99,465 |
| Total governmental activities long-term liabilities. | \$ 29,983,343 |

Special assessments bonds are not a direct responsibility of the City. The government is obligated for special assessment debt to the extent that it is required to establish a guaranty fund. At the end of 2007, the guaranty fund is maintained at approximately 46.26 percent of the total outstanding bonds under the fund balance of the general fund, street fund, and arterial street fund. The purpose is to guarantee payments of the special assessment bonds in the event there are insufficient funds in the Local Improvement Fund. As of December 31, 2007, the amount of delinquent special assessment receivables was \$146,186.

Business-type activities:

As of December 31, 2007, the long-term liabilities payable from enterprise fund resources consisted of the following:

| | |
|--|-------------------|
| Compensated absences - compensated absences are considered long-term liability | \$ 139,186 |
| Total business-type long-term liabilities | \$ 139,186 |

Changes in long-term liabilities

The following is a summary of changes in long-term liabilities for the year ended December 31, 2007:

| Type of Debt | Balance Owed 01/01/2007 | Additions | Deductions | Balance Owed 12/31/2007 | Amount Due Within One Year |
|---------------------------------|-------------------------|--------------|------------|-------------------------|----------------------------|
| Governmental Activities: | | | | | |
| G.O. bonds | \$ 18,190,000 | \$ 8,000,000 | \$ 815,000 | \$ 25,375,000 | \$ 1,055,000 |
| Revenue bonds (Animal Services) | 227,206 | - | 14,697 | 212,509 | 15,271 |
| Special assessment | | | | | |

| Type of Debt | Balance Owed 01/01/2007 | Additions | Deductions | Balance Owed 12/31/2007 | Amount Due Within One Year |
|---------------------------------------|-------------------------|---------------------|---------------------|-------------------------|----------------------------|
| bonds | 2,610,000 | - | 1,205,000 | 1,405,000 | 740,000 |
| PWT loan | 2,356,988 | - | 196,416 | 2,160,572 | 196,416 |
| Capital lease obligations | - | 159,082 | 59,617 | 99,465 | 48,825 |
| Compensated absences | 653,477 | 928,444 | 851,124 | 730,797 | 328,420 |
| Total governmental activities | \$ 24,037,671 | \$ 9,087,526 | \$ 3,141,854 | \$ 29,983,343 | \$ 2,383,932 |
| Business-type Activities: | | | | | |
| Revenue bonds | \$ 330,000 | \$ - | \$ 330,000 | \$ - | \$ - |
| Compensated absences | 113,176 | 188,052 | 162,042 | 139,186 | 64,281 |
| Total Business-type Activities | \$ 443,176 | \$ 188,052 | \$ 492,042 | \$ 139,186 | \$ 64,281 |
| Totals | \$ 24,480,847 | \$ 9,275,578 | \$ 3,633,896 | \$ 30,122,529 | \$ 2,448,213 |

Annual debt service requirements:

Water and sewer revenue bond covenants require that revenue available for debt service (defined as operating revenues less operating expenses requiring payment to outside entities) exceed the annual debt payment of both principal and interest by a ratio of 1.20 times the maximum annual debt service. The City is in compliance with all significant limitations and restrictions. The City's water and sewer revenue bonds were redeemed in full during 2007, and there is no outstanding balance at the end of the fiscal year 2007.

The annual debt service requirements to maturity, including principal and interest, for long-term debt as of December 31, 2007, are as follows (refer to pages 7-9 to 7-16 of this report for additional annual debt service requirements on individual debt issues):

| Year Ending December 31 | Governmental Activities | | Business -type Activities | |
|-------------------------|-------------------------|----------------------|---------------------------|-------------|
| | Principal | Interest | Principal | Interest |
| 2008 | 2,006,687 | 1,160,598 | - | - |
| 2009 | 1,382,326 | 1,089,221 | - | - |
| 2010 | 1,422,971 | 1,038,107 | - | - |
| 2011 | 1,473,642 | 983,704 | - | - |
| 2012 | 1,519,339 | 928,558 | - | - |
| 2013-2017 | 8,623,195 | 3,675,656 | - | - |
| 2018-2022 | 8,269,921 | 1,862,550 | - | - |
| 2023-2027 | 4,455,000 | 491,600 | - | - |
| Total | \$ 29,153,081 | \$ 11,229,994 | \$ - | \$ - |

Variable-rate debt used was the effective interest rate as of December 31, 2007.

Refunded debt:

In 2002 the City of Lacey had a partial defeasance of the 1998 Water and Sewer Utility Revenue Refunding Bonds. The refunding resulted from the sale of a lift station, originally purchased with bond proceeds, to LOTT Wastewater Alliance. U.S. Bank holds proceeds from the sale in trust. The investments and earnings from the investments on partial defeased debt are sufficient to fully service the partial defeased debt until the debt is called or matures. For financial reporting purposes,

the debt has been considered defeased and therefore removed as a liability from the City financial statements. All defeased debt was paid in full during 2007.

Bond discounts and premiums:

The Water and Wastewater funds had deferred bond discounts of \$4,066 at the beginning of 2007, which was amortized fully during 2007 upon redemption of the debt.

In 2006 and 2007, the City of Lacey issued general obligation bonds at premium. These bond premiums and the related issuance costs are deferred and are amortized under the straight-line method over the life of the bonds (15-20 years). The deferred amounts are disclosed in the statement of net assets.

Arbitrage:

All bond issues comply with arbitrage regulations at the end of 2007.

J. Fund Equity

As of December 31, 2007, the City's governmental funds reports the following reserved and designated fund balances:

| <i>Purpose</i> | <i>Fund Reserved</i> | <i>Amount</i> |
|------------------------|----------------------|---------------------|
| Culture and recreation | Lodging Tax Fund | \$ 802,195 |
| LID guarantee | General Fund | 100,000 |
| LID guarantee | Arterial Street Fund | 50,000 |
| LID guarantee | Street Fund | 500,000 |
| Vessel registration | General Fund | 22,124 |
| Prepaid items | General Fund | 14,441 |
| Total | | \$ 1,488,760 |

| <i>Purpose</i> | <i>Fund Designated</i> | <i>Amount</i> |
|---|---------------------------|----------------------|
| Budget adjustments | General Fund | \$ 575,000 |
| Criminal bail | General Fund | 53,506 |
| Furniture and equipment | General Fund | 217,500 |
| Property acquisition | General Fund | 1,000,000 |
| Insurance | General Fund | 200,000 |
| Parks maintenance | General Fund | 139,944 |
| Community center | General Fund | 51,125 |
| Gateway project | General Fund | 5,200,000 |
| Senior center addition | General Fund | 1,000,000 |
| Public Facility District - Sports complex | Parks and Open Space Fund | 12,945,435 |
| Street improvements | Street Fund | 435,000 |
| City hall expansion | Building Improvement Fund | 7,150,904 |
| Facilities improvements | Capital Expenditure Fund | 3,046,500 |
| Total | | \$ 32,014,914 |

Note 4. Other Information**A. Employee retirement systems and-pension plans**

Substantially all City's full-time and qualifying part-time employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit and defined contribution retirement plans. The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to: Department of Retirement Systems, Communications Unit, and P.O. Box 48380, Olympia, WA 98504-8380. The following disclosures are made pursuant to GASB Statement No. 27, *Accounting for Pensions by State and Local Government Employers*.

Public Employees Retirement System (PERS) plans 1, 2 and 3Plan description

PERS is a cost-sharing multiple-employer retirement system comprised of three separate plans for membership purposes: Plans 1 and 2 are defined benefit plans, and Plan 3 is a combination of defined benefit/defined contribution plan. Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior courts (other than judges in a judicial retirement system); employees of legislative committees; community and technical colleges, college and university employees (not in national higher education retirement programs); judges of district and municipal courts; and employees of local governments. PERS participants who joined the system by September 30, 1977, are Plan 1 members. Those joined on or after October 1, 1977 and by either, February 28, 2002 for state and higher education employees, or August 31, 2002 for local government employees, are Plan 2 members unless they exercise an option to transfer their membership to Plan 3. PERS participants joining the system on or after March 1, 2002 for state and higher education employees, or September 1, 2002 for local government employees have the option of choosing membership in either PERS Plan 2 or PERS Plan 3. The option must be exercised within 90 days of employment. An employee is reported in Plan 2 until a choice is made. Employees who fail to choose within 90 days default to PERS Plan 3. PERS defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions. PERS retirement benefit provisions are established in state statute and may be amended only by the State Legislature.

Plan 1 members are vested after the completion of five years of eligible service. Plan 1 members are eligible for retirement at any age after 30 years of service, at the age of 60 with five years of service, or at the age of 55 with 25 years of service. The annual pension is 2 percent of the average final compensation per year of service, capped at 60 percent. The average final compensation is based on the greatest compensation during any 24 eligible consecutive compensation months. If qualified, after reaching age 66, a cost-of-living allowance is granted based on years of service credit and is capped at 3 percent annually.

Plan 2 members are vested after the completion of five years of eligible service. Plan 2 members may retire at the age of 65 with five years of service, or at 55 with 20 years of service, with an allowance of 2 percent of the average final compensation per year of service. The average final compensation is based on the greatest compensation during any eligible consecutive 60-month period. Plan 2 retirements prior to age 65 receive reduced benefits. If retirement is at age 55 or older with at least 30 years of service, a 3 percent per year reduction applies; otherwise an actuarial reduction will apply. There is no cap on years of service credit; and a cost-of-living allowance is granted (indexed to the Seattle Consumer Price Index), capped at 3 percent annually.

Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component,

and member contributions finance a defined contribution component. The defined benefit portion provides a benefit calculation at 1 percent of the average final compensation per year of service. The average final compensation is based on the greatest compensation during any eligible consecutive 60-month period. Effective June 7, 2006, Plan 3 members are vested in the defined benefit portion of their plan after ten years of services, or after five years if twelve months of that service are earned after age 44; or after five service credit years earned in PERS Plan 2 prior to June 1, 2003. Plan 3 members are immediately vested in the defined contribution portion of their plan. Vested Plan 3 members are eligible to retire with full benefits at age 65, or at age 55 with 10 years of service. Retirements prior to the age of 65 receive reduced benefits. If retirement is at age 55 or older with at least 30 years of service, a 3 percent per year reduction applied; otherwise an actuarial reduction will apply. The benefit is also actuarially reduced to reflect the choice of a survivor option. There is no cap on years of service credit; and Plan 3 provides the same cost-of-living allowance as Plan 2. The defined contribution portion can be distributed in accordance with an option selected by the member, either as a lump sum or pursuant to other options authorized by the Employee Retirement Benefits Board.

There are 1,188 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation data for the plan as of September 30, 2006:

| Type of Members | Number of Participants |
|--|------------------------|
| Retirees and beneficiaries receiving benefits | 70,201 |
| Terminated plan members entitled to but not yet receiving benefits | 25,610 |
| Active plan members vested | 105,215 |
| Active plan members nonvested | 49,812 |
| Total | 250,838 |

Funding policy

Each biennium the state Pension Funding Council adopts Plan 1 employer contribution rates, Plan 2 employer and employee contribution rates, and Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statute at 6 percent and do not vary from year to year. The employer and employee rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. All employers are required to contribute at the level established by the Legislature. PERS 3 defined contribution is a non-contributing plan for employers. Employees who participate in the defined contribution portion of PERS 3 do not contribute to the defined benefit portion of PERS Plan 3. The Employee Retirement Benefits Board sets Plan 3 employee contribution rates. Six rate options are available ranging from 5 to 15 percent; two of the options are graduated rates dependent on the employee's age. The methods used to determine the contribution requirements are established under state statute in accordance with Chapters 41.40 and 41.45 RCW.

The required contributions rates expressed as a percentage of current-year covered payroll, as of December 31, 2007 were as follows:

| Contributor | PERS Plan 1 | PERS Plan 2 | PERS Plan 3 |
|-------------|-------------|-------------|-------------|
| Employer* | 6.13% | 6.13% | 6.13%** |
| Employee | 6.00% | 4.15% | *** |

*The employer rates include the employer administrative expense fee currently set at 0.16%.

**Plan 3 defined benefit portion only.

*** Variable from 5.0% minimum to 15.0% maximum based on rate selected by the PERS 3 member.

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

| Year | PERS Plan 1 | PERS Plan 2 | PERS Plan 3 |
|------|-------------|-------------|-------------|
| 2007 | \$ 52,680 | \$ 506,195 | \$ 95,662 |
| 2006 | \$ 28,292 | \$ 245,050 | \$ 43,159 |
| 2005 | \$ 19,224 | \$ 135,219 | \$ 24,305 |

Law Enforcement Officers' and Fire Fighters' retirement system (LEOFF) plans 1 and 2

Plan description

LEOFF is a cost-sharing multiple-employer retirement system comprised of two defined benefit plans. Membership in the system includes all full-time, fully compensated; local law enforcement officers and firefighters. LEOFF is comprised primarily of non-state employees. LEOFF participants who joined the system by September 30, 1977 are Plan 1 members. Those who joined on or after October 1, 1977 are Plan 2 members. Effective January 1, 2003 firefighter emergency medical technicians (EMT's) may transfer PERS Plan 1 or Plan 2 service credit to LEOFF Plan 2 if while employed for the city, town, county, or district the EMT's job was relocated to a fire department from another city, town, county or district. LEOFF defined benefits are financed from a combination of investment earnings, employer and employee contributions, and a special funding situation in which the state pays the remainder through state legislative appropriations. LEOFF retirement benefit provisions are established in state statute and may be amended only by the State Legislature.

Plan 1 retirement benefits are vested after an employee completes five years of eligible service. Plan 1 members are eligible for retirement with five years of service at the age of 50. The benefit per year of service calculated as a percent of final average salary is as follows:

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

The final average salary is the basic monthly salary received at the time of retirement, provided a member has held the same position or rank for 12 months preceding the date of retirement. Otherwise, it is the average of the highest consecutive 24 months' salary within the last 10 years of service. If membership was established in LEOFF after February 18, 1974, the service retirement benefit is capped at 60 percent of final average salary. A cost-of-living allowance is granted (indexed of the Seattle Consumer Price Index).

Plan 2 members are vested after an employee completes five years of eligible service. Plan 2 members may retire at the age of 50 with 20 years of service, or at age 53 with five years of service, with an allowance of 2 percent of the final average salary per year of service. The final average salary is based on the highest consecutive 60 months. Plan 2 retirements prior to age 53 are reduced 3 percent for each year that the benefit commences prior to age 53. There is no cap on years of service credit and a cost-of-living allowance is granted (indexed to the Seattle Consumer Price Index), capped at 3 percent annually.

There are 383 participating employers in LEOFF. Membership in LEOFF consisted of the following as of the latest actuarial valuation date for the plans of September 30, 2006:

| Type of Members | Number of Participants |
|--|------------------------|
| Retirees and beneficiaries receiving benefits | 8,951 |
| Terminated plan members entitled to but not yet receiving benefits | 602 |
| Active plan members vested | 12,711 |
| Active plan members nonvested | 3,603 |
| Total | 25,867 |

Funding policy

Starting on July 1, 2000 Plan 1 employers and employees will contribute zero percent as long as the plan remains fully funded. Employer and employee contribution rates are developed by the Office of the State Actuary to fully fund the plan. Plan 2 employer and employees are required to pay at the level adopted by the Department of Retirement Systems in accordance with 41.45 RCW. All employers are required to contribute at the level required by state law. The Legislature, by means of a special funding arrangement, appropriated money from the state General Fund to supplement the current service liability and fund the prior service cost of Plan 2 in accordance with the requirements of the Pension Funding Council. However, this special funding situation is not mandated by the state constitution and this funding requirement could be returned to the employers by a change of statute. The methods used to determine the contribution rates are established under state statute in accordance with Chapters 41.26 and 41.45 RCW.

The required contribution rates expressed as a percentage of current year covered payroll, as of December 31, 2007 were as follows:

| Contributor | LEOFF Plan 1 | LEOFF Plan 2 |
|-------------|--------------|--------------|
| Employer* | 0.16% | 5.35%** |
| Employee** | 0.00% | 8.64% |

*The employer rates include the employer administrative expense fee currently set at 0.16%.

**The employer rate for ports and universities is 8.80.

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

| Year | LEOFF Plan 1 | LEOFF Plan 2 |
|------|--------------|--------------|
| 2007 | \$ 154 | \$ 206,899 |
| 2006 | \$ 240 | \$ 161,550 |
| 2005 | \$ 385 | \$ 130,685 |

B. Deferred compensation

The City offers its employees three deferred compensation plans created in accordance with Internal Revenue Code Section 457. The plans with ICMA (International City Manager's Association), USCM (U.S. Conference of Mayors), and Washington State Deferred are available to all eligible employees and permit them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

C. Other postemployment benefits

In addition to the pension benefits described in Note 4-A, the City of Lacey provides certain post employment health care benefits in accordance with the Washington Law Enforcement Officers and

Fire Fighters Retirement System (LEOFF) Act (RCW 41.26) for retired full-time and fully compensated law enforcement officers who established membership in the LEOFF 1 retirement system on or before September 30, 1977. The City's Human Resources department, in conjunction with the City Disability Board, administers the plan.

In 2007 the City provided health coverage for LEOFF I retirees through a health benefit plan purchased through the Association of Washington Cities (AWC). Upon reaching age 65, the retirees are enrolled in Medicare Part B Coverage, with the City reimbursing these Medicare premiums. In addition, the City pays or reimburses eligible retired LEOFF 1 police officers for reasonable medical expenses, including vision and hearing as described in the LEOFF Act, in excess of those covered by the applicable insurance plan. The City also purchases a long-term care insurance plan for eligible LEOFF I members. Dental and dependents are not covered. A total of fourteen (14) retirees received benefits under this act in 2007. As of December 31, 2007, there is one (1) additional officer who may become eligible for these benefits.

These medical benefits are funded on a pay-as-you-go basis through the general fund. The City does not have a funding policy at this time and no assets are designated for this purpose. The City expended \$180,212 for post employment benefits during 2007.

| | |
|---|-------------------|
| AWC medical premiums | \$ 159,536 |
| Reimbursement of other eligible costs | 14,233 |
| Long-term care insurance premiums | 6,443 |
| Total post employment benefits other than pension | <u>\$ 180,212</u> |

D. Contingencies

Litigation

The City reports in its financial statements all material liabilities, including an estimate for situations which are not yet resolved but where, based on available information, management believes it is probable that the City will have to make payment. In the opinion of management, the City's insurance policies and/or self-insurance reserves are adequate to pay all known or pending claims.

Contingencies under grant provisions

The City participates in a number of federal and state assisted programs. These grants are subject to audit by the grantors of their representatives. Such audits could result in requests for reimbursement to grantor agencies for expenditures disallowed under the terms of the grants. The City's management believes that such disallowances, if any, will be immaterial.

Bond indentures

The City is in compliance with all significant bond indenture and restrictions.

Construction Commitments

At year end, the City's major construction commitments include:

- I-5 access study (Carpenter Road)
- Miscellaneous pedestrian enhancements
- Enhancement of residential street repair, rehabilitation and maintenance
- Lacey Gateway project infrastructure
- Mullen Road East
- Carpenter Road widening – right of way

- 6th Avenue realignment/Sleater-Kinney rehabilitation
- Woodland Trail improvement – phase II
- Complete College Street corridor Study phase II
- College street NE extension
- Transportation improvement comprehensive plan

The 2008 Arterial Street Fund budgeted expenditures are \$18,214,680 which includes the completion of these projects

E. Risk management

The City of Lacey 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 126 members.

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

Liability coverage is written on an occurrence basis, without deductibles. Coverage includes general, automobile, police professional, public officials' errors or omissions, stop gap, and employee benefits liability. Limits are \$3 million per occurrence self insured layer, and \$12 million per occurrence in the re-insured excess layer. The excess layer is insured by the purchase of reinsurance and insurance and is subject to aggregate limits. Total limits are \$15 million per occurrence subject to aggregate sublimits in the excess layers. The Board of Directors determines the limits and terms of coverage annually.

Insurance coverage for property, automobile physical damage, fidelity, inland marine, and boiler and machinery are purchased on a group basis. Various deductibles may apply by type of coverage. Property insurance and auto physical damages are self-funded from the members' deductible to \$500,000, for all perils other than flood and earthquake, and insured above that amount by the purchase of reinsurance.

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

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

An investment committee, using investment brokers, produces additional revenue by investment of WCIA's assets in financial instruments which comply with all State guidelines. These revenues directly offset portions of the membership's annual assessment.

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

Committee and is responsible for conducting the day to day operations of WCIA.

There were no significant changes in insurance coverage from the previous year. The settlements have not exceeded coverage for each of the past three fiscal years.

F. Interlocal agreements and joint ventures

Capital Area Regional Public Facilities District (PFD).

In 2003, the City of Lacey entered into a contract with the Capital Area Regional Public Facilities District (PFD) for the acquisition, development, operation and maintenance of the Lacey Area Athletic, Recreation and Special Events Complex. The PFD imposes a sales and use tax pursuant to RCW 82.14.390 to repay financing obtained to fund the design, construction, acquisition, operation and maintenance of the complex project. The moneys collected as sales taxes shall only be used for the purposes permitted under RCW 82.14.390 and RCW 35.57.020. In 2007, the City of Lacey received \$1,014,566 in sale taxes levied by the PFD and is accounted for within the parks and open space fund.

Interlocal Drug Unit

The Thurston County Narcotics Task Force (Interlocal Drug Unit) was created as a result of an interlocal agreement between Thurston County, the City of Olympia, the City of Lacey, the City of Tumwater, and the Washington State Patrol. Interlocal Drug Unit operates as a joint venture and responsible for controlling illegal drug trafficking in Thurston County, investigating violations of the Uniform Controlled Substance Act, and providing training and assistance to nine local law enforcement agencies in Thurston County. The Interlocal Drug Unit is funded by grants and seizures of drug funds.

Total net assets, as of December 31, 2007 were \$1,103,048. Assets purchased by or forfeited to the drug unit are owned by the participants. All monies and equipment remain with the drug unit until withdrawal of any permanent participant. Disposition of net equity upon dissolution is not specified in the agreement; and therefore, is not recorded in the City of Lacey's financial statements. There is no ongoing financial responsibility.

Completed financial statements can be obtained from the City of Lacey, Post Office Box 3400, Lacey, WA 98509-3400.

Joint Animal Services

Thurston County Joint Animal Services is a joint venture providing services to Lacey, Olympia, Tumwater, and Thurston County. Services include licensing, education, complaint, investigation, and enforcement. A shelter is also operated to hold impounded or lost animals, and/or adoptable animals placed with the shelter. It is governed by the Joint Animal Services Commission comprised of members from the City of Lacey, the City of Olympia, the City of Tumwater, the South Puget Sound Veterinary Medical Association, Thurston County and the Thurston County Humane Society.

An equity interest exists and is based on total contributions to-date by the City of Lacey (15 percent), City of Olympia (22 percent), the City of Tumwater (7 percent), and Thurston County (56 percent). Total Net Assets, as of December 31, 2007 were \$2,863,411. The City of Lacey reports its share of equity interest as investment in joint venture, in the government-wide statement of net assets.

An ongoing financial interest exists for the City of Lacey, the City of Olympia, the City of Tumwater, and Thurston County for loan proceeds borrowed for the purpose of purchasing/constructing the Martin Way animal shelter. The agreement specifies the funding formula that allocates costs based on serviced animal cases and population per jurisdiction in the prior year. The City of Olympia has

responsibility to contribute annual assessments for the remaining loan balance until April 2019. For 2007 the City of Lacey's contribution was \$160,153 and is accounted for within the general fund.

Completed Financial Statements can be obtained from the City of Lacey, Post Office Box 3400, Lacey, WA 98509-3400.

Regional Athletic Complex

The Regional Athletic Complex is a joint venture governed by Thurston County and the City of Lacey. In 1998, Thurston County and the City of Lacey entered an agreement to jointly purchase and own recreational lands, cooperatively development such lands, and jointly share the costs of maintaining the recreational facilities. In September 2005, the complex (phase I) was dedicated and opened for the benefit of the citizens of Thurston County. An ongoing financial interest exists for the City of Lacey and Thurston County for the funding for the second phase of development of the complex. The remaining park improvements for phase II of the complex are scheduled for completion in 2008. Any excess for maintenance, operation and capital expenditures shall be the joint and equal responsibility of Thurston County and the City of Lacey. The County may, in its sole discretion, transfer its share of ownership to the City of Lacey after 2014. The equity interest in this Complex by Thurston County and City of Lacey as of December 31, 2007 was \$3,161,793 (55.56 percent) and \$2,633,282 (45.44 percent), respectively. For 2007 the City's contribution was \$49,814 and is accounted for within the parks and open space fund. Upon completion, this complex will likely incur significant additional operating costs to staff, operate, and maintain. It is anticipated that user fees, excess PFD revenues over debt service needs, and dedicated revenues from the City's hotel/motel tax will substantially address these increased costs.

Additional financial information may be obtained from Thurston County Financial Services, 2000 Lakeridge Drive SW, Olympia, Washington 98502.

The following is condensed financial information on joint ventures for which the City has equity interest as of December 31, 2007:

| Balance Sheet Date | Joint Animal Services 12/31/07 | Regional Athletic complex 12/31/07 |
|--|---|---|
| Total Assets | \$ 3,178,902 | \$ 5,795,075 |
| Total Liabilities | 315,491 | - |
| Total Net Assets | <u>\$ 2,863,411</u> | <u>\$ 5,795,075</u> |
| Capital assets, net of accumulated depreciation | <u>\$ 1,884,196</u> | <u>\$ 5,787,156</u> |
| Total revenues | \$ 1,526,905 | \$ 389,246 |
| Total expenditures (expenses) | 1,392,421 | 316,911 |
| Net increase (decrease) in net assets | 134,484 | 72,335 |
| Beginning net assets, restated | 2,728,927 | 5,722,740 |
| Ending net assets | <u>\$ 2,863,411</u> | <u>\$ 5,795,075</u> |

Schedule of Revenues, Expenditures, and
Changes in Fund Balances - Budget to Actual
General Fund
For the Year Ended December 31, 2007

| | Budgeted Amount | | Actual GAAP Basis | Variance with Final Budget Positive (Negative) |
|--|-----------------------|-----------------------|-----------------------------|--|
| | Original | Final | | |
| REVENUES | | | | |
| Taxes | \$ 17,261,803 | \$ 17,273,053 | \$ 19,626,538 | \$ 2,353,485 |
| Licenses and permits | 1,900,500 | 2,238,777 | 2,849,140 | 610,363 |
| Intergovernmental revenues | 548,596 | 622,265 | 1,051,181 | 428,916 |
| Charges for services | 5,175,039 | 5,478,639 | 5,904,591 | 425,952 |
| Fines and forfeitures | 351,000 | 351,000 | 443,820 | 92,820 |
| Other revenue | 708,196 | 712,496 | 1,096,401 | 383,905 |
| Total revenues | <u>\$ 25,945,134</u> | <u>\$ 26,676,230</u> | <u>\$ 30,971,671</u> | <u>\$ 4,295,441</u> |
| EXPENDITURES | | | | |
| Current: | | | | |
| General government | \$ 4,340,046 | \$ 4,432,246 | \$ 4,215,854 | \$ 216,392 |
| Security of persons and property | 12,069,614 | 12,520,644 | 12,295,436 | 225,208 |
| Physical environment | 3,438,811 | 3,457,197 | 3,168,910 | 288,287 |
| Economic environment | 1,097,635 | 1,176,635 | 1,196,152 | (19,517) |
| Mental and physical health | 7,603 | 7,603 | 9,993 | (2,390) |
| Culture and recreation | 4,084,492 | 4,174,972 | 3,976,824 | 198,148 |
| Capital outlay | 40,070 | 40,070 | 39,803 | 267 |
| Total expenditures | <u>\$ 25,078,271</u> | <u>\$ 25,809,367</u> | <u>\$ 24,902,972</u> | <u>\$ 906,395</u> |
| Excess of revenue over (under) expenditures | <u>\$ 866,863</u> | <u>\$ 866,863</u> | <u>\$ 6,068,699</u> | <u>\$ 5,201,836</u> |
| OTHER FINANCING SOURCES (USES) | | | | |
| Proceeds from sale of capital assets | \$ - | \$ - | \$ 3,767 | \$ 3,767 |
| Transfers in | 324,151 | 324,151 | 324,151 | - |
| Transfers out | (2,850,000) | (2,850,000) | (2,850,000) | - |
| Total other financing sources | <u>\$ (2,525,849)</u> | <u>\$ (2,525,849)</u> | <u>\$ (2,522,082)</u> | <u>\$ 3,767</u> |
| Net change in fund balances | <u>\$ (1,658,986)</u> | <u>\$ (1,658,986)</u> | <u>\$ 3,546,617</u> | <u>\$ 5,205,603</u> |
| FUND BALANCES - JANUARY 1 | <u>\$ 1,658,986</u> | <u>\$ 1,658,986</u> | <u>\$ 18,452,950</u> | <u>\$ 16,793,964</u> |
| FUND BALANCES - DECEMBER 31 | <u><u>\$ -</u></u> | <u><u>\$ -</u></u> | <u><u>\$ 21,999,567</u></u> | <u><u>\$ 21,999,567</u></u> |

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

Schedule of Revenues, Expenditures, and
Changes in Fund Balances - Budget to Actual
Arterial Streets
For the Year Ended December 31, 2007

| | Budgeted Amounts | | Actual GAAP Basis | Variance with Final Budget Positive (Negative) |
|--|-----------------------|-----------------------|----------------------------|--|
| | Original | Final | | |
| REVENUES | | | | |
| Taxes | \$ 1,250,000 | \$ 1,250,000 | \$ 2,856,510 | \$ 1,606,510 |
| Intergovernmental revenues | 3,872,745 | 3,872,745 | 1,423,867 | (2,448,878) |
| Charges for services | 105,115 | 105,115 | 1,037,884 | 932,769 |
| Other revenue | 5,947,200 | 5,947,200 | 621,671 | (5,325,529) |
| Total revenues | <u>\$ 11,175,060</u> | <u>\$ 11,175,060</u> | <u>\$ 5,939,932</u> | <u>\$ (5,235,128)</u> |
| EXPENDITURES | | | | |
| Capital outlay | <u>\$ 12,945,576</u> | <u>\$ 12,945,576</u> | <u>\$ 9,691,248</u> | <u>\$ 3,254,328</u> |
| Total expenditures | <u>\$ 12,945,576</u> | <u>\$ 12,945,576</u> | <u>\$ 9,691,248</u> | <u>\$ 3,254,328</u> |
| Excess of revenue over (under) expenditures | <u>\$ (1,770,516)</u> | <u>\$ (1,770,516)</u> | <u>\$ (3,751,316)</u> | <u>\$ (1,980,800)</u> |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers in | <u>\$ 1,000,000</u> | <u>\$ 1,000,000</u> | <u>\$ 1,000,000</u> | <u>\$ -</u> |
| Total other financing sources | <u>\$ 1,000,000</u> | <u>\$ 1,000,000</u> | <u>\$ 1,000,000</u> | <u>\$ -</u> |
| Net change in fund balances | <u>\$ (770,516)</u> | <u>\$ (770,516)</u> | <u>\$ (2,751,316)</u> | <u>\$ (1,980,800)</u> |
| FUND BALANCES - JANUARY 1 | <u>\$ 770,516</u> | <u>\$ 770,516</u> | <u>\$ 8,551,475</u> | <u>\$ 7,780,959</u> |
| FUND BALANCES - DECEMBER 31 | <u><u>\$ -</u></u> | <u><u>\$ -</u></u> | <u><u>\$ 5,800,159</u></u> | <u><u>\$ 5,800,159</u></u> |

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

Notes to the Required Supplemental Information

Budgetary information

The City's annual budget is adopted on a basis consistent with Generally Accepted Accounting Principles (GAAP) for all governmental funds. Thus there is no difference between GAAP and the budgetary basis of accounting. For more detailed information see the Notes to the financial statements (Note 2, pages 4-23 to 4-25)



This page intentionally left blank

NON-MAJOR OTHER GOVERNMENTAL FUNDS**Special Revenue Funds**

Special revenue funds are used to account for specific revenues that are legally restricted to expenditure for particular purposes.

City Street Fund

The public works street division is responsible for evaluating, maintaining and repairing all roadways, traffic control devices, drainage systems, sidewalks and roadsides. The division is also responsible for street cleaning, snow and ice removal, and removing road debris from traffic lanes. Additionally, the street division performs special projects such as the Christmas tree pickup and hanging the street banners.

Lodging Tax Fund

The Lodging Tax Fund is authorized by state law and must operate under the restrictive provision thereof. Revenue is generated from a use tax based on hotel/motel room rentals. Expenditures of lodging tax dollars are limited to tourist promotion and for the acquisition and/or maintenance of tourism-related facilities.

Community Development Block Grant fund

The Community Development Block Grant Fund provides for the accounting of state and federal grants dollars awarded to qualifying agencies serving Lacey citizens.

Debt Service Funds**General Obligation Bond Fund**

The General Obligation (G.O.) Bond Fund was created to provide for the retirement of all general purpose bonds issued for City facilities or equipment. When capital expenditures are funded by debt authorized by voter approval, the revenues generated to retire this debt come from property taxes. Debt issued or bonds received without guaranteed to the City property tax revenues must depend on all sources of general City revenue to retire debt.

Capital Project Funds

Capital projects funds are used to account for the acquisition and construction of major capital facilities other than those financed by proprietary funds and trust funds.

Building Improvement Fund

The Building Improvement Fund is only used when there is a need to account for a significant building project or equipment acquisition that is usually funded by a bond sale. Each year, an amount equivalent to \$1.00 per capita is deposited into this fund from sales tax revenue for the purpose of acquiring public art.

Capital Expenditure Fund

The Capital Expenditure Fund accounts for special revenue dedicated to capital and capital equipment purchases that are required for general operation purposes. Utility and real estate taxes are the main sources of revenue.

Combining Balance Sheet
Other Governmental Funds
December 31, 2007

| | Special Revenue Funds | | | Debt Service Fund |
|---|-----------------------|-------------|-----------------------------------|------------------------------|
| | Street Fund | Lodging Tax | Community Development Block Grant | General Obligation Bond Fund |
| ASSETS | | | | |
| Current cash and cash equivalents | \$ 1,921,645 | \$ 750,740 | \$ 5,746 | \$ 368,227 |
| Receivables (net of allowances): | | | | |
| Taxes | 463,916 | 63,183 | - | 30,287 |
| Customer Accounts | 65,113 | - | 345,776 | - |
| Accrued Interest & Penalty | 5,660 | 3,041 | - | 1,520 |
| Total assets | \$ 2,456,334 | \$ 816,964 | \$ 351,522 | \$ 400,034 |
| LIABILITIES AND FUND BALANCES | | | | |
| Liabilities | | | | |
| Accounts payable | \$ 9,112 | \$ 14,769 | \$ - | \$ - |
| Deferred revenue | - | - | 345,776 | 24,876 |
| Due to other governmental | 409 | - | - | - |
| Total Liabilities | \$ 9,521 | \$ 14,769 | \$ 345,776 | \$ 24,876 |
| Fund balances | | | | |
| Reserved for: | | | | |
| Culture and recreation | \$ - | \$ 802,195 | \$ - | \$ - |
| Debt service | 50,000 | - | - | - |
| Unreserved, designated for, reported in: | | | | |
| Special revenue funds | 435,000 | - | - | - |
| Capital project funds | - | - | - | - |
| Unreserved, undesignated for: | | | | |
| Special revenue funds | 1,961,813 | - | 5,746 | - |
| Debt service funds | - | - | - | 375,158 |
| Capital project funds | - | - | - | - |
| Total fund balances | \$ 2,446,813 | \$ 802,195 | \$ 5,746 | \$ 375,158 |
| Total liabilities and fund balances | \$ 2,456,334 | \$ 816,964 | \$ 351,522 | \$ 400,034 |

| Capital Project Funds | | Total Other Governmental Funds |
|-------------------------|------------------------|---|
| Building Improvement | Capital Expenditure | |
| \$ 7,736,613 | \$ 4,977,894 | \$ 15,760,865 |
| - | 288,186 | 845,572 |
| - | 4,019 | 414,908 |
| 13,431 | 9,376 | 33,028 |
| <u>\$ 7,750,044</u> | <u>\$ 5,279,475</u> | <u>\$ 17,054,373</u> |
| | | |
| \$ 98,157 | \$ 176,245 | \$ 298,283 |
| - | - | 370,652 |
| - | - | 409 |
| <u>\$ 98,157</u> | <u>\$ 176,245</u> | <u>\$ 669,344</u> |
| | | |
| \$ - | \$ - | \$ 802,195 |
| - | - | 50,000 |
| - | - | 435,000 |
| 7,150,904 | 3,046,500 | 10,197,404 |
| - | - | 1,967,559 |
| - | - | 375,158 |
| 500,983 | 2,056,730 | 2,557,713 |
| <u>\$ 7,651,887</u> | <u>\$ 5,103,230</u> | <u>\$ 16,385,029</u> |
| <u>\$ 7,750,044</u> | <u>\$ 5,279,475</u> | <u>\$ 17,054,373</u> |

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Other Governmental Funds
For the Year Ended December 31, 2007

| | Special Revenue Funds | | | Debt Service Fund |
|--|-----------------------|-------------------|---|------------------------------------|
| | Street Fund | Lodging Tax | Community Development Block Grant | General Obligation Bond Fund |
| REVENUES | | | | |
| Taxes | \$ 1,981,900 | \$ 299,458 | \$ - | \$ 1,126,844 |
| Intergovernmental revenues | 622,160 | - | 5,746 | - |
| Charges for services | 35,942 | - | - | - |
| Other revenue | 128,001 | 44,463 | - | 44,947 |
| Total revenues | \$ 2,768,003 | \$ 343,921 | \$ 5,746 | \$ 1,171,791 |
| EXPENDITURES | | | | |
| Current: | | | | |
| Transportation | \$ 2,280,636 | \$ - | \$ - | \$ - |
| Culture and recreation | - | 196,598 | - | - |
| Capital outlay | - | 8,878 | - | - |
| Debt service: | | | | |
| Principal retirement | - | - | - | 815,000 |
| Interest | - | - | - | 709,553 |
| Total expenditures | \$ 2,280,636 | \$ 205,476 | \$ - | \$ 1,524,553 |
| Excess of revenue over (under) expenditures | \$ 487,367 | \$ 138,445 | \$ 5,746 | \$ (352,762) |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers in | \$ - | \$ - | \$ - | \$ - |
| Transfers out | - | - | - | - |
| Total other financing sources | \$ - | \$ - | \$ - | \$ - |
| Net change in fund balances | \$ 487,367 | \$ 138,445 | \$ 5,746 | \$ (352,762) |
| FUND BALANCES - JANUARY 1 | \$ 1,959,446 | \$ 663,750 | \$ - | \$ 727,920 |
| FUND BALANCES - DECEMBER 31 | \$ 2,446,813 | \$ 802,195 | \$ 5,746 | \$ 375,158 |

| <u>Capital Project Funds</u> | | Total Other Governmental Funds |
|---------------------------------|--------------------------------|---|
| <u>Building Improvement</u> | <u>Capital Expenditure</u> | |
| \$ 1,060,870 | \$ 1,944,523 | \$ 6,413,595 |
| - | 20,090 | 647,996 |
| - | - | 35,942 |
| 331,112 | 268,791 | 817,314 |
| <u>\$ 1,391,982</u> | <u>\$ 2,233,404</u> | <u>\$ 7,914,847</u> |
| | | |
| \$ - | \$ - | \$ 2,280,636 |
| - | - | 196,598 |
| 926,915 | 1,139,056 | 2,074,849 |
| - | - | 815,000 |
| - | - | 709,553 |
| <u>\$ 926,915</u> | <u>\$ 1,139,056</u> | <u>\$ 6,076,636</u> |
| | | |
| \$ 465,067 | \$ 1,094,348 | \$ 1,838,211 |
| | | |
| \$ 2,300,000 | \$ - | \$ 2,300,000 |
| - | (1,450,000) | (1,450,000) |
| <u>\$ 2,300,000</u> | <u>\$ (1,450,000)</u> | <u>\$ 850,000</u> |
| \$ 2,765,067 | \$ (355,652) | \$ 2,688,211 |
| \$ 4,886,820 | \$ 5,458,882 | \$ 13,696,818 |
| <u>\$ 7,651,887</u> | <u>\$ 5,103,230</u> | <u>\$ 16,385,029</u> |

Schedule of Revenues, Expenditures, and
Changes in Fund Balances - Budget to Actual
Street Fund
For the Year Ended December 31, 2007

| | Budgeted Amounts | | Actual GAAP Basis | Variance with Final Budget Positive (Negative) |
|--|---------------------|---------------------|----------------------------|--|
| | Original | Final | | |
| REVENUES | | | | |
| Taxes | \$ 1,538,548 | \$ 1,621,383 | \$ 1,981,900 | \$ 360,517 |
| Intergovernmental revenues | 577,862 | 592,162 | 622,160 | 29,998 |
| Charges for services | - | 32,600 | 35,942 | 3,342 |
| Other revenue | 75,450 | 75,450 | 128,001 | 52,551 |
| Total revenues | <u>\$ 2,191,860</u> | <u>\$ 2,321,595</u> | <u>\$ 2,768,003</u> | <u>\$ 446,408</u> |
| EXPENDITURES | | | | |
| Current: | | | | |
| Transportation | \$ 2,191,860 | \$ 2,321,595 | \$ 2,280,636 | \$ 40,959 |
| Total expenditures | <u>\$ 2,191,860</u> | <u>\$ 2,321,595</u> | <u>\$ 2,280,636</u> | <u>\$ 40,959</u> |
| Excess of revenue over (under) expenditures | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 487,367</u> | <u>\$ 487,367</u> |
| OTHER FINANCING SOURCES (USES) | | | | |
| Net change in fund balances | \$ - | \$ - | \$ 487,367 | \$ 487,367 |
| FUND BALANCES - JANUARY 1 | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 1,959,446</u> | <u>\$ 1,959,446</u> |
| FUND BALANCES - DECEMBER 31 | <u><u>\$ -</u></u> | <u><u>\$ -</u></u> | <u><u>\$ 2,446,813</u></u> | <u><u>\$ 2,446,813</u></u> |

Schedule of Revenues, Expenditures, and
Changes in Fund Balances - Budget to Actual
Lodging Tax
For the Year Ended December 31, 2007

| | Budgeted Amounts | | Actual GAAP Basis | Variance with Final Budget Positive (Negative) |
|--|--------------------|--------------------|----------------------|--|
| | Original | Final | | |
| REVENUES | | | | |
| Taxes | \$ 255,750 | \$ 255,750 | \$ 299,458 | \$ 43,708 |
| Other revenue | 30,780 | 30,780 | 44,463 | 13,683 |
| Total revenues | <u>\$ 286,530</u> | <u>\$ 286,530</u> | <u>\$ 343,921</u> | <u>\$ 57,391</u> |
| EXPENDITURES | | | | |
| Current: | | | | |
| Culture and recreation | \$ 260,894 | \$ 260,894 | \$ 196,598 | \$ 64,296 |
| Capital outlay | 11,060 | 11,060 | 8,878 | 2,182 |
| Total expenditures | <u>\$ 271,954</u> | <u>\$ 271,954</u> | <u>\$ 205,476</u> | <u>\$ 66,478</u> |
| Excess of revenue over (under) expenditures | <u>\$ 14,576</u> | <u>\$ 14,576</u> | <u>\$ 138,445</u> | <u>\$ 123,869</u> |
| Net change in fund balances | \$ 14,576 | \$ 14,576 | \$ 138,445 | \$ 123,869 |
| FUND BALANCES - JANUARY 1 | <u>\$ (14,576)</u> | <u>\$ (14,576)</u> | <u>\$ 663,750</u> | <u>\$ 678,326</u> |
| FUND BALANCES - DECEMBER 31 | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 802,195</u> | <u>\$ 802,195</u> |

Schedule of Revenues, Expenditures, and
Changes in Fund Balances - Budget to Actual
Community Development Block Grant
For the Year Ended December 31, 2007

| | Budgeted Amounts | | Actual GAAP Basis | Variance with Final Budget Positive (Negative) |
|--|------------------|-------|----------------------|--|
| | Original | Final | | |
| REVENUES | | | | |
| Intergovernmental revenues | \$ - | \$ - | \$ 5,746 | \$ 5,746 |
| Total revenues | \$ - | \$ - | \$ 5,746 | \$ 5,746 |
| EXPENDITURES | | | | |
| Capital outlay | \$ - | \$ - | \$ - | \$ - |
| Total expenditures | \$ - | \$ - | \$ - | \$ - |
| Excess of revenue over (under) expenditures | \$ - | \$ - | \$ 5,746 | \$ 5,746 |
| Net change in fund balance | \$ - | \$ - | \$ 5,746 | \$ 5,746 |
| FUND BALANCES JANUARY 1 | \$ - | \$ - | \$ - | \$ - |
| FUND BALANCES DECEMBER 31 | \$ - | \$ - | \$ 5,746 | \$ 5,746 |

Schedule of Revenues, Expenditures, and
Changes in Fund Balances - Budget to Actual
General Obligation Bond Fund
For the Year Ended December 31, 2007

| | Budgeted Amounts | | Actual GAAP Basis | Variance with Final Budget Positive (Negative) |
|--|---------------------|---------------------|--------------------------|--|
| | Original | Final | | |
| REVENUES | | | | |
| Taxes | \$ 800,110 | \$ 1,122,540 | \$ 1,126,844 | \$ 4,304 |
| Other revenue | 8,550 | 8,550 | 44,947 | 36,397 |
| Total revenues | <u>\$ 808,660</u> | <u>\$ 1,131,090</u> | <u>\$ 1,171,791</u> | <u>\$ 40,701</u> |
| EXPENDITURES | | | | |
| Debt service: | | | | |
| Principal retirement | \$ 815,000 | \$ 815,000 | \$ 815,000 | \$ - |
| Interest | 387,125 | 709,555 | 709,553 | 2 |
| Total expenditures | <u>\$ 1,202,125</u> | <u>\$ 1,524,555</u> | <u>\$ 1,524,553</u> | <u>\$ 2</u> |
| Excess of revenue over (under) expenditures | <u>\$ (393,465)</u> | <u>\$ (393,465)</u> | <u>\$ (352,762)</u> | <u>\$ 40,703</u> |
| Net change in fund balance | \$ (393,465) | \$ (393,465) | \$ (352,762) | \$ 40,703 |
| FUND BALANCES JANUARY 1 | <u>\$ 393,465</u> | <u>\$ 393,465</u> | <u>\$ 727,920</u> | <u>\$ 334,455</u> |
| FUND BALANCES DECEMBER 31 | <u><u>\$ -</u></u> | <u><u>\$ -</u></u> | <u><u>\$ 375,158</u></u> | <u><u>\$ 375,158</u></u> |

Schedule of Revenues, Expenditures, and
Changes in Fund Balances - Budget to Actual
Building Improvement
For the Year Ended December 31, 2007

| | Budgeted Amounts | | Actual GAAP Basis | Variance with Final Budget Positive (Negative) |
|--|-----------------------|-----------------------|----------------------------|--|
| | Original | Final | | |
| REVENUES | | | | |
| Taxes | \$ 1,034,060 | \$ 1,034,060 | \$ 1,060,870 | \$ 26,810 |
| Other revenue | 1,000 | 1,000 | 331,112 | 330,112 |
| Total revenues | <u>\$ 1,035,060</u> | <u>\$ 1,035,060</u> | <u>\$ 1,391,982</u> | <u>\$ 356,922</u> |
| EXPENDITURES | | | | |
| Capital outlay | \$ 8,034,060 | \$ 8,034,060 | \$ 926,915 | \$ 7,107,145 |
| Total expenditures | <u>\$ 8,034,060</u> | <u>\$ 8,034,060</u> | <u>\$ 926,915</u> | <u>\$ 7,107,145</u> |
| Excess of revenue over (under) expenditures | <u>\$ (6,999,000)</u> | <u>\$ (6,999,000)</u> | <u>\$ 465,067</u> | <u>\$ 7,464,067</u> |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers in | \$ 2,300,000 | \$ 2,300,000 | \$ 2,300,000 | \$ - |
| Total other financing sources | <u>\$ 2,300,000</u> | <u>\$ 2,300,000</u> | <u>\$ 2,300,000</u> | <u>\$ -</u> |
| Net change in fund balance | <u>\$ (4,699,000)</u> | <u>\$ (4,699,000)</u> | <u>\$ 2,765,067</u> | <u>\$ 7,464,067</u> |
| FUND BALANCES JANUARY 1 | <u>\$ 4,699,000</u> | <u>\$ 4,699,000</u> | <u>\$ 4,886,820</u> | <u>\$ 187,820</u> |
| FUND BALANCES DECEMBER 31 | <u><u>\$ -</u></u> | <u><u>\$ -</u></u> | <u><u>\$ 7,651,887</u></u> | <u><u>\$ 7,651,887</u></u> |

Schedule of Revenues, Expenditures, and
Changes in Fund Balances - Budget to Actual
Capital Expenditure
For the Year Ended December 31, 2007

| | Budgeted Amounts | | Actual GAAP Basis | Variance with Final Budget Positive (Negative) |
|--|-----------------------|-----------------------|-----------------------|--|
| | Original | Final | | |
| REVENUES | | | | |
| Taxes | \$ 1,474,173 | \$ 1,711,823 | \$ 1,944,523 | \$ 232,700 |
| Intergovernmental revenues | - | 15,300 | 20,090 | 4,790 |
| Other revenue | 51,500 | 51,500 | 268,791 | 217,291 |
| Total revenues | \$ 1,525,673 | \$ 1,778,623 | \$ 2,233,404 | \$ 454,781 |
| EXPENDITURES | | | | |
| Capital outlay | \$ 1,625,473 | \$ 1,878,423 | \$ 1,139,056 | \$ 739,367 |
| Total expenditures | \$ 1,625,473 | \$ 1,878,423 | \$ 1,139,056 | \$ 739,367 |
| Excess of revenue over (under) expenditures | \$ (99,800) | \$ (99,800) | \$ 1,094,348 | \$ 1,194,148 |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers out | \$ (1,450,000) | \$ (1,450,000) | \$ (1,450,000) | \$ - |
| Total other financing sources | \$ (1,450,000) | \$ (1,450,000) | \$ (1,450,000) | \$ - |
| Net change in fund balances | \$ (1,549,800) | \$ (1,549,800) | \$ (355,652) | \$ 1,194,148 |
| FUND BALANCES - JANUARY 1 | \$ 1,549,800 | \$ 1,549,800 | \$ 5,458,882 | \$ 3,909,082 |
| FUND BALANCES DECEMBER - 31 | \$ - | \$ - | \$ 5,103,230 | \$ 5,103,230 |

Schedule of Revenues, Expenditures, and
Changes in Fund Balances - Budget to Actual
L.I.D. Redemption
For the Year Ended December 31, 2007

| | Budgeted Amounts | | Actual GAAP Basis | Variance with Final Budget Positive (Negative) |
|--|------------------|--------------|----------------------|--|
| | Original | Final | | |
| REVENUES | | | | |
| Other revenue | \$ 1,615,250 | \$ 1,625,250 | \$ 1,501,623 | \$ (123,627) |
| Total revenues | \$ 1,615,250 | \$ 1,625,250 | \$ 1,501,623 | \$ (123,627) |
| EXPENDITURES | | | | |
| Debt service: | | | | |
| Principal retirement | \$ 1,391,420 | \$ 1,401,420 | \$ 1,401,416 | \$ 4 |
| Interest | 223,830 | 223,830 | 223,829 | 1 |
| Total expenditures | \$ 1,615,250 | \$ 1,625,250 | \$ 1,625,245 | \$ 5 |
| Excess of revenue over (under) expenditures | \$ - | \$ - | \$ (123,622) | \$ (123,622) |
| Net change in fund balance | \$ - | \$ - | \$ (123,622) | \$ (123,622) |
| FUND BALANCES JANUARY 1 | \$ - | \$ - | \$ 333,527 | \$ 333,527 |
| FUND BALANCES DECEMBER 31 | \$ - | \$ - | \$ 209,905 | \$ 209,905 |

Schedule of Revenues, Expenditures, and
Changes in Fund Balances - Budget to Actual
Parks & Open Space
For the Year Ended December 31, 2007

| | Budgeted Amounts | | Actual GAAP Basis | Variance with Final Budget Positive (Negative) |
|--|----------------------|----------------------|----------------------|--|
| | Original | Final | | |
| REVENUES | | | | |
| Taxes | \$ 647,715 | \$ 647,715 | \$ 821,382 | \$ 173,667 |
| Intergovernmental revenues | 887,485 | 887,485 | 1,014,566 | 127,081 |
| Other revenue | 50,935 | 50,935 | 372,900 | 321,965 |
| Total revenues | \$ 1,586,135 | \$ 1,586,135 | \$ 2,208,848 | \$ 622,713 |
| EXPENDITURES | | | | |
| Current: | | | | |
| Culture and recreation | \$ - | \$ - | \$ (16,704) | \$ 16,704 |
| Capital outlay | 14,289,722 | 14,289,722 | 3,144,736 | 11,144,986 |
| Debt service: | | | | |
| Debt issue cost | - | - | 135,232 | (135,232) |
| Total expenditures | \$ 14,289,722 | \$ 14,289,722 | \$ 3,263,264 | \$ 11,026,458 |
| Excess of revenue over (under) expenditures | \$ (12,703,587) | \$ (12,703,587) | \$ (1,054,416) | \$ 11,649,171 |
| OTHER FINANCING SOURCES (USES) | | | | |
| Premium on bonds | \$ - | \$ - | \$ 128,213 | \$ 128,213 |
| Debt issuance | - | 8,000,000 | 8,000,000 | - |
| Transfers out | (824,151) | (824,151) | (824,151) | - |
| Total other financing sources | \$ (824,151) | \$ 7,175,849 | \$ 7,304,062 | \$ 128,213 |
| Net change in fund balances | \$ (13,527,738) | \$ (5,527,738) | \$ 6,249,646 | \$ 11,777,384 |
| FUND BALANCES - JANUARY 1 | \$ 13,527,738 | \$ 5,527,738 | \$ 7,926,554 | \$ 2,398,816 |
| FUND BALANCES - DECEMBER 31 | \$ - | \$ - | \$ 14,176,200 | \$ 14,176,200 |



This page intentionally left blank

Internal Service Funds

Internal service funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the government ant to other government units, on a cost reimbursement basis.

Equipment Rental Fund

The Equipment Rental Fund is an internal service fund created to provide for maintenance and replacement of City owned vehicles and equipment. The finance department provides administrative and accounting services while the public works department provides maintenance and repair services.

Information Management Services Fund

Information Management Services Fund is responsible for keeping all computer and office automation equipment and programs operating and responsive to the City's needs. This is accomplished through researching new computer techniques; correcting and revising programs to meet changing needs; and managing computer techniques; and managing computer equipment to achieve maximum performance.

Statement of Net Assets
Combining Statement of Net Assets
Internal Service Funds
December 31, 2007

| | Governmental Activities | | |
|---|-------------------------|-------------------------|----------------------|
| | Internal Service Funds | | |
| | Equipment Rental | Information Services | Total |
| ASSETS | | | |
| Current assets: | | | |
| Cash and cash equivalents | \$ 5,150,587 | \$ 2,164,315 | \$ 7,314,902 |
| Receivables (net of allowances) | | | |
| Accrued interest and penalty | 10,031 | 2,196 | 12,227 |
| Due from governmental units | 12,508 | - | 12,508 |
| Total current assets: | \$ 5,173,126 | \$ 2,166,511 | \$ 7,339,637 |
| Non-current assets: | | | |
| Fixed assets, net of depreciation: | | | |
| Buildings | \$ 98,185 | \$ - | \$ 98,185 |
| Improvements other than buildings | 8,343 | - | 8,343 |
| Equipment | 2,904,571 | 622,830 | 3,527,401 |
| Total non-current assets | \$ 3,011,099 | \$ 622,830 | \$ 3,633,929 |
| Total assets | \$ 8,184,225 | \$ 2,789,341 | \$ 10,973,566 |
| LIABILITIES | | | |
| Current liabilities: | | | |
| Accounts payable | \$ 281,037 | \$ 15,406 | \$ 296,443 |
| Payable from restricted assets: | | | |
| Due to other governmental units | - | 420 | 420 |
| Compensated absences | 7,524 | 7,725 | 15,249 |
| Current portion of capital lease | - | 48,825 | 48,825 |
| Total current liabilities | \$ 288,561 | \$ 72,376 | \$ 360,937 |
| Non-current liabilities | | | |
| Compensated absences | \$ 9,614 | \$ 10,595 | \$ 20,209 |
| Long term portion of capitalized lease | - | 50,640 | 50,640 |
| Total non-current liabilities | \$ 9,614 | \$ 61,235 | \$ 70,849 |
| Total liabilities | \$ 298,175 | \$ 133,611 | \$ 431,786 |
| NET ASSETS | | | |
| Investment in capital assets, net of related debt | \$ 3,011,099 | \$ 622,830 | \$ 3,633,929 |
| Unrestricted | 4,874,951 | 2,032,900 | 6,907,851 |
| Total net assets | \$ 7,886,050 | \$ 2,655,730 | \$ 10,541,780 |

Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets
Internal Service Funds
For the Year Ended December 31, 2007

| | Governmental Activities | | |
|--|-------------------------|-------------------------|---------------|
| | Internal Service Funds | | |
| | Equipment Rental | Information Services | Total |
| OPERATING REVENUES | | | |
| Charges for services | \$ 1,626,670 | \$ 993,944 | \$ 2,620,614 |
| Total operating revenue | \$ 1,626,670 | \$ 993,944 | \$ 2,620,614 |
| OPERATING EXPENSES | | | |
| Operating expense | \$ 797,387 | \$ 751,003 | \$ 1,548,390 |
| Maintenance expense | 59,628 | 211,908 | 271,536 |
| Depreciation expense | 594,384 | 197,469 | 791,853 |
| Total operating expenses | \$ 1,451,399 | \$ 1,160,380 | \$ 2,611,779 |
| OPERATING INCOME (LOSS) | \$ 175,271 | \$ (166,436) | \$ 8,835 |
| NON-OPERATING REVENUES (EXPENSES) | | | |
| Investment earnings | \$ 262,249 | \$ 110,478 | \$ 372,727 |
| Miscellaneous non-operating revenues | 45,857 | - | 45,857 |
| Interest expense | - | (6,124) | (6,124) |
| Gain (loss) on sale of capital assets | 13,089 | - | 13,089 |
| Total non-operating revenues (expenses) | \$ 321,195 | \$ 104,354 | \$ 425,549 |
| Income (loss) before contributions and transfers | \$ 496,466 | \$ (62,082) | \$ 434,384 |
| Capital contributions | \$ 203,734 | \$ 237,949 | \$ 441,683 |
| Transfers in | 129,577 | 34,331 | 163,908 |
| Changes in net assets | \$ 829,777 | \$ 210,198 | \$ 1,039,975 |
| NET ASSETS - BEGINNING | \$ 7,056,273 | \$ 2,445,532 | \$ 9,501,805 |
| NET ASSETS - ENDING | \$ 7,886,050 | \$ 2,655,730 | \$ 10,541,780 |

Combining Statement of Cash Flows
Internal Service Funds
For the Year Ended December 31, 2007

| | Governmental Activities | | |
|--|-------------------------|-------------------------|---------------------------|
| | Internal Service Funds | | |
| | Equipment Rental | Information Services | Total Internal Service |
| CASH FLOW FROM OPERATING ACTIVITIES: | | | |
| Receipts from customers and users | \$ 1,666,337 | \$ 993,944 | \$ 2,660,281 |
| Payments to suppliers | (364,953) | (365,678) | (730,631) |
| Payments to employees | (224,109) | (587,790) | (811,899) |
| Net cash provided by operating activities | <u>\$ 1,077,275</u> | <u>\$ 40,476</u> | <u>\$ 1,117,751</u> |
| CASH FLOW FROM CAPITAL AND RELATED FINANCING ACTIVITIES: | | | |
| Acquisition and construction of capital assets | \$ (929,356) | \$ (403,812) | \$ (1,333,168) |
| Proceeds from sales of capital assets | 15,529 | - | 15,529 |
| Principal paid on capital leases | - | (59,617) | (59,617) |
| Interest paid on capital leases | - | (6,124) | (6,124) |
| Transfers received from other funds for capital acquisition | 333,310 | 255,576 | 588,886 |
| Net cash used by capital and related financing activities | <u>\$ (580,517)</u> | <u>\$ (213,977)</u> | <u>\$ (794,494)</u> |
| CASH FLOW FROM INVESTING ACTIVITIES: | | | |
| Interest received on investments | 265,334 | 111,389 | 376,723 |
| Net cash provided (used) by investing activities | <u>\$ 265,334</u> | <u>\$ 111,389</u> | <u>\$ 376,723</u> |
| Net increase (decrease) in cash and cash equivalents | 762,092 | (62,112) | 699,980 |
| Cash and cash equivalents January 1 | \$ 4,388,495 | \$ 2,226,427 | \$ 6,614,922 |
| Cash and cash equivalents December 31 | <u>\$ 5,150,587</u> | <u>\$ 2,164,315</u> | <u>\$ 7,314,902</u> |
| CASH PROVIDED BY OPERATING ACTIVITIES: | | | |
| Net operating income | \$ 175,271 | \$ (166,436) | \$ 8,835 |
| ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES: | | | |
| Depreciation | \$ 594,384 | \$ 197,469 | \$ 791,853 |
| (Increase)/decrease in due from other funds | (6,190) | - | (6,190) |
| Miscellaneous non-operating revenues | 45,857 | - | 45,857 |
| Increase/(decrease) in accounts payables | 266,514 | 3,920 | 270,434 |
| Increase/(decrease) in intergovernmental payable | - | 420 | 420 |
| Increase/(decrease) in compensated absences | 1,439 | 5,103 | 6,542 |
| Net cash provided by operating activities | <u>\$ 1,077,275</u> | <u>\$ 40,476</u> | <u>\$ 1,117,751</u> |
| Noncash investing, capital and financing activities: | | | |
| Borrowing under capital leases | \$ - | \$ 99,465 | \$ 99,465 |
| Capital asset transferred from other funds | - | 16,704 | 16,704 |

Fiduciary Funds

Agency Funds

Joint Animal Services

Joint Animal Services Fund accounts for cash and investments held by the City of Lacey for Animal Services in an agency capacity.

Interlocal Drug Unit

Interlocal Drug Unit Fund accounts for cash and investments held by the City of Lacey for the Thurston County Narcotics Task Force (Drug Unit) in an agency capacity.

Capital Area Public Facilities District

Capital Area Public Facilities District (CARPFD) Fund accounts for cash and investments held by the City of Lacey for the CARPFD in an agency capacity.

Combining Statement of Changes in Assets and Liabilities
Agency Funds
December 31, 2007

| | Joint Animal Services | | | Balance December 31, 2007 |
|--|------------------------------|---------------------|---------------------|------------------------------|
| | Balance December 31, 2006 | Additions | Deductions | |
| ASSETS | | | | |
| Cash and cash equivalents | \$ 1,117,732 | \$ 1,637,721 | \$ 1,484,479 | \$ 1,270,974 |
| Accounts receivables, net of uncollectible accounts | 4,863 | 760,264 | 759,805 | 5,322 |
| Due from other governmental units | 17,668 | 18,412 | 17,668 | 18,412 |
| Total assets | \$ 1,140,263 | \$ 2,416,397 | \$ 2,261,952 | \$ 1,294,708 |
| LIABILITIES | | | | |
| Accounts payable | \$ 17,084 | \$ 470,267 | \$ 446,366 | \$ 40,985 |
| Accrued employee leave payable | 46,601 | 59,882 | 46,601 | 59,882 |
| Notes payable | 227,206 | 15,275 | 29,973 | 212,508 |
| Due to other governmental units | 849,372 | 2,124,227 | 1,992,266 | 981,333 |
| Total liabilities | \$ 1,140,263 | \$ 2,669,651 | \$ 2,515,206 | \$ 1,294,708 |

| | Thurston County Narcotics Task Force | | | Balance December 31, 2007 |
|--|--------------------------------------|---------------------|---------------------|------------------------------|
| | Balance December 31, 2006 | Additions | Deductions | |
| ASSETS | | | | |
| Cash and cash equivalents | \$ 665,949 | \$ 1,913,526 | \$ 1,442,592 | \$ 1,136,883 |
| Accounts receivables, net of uncollectible accounts | 2,949 | 7,583 | 2,949 | 7,583 |
| Due from other governmental units | 28,834 | 36,773 | 28,834 | 36,773 |
| Total assets | \$ 697,732 | \$ 1,957,882 | \$ 1,474,375 | \$ 1,181,239 |
| LIABILITIES | | | | |
| Accounts payable | \$ 67,612 | \$ 607,320 | \$ 596,380 | \$ 78,552 |
| Accrued employee leave payable | 10,589 | 11,137 | 10,589 | 11,137 |
| Notes payable | - | - | - | - |
| Due to other governmental units | 619,531 | 1,383,037 | 911,018 | 1,091,550 |
| Total liabilities | \$ 697,732 | \$ 2,001,494 | \$ 1,517,987 | \$ 1,181,239 |

Combining Statement of Changes in Assets and Liabilities
Agency Funds
December 31, 2007

| | Capital Area Public Facilities District | | | Balance December 31, 2007 |
|-----------------------------------|---|---------------------|---------------------|------------------------------|
| | Balance December 31, 2006 | Additions | Deductions | |
| ASSETS | | | | |
| Cash and cash equivalents | \$ 63,651 | \$ 1,414,725 | \$ 1,411,460 | \$ 66,916 |
| Due from other governmental units | - | 2,037 | 2,037 | - |
| Total assets | \$ 63,651 | \$ 1,416,762 | \$ 1,413,497 | \$ 66,916 |
| LIABILITIES | | | | |
| Accounts payable | \$ - | \$ 10,171 | \$ 10,171 | \$ - |
| Due to other governmental units | 63,651 | 1,419,803 | 1,416,538 | 66,916 |
| Total liabilities | \$ 63,651 | \$ 1,429,974 | \$ 1,426,709 | \$ 66,916 |

| | Total All Agencies | | | Balance December 31, 2007 |
|--|------------------------------|---------------------|---------------------|------------------------------|
| | Balance December 31, 2006 | Additions | Deductions | |
| ASSETS | | | | |
| Cash and cash equivalents | \$ 1,847,332 | \$ 4,965,972 | \$ 4,338,531 | \$ 2,474,773 |
| Accounts receivables, net of uncollectible accounts | 7,812 | 767,847 | 762,754 | 12,905 |
| Due from other governmental units | 46,502 | 57,222 | 48,539 | 55,185 |
| Total assets | \$ 1,901,646 | \$ 5,791,041 | \$ 5,149,824 | \$ 2,542,863 |
| LIABILITIES | | | | |
| Accounts payable | \$ 84,696 | \$ 1,087,758 | \$ 1,052,917 | \$ 119,537 |
| Accrued employee leave payable | 57,190 | 71,019 | 57,190 | 71,019 |
| Notes payable | 227,206 | 15,275 | 29,973 | 212,508 |
| Due to other governmental units | 1,532,554 | 4,927,067 | 4,319,822 | 2,139,799 |
| Total liabilities | \$ 1,901,646 | \$ 6,101,119 | \$ 5,459,902 | \$ 2,542,863 |

Combining Statement of Fiduciary Net Assets
Agency Funds
December 31, 2007

| | Joint Animal Services | Thurston County Nartotics Task Force | Capital Area Public Facilities District | Total |
|--|-----------------------------|---|--|-----------------------------|
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| ASSETS | | | | |
| Cash and cash equivalents | \$ 1,270,974 | \$ 1,136,883 | \$ 66,916 | \$ 2,474,773 |
| Accounts receivables, net of uncollectible accounts | 5,322 | 7,583 | - | 12,905 |
| Due from other governmental units | 18,412 | 36,773 | - | 55,185 |
| - | | | | |
| Total assets | <u>\$ 1,294,708</u> | <u>\$ 1,181,239</u> | <u>\$ 66,916</u> | <u>\$ 2,542,863</u> |
| LIABILITIES | | | | |
| Accounts payable | \$ 40,985 | \$ 78,552 | - | \$ 119,537 |
| Accrued employee leave payable | 59,882 | 11,137 | - | 71,019 |
| Notes payable | 212,508 | - | - | 212,508 |
| Due to other governmental units | 981,333 | 1,091,550 | 66,916 | 2,139,799 |
| Total liabilities | <u>\$ 1,294,708</u> | <u>\$ 1,181,239</u> | <u>\$ 66,916</u> | <u>\$ 2,542,863</u> |

Schedule of Operations - Budget to Actual
Water Fund
For the Year Ended December 31, 2007

| | Budgeted Amounts | | Actual GAAP Basis | Variance with Final Budget Positive (Negative) |
|---|------------------|-----------------|----------------------|--|
| | Original | Final | | |
| OPERATING REVENUES | | | | |
| Charges for services | \$ 8,129,035 | \$ 8,554,035 | \$ 10,556,071 | \$ 2,002,036 |
| Total operating revenue | \$ 8,129,035 | \$ 8,554,035 | \$ 10,556,071 | \$ 2,002,036 |
| OPERATING EXPENSES | | | | |
| Operating expense | \$ 2,454,044 | \$ 2,760,694 | \$ 2,675,936 | \$ 84,758 |
| Maintenance expense | 15,703,333 | 16,008,725 | 2,959,438 | 13,049,287 |
| Debt discount amortization | 1,665 | 1,665 | 1,663 | 2 |
| Depreciation expense | 1,945,000 | 2,250,000 | 2,509,693 | (259,693) |
| Taxes | 338,125 | 338,125 | 383,343 | (45,218) |
| Total operating expenses | \$ 20,442,167 | \$ 21,359,209 | \$ 8,530,073 | \$ 12,829,136 |
| OPERATING INCOME (LOSS) | \$ (12,313,132) | \$ (12,805,174) | \$ 2,025,998 | \$ 14,831,172 |
| NON-OPERATING REVENUES (EXPENSES) | | | | |
| Investment earnings | \$ 24,770 | \$ 24,770 | \$ 195,552 | \$ 170,782 |
| Miscellaneous non-operating revenues | 213,750 | 229,750 | 971,666 | 741,916 |
| Interest expense | (5,890) | (5,890) | (4,352) | 1,538 |
| Total non-operating Revenues (expenses) | \$ 232,630 | \$ 248,630 | \$ 1,162,866 | \$ 914,236 |
| Income (loss) before contributions and transfers | \$ (12,080,502) | \$ (12,556,544) | \$ 3,188,864 | \$ 15,745,408 |
| Capital contributions | \$ - | \$ - | \$ 3,330,512 | \$ 3,330,512 |
| Transfers in | 8,081,143 | 8,081,143 | 1,088,270 | (6,992,873) |
| Transfers out | (960,270) | (960,270) | (1,026,872) | (66,602) |
| Changes in net assets | \$ (4,959,629) | \$ (5,435,671) | \$ 6,580,774 | \$ 12,016,445 |
| NET ASSETS - BEGINNING (Restated) | \$ 4,959,629 | \$ 5,435,671 | \$ 81,426,447 | \$ 75,990,776 |
| NET ASSETS - ENDING | \$ - | \$ - | \$ 88,007,221 | \$ 88,007,221 |

This schedule is presented as supplemental information

Schedule of Operations - Budget to Actual
Wastewater Fund
For the Year Ended December 31, 2007

| | Budgeted Amounts | | Actual GAAP Basis | Variance with Final Budget |
|---|------------------|-----------------|----------------------|-------------------------------|
| | Original | Final | | Positive (Negative) |
| OPERATING REVENUES | | | | |
| Charges for services | \$ 9,020,730 | \$ 9,569,265 | \$ 10,651,092 | \$ 1,081,827 |
| Total operating revenue | \$ 9,020,730 | \$ 9,569,265 | \$ 10,651,092 | \$ 1,081,827 |
| OPERATING EXPENSES | | | | |
| Operating expense | \$ 5,965,404 | \$ 6,565,569 | \$ 6,500,855 | \$ 64,714 |
| Maintenance expense | 12,202,486 | 12,274,435 | 1,472,094 | 10,802,341 |
| Debt discount amortization | 2,405 | 2,405 | 2,403 | 2 |
| Depreciation expense | 1,410,000 | 1,470,000 | 1,438,000 | 32,000 |
| Taxes | 130,095 | 130,095 | 151,943 | (21,848) |
| Total operating expenses | \$ 19,710,390 | \$ 20,442,504 | \$ 9,565,295 | \$ 10,877,209 |
| OPERATING INCOME (LOSS) | \$ (10,689,660) | \$ (10,873,239) | \$ 1,085,797 | \$ 11,959,036 |
| NON-OPERATING REVENUES (EXPENSES) | | | | |
| Investment earnings | \$ 163,605 | \$ 163,605 | \$ 884,445 | \$ 720,840 |
| Miscellaneous non-operating revenues | - | - | 741,174 | 741,174 |
| Interest expense | (8,510) | (8,510) | (6,292) | 2,218 |
| Total non-operating Revenues (expenses) | \$ 155,095 | \$ 155,095 | \$ 1,619,327 | \$ 1,464,232 |
| Income (loss) before contributions and transfers | \$ (10,534,565) | \$ (10,718,144) | \$ 2,705,124 | \$ 13,423,268 |
| Capital contributions | \$ - | \$ - | \$ 2,595,067 | \$ 2,595,067 |
| Transfers in | 602,405 | 602,405 | 602,405 | - |
| Transfers out | (1,602,405) | (1,602,405) | (1,775,643) | (173,238) |
| Changes in net assets | \$ (11,534,565) | \$ (11,718,144) | \$ 4,126,953 | \$ 15,845,097 |
| NET ASSETS - BEGINNING Restated | \$ 11,534,565 | \$ 11,718,144 | \$ 68,963,551 | \$ 57,245,407 |
| NET ASSETS - ENDING | \$ - | \$ - | \$ 73,090,504 | \$ 73,090,504 |

This schedule is presented as supplemental information

Schedule of Operations - Budget to Actual
Stormwater Fund
For the Year Ended December 31, 2007

| | Budgeted Amounts | | Actual GAAP Basis | Variance with Final Budget Positive (Negative) |
|---|------------------|----------------|----------------------|--|
| | Original | Final | | |
| OPERATING REVENUES | | | | |
| Charges for services | \$ 1,476,205 | \$ 1,746,311 | \$ 1,685,010 | \$ (61,301) |
| Charges for services | \$ 1,476,205 | \$ 1,746,311 | \$ 1,685,010 | \$ (61,301) |
| OPERATING EXPENSES | | | | |
| Operating expense | \$ 712,547 | \$ 829,093 | \$ 878,740 | \$ (49,647) |
| Maintenance expense | 2,427,257 | 2,430,817 | 430,881 | 1,999,936 |
| Depreciation expense | 650,000 | 800,000 | 1,038,070 | (238,070) |
| Taxes | 20,950 | 20,950 | 26,520 | (5,570) |
| Total operating expenses | \$ 3,810,754 | \$ 4,080,860 | \$ 2,374,211 | \$ 1,706,649 |
| OPERATING INCOME (LOSS) | \$ (2,334,549) | \$ (2,334,549) | \$ (689,201) | \$ 1,645,348 |
| NON-OPERATING REVENUES (EXPENSES) | | | | |
| Investment earnings | \$ 31,450 | \$ 31,450 | \$ 114,147 | \$ 82,697 |
| Miscellaneous non-operating revenues | - | - | 4,378 | 4,378 |
| Total non-operating Revenues (expenses) | \$ 31,450 | \$ 31,450 | \$ 118,525 | \$ 87,075 |
| Income (loss) before contributions and transfers | \$ (2,303,099) | \$ (2,303,099) | \$ (570,676) | \$ 1,732,423 |
| Capital contributions | \$ - | \$ - | \$ 11,673,267 | \$ 11,673,267 |
| Transfers in | 250,000 | 250,000 | 250,000 | - |
| Transfers out | (250,000) | (250,000) | (302,068) | (52,068) |
| Changes in net assets | \$ (2,303,099) | \$ (2,303,099) | \$ 11,050,523 | \$ 13,353,622 |
| NET ASSETS - BEGINNING | \$ 2,303,099 | \$ 2,303,099 | \$ 29,885,293 | \$ 27,582,194 |
| NET ASSETS - ENDING | \$ - | \$ - | \$ 40,935,816 | \$ 40,935,816 |

This schedule is presented as supplemental information

Schedule of Operations - Budget to Actual
Reclaimed Water
For the Year Ended December 31, 2007

| | Budgeted Amounts | | Actual GAAP Basis | Variance with Final Budget Positive (Negative) |
|---|------------------|----------------|----------------------|--|
| | Original | Final | | |
| OPERATING REVENUES | | | | |
| Charges for services | \$ - | \$ - | \$ - | \$ - |
| Charges for services | \$ - | \$ - | \$ - | \$ - |
| OPERATING EXPENSES | | | | |
| Operating expense | \$ 100,000 | \$ 100,000 | \$ - | \$ 100,000 |
| Maintenance expense | 2,400,000 | 2,400,000 | 332,391 | 2,067,609 |
| Total operating expenses | \$ 2,500,000 | \$ 2,500,000 | \$ 332,391 | \$ 2,167,609 |
| OPERATING INCOME (LOSS) | \$ (2,500,000) | \$ (2,500,000) | \$ (332,391) | \$ 2,167,609 |
| NON-OPERATING REVENUES (EXPENSES) | | | | |
| Investment earnings | \$ - | \$ - | \$ 43,416 | \$ 43,416 |
| Miscellaneous non-operating revenues | - | - | 184,047 | 184,047 |
| Total non-operating Revenues (expenses) | \$ - | \$ - | \$ 227,463 | \$ 227,463 |
| Income (loss) before contributions and transfers | \$ (2,500,000) | \$ (2,500,000) | \$ (104,928) | \$ 2,395,072 |
| Transfers in | \$ 2,500,000 | \$ 2,500,000 | \$ 2,500,000 | \$ - |
| Changes in net assets | \$ - | \$ - | \$ 2,395,072 | \$ 2,395,072 |
| NET ASSETS - BEGINNING | \$ - | \$ - | \$ - | \$ - |
| NET ASSETS - ENDING | \$ - | \$ - | \$ 2,395,072 | \$ 2,395,072 |

This schedule is presented as supplemental information

Schedule of Operations - Budget to Actual
Equipment Rental Fund
For the Year Ended December 31, 2007

| | Budgeted Amounts | | Actual GAAP Basis | Variance with Final Budget Positive (Negative) |
|---|------------------|--------------|----------------------|--|
| | Original | Final | | |
| OPERATING REVENUES | | | | |
| Charges for services | \$ 1,592,293 | \$ 1,592,293 | \$ 1,626,670 | \$ 34,377 |
| Total operating revenue | \$ 1,592,293 | \$ 1,592,293 | \$ 1,626,670 | \$ 34,377 |
| OPERATING EXPENSES | | | | |
| Operating expense | \$ 1,095,502 | \$ 1,112,367 | \$ 797,387 | \$ 314,980 |
| Maintenance expense | 50,346 | 58,591 | 59,628 | (1,037) |
| Depreciation expense | 475,000 | 590,400 | 594,384 | (3,984) |
| Total operating expenses | \$ 1,620,848 | \$ 1,761,358 | \$ 1,451,399 | \$ 309,959 |
| OPERATING INCOME (LOSS) | \$ (28,555) | \$ (169,065) | \$ 175,271 | \$ 344,336 |
| NON-OPERATING REVENUES (EXPENSES) | | | | |
| Investment earnings | \$ - | \$ - | \$ 262,249 | \$ 262,249 |
| Miscellaneous non-operating revenues | - | - | 45,857 | 45,857 |
| Gain (loss) on sale of fixed assets | - | - | 13,089 | 13,089 |
| Total non-operating Revenues (expenses) | \$ - | \$ - | \$ 321,195 | \$ 321,195 |
| Income (loss) before contributions and transfers | \$ (28,555) | \$ (169,065) | \$ 496,466 | \$ 665,531 |
| Capital contributions | \$ - | \$ - | \$ 203,734 | \$ 203,734 |
| Transfers in | - | - | 129,577 | 129,577 |
| Changes in net assets | \$ (28,555) | \$ (169,065) | \$ 829,777 | \$ 998,842 |
| NET ASSETS - BEGINNING | \$ 28,555 | \$ 169,065 | \$ 7,056,273 | \$ 6,887,208 |
| NET ASSETS - ENDING | \$ - | \$ - | \$ 7,886,050 | \$ 7,886,050 |

This schedule is presented as supplemental information

Schedule of Operations - Budget to Actual
Information Management Services Fund
For the Year Ended December 31, 2007

| | Budgeted Amounts | | Actual GAAP Basis | Variance with Final Budget Positive (Negative) |
|---|------------------|--------------|----------------------|--|
| | Original | Final | | |
| OPERATING REVENUES | | | | |
| Charges for services | \$ 993,944 | \$ 993,944 | \$ 993,944 | \$ - |
| Total operating revenue | \$ 993,944 | \$ 993,944 | \$ 993,944 | \$ - |
| OPERATING EXPENSES | | | | |
| Operating expense | \$ 918,999 | \$ 918,999 | \$ 751,003 | \$ 167,996 |
| Maintenance expense | 224,000 | 224,000 | 211,908 | 12,092 |
| Depreciation expense | 82,000 | 174,800 | 197,469 | (22,669) |
| Total operating expenses | \$ 1,224,999 | \$ 1,317,799 | \$ 1,160,380 | \$ 157,419 |
| OPERATING INCOME (LOSS) | \$ (231,055) | \$ (323,855) | \$ (166,436) | \$ 157,419 |
| NON-OPERATING REVENUES (EXPENSES) | | | | |
| Investment earnings | \$ - | \$ - | \$ 110,478 | \$ 110,478 |
| Interest expense | - | - | (6,124) | (6,124) |
| Total non-operating Revenues (expenses) | \$ - | \$ - | \$ 104,354 | \$ 104,354 |
| Income (loss) before contributions and transfers | \$ (231,055) | \$ (323,855) | \$ (62,082) | \$ 261,773 |
| Capital contributions | \$ - | \$ - | \$ 237,949 | \$ 237,949 |
| Transfers in | - | - | 34,331 | 34,331 |
| Changes in net assets | \$ (231,055) | \$ (323,855) | \$ 210,198 | \$ 534,053 |
| NET ASSETS - BEGINNING | \$ 231,055 | \$ 323,855 | \$ 2,445,532 | \$ 2,121,677 |
| NET ASSETS - ENDING | \$ - | \$ - | \$ 2,655,730 | \$ 2,655,730 |

This schedule is presented as supplemental information

Schedule of Expenditures of Federal Awards
For The Year Ending December 31, 2007
Federal Assistance Received Directly From a Federal Agency or
Received Indirectly Through a State Agency or Other Local Government

| Grantor/ Pass-Through Grantor Program Title | Federal CFDA Number | Other Identification Number | Current Year Expenditures |
|--|---------------------------|-----------------------------------|---------------------------------|
| <u>DEPARTMENT OF AGRICULTURE - FOOD AND NUTRITION SERVICE</u> | | | |
| USDA/WA SPI indirect: | 10.559 | 34-923 | \$ 46,753 |
| <u>DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u> | | | |
| US HUD/WA CTED indirect: Community Block Grant Program | 14.228 | 06-64006-25 | \$ 5,746 |
| <u>DEPARTMENT OF JUSTICE - BUREAU OF JUSTICE ASSISTANCE</u> | | | |
| US DOJ direct: | | | |
| Edward Byrne Memorial Justice Assistance Gr | 16.738 | LPD 090 | \$ 15,190 |
| Bulletproof Vest Grant Program | 16.600 | FY 2007 | 1,516 |
| Total US DOJ direct: | | | <u>16,706</u> |
| <u>US DOJ/WA CTED INDIRECT:</u> | | | |
| Justice Assistance Grant - Drug Interdiction Pro | 16.738 | F06-66201110 | 88,693 |
| Justice Assistance Grant - Drug Interdiction Pro | 16.738 | F07-66707010 | 95,688 |
| Total US DOJ/CTED indirect | | | <u>\$ 184,381</u> |
| Total DOJ | | | <u>\$ 201,087</u> |
| <u>DEPARTMENT OF TRANSPORTATION (DOT) - HIGHWAY PLANNING AND CONSTRUCTION</u> | | | |
| US DOT/WS DOT indirect: | | | |
| College Street Rehab | 20.205 | LA-5098 | \$ 44,857 |
| Sleater Kinney/6th | 20.205 | LA-5203 | 47,844 |
| Exit 111-SB Off Ramp | 20.205 | 0052 (196) | 398,767 |
| Woodland Trail | 20.219 | LA-6074 | 13,680 |
| Total DOT | | | <u>\$ 505,148</u> |
| <u>DEPARTMENT OF TRANSPORTATION/NATIONAL HIGHWAY TRAFFIC SAFETY ADMINISTRATION (NITSA)</u> | | | |
| NITSA/Washington Traffic Safety Commission indirect: | | | |
| Night Time Seat Belt Enforcement Program | 20.602 | LPD 066 | \$ 4,673 |
| Safety and Drunk Driving Prevention Program | 20.601 | LPD83, 86 & 93 | 12,912 |
| Total NITSA | | | <u>\$ 17,585</u> |
| <u>OFFICE OF NATIONAL DRUG CONTROL POLICY (ONDCP):</u> | | | |
| ONDCP/NWHIDTA indirect: | | | |
| High Intensity Drug Trafficking Program (HIDTA) | 07.000 | I7PNWP516Z | \$ 43,449 |
| <u>DEPARTMENT OF HOMELAND SECURITY (DHS)</u> | | | |
| Federal Emergency Management Agency/Washington State Military Department indirect: | | | |
| Disaster Assistance Payment | 97.088 | E07-846 | \$ 76,219 |
| <u>OFFICE OF DOMESTIC PREPAREDNESS/THURSTON COUNTY EMERGENCY MANAGEMENT INDIRECT:</u> | | | |
| Equipment Support - Tact Vest | 97.004 | LPD092 | 10,265 |
| Equipment Support - Radios | 97.067 | LPD079 | 3,847 |
| Total DHS | | | <u>\$ 90,331</u> |
| Total Expenditures of Federal Awards | | | <u>\$ 910,099</u> |

Schedule of State and Local Financial Assistance
For The Year Ended December, 31, 2007

| Grantor/ Pass-Through Grantor Program Title | Other Identification Number | Current Year Expenditures |
|---|-----------------------------------|---------------------------------|
| <u>Department of Transportation</u> | | |
| Mullen Road East to City Limits | 8-5-197 (023)-1 | \$ 767,879 |
| Sleater-Kinney | 8-5-197 (021)-1 | 82,783 |
| Carpenter Road | 8-5-197-(020)-1 | 4,912 |
| Total Department of Transportation | | <u>\$ 855,574</u> |
| <u>Higher Education Coordinating Board</u> | Work Study | <u>\$ 7,123</u> |
| <u>Washington Traffic Safety Commission</u> | | |
| Traffic Safety/DUI Enforcement Program | LPD 082,84,87,89, & 94 | <u>\$ 14,649</u> |
| <u>Community Economic Revitalization Board</u> | | |
| Job Development Fund Grant Program | Gateway | <u>\$ 6,393,608</u> |
| <u>Washington State Military Department</u> | | |
| Federal Emergency Management Agency Disaster Assist | E07-846 | <u>\$ 12,703</u> |
| Total Expenditures of State Awards | | <u><u>\$ 7,283,657</u></u> |

Notes to the Schedule of Expenditures of Federal Awards
And State/Local Financial Assistance

Note 1 - Basis of Accounting

These schedules are prepared on the same basis of accounting as the City of Lacey's financial statements. The City uses the accrual basis of accounting for all funds except governmental fund types and agency funds, which use the modified accrual basis of accounting.

Note 2 - Program Costs

The amount shown as current year expenditures represents only the City's grant portion of the program costs. Entire program costs, including the City portion may be more than shown.

Note 3 - Revolving Loan - Program Income

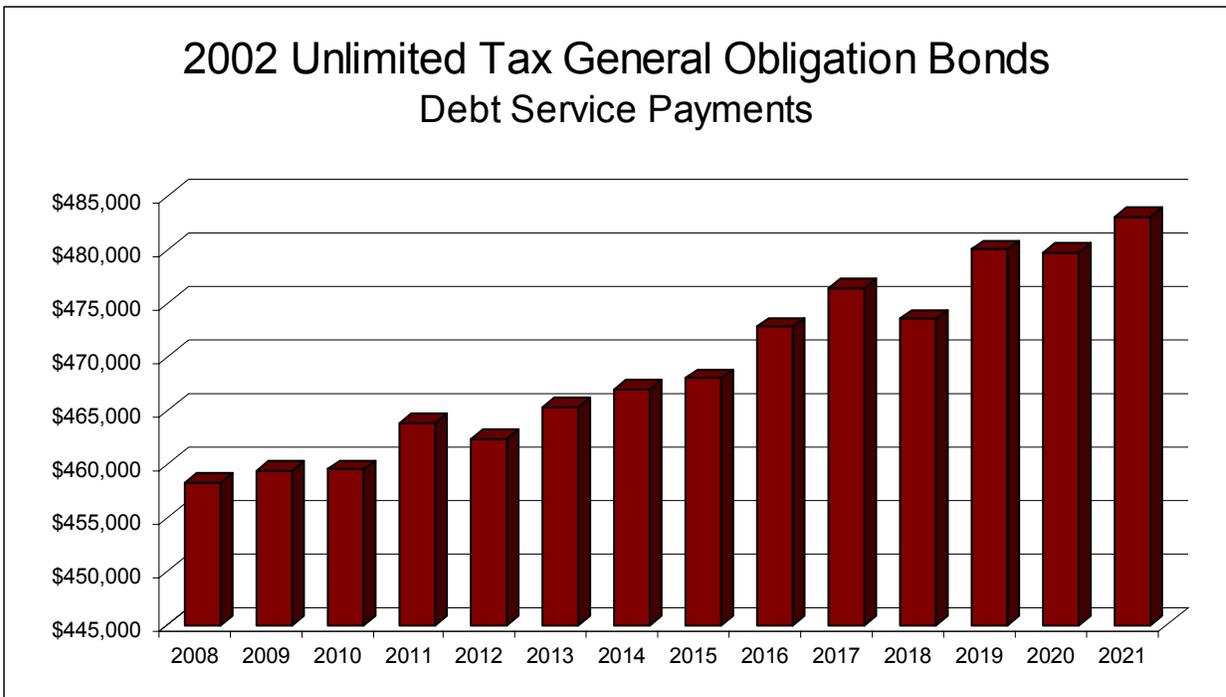
The City has a loan program under the Department of Housing & Urban Development. Under this federal program repayments to the City are considered program revenues (income). No interest is charged on the loans and full payment is due upon sale of the property. \$5,746 was repaid during 2007. The City has received approval from CTED to utilize the program revenues to finance cost overruns on the CDBG-funded Child Care and Family Services Center.

Note 4 - Noncash Awards - Equipment

The City received equipment and supplies that were purchased with Federal Homeland Security funds by the Thurston County Emergency Management. The amount reported on the schedule is the value of the property on the date it was received by the City and priced by the state of Washington.

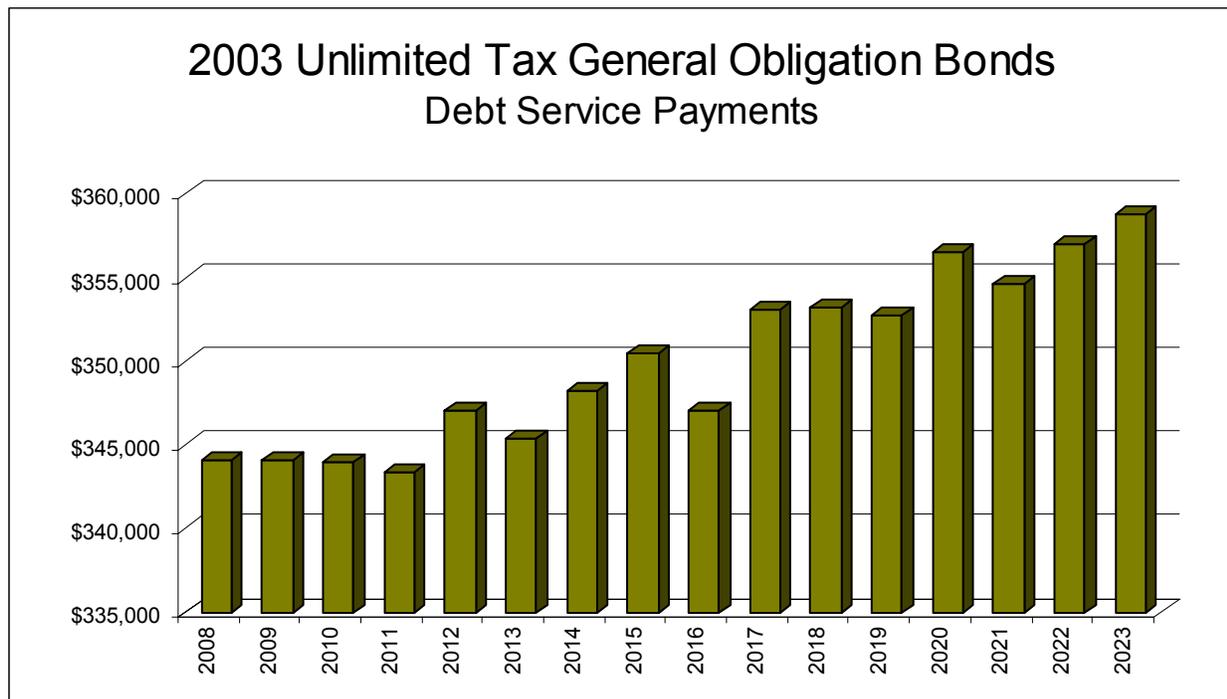
City of Lacey General Obligation Bond Debt
 2002 Unlimited Tax General Obligated Bonds
 December 31, 2007

| Year Ended 31-Dec | Interest Rate - % | Interest | | Principal | Total Debt Service |
|----------------------|----------------------|-------------------|-------------------|---------------------|-----------------------|
| | | Due - 01 Jun | Due - 01 Dec | Due - 01 Dec | |
| 2008 | 3.625% | 106,599 | 106,600 | 245,000 | 458,199 |
| 2009 | 3.875% | 102,159 | 102,159 | 255,000 | 459,318 |
| 2010 | 4.000% | 97,218 | 97,218 | 265,000 | 459,436 |
| 2011 | 4.125% | 91,918 | 91,918 | 280,000 | 463,836 |
| 2012 | 4.125% | 86,143 | 86,143 | 290,000 | 462,286 |
| 2013 | 4.375% | 80,162 | 80,162 | 305,000 | 465,324 |
| 2014 | 4.375% | 73,490 | 73,490 | 320,000 | 466,980 |
| 2015 | 4.550% | 66,490 | 66,490 | 335,000 | 467,980 |
| 2016 | 4.625% | 58,869 | 58,869 | 355,000 | 472,738 |
| 2017 | 4.750% | 50,659 | 50,660 | 375,000 | 476,319 |
| 2018 | 4.750% | 41,753 | 41,753 | 390,000 | 473,506 |
| 2019 | 4.875% | 32,491 | 32,490 | 415,000 | 479,981 |
| 2020 | 5.000% | 22,375 | 22,375 | 435,000 | 479,750 |
| 2021 | 5.000% | 11,500 | 11,500 | 460,000 | 483,000 |
| | | <u>\$ 921,826</u> | <u>\$ 921,827</u> | <u>\$ 4,725,000</u> | <u>\$ 6,568,653</u> |



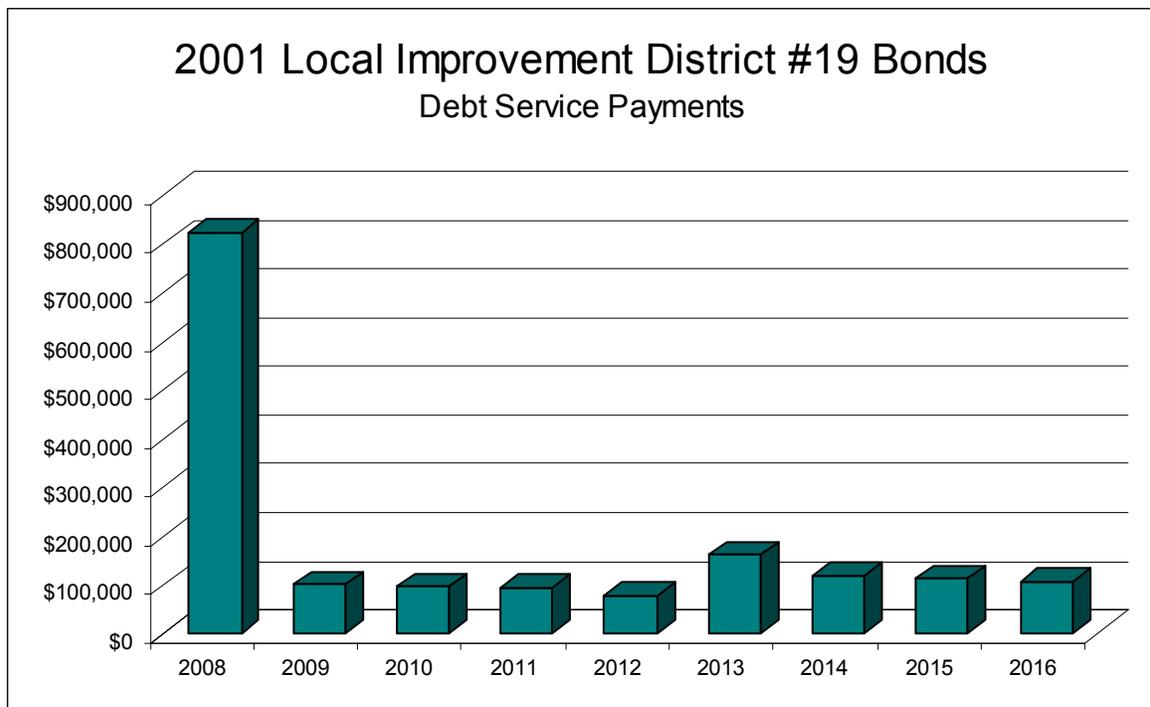
City of Lacey General Obligation Bond Debt
 2003 Unlimited Tax General Obligated Bonds
 December 31, 2007

| Year Ended 31-Dec | Interest Rate - % | Interest | | Principal Due - 01 Dec | Total Debt Service |
|----------------------|----------------------|-------------------|-------------------|---------------------------|-----------------------|
| | | Due - 01 Jun | Due - 01 Dec | | |
| 2008 | 2.500% | 72,051 | 72,051 | 200,000 | 344,102 |
| 2009 | 2.500% | 69,551 | 69,551 | 205,000 | 344,102 |
| 2010 | 2.700% | 66,989 | 66,989 | 210,000 | 343,978 |
| 2011 | 2.900% | 64,154 | 64,154 | 215,000 | 343,308 |
| 2012 | 3.000% | 61,036 | 61,036 | 225,000 | 347,072 |
| 2013 | 3.100% | 57,661 | 57,661 | 230,000 | 345,322 |
| 2014 | 3.200% | 54,096 | 54,096 | 240,000 | 348,192 |
| 2015 | 3.400% | 50,256 | 50,256 | 250,000 | 350,512 |
| 2016 | 3.500% | 46,006 | 46,006 | 255,000 | 347,012 |
| 2017 | 3.650% | 41,544 | 41,544 | 270,000 | 353,088 |
| 2018 | 3.750% | 36,616 | 36,616 | 280,000 | 353,232 |
| 2019 | 3.875% | 31,366 | 31,366 | 290,000 | 352,732 |
| 2020 | 3.900% | 25,748 | 25,748 | 305,000 | 356,496 |
| 2021 | 4.000% | 19,800 | 19,800 | 315,000 | 354,600 |
| 2022 | 4.000% | 13,500 | 13,500 | 330,000 | 357,000 |
| 2023 | 4.000% | 6,900 | 6,900 | 345,000 | 358,800 |
| | | <u>\$ 717,274</u> | <u>\$ 717,274</u> | <u>\$ 4,165,000</u> | <u>\$ 5,599,548</u> |



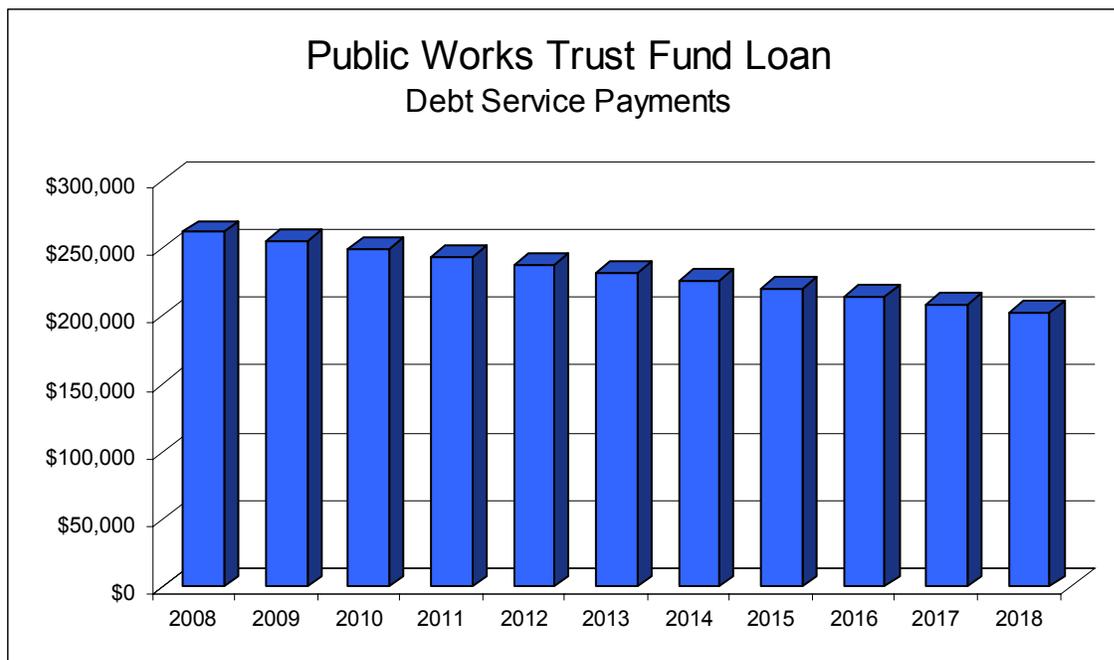
City of Lacey
 2001 Local Improvement District #19 Bonds
 December 31, 2007

| Year Ended 31-Dec | Interest Range Rate - % | | Interest 1-Oct | Principal 1-Oct | Total Debt Service |
|----------------------|----------------------------|--------|-------------------|---------------------|-----------------------|
| 2008 | 5.850% | 5.950% | 83,498 | 740,000 | 823,498 |
| 2009 | 5.950% | 5.950% | 39,785 | 60,000 | 99,785 |
| 2010 | 5.950% | 5.950% | 36,215 | 60,000 | 96,215 |
| 2011 | 5.950% | 5.950% | 32,645 | 60,000 | 92,645 |
| 2012 | 5.950% | 5.950% | 29,075 | 50,000 | 79,075 |
| 2013 | 6.000% | 6.000% | 26,100 | 135,000 | 161,100 |
| 2014 | 6.000% | 6.000% | 18,000 | 100,000 | 118,000 |
| 2015 | 6.000% | 6.000% | 12,000 | 100,000 | 112,000 |
| 2016 | 6.000% | 6.000% | 6,000 | 100,000 | 106,000 |
| | | | <u>\$ 283,318</u> | <u>\$ 1,405,000</u> | <u>\$ 1,688,318</u> |



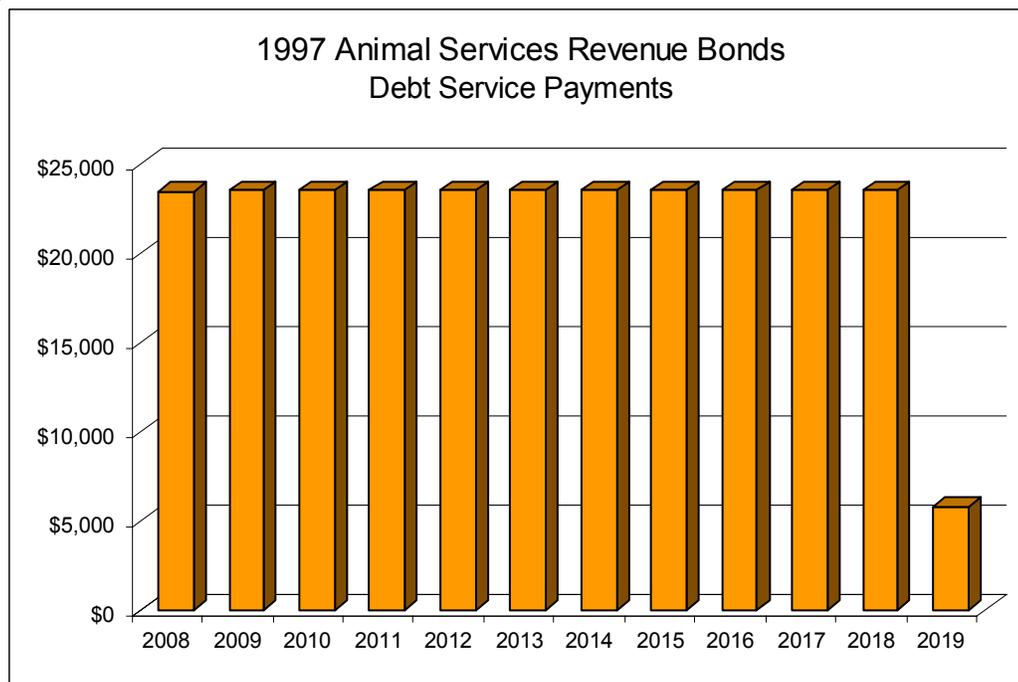
City of Lacey
Public Works Trust Fund Loan
December 31, 2007

| Year Ended 31-Dec | Interest Rate - % | Interest 1-Jul | Principal 1-Jul | Total Debt Service |
|----------------------|----------------------|-------------------|---------------------|-----------------------|
| 2008 | 3.000% | 64,817 | 196,416 | 261,233 |
| 2009 | 3.000% | 58,925 | 196,416 | 255,341 |
| 2010 | 3.000% | 53,032 | 196,416 | 249,448 |
| 2011 | 3.000% | 47,140 | 196,416 | 243,556 |
| 2012 | 3.000% | 41,247 | 196,416 | 237,663 |
| 2013 | 3.000% | 35,355 | 196,416 | 231,771 |
| 2014 | 3.000% | 29,462 | 196,416 | 225,878 |
| 2015 | 3.000% | 23,570 | 196,416 | 219,986 |
| 2016 | 3.000% | 17,677 | 196,416 | 214,093 |
| 2017 | 3.000% | 11,785 | 196,416 | 208,201 |
| 2018 | 3.000% | 5,896 | 196,412 | 202,308 |
| | | <u>\$ 388,906</u> | <u>\$ 2,160,572</u> | <u>\$ 2,549,478</u> |



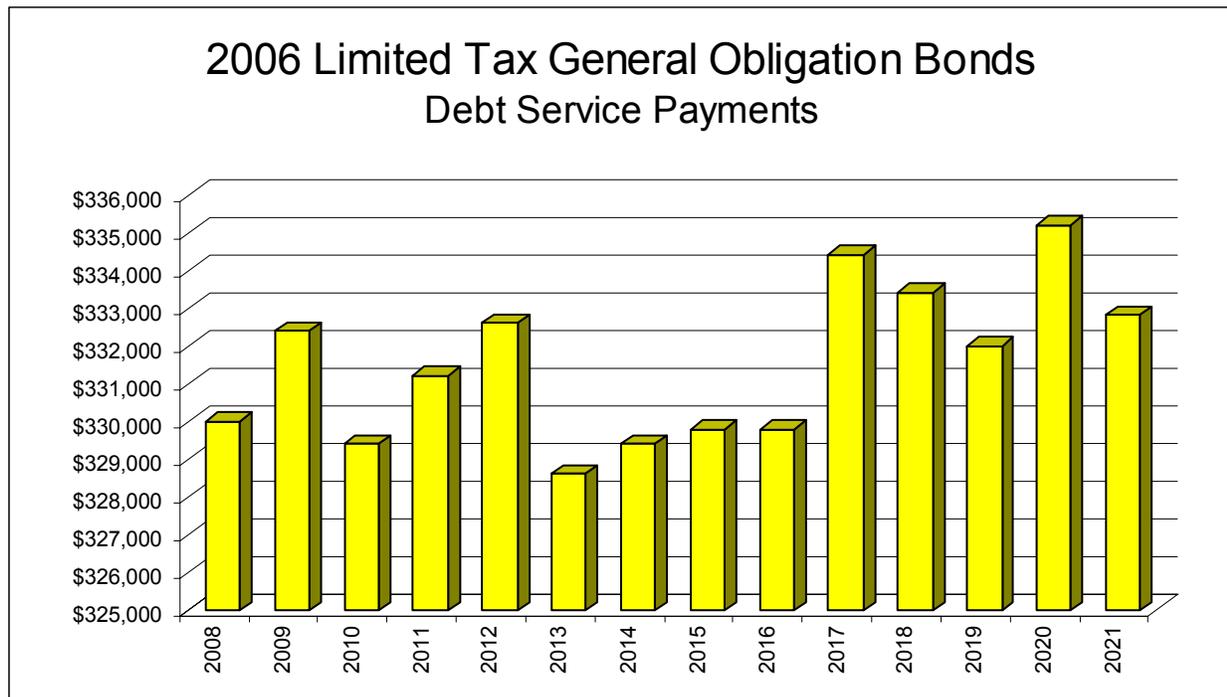
City of Lacey
 1997 Animal Services Revenue Bond
 December 31, 2007

| Year Ended 31-Dec | Interest Rate - % | Interest Annual* | Principal Annual* | Total Debt Service |
|----------------------|----------------------|---------------------|----------------------|-----------------------|
| 2008 | 3.978% | 8,180 | 15,271 | 23,451 |
| 2009 | 3.978% | 7,561 | 15,910 | 23,471 |
| 2010 | 3.978% | 6,916 | 16,555 | 23,471 |
| 2011 | 3.978% | 6,245 | 17,226 | 23,471 |
| 2012 | 3.978% | 5,548 | 17,923 | 23,471 |
| 2013 | 3.978% | 4,821 | 18,650 | 23,471 |
| 2014 | 3.978% | 4,066 | 19,405 | 23,471 |
| 2015 | 3.978% | 3,280 | 20,191 | 23,471 |
| 2016 | 3.978% | 2,462 | 21,009 | 23,471 |
| 2017 | 3.978% | 1,611 | 21,860 | 23,471 |
| 2018 | 3.978% | 725 | 22,746 | 23,471 |
| 2019 | 3.978% | 36 | 5,763 | 5,799 |
| | | \$ 51,451 | \$ 212,509 | \$ 263,960 |



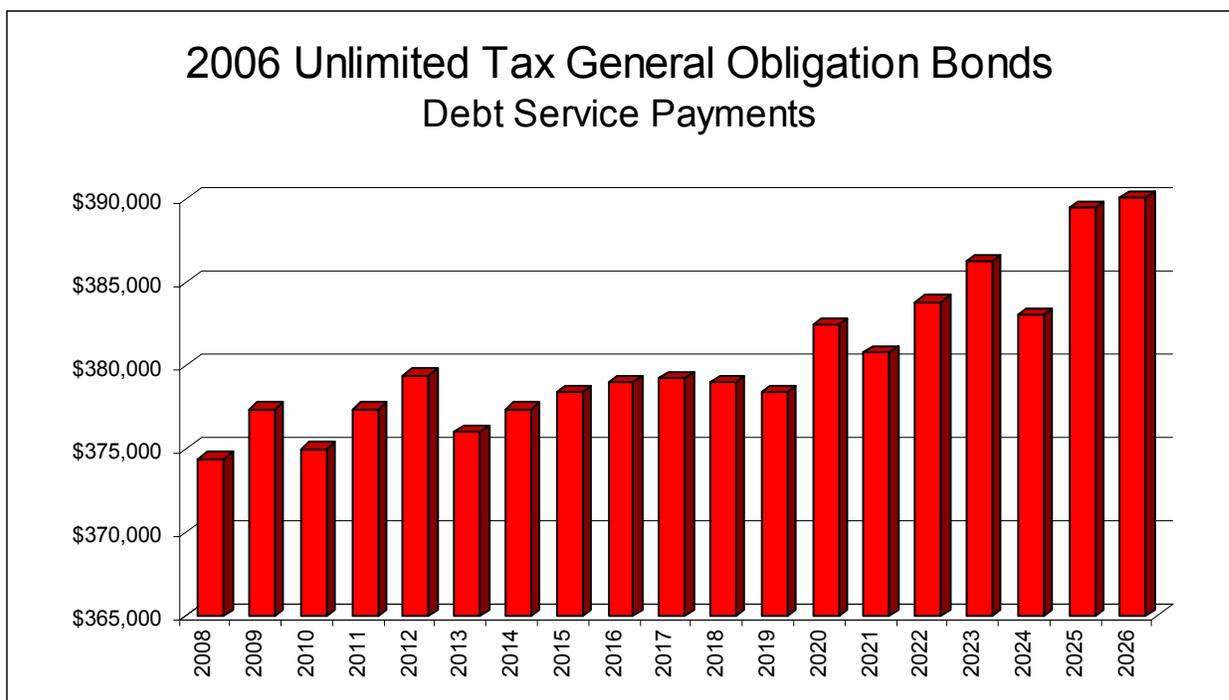
City of Lacey General Obligation Bond Debt
 2006 Limited Tax General Obligated Bonds
 December 31, 2007

| Year Ended 31-Dec | Interest Rate - % | Interest | | Principal Due - 01 Dec | Total Debt Service |
|----------------------|----------------------|-------------------|-------------------|---------------------------|-----------------------|
| | | Due - 01 Jun | Due - 01 Dec | | |
| 2008 | 4.000% | 70,000 | 70,000 | 190,000 | 330,000 |
| 2009 | 4.000% | 66,200 | 66,200 | 200,000 | 332,400 |
| 2010 | 4.000% | 62,200 | 62,200 | 205,000 | 329,400 |
| 2011 | 4.000% | 58,100 | 58,100 | 215,000 | 331,200 |
| 2012 | 4.000% | 53,800 | 53,800 | 225,000 | 332,600 |
| 2013 | 4.000% | 49,300 | 49,300 | 230,000 | 328,600 |
| 2014 | 4.000% | 44,700 | 44,700 | 240,000 | 329,400 |
| 2015 | 4.000% | 39,900 | 39,900 | 250,000 | 329,800 |
| 2016 | 4.000% | 34,900 | 34,900 | 260,000 | 329,800 |
| 2017 | 4.000% | 29,700 | 29,700 | 275,000 | 334,400 |
| 2018 | 4.000% | 24,200 | 24,200 | 285,000 | 333,400 |
| 2019 | 4.000% | 18,500 | 18,500 | 295,000 | 332,000 |
| 2020 | 4.000% | 12,600 | 12,600 | 310,000 | 335,200 |
| 2021 | 4.000% | 6,400 | 6,400 | 320,000 | 332,800 |
| | | <u>\$ 570,500</u> | <u>\$ 570,500</u> | <u>\$ 3,500,000</u> | <u>\$ 4,641,000</u> |



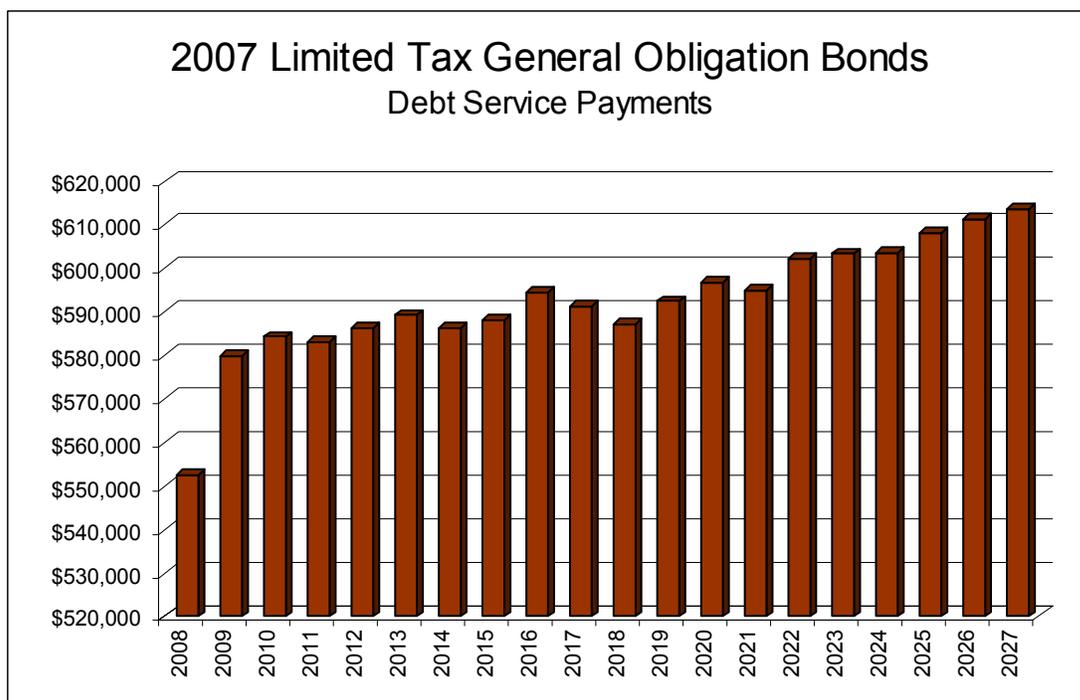
**City of Lacey General Obligation Bond Debt
2006 Unlimited Tax General Obligated Bonds
December 31, 2007**

| Year Ended 31-Dec | Interest Rate - % | Interest | | Principal Due - 01 Dec | Total Debt Service |
|----------------------|----------------------|---------------------|---------------------|---------------------------|-----------------------|
| | | Due - 01 Jun | Due - 01 Dec | | |
| 2008 | 4.000% | 99,700 | 99,700 | 175,000 | 374,400 |
| 2009 | 4.000% | 96,200 | 96,200 | 185,000 | 377,400 |
| 2010 | 4.000% | 92,500 | 92,500 | 190,000 | 375,000 |
| 2011 | 4.000% | 88,700 | 88,700 | 200,000 | 377,400 |
| 2012 | 4.000% | 84,700 | 84,700 | 210,000 | 379,400 |
| 2013 | 4.000% | 80,500 | 80,500 | 215,000 | 376,000 |
| 2014 | 4.000% | 76,200 | 76,200 | 225,000 | 377,400 |
| 2015 | 4.000% | 71,700 | 71,700 | 235,000 | 378,400 |
| 2016 | 4.000% | 67,000 | 67,000 | 245,000 | 379,000 |
| 2017 | 4.000% | 62,100 | 62,100 | 255,000 | 379,200 |
| 2018 | 4.000% | 57,000 | 57,000 | 265,000 | 379,000 |
| 2019 | 4.000% | 51,700 | 51,700 | 275,000 | 378,400 |
| 2020 | 4.000% | 46,200 | 46,200 | 290,000 | 382,400 |
| 2021 | 4.000% | 40,400 | 40,400 | 300,000 | 380,800 |
| 2022 | 4.000% | 34,400 | 34,400 | 315,000 | 383,800 |
| 2023 | 4.000% | 28,100 | 28,100 | 330,000 | 386,200 |
| 2024 | 4.000% | 21,500 | 21,500 | 340,000 | 383,000 |
| 2025 | 4.000% | 14,700 | 14,700 | 360,000 | 389,400 |
| 2026 | 4.000% | 7,500 | 7,500 | 375,000 | 390,000 |
| | | <u>\$ 1,120,800</u> | <u>\$ 1,120,800</u> | <u>\$ 4,985,000</u> | <u>\$ 7,226,600</u> |



City of Lacey General Obligation Bond Debt
 2007 Limited Tax General Obligated Bonds
 December 31, 2007

| Year Ended 31-Dec | Interest Rate - % | Interest | | Principal Due - 01 Dec | Total Debt Service |
|----------------------|----------------------|---------------------|---------------------|---------------------------|-----------------------|
| | | Due - 01 Jun | Due - 01 Dec | | |
| 2008 | 4.000% | 145,137 | 162,265 | 245,000 | 552,402 |
| 2009 | 4.000% | 157,365 | 157,365 | 265,000 | 579,730 |
| 2010 | 4.000% | 152,065 | 152,065 | 280,000 | 584,130 |
| 2011 | 4.000% | 146,465 | 146,465 | 290,000 | 582,930 |
| 2012 | 4.000% | 140,665 | 140,665 | 305,000 | 586,330 |
| 2013 | 4.000% | 134,565 | 134,565 | 320,000 | 589,130 |
| 2014 | 4.000% | 128,165 | 128,165 | 330,000 | 586,330 |
| 2015 | 4.000% | 121,565 | 121,565 | 345,000 | 588,130 |
| 2016 | 5.000% | 114,665 | 114,665 | 365,000 | 594,330 |
| 2017 | 5.000% | 105,540 | 105,540 | 380,000 | 591,080 |
| 2018 | 3.750% | 96,040 | 96,040 | 395,000 | 587,080 |
| 2019 | 3.800% | 88,634 | 88,634 | 415,000 | 592,268 |
| 2020 | 3.850% | 80,749 | 80,749 | 435,000 | 596,498 |
| 2021 | 3.900% | 72,375 | 72,375 | 450,000 | 594,750 |
| 2022 | 4.000% | 63,600 | 63,600 | 475,000 | 602,200 |
| 2023 | 4.000% | 54,100 | 54,100 | 495,000 | 603,200 |
| 2024 | 4.000% | 44,200 | 44,200 | 515,000 | 603,400 |
| 2025 | 4.000% | 33,900 | 33,900 | 540,000 | 607,800 |
| 2026 | 4.000% | 23,100 | 23,100 | 565,000 | 611,200 |
| 2027 | 4.000% | 11,800 | 11,800 | 590,000 | 613,600 |
| | | <u>\$ 1,914,695</u> | <u>\$ 1,931,823</u> | <u>\$ 8,000,000</u> | <u>\$ 11,846,518</u> |



Statistical Section

This part of the City of Lacey's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, notes disclosures, and required supplementary information says about the city's overall financial health.

| Contents | Page |
|---|-------------|
| Financial Trends These schedules contain trend information to help the reader understand how the city's financial performance and well-being have changed over time. | 8-3 |
| Revenue Capacity These schedules contain information to help the reader assess the city's most significant local revenue source, the property tax. | 8-8 |
| Debt Capacity These schedules present information to help the reader assess the affordability of the city's current levels of outstanding debt and the city's ability to issue additional debt in the future. | 8-12 |
| Demographic and Economic Information These schedules offer demographic and economic indicators to help the reader understand the environment within which the city's financial activities take place. | 8-17 |
| Operating Information These schedules contain service and infrastructure data to help the reader understand how the information in the city's financial report relates to the services the city provides and the activities it performs. | 8-19 |

Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year. The city implemented GASB Statement 34 in 2000; schedules presenting government-wide information include information beginning in that year.

Table of contents
Statistical Section

| Table | Title | Page No. |
|---|---|----------|
| Financial Trends | | |
| 1 | Net Assets by Component | 8-3 |
| 2 | Changes in Net Assets | 8-4 |
| 3 | Fund Balances of Governmental Funds | 8-5 |
| 4 | Changes in Fund Balances of Governmental Funds | 8-6 |
| 5 | Governmental Activities Tax Revenues by Source | 8-7 |
| Revenue Capacity | | |
| 6 | Assessed Value and Estimated Actual Value of Taxable Property | 8-8 |
| 7 | Property Tax Rates | 8-9 |
| 8 | Principal Property Taxpayers | 8-10 |
| 9 | Property Tax Levies and Collections | 8-11 |
| Debt Capacity | | |
| 10 | Ratio of Outstanding Debt by Type | 8-12 |
| 11 | Ratios of General Bonded Debt Outstanding | 8-13 |
| 12 | Direct and Overlapping Government Activities Debt | 8-14 |
| 13 | Legal Debt Margin Information | 8-15 |
| 14 | Pledged-Revenue Coverage | 8-16 |
| Demographic and Economic Information | | |
| 15 | Demographic and Economic Statistics | 8-17 |
| 16 | Principal Employers | 8-18 |
| Operating Information | | |
| 17 | Full-time Equivalent City Government Employees by Function | 8-19 |
| 18 | Operating Indicators by Function | 8-20 |
| 19 | Capital Asset Statistics by Function | 8-21 |

Table 1

Net Assets by Component
Last Ten Fiscal Years*
(accrual basis of accounting)
(amounts expressed in thousands)

| Fiscal Year | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
|--|------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Governmental activities | | | | | | | | |
| Invested in capital assets, net of related debt | \$ 14,203 | \$ 21,507 | \$ 29,315 | \$ 40,590 | \$ 184,942 | \$ 219,565 | \$ 254,410 | \$ 269,717 |
| Restricted | 457 | 453 | 715 | 513 | 1,169 | 1,289 | 10,136 | 16,780 |
| Unrestricted | 16,014 | 26,589 | 43,689 | 43,980 | 41,755 | 44,417 | 47,198 | 50,787 |
| Total governmental activities net assets | \$ 30,674 | \$ 48,549 | \$ 73,719 | \$ 85,083 | \$ 227,866 | \$ 265,271 | \$ 311,743 | \$ 337,284 |
| Business-type activities | | | | | | | | |
| Invested in capital assets, net of related debt | \$ 42,239 | \$ 45,416 | \$ 85,983 | \$ 93,221 | \$ 107,181 | \$ 133,961 | \$ 155,634 | \$ 182,646 |
| Restricted | - | - | - | - | 1,049 | 1,049 | 413 | - |
| Unrestricted | 19,548 | 20,060 | 19,638 | 17,565 | 15,813 | 18,481 | 24,625 | 22,336 |
| Total business-type activities net assets | \$ 61,787 | \$ 65,476 | \$ 105,621 | \$ 110,786 | \$ 124,043 | \$ 153,491 | \$ 180,672 | \$ 204,982 |
| Primary government | | | | | | | | |
| Invested in capital assets, net of related debt | \$ 56,442 | \$ 66,924 | \$ 115,298 | \$ 133,811 | \$ 292,123 | \$ 353,526 | \$ 410,044 | \$ 452,363 |
| Restricted | 457 | 453 | 715 | 513 | 2,218 | 2,337 | 10,549 | 16,780 |
| Unrestricted | 35,562 | 46,648 | 63,327 | 61,545 | 57,568 | 62,899 | 71,823 | 73,123 |
| Total primary government net assets | \$ 92,461 | \$ 114,025 | \$ 179,340 | \$ 195,869 | \$ 351,909 | \$ 418,762 | \$ 492,416 | \$ 542,266 |

* The City first implemented GASB Statement No. 34 in fiscal year 2000.

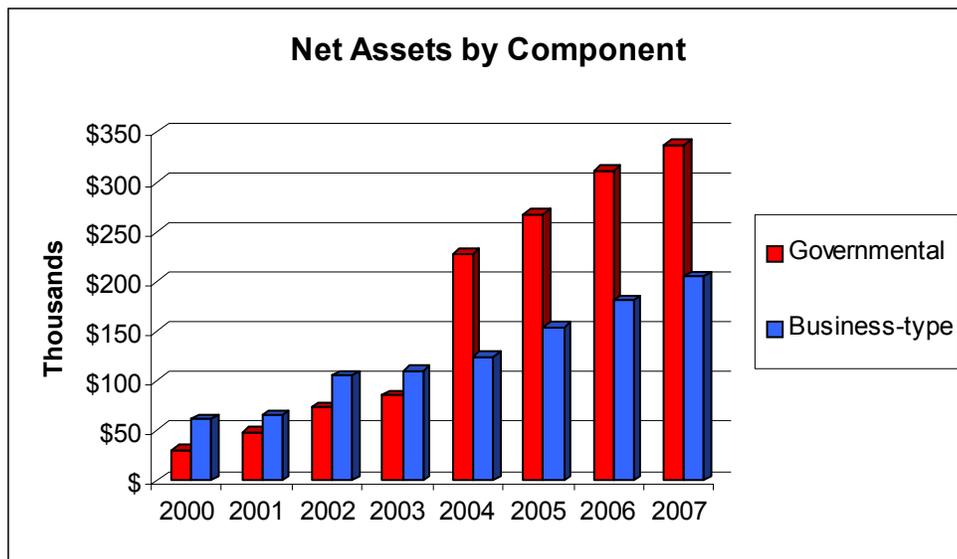


Table 2

Changes in Net Assets
Last Ten Fiscal Years*
(accrual basis of accounting)
(amounts expressed in thousands)

| Fiscal Year | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|-------------------|------------------|--------------------|-------------------|------------------|------------------|------------------|------------------|
| Expenses | | | | | | | | |
| Governmental activities: | | | | | | | | |
| General government | \$ 1,861 | \$ 4,493 | \$ 3,522 | \$ 3,666 | \$ 3,730 | \$ 4,174 | \$ 4,849 | \$ 5,459 |
| Security of persons and property | 7,399 | 8,203 | 9,564 | 9,157 | 12,043 | 10,487 | 11,914 | 12,337 |
| Physical environment | 1,941 | 2,042 | 2,132 | 2,259 | 2,380 | 2,805 | 2,827 | 3,139 |
| Transportation | 4,950 | 1,243 | 2,916 | 3,705 | 7,967 | 8,865 | 10,116 | 10,343 |
| Economic development | 756 | 816 | 1,271 | 963 | 1,015 | 1,076 | 1,138 | 1,271 |
| Mental and physical health | 5 | 5 | 216 | 6 | 7 | 8 | 5 | 10 |
| Culture and recreation | 2,608 | 2,686 | 1,636 | 3,054 | 3,266 | 3,570 | 4,819 | 4,429 |
| Interest on long-term debt | 428 | 471 | 996 | 958 | 925 | 829 | 722 | 924 |
| Total governmental activities | \$ 19,948 | \$ 19,959 | \$ 22,253 | \$ 23,768 | \$ 31,333 | \$ 31,814 | \$ 36,390 | \$ 37,912 |
| Business-type activities: | | | | | | | | |
| Water | \$ 3,426 | \$ 3,714 | \$ 5,381 | \$ 5,364 | \$ 6,399 | \$ 6,500 | \$ 7,493 | \$ 8,468 |
| Wastewater | 6,247 | 6,310 | 7,353 | 7,154 | 7,445 | 7,862 | 8,802 | 9,513 |
| Stormwater | 675 | 687 | 1,566 | 1,850 | 1,442 | 1,507 | 1,959 | 2,343 |
| Reclaimed Water | - | - | - | - | - | - | - | 332 |
| Total business-type activities | \$ 10,348 | \$ 10,711 | \$ 14,300 | \$ 14,368 | \$ 15,286 | \$ 15,869 | \$ 18,254 | \$ 20,656 |
| Total primary government expenses | \$ 30,296 | \$ 30,670 | \$ 36,553 | \$ 38,136 | \$ 46,619 | \$ 47,683 | \$ 54,644 | \$ 58,568 |
| Program Revenues | | | | | | | | |
| Governmental activities: | | | | | | | | |
| Charges for services: | | | | | | | | |
| General government | \$ 283 | \$ 2,119 | \$ 327 | \$ 264 | \$ 365 | \$ 406 | \$ 476 | \$ 812 |
| Transportation | 869 | 589 | 1,367 | 528 | 954 | 1,492 | 1,328 | 1,097 |
| Economic development | 747 | 1,250 | 894 | 1,158 | 1,518 | 3,196 | 3,811 | 3,328 |
| Culture and recreation | 638 | 674 | 603 | 723 | 760 | 880 | 923 | 988 |
| Other activities | 358 | 403 | 432 | 388 | 298 | 338 | 213 | 2,622 |
| Operating grants and contributions | 1,044 | 1,150 | 2,149 | 1,487 | 1,952 | 1,731 | 3,785 | 1,478 |
| Capital grants and contributions | 4,162 | 12,366 | 94 | 5,061 | 11,532 | 32,405 | 38,117 | 19,499 |
| Total governmental activities program revenues | \$ 8,101 | \$ 18,551 | \$ 5,866 | \$ 9,609 | \$ 17,379 | \$ 40,448 | \$ 48,653 | \$ 29,824 |
| Business type activities: | | | | | | | | |
| Charges for services: | | | | | | | | |
| Water | \$ 4,767 | \$ 5,041 | \$ 5,648 | \$ 6,337 | \$ 6,782 | \$ 7,649 | \$ 10,734 | \$ 10,556 |
| Wastewater | 6,537 | 7,069 | 6,815 | 7,469 | 8,248 | 9,357 | 11,499 | 10,651 |
| Stormwater | 1,283 | 1,498 | 1,270 | 1,270 | 1,380 | 1,421 | 1,533 | 1,685 |
| Operating grants and contributions | - | - | - | - | - | - | - | 51 |
| Capital grants and contributions | 1,430 | 2 | 6,036 | 3,648 | 11,999 | 26,212 | 20,314 | 18,675 |
| Total business-type activities program revenue | \$ 14,017 | \$ 13,610 | \$ 19,769 | \$ 18,724 | \$ 28,409 | \$ 44,639 | \$ 44,081 | \$ 41,618 |
| Total primary government program revenues | \$ 22,118 | \$ 32,161 | \$ 25,635 | \$ 28,333 | \$ 45,788 | \$ 85,087 | \$ 92,733 | \$ 71,442 |
| Net (expenses)/revenue: | | | | | | | | |
| Governmental activities | \$ (11,847) | \$ (1,408) | \$ (16,387) | \$ (14,159) | \$ (13,954) | \$ 8,634 | \$ 12,262 | \$ (8,088) |
| Business-type activities | 3,669 | 2,899 | 5,469 | 4,356 | 13,123 | 28,770 | 25,828 | 20,962 |
| Total primary government net (expense) revenue | \$ (8,178) | \$ 1,491 | \$ (10,918) | \$ (9,803) | \$ (831) | \$ 37,404 | \$ 38,090 | \$ 12,874 |
| General Revenues and Other Changes in Net Assets | | | | | | | | |
| Governmental activities: | | | | | | | | |
| Property taxes | \$ 5,224 | \$ 5,226 | \$ 5,975 | \$ 6,428 | \$ 6,372 | \$ 6,910 | \$ 7,393 | \$ 8,524 |
| Timber taxes | 0 | 0 | 0 | 0 | 0 | 0 | - | - |
| Retail taxes | 4,649 | 4,937 | 5,937 | 5,843 | 6,610 | 8,031 | 8,812 | 10,506 |
| Business taxes | 3,620 | 4,034 | 4,376 | 4,412 | 5,015 | 5,331 | 6,580 | 7,400 |
| Excise taxes | 768 | 1,141 | 1,422 | 1,941 | 2,674 | 3,211 | 3,448 | 3,300 |
| Penalties and interest | 6 | 5 | 7 | 5 | 10 | 6 | 8 | 7 |
| Investment earnings | 1,247 | 1,328 | 1,320 | 1,300 | 1,189 | 1,463 | 2,463 | 3,579 |
| Miscellaneous | 1,271 | 2,542 | 4,959 | 5,096 | 3,841 | 5,827 | 5,110 | 1,648 |
| Transfers | (50) | 68 | 93 | 45 | 402 | 225 | 396 | (1,336) |
| Total governmental activities | \$ 16,735 | \$ 19,281 | \$ 24,089 | \$ 25,070 | \$ 26,113 | \$ 31,004 | \$ 34,210 | \$ 33,628 |
| Business-type activities: | | | | | | | | |
| Investment earnings | \$ 1,127 | \$ 818 | \$ 538 | \$ 319 | \$ 318 | \$ 559 | \$ 1,094 | \$ 1,238 |
| Miscellaneous | 231 | 58 | 164 | 536 | 264 | 343 | 656 | 774 |
| Transfers | 50 | (68) | (93) | (45) | (402) | (225) | (396) | 1,336 |
| Total business-type activities | \$ 1,408 | \$ 808 | \$ 609 | \$ 810 | \$ 180 | \$ 677 | \$ 1,354 | \$ 3,348 |
| Total primary government | \$ 18,143 | \$ 20,089 | \$ 24,698 | \$ 25,880 | \$ 26,293 | \$ 31,681 | \$ 35,564 | \$ 36,976 |
| Change in Net Assets | | | | | | | | |
| Governmental activities | \$ 4,888 | \$ 17,873 | \$ 7,702 | \$ 10,911 | \$ 12,159 | \$ 39,638 | \$ 46,472 | \$ 25,540 |
| Business-type activities | 5,077 | 3,707 | 6,078 | 5,166 | 13,303 | 29,447 | 27,181 | 24,310 |
| Total primary government | \$ 9,965 | \$ 21,580 | \$ 13,780 | \$ 16,077 | \$ 25,462 | \$ 69,085 | \$ 73,654 | \$ 49,850 |

* The City first implemented GASB Statement No. 34 in fiscal year 2000.

Table 3

Fund Balances of Governmental Funds
Last Ten Fiscal Years
(modified accrual basis of accounting)
(amounts expressed in thousands)

| Fiscal Year | 1998 | 1999 | 2000 | 2001 ¹ | 2002 ² | 2003 | 2004 | 2005 | 2006 ³ | 2007 ⁴ |
|------------------------------------|----------|----------|----------|-------------------|-------------------|-----------|-----------|-----------|-------------------|-------------------|
| General fund | | | | | | | | | | |
| Reserved | \$ 434 | \$ 600 | \$ 575 | \$ 453 | \$ 338 | \$ 186 | \$ 184 | \$ 302 | \$ 129 | \$ 137 |
| Unreserved | 3,893 | 5,390 | 7,575 | 10,045 | 9,523 | 11,101 | 12,987 | 14,553 | 18,324 | 21,863 |
| Total general fund | \$ 4,327 | \$ 5,990 | \$ 8,150 | \$ 10,498 | \$ 9,861 | \$ 11,287 | \$ 13,171 | \$ 14,855 | \$ 18,453 | \$ 22,000 |
| All other governmental funds | | | | | | | | | | |
| Reserved | \$ 2,062 | \$ 1,693 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 1,101 | \$ 1,214 | \$ 1,352 |
| Unreserved, reported in: | | | | | | | | | | |
| Special revenue funds | 1,389 | 204 | (3,232) | 5,137 | 6,855 | 3,354 | 5,108 | 5,984 | 9,961 | 7,703 |
| Debt service funds | - | - | 1,190 | 1,441 | 1,415 | 1,835 | 1,099 | 1,648 | 1,061 | 585 |
| Capital projects funds | 1,884 | 1,057 | 2,166 | 2,314 | 8,446 | 11,591 | 7,426 | 6,664 | 18,272 | 26,931 |
| Total all other governmental funds | \$ 5,335 | \$ 2,954 | \$ 124 | \$ 8,892 | \$ 16,716 | \$ 16,780 | \$ 13,633 | \$ 15,397 | \$ 30,508 | \$ 36,571 |
| Total governmental funds | \$ 9,662 | \$ 8,944 | \$ 8,274 | \$ 19,390 | \$ 26,577 | \$ 28,067 | \$ 26,804 | \$ 30,252 | \$ 48,961 | \$ 58,571 |

Note:

¹The City issued debt (L.I.D. bonds and a long-term loan) in the amount of \$9.5 million. The increase in unreserved fund balance is due to the unspent bond proceeds remaining in special revenue funds.

²The increase in unreserved fund balance in Capital project funds was due to unspent bond proceeds from an issuance during the period for capital projects.

³The City issued G.O. bonds in the amount of \$8.49 million late in 2006. The increase in unreserved fund balance in capital project funds is due to the unspent bonds proceeds at the end of the year.

⁴The increase in capital project funds unreserved fund balance is mainly contributable to the \$8 G.O bond issued in December 2007 and remain unspent at the year end.

Table 4

Changes in Fund Balances of Governmental Funds
Last Ten Fiscal Years
(modified accrual basis of accounting)
(amounts expressed in thousands)

| Fiscal Year Fiscal Year | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|------------------|------------------|-------------------|------------------|------------------|-------------------|-------------------|------------------|------------------|------------------|
| Revenues | | | | | | | | | | |
| Taxes | \$ 12,716 | \$ 13,434 | \$ 14,178 | \$ 15,548 | \$ 17,742 | \$ 18,816 | \$ 21,127 | \$ 23,498 | \$ 26,225 | \$ 29,718 |
| Licenses and permits | 912 | 913 | 727 | 1,046 | 899 | 961 | 1,245 | 2,589 | 3,229 | 2,849 |
| Intergovernmental revenues | 2,365 | 4,710 | 5,203 | 3,519 | 3,299 | 4,371 | 2,822 | 3,812 | 6,234 | 4,138 |
| Charges for services | 2,693 | 2,926 | 3,426 | 4,689 | 4,184 | 5,047 | 5,029 | 6,307 | 6,627 | 6,978 |
| Fines & forfeitures | 244 | 261 | 248 | 275 | 377 | 537 | 454 | 294 | 334 | 444 |
| Other revenue | 2,276 | 2,540 | 2,342 | 2,130 | 2,397 | 3,113 | 2,137 | 3,375 | 3,396 | 4,410 |
| Total revenues | \$ 21,206 | \$ 24,784 | \$ 26,124 | \$ 27,207 | \$ 28,898 | \$ 32,845 | \$ 32,814 | \$ 39,875 | \$ 46,045 | \$ 48,537 |
| Expenditures | | | | | | | | | | |
| General government | \$ 2,461 | \$ 2,596 | \$ 2,641 | \$ 2,959 | \$ 3,296 | \$ 3,321 | \$ 3,483 | \$ 3,660 | \$ 3,877 | \$ 4,216 |
| Securities of persons and property | 6,861 | 6,933 | 7,236 | 8,106 | 8,948 | 9,162 | 9,332 | 10,153 | 10,875 | 12,295 |
| Physical environment | 1,693 | 1,707 | 1,934 | 2,058 | 2,160 | 2,312 | 2,421 | 2,829 | 2,875 | 3,169 |
| Transportation | 962 | 1,025 | 1,023 | 1,446 | 1,290 | 1,574 | 1,503 | 1,678 | 2,020 | 2,281 |
| Economic environment | 908 | 704 | 714 | 760 | 760 | 840 | 904 | 993 | 1,011 | 1,196 |
| Mental and physical health | 6 | 5 | 5 | 5 | 6 | 6 | 7 | 8 | 6 | 10 |
| Culture and recreation | 2,226 | 2,376 | 2,410 | 2,547 | 2,567 | 2,786 | 3,069 | 3,389 | 4,387 | 4,157 |
| Capital outlay | 2,679 | 8,274 | 9,966 | 5,969 | 6,008 | 13,247 | 9,801 | 9,483 | 8,180 | 14,951 |
| Debt service | | | | | | | | | | |
| Principal | 1,195 | 1,605 | 1,328 | 1,381 | 1,893 | 2,186 | 2,481 | 3,371 | 2,006 | 2,216 |
| Interest | 518 | 490 | 471 | 371 | 1,016 | 988 | 985 | 869 | 705 | 933 |
| Debt issue costs | - | - | - | - | - | - | - | - | - | 135 |
| Total expenditures | \$ 19,509 | \$ 25,715 | \$ 27,728 | \$ 25,602 | \$ 27,944 | \$ 36,422 | \$ 33,986 | \$ 36,433 | \$ 35,942 | \$ 45,559 |
| Excess of revenue over (under) expenditures | \$ 1,697 | \$ (931) | \$ (1,604) | \$ 1,605 | \$ 954 | \$ (3,577) | \$ (1,172) | \$ 3,442 | \$ 10,103 | \$ 2,978 |
| Other financing sources (uses) | | | | | | | | | | |
| Transfers in | \$ 428 | \$ 699 | \$ 1,099 | \$ 518 | \$ 3,115 | \$ 1,418 | \$ 2,716 | \$ 3,655 | \$ 2,393 | \$ 3,624 |
| Transfers out | (428) | (699) | (1,384) | (518) | (3,115) | (1,418) | (2,381) | (3,655) | (2,393) | (5,124) |
| Special assessment debt proceeds | - | - | - | 6,565 | - | - | - | - | - | - |
| Public works trust fund loan | 620 | - | - | 2,948 | - | - | - | - | - | - |
| Bonds issued | - | - | - | - | 6,232 | 5,000 | - | - | 8,485 | 8,000 |
| Premium on bonds issued | - | - | - | - | - | 2 | - | - | 120 | 128 |
| Sale of capital assets | - | - | - | - | - | 69 | 5 | 9 | 2 | 4 |
| Total other financing sources (uses) | 620 | - | (285) | 9,513 | 6,232 | 5,071 | 340 | 9 | 8,607 | 6,632 |
| Net change in fund balances | \$ 2,317 | \$ (931) | \$ (1,889) | \$ 11,118 | \$ 7,186 | \$ 1,494 | \$ (832) | \$ 3,451 | \$ 18,710 | \$ 9,610 |
| Debt services as a percentage of noncapital expenditures | 9.0% | 9.2% | 8.2% | 8.6% | 12.7% | 12.8% | 12.6% | 15.2% | 9.1% | 10.3% |

Table 5

Governmental Activities Tax Revenues By Source
 Last Ten Fiscal Years
 (accrual basis of accounting*)
 (amounts expressed in thousands)

| Fiscal Year | Property Tax | Timber Tax | Sales Tax | Business Tax | Excise Tax | Penalties & Interest | Total |
|-------------|--------------|------------|-----------|--------------|------------|----------------------|--------|
| 1998* | 4,872 | 0.4 | 3,996 | 3,052 | 793 | 4 | 12,717 |
| 1999* | 4,924 | 0.3 | 4,427 | 3,275 | 803 | 5 | 13,434 |
| 2000 | 5,224 | 0.2 | 4,649 | 3,620 | 768 | 6 | 14,267 |
| 2001 | 5,226 | 0.2 | 4,937 | 4,034 | 1,141 | 5 | 15,343 |
| 2002 | 5,975 | 0.3 | 5,937 | 4,376 | 1,422 | 7 | 17,717 |
| 2003 | 6,428 | 0.2 | 5,843 | 4,412 | 1,941 | 5 | 18,629 |
| 2004 | 6,372 | 0.1 | 6,610 | 5,015 | 2,674 | 10 | 20,681 |
| 2005 | 6,910 | 0.2 | 8,031 | 5,331 | 3,211 | 6 | 23,489 |
| 2006 | 7,393 | 0.2 | 8,812 | 6,580 | 3,448 | 8 | 26,241 |
| 2007 | 8,524 | 0.2 | 10,507 | 7,400 | 3,301 | 7 | 29,739 |

* The City first implemented GASB Statement 34 in fiscal year 2000; therefore, the data presented for the fiscal years 1998 through 1999 represent the amounts under modified accrual basis of accounting. The amounts for the fiscal years 2000 and thereafter represent the amounts under accrual basis of accounting.

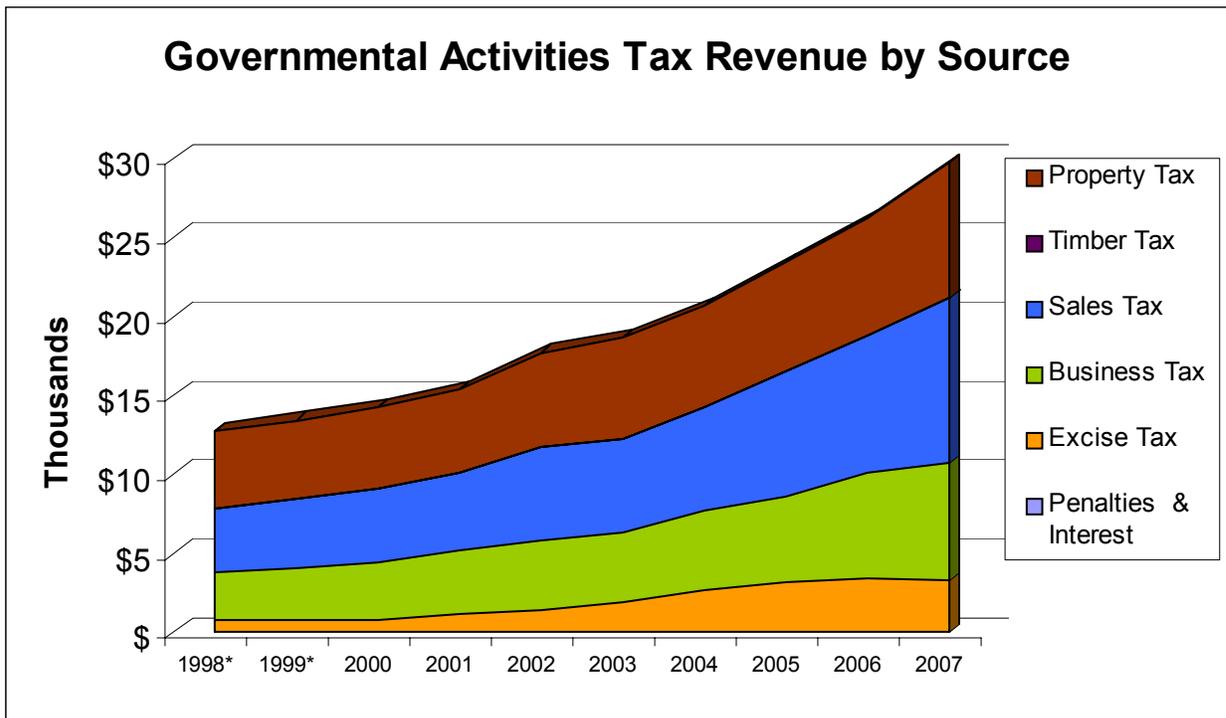


Table 6

Assessed Value and Estimated Actual Value of Taxable Property
Last Ten Fiscal Years
(amounts expressed in thousands)

| Fiscal Year Ended December 31 | Real Property* | Personal Property* | Total Taxable Assessed Value* | Total Direct Regular Tax Rate | Estimated Actual Taxable Value | Assessed Value as a Percentage of Actual Value ¹ |
|-------------------------------|----------------|--------------------|-------------------------------|-------------------------------|--------------------------------|---|
| 1998 | \$ 1,380,744 | \$ 72,590 | \$ 1,453,334 | 3.10 | \$ 1,587,822 | 91.53% |
| 1999 | 1,412,771 | 82,265 | 1,495,036 | 3.11 | 1,633,383 | 91.53% |
| 2000 | 1,493,700 | 84,679 | 1,578,379 | 3.10 | 1,724,439 | 91.53% |
| 2001 | 1,598,738 | 100,610 | 1,699,348 | 3.03 | 1,856,603 | 91.53% |
| 2002 | 1,753,082 | 106,976 | 1,860,058 | 2.88 | 2,032,184 | 91.53% |
| 2003 | 1,912,156 | 127,810 | 2,039,966 | 2.76 | 2,223,042 | 91.76% |
| 2004 | 2,058,894 | 130,907 | 2,189,801 | 2.68 | 2,355,362 | 92.97% |
| 2005 | 2,369,109 | 133,050 | 2,502,159 | 2.48 | 2,754,785 | 90.83% |
| 2006 | 2,753,153 | 133,598 | 2,886,751 | 2.30 | 3,187,531 | 90.56% |
| 2007 | 3,385,318 | 145,554 | 3,530,872 | 2.14 | 4,095,492 | 86.21% |

Source: Thurston County Assessor, Statistical Report of 2006 Assessments for Taxes Payable in 2007.

Explanation:
Property in the county is revalued each year to Fair Market Value with one-sixth of the county being physically inspected. Taxable assessed values have been adjusted for all tax-exempt real property. Tax rates are per \$1,000 of assessed value.

* Includes the regular values of property subject to regular (non-voter approved) levies.

¹Ratio set by the Washington Department of Revenue. Actual ratios for years 1998 to 2002 are not available. The five-year average from years 2003 to 2007 are used.

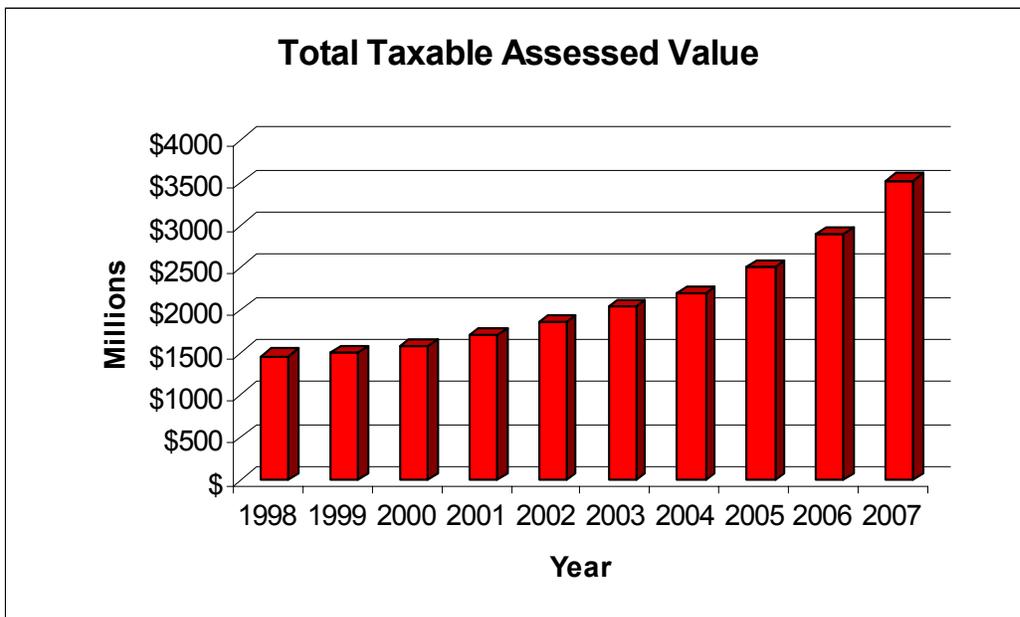


Table 7
Property Tax Rates
Direct and Overlapping Governments
Last Ten Fiscal Years

| Fiscal Year | City of Lacey | | | Overlapping Rates ¹ | | | | | | | | | Total Direct & Overlapping Rates |
|-------------|---------------|---------------------------------|--------------------|--------------------------------|-----------------|-----------|--------|---------|-----------------------------------|------------------|-----------------|-------|----------------------------------|
| | Regular Rate | General Obligation Debt Service | Total Direct Rates | State Schools | Thurston County | Medic One | PUD #1 | Library | North Thurston School District #3 | Fire District #3 | Port of Olympia | | |
| 1998 | 3.10 | 0.23 | 3.33 | 3.44 | 1.81 | 0.32 | - | 0.47 | 5.54 | 0.08 | 0.22 | 15.21 | |
| 1999 | 3.11 | 0.19 | 3.30 | 3.37 | 1.83 | 0.32 | - | 0.49 | 6.46 | 0.21 | 0.22 | 16.20 | |
| 2000 | 3.10 | 0.19 | 3.29 | 3.38 | 1.86 | 0.50 | 0.01 | 0.50 | 6.04 | 0.20 | 0.19 | 15.97 | |
| 2001 | 3.03 | 0.16 | 3.19 | 3.13 | 1.84 | 0.47 | - | 0.50 | 5.67 | 0.20 | 0.28 | 15.28 | |
| 2002 | 2.88 | 0.44 | 3.32 | 3.03 | 1.78 | 0.46 | - | 0.49 | 5.35 | 0.20 | 0.28 | 14.91 | |
| 2003 | 2.76 | 0.47 | 3.23 | 2.88 | 1.71 | 0.44 | 0.01 | 0.48 | 5.09 | 0.17 | 0.27 | 14.28 | |
| 2004 | 2.68 | 0.44 | 3.12 | 2.78 | 1.65 | 0.44 | 0.01 | 0.47 | 4.97 | 0.16 | 0.25 | 13.85 | |
| 2005 | 2.48 | 0.32 | 2.80 | 2.79 | 1.53 | 0.41 | 0.01 | 0.45 | 4.25 | 0.13 | 0.22 | 12.59 | |
| 2006 | 2.30 | 0.28 | 2.58 | 2.56 | 1.40 | 0.37 | 0.01 | 0.43 | 3.89 | 0.12 | 0.21 | 11.57 | |
| 2007 | 2.14 | 0.29 | 2.43 | 2.33 | 1.26 | 0.34 | 0.01 | 0.39 | 4.21 | 0.23 | 0.19 | 11.39 | |

Source: Thurston County Assessor, Statistical Report of 2006 Assessments for Taxes Payable in 2007.
Explanation

¹Overlapping rates are those of local and county governments that apply to property owners within the City of Lacey. Not all overlapping rates apply to all Lacey property owners; for example, although the county property tax rates apply to all city property owners, the Fire District rates apply only to the approximately one-third of city property owners whose property is located within that district's geographic boundaries.

Note: The levy limit calculation applies to a taxing district's budget, and not to increases in the assessed value or tax bill of individual properties. Initiative 747 restricts individual taxing districts from collecting, in any year, more than one percent increase in their regular, non-voted, levy over the highest levy amount since 1985. To increase the basic rate to the maximum of 3.60 would require a vote.

The Washington State Constitution limits the regular (non-voted) combined property tax rate applied to an individual's property to one percent of the market valuation. Voters may vote special levies that are added to this figure. If the taxes of all districts exceed this amount, each is proportionately reduced until the total is at or below the one-percent limit.

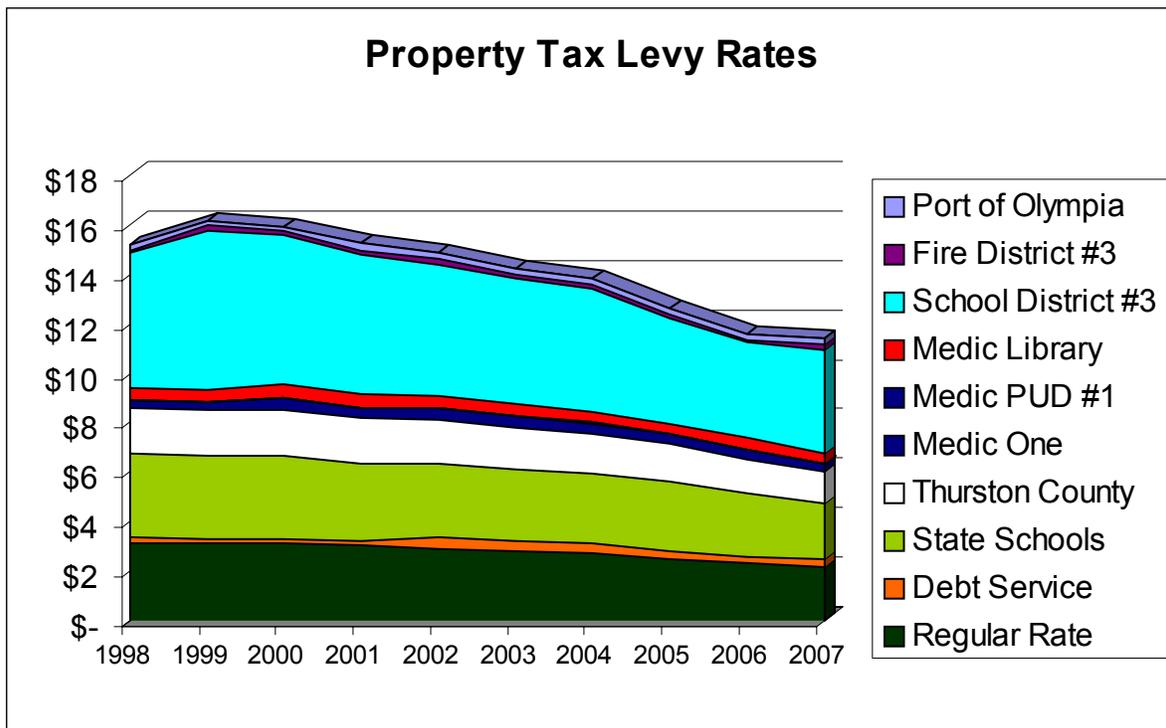


Table 8

Principal Property Taxpayers
Current Year and Nine Years Ago
December 31, 2007
(amounts expressed in thousands)

| Taxpayer | Type of Business | 2007 | | | 1998 | | |
|----------------------------------|--------------------------|------------------------|----------|--|------------------------|------|--|
| | | Taxable Assessed Value | Rank | Percentage of Total Taxable Assessed Value | Taxable Assessed Value | Rank | Percentage of Total Taxable Assessed Value |
| Target Corporation | Retail/Warehouse | \$ 83,299 | 1 | 2.36% | \$ - | - | - |
| Panorama City Inc | Retirement Community | 61,670 | 2 | 1.75% | 43,973 | 1 | 3.03% |
| CDC Properties II LLC | Leasing/Land Development | 59,774 | 3 | 1.69% | - | - | - |
| Home Depot USA Inc | Retail/Warehouse | 32,209 | 4 | 0.91% | - | - | - |
| Cox, Walter W. | Real Estate Development | 24,367 | 5 | 0.69% | 10,725 | 8 | 0.74% |
| Lacey Market Square I and II LLC | Leasing/Land Development | 22,989 | 6 | 0.65% | - | - | - |
| Capital Development Company | Real Estate Development | 21,265 | 7 | 0.60% | 38,247 | 2 | 2.63% |
| Wal-Mart Stores Inc | Retail | 21,137 | 8 | 0.60% | - | - | - |
| VGC Lacey LLC | Leasing/Land Development | 18,288 | 9 | 0.52% | - | - | 0.00% |
| LAKHA Properties Lacey LLC | Real Estate Development | 16,385 | 10 | 0.46% | - | - | - |
| U.S. West Communications | Utility | - | - | - | 11,429 | 7 | 0.79% |
| Rainier General, Inc | Real Estate Development | - | - | - | 27,719 | 3 | 1.91% |
| Weyerhaeuser Vicwood Partnership | Real Estate Development | - | - | - | 18,312 | 4 | 1.26% |
| Puget Sound Energy, Inc | Electrical Utility | - | - | - | 13,568 | 5 | 0.93% |
| API/Pichon VIII LLC | Real Estate Development | - | - | - | 12,013 | 6 | 0.83% |
| Stein Trustee, Howard | Real Estate Development | - | - | - | 7,950 | 10 | 0.55% |
| Mastro, Michael | Real Estate Development | - | - | - | 10,179 | 9 | 0.70% |
| Totals | | 361,383 | - | 10.23% | 194,114 | | 13.35% |
| Balance of Taxpayers | | 3,169,489 | - | 89.77% | 1,259,220 | | 86.65% |
| Total Assessed Values | | \$ 3,530,872 | - | 100.00% | \$ 1,453,334 | | 100.00% |

Source: Thurston County Assessor

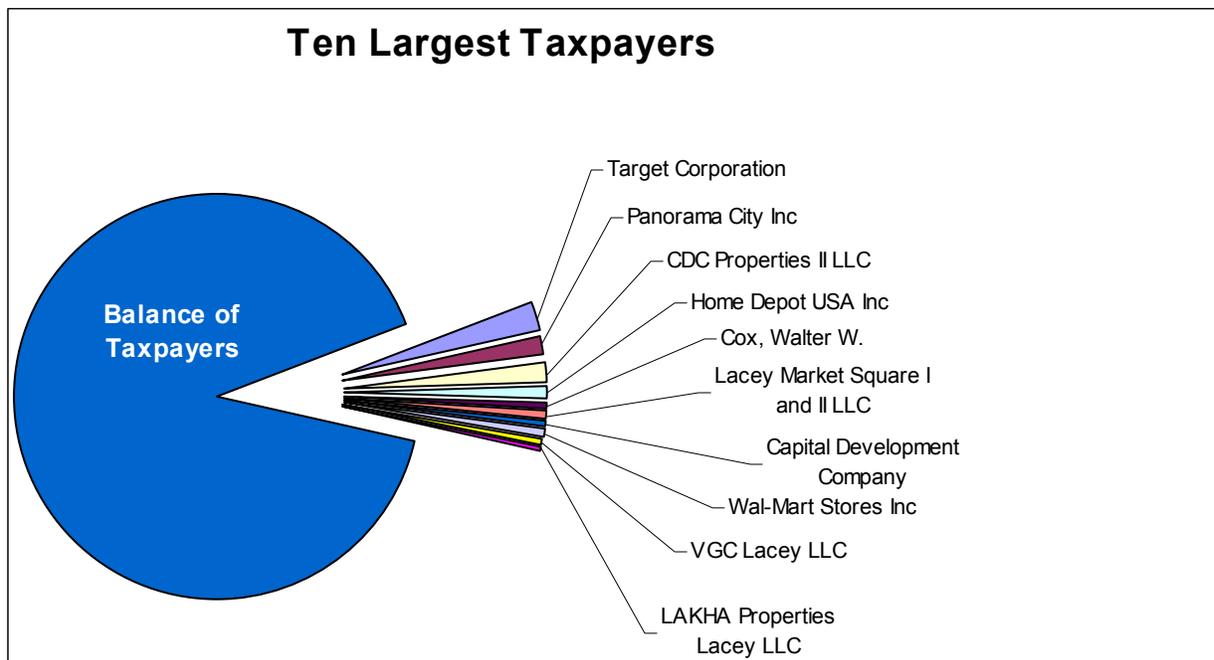


Table 9

Property Tax Levies and Collections
Last Ten Fiscal Years
(amounts expressed in thousands)

| Fiscal Year Ended December 31 | Regular Tax Levy for Fiscal Year* | Special Tax Levy for Fiscal Year* | Total Tax Levy for Fiscal Year* | Collected within the Fiscal Year of the Levy** | | Collections in subsequent Years** | Total Collections To-Date | |
|-------------------------------|-----------------------------------|-----------------------------------|---------------------------------|--|--------------------|-----------------------------------|---------------------------|--------------------|
| | | | | Amount | Percentage of Levy | | Amount | Percentage of Levy |
| 1998 | \$ 4,507 | \$ 338 | \$ 4,845 | \$ 4,852 | 100.14% | \$ 20 | \$ 4,872 | 100.56% |
| 1999 | 4,644 | 293 | 4,937 | 4,820 | 97.64% | 104 | 4,925 | 99.76% |
| 2000 | 4,893 | 292 | 5,185 | 5,038 | 97.16% | 96 | 5,134 | 99.01% |
| 2001 | 5,158 | 272 | 5,430 | 5,207 | 95.89% | 148 | 5,355 | 98.62% |
| 2002 | 5,363 | 807 | 6,170 | 5,928 | 96.08% | 72 | 6,000 | 97.24% |
| 2003 | 5,630 | 953 | 6,583 | 6,432 | 97.71% | 201 | 6,633 | 100.76% |
| 2004 | 5,889 | 958 | 6,847 | 6,708 | 97.97% | 110 | 6,818 | 99.58% |
| 2005 | 6,214 | 797 | 7,011 | 6,860 | 97.85% | 87 | 6,947 | 99.09% |
| 2006 | 6,654 | 797 | 7,451 | 7,283 | 97.75% | 97 | 7,380 | 99.05% |
| 2007 | 7,554 | 1,003 | 8,557 | 8,389 | 98.04% | 143 | 8,532 | 99.71% |

*Source: Thurston County Assessor

**Source: City of Lacey Finance Department

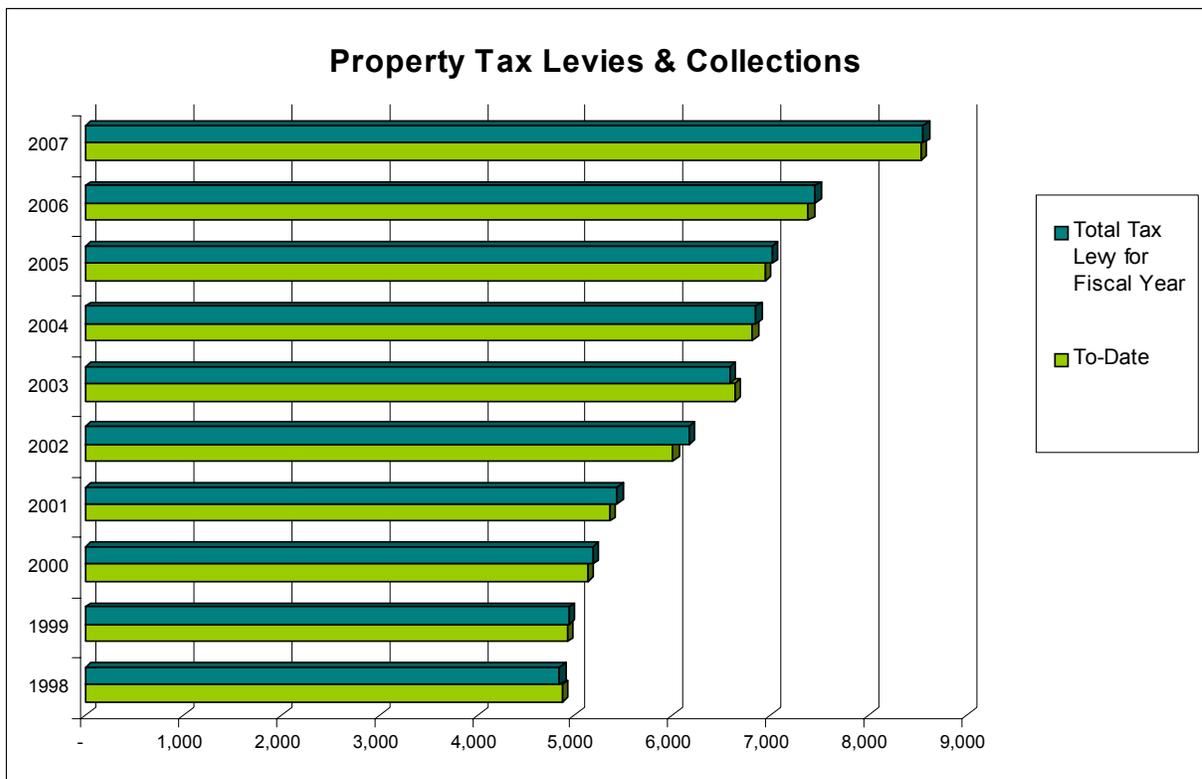


Table 10

Ratio of Outstanding Debt by Type
Last Ten Fiscal Years
(amounts expressed in thousands, except per capital amount)

| Fiscal Year | Governmental Activities | | | | Business-Type Activities | | | Total Primary Government | Percentage of Personal Income | Per Capita ³ |
|-------------|--------------------------|--------------------------|-----------|---|--------------------------|------------------|----------|--------------------------|-------------------------------|-------------------------|
| | General Obligation Bonds | Special Assessment Bonds | PWTF Loan | Revenue Bond ¹ Animal Services | Water Bonds | Wastewater Bonds | DOE Loan | | | |
| 1998 | \$ 4,565 | \$ 4,995 | \$ - | \$ - | \$ 4,956 | \$ 4,789 | \$ - | \$ 19,305 | 2.65% | \$ 684 |
| 1999 | 4,100 | 3,855 | 620 | - | 4,169 | 4,266 | - | 17,010 | 2.20% | 586 |
| 2000 | 3,605 | 3,055 | 587 | - | 4,270 | 3,720 | 355 | 15,592 | 1.71% | 499 |
| 2001 | 3,195 | 8,845 | 3,339 | - | 3,901 | 3,139 | 266 | 22,685 | 2.35% | 718 |
| 2002 | 8,595 | 7,980 | 3,143 | 1,374 | 3,405 | 2,645 | 177 | 27,319 | 2.80% | 857 |
| 2003 | 12,855 | 6,730 | 2,946 | 1,312 | 2,884 | 1,691 | 89 | 28,507 | 2.83% | 884 |
| 2004 | 12,110 | 5,190 | 2,750 | 1,248 | 1,104 | 1,156 | - | 23,558 | 2.22% | 724 |
| 2005 | 10,235 | 3,890 | 2,553 | 241 | 718 | 597 | - | 18,234 | 1.63% | 550 |
| 2006* | 18,190 | 2,610 | 2,357 | 227 | 135 | 195 | - | 23,714 | 2.06% | 696 |
| 2007* | 25,375 | 1,405 | 2,161 | 213 | - | - | - | 29,154 | 2.41% | 813 |

Note: Detail regarding the City's outstanding debt can be found in the notes to the financial statements.

¹ The City of Lacey administers the Animal Services financials. The balance at fiscal year-end 2007 represents the amount of debt due from the City of Olympia.

² Approximately 35.7% of the City of Lacey's utility customers reside outside the corporate city limit.

³ See the Schedule of Demographic and Economics for personal income and population data.

* Personal income per capita for the year is not available. The information represents estimation based on most recent available information.

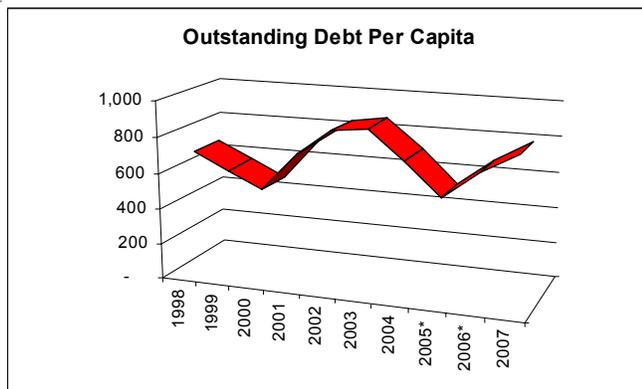
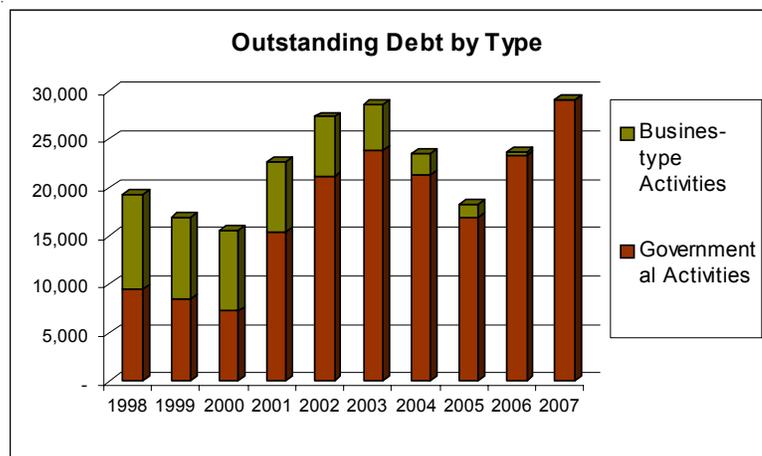


Table 11

Ratios of General Bonded Debt Outstanding
Last Ten Fiscal Years
(amounts expressed in thousands, except per capita amount)

| Fiscal Year | General Obligation Bonds | Less: Amounts Available in Debt Service Fund | Total | Percentage of Estimated Actual Taxable Value ¹ of Property | Per Capita ² |
|-------------|--------------------------|--|----------|---|-------------------------|
| 1998 | \$ 4,565 | \$ 174 | \$ 4,391 | 0.28% | \$ 71 |
| 1999 | 4,100 | 201 | 3,899 | 0.24% | 64 |
| 2000 | 3,605 | 232 | 3,373 | 0.20% | 57 |
| 2001 | 3,195 | 236 | 2,959 | 0.16% | 49 |
| 2002 | 8,595 | 376 | 8,219 | 0.40% | 124 |
| 2003 | 12,855 | 438 | 12,417 | 0.56% | 175 |
| 2004 | 12,110 | 428 | 11,682 | 0.50% | 162 |
| 2005 | 10,235 | 820 | 9,415 | 0.34% | 115 |
| 2006 | 18,190 | 728 | 17,462 | 0.55% | 185* |
| 2007 | 25,375 | 375 | 25,000 | 0.61% | 206* |

Note: Details regarding the city's outstanding debt can be found in the notes to the financial statements.

Explanation:

¹See the Schedule of Assessed Value and Estimated Actual Value of Taxable Property on page 8-8 for property value data.

²Per capita data can be found in the Schedule of Demographic and Economic Statistics on page 8-17.

* Information represents estimated information, as actual data is not available.

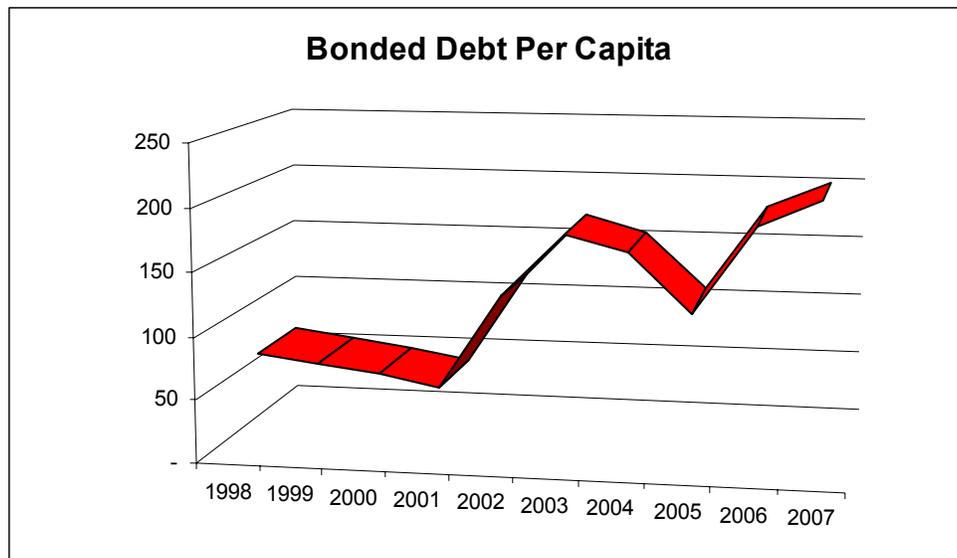


Table 12

Direct and Overlapping Government Activities Debt
As of December 31, 2007
(amounts expressed in thousands)

| Governmental Unit | Debt Outstanding | Estimated Percentage Applicable ¹ | Estimated Share of Overlapping Debt |
|-----------------------------------|------------------|--|-------------------------------------|
| Debt repaid with property taxes: | | | |
| Thurston County | \$ 41,735 | 14.420% | \$ 6,018 |
| Port of Olympia | 21,065 | 14.420% | 3,038 |
| North Thurston School District | 166,697 | 42.500% | 70,846 |
| Fire Districts | 6,555 | 13.178% | 864 |
| Subtotal, overlapping debt | | | 80,767 |
| City's direct debt | | | 28,941 |
| Total direct and overlapping debt | | | \$ 109,708 |

Source: Assessed value data used to estimate applicable percentages provided by the Thurston County Assessor and Treasurer Offices.

Note: Overlapping governments are those that coincide, at least in part, with the geographic boundaries of the City. This schedule estimates the portion of the outstanding debt of those overlapping governments that is borne by the residents and businesses of the City of Lacey. This process recognizes that, when considering the government's ability to issue and repay long-term debt, the entire debt burden borne by the residents and businesses should be taken into account. However, this does not imply that every taxpayer is a resident, and therefore responsible for repaying the debt, of each overlapping government.

Explanation:

¹The percentage of overlapping debt applicable is estimated using taxable assessed property values. Applicable percentages were estimated by determining the portion of the county's taxable assessed value that is within the government's boundaries and dividing it by the county's total taxable assessed value as well as the other governmental units.

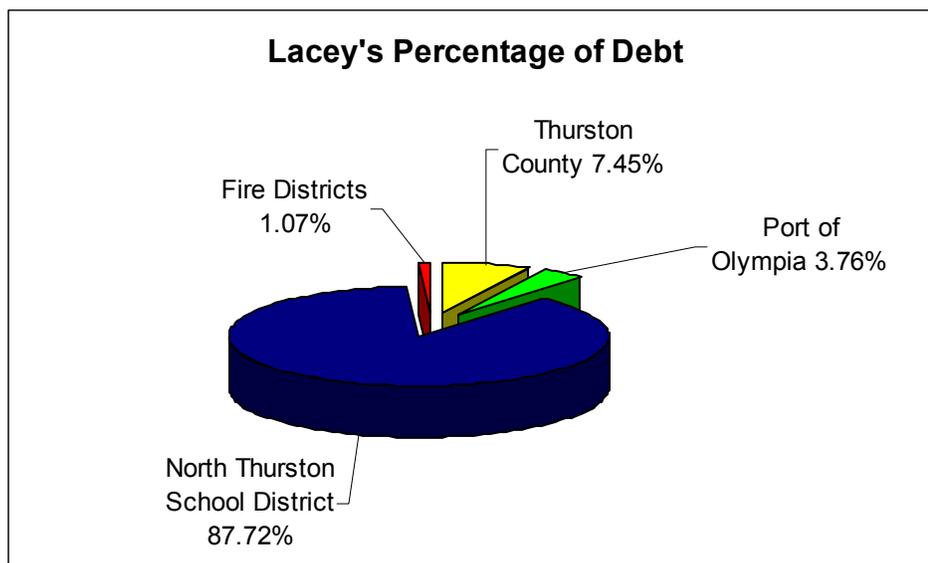


Table 13

Legal Debt Margin Information
Last Ten Fiscal Years
(amounts expressed in thousands)

| | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
|--|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| Debt Limit | \$ 109,000 | \$ 112,128 | \$ 118,378 | \$ 127,451 | \$ 139,504 | \$ 152,997 | \$ 164,235 | \$ 187,662 | \$ 216,506 | \$ 264,815 |
| Total net debt applicable to limit | 4,391 | 3,899 | 3,373 | 2,959 | 8,219 | 12,417 | 11,682 | 9,415 | 17,462 | 25,000 |
| Legal debt margin | \$ 104,609 | \$ 108,230 | \$ 115,004 | \$ 124,492 | \$ 131,285 | \$ 140,580 | \$ 152,553 | \$ 178,247 | \$ 199,044 | \$ 239,815 |
| Total net debt applicable to the limit as a percentage of debt limit | 4.03% | 3.48% | 2.85% | 2.32% | 5.89% | 8.12% | 7.11% | 5.02% | 8.07% | 9.44% |

Legal Debt Margin Calculations:

| | |
|---|--------------|
| Assessed Value | \$ 3,530,872 |
| Add back: exempt real property | - |
| Total assessed value | \$ 3,530,872 |
| Debt limit (7.5% of total assessed value) | \$ 264,815 |
| Debt applicable to limit: | |
| General obligation bonds | 25,375 |
| Less: Amount set aside for repayment of general obligation debt | (375) |
| Total net debt applicable to limit | \$ 25,000 |
| Legal debt margin | \$ 239,815 |

Note: Under the Revised Code of Washington (RWC), the City of Lacey's outstanding obligation debt should not exceed 7.5 percent of total assessed property value. By law, the general obligation debt subject to the limitation may be offset by amounts set aside for repaying general obligation bonds.

Table 14

Pledged-Revenue Coverage
Last Ten Fiscal Years
(amounts expressed in thousands)

| Fiscal Year | Sewer/Water Revenue Bonds | | | | | | Special Assessment Bonds | | | |
|-------------|---------------------------|-------------------------|-----------------------|--------------|----------|----------|--------------------------------|--------------|----------|----------|
| | Total Operating Revenues | Less Operating Expenses | Net Available Revenue | Debt Service | | Coverage | Special Assessment Collections | Debt Service | | Coverage |
| | | | | Principal | Interest | | | Principal | Interest | |
| 1998 | 10,913 | 7,064 | 3,849 | 660 | 486 | 3.36 | 1,313 | 705 | 317 | 1.28 |
| 1999 | 11,317 | 7,302 | 4,015 | 860 | 492 | 2.97 | 1,005 | 1,140 | 282 | 0.71 |
| 2000 | 11,408 | 8,557 | 2,851 | 950 | 454 | 2.03 | 929 | 800 | 223 | 0.91 |
| 2001 | 12,110 | 8,980 | 3,130 | 990 | 408 | 2.24 | 1,180 | 775 | 179 | 1.24 |
| 2002 | 12,464 | 9,524 | 2,940 | 1,035 | 311 | 2.18 | 1,517 | 865 | 540 | 1.08 |
| 2003 | 13,805 | 9,923 | 3,882 | 2,315 | 261 | 1.51 | 2,329 | 655 | 446 | 2.12 |
| 2004 | 15,098 | 11,231 | 3,867 | 945 | 201 | 3.37 | 1,464 | 1,540 | 378 | 0.76 |
| 2005 | 17,007 | 11,464 | 5,543 | 985 | 98 | 5.12 | 2,005 | 1,300 | 295 | 1.26 |
| 2006 | 22,233 | 12,936 | 9,297 | 330 | 56 | 24.09 | 1,244 | 1,280 | 225 | 0.83 |
| 2007 | - | - | - | - | - | - | 1,453 | 1,205 | 196 | 1.04 |

Note: Details regarding the city's outstanding debt can be found in the notes to the financial statements.
Operating revenues do not include investment earnings and other non-operating revenues.
Operating expenses do not include interest or depreciation expenses.

The City's minimum required debt coverage is 1.20 per bond ordinance, only for Sewer/Water Revenue Bonds.

Table 15
Demographic and Economic Statistics
Last Ten Fiscal Years

| Fiscal Year | Population | Personal Income (amounts expressed in thousands) | County Per Capita Personal Income ¹ | North Thurston Public School Enrollment | County Unemployment Rate |
|-------------|------------|--|--|---|--------------------------|
| 1998 | 28,240 | 727,378 | 25,757 | 13,116 | 4.9% |
| 1999 | 29,020 | 774,021 | 26,672 | 12,979 | 4.6% |
| 2000 | 31,226 | 913,267 | 29,247 | 12,231 | 5.0% |
| 2001 | 31,600 | 964,369 | 30,518 | 12,188 | 5.7% |
| 2002 | 31,860 | 976,159 | 30,639 | 12,887 | 5.8% |
| 2003 | 32,240 | 1,008,016 | 31,266 | 13,089 | 5.7% |
| 2004 | 32,530 | 1,060,120 | 32,589 | 13,079 | 5.2% |
| 2005 | 33,180 | 1,119,659 | 33,745 | 13,119 | 5.0% |
| 2006 | 34,060 | 1,149,355 * | 33,745 * | 13,370 | 4.6% |
| 2007 | 35,870 | 1,210,433 * | 33,745 * | 13,601 | 4.5% |

Data Sources:
Thurston Regional Planning Council, The Profile, October 2007 (www.trpc.org)

Explanation:

¹Represents per capita personal income without compensation for the effects of inflation.

Note: *The information presented is based on the most recent available statistical data (2005).

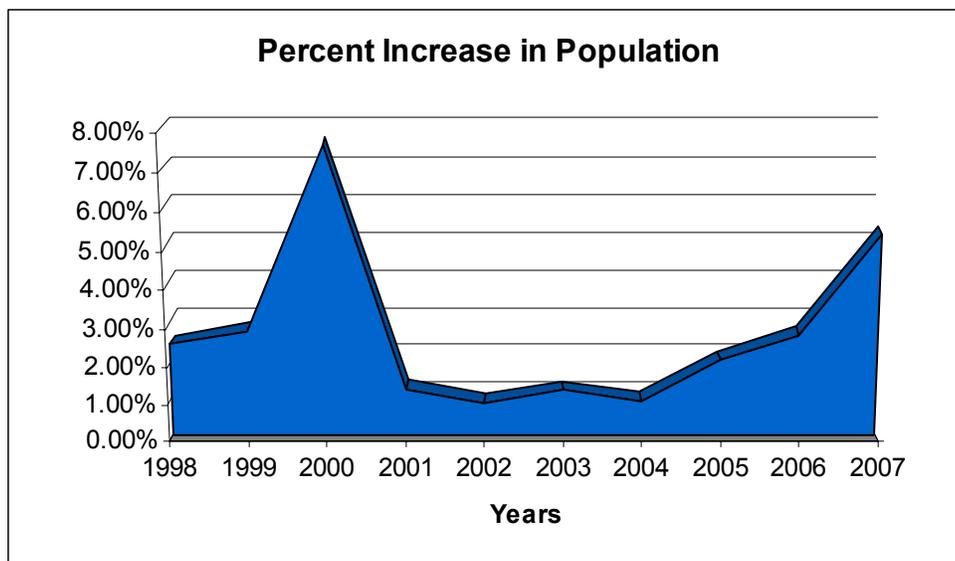


Table 16
Principal Employers
Current Year and Nine Years Ago

| Employer | 2007 | | 1998 | |
|----------------------------------|----------------------|--|---------------------|--|
| | Number of Employees | Percentage of Total City Employment ² | Number of Employees | Percentage of Total City Employment ² |
| State of Washington ¹ | 3,545 | 19% | 2,570 | 16% |
| North Thurston Public Schools | 1,730 | 9% | 1,500 | 9% |
| Wal-Mart Stores | 475 | 2% | - | - |
| City of Lacey | 460 | 2% | 179 | 1% |
| Target Corporation | 300-500 | 2% | - | - |
| Panaroma City | 300-400 ³ | 2% | 322 | 2% |
| St. Martin's College | 350 | 2% | 206 | 1% |
| Ostrom Mushroom Company | 300-320 ³ | 2% | - | - |
| Illuminet (as of 2002, Verisign) | 250 ³ | 1% | 150 | 1% |
| Fred Meyers | 251 | 1% | 328 | 2% |
| Safeway Stores | - | - | 150 | 1% |
| Sears Roebuck & Co. | - | - | 170 | 1% |
| Olympic Cheese | - | - | 137 | 1% |
| Total | 7960 - 8,281 | 42% | 5,712 | 36% |

Source:
Thurston County Regional Planning Council (TRPC), Profile 2007 (www.trpc.org).
Human resources offices of the employers
The City of Lacey, 1998 Comprehensive Annual Financial Report.

Explanations:

Numbers include both full-time and part-time employees.

¹ Includes Lacey and Urban Growth Area. 2003 employment numbers are allocated to 2007 locations.

² Total city employment data not available for years 2007. The percentage presented for 2007 are based on the estimated total employment in year 2003.

³ 2007 data is not available at the time this report was prepared and is estimated based on 2006 data.

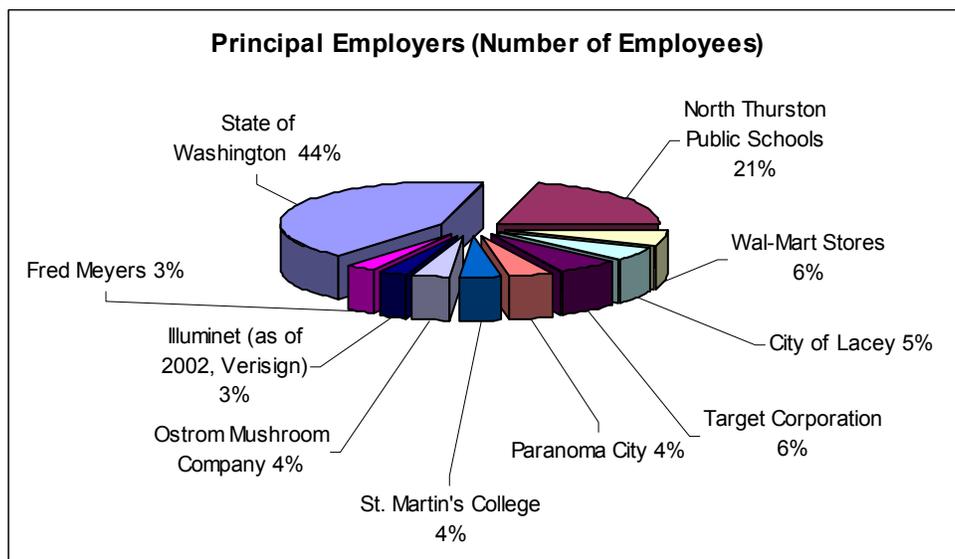


Table 17

Full-time Equivalent City Government Employees by Function
Last Ten Fiscal Years

| Full-Time Equivalent Employees as of December 31 | | | | | | | | | | |
|--|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Function | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
| General government | 22.00 | 22.25 | 23.75 | 23.75 | 23.75 | 24.00 | 24.00 | 24.00 | 27.00 | 27.00 |
| Security of persons and property | | | | | | | | | | |
| Police Officers | 41.00 | 41.00 | 42.00 | 45.00 | 46.00 | 47.00 | 47.00 | 47.00 | 49.00 | 51.00 |
| Civilians | 9.50 | 10.50 | 10.50 | 12.91 | 12.41 | 12.41 | 12.41 | 12.41 | 12.41 | 14.28 |
| Transportation | | | | | | | | | | |
| Engineering | 28.50 | 28.50 | 30.50 | 30.50 | 31.50 | 31.50 | 31.00 | 32.00 | 36.00 | 37.00 |
| Maintenance | 21.50 | 21.70 | 21.70 | 22.70 | 23.68 | 24.68 | 26.68 | 27.68 | 28.68 | 30.68 |
| Economic development | 13.75 | 13.75 | 13.50 | 13.50 | 13.50 | 13.50 | 13.50 | 15.75 | 16.75 | 17.75 |
| Culture and recreation | 9.50 | 9.50 | 10.50 | 10.75 | 11.75 | 11.75 | 11.75 | 13.00 | 13.00 | 14.00 |
| Water | 15.62 | 15.62 | 15.70 | 17.70 | 15.53 | 17.41 | 19.41 | 22.95 | 21.95 | 23.95 |
| Wastewater | 9.38 | 11.38 | 11.30 | 11.30 | 13.47 | 13.59 | 13.59 | 14.05 | 15.05 | 16.05 |
| Stormwater | 3.50 | 5.30 | 5.30 | 5.30 | 5.32 | 5.32 | 5.32 | 5.32 | 5.32 | 5.32 |
| Total | 174.25 | 179.50 | 184.75 | 193.41 | 196.91 | 201.16 | 204.66 | 214.16 | 225.16 | 237.03 |

Source: City of Lacey Budget Records

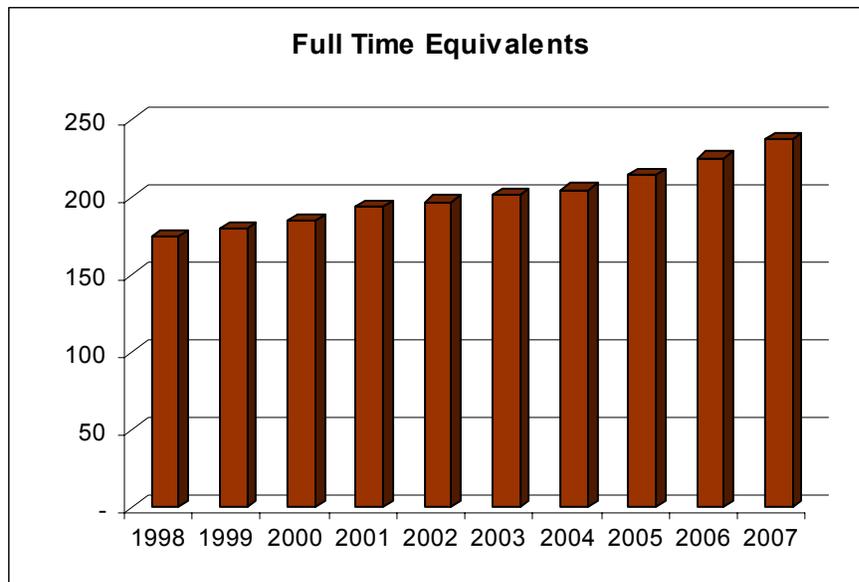


Table 18

Operating Indicators by Function
Last Ten Fiscal Years

| Function | Fiscal Year | | | | | | | | | |
|---|-------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
| Police | | | | | | | | | | |
| Physical arrests | 2,259 | 2,689 | 2,454 | 2,418 | 2,494 | 2,968 | 2,711 | 2,651 | 3,255 | 4,006 |
| Traffic citations | 5,667 | 6,272 | 5,217 | 4,716 | 7,135 | 7,385 | 7,807 | 5,660 | 5,393 | 5,441 |
| Number of calls for service | 38,106 | 37,997 | 37,593 | 38,335 | 40,023 | 42,802 | 43,103 | 39,231 | 42,097 | 44,312 |
| Crime rate calls per thousand population | 30.9 | N/A | 27.3 | 24.5 | 22.1 | 22.6 | 21.7 | 50.0 | 50.1 | 51.3 |
| Highways and streets | | | | | | | | | | |
| Miles of street resurfacing | 2 | 3 | N/A | 4 | 1 | 4 | 8 | 10 | 13 | 9 |
| Miles of street swept | 3,666 | 3,735 | 3,807 | 3,991 | 4,153 | 4,529 | 5,030 | 4,038 | 3,640 | 4,000 |
| State of the street (% of Good Condition) | 60% | 61% | 61% | 57% | 52% | 63% | 65% | 87% | 90% | 91% |
| Economic Development | | | | | | | | | | |
| Number of building permits issued | 551 | 518 | 250 | 327 | 321 | 364 | 494 | 1,025 | 1,604 | 1,157 |
| Number of building inspections | 6,214 | 6,220 | 4,666 | 4,977 | 4,444 | 5,225 | 8,977 | 15,819 | 20,589 | 17,002 |
| Number of complaints processed | 111 | 191 | 188 | 157 | 123 | 99 | 106 | 135 | 127 | 154 |
| Commercial site plan reviews | 35 | 40 | 29 | 22 | 24 | 28 | 23 | 25 | 27 | 29 |
| Culture and recreation | | | | | | | | | | |
| Community center bookings | 397 | 709 | 824 | 575 | 572 | 733 | 925 | 900 | 951 | 911 |
| Average number of programs offered per quarter | 262 | 300 | 305 | 268 | 215 | 218 | 276 | 323 | 265 | 257 |
| Program registrations | 7,971 | 8,755 | 11,454 | 11,832 | 15,368 | 13,272 | 13,829 | 8,206 | 11,687 | 12,350 |
| Community-wide special events | 19 | 61 | 61 | 56 | 60 | 29 | 34 | 35 | 32 | 38 |
| Number of street trees maintained | 1,518 | 1,580 | 1,580 | 1,866 | 1,866 | 1,918 | 2,195 | 2,195 | 2,346 | 2,469 |
| Water | | | | | | | | | | |
| Gallons of water pumped (millions) | 2,112 | 1,933 | 2,029 | 1,935 | 2,228 | 2,299 | 2,435 | 2,490 | 3,083 | 2,774 |
| Gallons of water sold (millions) | 1,923 | 1,877 | 1,960 | 1,877 | 1,999 | 2,100 | 2,097 | 2,009 | 2,350 | 2,259 |
| Average daily consumption (millions of gallons) | 5.82 | 5.30 | 5.56 | 5.31 | 6.11 | 6.30 | 6.68 | 6.83 | 8.45 | 7.60 |
| Number of valves exercised | 854 | 1,364 | 1,315 | 739 | 2,016 | 1,720 | 3,703 | 3,132 | 5,794 | 1,184 |
| Number of hydrants exercised | 267 | 268 | 1,315 | N/A | 226 | 448 | 449 | 662 | 335 | 2,879 |
| Number of water mains breaks | N/A | N/A | N/A | N/A | 190 | 134 | 160 | 243 | 201 | 220 |
| Number of customers served | 15,000 | 15,621 | 15,664 | 16,300 | 16,346 | 16,346 | 17,172 | 17,916 | 19,267 | 20,295 |
| Wastewater | | | | | | | | | | |
| Number of lift station incident responses | 262 | 328 | 254 | 203 | 411 | 292 | 522 | 588 | 317 | 333 |
| Number of STEP system incident responses | 350 | 389 | 248 | 270 | 206 | 316 | 591 | 659 | 258 | 236 |
| Lines cleaned (in feet) | 66,991 | 96,191 | 133,815 | 144,658 | 143,708 | 102,147 | 151,274 | 180,517 | 212,633 | 130,511 |
| Lines televised (in feet) | 30,940 | 111,307 | 103,353 | 120,186 | 33,916 | 91,645 | 78,202 | 208,976 | 94,470 | 181,212 |
| Odor complaints | N/A | N/A | N/A | N/A | N/A | N/A | 20 | 18 | 8 | 7 |
| Stormwater | | | | | | | | | | |
| Percentage of catch basins cleaned | 43% | 90% | 100% | 100% | 100% | 100% | 100% | 62% | 60% | 42% |
| Acres of storm ponds maintained | 28.0 | 30.6 | 30.6 | 35.6 | 35.6 | 38.7 | 38.7 | 494.4 | 625.1 | 680.7 |
| City responses to spills | 22 | 42 | 32 | 31 | 44 | 57 | 43 | 49 | 56 | 56 |

Sources: Various departments of the City and the "Statistical Measurements" reports from City Manager's Office.

Note: Indicators are not available for the general government and physical environment function.

Table 19

Capital Asset Statistics by Function
Last Ten Fiscal Years

| Function | Fiscal Year | | | | | | | | | |
|--|-------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
| Security of persons and property | | | | | | | | | | |
| Police station | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Patrol units | N/A | N/A | N/A | 14 | 14 | 14 | 14 | 16 | 16 | 16 |
| Highways and streets | | | | | | | | | | |
| Miles of paved street | 103 | 108 | 111 | 111 | 115 | 116 | 117 | 128 | 122 | 132 |
| Number of streetlights | 1,875 | 1,849 | 1,900 | 1,900 | 2,300 | 2,375 | 2,433 | 2,852 | 2,973 | 3,243 |
| Number of street signs | 3,666 | 3,735 | 3,807 | 3,991 | 4,153 | 4,529 | 5,030 | 5,636 | 5,983 | 6,674 |
| Traffic signals | 26 | 26 | 27 | 25 | 25 | 26 | 27 | 28 | 30 | 40 |
| Culture and recreation | | | | | | | | | | |
| Number of parks | 23 | 24 | 25 | 25 | 26 | 25 | 25 | 25 | 24 | 24 |
| Parks acreage including outside city limits | 465 | 465 | 444 | 462 | 501 | 501 | 501 | 501 | 501 | 501 |
| Developed acres | 70 | 70 | 70 | 70 | 70 | 70 | 151 | 151 | 162 | 187 |
| Soccer fields | 5 | 5 | 5 | 5 | 5 | 5 | 12 | 14 | 16 | 16 |
| Tennis courts | 4 | 4 | 4 | 4 | 4 | 4 | 8 | 8 | 8 | 8 |
| Community centers | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Baseball, softball fields | 3 | 3 | 3 | 3 | 3 | 3 | 7 | 7 | 7 | 7 |
| Water | | | | | | | | | | |
| Miles of water lines | 282 | 289 | 315 | 286 | 301 | 304 | 310 | 334 | 342 | 353 |
| Number of reservoirs | 6 | 7 | 7 | 7 | 8 | 8 | 8 | 8 | 8 | 8 |
| Number of booster stations | 5 | 6 | 6 | 7 | 8 | 8 | 8 | 8 | 8 | 8 |
| Maximum storage capacity (millions of gallons) | 10 | 11 | 11 | 13 | 13 | 13 | 13 | 13 | 13 | 13 |
| Number of production wells | 14 | 19 | 19 | 19 | 19 | 19 | 19 | 20 | 19 | 19 |
| Number of Hydrants | 2,130 | 2,130 | 2,200 | 2,374 | 2,375 | 2,479 | 2,666 | 2,848 | 2,928 | 3,037 |
| Wastewater | | | | | | | | | | |
| Miles of sewer transmission lines | 106 | 106 | 98 | 103 | 92 | 94 | 113 | 125 | 132 | 136 |
| Miles of STEP transmission lines | 33 | 35 | 34 | 38 | 41 | 43 | 46 | 47 | 49 | 49 |
| Odor control facilities | 3 | 8 | 13 | 10 | 10 | 10 | 11 | 11 | 11 | 11 |
| Number of lift stations | 23 | 23 | 23 | 25 | 25 | 32 | 36 | 38 | 39 | 46 |
| Stormwater | | | | | | | | | | |
| Number of catch basins | 2,277 | 2,417 | 2,504 | 3,217 | 3,217 | 3,217 | 3,073 | 3,665 | 3,300 | 3,580 |
| Number of private storm ponds | 197 | 200 | 197 | 244 | 244 | 244 | 350 | 381 | 403 | 403 |

Sources: Various city departments and the "Statistical Measurements" reports from City Manager's Office.

Note: No capital asset indicators are available for the general government or physical environment.



This Page Intentionally Left Blank