

City of Lacey, Washington
2008 Annual Financial Report
for the year ended December 31, 2008

City of Lacey, Washington Annual Financial Report For the Year Ended December 31, 2008



PREPARED BY THE FINANCE DEPARTMENT

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FINANCE DIRECTOR

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FINANCIAL SERVICES MANAGER

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ACCOUNTING MANAGER

CHUN K. SAUL, CPA
SENIOR ACCOUNTANT



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**ANNUAL FINANCIAL REPORT
OF THE CITY OF LACEY, WASHINGTON
FOR THE YEAR ENDING DECEMBER 31, 2008**

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Shaping
our community
together

POST OFFICE BOX 3400
LACEY, WA 98509-3400

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, 2009

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

The Annual Financial Report of the City of Lacey for the fiscal year ended December 31, 2008, 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 2008 population of 38,040.

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 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. This contract will terminate December 31, 2010, and the City will then operate its own life safety emergency and fire services. By agreement with Thurston County, Olympia, and Tumwater, Lacey provides administrative support services to Joint Animal Services and the Thurston County Narcotics 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.

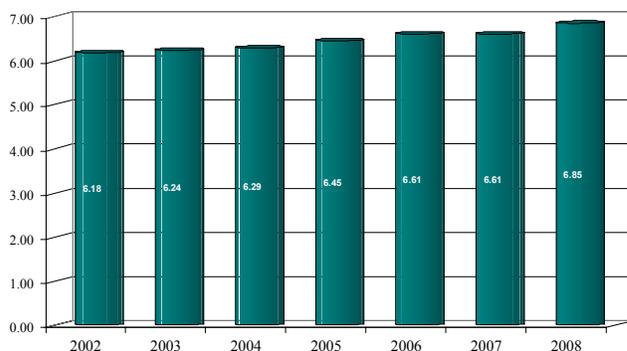
Local Economy

Lacey’s economy remains predominately retail/commercial and service oriented. State government is the single largest employer in the region. 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 although on the rise due to the current national financial crises. It is anticipated that unemployment statistic will increase for the short-term but be lower than national trends.

Full Time Equivalent Employees
Per 1000 Population



During the past five years, Lacey’s population growth has placed significant demands on services. General government staffing has grown 20 percent (166 to 199 FTE’s) and 23 percent (38 to 47 FTE’s) in the utility or enterprise funds. The growth rate in the utilities is indicative of the fact that the city’s utilities have a significant customer base outside its corporate limits. Although the 2009 budget authorized the hiring of five additional employees, currently vacant and new positions in the General fund are carefully being evaluated given economic trends. A few positions are being

held open or hiring delayed.

Lacey has been fortunate to have had new and increasing general fund revenues to match the growing demand for services during the past five years. By late 2008, revenue trends began to show a decline in fees and sales tax receipts. However, property and sales taxes continue to provide about 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 43 percent increase during the past five years. Sales tax revenues during this same period of time have improved 77 percent.



GATEWAY TOWN CENTER PROPOSED PLAN

During the first quarter of 2009, it became evident that revenues from sales tax and fees directly related to planning and building activity were on the decline. A proactive step was taken by the city manager and council to identify reductions in spending to off-set the trend. \$2.1 million in spending reductions were made in the general fund to compensate for anticipated revenue shortfall.

Long-term Financial Planning

Unreserved, designated fund balances in the governmental funds (22 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. The first phase of development included the 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. Transportation and other improvements identified in the grant are moving forward. The City has future obligations to develop a civic center and park as certain milestones in development are reached by the developer.

In partnership with Thurston County, the second phase of development of the regional sports and activities complex is now a reality. Improvements to the original 68 acre complex are now completed. 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 rev-



REGIONAL ATHLETIC COMPLEX

venues have come from general obligation bonds approved by voters as well as general fund revenues. Once in full operation, 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. The complex was opened to public use in May 2009.

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 has implemented the requirements of the national Streamlined Sales Tax (SST) initiative. In doing so, a change in the method of sales tax distribution has taken place that affects all cities. Formerly, sales tax collection was distributed on the basis of "point of sale." Under SST, sales tax is now distributed based on "point of delivery." Fortunately, Lacey did not experience any significant impact from this change in distribution methods although it has received a modest amount of mitigation from the State.

With approximately 22,000 water accounts, the City's Water Utility serves a population approaching 57,000. 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 now operational at a cost of approximately \$12 million. Because of these substantial costs, the Water Construction Fund has received short-term cash from the Wastewater Construction Fund to supplement its available resources. An interfund loan was set in place so that the Water Utility can avoid some of the costs associated with the impact of long-term debt. It was anticipated that by the end of 2008 the Water Utility would pursue long-term financing from the bond market. This will be delayed until the City can obtain additional water rights.



Current transportation projects include the Carpenter Road Capacity improvements (right-of-way acquisition stage), construction of Mullen Road west from Ruddell Road to College Street, and the second phase improvements to the Woodland Trail. A substantial enhancement was made to the residential street overlay program in 2008 for a total of \$1 million. \$850,000 is budgeted in 2009. The resources to cover these improvements include \$1.25 million in Real Estate Excise Tax revenues, a transfer in of \$0.85 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, 2007. This is the ninth 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 Annual Financial Report continues to meet the Certificate of Achievement Program's requirements. However, the City will not seek this award for 2008 financials as a budget expenditure reduction.

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, 2007

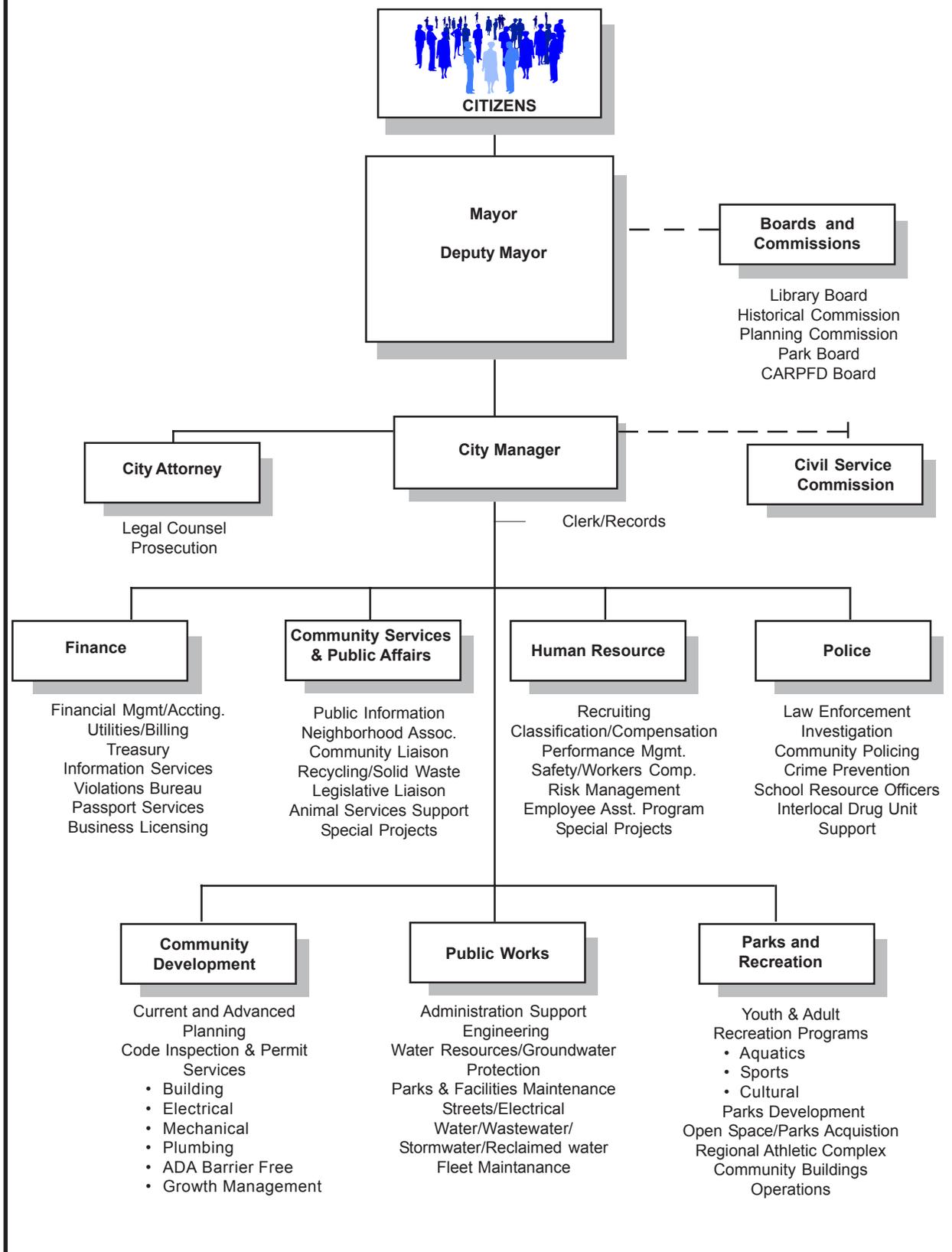
A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards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



President

Executive Director

LACEY CITY GOVERNMENT



CITY OF LACEY, WASHINGTON

Mayor

Graeme Sackrison Term - Dec. 2009

Deputy Mayor

John Darby Term - Dec. 2009

Council

Ann Burgman	Term - Dec. 2009
Jason Hearn	Term - Dec. 2011
Mary Dean	Term - Dec. 2011
Thomas Nelson	Term - Dec. 2011
Virgil Clarkson	Term - Dec. 2009

City Manager

Greg J. Cuoio

ADMINISTRATION

Scott H. Spence	Assistant City Manager
Kenneth R. Ahlf	City Attorney
Frederick O. Walk	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

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, 2008. 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 2008 as compared to 2007.
- At the end of the fiscal year the assets of the City exceeded its liabilities by \$579.84 million. Net assets invested in capital assets (net of depreciation and related debt) account for 86 percent of the amount (\$496.99 million). Of the remaining assets \$82.85 million, \$2.42 million are subject to external restrictions and \$80.43 million may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's total net assets increased by \$37.58 million. The governmental net assets increased by \$12.15 million over the previous year. Business-type net assets were increased by \$25.43 million. The business-type increase included net assets for the Water Utility of \$12.72 million, \$4.64 million for the Wastewater Utility, \$7.95 million for the Stormwater Utility and \$0.13 million net loss 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 2008 the City's governmental funds reported a combined ending fund balance of \$47.95 million, a decrease of \$10.62 million. This decrease is mostly attributable to \$15.56 million increase in capital outlay for the near completion of the city hall expansion project and the Regional Athletic Complex (RAC) project. Of the major funds, the fund balance of the General Fund increased \$1.0 million and the Arterial Street Fund increased \$3.5 million. Approximately \$45.52 million (95 percent) of the combined ending fund balance is unreserved fund balance available to the City for discretionary spending.
- At the end of 2008 the unreserved fund balance for the General Fund was \$22.88 million increase of \$1.02 million over the prior year's amount of \$21.86 million.
- The City's total outstanding bonded debt decreased \$2.14 million (7 percent) to \$27.02 million during the current fiscal year.
- Revenues from local tax sources, including property, sales, business excise, and miscellaneous other taxes increased by \$0.23 million to \$29.96 million, a 0.8 percent increase over 2007.

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 3-1 to 3-3 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 twelve 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, building improvement fund, regional athletic complex capital fund and L.I.D. redemption fund which are considered to be major funds. Data from the other seven 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 3-4 to 3-10 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 3-11 to 3-15 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 3-16 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 3-17 to 3-48 of this report.

Required Supplementary Information

This report also contains other required supplementary information (RSI) on budgetary comparisons for major governmental funds and trend data on the funding status of other postemployment benefits.

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 \$580 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	
	2008	2007	2008	2007	2008	2007
Current and other Capital assets	\$ 83.98	\$ 87.32	\$ 16.20	\$ 24.96	\$ 100.18	\$ 112.28
Total assets	\$ 384.82	\$ 374.56	\$ 231.64	\$ 207.61	\$ 616.46	\$ 582.17
Payables	\$ 6.57	\$ 7.06	\$ 1.07	\$ 2.49	\$ 7.64	\$ 9.55
Long-term Debt	28.82	30.22	0.16	0.14	28.98	30.36
Total liabilities	\$ 35.39	\$ 37.28	\$ 1.23	\$ 2.63	\$ 36.62	\$ 39.91
Net assets:						
Invested in capital, net of debt	\$ 281.56	\$ 269.72	\$ 215.43	\$ 182.65	\$ 496.99	\$ 452.37
Restricted	2.42	16.77	-	-	2.42	16.77
Unrestricted	65.45	50.79	14.98	22.33	80.43	73.12
Total net assets	\$ 349.43	\$ 337.28	\$ 230.41	\$ 204.98	\$ 579.84	\$ 542.26

By far the largest portion of the City of Lacey's net assets (86 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 (\$2.42 million) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* (\$80.43 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 were increased by \$37.58 million in 2008. The increase is explained in the following discussion of governmental and business-type activities.

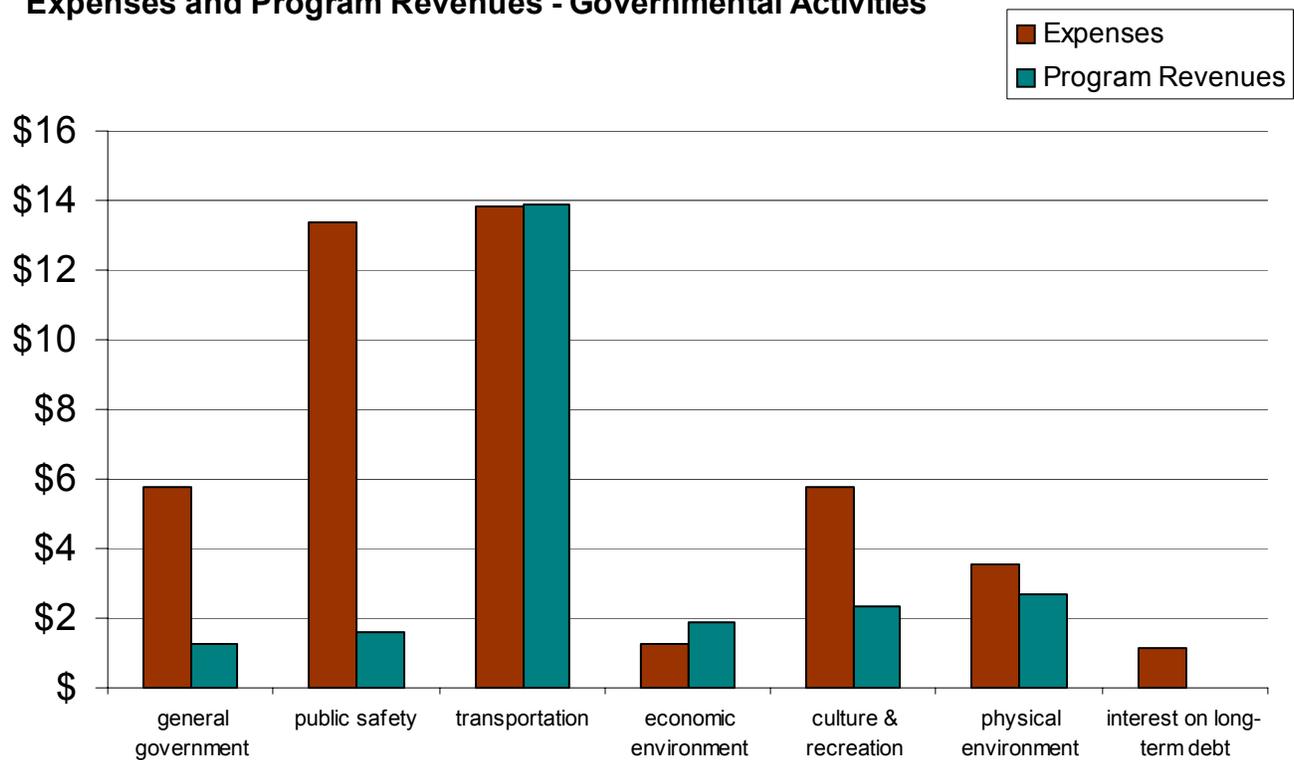
Table 2

Changes in Net Assets (In Millions)

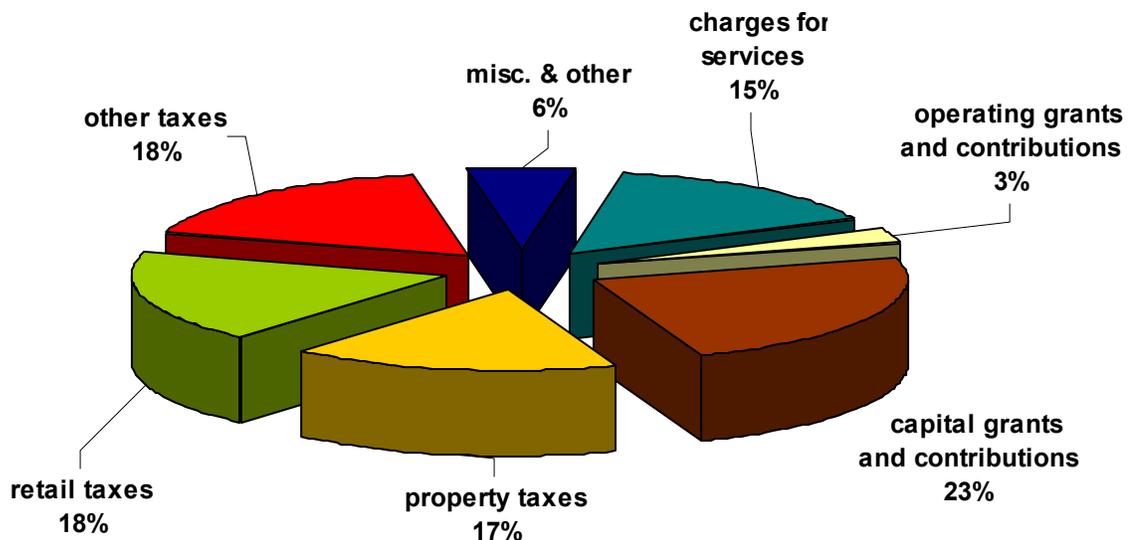
	Governmental Activities		Business-type Activities		Total Primary Government	
	2008	2007	2008	2007	2008	2007
Revenues						
Program Revenues:						
Charges for services	\$ 8.75	\$ 8.84	\$ 23.57	\$ 22.90	\$ 32.32	\$ 31.74
Operating grants and contributions	1.46	1.48	-	0.05	1.46	1.53
Capital grants and contributions	13.47	19.50	23.93	18.67	37.40	38.17
General revenues:						
Property taxes	9.60	8.52	-	-	9.60	8.52
Retail taxes	10.23	10.51	-	-	10.23	10.51
Business taxes	7.75	7.40	-	-	7.75	7.40
Excise	2.39	3.30	-	-	2.39	3.30
Interest and investment earnings	2.16	3.58	0.68	1.24	2.84	4.82
Miscellaneous	1.03	1.66	0.39	0.77	1.42	2.43
Total revenues	\$ 56.84	\$ 64.79	\$ 48.57	\$ 43.63	\$ 105.41	\$ 108.42
Program expenses including indirect expenses:						
General government	\$ 5.75	\$ 5.46	\$ -	\$ -	\$ 5.75	\$ 5.46
Security of persons and property	13.35	12.34	-	-	13.35	12.34
Physical environment	3.53	3.14	-	-	3.53	3.14
Transportation	13.82	10.34	-	-	13.82	10.34
Economic environment	1.26	1.28	-	-	1.26	1.28
Culture and recreation	5.76	4.43	-	-	5.76	4.43
Interest on long-term debt	1.12	0.92	-	-	1.12	0.92
Water	-	-	9.84	8.47	9.84	8.47
Wastewater	-	-	10.51	9.51	10.51	9.51
Stormwater	-	-	2.83	2.35	2.83	2.35
Reclaimed water	-	-	0.06	0.33	0.06	0.33
Total expenses	\$ 44.59	\$ 37.91	\$ 23.24	\$ 20.66	\$ 67.83	\$ 58.57
Increase in net assets before transfers	\$ 12.25	\$ 26.88	\$ 25.33	\$ 22.97	\$ 37.58	\$ 49.85
Transfers in (out)	(0.10)	(1.34)	0.10	1.34	-	-
Changes in net assets	\$ 12.15	\$ 25.54	\$ 25.43	\$ 24.31	\$ 37.58	\$ 49.85
Net Assets - Beginning Balance (Restated)	\$ 337.28	\$ 311.74	\$ 204.98	\$ 180.67	\$ 542.26	\$ 492.41
Net Assets - Ending Balance	\$ 349.43	\$ 337.28	\$ 230.41	\$ 204.98	\$ 579.84	\$ 542.26

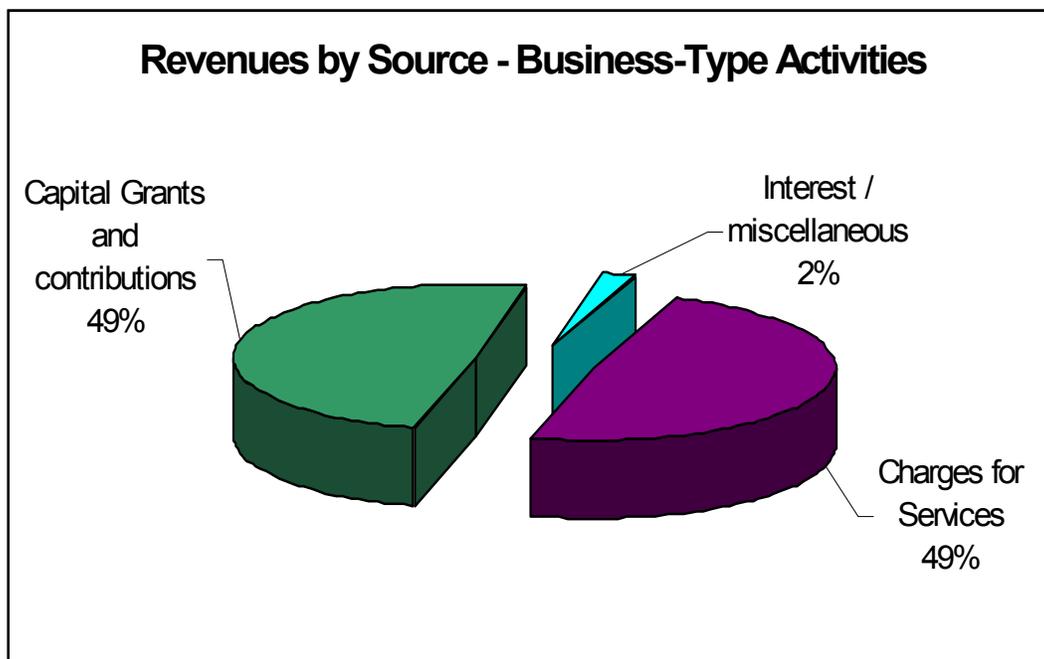
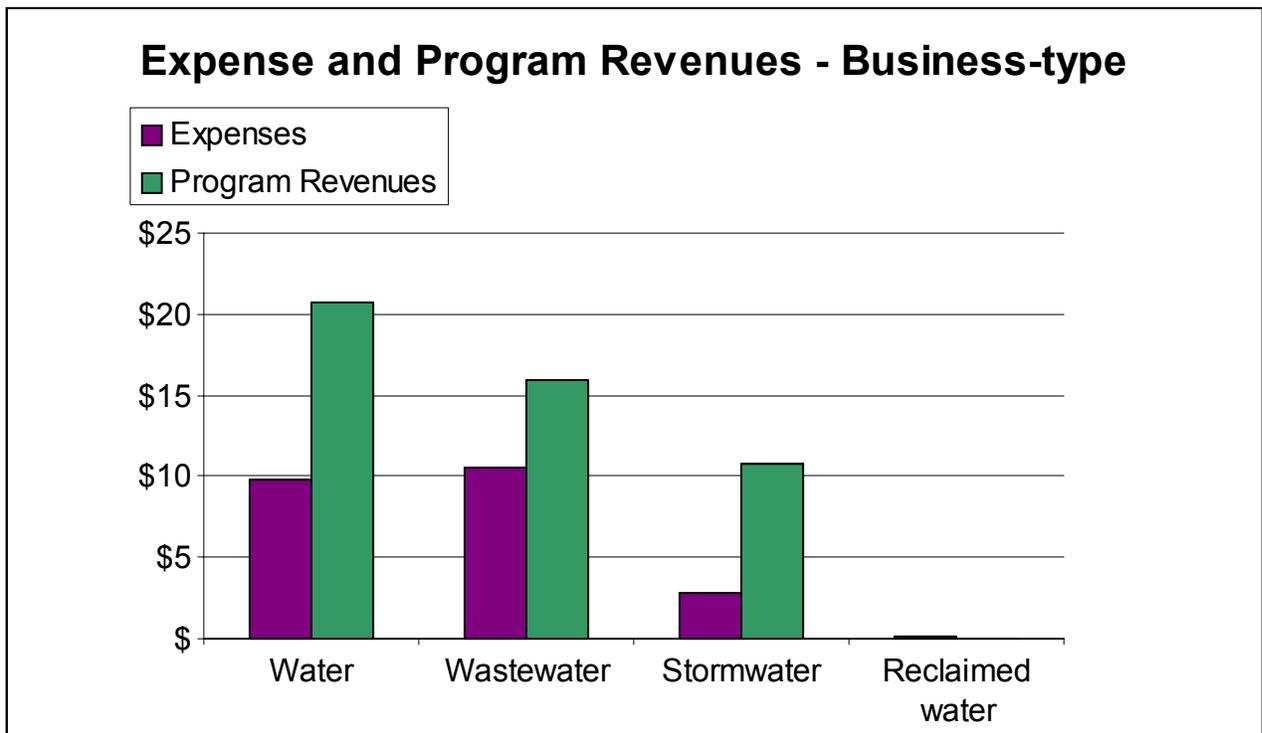
Note: Does not include any separate lines for contributions to term and permanent endowments or special and extraordinary items. These amounts were either zero or very small in amount and therefore are not presented.

Expenses and Program Revenues - Governmental Activities



Revenues by Source - Governmental Activities





Governmental Activities

Governmental activities increased the City's net assets by \$12.15 million, thereby accounting for 32 percent of the total growth in the net assets of the City of Lacey.

- Operating revenues (charges for services) decreased slightly by \$.09 million. General government, security of persons and property physical environment and culture and recreation incurred moderate increases in the combined amount of \$1.4 million. Economic environment and transportation experienced a combined decrease of \$1.5 million as a result of a reduction in building permits issued and fewer plan check fees incurred due to a decline in new construction.
- Operating grants and contributions decreased \$.02 million mostly due to a reduction in public safety and transportation grant revenues.
- Capital grants and contributions decreased by \$6.0 million. Cultural and recreation reported a decrease of \$2.1 million which is due to the near completion of the Regional Athletic Complex. Transportation reported a \$3.9 million decrease which is mostly from a \$5.2 million decrease of state Job Development Fund grant and a \$0.8 million decrease in Developer contributed assets, combined with a \$2.1 million increase in various transportation grants and contributions, including Department of transportation and the Transportation Improvement Board.
- General revenues decreased \$1.8 million. Property, retail sales, business and excise taxes combined increased by \$.23 million, mostly due to one time tax on new construction. Interest and investment earnings decreased \$1.41 million and miscellaneous revenue decreased by \$.63 million.
- Expenses increased \$6.44 million (15 percent), \$2.0 million is attributed to an increase in salaries and benefits and additional staffing (7.7 FTE's) to support an increased demand for services. The remainder of the increase is associated with capital projects to complete the expansion of City Hall and the completion of the Regional Athletic Complex. Most other increases in expenditures paralleled inflation and growth.

Business-type Activities

Business-type activities increased the City's net assets by \$25.4 million, accounting for 68 percent of the total growth in the government's net assets. Key elements of this increase are as follows:

- Water, Wastewater and Stormwater sales increased 3 percent (\$.68 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 50 percent (\$23.93 million) of business-type revenues and interest and investment earnings totaled \$0.68 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	
	2008	2007	2008	2007
Revenues				
Taxes	\$ 19.84	\$ 19.63	\$ 1.92	\$ 2.86
License and permits	1.74	2.85	-	-
Intergovernmental revenues	0.96	1.05	8.21	1.42
Charges for services	6.10	5.90	1.00	1.04
Fines & forfeitures	0.67	0.44	-	-
Other revenue	0.70	1.10	0.35	0.62
Total revenues	<u>\$ 30.01</u>	<u>\$ 30.97</u>	<u>\$ 11.48</u>	<u>\$ 5.94</u>
Expenditures	<u>\$ 26.98</u>	<u>\$ 24.90</u>	<u>\$ 9.49</u>	<u>\$ 9.69</u>
Other Financing Sources and Uses				
Transfers	\$ (2.01)	\$ (2.52)	\$ 1.50	\$ 1.00
Total other financing sources and uses	<u>\$ (2.01)</u>	<u>\$ (2.52)</u>	<u>\$ 1.50</u>	<u>\$ 1.00</u>
Fund Balances				
Reserved	\$ 0.13	\$ 0.14	\$ 0.39	\$ 0.50
Unreserved, designated	8.41	8.43	-	-
Unreserved, undesignated	14.47	13.43	8.90	5.30
Total fund balances	<u>\$ 23.01</u>	<u>\$ 22.00</u>	<u>\$ 9.29</u>	<u>\$ 5.80</u>

	Major Funds			
	L.I.D. Redemption		Building Improvement	
	2008	2007	2008	2007
Revenues				
Taxes	\$ -	\$ -	\$ 1.07	\$ 1.06
Other revenue	1.15	1.50	0.19	0.33
Total revenues	<u>\$ 1.15</u>	<u>\$ 1.50</u>	<u>\$ 1.26</u>	<u>\$ 1.39</u>
Expenditures	<u>\$ 1.21</u>	<u>\$ 1.63</u>	<u>\$ 6.82</u>	<u>\$ 0.93</u>
Other Financing Sources and Uses				
Transfers	\$ -	\$ -	\$ 1.00	\$ 2.30
Total other financing sources and uses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1.00</u>	<u>\$ 2.30</u>
Fund Balances				
Unreserved, designated	\$ -	\$ -	\$ 0.09	\$ 7.15
Unreserved, undesignated	0.14	0.21	3.01	0.50
Total fund balances	<u>\$ 0.14</u>	<u>\$ 0.21</u>	<u>\$ 3.10</u>	<u>\$ 7.65</u>

Table 3

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

	Major Funds			
	Regional		Athletic Complex	
	Capital Fund			
	2008	2007		
Revenues				
Intergovernmental revenues	\$ 1.19	\$ -		
Other revenue	0.22	-		
Total revenues	\$ 1.41	\$ -		
Expenditures	\$ 12.94	\$ -		
Other Financing Sources and Uses				
Transfers	\$ 12.58	\$ -		
Total other financing sources and uses	\$ 12.58	\$ -		
Fund Balances				
Reserved	\$ 0.89	\$ -		
Unreserved, undesignated	0.16	-		
Total fund balances	\$ 1.05	\$ -		
Nonmajor Funds				
	Special Revenue Funds		Debt Service Funds	
	2008	2007	2008	2007
Revenues				
Taxes	\$ 2.33	\$ 2.28	\$ 1.49	\$ 1.13
Intergovernmental revenues	0.59	0.63	-	-
Charges for services	0.04	0.04	-	-
Other revenue	0.19	0.17	0.02	0.05
Total revenues	\$ 3.15	\$ 3.12	\$ 1.51	\$ 1.18
Expenditures	\$ 2.63	\$ 2.49	\$ 2.06	\$ 1.52
Other Financing Sources and Uses				
Transfers	\$ -	\$ -	\$ 0.55	\$ -
Total other financing sources and uses	\$ -	\$ -	\$ 0.55	\$ -
Fund Balances				
Reserved	\$ 1.02	\$ 0.85	\$ -	\$ -
Unreserved, designated	0.44	0.44	-	-
Unreserved, undesignated	2.31	1.96	0.38	0.38
Total fund balances	\$ 3.77	\$ 3.25	\$ 0.38	\$ 0.38

Table 3

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

	Nonmajor Funds			
	Capital Project Funds		Total Governmental Funds	
	2008	2007	2008	2007
Revenues				
Taxes	\$ 3.20	\$ 2.77	\$ 29.85	\$ 29.73
License and permits	-	-	1.74	2.85
Intergovernmental revenues	-	1.03	10.95	4.13
Charges for services	-	-	7.14	6.98
Fines & forfeitures	-	-	0.67	0.44
Other revenue	0.27	0.64	3.09	4.41
Total revenues	<u>\$ 3.47</u>	<u>\$ 4.44</u>	<u>\$ 53.44</u>	<u>\$ 48.54</u>
Expenditures	<u>\$ 1.38</u>	<u>\$ 4.40</u>	<u>\$ 63.51</u>	<u>\$ 45.56</u>
Other Financing Sources and Uses				
Bond premium & proceeds	\$ -	\$ 8.13	\$ -	\$ 8.13
Transfers	(14.16)	(2.27)	(13.12)	(1.49)
Total other financing sources and uses	<u>\$ (14.16)</u>	<u>\$ 5.86</u>	<u>\$ (13.12)</u>	<u>\$ 6.64</u>
Fund Balances				
Reserved	\$ -	\$ -	\$ 2.43	\$ 1.49
Unreserved, designated	3.05	15.99	11.99	32.01
Unreserved, undesignated	4.16	3.29	33.53	25.07
Total fund balances	<u>\$ 7.21</u>	<u>\$ 19.28</u>	<u>\$ 47.95</u>	<u>\$ 58.57</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 \$47.95 million, a decrease of \$10.62 million in comparison with the prior year. Approximately 70 percent (\$33.53 million) of this total amount constitutes *unreserved, undesignated fund balance*, which is available for spending at the government's discretion. The \$14.42 million remaining 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 (\$0.97 million), 2) debt service (\$0.54 million), 3) a variety of other restricted purposes (\$0.92 million), and 4) a variety of other *fund designated* purposes (\$12.0 million). Additional information on the City's designated purposes can be found on page 4-37 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 \$14.47 million, while the total fund balance reached \$23.01 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 54.6 percent of the

total general fund expenditures, while total fund balance represents 85 percent of that same amount.

The fund balance of the City's General Fund was increased by \$1.01 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 \$0.2 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 8 percent (\$2.07 million). Approximately 68 percent (\$1.74 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 \$9.28 million, of which \$.38 million is reserved for the payment of debt service, and the remaining \$8.9 million is unreserved to indicate that it is available for new spending. Revenues increased \$5.54 million mostly due to a collection of state job development fund grant in 2008 for the Gateway project. Expenditures decreased by \$0.8 million. The net increase in the fund balance during the current year was \$3.49 million.

The **Building Improvement Fund** had an ending fund balance of \$3.10 million, a \$4.55 million decrease from year 2007. This decrease was mainly due to \$6.12 million capital outlay expenditures (a \$5.89 million decrease from year 2007) for the near completion of the city hall expansion project. Total taxes and other revenues including a \$1.00 million transfer in from the general fund amounted to \$2.26 million.

The **Regional Athletic Complex Capital (RAC) Fund** had an ending fund balance of \$1.05 million. The RAC fund was created in 2008 to account for and report the capital expenditures related to completing phase II of this facility. The RAC fund received a \$13.13 million transfer from the parks and open space fund and \$1.41 million in revenues from the Public Facilities District and IAC grants. \$12.94 million of the funds was spent for the RAC capital project and \$.55 million was transferred to the debt service fund to serve the 2007 LTGO debt payment.

The **Local Improvement District Bond Fund** has a total fund balance of \$.14 million as of the end of current fiscal year. The L.I.D 19 (NE area transportation improvements district) is the only remaining improvement in this fund as of the end of current fiscal year,

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 \$24.30 million. The total growth in net assets for these funds was \$25.29 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 \$.54 million increase in appropriations between the original and final amended budget. Following are the components of the increase:

- A \$.24 million increase was used to cover unexpected contracts and professional services such as prisoner medical, Joint Animal Services contract, litigation and repairs to facilities, advertising, repairs to equipment and utility increases.
- Overtime for the general fund increased \$.09 million due to increased police investigations, paid detail and short staffing as well as increased activity in public works based on inspections, projects and call out incidents.
- Salaries and benefits increased \$.14 million due to an unexpected market adjustment and increased activity in Parks & Recreation programs.

The total increase was possible because of additional anticipated revenues and cash reserves. Those revenues included an increase in business and occupation tax collections (\$.23), increased program registration revenues (\$.04), State and Federal grants for police related programs and (\$.16) in cash reserves.

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, 2008, amounts to \$516.26 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 \$46.39 million or 10.0% (3.0 % from governmental activities and 7.0% 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	
	2008	2007	2008	2007	2008	2007
Land and improvements	\$ 116.61	\$ 112.68	\$ 7.20	\$ 4.76	\$ 123.81	\$ 117.44
Buildings	9.12	9.50	1.26	1.30	10.38	10.80
Improvements	9.26	9.03	203.09	162.16	212.35	171.19
Infrastructure	145.39	140.04	-	-	145.39	140.04
Machinery and equipment	3.98	3.81	0.32	0.25	4.30	4.06
construction in progress	16.48	12.18	3.55	14.16	20.03	26.34
Total	\$ 300.84	\$ 287.24	\$ 215.42	\$ 182.63	\$ 516.26	\$ 469.87

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

- Land and improvement increased by \$6.37 million which includes a \$1.97 million from the land dedicated to the City by the St. Martin's Abby for the St. Martin's stormwater facility, \$3.80 million from developer contributed streets & rights of way, and the remainder of \$0.60 million from land parcels and right of ways purchased by the City for the City's various projects.

- Construction in progress decreased by \$6.31. Governmental activities had a \$4.3 million increase. The city hall expansion project increased by \$6.69 million; whereas various city street and parks improvement projects decreased by \$2.39 million. About \$4.6 million of city projects that began prior to 2008 were completed during 2008 meanwhile about \$2.2 million in new street projects were added during 2008. Business-type activities resulted in \$10.61 million decrease. About \$13.34 million in various projects began prior to 2008 were completed during 2008 including a \$1.35 million for the College Street stormwater facility project, \$4.61 million for water chlorinization project, \$4.72 million for Hawks Prairie water evaluation project, \$.88 million for 380 zone conversion project. About \$2.73 million in various other water and wastewater improvement projects were added during 2008.
- Infrastructure assets increased by \$5.34 million. The City recorded \$5.75 million in developer contributed streets and \$8.95 million new assets in 2008, including Sleater Kinney and Mullen Road projects; whereas, the total depreciation for infrastructure asset for 2008 was \$9.36 million resulting in a net decrease of \$5.34 million.
- Improvements include park facilities, water, sewer and wastewater lines and facilities, as well as other improvements. Improvement assets increased by \$47.36 million, whereas the depreciation for the fiscal year was \$6.20 million which resulted in a net increase of \$41.16 million. Approximately \$0.80 million (1.7 percent) of the \$47.36 million increase was attributable to various parks improvement projects, and about \$24.58 million (52 percent) of the increase is attributable to the various water, sewer and stormwater assets that were added in 2008. The remaining \$21.98 (46 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 3-30 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.

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.

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 construct-

ing 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.

The City of Lacey received an "AA" 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 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 \$24.32 million and a State of Washington (Public Works projects) loan of \$1.96 million. Of the \$25.06 million bonded debt, \$24.32 million comprises debt backed by the full faith and credit of the government and \$0.54 million is special assessment debt for which the government 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	
	2008	2007	2008	2007	2008	2007
General obligation bonds	\$ 24.32	\$ 25.38	\$ -	\$ -	\$ 24.32	\$ 25.38
Revenue bonds						
(Animal Services)	0.20	0.21	-	-	0.20	0.21
Special assessment debt with governmental commitment	0.54	1.41	-	-	0.54	1.41
PWTF loan	1.96	2.16	-	-	1.96	2.16
Total	<u>\$ 27.02</u>	<u>\$ 29.16</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 27.02</u>	<u>\$ 29.16</u>

The City's total outstanding debt decreased by \$2.14 million (7.3 percent) during the current fiscal year of which equals to the amount of debt redemption during 2008.

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

Economic Factors and Next Year's Budgets and Rates

- The 2008 average unemployment rate for the County was 5.4 percent, which is an increase

from a rate of 4.3 percent a year ago. This is slightly lower compared to the state's average unemployment rate of 5.5 percent and the national average rate of 5.8 percent.

- The City's population continues to grow, (38,040 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 \$1.04 million (7.8 percent) to \$14.47 million. This increase is contributed by the net increase in fund balance in 2008.

The Water utility rates in the 2008 budget year increased by 5 percent. The City has phased 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 2008 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, 2008

	Primary Government		Total
	Governmental Activities	Business-Type Activities	
ASSETS			
Cash and cash equivalents	\$ 56,106,936	\$ 2,802,515	\$ 58,909,451
Receivables (net)	12,708,065	1,789,675	14,497,740
Internal balances	(686,199)	686,199	-
Inventories	-	243,441	243,441
Prepayments	13,454	330	13,784
Deferred charges	189,305	-	189,305
Restricted:			
Cash and cash equivalents	90,825	10,691,962	10,782,787
Investment in joint venture	15,558,491	-	15,558,491
Capital assets:			
Non-depreciable	133,086,906	10,754,915	143,841,821
Depreciable, net	<u>167,755,889</u>	<u>204,668,844</u>	<u>372,424,733</u>
Total assets	<u>\$ 384,823,672</u>	<u>\$ 231,637,881</u>	<u>\$ 616,461,553</u>
LIABILITIES			
Accounts payable	\$ 2,526,579	\$ 1,068,716	\$ 3,595,295
Interest payable	146,454	-	146,454
Unearned revenue	3,896,363	-	3,896,363
Unamortized premium	221,146	-	221,146
Long-term liabilities:			
Due within one year	1,717,903	74,037	1,791,940
Due in more than one year	26,343,560	87,748	26,431,308
Special assessment debt:			
Due within one year	100,000	-	100,000
Due in more than one year	<u>435,000</u>	<u>-</u>	<u>435,000</u>
Total liabilities	<u>\$ 35,387,005</u>	<u>\$ 1,230,501</u>	<u>\$ 36,617,506</u>
NET ASSETS			
Invested in capital assets, net of related debt	\$ 281,557,492	\$ 215,423,759	\$ 496,981,251
Restricted for:			
Culture and recreation	1,866,141	-	1,866,141
Debt service	535,000	-	535,000
Other purposes	28,738	-	28,738
Unrestricted	<u>65,449,296</u>	<u>14,983,621</u>	<u>80,432,917</u>
Total net assets	<u>\$ 349,436,667</u>	<u>\$ 230,407,380</u>	<u>\$ 579,844,047</u>

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

Statement of Activities
For the Year Ended December 31, 2008

Functions/Program	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants & Contributions
Primary government:				
Governmental activities:				
General government	\$ 5,744,499	\$ 1,235,156	\$ 50,284	\$ -
Security of persons and property	13,348,263	848,723	741,084	3,575
Physical environment	3,525,971	2,677,176	-	-
Transportation	13,821,106	1,064,587	577,364	12,264,263
Economic environment	1,260,553	1,863,276	-	13,765
Mental and physical health	8,429	-	-	-
Culture and recreation	5,756,541	1,064,692	95,437	1,188,209
Interest on long-term debt	1,121,716	-	-	-
Total governmental activities	\$ 44,587,078	\$ 8,753,610	\$ 1,464,169	\$ 13,469,812
Business-type activities:				
Water	\$ 9,843,356	\$ 10,631,855	\$ -	\$ 10,179,945
Wastewater	10,507,062	11,112,482	-	4,803,748
Stormwater	2,825,078	1,825,596	-	8,952,817
Reclaimed water	66,557	-	-	(5,107)
Total business-type activities	\$ 23,242,053	\$ 23,569,933	\$ -	\$ 23,931,403
Total primary government	\$ 67,829,131	\$ 32,323,543	\$ 1,464,169	\$ 37,401,215

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
\$ (4,459,059)	\$ -	\$ (4,459,059)
(11,754,881)	-	(11,754,881)
(848,795)	-	(848,795)
85,108	-	85,108
616,488	-	616,488
(8,429)	-	(8,429)
(3,408,203)	-	(3,408,203)
(1,121,716)	-	(1,121,716)
<u>\$ (20,899,487)</u>	<u>\$ -</u>	<u>\$ (20,899,487)</u>
\$ -	\$ 10,968,444	\$ 10,968,444
-	5,409,168	5,409,168
-	7,953,335	7,953,335
-	(71,664)	(71,664)
<u>\$ -</u>	<u>\$ 24,259,283</u>	<u>\$ 24,259,283</u>
<u>\$ (20,899,487)</u>	<u>\$ 24,259,283</u>	<u>\$ 3,359,796</u>
\$ 9,593,901	\$ -	\$ 9,593,901
140	-	140
10,230,273	-	10,230,273
7,748,345	-	7,748,345
2,389,672	-	2,389,672
1,820	-	1,820
2,163,991	683,677	2,847,668
1,022,072	384,288	1,406,360
(97,769)	97,769	-
<u>\$ 33,052,445</u>	<u>\$ 1,165,734</u>	<u>\$ 34,218,179</u>
\$ 12,152,958	\$ 25,425,017	\$ 37,577,975
<u>\$ 337,283,709</u>	<u>\$ 204,982,363</u>	<u>\$ 542,266,072</u>
<u>\$ 349,436,667</u>	<u>\$ 230,407,380</u>	<u>\$ 579,844,047</u>

Balance Sheet Governmental Funds December 31, 2008			
	General	Arterial Street	L.I.D. Redemption
ASSETS			
Current cash & cash equivalents	\$ 20,659,677	\$ 11,649,096	\$ 140,579
Receivables (net of allowances):			
Taxes	2,926,505	234,615	-
Customer accounts	299,821	-	-
Accrued interest and penalty	-	-	61
Due from other governmental units	94,217	2,315,224	197,431
Prepayments	13,454	-	-
Restricted assets:			
Cash deposits	88,982	600	-
Special assessments deferred	-	-	5,069,401
Total assets	\$ 24,082,656	\$ 14,199,535	\$ 5,407,472
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 567,905	\$ 277,259	\$ -
Due to other governmental units	-	117,275	-
Advance payments	114,714	-	-
Custodial accounts:			
deposits	88,982	600	-
Deferred revenue	300,295	743,723	5,266,832
Unearned revenue	-	3,776,839	-
Total liabilities	\$ 1,071,896	\$ 4,915,696	\$ 5,266,832
Fund balances			
Reserved for:			
Culture and recreation	\$ -	\$ -	\$ -
Debt service	100,000	385,000	-
Other purposes	15,284	-	-
Prepaid items	13,454	-	-
Unreserved, designated for, reported in:			
Budget adjustments	575,000	-	-
Criminal bail	32,792	-	-
Furniture and equipment	217,500	-	-
Property acquisitions	1,000,000	-	-
Insurance	200,000	-	-
Parks	141,329	-	-
Community center	50,000	-	-
Gateway project	5,200,000	-	-
Senior center addition	1,000,000	-	-
City Hall expansion project	-	-	-
Special revenue funds	-	-	-
Capital project funds	-	-	-
Unreserved, undesignated for:			
General fund	14,465,401	-	-
Special revenue funds	-	8,898,839	-
Debt service funds	-	-	140,640
Capital project funds	-	-	-
Total fund balances	\$ 23,010,760	\$ 9,283,839	\$ 140,640
Total liabilities and fund balances	\$ 24,082,656	\$ 14,199,535	\$ 5,407,472

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

Building Improvement	Regional Athletic Complex Capital	Other Governmental Funds	Total Governmental Funds
\$ 3,865,269	\$ 1,457,527	\$ 10,467,561	\$ 48,239,709
-	-	948,553	4,109,673
-	158,304	450,803	908,928
-	-	-	61
-	5,655	3,575	2,616,102
-	-	-	13,454
-	-	1,243	90,825
-	-	-	5,069,401
<u>\$ 3,865,269</u>	<u>\$ 1,621,486</u>	<u>\$ 11,871,735</u>	<u>\$ 61,048,153</u>
\$ 767,679	\$ 569,628	\$ 116,916	\$ 2,299,387
-	-	-	117,275
-	-	4,810	119,524
-	-	1,243	90,825
-	-	386,921	6,697,771
-	-	-	3,776,839
<u>\$ 767,679</u>	<u>\$ 569,628</u>	<u>\$ 509,890</u>	<u>\$ 13,101,621</u>
\$ -	\$ 893,885	\$ 972,256	\$ 1,866,141
-	-	50,000	535,000
-	-	-	15,284
-	-	-	13,454
-	-	-	575,000
-	-	-	32,792
-	-	-	217,500
-	-	-	1,000,000
-	-	-	200,000
-	-	-	141,329
-	-	-	50,000
-	-	-	5,200,000
-	-	-	1,000,000
90,082	-	-	90,082
-	-	435,000	435,000
-	-	3,046,500	3,046,500
-	-	-	14,465,401
-	-	2,317,158	11,215,997
-	-	381,301	521,941
3,007,508	157,973	4,159,630	7,325,111
<u>\$ 3,097,590</u>	<u>\$ 1,051,858</u>	<u>\$ 11,361,845</u>	<u>\$ 47,946,532</u>
<u>\$ 3,865,269</u>	<u>\$ 1,621,486</u>	<u>\$ 11,871,735</u>	<u>\$ 61,048,153</u>



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Reconciliation of the Balance Sheet
To the Statement of Net Assets
Governmental Funds
For the Year Ended December 31, 2008

Fund balances - total governmental funds	\$	47,946,532
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	\$	189,305
Investment in joint venture		15,558,491
		15,747,796
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.		
Non-depreciable assets	\$	133,086,906
Depreciable assets (net)		163,872,776
		296,959,682
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	\$	743,723
Property taxes		341,440
Special assessments		5,415,177
		6,500,340
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	\$	(146,454)
Bonds and loans payable, including unamortized bond premium \$221,146		(27,583,273)
Compensated absences		(951,678)
		(28,681,405)
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.		
	\$	10,963,722
		10,963,722
Net assets of government activities.	\$	349,436,667

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, 2008

	General	Arterial Street	L.I.D. Redemption
REVENUES			
Taxes	\$ 19,835,164	\$ 1,920,004	\$ -
Licenses and permits	1,743,108	-	-
Intergovernmental revenues	956,485	8,211,254	-
Charges for services	6,099,190	997,808	-
Fines and forfeitures	667,655	-	-
Other revenues	700,680	347,276	1,145,466
	<u>\$ 30,002,282</u>	<u>\$ 11,476,342</u>	<u>\$ 1,145,466</u>
EXPENDITURES			
Current:			
General government	\$ 4,540,189	\$ -	\$ -
Security of persons and property	13,342,361	-	-
Physical environment	3,560,082	-	-
Transportation	-	-	-
Economic environment	1,187,231	-	-
Mental and physical health	8,429	-	-
Culture and recreation	4,297,503	-	-
Capital outlay	40,884	9,492,662	-
Debt service:			
Principal retirement	-	-	1,066,416
Interest	-	-	148,315
	<u>\$ 26,976,679</u>	<u>\$ 9,492,662</u>	<u>\$ 1,214,731</u>
Excess (deficiency) of revenue over (under) expenditures	\$ 3,025,603	\$ 1,983,680	\$ (69,265)
OTHER FINANCING SOURCES (USES)			
Proceeds from sale			
Transfers in	\$ 335,590	\$ 1,500,000	\$ -
Transfers out	(2,350,000)	-	-
	<u>\$ (2,014,410)</u>	<u>\$ 1,500,000</u>	<u>\$ -</u>
Net change in fund balances	\$ 1,011,193	\$ 3,483,680	\$ (69,265)
FUND BALANCES - JANUARY 1	<u>\$ 21,999,567</u>	<u>\$ 5,800,159</u>	<u>\$ 209,905</u>
FUND BALANCES - DECEMBER 31	<u><u>\$ 23,010,760</u></u>	<u><u>\$ 9,283,839</u></u>	<u><u>\$ 140,640</u></u>

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

Building Improvement	Regional Athletic Complex Capital	Other Governmental Funds	Total Governmental Funds
\$ 1,071,740	\$ -	\$ 7,010,976	\$ 29,837,884
-	-	-	1,743,108
-	1,188,209	590,924	10,946,872
-	-	47,754	7,144,752
-	-	-	667,655
192,674	226,386	483,269	3,095,751
<u>\$ 1,264,414</u>	<u>\$ 1,414,595</u>	<u>\$ 8,132,923</u>	<u>\$ 53,436,022</u>
\$ -	\$ -	\$ -	\$ 4,540,189
-	-	-	13,342,361
-	-	-	3,560,082
-	-	2,396,479	2,396,479
-	-	-	1,187,231
-	-	-	8,429
-	16,427	247,250	4,561,180
6,818,711	12,922,173	1,366,135	30,640,565
-	-	1,055,000	2,121,416
-	-	1,004,103	1,152,418
<u>\$ 6,818,711</u>	<u>\$ 12,938,600</u>	<u>\$ 6,068,967</u>	<u>\$ 63,510,350</u>
\$ (5,554,297)	\$ (11,524,005)	\$ 2,063,956	\$ (10,074,328)
\$ 1,000,000	\$ 13,128,265	\$ 552,402	\$ 16,516,257
-	(552,402)	(14,163,855)	(17,066,257)
<u>\$ 1,000,000</u>	<u>\$ 12,575,863</u>	<u>\$ (13,611,453)</u>	<u>\$ (550,000)</u>
\$ (4,554,297)	\$ 1,051,858	\$ (11,547,497)	\$ (10,624,328)
\$ 7,651,887	\$ -	\$ 22,909,342	\$ 58,570,860
<u>\$ 3,097,590</u>	<u>\$ 1,051,858</u>	<u>\$ 11,361,845</u>	<u>\$ 47,946,532</u>

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, 2008

Net changes in total fund balances per fund financial statements		\$ (10,624,328)
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures; however, in the statement of activities the cost of those assets are depreciated over their estimated useful lives. This is the amount by which capital outlays exceeded depreciation in the current period.		
Expenditures for capital assets	\$ 14,146,758	
Current year depreciation	(10,345,272)	3,801,486
<hr style="width: 100%;"/>		
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.		
Debt principal repayments	\$ 2,136,494	
Amortization of bond premium	13,343	
Amortization of debt issuance costs	(11,065)	2,138,772
<hr style="width: 100%;"/>		
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the fund statement.		
Deferred revenue - property taxes	\$ 126,267	
Deferred revenue - special assessments	(776,449)	
Deferred revenue - grants earned but not available	(4,736,958)	(5,387,140)
<hr style="width: 100%;"/>		
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.		
Claims and judgments	\$ (542,970)	
Changes in investment in joint venture	12,479,090	
Changes in compensated absences	(256,340)	
Changes in accrued interest payable	17,360	11,697,140
<hr style="width: 100%;"/>		
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.		975,690
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.		9,551,338
		<hr style="width: 100%;"/>
Changes in net assets of governmental activities		\$ 12,152,958
		<hr style="width: 100%;"/>

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

Statement of Net Assets
Proprietary Funds
December 31, 2008

	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	\$ -	\$ 2,087,469	\$ 615,046	\$ 100,000	\$ 2,802,515	\$ 7,867,227
Restricted cash and cash equivalents:						
Customer deposits	149,370	76,987	-	-	226,357	-
Receivables (net of allowances):						
Customer accounts	438,242	737,283	141,858	-	1,317,383	-
Accrued interest & penalty	3,246	8,319	-	-	11,565	-
Prepayments	330	-	-	-	330	-
Due from governmental units	-	1,641	-	390,033	391,674	3,900
Inventory	243,441	-	-	-	243,441	-
Total current assets:	<u>\$ 834,629</u>	<u>\$ 2,911,699</u>	<u>\$ 756,904</u>	<u>\$ 490,033</u>	<u>\$ 4,993,265</u>	<u>\$ 7,871,127</u>
Non-current assets:						
Restricted cash and cash equivalents:						
Capital acquisition	\$ 1,016,144	\$ 6,806,931	\$ 750,871	\$ 1,891,659	\$ 10,465,605	\$ -
Special assessments	8,100	16,195	-	-	24,295	-
Special assessments deferred	31,095	13,663	-	-	44,758	-
Interfund loan receivable	-	10,000,000	-	-	10,000,000	-
Capital assets, net of depreciation:						
Land	3,654,905	770,599	2,775,535	-	7,201,039	-
Buildings	497,471	766,558	-	-	1,264,029	181,419
Improvements other than buildings	102,586,825	55,844,434	44,653,879	-	203,085,138	7,531
Equipment	151,230	156,190	12,257	-	319,677	3,694,162
Construction in progress	2,462,138	1,091,738	-	-	3,553,876	-
Total non-current assets	<u>\$ 110,407,908</u>	<u>\$ 75,466,308</u>	<u>\$ 48,192,542</u>	<u>\$ 1,891,659</u>	<u>\$ 235,958,417</u>	<u>\$ 3,883,112</u>
Total assets	<u>\$ 111,242,537</u>	<u>\$ 78,378,007</u>	<u>\$ 48,949,446</u>	<u>\$ 2,381,692</u>	<u>\$ 240,951,682</u>	<u>\$ 11,754,239</u>

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

Statement of Net Assets
Proprietary Funds
December 31, 2008

	Business-type Activities Enterprise Funds				Total	Governmental Activities Internal Service Funds
	Water	Waste- Water	Storm Water	Reclaimed Water		
LIABILITIES						
Current liabilities:						
Accounts payable	\$ 253,536	\$ 508,508	\$ 45,801	\$ -	\$ 807,845	\$ 19,093
Due to other governmental units	21,478	10,345	2,691	-	34,514	-
Compensated absences	42,925	24,411	6,701	-	74,037	20,890
Current liabilities payable from restricted assets:						
Deposits	149,370	76,987	-	-	226,357	-
Current portion of loans payable	-	-	-	-	-	46,113
Total current liabilities	\$ 467,309	\$ 620,251	\$ 55,193	\$ -	\$ 1,142,753	\$ 86,096
Non-current liabilities:						
Compensated absences	\$ 52,570	\$ 27,604	\$ 7,574	\$ -	\$ 87,748	\$ 18,222
Interfund loan payable	10,000,000	-	-	-	10,000,000	-
Total non-current liabilities	\$ 10,052,570	\$ 27,604	\$ 7,574	\$ -	\$ 10,087,748	\$ 18,222
Total liabilities	\$ 10,519,879	\$ 647,855	\$ 62,767	\$ -	\$ 11,230,501	\$ 104,318
NET ASSETS						
Investment in capital assets, net of related debt	\$ 109,352,569	\$ 58,629,519	\$ 47,441,671	\$ -	\$ 215,423,759	\$ 3,883,112
Unrestricted	(8,629,911)	19,100,633	1,445,008	2,381,692	14,297,422	7,766,809
Total net assets	\$ 100,722,658	\$ 77,730,152	\$ 48,886,679	\$ 2,381,692	\$ 229,721,181	\$ 11,649,921
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.					686,199	
Net assets of business-type activities.					\$ 230,407,380	

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, 2008

	Business-Type Activities Enterprise Funds				Total	Governmental Activities Internal Service Funds
	Water	Waste- Water	Storm Water	Reclaimed Water		
OPERATING REVENUES						
Charges for services	\$ 10,631,855	\$ 11,112,482	\$ 1,825,596	\$ -	\$ 23,569,933	\$ 2,936,528
Total operating revenue	<u>\$ 10,631,855</u>	<u>\$ 11,112,482</u>	<u>\$ 1,825,596</u>	<u>\$ -</u>	<u>\$ 23,569,933</u>	<u>\$ 2,936,528</u>
OPERATING EXPENSES						
Operating expense	\$ 2,892,717	\$ 7,226,399	\$ 926,570	\$ -	\$ 11,045,686	\$ 1,821,477
Maintenance expense	3,679,502	1,706,121	537,550	66,557	5,989,730	143,972
Debt discount amortization	-	-	-	-	-	-
Depreciation expense	2,948,714	1,486,699	1,357,816	-	5,793,229	901,209
Taxes	387,716	129,732	28,409	-	545,857	-
Total operating expenses	<u>\$ 9,908,649</u>	<u>\$ 10,548,951</u>	<u>\$ 2,850,345</u>	<u>\$ 66,557</u>	<u>\$ 23,374,502</u>	<u>\$ 2,866,658</u>
OPERATING INCOME (LOSS)	<u>\$ 723,206</u>	<u>\$ 563,531</u>	<u>\$ (1,024,749)</u>	<u>\$ (66,557)</u>	<u>\$ 195,431</u>	<u>\$ 69,870</u>
NON-OPERATING REVENUES (EXPENSES)						
Intergovernmental revenue	\$ 1,864	\$ (11,821)	\$ -	\$ (5,107)	\$ (15,064)	\$ -
Investment earnings	71,368	521,855	35,095	55,359	683,677	199,585
Miscellaneous non-operating revenues	376,294	3,774	1,295	2,925	384,288	18,901
Interest expense	-	-	-	-	-	(2,992)
Gain (loss) on sale of capital assets	-	-	-	-	-	15,084
Total non-operating Revenues (expenses)	<u>\$ 449,526</u>	<u>\$ 513,808</u>	<u>\$ 36,390</u>	<u>\$ 53,177</u>	<u>\$ 1,052,901</u>	<u>\$ 230,578</u>
Income (loss) before contributions and transfers	<u>\$ 1,172,732</u>	<u>\$ 1,077,339</u>	<u>\$ (988,359)</u>	<u>\$ (13,380)</u>	<u>\$ 1,248,332</u>	<u>\$ 300,448</u>
Capital contributions	10,178,081	4,815,569	8,952,817	-	23,946,467	355,462
Transfers in	2,352,310	295,263	335,000	-	2,982,573	452,231
Transfers out	(987,686)	(1,548,523)	(348,595)	-	(2,884,804)	-
Changes in net assets	<u>\$ 12,715,437</u>	<u>\$ 4,639,648</u>	<u>\$ 7,950,863</u>	<u>\$ (13,380)</u>	<u>\$ 25,292,568</u>	<u>\$ 1,108,141</u>
NET ASSETS - BEGINNING	<u>\$ 88,007,221</u>	<u>\$ 73,090,504</u>	<u>\$ 40,935,816</u>	<u>\$ 2,395,072</u>		<u>\$ 10,541,780</u>
NET ASSETS - ENDING	<u>\$ 100,722,658</u>	<u>\$ 77,730,152</u>	<u>\$ 48,886,679</u>	<u>\$ 2,381,692</u>		<u>\$ 11,649,921</u>
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.					<u>\$ 132,449</u>	
Change in net assets of business-type activities.					<u>\$ 25,425,017</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, 2008

	Business-type Activities Enterprise Funds					Governmental Activities
	Water	Waste- Water	Storm Water	Reclaimed Water	Internal Total	Services Funds
CASH FLOW FROM OPERATING ACTIVITIES:						
Receipts from customers and users	\$ 10,903,253	\$ 10,978,339	\$ 1,787,476	\$ 2,925	\$ 23,671,993	\$ 2,964,037
Payments to suppliers	(4,760,101)	(7,862,918)	(1,115,603)	(87,089)	(13,825,711)	(1,313,403)
Payments to employees	(2,332,006)	(1,362,637)	(613,731)	-	(4,308,374)	(926,162)
Payments for taxes	(387,716)	(129,732)	(28,409)	-	(545,857)	-
Net cash provided by operating activities	<u>\$ 3,423,430</u>	<u>\$ 1,623,052</u>	<u>\$ 29,733</u>	<u>\$ (84,164)</u>	<u>\$ 4,992,051</u>	<u>\$ 724,472</u>
CASH FLOW FROM NON-CAPITAL FINANCING ACTIVITIES:						
Transfers in from other funds	2,352,310	295,263	335,000	-	2,982,573	-
Transfers out to other funds	(987,686)	(1,548,523)	(348,595)	-	(2,884,804)	-
Net cash provided by non-capital financing activities	<u>\$ 1,364,624</u>	<u>\$ (1,253,260)</u>	<u>\$ (13,595)</u>	<u>\$ -</u>	<u>\$ 97,769</u>	<u>\$ -</u>
CASH FLOW FROM CAPITAL AND RELATED FINANCING ACTIVITIES:						
Acquisition and construction of capital assets	\$ (13,259,695)	\$ (934,197)	\$ (430,339)	\$ -	\$ (14,624,231)	\$ (1,263,012)
Advances from (to) other funds	6,000,000	(6,000,000)	-	-	-	-
Proceeds from sales of capital assets	-	-	-	-	-	127,703
Principal paid on capital leases	-	-	-	-	-	(53,352)
Interest paid on capital leases	-	-	-	-	-	(2,992)
Principal payments received on special assessments	9,942	32,134	-	-	42,076	-
Interest and penalties payments received on special assessments	-	2,497	-	-	2,497	-
Subsidy from grant	419,007	469,944	-	(211,093)	677,858	-
Transfer received from other funds for capital acquisitions	-	-	-	-	-	807,694
Net cash used by capital and related financing activities	<u>\$ (6,830,746)</u>	<u>\$ (6,429,622)</u>	<u>\$ (430,339)</u>	<u>\$ (211,093)</u>	<u>\$ (13,901,800)</u>	<u>\$ (383,959)</u>

The Accompanying Notes Are an Integral Part Of This Statement.

Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2008

	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	\$ 80,163	\$ 558,637	\$ 42,107	\$ 61,132	\$ 742,039	\$ 211,812
Net cash provided (used) by investing activities	\$ 80,163	\$ 558,637	\$ 42,107	\$ 61,132	\$ 742,039	\$ 211,812
Net increase (decrease) in cash and cash equivalents	(1,962,529)	(5,501,193)	(372,094)	(234,125)	(8,069,941)	552,325
Cash and cash equivalents January 1	\$ 3,128,043	\$ 14,472,580	\$ 1,738,011	\$ 2,225,784	\$ 21,564,418	\$ 7,314,902
Cash and cash equivalents December 31	\$ 1,165,514	\$ 8,971,387	\$ 1,365,917	\$ 1,991,659	\$ 13,494,477	\$ 7,867,227
CASH PROVIDED BY OPERATING ACTIVITIES:						
Net operating income	\$ 723,206	\$ 563,531	\$ (1,024,749)	\$ (66,557)	\$ 195,431	\$ 69,870
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:						
Depreciation	\$ 2,948,714	\$ 1,486,699	\$ 1,357,816	\$ -	\$ 5,793,229	\$ 901,209
(Increase)/decrease in customer receivables	(126,216)	(214,904)	(39,415)	-	(380,535)	-
(increase)/decrease in customer deposits	21,320	76,987	-	-	98,307	-
(Increase)/decrease in due from other funds	-	-	-	-	-	8,608
(increase) decrease in prepaids	(5)	-	-	-	(5)	-
(Increase)/decrease in inventories	399,281	-	-	-	399,281	-
Miscellaneous non-operating revenues	376,294	3,774	1,295	2,925	384,288	18,901
Increase/(decrease) in accounts payable	(925,607)	434,225	(272,098)	(20,532)	(784,012)	(277,350)
Increase/(decrease) in intergovernmental payables	(2,770)	(733,974)	212	-	(736,532)	(420)
Increase/(decrease) in compensated absences	9,213	6,714	6,672	-	22,599	3,654
Net cash provided by operating activities	\$ 3,423,430	\$ 1,623,052	\$ 29,733	\$ (84,164)	\$ 4,992,051	\$ 724,472
Noncash investing, capital and financing activities:						
Capital asset transferred from (to) other funds	\$ -	\$ -	\$ 1,962,934	\$ -	\$ 1,962,934	\$ -
Contributions of capital assets from developers	10,178,081	4,815,569	6,989,883	-	21,983,533	-

The Accompanying Notes Are an Integral Part Of This Statement.

Statement of Fiduciary Net Assets
Fiduciary Funds
December 31, 2008

	Agency Funds
ASSETS	
Cash and cash equivalents	\$ 2,506,259
Due from other governmental units	24,796
Other current assets	849
	<hr/>
Total assets	\$ 2,531,904
	<hr/> <hr/>
LIABILITIES	
Accounts payable	\$ 74,156
Accrued employee leave payable	76,291
Notes payable	197,431
Due to other governmental units	2,184,026
	<hr/>
Total liabilities	\$ 2,531,904
	<hr/> <hr/>

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

**Notes to the Financial Statements
December 31, 2008**

Basic Financial Statements

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City of Lacey
Notes to the Financial Statements
December 31, 2008

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. 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.

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.

Regional Athletic Complex (RAC) Capital Fund accounts for revenues dedicated for debt retirement, the purchase of capital equipment to operate this facility and future development of the RAC. The

source of revenue is sales taxes that the City receives from the Capital Area Regional Public Facilities District (CARPFD) per an interlocal agreement.

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-potable 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.

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.

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 and maintenance and operations of existing parks sites.

Regional Athletic Complex (RAC) Operating Fund accounts for revenues, management, and operating expenses to maintain the Regional Athletic Complex. The sources of revenues are transfers from the Lodging Tax and Parks and Open Space Funds, a portion of the sales tax distributed by the Capital Area Public Facilities District (CARPFD), an intergovernmental payment from Thurston County for their contractual share of ownership in the joint venture and field use fees.

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 twice 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, 2008, are as follows:

Fund	Original Budgeted Inflows	Final Budgeted Inflows	Increase (Decrease) Budgeted Inflows
General Fund	\$ 28,412,571	\$ 28,762,602	\$ 350,031
City Street Fund	2,469,269	2,547,629	78,360
Arterial Fund	14,692,900	14,692,900	-
Lodging Fund	340,750	340,750	-
G.O. Bond Redemption Fund	1,529,351	2,081,753	552,402
L.I.D. Redemption Fund	2,064,740	2,064,740	-
Building Fund	2,035,870	2,035,870	-
Capital Expenditure Fund	2,098,257	2,113,257	15,000
Parks & Open Space Fund	870,465	870,465	-
Regional Athletic Complex Capital Fund	13,879,150	13,879,150	-
Equipment Rental Fund	1,627,276	1,627,276	-
Information Services Fund	1,336,788	1,336,788	-
Water Fund	17,491,785	19,341,345	1,849,560
Wastewater Fund	11,183,643	11,183,643	-
Stormwater Fund	2,153,230	2,162,575	9,345
Reclaimed Water Fund	102,500	102,500	-
Totals	\$ 102,288,545	\$ 105,143,243	\$ 2,854,698

The original budgeted outflows as compared to the final budgeted outflows for the year ended December 31, 2008, are as follows:

Fund	Original Budgeted Outflows	Final Budgeted Outflows	Increase (Decrease) Budgeted Outflows
General Fund	\$ 30,336,196	\$ 30,873,212	\$ 537,016
City Street Fund	2,469,269	2,624,704	155,435
Arterial Fund	18,214,680	18,214,680	-
Lodging Fund	351,690	351,690	-
G.O. Bond Redemption Fund	1,506,705	2,059,107	552,402
L.I.D. Redemption Fund	2,064,740	2,064,740	-
Building Fund	9,035,870	9,035,870	-
Capital Expenditure Fund	2,301,662	2,341,662	40,000
Parks & Open Space Fund	16,520,465	16,533,265	12,800
Regional Athletic Complex Capital Fund	13,879,150	14,431,552	552,402
Equipment Rental Fund	1,627,276	1,679,236	51,960
Information Services Fund	1,482,471	1,482,471	-
Water Fund	23,547,813	25,412,373	1,864,560
Wastewater Fund	18,461,487	19,922,552	1,461,065
Stormwater Fund	3,688,909	3,698,254	9,345
Reclaimed Water Fund	2,269,200	2,269,200	-
Totals	\$ 147,757,583	\$ 150,994,568	\$ 5,236,985

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 100 percent of the City's deposits in non-interest bearing accounts and up to \$250,000 for interest bearing accounts, and the WPDPC covers amounts over \$250,000.

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, 2008 the City had the following investments:

Investment Type	Fair Value	Average Weighted Maturity (Days)
Washington State Local Government Investment Pool (LGIP)	\$ 33,748,988	39 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, 2008 are as follows:

Governmental Funds

Cash and cash equivalents	\$ 48,239,709
Restricted cash and cash equivalents	90,825
Total governmental funds	\$ 48,330,534

Proprietary Funds

Cash and cash equivalents	\$ 10,669,742
Restricted cash and cash equivalents (deposits)	226,357
Restricted cash and cash equivalents (capital acquisition)	10,465,605
Total proprietary funds	\$ 21,361,704

Fiduciary Funds

Cash and cash equivalents	\$ 2,506,259
Total fiduciary funds	\$ 2,506,259

Total all funds	\$ 72,198,497
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Cash, deposits, and investments for the year ended December 31, 2008 are as follows:

Cash on hand	\$	16,400
Checking accounts		1,269,747
Money market accounts		34,500,772
Certificates of deposits		2,662,590
State Investment Pool (LGIP)		33,748,988
Total	\$	<u>72,198,497</u>

B. Receivables

At the end of the current fiscal year, the City's arterial street fund reports \$2,315,224 in due from other governmental units. A \$743,723 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)	\$ 300,295	\$ -
Grants met all eligibility requirements not yet collected (general fund)	-	-
Grants met all eligibility requirements not yet collected (arterial street fund)	743,723	-
Mitigation fees collected but earnings process not yet complete (arterial street fund)	-	3,776,839
Special assessments not yet due (community block grant)	345,776	-
Delinquent property taxes receivable (debt service fund)	41,145	-
Special assessments not yet due (debt service fund)	<u>5,266,832</u>	-
Total deferred/unearned revenue for governmental funds	<u>\$ 6,697,771</u>	<u>\$ 3,776,839</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 2008 was slightly over \$1.88 per \$1,000 on an assessed valuation of \$4,485,388,731 for a total regular levy of \$8,438,831. Additionally, special levies for G.O. bond obligations totaled \$1,176,730.

D. Capital assets

Capital asset activity for the year ended December 31, 2008 was as follows:

Governmental Activities	Beginning Balance 1/1/2008	Increases	Decreases	Ending Balance 12/31/2008
Non-depreciable Capital Assts:				
Land and improvements	\$ 112,678,893	\$ 3,932,743	\$ -	\$ 116,611,636
Construction in progress	12,176,106	14,046,770	9,747,606	16,475,270
Total non-depreciable assets	124,854,999	17,979,513	9,747,606	133,086,906
Depreciable Capital Assets:				
Buildings	16,216,916	93,778	-	16,310,694
Improvements	10,060,109	718,533	-	10,778,642
Infrastructure	237,584,399	14,703,285	-	252,287,684
Machinery & equipment	8,902,337	1,213,605	324,567	9,791,375
Total depreciable assets at cost	272,763,761	16,729,201	324,567	289,168,395
Less accumulated depreciation:				
Buildings	6,718,140	471,169	-	7,189,309
Improvements	1,032,817	481,621	-	1,514,438
Infrastructure	97,537,895	9,360,044	-	106,897,939
Machinery & equipment	5,089,120	933,648	211,948	5,810,820
Total accumulated depreciation	110,377,972	11,246,482	211,948	121,412,506
Total Depreciable assets, net	162,385,789	5,482,719	112,619	167,755,889
Governmental activities capital assets, net	\$ 287,240,788	\$ 23,462,232	\$ 9,860,225	\$ 300,842,795
Business-type activities	Beginning Balance 1/1/2008	Increases	Decreases	Ending Balance 12/31/2008
Non-depreciable Capital Assets:				
Land and improvements	\$ 4,759,866	\$ 2,441,173	\$ -	\$ 7,201,039
Construction in process	14,163,786	13,340,031	23,949,941	3,553,876
Total non-depreciable assets	18,923,652	15,781,204	23,949,941	10,754,915
Depreciable Capital Assets:				
Buildings	1,520,813	-	-	1,520,813
Improvements	194,600,512	46,626,816	664,249	240,563,079
Machinery & equipment	2,408,564	131,303	-	2,539,867
Total depreciable assets at cost	198,529,889	46,758,119	664,249	244,623,759
Less accumulated depreciation:				
Buildings	219,709	37,075	-	256,784
Improvements	32,444,243	5,697,947	664,249	37,477,941
Machinery & equipment	2,161,983	58,207	-	2,220,190
Total accumulated depreciation	34,825,935	5,793,229	664,249	39,954,915
Total depreciable assets, net	163,703,954	40,964,890	-	204,668,844
Business-type activities capital assets, net	\$ 182,627,606	\$ 56,746,094	\$ 23,949,941	\$ 215,423,759

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

Governmental activities	Amount
General Government	\$ 109,598
Security of persons and property	136,056
Transportation	9,375,381
Economic environment	84,177
Culture and recreation	640,061
Internal services funds	901,209
Total governmental-type activities depreciation expense	\$ 11,246,482

Business-type activities	Amount
Water	\$ 2,948,714
Wastewater	1,486,699
Stormwater	1,357,816
Total business-type activities depreciation expense	\$ 5,793,229

Construction in progress included in proprietary fund balance sheets represents expenditures to date on projects for which authorizations total \$11,075,905. Of the committed balance of \$7,522,029 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, 2008, is as follows:

Loans/advances from/to other funds:

Receivable Fund	Payable Fund	Amount
Wastewater Fund	Water Fund	\$ 10,000,000

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			
General Fund	Non-routine transfers out: \$1,350,000 to Arterial Street Fund for street improvements; \$1,000,000 to Building Improvement Fund for city hall expansion project.	\$ 2,350,000	-
	Routine transfer in from Parks and Open Space Fund for maintenance of Rainier Vista Park.	-	\$ 335,590
Arterial Street Fund	Non-routine transfers: \$1,350,000 from General Fund and \$150,000 from Capital Expenditure Fund for street improvements.	-	\$ 1,500,000
Building Improvement Fund	Non-routine transfers of \$1,000,000 from General Fund for city hall expansion project.		\$ 1,000,000
Regional Athletic Complex Capital Fund	Routine transfer of \$552,402 to Debt Service Fund for 2007 LTGO debt payment. One time transfer of \$13,128,265 from Parks and Open Space Fund for capital projects.	\$ 552,402	\$ 13,128,265
Non-major Governmental Funds	Routine transfer of \$150,000 from Capital Expenditure Fund to Arterial Street Fund for street improvements. Routine transfers out from Parks and Open Space Fund \$335,590 to General Fund for maintenance of Rainier Vista Park and one-time transfer out \$13,128,265 to RAC Fund for capital projects. Non-routine transfer of \$550,000 to Water Fund for capital expenses. Routine transfer of \$552,402 from RAC Fund to Debt Service Fund.	\$ 14,163,855	552,402
Total Governmental Funds		\$ 17,066,257	\$ 16,516,257
Proprietary Funds			
Internal Service Fund	Non-routine transfers of \$424,736 to Equipment Rental Fund and \$27,495 to Information Services Fund for capital assets acquisition: \$425,376 from Water Fund, \$13,260 Wastewater Fund; and \$13,595 from Stormwater Fund.	-	\$ 452,231
Enterprise Funds Water Fund	Routine transfer to Equipment Rental Fund \$397,881 and to Internal Service fund \$27,495 for capital asset acquisitions.	\$ 425,376	-
	Non-routine transfer of \$1,240,000 from Wastewater Fund and \$550,000 from Capital Expenditure Fund for capital expenses.	-	\$ 1,790,000
Wastewater Fund	Non-routine transfers for capital acquisitions: \$1,240,000 to Water Fund and routine transfer of \$13,260 to Equipment Rental Fund for capital equipment purchases.	\$ 1,253,260	-
Stormwater Fund	Routine transfers to Equipment Rental Fund \$13,595 for capital assets.	\$ 13,595	-
Total Proprietary Funds		\$ 1,692,231	\$ 2,242,231
Total		\$ 18,758,488	\$ 18,758,488

F. Restricted assets

The balances of the restricted assets accounts as of December 31, 2008 were as follows:

	<u>Governmental Funds</u>	<u>Enterprise Fund</u>
Customer deposits	\$ 90,825	\$ 226,357
Capital acquisitions and replacements	<u> </u>	<u>10,465,605</u>
Total	<u>\$ 90,825</u>	<u>\$ 10,691,962</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 was reimbursed during 2008 through arterial street fund from the first proceeds of the state Jobs Development Grant received by the City.

Name of issuance	Purpose	Beginning Balance	Increase	Decrease	Debt Outstanding
Gateway project utility installation	Governmental activities	\$ 790,417	\$ -	\$ 790,417	\$ 0

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>(112,683)</u>
Total	<u>\$ 46,399</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2008, were as follows:

<u>Year Ending December 31</u>	Governmental Activities
Total minimum lease payments due in 2009	\$ 46,960
Less: amount representing interest	<u>(847)</u>
Present value of minimum lease payments	<u>\$ 46,113</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, 2008, 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; 3.875% 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>	\$ 4,480,000
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>	\$ 3,965,000
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>	\$ 3,310,000
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>	\$ 4,810,000
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 2016 & 2017, 3.75-3.90% in 2018-2021, and 4.00% in 2022-2027.</i>	\$ 7,755,000
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: 5.95% in 2009-2012; 6.00% in 2013-2016</i>	\$ 535,000
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. <i>Purpose was to fund Street/Utility Improvements. Payments funded from the Arterial Street Fund and LID #19.</i>	\$ 1,964,157
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.	\$ 197,431

Interest rate was repriced in August 2008 at 4.406% and scheduled to adjust every five years, and the next repricing would be August of 2013. <i>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.</i>	
Total bonded debt	\$ 27,016,588
Net OPEB Obligation – It is considered long-term liability. Payments are liquidated by the general fund.	221,076
Compensated absences – Compensated absences are considered long-term liability. Payments are generally liquidated by the general fund.	730,603
Claims and judgment (funded by arterial street fund and building improvement fund).	542,971
Total for governmental activities without internal service fund liability.	\$ 28,511,238
Internal service fund long-term liability (compensated absences).	39,112
Capital lease obligations (funded by internal services fund).	46,113
Total governmental activities long-term liabilities.	\$ 28,596,463

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 2008 the guaranty fund is maintained at approximately 100 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, 2008 the amount of delinquent special assessment receivables was \$91,175.

Business-type activities:

As of December 31, 2008, the long-term liabilities payable from enterprise fund resources consisted of the following:

Compensated absences - compensated absences are considered long-term liabilities.	\$ 161,785
Total business-type long-term liabilities	<u>\$ 161,785</u>

Changes in long-term liabilities

The following is a summary of changes in long-term liabilities for the year ended December 31, 2008:

Type of Debt	Balance Owed 01/01/2008	Additions	Deductions	Balance Owed 12/31/2008	Amount Due Within One Year
Governmental Activities:					
G.O. bonds	\$ 25,375,000	-	\$ 1,055,000	\$ 24,320,000	\$ 1,110,000
Revenue bonds (Animal Services)	212,509	-	15,078	197,431	15,432
Special assessment bonds	1,405,000	-	870,000	535,000	100,000
PWT loan	2,160,572	-	196,415	1,964,157	196,416
Capital lease obligations	99,465	-	53,352	46,113	46,113

Type of Debt	Balance Owed 01/01/2008	Additions	Deductions	Balance Owed 12/31/2008	Amount Due Within One Year
Net OPEB Obligation	-	221,076	-	221,076	-
Compensated absences	730,797	1,028,524	989,606	769,715	349,942
Claims and judgments	-	542,970	-	542,970	-
Total governmental activities	\$ 29,983,343	\$ 1,792,570	\$ 3,179,451	28,596,462	\$ 1,817,903
Business-type Activities:					
Compensated absences	139,186	229,329	206,730	161,785	74,037
Total Business-type Activities	\$ 139,186	\$ 229,329	206,730	\$ 161,785	\$ 74,037
Totals	\$ 30,122,529	\$ 2,021,899	\$ 3,386,181	\$ 28,758,247	\$ 1,891,940

Annual debt service requirements:

The City is in compliance with all significant limitations and restrictions.

The annual debt service requirements to maturity, including principal and interest, for long-term debt as of December 31, 2008, 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
2009	1,421,848	1,082,314	-	-
2010	1,397,542	1,028,771	-	-
2011	1,453,267	976,784	-	-
2012	1,509,006	921,766	-	-
2013	1,594,815	860,513	-	-
2014-2018	8,747,242	3,311,678	-	-
2019-2021	7,607,868	1,522,948	-	-
2022-2017	3,285,000	313,400	-	-
Total	\$ 27,016,588	\$ 10,018,174	\$ -	\$ -

Variable-rate debt used was the effective interest rate as of December 31, 2008.

Bond discounts and premiums:

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:

The City reviewed the applicability of arbitrage regulations on its outstanding tax-exempt bonds and is in compliance with those regulations.

J. Fund Equity

As of December 31, 2008, the City's governmental funds reports the following reserved and designated fund balances:

Purpose	Fund Reserved	Amount
Culture and recreation	Lodging Tax Fund	\$ 972,256
Culture and recreation - Regional Athletic Complex project	Regional Athletic Complex Fund	893,885
LID guarantee	General Fund	100,000
LID guarantee	Arterial Street Fund	50,000
LID guarantee	Street Fund	385,000
Vessel registration	General Fund	15,284
Prepaid items	General Fund	13,454
Total		\$ 2,429,879
Purpose	Fund Designated	Amount
Budget adjustments	General Fund	\$ 575,000
Criminal bail	General Fund	32,792
Furniture and equipment	General Fund	217,500
Property acquisition	General Fund	1,000,000
Insurance	General Fund	200,000
Parks maintenance	General Fund	141,329
Community center	General Fund	50,000
Gateway project	General Fund	5,200,000
Senior center addition	General Fund	1,000,000
Street improvements	Street Fund	435,000
City hall expansion	Building Improvement Fund	90,082
Facilities improvements	Capital Expenditure Fund	3,046,500
Total		\$ 11,988,203

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* and No. 50 *Pension Disclosures, an Amendment of GASB Statements No. 25 and No. 27*.

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

Plan 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 1,190 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, 2007:

Type of Members	Number of Participants
Retirees and beneficiaries receiving benefits	71,244
Terminated plan members entitled to but not yet receiving benefits	26,583
Active plan members vested	105,447
Active plan members nonvested	52,575
Total	255,849

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, 2008 were as follows:

Contributor	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer*	8.31%	8.31%	8.31%**
Employee	6.00%	5.45%	***

*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
2008	\$ 64,093	\$ 675,463	\$ 141,688
2007	\$ 52,680	\$ 506,195	\$ 95,662
2006	\$ 28,292	\$ 245,050	\$ 43,159

Law Enforcement Officers' and Fire Fighters' retirement system (LEOFF) plans 1 and 2Plan 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 374 participating employers in LEOFF. Membership in LEOFF consisted of the following as of the latest actuarial valuation date for the plans of September 30, 2007:

Type of Members	Number of Participants
Retirees and beneficiaries receiving benefits	9,085
Terminated plan members entitled to but not yet receiving benefits	633
Active plan members vested	12,904
Active plan members nonvested	3,708
Total	26,330

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, 2008 were as follows:

Contributor	LEOFF Plan 1	LEOFF Plan 2
Employer*	0.16%	5.45%**
Employee	0.00%	8.83%

*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
2008	\$ 154	\$ 235,784
2007	\$ 154	\$ 206,899
2006	\$ 240	\$ 161,550

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. Postemployment benefits other than pensions (OPEB)

In addition to the pension benefits described in Note 4-A, the City of Lacey provides post employment health care benefits

1. LEOFF I Retiree Medical Plan

Plan Description. The City's Disability Board, in conjunction with the City's Human Resources department, administers a single-employer defined benefit healthcare plan (LEOFF 1 Retiree Health Plan). The plan provides lifetime healthcare benefits for retired full-time and fully compensated law enforcement officers who established membership in the LEOFF 1 plan retirement system on or before September 30, 1977 in accordance with Washington Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF) Act (RCW 41.26.150). The last employer of a retired LEOFF 1 member is responsible for the full cost of any post-retirement medical benefits. The plan covers retirees who are retired on disability as well as are retired after reaching age requirements. As of December 31, 2008, the plan has fourteen (13) Police retired members and one (1) Police active member, a total of fifteen (14) plan members. The LEOFF 1 Retiree Health Plan does not issue a publically available financial report.

The City provides health coverage for LEOFF I retirees through a medical plan purchased through the Association of Washington Cities (AWC) Employees Benefit Trust. 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 the necessary usual and customary medical expenses, 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 costs and dependents are not covered

Funding policy. These medical benefits are funded on a pay-as-you-go basis through the general fund and paid out of police department budget. Health insurance premiums and long-term care insurance premiums are paid monthly. Other medical services are paid as billings are presented for reimbursement. The City reimbursed 100 percent of the amount of validated claims for medical costs incurred by these individuals. Amounts paid from 2006 through 2008 by the City are as follows:

	2008	2007	2006
AWC medical premiums	\$ 162,428	\$ 159,536	\$ 128,328
Reimbursement of other eligible costs	16,642	14,233	32,124
Long-term care insurance premiums	5,868	6,443	6,443
Total	\$ 184,938	\$ 180,212	\$ 166,895
Average cost per retiree	\$ 14,226	\$ 12,872	\$ 11,921

Annual OPEB Cost and Net OPEB Obligation. The City's OPEB cost (expense) is calculated based on the annual required contribution (ARC) of the employer. The City has elected to calculate the ARC and related information using the alternative measurement method permitted by GASB Statement 45 for employers in plans with fewer than one hundred total plan members, utilizing the interactive tool developed by the Office of the State Actuary (OSA) for use by local governments. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City's net OPEB obligation to the LEOFF 1 Retiree Health Plan.

Annual required contribution (ARC):	
Normal cost	\$ 11,183
Amortization of UAAL*	394,831
Total ARC	406,014
Interest on net OPEB obligation	-
Adjustment to annual required contribution	-
Annual OPEB cost (expense)	406,014
Contributions made	(184,938)
Increase in net OPEB obligation	221,076
Net OPEB obligation - Beginning of year	-
Net OPEB obligation - End of year	\$ 221,076

The following table shows the City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for fiscal year 2008 and the two preceding fiscal years. Since these benefits have been funded on a "pay as you go" basis and GASB 45 is effective in the current year, only the current year of ARC data is available for the schedule of contributions. The OPEB liability at transition was set to zero, in accordance with GASB 45.

Fiscal year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
12/31/2006	\$ 166,895	100%	\$ -
12/31/2007	180,212	100%	-
12/31/2008	184,938	46%	221,076

Funding Status and Funding Progress. As of December 31, 2008, the actuarial accrued liability for benefits was \$ 4,240,300, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$124,334, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 3410 percent.

The projection of future benefit payments of an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions. Projections of benefits for financial reporting purposes are based on substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

A single *retirement age* of 56.22 was assumed for the one remaining active member for the purpose of determining the actuarial accrued liability. *Termination and mortality rates* were assumed to follow the LEOFF1 termination and mortality rates used in the September 30, 2006 actuarial valuation report issued by the Office of the State Actuary (OSA). *Healthcare costs and trends* were determined by Milliman and used by OSA in the state-wide LEOFF 1 medical study performed in 2007. The medical inflation trend assumption starts at 9 percent in 2007 and decrease to an ultimate rate of 5 percent in 2015. The results were based on grouped data with 4 active groupings and 4 inactive groupings. *Payroll grows rate* was assumed at 4.5 percent per year and is reduced by the payroll each member that leaves active service. *The actuarial cost method* used to determine the actuarial accrued liability was Projected Unit Credit. These assumptions are individually and collectively reasonable for the purposes of this valuation. The plan's unfunded actuarial accrued liability is being amortized as a level dollar amount on a closed basis over 15 years, beginning 2008.

2. Association of Washington Cities Employee Benefit Trust ("Trust") – Non-LEOFF I Retiree Medical Plan

Trust Description. The City is a Participating Employer in the Association of Washington Cities Employee Benefit Trust ("Trust"), a cost-sharing multiple-employer welfare benefit plan administered by the Association of Washington Cities. The Trust provides medical benefits to certain eligible retired employees of Participating Employers and their eligible family members. Under Article VII of the Trust document, the Trustees have the authority and power to amend the amount and the nature of the medical and other benefits provided by the Trust. The Trust issues a publicly available financial report that includes financial statements and required supplementary information for Trust. That report, along with a copy of the Trust document, may be obtained by writing to Trust at 1076 Franklin Street SE, Olympia, WA 98501-1346 or by calling 1-800-562-8981.

Funding Policy. The Trust provides that contribution requirements of Participating Employers and of participating employees, retirees and other beneficiaries, if any, are established and may be amended by the Board of Trustees of the Trust. Retirees of the City receiving medical benefits from the Trust contribute \$644.35 per month for non-Medicare enrolled retiree-only coverage, \$1,288.70 for non-Medicare enrolled retiree and spouse coverage, \$987.25 for Medicare enrolled retiree and non-Medicare enrolled spouse (or non-Medicare enrolled retiree and Medicare-enrolled spouse) and \$685.80 for Medicare-enrolled retiree and spouse coverage.

Participating employers are contractually required to contribute at a rate assessed each year by Trust, currently 7.2 percent of annual covered payroll. The City's contributions to the Trust for the

year ended December 31, 2008, was \$1,575,578, which equaled the required contributions of that year.

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 or 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:

- College Street Corridor right of way acquisition
- Miscellaneous pedestrian enhancements
- Enhancement of residential street repair, rehabilitation and maintenance
- Lacey Gateway project infrastructure
- Mullen Road East
- Carpenter Road widening
- Martin Way left turn lanes
- 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
- Marvin Road/Martin Way access study.

The 2009 Arterial Street Fund budgeted expenditures are \$15,027,334 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 \$4 million per occurrence self insured layer, and \$16 million per occurrence in the re-insured excess layer. The excess layer is insured by the purchase of reinsurance and insurance and is subject to aggregate limits. Total limits are \$20 million per occurrence subject to aggregate sublimits in the excess layers. The Board of Directors determines the limits and terms of coverage annually.

Insurance coverage for property, automobile physical damage, fidelity, inland marine, and boiler and machinery are purchased on a group basis. Various deductibles 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 2008, the City of Lacey received \$973,410 in sale taxes levied by the PFD and is accounted for within the Regional Athletic Complex Capital 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, 2008 were \$955,643. 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 (16 percent), City of Olympia (22 percent), the City of Tumwater (7 percent), and Thurston County (55 percent). Total Net Assets, as of December 31, 2008 were \$3,017,467. 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. For 2008 the City of Lacey's contribution was \$172,248 and is accounted for within the general fund. The City of Olympia has responsibility to contribute annual assessments for the remaining loan balance until April 2019.

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 2009. 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, 2008 was \$3,455,342 (18.64 percent) and \$15,081,901 (81.36 percent), respectively. For 2008 the City's contribution was \$12,931,328 and is accounted for within the Regional Athletic Complex Capital 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, 2008:

Balance Sheet Date	Joint Animal Services 12/31/2008	Regional Athletic Complex 12/31/2008
Total Assets	\$ 3,306,671	\$ 18,537,244
Total Liabilities	289,204	-
Total Net Assets	<u>\$ 3,017,467</u>	<u>\$ 18,537,244</u>
Capital assets, net of accumulated depreciation	<u>\$ 1,855,086</u>	<u>\$ 18,537,244</u>
Total revenues	\$ 1,641,175	\$ 13,084,520
Total expenditures (expenses)	1,487,120	326,182
Net increase (decrease) in net assets	154,055	12,758,338
Beginning net assets, restated	2,863,412	5,778,906
Ending net assets	<u>\$ 3,017,467</u>	<u>\$ 18,537,244</u>



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Schedule of Revenues, Expenditures, and
Changes in Fund Balances - Budget to Actual
General Fund
For the Year Ended December 31, 2008

	Budgeted Amount		Actual GAAP Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 18,681,558	\$ 18,911,658	\$ 19,835,164	\$ 923,506
Licenses and permits	1,755,800	1,755,800	1,743,108	(12,692)
Intergovernmental revenues	647,999	708,335	956,485	248,150
Charges for services	5,494,669	5,530,214	6,099,190	568,976
Fines and forfeitures	734,330	734,330	667,655	(66,675)
Other revenues	762,625	786,675	700,680	(85,995)
Total revenues	\$ 28,076,981	\$ 28,427,012	\$ 30,002,282	\$ 1,575,270
EXPENDITURES				
Current:				
General government	\$ 5,196,178	\$ 5,291,703	\$ 4,540,189	\$ 751,514
Security of persons and property	13,510,330	13,663,801	13,342,361	321,440
Physical environment	3,681,482	3,709,707	3,560,082	149,625
Economic environment	1,232,027	1,277,117	1,187,231	89,886
Mental and physical health	7,603	7,603	8,429	(826)
Culture and recreation	4,316,057	4,530,762	4,297,503	233,259
Capital outlay	42,519	42,519	40,884	1,635
Total expenditures	\$ 27,986,196	\$ 28,523,212	\$ 26,976,679	\$ 1,546,533
Excess of revenue over (under) expenditures	\$ 90,785	\$ (96,200)	\$ 3,025,603	\$ 3,121,803
OTHER FINANCING SOURCES (USES)				
Transfers in	\$ 335,590	\$ 335,590	\$ 335,590	\$ -
Transfers out	(2,350,000)	(2,350,000)	(2,350,000)	-
Total other financing sources	\$ (2,014,410)	\$ (2,014,410)	\$ (2,014,410)	\$ -
Net change in fund balances	\$ (1,923,625)	\$ (2,110,610)	\$ 1,011,193	\$ 3,121,803
FUND BALANCES - JANUARY 1	\$ 1,923,625	\$ 2,110,610	\$ 21,999,567	\$ 19,888,957
FUND BALANCES - DECEMBER 31	\$ -	\$ -	\$ 23,010,760	\$ 23,010,760

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, 2008

	Budgeted Amounts		Actual GAAP Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 1,051,000	\$ 1,051,000	\$ 1,920,004	\$ 869,004
Intergovernmental revenues	11,585,735	11,585,735	8,211,254	(3,374,481)
Charges for services	556,165	556,165	997,808	441,643
Other revenues	-	-	347,276	347,276
Total revenues	\$ 13,192,900	\$ 13,192,900	\$ 11,476,342	\$ (1,716,558)
EXPENDITURES				
Capital outlay	\$ 18,214,680	\$ 18,214,680	\$ 9,492,662	\$ 8,722,018
Total expenditures	\$ 18,214,680	\$ 18,214,680	\$ 9,492,662	\$ 8,722,018
Excess of revenue over (under) expenditures	\$ (5,021,780)	\$ (5,021,780)	\$ 1,983,680	\$ 7,005,460
OTHER FINANCING SOURCES (USES)				
Transfers in	\$ 1,500,000	\$ 1,500,000	\$ 1,500,000	\$ -
Total other financing sources	\$ 1,500,000	\$ 1,500,000	\$ 1,500,000	\$ -
Net change in fund balances	\$ (3,521,780)	\$ (3,521,780)	\$ 3,483,680	\$ 7,005,460
FUND BALANCES - JANUARY 1	\$ 3,521,780	\$ 3,521,780	\$ 5,800,159	\$ 2,278,379
FUND BALANCES - DECEMBER 31	\$ -	\$ -	\$ 9,283,839	\$ 9,283,839

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 4-26 to 4-27)

Postemployment benefits other than pensions (OPEB)

Required Supplementary Information
Schedule of Funding Progress
for the LEOFF 1 Retiree Health Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll ©	UAAL as a Percentage of Covered Payroll [(b-a)/c]
12/31/2008	\$ 0	\$ 4,240,300	\$ 4,240,300	0.0%	\$ 124,334	3410%



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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.

Regional Athletic Complex Operating Fund

The Regional Athletic Complex Operating Fund is responsible for the operation and maintenance of the 68 acre facility also known as the RAC. Revenue to run this facility is provided by the Capital Area Public Facilities District, contributions from both the City of Lacey, and Thurston County as well as contributions from the Lodging Tax Fund. The facility will also start collecting fees for field use in 2009.

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.

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.

Parks & Open Space Fund

The 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 maintenance & operations and development of existing parks sites.

Combining Balance Sheet
Other Governmental Funds
December 31, 2008

	Special Revenue Funds			
	Street Fund	Regional Athletic Complex	Lodging Tax	Community Development Block Grant
ASSETS				
Current cash and cash equivalents	\$ 2,299,536	\$ 1,170	\$ 946,370	\$ 5,746
Receivables (net of allowances):				
Taxes	426,258	-	41,036	-
Customer accounts	101,287	3,640	-	345,776
Due from other governmental units	-	-	-	-
Cash deposits	-	-	-	-
Total assets	\$ 2,827,081	\$ 4,810	\$ 987,406	\$ 351,522
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 30,669	\$ -	\$ 15,150	\$ -
Advance payments	-	4,810	-	-
Deposits	-	-	-	-
Deferred revenue	-	-	-	345,776
Total Liabilities	\$ 30,669	\$ 4,810	\$ 15,150	\$ 345,776
Fund balances				
Reserved for:				
Culture and recreation	\$ -	\$ -	\$ 972,256	\$ -
Debt service	50,000	-	-	-
Special revenue funds	435,000	-	-	-
Capital project funds	-	-	-	-
Unreserved, undesignated for:				
Special revenue funds	2,311,412	-	-	5,746
Debt service funds	-	-	-	-
Capital project funds	-	-	-	-
Total fund balances	\$ 2,796,412	\$ -	\$ 972,256	\$ 5,746
Total liabilities and fund balances	\$ 2,827,081	\$ 4,810	\$ 987,406	\$ 351,522

Debt Service Fund	Capital Project Funds		Total
General Obligation Bond Fund	Capital Expenditure	Parks & Open Space Fund	Other Governmental Funds
\$ 373,374	\$ 6,010,311	\$ 831,054	\$ 10,467,561
49,072	286,747	145,440	948,553
-	-	100	450,803
-	3,575	-	3,575
-	-	1,243	1,243
<u>\$ 422,446</u>	<u>\$ 6,300,633</u>	<u>\$ 977,837</u>	<u>\$ 11,871,735</u>
\$ -	\$ 71,097	\$ -	\$ 116,916
-	-	-	4,810
-	-	1,243	1,243
41,145	-	-	386,921
<u>\$ 41,145</u>	<u>\$ 71,097</u>	<u>\$ 1,243</u>	<u>\$ 509,890</u>
\$ -	\$ -	\$ -	\$ 972,256
-	-	-	50,000
-	-	-	435,000
-	3,046,500	-	3,046,500
-	-	-	2,317,158
381,301	-	-	381,301
-	3,183,036	976,594	4,159,630
<u>\$ 381,301</u>	<u>\$ 6,229,536</u>	<u>\$ 976,594</u>	<u>\$ 11,361,845</u>
<u>\$ 422,446</u>	<u>\$ 6,300,633</u>	<u>\$ 977,837</u>	<u>\$ 11,871,735</u>

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Other Governmental Funds
For the Year Ended December 31, 2008

	Special Revenue Funds			
	Street Fund	Regional Athletic Fund	Lodging Tax	Community Development Block Grant
REVENUES				
Taxes	\$ 1,957,278	\$ -	\$ 374,463	\$ -
Intergovernmental revenues	587,349	-	-	-
Charges for services	47,754	-	-	-
Other revenues	153,697	-	32,690	-
Total revenues	\$ 2,746,078	\$ -	\$ 407,153	\$ -
EXPENDITURES				
Current:				
Transportation	\$ 2,396,479	\$ -	\$ -	\$ -
Culture and recreation	-	-	234,323	-
Capital outlay	-	-	2,769	-
Debt service:				
Principal retirement	-	-	-	-
Interest	-	-	-	-
Total expenditures	\$ 2,396,479	\$ -	\$ 237,092	\$ -
Excess of revenue over (under) expenditures	\$ 349,599	\$ -	\$ 170,061	\$ -
OTHER FINANCING SOURCES (USES)				
Transfers in	\$ -	\$ -	\$ -	\$ -
Transfers out	-	-	-	-
Total other financing sources	\$ -	\$ -	\$ -	\$ -
Net change in fund balances	\$ 349,599	\$ -	\$ 170,061	\$ -
FUND BALANCES - JANUARY 1	\$ 2,446,813	\$ -	\$ 802,195	\$ 5,746
FUND BALANCES - DECEMBER 31	\$ 2,796,412	\$ -	\$ 972,256	\$ 5,746

Debt Service Fund	Capital Project Funds		Total
General Obligation Bond Fund	Capital Expenditure	Parks & Open Space Fund	Other Governmental Funds
\$ 1,486,535	\$ 2,288,497	\$ 904,203	\$ 7,010,976
-	3,575	-	590,924
-	-	-	47,754
<u>26,309</u>	<u>208,665</u>	<u>61,908</u>	<u>483,269</u>
<u>\$ 1,512,844</u>	<u>\$ 2,500,737</u>	<u>\$ 966,111</u>	<u>\$ 8,132,923</u>
\$ -	\$ -	\$ -	\$ 2,396,479
-	-	12,927	247,250
-	674,431	688,935	1,366,135
1,055,000	-	-	1,055,000
<u>1,004,103</u>	<u>-</u>	<u>-</u>	<u>1,004,103</u>
<u>\$ 2,059,103</u>	<u>\$ 674,431</u>	<u>\$ 701,862</u>	<u>\$ 6,068,967</u>
<u>\$ (546,259)</u>	<u>\$ 1,826,306</u>	<u>\$ 264,249</u>	<u>\$ 2,063,956</u>
\$ 552,402	\$ -	\$ -	\$ 552,402
<u>-</u>	<u>(700,000)</u>	<u>(13,463,855)</u>	<u>(14,163,855)</u>
<u>\$ 552,402</u>	<u>\$ (700,000)</u>	<u>\$ (13,463,855)</u>	<u>\$ (13,611,453)</u>
\$ 6,143	\$ 1,126,306	\$ (13,199,606)	\$ (11,547,497)
\$ 375,158	\$ 5,103,230	\$ 14,176,200	\$ 22,909,342
<u>\$ 381,301</u>	<u>\$ 6,229,536</u>	<u>\$ 976,594</u>	<u>\$ 11,361,845</u>

Schedule of Revenues, Expenditures, and
Changes in Fund Balances - Budget to Actual
Street Fund
For the Year Ended December 31, 2008

	Budgeted Amounts		Actual GAAP Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 1,781,834	\$ 1,781,834	\$ 1,957,278	\$ 175,444
Intergovernmental revenues	611,985	626,850	587,349	(39,501)
Charges for services	-	28,495	47,754	19,259
Other revenues	75,450	110,450	153,697	43,247
Total revenues	<u>\$ 2,469,269</u>	<u>\$ 2,547,629</u>	<u>\$ 2,746,078</u>	<u>\$ 198,449</u>
EXPENDITURES				
Current:				
Transportation	\$ 2,469,269	\$ 2,624,704	\$ 2,396,479	\$ 228,225
Total expenditures	<u>\$ 2,469,269</u>	<u>\$ 2,624,704</u>	<u>\$ 2,396,479</u>	<u>\$ 228,225</u>
Excess of revenue over (under) expenditures	<u>\$ -</u>	<u>\$ (77,075)</u>	<u>\$ 349,599</u>	<u>\$ 426,674</u>
OTHER FINANCING SOURCES (USES)				
Net change in fund balances	\$ -	\$ (77,075)	\$ 349,599	\$ 426,674
FUND BALANCES - JANUARY 1	<u>\$ -</u>	<u>\$ 77,075</u>	<u>\$ 2,446,813</u>	<u>\$ 2,369,738</u>
FUND BALANCES - DECEMBER 31	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 2,796,412</u></u>	<u><u>\$ 2,796,412</u></u>

Schedule of Revenues, Expenditures, and
Changes in Fund Balances - Budget to Actual
Lodging Tax
For the Year Ended December 31, 2008

	Budgeted Amounts		Actual GAAP Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 300,000	\$ 300,000	\$ 374,463	\$ 74,463
Other revenues	40,750	40,750	32,690	(8,060)
Total revenues	<u>\$ 340,750</u>	<u>\$ 340,750</u>	<u>\$ 407,153</u>	<u>\$ 66,403</u>
EXPENDITURES				
Current:				
Culture and recreation	\$ 324,240	\$ 324,240	\$ 234,323	\$ 89,917
Capital outlay	27,450	27,450	2,769	24,681
Total expenditures	<u>\$ 351,690</u>	<u>\$ 351,690</u>	<u>\$ 237,092</u>	<u>\$ 114,598</u>
Excess of revenue over (under) expenditures	<u>\$ (10,940)</u>	<u>\$ (10,940)</u>	<u>\$ 170,061</u>	<u>\$ 181,001</u>
Net change in fund balances	\$ (10,940)	\$ (10,940)	\$ 170,061	\$ 181,001
FUND BALANCES - JANUARY 1	<u>\$ 10,940</u>	<u>\$ 10,940</u>	<u>\$ 802,195</u>	<u>\$ 791,255</u>
FUND BALANCES - DECEMBER 31	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 972,256</u>	<u>\$ 972,256</u>

Schedule of Revenues, Expenditures, and
Changes in Fund Balances - Budget to Actual
Community Development Block Grant
For the Year Ended December 31, 2008

	Budgeted Amounts		Actual GAAP Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental revenues	\$ -	\$ -	\$ -	\$ -
Total revenues	\$ -	\$ -	\$ -	\$ -
EXPENDITURES				
Capital outlay	\$ -	\$ -	\$ -	\$ -
Total expenditures	\$ -	\$ -	\$ -	\$ -
Excess of revenue over (under) expenditures	\$ -	\$ -	\$ -	\$ -
Net change in fund balance	\$ -	\$ -	\$ -	\$ -
FUND BALANCES JANUARY 1	\$ -	\$ -	\$ 5,746	\$ 5,746
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, 2008

	Budgeted Amounts		Actual GAAP Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 1,520,801	\$ 1,520,801	\$ 1,486,535	\$ (34,266)
Other revenues	8,550	8,550	26,309	17,759
Total revenues	<u>\$ 1,529,351</u>	<u>\$ 1,529,351</u>	<u>\$ 1,512,844</u>	<u>\$ (16,507)</u>
EXPENDITURES				
Debt service:				
Principal retirement	\$ 810,000	\$ 1,055,000	\$ 1,055,000	\$ -
Interest	696,705	1,004,107	1,004,103	4
Total expenditures	<u>\$ 1,506,705</u>	<u>\$ 2,059,107</u>	<u>\$ 2,059,103</u>	<u>\$ 4</u>
Excess of revenue over (under) expenditures	<u>\$ 22,646</u>	<u>\$ (529,756)</u>	<u>\$ (546,259)</u>	<u>\$ (16,503)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	\$ -	\$ 552,402	\$ 552,402	\$ -
Total other financing sources	<u>\$ -</u>	<u>\$ 552,402</u>	<u>\$ 552,402</u>	<u>\$ -</u>
Net change in fund balance	\$ 22,646	\$ 22,646	\$ 6,143	\$ (16,503)
FUND BALANCES JANUARY 1	<u>\$ (22,646)</u>	<u>\$ (22,646)</u>	<u>\$ 375,158</u>	<u>\$ 397,804</u>
FUND BALANCES DECEMBER 31	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 381,301</u></u>	<u><u>\$ 381,301</u></u>

Schedule of Revenues, Expenditures, and
Changes in Fund Balances - Budget to Actual
Building Improvement
For the Year Ended December 31, 2008

	Budgeted Amounts		Actual GAAP Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 1,035,870	\$ 1,035,870	\$ 1,071,740	\$ 35,870
Other revenues	-	-	192,674	192,674
Total revenues	<u>\$ 1,035,870</u>	<u>\$ 1,035,870</u>	<u>\$ 1,264,414</u>	<u>\$ 228,544</u>
EXPENDITURES				
Capital outlay	\$ 9,035,870	\$ 9,035,870	\$ 6,818,711	\$ 2,217,159
Total expenditures	<u>\$ 9,035,870</u>	<u>\$ 9,035,870</u>	<u>\$ 6,818,711</u>	<u>\$ 2,217,159</u>
Excess of revenue over (under) expenditures	<u>\$ (8,000,000)</u>	<u>\$ (8,000,000)</u>	<u>\$ (5,554,297)</u>	<u>\$ 2,445,703</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000	\$ -
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 balance	\$ (7,000,000)	\$ (7,000,000)	\$ (4,554,297)	\$ 2,445,703
FUND BALANCES JANUARY 1	<u>\$ 7,000,000</u>	<u>\$ 7,000,000</u>	<u>\$ 7,651,887</u>	<u>\$ 651,887</u>
FUND BALANCES DECEMBER 31	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,097,590</u>	<u>\$ 3,097,590</u>

Schedule of Revenues, Expenditures, and
Changes in Fund Balances - Budget to Actual
Capital Expenditure
For the Year Ended December 31, 2008

	Budgeted Amounts		Actual GAAP Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 2,046,757	\$ 2,046,757	\$ 2,288,497	\$ 241,740
Intergovernmental revenues	-	-	3,575	3,575
Other revenues	51,500	66,500	208,665	142,165
Total revenues	<u>\$ 2,098,257</u>	<u>\$ 2,113,257</u>	<u>\$ 2,500,737</u>	<u>\$ 387,480</u>
EXPENDITURES				
Capital outlay	\$ 1,601,662	\$ 1,641,662	\$ 674,431	\$ 967,231
Total expenditures	<u>\$ 1,601,662</u>	<u>\$ 1,641,662</u>	<u>\$ 674,431</u>	<u>\$ 967,231</u>
Excess of revenue over (under) expenditures	<u>\$ 496,595</u>	<u>\$ 471,595</u>	<u>\$ 1,826,306</u>	<u>\$ 1,354,711</u>
OTHER FINANCING SOURCES (USES)				
Transfers out	\$ (700,000)	\$ (700,000)	\$ (700,000)	\$ -
Total other financing sources	<u>\$ (700,000)</u>	<u>\$ (700,000)</u>	<u>\$ (700,000)</u>	<u>\$ -</u>
Net change in fund balances	\$ (203,405)	\$ (228,405)	\$ 1,126,306	\$ 1,354,711
FUND BALANCES - JANUARY 1	<u>\$ 203,405</u>	<u>\$ 228,405</u>	<u>\$ 5,103,230</u>	<u>\$ 4,874,825</u>
FUND BALANCES DECEMBER - 31	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,229,536</u>	<u>\$ 6,229,536</u>

Schedule of Revenues, Expenditures, and
Changes in Fund Balances - Budget to Actual
Parks & Open Space
For the Year Ended December 31, 2008

	Budgeted Amounts		Actual GAAP Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 819,530	\$ 819,530	\$ 904,203	\$ 84,673
Other revenues	50,935	50,935	61,908	10,973
Total revenues	<u>\$ 870,465</u>	<u>\$ 870,465</u>	<u>\$ 966,111</u>	<u>\$ 95,646</u>
EXPENDITURES				
Current:				
Culture and recreation	\$ -	\$ 12,800	\$ 12,927	\$ (127)
Capital outlay	3,234,875	3,234,875	688,935	2,545,940
Total expenditures	<u>\$ 3,234,875</u>	<u>\$ 3,247,675</u>	<u>\$ 701,862</u>	<u>\$ 2,545,813</u>
Excess of revenue over (under) expenditures	<u>\$ (2,364,410)</u>	<u>\$ (2,377,210)</u>	<u>\$ 264,249</u>	<u>\$ 2,641,459</u>
OTHER FINANCING SOURCES (USES)				
Transfers out	\$ (13,285,590)	\$ (13,285,590)	\$ (13,463,855)	\$ 178,265
Total other financing sources	<u>\$ (13,285,590)</u>	<u>\$ (13,285,590)</u>	<u>\$ (13,463,855)</u>	<u>\$ 178,265</u>
Net change in fund balances	\$ (15,650,000)	\$ (15,662,800)	\$ (13,199,606)	\$ 2,463,194
FUND BALANCES - JANUARY 1	<u>\$ 15,650,000</u>	<u>\$ 15,662,800</u>	<u>\$ 14,176,200</u>	<u>\$ (1,486,600)</u>
FUND BALANCES - DECEMBER 31	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 976,594</u></u>	<u><u>\$ 976,594</u></u>

Schedule of Revenues, Expenditures, and
Changes in Fund Balances - Budget to Actual
Regional Athletic Complex Capital
For the Year Ended December 31, 2008

	Budgeted Amounts		Actual GAAP Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental revenues	\$ 925,350	\$ 925,350	\$ 1,188,209	\$ 262,859
Other revenues	3,800	3,800	226,386	222,586
Total revenues	<u>\$ 929,150</u>	<u>\$ 929,150</u>	<u>\$ 1,414,595</u>	<u>\$ 485,445</u>
EXPENDITURES				
Current:				
Culture and recreation	\$ 13,879,150	\$ 13,879,150	\$ 16,427	\$ 13,862,723
Capital outlay	-	-	12,922,173	(12,922,173)
Total expenditures	<u>\$ 13,879,150</u>	<u>\$ 13,879,150</u>	<u>\$ 12,938,600</u>	<u>\$ 940,550</u>
Excess of revenue over (under) expenditures	<u>\$ (12,950,000)</u>	<u>\$ (12,950,000)</u>	<u>\$ (11,524,005)</u>	<u>\$ 1,425,995</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	\$ 12,950,000	\$ 12,950,000	\$ 13,128,265	\$ 178,265
Transfers out	-	(552,402)	(552,402)	-
Total other financing sources	<u>\$ 12,950,000</u>	<u>\$ 12,397,598</u>	<u>\$ 12,575,863</u>	<u>\$ 178,265</u>
Net change in fund balances	\$ -	\$ (552,402)	\$ 1,051,858	\$ 1,604,260
FUND BALANCES - JANUARY 1	<u>\$ -</u>	<u>\$ 552,402</u>	<u>\$ -</u>	<u>\$ (552,402)</u>
FUND BALANCES - DECEMBER 31	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 1,051,858</u></u>	<u><u>\$ 1,051,858</u></u>

Schedule of Revenues, Expenditures, and
Changes in Fund Balances - Budget to Actual
L.I.D. Redemption
For the Year Ended December 31, 2008

	Budgeted Amounts		Actual GAAP Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Other revenues	\$ 2,064,740	\$ 2,064,740	\$ 1,145,466	\$ (919,274)
Total revenues	\$ 2,064,740	\$ 2,064,740	\$ 1,145,466	\$ (919,274)
EXPENDITURES				
Debt service:				
Principal retirement	\$ 1,916,420	\$ 1,916,420	\$ 1,066,416	\$ 850,004
Interest	148,320	148,320	148,315	5
Total expenditures	\$ 2,064,740	\$ 2,064,740	\$ 1,214,731	\$ 850,009
Excess of revenue over (under) expenditures	\$ -	\$ -	\$ (69,265)	\$ (69,265)
Net change in fund balance	\$ -	\$ -	\$ (69,265)	\$ (69,265)
FUND BALANCES JANUARY 1	\$ -	\$ -	\$ 209,905	\$ 209,905
FUND BALANCES DECEMBER 31	\$ -	\$ -	\$ 140,640	\$ 140,640

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.

Combining Statement of Net Assets
Internal Service Funds
December 31, 2008

	Governmental Activities		
	Internal Service Funds		
	Equipment Rental	Information Services	Total
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 5,433,362	\$ 2,433,865	\$ 7,867,227
Due from governmental units	3,900	-	3,900
Total current assets:	\$ 5,437,262	\$ 2,433,865	\$ 7,871,127
Non-current assets:			
Capital assets, net of depreciation:			
Buildings	\$ 181,419	\$ -	\$ 181,419
Improvements other than buildings	7,531	-	7,531
Equipment	3,168,746	525,416	3,694,162
Total non-current assets	\$ 3,357,696	\$ 525,416	\$ 3,883,112
Total assets	\$ 8,794,958	\$ 2,959,281	\$ 11,754,239
LIABILITIES			
Current liabilities:			
Accounts payable	\$ 13,070	\$ 6,023	\$ 19,093
Payable from restricted assets:			
Compensated absences	8,481	12,409	20,890
Current portion of capital lease	-	46,113	46,113
Total current liabilities	\$ 21,551	\$ 64,545	\$ 86,096
Non-current liabilities			
Compensated absences	\$ 10,308	\$ 7,914	\$ 18,222
Total non-current liabilities	\$ 10,308	\$ 7,914	\$ 18,222
Total liabilities	\$ 31,859	\$ 72,459	\$ 104,318
NET ASSETS			
Investment in capital assets, net of related debt	\$ 3,357,696	\$ 525,416	\$ 3,883,112
Unrestricted	5,405,403	2,361,406	7,766,809
Total net assets	\$ 8,763,099	\$ 2,886,822	\$ 11,649,921

Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets
Internal Service Funds
For the Year Ended December 31, 2008

	Governmental Activities		
	Internal Service Funds		
	Equipment Rental	Information Services	Total
OPERATING REVENUES			
Charges for services	\$ 1,600,087	\$ 1,336,441	\$ 2,936,528
Total operating revenue	\$ 1,600,087	\$ 1,336,441	\$ 2,936,528
OPERATING EXPENSES			
Operating expense	\$ 882,073	\$ 939,404	\$ 1,821,477
Maintenance expense	43,314	100,658	143,972
Depreciation expense	650,326	250,883	901,209
Total operating expenses	\$ 1,575,713	\$ 1,290,945	\$ 2,866,658
OPERATING INCOME (LOSS)	\$ 24,374	\$ 45,496	\$ 69,870
NON-OPERATING REVENUES (EXPENSES)			
Investment earnings	\$ 138,402	\$ 61,183	\$ 199,585
Miscellaneous non-operating revenues	17,106	1,795	18,901
Interest expense	-	(2,992)	(2,992)
Gain (loss) on sale of capital assets	15,084	-	15,084
Total non-operating revenues (expenses)	\$ 170,592	\$ 59,986	\$ 230,578
Income (loss) before contributions and transfers	\$ 194,966	\$ 105,482	\$ 300,448
Capital contributions	\$ 257,347	\$ 98,115	\$ 355,462
Transfers in	424,736	27,495	452,231
Changes in net assets	\$ 877,049	\$ 231,092	\$ 1,108,141
NET ASSETS - BEGINNING	\$ 7,886,050	\$ 2,655,730	\$ 10,541,780
NET ASSETS - ENDING	\$ 8,763,099	\$ 2,886,822	\$ 11,649,921

Statement of Cash Flows
Internal Service Funds
For the Year Ended December 31, 2008

	Governmental Activities		
	Internal Service Funds		
	Equipment Rental	Information Services	Total Internal Service
CASH FLOW FROM OPERATING ACTIVITIES:			
Receipts from customers and users	\$ 1,625,801	\$ 1,338,236	\$ 2,964,037
Payments to suppliers	(952,234)	(361,169)	(1,313,403)
Payments to employees	(239,469)	(686,693)	(926,162)
Net cash provided by operating activities	<u>\$ 434,098</u>	<u>\$ 290,374</u>	<u>\$ 724,472</u>
CASH FLOW FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Acquisition and construction of capital assets	\$ (1,109,543)	\$ (153,469)	\$ (1,263,012)
Proceeds from sales of capital assets	127,703	-	127,703
Principal paid on capital leases	-	(53,352)	(53,352)
Interest paid on capital leases	-	(2,992)	(2,992)
Transfers received from other funds for capital acquisition	682,084	125,610	807,694
Net cash used by capital and related financing activities	<u>\$ (299,756)</u>	<u>\$ (84,203)</u>	<u>\$ (383,959)</u>
CASH FLOW FROM INVESTING ACTIVITIES:			
Interest received on investments	148,433	63,379	211,812
Net cash provided (used) by investing activities	<u>\$ 148,433</u>	<u>\$ 63,379</u>	<u>\$ 211,812</u>
Net increase (decrease) in cash and cash equivalents	282,775	269,550	552,325
Cash and cash equivalents January 1	\$ 5,150,587	\$ 2,164,315	\$ 7,314,902
Cash and cash equivalents December 31	<u>\$ 5,433,362</u>	<u>\$ 2,433,865</u>	<u>\$ 7,867,227</u>
CASH PROVIDED BY OPERATING ACTIVITIES:			
Net operating income	\$ 24,374	\$ 45,496	\$ 69,870
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:			
Depreciation	\$ 650,326	\$ 250,883	\$ 901,209
(Increase)/decrease in due from other funds	8,608	-	8,608
Miscellaneous non-operating revenues	17,106	1,795	18,901
Increase/(decrease) in accounts payables	(267,967)	(9,383)	(277,350)
Increase/(decrease) in intergovernmental payable	-	(420)	(420)
Increase/(decrease) in compensated absences	1,651	2,003	3,654
Net cash provided by operating activities	<u>\$ 434,098</u>	<u>\$ 290,374</u>	<u>\$ 724,472</u>

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
For the Year Ended December 31, 2008

Joint Animal Services

	Joint Animal Services			Balance December 31, 2008
	Balance December 31, 2007	Additions	Deductions	
ASSETS				
Cash and cash equivalents	\$ 1,270,974	\$ 1,847,791	\$ 1,668,028	\$ 1,450,737
Accounts receivables, net of uncollectible accounts	5,322	793,167	798,489	-
Due from other governmental units	18,412	-	18,412	-
Other current assets	-	2,808	1,959	849
Total assets	\$ 1,294,708	\$ 2,643,766	\$ 2,486,888	\$ 1,451,586
LIABILITIES				
Accounts payable	\$ 40,985	\$ 481,856	\$ 495,034	\$ 27,807
Accrued employee leave payable	59,882	59,185	55,100	63,967
Notes payable	212,509	-	15,078	197,431
Due to other governmental units	981,332	1,716,019	1,534,970	1,162,381
Total liabilities	\$ 1,294,708	\$ 2,257,060	\$ 2,100,182	\$ 1,451,586

Thurston County Narcotics Task Force

	Thurston County Narcotics Task Force			Balance December 31, 2008
	Balance December 31, 2007	Additions	Deductions	
ASSETS				
Cash and cash equivalents	\$ 1,136,883	\$ 818,012	\$ 968,094	\$ 986,801
Accounts receivables, net of uncollectible accounts	7,583	1,388	8,971	-
Due from other governmental units	36,773	24,796	36,773	24,796
Total assets	\$ 1,181,239	\$ 844,196	\$ 1,013,838	\$ 1,011,597
LIABILITIES				
Accounts payable	\$ 78,552	\$ 489,440	\$ 521,643	\$ 46,349
Accrued employee leave payable	11,137	8,574	7,387	12,324
Due to other governmental units	1,091,550	754,412	893,038	952,924
Total liabilities	\$ 1,181,239	\$ 1,252,426	\$ 1,422,068	\$ 1,011,597

Combining Statement of Changes in Assets and Liabilities
Agency Funds
December 31, 2008

	Capital Area Public Facilities District			Balance Decemeber 31, 2008
	Balance December 31, 2007	Additions	Deductions	
ASSETS				
Cash and cash equivalents	\$ 66,916	\$ 1,435,330	\$ 1,433,525	\$ 68,721
Due from other governmental units	-	2,860	2,860	-
Total assets	<u>\$ 66,916</u>	<u>\$ 1,438,190</u>	<u>\$ 1,436,385</u>	<u>\$ 68,721</u>
LIABILITIES				
Accounts payable	\$ -	\$ 10,132	\$ 10,132	\$ -
Due to other governmental units	66,916	1,368,148	1,366,343	68,721
Total liabilities	<u>\$ 66,916</u>	<u>\$ 1,378,280</u>	<u>\$ 1,376,475</u>	<u>\$ 68,721</u>

	Total All Agencies			Balance Decemeber 31, 2008
	Balance December 31, 2007	Additions	Deductions	
ASSETS				
Cash and cash equivalents	\$ 2,474,773	\$ 4,101,133	\$ 4,069,647	\$ 2,506,259
Accounts receivables, net of uncollectible accounts	12,905	794,555	807,460	-
Due from other governmental units	55,185	27,656	58,045	24,796
Other current assets	-	2,808	1,959	849
Total assets	<u>\$ 2,542,863</u>	<u>\$ 4,926,152</u>	<u>\$ 4,937,111</u>	<u>\$ 2,531,904</u>
LIABILITIES				
Accounts payable	\$ 119,537	\$ 981,428	\$ 1,026,809	\$ 74,156
Accrued employee leave payable	71,019	67,759	62,487	76,291
Notes payable	212,509	-	15,078	197,431
Due to other governmental units	2,139,798	3,838,579	3,794,351	2,184,026
Total liabilities	<u>\$ 2,542,863</u>	<u>\$ 4,887,766</u>	<u>\$ 4,898,725</u>	<u>\$ 2,531,904</u>

Combining Statement of Fiduciary Net Assets
Agency Funds
December 31, 2008

	Joint Animal Services	Thurston County Nartotics Task Force	Capital Area Public Facilities District	Total
ASSETS				
Cash and cash equivalents	\$ 1,450,737	\$ 986,801	\$ 68,721	\$ 2,506,259
Due from other governmental units	-	24,796	-	24,796
Other current assets	849	-	-	849
Total assets	\$ 1,451,586	\$ 1,011,597	\$ 68,721	\$ 2,531,904
LIABILITIES				
Accounts payable	\$ 27,807	\$ 46,349	\$ -	\$ 74,156
Accrued employee leave payable	63,967	12,324	-	76,291
Notes payable	197,431	-	-	197,431
Due to other governmental units	1,162,381	952,924	68,721	2,184,026
Total liabilities	\$ 1,451,586	\$ 1,011,597	\$ 68,721	\$ 2,531,904

Schedule of Operations - Budget to Actual
Water Fund
For the Year Ended December 31, 2008

	Budgeted Amounts		Actual GAAP Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
OPERATING REVENUES				
Charges for services	\$ 9,026,340	\$ 9,564,900	\$ 10,631,855	\$ 1,066,955
Total operating revenue	\$ 9,026,340	\$ 9,564,900	\$ 10,631,855	\$ 1,066,955
OPERATING EXPENSES				
Operating expense	\$ 2,732,220	\$ 2,864,385	\$ 2,892,717	\$ (28,332)
Maintenance expense	17,190,858	18,882,393	3,679,502	15,202,891
Debt discount amortization	-	-	-	-
Depreciation expense	2,650,000	2,650,000	2,948,714	(298,714)
Taxes	338,125	363,985	387,716	(23,731)
Total operating expenses	\$ 22,911,203	\$ 24,760,763	\$ 9,908,649	\$ 14,852,114
OPERATING INCOME (LOSS)	\$ (13,884,863)	\$ (15,195,863)	\$ 723,206	\$ 15,919,069
NON-OPERATING REVENUES (EXPENSES)				
Investment earnings	\$ 31,035	\$ 31,035	\$ 71,368	\$ 40,333
Miscellaneous non-operating revenues	247,800	303,800	378,158	74,358
Total non-operating Revenues (expenses)	\$ 278,835	\$ 334,835	\$ 449,526	\$ 114,691
Income (loss) before contributions and transfers	\$ (13,606,028)	\$ (14,861,028)	\$ 1,172,732	\$ 16,033,760
Capital contributions	\$ -	\$ -	\$ 10,178,081	\$ 10,178,081
Transfers in	8,186,610	9,441,610	2,352,310	(7,089,300)
Transfers out	(636,610)	(651,610)	(987,686)	(336,076)
Changes in net assets	\$ (6,056,028)	\$ (6,071,028)	\$ 12,715,437	\$ 18,786,465
NET ASSETS - BEGINNING (Restated)	\$ 6,056,028	\$ 6,071,028	\$ 88,007,221	\$ 81,936,193
NET ASSETS - ENDING	\$ -	\$ -	\$ 100,722,658	\$ 100,722,658

This schedule is presented as supplemental information

Schedule of Operations - Budget to Actual
Wastewater Fund
For the Year Ended December 31, 2008

	Budgeted Amounts		Actual GAAP Basis	Variance with Final Budget
	Original	Final		Positive (Negative)
OPERATING REVENUES				
Charges for services	\$ 10,290,530	\$ 10,290,530	\$ 11,112,482	\$ 821,952
Total operating revenue	\$ 10,290,530	\$ 10,290,530	\$ 11,112,482	\$ 821,952
OPERATING EXPENSES				
Operating expense	\$ 6,859,526	\$ 6,874,226	\$ 7,226,399	\$ (352,173)
Maintenance expense	9,026,603	9,232,968	1,706,121	7,526,847
Debt discount amortization	-	-	-	-
Depreciation expense	1,650,000	1,650,000	1,486,699	163,301
Taxes	130,095	130,095	129,732	363
Total operating expenses	\$ 17,666,224	\$ 17,887,289	\$ 10,548,951	\$ 7,338,338
OPERATING INCOME (LOSS)	\$ (7,375,694)	\$ (7,596,759)	\$ 563,531	\$ 8,160,290
NON-OPERATING REVENUES (EXPENSES)				
Investment earnings	\$ 97,850	\$ 97,850	\$ 521,855	\$ 424,005
Miscellaneous non-operating revenues	-	-	(8,047)	(8,047)
Total non-operating Revenues (expenses)	\$ 97,850	\$ 97,850	\$ 513,808	\$ 415,958
Income (loss) before contributions and transfers	\$ (7,277,844)	\$ (7,498,909)	\$ 1,077,339	\$ 8,576,248
Capital contributions	\$ -	\$ -	\$ 4,815,569	\$ 4,815,569
Transfers in	795,263	795,263	295,263	(500,000)
Transfers out	(795,263)	(2,035,263)	(1,548,523)	486,740
Changes in net assets	\$ (7,277,844)	\$ (8,738,909)	\$ 4,639,648	\$ 13,378,557
NET ASSETS - BEGINNING Restated	\$ 7,277,844	\$ 8,738,909	\$ 73,090,504	\$ 64,351,595
NET ASSETS - ENDING	\$ -	\$ -	\$ 77,730,152	\$ 77,730,152

This schedule is presented as supplemental information

Schedule of Operations - Budget to Actual
Stormwater Fund
For the Year Ended December 31, 2008

	Budgeted Amounts		Actual GAAP Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
OPERATING REVENUES				
Charges for services	\$ 1,789,280	\$ 1,798,625	\$ 1,825,596	\$ 26,971
Charges for services	\$ 1,789,280	\$ 1,798,625	\$ 1,825,596	\$ 26,971
OPERATING EXPENSES				
Operating expense	\$ 953,681	\$ 955,636	\$ 926,570	\$ 29,066
Maintenance expense	1,429,278	1,432,538	537,550	894,988
Depreciation expense	950,000	950,000	1,357,816	(407,816)
Taxes	20,950	25,080	28,409	(3,329)
Total operating expenses	\$ 3,353,909	\$ 3,363,254	\$ 2,850,345	\$ 512,909
OPERATING INCOME (LOSS)	\$ (1,564,629)	\$ (1,564,629)	\$ (1,024,749)	\$ 539,880
NON-OPERATING REVENUES (EXPENSES)				
Investment earnings	\$ 28,950	\$ 28,950	\$ 35,095	\$ 6,145
Miscellaneous non-operating revenues	-	-	1,295	1,295
Total non-operating Revenues (expenses)	\$ 28,950	\$ 28,950	\$ 36,390	\$ 7,440
Income (loss) before contributions and transfers	\$ (1,535,679)	\$ (1,535,679)	\$ (988,359)	\$ 547,320
Capital contributions	\$ -	\$ -	\$ 8,952,817	\$ 8,952,817
Transfers in	335,000	335,000	335,000	-
Transfers out	(335,000)	(335,000)	(348,595)	(13,595)
Changes in net assets	\$ (1,535,679)	\$ (1,535,679)	\$ 7,950,863	\$ 9,486,542
NET ASSETS - BEGINNING	\$ 1,535,679	\$ 1,535,679	\$ 40,935,816	\$ 39,400,137
NET ASSETS - ENDING	\$ -	\$ -	\$ 48,886,679	\$ 48,886,679

This schedule is presented as supplemental information

Schedule of Operations - Budget to Actual
Reclaimed Water
For the Year Ended December 31, 2008

	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	2,169,200	2,169,200	66,557	2,102,643
Total operating expenses	\$ 2,269,200	\$ 2,269,200	\$ 66,557	\$ 2,202,643
OPERATING INCOME (LOSS)	\$ (2,269,200)	\$ (2,269,200)	\$ (66,557)	\$ 2,202,643
NON-OPERATING REVENUES (EXPENSES)				
Investment earnings	\$ 102,500	\$ 102,500	\$ (5,107)	\$ (107,607)
Miscellaneous non-operating revenues	-	-	58,284	55,359
Total non-operating Revenues (expenses)	\$ 102,500	\$ 102,500	\$ 53,177	\$ (55,173)
Income (loss) before contributions and transfers	\$ (2,166,700)	\$ (2,166,700)	\$ (13,380)	\$ 2,147,470
Changes in net assets	\$ (2,166,700)	\$ (2,166,700)	\$ (13,380)	\$ 2,147,470
NET ASSETS - BEGINNING	\$ 2,166,700	\$ 2,166,700	\$ 2,395,072	\$ 228,372
NET ASSETS - ENDING	\$ -	\$ -	\$ 2,381,692	\$ 2,375,842

This schedule is presented as supplemental information

Schedule of Operations - Budget to Actual
Equipment Rental Fund
For the Year Ended December 31, 2008

	Budgeted Amounts		Actual GAAP Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
OPERATING REVENUES				
Charges for services	\$ 1,566,993	\$ 1,566,993	\$ 1,600,087	\$ 33,094
Total operating revenue	\$ 1,566,993	\$ 1,566,993	\$ 1,600,087	\$ 33,094
OPERATING EXPENSES				
Operating expense	\$ 1,059,930	\$ 1,111,890	\$ 882,073	\$ 229,817
Maintenance expense	50,346	50,346	43,314	7,032
Depreciation expense	517,000	517,000	650,326	(133,326)
Total operating expenses	\$ 1,627,276	\$ 1,679,236	\$ 1,575,713	\$ 103,523
OPERATING INCOME (LOSS)	\$ (60,283)	\$ (112,243)	\$ 24,374	\$ 136,617
NON-OPERATING REVENUES (EXPENSES)				
Investment earnings	\$ 60,283	\$ 60,283	\$ 138,402	\$ 78,119
Miscellaneous non-operating revenues	-	-	17,106	17,106
Gain (loss) on sale of fixed assets	-	-	15,084	15,084
Total non-operating Revenues (expenses)	\$ 60,283	\$ 60,283	\$ 170,592	\$ 110,309
Income (loss) before contributions and transfers	\$ -	\$ (51,960)	\$ 194,966	\$ 246,926
Capital contributions	\$ -	\$ -	\$ 257,347	\$ 257,347
Transfers in	-	-	424,736	424,736
Changes in net assets	\$ -	\$ (51,960)	\$ 877,049	\$ 929,009
NET ASSETS - BEGINNING	\$ -	\$ 51,960	\$ 7,886,050	\$ 7,834,090
NET ASSETS - ENDING	\$ -	\$ -	\$ 8,763,099	\$ 8,763,099

This schedule is presented as supplemental information

Schedule of Operations - Budget to Actual
Information Management Services Fund
For the Year Ended December 31, 2008

	Budgeted Amounts		Actual GAAP Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
OPERATING REVENUES				
Charges for services	\$ 1,336,788	\$ 1,336,788	\$ 1,336,441	\$ (347)
Total operating revenue	\$ 1,336,788	\$ 1,336,788	\$ 1,336,441	\$ (347)
OPERATING EXPENSES				
Operating expense	\$ 1,112,788	\$ 1,112,788	\$ 939,404	\$ 173,384
Maintenance expense	224,000	224,000	100,658	123,342
Depreciation expense	145,683	145,683	250,883	(105,200)
Total operating expenses	\$ 1,482,471	\$ 1,482,471	\$ 1,290,945	\$ 191,526
OPERATING INCOME (LOSS)	\$ (145,683)	\$ (145,683)	\$ 45,496	\$ 191,179
NON-OPERATING REVENUES (EXPENSES)				
Investment earnings	\$ -	\$ -	\$ 61,183	\$ 61,183
Miscellaneous non-operating revenues	-	-	1,795	1,795
Interest expense	-	-	(2,992)	(2,992)
Total non-operating Revenues (expenses)	\$ -	\$ -	\$ 59,986	\$ 59,986
Income (loss) before contributions and transfers	\$ (145,683)	\$ (145,683)	\$ 105,482	\$ 251,165
Capital contributions	\$ -	\$ -	\$ 98,115	\$ 98,115
Transfers in	-	-	27,495	27,495
Changes in net assets	\$ (145,683)	\$ (145,683)	\$ 231,092	\$ 376,775
NET ASSETS - BEGINNING	\$ 145,683	\$ 145,683	\$ 2,655,730	\$ 2,510,047
NET ASSETS - ENDING	\$ -	\$ -	\$ 2,886,822	\$ 2,886,822

This schedule is presented as supplemental information

Schedule of Expenditures of Federal Awards
For The Year Ending December 31, 2008
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	Official CFDA Program Title	Federal CFDA Numb	Other Identification Number	Current Year Expenditures
<u>DEPARTMENT OF AGRICULTURE - FOOD AND NUTRITION SERVICE</u>				
USDA/WA SPI indirect:	Summer Food Service Program for Children (A)	10.559	34-923	\$ 55,084
<u>DEPARTMENT OF JUSTICE - BUREAU OF JUSTICE ASSISTANCE</u>				
US DOJ direct:				
Bulletproof Vest Grant Program	Correctional Services-Technical Assistance (1970U)	16.600	FY 2007	\$ 3,316
<u>US DOJ/WA CTED INDIRECT:</u>				
Justice Assistance Grant - Drug Interdiction	Edward Byrne Memorial Justice Assistance Grant Program (A,B)	16.738	F07-667070	159,265
Total DOJ				\$ 162,581
<u>DEPARTMENT OF TRANSPORTATION (DOT) - HIGHWAY PLANNING AND CONSTRUCTION</u>				
US DOT/WS DOT indirect:				
I-5 Access Study	Highway Planning and Construction (A,B)	20.205	LA-06708	\$ 79,634
Sleater Kinney/6th	Highway Planning and Construction (A,B)	20.205	LA-5203	941,063
Exit 111-SB Off Ramp	Highway Planning and Construction (A,B)	20.205	0052 (196)	30,671
Woodland Trail	Recreational Trails Program (A,B)	20.219	LA-06446	63,155
Total DOT				\$ 1,114,523
<u>DEPARTMENT OF TRANSPORTATION/NATIONAL HIGHWAY TRAFFIC SAFETY ADMINISTRATION (NITSA)</u>				
NITSA/Washington Traffic Safety Commission indirect:				
Night Time Seat Belt Enforcement Program	Occupant Protection (B)	20.602	LPD 086	\$ 7,267
Safety and Drunk Driving Prevention Program	Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants B	20.601	LPD 86 & 93	3,456
Total NITSA				\$ 10,723
<u>OFFICE OF NATIONAL DRUG CONTROL POLICY (ONDCP):</u>				
ONDCP/NWHIDTA indirect:				
High Intensity Drug Trafficking Program (HIDTA)	High Intensity Drug Trafficking Program (HIDTA)	07.000	I7PNWP516	\$ 49,658
Total Expenditures of Federal Awards				\$ 1,392,569

Schedule of State and Local Financial Assistance
For The Year Ended December, 31, 2008

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	\$ 1,523,807
Sleater-Kinney	8-5-197 (021)-1	614,988
Carpenter Road - right of way	8-5-197 (6)-1	576
Carpenter Road	8-5-197-(020)-1	234,054
Total Department of Transportation		<u>\$ 2,373,425</u>
<u>Higher Education Coordinating Board</u>	Work Study	<u>\$ 5,150</u>
<u>Washington Traffic Safety Commission (WTSC)</u>		
Traffic Safety/LIDA	LPD098	\$ 3,575
Traffic Safety/DUI Task Force	LPD 087	40,906
Total WTSC		<u>\$ 44,481</u>
<u>Community Economic Revitalization Board</u>		
Job Development Fund Grant Program	Gateway	<u>\$ 313,427</u>
<u>Interagency Committee for Outdoor Recreation</u>		
IAC Regional Athletic Complex Project	04-D1044	<u>\$ 240,000</u>
Total Expenditures of State Awards		<u><u>\$ 2,976,483</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

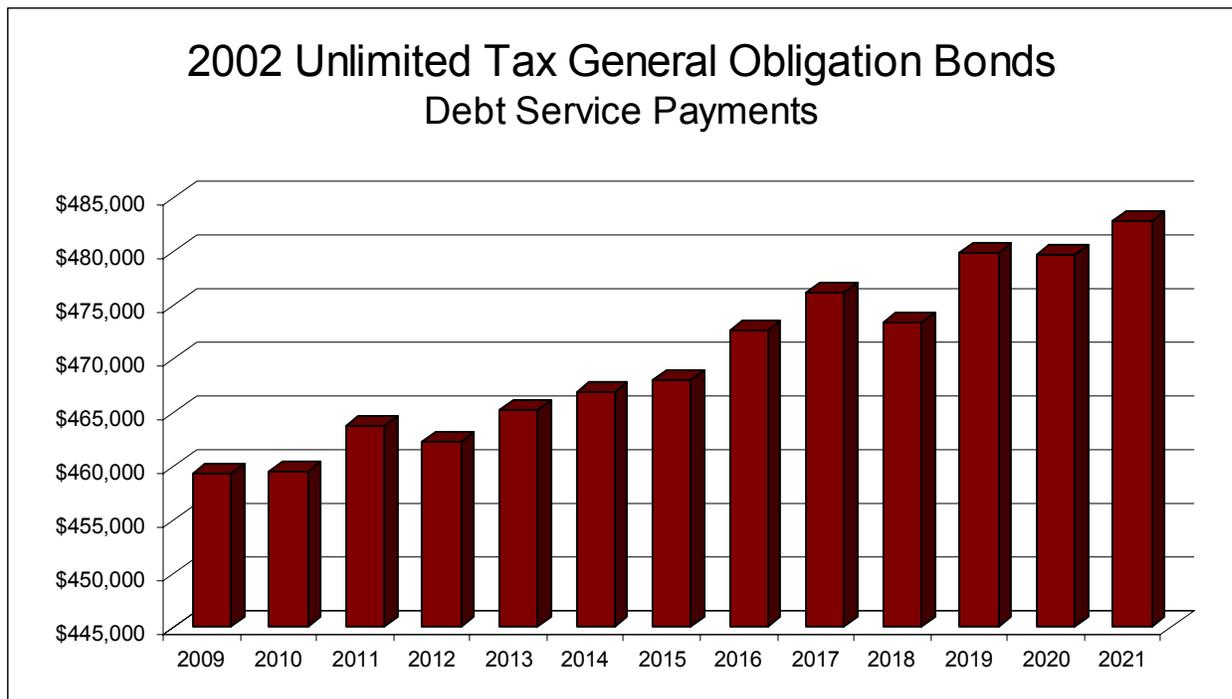
The amount shown as current year expenditures represents only the City's grant portion of the program costs. Entire program costs, including the City portion may be more than shown.

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. \$0 was repaid during 2008. 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.

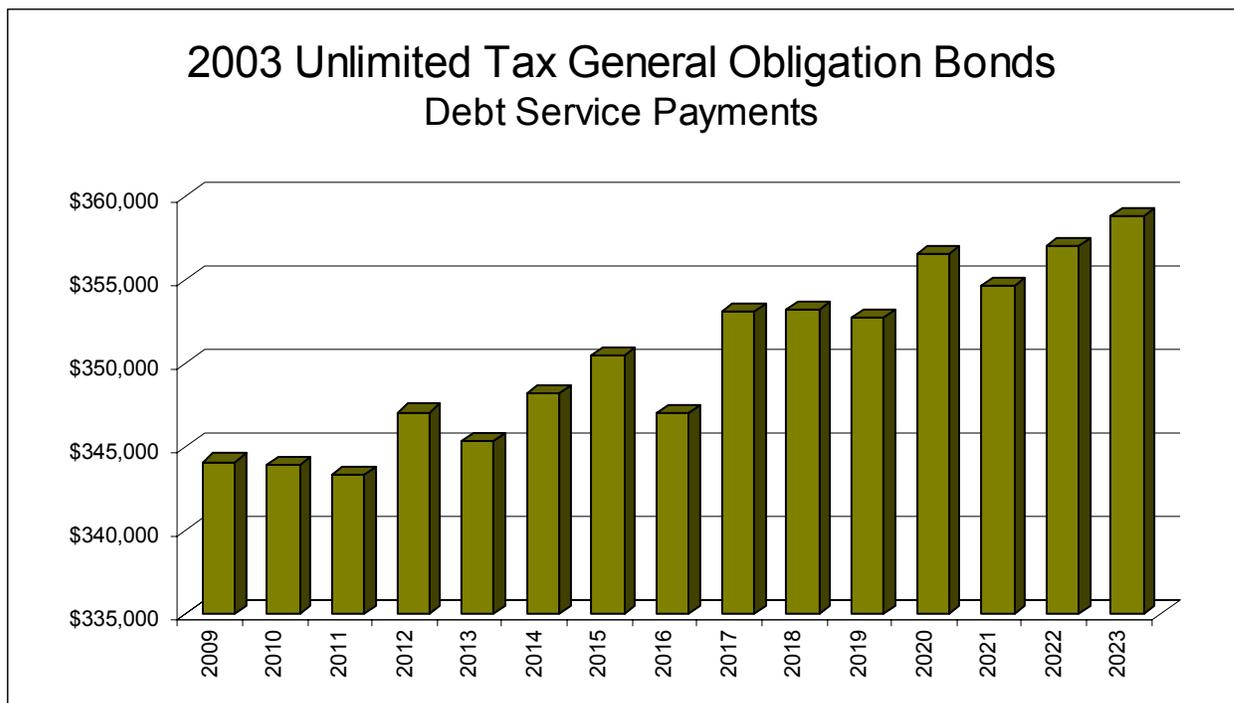
City of Lacey General Obligation Bond Debt
 2002 Unlimited Tax General Obligated Bonds
 December 31, 2008

Year Ended 31-Dec	Interest Rate - %	Interest		Principal	Total Debt Service
		Due - 01 Jun	Due - 01 Dec	Due - 01 Dec	
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>\$ 815,227</u>	<u>\$ 815,227</u>	<u>\$ 4,480,000</u>	<u>\$ 6,110,454</u>



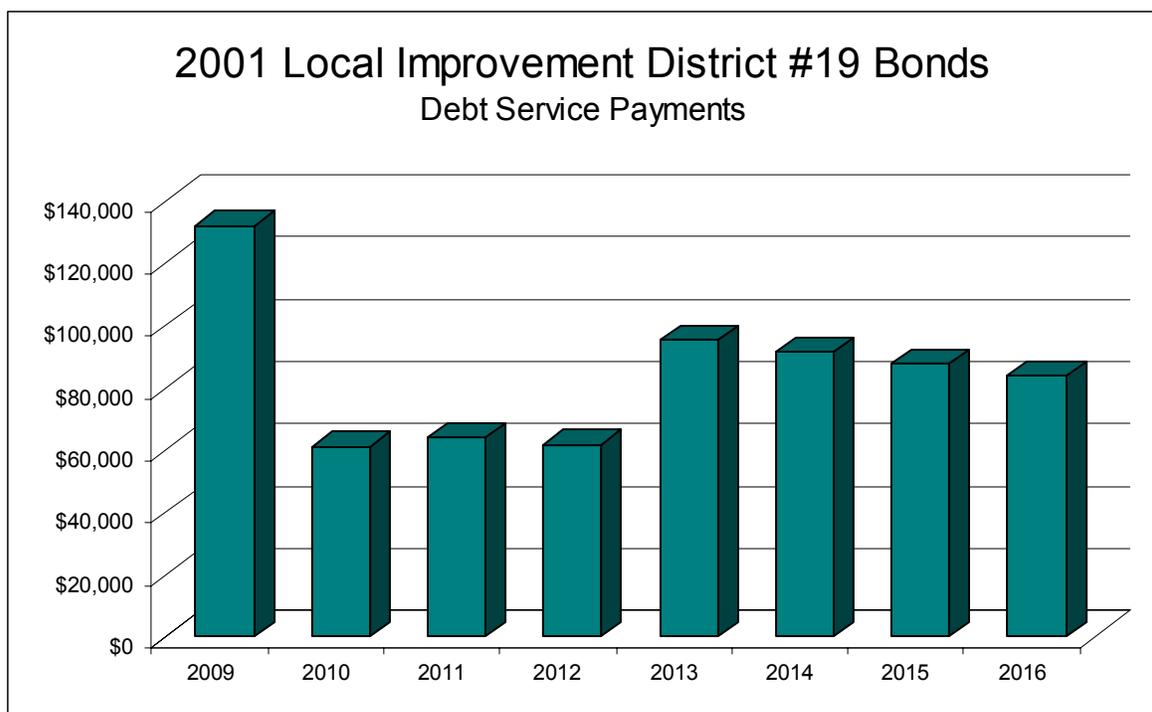
City of Lacey General Obligation Bond Debt
 2003 Unlimited Tax General Obligated Bonds
 December 31, 2008

Year Ended 31-Dec	Interest Rate - %	Interest		Principal Due - 01 Dec	Total Debt Service
		Due - 01 Jun	Due - 01 Dec		
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>\$ 645,223</u>	<u>\$ 645,223</u>	<u>\$ 3,965,000</u>	<u>\$ 5,255,446</u>



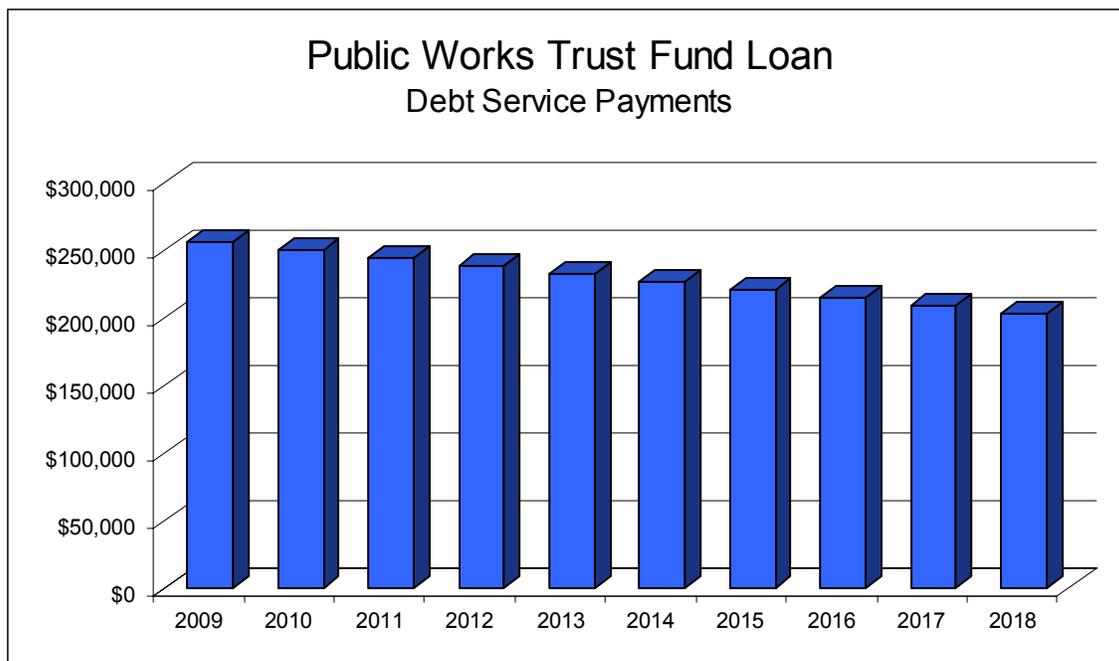
City of Lacey
2001 Local Improvement District #19 Bonds
December 31, 2008

Year Ended 31-Dec	Interest Range Rate - %		Interest 1-Oct	Principal 1-Oct	Total Debt Service
2009	5.950%	5.950%	32,050	100,000	132,050
2010	5.950%	5.950%	26,100	35,000	61,100
2011	5.950%	5.950%	24,000	40,000	64,000
2012	5.950%	5.950%	21,600	40,000	61,600
2013	6.000%	6.000%	15,360	80,000	95,360
2014	6.000%	6.000%	11,520	80,000	91,520
2015	6.000%	6.000%	7,680	80,000	87,680
2016	6.000%	6.000%	3,840	80,000	83,840
			\$ 142,150	\$ 535,000	\$ 677,150



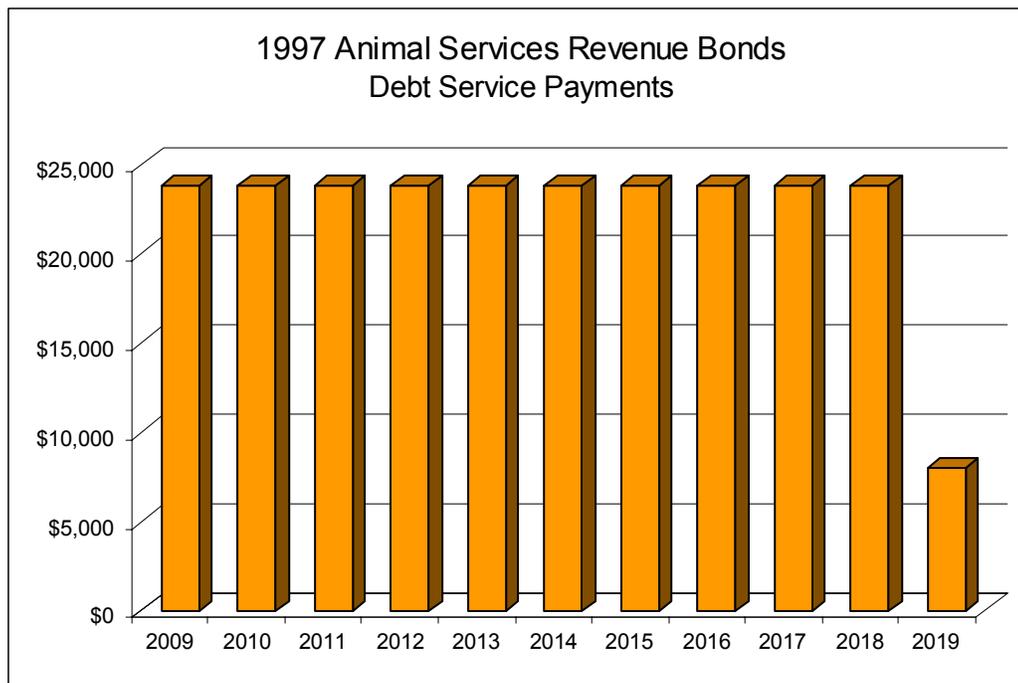
City of Lacey
Public Works Trust Fund Loan
December 31, 2008

Year Ended 31-Dec	Interest Rate - %	Interest 1-Jul	Principal 1-Jul	Total Debt Service
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>\$ 324,089</u>	<u>\$ 1,964,157</u>	<u>\$ 2,288,246</u>



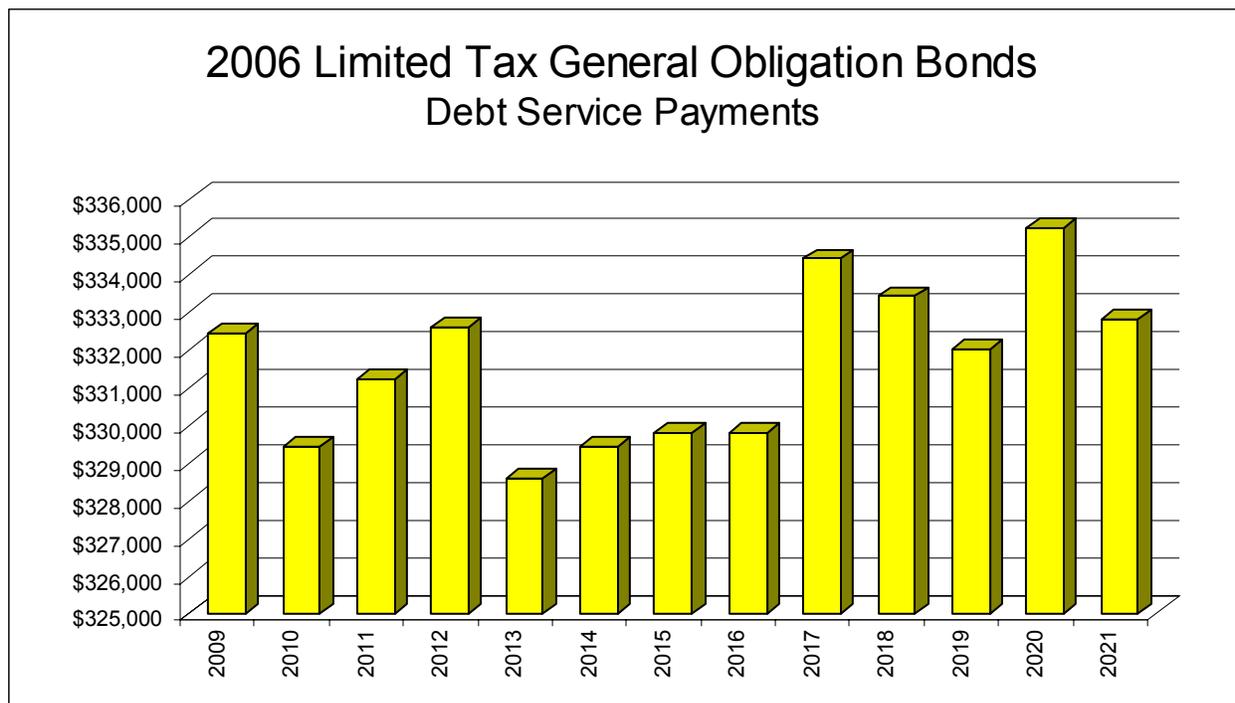
City of Lacey
 1997 Animal Services Revenue Bond
 December 31, 2008

Year Ended 31-Dec	Interest Rate - %	Interest Annual*	Principal Annual*	Total Debt Service
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
		\$ 48,719	\$ 197,431	\$ 246,150



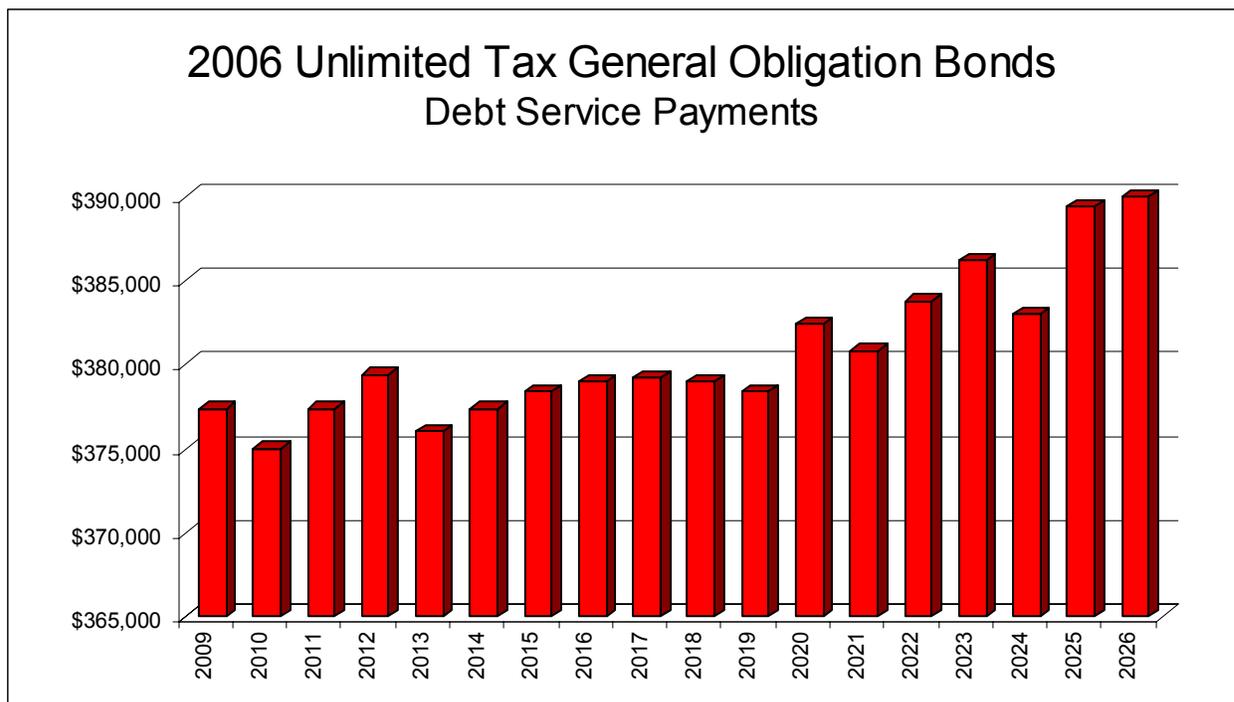
City of Lacey General Obligation Bond Debt
 2006 Limited Tax General Obligated Bonds
 December 31, 2008

Year Ended 31-Dec	Interest Rate - %	Interest		Principal Due - 01 Dec	Total Debt Service
		Due - 01 Jun	Due - 01 Dec		
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>\$ 500,500</u>	<u>\$ 500,500</u>	<u>\$ 3,310,000</u>	<u>\$ 4,311,000</u>



City of Lacey General Obligation Bond Debt
 2006 Unlimited Tax General Obligated Bonds
 December 31, 2008

Year Ended 31-Dec	Interest Rate - %	Interest		Principal Due - 01 Dec	Total Debt Service
		Due - 01 Jun	Due - 01 Dec		
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>\$ 1,021,100</u>	<u>\$ 1,021,100</u>	<u>\$ 4,810,000</u>	<u>\$ 6,852,200</u>



City of Lacey General Obligation Bond Debt
 2007 Limited Tax General Obligated Bonds
 December 31, 2008

Year Ended 31-Dec	Interest Rate - %	Interest		Principal Due - 01 Dec	Total Debt Service
		Due - 01 Jun	Due - 01 Dec		
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>\$ 1,769,558</u>	<u>\$ 1,769,558</u>	<u>\$ 7,755,000</u>	<u>\$ 11,294,116</u>

