



City of Lacey, Washington
2011 Comprehensive Annual Financial Report
for the year ended December 31, 2011



*Shaping
our community
together*

CITY
OF **LACEY**

City of Lacey

2011

Comprehensive Annual Financial Report

For the Year Ended December 31, 2011



*Troy Woo, Finance Director
Finance Department*

*City of Lacey
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Lacey, WA 98503
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Acknowledgements

*Prepared by the Accounting Division of
the Finance Department*



FINANCE DIRECTOR
TROY M. WOO

ACCOUNTING MANAGER
PAMELA S. MEREDITH

SENIOR ACCOUNTANT
CHUN K. SAUL, CPA

ACCOUNTANT
TERI E. SCHNITZER

**COMPREHENSIVE ANNUAL FINANCIAL REPORT
OF THE CITY OF LACEY, WASHINGTON
FOR THE YEAR ENDED DECEMBER 31, 2011**

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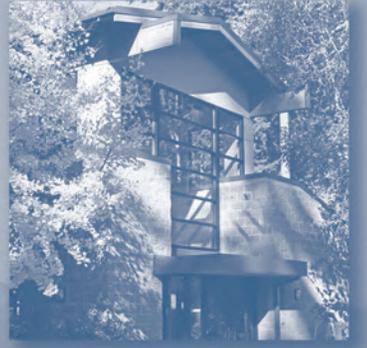
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Introductory Section



CITY COUNCIL

THOMAS L. NELSON
Mayor
VIRGIL S. CLARKSON
Deputy Mayor
JEFF GADMAN
JASON HEARN
RON LAWSON
CYNTHIA PRATT
ANDY RYDER

CITY MANAGER
SCOTT H. SPENCE

June 30, 2012

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, 2011, 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.

The 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. The MD&A complements 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-fifth 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 16.6 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 2011 population of 42,830.

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, elected for staggered four-year terms. Councilmembers are elected on a non-partisan, at-large basis rather than by district, and appoints a mayor from the seven-member Council. 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. 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.

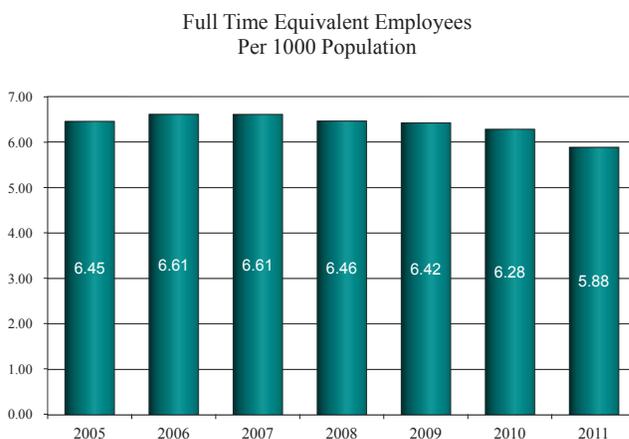
Local Economy

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, Ostrom Mushroom Company, VeriSign, Callisons, Shipwreck Beads, Cabelas, Sunset Air, St. Martin’s University, Port of Olympia (regional), State Farm (regional), and Intel (regional). Economic influence of nearby Joint Base Lewis-McChord 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.

During the past five years, Lacey’s population growth has placed significant demands on services. General government staffing has grown 3.1 percent (199.4 to 205.5 FTE’s) and has not changed in the utility or enterprise funds (46.5 FTE). Lacey’s population increased 19.4 percent during this same period. The growth rate to staffing levels being significantly lower than the population growth is indicative of the city’s continued conservative and responsible fiscal approach. In addition, a few positions are being held open or hiring delayed.

Prior to 2009, 2010, and 2011, Lacey had been fortunate to have had new and increasing general fund revenues to match the growing demand for services during the past five years.



Beginning late 2008 and throughout 2011, revenue trends began to show a decline in fees and sales tax receipts. Revenues from sales tax and fees directly related to planning and building activity were on the decline. During early 2009, a pro-active step was taken by the city manager and City Council to identify reductions in spending to off-set the trend. \$2.1 million in budget reductions were made in the general fund to compensate for anticipated revenue shortfall. Certain

reductions were restored in 2010 and 2011, but overall the 2011 Budget did not include growth to maintenance and operations.

Property tax, one of the General Fund's largest single sources of revenues, has experienced healthy growth due to high levels of new construction, but the growth rate is slowing. Although the property levy rate has declined, adjustments for new construction value coupled with allowable 1 percent adjustment have generated significant increases during the past five years. The new construction level has returned to historical levels, which will result in a slower property tax growth rate. In addition, the City voluntarily lowered its property tax levy due to the 2010 voter approved fire district annexation, which will lessen the impact of future new construction.

Long-term Financial Planning

Committed and assigned fund balances in the governmental funds 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 City envisions the development of a regional mixed use town center to be located on 250 acres of 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 resulted in a successful grant application that assisted with the cost of transportation and infrastructure improvements. The grant was funded by the 2007 State legislature and totaled \$9.9 million. Current estimates place the total cost of infrastructure improvements for the Gateway Project in the \$35 to \$50 million range. Of that amount, the City has committed to fund \$5 million for transportation and utility services. The City has a future

obligation to develop a civic center, library, park, or similar public facility as certain milestones in development are reached by the developer. During the 2010 State Legislative session, the Lacey Gateway Project was named a 2010 Local Revitalization Funding program demonstration project. This funding will allow the City use State funding up to \$500,000 per year for 25 years for debt service to build certain infrastructure assets.

In partnership with Thurston County, improvements to a 68 acre award winning Regional Athletic Complex were completed in 2009. Additional property was acquired in 2007 for future development, which brings the total project to 98 acres. Funding of the improvement cost came from a special Public Facilities District revenue source taken from the State's portion of the retail sales tax. Other revenues have come from general obligation bonds approved by voters as well as general fund revenues. Now in full operation, this complex has incurred additional operating costs to staff, operate, and maintain. During 2010 the City and Thurston County negotiated an early termination to the partnership. The increased costs have been addressed by the financial settlement from the early



Regional Athletic Complex

termination to the partnership, user fees, excess PFD revenues over debt service needs, dedicated revenues from the City's hotel/motel tax, and an operating subsidy from the City.

Relevant Financial Policies

It is the City of Lacey's policy that "one-time" revenue inflows not be used for operating purposes. As a result, Lacey has been able to construct several public buildings and enhance its residential street overlay program. In addition to allowing the City address much needed capital needs, this policy has helped the City weather the economic downturn. By applying "one-time" revenues to capital needs, the operating expenses have been contained to sustainable levels.

Major Initiatives

With approximately 22,600 water accounts, the City's Water Utility serves a population approaching 57,000. In 2007, construction was completed on permanent chlorination facilities at all city 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 required the development of a water treatment facility for the Hawks Prairie well and future new well. This treatment facility is now operational at a cost of approximately \$12 million. Because of these substantial costs, the Water Construction Fund received short-term cash interfund loan in the amount of \$10 million 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. In the meantime, principal payments of \$500,000, \$700,000, and \$600,000 were made in 2009, 2010, and 2011 respectively. A \$500,000 principal payment is budgeted in 2012. Early in 2012, the City Council adopted a resolution requiring annual payments of not less than \$400,000.

Current transportation projects include the Carpenter Road Capacity improvements. A substantial enhancement was made to the residential street overlay program in 2008 for a total of \$1 million and \$850,000 in 2009, 2010, and 2011. The 2012 budget includes \$2.0 million. The resources to cover these improvements include \$1.1 million in Real Estate Excise Tax revenues, a transfer in of \$850,000 from the General Fund, grants, 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 years ended December 31, 1999-2007 and again for the fiscal year ended December 31, 2009 and 2010. The City did not seek this award in 2008 due to budget reductions. In order to be awarded a Certificate of Achievement, the government had to publish an easily readable and efficiently organized CAFR that satisfied both the generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements. We are submitting the 2011 CAFR to the GFOA to determine its eligibility for another certificate.

Preparation of this report could not have been accomplished without the professional, efficient, and dedicated services of the staff of the Finance Department. We wish to express our appreciation to

all members of the department who assisted and contributed to the preparation of this report. Credit also must be given to the Council and City Manager for their unfailing support for maintaining the highest standards of professionalism in the management of the City of Lacey's finances.

Respectfully submitted,



Troy Woo
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, 2010

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.



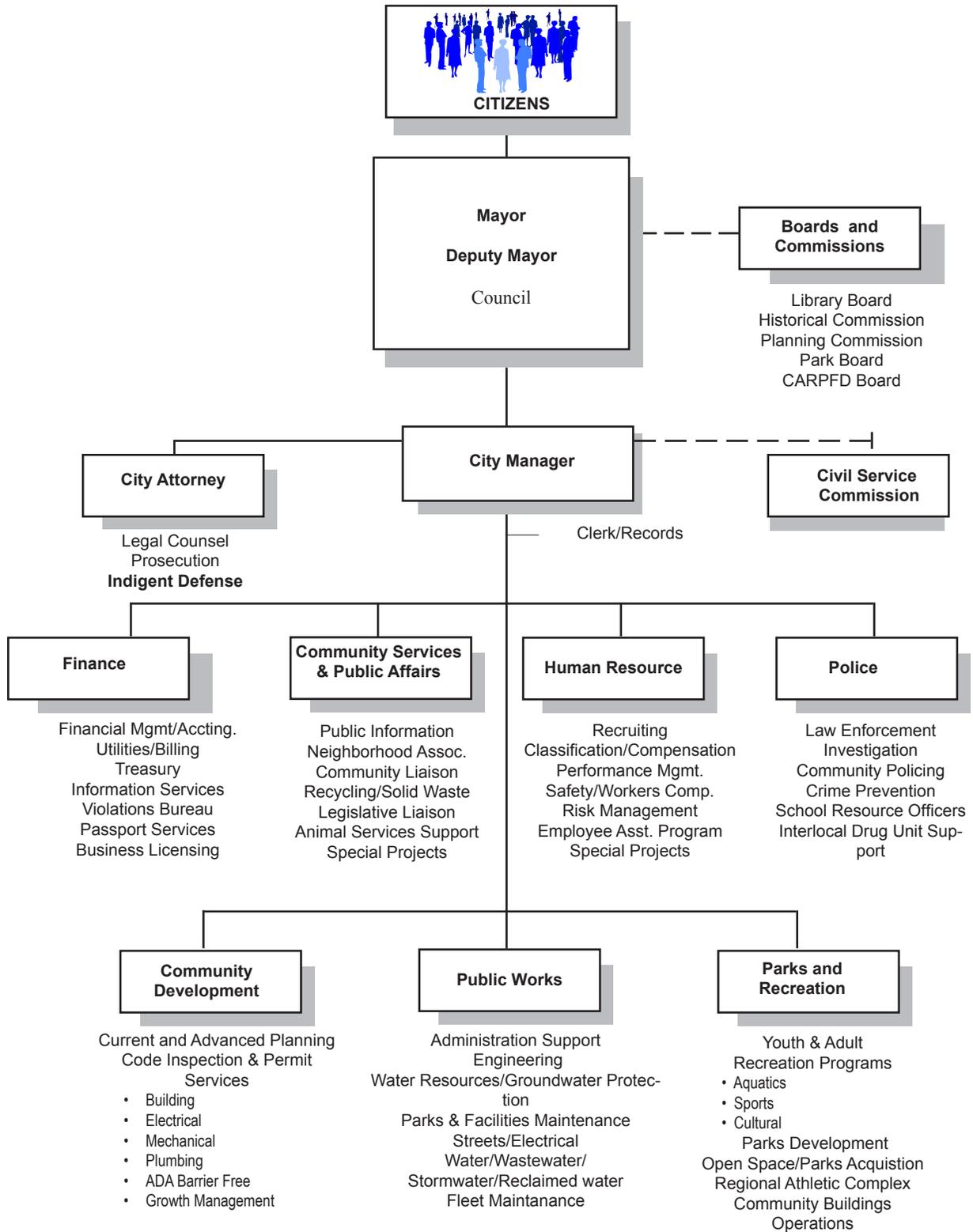
Linda C. Davison

President

Jeffrey R. Emer

Executive Director

LACEY CITY GOVERNMENT



CITY OF LACEY, WASHINGTON

Mayor

Thomas Nelson Term - Dec. 2011

Deputy Mayor

Virgil Clarkson Term - Dec. 2013

Council

Jason Hearn	Term - Dec. 2011
Jeff Gadman	Term - Dec. 2011
Ron Lawson	Term - Dec. 2013
Cynthia Pratt	Term - Dec. 2013
Andy Ryder	Term - Dec. 2013

City Manager

Scott H. Spence

ADMINISTRATION

Vacant	Assistant City Manager
Kenneth R. Ahlf	City Attorney
Frederick O. Walk	Community Development Director
Troy M. Woo	Finance Director
Merri A. Lannoye	Human Resource Director
Lorraine M. Flemm	Parks & Recreation Director
Dusty D Pierpoint	Police Chief
Scott Egger	Public Works Director



Financial Section



**Washington State Auditor
Brian Sonntag**

INDEPENDENT AUDITOR'S REPORT

June 26, 2012

Mayor and City Council
City of Lacey
Lacey, Washington

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Lacey, Thurston County, Washington, as of and for the year ended December 31, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Lacey, Thurston County, Washington, as of December 31, 2011, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, during the year ended December 31, 2011, the City has implemented the Governmental Accounting Standards Board Statement No. 54 - Fund Balance Reporting and Governmental Fund Type Definitions.

In accordance with *Government Auditing Standards*, we will also issue our report dated June 26, 2012, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report will be issued under separate cover in the City's

Single Audit Report. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3.1 through 3.15, budgetary comparison information on pages 5.1 through 5.3 and information on postemployment benefits other than pensions on page 5.4 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during the audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying information listed as combining financial statements and supplementary information on pages 6.1 through 7.16 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. This information has been subjected to auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The information identified in the table of contents as the Introductory and Statistical Sections is presented for purposes of additional analysis and is not a required part of the basic financial statements of the City. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Sincerely,

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

BRIAN SONNTAG, CGFM
STATE AUDITOR



*Management Discussion
and Analysis Section*

Management's Discussion and Analysis

Within this section of the City of Lacey, Washington annual financial report, the City's management is pleased to provide this narrative overview and analysis of the financial activities of the City for the fiscal year ended December 31, 2011. We encourage readers to consider the information presented here, in 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 2011 as compared to 2010.
- At the end of the fiscal year the assets of the City exceeded its liabilities by \$612.8 million. Net assets invested in capital assets (net of depreciation and related debt) account for 86.3 percent of the amount (\$529.0 million). Of the remaining net assets \$83.8 million, \$7.9 million are subject to external restrictions and \$75.9 million may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's total net assets increased by \$6.7 million. The governmental activity net assets decreased by \$529,010 compared to the previous year. Business-type net assets were increased by \$7.3 million. The business-type increase included net assets for the Water Utility of \$5.6 million, \$1.3 million for the Wastewater Utility, \$1.9 million net increase for the Reclaimed Water Utility and \$779,402 net loss for the Stormwater Utility. An adjustment for cumulative net crossover interfund balances from prior years decreased the net assets by \$782,424.
- At the close of 2011 the City's governmental funds reported a combined ending fund balance of \$50.1 million, a decrease of \$5.5 million.

Of the major funds, the ending fund balance of the General Fund decreased \$5.6 million, whereas the Arterial Street Fund increased \$691,626, the L.I.D. Redemption Fund increased \$9,380, and the Parks and Open Space Fund decreased \$1.5 million mainly due to the purchase of 407 acres of land.

Nonmajor funds combined fund balance increased \$825,469. The capital project funds combined resulted in an increase of \$979,956 which was a net result of a \$5.4 million increase in the Building Improvement Fund from transfers in relating to the implementation of GASB Statement No. 54, and a \$4.5 million decrease to the Capital Equipment fund also relating to the implementation of GASB Statement No. 54. All other nonmajor fund balances decreased \$154,486.

Approximately \$10.2 million (20.4 percent) of the combined ending fund balance is unassigned fund balance available to the City for discretionary spending.

- At the end of 2011, the unassigned fund balance for the General Fund was \$10.2 million, which is a decrease of \$17.0 million compared to the prior year's amount of \$27.2 million. This significant decline is a result of the City Council's actions to commit and transfer fund balances for the implementation of GASB Statement No. 54.
- The City's total outstanding bonded debt decreased \$1.95 million (8.1 percent) to \$22.0 million during the current fiscal year.
- Revenues from local tax sources, including property, sales, business excise, and miscellaneous other taxes decreased by \$4.4 million to \$24.1 million, a 15.4 percent decrease compared to 2010. The primary reason for the decrease is a result of the City's voluntary \$4.7 million reduction to property taxes due to a voter approved annexation to a fire district.

The above financial highlights are explained in more detail in the “financial analysis” section of this document.

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. The intent of this section of the management discussion and analysis is to introduce and explain the basic financial statements. The financial statements are prepared in accordance with accounting principles generally accepted in the United States as proclaimed by the GASB principles.

Government-wide Financial Statements

The City’s annual report includes two government-wide financial statements. These statements provide both long-term and short-term information about the City’s overall financial status. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to that used by the private sector.

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. Evaluation of the overall health of the City would extend to other nonfinancial factors such as changes to the City’s property tax base, changes to the sales tax base, and the condition of the City’s infrastructure.

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 when the cash is received or paid*. 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). An important purpose of the design of the statement of activities is to show the financial reliance of the City’s distinct activities or functions on revenues provided by the City’s taxpayers.

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 internal service funds provide services to other funds within the City and the majority of these activities are reported in governmental activities at the government-wide financial reporting level.

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

Fund Financial Statements

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Lacey, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related

legal requirements. Within the basic financial statements, fund financial statements focus on the City's most significant funds rather than the City as a whole. Major funds are separately reported while all others are combined into a single, aggregate presentation. 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 annual financing requirements of governmental programs and the commitment of spendable resources for the near-term.

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, L.I.D. redemption fund, and parks and open space fund which are considered to be major funds. Regional athletic complex operating fund is maintained as a special revenue fund for accounting and budgeting purposes but is reported in the general fund for the financial reporting purposes. 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 4-4 to 4-10 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 4-11 to 4-13 of this report.

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

The basic fiduciary fund financial statement can be found on page 4-14 of this report.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 4-15 to 4-50 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 \$612.8 million at the close of the most recent fiscal year.

The following table provides a summary of the City's net assets as of December 31, 2011 and December 31, 2010:

	<u>Governmental</u>		<u>Business-Type</u>		<u>Total</u>		<u>Percentage</u>	
	<u>Activities</u>		<u>Activities</u>				<u>Of Total</u>	
	2011	2010	2011	2010	2011	2010	2011	2010
Assets:								
Current assets	\$ 70,403,371	\$ 72,329,097	\$ 24,325,358	\$ 19,415,713	\$ 94,728,729	\$ 91,744,810	14.7%	14.4%
Restricted assets	974,532	904,522	139,461	362,481	1,113,993	1,267,003	0.2%	0.2%
Investment in joint venture	712,019	556,231	-	-	712,019	556,231	0.1%	0.1%
Capital assets	322,762,765	322,086,789	224,593,531	221,544,130	547,356,296	543,630,919	85.0%	85.3%
Total assets	394,852,687	395,876,639	249,058,350	241,322,324	643,911,037	637,198,963	100.0%	100.0%
Liabilities:								
Current liabilities	4,388,119	2,879,397	1,925,953	1,456,371	6,314,072	4,335,768	20.3%	13.9%
Long-term liabilities	24,575,458	26,579,122	184,167	182,859	24,759,625	26,761,981	79.7%	86.1%
Total liabilities	28,963,577	29,458,519	2,110,120	1,639,230	31,073,697	31,097,749	100.0%	100.0%
Net assets:								
Investment in capital assets, net of debt	304,457,539	302,166,889	224,593,531	221,544,130	529,051,070	523,711,019	86.3%	86.4%
Restricted	7,909,097	995,175	-	-	7,909,097	995,175	1.3%	0.2%
Unrestricted	53,522,474	63,256,056	22,354,699	18,138,964	75,877,173	81,395,020	12.4%	13.4%
Total net assets	\$ 365,889,110	\$ 366,418,120	\$ 246,948,230	\$ 239,683,094	\$ 612,837,340	\$ 606,101,214	100.0%	100.0%

By far the largest portion of the City of Lacey's net assets (86.3 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 (\$7.9 million) represents resources that are subject to external restrictions on how they may be used. The governing body has committed \$32.0 million of the City's net assets for specific purposes. The remaining balance of unrestricted net assets (\$75.9 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 \$6.7 million in 2011. The increase is explained in the following discussion of governmental and business-type activities.

The following table provides a summary of the City's changes in net assets as of December 31, 2011 and December 31, 2010:

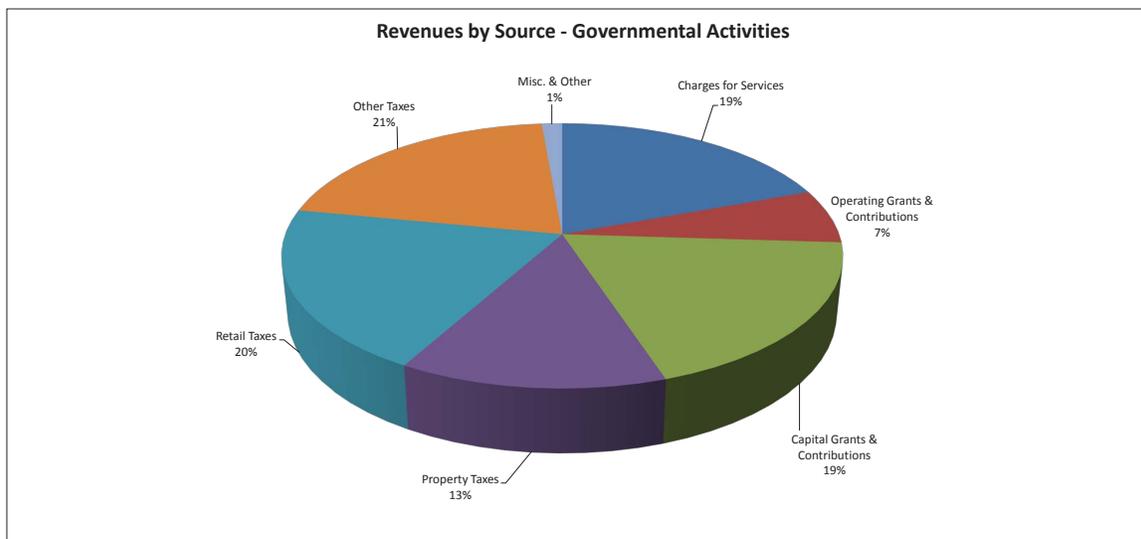
	Governmental Activities		Business-Type Activities		Total		Percentage Of Total	
	2011	2010	2011	2010	2011	2010	2011	2010
Revenues:								
Program:								
Charges for services	\$ 8,691,790	\$ 9,898,919	\$ 26,454,590	\$ 24,301,443	\$ 35,146,380	\$ 34,200,362	46.7%	42.7%
Operating Grants	2,946,505	3,220,944	32,402	8,985	2,978,907	3,229,929	4.0%	4.0%
Capital Grants	8,464,317	7,920,534	3,684,474	4,993,921	12,148,791	12,914,455	16.1%	16.1%
General:								
Taxes	24,064,612	28,450,989	-	-	24,064,612	28,450,989	32.0%	35.6%
Interest	413,929	374,989	79,504	73,845	493,433	448,834	0.7%	0.6%
Miscellaneous	203,470	870,664	189,564	(66,626)	393,034	804,038	0.5%	1.0%
Total revenues	44,784,623	50,737,039	30,440,534	29,311,568	75,225,157	80,048,607	100.0%	100.0%
Program expenses:								
General Government	6,056,245	5,209,671	-	-	6,056,245	5,209,671	8.8%	7.3%
Security of Persons and Property	10,598,975	15,284,219	-	-	10,598,975	15,284,219	15.4%	21.4%
Physical Environment	3,565,655	3,604,912	-	-	3,565,655	3,604,912	5.2%	5.1%
Transportation	13,048,443	12,402,493	-	-	13,048,443	12,402,493	19.0%	17.4%
Economic Environment	1,286,619	1,492,127	-	-	1,286,619	1,492,127	1.9%	2.1%
Mental and Physical Health	10,049	8,117	-	-	10,049	8,117	0.0%	0.0%
Culture & Recreation	7,032,612	7,387,696	-	-	7,032,612	7,387,696	10.2%	10.3%
Int on Long-Term Debt	875,414	976,661	-	-	875,414	976,661	1.3%	1.4%
Water	-	-	10,087,794	10,030,474	10,087,794	10,030,474	14.7%	14.1%
Wastewater	-	-	12,749,793	11,821,217	12,749,793	11,821,217	18.6%	16.6%
Stormwater	-	-	3,330,230	3,165,523	3,330,230	3,165,523	4.9%	4.4%
Total expenses	42,474,012	46,365,896	26,167,817	25,017,214	68,641,829	71,383,110	100.0%	100.0%
Excess revenues	2,310,611	4,371,143	4,272,717	4,294,354	6,583,328	8,665,497		
Special Items	-	4,703,268	-	-	-	4,703,268		
Transfers	(3,774,843)	(77,433)	3,774,843	77,433	-	0		
Change in net assets	(1,464,232)	8,996,978	8,047,560	4,371,787	6,583,328	13,368,765		
Beginning net assets, as previously reported	366,418,120	357,421,142	239,683,094	235,311,307	606,101,214	592,732,449		
Prior period adjustments	935,222	-	(782,424)	-	152,798	-		
Beginning net assets, as adjusted	367,353,342	357,421,142	238,900,670	235,311,307	606,254,012	592,732,449		
Ending net assets	\$ 365,889,110	\$ 366,418,120	\$ 246,948,230	\$ 239,683,094	\$ 612,837,340	\$ 606,101,214		

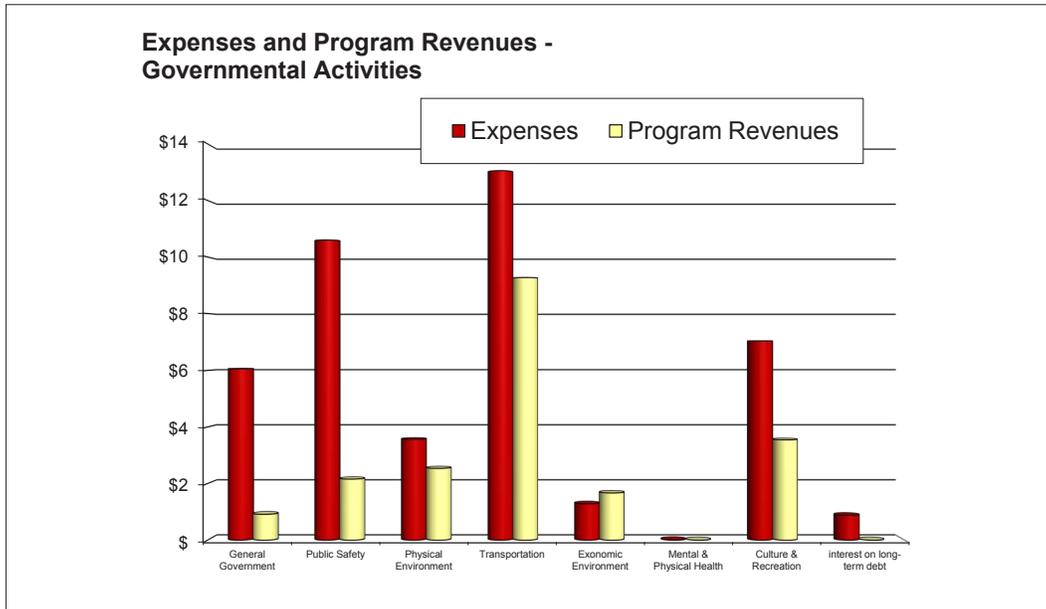
Note: Does not include any separate lines for contributions to term and permanent endowments. These amounts were either zero or very small in amount and therefore are not presented.

Governmental Activities

Governmental activities decreased the City’s net assets by \$1.5 million, thereby decreasing the total growth in the net assets of the City of Lacey by 22.2 percent.

- Operating revenues (charges for services) decreased by \$1.2 million. Program expenses decrease in the amount of \$3.9 million. This decrease was primarily a result of the voter approved annexation to a fire district, which eliminated the need for the emergency medical and fire services agreement between the City and the fire district.
- Operating grants and contributions decreased \$274,439. Grants for culture and recreation, economic development, and securities of persons decreased by \$579,914 while transportation grants increased by \$281,361.
- Capital grants and contributions increased by \$543,783. Transportation reported an increase of \$1.5 million for grants and special assessments and \$2.0 million decrease in developer contributions, net decrease of \$414,579. Culture and recreation reported a \$960,859 increase, which represent the Washington State Recreation and Conservation Office (RCO) grant for the purchase a certain property for future parks and the Community Development Block Grant for the senior center expansion project.
- General revenues decreased \$5.0 million. Property, retail sales, business and excise taxes combined decreased by \$4.4 million, mostly as result of the City’s voluntary \$4.7 million reduction to property taxes due to a voter approved annexation to a fire district. Miscellaneous revenues decreased \$667,194, which was mostly from changes in reporting of special assessments. Special assessments were reported in the miscellaneous revenues in prior years but are reported in the program revenues in the capital grants and contributions for the transportation.
- Transfers reported as a negative \$3.8 million are attributed to transfers relating to the implementation of GASB Statement No. 54. There were no special items reported in 2011, so special items declined \$4.7 million.
- Expenses decreased \$3.9 million (8.4 percent) mainly as a result of a decrease of \$4.7 million to the security of persons and property activity due to the voter approved annexation to a fire district, which eliminated the need for the emergency medical and fire services agreement between the City and the fire district. Other increases in expenditures paralleled inflation and growth.



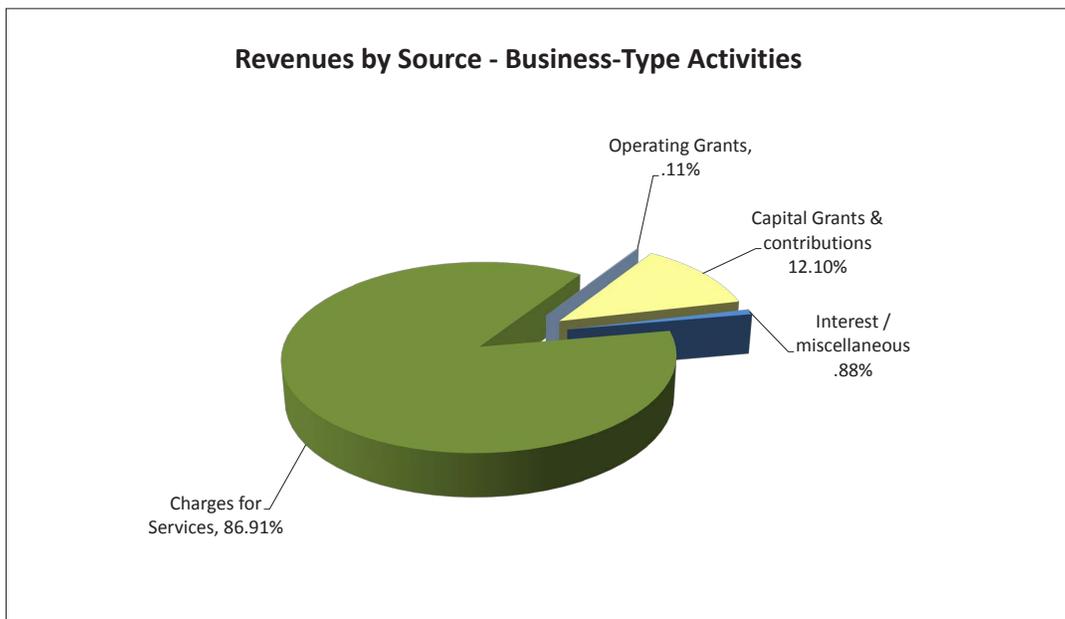


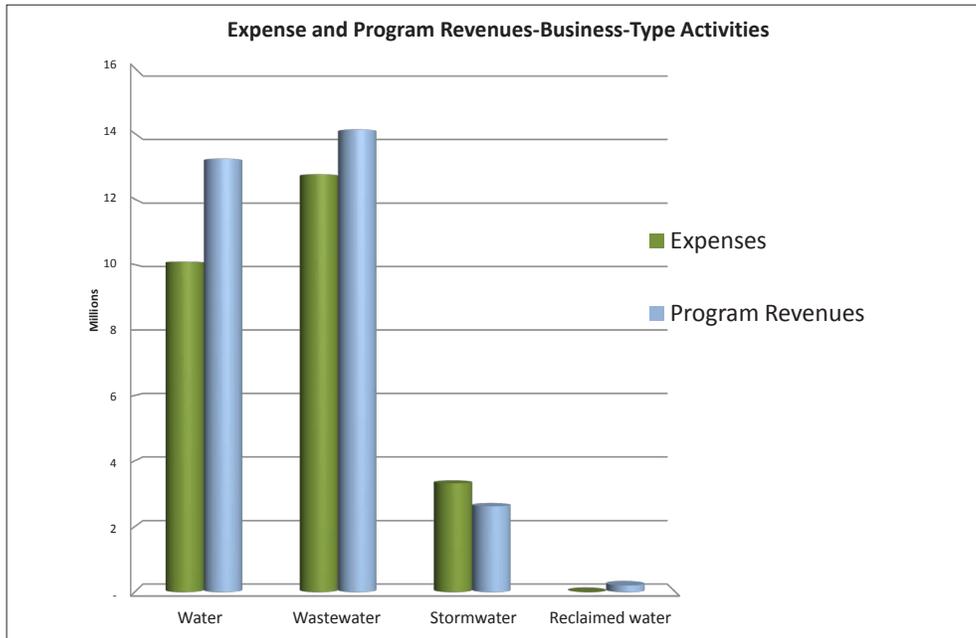
Business-type Activities

Business-type activities increased the City’s net assets by \$8.0 million, accounting for 122.2 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 8.9 percent (\$2.2 million) due to increases to utility rates and normal water sales after a return to normal summer month temperatures.

- Total net transfers in of \$3.8 million from government activities were for various purposes including reclaimed water projects, water mitigation, and capital replacement reserves.
- Capital grants and contributions attributed to 12.3 percent (\$3.7 million) of business-type revenues, and interest and investment earnings totaled \$79,504.





Governmental Functional Expenses

Transportation costs make up 30.7 percent of the total governmental expenses. Security of persons and property costs comprise 25.0 percent of the City’s total governmental expenses. The culture and recreation expenses make up 16.6 percent and general government services expenses make up 14.3 percent of governmental expenses.

This table presents the cost of each of the City’s programs, including net costs (i.e., total costs less revenues generated by the activities). The net costs illustrate the financial burden that was placed on the City’s taxpayers by each of these functions.

	Governmental Activities			
	Total Cost Of Services		Net Cost Of Services	
	2011	2010	2011	2010
General Government	\$ 6,056,245	\$ 5,209,671	\$ (5,142,185)	\$ (4,610,039)
Security of persons and property	10,598,975	15,284,219	(8,439,858)	(12,567,808)
Physical Environment	3,565,655	3,604,912	(1,026,867)	(777,793)
Transportation	13,048,443	12,402,493	(3,776,005)	(1,692,443)
Economic Environment	1,286,619	1,492,127	382,773	(37,549)
Culture & Recreation	7,032,612	7,387,696	(3,483,795)	(4,655,089)
Int & Other Debt Service Costs	875,414	976,661	(875,414)	(976,661)
Mental & Physical Health	10,049	8,117	(10,049)	(8,117)
	<u>\$ 42,474,012</u>	<u>\$ 46,365,896</u>	<u>\$ (22,371,400)</u>	<u>\$ (25,325,499)</u>

Financial Analysis of City Funds

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

The following table provides a revenue, expenditure, and fund balance summary for the City’s governmental funds as of December 31, 2011 and December 31, 2010:

Revenue, Expenditure, and Fund Balance Summary
Governmental Funds

Major Funds	General Fund*		Arterial Street Fund	
	2011	2010	2011	2010
Revenues				
Taxes	\$ 16,989,647	\$ 20,960,354	\$ 925,913	\$ 872,328
License and permits	1,562,451	1,392,896	-	-
Intergovernmental revenues	1,502,924	1,947,172	3,726,909	2,461,471
Charges for services	6,601,757	6,217,661	1,171,592	2,296,004
Fines & forfeitures	728,162	747,165	-	-
Other revenue	233,408	235,706	71,494	709,200
Total revenues	\$ 27,618,349	\$ 31,500,954	\$ 5,895,908	\$ 6,339,003
Expenditures				
	\$ 26,532,916	\$ 28,430,067	\$ 8,904,282	\$ 5,543,145
Other Financing Sources and Uses				
Proceeds from capital lease	\$ 36,119	\$ 34,927	\$ -	\$ -
Transfers	(6,677,937)	525,650	3,700,000	850,000
Total other financing sources and uses	\$ (6,641,818)	\$ 560,577	\$ 3,700,000	\$ 850,000
Fund Balances				
Nonspendable	\$ 4,854	\$ 11,001	\$ -	\$ -
Restricted	6,112,908		743,453	-
Committed	4,769,900		2,850,000	
Assigned	613,680		9,731,822	12,633,649
Unassigned	10,196,218	27,330,238	-	-
Prior period adjustments	-	(87,294)	-	-
Total fund balances, as adjusted	\$ 21,697,560	\$ 27,253,945	\$ 13,325,275	\$ 12,633,649

Revenue, Expenditure, and Fund Balance Summary
Governmental Funds

Major Funds	L.I.D. Redemption Fund		Parks & Open Space	
	2011	2010	2011	2010
Revenues				
Taxes	\$ -	\$ -	\$ 967,695	\$ 929,832
Intergovernmental revenues	-	-	206,742	39,774
Other revenue	777,936	558,000	42,055	24,552
Total revenues	\$ 777,936	\$ 558,000	\$ 1,216,492	\$ 994,158
Expenditures				
	\$ 743,556	\$ 535,647	\$ 2,034,819	\$ 92,438
Other Financing Sources and Uses				
Transfers	\$ (25,000)	\$ -	\$ (686,611)	\$ (600,650)
Total other financing sources and uses	\$ (25,000)	\$ -	\$ (686,611)	\$ (600,650)
Special item:				
Payment from County for RAC settlement	\$ -	\$ -	\$ -	\$ 1,320,910
Fund Balances				
Committed	\$ 135,980	\$ -	\$ -	\$ -
Assigned	-	126,600	1,422,964	
Unassigned	-	-	-	3,002,387
Prior period adjustments	-	-	-	(74,485)
Total fund balances, as adjusted	\$ 135,980	\$ 126,600	\$ 1,422,964	\$ 2,927,902

Revenue, Expenditure, and Fund Balance Summary
Governmental Funds

Nonmajor Funds	Special Revenue Funds*		Debt Service Funds		Capital Projects Funds**	
	2011	2010	2011	2010	2011	2010
Revenues						
Taxes	\$ 2,222,352	\$ 2,270,111	\$ 1,446,877	\$ 1,497,421	\$ 1,547,861	\$ 1,874,342
License and permits	-	-	-	-	36,641	38,170
Intergovernmental revenues	703,088	940,951	-	-	932,787	791,736
Charges for services	29,404	16,300	-	-	-	-
Other revenue	49,656	335,787	3,471	957	90,434	34,349
Total revenues	\$ 3,004,500	\$ 3,563,149	\$ 1,450,348	\$ 1,498,378	\$ 2,607,723	\$ 2,738,597
Expenditures	\$ 2,923,585	\$ 3,112,362	\$ 2,078,762	\$ 2,142,885	\$ 928,323	\$ 633,340
Other Financing Sources and Uses						
Premium on bonds	\$ -	\$ -	\$ -	\$ 103,810	\$ -	\$ -
Debt issuance	-	-	-	3,790,000	-	-
Refunding debt escrow	-	-	-	(3,842,817)	-	-
Transfers	(145,500)	(125,000)	538,512	584,130	(699,444)	(1,334,130)
Total other financing sources and uses	\$ (145,500)	\$ (125,000)	\$ 538,512	\$ 635,123	\$ (699,444)	\$ (1,334,130)
Restricted	\$ 944,993	\$ 995,175	\$ -	\$ -	\$ 102,889	\$ -
Committed	2,200,000	-	-	-	6,965,116	-
Assigned	1,021,239	3,376,562	261,104	351,006	2,015,211	-
Unassigned	-	-	-	-	-	8,247,782
Prior period adjustments	-	(140,920)	-	-	-	(144,522)
Total fund balances, as adjusted	\$ 4,166,232	\$ 4,230,817	\$ 261,104	\$ 351,006	\$ 9,083,216	\$ 8,103,260

*Regional athletic complex operating fund was reported as a special revenue fund in 2010, but it is reported as a part of general fund in 2011.

Amounts in 2010 column for general fund and special revenue funds have been adjusted for this changes.

** Parks and open space fund was a non-major fund in 2010 but is as a major fund in 2011, therefore, the 2010 column amounts are adjusted for the amounts of parks and open space funds.

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, *unassigned 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 \$50.1 million, a decrease of \$6.0 million in comparison with the prior year. Approximately 20.4 percent (\$10.2 million) of this total amount constitutes *unassigned fund balance*, which is available for spending at the government's discretion. The \$39.9 million remaining of the fund balance is *restricted*, *committed* or *assigned* to indicate that it is not available for new spending because it has already been committed for 1) \$6.0 million is restricted for the construction of a public facility in the Gateway project, 2) lodging tax total fund balance of \$890,270, 3) \$743,453 is restricted for the 2012 payment for utility vault installations, 4) \$275,374 is restricted for a variety of other restricted purposes, and 5) \$32.0 million is for a variety of other *fund committed* or *assigned* purposes. Additional information on the City's restricted, committed, and assigned purposes can be found on page 4-23 of this report.

The **General Fund** is the chief operating fund of the City. At the end of the current fiscal year, unassigned fund balance of the general fund was \$10.2 million, while the total fund balance reached \$21.7 million. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 38.4 percent of the total general fund expenditures, while total fund balance represents 81.8 percent of that same amount.

The fund balance of the City's General Fund was decreased by \$5.4 million during the current fiscal year. Key factors in this decline are as follows:

- Total tax revenues decreased by \$4.3 million mainly due to the \$4.7 million voluntary reduction to property taxes as a result of the voter approved annexation to a fire district.
- Current expenditures decreased by 9.8 percent (\$2.9 million) primarily due to the elimination of the emergency medical and fire services contract between the City and the fire district as a result of the voter approved annexation to the fire district (\$4.6 million). The decline to contracted services was offset by increases to equipment replacement contributions and payroll expenditures due to cost of living and market increases as well as contractual increases for benefits.
- Fund balance in the amount of \$6.0 million was transferred to various funds as part of the GASB Statement No. 54 implementation.

The **Arterial Street Fund** has a total fund balance of \$13.3 million, of which the entire amount is committed or assigned to indicate that it is not available for new spending. Total revenues decreased \$443,095: intergovernmental revenues including grants and REET and motor fuel tax distributions increased by \$1.4 million, whereas mitigation impact fees were decreased by \$1.8 million mostly due to the decline to major development. Expenditures increased by \$3.4 million due to increases to right of way acquisitions and road way construction. The major road way construction project is the Carpenter Road widening project. The net increase in the fund balance during the current year was \$691,626.

The **Local Improvement District Bond Fund** has a total fund balance of \$135,980 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.

The **Parks and Open Space Fund** has a total fund balance of \$1.4 million, of which the entire amount is assigned to indicate that it is not available for new spending. Total revenues increased \$222,334 while total expenditures increased \$1.9 million mostly due to the purchase of a portion of the 407 acre property for future parks.

Proprietary Funds

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

Unrestricted net assets of the Water, Wastewater, Stormwater and Reclaimed Water operations at the end of the year amounted to \$22.2 million. The total growth in net assets for enterprise funds was \$8.0 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 an \$8.7 million increase in appropriations between the original and final amended budget. Following are the significant components of the 2011 General Fund budget amendments:

- During 2011, the City purchased 407 acres of pastoral and forest land that will help preserve and protect water quality and habitat area within the Woodland Creek watershed. This purchase was funded from a variety of funds. A budget amendment of \$1.7 million was required for the General Fund.
- The implementation of GASB Statement No. 54 required the City Council to take official action to commit reserves that were previously designated within the General Fund. As part of this ac-

tion, the City Council authorized the transfer of reserves to appropriate funds. These transfers required budget amendments in the amount of \$6.0 million.

- General Fund budget amendments in the amount of \$1.0 million were required for a \$750,000 interfund loan relating to the 407 acre property purchase and a variety of minor adjustments.

In total, actual General Fund revenues exceeded the final budget by \$549,118 or a 2.1 percent difference. The total actual expenditures were \$1,199,320 less than budget or 4.5 percent below budget.

On the revenue side of the budget, the primary difference between the final budget and the actual amounts relates to charges for services. Engineering and plan checking fees were the main reason for the increase to charges for services. It is worth noting that tax revenues were \$162,300 below budget. Sales tax receipts were \$73,850 below budget and admissions tax receipts were \$118,527 below budget. These tax revenue sources are directly impacted by the health of the economy.

On the expenditure side of the budget, the largest variances between the final budget and the actual amounts occurred in the general government, security of persons and property, physical environment, economic environment, and culture and recreation functions. In reaction to declining revenues certain authorized and budgeted employee positions are being held vacant, which impacts the majority of the General Fund functions. 10 positions were held vacant during 2011.

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, 2011, amounts to \$547.4 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 \$3.7 million or 0.7%. Governmental activities increased 0.2% and business-type activities increased 1.4% from previous year. The following schedule shows the City's investment in capital assets.

	Capital Assets (Amounts Presented in \$1,000's)							
	Governmental Activities		Business-Type Activities		Total		Percentage Of Total	
	2011	2010	2011	2010	2011	2010	2011	2010
Non-depreciable assets:								
Land & land rights	\$ 131,634	\$ 127,628	\$ 13,055	\$ 10,627	\$ 144,689	\$ 138,255	19.0%	18.7%
Construction in progress	7,171	1,952	2,551	966	9,722	2,918	1.3%	0.4%
Total non-depreciable	138,805	129,580	15,606	11,593	154,411	141,173	20.3%	19.1%
Depreciable assets:								
Buildings	27,544	27,261	1,521	1,521	29,065	28,782	3.8%	3.9%
Improvements	26,608	26,547	262,697	257,713	289,305	284,260	38.0%	38.4%
Infrastructure	275,820	272,970	-	-	275,820	272,970	36.3%	36.9%
Machinery and equipment	11,558	10,753	595	2,461	12,153	13,214	1.6%	1.8%
Total depreciable assets	341,530	337,531	264,813	261,695	606,343	599,226	79.7%	80.9%
Total cost of capital assets	480,335	467,111	280,419	273,288	760,754	740,399	100.0%	100.0%
Less accumulated depreciation	157,572	145,024	55,825	51,744	213,397	196,768		
Book value - capital assets	\$ 322,763	\$ 322,087	\$ 224,594	\$ 221,544	\$ 547,357	\$ 543,631		
Percentage depreciated	32.8%	31.0%	19.9%	18.9%	28.1%	26.6%		

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

- Land and land rights increased by \$6.4 million, which included \$3.9 million for purchase of approximately 600 acres of land for future parks expansion, water rights mitigation, and improvement of water qualities for the NE area of the City, \$1.0 million for land parcels and right of way purchases for various street projects, and \$1.7 million in developer contributed easements and right of ways for utilities and streets.
- A variety of new street construction projects and widening and expansion projects for existing streets began; construction in progress at the end of the current fiscal year had reached \$6.7 million.
- Construction in progress for various parks and building improvement projects had reached approximately \$480,000 as of the close of the fiscal year.
- A variety of new Water, Wastewater and Reclaimed Water utilities projects began; and various utilities improvement projects were completed during current fiscal year at a cost of \$3.2 million; approximately \$435,000 of existing old water and sewer lines were replaced; developer contributed utilities were \$2.2 million; construction in progress as of the close of the fiscal year had reached \$2.6 million.
- Various new equipment for fleet vehicles, parks maintenance, and information technology equipment were purchased at a cost of \$1.0 million; the costs of various obsolete and out of service equipments that were replaced or removed from the books totaled \$2.1 million.

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

Debt Administration

The City of Lacey is authorized to issue debt pursuant to the Acts of the State of Washington. The City has two types of debt issues outstanding: general obligation and revenue debt. The City may issue general bonded debt up to 2.5 percent of the assessed value of taxable property. Of this limit, up to 1.5 percent may be non-voter approved debt (Councilmanic bonds). In addition to the aforementioned limits, the City has debt authority of 2.5 percent each for utility and parks purposes. The combination of unlimited tax and limited tax general obligation debt for all purposes cannot exceed 7.5 percent of assessed valuation.

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 constructing the improvements. These bonds are backed by liens on the benefiting property and a guarantee fund established by the City.

The City is authorized to issue revenue bonds to finance capital improvements for its various enter-

prise 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 with a stable outlook from Standard & Poor’s for its 2010 unlimited tax refunding general obligation bond issue. The previous Standard & Poor’s rating was “AA”. Standard and Poor’s upgraded its view of the City’s financial management practices to “strong” from “good” under its Financial Management Assessment methodology.

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 \$20.9 million and a State of Washington (Public Works projects) loan of \$874,910. The entire \$20.9 million comprises debt backed by the full faith and credit of the government. The bonded debt includes \$3,755,000 of refunding bonds. The remainder of the City of Lacey’s debt represents bonds secured solely by specified revenue sources (i.e. revenue bonds).

	Outstanding Debt						Percentage Change
	(in \$1,000's)						
	Governmental Activities		Business-Type Activities		Totals		
	2011	2010	2011	2010	2011	2010	
General obligation bonds	\$ 20,935	\$ 22,170	\$ -	\$ -	\$ 20,935	\$ 22,170	(5.6%)
Special assessment debt	-	-	-	-	-	-	0.0
Revenue bonds	149	166	-	-	149	166	(10.2%)
Capital leases	-	-	-	-	-	-	0.0
PWTF and other loans	875	1,571	-	-	875	1,571	(44.3%)
Total	\$ 21,959	\$ 23,907	\$ -	\$ -	\$ 21,959	\$ 23,907	(8.1%)

The City’s total outstanding debt decreased by \$1.9 million (8.1 percent) during the current fiscal year of which equals to the amount of debt redemption during 2011 plus a \$500,000 extra principal payment to the outstanding Public Works Trust Fund loan. The debt per capita was approximately \$512.70, which is substantially below the national average.

Additional information on the City of Lacey’s long-term debt can be found in note 3-H on pages 4-32 to 4-35.

Economic Factors and Next Year’s Budgets and Rates

- The 2011 average unemployment rate for the County was 8.3 percent, which is a slight decrease from a rate of 8.5 percent a year ago. This is lower compared to the state and national average unemployment rates of 9.2 percent.
- The City’s population continues to grow, (42,830 in the current fiscal year) and is placing more demand on services. Prior to the recession, revenue growth to property tax, sales tax, and planning and inspection fees offset the costs associated with growth. In 2009, 2010, and 2011 revenues declined, so the growth no longer offsets rising operating costs. The City’s popula-

tion is growing faster than the State average. The City's population increased 1.0 percent while the State's population only increased by 0.6 percent.

During the current fiscal year, unassigned fund balance in the general fund decreased \$1.7 million (14.7 percent) to \$10.2 million compared to the 2010 unreserved, undesignated fund balance. This decrease was related to the implementation of GASB Statement No. 54 and not a decline to the City's financial position.

The Water utility rates in the 2011 budget year were increased by 4.0 percent. The City has phased in a water rate schedule that places more emphasis on conservation. The conservation 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. Wastewater rates increased \$1.75 per month in the 2011 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, Lacey, Washington, 98503.



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*Basic Financial
Statements Section*

Statement of Net Assets
December 31, 2011

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 57,307,011	\$ 21,223,749	\$ 78,530,760
Receivables (net)	13,043,397	2,728,722	15,772,119
Internal balances	(149,679)	149,679	-
Inventories	-	221,124	221,124
Prepayments	4,854	2,084	6,938
Deferred charges	197,788	-	197,788
Restricted:			
Cash and cash equivalents	188,301	139,461	327,762
Investments	786,231	-	786,231
Investment in joint venture	712,019	-	712,019
Capital assets:			
Non-depreciable	138,805,696	15,606,175	154,411,871
Depreciable, net	183,957,069	208,987,356	392,944,425
Total assets	394,852,687	249,058,350	643,911,037
LIABILITIES			
Accounts payable	1,482,116	1,925,953	3,408,069
Interest payable	81,747	-	81,747
Unearned revenue	2,824,256	-	2,824,256
Noncurrent liabilities:			
Due within one year	2,653,828	104,758	2,758,586
Due in more than one year	21,921,630	79,409	22,001,039
Total liabilities	28,963,577	2,110,120	31,073,697
NET ASSETS			
Invested in capital assets, net of related debt	304,457,539	224,593,531	529,051,070
Restricted for:			
Developer/other special	748,307	-	748,307
Criminal bail	112,908	-	112,908
Gateway project	6,000,000	-	6,000,000
Lodging/tourism	890,270	-	890,270
HUD grant	54,723	-	54,723
City facilities	102,889	-	102,889
Unrestricted (deficit)	53,522,474	22,354,699	75,877,173
Total net assets	\$ 365,889,110	\$ 246,948,230	\$ 612,837,340

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

Statement of Activities
For the Year Ended December 31, 2011

Functions/Program	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants & Contributions
Primary government:				
Governmental activities:				
General government	\$ 6,056,245	\$ 852,914	\$ 61,146	\$ -
Security of persons and property	10,598,975	1,210,405	907,609	41,103
Physical environment	3,565,655	2,537,031	1,757	-
Transportation	13,048,443	1,014,833	884,190	7,373,415
Economic environment	1,286,619	1,577,066	53,860	38,466
Mental and physical health	10,049	-	-	-
Culture and recreation	7,032,612	1,499,541	1,037,943	1,011,333
Interest on long-term debt	875,414	-	-	-
Total governmental activities	42,474,012	8,691,790	2,946,505	8,464,317
Business-type activities:				
Water	10,087,794	11,534,926	-	1,690,240
Wastewater	12,749,793	12,816,912	-	1,302,473
Stormwater	3,330,230	2,102,752	32,402	489,638
Reclaimed water	-	-	-	202,123
Total business-type activities	26,167,817	26,454,590	32,402	3,684,474
Total primary government	\$ 68,641,829	\$ 35,146,380	\$ 2,978,907	\$ 12,148,791

General revenues:
 Property taxes
 Retail taxes
 Business taxes
 Excise taxes
 Penalties & interest
 Interest and investment earnings
 Miscellaneous
 Transfers
 Total general revenues and transfers
 Change in net assets
 Net assets - beginning as previously reported
 Correction of errors in prior year (See Notes)
 Net assets - beginning, adjusted
 Net assets - ending

Net(Expense)Revenues and Changes in Net Assets Primary Government		
Governmental Activities	Business-Type Activities	Total
\$ (5,142,185)	\$ -	\$ (5,142,185)
(8,439,858)	-	(8,439,858)
(1,026,867)	-	(1,026,867)
(3,776,005)	-	(3,776,005)
382,773	-	382,773
(10,049)	-	(10,049)
(3,483,795)	-	(3,483,795)
(875,414)	-	(875,414)
<u>(22,371,400)</u>	<u>-</u>	<u>(22,371,400)</u>
-	3,137,372	3,137,372
-	1,369,592	1,369,592
-	(705,438)	(705,438)
-	202,123	202,123
<u>-</u>	<u>4,003,649</u>	<u>4,003,649</u>
<u>(22,371,400)</u>	<u>4,003,649</u>	<u>(18,367,751)</u>
5,928,753	-	5,928,753
8,930,184	-	8,930,184
7,823,186	-	7,823,186
1,382,489	-	1,382,489
485	-	485
413,444	79,504	492,948
203,470	189,564	393,034
(3,774,843)	3,774,843	-
<u>20,907,168</u>	<u>4,043,911</u>	<u>24,951,079</u>
(1,464,232)	8,047,560	6,583,328
366,418,120	239,683,094	606,101,214
935,222	(782,424)	152,798
<u>367,353,342</u>	<u>238,900,670</u>	<u>606,254,012</u>
<u>\$ 365,889,110</u>	<u>\$ 246,948,230</u>	<u>\$ 612,837,340</u>

Balance Sheet
Governmental Funds
December 31, 2011

	General	Arterial Street	L.I.D. Redemption	Parks & Open Space Fund
ASSETS				
Current cash & cash equivalents	\$ 18,583,350	\$ 14,433,785	\$ 129,739	\$ 2,092,736
Receivables (net of allowances):				
Taxes	2,861,063	66,320	-	73,220
Customer accounts	1,141,439	167,019	-	353
Accrued interest and penalty	-	-	613,018	-
Due from other governmental units	62,907	2,164,715	149,024	851,565
Interfund loan receivable	750,000	-	-	-
Prepayments	4,854	-	-	-
Restricted assets:				
Cash & cash equivalents	186,851	600	-	850
Investments	-	786,231	-	-
Special assessments deferred	-	-	3,790,476	-
Total assets	\$ 23,590,464	\$ 17,618,670	\$ 4,682,257	\$ 3,018,724
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 261,494	\$ 709,169	\$ -	\$ 87
Due to other governmental units	177,469	2,742	-	-
Interfund loan payable	-	-	-	750,000
Custodial accounts:				
Deposits	186,851	600	-	850
Deferred revenue	1,140,654	883,064	4,546,277	844,823
Unearned revenue	126,436	2,697,820	-	-
Total liabilities	1,892,904	4,293,395	4,546,277	1,595,760
Fund balances				
Nonspendable				
Prepaid items	4,854	-	-	-
Restricted				
Developer/other special	-	743,453	-	-
Criminal bail	112,908	-	-	-
Gateway project	6,000,000	-	-	-
Lodging/tourism	-	-	-	-
HUD grant	-	-	-	-
City facilities	-	-	-	-
Committed				
Insurance	200,000	-	-	-
Public art	-	-	-	-
City facilities	3,250,000	-	-	-
Pension contributions	1,252,400	-	-	-
Equipment replacement	67,500	-	-	-
Street improvements	-	2,850,000	-	-
Convention center study	-	-	-	-
PWTF loan repayment	-	-	135,980	-
Senior center expansion	-	-	-	-
Train depot	-	-	-	-
Capital facilities plan	-	-	-	-
Assigned				
Parks reserve	124,707	-	-	-
Street maintenance	-	-	-	-
Capital projects	-	9,731,822	-	275,954
Regional Athletic Complex maintenance	488,973	-	-	1,147,010
Debt service	-	-	-	-
Unassigned				
General fund	10,196,218	-	-	-
Total fund balances	21,697,560	13,325,275	135,980	1,422,964
Total liabilities and fund balances	\$ 23,590,464	\$ 17,618,670	\$ 4,682,257	\$ 3,018,724

Other Governmental Funds	Total Governmental Funds
\$ 12,902,715	\$ 48,142,325
370,209	3,370,812
643,594	1,952,405
-	613,018
75,689	3,303,900
-	750,000
-	4,854
-	188,301
-	786,231
-	3,790,476
<u>\$ 13,992,207</u>	<u>\$ 62,902,322</u>
\$ 126,674	\$ 1,097,424
6,815	187,026
-	750,000
-	188,301
348,166	7,762,984
-	2,824,256
<u>481,655</u>	<u>12,809,991</u>
-	4,854
-	743,453
-	112,908
-	6,000,000
890,270	890,270
54,723	54,723
102,889	102,889
-	200,000
23,106	23,106
2,425,000	5,675,000
-	1,252,400
3,060,000	3,127,500
-	2,850,000
75,000	75,000
-	135,980
1,582,010	1,582,010
500,000	500,000
1,500,000	1,500,000
-	124,707
1,021,239	1,021,239
2,015,211	12,022,987
-	1,635,983
261,104	261,104
-	10,196,218
<u>13,510,552</u>	<u>50,092,331</u>
<u>\$ 13,992,207</u>	<u>\$ 62,902,322</u>



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Reconciliation of the Balance Sheet
To the Statement of Net Assets
Governmental Funds
For the Year Ended December 31, 2011

Fund balances - total governmental funds	\$	50,092,331
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	\$	197,788
Investment in joint venture		712,019
		909,807
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds:		
Non-depreciable assets		138,805,696
Depreciable assets (net)		180,385,223
		319,190,919
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		1,284,977
Local court revenue receivable		738,711
Contractor receivable		442,910
Property taxes receivable		465,594
Special assessments receivable		4,830,792
		7,762,984
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		(81,747)
Bonds and loans including unamortized bond premium \$243,274 and deferral on refunding \$131,981		(22,078,206)
Capital leases		(69,197)
Claims and judgments and contracts payable		(743,453)
Compensated absences and OPEB Liabilities		(1,649,222)
		(24,621,825)
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.		
		12,554,894
		12,554,894
Net assets of government activities.		\$ 365,889,110

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, 2011

	General	Arterial Street	L.I.D. Redemption	Parks & Open Space Fund
REVENUES				
Taxes	\$ 16,989,647	\$ 925,913	\$ -	\$ 967,695
Licenses and permits	1,562,451	-	-	-
Intergovernmental revenues	1,502,924	3,726,909	-	206,742
Charges for services	6,601,757	1,171,592	-	-
Fines and forfeitures	728,162	-	-	-
Other revenues	233,408	71,494	777,936	42,055
Total revenues	<u>27,618,349</u>	<u>5,895,908</u>	<u>777,936</u>	<u>1,216,492</u>
EXPENDITURES				
Current:				
General government	5,436,298	-	-	-
Security of persons and property	10,419,459	-	-	-
Physical environment	3,756,860	-	-	-
Transportation	-	-	-	-
Economic environment	1,152,983	-	-	-
Mental and physical health	10,049	-	-	-
Culture and recreation	5,695,386	-	-	87
Capital outlay	36,119	8,904,282	-	2,034,129
Debt service:				
Principal retirement	21,034	-	696,416	-
Interest	4,728	-	47,140	603
Debt issue costs	-	-	-	-
Total expenditures	<u>26,532,916</u>	<u>8,904,282</u>	<u>743,556</u>	<u>2,034,819</u>
Excess (deficiency) of revenue over (under) expenditures	<u>1,085,433</u>	<u>(3,008,374)</u>	<u>34,380</u>	<u>(818,327)</u>
OTHER FINANCING SOURCES (USES)				
Capital leases	36,119	-	-	-
Transfers in	799,611	3,700,000	-	-
Transfers out	(7,477,548)	-	(25,000)	(686,611)
Total other financing sources (uses)	<u>(6,641,818)</u>	<u>3,700,000</u>	<u>(25,000)</u>	<u>(686,611)</u>
Net change in fund balances	(5,556,385)	691,626	9,380	(1,504,938)
Fund balance - January 1, 2011, as previously reported	27,077,068	12,633,649	126,600	3,002,387
RAC operating fund merged to general fund	264,171	-	-	-
Correction of an error in accrual in prior period	(87,294)	-	-	(74,485)
Adjusted fund balance at January 1, 2011	<u>27,253,945</u>	<u>12,633,649</u>	<u>126,600</u>	<u>2,927,902</u>
FUND BALANCES - DECEMBER 31	<u>\$ 21,697,560</u>	<u>\$ 13,325,275</u>	<u>\$ 135,980</u>	<u>\$ 1,422,964</u>

Other Governmental Funds	Total Governmental Funds
\$ 5,217,090	\$ 24,100,345
36,641	1,599,092
1,635,875	7,072,450
29,404	7,802,753
-	728,162
143,561	1,268,454
<u>7,062,571</u>	<u>42,571,256</u>
-	5,436,298
-	10,419,459
-	3,756,860
2,645,996	2,645,996
53,860	1,206,843
-	10,049
228,488	5,923,961
876,686	11,851,216
1,235,000	1,952,450
843,762	896,233
46,878	46,878
<u>5,930,670</u>	<u>44,146,243</u>
<u>1,131,901</u>	<u>(1,574,987)</u>
-	36,119
6,971,416	11,471,027
(7,277,848)	(15,467,007)
<u>(306,432)</u>	<u>(3,959,861)</u>
825,469	(5,534,848)
13,234,696	56,074,400
(264,171)	-
(285,442)	(447,221)
12,685,083	55,627,179
<u>\$ 13,510,552</u>	<u>\$ 50,092,331</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, 2011

Net changes in total fund balances per fund financial statements \$ (5,534,848)

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	\$ 9,509,927	
Current year depreciation	<u>(12,036,096)</u>	(2,526,169)

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.

Capital lease financing	(36,119)	
Debt principal repayments	1,969,301	
Amortization of bond premium/issuance costs	<u>(7,718)</u>	1,925,464

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	(35,249)	
Deferred revenue - special assessments	(569,451)	
Deferred revenue - grants earned but not available	1,284,977	
Deferred revenue - court local revenue earned but not available	43,975	
Deferred revenue - contract receivable	<u>82,968</u>	807,220

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	251,362	
Changes in investment in joint venture	155,788	
Changes in compensated absences and OPEB Liabilities	(183,178)	
Changes in accrued interest payable	<u>12,841</u>	236,813

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.

462,631

Contributed /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:

Contributed from developers and other sources		<u>3,164,657</u>
---	--	------------------

Changes in net assets of governmental activities		<u>\$ (1,464,232)</u>
--	--	-----------------------

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

Statement of Net Assets
Proprietary Funds
December 31, 2011

	Business-type Activities Enterprise Funds				Total	Governmental Activities
	Water	Waste- Water	Storm Water	Reclaimed Water		Internal Service Funds
	Water	Water	Water	Water		Funds
ASSETS						
Current assets:						
Cash and cash equivalents	\$ 9,026,156	\$ 6,858,404	\$ 1,684,280	\$ 3,654,909	\$ 21,223,749	\$ 9,164,685
Restricted cash and cash equivalents:						
Customer deposits	139,461	-	-	-	139,461	-
Receivables (net of allowances):						
Customer accounts	657,755	1,120,569	191,537	-	1,969,861	7,225
Accrued interest & penalty	1,065	3,909	-	-	4,974	-
Prepayments	2,084	-	-	-	2,084	-
Current portion of interfund loan receivable	-	400,000	-	-	400,000	-
Due from governmental units	-	660,627	17,758	65,440	743,825	5,562
Inventory	221,124	-	-	-	221,124	-
Total current assets:	<u>10,047,645</u>	<u>9,043,509</u>	<u>1,893,575</u>	<u>3,720,349</u>	<u>24,705,078</u>	<u>9,177,472</u>
Noncurrent assets:						
Special assessments	4,555	-	-	-	4,555	-
Special assessments deferred	5,507	-	-	-	5,507	-
Long-term portion of interfund loan receivable	-	7,800,000	-	-	7,800,000	-
Capital assets, net of depreciation:						
Land	8,443,127	1,321,855	3,290,255	-	13,055,237	-
Buildings	453,414	699,392	-	-	1,152,806	148,902
Improvements other than buildings	100,858,513	63,797,262	43,044,238	-	207,700,013	5,097
Equipment	15,078	115,157	4,302	-	134,537	3,417,847
Construction in progress	1,081,345	880,245	-	589,348	2,550,938	-
Total noncurrent assets	<u>110,861,539</u>	<u>74,613,911</u>	<u>46,338,795</u>	<u>589,348</u>	<u>232,403,593</u>	<u>3,571,846</u>
Total assets	<u>120,909,184</u>	<u>83,657,420</u>	<u>48,232,370</u>	<u>4,309,697</u>	<u>257,108,671</u>	<u>12,749,318</u>
LIABILITIES						
Current liabilities:						
Accounts payable	303,715	183,166	24,684	118,645	630,210	6,726
Due to other governmental units	77,926	1,073,141	5,215	-	1,156,282	2,639
Compensated absences	53,842	39,640	11,276	-	104,758	18,569
Current liabilities payable from restricted assets:						
Customer deposits	139,461	-	-	-	139,461	-
Current portion of interfund loans payable	400,000	-	-	-	400,000	-
Total current liabilities	<u>974,944</u>	<u>1,295,947</u>	<u>41,175</u>	<u>118,645</u>	<u>2,430,711</u>	<u>27,934</u>
Noncurrent liabilities:						
Compensated absences	48,860	23,183	7,366	-	79,409	16,811
Long-term portion of interfund loan payable	7,800,000	-	-	-	7,800,000	-
Total noncurrent liabilities	<u>7,848,860</u>	<u>23,183</u>	<u>7,366</u>	<u>-</u>	<u>7,879,409</u>	<u>16,811</u>
Total liabilities	<u>8,823,804</u>	<u>1,319,130</u>	<u>48,541</u>	<u>118,645</u>	<u>10,310,120</u>	<u>44,745</u>
NET ASSETS						
Investment in capital assets	110,851,476	66,813,912	46,338,795	589,348	224,593,531	3,571,846
Unrestricted	1,233,904	15,524,378	1,845,034	3,601,704	22,205,020	9,132,727
Total net assets	<u>\$ 112,085,380</u>	<u>\$ 82,338,290</u>	<u>\$ 48,183,829</u>	<u>\$ 4,191,052</u>	<u>\$ 246,798,551</u>	<u>\$ 12,704,573</u>
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.					149,679	
Net assets of business-type activities.					<u>\$ 246,948,230</u>	

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, 2011

	Business-Type Activities Enterprise Funds				Total	Governmental Activities Internal Service Funds
	Water	Waste- Water	Storm Water	Reclaimed Water		
OPERATING REVENUES						
Charges for services	\$ 11,534,926	\$ 12,816,912	\$ 2,102,752	\$ -	\$ 26,454,590	\$ 3,385,151
Total operating revenue	<u>11,534,926</u>	<u>12,816,912</u>	<u>2,102,752</u>	<u>-</u>	<u>26,454,590</u>	<u>3,385,151</u>
OPERATING EXPENSES						
Operating expense	2,890,923	8,904,825	1,014,612	-	12,810,360	2,134,914
Maintenance expense	3,676,309	1,950,432	727,036	-	6,353,777	231,544
Depreciation expense	3,087,108	1,748,764	1,554,140	-	6,390,012	892,360
Taxes	449,952	153,561	39,833	-	643,346	-
Total operating expenses	<u>10,104,292</u>	<u>12,757,582</u>	<u>3,335,621</u>	<u>-</u>	<u>26,197,495</u>	<u>3,258,818</u>
OPERATING INCOME (LOSS)	<u>1,430,634</u>	<u>59,330</u>	<u>(1,232,869)</u>	<u>-</u>	<u>257,095</u>	<u>126,333</u>
NONOPERATING REVENUES (EXPENSES)						
Intergovernmental revenue	18,724	670,178	124,029	202,123	1,015,054	-
Investment earnings	26,214	40,218	4,231	8,841	79,504	23,298
Miscellaneous non-operating revenues	186,238	3,078	248	-	189,564	55,449
Gain (loss) on sale of capital assets	-	-	-	-	-	24,220
Total nonoperating revenues (expenses)	<u>231,176</u>	<u>713,474</u>	<u>128,508</u>	<u>210,964</u>	<u>1,284,122</u>	<u>102,967</u>
Income (loss) before contributions and transfers	1,661,810	772,804	(1,104,361)	210,964	1,541,217	229,300
Capital contributions	1,671,516	632,296	398,010	-	2,701,822	78,366
Transfers in	2,295,980	-	-	1,700,000	3,995,980	184,641
Transfers out	(69,982)	(78,104)	(73,051)	-	(221,137)	-
Changes in net assets	5,559,324	1,326,996	(779,402)	1,910,964	8,017,882	492,307
NET ASSETS - BEGINNING	<u>106,526,056</u>	<u>81,011,294</u>	<u>48,963,231</u>	<u>2,280,088</u>		<u>12,212,266</u>
NET ASSETS - ENDING	<u>\$ 112,085,380</u>	<u>\$ 82,338,290</u>	<u>\$ 48,183,829</u>	<u>\$ 4,191,052</u>		<u>\$ 12,704,573</u>
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.					29,678	
Change in net assets of business-type activities.					<u>\$ 8,047,560</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, 2011

	Business-type Activities Enterprise Funds				Total	Governmental Activities Internal Services Funds
	Water	Waste- Water	Storm Water	Reclaimed Water		
CASH FLOW FROM OPERATING ACTIVITIES:						
Receipts from customers and users	\$ 11,420,050	\$ 12,126,248	\$ 2,021,769	\$ -	\$ 25,568,067	\$ 3,495,875
Payments to suppliers	(3,736,395)	(8,812,240)	(1,082,688)	118,645	(13,512,678)	(1,226,044)
Payments to employees	(2,626,491)	(1,665,501)	(659,686)	-	(4,951,678)	(1,242,264)
Payments for taxes	(449,952)	(153,561)	(39,833)	-	(643,346)	-
Net cash provided by operating activities	<u>4,607,212</u>	<u>1,494,946</u>	<u>239,562</u>	<u>118,645</u>	<u>6,460,365</u>	<u>1,027,567</u>
CASH FLOW FROM NON-CAPITAL FINANCING ACTIVITIES:						
Transfers in from other funds	350,000	-	-	-	350,000	-
Net cash provided by non-capital financing activities	<u>350,000</u>	<u>-</u>	<u>124,029</u>	<u>-</u>	<u>474,029</u>	<u>-</u>
CASH FLOW FROM CAPITAL AND RELATED FINANCING ACTIVITIES:						
Acquisition and construction of capital assets	(2,967,153)	(2,735,392)	(500,000)	(535,045)	(6,737,590)	(851,478)
Proceeds from sales of capital assets	-	-	-	-	-	24,220
Receipt (payment) on Interfund loan	(600,000)	600,000	-	-	-	-
Principal payments received on special assessments	10,363	-	-	-	10,363	-
Interest and penalty payments received on special assessments	1,083	-	-	-	1,083	-
Subsidy from grant	18,724	9,551	(10,132)	136,683	154,826	-
Transfer out to other funds	(69,982)	(78,104)	(73,051)	-	(221,137)	-
Transfer in from other funds for capital acquisitions	1,945,980	-	-	1,700,000	3,645,980	184,641
Net cash used by capital and related financing activities	<u>(1,660,985)</u>	<u>(2,203,945)</u>	<u>(583,183)</u>	<u>1,301,638</u>	<u>(3,146,475)</u>	<u>(642,617)</u>
CASH FLOW FROM INVESTING ACTIVITIES:						
Purchase of investments	-	-	-	-	-	(207,382)
Interest received on investments	25,796	40,218	4,231	8,841	79,086	23,298
Net cash provided (used) by investing activities	<u>25,796</u>	<u>40,218</u>	<u>4,231</u>	<u>8,841</u>	<u>79,086</u>	<u>(184,084)</u>
Net increase (decrease) in cash and cash equivalents	3,322,023	(668,781)	(215,361)	1,429,124	3,867,005	200,866
Cash and cash equivalents January 1	<u>5,843,594</u>	<u>7,527,184</u>	<u>1,899,641</u>	<u>2,225,785</u>	<u>17,496,204</u>	<u>8,756,437</u>
Cash and cash equivalents December 31 (see Note below) (including restricted cash & cash equivalents)	<u>\$ 9,165,617</u>	<u>\$ 6,858,403</u>	<u>\$ 1,684,280</u>	<u>\$ 3,654,909</u>	<u>\$ 21,363,209</u>	<u>\$ 8,957,303</u>
CASH PROVIDED BY OPERATING ACTIVITIES:						
Net operating income	\$ 1,430,634	\$ 59,330	\$ (1,232,869)	\$ -	\$ 257,095	\$ 126,333
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:						
Depreciation	3,087,108	1,748,764	1,554,140	-	6,390,012	892,360
(Increase)/decrease in customer receivables	(253,648)	(518,191)	(81,232)	-	(853,071)	48,870
(increase)/decrease in intergovernmental receivables	-	-	-	-	-	6,405
(increase)/decrease in prepaids	8,006	-	-	-	8,006	-
(Increase)/decrease in inventories	(2,133)	-	-	-	(2,133)	-
Miscellaneous non-operating revenues	186,238	3,078	248	-	189,564	55,449
Increase/(decrease) in accounts payable	186,016	(74,286)	(542)	118,645	229,833	(108,364)
(increase)/decrease in customer deposits	(47,466)	(175,553)	-	-	(223,019)	-
Increase/(decrease) in intergovernmental payables	15,865	447,003	(98)	-	462,770	834
Increase/(decrease) in compensated absences	(3,408)	4,801	(85)	-	1,308	5,680
Net cash provided by operating activities	<u>\$ 4,607,212</u>	<u>\$ 1,494,946</u>	<u>\$ 239,562</u>	<u>\$ 118,645</u>	<u>\$ 6,460,365</u>	<u>\$ 1,027,567</u>
Noncash investing, capital and financing activities:						
Capital asset transferred from (to) other funds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 78,366
Contributions of capital assets from developers	\$ 1,671,516	\$ 632,296	\$ 398,010	\$ -	\$ 2,701,822	\$ -
Note: Reconciling Cash and cash equivalents with the amounts on the statement of fund net assets:						
Statement of Net Assets						\$ 9,164,685
Less Investments with maturity over 3 months						207,382
Cash Flow Statements						<u>\$ 8,957,303</u>

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

Statement of Fiduciary Net Assets
Fiduciary Funds
December 31, 2011

	<u>Agency Funds</u>
ASSETS	
Cash and cash equivalents	\$ 2,546,691
Prepays	901
Accounts receivables, net of uncollectible accounts	-
Due from other governmental units	5,144
	<u>267,368</u>
Total assets	<u>\$ 2,820,104</u>
LIABILITIES	
Accounts payable	\$ 79,054
Accrued employee leave payable	69,188
Capital lease payable	6,541
Notes payable	149,024
Due to other governmental units	2,516,297
	<u>2,516,297</u>
Total liabilities	<u>\$ 2,820,104</u>

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

**Notes to the Financial Statements
December 31, 2011**

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City of Lacey
Notes to the Financial Statements
December 31, 2011

Note 1. 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 activities) 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.

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 and may include indirect cost elements. Our policy is not to eliminate the indirect portion of the direct expenses. 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 or 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 fund 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, CAPCOM 911, district court, and jail services.

Arterial Street Fund provides funding for street construction and transportation improvement projects. Revenues come from state shared fuel taxes, utility taxes, real estate excise taxes, state and federal grants and mitigation impact fees. 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.

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.

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 lines and maintenance and operations.

Nonmajor 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.

Regional Athletic Complex (RAC) Operating Fund accounts for revenues and expenditures for managing and operating the Regional Athletic Complex. The source of revenues is field use fees, transfers from the Lodging Tax and Parks and Open Space Funds, and a portion of the sales tax distributed by the Capital Area Public Facilities District (CARPFD).

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

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

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

Building Improvement Fund is only used when there is a need to account for a significant building project or equipment acquisition that is usually funded by a bond sale.

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.

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.

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.

Certain taxes including property taxes, business and licensing taxes, utility taxes, and excise taxes, certain charges for services, intergovernmental revenues such as grants where program expenditures are the prime for determining reimbursements, and earned 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.

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, deposits, and the state investment pools to be cash equivalents.

2. Receivables and payables

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 consists 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 on the fund financial statements 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.

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. Amounts due to/from other funds and interfund loans and advances (See Note 3.E. Interfund Loans and Transfers)

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to either interfund loans receivable/payable or *advances to/from other fund*. All other outstanding balances between funds are reported as *due to/from other funds*. Due to/from other funds result from goods issued, work performed, or services rendered to or for the benefit of another fund within the City when cash is not immediately moved between the funds. All other outstanding balances between the governmental activities and business-type activities are reported in the government-wide financial statements as "*internal balances*".

Advances (long-term interfund loan) 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.

4. Inventories and prepaid items

Inventories are assets held for internal consumption or for resale. Inventories in governmental funds are reported using purchases methods and expenditures are recognized when they are purchased. Inventories in the enterprise funds are reported using consumption methods where inventories are reported as assets when purchased and then expensed when the item is consumed. Inventories are carried at cost on the first in, first out (FIFO) basis or specific identification basis. Any material inventories at year-end are included in the balance sheet or statement of net assets of the appropriate fund.

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.

5. Restricted assets and liabilities

Enterprise funds may have accounts that contain resources for construction and/or debt services. Certain proceeds of the water and sewer fund's revenue bonds set aside for their repayment. The current portion of related liabilities are shown as payable from restricted assets. Specific debt service reserve requirements, if any, are described in the long-term debt note.

6. Capital assets and depreciation (See Note 3.D. Capital Assets)

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 one year. 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 capitalized certain sculptures 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).

The City implemented the general provisions of GASB Statement No. 51 (Accounting and Financial

Reporting for Intangible Assets) in fiscal year 2010. The City opted to not to retroactively report intangible assets that are considered to have indefinite useful lives as of the effective date of this Statement and those that would be considered internally generated.

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:

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

7. Deferred revenues (See Note 3.B. Receivables and 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.

8. Custodial accounts

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

9. 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. Upon retiring from employment with the City, each bargaining unit employee shall be paid for all accumulated sick leave beyond 60 days (480 hours) at the rate of 1 day (8 hours) of pay at his/her regular rate for each 3 days (24 hours) accumulated for a maximum payoff of forty-five (45) days sick leave (fifteen (15) days pay). Accrued sick leave is considered immaterial and is not accrued. 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.H. (Long-term liabilities).

10. Long-term liabilities

Long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities in the government-wide financial statements and in the 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.

11. Fund balance classifications

The City of Lacey has implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, during year 2011. The City's fund balance classification policies and procedures are as follows:

For *committed* fund balance: A formal action by City council (i.e., resolution or ordinance) is required to establish (and modify or rescind) a fund balance commitment.

For *assigned* fund balance: The City's policy as adopted by the governing body authorizes the City Manager and Finance Director to assign amounts to a specific purpose. For financial reporting purposes, amounts in excess of nonspendable, restricted, and committed fund balance in funds other than the general fund are considered assigned fund balances for the purposes intended for those funds.

For the classification of fund balances: The City considers restricted amounts to have been spent when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, and committed and/or assigned amounts are considered to have been spent when an expenditure is incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

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 transactions and interfund transfers

Permanent reallocations of resources between funds of the reporting entity are classified as interfund transfers.

Charges for direct expenses for interfund services provided and used and indirect expenses (i.e. internal service funds charges and common facilities charges) are accounted for by the related funds as revenues, expenditures, or expense at fund level.

As a general rule, the effect of interfund activity within the same functional categories has been eliminated from the government-wide financial statements. Direct expenses (i.e., engineering services provided and used) of the functional categories are included in the government-wide statement of

activities while indirect expense allocations are eliminated. Indirect expenses are primarily charged to the various functions through the use of internal services funds for equipment rental and information technology management. Exceptions to this general rule are charges between the government's utilities functions 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 nonoperating 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

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 four (4) times 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, 2011, are as follows:

Fund	Original Budgeted Inflows	Final Budgeted Inflows	Increase (Decrease) Budgeted Inflows
General Fund	\$ 26,707,044	\$ 27,511,544	\$ 804,500
City Street Fund	2,444,242	2,444,242	-
Arterial Fund	6,241,855	9,091,855	2,850,000
Regional Athletic Complex Operating Fund	887,001	887,001	-
Lodging Fund	353,093	353,093	-
Community Development Block Fund	-	55,400	55,400
G.O. Bond Redemption Fund	2,099,180	2,079,265	(19,915)
L.I.D. Redemption Fund	268,560	768,560	500,000
Building Fund	520,318	6,028,932	5,508,614
Capital Expenditure Fund	1,681,590	2,429,833	748,243
Parks & Open Space Fund	976,096	3,426,096	2,450,000
Regional Athletic Complex Capital Fund	788,982	788,982	-
Equipment Rental Fund	1,829,514	1,815,549	(13,965)
Information Services Fund	1,559,235	1,555,047	(4,188)
Water Fund	11,403,242	13,599,222	2,195,980
Wastewater Fund	13,063,578	13,048,030	(15,548)
Stormwater Fund	2,188,735	2,185,638	(3,097)
Reclaimed Water Fund	485,000	2,185,000	1,700,000
Totals	\$ 73,497,265	\$ 90,253,289	\$ 16,756,024

The original budgeted outflows as compared to the final budgeted outflows for the year ended December 31, 2011, are as follows:

Fund	Original Budgeted Outflows	Final Budgeted Outflows	Increase (Decrease) Budgeted Outflows
General Fund	\$ 27,113,094	\$ 35,800,621	\$ 8,687,527
City Street Fund	2,519,664	2,604,847	85,183
Arterial Fund	7,116,260	7,903,670	787,410
Regional Athletic Complex Operating Fund	883,001	934,255	51,254
Lodging Fund	380,500	405,500	25,000
Community Development Block Fund	-	55,400	55,400
G.O. Bond Redemption Fund	2,143,098	2,123,183	(19,915)
L.I.D. Redemption Fund	268,560	768,560	500,000
Building Fund	520,318	889,138	368,820
Capital Expenditure Fund	1,803,590	7,784,826	5,981,236
Parks & Open Space Fund	786,611	3,752,288	2,965,677
Regional Athletic Complex Capital Fund	620,270	734,642	114,372
Equipment Rental Fund	2,540,044	2,752,044	212,000
Information Services Fund	1,771,875	1,771,875	-
Water Fund	17,435,363	18,623,402	1,188,039
Wastewater Fund	16,702,470	17,250,804	548,334
Stormwater Fund	3,859,168	4,389,168	530,000
Reclaimed Water Fund	1,273,500	1,273,500	-
Totals	\$ 87,737,386	\$ 109,817,723	\$ 22,080,337

Note 3. Detailed notes on all funds

A. Deposits and investments

The City's deposits, including money markets and certificates 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 (WPDPCC). The WPDPCC 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 not covered by FDIC.

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 (RCW 43.250.020). The LGIP is comparable to a Rule 2a-7 money market fund recognized by the Securities and Exchange Commission (17CFR.270.2a-7). Rule 2a-7 funds are limited to high quality obligations with limited maximum and average maturities, the effect of which is to minimize both market and credit risk. 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 City investment in the LGIP is dollar for dollar equal to the fair value of pool shares.

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. The interest rate risks of participants' balances in the LGIP are limited as the weighted average maturity of the portfolio will not exceed 60 days. The LGIP had a weighted average maturity of 57 days as of June 30, 2011.

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 and the State Treasurer's Local Government Investment Pool (LGIP). 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. The LGIP is not rated by an outside agency.

Concentration of credit risk: Concentration risk is the risk of loss attributed to the magnitude of the City's investment in a single issuer. The City's policy states, within the exception of US Treasury securities and authorized pools, no more than thirty-three (33) percent of total portfolio may be invested with any one commercial bank institution for certificates of deposits and no more than ten (10) percent of total portfolio with any one institution for banker's acceptance.

Amounts reported in the fund statements for the year ended December 31, 2011 are as follows:

<u>Governmental Funds</u>	<u>Amount</u>
Cash and cash equivalents and investments	\$ 48,142,325
Restricted cash and cash equivalents and investments	974,532
Total governmental funds	<u>49,116,857</u>
<u>Proprietary Funds</u>	
Cash and cash equivalents	30,388,434
Restricted cash and cash equivalents (deposits)	139,461
Total proprietary funds	<u>30,527,895</u>
<u>Fiduciary Funds</u>	
Cash and cash equivalents	2,546,691
Total fiduciary funds	<u>2,546,691</u>
Total	<u>\$ 82,191,443</u>

Cash, deposits, and investments for the year ended December 31, 2011 are as follows:

	Amount
Cash on hand	\$ 16,400
Checking accounts	27,614,771
Money market accounts	18,448,940
Certificates of deposits	2,373,691
Washington State Investment Pool (LGIP)	33,737,641
Total	<u>\$ 82,191,443</u>

B. Receivables and deferred revenues

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:

	Unavailable	Unearned
Delinquent property taxes receivable (general fund)	\$ 401,943	\$ -
Local court revenue earned but not available (general fund)	738,711	-
Advance reservations-earnings process not yet complete:		
General fund	-	122,751
Regional athletic complex fund	-	3,685
Grants met all eligibility requirements not yet collected:		
Arterial street fund	440,155	-
Parks and open space fund	844,823	-
Mitigation fees collected but earnings process not yet complete (arterial street fund)	-	2,697,820
Contract receivable earned but not yet available (arterial street fund)	442,909	-
Special assessments due not yet available (community block grant)	284,515	-
Delinquent property taxes receivable (debt service fund)	63,651	-
Special assessments uncollected (debt service fund)	4,546,277	-
Total deferred/unearned revenue for governmental funds	<u>\$ 7,762,984</u>	<u>\$ 2,824,256</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 and become an enforceable lien against the properties. Property assessments are updated annually by the county assessor and are based on fair market value as of January 1. The County Assessor determines current market value of all property in Thurston County for tax purposes. Levy amounts are based on certified budgets submitted by taxing districts. Each year all properties are revalued to fair market value within one-sixth of the county being physically inspected. Appraisers use valid sales data and current replacement costs (based on labor and material, less depreciation) to arrive at fair market value. This ensures that each owner pays a proportional share of property taxes that support public services, such as schools, libraries, roads, fire, police, and emergency services.

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 and fire district rate of \$1.50 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. Washington State law (RCW 84.55.010) 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 2011 was \$1.086 per \$1,000 on an assessed valuation of \$4,579,019,599 for a total regular levy of \$4,971,848. Additionally, special levies for G.O. bond obligations totaled \$1,147,258.

D. Capital assets

Capital asset activity for the year ended December 31, 2011 was as follows:

Governmental Activities	Beginning Balance 1/1/2011	Increases	Decreases	Ending Balance 12/31/2011
Non-depreciable Capital Assets				
Land and land rights	\$ 127,628,081	\$ 4,006,262	\$ -	\$ 131,634,343
Construction in progress	1,952,200	6,350,383	1,131,230	7,171,353
Total non-depreciable assets	129,580,281	10,356,645	1,131,230	138,805,696
Depreciable Capital Assets:				
Buildings	27,261,039	282,628	-	27,543,667
Improvements	26,547,137	60,826	-	26,607,963
Infrastructure	272,969,910	3,001,922	151,367	275,820,465
Machinery & equipment	10,752,887	1,033,641	229,009	11,557,519
Total depreciable assets at cost	337,530,973	4,379,017	380,376	341,529,614
Less accumulated depreciation:				
Buildings	8,376,442	663,581	-	9,040,023
Improvements	3,369,246	1,341,008	-	4,710,254
Infrastructure	126,706,158	9,942,248	151,367	136,497,039
Machinery & equipment	6,572,620	981,618	229,009	7,325,229
Total accumulated depreciation	145,024,466	12,928,455	380,376	157,572,545
Total Depreciable assets, net	192,506,507	(8,549,438)	-	183,957,069
Governmental activities capital assets, net	\$ 322,086,788	\$ 1,807,207	\$ 1,131,230	\$ 322,762,765

	Beginning Balance 1/1/2011	Increase	Decrease	Ending Balance 12/31/2011
Business-type activities				
Non-depreciable Capital Assets:				
Land and land rights	\$ 10,627,073	\$ 2,428,164	\$ -	\$ 13,055,237
Construction in process	966,584	1,584,354	-	2,550,938
Total non-depreciable assets	<u>11,593,657</u>	<u>4,012,518</u>	<u>-</u>	<u>15,606,175</u>
Depreciable Capital Assets:				
Buildings	1,520,813	-	-	1,520,813
Improvements	257,712,839	5,419,895	435,744	262,696,990
Machinery & equipment	2,461,054	7,000	1,873,164	594,890
Total depreciable assets at cost	<u>261,694,706</u>	<u>5,426,895</u>	<u>2,308,908</u>	<u>264,812,693</u>
Less accumulated depreciation:				
Buildings	330,933	37,075	-	368,008
Improvements	49,169,176	6,263,545	435,744	54,996,977
Machinery & equipment	2,244,124	89,392	1,873,164	460,352
Total accumulated depreciation	<u>51,744,233</u>	<u>6,390,012</u>	<u>2,308,908</u>	<u>55,825,337</u>
Total depreciable assets, net	<u>209,950,473</u>	<u>(963,117)</u>	<u>-</u>	<u>208,987,356</u>
Business-type activities capital assets, net	<u>\$ 221,544,130</u>	<u>\$ 3,049,401</u>	<u>\$ -</u>	<u>\$ 224,593,531</u>

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

Current Year Depreciation:

Governmental activities	Amount
General Government	\$ 355,274
Security of persons and property	137,169
Physical environment	2,821
Transportation	9,952,591
Economic environment	84,177
Culture and recreation	1,504,063
Internal services funds	892,360
Total governmental-type activities depreciation expense	<u>\$ 12,928,455</u>
Business-type activities	Amount
Water	\$ 3,087,108
Wastewater	1,748,764
Stormwater	1,554,140
Total business-type activities depreciation expense	<u>\$ 6,390,012</u>

Construction Commitments

The City had the following major active construction projects in progress as of December 31, 2011:

Utilities projects

- . Carpenter Road Waterline Relocation
- . Corrosion Control Well #4
- . Carpenter Road Reclaimed Waterline
- . Reclaimed Water Construction (Infiltration Facility)
- . Relocate Lift Station #10
- . 2010 Upgrade Lift Station #18
- . Wastewater Main Rehab -8TH & PAC @ Sleater Kinney
- . ATEC Basin Design
- . Equipping Hawks Prairie Well #2
- . Marvin Road Well Site Acquisition
- . Waterline @ College & 22nd

- . Telemetry Control Cla-Vals
- . 2012 Water Rights Mitigation
- . Ruddell Road Water Main Improvement

The City's commitments with contractors for the above utilities projects as of December 31, 2011 are as follows:

Project description	Spent to Date 12/31/2011	Remaining Commitment
Carpenter Road Waterline Relocation	\$ 253,402	\$ 16,459
Relocate Lift Station #10	616,630	96,911
Corrosion Control Well #4	520,718	1,500,231
Total	\$ 1,390,750	\$ 1,613,601

The City's 2012 budget for utilities capital funds includes expenditures for completion of these projects and would not require future financing for these projects.

Arterial street projects:

- . Carpenter Road Widening
- . Golf Club Road Extension
- . Marvin Road/32nd Avenue Left Turn Lane
- . Ruddell Road Overlay
- . Smart Corridors
- . College Street NE Extension
- . College Street Corridor Right of Way Acquisition
- . Willamette Dr/31st Intersection Improvements
- . College/22nd Avenue Roundabout
- . Hogum Bay Road Improvements
- . Yelm Highway Sidewalk Connection

The 2012 Arterial Street fund's budgeted capital expenditures are \$16,777,351 which includes the construction of these projects.

E. Interfund loans and transfers

Loans/advances from/to other funds:

Interfund loan balances at December 31, 2011 were as follows:

Interfund receivable / payable		
Receivable Fund	Payable Fund	Amount
General Fund	Parks and Open Space Fund	\$ 750,000
Wastewater Fund	Water Fund	8,200,000
Total		\$ 8,950,000

The interfund loans between Water and Wastewater funds were made in 2007 for capital acquisition purposes with interest rate equal to the state investment pool rate. The City's Resolution No. 982 adopted a definitive repayment schedule for the balance owed as of December 31, 2011. The minimum principal repayment shall be not less than \$400,000 annually, together with interest at a rate equal to that earned on the City's investment in the Local Government Investment Pool, and full repayment of the loan balance no later than December 31, 2030. The principal repayment amount in 2011 was \$600,000, and the interest payment in 2011 was \$14,098.

The interfund loans of \$750,000 between general fund and parks and open space fund was made in 2011 for the acquisition of a property for the Greg J. Cuoio Community Park project. Repayment of

the loan in full is expected in year 2012. Interest at the state investment pool rate paid during 2011 was \$603. No principal payments were made during 2011.

Interfund transfers:

Interfund transfers activities for the year were as follows:

Fund	Purpose	Amounts	Amounts
		Transferred In	Transferred Out
Governmental Funds:			
General Fund	\$301,310 Routine transfer from in Parks and Open Space Fund for Rainier Vista Park maintenance. \$5,000 non-routine transfer from Capital Equipment Fund for web streaming project. \$100,000 Non-routine transfer out to Water utility Fund for working capital; \$82,738 to Capital Equipment Fund for Police equipment, \$500,000 for IT fiber; \$398,830 to Building Fund for miscellaneous facility improvements, \$1,500,000 for facility reserves, \$1,500,000 for Senior Center addition and \$500,000 for train depot A&E; \$1,195,980 to Water Capital Fund for purchase of land and water mitigation; \$1,700,000 to Reclaimed Water Fund for reclaimed water project. \$347,801 routine transfer to Regional Athletic Complex M&O Fund from Parks & Open Space Fund for debt service. \$145,500 Non-routine to Regional Athletic Complex M&O Fund from Lodging Tax Fund for maintenance and special events.	\$ 799,611	\$ 7,477,548
Arterial Street Fund	\$3,700,000 Non-routine transfer from Capital Equipment Fund for street improvement reserves.	3,700,000	-
LID Redemption Fund	Non-routine transfer of \$25,000 to Capital Equipment Fund.		25,000
Parks & Open Space Fund	\$301,310 Routine transfer to General Fund; \$15,000 Non-routine transfer to Building Fund, \$2,500 to Capital Equipment Fund; \$347,801 to RAC M&O Fund; \$20,000 to RAC Capital Fund.		686,611
Nonmajor Governmental Funds:	\$582,930 to G.O Debt Fund from RAC Capital for debt service; \$3,883,000 to Building Improvement Fund from General Fund, \$22,900 from Community Building Fund, \$15,000 from Parks & Open Space Fund, \$44,418 from G.O. Debt Fund, \$1,800,000 from Capital equipment Fund; \$575,668 to Capital Equipment from General Fund, \$25,000 from LID Fund, \$2,500 from Parks & Open Space Fund; \$20,000 to RAC Capital Fund from Parks & Open Space Fund.	6,971,416	-
	Non-routine transfers of \$145,500 from Lodging Tax Fund to Regional Athletic Complex Operating Fund; \$44,418 from Debt Service Fund to Building Improvement Fund; \$1,800,000 from Capital Equipment Fund to Building Fund \$3,700,000 to Arterial Street Fund, \$5,000 to General Fund, \$1,000,000 to Water Capital Fund; \$582,930 from RAC Capital Fund to G.O.Debt Fund.	-	7,277,848
Total Governmental Funds		11,471,027	15,467,007
Proprietary Funds:			
Internal Services Funds	Non-routine transfers in to Equipment Rental Fund: \$57,817 from Water Fund, \$65,938 from Wastewater Fund and \$60,886 from Stormwater Fund for capital asset acquisition.	184,641	-
Enterprise Funds:			
Water Fund	\$350,000 non-routine transfer from General Fund for working capital and water mitigation, \$945,980 property purchase; \$1,000,000 non-routine transfer from Capital Equipment for replacement reserves.	2,295,980	-
	\$57,817 Non-routine transfer to Equipment Rental Fund and \$12,165 to General Fund for capital asset acquisition	-	69,982
Wastewater Fund	\$65,938 Non-routine transfer to Equipment Rental Fund and \$12,166 to General Fund for capital asset acquisition.		78,104
Stormwater Fund	\$60,886 Non-routine transfer to Equipment Rental Fund and \$12,165 to General Fund for capital asset acquisition.	-	73,051
Reclaimed Water Fund	Non-routine transfer of \$1,700,000 from General Fund for reclaimed water project.	1,700,000	
Total Proprietary Funds		4,180,621	221,137
Total*		\$ 15,651,648	\$ 15,688,144

*The difference \$36,496 represents a capital asset of proprietary Funds that was re-assigned to the general government

F. Restricted assets

The balances of the restricted assets of the City's fund statements are composed of the following:

Purposes	Governmental Funds	Enterprise Funds
Customer deposit	\$ 188,301	\$ 139,461
Contract letter of credit	786,231	-
Total	\$ 974,532	\$ 139,461

G. Leases

Capital Leases

The City of Lacey has entered into lease agreements for financing machinery and equipment. Lease items below the capitalization threshold are not capitalized and therefore are non-capital leases.

These lease agreements qualify as capital leases for accounting purposes, therefore, have been recorded at the present value of their future minimum lease payments of the inception date.

The assets acquired through capital lease are as follows:

Assets:	Governmental Activities
Machinery and equipment	\$ 97,786
Less: Accumulated depreciation	(30,262)
Total	\$ 67,524

The future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2011 were as follows:

Year Ending December 31	Governmental Activities
2012	25,403
2013	26,176
2014	22,778
2015	1,187
Total minimum lease payments	75,544
Less: amount representing interest	(6,347)
Present value of minimum lease payments	\$ 69,197

Operating Leases

The City of Lacey has lease commitments for leases of office machinery and equipment that are non-cancelable with lease terms primarily from month to month with one that extends to 48 months. Operating lease expenditures for the year ended December 31, 2011 were \$51,123.

H. Long-term liabilities

1. Disclosures about each significant debt incurred

The City issues general obligation bonds and revenue bonds to finance the acquisition, construction, improvements of capital facilities, and major equipment purchases.

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.

General Obligation Bonds

General obligation bonds are direct obligations and pledge the full faith and credit of the government. Payments on voter approved bonds (unlimited) are funded from property tax levies. Non-voter approved bonds (limited) have been funded by other sources of revenues such as sales tax and transfers in. Variable-rate debt used was the effective interest rate as of December 31, 2011.

General Obligation Bonds outstanding as of December 31, 2011 are as follows:

Description	Balance
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: 2.9% in 2011; 3% in 2012; 3.1% in 2013; 3.2% in 2014; 3.4% in 2014; 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>	\$ 3,335,000
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, 2010. <i>Issued to provide funds to construct an addition to City Hall. Payments are funded by sales tax and transfers in from other funds.</i>	2,690,000
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 30, 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>	4,235,000
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, 2027. <i>Issued to provide funds for phase 2 of the Regional Athletic Complex construction. Payments are funded with the sales and use tax levied by the Capital Area Regional Public Facilities District, pursuant to RCW 82.14.390. Interest rates are 4% in 2008-2015, 5% in 2016 & 2017; 3.75-3.90% in 2018-2021 and 4% in 2022-2027.</i>	6,920,000
2010 Unlimited Tax General Obligation Refunding Bonds issued amount of \$3,790,000; dated December 1, 2010; interest rates of 2.0-4.0% with maturity date of December 1, 2021. <i>Issued to advance refund a portion of the City's outstanding 2002 UTGO Bonds maturing on December 1 of the years 2012 through 2021 and to pay the costs of the refunding issuance.</i>	3,755,000
Total	\$ 20,935,000

Annual debt service requirements to maturity for general obligation bonds are as follows:

Year Ending December 31	General Obligation Bonds	
	Governmental Activities	
	Principal	Interest
2012	\$ 1,290,000	\$ 796,727
2013	1,330,000	753,877
2014	1,375,000	709,447
2015	1,430,000	663,167
2016	1,490,000	610,967
2017 - 2021	8,445,000	2,135,974
2022 - 2026	4,985,000	691,000
2027	590,000	23,600
Total	\$ 20,935,000	\$ 6,384,759

Revenue Bonds

Revenue bonds are bonds where the government pledges income derived from the acquired or constructed assets to pay debt service. The City is in compliance with all significant limitations and restrictions.

Revenue bond outstanding as of December 31, 2011 is as follows:

Description	Balance
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. Interest rate was re-priced in August 2008 at 4.406% and scheduled to adjust every five years. The next re-pricing will be in August 2013. <i>Issued to provide funds for the acquisition, remodeling and equipping the joint animal service facility. Remaining payments are funded from the City of Olympia by an interlocal agreement.</i>	\$ 149,024
Total	\$ 149,024

Annual debt service requirements to maturity for revenue bond are as follows:

Year Ending December 31	Revenue Bonds	
	Governmental Activities	
	Principal	Interest
2012	\$ 17,590	\$ 6,231
2013	18,399	5,422
2014	19,227	4,594
2015	20,091	3,730
2016	20,985	2,835
2017 - 2021	52,732	2,853
Total	\$ 149,024	\$ 25,665

Government Loans and Contracts Payable

Government loans and contract payable outstanding as of December 31, 2011 are as follows:

Description	Balance
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 are funded from the Arterial Street Fund and LID#19 assessments.</i>	\$ 874,910
The City has issued a credit instrument in lieu of cash as a part of agreement with Puget Sound Energy (PSE) pursuant to Schedule 85 of PSE's electric Tariff G. The purpose was to fund Lacey Gateway project duct and vault system constructed in 2007. Payments are funded by Arterial Street Fund. A certificate of deposit in the face amount of the agreement is issued and deposited with the First Citizens Bank with the maturity equal to the payment due date. Payable 10/25/2012 without interest.	743,453
Total	\$ 1,618,363

Annual debt service requirements to maturity for government loans and contract payables are as follows:

Year Ending December 31	Loans / Contracts payable	
	Governmental Activities	
	Principal	Interest
2012	\$ 868,440	\$ 30,706
2013	124,987	22,498
2014	124,987	18,748
2015	124,987	14,998
2016	124,987	11,249
2017 - 2021	249,975	11,249
Total	\$ 1,618,363	\$ 109,448

2. Changes in long-term liabilities

The following is a summary of changes in long-term liabilities for the year ended December 31, 2011:

Type of Debt	Beginning Balance 1/1/2011	Additions	Reductions/ Adjustments	Ending Balance 12/31/2011	Due Within One Year
Governmental Activities:					
G.O. bonds	\$ 22,170,000	\$ -	\$ 1,235,000	\$ 20,935,000	\$ 1,290,000
Unamortized premiums and deferral on refunding	127,250	-	7,978	119,272	7,979
Total G.O. Bonds Payable:	22,297,250	-	1,242,978	21,054,272	1,297,979
Revenue bonds	165,874	-	16,850	149,024	17,590
Public Works Trust Fund Loan	1,571,326	-	696,416	874,910	124,987
Capital leases payable	54,112	36,119	21,034	69,197	21,910
Contracts payable	743,453	-	-	743,453	743,453
Arbitrage	42,971	-	42,971	-	-
Claims and judgments	208,391	-	208,391	-	-
Net OPEB Obligation	560,414	369,602	201,704	728,312	-
Compensated absences	935,331	1,000,006	979,047	956,290	447,909
Total governmental activities	\$ 26,579,122	\$ 1,405,727	\$ 3,409,391	\$ 24,575,458	\$ 2,653,828
Business-type Activities:					
Compensated absences	\$ 182,859	\$ 222,341	\$ 221,033	\$ 184,167	\$ 104,758
Total Business-type activities	\$ 182,859	\$ 222,341	\$ 221,033	\$ 184,167	\$ 104,758

Internal service funds predominantly serve the governmental funds. Accordingly, long-term liabilities for them are included in the totals for governmental activities. For the governmental funds, long-term liabilities other than debt (i.e. compensated absences and other postemployment benefits) are generally liquidated by the general fund. Internal service funds' compensated absences for \$35,380 is included in the above totals for governmental activities. For contracts payable outstanding as of December 31, 2011 will be liquidated by the arterial street fund.

3. Other disclosure

Bond discounts and premiums:

In 2006, 2007, and 2010, 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 (11-20 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.

I. Fund Balances

As of December 31, 2011, the City's governmental funds reports the following fund balances:

Restricted:			
Fund Restricted	Purpose	Authority	Amount
General fund	Prepaid items	Nonspendable item	\$ 4,854
	Gateway project	Private contract (MOU)	6,000,000
	Criminal bail	RCW 69.50.508	112,908
	Subtotal for general fund		
Arterial Street fund	Developer agreement	PSE Order No. 105047049	743,453
<i>Nonmajor funds:</i>			
Lodging Tax fund	Lodging/tourism	RCW 67.28.180	890,270
Community Development Block Grant fund	HUD approved project	CDBG Grant	54,723
Capital equipment fund	Child care center repairs	Private contract	82,889
RAC capital fund	RAC signage	Private donor	20,000
Subtotal for nonmajor funds			1,047,882
Total			\$ 7,909,097

Committed:				
Fund Restricted	Purpose	Authority	Amount	
General fund	Insurance deductibles	Resolution No. 974	\$ 200,000	
	City facility repairs/replacement	Resolution No. 974	1,250,000	
	Property acquisition	Resolution No. 974	2,000,000	
	Future pension contribution	Resolution No. 974	1,252,400	
	Furniture & equipment replacement	Resolution No. 974	67,500	
	Subtotal for general fund			4,769,900
Street fund	Transportation equipment & replacement	Resolution No. 974	2,125,000	
Arterial street fund	Street overlay	Resolution No. 974	2,850,000	
LID redemption fund	Debt service - Public Works Trust Fund Loan	Ordinance No. 1164	135,980	
<i>Nonmajor funds:</i>				
Lodging tax fund	Convention center study	Resolution No. 974	75,000	
Building improvement fund	City facilities repairs/replacement	Resolution No. 974	800,000	
	Capital facility plan projects	Resolution No. 974	1,500,000	
	Future police station addition	Resolution No. 974	750,000	
	Senior center expansion	Resolution No. 974	1,582,010	
	Train depot project	Resolution No. 974	500,000	
	City hall payment	Resolution No. 974	500,000	
	Public arts	Resolution No. 760	23,106	
	Subtotal for building improvement fund			5,655,116
	Capital equipment fund	Equipment replacement	Resolution No. 974	1,310,000
	Total for nonmajor funds:			7,040,116
Total			\$ 16,920,996	

Assigned *:			
Fund Restricted	Purpose	Authority	Amount
General fund	Parks reserve	Budget document	\$ 124,707
	Regional Athletic Complex Maintenance	Budget document	488,973
	Subtotal for general fund		
Arterial street fund	Street capital projects	Budget document	9,731,822
Parks and Open Space fund	Parks capital projects	Budget document	275,954
	Regional Athletic Complex Maintenance	Budget document	1,147,010
	Subtotal for parks and open space fund		
<i>Nonmajor funds:</i>			
Street fund	Street maintenance	Budget document	1,021,239
Building improvement fund	Capital projects	Budget document	367,862
Capital expenditure fund	Capital expenditures	Budget document	1,269,633
Regional Athletic Complex fund	RAC capital projects	Budget document	377,716
Debt Service fund	Debt service	Budget document	261,104
Subtotal for nonmajor funds			3,297,554
Total			\$ 15,066,020

* Nonrestricted and noncommitted fund balance of all governmental funds other than general fund is reported as assigned fund balances for the specific purposes intended for those funds.

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

Substantially all the 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 retirement plans. The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to: Department of Retirement Systems, Communications Unit, P.O. Box 48380, Olympia, WA 98504-8380; or it may be downloaded from the DRS website at www.drs.wa.gov. The following disclosures are made pursuant to GASB 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 3Plan description

The Legislature established PERS in 1947. Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior courts (other than judges currently in the Judicial Retirement System); employees of legislative committees; community and technical colleges, college and university employees not participating in higher education retirement programs; judges of district and municipal courts; and employees of local governments. PERS retirement benefit provisions are established in Chapters 41.34 and 41.40 RCW and may be amended only by the State Legislature.

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

PERS members who joined the system by September 30, 1977 are Plan 1 members. Those who joined on or after October 1, 1977, and by either, February 28, 2002 for state and higher education employees, or August 31, 2002 for local government employees, are Plan 2 members unless they exercised an option to transfer their membership to Plan 3. PERS members joining the system on or after March 1, 2002 for state and higher education employees, or September 1, 2002 for local government employees have the irrevocable option of choosing membership in either PERS Plan 2 or 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. Notwithstanding, PERS Plan 2 and Plan 3 members may opt out of plan membership if terminally ill, with less than five years to live.

PERS Plan 1 and Plan 2 defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions.

PERS Plan 1 members are vested after the completion of five years of eligible service. Plan 1 members are eligible for retirement after 30 years of service, or at the age of 60 with five years of service, or at the age of 55 with 25 years of service. The monthly benefit is two percent of the average final compensation (AFC) per year of service. (AFC is the monthly average of the 24 consecutive highest-paid service credit months.) The retirement benefit may not exceed 60 percent of AFC. The monthly benefit is subject to a minimum for PERS Plan 1 retirees who have 25 years of service and have been retired 20 years, or who have 20 years of service and have been retired 25 years. Plan 1 members retiring from inactive status prior to the age of 65 may receive actuarially reduced benefits. If a survivor option is chosen, the benefit is further reduced. A cost-of-living allowance

(COLA) was granted at age 66 based upon years of service times the COLA amount. This benefit was eliminated by the Legislature, effective July 1, 2011. Plan 1 members may elect to receive an optional COLA that provides an automatic annual adjustment based on the Consumer Price Index. The adjustment is capped at three percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 1 provides duty and non-duty disability benefits. Duty disability retirement benefits for disablement prior to the age of 60 consist of a temporary life annuity payable to the age of 60. The allowance amount is \$350 a month, or two-thirds of the monthly AFC, whichever is less. The benefit is reduced by any workers' compensation benefit and is payable as long as the member remains disabled or until the member attains the age of 60. A member with five years of covered employment is eligible for non-duty disability retirement. Prior to the age of 55, the allowance amount is two percent of the AFC for each year of service reduced by two percent for each year that the member's age is less than 55. The total benefit is limited to 60 percent of the AFC and is actuarially reduced to reflect the choice of a survivor option. A cost-of-living allowance was granted at age 66 based upon years of service times the COLA amount. This benefit was eliminated by the Legislature, effective July 1, 2011. Plan 1 members may elect to receive an optional COLA that provides an automatic annual adjustment based on the Consumer Price Index. The adjustment is capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 1 members can receive credit for military service. Members can also purchase up to 24 months of service credit lost because of an on-the-job injury.

PERS Plan 2 members are vested after the completion of five years of eligible service. Plan 2 members are eligible for normal retirement at the age of 65 with five years of service. The monthly benefit is two percent of the AFC per year of service. (AFC is the monthly average of the 60 consecutive highest-paid service months.)

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

PERS Plan 2 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions:

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

PERS Plan 2 retirement benefits are also actuarially reduced to reflect the choice, if made, of a survivor option. There is no cap on years of service credit; and a cost-of-living allowance is granted (based on the Consumer Price Index), capped at three percent annually.

The surviving spouse or eligible child or children of a PERS Plan 2 member who dies after leaving eligible employment having earned ten years of service credit may request a refund of the member's accumulated contributions.

PERS 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 monthly benefit that is one percent of the AFC per year of service. (AFC is the monthly average of the 60 consecutive highest-paid service months.)

Effective June 7, 2006, PERS Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years of service, if twelve months of that service are earned

after age 44; or after five service credit years earned in PERS Plan 2 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 for normal retirement at age 65, or they may retire early with the following conditions and benefits:

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

PERS Plan 3 defined benefit retirement benefits are also actuarially reduced to reflect the choice, if made, 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.

PERS Plan 3 defined contribution retirement benefits are solely dependent upon contributions and the results of investment activities.

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 Director of the Department of Retirement Systems.

PERS Plan 2 and Plan 3 provide disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 monthly benefit amount is two percent of the AFC per year of service. For Plan 3, the monthly benefit amount is one percent of the AFC per year of service.

These disability benefit amounts are actuarially reduced for each year that the member's age is less than 65, and to reflect the choice of a survivor option. There is no cap on years of service credit, and a cost-of-living allowance is granted (based on the Consumer Price Index) capped at 3 percent annually.

PERS Plan 2 and Plan 3 members may have up to ten years of interruptive military service credit; five years at no cost and five years that may be purchased by paying the required contributions. Effective July 24, 2005, a member who becomes totally incapacitated for continue employment while serving the uniformed services, or a surviving spouse or eligible children, may apply for interruptive military service credit. Additionally, PERS Plan 2 and Plan 3 members can also purchase up to 24 months of service credit lost because of an on-the-job injury.

PERS members may also purchase up to five years of additional service credit once eligible for retirement. This credit can only be purchased at the time of retirement and can be used only to provide the member with a monthly annuity that is paid in addition to the member's retirement benefit.

Beneficiaries of a PERS Plan 2 or Plan 3 member with ten years of service who is killed in the course of employment receive retirement benefits without actuarial reduction, if the member was not at normal retirement age at death. This provision applies to any member killed in the course of employment, on or after June 10, 2004, if found eligible by the Department of Labor and Industries.

A one-time duty-related death benefit is provided to the estate (or duly designated nominee) of a PERS member who dies in the line of service as a result of injuries sustained in the course of employment, or if the death resulted from an occupational disease or infection that arose naturally and proximately out of said member's covered employment, if found eligible by the Department of Labor and Industries.

There are 1,197 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation data for the plans as of June 30, 2010:

Type of Members	Number of Participants
Retirees and beneficiaries receiving benefits	76,899
Terminated plan members entitled to but not yet receiving benefits	28,860
Active plan members Vested	105,521
Active plan members Nonvested	51,005
Total	262,285

Funding policy

Each biennium, the state Pension Funding Council adopts PERS Plan 1 employer contribution rates, PERS Plan 2 employer and employee contribution rates, and PERS Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statute at six percent for state agencies and local government unit employees, and at 7.5 percent for state government elected officials. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. All employers are required to contribute at the level established by the Legislature. Under PERS 3, employer contributions finance the defined contribution portion. The Plan 3 employee contribution rates range from 5 percent to 15 percent, based on member choice. 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, 2011 are as follows:

Contributor	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer*	7.25%	7.25%	7.25%**
Employee	6.00%	4.64%	***

* 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 contributions for the years ended December 31, were as follows:

Year	PERS Plan 1	PERS Plan 2	PERS Plan 3
2011	\$ 26,435	\$ 623,989	\$ 143,598
2010	\$ 21,991	\$ 528,869	\$ 115,885
2009	\$ 44,414	\$ 642,760	\$ 140,113

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

Plan description

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

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

LEOFF defined benefit retirement benefits are financed from a combination of investment earnings, employer and employee contributions, and a special funding situation in which the state pays through state legislative appropriations.

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

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

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

Term of Service	Percent of Final Average Salary
20 or more years	2.00%
10 but less than 20 years	1.50%
5 but less than 10 years	1.00%

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

LEOFF Plan 1 provides death and disability benefits. Death benefits for survivors of Plan 1 members on active duty consist of the following: (1) If eligible spouse, 50 percent of the FAS, plus 5 percent of FAS for each eligible surviving child, with a limitation on the combined allowances of 60 percent of the FAS; or (2) If no eligible spouse, eligible children receive 30 percent of FAS for the first child plus 10 percent for each additional child, subject to a 60 percent limitation of FAS, divided equally. A one-time duty-related death benefit is provided to the estate (or duly designated nominee) of a LEOFF Plan 1 member who dies as a result of injuries or illness sustained in the course of employment, if found eligible by the Department of Labor and Industries.

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

LEOFF Plan 1 members may purchase up to five years of additional service credit once eligible for retirement. This credit can only be purchased at the time of retirement and can be used only to provide the member with a monthly annuity that is paid in addition to the member's allowance.

LEOFF Plan 2 members are vested after the completion of 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 two percent of the FAS per year of service. (FAS is based on the highest consecutive 60 months). Plan 2 members who retire prior to the age of 53 receive reduced benefits. Benefits are actuarially reduced for each year that the benefit commences prior to age 53 and to reflect the choice of a survivor option. If the member has at least 20 years of service and is age 50, the reduction is 3 percent for each year prior to age 53. A cost-of-living allowance is granted (based on the Consumer Price Index), capped at three percent annually.

LEOFF Plan 2 provides disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 allowance amount is two percent of the FAS for each year of service. Benefits are actuarially reduced for each year that the member's age is less than 53, unless the disability is duty-related, and to reflect the choice of a survivor option. If the member has at least 20 years of service and is age 50, the reduction is three percent for each year prior to age 53. A catastrophic disability benefit equal to 70 percent of their FAS, subject to offsets for workers' compensation and Social Security disability benefits received, is also available to those LEOFF Plan 2 members who are severely disabled in the line of duty and incapable of future substantial gainful employment in any capacity.

Effective June 2010, benefits to LEOFF Plan 2 members who are catastrophically disabled include payment of eligible health care insurance premiums.

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

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

LEOFF Plan 2 members who apply for retirement may purchase up to five years of additional service credit. The cost of this credit is the actuarial equivalent of the resulting increase in the member's benefit.

LEOFF Plan 2 members can receive service credit for military service that interrupts employment. Additionally, LEOFF Plan 2 members who become totally incapacitated for continued employment while servicing in the uniformed services may apply for interruptive military service credit. Should any such member die during this active duty, the member's surviving spouse or eligible child(ren) may request service credit on behalf of the deceased member. LEOFF Plan 2 members may also purchase up to 24 consecutive months of service credit for each period of temporary duty disability.

Beneficiaries of a LEOFF Plan 2 member who is killed in the course of employment receive retirement benefits without actuarial reduction, if found eligible by the Director of the Department of Labor and Industries.

Benefits to eligible surviving spouses and dependent children of LEOFF Plan 2 members killed in the course of employment include the payment of on-going health care insurance premiums paid to the Washington state Health Care Authority.

A one-time duty-related death benefit is provided to the estate (or duly designated nominee) of a LEOFF Plan 2 member who dies as a result of injuries or illness sustained in the course of employment, if found eligible by the Department of Labor and Industries.

There are 374 participating employers in LEOFF. Membership in LEOFF consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2010:

Type of Members	Number of Participants
Retirees and beneficiaries receiving benefits	9,647
Terminated plan members entitled to but not yet receiving benefits	782
Active plan members Vested	13,420
Active plan members Nonvested	3,656
Total	27,505

Funding policy

Starting on July 1, 2000, LEOFF Plan 1 employers and employees 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. LEOFF Plan 2 employers and employees are required to pay at the level adopted by the LEOFF Plan 2 Retirement Board. The Legislature, by means of a special funding arrangement, appropriated money from the state General Fund to supplement the current service liability and fund the prior service costs of LEOFF Plan 2 in accordance with the requirements of the Pension Funding Council and the LEOFF Plan 2 Retirement Board. 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 required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2011, are as follows:

Contributor	LEOFF Plan 1	LEOFF Plan 2
Employer*	0.16%	5.24% **
Employee	0.00%	8.46%
State	N/A	3.38%

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

**The employer rate for ports and universities is 8.62%.

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

Year	LEOFF Plan 1	LEOFF Plan 2
2011	\$ 177	\$ 264,459
2010	\$ 174	\$ 265,175
2009	\$ 161	\$ 248,420

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 5-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, 2011, the plan has thirteen (13) Police retired members and one (1) Police active member, a total of fourteen (14) plan members. The LEOFF 1 Retiree Health Plan does not issue a publicly 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 2009 through 2011 by the City are as follows:

Description	Year 2011	Year 2010	Year 2009
AWC medical insurance premiums	\$ 178,982	\$ 164,984	\$ 160,656
Reimbursement of other medical costs	20,700	(17,999)	61,449
Long-term care insurance premiums	2,022	5,622	5,154
Total	\$ 201,704	\$ 152,607	\$ 227,259
Average cost per retiree	\$ 15,516	\$ 11,739	\$ 17,481

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 use the alternative measurement method permitted under GASB statement No. 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 fifteen 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.

	2011
Annual required contribution (ARC):	
Normal cost	\$ 12,000
Amortization of UAAL	384,565
Total ARC	396,565
Interest on net OPEB obligation	25,219
Adjustment to annual required contribution	(52,182)
Annual OPEB cost (expense)	369,602
Contributions made	(201,704)
Increase in net OPEB obligation	167,898
Net OPEB obligation - Beginning of year	560,414
Net OPEB obligation - End of year	\$ 728,312

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for fiscal year 2011 and the two preceding fiscal years are as follows:

Fiscal year Ended	Annual OPEB Cost	Annual OPEB Cost Contributed	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
12/31/2011	\$ 369,602	\$ 201,704	55%	\$ 728,312
12/31/2010	\$ 352,873	\$ 152,607	43%	\$ 560,414
12/31/2009	\$ 366,331	\$ 227,259	60%	\$ 360,148

Funding Status and Funding Progress. As of December 31, 2011, the actuarial accrued liability for benefits was \$4,130,053, all of which was unfunded. The covered payroll (total annual amount for police department benefits) was \$1,701,702, and the ratio of the unfunded actuarial accrued

liability to the covered payroll was 243 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 56.24 was assumed for the one remaining active member for the purpose of determining the actuarial accrued liability (AAL) and normal cost. Retirement, disablement, termination and mortality rates were assumed to follow the LEOFF1 rates used in the June 30, 2009 actuarial valuation report issued by the 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 2011. The results were based on grouped data with 4 active groupings and 4 inactive groupings. The actuarial cost method used to determine the actuarial accrued liability was Projected Unit Credit. The AAL and NOO are amortized on an open basis as a level dollar over 15 years. These assumptions are individually and collectively reasonable for the purposes of this valuation.

The expected medical inflation trend assumption starts at 7.625 percent in 2009 and decrease to an ultimate rate of 5.0 percent in 2016. General inflation rate was assumed at 3.5 percent. Payroll growth rate was assumed at 4.5 percent per year and is reduced by the payroll each member that leaves active service.

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 with Medicare benefits contribute \$410.35 and \$375.55 per month for retiree-only coverage, and \$825.35 and \$683.70 for Medicare enrolled retiree and spouse coverage, and for retirees with no Medicare benefits contribute \$751.55 and \$703.45 per month for retiree-only coverage, and \$1,507.70 and \$1,411.45 per month for non-Medicare enrolled retiree and spouse coverage to HealthFirst 1000 and Selections

1000 plan, respectively.

Participating employers are contractually required to contribute at a rate assessed each year by Trust, currently computed at 8.85 percent of annual covered payroll. The City's contributions to the Trust for the year ended December 31, 2011, was \$2,252,870, 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 of their representatives. Such audits could result in requests for reimbursement to grantor agencies for expenditures disallowed under the terms of the grants. The City's management believes that such disallowances, if any, will be immaterial.

Bond indentures

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

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 150 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.

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. The WCIA's financial statements can be obtained from Washington Cities Insurance Authority Treasurer, P.O. Box 88030, Tukwila, WA 98138.

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 2011, the City of Lacey received \$886,302 in sale taxes levied by the PFD and is accounted for within the Regional Athletic Complex Operating Fund and 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, 2011 were \$242,813. 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 Finance Department, 420 College Street SE, Lacey, WA 98503.

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 cities of Lacey, Olympia, Tumwater, and the Thurston County. The net assets, as of December 31, 2011 were \$3,708,986. The City of Lacey has a 16 percent share of the equity as of December 31, 2011. 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 2011 the City of Lacey's contribution for the annual agreement was \$200,853 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 Finance Department, 420 College Street SE, Lacey, WA 98503.

Law Enforcement Records Management System (LERMS)

The Law Enforcement Records Management System (LERMS) is a joint venture providing accurate and timely criminal justice data sharing to the cities of Lacey, Olympia, Tenino, Tumwater, and Yelm. The goal of this joint venture is to share public safety information, increase operational efficiency via a reduction in data entry, and ease the process of accessing information. These goals will improve officer and citizen safety, facilitate coordination and information sharing to both internal and external agencies, and improve data quality and timeliness of data accessibility. It is governed through an interlocal agreement by the LERMS Consortium, which is a 5 member board composed of each city's Chief of Police (or their designee).

An equity interest exists for the cities of Lacey, Olympia, Tenino, Tumwater, and Yelm. As of December 31, 2011, the City of Lacey has a 38% share of the equity. Net Assets as of December 31, 2011, were \$271,060. The City of Lacey reports its share of equity interest as an investment in joint venture, in the government-wide statement of net assets.

An ongoing financial interest exists for the cities of Lacey, Olympia, Tenino, Tumwater, and Yelm. The agreement specifies a funding formula that annually assesses member cities based on current year population as determined by the Thurston Regional Planning Council (unless otherwise adjusted by the Consortium). All property is considered to be jointly owned. Parties will be reimbursed based on their contribution upon sale of property upon the dissolution of LERMS. Any member may withdraw from the agreement at the end of any calendar year, providing a notice to the Consortium no less than six months prior to the date of withdrawal. Withdrawal of a party will not terminate the agreement of the remaining parties.

The City of Olympia accounts for the joint venture in a separate agency fund. Completed Financial Statements can be obtained from the City of Olympia Administrative Services Department, PO Box 1967, Olympia, WA 98507.

The following is condensed financial information on joint ventures for which the City has equity interest as of December 31, 2011:

	Joint Animal Services 12/31/2011	Law Enforcement Regional Record Management System* 12/31/2011
Total Assets	\$ 3,957,212	\$ 273,551
Total Liabilities	248,226	2,491
Total Net Assets 12/31/2011	<u>\$ 3,708,986</u>	<u>\$ 271,060</u>
Capital assets, net of accumulated depreciation	<u>\$ 1,740,154</u>	<u>\$ 220,021</u>
Revenues	\$ 1,852,238	\$ 418,193
Expenses	(1,576,778)	(425,047)
Net increase (decrease) in net assets	275,460	(6,854)
Beginning net assets 1/1/2011	3,433,527	277,914
Ending net assets 12/31/2011	<u>\$ 3,708,987</u>	<u>\$ 271,060</u>
City of Lacey Equity %	16.42%	38%
City of Lacey Equity Interest	\$ 609,016	\$ 103,003

The City of Lacey's equity interests in joint ventures for the year ended December 31, 2011 were as follows:

Governmental Type Activities	Beginning Balance			Ending Balance
	1/1/2011	Increase	Decrease	12/31/2011
Joint Animal Services	\$ 556,231	\$ 52,785	\$ -	\$ 609,016
Law Enforcement Regional Record Management System*	-	103,003	-	103,003
Total Investment in Joint Venture	<u>\$ 556,231</u>	<u>\$ 155,788</u>	<u>\$ -</u>	<u>\$ 712,019</u>

*The decision to report it as a joint venture was made during 2011. The amount carryover from 2010 was deemed immaterial and is reported as current year activities.

G. Prior period adjustments

The City had the following transactions that required prior period adjustment to the beginning net assets/fund balances:

Prior to year 2011, January utility taxes that are due in February were accrued and reported as revenues for the previous year. The amount of January 2011 utilities taxes that was reported in 2010 was \$447,221.

Interest and penalties that were delinquent and due on special assessments were not reported as receivables in prior years. This adjustment only affected beginning net assets of the government-wide statement of activities, as the governmental fund statements also reports offsetting deferred revenues as they were not available.

Calculation of look-back adjustments for eliminating internal services fund activity result (surplus and deficit) was done incorrectly since 2004. Capital contributions from other funds are to be excluded from the look-back adjustment calculation for allocating the residual amount between functions/programs on the government-wide statement of activities, but they were not properly excluded for the calculation. The cumulative net crossover adjustment amounted to \$782,424.

The following is a summary of adjustments to the beginning net assets/fund balances reported in 2011:

Description	Statement of Revenues, Expenditures, and Changes in Fund Balances Governmental Funds		Statement of Activities	
	Total	Governmental Activities	Business-type Activities	Total
	Net assets/fund balance - beginning as previously reported	\$ 56,074,400	\$ 366,418,120	\$ 239,683,094
Prior year adjustments:				
Tax accrual	(447,221)	(447,221)		(447,221)
Special assessments	-	600,019		600,019
Internal balance for Net crossover adjustments	-	782,424	(782,424)	-
Total prior period adjustments	(447,221)	935,222	(782,424)	152,798
Net assets/fund balance - beginning adjusted	\$ 55,627,179	\$ 367,353,342	\$ 238,900,670	\$ 606,254,012

H. Other accounting and reporting changes

Special assessments for local improvement districts were previously reported as general revenues in the government-wide statements of activities. A review of this classification during 2011 determined that they were capital special assessments specific to transportation program; therefore, they are reported as capital grants and contributions of transportation program on current year financial statements.

The City maintains Regional Athletic Complex M & O Fund as special revenue funds for accounting and budgeting purposes. This fund did not meet the criteria under the new GASB Statement No. 54 for separate reporting in external financial statements; and therefore, is presented as part of the general fund.

I. Subsequent events

A litigation action was filed in May, 2012 by AT&T Mobility (New Cingular Wireless) against Washington Cities, which includes the City of Lacey, for claiming a tax refunds for periods from November 2005 through September 2010. The City of Lacey is currently in the process of preparing for filing a motion in the litigation as of the date of this financial report. It is the opinion of the City's legal team that it is not probable that the City will have to make payment.



*Required Supplementary
Information Section*

Schedule of Revenues, Expenditures, and
Changes in Fund Balances - Budget to Actual
General Fund
For the Year Ended December 31, 2011

	Budgeted Amounts		Actual Budgetary Basis	Variance with Final Budget
	Original	Final		Positive (Negative)
REVENUES				
Taxes	\$ 17,151,947	\$ 17,151,947	\$ 16,989,647	\$ (162,300)
Licenses and permits	1,262,230	1,262,230	1,562,451	300,221
Intergovernmental revenues	1,008,053	1,032,553	1,303,673	271,120
Charges for services	5,746,454	5,776,454	6,205,388	428,934
Fines and forfeitures	775,000	775,000	728,162	(46,838)
Other revenues	455,950	455,950	213,931	(242,019)
Total revenues	26,399,634	26,454,134	27,003,252	549,118
EXPENDITURES				
Current:				
General government	5,824,677	5,906,847	5,436,298	470,549
Security of persons and property	10,544,307	10,667,307	10,419,459	247,848
Physical environment	3,901,557	3,916,557	3,756,860	159,697
Economic environment	1,263,866	1,263,866	1,152,983	110,883
Mental and physical health	8,360	8,360	10,049	(1,689)
Culture and recreation	4,987,659	5,059,036	4,785,123	273,913
Capital outlay	-	-	36,119	(36,119)
Debt service:				
Principal retirement	-	-	21,034	(21,034)
Interest	-	-	4,728	(4,728)
Total expenditures	26,530,426	26,821,973	25,622,653	1,199,320
Excess of revenue over (under) expenditures	(130,792)	(367,839)	1,380,599	1,748,438
OTHER FINANCING SOURCES (USES)				
Proceeds from capital lease	-	-	36,119	36,119
Interfund loan proceeds	-	750,000	-	(750,000)
Interfund loan disbursement	-	(750,000)	-	750,000
Transfers in	307,410	307,410	306,310	(1,100)
Transfers out	(582,668)	(8,228,648)	(7,477,548)	751,100
Total other financing sources	(275,258)	(7,921,238)	(7,135,119)	786,119
Net change in fund balances	(406,050)	(8,289,077)	(5,754,520)	2,534,557
Fund balance-January 1, 2011, as previously reported	517,630	8,400,657	27,077,068	18,676,411
Correction of an error in accrual in prior period	-	-	(113,961)	(113,961)
Adjusted Fund Balance at January 1, 2011	517,630	8,400,657	26,963,107	18,562,450
FUND BALANCES - DECEMBER 31	\$ 111,580	\$ 111,580	\$ 21,208,587	\$ 21,097,007

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, 2011

	Budgeted Amounts		Actual GAAP Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 1,051,000	\$ 1,051,000	\$ 925,913	\$ (125,087)
Intergovernmental revenues	3,181,225	3,181,225	3,726,909	545,684
Charges for services	1,159,630	1,159,630	1,171,592	11,962
Other revenues	-	-	71,494	71,494
Total revenues	5,391,855	5,391,855	5,895,908	504,053
EXPENDITURES				
Capital outlay	7,116,260	7,903,670	8,904,282	(1,000,612)
Total expenditures	7,116,260	7,903,670	8,904,282	(1,000,612)
Excess of revenue over (under) expenditures	(1,724,405)	(2,511,815)	(3,008,374)	(496,559)
OTHER FINANCING SOURCES (USES)				
Transfers in	850,000	3,700,000	3,700,000	-
Total other financing sources	850,000	3,700,000	3,700,000	-
Net change in fund balances	(874,405)	1,188,185	691,626	(496,559)
FUND BALANCES - JANUARY 1	9,267,645	10,055,055	12,633,649	2,578,594
FUND BALANCES - DECEMBER 31	\$ 8,393,240	\$ 11,243,240	\$ 13,325,275	\$ 2,082,035

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

Budgetary Comparison Schedule
Notes to RSI

Note A - Explanation of Difference between Revenues, Expenditures, and Other Financing Sources (Uses) for Budgetary Funds on a Budgetary Basis and GAAP General Fund on a GAAP Basis

<u>Budgetary Funds</u>	<u>Current Expense Fund</u>	<u>Regional Athletic Complex M&O Fund</u>
Financial Statement Major Funds	<u>General Fund</u>	
<u>Revenues</u>		
Actual amounts (budgetary basis) "revenues" from the budgetary comparison schedules	\$ 27,003,252	\$ 615,097
Reclassifications:		
Budgetary regional athletic complex M&O fund revenues are reclassified to the general fund for GAAP reporting.	<u>615,097</u>	<u>(615,097)</u>
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds	<u>\$ 27,618,349</u>	<u>\$ -</u>
<u>Expenditures</u>		
Actual amounts (budgetary basis) "expenditures" from the budgetary comparison schedules	\$ 25,622,653	\$ 910,263
Reclassifications:		
Budgetary regional athletic complex M&O fund expenditures are reclassified to the general fund for GAAP reporting.	<u>910,263</u>	<u>(910,263)</u>
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances-governmental funds	<u>\$ 26,532,916</u>	<u>\$ -</u>
<u>Other financing sources (uses)</u>		
Actual amounts (budgetary basis) "other financing sources and uses" from the budgetary comparison schedules	\$ (7,135,119)	\$ 493,301
Reclassifications:		
Budgetary regional athletic complex M&O fund other financing sources and used are reclassified to the general fund for GAAP reporting.	<u>493,301</u>	<u>(493,301)</u>
Total other financing sources and uses as reported on the statement of revenues, expenditures, and changes in fund balances-governmental funds	<u>\$ (6,641,818)</u>	<u>\$ -</u>

Schedule of Funding Progress
Other Postemployment Benefits (OPEB) Plan
LEOFF 1, Police Officers
(\$ in thousands)

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]
12/31/2009	\$ 0	\$ 3,931,976	3,931,976	0.0%	\$ 1,384,900	284%
12/31/2010	0	3,859,968	3,859,968	0.0%	1,540,626	251%
12/31/2011	0	4,130,053	4,130,053	0.0%	1,701,702	243%

*Total police department annual benefits budget instead of one active member's annual payroll.



*Combining & Individual Fund
Statements & Schedules Section*

NONMAJOR 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.

Street Fund 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 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 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 grants dollars awarded to qualifying agencies serving Lacey citizens.

Debt Service Funds

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

Capital Project Funds

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

Building Improvement Fund 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.

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.

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.

Combining Balance Sheet
Other Governmental Funds
December 31, 2011

	Special Revenue Funds		
	Street Fund	Lodging Tax	Community Development Block Grant
ASSETS			
Current cash and cash equivalents	\$ 2,857,429	\$ 928,897	\$ 54,723
Receivables (net of allowances):			
Taxes	138,806	49,585	-
Customer accounts	219,025	-	284,515
Due from other governmental units	-	734	-
Restricted assets:			
Total assets	<u>\$ 3,215,260</u>	<u>\$ 979,216</u>	<u>\$ 339,238</u>
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts payable	62,206	13,946	-
Due to other governmental units	6,815	-	-
Custodial accounts			
Deferred revenue	-	-	284,515
Total Liabilities	<u>69,021</u>	<u>13,946</u>	<u>284,515</u>
Fund balances			
Restricted			
Lodging/tourism	-	890,270	-
HUD grant	-	-	54,723
City facilities	-	-	-
Committed			
Public art	-	-	-
City facilities	125,000	-	-
Equipment replacement	2,000,000	-	-
Convention center study	-	75,000	-
Senior center expansion	-	-	-
Train depot	-	-	-
Capital facilities plan	-	-	-
Assigned			
Street maintenance	1,021,239	-	-
Capital projects	-	-	-
Debt service	-	-	-
Total fund balances	<u>3,146,239</u>	<u>965,270</u>	<u>54,723</u>
Total liabilities and fund balances	<u>\$ 3,215,260</u>	<u>\$ 979,216</u>	<u>\$ 339,238</u>

Debt Service Fund	Capital Project Funds			Total
General Obligation Bond Fund	Building Improvement	Capital Expenditure	Regional Athletic Complex Capital	Other Governmental Funds
\$ 259,017	\$ 5,775,066	\$ 2,760,861	\$ 266,722	\$ 12,902,715
65,738	-	116,080	-	370,209
-	-	9,060	130,994	643,594
-	37,795	37,160	-	75,689
<u>\$ 324,755</u>	<u>\$ 5,812,861</u>	<u>\$ 2,923,161</u>	<u>\$ 397,716</u>	<u>\$ 13,992,207</u>
-	39,883	10,639	-	126,674
-	-	-	-	6,815
63,651	-	-	-	348,166
<u>63,651</u>	<u>39,883</u>	<u>10,639</u>	<u>-</u>	<u>481,655</u>
-	-	-	-	890,270
-	-	-	-	54,723
-	-	82,889	20,000	102,889
-	23,106	-	-	23,106
-	1,800,000	500,000	-	2,425,000
-	-	1,060,000	-	3,060,000
-	-	-	-	75,000
-	1,582,010	-	-	1,582,010
-	500,000	-	-	500,000
-	1,500,000	-	-	1,500,000
-	-	-	-	1,021,239
-	367,862	1,269,633	377,716	2,015,211
261,104	-	-	-	261,104
<u>261,104</u>	<u>5,772,978</u>	<u>2,912,522</u>	<u>397,716</u>	<u>13,510,552</u>
<u>\$ 324,755</u>	<u>\$ 5,812,861</u>	<u>\$ 2,923,161</u>	<u>\$ 397,716</u>	<u>\$ 13,992,207</u>

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Other Governmental Funds
For the Year Ended December 31, 2011

	Special Revenue Funds		
	Street Fund	Lodging Tax	Community Development Block Grant
REVENUES			
Taxes	\$ 1,841,166	\$ 381,186	\$ -
Licenses and permits	-	-	-
Intergovernmental revenues	638,643	733	63,712
Charges for services	29,404	-	-
Other revenues	47,380	2,025	251
Total revenues	2,556,593	383,944	63,963
EXPENDITURES			
Current:			
Transportation	2,645,996	-	-
Economic environment	-	-	53,860
Culture and recreation	-	223,729	-
Capital outlay	-	-	-
Debt service:			
Principal retirement	-	-	-
Interest	-	-	-
Debt issue cost	-	-	-
Total expenditures	2,645,996	223,729	53,860
Excess of revenue over (under) expenditures	(89,403)	160,215	10,103
OTHER FINANCING SOURCES (USES)			
Transfers in	-	-	-
Transfers out	-	(145,500)	-
Total other financing sources (uses)	-	(145,500)	-
Net change in fund balances	(89,403)	14,715	10,103
Fund balance - January 1, 2011, as previously reported	3,376,562	950,555	44,620
Correction of an error in accrual in prior period	(140,920)	-	-
Adjusted fund balance at January 1, 2011	3,235,642	950,555	44,620
FUND BALANCES - DECEMBER 31	\$ 3,146,239	\$ 965,270	\$ 54,723

Debt Service Fund	Capital Project Funds			Total Other Governmental Funds
General Obligation Bond Fund	Building Improvement	Capital Expenditure	Regional Athletic Complex Capital	
\$ 1,446,877	\$ -	\$ 1,547,861	\$ -	\$ 5,217,090
-	-	36,641	-	36,641
-	141,659	104,073	687,055	1,635,875
-	-	-	-	29,404
3,471	70,270	19,633	531	143,561
<u>1,450,348</u>	<u>211,929</u>	<u>1,708,208</u>	<u>687,586</u>	<u>7,062,571</u>
-	-	-	-	2,645,996
-	-	-	-	53,860
-	-	-	4,759	228,488
-	532,470	332,351	11,865	876,686
1,235,000	-	-	-	1,235,000
843,762	-	-	-	843,762
-	46,878	-	-	46,878
<u>2,078,762</u>	<u>579,348</u>	<u>332,351</u>	<u>16,624</u>	<u>5,930,670</u>
(628,414)	(367,419)	1,375,857	670,962	1,131,901
582,930	5,765,318	603,168	20,000	6,971,416
(44,418)	-	(6,505,000)	(582,930)	(7,277,848)
<u>538,512</u>	<u>5,765,318</u>	<u>(5,901,832)</u>	<u>(562,930)</u>	<u>(306,432)</u>
(89,902)	5,397,899	(4,525,975)	108,032	825,469
351,006	375,079	7,556,352	316,351	12,970,525
-	-	(117,855)	(26,667)	(285,442)
<u>351,006</u>	<u>375,079</u>	<u>7,438,497</u>	<u>289,684</u>	<u>12,685,083</u>
<u>\$ 261,104</u>	<u>\$ 5,772,978</u>	<u>\$ 2,912,522</u>	<u>\$ 397,716</u>	<u>\$ 13,510,552</u>

Schedule of Revenues, Expenditures, and
Changes in Fund Balances - Budget to Actual
Street Fund
For the Year Ended December 31, 2011

	Budgeted Amounts		Actual GAAP Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 1,820,575	\$ 1,820,575	\$ 1,841,166	\$ 20,591
Intergovernmental revenues	603,667	603,667	638,643	34,976
Charges for services	15,000	15,000	29,404	14,404
Other revenues	5,000	5,000	47,380	42,380
Total revenues	<u>2,444,242</u>	<u>2,444,242</u>	<u>2,556,593</u>	<u>112,351</u>
EXPENDITURES				
Current:				
Transportation	2,519,664	2,604,847	2,645,996	(41,149)
Total expenditures	<u>2,519,664</u>	<u>2,604,847</u>	<u>2,645,996</u>	<u>(41,149)</u>
Excess of revenue over (under) expenditures	<u>(75,422)</u>	<u>(160,605)</u>	<u>(89,403)</u>	<u>71,202</u>
Net change in fund balances	(75,422)	(160,605)	(89,403)	71,202
Fund balance-January 1, 2011, as previously reported	75,422	160,605	3,376,562	3,215,957
Correction of an error in accrual in prior period	-	-	(140,920)	(140,920)
Adjusted Fund Balance at January 1, 2011	<u>75,422</u>	<u>160,605</u>	<u>3,235,642</u>	<u>3,075,037</u>
FUND BALANCES - DECEMBER 31	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,146,239</u>	<u>\$ 3,146,239</u>

Schedule of Revenues, Expenditures, and
 Changes in Fund Balances - Budget to Actual
 Regional Athletic Complex Maintenance and Operations
 For the Year Ended December 31, 2011

	Budgeted Amounts		Actual Budgetary Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental revenues	\$ 160,000	\$ 160,000	\$ 199,251	\$ 39,251
Charges for services	208,700	208,700	396,369	187,669
Other revenues	25,000	25,000	19,477	(5,523)
Total revenues	393,700	393,700	615,097	221,397
EXPENDITURES				
Current:				
Culture and recreation	883,001	934,255	910,263	23,992
Total expenditures	883,001	934,255	910,263	23,992
Excess of revenue over (under) expenditures	(489,301)	(540,555)	(295,166)	245,389
OTHER FINANCING SOURCES (USES)				
Transfers in	493,301	493,301	493,301	-
Total other financing sources	493,301	493,301	493,301	-
Net change in fund balances	4,000	(47,254)	198,135	245,389
Fund balance-January 1, 2011, as previously reported	-	51,254	264,171	212,917
Correction of an error in accrual in prior period	-	-	26,667	26,667
Adjusted Fund Balance at January 1, 2011	-	51,254	290,838	239,584
FUND BALANCES - DECEMBER 31	\$ 4,000	\$ 4,000	\$ 488,973	\$ 484,973

Schedule of Revenues, Expenditures, and
Changes in Fund Balances - Budget to Actual
Lodging Tax
For the Year Ended December 31, 2011

	Budgeted Amounts		Actual GAAP Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 350,593	\$ 350,593	\$ 381,186	\$ 30,593
Intergovernmental revenues	-	-	733	733
Other revenues	2,500	2,500	2,025	(475)
Total revenues	353,093	353,093	383,944	30,851
EXPENDITURES				
Current:				
Culture and recreation	235,000	260,000	223,729	36,271
Total expenditures	235,000	260,000	223,729	36,271
Excess of revenue over (under) expenditures	118,093	93,093	160,215	67,122
OTHER FINANCING SOURCES (USES)				
Transfers out	(145,500)	(145,500)	(145,500)	-
Total other financing sources	(145,500)	(145,500)	(145,500)	-
Net change in fund balances	(27,407)	(52,407)	14,715	67,122
FUND BALANCES - JANUARY 1	27,407	52,407	950,555	898,148
FUND BALANCES - DECEMBER 31	\$ -	\$ -	\$ 965,270	\$ 965,270

Schedule of Revenues, Expenditures, and
 Changes in Fund Balances - Budget to Actual
 Community Development Block Grant
 For the Year Ended December 31, 2011

	Budgeted Amounts		Actual GAAP Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental revenues	\$ -	\$ 55,400	\$ 63,712	\$ 8,312
Other revenue	-	-	251	251
Total revenues	-	55,400	63,963	8,563
EXPENDITURES				
Current:				
Economic environment	-	55,400	53,860	1,540
Total expenditures	-	55,400	53,860	1,540
Excess of revenue over (under) expenditures	-	-	10,103	10,103
Net change in fund balance	-	-	10,103	10,103
FUND BALANCES JANUARY 1	-	-	44,620	44,620
FUND BALANCES DECEMBER 31	\$ -	\$ -	\$ 54,723	\$ 54,723

Schedule of Revenues, Expenditures, and
Changes in Fund Balances - Budget to Actual
General Obligation Bond Fund
For the Year Ended December 31, 2011

	Budgeted Amounts		Actual GAAP Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 1,515,750	\$ 1,495,835	\$ 1,446,877	\$ (48,958)
Other revenues	500	500	3,471	2,971
Total revenues	<u>1,516,250</u>	<u>1,496,335</u>	<u>1,450,348</u>	<u>(45,987)</u>
EXPENDITURES				
Debt service:				
Principal retirement	1,200,000	1,235,000	1,235,000	-
Interest	898,680	843,765	843,762	3
Total expenditures	<u>2,098,680</u>	<u>2,078,765</u>	<u>2,078,762</u>	<u>3</u>
Excess of revenue over (under) expenditures	<u>(582,430)</u>	<u>(582,430)</u>	<u>(628,414)</u>	<u>(45,984)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	582,930	582,930	582,930	-
Transfers out	(44,418)	(44,418)	(44,418)	-
Total other financing sources	<u>538,512</u>	<u>538,512</u>	<u>538,512</u>	<u>-</u>
Net change in fund balance	(43,918)	(43,918)	(89,902)	(45,984)
FUND BALANCES JANUARY 1	<u>44,420</u>	<u>44,420</u>	<u>351,006</u>	<u>306,586</u>
FUND BALANCES DECEMBER 31	<u>\$ 502</u>	<u>\$ 502</u>	<u>\$ 261,104</u>	<u>\$ 260,602</u>

Schedule of Revenues, Expenditures, and
Changes in Fund Balances - Budget to Actual
L.I.D. Redemption
For the Year Ended December 31, 2011

	Budgeted Amounts		Actual GAAP Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Other revenues	\$ 268,560	\$ 768,560	\$ 777,936	\$ 9,376
Total revenues	<u>268,560</u>	<u>768,560</u>	<u>777,936</u>	<u>9,376</u>
EXPENDITURES				
Debt service:				
Principal retirement	196,420	696,420	696,416	4
Interest	47,140	47,140	47,140	-
Total expenditures	<u>243,560</u>	<u>743,560</u>	<u>743,556</u>	<u>4</u>
Excess of revenue over (under) expenditures	<u>25,000</u>	<u>25,000</u>	<u>34,380</u>	<u>9,380</u>
OTHER FINANCING SOURCES (USES)				
Transfers out	(25,000)	(25,000)	(25,000)	-
Total other financing sources	<u>(25,000)</u>	<u>(25,000)</u>	<u>(25,000)</u>	<u>-</u>
Net change in fund balance	-	-	9,380	9,380
FUND BALANCES JANUARY 1	-	-	126,600	126,600
FUND BALANCES DECEMBER 31	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 135,980</u>	<u>\$ 135,980</u>

Schedule of Revenues, Expenditures, and
Changes in Fund Balances - Budget to Actual
Building Improvement
For the Year Ended December 31, 2011

	Budgeted Amounts		Actual GAAP Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental revenues	\$ -	\$ 200,000	\$ 141,659	\$ (58,341)
Other revenues	55,000	63,614	70,270	6,656
Total revenues	55,000	263,614	211,929	(51,685)
EXPENDITURES				
Current:				
General government	10,000	10,000	-	10,000
Capital outlay	465,900	834,720	532,470	302,250
Debt service:				
Other debt issue/service cost	44,418	44,418	46,878	(2,460)
Total expenditures	520,318	889,138	579,348	309,790
Excess of revenue over (under) expenditures	(465,318)	(625,524)	(367,419)	258,105
OTHER FINANCING SOURCES (USES)				
Transfers in	465,318	5,765,318	5,765,318	-
Total other financing sources	465,318	5,765,318	5,765,318	-
Net change in fund balance	-	5,139,794	5,397,899	258,105
FUND BALANCES JANUARY 1	-	168,820	375,079	206,259
FUND BALANCES DECEMBER 31	\$ -	\$ 5,308,614	\$ 5,772,978	\$ 464,364

Schedule of Revenues, Expenditures, and
Changes in Fund Balances - Budget to Actual
Capital Expenditure
For the Year Ended December 31, 2011

	Budgeted Amounts		Actual GAAP Basis	Variance with
	Original	Final		Final Budget Positive (Negative)
REVENUES				
Taxes	\$ 1,521,422	\$ 1,521,422	\$ 1,547,861	\$ 26,439
Licenses and permits	36,000	36,000	36,641	641
Intergovernmental revenues	-	248,243	104,073	(144,170)
Other revenues	21,000	21,000	19,633	(1,367)
Total revenues	1,578,422	1,826,665	1,708,208	(118,457)
EXPENDITURES				
Capital outlay	948,590	1,279,826	332,351	947,475
Total expenditures	948,590	1,279,826	332,351	947,475
Excess of revenue over (under) expenditures	629,832	546,839	1,375,857	829,018
OTHER FINANCING SOURCES (USES)				
Transfers in	103,168	603,168	603,168	-
Transfers out	(855,000)	(6,505,000)	(6,505,000)	-
Total other financing sources	(751,832)	(5,901,832)	(5,901,832)	-
Net change in fund balances	(122,000)	(5,354,993)	(4,525,975)	829,018
Fund balance-January 1, 2011, as previously reported	122,000	5,854,993	7,556,352	1,701,359
Correction of an error in accrual in prior period	-	-	(117,855)	(117,855)
Adjusted Fund Balance at January 1, 2011	122,000	5,854,993	7,438,497	1,583,504
FUND BALANCES DECEMBER - 31	\$ -	\$ 500,000	\$ 2,912,522	\$ 2,412,522

Schedule of Revenues, Expenditures, and
Changes in Fund Balances - Budget to Actual
Parks & Open Space
For the Year Ended December 31, 2011

	Budgeted Amounts		Actual GAAP Basis	Variance with Final Budget
	Original	Final		Positive (Negative)
REVENUES				
Taxes	\$ 962,710	\$ 962,710	\$ 967,695	\$ 4,985
Intergovernmental revenues	-	950,000	206,742	(743,258)
Other revenues	13,386	13,386	42,055	28,669
Total revenues	976,096	1,926,096	1,216,492	(709,604)
EXPENDITURES				
Current:				
Culture and recreation	-	2,010,226	87	2,010,139
Capital outlay	100,000	305,451	2,034,129	(1,728,678)
Debt service:				
Debt issue cost	-	-	603	(603)
Total expenditures	100,000	2,315,677	2,034,819	280,858
Excess of revenue over (under) expenditures	876,096	(389,581)	(818,327)	(428,746)
OTHER FINANCING SOURCES (USES)				
Interfund loan proceeds	-	750,000	-	(750,000)
Interfund loan disbursement	-	(750,000)	-	750,000
Transfers in	-	750,000	-	(750,000)
Transfers out	(686,611)	(686,611)	(686,611)	-
Total other financing sources	(686,611)	63,389	(686,611)	(750,000)
Net change in fund balances	189,485	(326,192)	(1,504,938)	(1,178,746)
Fund balance-January 1, 2011, as previously reported	37,500	1,542,951	3,002,387	1,459,436
Correction of an error in accrual in prior period	-	-	(74,485)	(74,485)
Adjusted Fund Balance at January 1, 2011	37,500	1,542,951	2,927,902	1,384,951
FUND BALANCES - DECEMBER 31	\$ 226,985	\$ 1,216,759	\$ 1,422,964	\$ 206,205

Schedule of Revenues, Expenditures, and
Changes in Fund Balances - Budget to Actual
Regional Athletic Complex Capital
For the Year Ended December 31, 2011

	Budgeted Amounts		Actual GAAP Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental revenues	\$ 764,526	\$ 764,526	687,055	\$ (77,471)
Other revenues	4,456	4,456	531	(3,925)
Total revenues	<u>768,982</u>	<u>768,982</u>	<u>687,586</u>	<u>(81,396)</u>
EXPENDITURES				
Current:				
Culture and recreation	37,340	151,712	4,759	146,953
Capital outlay	-	-	11,865	(11,865)
Total expenditures	<u>37,340</u>	<u>151,712</u>	<u>16,624</u>	<u>135,088</u>
Excess of revenue over (under) expenditures	<u>731,642</u>	<u>617,270</u>	<u>670,962</u>	<u>53,692</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	20,000	20,000	20,000	-
Transfers out	<u>(582,930)</u>	<u>(582,930)</u>	<u>(582,930)</u>	<u>-</u>
Total other financing sources	<u>(562,930)</u>	<u>(562,930)</u>	<u>(562,930)</u>	<u>-</u>
Net change in fund balances	168,712	54,340	108,032	53,692
Fund balance-January 1, 2011, as previously reported	-	114,372	316,351	201,979
Correction of an error in accrual in prior period			<u>(26,667)</u>	<u>(26,667)</u>
Adjusted Fund Balance at January 1, 2011	-	114,372	289,684	175,312
FUND BALANCES - DECEMBER 31	<u><u>\$ 168,712</u></u>	<u><u>\$ 168,712</u></u>	<u><u>\$ 397,716</u></u>	<u><u>\$ 229,004</u></u>

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.

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 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, 2011

	Governmental Activities		
	Internal Service Funds		
	Equipment Rental	Information Services	Total
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 6,778,880	\$ 2,385,805	\$ 9,164,685
Receivables (net of allowances):			
Customer accounts	7,225	-	7,225
Due from governmental units	5,562	-	5,562
Total current assets:	<u>6,791,667</u>	<u>2,385,805</u>	<u>9,177,472</u>
Noncurrent assets:			
Capital assets, net of depreciation:			
Buildings	148,902	-	148,902
Improvements other than buildings	5,097	-	5,097
Equipment	3,149,871	267,976	3,417,847
Total noncurrent assets	<u>3,303,870</u>	<u>267,976</u>	<u>3,571,846</u>
Total assets	<u>10,095,537</u>	<u>2,653,781</u>	<u>12,749,318</u>
LIABILITIES			
Current liabilities:			
Accounts payable	680	6,046	6,726
Due to other governmental units	-	2,639	2,639
Compensated absences	7,148	11,421	18,569
Total current liabilities	<u>7,828</u>	<u>20,106</u>	<u>27,934</u>
Noncurrent liabilities:			
Compensated absences	10,976	5,835	16,811
Total noncurrent liabilities	<u>10,976</u>	<u>5,835</u>	<u>16,811</u>
Total liabilities	<u>18,804</u>	<u>25,941</u>	<u>44,745</u>
NET ASSETS			
Investment in capital assets	3,303,870	267,976	3,571,846
Unrestricted	6,772,863	2,359,864	9,132,727
Total net assets	<u>\$ 10,076,733</u>	<u>\$ 2,627,840</u>	<u>\$ 12,704,573</u>

Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets
Internal Service Funds
For the Year Ended December 31, 2011

	Governmental Activities		
	Internal Service Funds		
	Equipment Rental	Information Services	Total
OPERATING REVENUES			
Charges for services	\$ 1,830,104	\$ 1,555,047	\$ 3,385,151
Total operating revenue	1,830,104	1,555,047	3,385,151
OPERATING EXPENSES			
Operating expense	1,061,668	1,073,246	2,134,914
Maintenance expense	34,878	196,666	231,544
Depreciation expense	681,510	210,850	892,360
Total operating expenses	1,778,056	1,480,762	3,258,818
OPERATING INCOME (LOSS)	52,048	74,285	126,333
NONOPERATING REVENUES (EXPENSES)			
Investment earnings	17,550	5,748	23,298
Miscellaneous nonoperating revenues	53,513	1,936	55,449
Gain (loss) on sale of capital assets	24,220	-	24,220
Total nonoperating revenues (expenses)	95,283	7,684	102,967
Income (loss) before contributions and transfers	147,331	81,969	229,300
Capital contributions	67,181	11,185	78,366
Transfers in	184,641	-	184,641
Changes in net assets	399,153	93,154	492,307
NET ASSETS - BEGINNING	9,677,580	2,534,686	12,212,266
NET ASSETS - ENDING	\$ 10,076,733	\$ 2,627,840	\$ 12,704,573

Statement of Cash Flows
Internal Service Funds
For the Year Ended December 31, 2011

	Governmental Activities		
	Internal Service Funds		
	Equipment Rental	Information Services	Total Internal Service
CASH FLOW FROM OPERATING ACTIVITIES:			
Receipts from customers and users	\$ 1,938,892	\$ 1,556,983	\$ 3,495,875
Payments to suppliers	(786,809)	(439,235)	(1,226,044)
Payments to employees	(357,985)	(884,279)	(1,242,264)
Net cash provided by operating activities	<u>794,098</u>	<u>233,469</u>	<u>1,027,567</u>
CASH FLOW FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Acquisition and construction of capital assets	(791,221)	(60,257)	(851,478)
Proceeds from sales of capital assets	24,220	-	24,220
Transfers received from other funds for capital acquisition	184,641	-	184,641
Net cash used by capital and related financing activities	<u>(582,360)</u>	<u>(60,257)</u>	<u>(642,617)</u>
CASH FLOW FROM INVESTING ACTIVITIES:			
Purchase of investment	(207,382)	-	(207,382)
Interest received on investments	17,550	5,748	23,298
Net cash provided (used) by investing activities	<u>(189,832)</u>	<u>5,748</u>	<u>(184,084)</u>
Net increase (decrease) in cash and cash equivalents	21,906	178,960	200,866
Cash and cash equivalents January 1	6,549,592	2,206,845	8,756,437
Cash and cash equivalents December 31 (see Note below)	<u>\$ 6,571,498</u>	<u>\$ 2,385,805</u>	<u>\$ 8,957,303</u>
CASH PROVIDED BY OPERATING ACTIVITIES:			
Net operating income	\$ 52,048	\$ 74,285	\$ 126,333
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:			
Depreciation	681,510	210,850	892,360
(Increase)/decrease in customer receivables	48,870	-	48,870
(Increase)/decrease in intergovernmental receivables	6,405	-	6,405
(Increase)/decrease in interfund loans	-	-	-
Miscellaneous non-operating revenues	53,513	1,936	55,449
Increase/(decrease) in accounts payables	(53,313)	(55,051)	(108,364)
Increase/(decrease) in intergovernmental payables	-	834	834
Increase/(decrease) in compensated absences payables	5,065	615	5,680
Net cash provided by operating activities	<u>\$ 794,098</u>	<u>\$ 233,469</u>	<u>\$ 1,027,567</u>
Noncash investing, capital and financing activities:			
Capital assets (non-cash) transferred (to) from other funds	\$ 67,181	\$ 11,185	\$ 78,366
Note: Reconciling Cash and cash equivalents with the amounts on the statement of fund net assets:			
Statement of Net Assets			\$ 9,164,685
Less Investments with maturity over 3 months			207,382
Cash Flow Statements			<u>\$ 8,957,303</u>

Fiduciary Funds

Agency 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 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 Fiduciary Net Assets
Agency Funds
December 31, 2011

	Joint Animal Services	Thurston County Nartotics Task Force	Capital Area Public Facilities District	Total
ASSETS				
Cash and cash equivalents	\$ 2,214,183	\$ 263,014	\$ 69,494	\$ 2,546,691
Prepays	824	77	-	901
Accounts receivables, net of uncollectible accounts	-	5,144	-	5,144
Due from other governmental units	2,051	36,367	228,950	267,368
Total assets	\$ 2,217,058	\$ 304,602	\$ 298,444	\$ 2,820,104
LIABILITIES				
Accounts payable	\$ 29,276	\$ 49,778	\$ -	\$ 79,054
Accrued employee leave payable	62,795	6,393	-	69,188
Capital lease payable	6,541	-	-	6,541
Notes payable	149,024	-	-	149,024
Due to other governmental units	1,969,422	248,431	298,444	2,516,297
Total liabilities	\$ 2,217,058	\$ 304,602	\$ 298,444	\$ 2,820,104

Combining Statement of Changes in Assets and Liabilities
Agency Funds
For the Year Ended December 31, 2011

	Joint Animal Services			Balance December 31, 2011
	Balance December 31, 2010	Additions	Deductions	
ASSETS				
Cash and cash equivalents	\$ 1,909,324	\$ 1,824,663	\$ 1,519,804	\$ 2,214,183
Prepays	1,118	4,400	4,694	824
Accounts receivables, net of uncollectible accounts	-	867,182	867,182	-
Due from other governmental units	-	2,051	-	2,051
Total assets	\$ 1,910,442	\$ 2,698,296	\$ 2,391,680	\$ 2,217,058
LIABILITIES				
Accounts payable	\$ 14,849	\$ 435,660	\$ 421,233	\$ 29,276
Accrued employee leave payable	62,023	44,484	43,712	62,795
Capital lease payable	8,439	-	1,898	6,541
Notes payable	165,874	-	16,850	149,024
Due to other governmental units	1,659,257	2,081,496	1,771,331	1,969,422
Total liabilities	\$ 1,910,442	\$ 2,561,640	\$ 2,255,024	\$ 2,217,058

	Thurston County Narcotics Task Force			Balance December 31, 2011
	Balance December 31, 2010	Additions	Deductions	
ASSETS				
Cash and cash equivalents	\$ 237,378	\$ 1,019,070	\$ 993,434	\$ 263,014
Prepays	583	1,700	2,206	77
Accounts receivables, net of uncollectible accounts	-	5,144	-	5,144
Due from other governmental units	38,597	36,367	38,597	36,367
Total assets	\$ 276,558	\$ 1,062,281	\$ 1,034,237	\$ 304,602
LIABILITIES				
Accounts payable	\$ 3,508	\$ 729,455	\$ 683,185	\$ 49,778
Accrued employee leave payable	12,058	5,293	10,958	6,393
Due to other governmental units	260,992	1,106,851	1,119,412	248,431
Total liabilities	\$ 276,558	\$ 1,841,599	\$ 1,813,555	\$ 304,602

Combining Statement of Changes in Assets and Liabilities
Agency Funds
For the Year Ended December 31, 2011

	Capital Area Public Facilities District			
	Balance December 31, 2010	Additions	Deductions	Balance December 31, 2011
ASSETS				
Cash and cash equivalents	\$ 69,380	\$ 1,338,293	\$ 1,338,179	\$ 69,494
Due from other governmental units	2,004	231,953	5,007	228,950
Total assets	\$ 71,384	\$ 1,570,246	\$ 1,343,186	\$ 298,444
LIABILITIES				
Accounts payable	\$ -	\$ 6,631	\$ 6,631	\$ -
Due to other governmental units	71,384	2,714,093	2,487,033	298,444
Total liabilities	\$ 71,384	\$ 2,720,724	\$ 2,493,664	\$ 298,444
Total All Agencies				
	Balance December 31, 2010	Additions	Deductions	Balance December 31, 2011
ASSETS				
Cash and cash equivalents	\$ 2,216,082	\$ 4,182,026	\$ 3,851,417	\$ 2,546,691
Prepays	1,701	6,100	6,900	901
Accounts receivables, net of uncollectible accounts	-	872,326	867,182	5,144
Due from other governmental units	40,601	270,371	43,604	267,368
Total assets	\$ 2,258,384	\$ 5,330,823	\$ 4,769,103	\$ 2,820,104
LIABILITIES				
Accounts payable	\$ 18,357	\$ 1,171,746	\$ 1,111,049	\$ 79,054
Accrued employee leave payable	74,081	49,777	54,670	69,188
Capital lease payable	8,439	-	1,898	6,541
Notes payable	165,874	-	16,850	149,024
Due to other governmental units	1,991,633	5,902,440	5,377,776	2,516,297
Total liabilities	\$ 2,258,384	\$ 7,123,963	\$ 6,562,243	\$ 2,820,104



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*Other Supplementary
Information Section*

Schedule of Operations - Budget to Actual
Water Fund
For the Year Ended December 31, 2011

	Budgeted Amounts		Actual GAAP Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
OPERATING REVENUES				
Charges for services	\$ 11,124,154	\$ 11,124,154	\$ 11,534,926	\$ 410,772
Total operating revenue	11,124,154	11,124,154	11,534,926	410,772
OPERATING EXPENSES				
Operating expense	3,045,733	3,094,733	2,890,923	203,810
Maintenance expense	10,452,835	11,591,874	3,676,309	7,915,565
Depreciation expense	3,500,000	3,500,000	3,087,108	412,892
Taxes	436,795	436,795	449,952	(13,157)
Total operating expenses	17,435,363	18,623,402	10,104,292	8,519,110
OPERATING INCOME (LOSS)	(6,311,209)	(7,499,248)	1,430,634	8,929,882
NONOPERATING REVENUES (EXPENSES)				
Intergovernmental revenue	-	-	18,724	18,724
Investment earnings	-	-	26,214	26,214
Miscellaneous nonoperating revenues	179,088	179,088	186,238	7,150
Total nonoperating revenues (expenses)	179,088	179,088	231,176	52,088
Income (loss) before contributions and transfers	(6,132,121)	(7,320,160)	1,661,810	8,981,970
Capital contributions	-	-	1,671,516	1,671,516
Transfers in	100,000	2,295,980	2,295,980	-
Transfers out	-	-	(69,982)	(69,982)
Changes in net assets	(6,032,121)	(5,024,180)	5,559,324	10,583,504
NET ASSETS - BEGINNING	7,886,285	8,128,344	106,526,056	98,397,712
NET ASSETS - ENDING	\$ 1,854,164	\$ 3,104,164	\$ 112,085,380	\$ 108,981,216

This schedule is presented as supplemental information

Schedule of Operations - Budget to Actual
Wastewater Fund
For the Year Ended December 31, 2011

	Budgeted Amounts		Actual GAAP Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
OPERATING REVENUES				
Charges for services	\$ 12,348,030	\$ 12,348,030	\$ 12,816,912	\$ 468,882
Total operating revenue	12,348,030	12,348,030	12,816,912	468,882
OPERATING EXPENSES				
Operating expense	8,717,418	8,717,418	8,904,825	(187,407)
Maintenance expense	5,488,147	6,036,481	1,950,432	4,086,049
Depreciation expense	2,350,000	2,350,000	1,748,764	601,236
Taxes	146,905	146,905	153,561	(6,656)
Total operating expenses	16,702,470	17,250,804	12,757,582	4,493,222
OPERATING INCOME (LOSS)	(4,354,440)	(4,902,774)	59,330	4,962,104
NONOPERATING REVENUES (EXPENSES)				
Intergovernmental revenue	-	-	670,178	670,178
Investment earnings	15,548	15,548	40,218	24,670
Interfund loan	600,000	600,000	-	(600,000)
Interest expense	100,000	100,000	3,078	(96,922)
Total nonoperating revenues (expenses)	715,548	715,548	713,474	(2,074)
Income (loss) before contributions and transfers	(3,638,892)	(4,187,226)	772,804	4,960,030
Capital contributions	-	-	632,296	632,296
Transfers out	-	-	(78,104)	(78,104)
Changes in net assets	(3,638,892)	(4,187,226)	1,326,996	5,514,222
NET ASSETS - BEGINNING	6,491,032	7,039,366	81,011,294	73,971,928
NET ASSETS - ENDING	\$ 2,852,140	\$ 2,852,140	\$ 82,338,290	\$ 79,486,150

This schedule is presented as supplemental information

Schedule of Operations - Budget to Actual
Stormwater Fund
For the Year Ended December 31, 2011

	Budgeted Amounts		Actual GAAP Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
OPERATING REVENUES				
Charges for services	\$ 2,020,903	\$ 2,020,903	\$ 2,102,752	\$ 81,849
Charges for services	2,020,903	2,020,903	2,102,752	81,849
OPERATING EXPENSES				
Operating expense	1,237,119	1,237,119	1,014,612	222,507
Maintenance expense	933,504	1,463,504	727,036	736,468
Depreciation expense	1,650,000	1,650,000	1,554,140	95,860
Taxes	38,545	38,545	39,833	(1,288)
Total operating expenses	3,859,168	4,389,168	3,335,621	1,053,547
OPERATING INCOME (LOSS)	(1,838,265)	(2,368,265)	(1,232,869)	1,135,396
NONOPERATING REVENUES (EXPENSES)				
Intergovernmental revenue	164,735	164,735	124,029	(40,706)
Investment earnings	3,097	3,097	4,231	1,134
Miscellaneous nonoperating revenues	-	-	248	248
Total nonoperating revenues (expenses)	167,832	167,832	128,508	(39,324)
Income (loss) before contributions and transfers	(1,670,433)	(2,200,433)	(1,104,361)	1,096,072
Capital contributions	-	-	398,010	398,010
Transfers out	-	-	(73,051)	(73,051)
Changes in net assets	(1,670,433)	(2,200,433)	(779,402)	1,421,031
NET ASSETS - BEGINNING	2,671,733	3,201,733	48,963,231	45,761,498
NET ASSETS - ENDING	\$ 1,001,300	\$ 1,001,300	\$ 48,183,829	\$ 47,182,529

This schedule is presented as supplemental information

Schedule of Operations - Budget to Actual
Reclaimed Water
For the Year Ended December 31, 2011

	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	1,173,500	1,173,500	-	1,173,500
Total operating expenses	1,273,500	1,273,500	-	1,273,500
OPERATING INCOME (LOSS)	(1,273,500)	(1,273,500)	-	1,273,500
NONOPERATING REVENUES (EXPENSES)				
Intergovernmental revenue	-	-	202,123	202,123
Investment earnings	-	-	8,841	8,841
Miscellaneous nonoperating revenues	485,000	485,000	-	(485,000)
Total nonoperating revenues (expenses)	485,000	485,000	210,964	(274,036)
Income (loss) before contributions and transfers	(788,500)	(788,500)	210,964	999,464
Transfers in	-	1,700,000	1,700,000	-
Changes in net assets	(788,500)	911,500	1,910,964	999,464
NET ASSETS - BEGINNING	2,082,965	2,082,965	2,280,088	197,123
NET ASSETS - ENDING	\$ 1,294,465	\$ 2,994,465	4,191,052	\$ 1,196,587

This schedule is presented as supplemental information

Schedule of Operations - Budget to Actual
Equipment Rental Fund
For the Year Ended December 31, 2011

	Budgeted Amounts		Actual GAAP Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
OPERATING REVENUES				
Charges for services	\$ 1,815,549	\$ 1,815,549	\$ 1,830,104	\$ 14,555
Total operating revenue	<u>1,815,549</u>	<u>1,815,549</u>	<u>1,830,104</u>	<u>14,555</u>
OPERATING EXPENSES				
Operating expense	1,821,771	2,033,771	1,061,668	972,103
Maintenance expense	55,346	55,346	34,878	20,468
Depreciation expense	662,927	662,927	681,510	(18,583)
Total operating expenses	<u>2,540,044</u>	<u>2,752,044</u>	<u>1,778,056</u>	<u>973,988</u>
OPERATING INCOME (LOSS)	<u>(724,495)</u>	<u>(936,495)</u>	<u>52,048</u>	<u>988,543</u>
NONOPERATING REVENUES (EXPENSES)				
Investment earnings	13,965	13,965	17,550	3,585
Miscellaneous nonoperating revenues	-	-	53,513	53,513
Gain (loss) on sale of fixed assets	-	-	24,220	24,220
Total nonoperating revenues (expenses)	<u>13,965</u>	<u>13,965</u>	<u>95,283</u>	<u>81,318</u>
Income (loss) before contributions and transfers	(710,530)	(922,530)	147,331	1,069,861
Capital contributions	-	-	67,181	67,181
Transfers in	-	-	184,641	184,641
Changes in net assets	<u>(710,530)</u>	<u>(922,530)</u>	<u>399,153</u>	<u>1,321,683</u>
NET ASSETS - BEGINNING	<u>710,530</u>	<u>922,530</u>	<u>9,677,580</u>	<u>8,755,050</u>
NET ASSETS - ENDING	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10,076,733</u>	<u>\$ 10,076,733</u>

This schedule is presented as supplemental information

Schedule of Operations - Budget to Actual
Information Management Services Fund
For the Year Ended December 31, 2011

	Budgeted Amounts		Actual GAAP Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
OPERATING REVENUES				
Charges for services	\$ 1,555,047	\$ 1,555,047	\$ 1,555,047	\$ -
Total operating revenue	1,555,047	1,555,047	1,555,047	-
OPERATING EXPENSES				
Operating expense	1,331,689	1,331,689	1,073,246	258,443
Maintenance expense	242,500	242,500	196,666	45,834
Depreciation expense	197,686	197,686	210,850	(13,164)
Total operating expenses	1,771,875	1,771,875	1,480,762	291,113
OPERATING INCOME (LOSS)	(216,828)	(216,828)	74,285	291,113
NONOPERATING REVENUES (EXPENSES)				
Investment earnings	4,188	4,188	5,748	1,560
Miscellaneous nonoperating revenues	-	-	1,936	1,936
Total nonoperating revenues (expenses)	4,188	4,188	7,684	3,496
Income (loss) before contributions and transfers	(212,640)	(212,640)	81,969	294,609
Capital contributions	-	-	11,185	11,185
Changes in net assets	(212,640)	(212,640)	93,154	305,794
NET ASSETS - BEGINNING	212,640	212,640	2,534,686	2,322,046
NET ASSETS - ENDING	\$ -	\$ -	\$ 2,627,840	\$ 2,627,840

This schedule is presented as supplemental information

City of Lacey, Washington
 Schedule of Expenditures of Federal Awards
 For the Year Ended December 31, 2011

Federal Agency Name / Pass-Through Agency Name	Federal Program Name/Title	CFDA Number	Other I.D. Number	Expenditures			Foot-Note Ref.
				From Pass-Through Awards	From Direct Awards	Total	
Department of Agriculture / WA State Superintendent of Public Instruction	Summer Food Service Program for Children	10.559	S11-34923	\$ 61,018		\$ 61,018	
Department of Agriculture / WA Department of Natural Resources	Cooperative Forestry Assistance	10.664	LAA-11-285/K244-08-DG-014	8,537		\$ 8,537	
US Department of Housing and Urban Development (HUD) / WA State Department of Commerce	Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	14.228	08-F6401-011	55,337		55,337	4
US Department of Housing and Urban Development (HUD) / WA State Department of Commerce	Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	14.228	CDBG 11-64100-028	141,659		141,659	
Department of the Interior National Park Service / WA Department of Archaeology & Historic Preservation	Historic Preservation Fund Grants-In-Aid	15.904	FY11-61011-008	7,996		7,996	
US Department of Justice	Bulletproof Vest Partnership Program	16.607	FY2009 Awards		2,322	2,322	
		16.607	FY2010 Awards		876	876	
		16.607	Subtotal	-	3,198	3,198	
US Department of Justice	Public Safety Partnership And Community Policing Grants	16.710	2010CKWX0226		67,060	67,060	
US Department of Justice	Edward Byrne Memorial Justice Assistance Grant	16.738	2009-DJ-BX-0682		12,264	12,264	
US Department of Justice / WA State Department of Commerce	Edward Byrne Memorial Justice Assistance Grant	16.738	M10-34021-010	102,683		102,683	4
US Department of Justice / WA State Department of Commerce	ARRA - Edward Byrne Memorial Justice Assistance Grant Program	16.738	M11-34021-010	71,099		71,099	4
		16.738	F09-34721-515	4,090		4,090	4, 5
		16.738	Subtotal	177,872	12,264	190,136	
US Department of Justice	ARRA - Edward Byrne Memorial Justice Assistance Grant (JAG) Program / Grants to Units of Local Government	16.804	2009-SB-B9-0528		19,096	19,096	5
US Department of Transportation / WA State Department of Transportation	Highway Planning and Construction	20.205	LA-7245 (STPUS-5289-004)	54,287		54,287	
		20.205	LA-6708 (IMD-0643-006)	98,353		98,353	
		20.205	LA-7580 (STPUS-5291-001)	74,405		74,405	
		20.205	Subtotal	227,045	-	227,045	
US Department of Transportation / WA Sheriff & Police Chiefs Association	State and Community Highway Safety	20.600	LPD109	941		941	
US Department of Transportation / WA State Traffic Safety Commission	State and Community Highway Safety	20.600	LPD102 (Target Zero Manager)	3,183		3,183	
		20.600	LPDTZ0 (Target Zero)	51		51	
		20.600	LPDTZ1 (Target Zero)	2,153		2,153	
		20.600	Subtotal	6,328	-	6,328	
US Department of Transportation / WA Traffic Safety Commission	Alcohol Impaired Driving Countermeasures Incentive Grants I	20.601	LPDTZ1 (Target Zero)	2,931		2,931	
US Department of Transportation / WA Traffic Safety Commission	Occupant Protection Incentive Grants	20.602	LPDTZ1 (Target Zero)	1,276		1,276	
US Department of Energy	ARRA - Energy Efficiency and Conservation Block Grant Program (EECBG)	81.128	DE-RW0000226		24,630	24,630	5
		81.128	DE-RW0000226		32,041	32,041	4, 5
		81.128	Subtotal	-	56,671	56,671	
Department of Justice / Thurston County Sheriff's Office	Drug Enforcement Administration. Domestic Cannabis Eradication/Suppression	16.C110	869FED C110869FED	2,505		2,505	4
National Endowment for the Arts / WA Arts Commission	Promotion of the Arts Partnership Agreements	45.025	#2011175	1,000		1,000	
Environmental Protection Agency Office of the Chief Financial Officer	Congressionally Mandated Projects	66.202	XP-00J33701-0		192,350	192,350	
Executive Office of the President	High Intensity Drug Trafficking Areas Program	95.001	G11NW0005A		18,237	18,237	4
		95.001	G10NW0005A		29,376	29,376	4
Executive Office of the President / WA State Patrol		95.001	C110569FED	12,610		12,610	4
		95.001	Subtotal	12,610	47,613	60,223	
Department of Homeland Security / WA Military Department	Disaster Grants- Public Assistance (Presidentially Declared Disasters)	97.036	067-36745-00 (1825-DR-WA)	3,850		3,850	6
Total Federal Awards Expended				\$ 709,964	\$ 398,252	\$ 1,108,216	

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

**Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2011**

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 revolving 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. The amount of loan principal received in loan repayment for the year 2011 was \$9,852.48. The City has received approval from Washington Department of Commerce (formerly CTED) to utilize the program revenues to finance cost overruns on the CDBG-funded Child Care and Family Services Center and other CDBG approved projects.

Note 4 - Amounts Awarded to Subrecipients

Included in the total amount expended for this program is \$327,978 that was passed through to subrecipients that administered their own projects.

Note 5 - American Recovery and Reinvestment Act (ARRA) of 2009

Expenditures for this program were funded by ARRA.

Note 6 - FEMA Disaster Assistance

Additional reimbursement received during 2011 for costs relating to December 2008 Storm Assistance Small Project

Schedule of State and Local Financial Assistance
For The Year Ended December, 31, 2011

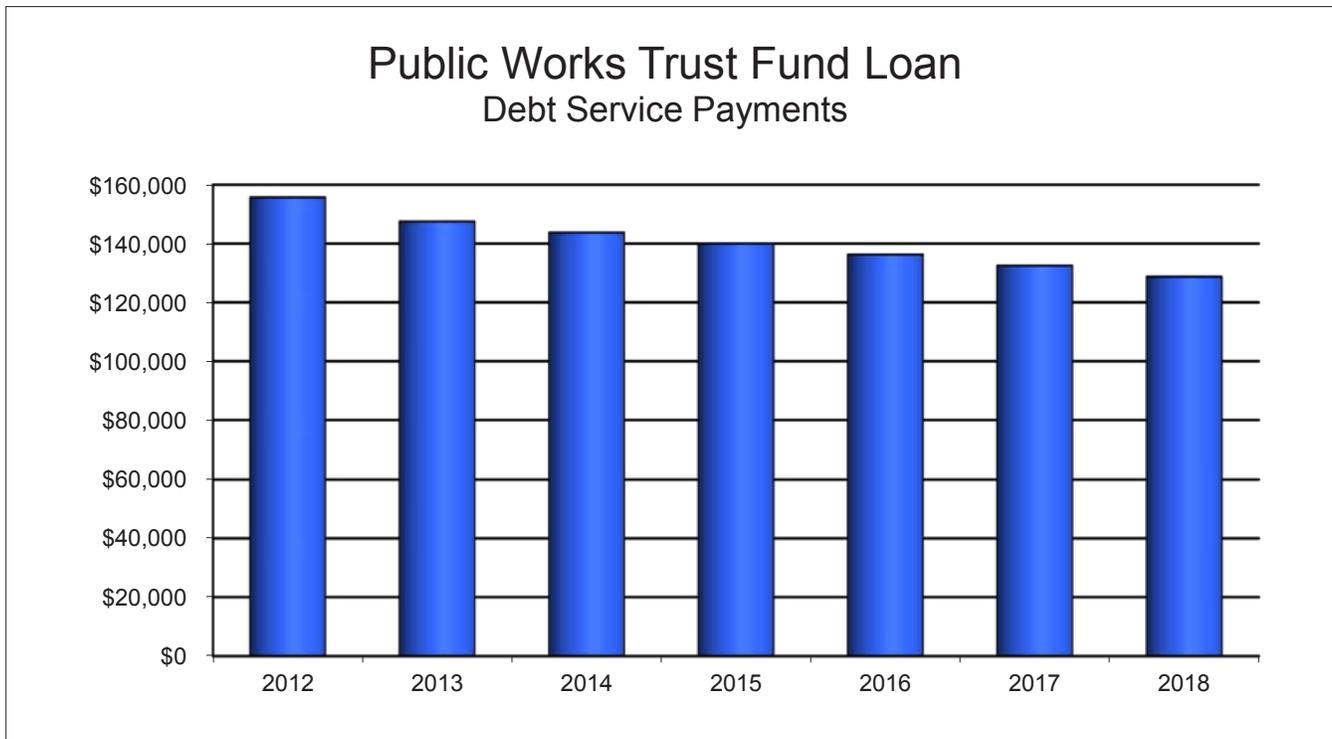
Grantor/ Pass-Through Grantor Program Title	Other Identification Number	Current Year Expenditures	Foot Note
<u>Washington Traffic Safety Commission (WTSC)</u>			
School Zone Enforcement Program	LPD098	5,652	
Thurston County Target Zero Manager Program	LPD102	18,264	
Total WTSC		<u>23,916</u>	
<u>WA State Transportation Improvement Board (TIB)</u>			
Carpenter Road SE - Woodland Trail to Martin Way	9W197(0008)1	3,219,700	
Carpenter Road SE - Right of Way Acquisition	9W197(0006)1	110,044	
		<u>3,329,744</u>	
<u>WA State Department of Commerce</u>			
Community Economic Revitalization Board Job Development Fund Grant Program	J2008-005	991,200	1
Multi-Jurisdictional Narcotics Task Force	M11-34021-010	13,743	
Total WA State Department of Commerce		<u>1,004,943</u>	
<u>WA State Department of Ecology</u>			
Phase II Stormwater Pass-through Grant	G1000181-FY10	34,160	
Municipal Stormwater Capacity Program	G1100058-FY11	91,626	
		<u>125,786</u>	
<u>WA State Department of Health/ West Region EMS and Trauma Care Council</u>			
Car seats & signage for seatbelt checks	LPDTZ0	1,202	
<u>WA State Recreation and Conservation Office</u>			
Lacey Woodland Trail Development	06-1797D	6,742	
Greg J Cuoio Community Park Project	10-1690A	844,823	
		<u>851,565</u>	
<u>WA State Superintendent of Public Instruction</u>			
Summer Food Service Program for Children - state match		1,794	
<u>WA Department of Military Emergency Management Division</u>			
2008 Storm Assistance Small Project	D09-319 (1825-DR-WA)	625	
<u>WA State Arts Commission</u>			
Ethnic Celebration Facility Rental & Sound	#2011175	500	
<u>WA State Higher Education Coordinating Board</u>			
	Work Study	791	
<u>Total State Assistance</u>		<u>5,340,866</u>	
<u>Thurston County Historic Commission</u>			
Digitalization and Transcription of the George H. Himes Papers	11-007 COL	5,000	
<u>Total Local Assistance</u>		<u>5,000</u>	
Total Expenditures of State and Local Awards		<u>\$ 5,345,866</u>	

Note 1.

The amount reported includes expenditures for the year 2010 in the amount of \$666,200. The grantor did not allow the City to claim the amount until we pay out the retainages. The amount was not reported on the Schedule of State and Local Financial Assistance Assistance in 2010, because the City was not entitled to the fund at that time.

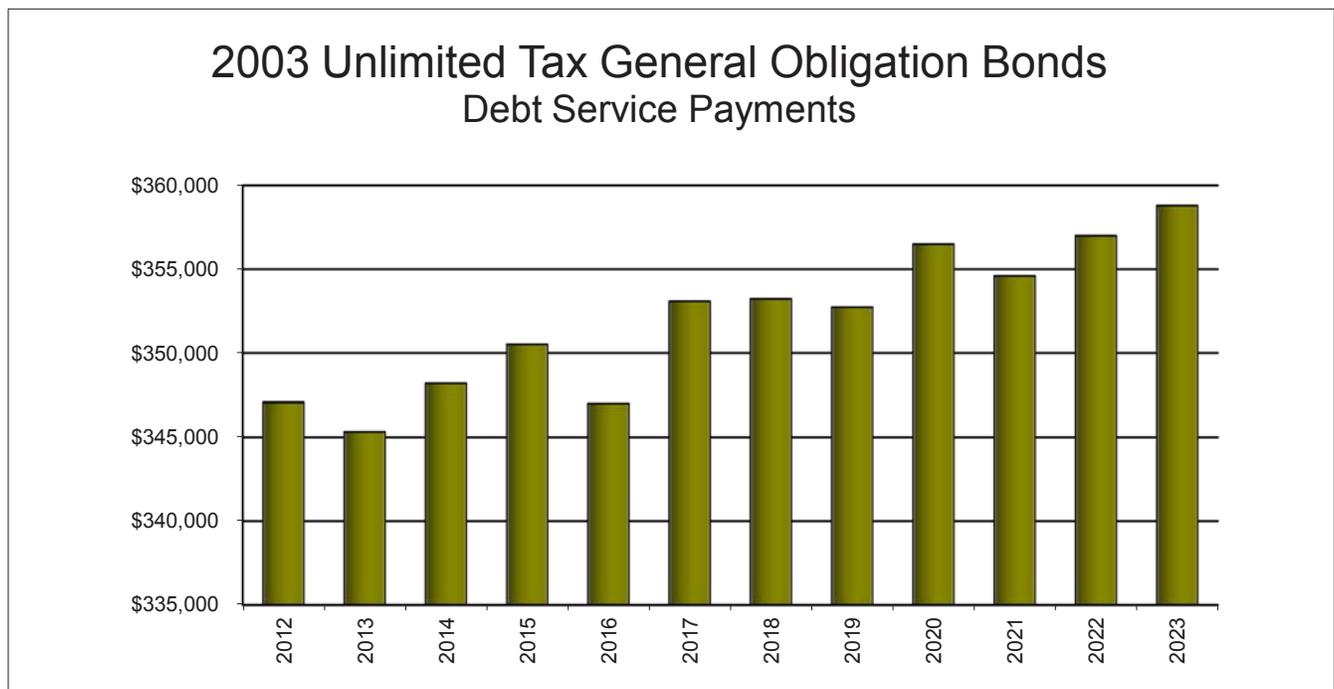
City of Lacey
Public Works Trust Fund Loan
December 31, 2011

Year Ended 31-Dec	Interest Rate - %	Interest 1-Jul	Principal 1-Jul	Total Debt Service
2012	3.000%	30,706	124,987	155,693
2013	3.000%	22,498	124,987	147,485
2014	3.000%	18,748	124,987	143,735
2015	3.000%	14,998	124,987	139,986
2016	3.000%	11,249	124,987	136,236
2017	3.000%	7,499	124,987	132,486
2018	3.000%	3,750	124,987	128,737
		\$ 109,448	\$ 874,910	\$ 984,358



City of Lacey General Obligation Bond Debt
 2003 Unlimited Tax General Obligated Bonds
 December 31, 2011

<u>Year Ended 31-Dec</u>	<u>Interest Rate - %</u>	<u>Interest Due - 01 Jun</u>	<u>Interest Due - 01 Dec</u>	<u>Principal Due - 01 Dec</u>	<u>Total Debt Service</u>
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>444,529</u>	\$ <u>444,529</u>	\$ <u>3,335,000</u>	\$ <u>4,224,058</u>

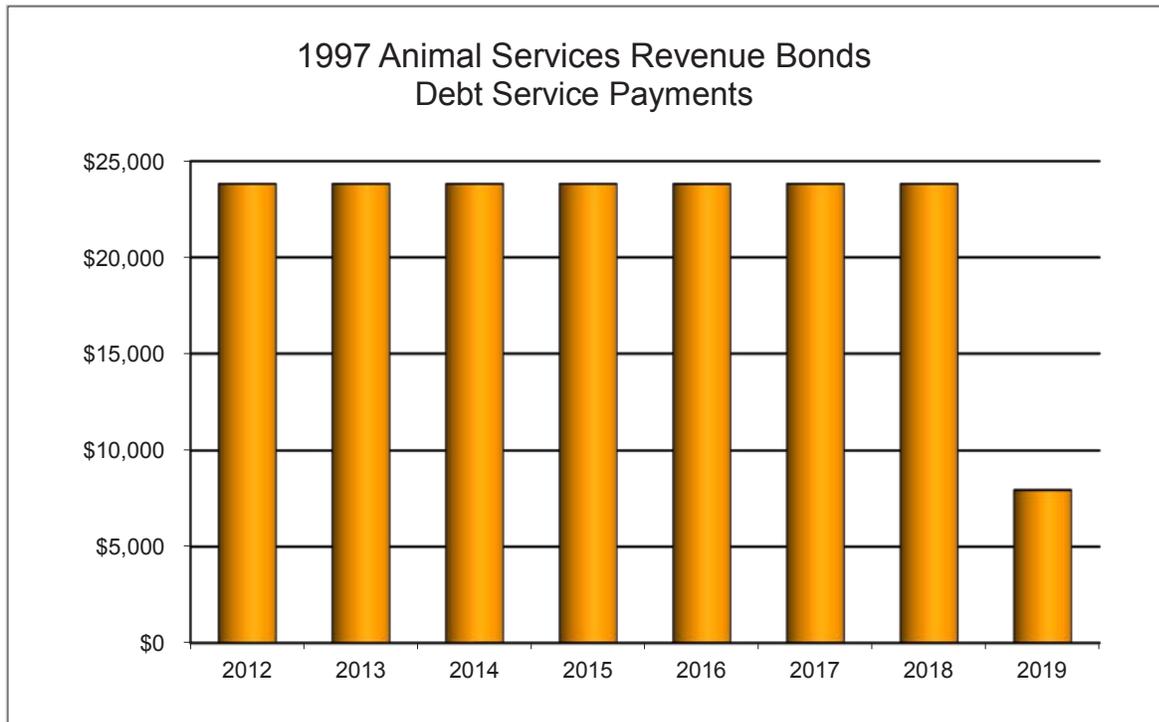


City of Lacey
1997 Animal Services Revenue Bond
December 31, 2011

Year Ended 31-Dec	Interest Rate - %	Interest Annual*	Principal Annual*	Total Debt Service
2012	3.978%	6,231	17,590	23,821
2013	3.978% ¹	5,422	18,399	23,821
2014	3.978%	4,594	19,227	23,821
2015	3.978%	3,730	20,091	23,821
2016	3.978%	2,835	20,985	23,820
2017	3.978%	1,883	21,938	23,821
2018	3.978%	897	22,924	23,821
2019	3.978%	73	7,870	7,943
		\$ 25,665	\$ 149,024	\$ 174,689

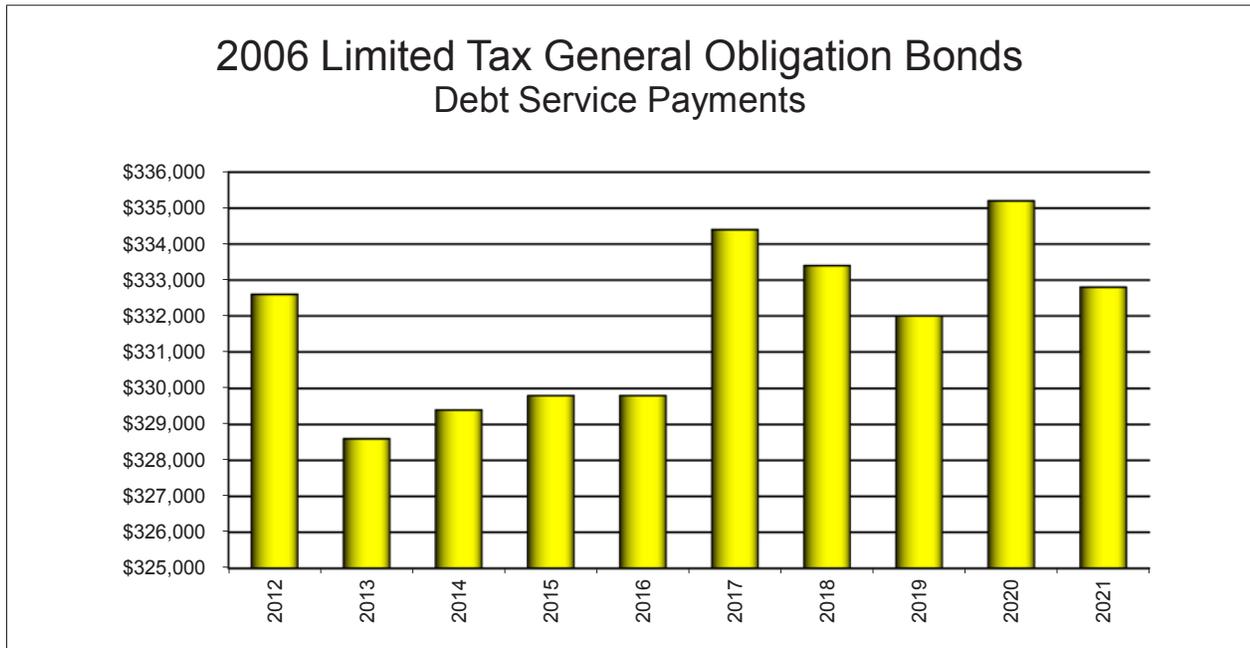
¹ Interest reprice scheduled in August 2013.

*Actual payments made are equal monthly installments.



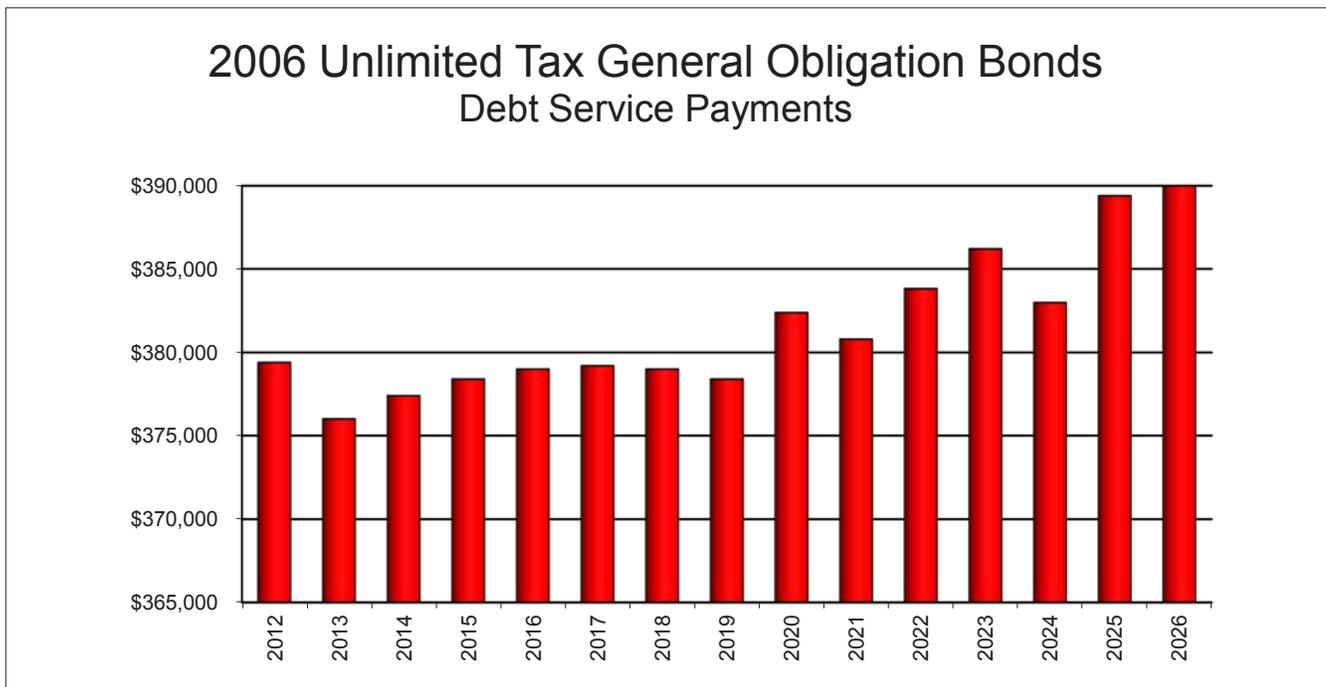
City of Lacey General Obligation Bond Debt
 2006 Limited Tax General Obligated Bonds
 December 31, 2011

<u>Year Ended 31-Dec</u>	<u>Interest Rate - %</u>	<u>Interest Due - 01 Jun</u>	<u>Interest Due - 01 Dec</u>	<u>Principal Due - 01 Dec</u>	<u>Total Debt Service</u>
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>314,000</u>	\$ <u>314,000</u>	\$ <u>2,690,000</u>	\$ <u>3,318,000</u>



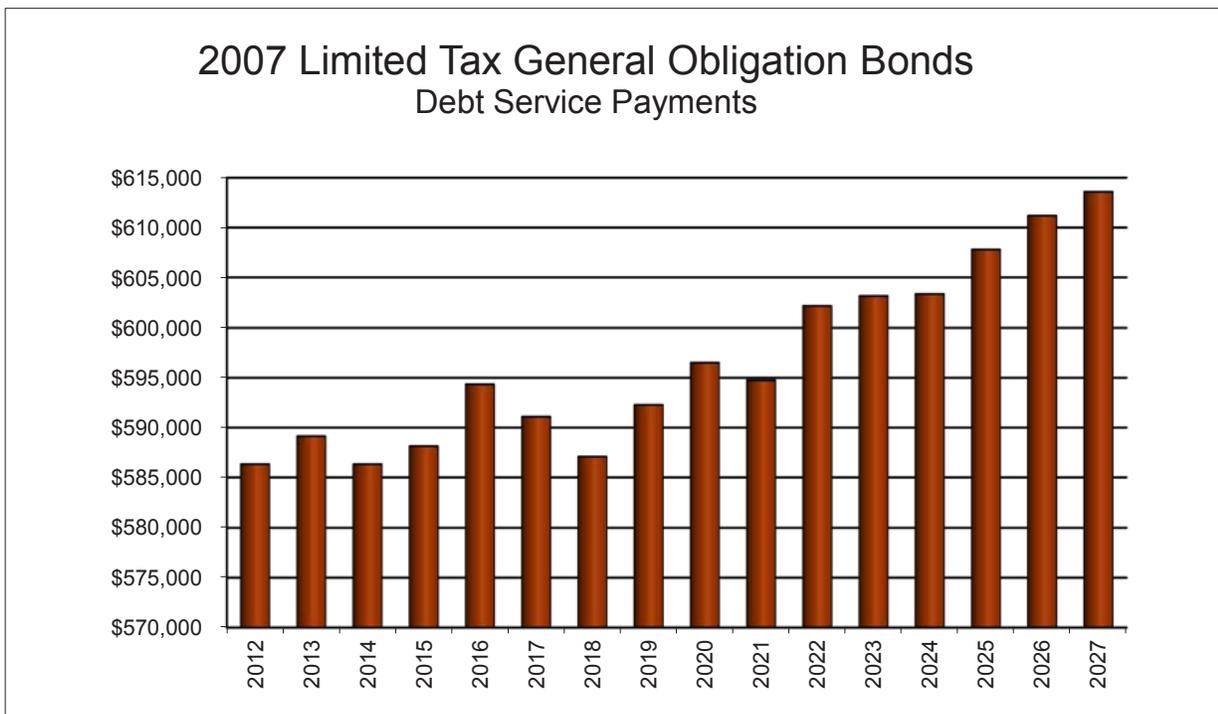
City of Lacey General Obligation Bond Debt
 2006 Unlimited Tax General Obligated Bonds
 December 31, 2011

<u>Year Ended 31-Dec</u>	<u>Interest Rate - %</u>	<u>Interest Due - 01 Jun</u>	<u>Interest Due - 01 Dec</u>	<u>Principal Due - 01 Dec</u>	<u>Total Debt Service</u>
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>743,700</u>	\$ <u>743,700</u>	\$ <u>4,235,000</u>	\$ <u>5,722,400</u>



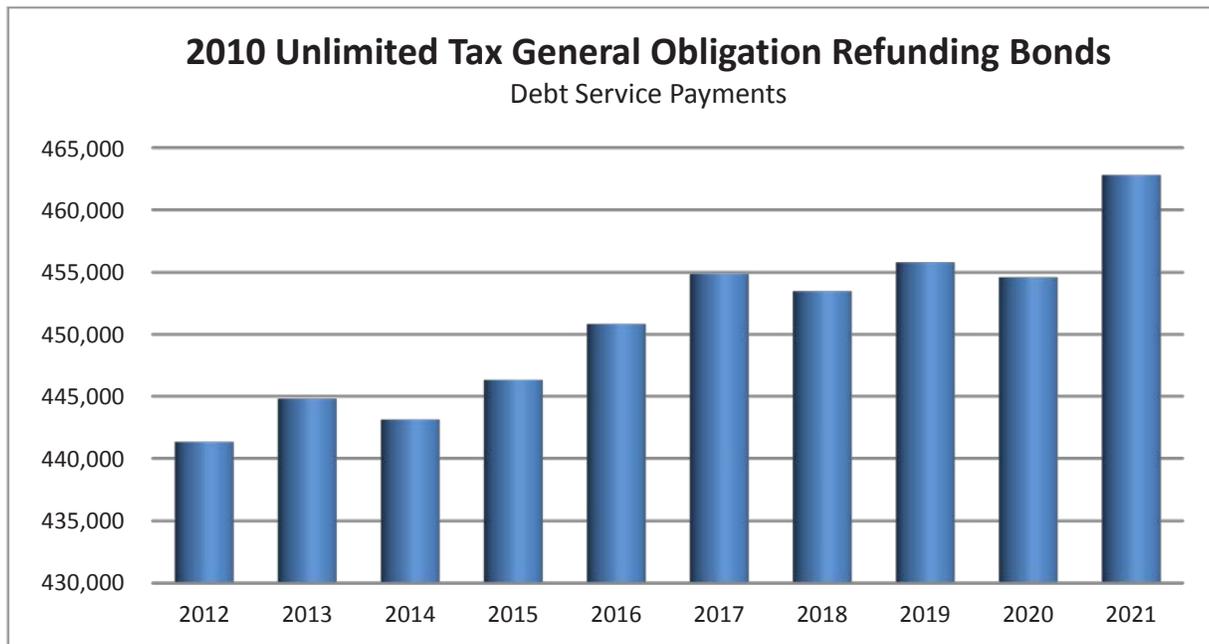
City of Lacey General Obligation Bond Debt
 2007 Limited Tax General Obligated Bonds
 December 31, 2011

Year Ended 31-Dec	Interest Rate - %	Interest Due - 01 Jun	Interest Due - 01 Dec	Principal Due - 01 Dec	Total Debt Service
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>\$ 1,313,663</u>	<u>\$ 1,313,663</u>	<u>\$ 6,920,000</u>	<u>\$ 9,547,326</u>



City of Lacey General Obligation Bond Debt
 2010 Unlimited Tax General Obligated Refunding Bonds
 December 31, 2011

Year Ended 31-Dec	Interest Rate - %	Interest Due - 01 Jun	Interest Due - 01 Dec	Principal Due - 01 Dec	Total Debt Service
2012	2.000%	58,163	58,163	325,000	441,325
2013	2.000%	54,913	54,913	335,000	444,825
2014	2.000%	51,563	51,563	340,000	443,125
2015	3.000%	48,163	48,163	350,000	446,325
2016	3.000%	42,913	42,913	365,000	450,825
2017	3.000%	37,438	37,438	380,000	454,875
2018	3.250%	31,738	31,738	390,000	453,475
2019	4.000%	25,400	25,400	405,000	455,800
2020	4.000%	17,300	17,300	420,000	454,600
2021	4.000%	8,900	8,900	445,000	462,800
		\$ 376,488	\$ 376,488	\$ 3,755,000	\$ 4,507,975





Statistical Section

Statistical Section

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

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

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

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Table 1
 Net Assets by Component
 Last Ten Fiscal Years
 (accrual basis of accounting)
 (amounts expressed in thousands)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Governmental activities										
Invested in capital assets, net of related debt	\$ 29,315	\$ 40,590	\$ 184,942	\$ 219,565	\$ 254,410	\$ 269,717	\$ 281,557	\$ 287,705	\$ 302,167	\$ 304,458
Restricted	715	513	1,169	1,289	10,136	16,780	2,430	1,261	995	7,909
Unrestricted	43,689	43,980	41,755	44,417	47,198	50,043 *	64,706 *	68,455	63,256	53,522
Total governmental activities net assets	\$ 73,719	\$ 85,083	\$ 227,866	\$ 265,271	\$ 311,743	\$ 336,540 *	\$ 348,693 *	\$ 357,421	\$ 366,418	\$ 365,889
Business-type activities										
Invested in capital assets, net of related debt	\$ 85,983	\$ 93,221	\$ 107,181	\$ 133,961	\$ 155,634	\$ 182,646	\$ 215,424	\$ 218,450	\$ 221,544	224,593
Restricted	-	-	1,049	1,049	413	-	-	-	-	-
Unrestricted	19,638	17,565	15,813	18,481	24,625	22,336	14,983	16,861	18,139	22,355
Total business-type activities net assets	\$ 105,621	\$ 110,786	\$ 124,043	\$ 153,491	\$ 180,672	\$ 204,982	\$ 230,407	\$ 235,311	\$ 239,683	\$ 246,948
Primary government										
Invested in capital assets, net of related debt	\$ 115,298	\$ 133,811	\$ 292,123	\$ 353,526	\$ 410,044	\$ 452,363	\$ 496,981	\$ 506,155	\$ 523,711	\$ 529,051
Restricted	715	513	2,218	2,337	10,549	16,780	2,430	1,261	995	7,909
Unrestricted	63,327	61,545	57,568	62,899	71,823	72,379	79,689	85,316	81,395	75,877
Total primary government net assets	\$ 179,340	\$ 195,869	\$ 351,909	\$ 418,762	\$ 492,416	\$ 541,522	\$ 579,100	\$ 592,732	\$ 606,101	\$ 612,837

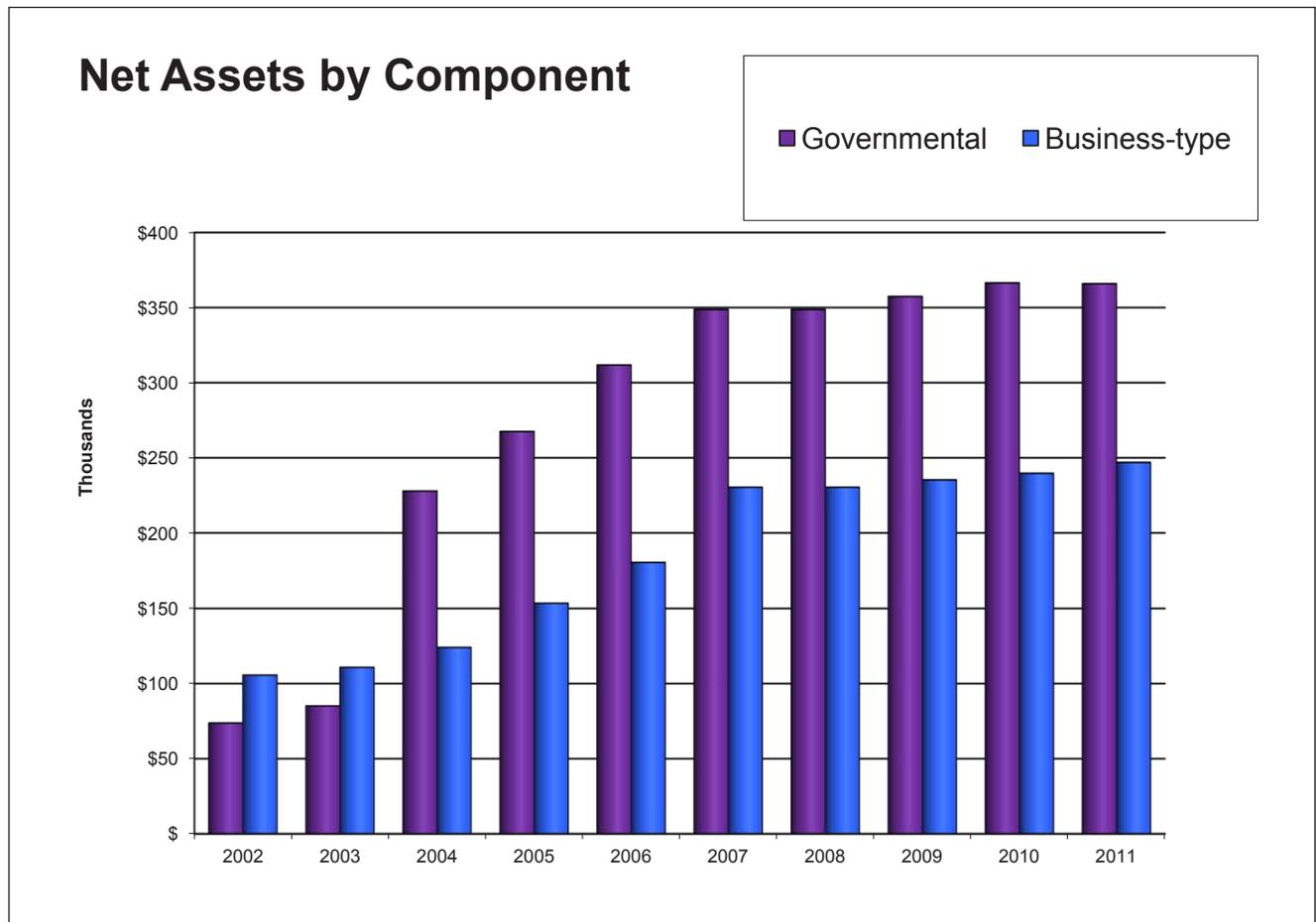


Table 2
Changes in Net Assets
Last Ten Fiscal Years
(accrual basis of accounting)
(amounts expressed in thousands)

Expenses	Fiscal Year									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Governmental activities:										
General government	\$ 3,522	\$ 3,666	\$ 3,730	\$ 4,174	\$ 4,849	\$ 5,459	\$ 5,745	\$ 5,550	\$ 5,210	\$ 6,056
Security of persons and property	9,564	9,157	12,043	10,487	11,914	12,337	13,348	14,088	15,284	10,599
Physical environment	2,132	2,259	2,380	2,805	2,827	3,139	3,526	3,656	3,605	3,566
Transportation	2,916	3,705	7,967	8,865	10,116	11,086 *	13,821	10,748	12,402	13,048
Economic development	1,271	963	1,015	1,076	1,138	1,271	1,260	1,173	1,492	1,287
Mental and physical health	216	6	7	8	5	10	8	11	8	10
Culture and recreation	1,636	3,054	3,266	3,570	4,819	4,429	5,757	6,519	7,388	7,033
Interest on long-term debt	996	958	925	829	722	924	1,122	1,023	977	875
Total governmental activities	22,253	23,768	31,333	31,814	36,390	38,655 *	44,587	42,768	46,366	42,474
Business-type activities:										
Water	5,381	5,364	6,399	6,500	7,493	8,468	9,843	9,784	10,030	10,088
Wastewater	7,353	7,154	7,445	7,862	8,802	9,513	10,507	11,114	11,821	12,750
Stormwater	1,566	1,850	1,442	1,507	1,959	2,343	2,825	3,220	3,166	3,330
Reclaimed Water	-	-	-	-	-	332	67	-	-	-
Total business-type activities	14,300	14,368	15,286	15,869	18,254	20,656	23,242	24,118	25,017	26,168
Total primary government expenses	\$ 36,553	\$ 38,136	\$ 46,619	\$ 47,683	\$ 54,644	\$ 59,311	\$ 67,829	\$ 66,886	\$ 71,383	\$ 68,642
Program Revenues										
Governmental activities:										
Charges for services:										
General government	\$ 327	\$ 264	\$ 365	\$ 406	\$ 476	\$ 812	\$ 1,235	\$ 1,005	\$ 561	\$ 853
Security of persons and property	385	370	283	316	190	337	849	1,385	1,624	1,210
Physical environment	47	18	15	22	23	2,285	2,677	2,858	2,827	2,537
Transportation	1,367	528	954	1,492	1,328	1,097	1,065	1,467	2,319	1,015
Economic development	894	1,158	1,518	3,196	3,811	3,328	1,863	1,084	1,117	1,577
Culture and recreation	603	723	760	880	923	988	1,065	1,303	1,451	1,500
Operating grants and contributions	2,149	1,487	1,952	1,731	3,785	1,478	1,464	2,006	3,221	2,947
Capital grants and contributions	94	5,061	11,532	32,405	38,117	19,499	13,470	9,780	7,920	8,464
Total governmental activities program revenues	5,866	9,609	17,379	40,448	48,653	29,824	23,688	20,888	21,040	20,103
Business type activities:										
Charges for services:										
Water	5,648	6,337	6,782	7,649	10,734	10,556	10,632	11,320	10,436	11,535
Wastewater	6,815	7,469	8,248	9,357	11,499	10,651	11,112	11,161	11,873	12,817
Stormwater	1,270	1,270	1,380	1,421	1,533	1,685	1,826	1,929	1,992	2,103
Operating grants and contributions	-	-	-	-	-	51	-	-	9	32
Capital grants and contributions	6,036	3,648	11,999	26,212	20,314	18,675	23,931	4,219	4,994	3,684
Total business-type activities program revenue	19,769	18,724	28,409	44,639	44,081	41,618	47,501	28,629	29,304	30,171
Total primary government program revenues	\$ 25,635	\$ 28,333	\$ 45,788	\$ 85,087	\$ 92,733	\$ 71,442	\$ 71,189	\$ 49,517	\$ 50,344	\$ 50,274
Net (expenses)/revenue:										
Governmental activities	\$ (16,387)	\$ (14,159)	\$ (13,954)	\$ 8,634	\$ 12,262	\$ (8,831) *	\$ (20,899)	\$ (21,880)	\$ (25,326)	\$ (22,371)
Business-type activities	5,469	4,356	13,123	28,770	25,828	20,962	24,259	4,511	4,287	4,004
Total primary government net (expense) revenue	\$ (10,918)	\$ (9,803)	\$ (831)	\$ 37,404	\$ 38,090	\$ 12,131	\$ 3,360	\$ (17,369)	\$ (21,039)	\$ (18,367)
General Revenues and Other Changes in Net Assets										
Governmental activities:										
Taxes										
Property taxes	5,975	6,428	6,372	6,910	7,393	8,524	9,594	10,096	10,447	5,929
Timber taxes	-	-	-	-	-	-	-	-	-	-
Retail taxes	5,937	5,843	6,610	8,031	8,812	10,506	10,230	9,111	9,064	8,930
Business taxes	4,376	4,412	5,015	5,331	6,580	7,400	7,748	7,827	7,642	7,823
Excise taxes	1,422	1,941	2,674	3,211	3,448	3,300	2,390	1,610	1,298	1,383
Penalties and interest	7	5	10	6	8	7	2	-	-	-
Investment earnings	1,320	1,300	1,189	1,463	2,463	3,579	2,164	711	374	414
Miscellaneous	4,959	5,096	3,841	5,827	5,110	1,648	1,022	1,226	871	203
Special items	-	-	-	-	-	-	-	-	4,703	-
Transfers	93	45	402	225	396	(1,336)	(98)	27	(77)	(3,775)
Total governmental activities	24,089	25,070	26,113	31,003	34,210	33,628	33,052	30,608	34,322	20,907
Business-type activities:										
Investment earnings	538	319	318	559	1,094	1,238	684	199	74	79
Miscellaneous	164	536	264	343	656	774	384	221	(66)	190
Transfers	(93)	(45)	(402)	(225)	(396)	1,336	98	(27)	77	3,775
Total business-type activities	609	810	180	677	1,354	3,348	1,166	393	85	4,044
Total primary government	\$ 24,698	\$ 25,880	\$ 26,293	\$ 31,681	\$ 35,564	\$ 36,976	\$ 34,218	\$ 31,001	\$ 34,407	\$ 24,951
Change in Net Assets										
Governmental activities	\$ 7,702	\$ 10,910	\$ 12,159	\$ 39,638	\$ 46,472	\$ 24,797	\$ 12,153	\$ 8,728	\$ 8,996	\$ (1,464)
Business-type activities	6,078	5,166	13,303	29,447	27,181	24,310	25,425	4,904	4,372	8,048
Total primary government	\$ 13,780	\$ 16,076	\$ 25,461	\$ 69,085	\$ 73,653	\$ 49,107	\$ 37,578	\$ 13,632	\$ 13,368	\$ 6,584

Table 3
Fund Balances of Governmental Funds ⁵
Last Ten Fiscal Years
(modified accrual basis of accounting)
(amounts expressed in thousands)

	Fiscal Year									
	2002 ²	2003	2004	2005	2006 ³	2007 ⁴	2008	2009	2010	2011 ⁵
General fund										
Nonspendable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5
Restricted	338	186	184	302	129	137	129	133	11	6,113
Committed										4,770
Assigned										614
Unassigned	9,523	11,101	12,987	14,553	18,324	21,863	22,706	25,195	27,066	10,196
Total general fund	9,861	11,287	13,171	14,855	18,453	22,000	22,835	25,328	27,077	21,698
All other governmental funds										
Restricted	-	-	-	1,101	1,214	1,352	2,301	1,128	995	1,791
Committed	-	-	-	-	-	-	-	-	-	12,151
Assigned:										
Special revenue funds	6,855	3,354	5,108	5,984	9,961	7,703	11,651	14,183	16,274	10,753
Debt service funds	1,415	1,835	1,099	1,648	1,061	585	522	465	478	261
Capital projects funds	8,446	11,591	7,426	6,664	18,272	26,931	10,462	8,723	11,250	3,438
Total assigned	16,716	16,780	13,633	14,296	29,294	35,219	22,635	23,371	28,002	14,452
Total all other governmental funds	16,716	16,780	13,633	15,397	30,508	36,571	24,936	24,499	28,997	28,394
Total governmental funds	\$ 26,577	\$ 28,067	\$ 26,804	\$ 30,252	\$ 48,961	\$ 58,571	\$ 47,771	\$ 49,827	\$ 56,074	\$ 50,092

Note:

- ¹ The City issued debt (L.I.D. bonds and a long-term loan) in the amount of \$9.5 million. The increase in unreserved fund balance is due to the unspent bond proceeds remaining in special revenue funds.
- ² The increase in unreserved fund balance in Capital project funds was due to unspent bond proceeds from an issuance during the period for capital projects.
- ³ The City issued G.O. bonds in the amount of \$8.49 million late in 2006. The increase in unreserved fund balance in capital project funds is due to the unspent bonds proceeds at the end of the year.
- ⁴ The increase in capital project funds unreserved fund balance is mainly contributable to the \$8 G.O bond issued in December 2007 and remain unspent at the year end.
- ⁵ The City implemented GASB Statement No. 54 in year 2011. Reserved fund balances for prior years are renamed as restricted fund balance and fund balances in excess of reserved for all other governmental funds other than the general fund are reclassified as assigned fund balances. Increases and decreases in committed, assigned, and unassigned fund balances in 2011 are due to the GASB Statement No. 54 implementation.

Fund Balance Governmental Funds

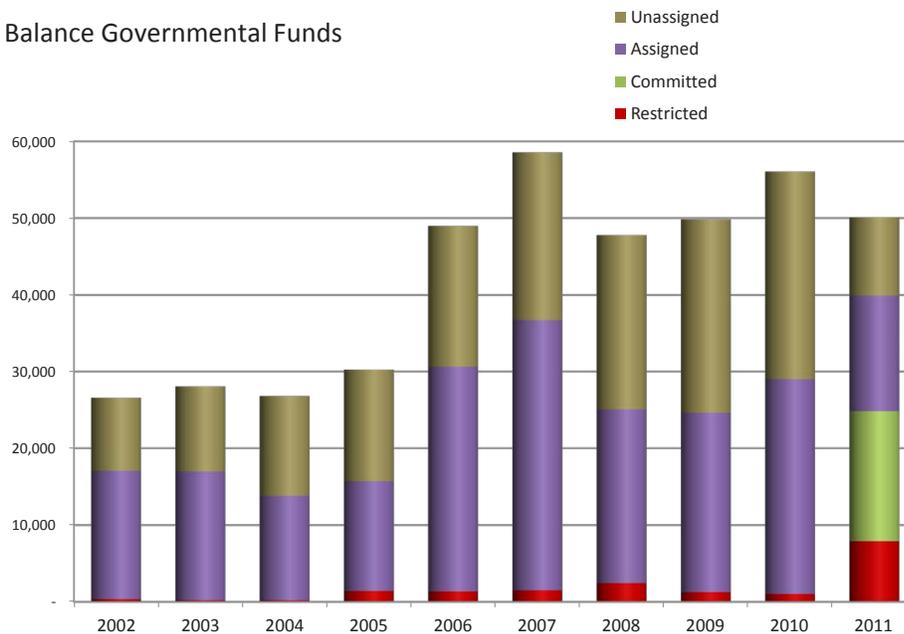


Table 4
 Changes in Fund Balances of Governmental Funds
 Last Ten Fiscal Years
 (modified accrual basis of accounting)
 (amounts expressed in thousands)

Fiscal Year	Fiscal Year									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Revenues										
Taxes	\$ 17,742	\$ 18,816	\$ 21,127	\$ 23,498	\$ 26,225	\$ 29,718	\$ 29,838	\$ 28,531	\$ 28,404	\$ 24,100
Licenses and permits	899	961	1,245	2,589	3,229	2,849	1,743	1,386	1,431	1,599
Intergovernmental revenues	3,299	4,371	2,822	3,812	6,234	4,138	10,947	8,342	6,181	7,072
Charges for services	4,184	5,047	5,029	6,307	6,627	6,978	7,145	7,564	8,530	7,803
Fines & forfeitures	377	537	454	294	334	444	492 *	930	747	728
Other revenue	2,397	3,113	2,137	3,375	3,396	4,410	3,096	1,185	1,899	1,268
Total revenues	28,898	32,845	32,814	39,875	46,045	48,537	53,261	47,938	47,192	42,571
Expenditures										
General government	3,296	3,321	3,483	3,660	3,877	4,216	4,540	5,235	5,110	5,436
Securities of persons and property	8,948	9,162	9,332	10,153	10,875	12,295	13,342	13,893	14,964	10,419
Physical environment	2,160	2,312	2,421	2,829	2,875	3,169	3,560	3,668	3,620	3,757
Transportation	1,290	1,574	1,503	1,678	2,020	2,281	2,397	2,350	2,579	2,646
Economic environment	760	840	904	993	1,011	1,196	1,187	1,083	1,406	1,207
Mental and physical health	6	6	7	8	6	10	9	11	8	10
Culture and recreation	2,567	2,786	3,069	3,389	4,387	4,157	4,561	5,824	5,584	5,924
Capital outlay	6,008	13,247	9,801	9,483	8,180	14,951	30,641	11,257	6,292	11,851
Debt service										
Principal	1,893	2,186	2,481	3,371	2,006	2,216	2,121	1,571	1,624	1,952
Interest	1,016	988	985	869	705	933	1,152	1,074	1,013	896
Debt issue costs	-	-	-	-	-	135	-	-	51	47
Total expenditures	27,944	36,422	33,986	36,433	35,942	45,559	63,510	45,966	42,251	44,146
Excess of revenue over (under) expenditures	954	(3,577)	(1,172)	3,442	10,103	2,978	(10,249)	1,972	4,941	(1,575)
Other financing sources (uses)										
Transfers in	3,115	1,418	2,716	3,655	2,393	3,624	16,516	2,110	2,160	11,471
Transfers out	(3,115)	(1,418)	(2,381)	(3,655)	(2,393)	(5,124)	(17,066)	(2,110)	(2,260)	(15,467)
Capital leases	-	-	-	-	-	-	-	27	35	36
Special assessment debt issued	-	-	-	-	-	-	-	-	-	-
Public works trust fund loan issued	-	-	-	-	-	-	-	-	-	-
Bonds issued	6,232	5,000	-	-	8,485	8,000	-	-	3,790	-
Premium on bonds issued	-	2	-	-	120	128	-	-	104	-
Discount on bonds issued	-	-	-	-	-	-	-	-	-	-
Payments to refunded bond escrow agent	-	-	-	-	-	-	-	-	(3,843)	-
Proceeds from sale of capital assets	-	69	5	9	2	4	-	57	-	-
Total other financing sources (uses)	6,232	5,071	340	9	8,607	6,632	(550)	84	(14)	(3,960)
Special item:										
Payment from County for RAC settlement	-	-	-	-	-	-	-	-	1,321	-
Net change in fund balances	\$ 7,186	\$ 1,494	\$ (832)	\$ 3,451	\$ 18,710	\$ 9,610	\$ (10,799)	\$ 2,056	\$ 6,248	\$ (5,535)
Debt services as a percentage of noncapital expenditures										
	12.7%	12.8%	12.6%	15.2%	9.1%	9.9%	6.6%	7.6%	7.1%	8.2%

* 2005 GAAFR, page 306: "Total debt service expenditures should be expressed as a ratio/ percentage of total noncapital expenditures (a calculation that requires a removal from current expenditures of amounts that are capitalized on the accrual basis government-wide statement of net assets)."

* 2008 GASB Implementation Guide, Q&A 9.11.5: Noncapital expenditures equal total governmental fund expenditures less:
 a. the amount reported separately in the changes in fund balances schedule as capital outlay or capital expenditures (to the extent capitalized for the government-wide statement of net assets), and
 b. any expenditures for capitalized assets contained within the functional expenditure categories (in the governmental fund statement).

Table 5
 Governmental Activities Tax Revenues By Source
 Last Ten Fiscal Years
 (accrual basis of accounting*)
 (amounts expressed in thousands)

Fiscal Year	Property Tax	Timber Tax	Sales Tax	Business Tax	Excise Tax	Penalties & Interest	Total
2002	5,975	0.3	5,937	4,376	1,422	7	17,717
2003	6,428	0.2	5,613	4,412	1,941	5	18,399
2004	6,372	0.1	6,231	5,015	2,674	10	20,302
2005	6,910	0.2	7,588	5,331	3,211	6	23,046
2006	7,393	0.2	8,812	6,580	3,448	8	26,242
2007	8,524	0.2	10,507	7,400	3,301	7	29,739
2008	9,594	0.1	10,230	7,748	2,390	2	29,964
2009	10,096	-	9,111	7,827	1,610	1	28,645
2010	10,447	-	9,064	7,642	1,298	1	28,452
2011	5,929	-	8,930	7,823	1,383	-	24,065

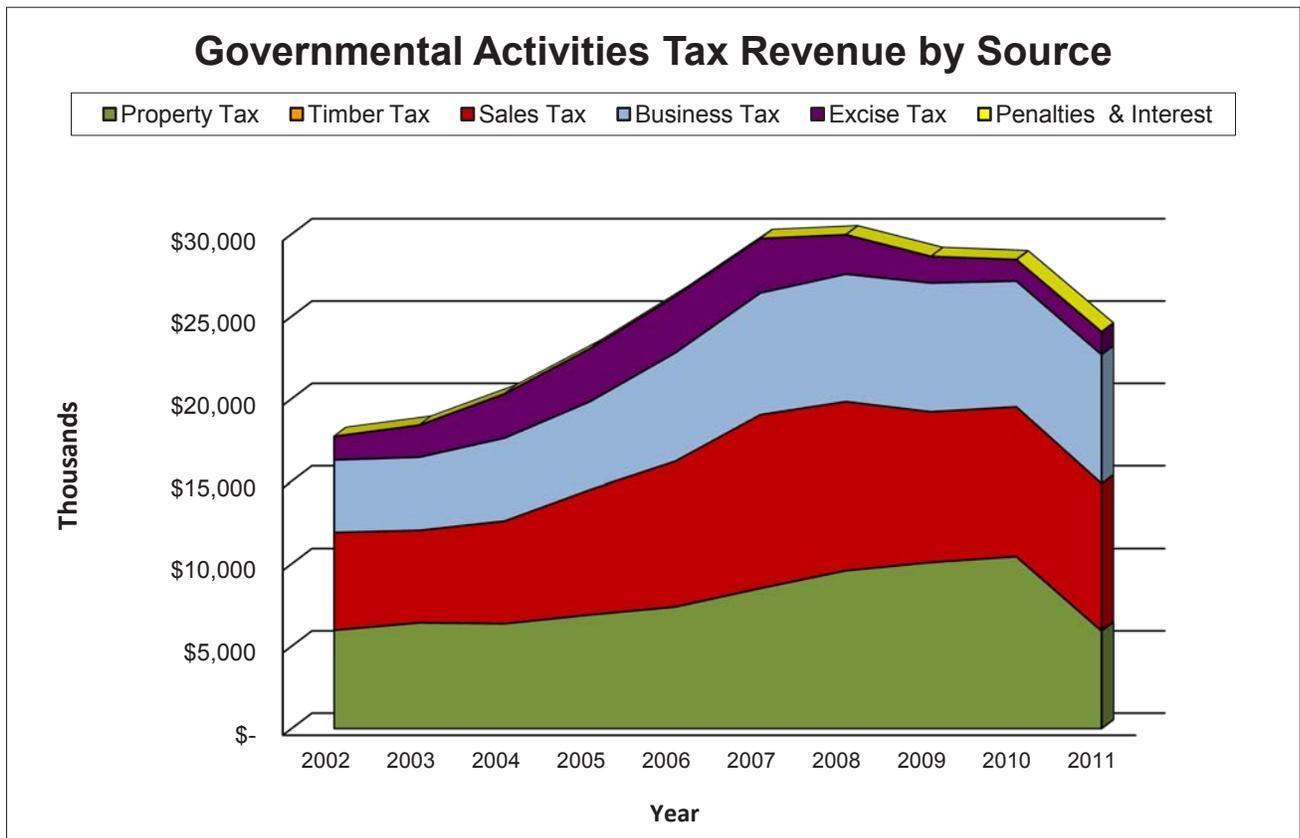


Table 6
 Assessed Value and Estimated Actual Value of Taxable Property
 Last Ten Fiscal Years
 (amounts expressed in thousands)

Fiscal Year Ended December 31	Real Property ¹	Personal Property ¹	Total Taxable Assessed Value ¹	Total Direct Tax Rate	Estimated Actual Taxable Value	Assessed Value as a Percentage of Actual Value ²
2002	1,753,082	106,976	1,860,058	3.32	2,032,184	91.53%
2003	1,912,156	127,810	2,039,966	3.23	2,223,042	91.76%
2004	2,058,894	130,907	2,189,801	3.12	2,355,362	92.97%
2005	2,369,109	133,050	2,502,159	2.80	2,754,785	90.83%
2006	2,753,153	133,598	2,886,751	2.58	3,187,531	90.56%
2007	3,385,318	145,554	3,530,872	2.43	4,095,492	86.21%
2008	4,320,765	164,624	4,485,389	2.15	4,974,321	90.17%
2009	4,706,716	185,887	4,892,603	2.08	5,386,885	90.82%
2010	4,749,994	175,333	4,925,327	2.14	5,453,794	90.31%
2011 ³	4,405,620	173,400	4,579,020	1.34	4,994,203	91.69%

Source: Thurston County Assessor.

Explanation:

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

¹ Includes the regular values of property subject to regular (non-voter approved) levies.

Values have been adjusted for all exemptions including senior citizens/disabled persons.

² Ratio set by the Washington Department of Revenue. Actual ratios for years 2001 and 2002 are not available and the five-year average from years 2003 to 2007 are used.

³ Decreased taxable value from previous year is due to the voter approved annexation to a fire district.

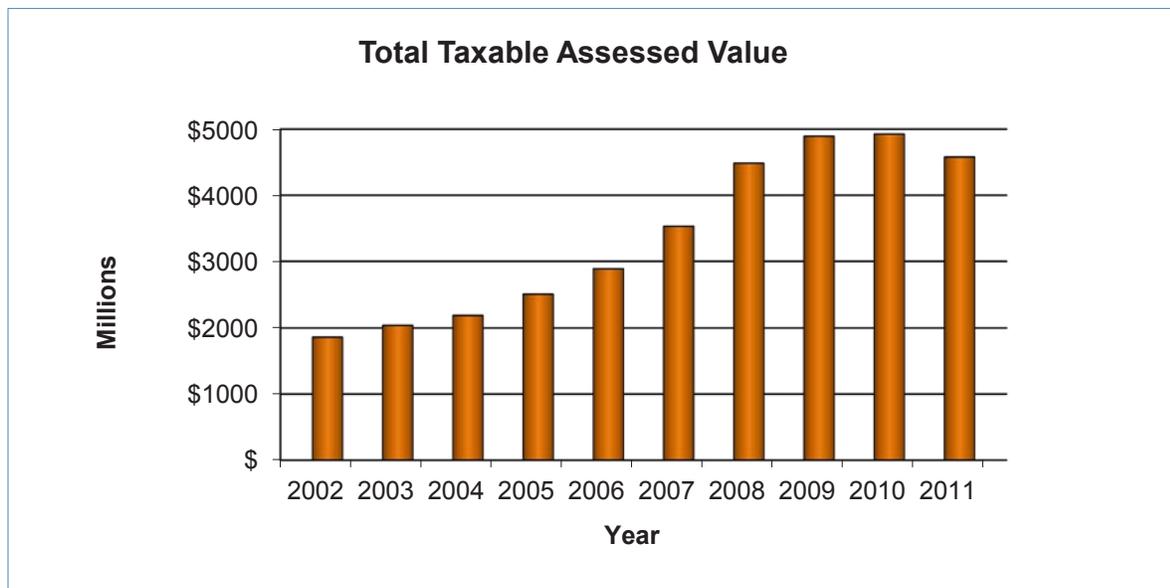


Table 7
Property Tax Rates
Direct and Overlapping Governments
Last Ten Fiscal Years

Fiscal Year	City of Lacey			Overlapping Rates ¹							Total Direct & Overlapping Rates	
	Regular Rate	General Obligation Debt Service	Total Direct Rates	State Schools	Thurston County	Medic One	PUD #1	Library	North Thurston School District #3	Fire District #3		Port of Olympia
2002	2.88	0.44	3.32	3.03	1.78	0.46	-	0.49	5.35	0.20	0.28	14.91
2003	2.76	0.47	3.23	2.88	1.71	0.44	0.01	0.48	5.09	0.17	0.27	14.28
2004	2.68	0.44	3.12	2.78	1.65	0.44	0.01	0.47	4.97	0.16	0.25	13.85
2005	2.48	0.32	2.80	2.79	1.53	0.41	0.01	0.45	4.25	0.13	0.22	12.59
2006	2.30	0.28	2.58	2.56	1.40	0.37	0.01	0.43	3.89	0.12	0.21	11.57
2007	2.14	0.29	2.43	2.33	1.26	0.34	0.01	0.39	4.21	0.23	0.19	11.39
2008	1.88	0.26	2.15	2.01	1.08	0.29	0.01	0.34	3.61	0.15	0.15	9.79
2009	1.84	0.24	2.08	1.92	1.08	0.29	0.01	0.33	3.90	0.11	0.15	9.87
2010	1.90	0.24	2.14	2.06	1.14	0.31	0.01	0.34	3.76	0.12	0.16	10.04
2011	1.09	0.25	1.34	2.26	1.26	0.33	0.01	0.36	4.12	1.18	0.17	11.03

Source: Thurston County Assessor, Statistical Report of Assessments for Taxes Payable in fiscal year.

Explanation

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

Note: The levy limit calculation applies to a taxing district's budget, and not to increases in the assessed value or tax bill of individual properties. Washington State Law (RCW 84.55) restricts individual taxing districts from collecting, in any year, more than one percent increase in their regular, non-voted, levy over the highest levy amount since 1985. To increase the basic rate to the maximum of 3.60 would require a vote.

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

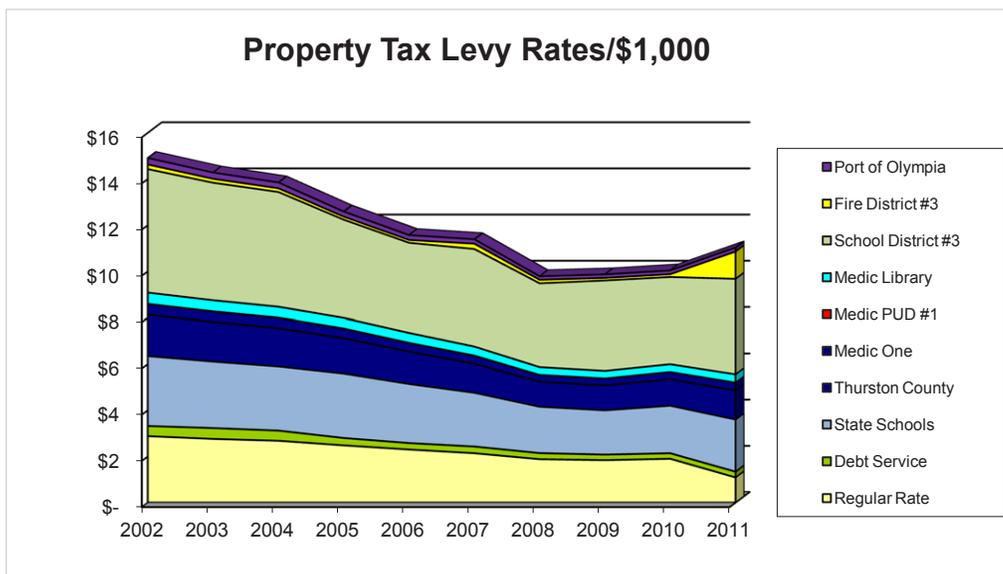


Table 8
Principal Property Taxpayers
Current Year and Nine Years Ago
December 31, 2011
(amounts expressed in thousands)

Taxpayer	Type of Business	2011			2002		
		Taxable Assessed Value	Rank	Percentage of Total Taxable Assessed Value	Taxable Assessed Value	Rank	Percentage of Total Taxable Assessed Value
Target Corporation	Retail/Warehouse	100,315	1	2.20%	25,446	5	1.36%
Panorama City Inc	Retirement Community	67,090	2	1.47%	45,451	1	2.44%
Home Depot USA Inc	Retail/Warehouse	35,357	3	0.77%			
Capital Development Company	Real Estate Development	32,989	4	0.72%	39,023	3	2.10%
FR/CAL Meridian LLC	Real Estate Development	27,477	5	0.60%			
Lacey Gateway LLC	Real Estate Development	27,219	6	0.59%			
Cabela's Wholesale INC	Wholesale/retail	26,652	7	0.58%			
MWSH South Lacey LLC	Real Estate Development	25,330	8	0.55%			
Lacey Market Square I and II LLC	Leasing/Land Development	24,573	9	0.54%			
VGC Lacey LLC	Leasing/Land Development	24,220	10	0.53%			0.00%
Rainier General, Inc	Real Estate Development	-		-	39,417	2	2.12%
Weyerhaeuser Vicwood Partnership	Real Estate Development	-		-	30,661	4	1.65%
Campbell Family Partnership	Real Estate Development	-		-	17,452	6	0.94%
API/Pichon VIII LLC	Real Estate Development	-		-	14,954	7	0.80%
Cox, Walter W	Real Estate Development	-		-	14,620	8	0.79%
U.S. West Communications	Utility	-		-	14,495	9	0.78%
Puget Sound Energy, Inc	Electrical Utility	-		-	14,146	10	0.76%
Totals		391,222		8.54%	255,665		13.74%
Balance of Taxpayers		4,187,798		91.46%	1,604,392		86.26%
Total Assessed Values		\$ 4,579,020		100.00%	1,860,058		100.00%

Source: Thurston County Assessor

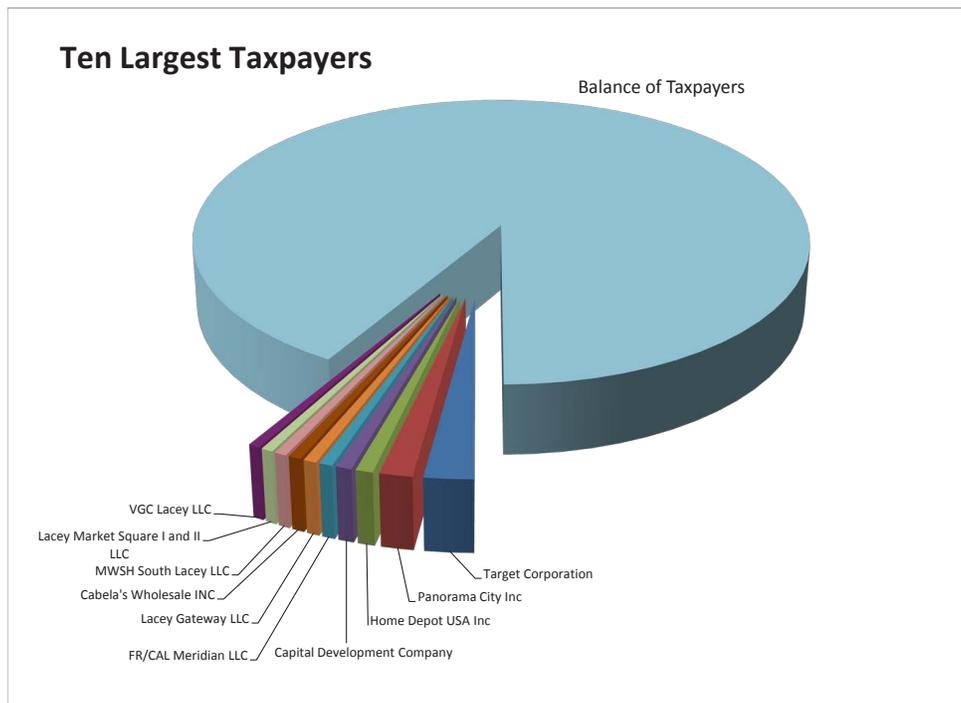


Table 9
Property Tax Levies and Collections
Last Ten Fiscal Years
(amounts expressed in thousands)

Fiscal Year Ended December 31	Regular Tax Levy for Fiscal Year ¹	Special Tax Levy for Fiscal Year ¹	Total Tax Levy for Fiscal Year ¹	Collected within the Fiscal Year of the Levy ²		Collections in subsequent Years ²	Total Collections To-Date	
				Amount	Percentage of Levy		Amount	Percentage of Levy
2002	5,363	807	6,170	5,928	96.08%	72	6,000	97.24%
2003	5,633	952	6,585	6,402	97.22%	123	6,525	99.09%
2004	5,889	961	6,850	6,694	97.72%	94	6,788	99.09%
2005	6,214	798	7,012	6,845	97.62%	106	6,951	99.13%
2006	6,654	797	7,451	7,269	97.56%	115	7,384	99.10%
2007	7,554	1,003	8,557	8,334	97.39%	200	8,534	99.73%
2008	8,438	1,177	9,615	9,357	97.31%	210	9,567	99.50%
2009	9,002	1,181	10,183	9,802	96.26%	142	9,944	97.65%
2010	9,343	1,178	10,521	10,180	96.76%	4	10,184	96.80%
2011	4,972	1,147	6,119	5,960	97.40%	-	5,960	97.40%

¹ Source: Thurston County Assessor

² Source: City of Lacey Finance Department and Thurston County Assessor

Note: Total tax levy for fiscal year is not adjusted for subsequent year certification adjustments.

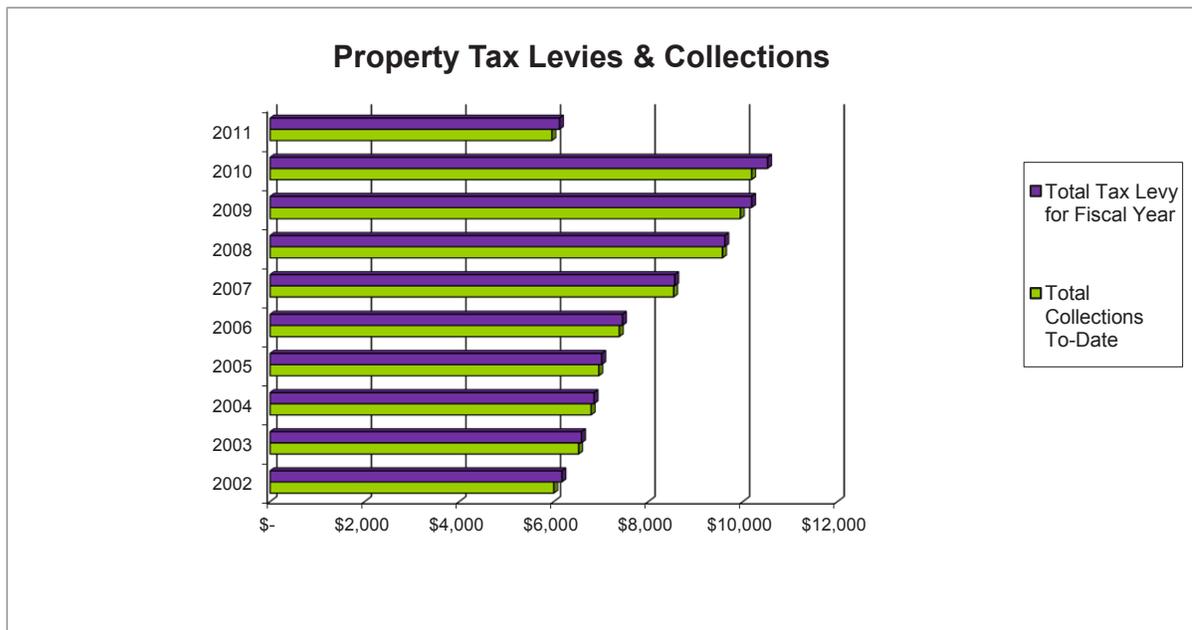


Table 10
Ratio of Outstanding Debt by Type
Last Ten Fiscal Years
(amounts expressed in thousands, except per capital amount)

Fiscal Year	Governmental Activities						Business-Type Activities			Total Primary Government	Percentage of Personal Income	Per Capita ³
	General Obligation Bonds	Special Assessment Bonds	PWTF Loan	Revenue Bond Animal Services ¹	Capital Leases	Contracts Payable	² Water Bonds	² Wastewater Bonds	DOE Loan			
2002	8,595	7,980	3,143	1,374	-	-	3,405	2,645	177	27,319	2.74%	857
2003	12,855	6,730	2,946	1,312	-	-	2,884	1,691	89	28,507	2.76%	884
2004	12,110	5,190	2,750	1,248	-	-	1,104	1,156	-	23,558	2.16%	724
2005	10,235	3,890	2,553	241	-	-	718	597	-	18,234	1.56%	550
2006	18,190	2,610	2,357	227	-	-	135	195	-	23,714	1.87%	696
2007	25,375	1,405	2,161	213	99	-	-	-	-	29,253	2.07%	816
2008	24,320	535	1,964	197	46	-	-	-	-	27,062	1.73%	711
2009	23,210	270	1,768	182	27	743	-	-	-	26,200	1.64%	668
2010	22,170	-	1,571	166	54	743	-	-	-	24,704	1.51%	616
2011	20,935	-	875	149	22	743	-	-	-	22,724	1.30%	531

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

¹ The City of Lacey administers the Animal Services financials. The balance at fiscal year-end 2011 represents the amount of debt due from the City of Olympia.

² Approximately 35% of the City of Lacey's utility customers reside outside the corporate city limit.

³ See Table 15 - Schedule of Demographic and Economics for personal income and population data.

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

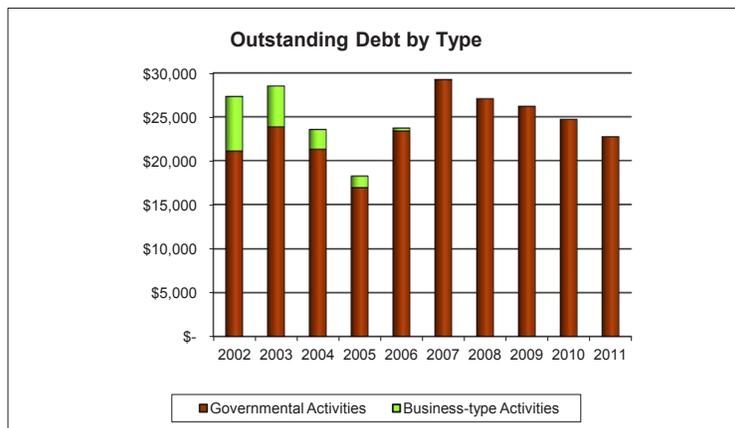
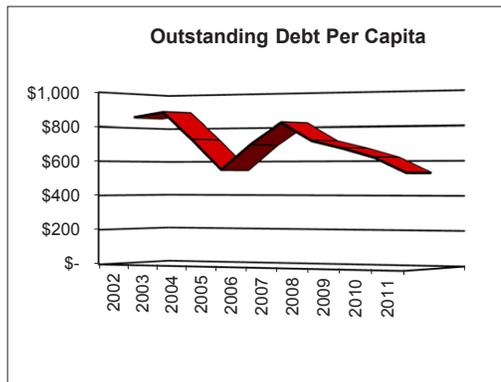


Table 11
 Ratios of General Bonded Debt Outstanding
 Last Ten Fiscal Years
 (amounts expressed in thousands, except per capita amount)

Fiscal Year	General Obligation Bonds	Less: Amounts Available in Debt Service Fund	Total	Percentage of Estimated Actual Taxable Value ¹ of Property	Per Capita ²
2002	8,595	376	8,219	0.40%	126
2003	12,855	438	12,417	0.56%	179
2004	12,110	428	11,682	0.50%	166
2005	10,235	820	9,415	0.34%	120
2006	18,190	728	17,462	0.55%	204
2007	25,375	375	25,000	0.61%	241
2008	24,320	381	23,939	0.48%	198
2009	23,210	360	22,850	0.42%	173
2010	22,170	351	21,819	0.40%	163
2011	20,935	261	20,674	0.41%	169

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

Explanation

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

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

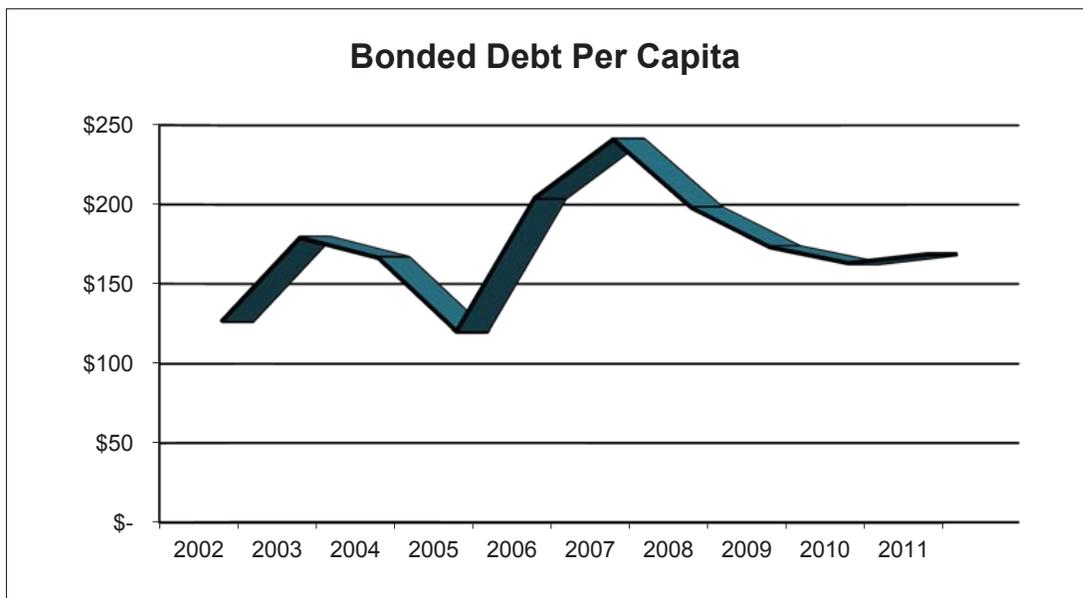


Table 12
 Direct and Overlapping Government Activities Debt
 As of December 31, 2011
 (amounts expressed in thousands)

Governmental Unit	Debt Outstanding	Estimated Percentage Applicable ¹	Estimated Share of Overlapping Debt
Debt repaid with property taxes:			
Thurston County	\$ 103,213	16.84%	\$ 17,381
Port of Olympia	27,975	16.84%	4,711
North Thurston School District	128,562	47.98%	61,687
Fire Districts ²	3,950	74.44%	<u>2,941</u>
Subtotal, overlapping debt			86,720
City of Lacey's direct debt			<u>22,724</u>
Total direct and overlapping debt			\$ <u><u>109,444</u></u>

Source: Assessed value data used to estimate applicable percentages provided by the Thurston County Assessor. Debt outstanding information is provided by the Thurston County Treasurer (County and District Debt Outstanding)

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

Explanation

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

² Include fire district #03, #06 and #08.

Table 13
 Legal Debt Margin Information
 Last Ten Fiscal Years
 (amounts expressed in thousands)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Debt Limit	\$ 139,504	\$ 152,997	\$ 164,235	\$ 187,662	\$ 216,506	\$ 264,815	\$ 336,404	\$ 366,945	\$ 369,400	\$ 343,427
Total net debt applicable to limit	8,219	12,417	11,682	9,415	17,462	25,000	23,939	22,850	21,819	20,674
Legal debt margin	<u>\$ 131,285</u>	<u>\$ 140,580</u>	<u>\$ 152,553</u>	<u>\$ 178,247</u>	<u>\$ 199,044</u>	<u>\$ 239,815</u>	<u>\$ 312,465</u>	<u>\$ 344,095</u>	<u>\$ 347,581</u>	<u>\$ 322,753</u>
Total net debt applicable to the limit as a percentage of debt limit	5.89%	8.12%	7.11%	5.02%	8.07%	9.44%	7.12%	6.23%	5.91%	6.02%

Legal Debt Margin Calculations:

Assessed Value	<u>\$ 4,579,020</u>
Total assessed value	<u>\$ 4,579,020</u>
Debt limit (7.5% of total assessed value)	\$ 343,427
Debt applicable to limit:	
General obligation bonds	20,935
Less: Amount set aside for repayment of general obligation debt	<u>(261)</u>
Total net debt applicable to limit	<u>20,674</u>
Legal debt margin	<u>\$ 322,753</u>

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

Table 14
Pledged-Revenue Coverage
Last Ten Fiscal Years
(amounts expressed in thousands)

Fiscal Year	Sewer/Water Revenue Bonds						Special Assessment Bonds			
	Total	Less	Net	Debt Service			Special	Debt Service		
	Operating Revenues	Operating Expenses	Available Revenue	Principal	Interest	Coverage	Assessment Collections	Principal	Interest	Coverage
2002	12,464	9,524	2,940	990	311	2.26	1,517	1,062	640	0.89
2003	13,805	9,923	3,882	1,035	261	3.00	2,329	1,446	536	1.18
2004	15,098	11,231	3,867	2,315	201	1.54	1,464	1,736	467	0.66
2005	17,007	11,464	5,543	945	98	5.31	2,005	1,496	377	1.07
2006	22,233	12,936	9,297	985	57	8.92	1,244	1,476	302	0.70
2007	21,207	14,148	7,059	330	11	20.70	1,453	1,401	224	0.89
2008	21,744	16,022	5,722	-	-	-	1,130	1,066	148	0.93
2009	22,481	16,489	5,992	-	-	-	515	461	91	0.93
2010	22,310	17,194	5,116	-	-	-	557	466	69	1.04
2011	24,352	22,862	1,490	-	-	-	777	696	47	1.05

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

Operating revenues do not include investment earnings and other non-operating revenues.

Operating expenses do not include interest or depreciation expenses.

Public trust fund loan is included for Special assessment bonds.

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

Table 15
Demographic and Economic Statistics
Last Ten Fiscal Years

Fiscal Year	Population	Personal Income (amounts expressed in thousands)	Per Capita Personal Income ¹	North Thurston Public School Enrollment	Unemployment Rate ²
2002	31,860	995,338	31,241	12,887	5.8%
2003	32,240	1,033,614	32,060	13,089	5.7%
2004	32,530	1,091,154	33,543	13,079	5.2%
2005	33,180	1,165,779	35,135	13,119	5.0%
2006	34,060	1,269,552	37,274	13,370	4.6%
2007	35,870	1,416,327	39,485	13,601	4.5%
2008	38,040	1,563,900	41,112	13,843	5.0%
2009	39,250	1,601,439	40,801	14,025	7.2%
2010	40,130	1,634,736	40,736	13,816	8.2%
2011	42,830	1,744,723 *	40,736 *	14,194	8.0%

Data Sources:

Thurston Regional Planning Council, The Profile (www.trpc.org)

Washington State Employment Security Department Labor Market and Economic Analysis (http://fortress.wa.gov/esd)

Explanation:

¹ The per capita personal income for Lacey is not available and therefore used the data for Thurston County is used. The amount is presented in "nominal" dollars, which represent the actual dollar value at the point in time for which the income as measured and do not include the effects of inflation.

*The information presented is based on the most recent available statistical data (2010).

² Unemployment rate for Lacey specific is not available; therefore, Thurston County's data is used. 2011 county unemployment rate is for December 2011, not seasonally adjusted unemployment rate.

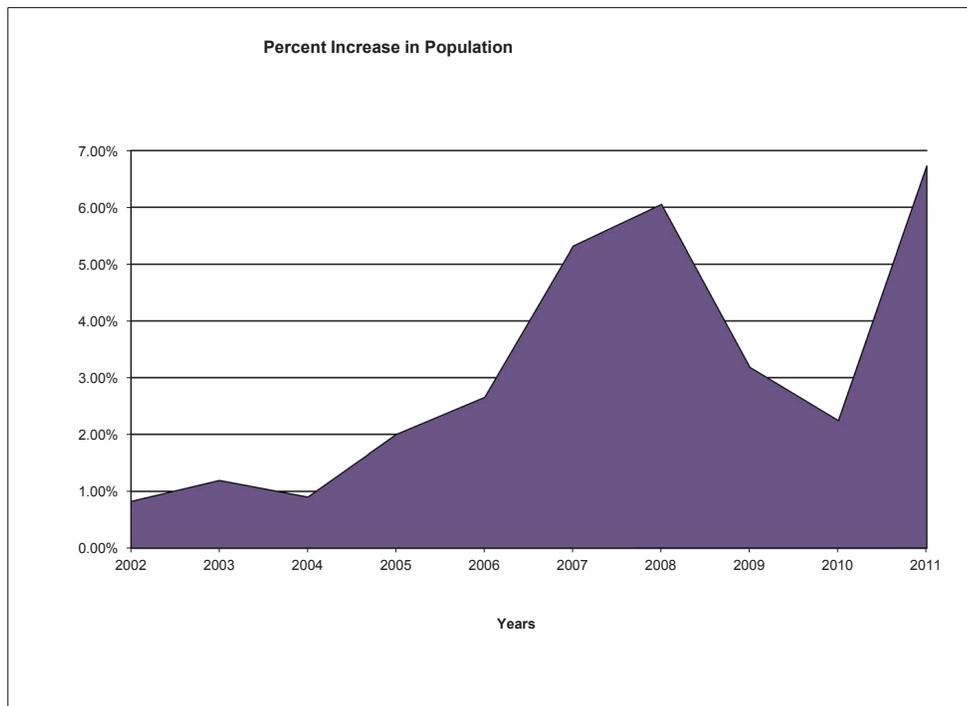


Table 16
Principal Employers
Current Year and Nine Years Ago

Employer	Business type	2011		2002 ⁵	
		Number of Employees	Percentage of Total City Employment ⁶	Number of Employees	Percentage of Total City Employment ⁶
State of Washington ¹	Government	2,450	13%	3,545 ⁷	19%
North Thurston Public Schools ³	Education	1,700	9%	1,710 ⁷	9%
Panorama City ⁴	Retirement Community	300	2%	250-499	2%
City of Lacey ¹	Government	252	1%	190	1%
Cabelas ²	Retail	100-500	2%		
Costco Corporation ²	Retail	100-500	2%		
Safeway Corporation ²	Retail	100-500	2%		
St. Martin's College ²	Education	100-500	2%	100-249	1%
Target Corporation ²	Retail	100-500	2%		
Wal-Mart Corporation ²	Retail	100-500	2%		
Fred Meyers	Retail	100-500	2%	250-499	2%
Alarm Center, Inc	Retail			100-249	1%
Illuminet (as of 2002, Verisign)	Retail			100-249	1%
Sears Roebuck & Co.	Retail			100-249	1%
Roo-Lan Healthcare	Retirement Community			100-249	1%
Shopko	Retail			100-249	1%
Total²		5,402 - 8,202	36%	6,545 - 7,937	39%

Source

- ¹ City of Lacey
- ² Thurston Regional Planning Council, 2011 Profile
- ³ North Thurston Public Schools
- ⁴ Panorama Corporation
- ⁵ City of Lacey 2002 Comprehensive Annual Financial Reports. Business with more than 100 employees within Lacey zip code area.

Explanation:

- 2011 data represent major employers within Lacey's corporate limits.
- ⁶ Percentage of total city employment is based on 2003 total jobs 19,000 (Thurston Regional Planning Council, 2011 Profile).
- ⁷ 2002 data not available. Used 2003 data which includes Lacey and Urban Growth Area.

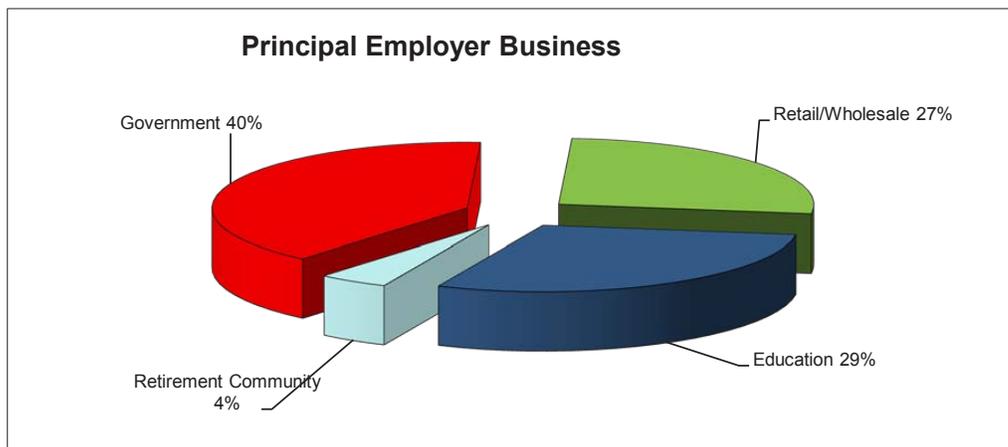


Table 17
Full-time Equivalent City Government Employees by Function
Last Ten Fiscal Years

Function	Full-Time Equivalent Employees as of December 31									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
General government	23.75	24.00	24.00	24.00	27.00	27.00	30.00	30.00	30.00	30.00
Security of persons and property										
Police Officers	46.00	47.00	47.00	47.00	49.00	51.00	54.00	56.00	56.00	56.00
Civilians	12.41	12.41	12.41	12.41	12.41	14.28	14.28	14.28	14.28	14.28
Transportation										
Engineering	31.50	31.50	31.00	32.00	36.00	37.00	38.00	38.00	38.00	38.00
Maintenance	23.68	24.68	26.68	27.68	28.68	30.68	30.50	33.50	33.50	33.50
Economic development	13.50	13.50	13.50	15.75	16.75	17.75	17.75	17.75	17.75	17.75
Culture and recreation	11.75	11.75	11.75	13.00	13.00	14.00	14.88	16.00	16.00	16.00
Water	15.53	17.41	19.41	22.95	21.95	23.95	25.45	25.45	25.45	25.45
Wastewater	13.47	13.59	13.59	14.05	15.05	16.05	14.55	14.55	14.55	14.55
Stormwater	5.32	5.32	5.32	5.32	5.32	5.32	6.50	6.50	6.50	6.50
Total	196.91	201.16	204.66	214.16	225.16	237.03	245.91	252.03	252.03	252.03

Source: City of Lacey Budget Records

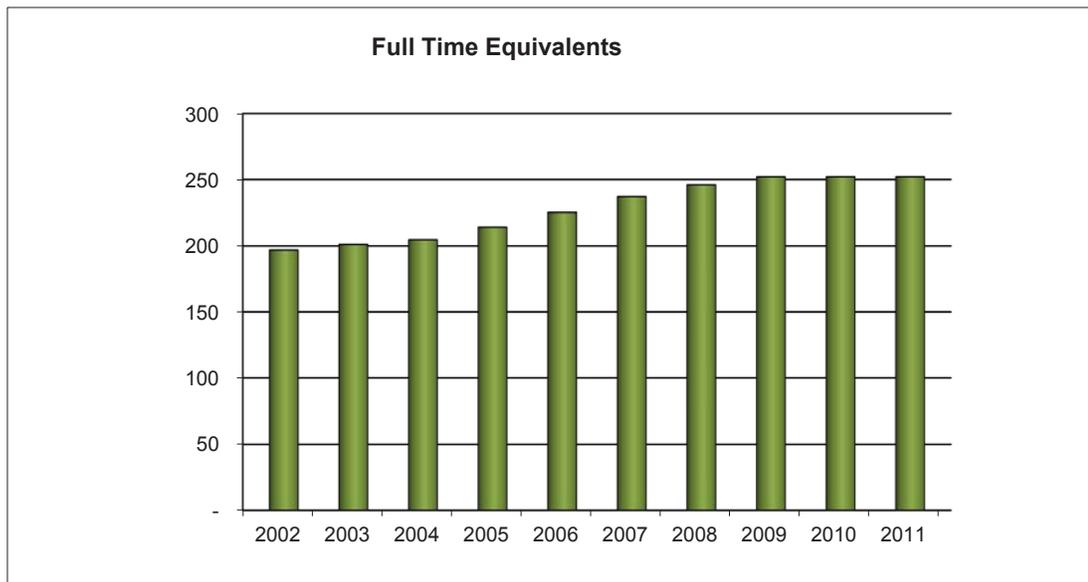


Table 18
Operating Indicators by Function
Last Ten Fiscal Years

Function	Fiscal Year									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Police										
Arrests	2,533	2,598	2,463	2,473	3,333	4,006	4,331	4,084	4,169	3,795
Total citations issued	6,876	6,718	6,331	4,977	4,713	4,997	6,180	7,571	5,736	5,824
Incidents	40,002	42,779	35,895	32,783	34,203	36,744	38,049	39,161	36,557	34,014
Crime rate calls per thousand population	48	50	51	56	50	51	48	41	41	35
Highways and streets										
Miles of street swept	4,153	4,529	5,030	4,038	3,640	4,000	3,900	4,223	5,411	5,271
Miles of edge of road line maintained	38	-	27	18	18	18	25	19	18	14
State of the street (% of Very Good or Good Condition)	52%	63%	65%	87%	90%	91%	95%	93%	94%	96%
Miles of street striping completed	38	-	27	19	18					
Economic Development										
Number of building permits issued	321	364	494	1,025	1,604	1,157	494	402	362	325
Number of building inspections	4,444	5,225	8,977	15,819	20,589	17,002	9,467	7,351	6,586	6,915
Number of complaints processed	123	99	106	135	127	154	129	127	93	98
Commercial site plan reviews	24	28	23	25	27	29	32	10	12	9
Culture and recreation										
Community center bookings	572	733	925	900	951	911	921	724	765	760
Regional Athletic Complex bookings	N/A	N/A	N/A	N/A	N/A	N/A	N/A	1,235	1,872	1,955
Average number of programs offered per quarter	215	218	276	323	265	257	246	269	261	294
Program registrations	15,368	13,272	13,829	8,206	11,687	12,350	13,582	13,181	13,740	12,108
Community-wide special events	60	29	34	35	32	38	40	40	41	41
Miles of planters mowed	13	14	14	14	14					
Acres of planters mowed	18	19	20	20	20					
Water										
Gallons of water pumped (millions)	2,228	2,299	2,435	2,490	3,083	2,774	2,666	2,595	2,199	2,243
Gallons of water sold (millions)	1,999	2,100	2,097	2,009	2,350	2,259	2,249	2,336	2,061	2,188
Percentage of water sold	90%	91%	86%	81%	76%	81%	84%	90%	94%	98%
Average daily consumption (millions of gallons)	5	6	6	6	6	6	6	6	6	6
Number of valves exercised	2,016	1,720	3,703	3,132	5,794	1,184	1,924	3,617	1,653	1,456
Number of hydrants exercised	226	448	449	662	335	2,879	3,060	3,334	3,432	3,492
Number of water mains breaks	190	134	160	243	201	220	173	198	168	130
Number of customers served	16,346	16,346	17,172	17,916	19,267	20,295	20,863	21,362	21,812	22,840
Number of irrigation customers	487	516	549	593	635	651	693	709	724	692
Wastewater										
Number of lift station incident responses	411	292	522	588	317	333	288	231	324	363
Number of STEP system connections	2,270	2,493	2,666	2,835	2,779	2,814	2,837	2,861	3,656	3,882
Number of STEP system incident responses	206	316	591	659	258	236	247	278	188	201
Lines cleaned (in feet)	143,708	102,147	151,274	180,517	212,633	130,511	104,219	390,555	390,644	323,671
Lines televised (in feet)	33,916	91,645	78,202	208,976	94,470	181,212	290,829	263,451	346,117	267,686
Odor complaints	N/A	N/A	20	18	8	7	11	1	1	3
Stormwater										
Percentage of catch basins cleaned	100%	100%	100%	62%	60%	42%	100%	100%	100%	100%
Acres of storm ponds maintained	36	39	39	494	625	681	1,037	1,027	1,235	1,768
City responses to spills	44	57	43	49	56	56	57	54	109	137

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

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

Table 19
Capital Asset Statistics by Function
Last Ten Fiscal Years

Function	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Security of persons and property										
Police station	1	1	1	1	1	1	1	1	1	1
Patrol vehicles	14	14	14	16	16	16	18	21	22	22
Highways and streets										
Miles of street ¹	115 CL	116 CL	117 CL	121 CL	122 CL	132 CL	148 CL	345 LM	351 LM	352 LM
Number of streetlights	2,300	2,375	2,433	2,852	2,973	3,246	3,653	3,796	3,842	4,015
Number of street signs	4,153	4,529	5,030	5,636	5,983	6,674	7,027	7,400	7,528	7,606
Number of traffic signals	25	26	27	28	30	40	40	42	42	43
Culture and recreation										
Number of habitat reserves	-	-	-	-	-	-	-	-	6	6
Number of parks	26	25	25	25	24	24	25	25	25	25
Parks acreage including outside city limits	501	501	501	501	501	501	531	579	501	568
Developed parks acres	72	82	122	122	162	186	237	2.6.5	297	335
Soccer fields	5	5	8	8	8	8	8	10	10	233
Tennis courts	4	4	8	9	9	9	9	9	9	9
Baseball, softball fields	3	3	7	7	7	7	7	12	12	12
Community centers	1	1	1	1	1	1	1	1	1	1
Senior centers	-	1	1	1	1	1	1	1	1	1
Community buildings	3	3	3	3	3	3	3	3	3	3
Water										
Number of production wells	19	19	19	20	19	19	19	19	19	19
Miles of water lines	301	304	310	334	342	353	348	357	360	370
Number of reservoirs	8	8	8	8	8	8	8	7	7	8
Number of booster stations	8	8	8	8	8	8	8	6	6	10
Number of valves ²	6,466	6,835	7,437	8,516	9,597	10,023	10,187	10,002	10,174	10,219
Number of Hydrants 2	2,375	2,479	2,666	2,848	2,928	3,037	4,216	3,424	3,469	3,479
Wastewater										
Miles of sewer transmission lines	92	94	113	125	132	136	145	147	151	154
Number of lift stations	25	32	36	38	39	46	44	44	45	48
Miles of STEP transmission lines	41	43	46	47	49	49	51	52	52	52
Odor control facilities	10	10	11	11	11	11	11	13	14	14
Stormwater										
Number of catch basins	3,217	3,217	3,073	3,665	3,300	3,580	3,741	4,010	4,419	4,716
Number of city storm ponds	N/A	N/A	N/A	36	37	38	38	43	49	49
Number of acres of storm ponds maintained	36	39	39	464	625	681	1,037	1,027	1,235	1,768

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

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

Note:

¹. CL = Center Line Miles; LM = Lane Miles

². Decline in numbers in 2009 were due to editing the map and some waterlines that were replacement had fewer valves.



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