



City of Lacey, Washington
2012 Comprehensive Annual Financial Report
for the year ended December 31, 2012



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City of Lacey

2012

Comprehensive Annual Financial Report

For the Year Ended December 31, 2012



*Troy Woo, Finance Director
Finance Department*

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Lacey, WA 98503
360 491-3212
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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, 2012**

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Introductory Section



CITY COUNCIL

VIRGIL S. CLARKSON

Mayor

JASON HEARN

Deputy Mayor

JEFF GADMAN

LENNY GREENSTEIN

RON LAWSON

CYNTHIA PRATT

ANDY RYDER

CITY MANAGER

SCOTT H. SPENCE

June 30, 2013

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, 2012, 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 2012 population of 43,600.

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. The City Council 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, who acts 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, Costco, 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. Lacey continues to facilitate the development of the northeast area.

Lacey's population growth continues to place significant demands on services. During the past five years, authorized 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 14.6 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, 10 positions are being held open or hiring delayed.

Prior to the recession, which ended in 2009, general fund revenues experienced growth levels that matched the growing demand for services. During the recession, Lacey experienced revenue declines to significant sources such as sales tax, planning and building fees, and interest income and much slower growth from sources such as property and utility taxes. During early 2009, a proactive 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 have been restored, but overall the 2012 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 one percent adjustment have generated 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

2010 voluntary property tax levy reduction due to the voter approved fire district annexation has lessened the impact of the new construction on property tax levies.

Long-term Financial Planning

The City Council determines committed and assigned fund balances in the governmental funds, which are set aside for specific budgetary and capital improvements. Although this amount varies from year to year, it has enabled the Council to reduce and/or eliminate the need for long-term borrowing.

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 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 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 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

The City is in the process of updating its comprehensive plans for its water and wastewater utilities and developing its first ever comprehensive plan for its stormwater utility. The capital infrastructure plans (CIP) are integral components of the comprehensive plans. The CIP of each comprehensive plan will determine the future investments in new infrastructure and replacement of existing infrastructure. The three utility comprehensive plans are in different stages of development. The water comprehensive plan is expected to be adopted late spring 2013, while the stormwater and wastewater comprehensive plans are expected to be adopted during late 2013 and late 2014, respectively. The draft water six-year CIP includes projects totaling \$44.0 million (inflated). The City Council has already adopted a five-year rate increase schedule to help fund the CIP, but debt issuance will be required. The stormwater and wastewater comprehensive plans are still too preliminary to include draft CIPs, but it is expected they will identify a significant level of new and replacement projects.

Current transportation projects include the Willamette Drive and 31st Avenue Intersection improvements, Yelm Highway Sidewalk Connection, Martin Way and Martin Road Interchange Justification Reports Phase 2, 2013 overlay program, and Citywide Signal Improvements. The resources to cover these improvements include \$900,000 in Real Estate Excise Tax revenues, grants, miscellaneous revenues from State Fuel tax and collected mitigation fees, and reserves. The highly successful street overlay program continued in 2012 with a \$2.0 million investment in Ruddell Road. In recent years, transfers from the General Fund to the Arterial Street Fund have funded the annual street overlay program. To reduce the 2013 Budget deficit, the annual transfer was eliminated. The City Council has committed Arterial Street Fund reserves to continue the program in the short-term. If

the economy does not improve, the City will need to identify other sources of funding or the annual street overlay program will not continue.

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, 2009-2011. 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. The 2012 CAFR will be submitted 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 M. 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, 2011

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.



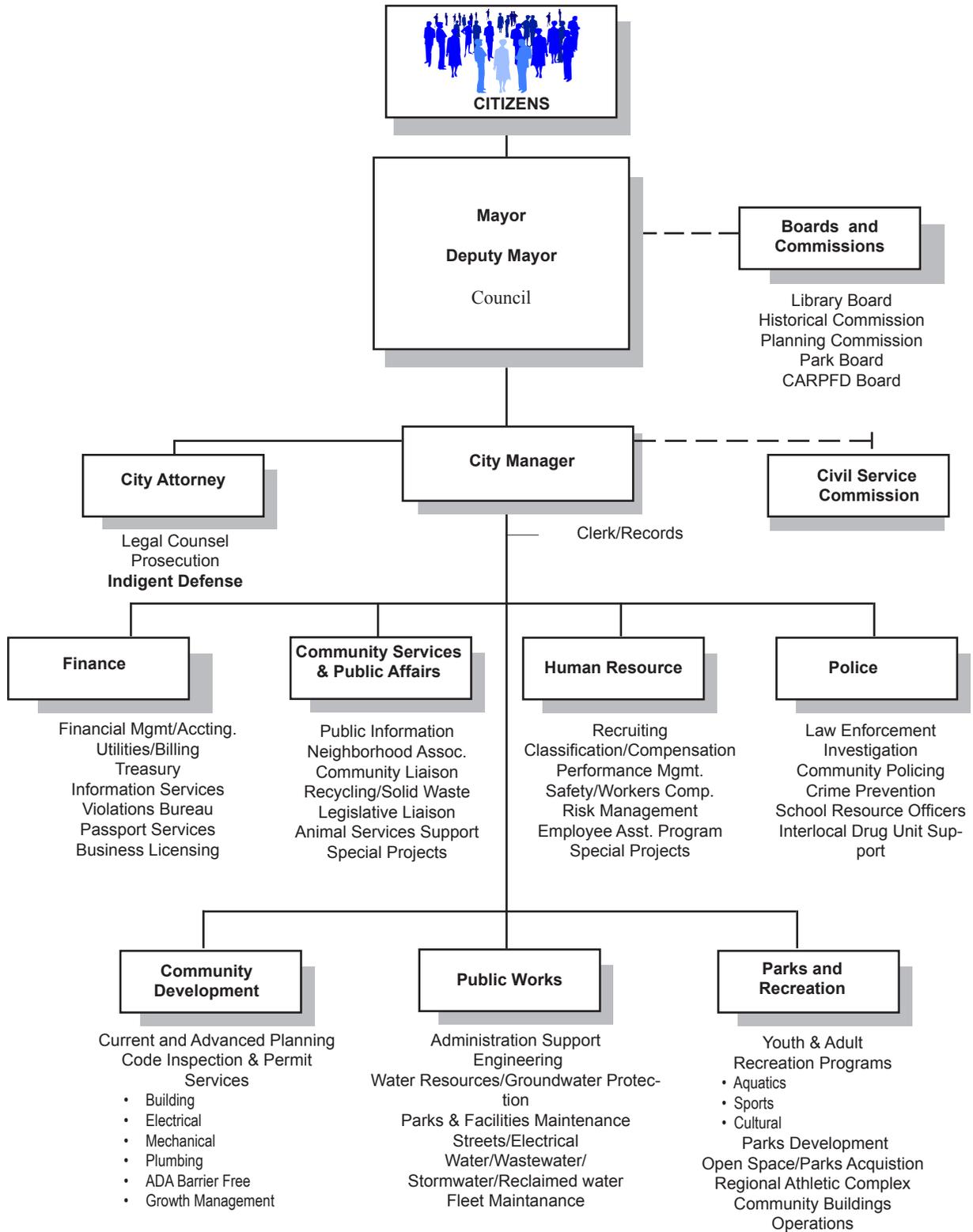
Christopher P. Morille

President

Jeffrey R. Enos

Executive Director

LACEY CITY GOVERNMENT



CITY OF LACEY, WASHINGTON

Mayor

Virgil Clarkson Term - Dec. 2013

Deputy Mayor

Jason Hearn Term - Dec. 2015

Council

Jeff Gadman	Term - Dec. 2015
Lenny Greenstein	Term - Dec. 2015
Ron Lawson	Term - Dec. 2013
Cynthia Pratt	Term - Dec. 2013
Andy Ryder	Term - Dec. 2013

City Manager

Scott H. Spence

ADMINISTRATION

Kenneth R. Ahlf	City Attorney
Frederick O. Walk	Community Development Director
Troy M. Woo	Finance Director
Lorraine M. Flemm	Parks & Recreation Director
Dusty D. Pierpoint	Police Chief
Elizabeth P. Gotelli	Public Affairs/Human Resource Director
Scott D. Egger	Public Works Director



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Financial Section



Washington State Auditor Troy Kelley

INDEPENDENT AUDITOR'S REPORT

June 24, 2013

Mayor and City Council
City of Lacey
Lacey, Washington

REPORT ON FINANCIAL STATEMENTS

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, 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the

appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

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, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3.1 through 3.13, budgetary comparison information on pages 5.1 through 5.2 and information on postemployment benefits other than pensions on page 5.3 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 our 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.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements as a whole. The accompanying information listed as combining financial statements and supplementary information on pages 6.1 through 7.18 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.

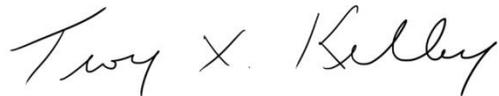
The information identified in the table of contents as the Introductory and Statistical Sections are presented for purposes of additional analysis and is not a required part of the basic financial

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.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we will also issue our report dated June 24, 2013, 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Sincerely,

A handwritten signature in black ink that reads "Troy X. Kelley". The signature is written in a cursive style with a large "X" between the first and last names.

TROY KELLEY
STATE AUDITOR



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*Management Discussion
and Analysis Section*

Management's Discussion and Analysis

As management of the City of Lacey, we offer readers of the City of Lacey's financial statements this narrative overview and analysis of the financial activities of the City of Lacey for the fiscal year ended December 31, 2012. 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 1-4 of this report.

Financial Highlights

- The government's overall financial position improved in 2012 as compared to 2011.
- At the end of the fiscal year the assets and deferred outflows of resources of the City of Lacey exceeded its liabilities by \$622.3 million. Net investments in capital assets account for 85.9 percent of the amount (\$534.3 million). Of the remaining net position in the amount of \$88.0 million, \$1.2 million is subject to external restrictions and \$86.8 million may be used to meet the City's ongoing obligations to citizens and creditors.
- The City of Lacey's total net position increased by \$9.4 million. The governmental activity net position increased by \$1.2 million compared to the previous year. Business-type activity net position increased by \$8.3 million. The business-type increase included a net position for the Water Utility of \$4.9 million, \$3.1 million for the Wastewater Utility, \$182,049 net increase for the Reclaimed Water Utility and \$38,222 net loss for the Stormwater Utility.
- At the close of 2012, the City of Lacey's governmental funds reported a combined ending fund balance of \$54.3 million, an increase of \$4.2 million.

Of the major funds, the ending fund balance of the General Fund increased \$1.6 million, whereas the Arterial Street Fund increased \$371,499, and the L.I.D. Redemption Fund increased \$1.4 million.

Nonmajor funds combined fund balance increased \$939,823. The capital project funds combined resulted in an increase of \$967,547, which was a net result of the receipt of a Washington State Recreation and Conservation Office grant in the amount of \$884,399.

Approximately \$12.4 million (22.9 percent) of the combined ending fund balance is unassigned and available to the City of Lacey for discretionary spending.

- At the end of 2012, the unassigned fund balance for the General Fund was \$12.2 million, which is an increase of \$2.0 million compared to the prior year's amount of \$10.2 million.
- The City of Lacey's total outstanding debt decreased \$345,544 (1.6 percent) to \$21.6 million during the current fiscal year.
- Revenues from local tax sources, including property, sales, business excise, and miscellaneous other taxes increased by \$786,675 to \$24.9 million, a 3.3 percent increase compared to 2011. Property taxes experienced the largest increase due to new construction additions, refund levies, and higher delinquency collections.

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 provided here 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 includes supplementary information intended to furnish additional detail to support the basic financial statements themselves.

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

The *statement of net position* presents financial information on all of the City of Lacey's assets, liabilities, and deferred inflows/outflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City of Lacey is improving or deteriorating.

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

Both of the government-wide financial statements distinguish functions of the City of Lacey 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 of Lacey 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 of Lacey 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. All of the funds of the City of Lacey 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 assessing a government's near-term financing requirements.

Because of the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term

financing decisions. Both the governmental fund balance sheet and governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City of Lacey maintains eleven 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, and L.I.D. redemption fund which are considered to be major funds. Data from the other eight governmental funds are combined into a single, 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 of Lacey adopts an annual budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

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

Proprietary Funds. The City of Lacey 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 of Lacey 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 of Lacey's various functions. The City of Lacey uses internal service funds to account for its fleet of vehicles and for its information management 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 of Lacey. Conversely, both internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds is provided in the form of *combining statements* elsewhere in this report.

The basic proprietary fund financial statements can be found on pages 4-8 to 4-10 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 of Lacey'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 4-11 of this report.

Notes to the Financial Statements. The notes provide additional information that is necessary to acquire 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 4-13 to 4-48 of this report.

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

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

Government-wide Overall Financial Analysis

As noted earlier, net position over time, may serve as a useful indicator of a government's financial position. In the case of the City of Lacey, assets and deferred outflows of resources exceeded liabilities by \$622.3 million at the close of the most recent fiscal year.

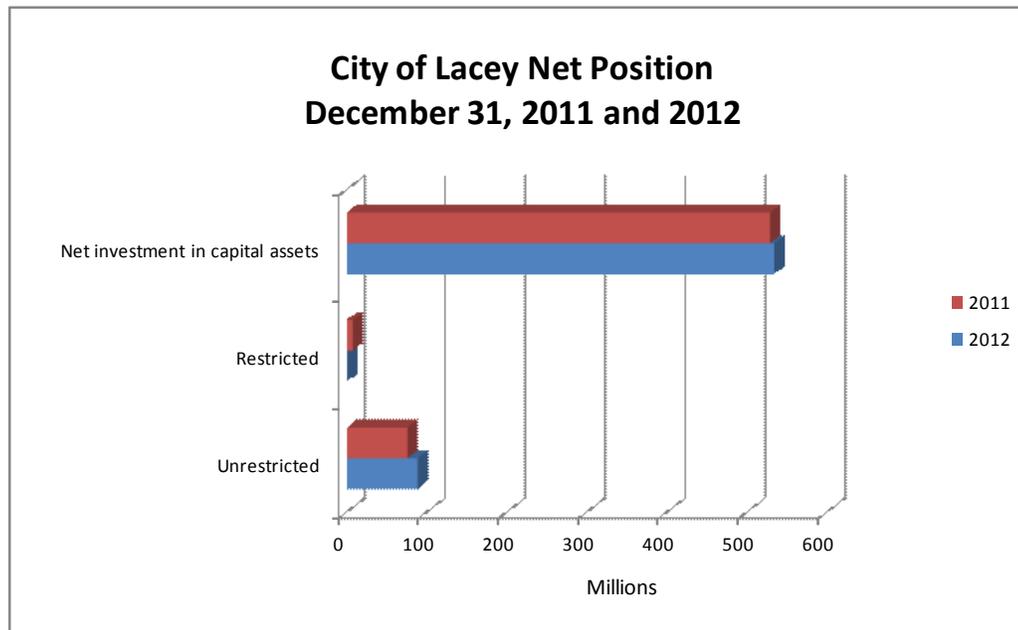
The following table provides a summary of the City of Lacey's net position as of December 31, 2012 and December 31, 2011:

	Summary of Net Position							
	Governmental		Business-Type		Total		Percentage	
	Activities		Activities				Of Total	
	2012	2011	2012	2011	2012	2011	2012	2011
Assets:								
Current assets	\$ 72,474,544	\$ 70,403,371	\$ 27,526,836	\$ 24,325,358	\$ 100,001,380	\$ 94,728,729	15.3%	14.7%
Restricted assets	338,419	974,532	132,704	139,461	471,123	1,113,993	0.1%	0.2%
Investment in joint venture	720,646	712,019	-	-	720,646	712,019	0.1%	0.1%
Capital assets	321,362,361	322,762,765	230,148,480	224,593,531	551,510,841	547,356,296	84.5%	85.0%
Total assets	394,895,970	394,852,687	257,808,020	249,058,350	652,703,990	643,911,037	100.0%	100.0%
Deferred outflows of resources								
Deferred charge on refunding	226,260	-	-	-	226,260	-	0.0%	0.0%
Total deferred outflows of resources	226,260	-	-	-	226,260	-	0.0%	0.0%
Liabilities:								
Current liabilities	4,150,437	4,388,119	2,405,563	1,925,953	6,556,000	6,314,072	21.4%	20.3%
Long-term liabilities	23,915,142	24,575,458	174,264	184,167	24,089,406	24,759,625	78.6%	79.7%
Total liabilities	28,065,579	28,963,577	2,579,827	2,110,120	30,645,406	31,073,697	100.0%	100.0%
Net Position:								
Net investment in capital assets	304,244,746	304,457,539	230,039,105	224,593,531	534,283,851	529,051,070	85.9%	86.3%
Restricted	1,181,539	7,909,097	-	-	1,181,539	7,909,097	0.2%	1.3%
Unrestricted	61,630,366	53,522,474	25,189,088	22,354,699	86,819,454	75,877,173	14.0%	12.4%
Total net position	\$ 367,056,651	\$ 365,889,110	\$ 255,228,193	\$ 246,948,230	\$ 622,284,844	\$ 612,837,340	100.0%	100.0%

By far the largest portion of the City of Lacey's net position (85.9 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 of Lacey uses these capital assets to provide services to citizens. Accordingly, these assets are not available for future spending. Although the City of Lacey's investment in its capital assets is reported net of related debt, it should be noted that the resources used 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 of Lacey's net position (\$1.2 million) represents resources that are subject to external restrictions on how they may be used. Reported as unrestricted net position, the governing body has committed and assigned \$39.6 million of the City's net position for specific purposes. The remaining balance of unrestricted net position (\$47.2 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 of Lacey is able to report positive balances in all three categories of net position, 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.



The City of Lacey's overall net position increased by \$9.4 million in 2012. The increase is explained in the following discussion of governmental and business-type activities.

Governmental Activities. Governmental activities increased the City of Lacey's net position by \$1.4 million, accounting for 14.2 percent of the total growth in the net position of the City of Lacey.

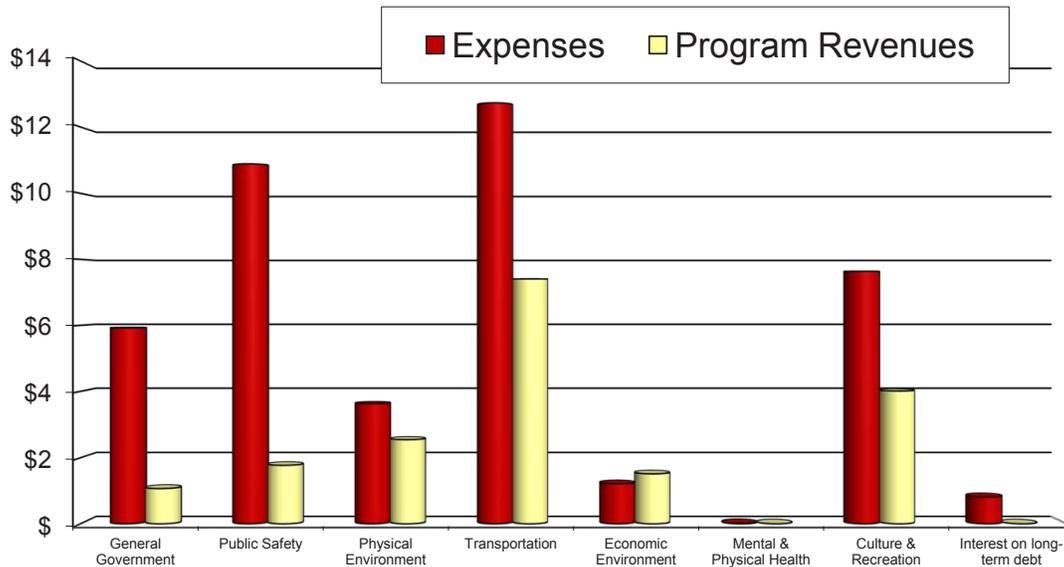
- Operating revenues (charges for services) decreased by \$309,037. Program expenses for general government decreased in the amount of \$136,373.
- Operating grants and contributions increased \$64,354. Grants for general government increased by \$138,434.
- Capital grants and contributions decreased by \$1.5 million. Transportation reported a decrease of \$1.9 million for capital grants as a result of the completion of a major road expansion.
- General revenues increased \$1.2 million. Property and retail sales taxes increased by \$593,539 as a result of new construction additions, refund levies, higher delinquency collections, and slightly improved retail sales activity. Interest and investment earnings increased \$346,204 mainly from interest transactions relating to local improvement district assessments.
- Total expenses increased \$348,600 (0.8 percent) mainly as a result of inflation and growth.

The following table provides a summary of the City's changes in net position as of December 31, 2012 and December 31, 2011:

Summary of Changes in Net Position

	Governmental Activities		Business-Type Activities		Total		Percentage Of Total	
	2012	2011	2012	2011	2012	2011	2012	2011
	Revenues:							
Program:								
Charges for services	\$ 8,382,753	\$ 8,691,790	\$ 27,446,676	\$ 26,454,590	\$ 35,829,429	\$ 35,146,380	44.9%	46.7%
Operating Grants	3,010,859	2,946,505	48,258	32,402	3,059,117	2,978,907	3.8%	4.0%
Capital Grants	6,932,729	8,464,317	8,000,293	3,684,474	14,933,022	12,148,791	18.7%	16.1%
General:								
Taxes	24,851,286	24,064,612	-	-	24,851,286	24,064,612	31.1%	32.0%
Interest	759,722	413,929	87,125	79,504	846,847	493,433	1.1%	0.7%
Miscellaneous	268,532	203,470	-	189,564	268,532	393,034	0.3%	0.5%
Total revenues	44,205,881	44,784,623	35,582,352	30,440,534	79,788,233	75,225,157	100.0%	100.0%
Program expenses:								
General Government	5,919,872	6,056,245	-	-	5,919,872	6,056,245	8.4%	8.8%
Security of Persons and Property	10,878,954	10,598,975	-	-	10,878,954	10,598,975	15.5%	15.4%
Physical Environment	3,624,395	3,565,655	-	-	3,624,395	3,565,655	5.2%	5.2%
Transportation	12,726,138	13,048,443	-	-	12,726,138	13,048,443	18.1%	19.0%
Economic Environment	1,210,945	1,286,619	-	-	1,210,945	1,286,619	1.7%	1.9%
Mental and Physical Health	10,691	10,049	-	-	10,691	10,049	0.0%	0.0%
Culture & Recreation	7,640,239	7,032,612	-	-	7,640,239	7,032,612	10.9%	10.2%
Interest on long-term Debt	811,378	875,414	-	-	811,378	875,414	1.2%	1.3%
Water	-	-	10,539,535	10,087,794	10,539,535	10,087,794	15.0%	14.7%
Wastewater	-	-	13,396,952	12,749,793	13,396,952	12,749,793	19.1%	18.6%
Stormwater	-	-	3,334,520	3,330,230	3,334,520	3,330,230	4.8%	4.9%
Reclaimed Water	-	-	49,321	-	49,321	-	0.1%	0.0%
Total expenses	42,822,612	42,474,012	27,320,328	26,167,817	70,142,940	68,641,829	100.0%	100.0%
Excess revenues	1,383,269	2,310,611	8,262,024	4,272,717	9,645,293	6,583,328		
Transfers	(17,939)	(3,774,843)	17,939	3,774,843	-	-		
Change in net position	1,365,330	(1,464,232)	8,279,963	8,047,560	9,645,293	6,583,328		
Net position - beginning as previously reported	365,889,110	366,418,120	246,948,230	239,683,094	612,837,340	606,101,214		
Correction of errors in prior year (see notes)	(197,789)	935,222	-	(782,424)	(197,789)	152,798		
Net position - beginning, adjusted	365,691,321	367,353,342	246,948,230	238,900,670	612,639,551	606,254,012		
Net position - ending	\$ 367,056,651	\$ 365,889,110	\$ 255,228,193	\$ 246,948,230	\$ 622,284,844	\$ 612,837,340		

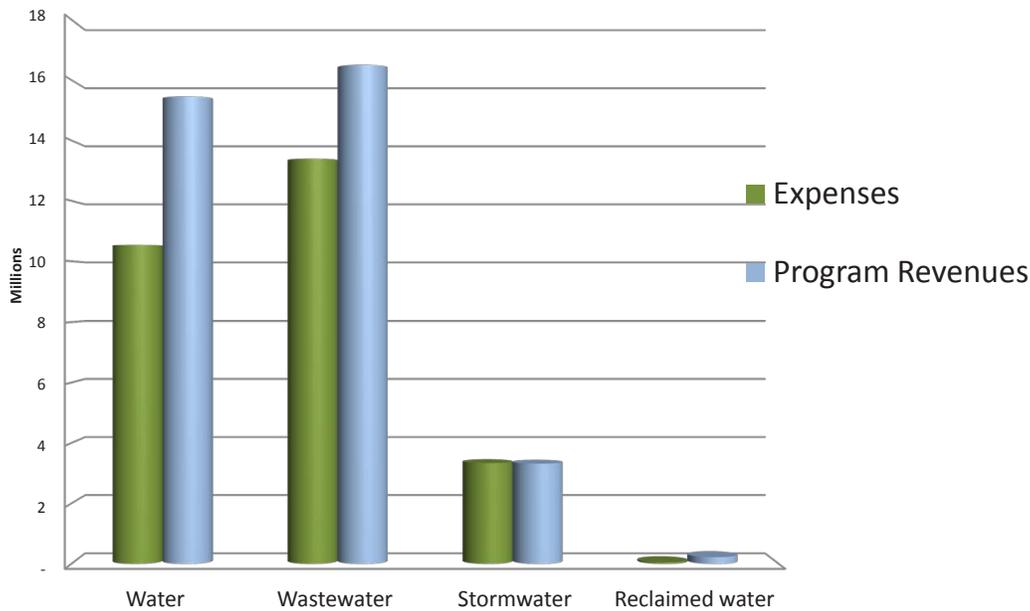
Expenses and Program Revenues - Governmental Activities



Business-type Activities. Business-type activities increased the City of Lacey’s net position by \$8.3 million, accounting for 85.8 percent of the total growth in the government’s net position. Key elements of this increase are as follows:

- Water, Wastewater and Stormwater sales increased 3.8 percent (\$992,086) due to utility rate increases and customer base growth.
- Capital grants and contributions attributed to 22.5 percent (\$8.0 million) of business-type revenues and interest earnings totaled \$87,125.

Expense and Program Revenues-Business-Type Activities



Governmental Functional Expenses. Transportation costs make up 29.7 percent of the total governmental expenses. Security of persons and property costs comprise 25.4 percent of the City of Lacey’s total governmental expenses. The culture and recreation expenses make up 17.8 percent and general government services expenses make up 13.8 percent of governmental expenses.

This table presents the cost of each of the City of Lacey’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 of Lacey’s taxpayers by each of these functions.

	Governmental Activities			
	Total Cost Of Services		Net Cost Of Services	
	2012	2011	2012	2011
General Government	\$ 5,919,872	\$ 6,056,245	\$ (4,852,697)	\$ (5,142,185)
Security of persons and property	10,878,954	10,598,975	(9,105,001)	(8,439,858)
Physical Environment	3,624,395	3,565,655	(1,074,301)	(1,026,867)
Transportation	12,726,138	13,048,443	(5,318,824)	(3,776,005)
Economic Environment	1,210,945	1,286,619	303,654	382,773
Culture & Recreation	7,640,239	7,032,612	(3,627,033)	(3,483,795)
Int & Other Debt Service Costs	811,378	875,414	(811,378)	(875,414)
Mental & Physical Health	10,691	10,049	(10,691)	(10,049)
	<u>\$ 42,822,612</u>	<u>\$ 42,474,012</u>	<u>\$ (24,496,271)</u>	<u>\$ (22,371,400)</u>

Financial Analysis of Governmental Funds

As noted earlier, the City of Lacey 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 of Lacey's governmental funds as of December 31, 2012 and December 31, 2011:

Revenue, Expenditure, and Fund Balance Summary Governmental Funds						
Major Funds	General Fund		Arterial Street Fund		L.I.D. Redemption Fund	
	2012	2011	2012	2011	2012	2011
Revenues						
Taxes	\$ 17,827,603	\$ 16,989,647	\$ 1,035,270	\$ 925,913	-	-
License and permits	1,664,565	1,562,451	-	-	-	-
Intergovernmental revenues	1,495,027	1,502,924	2,843,805	3,726,909	-	-
Charges for services	6,215,822	6,601,757	1,193,656	1,171,592	-	-
Fines & forfeitures	665,857	728,162	-	-	-	-
Other revenue	263,132	233,408	236,395	71,494	1,516,215	777,936
Total revenues	\$ 28,132,006	\$ 27,618,349	\$ 5,309,126	\$ 5,895,908	\$ 1,516,215	\$ 777,936
Expenditures	\$ 26,957,668	\$ 26,532,916	\$ 5,787,627	\$ 8,904,282	\$ 155,693	\$ 743,556
Other Financing Sources and Uses						
Proceeds from capital lease	\$ 13,193	\$ 36,119	\$ -	\$ -	-	-
Transfers	383,491	(6,677,937)	850,000	3,700,000	-	(25,000)
Total other financing sources and uses	\$ 396,684	\$ (6,641,818)	\$ 850,000	\$ 3,700,000	\$ -	\$ (25,000)
Fund Balances						
Nonspendable	\$ 6,183	\$ 4,854	\$ -	\$ -	\$ -	\$ -
Restricted	134,305	6,112,908	-	743,453	-	-
Committed	4,769,900	4,769,900	1,095,560	2,850,000	828,665	135,980
Assigned	6,112,901	613,680	12,601,214	9,731,822	472,992	-
Unassigned	12,245,293	10,196,218	-	-	194,845	-
Total fund balances, as adjusted	\$ 23,268,582	\$ 21,697,560	\$ 13,696,774	\$ 13,325,275	\$ 1,496,501	\$ 135,980

Revenue, Expenditure, and Fund Balance Summary Governmental Funds						
Nonmajor Funds	Special Revenue Funds		Debt Service Funds		Capital Projects Funds*	
	2012	2011	2012	2011	2012	2011
Revenues						
Taxes	\$ 2,438,175	\$ 2,222,352	\$ 1,520,215	\$ 1,446,877	\$ 2,282,739	\$ 2,515,556
License and permits	-	-	-	-	36,802	36,641
Intergovernmental revenues	658,732	703,088	-	-	2,766,047	1,139,529
Charges for services	19,034	29,404	-	-	-	-
Other revenue	43,230	49,656	2,564	3,471	101,068	132,489
Total revenues	\$ 3,159,171	\$ 3,004,500	\$ 1,522,779	\$ 1,450,348	\$ 5,186,656	\$ 3,824,215
Expenditures	\$ 2,972,361	\$ 2,923,585	\$ 2,132,782	\$ 2,078,762	\$ 3,705,959	\$ 2,963,142
Other Financing Sources and Uses						
Premium on bonds	\$ -	\$ -	\$ 185,946	\$ -	\$ 46,538	\$ -
Debt issuance	-	-	-	-	1,122,033	-
Refunding bonds issue	-	-	2,845,000	-	-	-
Payments to refunded bonds escrow agent	-	-	(2,983,707)	-	-	-
Transfers	(238,100)	(145,500)	586,330	538,512	(1,681,721)	(1,386,055)
Total other financing sources and uses	\$ (238,100)	\$ (145,500)	\$ 633,569	\$ 538,512	\$ (513,150)	\$ (1,386,055)
Fund Balances						
Restricted	\$ 863,763	\$ 944,993	\$ -	\$ -	\$ 1,338,471	\$ 102,889
Committed	2,200,000	2,200,000	-	-	5,454,493	6,965,116
Assigned	1,051,178	1,021,239	284,670	261,104	4,680,764	3,438,175
Total fund balances, as adjusted	\$ 4,114,941	\$ 4,166,232	\$ 284,670	\$ 261,104	\$ 11,473,728	\$ 10,506,180

* Parks and open space fund was a major fund in 2011 but is as a non-major fund in 2012, therefore, the 2011 column amounts are adjusted for the amounts of parks and open space funds.

Governmental Funds. The focus of the City of Lacey'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 of Lacey's financing requirements. In particular, *unassigned fund balance* may serve as a useful measure of a government's net resources available for discretionary use as they represent the portion of fund balance which has not yet been limited to use for a particular purpose by either an external party, the City of Lacey itself, or a group or individual that has been delegated authority to assign resources for use for particular purposes by the City of Lacey's Council.

As of the end of the current fiscal year, the City of Lacey's governmental funds reported combined ending fund balances of \$54.3 million, an increase of \$4.2 million in comparison with the prior year. Approximately 22.9 percent (\$12.4 million) of this total amount constitutes *unassigned fund balance*, which is available for spending at the government's discretion. The \$41.9 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 designated for 1) \$1.2 million is restricted for the state loan secured on behalf of Thurston 9-1-1 Communications, 2) lodging tax total fund balance of \$853,521, 3) \$328,018 is restricted for a variety of other restricted purposes, and 4) \$39.6 million is for a variety of other *fund committed or assigned* purposes. Additional information on the City of Lacey's restricted, committed, and assigned purposes can be found on page 4-4 of this report.

The general fund is the chief operating fund of the City of Lacey. At the end of the current fiscal year, unassigned fund balance of the general fund was \$12.2 million, while the total fund balance reached \$23.3 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 45.4 percent of the total general fund expenditures, while total fund balance represents 86.3 percent of that same amount.

The fund balance of the City of Lacey's general fund was increased by \$1.6 million during the current fiscal year. Key factors in this decline are as follows:

- Total tax revenues increased by \$837,956.
- Net transfers out decreased \$7.1 million primarily due to significant one-time transfers relating to the implementation of GASB Statement No. 54 during 2011.

The arterial street fund has a total fund balance of \$13.7 million, of which the entire amount is committed or assigned to indicate that it is not available for new spending. Total revenues decreased \$586,782. State and Federal grant revenues decreased \$843,567 as capital projects decreased. The net increase in the fund balance during the current year was \$371,499.

The local improvement district bond fund has a total fund balance of \$1.5 million as of the end of current fiscal year. The L.I.D. 19 (NE area transportation improvements district) has the only remaining improvement debt in this fund as of the end of current fiscal year.

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

Unrestricted net position of the Water, Wastewater, Stormwater and Reclaimed Water operations at the end of the year amounted to \$24.9 million. The total growth in net position for enterprise funds was \$8.2 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

Original budget compared to final budget. During the year there was a \$587,184 increase in appropriations between the original and final amended budget. Following are the significant components

of the 2012 General Fund budget amendments:

- Amendments totaling \$252,649 were required for jail costs and police investigations.
- A General Fund budget amendment in the amount of \$300,000 was required for an interfund transfer to the Building Improvement Fund to construct the senior center expansion.

Final budget compared to actual results. In total, actual General Fund revenues exceeded the final budget by \$595,137 or a 2.2 percent difference. The total actual expenditures were \$1,501,123 less than budget or 5.3 percent below budget.

On the revenue side of the budget, the primary difference between the final budget and the actual amounts relates to intergovernmental revenues. A variety of State and Federal grant revenues contributed to the increase to intergovernmental revenues.

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 2012.

Capital Assets and Debt Administration

Capital assets. The City of Lacey's investment in capital assets for its governmental and business-type activities as of December 31, 2012, amounts to \$551.5 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 of Lacey's investments in capital assets were increased by \$4.2 million or 0.8 percent. Governmental activities decreased 0.4 percent and business-type activities increased 2.5 percent from previous year. The following schedule shows the City of Lacey's investment in capital assets.

	Governmental Activities		Business-Type Activities		Total		Percentage Of Total	
	2012	2011	2012	2011	2012	2011	2012	2011
Non-depreciable assets:								
Land & land rights	\$ 133,795	\$ 131,634	\$ 13,819	\$ 13,055	\$ 147,614	\$ 144,689	18.8%	19.0%
Construction in progress	4,349	7,171	4,326	2,551	8,675	9,722	1.1%	1.3%
Total non-depreciable	138,144	138,805	18,145	15,606	156,289	154,411	19.9%	20.3%
Depreciable assets:								
Buildings	27,544	27,544	1,521	1,521	29,065	29,065	3.7%	3.8%
Improvements	26,622	26,608	272,000	262,697	298,622	289,305	38.1%	38.0%
Infrastructure	288,671	275,820	-	-	288,671	275,820	36.8%	36.3%
Machinery and equipment	11,436	11,558	676	595	12,112	12,153	1.5%	1.6%
Total depreciable assets	354,273	341,530	274,197	264,813	628,470	606,343	80.1%	79.7%
Total cost of capital assets	492,417	480,335	292,342	280,419	784,759	760,754	100.0%	100.0%
Less accumulated depreciation	171,055	157,572	62,194	55,825	233,249	213,397		
Book value - capital assets	\$ 321,362	\$ 322,763	\$ 230,148	\$ 224,594	\$ 551,510	\$ 547,357		
Percentage depreciated	34.7%	32.8%	21.3%	19.9%	29.7%	28.1%		

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

- Land and land rights increased by \$2.9 million, which included \$534,715 for land parcels and water right purchases and \$2.4 million in developer contributed easements and right of ways for utilities and streets.
- Construction in progress for governmental activities has a net decrease of \$2.8 million. A total of \$7.4 million was added during 2012, which included \$4.7 million from various new and existing street projects, \$2.3 million for the senior center expansion project, and approximately \$400,000 for various other projects. A total of \$10.2 million of city projects that began during and/or prior to 2012 were completed during 2012. This includes \$8.0 million for the Carpenter Road project, \$1.8 million for Ruddell Road overlay project, and approximately \$400,000 for other various street projects.
- A variety of new Water, Wastewater and Reclaimed Water utilities projects began in 2012 with a net increase of \$1.8 million in construction in progress. Various utilities improvement projects were completed during the current fiscal year at a cost of \$2.4 million, which includes \$1.4 million for the completion of Carpenter Road water and reclaimed water line projects and \$941,519 for Lift Station No. 52. Approximately \$119,850 of existing old water and sewer lines were replaced. Developer contributed utilities were \$7.0 million. Construction in progress as of the close of the fiscal year had reached \$4.3 million, which includes \$3.1 million for Well No. 4 Corrosion Control and Hawks Prairie Well No. 2 projects.
- Various new equipment for fleet vehicles, parks maintenance, and information technology equipment were purchased at a cost of approximately \$577,000; the costs of various obsolete and out of service equipments that were replaced or removed totaled \$617,592.

Additional information on the City of Lacey's capital assets can be found in Note 3-D starting on page 4-25 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 of Lacey 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 of Lacey'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 of Lacey. 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 of Lacey. The City of Lacey 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 of Lacey.

The City of Lacey is authorized to issue revenue bonds to finance capital improvements for its vari-

ous enterprise activities, requiring only a majority approval vote of the Council. The City of Lacey 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 2012 unlimited tax refunding general obligation bond issue. The previous Standard & Poor’s rating was “AA”. Standard and Poor’s affirmed its view of the City of Lacey’s financial management practices as “strong” 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 of Lacey’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 \$19.6 million, a State of Washington (Public Works projects) loan of \$749,923, and State of Washington LOCAL Program loan of \$1,122,033. The entire \$19.6 million comprises debt backed by the full faith and credit of the government. The bonded debt includes \$6,275,000 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
(in \$1,000's)

	Governmental Activities		Business-Type Activities		Totals		Percentage Change
	2012	2011	2012	2011	2012	2011	
General obligation bonds	\$ 19,610	\$ 20,935	\$ -	\$ -	\$ 19,610	\$ 20,935	-6.3%
Special assessment debt	-	-	-	-	-	-	0.0%
Revenue bonds	131	149	-	-	131	149	-11.8%
Capital leases	-	-	-	-	-	-	0.0%
PWTF and other loans	1,872	875	-	-	1,872	875	114.0%
Total	\$ 21,613	\$ 21,959	\$ -	\$ -	\$ 21,613	\$ 21,959	-1.6%

The City of Lacey’s total outstanding debt decreased by \$345,544 (1.6 percent) during the current fiscal year of which equals to the amount of debt redemption during 2012 net of new debt issued. The debt per capita was approximately \$495.72, 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 4-29 to 4-33.

Economic Factors and Next Year’s Budgets and Rates

- The 2012 average unemployment rate for the County was 7.4 percent, which is a decrease from a rate of 8.3 percent a year ago. This is lower compared to the state and national average unemployment rates of 7.6 and 7.8 percent, respectively.
- The City of Lacey’s population continues to grow, (43,600 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. Revenues declined during the years 2009 through 2011. 2012 revenues increased, but were not a result

of growth, so the City of Lacey's growth is not producing revenues that offset the rising operating costs. The City of Lacey's population is growing faster than the State average. The City's population increased 1.8 percent while the State's population only increased by 0.7 percent.

During the current fiscal year, unassigned fund balance in the general fund increased \$2.0 million (20.1 percent) to \$12.2 million compared to the 2011 unassigned fund balance.

The Water utility rates in the 2012 budget year were increased by 4.0 percent. The City of Lacey 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 2012 budget. These rates along with general facility charges, fund the current operating expenses, maintenance of the system, replacement, 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 of Lacey's Finance Department, 420 College Street SE, Lacey, Washington, 98503.



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*Basic Financial
Statements Section*

Statement of Net Position
December 31, 2012

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 61,711,774	\$ 24,590,069	\$ 86,301,843
Receivables (net)	11,008,607	2,558,967	13,567,574
Internal balances	(252,020)	252,020	-
Inventories	-	122,644	122,644
Prepayments	6,183	3,136	9,319
Restricted:			
Cash and cash equivalents	338,419	132,704	471,123
Investment in joint venture	720,646	-	720,646
Capital assets:			
Non-depreciable	138,144,675	18,145,033	156,289,708
Depreciable, net	183,217,686	212,003,447	395,221,133
Total assets	<u>394,895,970</u>	<u>257,808,020</u>	<u>652,703,990</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred charge on refunding	226,260	-	226,260
Total deferred outflows of resources	<u>226,260</u>	<u>-</u>	<u>226,260</u>
LIABILITIES			
Accounts payable	1,469,329	2,405,563	3,874,892
Interest payable	60,552	-	60,552
Unearned revenues	2,620,556	-	2,620,556
Noncurrent liabilities:			
Due within one year	2,098,279	92,000	2,190,279
Due in more than one year	21,816,863	82,264	21,899,127
Total liabilities	<u>28,065,579</u>	<u>2,579,827</u>	<u>30,645,406</u>
NET POSITION			
Net investment in capital assets	304,244,746	230,039,105	534,283,851
Restricted for:			
Criminal bail	134,305	-	134,305
Lodging/tourism	853,521	-	853,521
HUD grant	10,242	-	10,242
City facilities	109,027	-	109,027
Public education fees	74,444	-	74,444
Unrestricted	61,630,366	25,189,088	86,819,454
Total net position	<u>\$ 367,056,651</u>	<u>\$ 255,228,193</u>	<u>\$ 622,284,844</u>

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

Statement of Activities
For the Year Ended December 31, 2012

Functions/Program	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants & Contributions
Primary government:				
Governmental activities:				
General government	\$ 5,919,872	\$ 867,595	\$ 199,580	\$ -
Security of persons and property	10,878,954	878,903	884,012	11,038
Physical environment	3,624,395	2,550,094	-	-
Transportation	12,726,138	1,082,614	878,648	5,446,052
Economic environment	1,210,945	1,449,708	13,891	51,000
Mental and physical health	10,691	-	-	-
Culture and recreation	7,640,239	1,553,839	1,034,728	1,424,639
Interest on long-term debt	811,378	-	-	-
Total governmental activities	42,822,612	8,382,753	3,010,859	6,932,729
Business-type activities:				
Water	10,539,535	12,140,338	454	3,315,401
Wastewater	13,396,952	13,215,994	47,804	3,237,601
Stormwater	3,334,520	2,090,344	-	1,226,326
Reclaimed water	49,321	-	-	220,965
Total business-type activities	27,320,328	27,446,676	48,258	8,000,293
Total primary government	\$ 70,142,940	\$ 35,829,429	\$ 3,059,117	\$ 14,933,022

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 position

Net position - beginning as previously reported

Changes in accounting principle (See Notes)

Net position - beginning, adjusted

Net position - ending

Net(Expense)Revenues and Changes in Net Position Primary Government		
Governmental Activities	Business-Type Activities	Total
\$ (4,852,697)	\$ -	\$ (4,852,697)
(9,105,001)	-	(9,105,001)
(1,074,301)	-	(1,074,301)
(5,318,824)	-	(5,318,824)
303,654	-	303,654
(10,691)	-	(10,691)
(3,627,033)	-	(3,627,033)
(811,378)	-	(811,378)
<u>(24,496,271)</u>	<u>-</u>	<u>(24,496,271)</u>
-	4,916,658	4,916,658
-	3,104,447	3,104,447
-	(17,850)	(17,850)
-	171,644	171,644
<u>-</u>	<u>8,174,899</u>	<u>8,174,899</u>
<u>(24,496,271)</u>	<u>8,174,899</u>	<u>(16,321,372)</u>
6,313,155	-	6,313,155
9,139,321	-	9,139,321
7,851,284	-	7,851,284
1,547,526	-	1,547,526
74	-	74
759,648	87,125	846,773
268,532	-	268,532
(17,939)	17,939	-
<u>25,861,601</u>	<u>105,064</u>	<u>25,966,665</u>
1,365,330	8,279,963	9,645,293
365,889,110	246,948,230	612,837,340
(197,789)	-	(197,789)
<u>365,691,321</u>	<u>246,948,230</u>	<u>612,639,551</u>
<u>\$ 367,056,651</u>	<u>\$ 255,228,193</u>	<u>\$ 622,284,844</u>

Balance Sheet
Governmental Funds
December 31, 2012

	General	Arterial Street	L.I.D. Redemption	Other Governmental Funds	Total Governmental Funds
ASSETS					
Current cash & cash equivalents	\$ 21,108,526	\$ 14,676,492	\$ 1,507,113	\$ 14,236,936	\$ 51,529,067
Receivables (net of allowances):					
Taxes	2,649,963	50,234	-	401,382	3,101,579
Customer accounts	1,055,970	78,035	-	672,219	1,806,224
Accrued interest and penalty	-	-	249,287	-	249,287
Due from other governmental units	31,056	1,793,565	131,434	61,942	2,017,997
Prepayments	6,183	-	-	-	6,183
Restricted assets:					
Cash & cash equivalents	180,554	600	-	157,265	338,419
Long term loan receivable-TCOMM	-	-	-	998,585	998,585
Special assessments deferred	-	-	2,821,206	-	2,821,206
Total assets	<u>\$ 25,032,252</u>	<u>\$ 16,598,926</u>	<u>\$ 4,709,040</u>	<u>\$ 16,528,329</u>	<u>\$ 62,868,547</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 328,873	\$ 454,370	\$ 13,626	\$ 281,651	1,078,520
Due to other governmental units	166,975	367	-	3,389	170,731
Custodial accounts:					
Deposits	180,554	600	-	850	182,004
Unearned revenue	173,741	2,446,815	-	-	2,620,556
Total liabilities	<u>850,143</u>	<u>2,902,152</u>	<u>13,626</u>	<u>285,890</u>	<u>4,051,811</u>
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenues-property tax	178,368	-	-	34,585	212,953
Unavailable revenues-special assessments	-	-	3,198,912	-	3,198,912
Unavailable revenues-violations	725,160	-	-	-	725,160
Unavailable revenues-grants & contracts	9,999	-	-	334,515	344,514
Total deferred inflows of resources	<u>913,527</u>	<u>-</u>	<u>3,198,912</u>	<u>369,100</u>	<u>4,481,539</u>
Fund balances					
Nonspendable					
Prepaid items	6,183	-	-	-	6,183
Restricted					
Criminal bail	134,305	-	-	-	134,305
Lodging/tourism	-	-	-	853,521	853,521
HUD grant	-	-	-	10,242	10,242
TCOMM loan balance	-	-	-	1,155,000	1,155,000
City facilities	-	-	-	109,027	109,027
Public education fees	-	-	-	74,444	74,444
Committed					
Insurance	200,000	-	-	-	200,000
Public art	-	-	-	23,106	23,106
City facilities	3,250,000	-	-	2,423,125	5,673,125
Pension contributions	1,252,400	-	-	-	1,252,400
Equipment replacement	67,500	-	-	3,060,000	3,127,500
Street improvements	-	1,095,560	-	-	1,095,560
Convention center study	-	-	-	75,000	75,000
PWTF loan repayment	-	-	828,665	-	828,665
Senior center expansion	-	-	-	129,397	129,397
Train depot	-	-	-	443,865	443,865
Capital facilities plan	-	-	-	1,500,000	1,500,000
Assigned					
Parks reserve	112,901	-	-	-	112,901
Gateway project	6,000,000	-	-	-	6,000,000
Street maintenance	-	-	-	1,051,178	1,051,178
Capital projects	-	12,601,214	-	3,533,754	16,134,968
Regional Athletic Complex maintenance	-	-	-	1,147,010	1,147,010
Debt service	-	-	472,992	284,670	757,662
Unassigned					
General fund	12,245,293	-	-	-	12,245,293
LID redemption fund	-	-	194,845	-	194,845
Total fund balances	<u>23,268,582</u>	<u>13,696,774</u>	<u>1,496,502</u>	<u>15,873,339</u>	<u>54,335,197</u>
Total liabilities and fund balances	<u>\$ 25,032,252</u>	<u>\$ 16,598,926</u>	<u>\$ 4,709,040</u>	<u>\$ 16,528,329</u>	<u>\$ 62,868,547</u>

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

Reconciliation of the Balance Sheet
To the Statement of Net Position
Governmental Funds
December 31, 2012

Fund balances - total governmental funds		\$ 54,335,197
Amounts reported for governmental activities in the statement of net position are different because:		
Certain assets used in governmental activities are not financial resources and therefore are not reported in the fund statement:		
Deferred charges	\$ 226,260	
Investment in joint venture	720,646	946,906
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds:		
Non-depreciable assets	138,144,675	
Depreciable assets (net)	180,111,452	318,256,127
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	59,999	
Local court revenue receivable	725,160	
Contractor receivable	-	
Property taxes receivable	212,953	
Special assessments receivable	3,483,427	4,481,539
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	(60,552)	
Bonds and loans including unamortized debt premiums	(22,069,917)	
Capital leases	(58,640)	
Claims and judgments and contracts payable	-	
Compensated absences and OPEB Liabilities	(1,743,412)	(23,932,521)
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 position.		
	12,969,400	12,969,400
Rounding adjustments		3
Net position of government activities.		\$ 367,056,651

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, 2012

	General	Arterial Street	L.I.D. Redemption	Other Governmental Funds	Total Governmental Funds
REVENUES					
Taxes	\$ 17,827,603	\$ 1,035,270	\$ -	\$ 6,241,129	\$ 25,104,002
Licenses and permits	1,664,565	-	-	36,802	1,701,367
Intergovernmental revenues	1,495,027	2,843,805	-	3,424,779	7,763,611
Charges for services	6,215,822	1,193,656	-	19,034	7,428,512
Fines and forfeitures	665,857	-	-	-	665,857
Other revenues	263,132	236,395	1,516,215	146,862	2,162,604
Total revenues	<u>28,132,006</u>	<u>5,309,126</u>	<u>1,516,215</u>	<u>9,868,606</u>	<u>44,825,953</u>
EXPENDITURES					
Current:					
General government	5,392,700	-	-	-	5,392,700
Security of persons and property	10,688,899	-	-	-	10,688,899
Physical environment	3,783,676	-	-	-	3,783,676
Transportation	-	-	-	2,710,640	2,710,640
Economic environment	1,131,342	-	-	-	1,131,342
Mental and physical health	10,691	-	-	-	10,691
Culture and recreation	5,909,660	-	-	269,156	6,178,816
Capital outlay	13,193	5,044,174	-	3,665,788	8,723,155
Debt service:					
Principal retirement	23,749	743,453	124,987	1,290,000	2,182,189
Interest	3,758	-	30,706	815,892	850,356
Debt issue costs	-	-	-	59,626	59,626
Total expenditures	<u>26,957,668</u>	<u>5,787,627</u>	<u>155,693</u>	<u>8,811,102</u>	<u>41,712,090</u>
Excess (deficiency) of revenue over (under) expenditures	<u>1,174,338</u>	<u>(478,501)</u>	<u>1,360,522</u>	<u>1,057,504</u>	<u>3,113,863</u>
OTHER FINANCING SOURCES (USES)					
Premium on debt issued	-	-	-	232,484	232,484
Capital leases	13,193	-	-	-	13,193
Debt issuance	-	-	-	1,122,033	1,122,033
Debt issuance-refunding bonds	-	-	-	2,845,000	2,845,000
Refunding payments to refunded bonds escrow agent	-	-	-	(2,983,707)	(2,983,707)
Transfers in	783,491	850,000	-	990,930	2,624,421
Transfers out	(400,000)	-	-	(2,324,421)	(2,724,421)
Total other financing sources (uses)	<u>396,684</u>	<u>850,000</u>	<u>-</u>	<u>(117,681)</u>	<u>1,129,003</u>
Net change in fund balances	1,571,022	371,499	1,360,522	939,823	4,242,866
Fund balance - Beginning	21,697,560	13,325,275	135,980	14,933,516	50,092,331
Fund balance - ending	<u>\$ 23,268,582</u>	<u>\$ 13,696,774</u>	<u>\$ 1,496,502</u>	<u>\$ 15,873,339</u>	<u>\$ 54,335,197</u>

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

Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances of Governmental Funds
To the Statement of Activities
Governmental Funds
For the Year Ended December 31, 2012

Net changes in total fund balances per fund financial statements		\$ 4,242,866
Amounts reported for governmental activities in the statement of activities are different because:		
<p>Governmental funds report capital outlays as expenditures; however, in the statement of activities the cost of those assets are depreciated over their estimated useful lives. This is the amount by which capital outlays exceeded depreciation in the current period.</p>		
Expenditures for capital assets	\$ 7,902,752	
Current year depreciation	<u>(13,156,906)</u>	(5,254,154)
<p>Issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.</p>		
Capital lease financing	(13,192)	
Debt principal repayments	2,096,072	
Debt issuance including premiums and deferral on refunding	(4,095,810)	
Debt advance refunding	2,983,707	
Amortization of bond premiums and deferral on refunding	<u>17,782</u>	988,559
<p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the fund statement.</p>		
Deferred revenue - property taxes	(252,641)	
Deferred revenue - special assessments	(1,347,365)	
Deferred revenue - grants earned but not available	(1,224,979)	
Deferred revenue - court local revenue earned but not available	(13,551)	
Deferred revenue - contract receivable	<u>(442,910)</u>	(3,281,446)
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.</p>		
Claims and judgments	-	
Changes in investment in joint venture	8,627	
Changes in compensated absences and OPEB Liabilities	(94,189)	
Changes in accrued interest payable	<u>21,195</u>	(64,367)
<p>Internal service funds or activities are used by management to charge the costs of certain activities to individual funds. The net revenue of certain activities of internal service funds is reported with governmental activities.</p>		
		414,506
<p>The proceed from the sale of capital assets is reported as revenue in the governmental funds. However, the cost of assets sold offset against the sales proceeds, and only the gain or loss is reported in the statement of activities.</p>		
		(8,354)
<p>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:</p>		
Contributed from developers and other sources		<u>4,327,720</u>
Changes in net position of governmental activities		<u>\$ 1,365,330</u>

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

Statement of Net Position
Proprietary Funds
December 31, 2012

	Business-type Activities Enterprise Funds				Total	Governmental Activities Internal Service Funds
	Water	Waste- Water	Storm Water	Reclaimed Water		
ASSETS						
Current assets:						
Cash and cash equivalents	\$ 10,443,170	\$ 9,213,072	\$ 2,031,850	\$ 2,901,977	\$ 24,590,069	\$ 10,182,707
Restricted cash and cash equivalents:						
Customer deposits	132,704	-	-	-	132,704	-
Receivables (net of allowances):						
Customer accounts	856,099	1,254,091	206,498	-	2,316,688	7,504
Accrued interest & penalty	147	3,909	-	-	4,056	-
Prepayments	3,136	-	-	-	3,136	-
Current portion of interfund loan receivable	-	600,000	-	-	600,000	-
Due from governmental units	-	3,475	29,780	202,795	236,050	6,224
Inventory	122,644	-	-	-	122,644	-
Total current assets:	<u>11,557,900</u>	<u>11,074,547</u>	<u>2,268,128</u>	<u>3,104,772</u>	<u>28,005,347</u>	<u>10,196,435</u>
Noncurrent assets:						
Special assessments	1,165	-	-	-	1,165	-
Special assessments deferred	1,009	-	-	-	1,009	-
Long-term portion of interfund loan receivable	-	7,100,000	-	-	7,100,000	-
Capital assets, net of depreciation:						
Land	9,176,100	1,334,404	3,308,394	-	13,818,898	-
Buildings	438,729	677,003	-	-	1,115,732	138,063
Improvements other than buildings	100,872,745	66,209,518	42,599,480	962,428	210,644,171	4,286
Equipment	65,691	177,854	-	-	243,545	2,963,885
Construction in progress	3,480,951	497,350	-	347,833	4,326,134	-
Total noncurrent assets	<u>114,036,390</u>	<u>75,996,129</u>	<u>45,907,874</u>	<u>1,310,261</u>	<u>237,250,654</u>	<u>3,106,234</u>
Total assets	<u>125,594,290</u>	<u>87,070,676</u>	<u>48,176,002</u>	<u>4,415,033</u>	<u>265,256,001</u>	<u>13,302,669</u>
LIABILITIES						
Current liabilities:						
Accounts payable	569,861	128,809	8,479	41,933	749,082	38,077
Due to other governmental units	81,788	1,438,705	3,285	-	1,523,778	-
Compensated absences	53,461	28,502	10,037	-	92,000	23,029
Current liabilities payable from restricted assets:						
Customer deposits	132,704	-	-	-	132,704	-
Current portion of interfund loans payable	600,000	-	-	-	600,000	-
Total current liabilities	<u>1,437,814</u>	<u>1,596,016</u>	<u>21,801</u>	<u>41,933</u>	<u>3,097,564</u>	<u>61,106</u>
Noncurrent liabilities:						
Compensated absences	47,645	26,025	8,594	-	82,264	20,143
Long-term portion of interfund loan payable	7,100,000	-	-	-	7,100,000	-
Total noncurrent liabilities	<u>7,147,645</u>	<u>26,025</u>	<u>8,594</u>	<u>-</u>	<u>7,182,264</u>	<u>20,143</u>
Total liabilities	<u>8,585,459</u>	<u>1,622,041</u>	<u>30,395</u>	<u>41,933</u>	<u>10,279,828</u>	<u>81,249</u>
NET POSITION						
Investment in capital assets	113,936,245	68,884,724	45,907,874	1,310,261	230,039,104	3,106,233
Unrestricted	3,072,586	16,563,911	2,237,733	3,062,839	24,937,069	10,115,187
Total net position	<u>\$ 117,008,831</u>	<u>\$ 85,448,635</u>	<u>\$ 48,145,607</u>	<u>\$ 4,373,100</u>	<u>\$ 254,976,173</u>	<u>\$ 13,221,420</u>
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.					252,020	
Net position of business-type activities.					<u>\$ 255,228,193</u>	

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

Statement of Revenues, Expenses, and Changes in Fund Net Position
Proprietary Funds
For the Year Ended December 31, 2012

	Business-Type Activities Enterprise Funds				Total	Governmental Activities Internal Service Funds
	Water	Waste- Water	Storm Water	Reclaimed Water		
OPERATING REVENUES						
Charges for services	\$ 11,931,471	\$ 13,215,579	\$ 2,090,344	\$ -	\$ 27,237,394	\$ 3,787,680
Miscellaneous operating revenues	208,866	415	-	-	209,281	-
Total operating revenue	<u>12,140,337</u>	<u>13,215,994</u>	<u>2,090,344</u>	<u>-</u>	<u>27,446,675</u>	<u>3,787,680</u>
OPERATING EXPENSES						
Operating expense	3,062,653	9,322,083	946,638	-	13,331,374	2,270,663
Maintenance expense	3,915,390	2,134,748	792,806	39,599	6,882,543	331,209
Depreciation expense	3,148,132	1,810,284	1,581,102	9,722	6,549,240	873,669
Taxes	461,047	158,875	39,589	-	659,511	-
Total operating expenses	<u>10,587,222</u>	<u>13,425,990</u>	<u>3,360,135</u>	<u>49,321</u>	<u>27,422,668</u>	<u>3,475,541</u>
OPERATING INCOME (LOSS)	<u>1,553,115</u>	<u>(209,996)</u>	<u>(1,269,791)</u>	<u>(49,321)</u>	<u>24,007</u>	<u>312,139</u>
NONOPERATING REVENUES (EXPENSES)						
Intergovernmental revenue	454	47,804	-	-	48,258	-
Investment earnings	33,602	37,876	5,243	10,404	87,125	18,868
Miscellaneous non-operating revenues	-	-	-	-	-	25,756
Gain (loss) on sale of capital assets	-	-	-	-	-	41,798
Total nonoperating revenues (expenses)	<u>34,056</u>	<u>85,680</u>	<u>5,243</u>	<u>10,404</u>	<u>135,383</u>	<u>86,422</u>
Income (loss) before contributions and transfers	1,587,171	(124,316)	(1,264,548)	(38,917)	159,390	398,561
Capital contributions	3,315,401	3,237,601	1,226,326	220,965	8,000,293	36,225
Transfers in	100,000	-	-	-	100,000	82,061
Transfers out	(79,121)	(2,940)	-	-	(82,061)	-
Changes in net position	<u>4,923,451</u>	<u>3,110,345</u>	<u>(38,222)</u>	<u>182,048</u>	<u>8,177,622</u>	<u>516,847</u>
NET POSITION - BEGINNING	<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>
NET POSITION - ENDING	<u>\$ 117,008,831</u>	<u>\$ 85,448,635</u>	<u>\$ 48,145,607</u>	<u>\$ 4,373,100</u>		<u>\$ 13,221,420</u>
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.					<u>102,341</u>	
Change in net position of business-type activities.					<u>\$ 8,279,963</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, 2012

	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	\$ 11,935,236	\$ 13,082,472	\$ 2,075,383	\$ -	\$ 27,093,091	\$ 3,812,495
Payments to suppliers	(3,930,622)	(9,487,895)	(1,092,513)	(116,311)	(14,627,341)	(1,320,709)
Payments to employees	(2,681,581)	(1,666,025)	(665,077)	-	(5,012,683)	(1,244,659)
Payments for taxes	(461,047)	(158,875)	(39,589)	-	(659,511)	-
Net cash provided by operating activities	<u>4,861,986</u>	<u>1,769,677</u>	<u>278,204</u>	<u>(116,311)</u>	<u>6,793,556</u>	<u>1,247,127</u>
CASH FLOW FROM NON-CAPITAL FINANCING ACTIVITIES:						
Transfers in from other funds	100,000	-	-	-	100,000	-
Operating grant received	454	47,804	-	-	48,258	-
Net cash provided by non-capital financing activities	<u>100,454</u>	<u>47,804</u>	<u>-</u>	<u>-</u>	<u>148,258</u>	<u>-</u>
CASH FLOW FROM CAPITAL AND RELATED FINANCING ACTIVITIES:						
Acquisition and construction of capital assets	(3,015,470)	(654,900)	-	(730,635)	(4,401,005)	(289,770)
Proceeds from sales of capital assets	-	-	-	-	-	41,798
Receipt (payment) on Interfund loan	(500,000)	500,000	-	-	-	-
Principal payments received on special assessments	7,888	-	-	-	7,888	-
Interest and penalty payments received on special assessments	585	-	-	-	585	-
Subsidy from grant	-	657,152	64,123	83,610	804,885	-
Transfer out to other funds	(79,121)	(2,940)	-	-	(82,061)	-
Net cash used by capital and related financing activities	<u>(3,586,118)</u>	<u>499,312</u>	<u>64,123</u>	<u>(647,025)</u>	<u>(3,669,708)</u>	<u>(247,972)</u>
CASH FLOW FROM INVESTING ACTIVITIES:						
Purchase of investments	-	-	-	-	-	(2,400)
Interest received on investments	33,935	37,876	5,243	10,404	87,458	18,868
Net cash provided (used) by investing activities	<u>33,935</u>	<u>37,876</u>	<u>5,243</u>	<u>10,404</u>	<u>87,458</u>	<u>16,468</u>
Net increase (decrease) in cash and cash equivalents	1,410,257	2,354,669	347,570	(752,932)	3,359,564	1,015,623
Cash and cash equivalents January 1	<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 and cash equivalents December 31 (see Note below) (including restricted cash & cash equivalents)	<u>\$ 10,575,874</u>	<u>\$ 9,213,072</u>	<u>\$ 2,031,850</u>	<u>\$ 2,901,977</u>	<u>\$ 24,722,773</u>	<u>\$ 9,972,926</u>
CASH PROVIDED BY OPERATING ACTIVITIES:						
Net operating income	\$ 1,553,115	\$ (209,996)	\$ (1,269,791)	\$ (49,321)	\$ 24,007	\$ 312,139
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:						
Depreciation	3,148,132	1,810,284	1,581,102	9,722	6,549,240	873,669
(Increase)/decrease in customer receivables	(198,344)	(133,522)	(14,961)	-	(346,827)	(279)
(Increase)/decrease in due from other funds	-	-	-	-	-	-
(increase)/decrease in intergovernmental receivables	-	-	-	-	-	(662)
(increase)/decrease in prepaids	(1,052)	-	-	-	(1,052)	-
(Increase)/decrease in inventories	98,480	-	-	-	98,480	-
Miscellaneous nonoperating revenues	-	-	-	-	-	25,756
Increase/(decrease) in accounts payable	266,146	(54,357)	(16,205)	(76,712)	118,872	31,351
(increase)/decrease in customer deposits	(6,757)	-	-	-	(6,757)	-
Increase/(decrease) in intergovernmental payables	3,862	365,564	(1,930)	-	367,496	(2,639)
Increase/(decrease) in compensated absences	(1,596)	(8,296)	(11)	-	(9,903)	7,792
Net cash provided by operating activities	<u>\$ 4,861,986</u>	<u>\$ 1,769,677</u>	<u>\$ 278,204</u>	<u>\$ (116,311)</u>	<u>\$ 6,793,556</u>	<u>\$ 1,247,127</u>
Noncash investing, capital and financing activities:						
Capital asset transferred from (to) other funds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 118,286
Contributions of capital assets from developers	\$ 3,315,401	\$ 3,237,601	\$ 1,150,181	\$ -	\$ 7,703,183	\$ -
Note: Reconciling Cash and cash equivalents with the amounts on the fund statement of net position:						
Statement of Net Position						\$ 10,182,707
Less Investments with maturity over 3 months						(209,781)
Cash Flow Statements						<u>\$ 9,972,926</u>

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

Statement of Fiduciary Net Position
Fiduciary Funds
December 31, 2012

	<u>Agency Funds</u>
ASSETS	
Cash and cash equivalents	\$ 2,438,896
Prepays	1,536
Accounts receivables, net of uncollectible accounts	-
Due from other governmental units	8,737
	<u>250,868</u>
Total assets	<u>\$ 2,700,037</u>
LIABILITIES	
Accounts payable	\$ 28,385
Accrued employee leave payable	69,287
Capital lease payable	15,647
Notes payable	131,434
Due to other governmental units	2,455,284
	<u>2,455,284</u>
Total liabilities	<u>\$ 2,700,037</u>

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



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**Notes to the Financial Statements
December 31, 2012**

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City of Lacey
Notes to the Financial Statements
December 31, 2012

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.

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 government-wide financial statements report information on all of the nonfiduciary activities of the primary government. While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds and internal service funds, while business-type activities incorporate data from the government's enterprise funds.

Governmental activities, which generally are financed by taxes, inter-government revenues, and other nonexchange revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges to 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. As a general rule, the effect of interfund activity has been eliminated from the government-wide statements. 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.

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 fund financial statements provide information about the government's funds, including its fiduciary funds. Separate statements for each fund category – governmental, proprietary, and fiduciary – are presented. 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. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds. Major individual governmental and enterprise funds are reported as separate columns in the fund financial statements.

The government reports the following major governmental funds:

The *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, TCOMM 911, district court, and jail services.

The *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.

The *local improvement district (L.I.D.) bond redemption 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.

The City reports the following major enterprise funds:

The *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.

The *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.

The *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.

The *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.

Additionally, the government reports the following fund types:

Internal services funds account for fleet management services and information management services provided to other departments within the City on a cost-reimbursement basis and include the following 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 account for cash and investments held by the government on behalf of other governments in an agency capacity, which include Joint Animal Services fund, Interlocal Drug Unit fund, and Capital Area Regional Public Facilities District (CARPFD) fund.

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

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources or economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

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.

The *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. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Property taxes, sales taxes, business and licensing taxes, utility taxes, and excise taxes, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue source (within 60 days of yearend).

Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of yearend). Only the portion of special assessment due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period provided that the amount is received during the period or within the 60-day availability period. All other revenue items are considered to be measurable and available only when cash is received by the City.

The proprietary funds are reported using the *economic resources measurement focus and the accrual basis of accounting*. The agency fund has no measurement focus but utilizes the *accrual basis of accounting* for reporting its assets and liabilities.

D. Budgetary Information

1. Scope of Budget

The City budgets its funds in accordance with the Revised Code of Washington chapter 35A.33. The budget, as adopted, constitutes the legal authority for expenditures. Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all funds. The City's budget is adopted at the fund level, so that expenditures may not legally exceed appropriations at that level of detail. 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.

Appropriation in all budgeted funds lapse at the end of the fiscal year (except for appropriations for capital projects, which may be carried forward, with the City Council's approval, from year to year, until fully expended or the purpose of the appropriation has been accomplished or abandoned) even if they have related encumbrances. Unexpended resources must be re-appropriated in the subsequent period.

2. Amending the budget

Transfers or revisions for budgeted amounts within funds are authorized by the City Manger; however, any revisions that alter the total amount of expenditures/expenses of any fund must be approved by the City Council.

The accompanying supplementary information presents both the original and final budget information. The original budget is the first complete appropriated budget. The final budget is the original budget adjusted by all reserves, transfers, allocations, supplemental appropriations, and other legally authorized changes applicable for the fiscal year.

3. Excess of expenditures over appropriations

For the year ended December 31, 2012, expenditures exceeded appropriations in the following nonmajor governmental fund: city street fund by \$11,509 due to expenditures relating to January 2012 winter snow and ice storm event and were partially reimbursed by FEMA reimbursement; lodging

tax fund by \$1,821 for expenditures relating to a museum heritage project and was reimbursed by a local grant; the general obligation bond fund by \$1,479 for debt issue costs relating to the advance refunding issue and was funded by the bond proceeds. In each case, the excess expenditures were funded by operating reserves or fund balance.

E. Assets, liabilities, deferred outflows/inflows of resources, and net position/fund balance

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 position 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, except for the position in the State Treasurer's Local Government Investment Pool (LGIP). The 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, as currently 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. As such, investments are reported at amortized cost (which approximates fair value).

For purposes of the statement of cash flows, the City considers the investment in the LGIP to be cash and 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, special assessments, 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. *Deferred assessments* on the fund financial statements consist of unbilled 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 position.

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 position 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, including current and delinquent special assessments receivable. 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 (See Note 3.D. Capital Assets)

Capital assets include property, plant, equipment, and infrastructure assets (i.e., roads, sidewalks and similar items), and are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets, other than the infrastructure assets, are defined by the government as assets with an initial, individual cost of \$5,000 or more (land is capitalized regardless of value), and an estimated useful life in excess of two years. For infrastructure assets the capitalization threshold is \$50,000 or more. 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. Interest incurred during the construction phase of capital assets of enterprise funds is included as part of the capitalized value of the assets constructed. The amount of interest capitalized depends on the specific circumstances.

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 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 in the government-wide statements. Capital assets of proprietary funds are capitalized in their respective statement of net position.

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 outflows/inflows of resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/ expenditure) until then. The government only has one item that qualifies for reporting in this category. It is the deferred charge on refunding reported in the government-wide statement of net position.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The government has only one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. These amounts are deferred and recognized as an inflow or resources in the period that the amounts become available.

8. Compensated absences

It is the City's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. Vacation pay may accumulate up to 240 hours at year end and is payable upon resignation, retirement or death.

Sick leave may accumulate up to 960 hours or as provided by contract. Upon retiring from employment with the City, AFSCME bargaining unit employees 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). Each January, if sick leave exceeds 60 days, the AFSCME bargaining unit employees also have the option to convert sick to vacation on a 4:1 ratio or they can trade four (4) days of sick leave for one (1) day of pay at this same time.

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).

9. 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 position. Bond premiums and discounts 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. .

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

10. Fund balance, net position classifications and policies

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The government itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of City Council, by adoption of an ordinance or a resolution prior to the end of the fiscal year. Once adopted, the limitation imposed by the ordinance (or resolution) remains in place until a similar action is taken (the adoption of another ordinance, or resolution) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as committed. The City's policy as adopted by the governing body authorizes the City Manager and Finance Director to assign amounts to a specific purpose. Unlike commitments, assignments generally only exist temporarily. In order words, an additional action does not normally have to be taken for the removal of an assignment. For financial reporting purposes, amounts in excess of nonspendable, restricted, and committed fund balance in funds other than the general fund are generally considered assigned fund balances for the purposes intended for those funds.

It is the City's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance, when expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available. Further, when the components of unrestricted fund balance can be used for the same purpose, the committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

It is the City's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied for government-wide and proprietary fund financial statements.

F. Revenues, expenditures and expenses

1. Program revenues

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.

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. administration 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 statement of activities.. Our policy is not to eliminate the indirect costs portion of the direct charges for interfund services provided and used between functions. 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. 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

Violations of legal or contractual provisions

Note 1. D.3 on the *Excess of expenditures over appropriations*, describes a budgetary violation that occurred for the year ended December 31, 2012.

Note 3. Detailed notes on all activities and 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 (WPDPC). The WPDPC is a statutory authority established under Chapter 39.58 of the Revised Code of Washington.

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, as currently 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. As such, investments are reported at amortized cost (which approximates fair value). 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 40 days as of June 30, 2012.

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, 2012 are as follows:

<u>Governmental Funds</u>	<u>Amount</u>
Cash and cash equivalents and investments	\$ 51,529,067
Restricted cash and cash equivalents and investments	338,419
Total governmental funds	<u>51,867,486</u>
<u>Proprietary Funds</u>	
Cash and cash equivalents	34,772,776
Restricted cash and cash equivalents (deposits)	132,704
Total proprietary funds	<u>34,905,480</u>
<u>Fiduciary Funds</u>	
Cash and cash equivalents	2,438,896
Total fiduciary funds	<u>2,438,896</u>
Total	<u>\$ 89,211,862</u>

Cash, deposits, and investments for the year ended December 31, 2012 are as follows:

	Amount
Cash on hand	\$ 16,300
Checking accounts	34,762,312
Money market accounts	19,225,898
Certificates of deposits	1,408,880
Washington State Investment Pool (LGIP)	33,798,472
Total	<u>\$ 89,211,862</u>

B. Receivables and unearned and unavailable revenues

The customer accounts receivable \$1,055,970 reported in the general fund includes \$725,160 in fines for violations. The taxes receivable \$2,649,963 in the general fund include \$199,187 property taxes, \$1,537,759 sales and use taxes, and \$913,017 for various other business and utility taxes receivables. Based on the payment schedule for special assessment, \$1,997,913 of the \$2,821,206 special assessment receivable deferred amount in the LID redemption fund is not expected to be collected within the next year. Total delinquent assessments (including delinquent interest and penalties) receivable was \$309,545 as of December 31, 2012.

Governmental funds defer revenue recognition in connection with resources that have been received, but not yet earned (unearned). Below is the detail of the components of unearned revenues reported in the governmental funds:

Description	Unearned Revenues
Deposits for advance reservations (general fund)	\$ 173,741
Traffic mitigation fees collected but earnings process not yet complete (arterial street fund)	2,446,815
Total deferred/unearned revenue for governmental funds	<u>\$ 2,620,556</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 2012 was \$1.1982 per \$1,000 on an assessed valuation of \$4,322,780,788 for a total regular levy of \$5,179,573. Additionally, special levies for G.O. bond obligations totaled \$1,167,798.

D. Capital assets

Capital asset activity for the year ended December 31, 2012 was as follows:

Governmental Activities	Beginning			Ending Balance 12/31/2012
	Balance 1/1/2012	Increases	Decreases	
Non-depreciable Capital Assets				
Land and land rights	\$ 131,634,343	\$ 2,161,058	\$ -	\$ 133,795,401
Construction in progress	7,171,353	7,395,057	10,217,136	4,349,274
Total non-depreciable assets	138,805,696	9,556,115	10,217,136	138,144,675
Depreciable Capital Assets:				
Buildings	27,543,667	-	-	27,543,667
Improvements	26,607,963	14,524	-	26,622,487
Infrastructure	275,820,465	12,850,226	-	288,670,691
Machinery & equipment	11,557,519	434,799	556,781	11,435,537
Total depreciable assets at cost	341,529,614	13,299,549	556,781	354,272,382
Less accumulated depreciation:				
Buildings	9,040,023	871,754	-	9,911,777
Improvements	4,710,254	1,450,198	-	6,160,452
Infrastructure	136,497,039	10,739,373	-	147,236,412
Machinery & equipment	7,325,229	969,253	548,427	7,746,055
Total accumulated depreciation	157,572,545	14,030,578	548,427	171,054,696
Total Depreciable assets, net	183,957,069	(731,029)	8,354	183,217,686
Governmental activities capital assets, net	\$ 322,762,765	\$ 8,825,086	\$ 10,225,490	\$ 321,362,361

Business-type activities	Beginning			Ending
	Balance 1/1/2012	Increase	Decrease	Balance 12/31/2012
Non-depreciable Capital Assets:				
Land and land rights	\$ 13,055,237	\$ 763,661	\$ -	\$ 13,818,898
Construction in process	2,550,938	4,154,518	2,379,321	4,326,135
Total non-depreciable assets	<u>15,606,175</u>	<u>4,918,179</u>	<u>2,379,321</u>	<u>18,145,033</u>
Depreciable Capital Assets:				
Buildings	1,520,813	-	-	1,520,813
Improvements	262,696,990	9,422,932	119,850	272,000,072
Machinery & equipment	594,890	142,400	60,811	676,479
Total depreciable assets at cost	<u>264,812,693</u>	<u>9,565,332</u>	<u>180,661</u>	<u>274,197,364</u>
Less accumulated depreciation:				
Buildings	368,008	37,074	-	405,082
Improvements	54,996,977	6,462,071	103,146	61,355,902
Machinery & equipment	460,352	33,392	60,811	432,933
Total accumulated depreciation	<u>55,825,337</u>	<u>6,532,537</u>	<u>163,957</u>	<u>62,193,917</u>
Total depreciable assets, net	<u>208,987,356</u>	<u>3,032,795</u>	<u>16,704</u>	<u>212,003,447</u>
Business-type activities capital assets, net	<u>\$ 224,593,531</u>	<u>\$ 7,950,974</u>	<u>\$ 2,396,025</u>	<u>\$ 230,148,480</u>

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

Current Year Depreciation:	Amount
Governmental activities	
General Government	\$ 565,669
Security of persons and property	134,972
Physical environment	2,821
Transportation	10,751,905
Economic environment	84,177
Culture and recreation	1,617,365
Internal services funds	873,669
Total governmental-type activities depreciation expense	<u>\$ 14,030,578</u>
Business-type activities	
Water	\$ 3,131,429
Wastewater	1,810,284
Stormwater	1,581,102
Reclaimed Water	9,722
Total business-type activities depreciation expense	<u>\$ 6,532,537</u>

Construction Commitments

The City had the following major active utilities construction projects in progress as of December 31, 2012:

- Corrosion Control Well #4
- Reclaimed Water Construction (Infiltration Facility)
- Equipping Hawks Prairie Well #2
- Marvin Road Well Site Acquisition
- Waterline @ College & 22nd
- ATEC Water TF Backwash (design)
- Telemetry Control Cla-Vals
- 2012 Waterline Replacement
- 20th Avenue water line 2012
- Annual Transmission Improvement (Pacific Avenue)
- Brewery Water Study
- Water rights mitigation projects

The City's commitments with contractors for the above utilities projects as of December 31, 2012 are as follows:

Project description	Spent to-date 12/31/2012	Remaining Commitment
Corrosion Control Well #4	\$ 2,174,380	\$ 102,742
Equipping Hawks Prairie Well #2	904,924	93,910
Upgrade Lift Station #14	2,174,380	35,418
Total	\$ 5,253,684	\$ 232,070

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.

The City had the following major active arterial street construction projects in progress as of December 31, 2012:

- Willamette Dr/31st Intersection Improvements
- Golf Club Road Extension
- Yelm Highway Sidewalk Connection
- 2013 Street Overlay program
- Smart Corridors
- College Street Corridor Right of Way Acquisition
- College/22nd Avenue Roundabout
- Hogum Bay Road Improvements
- Martin Way/Marvin Rd LJR (Phase 2)
- Rainier Road Right of Way
- Hawks Prairie Rd/Marvin Rd Roundabout Design
- Marvin Rd/Britton Prkwy Roundabout Design (Free Right)
- ADA retrofits/Misc Pedestrian Mobility/Communication Enhancements/Signal Timing

The 2013 Arterial Street fund's budgeted capital expenditures are \$7,414,915 which includes the construction of these projects.

E. Interfund loans and transfers

Loans/advances from/to other funds:

Interfund loan balances at December 31, 2012 were as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Wastewater Fund	Water Fund	\$ 7,700,000

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. In February 2012, the City's Resolution No. 982 adopted a definitive repayment schedule for the balance owed at that time. 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 2012 was \$500,000, and the interest payment in 2012 was \$13,322.

The 2011 year end interfund loan balance \$750,000 between general fund and parks and open space fund, which was issued for the acquisition of a property for the Greg J. Cuoio Community Park project, was repaid in full in year 2012. Interest at the state investment pool rate paid during 2012 was \$917.

Interfund transfers:

Interfund transfers activities for the year were as follows:

Fund	Purpose	Amounts Transferred In	Amounts Transferred Out
<u>Governmental Funds:</u>			
General Fund	\$371,662 Routine transfer from Parks & Open Space for Rainier Vista Park Maintenance and \$278,329 Regional Athletic Complex (RAC) maintenance; \$125,000 Routine transfer in from Lodging Tax Fund for RAC promotion and advertising; \$8,500 Non-Routine transfer in for RAC special event.	\$ 783,491	\$ -
	\$100,000 Non-routine transfer to Water Fund for water mitigation; \$300,000 non-routine transfer to Building Improvement fund for Senior Center expansion project.		\$ 400,000
Arterial Street Fund	\$850,000 Non-routine transfer from Capital Equipment Fund for street improvement reserves.	850,000	-
Nonmajor Governmental Funds:	\$586,330 Routine transfer to G.O Debt Fund from RAC Capital for debt service; \$300,000 Non-Routine transfer to Building Improvement Fund from General Fund for Senior Center expansion project; \$44,600 non-routine transfer to Building Improvement Fund from Community Development Block Grant Fund for Senior Center expansion project; \$60,000 to RAC Capital Fund from Lodging Tax Fund for signage.	990,930	-
	Non-routine transfers of \$133,500 from Lodging Tax Fund to Regional Athletic Complex Operating Fund and \$60,000 to RAC Capital Fund; \$44,600 from CDBG Fund to Building Improvement Fund; \$850,000 from Capital Equipment Fund to Arterial Street Fund. \$649,991 Routine transfer from Parks & Open Space Fund to General Fund; \$586,330 from RAC Capital Fund to G.O. Debt Fund.	-	2,324,421
Total Governmental Funds		2,624,421	2,724,421
<u>Proprietary Funds:</u>			
Internal Services Funds	Non-routine transfers in to Equipment Rental Fund: \$76,180 from Water Fund. Non-routine transfer in to Information Services Fund: \$5,881 from General Fund for capital asset acquisition.	82,061	-
<u>Enterprise Funds:</u>			
Water Fund	\$100,000 non-routine transfer from General Fund for water mitigation.	100,000	-
	\$76,180 Non-routine transfer to Equipment Rental Fund and \$2,941 to Information Service Fund for capital asset acquisition	-	79,121
Wastewater Fund	\$2,940 Non-routine transfer to Information Service Fund for capital asset acquisition.		2,940
Total Proprietary Funds		182,061	82,061
Total		\$ 2,806,482	\$ 2,806,482

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	\$ 181,154	\$ 132,704
Collection of long-term receivable	157,265	-
Total	\$ 338,419	\$ 132,704

G. LeasesCapital 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 as of December 31, 2012 are as follows:

Assets:	Governmental Activities
Machinery and equipment	\$ 110,978
Less: Accumulated depreciation	(54,486)
Total	\$ 56,492

The future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2012 were as follows:

Year Ending December 31	Governmental Activities
2013	30,907
2014	27,508
2015	3,815
Total minimum lease payments	62,230
Less: amount representing interest	(3,590)
Present value of minimum lease payments	\$ 58,640

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, 2012 were \$25,165.

H. Long-term liabilities

The City's long-term liabilities are segregated between the amounts to be repaid from governmental activities and amounts to be repaid from business-type activities.

General Obligation Bonds

The City issues general obligation bonds to finance the acquisition, construction, improvements of

capital facilities, and major equipment purchases.

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, 2012.

General Obligation Bonds outstanding as of December 31, 2012 are as follows:

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 1, 2023. Outstanding 2003 Bonds maturing in the years 2014 through 2023 were refunded in year 2012. Purpose was to provide funds for parks improvements. Payments are funded by special property tax levies. Interest rate in 2013 is 3.1% .	\$ 230,000
2006 Limited Tax General Obligation Bonds issue amount of \$3,500,000; dated November 30, 2006; interest rate of 4% with final maturity date of December 1, 2010. Issued to provide funds to construct an addition to City Hall. Payments are funded by sales tax and transfers in from other funds.	2,465,000
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. 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.	4,025,000
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. 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.	6,615,000
2010 Unlimited Tax General Obligation Refunding Bonds issue amount of \$3,790,000; dated December 1, 2010; interest rates of 2.0-4.0% with maturity date of December 1, 2021. 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.	3,430,000
2012 Unlimited Tax General Obligation Refunding Bonds issue amount of \$2,845,000; dated December 19, 2012; interest rates of 2.0-3.0% with maturity date of December 1, 2023. Issued to advance refund a portion of the City's outstanding 2003 UTGO Bonds maturing on December 1 of the years 2014 through 2023 and to pay the costs of the refunding issuance.	2,845,000
Total	\$ 19,610,000

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

Year Ending December 31	General Obligation Bonds	
	Governmental Activities	
	Principal	Interest
2013	1,345,000	705,630
2014	1,390,000	664,055
2015	1,440,000	620,355
2016	1,495,000	571,455
2017	1,565,000	516,855
2018 - 2022	7,950,000	1,703,971
Total	\$ 19,610,000	\$ 5,269,571

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, 2012 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>	\$ 131,434
Total	\$ 131,434

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

Year Ending December 31	Revenue Bonds	
	Governmental Activities	
	Principal	Interest
2013	18,399	5,422
2014	19,227	4,594
2015	20,091	3,730
2016	20,985	2,835
2017	21,938	1,883
2018 - 2019	30,794	970
Total	<u>\$ 131,434</u>	<u>\$ 19,434</u>

Government Loans

Government loans outstanding as of December 31, 2012 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>	\$ 749,923
Washington State Treasurer LOCAL Program loan issued amount of \$1,122,033.27; dated March 29, 2012; interest rates of 2.0-3.0%; maturity date June 1, 2019. Issued to provide funding for Simulcast/Narrowband Radio System acquisition for TCOMM 911. Payments are funded by TCOMM 911 by an interlocal agreement.	\$ 1,122,033
Total	\$ 1,871,956

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

Year Ending December 31	Government Loans	
	Governmental Activities	
	Principal	Interest
2013	275,706	45,139
2014	278,751	38,345
2015	281,857	31,489
2016	285,026	24,570
2017	288,259	17,587
2018 - 2019	462,357	13,102
Total	<u>\$ 1,871,956</u>	<u>\$ 170,232</u>

Advance refunding

In 2012, the City of Lacey issued Unlimited Tax General Obligation Refunding Bonds in the amount of \$2,845,000 with interest rate ranging from 2% to 3%. The proceeds were used to advance refund \$2,880,000 of the City's outstanding callable Unlimited Tax General Obligation Bonds, 2003 (the "2003 Bonds"), maturing on December 1 in the years 2014 through 2023, inclusive (the "Refunded Bonds"), and to pay the costs of issuance and sale of the bonds. The net proceeds of \$2,983,707 (including \$185,946 premium and after payment of \$46,054 in underwriting fees and other issuance costs) were deposited in an irrevocable trust with an escrow agent to provide funds for the future debt service payment on the refunded bonds. Remaining proceeds \$1,185 is reserved in the City's general obligation bond fund for future debt service purposes. As a result, the 2003 series Unlimited Tax General Obligation Bonds are considered defeased and the liability for those bonds has been removed from the statement of net position.

The reacquisition price exceeded the net carrying amount of the old debt by \$103,709. This amount is being netted against the new debt and amortized over the remaining life of the refunding debt. This advance refunding was undertaken to reduce total debt service payments over the next 11 years by \$353,463 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$330,177.

Legal debt margin

The City is subject to a statutory debt limitation that is 7.5 percent of assessed value of taxable property. At December 31, 2012 that amount was \$324,208,559. As December 31, 2012 the total outstanding debt applicable to this limit was \$19,845,064 which is 6.1 percent of the total debt limit.

Changes in long-term liabilities

The following is a summary of changes in long-term liabilities for the year ended December 31, 2012:

Type of Debt	Beginning Balance 1/1/2012	Additions	Reductions/ Adjustments	Ending Balance 12/31/2012	Due Within One Year
Governmental Activities:					
G.O. bonds	\$ 20,935,000	\$ 2,845,000	\$ 4,170,000	\$ 19,610,000	\$ 1,345,000
Unamortized premiums	266,054	232,484	42,010	456,528	-
Total G.O. bonds payable:	21,201,054	3,077,484	4,212,010	20,066,528	1,345,000
Revenue bonds	149,024	-	17,590	131,434	18,399
Public Works Trust Fund loan	874,910	-	124,987	749,923	124,987
WA LOCAL Program loan	-	1,122,033	-	1,122,033	150,719
Capital leases payable	69,197	13,193	23,750	58,640	28,277
Contracts payable	743,453	-	743,453	-	-
Net OPEB obligation	728,312	352,934	221,821	859,425	-
Compensated absences	956,290	1,008,467	1,037,598	927,159	430,896
Total governmental activities	\$ 24,722,240	\$ 5,574,111	\$ 6,381,209	\$ 23,915,142	\$ 2,098,278
Business-type Activities:					
Compensated absences	\$ 184,167	\$ 209,487	\$ 219,390	\$ 174,264	\$ 92,000
Total Business-type activities	\$ 184,167	\$ 209,487	\$ 219,390	\$ 174,264	\$ 92,000

Note: Total governmental activities beginning balance includes an adjustment for \$146,782 of unamortized deferral on refunding. It was removed from this table and is reported separately in the deferred outflows of resources in the statement of net position.

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 \$43,172 is included in the above totals for governmental activities.

Bond discounts and premiums:

In 2006, 2007, 2010, and 2012, the City of Lacey issued general obligation debt at premium. These bond premiums are deferred and are amortized under the straight-line method over the life of the bonds (7-20 years). The deferred amounts are disclosed in the statement of net position.

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

Minimum fund balance policy. The City council has adopted a financial policy to maintain a minimum level of unrestricted fund balance (the total of the committed, assigned, and unassigned components of fund balance) in the general fund. The target level is set at two months of operating revenues in the general, utility, and internal service funds. This amount is intended to provide fiscal stability when economic downturns and other unexpected events occur.

J. Employee 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 the GASB Statement 27, Accounting for Pensions by State and Local Government Employers and the GASB Statement 50, Pension Disclosures, an Amendment of GASB Statements No. 25 and No. 27.

Public Employees' Retirement System (PERS) Plans 1, 2, and 3**Plan Description**

The Legislature established PERS in 1947. Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior courts; employees of legislative committees; community and technical colleges, college and university employees not participating in higher education retirement programs; employees of district and municipal courts; and employees of local governments. Approximately 50 percent of PERS salaries are accounted for by state employment. 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 Plan 3. The option must be exercised within 90 days of employment. Employees who fail to choose within 90 days default to 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 is comprised of and reported as three separate plans for accounting purposes: Plan 1, Plan 2/3, and Plan 3. Plan 1 accounts for the defined benefits of Plan 1 members. Plan 2/3 accounts for the defined benefits of Plan 2 members and the defined benefit portion of benefits for Plan 3 members. Plan 3 accounts for the defined contribution portion of benefits for Plan 3 members. Although members can only be a member of either Plan 2 or Plan 3, the defined benefit portions of Plan 2 and Plan 3 are accounted for in the same pension trust fund. All assets of this Plan 2/3 defined benefit plan may legally be used to pay the defined benefits of any of the Plan 2 or Plan 3 members or beneficiaries, as defined by the terms of the plan. Therefore, Plan 2/3 is considered to be a single plan for accounting purposes.

PERS Plan 1 and Plan 2 retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to the PERS Plan 1 and Plan 2 defined benefit plans accrue interest at a rate specified by the Director of DRS. During DRS' Fiscal Year 2012, the rate was five and one-half percent compounded quarterly. Members in PERS Plan 1 and Plan 2 can elect to withdraw total employee contributions and interest thereon upon separation from PERS-covered employment.

PERS Plan 1 members are vested after the completion of five years of eligible service.

PERS 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 2 percent of the average final compensation (AFC) per year of service, but the benefit may not exceed 60 percent of the AFC. The AFC is the monthly average of the 24 consecutive highest-paid service credit months.

The monthly benefit is subject to a minimum for 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. If a survivor option is chosen, the benefit is reduced. Plan 1 members retiring from inactive status prior to the age of 65 may also receive actuarially reduced benefits. 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 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. The benefit 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, at which time the benefit is converted to the member's service retirement amount. A member with five years of covered employment is eligible for non-duty disability retirement. Prior to the age of 55, the benefit amount is 2 percent of the AFC for each year of service reduced by 2 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. Plan 1 members may elect to receive an optional COLA amount (based on the Consumer Price Index), 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 while actively serving in the military if such credit makes them eligible to retire. Members can also purchase up to 24 months of service credit lost because of an on-the-job injury.

The survivor of a PERS Plan 1 member who dies after having earned ten years of service credit has the option, upon the member's death, of either a monthly survivor benefit or the lump sum of contributions plus interest.

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 2 percent of the AFC per year of service. The AFC is the monthly average of the 60 consecutive highest-paid service months. 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 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; or
- 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. The surviving spouse or eligible child(ren) of a PERS Plan 2 member who dies after having earned ten years of service credit has the option of either a monthly benefit or a lump sum payment of the member's contributions plus interest.

PERS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component and member contributions finance a defined contribution component. As established by Chapter 41.34 RCW, employee contribution rates to the defined contribution component range from 5 percent to 15 percent of salaries, based on member choice. There are currently no requirements for employer contributions to the defined contribution component of PERS Plan 3.

PERS Plan 3 defined contribution retirement benefits are dependent upon the results of investment activities. Members may elect to self-direct the investment of their contributions. Any expenses incurred in conjunction with self-directed investments are paid by members. Absent a member's self-direction, PERS Plan 3 investments are made in the same portfolio as that of the PERS 2/3 defined benefit plan.

For DRS' fiscal year 2012, PERS Plan 3 employee contributions were \$95.2 million, and plan refunds paid out were \$66.2 million.

The defined benefit portion of PERS Plan 3 provides members a monthly benefit that is 1 percent of the AFC per year of service. The AFC is the monthly average of the 60 consecutive highest-paid service months. There is no cap on years of service credit, and Plan 3 provides the same cost-of-living allowance as Plan 2.

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 by 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 benefit retirement benefits are also actuarially reduced to reflect the choice, if made, of a survivor option.

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 2 percent of the AFC per year of service. For Plan 3, the monthly benefit amount is 1 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.

PERS Plan 2 and Plan 3 members who become totally incapacitated for continued employment while serving the uniformed services, or a surviving spouse or eligible child(ren), may request interruptive military service credit.

PERS Plan 2 and Plan 3 members can 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. This provision applies to any member killed in the course of employment, on or after June 10, 2004, if found eligible by the Director of 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 the member's covered employment, if found eligible by the Department of Labor and Industries.

There are 1,184 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2011:

Type of Members	Number of Participants
Retirees and beneficiaries receiving benefits	79,363
Terminated plan members entitled to but not yet receiving benefits	29,925
Active plan members Vested	105,578
Active plan members Nonvested	46,839
Total	261,705

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 6 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. Under PERS Plan 3, employer contributions finance the defined benefit portion of the plan and member 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.

As a result of the implementation of the Judicial Benefit Multiplier Program in January 2007, a second tier of employer and employee rates was developed to fund, along with investment earnings, the increased retirement benefits of those justices and judges that participate in the program.

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 contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2012, are as follows:

Members Not Participating in JBM:

Contributor	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer*	7.21%**	7.21%**	7.21%***
Employee	6%****	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
2012	\$ 15,016	\$ 742,434	\$ 165,692
2011	\$ 26,435	\$ 623,989	\$ 143,598
2010	\$ 21,991	\$ 528,869	\$ 115,885

Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF) Plans 1 and 2Plan Description

LEOFF was established in 1970 by the Legislature. Membership 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.

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.

LEOFF 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. Employee contributions to the LEOFF Plan 1 and Plan 2 defined benefit plans accrue interest at a rate specified by the Director of DRS. During DRS' fiscal year 2012, the rate was five and one-half percent compounded quarterly. Members in LEOFF Plan 1 and Plan 2 can elect to withdraw total employee contributions and interest earnings upon separation from LEOFF-covered employment.

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:

<u>Term of Service</u>	<u>Percent of Final Average Salary</u>
20 or more years	2.00%
10 but less than 20 year	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 the 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 benefit 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, or if the death resulted from an occupational disease or infection that arose naturally and proximately out of the member's covered 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 benefit or service retirement benefit.

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 benefit.

LEOFF Plan 2 members are vested after the completion of five years of eligible service.

Plan 2 members are eligible for retirement at the age of 53 with five years of service, or at age 50 with 20 years of service. Plan 2 members receive a benefit of 2 percent of the FAS per year of service (the FAS is based on the highest consecutive 60 months), actuarially reduced to reflect the choice of a survivor option. Members who retire prior to the age of 53 receive reduced benefits. 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. Otherwise, the benefits are actuarially reduced for each year prior to age 53. A cost-of-living allowance is granted (based on the Consumer Price Index), capped at 3 percent annually.

LEOFF Plan 2 provides disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 benefit amount is 2 percent of the FAS for each year of service. Benefits

are reduced to reflect the choice of survivor option and for each year that the member's age is less than 53, unless the disability is duty-related. 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 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 catastrophically 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 benefit of at least 10 percent of FAS and 2 percent per year of service beyond five years. The first 10 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 serving in the uniformed services, or a surviving spouse or eligible child(ren), may request interruptive military service credit.

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, or if the death resulted from an occupational disease or infection that arose naturally and proximately out of the member's covered employment, if found eligible by the Department of Labor and Industries.

Legislation passed in 2009 provides to the Washington-state-registered domestic partners of LEOFF Plan 2 members the same treatment as married spouses, to the extent that the treatment is not in conflict with federal laws.

There are 373 participating employers in LEOFF. Membership in LEOFF consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2011:

Type of Members	Number of Participants
Retirees and beneficiaries receiving benefits	9,947
Terminated plan members entitled to but not yet receiving benefits	656
Active plan members Vested	13,942
Active plan members Nonvested	3,113
Total	27,658

Funding Policy

Employer and employee contribution rates are developed by the Office of the State Actuary to fully fund the plans. Starting on July 1, 2000, Plan 1 employers and employees contribute zero percent as long as the plan remains fully funded. 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, appropriates money from the state General Fund to supplement the current service liability and fund the prior service costs of Plan 2 in accordance with the recommendations of the Pension Funding Council and the LEOFF Plan 2 Retirement Board. 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. For DRS' fiscal year 2012, the state contributed \$52.8 million to LEOFF Plan 2.

The methods used to determine the contribution requirements are established under state statute in accordance with Chapters 41.26 and 41.45 RCW.

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2012, 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
2012	\$ 75	\$ 270,298
2011	\$ 177	\$ 264,459
2010	\$ 174	\$ 265,175

K. 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, 2012, the plan has fourteen (14) retired members and no active members. The LEOFF 1 Retiree Health Plan does not issue a publically available financial report.

The City provides health coverage for LEOFF I retirees through a medical plan purchased through the Association of Washington Cities (AWC) Employees Benefit Trust. Upon reaching age 65, the retirees are enrolled in Medicare Part B Coverage, with the City reimbursing these Medicare premiums. In addition, the City pays or reimburses eligible retired LEOFF 1 police officers the necessary usual and customary medical expenses, in excess of those covered by the applicable insurance plan. The City also purchases a long-term care insurance plan for eligible LEOFF I members. Dental costs and dependents are not covered.

Funding policy. These medical benefits are funded on a pay-as-you-go basis through the general fund and paid out of police department budget. Health insurance premiums and long-term care insurance premiums are paid monthly. Other medical services are paid as billings are presented for reimbursement. The City reimbursed 100 percent of the amount of validated claims for medical costs incurred by these individuals. Amounts paid from 2010 through 2012 by the City are as follows:

Description	Year 2012	Year 2011	Year 2010
AWC medical insurance premiums	\$ 203,234	\$ 178,982	\$ 164,984
Reimbursement of other medical costs	12,964	20,700	(17,999)
Long-term care insurance premiums	5,622	2,022	5,622
Total	\$ 221,820	\$ 201,704	\$ 152,607
Number of retirees	14	13	13
Average cost per retiree	\$ 15,844	\$ 15,516	\$ 11,739

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.

	2012
Annual required contribution (ARC):	\$ 387,976
Normal cost	-
Amortization of UAAL	387,976
Total ARC	387,976
Interest on net OPEB obligation	32,774
Adjustment to annual required contribution	(67,816)
Annual OPEB cost (expense)	352,934
Contributions made	(221,821)
Increase in net OPEB obligation	131,113
Net OPEB obligation - Beginning of year	728,312
Net OPEB obligation - End of year	\$ 859,425

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for fiscal year 2012 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
12/31/2012	\$ 352,934	\$ 221,821	63%	\$ 859,425
12/31/2011	\$ 369,602	\$ 201,704	55%	\$ 728,312
12/31/2010	\$ 352,873	\$ 152,607	43%	\$ 560,414

Funding Status and Funding Progress. As of December 31, 2012, the actuarial accrued liability for benefits was \$4,166,686 all of which was unfunded. The covered payroll (total annual amount for police department benefits) was \$1,792,676, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 232 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 all 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. The expected long-term care inflation trend is 4.5 percent for all years. 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 receiving medical benefits from the Trust contribute the following monthly amounts:

AWC HealthFirst® 1000

\$789.14 for non-Medicare enrolled retiree coverage
\$795.57 for non-Medicare enrolled spouse coverage
\$421.75 for Medicare enrolled retiree coverage
\$433.48 for Medicare enrolled spouse coverage

AWC HealthFirst® 2500

\$689.11 for non-Medicare enrolled retiree coverage
\$693.66 for non-Medicare enrolled spouse coverage
\$369.29 for Medicare enrolled retiree coverage
\$378.30 for Medicare enrolled spouse coverage

Participating employers are not contractually required to contribute an assessed rate each year by the Trust for the non-LEOFF I retirees. The retiree pays for 100% of the premium.

L. Contingencies

Litigation

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. It is the opinion of the City's legal team that it is not probable that the City will have to make payment.

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

Contingencies under grant provisions

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

Bond indentures

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

M. 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 153 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 \$750,000, for all perils other than flood and earthquake, and insured above that amount by the purchase of reinsurance.

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

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

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

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.

N. Interlocal agreements and joint ventures

Capital Area Regional Public Facilities District (CARPFD).

In 2003, the City of Lacey entered into a contract with the Capital Area Regional Public Facilities District (CARPFD) for the acquisition, development, operation and maintenance of the Lacey Area Athletic, Recreation and Special Events Complex. The CARPFD 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 2012, the City of Lacey received \$894,578 in sale taxes levied by the CARPFD 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 position, as of December 31, 2012 was \$182,058. 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 position, as of December 31, 2012 was \$3,732,532. The City of Lacey has a 16.68 percent share of the equity as of December 31, 2012. The City of Lacey reports its share of equity interest as investment in joint venture, in the government-wide statement of net position.

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 2012 the City of Lacey's contribution for the annual agreement was \$221,251 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, 2012, the City of Lacey has a 39% share of the equity. Net position as of December 31, 2012, was \$251,435 . The City of Lacey reports its share of equity interest as an investment in joint venture, in the government-wide statement of net position.

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, 2012:

	Joint Animal Services 12/31/2012	Law Enforcement Regional Record Management System 12/31/2012
Total Assets	\$ 3,960,808	\$ 257,324
Total Liabilities	228,276	5,889
Total Net Position 12/31/2011	<u>\$ 3,732,532</u>	<u>\$ 251,435</u>
Revenues	1,623,812	412,772
Expenses	<u>1,600,267</u>	<u>432,396</u>
Net increase (decrease) in net assets	23,545	(19,624)
Beginning net position 1/1/2011	<u>3,708,987</u>	<u>271,059</u>
Ending net position 12/31/2012	<u>3,732,532</u>	<u>251,435</u>
City of Lacey Equity %	16.68%	39.00%
City of Lacey Equity Interest	\$ 622,586	\$ 98,060

The City of Lacey's equity interests in joint ventures for the year ended December 31, 2012 were as follows:

Governmental Type Activities	Beginning Balance 1/1/2012	Increase	Decrease	Ending Balance 12/31/2012
Joint Animal Services	\$ 609,016	\$ 13,570	\$ -	\$ 622,586
Law Enforcement Regional Record Management System (LERMS)	103,003	-	4,943	98,060
Total Investment in Joint Venture	<u>\$ 712,019</u>	<u>\$ 13,570</u>	<u>\$ 4,943</u>	<u>\$ 720,646</u>

O. Accounting and reporting changes and prior period adjustments

The City implemented GASB Statement No. 63 and 65 in year its fiscal year 2012. Under GASB Statement No. 65, debt issuance cost is no longer amortized over the life of the debt, rather the

issuance cost is expensed in the year the debt was issued. The beginning unamortized debt issue cost in the amount of \$197,789 was adjusted to the beginning net position as a prior year period adjustment on the Government-wide Statement of Activities.

Description	Governmental Activities
Net position - beginning as previously reported	\$ 365,889,110
Adjustment for Accounting Changes	(197,789)
Net position- beginning adjusted	<u>\$ 365,691,321</u>

The City's enterprise funds reports revenues from sale of miscellaneous merchandises. These revenues were previously reported under "nonoperating revenues" in the fund statement of revenues, expense and changes in net position and as "miscellaneous" nonprogram revenues in the statement of activities. The City determined that these revenues meet the criteria for operating revenues; and therefore, they are reported under miscellaneous operating revenues in the fund statement and as program revenues (charges for services) in the statement of activities. These revenues totaled \$209,281 in 2012 and \$215,788 in 2011. These changes do not affect the fund net position, therefore, no restatement was necessary.

Fund balance designation in 2011 for Gateway civic center and property acquisition was reviewed and reclassified from restricted to assigned fund balance in 2012.



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*Required Supplementary
Information Section*

Schedule of Revenues, Expenditures, and
Changes in Fund Balances - Budget to Actual
General Fund
For the Year Ended December 31, 2012

	Budgeted Amounts		Actual GAAP Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 17,682,462	\$ 17,682,462	\$ 17,827,603	\$ 145,141
Licenses and permits	1,381,378	1,381,378	1,664,565	283,187
Intergovernmental revenues	1,076,161	1,086,161	1,495,027	408,866
Charges for services	6,198,760	6,201,960	6,215,822	13,862
Fines and forfeitures	675,000	675,000	665,857	(9,143)
Other revenues	474,355	509,908	263,132	(246,776)
Total revenues	27,488,116	27,536,869	28,132,006	595,137
EXPENDITURES				
Current:				
General government	6,009,330	6,047,724	5,392,700	655,024
Security of persons and property	10,833,273	11,030,697	10,688,899	341,798
Physical environment	4,035,139	4,035,139	3,783,676	251,463
Economic environment	1,236,336	1,256,219	1,131,342	124,877
Mental and physical health	8,360	8,360	10,691	(2,331)
Culture and recreation	6,049,169	6,080,652	5,909,660	170,992
Capital outlay	-	-	13,193	(13,193)
Debt service:				
Principal retirement	-	-	23,749	(23,749)
Interest	-	-	3,758	(3,758)
Total expenditures	28,171,607	28,458,791	26,957,668	1,501,123
Excess of revenue over (under) expenditures	(683,491)	(921,922)	1,174,338	2,096,260
OTHER FINANCING SOURCES (USES)				
Capital leases	-	-	13,193	13,193
Transfers in	783,491	783,491	783,491	-
Transfers out	(100,000)	(400,000)	(400,000)	-
Total other financing sources	683,491	383,491	396,684	13,193
Net change in fund balances	-	(538,431)	1,571,022	2,109,453
Fund balance - beginning	-	538,431	21,697,560	21,159,129
Fund balance-ending	\$ -	\$ -	\$ 23,268,582	\$ 23,268,582

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, 2012

	Budgeted Amounts		Actual GAAP Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 942,620	\$ 942,620	\$ 1,035,270	\$ 92,650
Intergovernmental revenues	4,627,865	4,627,865	2,843,805	(1,784,060)
Charges for services	691,240	691,240	1,193,656	502,416
Other revenues	175,200	175,200	236,395	61,195
Total revenues	6,436,925	6,436,925	5,309,126	(1,127,799)
EXPENDITURES				
Capital outlay	9,962,916	10,245,507	5,044,174	5,201,333
Debt service:				
Principal retirement	-	743,454	743,453	1
Total expenditures	9,962,916	10,988,961	5,787,627	5,201,334
Excess of revenue over (under) expenditures	(3,525,991)	(4,552,036)	(478,501)	4,073,535
OTHER FINANCING SOURCES (USES)				
Transfers in	850,000	850,000	850,000	-
Total other financing sources	850,000	850,000	850,000	-
Net change in fund balances	(2,675,991)	(3,702,036)	371,499	4,073,535
Fund balance - beginning	9,490,426	10,516,471	13,325,275	2,808,804
Fund balance-ending	\$ 6,814,435	\$ 6,814,435	\$ 13,696,774	\$ 6,882,339

City of Lacey
 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]
12/31/2010	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%
12/31/2012	0	4,166,686	4,166,686	0.0%	1,792,676	232%

*Annual total police department expenditures for benefits paid.

Notes to the Required Supplemental Information

Budgetary information. The City's annual budget is adopted on a basis consistent with Generally Accepted Accounting Principles (GAAP) for all governmental funds. For more detailed information see the Notes to the financial statements (Note 1, D Budgetary information)



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*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.

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.

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

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, 2012

	Special Revenue Funds			Debt Service Fund
	Street Fund	Lodging Tax	Community Development Block Grant	General Obligation Bond Fund
ASSETS				
Current cash and cash equivalents	\$ 2,848,556	\$ 899,158	\$ 10,242	\$ 280,104
Receivables (net of allowances):				
Taxes	146,179	52,495	-	37,966
Customer accounts	247,634	-	284,515	1,185
Due from other governmental units	-	-	-	-
Restricted assets:				
Cash & cash equivalents	-	-	-	-
Long term loan receivable-TCOMM	-	-	-	-
Total assets	<u>\$ 3,242,369</u>	<u>\$ 951,653</u>	<u>\$ 294,757</u>	<u>\$ 319,255</u>
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	66,031	23,132	-	-
Due to other governmental units	160	-	-	-
Custodial accounts	-	-	-	-
Deposits	-	-	-	-
Total Liabilities	<u>66,191</u>	<u>23,132</u>	<u>-</u>	<u>-</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenues-property tax	-	-	-	34,585
Unavailable revenues-grants & contracts	-	-	284,515	-
Total deferred inflows of resources	<u>-</u>	<u>-</u>	<u>284,515</u>	<u>34,585</u>
Fund balances				
Restricted				
Lodging/tourism	-	853,521	-	-
HUD grant	-	-	10,242	-
TCOMM loan balance	-	-	-	-
City facilities	-	-	-	-
Public education fees	-	-	-	-
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	1,051,178	-	-	-
Capital projects	-	-	-	-
Regional Athletic Complex maintenance	-	-	-	-
Debt service	-	-	-	284,670
Total fund balances	<u>3,176,178</u>	<u>928,521</u>	<u>10,242</u>	<u>284,670</u>
Total liabilities and fund balances	<u>\$ 3,242,369</u>	<u>\$ 951,653</u>	<u>\$ 294,757</u>	<u>\$ 319,255</u>

Capital Project Funds				Total Other Governmental Funds
Building Improvement	Capital Expenditure	Parks & Open Space Fund	Regional Athletic Complex Capital	
\$ 4,553,223	\$ 3,193,693	\$ 2,102,921	\$ 349,039	\$ 14,236,936
-	94,950	69,792	-	401,382
-	9,191	-	129,694	672,219
50,000	2,587	9,355	-	61,942
-	156,415	850	-	157,265
-	998,585	-	-	998,585
<u>\$ 4,603,223</u>	<u>\$ 4,455,421</u>	<u>\$ 2,182,918</u>	<u>\$ 478,733</u>	<u>\$ 16,528,329</u>
139,404	22,645	24,974	5,465	281,651
-	2,587	642	-	3,389
-	-	850	-	850
<u>139,404</u>	<u>25,232</u>	<u>26,466</u>	<u>5,465</u>	<u>285,890</u>
-	-	-	-	34,585
50,000	-	-	-	334,515
<u>50,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>369,100</u>
-	-	-	-	853,521
-	-	-	-	10,242
-	1,155,000	-	-	1,155,000
-	89,027	-	20,000	109,027
-	74,444	-	-	74,444
23,106	-	-	-	23,106
1,798,125	500,000	-	-	2,423,125
-	1,060,000	-	-	3,060,000
-	-	-	-	75,000
129,397	-	-	-	129,397
443,865	-	-	-	443,865
1,500,000	-	-	-	1,500,000
-	-	-	-	1,051,178
519,326	1,551,718	1,009,442	453,268	3,533,754
-	-	1,147,010	-	1,147,010
-	-	-	-	284,670
<u>4,413,819</u>	<u>4,430,189</u>	<u>2,156,452</u>	<u>473,268</u>	<u>15,873,339</u>
<u>\$ 4,603,223</u>	<u>\$ 4,455,421</u>	<u>\$ 2,182,918</u>	<u>\$ 478,733</u>	<u>\$ 16,528,329</u>

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Other Governmental Funds
For the Year Ended December 31, 2012

	Special Revenue Funds			Debt Service Fund
	Street Fund	Lodging Tax	Community Development Block Grant	General Obligation Bond Fund
REVENUES				
Taxes	\$ 2,026,655	\$ 411,520	\$ -	\$ 1,520,215
Licenses and permits	-	-	-	-
Intergovernmental revenues	653,735	4,997	-	-
Charges for services	19,034	-	-	-
Other revenues	41,156	1,955	119	2,564
Total revenues	2,740,580	418,472	119	1,522,779
EXPENDITURES				
Current:				
Transportation	2,710,640	-	-	-
Culture and recreation	-	261,721	-	-
Capital outlay	-	-	-	-
Debt service:				
Principal retirement	-	-	-	1,290,000
Interest	-	-	-	796,728
Debt issue cost	-	-	-	46,054
Total expenditures	2,710,640	261,721	-	2,132,782
Excess of revenue over (under) expenditures	29,940	156,751	119	(610,003)
OTHER FINANCING SOURCES (USES)				
Premium on debt issued	-	-	-	185,946
Debt issuance	-	-	-	-
Debt issuance-refunding bonds	-	-	-	2,845,000
Refunding payments to refunded bonds escrow agent	-	-	-	(2,983,707)
Transfers in	-	-	-	586,330
Transfers out	-	(193,500)	(44,600)	-
Total other financing sources (uses)	-	(193,500)	(44,600)	633,569
Net change in fund balances	29,940	(36,749)	(44,481)	23,566
Fund balance - beginning	3,146,239	965,270	54,723	261,104
Fund Balance - ending	\$ 3,176,179	\$ 928,521	\$ 10,242	\$ 284,670

Capital Project Funds				Total
Building Improvement	Capital Expenditure	Parks & Open Space Fund	Regional Athletic Complex Capital	Other Governmental Funds
\$ -	\$ 1,317,213	\$ 965,526	\$ -	\$ 6,241,129
-	36,802	-	-	36,802
809,491	67,066	1,194,912	694,578	3,424,779
-	-	-	-	19,034
23,120	39,645	37,120	1,183	146,862
<u>832,611</u>	<u>1,460,726</u>	<u>2,197,558</u>	<u>695,761</u>	<u>9,868,606</u>
-	-	-	-	2,710,640
-	-	642	6,793	269,156
2,536,369	229,813	812,519	87,087	3,665,788
-	-	-	-	1,290,000
-	18,246	918	-	815,892
-	13,572	-	-	59,626
<u>2,536,369</u>	<u>261,631</u>	<u>814,079</u>	<u>93,880</u>	<u>8,811,102</u>
<u>(1,703,758)</u>	<u>1,199,095</u>	<u>1,383,479</u>	<u>601,881</u>	<u>1,057,504</u>
-	46,538	-	-	232,484
-	1,122,033	-	-	1,122,033
-	-	-	-	2,845,000
-	-	-	-	(2,983,707)
344,600	-	-	60,000	990,930
-	(850,000)	(649,991)	(586,330)	(2,324,421)
<u>344,600</u>	<u>318,571</u>	<u>(649,991)</u>	<u>(526,330)</u>	<u>(117,681)</u>
(1,359,158)	1,517,666	733,488	75,551	939,823
5,772,978	2,912,522	1,422,964	397,716	14,933,516
<u>\$ 4,413,820</u>	<u>\$ 4,430,188</u>	<u>\$ 2,156,452</u>	<u>\$ 473,267</u>	<u>\$ 15,873,339</u>

Schedule of Revenues, Expenditures, and
Changes in Fund Balances - Budget to Actual
Street Fund
For the Year Ended December 31, 2012

	Budgeted Amounts		Actual GAAP Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 2,018,626	\$ 2,018,626	\$ 2,026,655	\$ 8,029
Intergovernmental revenues	635,040	635,040	653,735	18,695
Charges for services	15,000	15,000	19,034	4,034
Other revenues	5,000	5,000	41,156	36,156
Total revenues	<u>2,673,666</u>	<u>2,673,666</u>	<u>2,740,580</u>	<u>66,914</u>
EXPENDITURES				
Current:				
Transportation	2,673,666	2,699,131	2,710,640	(11,509)
Total expenditures	<u>2,673,666</u>	<u>2,699,131</u>	<u>2,710,640</u>	<u>(11,509)</u>
Excess of revenue over (under) expenditures	-	(25,465)	29,940	55,405
Net change in fund balances	-	(25,465)	29,940	55,405
Fund balance - beginning	-	25,465	3,146,239	3,120,774
Fund balance-ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,176,179</u>	<u>\$ 3,176,179</u>

Schedule of Revenues, Expenditures, and
 Changes in Fund Balances - Budget to Actual
 Lodging Tax
 For the Year Ended December 31, 2012

	Budgeted Amounts		Actual GAAP Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 350,593	\$ 350,593	\$ 411,520	\$ 60,927
Intergovernmental revenues	-	-	4,997	4,997
Other revenues	2,500	2,500	1,955	(545)
Total revenues	353,093	353,093	418,472	65,379
EXPENDITURES				
Current:				
Culture and recreation	259,900	259,900	261,721	(1,821)
Total expenditures	259,900	259,900	261,721	(1,821)
Excess of revenue over (under) expenditures	93,193	93,193	156,751	63,558
OTHER FINANCING SOURCES (USES)				
Transfers out	(193,500)	(193,500)	(193,500)	-
Total other financing sources	(193,500)	(193,500)	(193,500)	-
Net change in fund balances	(100,307)	(100,307)	(36,749)	63,558
Fund balance - beginning	100,307	100,307	965,270	864,963
Fund balance-ending	\$ -	\$ -	\$ 928,521	\$ 928,521

Schedule of Revenues, Expenditures, and
Changes in Fund Balances - Budget to Actual
Community Development Block Grant
For the Year Ended December 31, 2012

	Budgeted Amounts		Actual GAAP Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Other revenue	\$ 200	\$ 200	\$ 119	\$ (81)
Total revenues	200	200	119	(81)
EXPENDITURES				
Total expenditures	-	-	-	-
Excess of revenue over (under) expenditures	200	200	119	(81)
OTHER FINANCING SOURCES (USES)				
Transfers out	(44,600)	(44,600)	(44,600)	-
Total other financing sources	(44,600)	(44,600)	(44,600)	-
Net change in fund balance	(44,400)	(44,400)	(44,481)	(81)
Fund balance - beginning	44,600	44,600	54,723	10,123
Fund balance-ending	\$ 200	\$ 200	\$ 10,242	\$ 10,042

Schedule of Revenues, Expenditures, and
Changes in Fund Balances - Budget to Actual
General Obligation Bond Fund
For the Year Ended December 31, 2012

	Budgeted Amounts		Actual GAAP Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 1,500,400	\$ 1,500,400	\$ 1,520,215	\$ 19,815
Other revenues	500	500	2,564	2,064
Total revenues	<u>1,500,900</u>	<u>1,500,900</u>	<u>1,522,779</u>	<u>21,879</u>
EXPENDITURES				
Debt service:				
Principal retirement	1,290,000	1,290,000	1,290,000	-
Interest	796,730	796,730	796,728	2
Debt issue costs	-	45,072	46,054	(982)
Total expenditures	<u>2,086,730</u>	<u>2,131,802</u>	<u>2,132,782</u>	<u>2</u>
Excess of revenue over (under) expenditures	<u>(585,830)</u>	<u>(630,902)</u>	<u>(610,003)</u>	<u>21,881</u>
OTHER FINANCING SOURCES (USES)				
Premium on refunding bonds issued	-	158,280	185,946	27,666
Debt issuance	-	2,870,000	-	(2,870,000)
Debt issuance cost	-	-	2,845,000	2,845,000
Refunding bonds issued	-	(2,983,208)	(2,983,707)	(499)
Transfers in	586,330	586,330	586,330	-
Total other financing sources	<u>586,330</u>	<u>631,402</u>	<u>633,569</u>	<u>2,167</u>
Net change in fund balance	500	500	23,566	24,048
Fund balance - beginning	-	-	261,104	261,104
Fund balance-ending	<u>\$ 500</u>	<u>\$ 500</u>	<u>\$ 284,670</u>	<u>\$ 285,152</u>

Schedule of Revenues, Expenditures, and
Changes in Fund Balances - Budget to Actual
L.I.D. Redemption
For the Year Ended December 31, 2012

	Budgeted Amounts		Actual GAAP Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Other revenues	\$ 670,500	\$ 670,500	\$ 1,516,215	\$ 845,715
Total revenues	<u>670,500</u>	<u>670,500</u>	<u>1,516,215</u>	<u>845,715</u>
EXPENDITURES				
Debt service:				
Principal retirement	634,000	634,000	124,987	509,013
Interest	36,500	36,500	30,706	5,794
Total expenditures	<u>670,500</u>	<u>670,500</u>	<u>155,693</u>	<u>514,807</u>
Excess of revenue over (under) expenditures	<u>-</u>	<u>-</u>	<u>1,360,522</u>	<u>1,360,522</u>
Net change in fund balance	-	-	1,360,522	1,360,522
Fund balance - beginning	-	-	135,980	135,980
Fund balance-ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,496,502</u>	<u>\$ 1,496,502</u>

Schedule of Revenues, Expenditures, and
Changes in Fund Balances - Budget to Actual
Building Improvement
For the Year Ended December 31, 2012

	Budgeted Amounts		Actual GAAP Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental revenues	\$ 1,000,000	\$ 1,000,000	\$ 809,491	\$ (190,509)
Other revenues	87,000	87,000	23,120	(63,880)
Total revenues	<u>1,087,000</u>	<u>1,087,000</u>	<u>832,611</u>	<u>(254,389)</u>
EXPENDITURES				
Current:				
General government	10,000	10,000	-	10,000
Capital outlay	1,680,000	2,872,111	2,536,369	335,742
Total expenditures	<u>1,690,000</u>	<u>2,882,111</u>	<u>2,536,369</u>	<u>345,742</u>
Excess of revenue over (under) expenditures	<u>(603,000)</u>	<u>(1,795,111)</u>	<u>(1,703,758)</u>	<u>91,353</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	44,600	344,600	344,600	-
Total other financing sources	<u>44,600</u>	<u>344,600</u>	<u>344,600</u>	<u>-</u>
Net change in fund balance	(558,400)	(1,450,511)	(1,359,158)	91,353
Fund balance - beginning	558,400	1,450,511	5,772,978	4,322,467
Fund balance-ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,413,820</u>	<u>\$ 4,413,820</u>

Schedule of Revenues, Expenditures, and
Changes in Fund Balances - Budget to Actual
Capital Expenditure
For the Year Ended December 31, 2012

	Budgeted Amounts		Actual GAAP Basis	Variance with Final Budget
	Original	Final		Positive (Negative)
REVENUES				
Taxes	\$ 1,310,963	\$ 1,310,963	\$ 1,317,213	\$ 6,250
Licenses and permits	36,000	36,000	36,802	802
Intergovernmental revenues	-	-	67,066	67,066
Other revenues	203,393	203,393	39,645	(163,748)
Total revenues	<u>1,550,356</u>	<u>1,550,356</u>	<u>1,460,726</u>	<u>(89,630)</u>
EXPENDITURES				
Current:				
Capital outlay	582,963	833,755	229,813	603,942
Debt service:				
Principal retirement	152,709	152,709	-	152,709
Interest	29,684	29,684	18,246	11,438
Debt issue costs	-	-	13,572	(13,572)
Total expenditures	<u>765,356</u>	<u>1,016,148</u>	<u>261,631</u>	<u>754,517</u>
Excess of revenue over (under) expenditures	<u>785,000</u>	<u>534,208</u>	<u>1,199,095</u>	<u>664,887</u>
OTHER FINANCING SOURCES (USES)				
Premium on refunding bonds issued	-	-	46,538	46,538
Debt issuance	-	1,155,000	1,122,033	(32,967)
Intergovernmental loan-TCOMM	-	(1,155,000)	-	1,155,000
Transfers out	(850,000)	(850,000)	(850,000)	-
Total other financing sources	<u>(850,000)</u>	<u>(850,000)</u>	<u>318,571</u>	<u>1,168,571</u>
Net change in fund balances	(65,000)	(315,792)	1,517,666	1,833,458
Fund balance-beginning	65,000	315,792	2,912,522	2,596,730
Fund balance-ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,430,188</u>	<u>\$ 4,430,188</u>

Schedule of Revenues, Expenditures, and
Changes in Fund Balances - Budget to Actual
Parks & Open Space
For the Year Ended December 31, 2012

	Budgeted Amounts		Actual GAAP Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 965,007	\$ 965,007	\$ 965,526	\$ 519
Intergovernmental revenues	-	952,000	1,194,912	242,912
Other revenues	13,386	13,386	37,120	23,734
Total revenues	978,393	1,930,393	2,197,558	267,165
EXPENDITURES				
Current:				
Culture and recreation	-	590,000	642	589,358
Capital outlay	25,000	364,200	812,519	(448,319)
Debt service:				
Interest	-	750,000	-	750,000
Debt issue cost	-	-	918	(918)
Total expenditures	25,000	1,704,200	814,079	890,121
Excess of revenue over (under) expenditures	953,393	226,193	1,383,479	1,157,286
OTHER FINANCING SOURCES (USES)				
Transfers out	(649,991)	(649,991)	(649,991)	-
Total other financing sources	(649,991)	(649,991)	(649,991)	-
Net change in fund balances	303,402	(423,798)	733,488	1,157,286
Fund balance - beginning	-	727,200	1,422,964	695,764
Fund balance-ending	\$ 303,402	\$ 303,402	\$ 2,156,452	\$ 1,853,050

Schedule of Revenues, Expenditures, and
Changes in Fund Balances - Budget to Actual
Regional Athletic Complex Capital
For the Year Ended December 31, 2012

	Budgeted Amounts		Actual GAAP Basis	Variance with Final Budget
	Original	Final		Positive (Negative)
REVENUES				
Intergovernmental revenues	\$ 855,211	\$ 855,211	\$ 694,578	\$ (160,633)
Other revenues	4,590	4,590	1,183	(3,407)
Total revenues	<u>859,801</u>	<u>859,801</u>	<u>695,761</u>	<u>(164,040)</u>
EXPENDITURES				
Current:				
Culture and recreation	217,739	217,739	6,793	210,946
Capital outlay	-	-	87,087	(87,087)
Total expenditures	<u>217,739</u>	<u>217,739</u>	<u>93,880</u>	<u>123,859</u>
Excess of revenue over (under) expenditures	<u>642,062</u>	<u>642,062</u>	<u>601,881</u>	<u>(40,181)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	60,000	60,000	60,000	-
Transfers out	(586,330)	(586,330)	(586,330)	-
Total other financing sources	<u>(526,330)</u>	<u>(526,330)</u>	<u>(526,330)</u>	<u>-</u>
Net change in fund balances	115,732	115,732	75,551	(40,181)
Fund balance-beginning	20,000	20,000	397,716	377,716
Fund balance-ending	<u>\$ 135,732</u>	<u>\$ 135,732</u>	<u>\$ 473,267</u>	<u>\$ 337,535</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 and 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 Position
Internal Service Funds
December 31, 2012

	Governmental Activities		
	Internal Service Funds		
	Equipment Rental	Information Services	Total
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 7,627,135	\$ 2,555,572	\$ 10,182,707
Receivables (net of allowances):			
Customer accounts	7,504	-	7,504
Due from governmental units	6,224	-	6,224
Total current assets:	<u>7,640,863</u>	<u>2,555,572</u>	<u>10,196,435</u>
Noncurrent assets:			
Capital assets, net of depreciation:			
Buildings	138,063	-	138,063
Improvements other than buildings	4,286	-	4,286
Equipment	2,816,460	147,425	2,963,885
Total noncurrent assets	<u>2,958,809</u>	<u>147,425</u>	<u>3,106,234</u>
Total assets	<u>10,599,672</u>	<u>2,702,997</u>	<u>13,302,669</u>
LIABILITIES			
Current liabilities:			
Accounts payable	24,186	13,891	38,077
Compensated absences	8,581	14,448	23,029
Total current liabilities	<u>32,767</u>	<u>28,339</u>	<u>61,106</u>
Noncurrent liabilities:			
Compensated absences	12,099	8,044	20,143
Total noncurrent liabilities	<u>12,099</u>	<u>8,044</u>	<u>20,143</u>
Total liabilities	<u>44,866</u>	<u>36,383</u>	<u>81,249</u>
NET POSITION			
Investment in capital assets	2,958,808	147,425	3,106,233
Unrestricted	7,595,998	2,519,189	10,115,187
Total net position	<u>\$ 10,554,806</u>	<u>\$ 2,666,614</u>	<u>\$ 13,221,420</u>

Combining Statement of Revenues, Expenses, and Changes in Fund Net Position
Internal Service Funds
For the Year Ended December 31, 2012

	Governmental Activities		
	Internal Service Funds		
	Equipment Rental	Information Services	Total
OPERATING REVENUES			
Charges for services	\$ 2,166,549	\$ 1,621,131	\$ 3,787,680
Total operating revenue	<u>2,166,549</u>	<u>1,621,131</u>	<u>3,787,680</u>
OPERATING EXPENSES			
Operating expense	1,113,461	1,157,202	2,270,663
Maintenance expense	37,836	293,373	331,209
Depreciation expense	720,677	152,992	873,669
Total operating expenses	<u>1,871,974</u>	<u>1,603,567</u>	<u>3,475,541</u>
OPERATING INCOME (LOSS)	<u>294,575</u>	<u>17,564</u>	<u>312,139</u>
NONOPERATING REVENUES (EXPENSES)			
Investment earnings	14,642	4,226	18,868
Miscellaneous nonoperating revenues	23,729	2,027	25,756
Gain (loss) on sale of capital assets	41,798	-	41,798
Total nonoperating revenues (expenses)	<u>80,169</u>	<u>6,253</u>	<u>86,422</u>
Income (loss) before contributions and transfers	374,744	23,817	398,561
Capital contributions	27,149	9,076	36,225
Transfers in	76,180	5,881	82,061
Changes in net position	<u>478,073</u>	<u>38,774</u>	<u>516,847</u>
NET POSITION - BEGINNING	<u>10,076,733</u>	<u>2,627,840</u>	<u>12,704,573</u>
NET POSITION - ENDING	<u>\$ 10,554,806</u>	<u>\$ 2,666,614</u>	<u>\$ 13,221,420</u>

Statement of Cash Flows
Internal Service Funds
For the Year Ended December 31, 2012

	Governmental Activities		
	Internal Service Funds		
	Equipment Rental	Information Services	Total Internal Service
CASH FLOW FROM OPERATING ACTIVITIES:			
Receipts from customers and users	\$ 2,189,337	\$ 1,623,158	\$ 3,812,495
Payments to suppliers	(768,897)	(551,812)	(1,320,709)
Payments to employees	(356,338)	(888,321)	(1,244,659)
Net cash provided by operating activities	<u>1,064,102</u>	<u>183,025</u>	<u>1,247,127</u>
CASH FLOW FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Acquisition and construction of capital assets	(272,286)	(17,484)	(289,770)
Proceeds from sales of capital assets	41,798	-	41,798
Net cash used by capital and related financing activities	<u>(230,488)</u>	<u>(17,484)</u>	<u>(247,972)</u>
CASH FLOW FROM INVESTING ACTIVITIES:			
Purchase of investment	(2,400)	-	(2,400)
Interest received on investments	14,642	4,226	18,868
Net cash provided (used) by investing activities	<u>12,242</u>	<u>4,226</u>	<u>16,468</u>
Net increase (decrease) in cash and cash equivalents	845,856	169,767	1,015,623
Cash and cash equivalents January 1	6,571,498	2,385,805	8,957,303
Cash and cash equivalents December 31 (see Note below)	<u>\$ 7,417,354</u>	<u>\$ 2,555,572</u>	<u>\$ 9,972,926</u>
CASH PROVIDED BY OPERATING ACTIVITIES:			
Net operating income	\$ 294,575	\$ 17,564	\$ 312,139
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:			
Depreciation	720,677	152,992	873,669
(Increase)/decrease in customer receivables	(279)	-	(279)
(Increase)/decrease in inventories	-	-	-
(Increase)/decrease in intergovernmental receivables	(662)	-	(662)
(Increase)/decrease in interfund loans	-	-	-
Miscellaneous non-operating revenues	23,729	2,027	25,756
Increase/(decrease) in accounts payables	23,506	7,845	31,351
Increase/(decrease) in due to other funds	-	-	-
Increase/(decrease) in intergovernmental payables	-	(2,639)	(2,639)
Increase/(decrease) in compensated absences payables	2,556	5,236	7,792
Net cash provided by operating activities	<u>\$ 1,064,102</u>	<u>\$ 183,025</u>	<u>\$ 1,247,127</u>
Noncash investing, capital and financing activities:			
Capital assets (non-cash) contributions (to) from other funds	\$ 103,329	\$ 14,957	\$ 118,286
Note: Reconciling Cash and cash equivalents with the amounts on the fund statement of net position:			
Statement of Net Position	\$ 7,627,135	\$ 2,555,572	\$ 10,182,707
Less Investments with maturity over 3 months	(209,781)	-	(209,781)
Cash Flow Statements	<u>\$ 7,417,354</u>	<u>\$ 2,555,572</u>	<u>\$ 9,972,926</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 Position
Agency Funds
December 31, 2012

	Joint Animal Services	Thurston County Narcotics Task Force	Capital Area Public Facilities District	Total
ASSETS				
Cash and cash equivalents	\$ 2,210,876	\$ 158,263	\$ 69,757	\$ 2,438,896
Prepays	1,084	452	-	1,536
Accounts receivables, net of uncollectible accounts	2,588	6,149	-	8,737
Due from other governmental units	-	23,729	227,139	250,868
Total assets	\$ 2,214,548	\$ 188,593	\$ 296,896	\$ 2,700,037
LIABILITIES				
Accounts payable	\$ 25,805	\$ 2,580	\$ -	\$ 28,385
Accrued employee leave payable	63,109	6,178	-	69,287
Capital lease payable	4,477	11,170	-	15,647
Notes payable	131,434	-	-	131,434
Due to other governmental units	1,989,723	168,665	296,896	2,455,284
Total liabilities	\$ 2,214,548	\$ 188,593	\$ 296,896	\$ 2,700,037

Combining Statement of Changes in Assets and Liabilities
Agency Funds
For the Year Ended December 31, 2012

	Joint Animal Services			Balance December 31, 2012
	Balance December 31, 2011	Additions	Deductions	
ASSETS				
Cash and cash equivalents	\$ 2,214,183	\$ 1,552,240	\$ 1,555,547	\$ 2,210,876
Prepays	824	4,875	4,615	1,084
Accounts receivables, net of uncollectible accounts	-	870,583	867,995	2,588
Due from other governmental units	2,051	-	2,051	-
Total assets	\$ 2,217,058	\$ 2,427,698	\$ 2,430,208	\$ 2,214,548
LIABILITIES				
Accounts payable	\$ 29,276	\$ 475,694	\$ 479,165	\$ 25,805
Accrued employee leave payable	62,795	51,182	50,868	63,109
Capital lease payable	6,541	2,246	4,310	4,477
Notes payable	149,024	-	17,590	131,434
Due to other governmental units	1,969,422	2,085,403	2,065,102	1,989,723
Total liabilities	\$ 2,217,058	\$ 2,614,525	\$ 2,617,035	\$ 2,214,548

	Thurston County Narcotics Task Force			Balance December 31, 2012
	Balance December 31, 2011	Additions	Deductions	
ASSETS				
Cash and cash equivalents	\$ 263,014	\$ 553,539	\$ 658,290	\$ 158,263
Prepays	77	2,500	2,125	452
Accounts receivables, net of uncollectible accounts	5,144	6,149	5,144	6,149
Due from other governmental units	36,367	23,729	36,367	23,729
Total assets	\$ 304,602	\$ 585,917	\$ 701,926	\$ 188,593
LIABILITIES				
Accounts payable	\$ 49,778	\$ 562,904	\$ 610,102	\$ 2,580
Accrued employee leave payable	6,393	4,620	4,835	6,178
Capital lease payable	-	12,827	1,657	11,170
Notes payable	-	-	-	-
Due to other governmental units	248,431	702,401	782,167	168,665
Total liabilities	\$ 304,602	\$ 1,282,752	\$ 1,398,761	\$ 188,593

Combining Statement of Changes in Assets and Liabilities
Agency Funds
For the Year Ended December 31, 2012

	Capital Area Public Facilities District			
	Balance December 31, 2011	Additions	Deductions	
ASSETS				
Cash and cash equivalents	\$ 69,494	\$ 1,257,917	\$ 1,257,654	\$ 69,757
Due from other governmental units	228,950	229,810	231,621	227,139
Total assets	\$ 298,444	\$ 1,487,727	\$ 1,489,275	\$ 296,896
LIABILITIES				
Accounts payable	\$ -	\$ 9,464	\$ 9,464	-
Due to other governmental units	298,444	2,170,095	2,171,643	296,896
Total liabilities	\$ 298,444	\$ 2,179,559	\$ 2,181,107	\$ 296,896
Total All Agencies				
	Balance December 31, 2011	Additions	Deductions	Balance December 31, 2012
ASSETS				
Cash and cash equivalents	\$ 2,546,691	\$ 3,363,696	\$ 3,471,491	\$ 2,438,896
Prepays	901	7,375	6,740	1,536
Accounts receivables, net of uncollectible accounts	5,144	876,732	873,139	8,737
Due from other governmental units	267,368	253,539	270,039	250,868
Total assets	\$ 2,820,104	\$ 4,501,342	\$ 4,621,409	\$ 2,700,037
LIABILITIES				
Accounts payable	\$ 79,054	\$ 1,048,062	\$ 1,098,731	\$ 28,385
Accrued employee leave payable	69,188	55,802	55,703	69,287
Capital lease payable	6,541	15,073	5,967	15,647
Notes payable	149,024	-	17,590	131,434
Due to other governmental units	2,516,297	4,957,899	5,018,912	2,455,284
Total liabilities	\$ 2,820,104	\$ 6,076,836	\$ 6,196,903	\$ 2,700,037



*Other Supplementary
Information Section*

Schedule of Operations - Budget to Actual
Water Fund
For the Year Ended December 31, 2012

	Budgeted Amounts		Actual GAAP Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
OPERATING REVENUES				
Charges for services	\$ 11,858,398	\$ 11,858,398	\$ 11,931,471	\$ 73,073
Miscellaneous operating revenues	170,549	170,549	208,866	38,317
Total operating revenue	<u>12,028,947</u>	<u>12,028,947</u>	<u>12,140,337</u>	<u>111,390</u>
OPERATING EXPENSES				
Operating expense	3,255,637	3,253,137	3,062,653	190,484
Maintenance expense	10,288,759	11,230,482	3,915,390	7,315,092
Depreciation expense	3,500,000	3,500,000	3,148,132	351,868
Taxes	467,214	467,214	461,047	6,167
Total operating expenses	<u>17,511,610</u>	<u>18,450,833</u>	<u>10,587,222</u>	<u>7,863,611</u>
OPERATING INCOME (LOSS)	<u>(5,482,663)</u>	<u>(6,421,886)</u>	<u>1,553,115</u>	<u>7,975,001</u>
NONOPERATING REVENUES (EXPENSES)				
Intergovernmental revenue	-	-	454	454
Investment earnings	2,008	2,008	33,602	31,594
Total nonoperating revenues (expenses)	<u>2,008</u>	<u>2,008</u>	<u>34,056</u>	<u>32,048</u>
Income (loss) before contributions and transfers	(5,480,655)	(6,419,878)	1,587,171	8,007,049
Capital contributions	-	-	3,315,401	3,315,401
Transfers in	100,000	100,000	100,000	-
Transfers out	-	-	(79,121)	(79,121)
Changes in net position	<u>(5,380,655)</u>	<u>(6,319,878)</u>	<u>4,923,451</u>	<u>11,243,329</u>
NET POSITION - BEGINNING	<u>8,859,321</u>	<u>9,798,544</u>	<u>112,085,380</u>	<u>102,286,836</u>
NET POSITION - ENDING	<u>\$ 3,478,666</u>	<u>\$ 3,478,666</u>	<u>\$ 117,008,831</u>	<u>\$ 113,530,165</u>

This schedule is presented as supplemental information

Schedule of Operations - Budget to Actual
Wastewater Fund
For the Year Ended December 31, 2012

	Budgeted Amounts		Actual GAAP Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
OPERATING REVENUES				
Charges for services	\$ 12,960,550	\$ 12,960,550	\$ 13,215,579	\$ 255,029
Miscellaneous operating revenues	-	-	415	415
Total operating revenue	<u>12,960,550</u>	<u>12,960,550</u>	<u>13,215,994</u>	<u>255,444</u>
OPERATING EXPENSES				
Operating expense	9,122,855	9,120,355	9,322,083	(201,728)
Maintenance expense	4,036,287	4,582,260	2,134,748	2,447,512
Depreciation expense	2,350,000	2,350,000	1,810,284	539,716
Taxes	146,905	146,905	158,875	(11,970)
Total operating expenses	<u>15,656,047</u>	<u>16,199,520</u>	<u>13,425,990</u>	<u>2,773,530</u>
OPERATING INCOME (LOSS)	<u>(2,695,497)</u>	<u>(3,238,970)</u>	<u>(209,996)</u>	<u>3,028,974</u>
NONOPERATING REVENUES (EXPENSES)				
Intergovernmental revenue	-	-	47,804	47,804
Investment earnings	12,669	12,669	37,876	25,207
Interfund loan	500,000	500,000	-	(500,000)
Interest expense	25,000	25,000	-	(25,000)
Total nonoperating revenues (expenses)	<u>537,669</u>	<u>537,669</u>	<u>85,680</u>	<u>(451,989)</u>
Income (loss) before contributions and transfers	(2,157,828)	(2,701,301)	(124,316)	2,576,985
Capital contributions	-	-	3,237,601	3,237,601
Transfers out	-	-	(2,940)	(2,940)
Changes in net position	(2,157,828)	(2,701,301)	3,110,345	5,811,646
NET POSITION - BEGINNING	6,989,165	7,532,638	82,338,290	74,805,652
NET POSITION - ENDING	<u>\$ 4,831,337</u>	<u>\$ 4,831,337</u>	<u>\$ 85,448,635</u>	<u>\$ 80,617,298</u>

This schedule is presented as supplemental information

Schedule of Operations - Budget to Actual
Stormwater Fund
For the Year Ended December 31, 2012

	Budgeted Amounts		Actual GAAP Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
OPERATING REVENUES				
Charges for services	\$ 2,034,599	\$ 2,034,599	\$ 2,090,344	\$ 55,745
Total operating revenue	<u>2,034,599</u>	<u>2,034,599</u>	<u>2,090,344</u>	<u>55,745</u>
OPERATING EXPENSES				
Operating expense	1,111,811	1,116,811	946,638	170,173
Maintenance expense	1,004,511	1,141,998	792,806	349,192
Depreciation expense	1,650,000	1,650,000	1,581,102	68,898
Taxes	38,545	38,545	39,589	(1,044)
Total operating expenses	<u>3,804,867</u>	<u>3,947,354</u>	<u>3,360,135</u>	<u>587,219</u>
OPERATING INCOME (LOSS)	<u>(1,770,268)</u>	<u>(1,912,755)</u>	<u>(1,269,791)</u>	<u>642,964</u>
NONOPERATING REVENUES (EXPENSES)				
Intergovernmental revenue	-	50,000	-	(50,000)
Investment earnings	2,425	2,425	5,243	2,818
Total nonoperating revenues (expenses)	<u>2,425</u>	<u>52,425</u>	<u>5,243</u>	<u>(47,182)</u>
Income (loss) before contributions and transfers	(1,767,843)	(1,860,330)	(1,264,548)	595,782
Capital contributions	-	-	1,226,326	1,226,326
Changes in net position	(1,767,843)	(1,860,330)	(38,222)	1,822,108
NET POSITION - BEGINNING	2,457,798	2,550,285	48,183,829	45,633,544
NET POSITION - ENDING	<u>\$ 689,955</u>	<u>\$ 689,955</u>	<u>\$ 48,145,607</u>	<u>\$ 47,455,652</u>

This schedule is presented as supplemental information

Schedule of Operations - Budget to Actual
Reclaimed Water
For the Year Ended December 31, 2012

	Budgeted Amounts		Actual GAAP Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
OPERATING REVENUES				
Charges for services	\$ -	\$ -	\$ -	\$ -
Total operating revenue	-	-	-	-
OPERATING EXPENSES				
Operating expense	100,000	100,000	-	100,000
Maintenance expense	451,315	731,265	39,599	691,666
Depreciation expense	-	-	9,722	(9,722)
Total operating expenses	551,315	831,265	49,321	781,944
OPERATING INCOME (LOSS)	(551,315)	(831,265)	(49,321)	781,944
NONOPERATING REVENUES (EXPENSES)				
Investment earnings	400	400	10,404	10,004
Miscellaneous nonoperating revenues	149,390	149,390	-	(149,390)
Total nonoperating revenues (expenses)	149,790	149,790	10,404	(139,386)
Income (loss) before contributions and transfers	(401,525)	(681,475)	(38,917)	642,558
Capital contributions	-	-	220,965	220,965
Changes in net position	(401,525)	(681,475)	182,048	863,523
NET POSITION - BEGINNING	1,604,995	1,884,945	4,191,052	2,306,107
NET POSITION - ENDING	\$ 1,203,470	\$ 1,203,470	4,373,100	\$ 3,169,630

This schedule is presented as supplemental information

Schedule of Operations - Budget to Actual
Equipment Rental Fund
For the Year Ended December 31, 2012

	Budgeted Amounts		Actual GAAP Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
OPERATING REVENUES				
Charges for services	\$ 2,139,620	\$ 2,139,620	\$ 2,166,549	\$ 26,929
Total operating revenue	<u>2,139,620</u>	<u>2,139,620</u>	<u>2,166,549</u>	<u>26,929</u>
OPERATING EXPENSES				
Operating expense	1,441,347	1,526,827	1,113,461	413,366
Maintenance expense	55,346	55,346	37,836	17,510
Depreciation expense	662,927	662,927	720,677	(57,750)
Total operating expenses	<u>2,159,620</u>	<u>2,245,100</u>	<u>1,871,974</u>	<u>373,126</u>
OPERATING INCOME (LOSS)	<u>(20,000)</u>	<u>(105,480)</u>	<u>294,575</u>	<u>400,055</u>
NONOPERATING REVENUES (EXPENSES)				
Investment earnings	20,000	20,000	14,642	(5,358)
Miscellaneous nonoperating revenues	-	-	23,729	23,729
Gain (loss) on sale of fixed assets	-	-	41,798	41,798
Total nonoperating revenues (expenses)	<u>20,000</u>	<u>20,000</u>	<u>80,169</u>	<u>60,169</u>
Income (loss) before contributions and transfers	-	(85,480)	374,744	460,224
Capital contributions	-	-	27,149	27,149
Transfers in	-	-	76,180	76,180
Changes in net position	<u>-</u>	<u>(85,480)</u>	<u>478,073</u>	<u>563,553</u>
NET POSITION - BEGINNING	<u>-</u>	<u>85,480</u>	<u>10,076,733</u>	<u>9,991,253</u>
NET POSITION - ENDING	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10,554,806</u>	<u>\$ 10,554,806</u>

This schedule is presented as supplemental information

Schedule of Operations - Budget to Actual
Information Management Services Fund
For the Year Ended December 31, 2012

	Budgeted Amounts		Actual GAAP Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
OPERATING REVENUES				
Charges for services	\$ 1,621,151	\$ 1,621,151	\$ 1,621,131	\$ (20)
Total operating revenue	1,621,151	1,621,151	1,621,131	(20)
OPERATING EXPENSES				
Operating expense	1,297,151	1,302,858	1,157,202	145,656
Maintenance expense	234,000	234,000	293,373	(59,373)
Depreciation expense	240,000	240,000	152,992	87,008
Total operating expenses	1,771,151	1,776,858	1,603,567	173,291
OPERATING INCOME (LOSS)	(150,000)	(155,707)	17,564	173,271
NONOPERATING REVENUES (EXPENSES)				
Investment earnings	8,500	8,500	4,226	(4,274)
Miscellaneous nonoperating revenues	-	-	2,027	2,027
Total nonoperating revenues (expenses)	8,500	8,500	6,253	(2,247)
Income (loss) before contributions and transfers	(141,500)	(147,207)	23,817	171,024
Capital contributions	-	-	9,076	9,076
Transfers in	-	-	5,881	5,881
Changes in net position	(141,500)	(147,207)	38,774	185,981
NET POSITION - BEGINNING	141,500	147,207	2,627,840	2,480,633
NET POSITION - ENDING	\$ -	\$ -	\$ 2,666,614	\$ 2,666,614

This schedule is presented as supplemental information

City of Lacey, Washington
 Schedule of Expenditures of Federal Awards
 For the Year Ended December 31, 2012

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 / Pass-through from WA State Superintendent of Public Instruction	Summer Food Service Program for Children	10.559	S12-34923	\$ 62,563		\$ 62,563	
Department of Agriculture / Pass-through from WA Department of Natural Resources	Cooperative Forestry Assistance	10.664	IAA-11-285/K244-08-DG-014	988		988	
		10.664	IAA-12-230/K244-10-DG-010	8,400		8,400	
		10.664	IAA-12-229/K244-10-DG-010	9,999		9,999	
		10.664	Subtotal	19,387	-	19,387	
US Department of Housing and Urban Development / Pass-through from WA State Department of Commerce	Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	14.228	CDBG 11-64100-028	858,341		858,341	
US Department of Justice	Bulletproof Vest Partnership Program	16.607	FY2010 Awards		999	999	
		16.607	FY2011 Awards		4,759	4,759	
		16.607	Subtotal	-	5,758	5,758	
US Department of Justice	Public Safety Partnership And Community Policing Grants	16.710	2010CKWX0226		42,490	42,490	
US Department of Justice	Edward Byrne Memorial Justice Assistance Grant	16.738	2011-DJ-BX-3263		11,038	11,038	
US Department of Justice / Pass-through from WA State Department	Edward Byrne Memorial Justice Assistance Grant	16.738	M12-34021-010	88,139		88,139	4
		16.738	M11-34021-010	71,099		71,099	4
		16.738	Subtotal	159,238	11,038	170,276	
US Department of Transportation / Pass-through from WA State Department of Transportation	Highway Planning and Construction	20.205	LA-7245 (STPUS-5289-004)	40,388		40,388	
		20.205	LA-6708 (IMD-0643-006)	87,260		87,260	
		20.205	LA-7580 (STPUS-5291-001)	171,617		171,617	
		20.205	Subtotal	299,265	-	299,265	
US Department of Transportation / Pass-through from WA State Traffic Safety Commission	State and Community Highway Safety	20.600	LPDTZ1 (Target Zero)	499		499	
US Department of Transportation / Pass-through from WA Traffic Safety Commission	Occupant Protection Incentive Grants	20.602	LPDTZ1 (Target Zero)	785		785	
National Endowment for the Arts / Pass-through from WA Arts Commission	Promotion of the Arts_ Partnership Agreements	45.025	2012098	2,000		2,000	
Environmental Protection Agency	Congressionally Mandated Projects	66.202	XP-00J33701-0	-	220,965	220,965	
US Department of Energy	ARRA - Energy Efficiency and Conservation Block Grant	81.128	DE-RW0000226		9,152	9,152	5
		81.128	DE-RW0000226		54,816	54,816	4, 5
		81.128	Subtotal	-	63,968	63,968	
Executive Office of the President	High Intensity Drug Trafficking Areas Program	95.001	G11NW0005A		34,088	34,088	4
		95.001	G12NW0005A		6,462	6,462	4
Executive Office of the President / Pass-through from WA State Patrol	High Intensity Drug Trafficking Areas Program	95.001	C120601FED	10,935		10,935	4
		95.001	Subtotal	10,935	40,550	51,485	
Department of Homeland Security / Pass-through from WA Military Department	Disaster Grants- Public Assistance (Presidentially Declared Disasters)	97.036	D12-018 (4056-DR-WA)	128,008		128,008	
Department of Homeland Security / Pass-through from Thurston County	Homeland Security Program (SHSP)	97.067	2010-SS-TO-0084	2,628		2,628	
Total Federal Awards Expended				\$ 1,543,649	\$ 384,769	\$ 1,928,418	

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, 2012**

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 2012 was \$0. 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 \$254,604 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.

Schedule of State and Local Financial Assistance
For The Year Ended December, 31, 2012

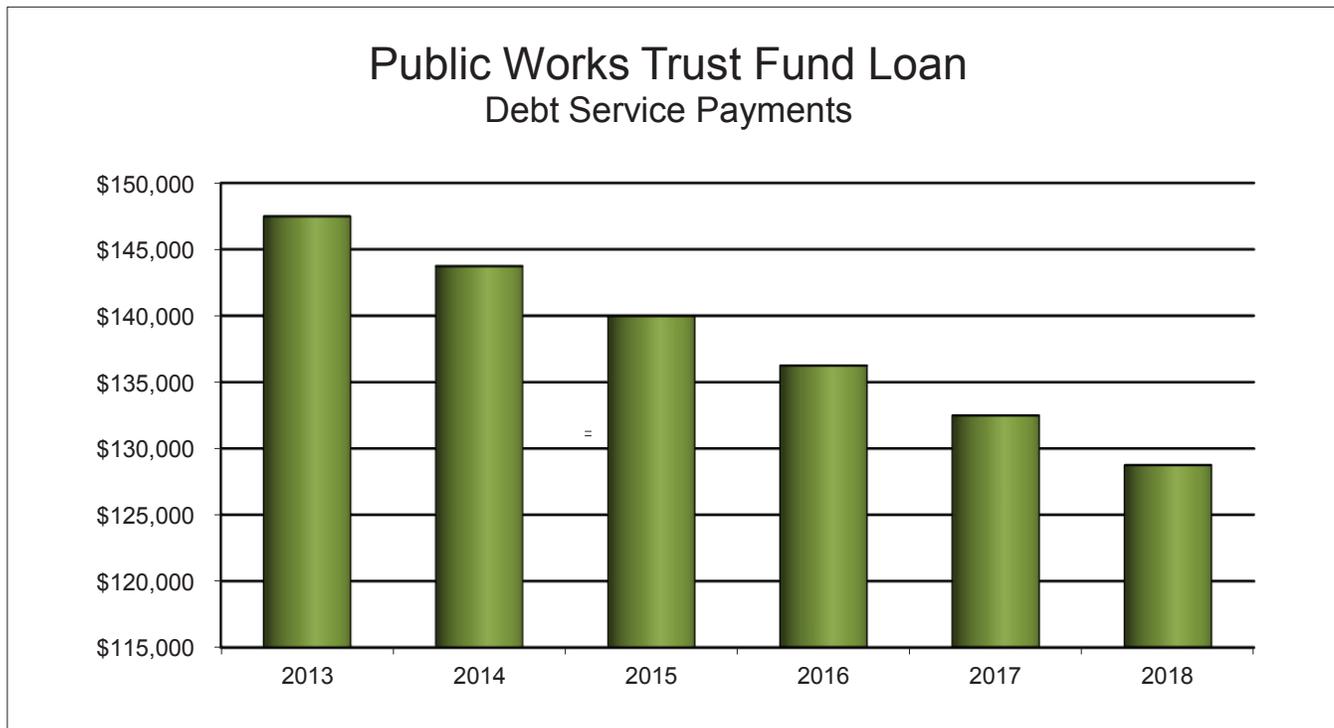
Grantor/Program Title	Identification Number	Current Year Expenditures	Note
WA State Transportation Improvement Board (TIB:)			
Carpenter Road SE - Woodland Trail to Martin Way	9W197(0008)1	\$ 1,778,900	
Yelm Highway Sidewalk Connection	9W197(P01)1	4,784	
<u>Total WA State Transportation Improvement Board (TIB)</u>		<u>1,783,684</u>	
WA State Department of Transportation			
College Street & 22nd Ave Roundabout	LA-7245 (STPUS-5289-004)	40,872	
<u>Total WA State Department of Transportation</u>		<u>40,872</u>	
WA State Department of Commerce:			
Multi-Jurisdictional Narcotics Task Force	M11-34021-010	15,857	1
Multi-Jurisdictional Narcotics Task Force	M12-34021-010	15,461	1
<u>Total WA State Department of Commerce</u>		<u>31,318</u>	
WA State Department of Ecology:			
Municipal Stormwater Capacity Program	G1100058-FY11	76,144	
<u>Total WA State Department of Ecology</u>		<u>76,144</u>	
WA State Recreation and Conservation Office:			
Lacey Woodland Trail Development	06-1797D	105,943	
Greg J. Cuoio Community Park Project	10-1690A	41,146	
<u>Total WA State Recreation and Conservation Office</u>		<u>147,089</u>	
WA State Superintendent of Public Instruction:			
Summer Food Service Program for Children - state match		1,502	
<u>Total WA State Superintendent of Public Instruction</u>		<u>1,502</u>	
WA Department of Military Emergency Management Division:			
2012 Storm Assistance Small Project	D12-018 (4058-DR-WA)	21,335	
<u>Total WA Department of Military Emergency Management Division</u>		<u>21,335</u>	
<u>TOTAL STATE ASSISTANCE</u>		<u>2,101,944</u>	
Thurston County Historic Commission:			
Digitalization and Transcription of the George H. Himes Papers	12-006 COL	4,997	
Thurston County Board of Commissioners			
Palm Creek Headwater's Acquisition Project	N/A	203,000	
<u>TOTAL LOCAL ASSISTANCE</u>		<u>207,997</u>	
<u>TOTAL STATE AND LOCAL ASSISTANCE</u>		<u>\$ 2,309,941</u>	

Note:

1. Amount passed through to subrecipients that administered their own projects.

City of Lacey
Public Works Trust Fund Loan
December 31, 2012

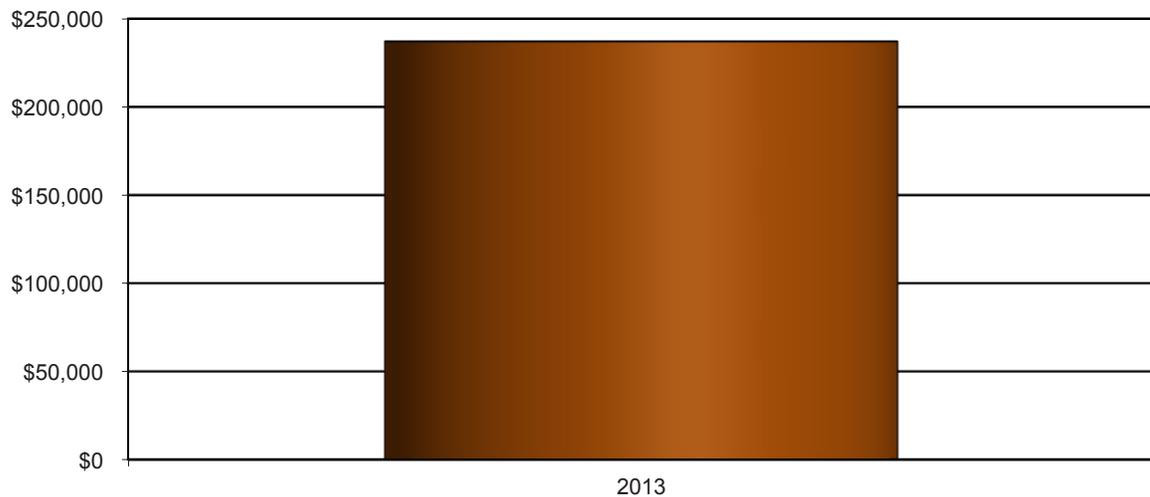
Year Ended 31-Dec	Interest Rate - %	Interest 1-Jul	Principal 1-Jul	Total Debt Service
2013	3.000%	22,498	124,987	147,485
2014	3.000%	18,748	124,987	143,735
2015	3.000%	14,998	124,987	139,986
2016	3.000%	11,249	124,987	136,236
2017	3.000%	7,499	124,987	132,486
2018	3.000%	3,750	124,987	128,737
		\$ 78,742	\$ 749,923	\$ 828,665



City of Lacey General Obligation Bond Debt
 2003 Unlimited Tax General Obligation Bonds
 December 31, 2012

<u>Year Ended</u> <u>31-Dec</u>	<u>Interest</u> <u>Rate - %</u>	<u>Interest</u> <u>Due - 01 Jun</u>	<u>Interest</u> <u>Due - 01 Dec</u>	<u>Principal</u> <u>Due - 01 Dec</u>	<u>Total Debt</u> <u>Service</u>
2013	3.100%	3,565	3,565	230,000	237,130
		\$ <u>3,565</u>	\$ <u>3,565</u>	\$ <u>230,000</u>	\$ <u>237,130</u>

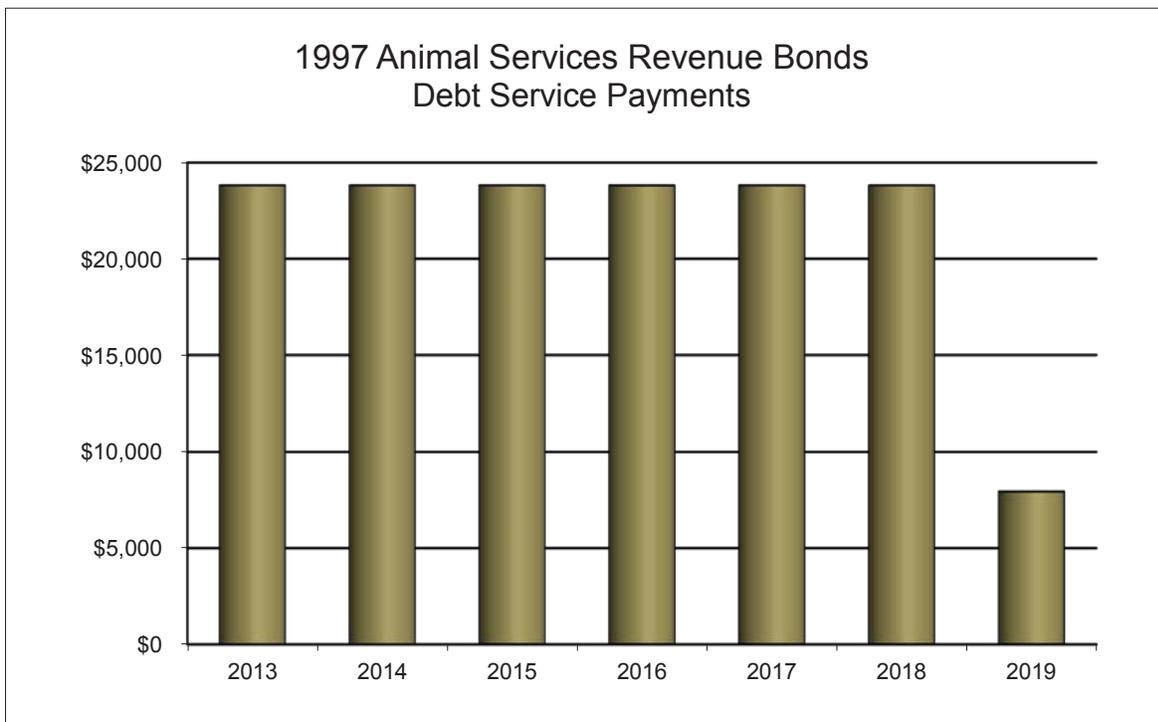
2003 Unlimited Tax General Obligation Bonds
 Debt Service Payments



City of Lacey
 1997 Animal Services Revenue Bonds
 December 31, 2012

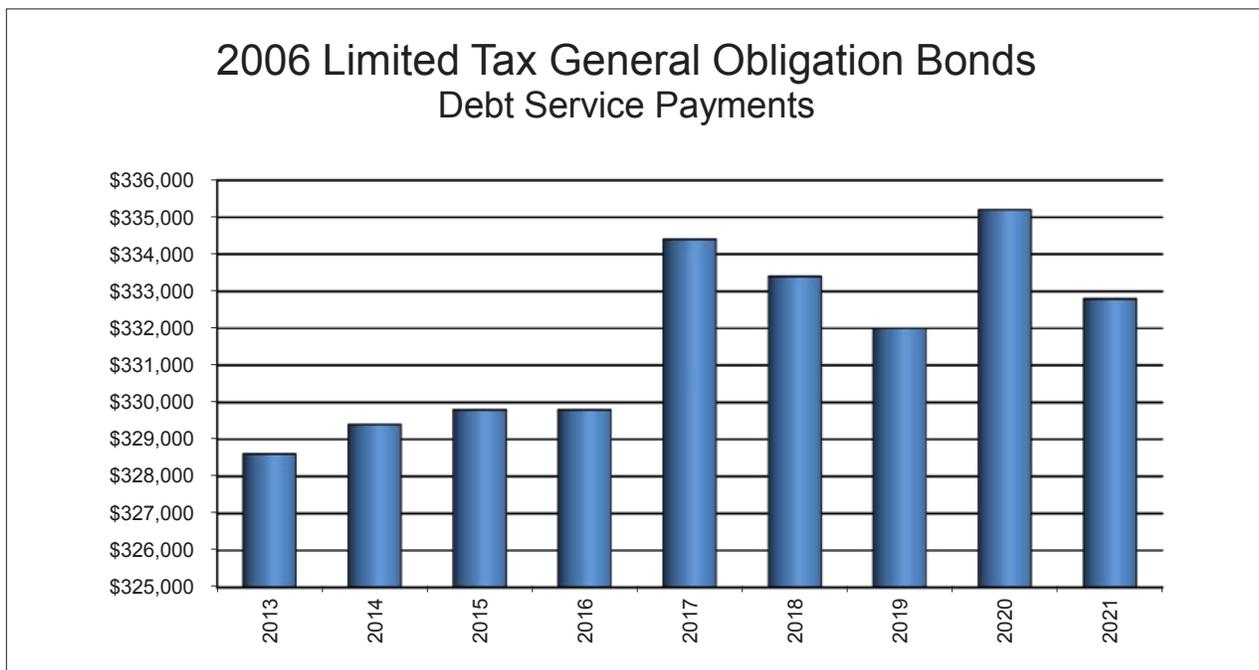
<u>Year Ended 31-Dec</u>	<u>Interest Rate - %</u>	<u>Interest Annual*</u>	<u>Principal Annual*</u>	<u>Total Debt Service</u>
2013	3.978%	5,422	18,399	23,821
2014	3.978%	4,594	19,227	23,821
2015	3.978%	3,730	20,091	23,821
2016	3.978%	2,835	20,985	23,820
2017	3.978%	1,883	21,938	23,821
2018	3.978%	897	22,924	23,821
2019	3.978%	73	7,868	7,941
		\$ <u>19,434</u>	\$ <u>131,432</u>	\$ <u>150,866</u>

*Actual payments made are equal monthly installments.



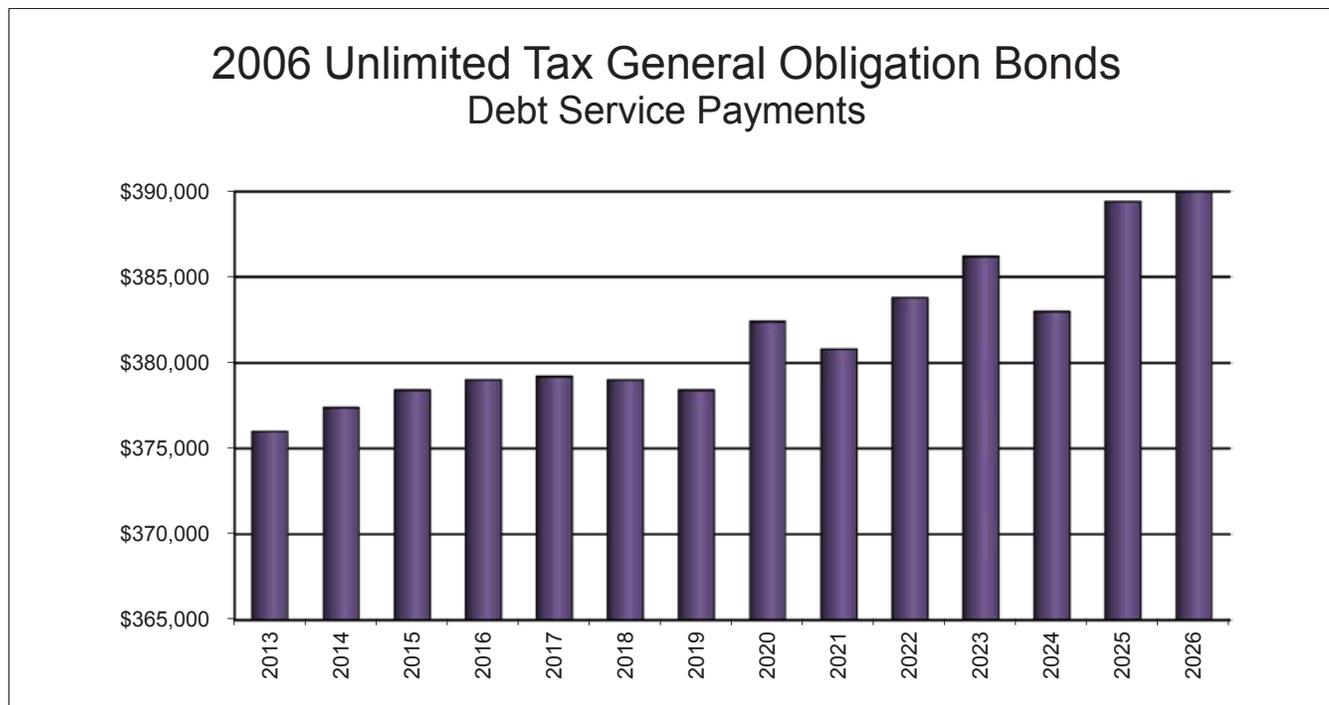
City of Lacey General Obligation Bond Debt
 2006 Limited Tax General Obligation Bonds
 December 31, 2012

<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>
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>\$ 260,200</u>	<u>\$ 260,200</u>	<u>\$ 2,465,000</u>	<u>\$ 2,985,400</u>



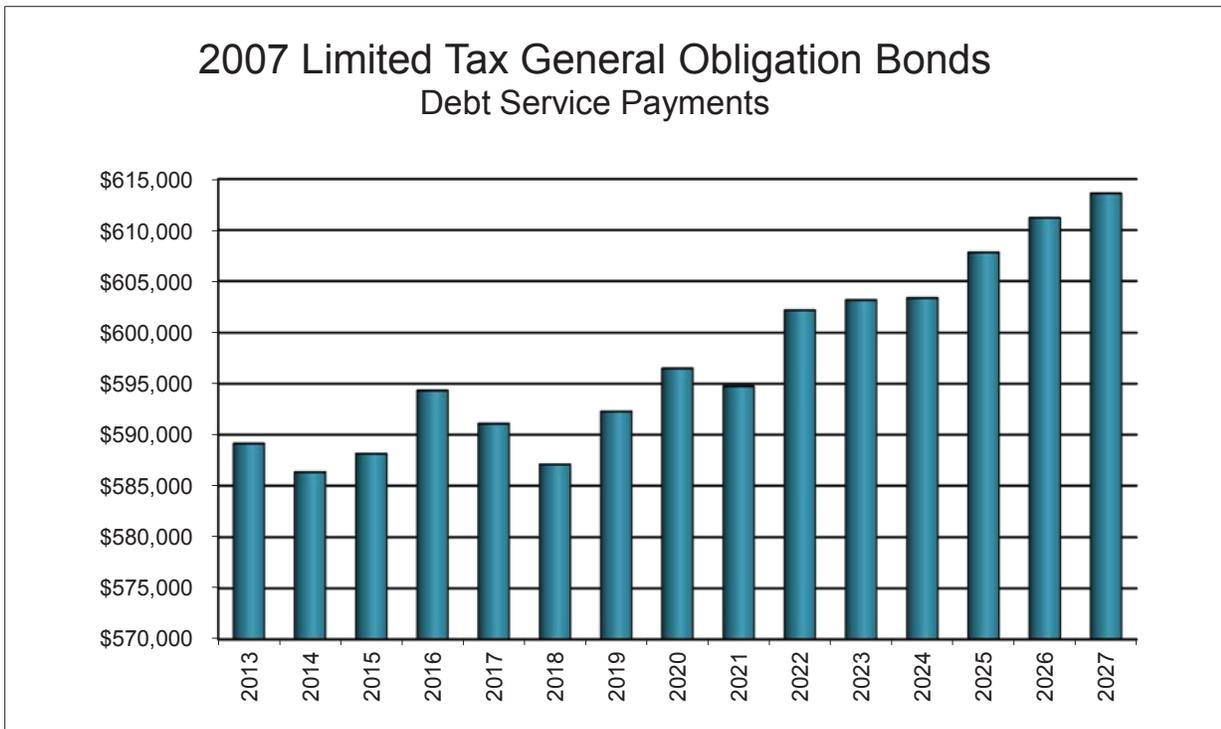
City of Lacey General Obligation Bond Debt
 2006 Unlimited Tax General Obligation Bonds
 December 31, 2012

Year Ended 31-Dec	Interest Rate - %	Interest Due - 01 Jun	Interest Due - 01 Dec	Principal Due - 01 Dec	Total Debt Service
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
		\$ 659,000	\$ 659,000	\$ 4,025,000	\$ 5,343,000



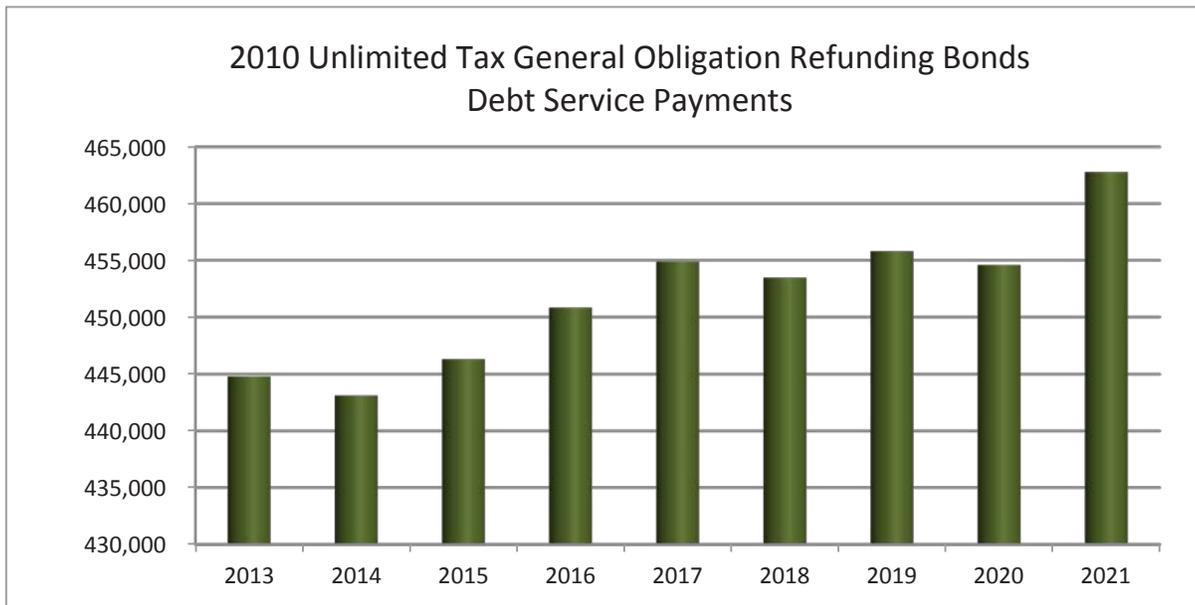
City of Lacey General Obligation Bond Debt
 2007 Limited Tax General Obligation Bonds
 December 31, 2012

<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>
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>\$ 1,172,998</u>	<u>\$ 1,172,998</u>	<u>\$ 6,615,000</u>	<u>\$ 8,960,996</u>



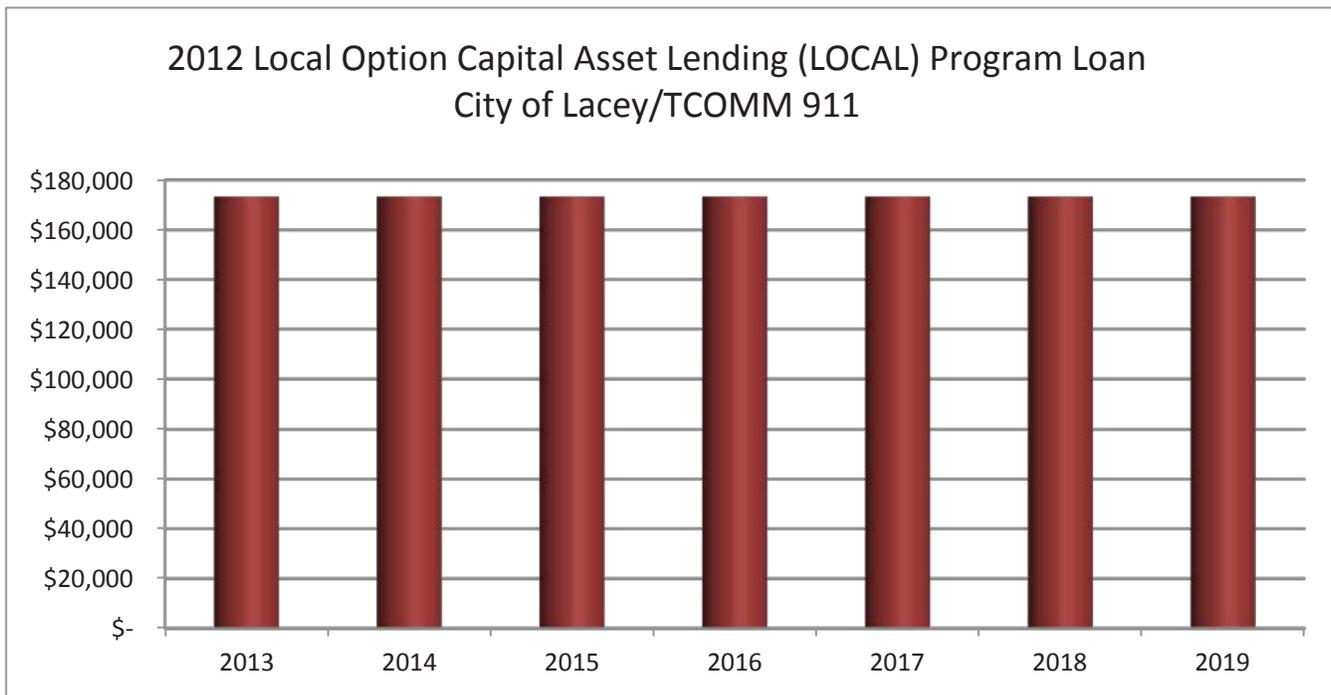
City of Lacey General Obligation Bond Debt
 2010 Unlimited Tax General Obligation Refunding Bonds
 December 31, 2012

Year Ended 31-Dec	Interest Rate - %	Interest Due - 01 Jun	Interest Due - 01 Dec	Principal Due - 01 Dec	Total Debt Service
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
		\$ 318,325	\$ 318,325	\$ 3,430,000	\$ 4,066,650



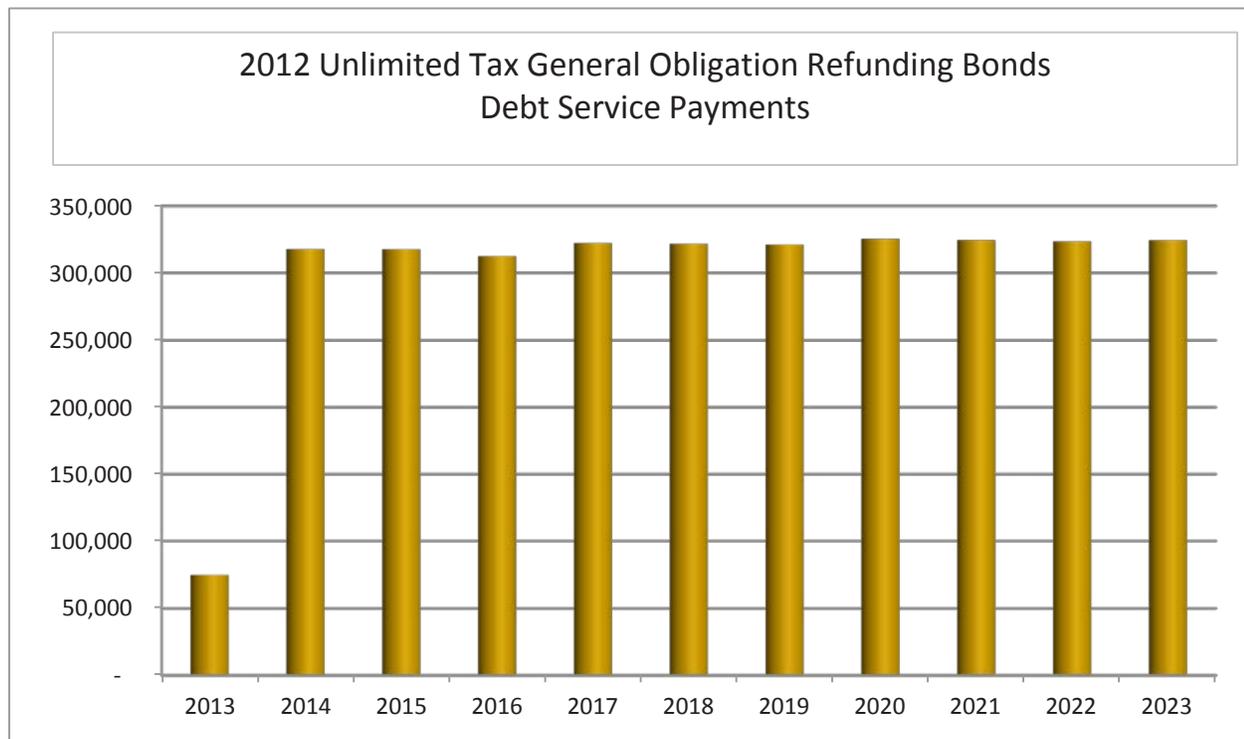
City of Lacey/TCOMM 911
 2012 Local Option Capital Asset Lending (LOCAL) Program Loan
 December 31, 2012

Year Ended 31-Dec	Interest Rate - %	Principal Due - 01 Jun	Interest Due - 01 Jun	Due - 01 Dec	Total Debt Service
2013	1.542%	150,719	12,074	10,567	173,360
2014	1.542%	153,764	10,567	9,030	173,360
2015	1.542%	156,870	9,030	7,461	173,360
2016	1.542%	160,039	7,461	5,860	173,360
2017	1.542%	163,272	5,860	4,228	173,360
2018	1.542%	166,571	4,228	2,562	173,360
2019	1.542%	170,798	2,562	-	173,360
		\$ 1,122,033	\$ 51,782	\$ 39,708	\$ 1,213,523



City of Lacey General Obligation Bond Debt
 2012 Unlimited Tax General Obligation Refunding Bonds
 December 31, 2012

Year Ended 31-Dec	Interest Rate - %	Interest Due - 01 Jun	Interest Due - 01 Dec	Principal Due - 01 Dec	Total Debt Service
2013	1.000%	28,395	31,550	15,000	74,945
2014	1.000%	31,400	31,400	255,000	317,800
2015	1.000%	28,850	28,850	260,000	317,700
2016	1.000%	26,250	26,250	260,000	312,500
2017	1.500%	23,650	23,650	275,000	322,300
2018	1.500%	20,900	20,900	280,000	321,800
2019	2.000%	18,100	18,100	285,000	321,200
2020	3.000%	15,250	15,250	295,000	325,500
2021	3.000%	12,300	12,300	300,000	324,600
2022	3.000%	9,300	9,300	305,000	323,600
2023	3.000%	4,725	4,725	315,000	324,450
		\$ 219,120	\$ 222,275	\$ 2,845,000	\$ 3,286,395





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 two most significant local revenue sources, the sales/retail tax and property tax.	8-7
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.	8-13
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.	8-18
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.	8-20

Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year.

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Statistical Section

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

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Governmental activities										
Net investment in capital assets	\$ 40,590	\$ 184,942	\$ 219,565	\$ 254,410	\$ 269,717	\$ 281,557	\$ 287,705	\$ 302,167	\$ 304,458	\$ 304,245
Restricted	513	1,169	1,289	10,136	16,780	2,430	1,261	995	7,909	1,182
Unrestricted	43,980	41,755	44,417	47,198	50,043 *	64,706 *	68,455	63,256	53,522	61,630
Total governmental activities net position	\$ 85,083	\$ 227,866	\$ 265,271	\$ 311,743	\$ 336,540 *	\$ 348,693 *	\$ 357,421	\$ 366,418	\$ 365,889	\$ 367,057
Business-type activities										
Net investment in capital assets	\$ 93,221	\$ 107,181	\$ 133,961	\$ 155,634	\$ 182,646	\$ 215,424	\$ 218,450	\$ 221,544	224,593	230,039
Restricted	-	1,049	1,049	413	-	-	-	-	-	-
Unrestricted	17,565	15,813	18,481	24,625	22,336	14,983	16,861	18,139	22,355	25,189
Total business-type activities net position	\$ 110,786	\$ 124,043	\$ 153,491	\$ 180,672	\$ 204,982	\$ 230,407	\$ 235,311	\$ 239,683	\$ 246,948	\$ 255,228
Primary government										
Net investment in capital assets	\$ 133,811	\$ 292,123	\$ 353,526	\$ 410,044	\$ 452,363	\$ 496,981	\$ 506,155	\$ 523,711	\$ 529,051	\$ 534,284
Restricted	513	2,218	2,337	10,549	16,780	2,430	1,261	995	7,909	1,182
Unrestricted	61,545	57,568	62,899	71,823	72,379	79,689	85,316	81,395	75,877	86,819
Total primary government net position	\$ 195,869	\$ 351,909	\$ 418,762	\$ 492,416	\$ 541,522	\$ 579,100	\$ 592,732	\$ 606,101	\$ 612,837	\$ 622,285

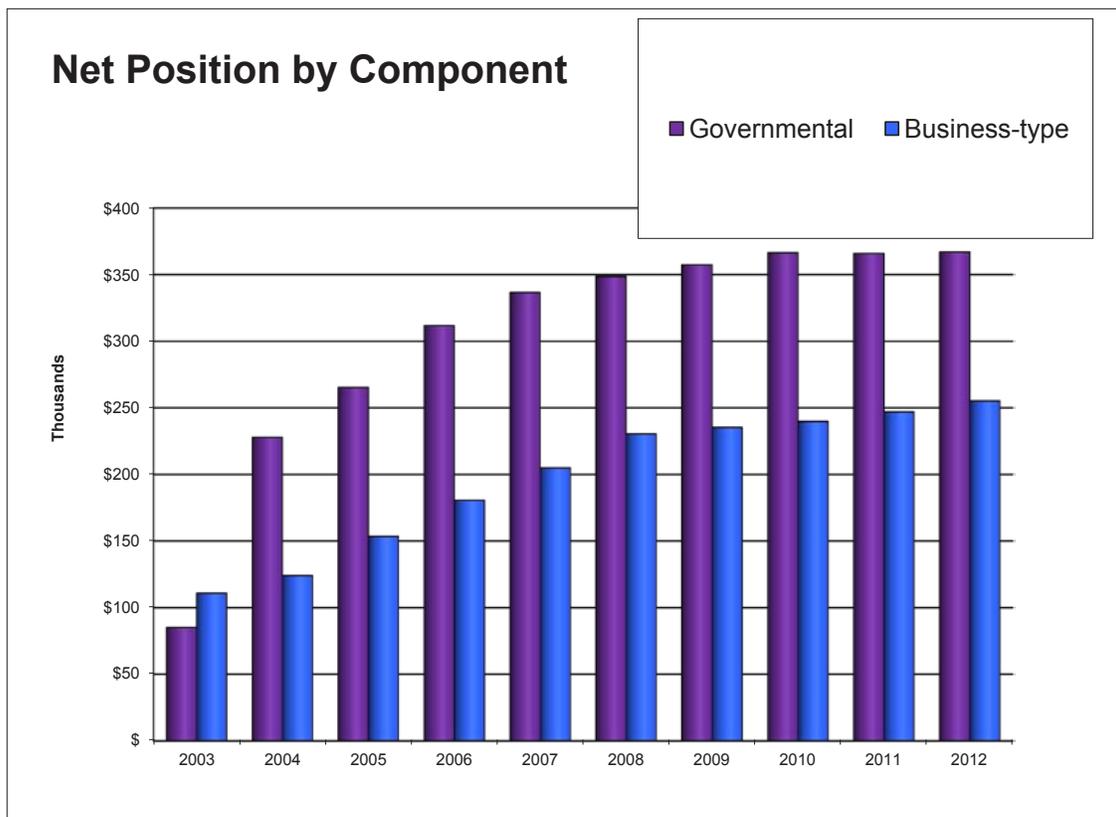


Table 2
Changes in Net Position
Last Ten Fiscal Years
(accrual basis of accounting)
(amounts expressed in thousands)

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Expenses										
Governmental activities:										
General government	\$ 3,666	\$ 3,730	\$ 4,174	\$ 4,849	\$ 5,459	\$ 5,745	\$ 5,550	\$ 5,210	\$ 6,056	\$ 5,920
Security of persons and property	9,157	12,043	10,487	11,914	12,337	13,348	14,088	15,284	10,599	10,879
Physical environment	2,259	2,380	2,805	2,827	3,139	3,526	3,656	3,605	3,566	3,625
Transportation	3,705	7,967	8,865	10,116	11,086 *	13,821	10,748	12,402	13,048	12,726
Economic development	963	1,015	1,076	1,138	1,271	1,260	1,173	1,492	1,287	1,211
Mental and physical health	6	7	8	5	10	8	11	8	10	11
Culture and recreation	3,054	3,266	3,570	4,819	4,429	5,757	6,519	7,388	7,033	7,640
Interest on long-term debt	958	925	829	722	924	1,122	1,023	977	875	811
Total governmental activities	23,768	31,333	31,814	36,390	38,655 *	44,587	42,768	46,366	42,474	42,823
Business-type activities:										
Water	5,364	6,399	6,500	7,493	8,468	9,843	9,784	10,030	10,088	10,540
Wastewater	7,154	7,445	7,862	8,802	9,513	10,507	11,114	11,821	12,750	13,397
Stormwater	1,850	1,442	1,507	1,959	2,343	2,825	3,220	3,166	3,330	3,334
Reclaimed Water	-	-	-	-	332	67	-	-	-	49
Total business-type activities	14,368	15,286	15,869	18,254	20,656	23,242	24,118	25,017	26,168	27,320
Total primary government expenses	\$ 38,136	\$ 46,619	\$ 47,683	\$ 54,644	\$ 59,311	\$ 67,829	\$ 66,886	\$ 71,383	\$ 68,642	\$ 70,143
Program Revenues										
Governmental activities:										
Charges for services:										
General government	\$ 264	\$ 365	\$ 406	\$ 476	\$ 812	\$ 1,235	\$ 1,005	\$ 561	\$ 853	\$ 867
Security of persons and property	370	283	316	190	337	849	1,385	1,624	1,210	879
Physical environment	18	15	22	23	2,285	2,677	2,858	2,827	2,537	2,550
Transportation	528	954	1,492	1,328	1,097	1,065	1,467	2,319	1,015	1,082
Economic development	1,158	1,518	3,196	3,811	3,328	1,863	1,084	1,117	1,577	1,450
Culture and recreation	723	760	880	923	988	1,065	1,303	1,451	1,500	1,554
Operating grants and contributions	1,487	1,952	1,731	3,785	1,478	1,464	2,006	3,221	2,947	3,011
Capital grants and contributions	5,061	11,532	32,405	38,117	19,499	13,470	9,780	7,920	8,464	6,933
Total governmental activities program revenues	9,609	17,379	40,448	48,653	29,824	23,688	20,888	21,040	20,103	18,326
Business-type activities:										
Charges for services:										
Water	6,337	6,782	7,649	10,734	10,556	10,632	11,320	10,436	11,535	12,140
Wastewater	7,469	8,248	9,357	11,499	10,651	11,112	11,161	11,873	12,817	13,216
Stormwater	1,270	1,380	1,421	1,533	1,685	1,826	1,929	1,992	2,103	2,091
Operating grants and contributions	-	-	-	-	51	-	-	9	32	48
Capital grants and contributions	3,648	11,999	26,212	20,314	18,675	23,931	4,219	4,994	3,684	8,000
Total business-type activities program revenue	18,724	28,409	44,639	44,081	41,618	47,501	28,629	29,304	30,171	35,495
Total primary government program revenues	\$ 28,333	\$ 45,788	\$ 85,087	\$ 92,733	\$ 71,442	\$ 71,189	\$ 49,517	\$ 50,344	\$ 50,274	\$ 53,821
Net (expenses)/revenue:										
Governmental activities	\$ (14,159)	\$ (13,954)	\$ 8,634	\$ 12,262	\$ (8,831) *	\$ (20,899)	\$ (21,880)	\$ (25,326)	\$ (22,371)	\$ (24,497)
Business-type activities	4,356	13,123	28,770	25,828	20,962	24,259	4,511	4,287	4,004	\$ 8,175
Total primary government net (expense) revenue	\$ (9,803)	\$ (831)	\$ 37,404	\$ 38,090	\$ 12,131	\$ 3,360	\$ (17,369)	\$ (21,039)	\$ (18,367)	\$ (16,322)
General Revenues and Other Changes in Net Position										
Governmental activities:										
Taxes										
Property taxes	6,428	6,372	6,910	7,393	8,524	9,594	10,096	10,447	5,929	6,313
Timber taxes	-	-	-	-	-	-	-	-	-	-
Retail taxes	5,843	6,610	8,031	8,812	10,506	10,230	9,111	9,064	8,930	9,139
Business taxes	4,412	5,015	5,331	6,580	7,400	7,748	7,827	7,642	7,823	7,851
Excise taxes	1,941	2,674	3,211	3,448	3,300	2,390	1,610	1,298	1,383	1,548
Penalties and interest	5	10	6	8	7	2	-	-	-	-
Investment earnings	1,300	1,189	1,463	2,463	3,579	2,164	711	374	414	760
Miscellaneous	5,096	3,841	5,827	5,110	1,648	1,022	1,226	871	203	269
Special items	-	-	-	-	-	-	-	4,703	-	-
Transfers	45	402	225	396	(1,336)	(98)	27	(77)	(3,775)	(18)
Total governmental activities	25,070	26,113	31,003	34,210	33,628	33,052	30,608	34,322	20,907	25,862
Business-type activities:										
Investment earnings	319	318	559	1,094	1,238	684	199	74	79	87
Miscellaneous	536	264	343	656	774	384	221	(66)	190	-
Transfers	(45)	(402)	(225)	(396)	1,336	98	(27)	77	3,775	18
Total business-type activities	810	180	677	1,354	3,348	1,166	393	85	4,044	105
Total primary government	\$ 25,880	\$ 26,293	\$ 31,681	\$ 35,564	\$ 36,976	\$ 34,218	\$ 31,001	\$ 34,407	\$ 24,951	\$ 25,967
Change in net position										
Governmental activities	\$ 10,910	\$ 12,159	\$ 39,638	\$ 46,472	\$ 24,797	\$ 12,153	\$ 8,728	\$ 8,996	\$ (1,464)	\$ 1,365
Business-type activities	5,166	13,303	29,447	27,181	24,310	25,425	4,904	4,372	8,048	8,280
Total primary government	\$ 16,076	\$ 25,461	\$ 69,085	\$ 73,653	\$ 49,107	\$ 37,578	\$ 13,632	\$ 13,368	\$ 6,584	\$ 9,645

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

	Fiscal Year									
	2003	2004	2005	2006 ¹	2007 ²	2008	2009	2010	2011 ³	2012 ⁴
General fund										
Nonspendable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5	\$ 6
Restricted	186	184	302	129	137	129	133	11	6,113	134
Committed	-	-	-	-	-	-	-	-	4,770	4,770
Assigned	-	-	-	-	-	-	-	-	614	6,113
Unassigned	11,101	12,987	14,553	18,324	21,863	22,706	25,195	27,066	10,196	12,245
Total general fund	11,287	13,171	14,855	18,453	22,000	22,835	25,328	27,077	21,698	23,268
All other governmental funds										
Restricted	-	-	1,101	1,214	1,352	2,301	1,128	995	1,791	2,202
Committed	-	-	-	-	-	-	-	-	12,151	9,579
Assigned:										
Special revenue funds	3,354	5,108	5,984	9,961	7,703	11,651	14,183	16,274	10,753	13,652
Debt service funds	1,835	1,099	1,648	1,061	585	522	465	478	261	758
Capital projects funds	11,591	7,426	6,664	18,272	26,931	10,462	8,723	11,250	3,438	4,681
Total assigned	16,780	13,633	14,296	29,294	35,219	22,635	23,371	28,002	14,452	19,091
Unassigned-debt service funds	-	-	-	-	-	-	-	-	-	195
Total all other governmental funds	16,780	13,633	15,397	30,508	36,571	24,936	24,499	28,997	28,394	31,067
Total governmental funds	\$28,067	\$26,804	\$30,252	\$48,961	\$58,571	\$47,771	\$49,827	\$56,074	\$50,092	\$54,335

Note:

- ¹ 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.
- ² 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.
- ³ 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.
- ⁴ Designation of \$6,000,000 for Gateway civic center & property acquisition was reclassified from restricted to assigned in 2012.

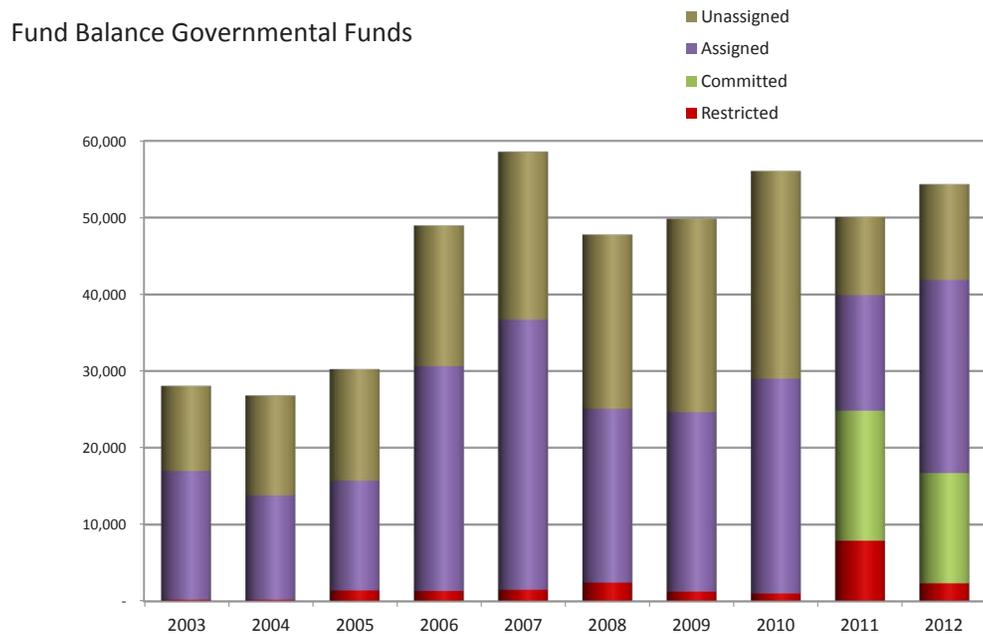


Table 4
Changes in Fund Balances of Governmental Funds
Last Ten Fiscal Years
(modified accrual basis of accounting)
(amounts expressed in thousands)

Fiscal Year	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Revenues										
Taxes	\$ 18,816	\$ 21,127	\$ 23,498	\$ 26,225	\$ 29,718	\$ 29,838	\$ 28,531	\$ 28,404	\$ 24,100	\$ 25,104
Licenses and permits	961	1,245	2,589	3,229	2,849	1,743	1,386	1,431	1,599	1,701
Intergovernmental revenues	4,371	2,822	3,812	6,234	4,138	10,947	8,342	6,181	7,072	7,764
Charges for services	5,047	5,029	6,307	6,627	6,978	7,145	7,564	8,530	7,803	7,428
Fines & forfeitures	537	454	294	334	444	492 *	930	747	728	666
Other revenue	3,113	2,137	3,375	3,396	4,410	3,096	1,185	1,899	1,268	2,163
Total revenues	32,845	32,814	39,875	46,045	48,537	53,261	47,938	47,192	42,571	44,826
Expenditures										
General government	3,321	3,483	3,660	3,877	4,216	4,540	5,235	5,110	5,436	5,393
Securities of persons and property	9,162	9,332	10,153	10,875	12,295	13,342	13,893	14,964	10,419	10,689
Physical environment	2,312	2,421	2,829	2,875	3,169	3,560	3,668	3,620	3,757	3,784
Transportation	1,574	1,503	1,678	2,020	2,281	2,397	2,350	2,579	2,646	2,711
Economic environment	840	904	993	1,011	1,196	1,187	1,083	1,406	1,207	1,131
Mental and physical health	6	7	8	6	10	9	11	8	10	11
Culture and recreation	2,786	3,069	3,389	4,387	4,157	4,561	5,824	5,584	5,924	6,179
Capital outlay	13,247	9,801	9,483	8,180	14,951	30,641	11,257	6,292	11,851	8,723
Debt service										
Principal	2,186	2,481	3,371	2,006	2,216	2,121	1,571	1,624	1,952	2,182
Interest	988	985	869	705	933	1,152	1,074	1,013	896	850
Debt issue costs	-	-	-	-	135	-	-	51	47	59
Total expenditures	36,422	33,986	36,433	35,942	45,559	63,510	45,966	42,251	44,146	41,712
Excess of revenue over (under) expenditures	(3,577)	(1,172)	3,442	10,103	2,978	(10,249)	1,972	4,941	(1,575)	3,114
Other financing sources (uses)										
Transfers in	1,418	2,716	3,655	2,393	3,624	16,516	2,110	2,160	11,471	2,624
Transfers out	(1,418)	(2,381)	(3,655)	(2,393)	(5,124)	(17,066)	(2,110)	(2,260)	(15,467)	(2,724)
Capital leases	-	-	-	-	-	-	27	35	36	13
Debt issued	5,000	-	-	8,485	8,000	-	-	3,790	-	3,967
Premium on bonds issued	2	-	-	120	128	-	-	104	-	233
Payments to refunded bond escrow agent	-	-	-	-	-	-	-	(3,843)	-	(2,984)
Proceeds from sale of capital assets	69	5	9	2	4	-	57	-	-	-
Total other financing sources (uses)	5,071	340	9	8,607	6,632	(550)	84	(14)	(3,960)	1,129
Special item:										
Payment from County for RAC settlement	-	-	-	-	-	-	-	1,321	-	-
Net change in fund balances	\$ 1,494	\$ (832)	\$ 3,451	\$ 18,710	\$ 9,610	\$ (10,799)	\$ 2,056	\$ 6,248	\$ (5,535)	\$ 4,243
Debt services as a percentage of noncapital expenditures	12.8%	12.6%	15.2%	9.1%	9.9%	6.6%	7.6%	7.1%	8.2%	9.0%

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

Fiscal Year	Property Tax	Timber Tax	Sales Tax	Business Tax	Excise Tax	Penalties & Interest	Total
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 ¹	5,929	-	8,930	7,823	1,383	-	24,065
2012	6,313	-	9,139	7,851	1,548	-	24,851

¹ Decreased tax from previous year is due to the voter approved annexation to a fire district.

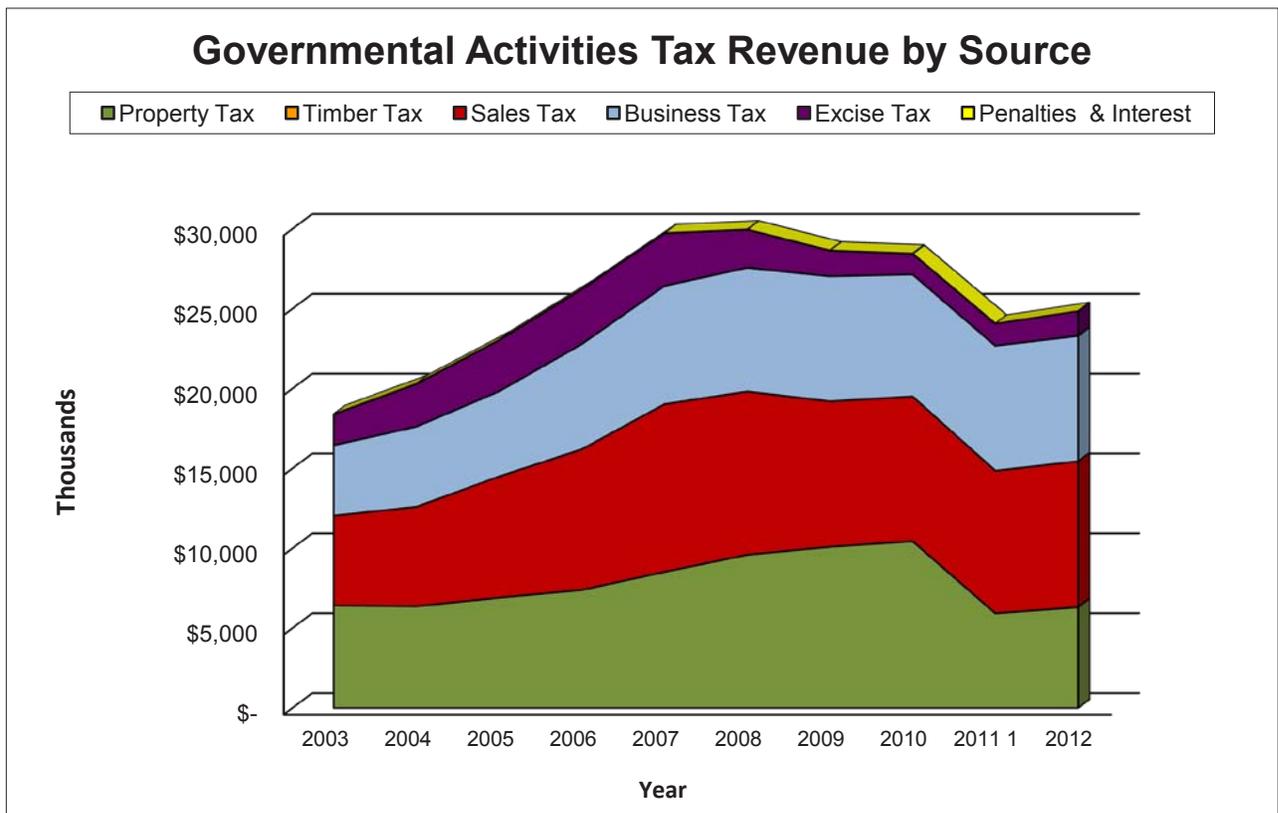


Table 6
Sales Tax Revenues by Type, Governmental Funds
Last Ten Fiscal Years
(modified accrual basis of accounting)
(amounts expressed in thousands except for per capita*)

	Fiscal Year Ended December 31									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
General Merchandise Stores	\$1,251	\$1,232	\$1,351	\$1,760	\$1,977	\$1,883	\$1,911	\$1,952	\$1,810	\$1,815
Food Services, Drinking Places	414	450	520	612	654	697	734	748	762	795
Sporting Goods, Hobby, Books	84	102	110	169	326	630	706	690	673	633
Construction of Buildings	368	568	1,070	919	1,331	1,182	628	330	367	509
Building Material and Garden	64	76	117	316	394	461	437	458	446	473
Specialty Trade Contractors	193	270	394	722	815	514	368	348	359	407
Miscellaneous Store Retailers	118	225	249	320	341	360	350	375	381	363
Motor Vehicle and Parts Dealer	412	337	438	431	470	434	372	351	297	337
Food and Beverage Stores	212	209	202	246	283	294	290	328	249	280
Wholesale Trade, Durable Goods	141	154	219	272	424	312	219	264	212	245
Telecommunications	143	151	220	186	234	257	254	242	248	244
Electronics and Appliances	53	79	98	182	255	264	296	285	274	240
Repair and Maintenance	122	122	135	149	167	169	181	190	183	188
Administrative and Support Svc	56	97	89	124	159	154	149	162	163	176
Clothing and Accessories	35	38	41	45	120	162	162	172	170	170
Professional, Scientific, Tech	52	37	40	45	60	57	63	70	108	135
Furniture and Home Furnishings	99	109	117	195	237	180	134	137	140	131
Amusement, Gambling & Recreation	187	88	87	119	83	119	118	121	126	123
Nonstore Retailers	49	65	100	112	137	165	110	113	110	113
Rental and Leasing Services	77	127	111	118	145	141	122	99	95	86
Subtotal for top 20	4,130	4,536	5,708	7,042	8,612	8,435	7,604	7,435	7,173	7,463
Other (remaining)	825	1,009	1,126	975	1,007	858	618	730	782	666
Total Sales Tax	\$ 4,955	\$ 5,545	\$ 6,834	\$ 8,017	\$ 9,619	\$ 9,293	\$ 8,222	\$ 8,165	\$ 7,955	\$ 8,129
Local Tax Rate	0.85%	0.85%	0.85%	0.85%	0.85%	0.85%	0.85%	0.85%	0.85%	0.85%
Population	32,240	32,530	33,180	34,060	35,870	38,040	39,250	42,393	42,830	43,600
Per Capita (*expressed in dollar)										
Per Capita Top 20	\$ 128	\$ 139	\$ 172	\$ 207	\$ 240	\$ 222	\$ 194	\$ 175	\$ 167	\$ 171
Per Capita All Sales Tax	\$ 154	\$ 170	\$ 206	\$ 235	\$ 268	\$ 244	\$ 209	\$ 193	\$ 186	\$ 186

Note: The total sales tax amounts reported in this table do not equal to the sales tax amounts reported in the financial section. The amounts for criminal justice and hotel/motel taxes are excluded from this table but are included in the financial section.

Table 7
 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
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%
2012	4,151,701	171,080	4,322,781	1.47	4,787,210	90.30%

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.

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

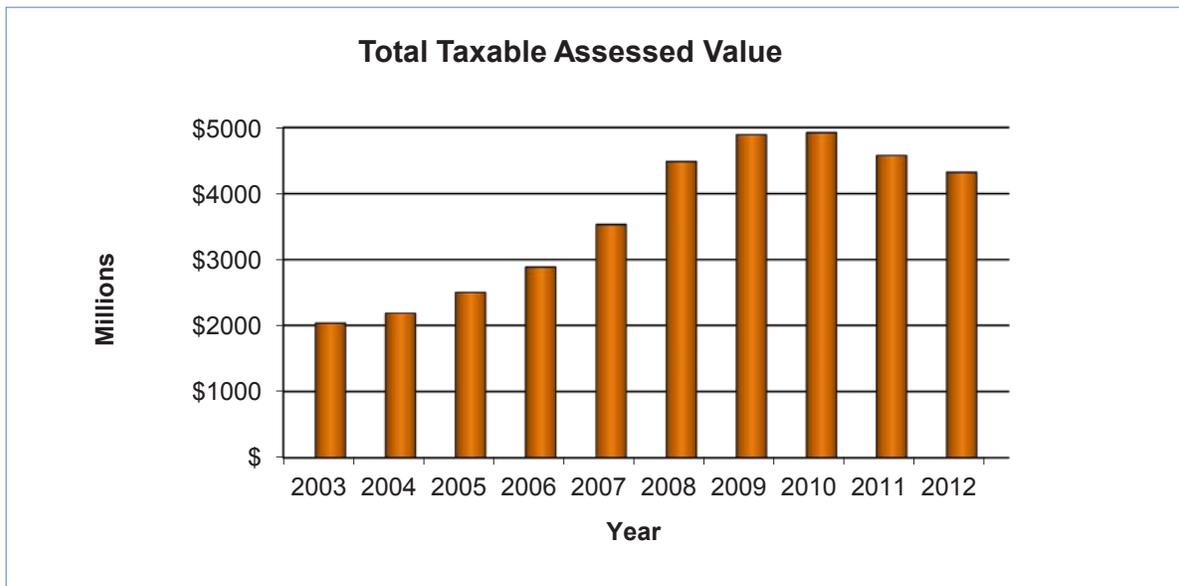


Table 8
Property Tax Rates
Direct and Overlapping Governments
Last Ten Fiscal Years

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		
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 ²	1.09	0.25	1.34	2.26	1.26	0.33	0.01	0.36	4.12	1.18	0.17	11.03	
2012	1.20	0.27	1.47	2.45	1.32	0.37	0.01	0.38	4.57	1.32	0.18	12.07	

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.

² Decreased tax rates from previous year is due to the voter approved annexation to a fire district.

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.

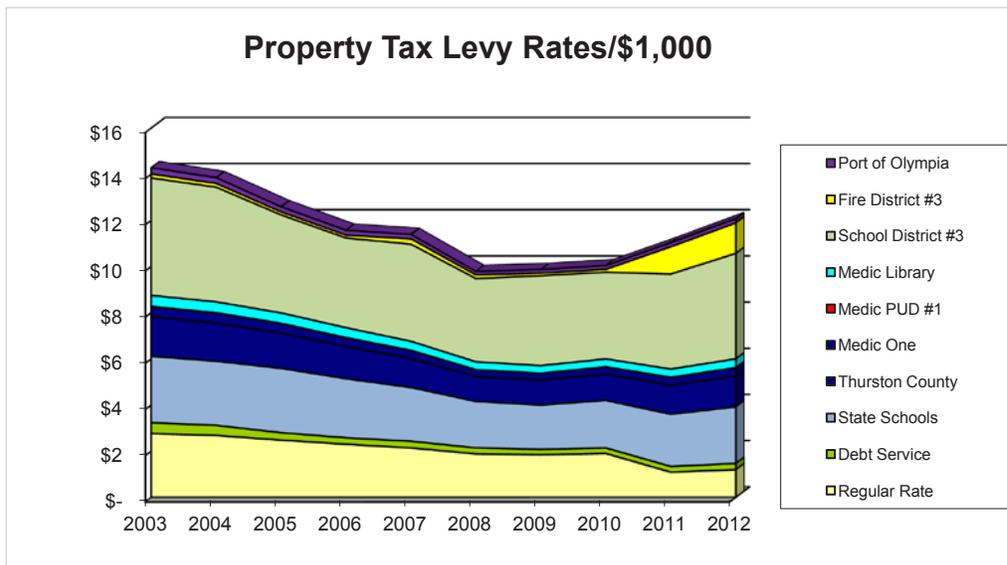


Table 9
Principal Property Taxpayers
Current Year and Nine Years Ago
December 31, 2012
(amounts expressed in thousands)

Taxpayer	Type of Business	2012		Percentage of Total Taxable Assessed Value	2003		Percentage of Total Taxable Assessed Value
		Taxable Assessed Value	Rank		Taxable Assessed Value	Rank	
Target Corporation	Retail/Warehouse	94,041	1	2.19%	68,171	1	3.34%
Panorama City Inc	Retirement Community	62,546	2	1.45%	41,464	2	2.03%
WIG Properties LLC	Real Estate Development	43,338	3	1.00%			
Capital Development Company	Real Estate Development	33,756	4	0.78%	20,418	5	1.00%
Home Depot USA Inc	Retail/Warehouse	32,633	5	0.75%	37,598	3	1.84%
Cabela's Wholesale INC	Wholesale/retail	26,448	6	0.61%			
FR/CAL Meridian LLC	Real Estate Development	25,692	7	0.59%			
MWSH South Lacey LLC	Real Estate Development	23,881	8	0.55%			
VCG-Lacey LLC	Leasing/Land Development	23,104	9	0.53%			
Lacey Market Square I and II LLC	Leasing/Land Development	22,901	10	0.53%	18,310	6	0.90%
Illuminet Inc	Utility				27,015	4	1.32%
U.S. West Communications	Utility	-			16,763	7	0.82%
Wal-Mart Stores Inc	Retail	-			14,494	8	0.71%
Lacey Center Partners	Leasing/Land Development	-			14,147	9	0.69%
Fisgard Asseet Management Corp	Leasing/Land Development	-			13,608	10	0.67%
Totals		388,340		8.98%	271,988		13.33%
Balance of Taxpayers		3,934,441		91.02%	1,767,977		86.67%
Total Assessed Values		\$ 4,322,781		100.00%	2,039,966		100.00%

Source: Thurston County Assessor

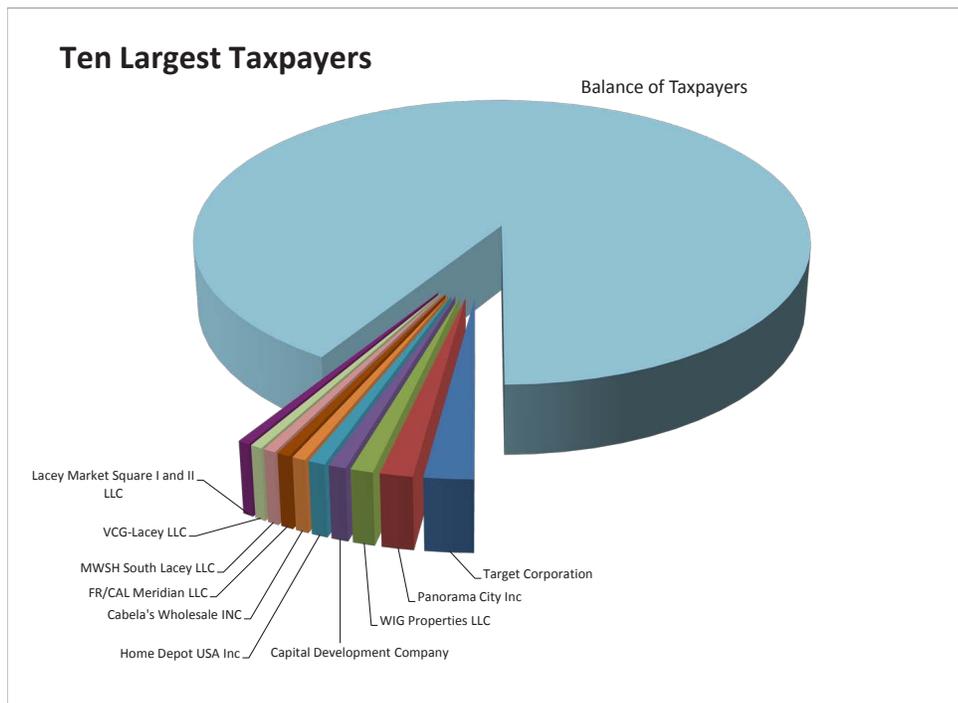


Table 10
Property Tax Levies and Collections
Last Ten Fiscal Years
(amounts expressed in thousands)

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
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%	201	8,535	99.74%
2008	8,438	1,177	9,615	9,357	97.31%	217	9,574	99.57%
2009	9,002	1,181	10,183	9,802	96.26%	274	10,076	98.95%
2010	9,343	1,178	10,521	10,180	96.76%	141	10,321	98.10%
2011 ³	4,972	1,147	6,123	5,960	97.34%	57	6,017	98.27%
2012	5,179	1,168	6,348	6,226	98.08%	-	6,226	98.08%

¹ Source: Thurston County Assessor

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

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

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

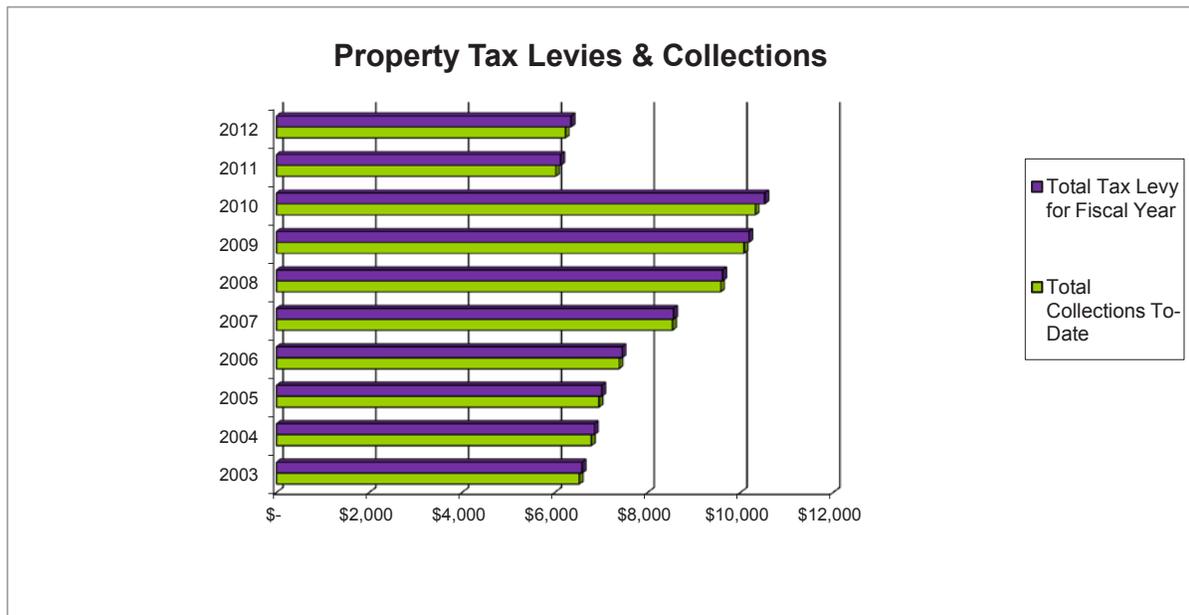


Table 11
Ratio of Outstanding Debt by Type
Last Ten Fiscal Years
(amounts expressed in thousands, except per capital amount)

Fiscal Year	Governmental Activities							Business-Type Activities			Total Primary Government	Percentage of Personal Income	Per Capita ⁵
	General Obligation Bonds ¹	Special Assessment Bonds	PWTF Loan ²	LOCAL Loan ³	Revenue Bond Animal Services ⁴	Capital Leases	Contracts Payable	Water Bonds	Wastewater Bonds	DOE Loan			
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	18,309	2,610	2,357	-	227	-	-	135	195	-	23,833	1.88%	700
2007	25,609	1,405	2,161	-	213	99	-	-	-	-	29,487	2.08%	822
2008	24,531	535	1,964	-	197	46	-	-	-	-	27,273	1.74%	717
2009	23,418	270	1,768	-	182	27	743	-	-	-	26,408	1.65%	673
2010	22,436	-	1,571	-	166	54	743	-	-	-	24,970	1.53%	622
2011	21,201	-	875	-	149	69	743	-	-	-	23,037	1.32%	538
2012	20,067	-	750	1,122	131	59	-	-	-	-	22,129	1.25%	508

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

¹ Presented net of original premiums

² Washington State Public Trust Fund Loan for Local Improvement District Special Assessment. Payments are funded by special assessments.

³ Loan issued to provide funding to TCOMM 911 for a capital asset acquisition. Payments are funded by TCOMM 911.

⁴ The City of Lacey administers the Animal Services financials. The balance at fiscal year-end 2012 represents the amount of debt due from the City of Olympia.

⁵ See Table 15 - Schedule of Demographic and Economics for personal income and population data.

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

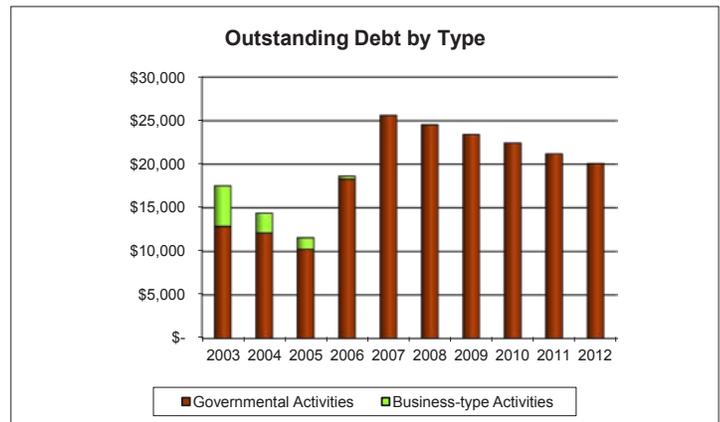
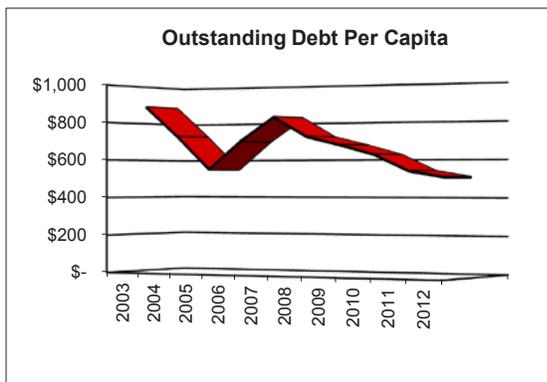


Table 12
 Ratios of General Bonded Debt Outstanding
 Last Ten Fiscal Years
 (amounts expressed in thousands, except per capita amount)

Fiscal Year	General Obligation Bonds ¹	Less: Amounts Restricted to Repaying Principal	Total	Percentage of Estimated Actual Taxable Value of Property ²	Per Capita ³
2003	12,855	-	12,855	0.58%	185
2004	12,110	-	12,110	0.51%	172
2005	10,235	-	10,235	0.37%	131
2006	18,309	-	18,309	0.57%	214
2007	25,609	-	25,609	0.63%	247
2008	24,531	-	24,531	0.49%	203
2009	23,418	-	23,418	0.43%	177
2010	22,436	-	22,436	0.41%	168
2011	21,201	-	21,201	0.42%	173
2012	20,067	-	20,067	0.42%	171

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

Explanation

¹ Presented net of original premiums.

² See the Schedule of Assessed Value and Estimated Actual Value of Taxable Property on page 8-7 for property value data.

³ Per capita data can be found in the Demographic and Economic Statistics on page 8-18.

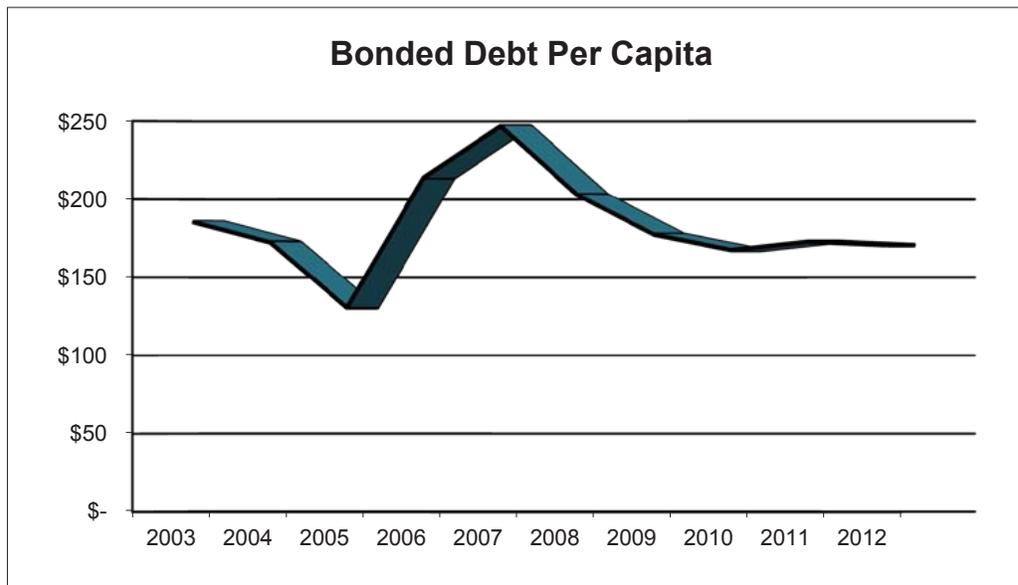


Table 13
 Direct and Overlapping Government Activities Debt
 As of December 31, 2012
 (amounts expressed in thousands)

Governmental Unit	Direct and Overlapping Debt Outstanding	Estimated Percentage Applicable ¹	Direct and Estimated Share of Overlapping Debt
Debt repaid with property taxes:			
Thurston County	\$ 98,258	16.83%	\$ 16,535
Port of Olympia	25,655	16.83%	4,318
North Thurston School District #3	122,928	47.97%	58,972
Fire Districts ²	4,665	49.31%	2,301
	251,506		82,126
City of Lacey's direct debt ³	20,067		20,067
Total direct and overlapping debt	\$ 271,573		\$ 102,193

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 and #08.
- ³ Presented net of original premiums.

Table 14
 Legal Debt Margin Information
 Last Ten Fiscal Years
 (amounts expressed in thousands)

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Debt Limit	\$ 152,997	\$ 164,235	\$ 187,662	\$ 216,506	\$ 264,815	\$ 336,404	\$ 366,945	\$ 369,400	\$ 343,427	\$ 324,209
Total net debt applicable to limit	12,425	11,684	9,415	17,587	25,340	24,204	23,089	22,146	21,011	19,846
Legal debt margin	\$ 140,572	\$ 152,551	\$ 178,247	\$ 198,919	\$ 239,475	\$ 312,200	\$ 343,856	\$ 347,254	\$ 322,416	\$ 304,363
Total net debt applicable to the limit as a percentage of debt limit	8.1%	7.1%	5.0%	8.1%	9.6%	7.2%	6.3%	6.0%	6.1%	6.1%

Legal Debt Margin Calculations:

Total Assessed Valuation of Taxable Real & Personal Property	<u>\$ 4,322,781</u>
Legal Debt limit (7.5% of total assessed value)	<u>\$ 324,209</u>
Outstanding General Obligation Indebtness as of December 31, 2012	
Governmental Activities - general obligation bonds	\$ 20,067
Governmental Activities - capital leases	59
Total Indebtness subject to debt limit	<u>20,126</u>
Less: Amount set aside for repayment of general obligation debt	(280)
Net Indebtness subject to debt limit	<u>\$ 19,846</u>
Legal debt margin	<u>\$ 304,363</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 15
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
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
2012	25,356	24,013	1,343	-	-	-	1,513	125	31	9.70

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 16
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 ²	Unemployment Rate ³
2003	32,240	1,033,614	32,060	13,089	6.2%
2004	32,530	1,091,154	33,543	13,079	5.4%
2005	33,180	1,165,779	35,135	13,119	4.7%
2006	34,060	1,269,552	37,274	13,370	4.5%
2007	35,870	1,416,327	39,485	13,601	4.9%
2008	38,040	1,563,900	41,112	13,843	6.2%
2009	39,250	1,601,439	40,801	14,025	8.6%
2010	40,130	1,634,736	40,736	13,816	8.4%
2011	42,830	1,744,723 ⁴	40,736 ⁴	14,194	8.2%
2012	43,600	1,776,090 ⁴	40,736 ⁴	13,957	7.4%

Data Sources:

^{1,2} Thurston Regional Planning Council, The Profile (www.trpc.org)

³ Washington State Employment Security Department/LEMA; U.S. Bureau of Labor Statistics, Local Unemployment Statistics (<https://fortress.wa.gov/esd>)

Explanation:

¹ The per capita personal income for Lacey is not available and therefore used is the data for Thurston County. 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.

³ Historical resident labor force and employment for Thurston County, seasonally adjusted.

⁴ Current year data is not available. Used 2010 data.

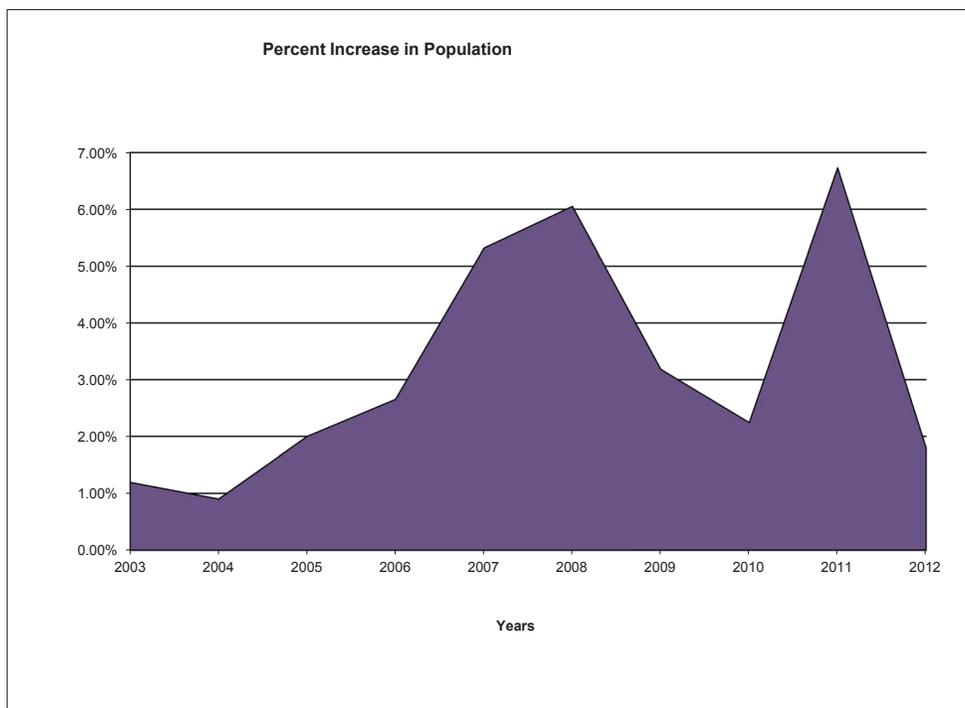


Table 17
Principal Employers
Current Year and Nine Years Ago

Employer	Business type	2012		2003 ⁵	
		Approx. Number of Employees	Percentage of Total City Employment ^{1,6}	Approx. Number of Employees	Percentage of Total City Employment ^{1,6}
State of Washington ¹	Government	2,450	8%	3,545 ⁷	19%
North Thurston Public Schools ³	Education	1,700	6%	250-499	2%
Panorama City ⁴	Retirement Community	300-400	1%	250-499	2%
Cabelas ²	Retail	100-500	1%		
Costco Corporation ²	Retail	100-500	1%		
Safeway Corporation ²	Retail	100-500	1%		
St. Martin's College ²	Education	100-500	1%	100-249	1%
Target Corporation ²	Retail	100-500	1%		
Wal-Mart Corporation ²	Retail	100-500	1%		
City of Lacey ¹	Government	252	1%	200	1%
Fred Meyers	Retail			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%
Total ²		5,302 - 7,802	23%	4,995 - 6,487	31%

Source

- ¹ City of Lacey, full-time equivalent
- ² Thurston Regional Planning Council, The Profile 2012
- ³ North Thurston Public Schools
- ⁴ Panorama Corporation
- ⁵ City of Lacey 2003 Comprehensive Annual Financial Reports. Business with more than 100 employees within Lacey zip code area.

Explanation:

- ⁶ Percentage of total city employment for 2012 is based on 2010 total estimated jobs 29,061. 2003 total estimated jobs 19,000.
- ⁷ Includes Lacey and Urban Growth Area.

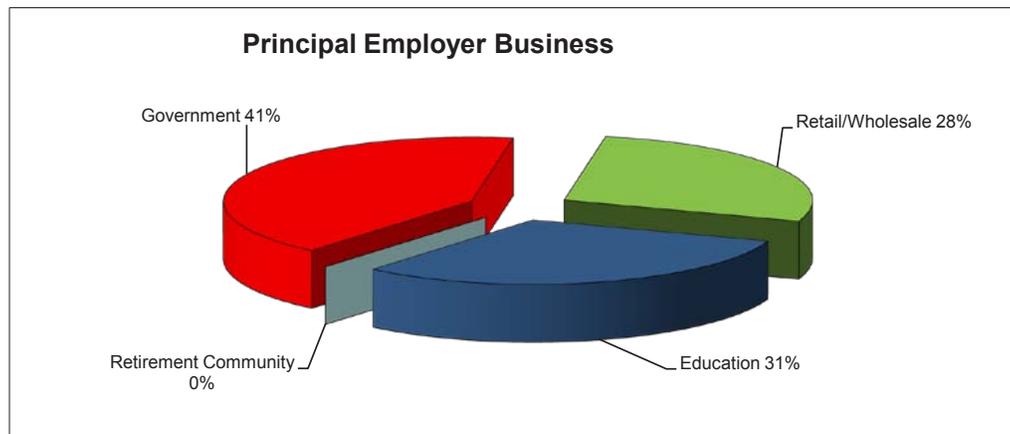


Table 18
 Full-time Equivalent City Government Employees by Function
 Last Ten Fiscal Years

Function	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
General government	24.00	24.00	24.00	27.00	27.00	30.00	30.00	30.00	30.00	31.00
Security of persons and property										
Police Officers	47.00	47.00	47.00	49.00	51.00	54.00	56.00	56.00	56.00	55.00
Civilians	12.41	12.41	12.41	12.41	14.28	14.28	14.28	14.28	14.28	14.28
Transportation										
Engineering	31.50	31.00	32.00	36.00	37.00	38.00	38.00	38.00	38.00	38.00
Maintenance	24.68	26.68	27.68	28.68	30.68	30.50	33.50	33.50	33.50	33.50
Economic development	13.50	13.50	15.75	16.75	17.75	17.75	17.75	17.75	17.75	17.75
Culture and recreation	11.75	11.75	13.00	13.00	14.00	14.88	16.00	16.00	16.00	16.00
Water	17.41	19.41	22.95	21.95	23.95	25.45	25.45	25.45	25.45	25.45
Wastewater	13.59	13.59	14.05	15.05	16.05	14.55	14.55	14.55	14.55	14.55
Stormwater	5.32	5.32	5.32	5.32	5.32	6.50	6.50	6.50	6.50	6.50
Total	201.16	204.66	214.16	225.16	237.03	245.91	252.03	252.03	252.03	252.03

Source: City of Lacey Budget Records

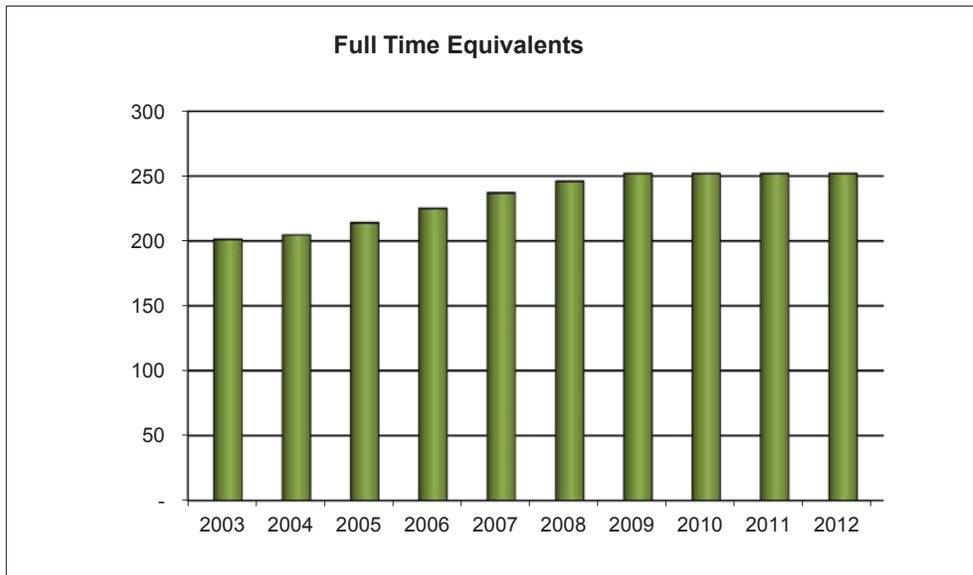


Table 19
Operating Indicators by Function
Last Ten Fiscal Years

Function	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Police										
Total Arrests	2,598	2,463	2,473	3,333	4,006	4,331	4,084	4,169	3,795	3,136
Total citations issued	6,718	6,331	4,977	4,713	4,997	6,180	7,571	5,736	5,824	4,455
Incidents	42,779	35,895	32,783	34,203	36,744	38,049	39,161	36,557	34,014	32,510
Overall crime rate per thousand population	50	51	56	50	51	48	41	41	35	36
Highways and streets										
State of the street (% of Very Good or Good Condition)	63%	65%	87%	90%	91%	95%	93%	94%	96%	96%
St Ft of sidewalk replaced	-	-	-	-	4,311	4,726	1,035	202	3,007	2,028
Yards of sweeper debris collected	-	1,187	1,268	1,124	1,772	904	1,682	1,438	1,156	1,339
Economic Development										
Number of building permits issued	364	494	1,025	1,604	1,157	494	402	362	325	283
Number of building inspections	5,225	8,977	15,819	20,589	17,002	9,467	7,351	6,586	6,915	7,132
Number of complaints processed	99	106	135	127	154	129	127	93	98	84
Commercial site plan reviews	28	23	25	27	29	32	10	12	9	12
Culture and recreation										
Community center bookings	733	925	900	951	911	921	724	765	760	778
Regional Athletic Complex (RAC) bookings	-	-	-	-	-	-	1,235	1,872	1,955	2,194
RAC Nmber of participants - leagues, tournaments	-	-	-	-	-	-	-	42,785	47,685	50,243
Average number of programs offered per year				1,061	1,026	985	1,074	1,044	1,176	1,255
Program registrations	13,272	13,829	8,206	11,687	12,350	13,582	13,181	13,740	12,108	13,538
Community-wide special events	29	34	35	32	38	40	40	41	41	31
Water										
Gallons of water pumped (millions)	2,299	2,435	2,490	3,083	2,774	2,666	2,595	2,199	2,243	2,396
Gallons of water sold (millions)	2,100	2,097	2,009	2,350	2,259	2,249	2,336	2,061	2,188	2,186
Percentage of water sold	91%	86%	81%	76%	81%	84%	90%	94%	98%	91%
Average daily consumption (millions of gallons)	6	6	6	6	6	6	6	6	6	7
Number of valves exercised	1,720	3,703	3,132	5,794	1,184	1,924	3,617	1,653	1,456	2,230
Number of hydrants exercised	448	449	662	335	2,879	3,060	3,334	3,432	3,492	2,510
Number of water mains breaks	134	160	243	201	220	173	198	168	130	104
Number of customers served	16,346	17,172	17,916	19,267	20,295	20,863	21,362	21,812	22,840	23,237
Number of irrigation customers	516	549	593	635	651	693	709	724	692	702
Wastewater										
Number of lift station incident responses	292	522	588	317	333	288	231	324	363	390
Number of STEP system connections	2,493	2,666	2,835	2,779	2,814	2,837	2,861	3,656	3,882	3,901
Number of STEP system incident responses	316	591	659	258	236	247	278	188	201	186
Lines cleaned (in feet)	102,147	151,274	180,517	212,633	130,511	104,219	390,555	390,644	323,671	373,410
Lines televised (in feet)	91,645	78,202	208,976	94,470	181,212	290,829	263,451	346,117	267,686	328,911
Odor complaints	-	20	18	8	7	11	1	1	3	-
Stormwater										
City responses to spills	57	43	49	56	56	57	54	109	137	106

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

Notes:

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

Statistical data for certain year(s) and certain items are either not applicable or not readily available, therefore are not presented.

Table 20
Capital Asset Statistics by Function
Last Ten Fiscal Years

Function	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Security of persons and property										
Police station	1	1	1	1	1	1	1	1	1	1
Patrol vehicles	14	14	16	16	16	18	21	22	22	22
Highways and streets										
Miles of street ¹	116 CL	117 CL	121 CL	122 CL	132 CL	148 CL	345 LM	351 LM	352 LM	358 LM
Miles of sidewalk										191 CL
Number of streetlights	2,375	2,433	2,654	2,973	3,246	3,653	3,796	3,842	4,015	4,136
Number of street signs	4,529	5,030	5,636	5,983	6,674	7,027	7,400	7,528	7,606	7,674
Number of traffic signals	26	27	39	40	40	40	42	42	55	56
Culture and recreation										
Number of parks	25	25	25	24	24	25	25	25	25	25
Parks acreage including outside city limits	501	501	501	501	501	531	579	501	568	568
Developed parks acres	82	122	122	162	186	237	265	297	335	335
Total open space acres	-	-	-	-	-	-	-	163	561	648
Soccer fields	5	8	8	8	8	8	10	10	233	233
Tennis courts	4	8	9	9	9	9	9	9	9	9
Baseball, softball fields	3	7	7	7	7	7	12	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	1
Community buildings	3	3	3	3	3	3	3	3	3	3
Water										
Number of production wells	19	19	20	19	19	19	19	19	19	19
Miles of water lines	304	310	334	342	353	348	357	360	370	385
Number of reservoirs	8	8	8	8	8	8	7	7	8	7
Number of booster stations	8	8	8	8	8	8	6	6	10	6
Number of valves ²	6,835	7,437	8,516	9,597	10,023	10,187	10,002	10,174	10,219	10,211
Number of Hydrants ²	2,479	2,666	2,848	2,928	3,037	4,216	3,424	3,469	3,479	3,500
Wastewater										
Miles of sewer transmission lines	94	113	125	132	136	145	147	151	154	156
Number of lift stations	32	36	38	39	46	44	44	45	48	47
Miles of STEP transmission lines	43	46	47	49	49	51	52	52	52	55
Odor control facilities	10	11	11	11	11	11	13	14	14	15
Stormwater										
Number of catch basins	2,790	3,073	3,207	3,300	3,580	3,741	4,010	4,419	4,716	4,971
Number of city storm ponds	-	-	36	37	38	38	43	49	49	56
Acres of storm ponds ³	39	39	464	625	681	1,037	1,027	1,235	1,768	105

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.

³. 2012 data is expressed as acres of storm ponds, whereas the data for 2011 through 2005 are expressed as

"acres maintained" calculated by multiplying the number of maintenance visits by the actual acre total.

Certain statistical data for certain year(s) are either not applicable or not readily available, therefore are not presented.