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City of Lacey, Washington
2013 Comprehensive Annual Financial Report
for the year ended December 31, 2013

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Photo on front Lacey Senior Center after new addition completed in 2013.

2013 Comprehensive Annual Financial Report

For the Year Ended December 31, 2013



**CITY
OF LACEY**

Prepared by the City of Lacey
Accounting Division of
the Finance Department
420 College St. SE, Lacey, WA 98503



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CITY
OF **LACEY**

SECTION 1

Introductory Section

Letter of Transmittal

GFOA Certificate of Achievement

Organization Chart

Elected Officials

List of City Officials

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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 2, 2014

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, 2013, 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. 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 2013 population of 44,350.

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 administra-



tive 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 decreased 5.5 percent (206.5 to 195.1 FTE's) and has not changed in the utility or enterprise funds (45.5 FTE). Vacant positions are analyzed to ensure workloads are justified and the positions can be sustained long-term. As a result, 10 positions are being held open or hiring is delayed. Lacey's population increased 13.0 percent during this same period. The staffing levels have declined, despite population growth, and is an indication of the city's continued conservative and responsible fiscal approach.

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 pro-active step was taken by the city manager and City Council to identify reductions in spending to off-set the trend. \$2.1 million in budget reductions were made in the general fund to compensate for anticipated revenue shortfall. Certain reductions have been restored, but overall the 2013 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 capital improvement 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 recently completed its comprehensive plan for its water utility and its first ever comprehensive plan for its stormwater utility. The update for the wastewater utility comprehensive plan is in process. It is expected to be completed during 2014. The capital infrastructure plans (CIP) are integral components of the comprehensive plans. The CIP of each comprehensive plan determines the future investments in new infrastructure and replacement of existing infrastructure. The 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 six-year CIP includes projects totaling \$6.7 million (inflated). During the 2014 Budget process, the City Council adopted a five-year rate increase schedule to help fund the CIP. The wastewater comprehensive plan is still too preliminary to include a draft CIP, but it is expected it will identify a significant level of new and replacement projects.

Current transportation projects include the Willamette Drive and 31st Avenue Intersection improvements, Golf Club Road extension, College Street and 22nd Avenue roundabout, Martin Way and Martin Road Interchange Justification Reports Phase 2, 2014 overlay program, and Citywide Signal Improvements. The resources to cover these improvements include \$1.1 million 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 2013. 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. The committed reserves will fund the street overlay program through 2015. 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, 2009-2012. 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 2013 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,

A handwritten signature in blue ink that reads "Troy Woo".

Troy M. Woo
Finance Director



Government Finance Officers Association

**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, 2012

Executive Director/CEO

LACEY CITY GOVERNMENT



CITIZENS

Boards and Commissions

- Library Board
- Historical Commission
- Planning Commission
- Park Board
- LEOFF
- TCTV
- Lodging Tax
- Public Facilities District

Mayor
Deputy Mayor
Council

City Manager

City Attorney

- Legal Counsel
- Prosecution
- Indigent Defense

Civil Service Commission

Clerk/Records

Finance

- Financial Mgmt/Accting.
- Utilities/Billing
- Treasury
- Information Services
- Violations Bureau
- Passport Services
- Business Licensing

Public Affairs and Human Resources

- | | |
|-------------------------|-----------------------------|
| Public Information | Recruiting |
| Neighborhood Assoc. | Classification/Compensation |
| Community Liaison | Performance Mgmt. |
| Recycling/Solid Waste | Safety/Workers Comp. |
| Legislative Liaison | Risk Management |
| Animal Services Support | Employee Asst. Program |
| Special Projects | Special Projects |

Police

- Law Enforcement
- Investigation
- Community Policing
- Crime Prevention
- School Resource Officers
- Interlocal Drug Unit Support

Community Development

- Current and Advanced Planning
- Code Inspection & Permit Services
- Growth Management
 - Building
 - Electrical
 - Mechanical
 - Plumbing
 - ADA Barrier Free

Public Works

- Administration Support
- Engineering
- Water Resources/Groundwater Protection
- Parks & Facilities Maintenance
- Streets/Electrical
- Water/Wastewater/
- Stormwater/Reclaimed Water Utility
- Fleet Maintenance

Parks and Recreation

- Youth & Adult
- Recreation Programs
 - Aquatics/Physical activities
 - Sports/Fitness/Special Events
 - Cultural/Outdoor Activities
- Parks Development
- Open Space/Regional Athletic Complex
- Community Buildings Operations/Events

City of Lacey Council Members



Virgil Clarkson - Mayor
December 2013*



Jason Hearn - Deputy
Mayor
December 2015*



Jeff Gadman
December 2015*



Lenny Greenstein
December 2015*



Ron Lawson
December 2013*



Cynthia Pratt
December 2013*



Andy Ryder
December 2013*

ADMINISTRATION

Scott H. Spence	City Manager
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

*Term ends



CITY
OF **LACEY**

SECTION 2

Financial Section

Independent Auditor's Report

Management Discussion and Analysis

Basic Financial Statements

Required Supplementary Information

Combining and Individual Fund Statements and Schedules

Other Supplementary Information



Washington State Auditor Troy Kelley

INDEPENDENT AUDITOR'S REPORT

June 20, 2014

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, 2013, 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, 2013, 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 page 5.1 and information on postemployment benefits other than pensions on page 5.2 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. 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 23, 2014, 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. 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



CITY
OF **LACEY**



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, 2013. We encourage readers to consider the information presented here, in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages 1-1 to 1-5 of this report.

Financial Highlights

- The government's overall financial position improved in 2013 as compared to 2012.
- At the end of the fiscal year the assets and deferred outflows of resources of the City of Lacey exceeded its liabilities by \$623.0 million. Net investments in capital assets account for 84.7 percent of the amount (\$527.4 million). Of the remaining net position in the amount of \$95.6 million, \$7.3 million is subject to external restrictions and \$88.3 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 \$675,950. The governmental activity net position decreased by \$3.5 million compared to the previous year. Business-type activity net position increased by \$4.2 million. The business-type increase included net position for the Water Utility of \$5.1 million, \$847,868 for the Wastewater Utility, and net decreases of \$1.0 million for the Stormwater Utility and \$1.0 million for the Reclaimed Water Utility.
- At the close of 2013, the City of Lacey's governmental funds reported a combined ending fund balance of \$56.3 million, an increase of \$1.9 million.

Of the major funds, the ending fund balance of the General Fund increased \$388,360, the Arterial Street Fund increased \$377,089, and the L.I.D. Redemption Fund increased \$159,669.

Nonmajor funds combined fund balance increased \$1.0 million. The capital project funds combined resulted in an increase of \$946,449, which was a net result of the completion of major capital projects.

Approximately \$11.3 million (20.0 percent) of the combined ending fund balance is unassigned and available to the City of Lacey for discretionary spending.

- At the end of 2013, the unassigned fund balance for the General Fund was \$11.3 million, which is a decrease of \$980,159 compared to the prior year's amount of \$12.2 million.
- The City of Lacey's total outstanding debt increased \$6.0 million (27.9 percent) to \$27.6 million during the current fiscal year. During 2013, the City issued utility revenue bonds in the amount of \$8.3 million.
- Revenues from local tax sources, including property, sales, business excise, and miscellaneous other taxes increased by \$1.0 million to \$25.9 million, a 4.1 percent increase compared to 2012. Business taxes experienced the largest increase due to an additional 6.04 percent utility tax on water utility activities to address the fire flow requirements of Lane v. City of Seattle.

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 \$623.0 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, 2013 and December 31, 2012:

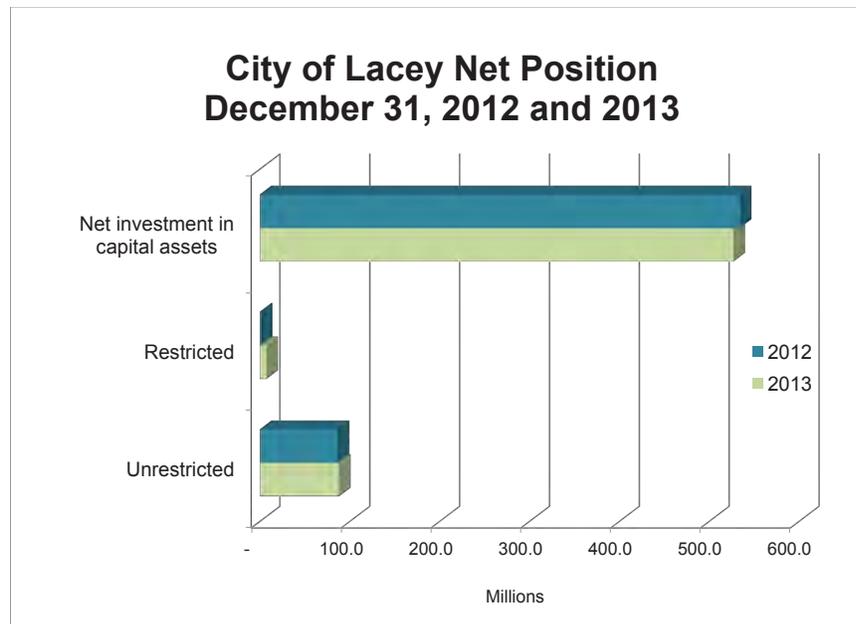
Summary of Net Position

	Governmental		Business-Type		Total		Percentage	
	Activities		Activities				Of Total	
	2013	2012	2013	2012	2013	2012	2013	2012
Assets:								
Current assets	\$ 73,405,468	\$ 72,474,544	\$ 38,089,812	\$ 27,526,836	\$ 111,495,280	\$ 100,001,380	16.9%	15.3%
Restricted assets	154,327	338,419	796,167	132,704	950,494	471,123	0.1%	0.1%
Investment in joint venture	708,002	720,646	-	-	708,002	720,646	0.1%	0.1%
Capital assets	314,217,849	321,362,361	231,433,081	230,148,480	545,650,930	551,510,841	82.9%	84.5%
Total assets	388,485,646	394,895,970	270,319,060	257,808,020	658,804,706	652,703,990	100.0%	100.0%
Deferred outflows of resources								
Deferred charge on refunding	202,030	226,260	-	-	202,030	226,260	0.0%	0.0%
Total deferred outflows of resources	202,030	226,260	-	-	202,030	226,260	0.0%	0.0%
Liabilities:								
Current liabilities	3,208,659	4,150,437	1,996,956	2,405,563	5,205,615	6,556,000	14.4%	21.4%
Long-term liabilities	21,949,199	23,915,142	8,891,128	174,264	30,840,327	24,089,406	85.6%	78.6%
Total liabilities	25,157,858	28,065,579	10,888,084	2,579,827	36,045,942	30,645,406	100.0%	100.0%
Net Position:								
Net investment in capital assets	298,884,938	304,244,746	228,481,506	230,039,105	527,366,444	534,283,851	84.6%	85.8%
Restricted	1,252,521	1,181,539	6,091,619	-	7,344,140	1,181,539	1.2%	0.2%
Unrestricted	63,392,359	61,630,366	24,857,851	25,189,088	88,250,210	86,819,454	14.2%	14.0%
Total net position	\$ 363,529,818	\$ 367,056,651	\$ 259,430,976	\$ 255,228,193	\$ 622,960,794	\$ 622,284,844	100.0%	100.0%

By far the largest portion of the City of Lacey’s net position (84.6 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 (\$7.3 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 \$42.9 million of the City’s net position for specific purposes. The remaining balance of unrestricted *net position* (\$45.3 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 \$675,950 in 2013. The increase is explained in the following discussion of governmental and business-type activities.

Governmental Activities. Governmental activities decreased the City of Lacey's net position by \$3.5 million.

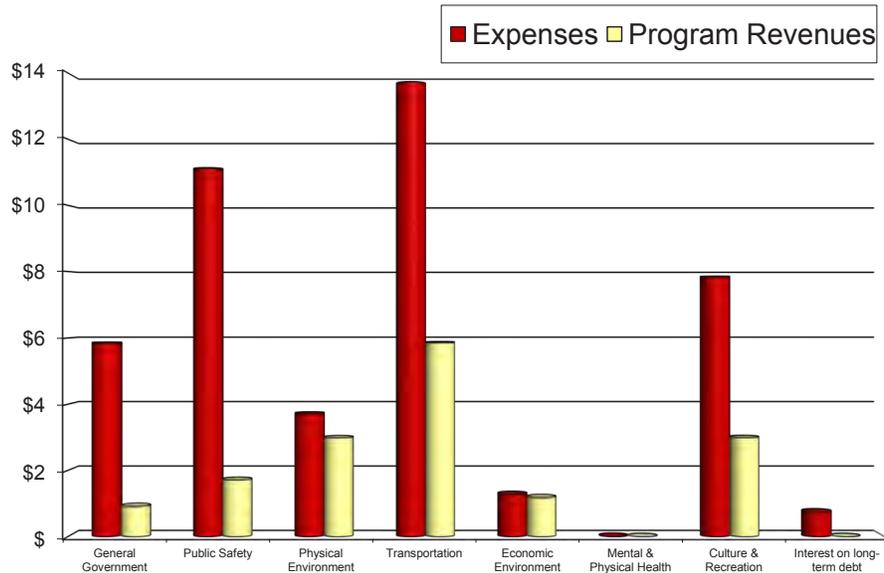
- Operating revenues (charges for services) increased by \$233,612. Program expenses for governmental activities increased in the amount of \$1.5 million. Security of persons and property program expenses increased \$257,693 due to rising costs for labor, jail services, and district court services. Transportation program expenses increased \$1.0 million due to increase in capital improvement project costs that did not meet capitalization criteria, therefore expensed, by approximately \$1.2 million coupled with decrease in depreciation expense by approximately \$300,000. Culture and recreation program expenses increased \$219,424 due to increased operations and maintenance costs of the Regional Athletic Complex and increased costs of utility right-of-way and building grounds maintenance.
- Operating grants and contributions decreased \$188,981. General government grants decreased by \$188,040 mostly due to the completion of a Community Development Block Grant project and 2012 FEMA awards. Grants for security of persons and property decreased by \$57,977 primarily due to reductions to Federal drug enforcement grants.
- Capital grants and contributions decreased by \$2.7 million. Transportation reported a decrease of \$1.5 million for capital grants as a result of the completion of a major road expansion. Capital grants for culture and recreation decreased \$1.1 million due to the completion of the Senior Center Expansion project.
- General revenues increased \$478,479. Property taxes increased by \$225,037 as a result of new construction additions, refund levies, and a levy increase of 1.0 percent. Business taxes increased \$646,224 as a result of the additional 6.04 percent utility tax on water utility activities to fund the fire flow requirements of Lane v. City of Seattle. Interest and investment earnings decreased \$384,967, mostly due to decreases in local improvement district interest payments (\$350,928 or 91 percent).



The following table provides a summary of the City's changes in net position as of December 31, 2013 and December 31, 2012:

	Summary of Changes in Net Position							
	Governmental Activities		Business-Type Activities		Total		Percentage Of Total	
	2013	2012	2013	2012	2013	2012	2013	2012
Revenues:								
Program:								
Charges for services	\$ 8,616,365	\$ 8,382,753	\$ 27,779,682	\$ 27,446,676	\$ 36,396,047	\$ 35,829,429	49.9%	44.9%
Operating Grants	2,821,878	3,010,859	-	48,258	2,821,878	3,059,117	3.9%	3.8%
Capital Grants	4,264,252	6,932,729	3,069,633	8,000,293	7,333,885	14,933,022	10.0%	18.7%
General:								
Taxes	25,872,313	24,851,286	-	-	25,872,313	24,851,286	35.4%	31.2%
Interest	374,710	759,722	90,436	87,125	465,146	846,847	0.6%	1.1%
Miscellaneous	110,996	268,532	-	-	110,996	268,532	0.2%	0.3%
Total revenues	42,060,514	44,205,881	30,939,751	35,582,352	73,000,265	79,788,233	100.0%	100.0%
Program expenses:								
General Government	5,863,148	5,919,872	-	-	5,863,148	5,919,872	8.1%	8.4%
Security of Persons and Property	11,136,647	10,878,954	-	-	11,136,647	10,878,954	15.4%	15.5%
Physical Environment	3,724,075	3,624,395	-	-	3,724,075	3,624,395	5.1%	5.2%
Transportation	13,734,267	12,726,138	-	-	13,734,267	12,726,138	19.0%	18.1%
Economic Environment	1,286,095	1,210,945	-	-	1,286,095	1,210,945	1.8%	1.7%
Mental and Physical Health	7,839	10,691	-	-	7,839	10,691	0.0%	0.0%
Culture & Recreation	7,859,663	7,640,239	-	-	7,859,663	7,640,239	10.9%	10.9%
Interest on long-term Debt	751,977	811,378	-	-	751,977	811,378	1.0%	1.2%
Water	-	-	10,283,275	10,539,535	10,283,275	10,539,535	14.2%	15.0%
Wastewater	-	-	14,109,374	13,396,952	14,109,374	13,396,952	19.5%	19.1%
Stormwater	-	-	3,548,512	3,334,520	3,548,512	3,334,520	4.9%	4.8%
Reclaimed Water	-	-	19,443	49,321	19,443	49,321	0.0%	0.1%
Total expenses	44,363,711	42,822,612	27,960,604	27,320,328	72,324,315	70,142,940	100.0%	100.0%
Excess (deficiency) of revenues over (under) expenses	(2,303,197)	1,383,269	2,979,147	8,262,024	675,950	9,645,293		
Transfers	(1,223,636)	(17,939)	1,223,636	17,939	-	-		
Change in net position	(3,526,833)	1,365,330	4,202,783	8,279,963	675,950	9,645,293		
Net position - beginning as previously reported	367,056,651	365,889,110	255,228,193	246,948,230	622,284,844	612,837,340		
Correction of errors in prior year (see notes)	-	(197,789)	-	-	-	(197,789)		
Net position - beginning, adjusted	367,056,651	365,691,321	255,228,193	246,948,230	622,284,844	612,639,551		
Net position - ending	\$ 363,529,818	\$ 367,056,651	\$ 259,430,976	\$ 255,228,193	\$ 622,960,794	\$ 622,284,844		

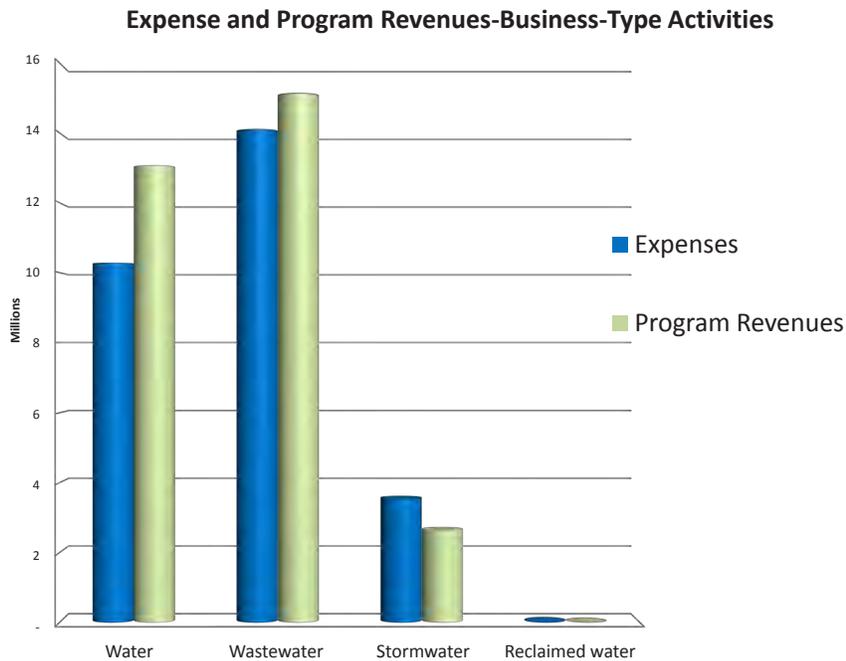
Expenses and Program Revenues - Governmental Activities





Business-type Activities. Business-type activities increased the City of Lacey’s net position by \$4.2 million. Key elements of this increase are as follows:

- Water, Wastewater and Stormwater sales increased 1.2 percent (\$333,006) due to utility rate increases.
- Capital grants and contributions attributed to 9.9 percent (\$3.1 million) of business-type revenues and interest earnings totaled \$90,436.



Governmental Functional Expenses. Transportation costs make up 31.0 percent of the total governmental expenses. Security of persons and property costs comprise 25.1 percent of the City of Lacey’s total governmental expenses. The culture and recreation expenses make up 17.7 percent and general government services expenses make up 13.2 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	
	2013	2012	2013	2012
General Government	\$ 5,863,148	\$ 5,919,872	\$ (4,942,854)	\$ (4,852,697)
Security of persons and property	11,136,647	10,878,954	(9,417,085)	(9,105,001)
Physical Environment	3,724,075	3,624,395	(729,990)	(1,074,301)
Transportation	13,734,267	12,726,138	(7,857,068)	(5,318,824)
Economic Environment	1,286,095	1,210,945	(96,760)	303,654
Culture & Recreation	7,859,663	7,640,239	(4,857,643)	(3,627,033)
Int & Other Debt Service Costs	751,977	811,378	(751,977)	(811,378)
Mental & Physical Health	7,839	10,691	(7,839)	(10,691)
	<u>\$ 44,363,711</u>	<u>\$ 42,822,612</u>	<u>\$ (28,661,216)</u>	<u>\$ (24,496,271)</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, 2013 and December 31, 2012:

Revenue, Expenditure, and Fund Balance Summary
Governmental Funds

Major Funds	General Fund		Arterial Street Fund		L.I.D. Redemption Fund	
	2013	2012	2013	2012	2013	2012
Revenues						
Taxes	\$ 19,281,503	\$ 17,827,603	\$ 1,203,464	\$ 1,035,270	-	-
License and permits	1,458,454	1,664,565	-	-	-	-
Intergovernmental revenues	1,320,055	1,495,027	619,812	2,843,805	-	-
Charges for services	6,367,390	6,215,822	968,919	1,193,656	-	-
Fines & forfeitures	731,114	665,857	-	-	-	-
Other revenue	226,828	263,132	54,382	236,395	934,121	1,516,215
Total revenues	\$ 29,385,344	\$ 28,132,006	\$ 2,846,577	\$ 5,309,126	\$ 934,121	\$ 1,516,215
Expenditures	\$ 27,621,416	\$ 26,957,668	\$ 2,469,488	\$ 5,787,627	\$ 774,452	\$ 155,693
Other Financing Sources and Uses						
Proceeds from capital lease	\$ -	\$ 13,193	\$ -	\$ -	-	-
Proceeds from sale of assets	2,836	-	-	-	-	-
Transfers	(1,378,404)	383,491	-	850,000	-	-
Total other financing sources and uses	\$ (1,375,568)	\$ 396,684	\$ -	\$ 850,000	\$ -	\$ -
Fund Balances						
Nonspendable	\$ 9,686	\$ 6,183	\$ -	\$ -	\$ -	\$ -
Restricted	124,321	134,305	-	-	-	-
Committed	11,894,900	4,769,900	1,700,000	1,095,560	-	828,665
Assigned	362,901	6,112,901	12,373,863	12,601,214	1,656,171	472,992
Unassigned	11,265,134	12,245,293	-	-	-	194,845
Total fund balances	\$ 23,656,942	\$ 23,268,582	\$ 14,073,863	\$ 13,696,774	\$ 1,656,171	\$ 1,496,502

Revenue, Expenditure, and Fund Balance Summary
Governmental Funds

Nonmajor Funds	Special Revenue Funds		Debt Service Funds		Capital Projects Funds	
	2013	2012	2013	2012	2013	2012
Revenues						
Taxes	\$ 2,501,531	\$ 2,438,175	\$ 1,504,216	\$ 1,520,215	\$ 1,455,136	\$ 2,282,739
License and permits	-	-	-	-	36,893	36,802
Intergovernmental revenues	692,849	658,732	-	-	1,005,995	2,766,047
Charges for services	8,147	19,034	-	-	-	-
Other revenue	23,663	43,230	2,707	2,564	180,888	101,068
Total revenues	\$ 3,226,190	\$ 3,159,171	\$ 1,506,923	\$ 1,522,779	\$ 2,678,912	\$ 5,186,656
Expenditures	\$ 3,070,095	\$ 2,972,361	\$ 2,050,630	\$ 2,132,782	\$ 1,400,857	\$ 3,705,959
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	(133,500)	(238,100)	589,130	586,330	(331,606)	(1,681,721)
Total other financing sources and uses	\$ (133,500)	\$ (238,100)	\$ 589,130	\$ 633,569	\$ (331,606)	\$ (513,150)
Fund Balances						
Restricted	\$ 938,594	\$ 863,763	\$ -	\$ -	\$ 1,030,362	\$ 1,338,471
Committed	2,125,000	2,200,000	-	-	5,665,116	5,454,493
Assigned	1,073,943	1,051,178	330,093	284,670	5,724,698	4,680,764
Total fund balances	\$ 4,137,537	\$ 4,114,941	\$ 330,093	\$ 284,670	\$ 12,420,176	\$ 11,473,728



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 \$56.3 million, an increase of \$1.9 million in comparison with the prior year. Approximately 20.0 percent (\$11.3 million) of this total amount constitutes *unassigned fund balance*, which is available for spending at the government's discretion. The \$45.0 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) \$840,756 is restricted for the state loan secured on behalf of Thurston 9-1-1 Communications, 2) lodging tax total fund balance of \$925,886, 3) \$326,635 is restricted for a variety of other restricted purposes, and 4) \$42.9 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 4-33 to 4-34 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 \$11.3 million, while the total fund balance reached \$23.7 million. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 40.8 percent of the total general fund expenditures, while total fund balance represents 85.7 percent of that same amount.

The fund balance of the City of Lacey's general fund was increased by \$388,360 during the current fiscal year. Key factors in this increase are as follows:

- Total tax revenues increased by \$1.5 million.
- Total expenditures increased \$663,748.
- Net transfers out increased \$1.8 million primarily due to significant one-time transfers relating to building improvement and repair projects, future property acquisition, and future water rights mitigation projects. The increased transfer also included the first operating transfer for fire flow services relating to Lane v. City of Seattle.

The arterial street fund has a total fund balance of \$14.1 million, of which the entire amount is committed or assigned to indicate that it is not available for new spending. Total revenues decreased \$2.5 million. State and Federal grant revenues decreased \$2.2 million as a major capital project was completed and a highway planning grant decreased. The net increase in the fund balance during the current year was \$377,089.

The local improvement district bond fund has a total fund balance of \$1.7 million 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 \$24.3 million. The total growth in net position for enterprise funds was \$4.2 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 \$1.7 million increase in appropriations between the original and final amended budget. Following are the significant components of the 2013 General Fund budget amendments:

- Transfers out amendments totaling \$962,493 were required to fund building repairs, future property acquisitions, and energy efficiency projects.
- A General Fund budget amendment in the amount of \$750,000 was required for an interfund transfer to the Water Capital Fund for future water rights mitigation projects.

Final budget compared to actual results. In total, actual General Fund revenues exceeded the final budget by \$629,694 or a 2.2 percent difference. The total actual expenditures were \$1,443,507 less than budget or 5.0 percent below budget.

On the revenue side of the budget, the primary difference between the final budget and the actual amounts relates to taxes and intergovernmental revenues. The increase to the utility tax rate on water utilities contributed most significantly to the tax increases. 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.

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, 2013, amounts to \$545.7 million (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, buildings and system improvements, machinery and equipment, park facilities, and infrastructure. The City of Lacey’s investments in capital assets were decreased by \$5.9 million or 1.1 percent (net additions were \$14.1 million and depreciation expense was \$20.0 million). Governmental activities decreased 2.2 percent and business-type activities increased 0.6 percent from previous year. The following schedule shows the City of Lacey’s investment in capital assets.

Capital Assets
(Amounts Presented in \$1,000's)

	Governmental Activities		Business-Type Activities		Total		Percentage Of Total	
	2013	2012	2013	2012	2013	2012	2013	2012
Non-depreciable assets:								
Land & land rights	\$ 134,857	\$ 133,795	\$ 14,148	\$ 13,819	\$ 149,005	\$ 147,614	18.7%	18.8%
Construction in progress	2,728	4,349	4,610	4,326	7,338	8,675	0.9%	1.1%
Total non-depreciable	137,585	138,144	18,758	18,145	156,343	156,289	19.6%	19.9%
Depreciable assets:								
Buildings	30,471	27,544	1,521	1,521	31,992	29,065	4.0%	3.7%
Improvements	26,833	26,622	278,889	272,000	305,722	298,622	38.3%	38.1%
Infrastructure	291,412	288,671	-	-	291,412	288,671	36.5%	36.8%
Machinery and equipment	11,795	11,436	658	676	12,453	12,112	1.6%	1.5%
Total depreciable assets	360,511	354,273	281,068	274,197	641,579	628,470	80.4%	80.1%
Total cost of capital assets	498,096	492,417	299,826	292,342	797,922	784,759	100.0%	100.0%
Less accumulated depreciation	183,878	171,055	68,393	62,194	252,271	233,249		
Book value - capital assets	\$ 314,218	\$ 321,362	\$ 231,433	\$ 230,148	\$ 545,651	\$ 551,510		
Percentage depreciated	36.9%	34.7%	22.8%	21.3%	31.6%	29.7%		



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

- Land and land rights increased by \$1.4 million, which included \$171,101 for land parcels and right of way purchases and \$1.2 million in developer contributed easements and right of ways for utilities and streets.
- Construction in progress for governmental activities had a net decrease of \$1.6 million. A total of \$1.7 million was added during 2013, which included \$954,398 from various new and existing street projects and \$735,540 for various other projects. A total of \$3.3 million of city projects that began during and/or prior to 2013 were completed during 2013. This includes \$3.0 million for the Senior Center Expansion project and approximately \$300,000 for other various street and parks projects.
- A variety of new Water, Wastewater and Reclaimed Water utilities projects began in 2013 with a net increase of \$283,488 in construction in progress. Various utilities improvement projects were completed during the current fiscal year at a cost of \$4.6 million, which includes \$3.6 million for the completion of Well #4 Corrosion Control, 2012 Waterline Replacement and Lift Station No. 14 projects and \$1.0 million for various other utility projects. Approximately \$312,000 of existing old water and sewer lines were replaced. Developer contributed utilities were \$2.4 million. Construction in progress as of the close of the fiscal year had reached \$4.6 million, which includes \$1.9 million for Reclaimed Water Infiltration Facility and \$1.0 million for Hawks Prairie Well No. 2 projects.
- For governmental activities, there was various new equipment for fleet vehicles, parks maintenance, and information technology equipment were purchased at a cost of approximately \$941,478; the net cost of various obsolete and out of service equipments that were replaced or removed totaled \$40,252.

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 various 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 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.

The City of Lacey received an “AA” rating with a stable outlook from Standard & Poor’s for its 2013 revenue bond issue. The bond rating was the first issued for the City’s utilities in many years, so it was considered a new credit.

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 \$27.6 million including a State of Washington LOCAL Program loan of \$971,314. \$18.3 million is comprised of debt backed by the full faith and credit of the government and \$8.3 million is guaranteed by revenues generated by the City’s water, wastewater, and stormwater utilities. The bonded debt includes \$5.9 million of refunding bonds. During 2013, a State of Washington (Public Works projects) loan was retired five years early.

Outstanding Debt
(in \$1,000's)

	Governmental Activities		Business-Type Activities		Totals		Percentage Change
	2013	2012	2013	2012	2013	2012	
General obligation bonds	\$ 18,265	\$ 19,610	\$ -	\$ -	\$ 18,265	\$ 19,610	-6.9%
Special assessment debt	-	-	-	-	-	-	0.0%
Revenue bonds	113	131	8,290	-	8,403	131	6293.4%
Capital leases	-	-	-	-	-	-	0.0%
PWTF and other loans	971	1,872	-	-	971	1,872	-48.1%
Total	\$ 19,349	\$ 21,613	\$ 8,290	\$ -	\$ 27,639	\$ 21,613	27.9%

The City of Lacey’s total outstanding debt increased by \$6.0 million (27.9 percent) during the current fiscal year of which equals to the amount of debt redemption during 2013 net of \$8.3 million of revenue bond debt issued. The debt per capita was approximately \$623.21, 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 2013 average unemployment rate for the County was 6.8 percent, which is a decrease from a rate of 7.5 percent a year ago. This is slightly higher compared to the state and national average unemployment rates of 6.6 and 6.7 percent, respectively.
- The City of Lacey’s population continues to grow, (44,350 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. During 2012 and 2013, 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 1.7 percent while the State's population only increased by 0.9 percent.

During the current fiscal year, unassigned fund balance in the general fund decreased \$1.0 million (8.0 percent) to \$11.3 million compared to the 2012 unassigned fund balance.

The Water utility rates in the 2013 budget year were increased by 6.5 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 and Stormwater rates increased 3.0 percent in the 2013 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.



CITY
OF **LACEY**



Statement of Net Position
December 31, 2013

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 65,469,574	\$ 34,552,599	\$ 100,022,173
Receivables (net)	8,436,190	2,888,107	11,324,297
Internal balances	(509,982)	509,982	-
Inventories	-	128,416	128,416
Prepayments	9,686	10,708	20,394
Restricted:			
Cash and cash equivalents	154,327	796,167	950,494
Investment in joint venture	708,002	-	708,002
Capital assets:			
Non-depreciable	137,585,075	18,758,184	156,343,259
Depreciable, net	176,632,774	212,674,897	389,307,671
Total assets	<u>388,485,646</u>	<u>270,319,060</u>	<u>658,804,706</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred charge on refunding	202,030	-	202,030
Total deferred outflows of resources	<u>202,030</u>	<u>-</u>	<u>202,030</u>
LIABILITIES			
Accounts payable	1,160,406	1,953,212	3,113,618
Interest payable	57,099	43,744	100,843
Unearned revenues	1,991,154	-	1,991,154
Noncurrent liabilities:			
Due within one year	2,059,759	398,878	2,458,637
Due in more than one year	19,889,440	8,492,250	28,381,690
Total liabilities	<u>25,157,858</u>	<u>10,888,084</u>	<u>36,045,942</u>
NET POSITION			
Net investment in capital assets	298,884,938	228,481,506	527,366,444
Restricted for:			
Criminal bail	124,321	-	124,321
Lodging/tourism	925,886	-	925,886
HUD grant	12,708	-	12,708
City facilities	115,162	-	115,162
Public education fees	74,444	-	74,444
Capital projects	-	5,484,194	5,484,194
Debt Service	-	607,425	607,425
Unrestricted	63,392,359	24,857,851	88,250,210
Total net position	<u>\$ 363,529,818</u>	<u>\$ 259,430,976</u>	<u>\$ 622,960,794</u>

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



Statement of Activities
For the Year Ended December 31, 2013

Functions/Program	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants & Contributions
Primary government:				
Governmental activities:				
General government	\$ 5,863,148	\$ 908,754	\$ 11,540	\$ -
Security of persons and property	11,136,647	887,059	826,035	6,468
Physical environment	3,724,075	2,994,085	-	-
Transportation	13,734,267	1,062,144	907,524	3,907,531
Economic environment	1,286,095	1,177,918	1,477	9,940
Mental and physical health	7,839	-	-	-
Culture and recreation	7,859,663	1,586,405	1,075,302	340,313
Interest on long-term debt	751,977	-	-	-
Total governmental activities	44,363,711	8,616,365	2,821,878	4,264,252
Business-type activities:				
Water	10,283,275	11,639,499	-	1,431,615
Wastewater	14,109,374	13,954,493	-	1,183,720
Stormwater	3,548,512	2,185,690	-	454,298
Reclaimed water	19,443	-	-	-
Total business-type activities	27,960,604	27,779,682	-	3,069,633
Total primary government	\$ 72,324,315	\$ 36,396,047	\$ 2,821,878	\$ 7,333,885

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
 Net position - ending



Net(Expense)Revenues and
Changes in Net Position
Primary Government

Governmental Activities	Business-Type Activities	Total
\$ (4,942,854)	\$ -	\$ (4,942,854)
(9,417,085)	-	(9,417,085)
(729,990)	-	(729,990)
(7,857,068)	-	(7,857,068)
(96,760)	-	(96,760)
(7,839)	-	(7,839)
(4,857,643)	-	(4,857,643)
(751,977)	-	(751,977)
<u>(28,661,216)</u>	<u>-</u>	<u>(28,661,216)</u>
-	2,787,839	2,787,839
-	1,028,839	1,028,839
-	(908,524)	(908,524)
-	(19,443)	(19,443)
-	<u>2,888,711</u>	<u>2,888,711</u>
<u>(28,661,216)</u>	<u>2,888,711</u>	<u>(25,772,505)</u>
6,538,192	-	6,538,192
9,151,658	-	9,151,658
8,497,508	-	8,497,508
1,684,955	-	1,684,955
29	-	29
374,681	90,436	465,117
110,996	-	110,996
(1,223,636)	1,223,636	-
<u>25,134,383</u>	<u>1,314,072</u>	<u>26,448,455</u>
(3,526,833)	4,202,783	675,950
<u>367,056,651</u>	<u>255,228,193</u>	<u>622,284,844</u>
<u>\$ 363,529,818</u>	<u>\$ 259,430,976</u>	<u>\$ 622,960,794</u>



Balance Sheet
Governmental Funds
December 31, 2013

	General	Arterial Street	L.I.D. Redemption	Other Governmental Funds	Total Governmental Funds
ASSETS					
Current cash & cash equivalents	\$ 21,466,422	\$ 15,854,090	\$ 1,647,012	\$ 15,348,070	\$ 54,315,594
Receivables (net of allowances):					
Taxes	2,683,824	83,116	-	336,090	3,103,030
Customer accounts	1,077,939	94,030	-	668,075	1,840,044
Accrued interest and penalty	-	-	-	-	-
Due from other governmental units	22,731	32,608	112,773	204,774	372,886
Interfund loan receivable	-	-	-	-	-
Special assessments	-	-	920,838	-	920,838
Prepayments	9,686	-	-	-	9,686
Restricted assets:					
Cash & cash equivalents	152,854	600	-	850	154,304
Long term loan receivable-TCOMM	-	-	-	840,756	840,756
Special assessments - noncurrent	-	-	1,345,514	-	1,345,514
Total assets	25,413,456	16,064,444	4,026,137	17,398,615	62,902,652
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	406,756	157,659	-	125,577	689,992
Due to other governmental units	238,898	3,469	-	27,942	270,309
Custodial accounts:					
Deposits	152,854	600	-	850	154,304
Unearned revenue	162,301	1,828,853	-	-	1,991,154
Total liabilities	960,809	1,990,581	-	154,369	3,105,759
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenues-property tax	115,099	-	-	24,347	139,446
Unavailable revenues-special assessments	-	-	2,257,193	-	2,257,193
Unavailable revenues-violations	680,606	-	-	-	680,606
Unavailable revenues-grants & loans	-	-	112,773	332,093	444,866
Total deferred inflows of resources	795,705	-	2,369,966	356,440	3,522,111
Fund balances					
Nonspendable	9,686	-	-	-	9,686
Restricted	124,321	-	-	1,968,956	2,093,277
Committed	11,894,900	1,700,000	-	7,790,116	21,385,016
Assigned	362,901	12,373,863	1,656,171	7,128,734	21,521,669
Unassigned	11,265,134	-	-	-	11,265,134
Total fund balances	23,656,942	14,073,863	1,656,171	16,887,806	56,274,782
Total liabilities and fund balances	\$ 25,413,456	\$ 16,064,444	\$ 4,026,137	\$ 17,398,615	\$ 62,902,652

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, 2013

Fund balances - total governmental funds		\$ 56,274,782
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 on refunding	\$ 202,030	
Investment in joint venture	708,002	910,032
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds:		
Non-depreciable assets	137,565,367	
Depreciable assets (net)	173,605,859	311,171,226
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the governmental funds:		
Deferred revenues:		
Property taxes receivable	139,446	
Special assessments receivable	2,257,193	
Local court revenue receivable	680,606	
Grants earned but not available	50,000	
HUD Loan assessments receivable	394,866	3,522,111
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	(57,099)	
Bonds and loans including unamortized debt premiums	(19,763,604)	
Capital leases	(30,363)	
Compensated absences and OPEB Liabilities	(2,101,762)	(21,952,828)
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.		
	13,604,493	13,604,493
Rounding adjustments		2
Net position of government activities.		\$ 363,529,818

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, 2013

	General	Arterial Street	L.I.D. Redemption	Other Governmental Funds	Total Governmental Funds
REVENUES					
Taxes	\$ 19,281,503	\$ 1,203,464	\$ -	\$ 5,460,883	\$ 25,945,850
Licenses and permits	1,458,454	-	-	36,893	1,495,347
Intergovernmental revenues	1,320,055	619,812	-	1,698,844	3,638,711
Charges for services	6,367,390	968,919	-	8,147	7,344,456
Fines and forfeitures	731,114	-	-	-	731,114
Other revenues	226,828	54,382	934,121	207,258	1,422,589
Total revenues	<u>29,385,344</u>	<u>2,846,577</u>	<u>934,121</u>	<u>7,412,025</u>	<u>40,578,067</u>
EXPENDITURES					
Current:					
General government	5,448,849	-	-	-	5,448,849
Security of persons and property	10,895,692	-	-	-	10,895,692
Physical environment	3,921,115	-	-	-	3,921,115
Transportation	-	-	-	2,806,629	2,806,629
Economic environment	1,210,504	-	-	4,050	1,214,554
Mental and physical health	7,839	-	-	-	7,839
Culture and recreation	6,106,511	-	-	266,713	6,373,224
Capital outlay	-	2,469,488	-	1,220,200	3,689,688
Debt service:					
Principal retirement	28,277	-	749,923	1,495,719	2,273,919
Interest	2,629	-	24,529	728,271	755,429
Total expenditures	<u>27,621,416</u>	<u>2,469,488</u>	<u>774,452</u>	<u>6,521,582</u>	<u>37,386,938</u>
Excess (deficiency) of revenue over (under) expenditures	<u>1,763,928</u>	<u>377,089</u>	<u>159,669</u>	<u>890,443</u>	<u>3,191,129</u>
OTHER FINANCING SOURCES (USES)					
Proceeds from sale of assets	2,836	-	-	-	2,836
Transfers in	839,269	-	-	1,654,146	2,493,415
Transfers out	(2,217,673)	-	-	(1,530,122)	(3,747,795)
Total other financing sources (uses)	<u>(1,375,568)</u>	<u>-</u>	<u>-</u>	<u>124,024</u>	<u>(1,251,544)</u>
Net change in fund balances	388,360	377,089	159,669	1,014,467	1,939,585
Fund balance - Beginning	23,268,582	13,696,774	1,496,502	15,873,339	54,335,197
Fund balance - ending	<u>\$ 23,656,942</u>	<u>\$ 14,073,863</u>	<u>\$ 1,656,171</u>	<u>\$ 16,887,806</u>	<u>\$ 56,274,782</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, 2013

Net changes in total fund balances per fund financial statements	\$	1,939,585
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	\$ 1,891,049	
Current year depreciation	<u>(12,625,987)</u>	(10,734,938)
<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>		
Debt principal repayments	2,292,580	
Amortization of bond premiums and deferral on refunding	<u>17,781</u>	2,310,361
<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	(73,506)	
Deferred revenue - special assessments	(831,371)	
Deferred revenue - grants earned but not available	(9,999)	
Deferred revenue - court local revenue earned but not available	<u>(44,554)</u>	
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.</p>		
Changes in investment in joint venture	(12,644)	
Changes in compensated absences and OPEB Liabilities	(358,350)	
Changes in accrued interest payable	<u>3,453</u>	(367,541)
<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>		
		635,093
<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>		
		(25,929)
<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>3,675,966</u>
Changes in net position of governmental activities	\$	<u><u>(3,526,833)</u></u>

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



Statement of Net Position
Proprietary Funds
December 31, 2013

	Business-type Activities Enterprise Funds				Total	Governmental
	Water	Waste- Water	Storm Water	Reclaimed Water		Internal Service Funds
ASSETS						
Current assets:						
Cash and cash equivalents	\$ 18,617,654	\$ 10,210,030	\$ 3,656,192	\$ 2,068,723	\$ 34,552,599	\$ 11,153,980
Restricted cash and cash equivalents:						
Customer deposits	169,432	16,384	2,926	-	188,742	23
Receivables (net of allowances):						
Customer accounts	810,315	1,286,442	215,989	-	2,312,746	1,911
Accrued interest & penalty	10,087	3,909	-	-	13,996	-
Prepayments	10,708	-	-	-	10,708	-
Current portion of interfund loan receivable	-	600,000	-	-	600,000	-
Due from governmental units	213,660	733	54,975	-	269,368	11,210
Inventory	128,416	-	-	-	128,416	-
Total current assets:	<u>19,960,272</u>	<u>12,117,498</u>	<u>3,930,082</u>	<u>2,068,723</u>	<u>38,076,575</u>	<u>11,167,124</u>
Noncurrent assets:						
Restricted cash and cash equivalents:						
Revenue bonds covenants	607,425	-	-	-	607,425	-
Special assessments	10,760	-	-	-	10,760	-
Special assessments - noncurrent	281,237	-	-	-	281,237	-
Long-term portion of interfund loan receivable	-	6,497,324	-	-	6,497,324	-
Capital assets, net of depreciation:						
Land	9,498,653	1,341,514	3,308,394	-	14,148,561	-
Buildings	424,043	654,614	-	-	1,078,657	127,224
Improvements other than buildings	102,406,793	66,607,184	41,333,291	942,985	211,290,253	51,911
Equipment	92,954	203,298	9,735	-	305,987	2,847,780
Construction in progress	3,906,943	244,401	110,446	347,833	4,609,623	19,707
Total noncurrent assets	<u>117,228,808</u>	<u>75,548,335</u>	<u>44,761,866</u>	<u>1,290,818</u>	<u>238,829,827</u>	<u>3,046,622</u>
Total assets	<u>137,189,080</u>	<u>87,665,833</u>	<u>48,691,948</u>	<u>3,359,541</u>	<u>276,906,402</u>	<u>14,213,746</u>
LIABILITIES						
Current liabilities:						
Accounts payable	342,579	107,637	70,485	-	520,701	39,597
Matured interest payable	36,382	-	7,362	-	43,744	-
Due to other governmental units	52,600	1,190,839	330	-	1,243,769	6,204
Compensated absences	55,250	30,213	13,415	-	98,878	26,144
Current liabilities payable from restricted assets:						
Customer deposits	169,432	16,384	2,926	-	188,742	-
Current portion of interfund loans payable	600,000	-	-	-	600,000	-
Current portion of revenue bonds	249,513	-	50,487	-	300,000	-
Total current liabilities	<u>1,505,756</u>	<u>1,345,073</u>	<u>145,005</u>	<u>-</u>	<u>2,995,834</u>	<u>71,945</u>
Noncurrent liabilities:						
Compensated absences	55,255	24,258	8,428	-	87,941	27,326
Long-term portion of interfund loan payable	6,497,324	-	-	-	6,497,324	-
Bonds payable after one year	6,989,945	-	1,414,364	-	8,404,309	-
Total noncurrent liabilities	<u>13,542,524</u>	<u>24,258</u>	<u>1,422,792</u>	<u>-</u>	<u>14,989,574</u>	<u>27,326</u>
Total liabilities	<u>15,048,280</u>	<u>1,369,331</u>	<u>1,567,797</u>	<u>-</u>	<u>17,985,408</u>	<u>99,271</u>
NET POSITION						
Investment in capital assets	113,423,216	69,034,983	44,732,489	1,290,818	228,481,506	3,046,622
Restricted for capital projects	4,129,433	-	1,354,761	-	5,484,194	-
Restricted for debt service	607,425	-	-	-	607,425	-
Unrestricted	<u>3,980,726</u>	<u>17,261,520</u>	<u>1,036,900</u>	<u>2,068,723</u>	<u>24,347,869</u>	<u>11,067,853</u>
Total net position	<u>\$ 122,140,800</u>	<u>\$ 86,296,503</u>	<u>\$ 47,124,150</u>	<u>\$ 3,359,541</u>	<u>\$ 258,920,994</u>	<u>\$ 14,114,475</u>
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.					509,982	
Net position of business-type activities.					<u>\$ 259,430,976</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, 2013

	Business-Type Activities Enterprise Funds				Total	Governmental Activities Internal Service Funds
	Water	Waste- Water	Storm Water	Reclaimed Water		
OPERATING REVENUES						
Charges for services	\$ 11,481,719	\$ 13,940,042	\$ 2,178,675	\$ -	\$ 27,600,436	\$ 3,989,874
Miscellaneous operating revenues	157,780	14,452	7,014	-	179,246	-
Total operating revenue	<u>11,639,499</u>	<u>13,954,494</u>	<u>2,185,689</u>	<u>-</u>	<u>27,779,682</u>	<u>3,989,874</u>
OPERATING EXPENSES						
Operating expense	3,049,322	9,904,395	1,065,098	-	14,018,815	2,178,810
Maintenance expense	3,631,475	2,246,613	862,973	-	6,741,061	282,468
Debt discount amortization	-	-	-	-	-	-
Depreciation expense	3,130,234	1,876,625	1,601,692	19,442	6,627,993	739,237
Taxes	478,364	162,469	50,381	-	691,214	300
Total operating expenses	<u>10,289,395</u>	<u>14,190,102</u>	<u>3,580,144</u>	<u>19,442</u>	<u>28,079,083</u>	<u>3,200,815</u>
OPERATING INCOME (LOSS)	<u>1,350,104</u>	<u>(235,608)</u>	<u>(1,394,455)</u>	<u>(19,442)</u>	<u>(299,401)</u>	<u>789,059</u>
NONOPERATING REVENUES (EXPENSES)						
Special assessments	348,260	-	-	-	348,260	-
Debt issuance costs	(73,205)	-	(14,812)	-	(88,017)	-
Investment earnings	39,768	38,448	6,336	5,883	90,435	20,095
Miscellaneous non-operating revenues	-	-	-	-	-	11,489
Interest expense	(44,543)	-	(6,923)	-	(51,466)	-
Gain (loss) on sale of capital assets	-	-	-	-	-	13,104
Total nonoperating revenues (expenses)	<u>270,280</u>	<u>38,448</u>	<u>(15,399)</u>	<u>5,883</u>	<u>299,212</u>	<u>44,688</u>
Income (loss) before contributions and transfers	1,620,384	(197,160)	(1,409,854)	(13,559)	(189)	833,747
Capital Contributions - grants	-	-	119,544	-	119,544	-
Capital Contributions - private	1,083,356	1,183,720	334,754	-	2,601,830	-
Capital Contributions - interfund	(30,744)	-	-	-	(30,744)	59,308
Transfers in	2,458,973	-	-	-	2,458,973	-
Transfers out	-	(138,692)	(65,901)	(1,000,000)	(1,204,593)	-
Changes in net position	<u>5,131,969</u>	<u>847,868</u>	<u>(1,021,457)</u>	<u>(1,013,559)</u>	<u>3,944,821</u>	<u>893,055</u>
NET POSITION - BEGINNING	<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>
NET POSITION - ENDING	<u>\$122,140,800</u>	<u>\$ 86,296,503</u>	<u>\$ 47,124,150</u>	<u>\$ 3,359,541</u>		<u>\$ 14,114,475</u>
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.					<u>257,962</u>	
Change in net position of business-type activities.					<u>\$ 4,202,783</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, 2013

	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	\$ 11,508,351	\$ 13,941,269	\$ 2,179,124	\$ -	\$ 27,628,744	\$ 102,644
Receipts from interfund services	-	-	-	-	-	3,899,326
Payments for interfund services	(207,198)	(357,973)	(199,507)	-	(764,678)	(7,345)
Payments to suppliers	(3,979,335)	(10,258,508)	(932,682)	(41,932)	(15,212,457)	(1,197,989)
Payments to employees	(2,754,679)	(1,803,621)	(733,619)	-	(5,291,919)	(1,237,922)
Payments for taxes	(478,364)	(162,469)	(50,381)	-	(691,214)	(300)
Net cash provided by operating activities	<u>4,088,775</u>	<u>1,358,698</u>	<u>262,935</u>	<u>(41,932)</u>	<u>5,668,476</u>	<u>1,558,414</u>
CASH FLOW FROM NON-CAPITAL FINANCING ACTIVITIES:						
Transfers in from other funds	708,973	-	-	-	708,973	-
Receipt of interfund loan payment	-	602,676	-	-	602,676	-
Receipt of interfund loan interest payment	-	10,328	-	-	10,328	-
Transfers out to other funds	-	(138,692)	(65,901)	(1,000,000)	(1,204,593)	-
Net cash provided by non-capital financing activities	<u>708,973</u>	<u>474,312</u>	<u>(65,901)</u>	<u>(1,000,000)</u>	<u>117,384</u>	<u>-</u>
CASH FLOW FROM CAPITAL AND RELATED FINANCING ACTIVITIES:						
Acquisition and construction of capital assets	(4,372,791)	(847,788)	(120,929)	-	(5,341,508)	(623,362)
Proceeds from sales of capital assets	-	-	-	-	-	16,149
Proceeds from sales of revenue bonds	7,241,624	-	1,465,290	-	8,706,914	-
Payments for debt issue costs	(73,205)	-	(14,812)	-	(88,017)	-
Receipt (repayment) on Interfund loan	(602,676)	-	-	-	(602,676)	-
Interest paid on interfund loan	(10,328)	-	-	-	(10,328)	-
Payments received on special assessments	48,497	-	-	-	48,497	-
Subsidy from grant	-	-	94,349	202,795	297,144	-
Transfers in from other funds for capital acquisitions	1,750,000	-	-	-	1,750,000	-
Net cash used by capital and related financing activities	<u>3,981,121</u>	<u>(847,788)</u>	<u>1,423,898</u>	<u>202,795</u>	<u>4,760,026</u>	<u>(607,213)</u>
CASH FLOW FROM INVESTING ACTIVITIES:						
Purchase of investments	(607,425)	-	-	-	(607,425)	(1,896)
Interest received on investments	39,768	28,120	6,336	5,883	80,107	20,095
Net cash provided (used) by investing activities	<u>(567,657)</u>	<u>28,120</u>	<u>6,336</u>	<u>5,883</u>	<u>(527,318)</u>	<u>18,199</u>
Net increase (decrease) in cash and cash equivalents	8,211,212	1,013,342	1,627,268	(833,254)	10,018,568	969,400
Cash and cash equivalents January 1	<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 and cash equivalents December 31 (see Note below) (including restricted cash & cash equivalents)	<u>\$ 18,787,086</u>	<u>\$ 10,226,414</u>	<u>\$ 3,659,118</u>	<u>\$ 2,068,723</u>	<u>\$ 34,741,341</u>	<u>\$ 10,942,326</u>
CASH PROVIDED BY OPERATING ACTIVITIES:						
Net operating income	\$ 1,350,104	\$ (235,608)	\$ (1,394,455)	\$ (19,442)	\$ (299,401)	\$ 789,059
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:						
Depreciation	3,130,234	1,876,625	1,601,692	19,442	6,627,993	739,237
(Increase)/decrease in customer receivables	45,784	(32,351)	(9,491)	-	3,942	5,593
(Increase)/decrease in intergovernmental receivables	(213,660)	2,742	-	-	(210,918)	(4,986)
(Increase)/decrease in prepaids	(7,572)	-	-	-	(7,572)	-
(Increase)/decrease in inventories	(5,772)	-	-	-	(5,772)	-
Miscellaneous nonoperating revenues	-	-	-	-	-	11,489
Increase/(decrease) in accounts payable	(227,282)	(21,172)	62,006	(41,932)	(228,380)	1,520
(Increase)/decrease in customer deposits	36,728	16,384	2,926	-	56,038	-
Increase/(decrease) in intergovernmental payables	(29,188)	(247,866)	(2,955)	-	(280,009)	6,204
Increase/(decrease) in compensated absences	9,399	(56)	3,212	-	12,555	10,298
Net cash provided by operating activities	<u>\$ 4,088,775</u>	<u>\$ 1,358,698</u>	<u>\$ 262,935</u>	<u>\$ (41,932)</u>	<u>\$ 5,668,476</u>	<u>\$ 1,558,414</u>
Schedule of noncash capital and related financing activities:						
Capital asset transferred from (to) other funds	\$ (30,744)	\$ -	\$ -	\$ -	\$ (30,744)	\$ 59,308
Contributions of capital assets from developers	\$ 1,083,356	\$ 1,183,720	\$ 334,754	\$ -	\$ 2,601,830	\$ -
Note: Reconciling cash and cash equivalents with the amounts on the fund statement of net position:						
Statement of net position	\$ 19,394,511	\$ 10,226,414	\$ 3,659,118	\$ 2,068,723	\$ 35,348,766	\$ 11,154,003
Less investments with maturity over 3 months	(607,425)	-	-	-	(607,425)	(211,677)
Cash flow statements	<u>\$ 18,787,086</u>	<u>\$ 10,226,414</u>	<u>\$ 3,659,118</u>	<u>\$ 2,068,723</u>	<u>\$ 34,741,341</u>	<u>\$ 10,942,326</u>

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



Statement of Fiduciary Net Position
Fiduciary Funds
December 31, 2013

	<u>Agency Funds</u>
ASSETS	
Cash and cash equivalents	\$ 2,599,718
Prepays	988
Accounts receivables, net of uncollectible accounts	5,121
Due from other governmental units	<u>257,071</u>
Total assets	<u>\$ 2,862,898</u>
LIABILITIES	
Accounts payable	\$ 21,457
Accrued employee leave payable	76,201
Capital lease payable	11,055
Notes payable	112,773
Due to other governmental units	<u>2,641,412</u>
Total liabilities	<u>\$ 2,862,898</u>

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



CITY
OF **LACEY**



**Notes to the Financial Statements
December 31, 2013**

Basic Financial Statements

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City of Lacey
Notes to the Financial Statements
December 31, 2013

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 year end). 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 year end). 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 Manager; 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.

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 leave to vacation on a 3:1 ratio or they can trade three (3) 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 prior to the end of the fiscal year. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) 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 other 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.

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.

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

There have been no material violations of finance-related legal or contractual provisions.

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 (WPDP). The WPDP 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. As of December 31, 2013, the LGIP had a weighted average maturity of 57 days.

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 or state of Washington or its political subdivisions, government-sponsored enterprises, certain limited banker's acceptances or commercial papers, 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, 2013 are as follows:

	<u>Amount</u>
<u>Governmental Funds</u>	
Cash and cash equivalents and investments	\$ 54,315,594
Restricted cash and cash equivalents and investments	154,304
Total governmental funds	<u>54,469,898</u>
<u>Enterprise Funds</u>	
Cash and cash equivalents	34,552,599
Restricted cash and cash equivalents (deposits)	796,167
Total proprietary funds	<u>35,348,766</u>
<u>Internal Services Funds</u>	
Cash and cash equivalents	11,153,980
Restricted cash and cash equivalents (deposits)	23
Total proprietary funds	<u>11,154,003</u>
<u>Fiduciary Funds</u>	
Cash and cash equivalents	2,599,718
Total fiduciary funds	<u>2,599,718</u>
Total	<u>\$ 103,572,385</u>



Cash, deposits, and investments for the year ended December 31, 2013 are as follows:

	Amount
Cash on hand	\$ 31,300
Checking accounts	48,392,578
Money market accounts	19,258,864
Certificates of deposits	2,038,072
Washington State Investment Pool (LGIP)	33,851,571
Total	<u>\$ 103,572,385</u>

B. Receivables and unearned and unavailable revenues

The customer accounts receivable \$1,077,939 reported in the general fund includes \$680,606 in fines for violations. The taxes receivable \$2,683,824 in the general fund include \$172,773 property taxes, \$1,485,757 sales and use taxes, and \$1,025,294 for various other business and utility taxes receivables. Based on the payment schedule for special assessment, \$1,345,514 of the special assessment deferred amount in the LID redemption fund is not expected to be collected within the next year. As of December 31, 2013, total delinquent assessments (including delinquent interest and penalties) included the special assessment receivable was \$218,477.

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)	\$ 162,301
Traffic mitigation fees collected but earnings process not yet complete (arterial street fund)	1,828,853
Total unearned revenues for governmental funds	<u>\$ 1,991,154</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 2013 was \$1.3173 per \$1,000 on an assessed valuation of \$4,076,496,444 for a total regular levy of \$5,370,029. Additionally, special levies for G.O. bond obligations totaled \$1,166,148.

D. Capital assets

Capital asset activities for the year ended December 31, 2013 were as follows:

Governmental Activities	Beginning Balance 1/1/2013	Increases	Decreases	Ending Balance 12/31/2013
Non-depreciable Capital Assets				
Land and land rights	\$ 133,795,401	\$ 1,062,118	\$ -	\$ 134,857,519
Construction in progress	4,349,274	1,709,645	3,331,363	2,727,556
Total non-depreciable assets	138,144,675	2,771,763	3,331,363	137,585,075
Depreciable Capital Assets:				
Buildings	27,543,667	2,927,089	-	30,470,756
Improvements	26,622,487	210,994	-	26,833,481
Infrastructure	288,670,691	2,741,003	-	291,411,694
Machinery & equipment	11,435,537	941,478	581,726	11,795,289
Total depreciable assets at cost	354,272,382	6,820,564	581,726	360,511,220
Less accumulated depreciation:				
Buildings	9,911,777	729,553	-	10,641,330
Improvements	6,160,452	1,360,546	-	7,520,998
Infrastructure	147,236,412	10,423,387	-	157,659,799
Machinery & equipment	7,746,055	851,738	541,474	8,056,319
Total accumulated depreciation	171,054,696	13,365,224	541,474	183,878,446
Total Depreciable assets, net	183,217,686	(6,544,660)	40,252	176,632,774
Governmental activities capital assets, net	\$ 321,362,361	\$ (3,772,897)	\$ 3,371,615	\$ 314,217,849



Business-type activities	Beginning Balance 1/1/2013	Increase	Decrease	Ending Balance 12/31/2013
Non-depreciable Capital Assets:				
Land and land rights	\$ 13,818,898	\$ 329,663	\$ -	\$ 14,148,561
Construction in process	4,326,135	4,904,590	4,621,102	4,609,623
Total non-depreciable assets	18,145,033	5,234,253	4,621,102	18,758,184
Depreciable Capital Assets:				
Buildings	1,520,813	-	-	1,520,813
Improvements	272,000,072	7,200,997	312,426	278,888,643
Machinery & equipment	676,479	98,447	116,824	658,102
Total depreciable assets at cost	274,197,364	7,299,444	429,250	281,067,558
Less accumulated depreciation:				
Buildings	405,082	37,074	-	442,156
Improvements	61,355,902	6,554,914	312,426	67,598,390
Machinery & equipment	432,933	36,005	116,823	352,115
Total accumulated depreciation	62,193,917	6,627,993	429,249	68,392,661
Total depreciable assets, net	212,003,447	671,451	1	212,674,897
Business-type activities capital assets, net	\$ 230,148,480	\$ 5,905,704	\$ 4,621,103	\$ 231,433,081

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

Current Year Depreciation:	Amount
Governmental activities	
General Government	\$ 544,579
Security of persons and property	999
Physical environment	4,448
Transportation	10,431,945
Economic environment	36,930
Culture and recreation	1,607,086
Internal services funds	739,237
Total governmental-type activities depreciation expense	\$ 13,365,224
Business-type activities	
Water	\$ 3,130,234
Wastewater	1,876,625
Stormwater	1,601,692
Reclaimed Water	19,442
Total business-type activities depreciation expense	\$ 6,627,993

Capitalized Interest Costs

The City of Lacey issued water and sewer revenue bonds in 2013 to provide funds for certain capital improvement projects to the City's waterworks (water, sewer, and stormwater) utility. The construction of these capital improvement projects were in progress at the end of December 31, 2013. The total amount of interest costs incurred and capitalized in 2013 was \$43,744.

Construction Commitments

The City had the following major active utilities capital improvement projects in progress as of December 31, 2013:



- . Upgrade Lift Station #18 (Yelm and Intelco)
- . ATEC Water TF Backwash
- . Chambers Liake Stormwater Facility
- . Lift station #25, #31 Pump & Electrical Upgrades
- . Martin Way / College Street Sewer
- . Reclaimed Water Construction -Infiltration Facility
- . Regional Lift Station - Steilacoom
- . Stormwater Vector Decant Facility
- . Tanglewilde East Sewer ULID
- . Telemetry Control Cla-Vals
- . Union Mills Altitude Valve
- . Waterline Replacement 2014 (Skokomish)

The City's 2014 budget for utilities capital funds includes expenditures for completion of these projects. The City anticipates approximately \$2.3 million dollar debt issue for the Tanglewilde East Sewer ULID project.

The City had the following major active arterial street capital improvement projects in progress as of December 31, 2013:

- . Willamette Dr / 31st Ave Intersection
- . College / 22nd Ave Roundabout
- . Golf Club Road Extension
- . Hogum Bay Rd Improvement
- . Yelm Hwy Sidewalk
- . Hawks Prairie Road / Marvin Road Roundabout
- . Martin Way / Hoh Street Intersection
- . Marvin Road / Britton Pkwy Roundabout
- . Martin Way / Marvin Road IJR - Phase 2
- . College Street Corridor Right of Way Acquisition
- . Citywide ITS Safety Improvement
- . Rainier Road Improvements

The 2014 Arterial Street fund's capital expenditures budget \$4,943,006 includes the construction of these projects.

E. Interfund loans and transfers

Loans/advances from/to other funds:

Interfund loan balances at December 31, 2013 were as follows:

Receivable Fund	Payable Fund	Amount
Wastewater Fund	Water Fund	\$ 7,097,324

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 and interest paid amount in 2013 were \$602,676 and \$10,328, respectively.

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	Routine transfers from Parks & Open Space fund: \$411,955 for Rainier Vista Park Maintenance and \$293,814 Regional Athletic Complex (RAC) maintenance. Routine transfer of \$133,500 from Lodging Tax Fund for RAC promotion and advertisement.	\$ 839,269	\$ -
	Routine transfer to Water M&O fund for fire hydrant flows \$504,380; nonroutine transfer of \$750,000 to Water Fund for water rights mitigation, \$612,493 to Building Improvement fund for various city facility improvements projects, \$350,000 to Parks and Open Space fund for parks acquisition, \$800 to Capital Equipment Fund for seizure reserves.		\$ 2,217,673
Nonmajor Governmental Funds:	Routine transfer: \$589,130 to G.O Debt Fund from RAC Capital for debt service. Nonroutine transfers: \$612,493 to Building Improvement Fund from General Fund for city facility improvement projects, \$101,723 to Building Improvement Fund from Capital Equipment Fund for facility maintenance, \$350,000 to Parks & Open Space Fund from General Fund for parks acquisition, and \$800 to Capital Equipment Fund from General Fund.	1,654,146	-
	Routine transfers: \$133,500 from Lodging Tax Fund to Regional Athletic Complex Operating Fund for RAC promotion, from Parks and Open Space Fund to General Fund \$293,814 for RAC maintenance and \$411,955 for Rainier Vista Parks maintenance, and \$589,130 to G.O. Debt Service Fund for debt service. Nonroutine transfer of \$101,723 to Building Fund for city facility improvements.	-	1,530,122
Total Governmental Funds		2,493,415	3,747,795
<u>Enterprise Funds:</u>			
Water Fund	Routine transfer: \$504,380 from General Fund for fire hydrant flow. Nonroutine transfers: \$750,000 from General Fund for water rights mitigation, \$1,000,000 from Reclaimed Water Fund for capital projects, \$138,692 from Wastewater Fund and \$65,901 from Stormwater Fund for debt service.	2,458,973	-
Wastewater Fund	Nonroutine transfer of \$138,692 to Water Fund for debt service.		138,692
Stormwater Fund	Nonroutine transfer of \$65,901 to Water Fund for debt service.		65,901
Reclaimed Water Fund	Nonroutine transfer of \$1,000,000 to Water Fund for capital project.		1,000,000
Total Proprietary Funds		2,458,973	1,204,593
Total		\$ 4,952,388	\$ 4,952,388



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	\$ 154,304	\$ 188,742
Revenue bonds covenants	-	607,425
Total	\$ 154,304	\$ 796,167

G. Leases

Capital Leases

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

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

The assets acquired through capital lease as of December 31, 2013 are as follows:

Assets:	Governmental Activities
Machinery and equipment	\$ 110,978
Less: Accumulated depreciation	(80,029)
Total	\$ 30,949

The future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2013 were as follows:

Year Ending December 31	Governmental Activities
2014	27,509
2015	3,815
Total minimum lease payments	31,324
Less: amount representing interest	(961)
Present value of minimum lease payments	\$ 30,363

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. The total operating lease expenditures for the year ended December 31, 2013 was \$4,208.

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, 2013.

General Obligation Bonds outstanding as of December 31, 2013 are as follows:

Description	Balance
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, 2021. <i>Issued to provide funds to construct an addition to City Hall. Payments are funded by sales tax and transfers in from other funds.</i>	\$ 2,235,000
2006 Unlimited Tax General Obligation Bonds issue amount of \$4,985,000; dated November 30, 2006; interest rate of 4% with final maturity date of December 30, 2026. <i>Issued to provide funds to make improvements to multiple park locations within the City, including improvements to athletic fields, swimming beaches and picnic facilities. Payments are funded by special property tax levies.</i>	3,810,000
2007 Limited Tax General Obligation Bonds issue amount of \$8,000,000; dated December 20, 2007; interest rate of 3.75-5.00% with final maturity date of December 1, 2027. <i>Issued to provide funds for phase 2 of the Regional Athletic Complex construction. Payments are funded with the sales and use tax levied by the Capital Area Regional Public Facilities District, pursuant to RCW 82.14.390. Interest rates are 4% in 2014-2015, 5% in 2016 & 2017; 3.75-3.90% in 2018-2021 and 4% in 2022-2027.</i>	6,295,000
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. <i>Issued to advance refund a portion of the City's outstanding 2002 UTGO Bonds maturing on December 1 of the years 2012 through 2021 and to pay the costs of the refunding issuance. Interest rates are 2% in 2014, 3% in 2015-2017, 3.25% in 2018, and 4% in 2019-2021.</i>	3,095,000
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. <i>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.</i>	2,830,000
Total	\$ 18,265,000

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

Year Ending December 31	General Obligation Bonds	
	Governmental Activities	
	Principal	Interest
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	1,615,000	459,755
2019 - 2023	7,475,000	1,418,066
2024 - 2027	3,285,000	313,400
Total	\$ 18,265,000	\$ 4,563,941



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, 2013 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 2013 at 3.1348% and is scheduled for repricing in August 2018. <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>	\$ 112,773
2013 Water and Sewer Revenue Bonds issue amount of \$8,290,000; dated November 19, 2013; original interest rates of 2.0%-4.5% with final maturity date of November 1, 2033. Issue to finance improvements to the Waterworks Utility and to fund a reserve account and pay the costs of issuance and sale of the bonds. Payments are funded by the revenues of the Waterworks Utility.	8,290,000
Total	\$ 8,402,773

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

Year Ending December 31	Revenue Bonds		Revenue Bonds	
	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2014	\$ 19,744	\$ 3,253	\$ 300,000	\$ 277,044
2015	20,373	2,625	320,000	285,625
2016	21,015	1,983	325,000	279,225
2017	21,689	1,309	330,000	272,725
2018	22,379	619	340,000	266,125
2019 - 2023	7,573	48	1,840,000	1,186,375
2024 - 2028	-	-	2,170,000	854,525
2029 - 2033	-	-	2,665,000	366,125
Total	<u>\$ 112,773</u>	<u>\$ 9,837</u>	<u>\$ 8,290,000</u>	<u>\$ 3,787,769</u>

Government Loans

Government loans outstanding as of December 31, 2013 are as follows:

Description	Balance
Washington State Treasurer LOCAL Program loan issued amount of \$1,122,033.27; dated March 29, 2012; interest rate of 1.54231%; 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.	\$ 971,314
Total	\$ 971,314

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
2014	\$ 153,764	\$ 19,597
2015	156,870	16,491
2016	160,039	13,321
2017	163,272	10,088
2018	166,571	6,790
2019	170,798	2,562
Total	<u>\$ 971,314</u>	<u>\$ 68,849</u>

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, 2013 that amount was \$305,737,233. As December 31, 2013 the total net outstanding debt applicable to this limit was \$18,391,299 which is 6.0 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, 2013:

Type of Debt	Beginning Balance 1/1/2013	Additions	Reductions/ Adjustments	Ending Balance 12/31/2013	Due Within One Year
Governmental Activities:					
G.O. bonds	\$ 19,610,000	\$ -	\$ 1,345,000	\$ 18,265,000	\$ 1,390,000
Unamortized premiums	456,528	-	42,012	414,516	-
Total G.O. bonds payable:	<u>20,066,528</u>	<u>-</u>	<u>1,387,012</u>	<u>18,679,516</u>	<u>1,390,000</u>
Revenue bonds-Animal Services	131,434	-	18,661	112,773	19,744
Public Works Trust Fund loan	749,923	-	749,923	-	-
WA LOCAL Program loan	1,122,033	-	150,719	971,314	153,764
Capital leases payable	58,640	-	28,277	30,363	26,596
Net OPEB obligation	859,425	490,794	186,776	1,163,443	-
Compensated absences	927,159	1,139,753	1,075,122	991,790	469,655
Total governmental activities	<u>\$ 23,915,142</u>	<u>\$ 1,630,547</u>	<u>\$ 3,596,490</u>	<u>\$ 21,949,199</u>	<u>\$ 2,059,759</u>
Business-type Activities:					
Revenue Bonds	\$ -	\$ 8,290,000	\$ -	\$ 8,290,000	\$ 300,000
Unamortized premiums	-	416,914	2,605	414,309	-
Compensated absences	174,264	223,202	210,647	186,819	98,878
Total Business-type activities	<u>\$ 174,264</u>	<u>\$ 8,930,116</u>	<u>\$ 213,252</u>	<u>\$ 8,891,128</u>	<u>\$ 398,878</u>

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 in the general and other governmental funds. Internal service funds' compensated absences for \$53,470 is included in the above total for governmental activities.

Bond discounts and premiums:

During 2013, the City issued revenue bonds at premium. The City also had issued general obligation debt at premium in 2006, 2007, 2010, and 2012. These bond premiums are deferred and are amortized under the straight-line method over the life of the bonds (7-20 years). The unamortized amounts are included in the bonds payable and are reported in the statements of net position.



Bond indentures:

The City issued \$8,290,000 of Water and Sewer Revenue Bonds in November 2013. The bond ordinance requires a reserve account to secure the payment of the principal and interest on the bonds. The reserve account is to be an amount equal to the lesser of a) 125% of average annual debt service on the bonds or b) maximum annual debt service on the bonds. The bond covenants require that in each calendar year the net revenue of the Waterworks Utility to equal at least 1.20 times annual debt service for such year. A reserve account on the bonds has been established in the Water Debt Service fund.

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

Arbitrage:

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

I. Fund Balances

As of December 31, 2013, the City's governmental funds report the following fund balances:

Restricted:				
Fund Restricted	Purpose	Authority	Amount	
General fund	Prepaid items	Nonspendable item	\$ 9,686	
	Criminal bail	RCW 69.50.508	124,321	
	Subtotal for general fund		134,007	
Nonmajor funds:				
Lodging Tax fund	Lodging/tourism	RCW 67.28.180	925,886	
Community development block grant fund	HUD approved project	CDBG Grant	12,708	
Capital equipment fund	Child care center repairs	Private contract	95,162	
Capital equipment fund	Long-term loan receivable (TCOMM911)	GASB No. 54	840,756	
Capital equipment fund	PEG Fees	Private contract	74,444	
RAC capital fund	RAC signage	Private donor	20,000	
Subtotal for nonmajor funds			1,968,956	
Total nonspendable and restricted			\$ 2,102,963	
Committed:				
Fund Committed	Purpose	Authority	Amount	
General fund	Insurance deductibles	Ordinance No. 1419	\$ 200,000	
	Property acquisition city hall complex	Ordinance No. 1419	2,000,000	
	Gateway project civic development	Ordinance No. 1419	3,500,000	
	Gateway Project property acquisition	Ordinance No. 1419	2,500,000	
	City hall facilities improvements	Ordinance No. 1419	1,000,000	
	Future pension contribution	Ordinance No. 1419	1,252,400	
	Economic Development Partnerships	Ordinance No. 1419	250,000	
	Future police station expansion	Ordinance No. 1419	750,000	
	Furniture & equipment replacement	Ordinance No. 1419	67,500	
	RAC field replacement	Ordinance No. 1419	375,000	
	Subtotal for general fund			11,894,900
	Arterial street fund	Street improvements (overlay)	Ordinance No. 1419	1,700,000
	Subtotal for arterial street fund			1,700,000
Nonmajor funds:				
Street fund	Transportation building	Ordinance No. 1419	125,000	
	Transportation equipment & replacement	Ordinance No. 1419	2,000,000	
	Subtotal for street fund		2,125,000	
Building improvement fund	City facility repairs/replacement	Ordinance No. 1419	1,500,000	
	Senior Center repairs/replacement	Ordinance No. 1419	82,010	
	Public arts	Ordinance No. 1419	23,106	
	City facilities plan projects	Ordinance No. 1419	1,500,000	
	Subtotal for building improvement fund		3,105,116	
Capital equipment fund	Unscheduled Equip Repair	Ordinance No. 1419	500,000	
	Park Facilities-Replace/Repair	Ordinance No. 1419	500,000	
	City Hall Reader Board	Ordinance No. 1419	60,000	
	IMS Comm./Repair/Rep/Ext	Ordinance No. 1419	500,000	
	Subtotal for capital equipment fund		1,560,000	
Parks and open space fund	Parks property acquisition	Ordinance No. 1419	1,000,000	
	Total for nonmajor funds:		7,790,116	
Total committed			\$ 21,385,016	



Assigned *:

Fund Assigned	Purpose	Authority	Amount
General fund	Parks reserve	Budget document	\$ 112,901
	Technology implementation		50,000
	Gambling tax reduction transition		200,000
	Subtotal for general fund		362,901
Arterial street fund	Street capital projects		12,373,863
LID Redemption fund	Debt service		1,656,171
Nonmajor funds:			
Street fund	Street maintenance		1,073,943
Debt Service fund	Debt service		330,093
Building improvement fund	Capital projects		1,226,386
Capital expenditure fund	Capital expenditures		1,966,649
Parks and Open Space fund	Regional Athletic Complex Maintenance		2,030,639
Regional Athletic Complex fund	RAC capital projects		501,024
	Subtotal for nonmajor funds		7,128,734
	Total		\$ 21,521,669

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

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 49 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.



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 2013, 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 age of 55 with 25 years of service, or at the age of 60 with at least 5 years of service. Plan 1 members retiring from inactive status prior to the age of 65 may receive actuarially reduced benefits.

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.

PERS Plan 1 retirement benefits are actuarially reduced to reflect the choice, if made, of a survivor option.

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 account.

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 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, if hired prior to May 1, 2013:

- 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 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of 5 percent for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service.

PERS Plan 2 retirement benefits are actuarially reduced to reflect the choice, if made, of a survivor option.

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. Members who do not choose a contribution rate default to a 5 percent rate. 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 contributions are invested in the Retirement Strategy Fund that assumes the member will retire at age 65.

For DRS' Fiscal Year 2013, PERS Plan 3 employee contributions were \$99.0 million, and plan re-funds paid out were \$69.4 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, and were hired before May 1, 2013, 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.

- If they have 30 service credit years, are at least 55 years old, and were hired after May 1, 2013, they have the option to retire early by accepting a reduction of 5 percent for each year before age 65.

PERS Plan 3 benefits are 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 members meeting specific eligibility requirements have options available to enhance their retirement benefits. Some of these options are available to their survivors.

A one-time duty-related death benefit is provided to the beneficiary or the estate of a PERS member who dies 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.

From January 1, 2007 through December 31, 2007, judicial members of PERS were given the choice to elect participation in the Judicial Benefit Multiplier (JBM) Program enacted in 2006. Justices and judges in PERS Plan 1 and Plan 2 were able to make an irrevocable election to pay increased contributions that would fund a retirement benefit with a 3.5 percent multiplier. The benefit would be capped at 75 percent of AFC. Judges in PERS Plan 3 could elect a 1.6 percent of pay per year of service benefit, capped at 37.5 percent of AFC.

Newly elected or appointed justices and judges who chose to become PERS members on or after January 1, 2007, or who had not previously opted into PERS membership, were required to participate in the JBM Program.

There are 1,176 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2012:

Type of Members	Number of Participants
Retirees and beneficiaries receiving benefits	82,242
Terminated plan members entitled to but not yet receiving benefits	30,515
Active plan members Vested	106,317
Active plan members Nonvested	44,273
Total	263,347

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.

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, 2013, are as follows:

Members Not Participating in JBM:

Contributor	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer*	9.21%	9.21%	9.21%**
Employee	6.00%	4.92%	***

* The employer rates include the employer administrative expense fee currently set at 0.18%.
 ** 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
2013	\$ 13,184	\$ 891,535	\$ 192,792
2012	\$ 15,016	\$ 742,434	\$ 165,692
2011	\$ 26,435	\$ 623,989	\$ 143,598

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

Plan 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 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 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 2013, 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, in lieu of any retirement benefit, 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 years	1.50%
5 but less than 10 years	1.00%

The FAS is the basic monthly salary received at the time of retirement, provided a member has held the same position or rank for 12 months preceding the date of retirement. Otherwise, it is the average of the highest consecutive 24 months' salary within the last 10 years of service. A cost-of-living allowance is granted (based on 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 there is an eligible spouse, 50 percent of the FAS, plus 5 percent of the FAS for each eligible surviving child, with a limitation on the combined benefit of 60 percent of the FAS; or (2) If there is no eligible spouse, eligible children receive 30 percent of the FAS for the first child plus 10 percent for each additional child, subject to a 60 percent limitation of the FAS, divided equally.

A one-time duty-related death benefit is provided to the beneficiary or the estate 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 benefit 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 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.

A one-time duty-related death benefit is provided to the beneficiary or the estate 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.

Benefits to eligible surviving spouses and dependent children of LEOFF Plan 2 members killed in the course of employment include the payment of eligible health care insurance premiums.

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.

LEOFF members meeting specific eligibility requirements have options available to enhance their retirement benefits. Some of these options are available to their survivors.

There are 374 participating employers in LEOFF. Membership in LEOFF consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2012:

Type of Members	Number of Participants
Retirees and beneficiaries receiving benefits	10,189
Terminated plan members entitled to but not yet receiving benefits	689
Active plan members Vested	14,273
Active plan members Nonvested	2,633
Total	27,784

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. This special funding situation is not mandated by the state constitution and could be changed by statute. For DRS' Fiscal Year 2013, the state contributed \$54.2 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, 2013, are as follows:

<u>Contributor</u>	<u>LEOFF Plan 1</u>	<u>LEOFF Plan 2</u>
Employer*	0.18%	5.23%
Employee	0.00%	8.41%
State	N/A	3.36%

*The employer rates include the employer administrative expense fee currently set at 0.18%.

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

<u>Year</u>	<u>LEOFF Plan 1</u>	<u>LEOFF Plan 2</u>
2013	\$ -	\$ 277,960
2012	\$ 75	\$ 270,298
2011	\$ 177	\$ 264,459

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, 2013, the plan has thirteen (13) 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 2011 through 2013 by the City are as follows:

<u>Description</u>	<u>Year 2013</u>	<u>Year 2012</u>	<u>Year 2011</u>
AWC medical insurance premiums	\$ 160,717	\$ 203,234	\$ 178,982
Reimbursement of other medical costs	20,684	12,964	20,700
Long-term care insurance premiums	5,375	5,622	2,022
<u>Total</u>	<u>\$ 186,776</u>	<u>\$ 221,820</u>	<u>\$ 201,704</u>
Number of retirees	13	14	13
Average cost per retiree	\$ 14,367	\$ 15,844	\$ 15,516



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 Federal Patient Protection and Affordable Care Act levies a 40 percent excise tax on employer for the value of health plan costs that exceed certain thresholds starting in the year 2018. The City used the medical inflation trend that included the excise tax in the cost calculation.

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

Annual OPEB Cost		Year 2013
UAAL Amortization		\$ 533,715
Normal cost		-
Total Annual required contribution (ARC):		533,715
Interest on net OPEB obligation		34,377
Adjustment to annual required contribution		(77,298)
Annual OPEB cost (expense)		490,794
Contributions made		(186,776)
Increase in net OPEB obligation		304,018
Net OPEB obligation - Beginning of year		859,425
Net OPEB obligation - End of year		\$ 1,163,443

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for fiscal year 2013 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
12/31/2013	\$ 490,794	\$ 186,776	38%	\$ 1,163,443
12/31/2012	\$ 352,934	\$ 221,821	63%	\$ 859,425
12/31/2011	\$ 369,602	\$ 201,704	55%	\$ 728,312

Funding Status and Funding Progress. As of December 31, 2013, the actuarial accrued liability for benefits was \$5,934,055 all of which was unfunded. The covered payroll (total annual amount for police department benefits) was \$1,864,751, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 318 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, 2011 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 2013. 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, with the federal excise tax, for members over age 65, starts at 7.5 percent in 2013, peaks at 12.9 percent in 2017, and decreases to an ultimate rate of 4.6 percent in 2089. Comparatively, the medical inflation trend assumption, for members under age 65, starts at 7.5 percent in 2013, peaks at 24.7 percent in 2017, and decreases to an ultimate rate of 6.2 percent in 2018. The expected long-term care inflation trend is 4.5 percent for all years. *Payroll growth rate* due to inflation 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-LEOFF1 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 for 2013 valuation year:

AWC HealthFirst® 1000

\$830.01 for non-Medicare enrolled retiree coverage
\$837.26 for non-Medicare enrolled spouse coverage
\$443.30 for Medicare enrolled retiree coverage
\$456.13 for Medicare enrolled spouse coverage

AWC HealthFirst® 2500

\$724.72 for non-Medicare enrolled retiree coverage
\$729.99 for non-Medicare enrolled spouse coverage
\$388.08 for Medicare enrolled retiree coverage
\$398.04 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. ContingenciesLitigation

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 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 of their representatives. Such audits could result in requests for reimbursement to grantor agencies for expenditures disallowed under the terms of the grants. The City's management believes that such disallowances, if any, will be immaterial.

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 162 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 cover-



age. 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 monies 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 \$935,278 in sales 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, 2013 was \$186,442. Any party may withdraw from this Agreement by giving ninety (90) days written notice to the other parties. Monies contributed during the calendar year of a party's withdraws will be returned to that party, on a prorated basis, after determination by the Executive Committee of any purchase commitments made prior to the notification of a party's withdrawal. Money so refunded will be used by the withdrawing party for its use in carrying

out drug enforcement activities pursuant to Ch. 69.50 RCW. Property purchased with the drug unit funds or forfeited to the drug unit will remain the property of the non-withdrawing parties and the withdrawing party will have no interest in or claim of title to said property. All monies and equipment remain with the drug unit until the drug unit disbands entirely. Disposition and disbursement of net equity upon dissolution is not specified in the agreement, 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, 2013 was \$3,840,244. The City of Lacey has a 16.69 percent share of the equity as of December 31, 2013. 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 2013 the City of Lacey's contribution for the annual agreement was \$233,562 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. Net position as of December 31, 2013, was \$152,268. As of December 31, 2013, the City of Lacey has a 39% share of the equity. 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, 2013:

	Joint Animal Services 12/31/2013	Law Enforcement Regional Record Management System 12/31/2013
Total Assets	\$ 4,046,104	\$ 153,396
Total Liabilities	205,860	1,128
Total Net Position 12/31/2011	<u>\$ 3,840,244</u>	<u>\$ 152,268</u>
Revenues	1,738,073	347,467
Expenses	<u>1,630,388</u>	<u>446,634</u>
Net increase (decrease) in net assets	107,685	(99,167)
Beginning net position 1/1, restated	<u>3,732,559</u>	<u>251,435</u>
Ending net position 12/31	<u>3,840,244</u>	<u>152,268</u>
City of Lacey Equity %	16.89%	39.00%
City of Lacey Equity Interest	\$ 648,617	\$ 59,385

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 1/1/2013	Increase	Decrease	Ending Balance 12/31/2013
Joint Animal Services	\$ 622,586	\$ 26,031	\$ -	\$ 648,617
Law Enforcement Regional Record Management System (LERMS)	98,060		38,675	59,385
Total Investment in Joint Venture	<u>\$ 720,646</u>	<u>\$ 26,031</u>	<u>\$ 38,675</u>	<u>\$ 708,002</u>

LOTT Clean Water Alliance (“LOTT”)

The cities of Lacey, Olympia and Tumwater and Thurston County are partners in the LOTT Clean Water Alliance through the LOTT Interlocal Cooperation Act Agreement for Wastewater Management, which governs the operations of LOTT Wastewater Treatment Facilities. Each of the Alliance partners pays for its respective share of maintenance and operating expenses of the wastewater treatment system (the “Treatment System”), including debt service associated with revenue bonds issued to finance capital improvements of the Treatment System.

Substantially all the LOTT’s revenues come from wastewater service charges and connection charges (Capacity Development Charge) collected by the cities of Lacey, Olympia and Tumwater and remitted to the LOTT. Each LOTT partner’s pro-rata share of the charges is based on its number of equivalent residential units (“ERUs”) that are contributed to the Treatment System. The City’s LOTT



charges are accounted for as a City cost of maintenance and operation of the Sewer System. The City passes these charges through to users of the Sewer System.

LOTT is governed by a long-range plan to address the region's changing wastewater needs. Also as a result of the long-range planning process, LOTT began a transition from a paperwork partnership to an organization. In 2000, LOTT was incorporated as a public non-profit organization, formed under the State's Interlocal Cooperation Act.

LOTT owns and operates physical facilities in all four partner jurisdictions. These facilities include the Budd Inlet Treatment Plant, Budd Inlet Reclaimed Water Plant, Martin Way Reclaimed Water Plant, Hawks Prairie Recharge Basins, several pump stations, and 23 miles of main sewer interceptor pipelines.

As of December 31, 2013, the City had short-term payables of \$1,185,327 which was paid in early 2014.

O. Accounting and Reporting Changes

In 2012 and prior years, the City's Local Improvement District (LID) Redemption fund has reported the interest and penalty receivable on special assessments under accrued interest and penalty receivable, and current and delinquent special assessment principal amounts were included in special assessments deferred on the balance sheet. In 2013, special assessment interest and penalty receivable and current portion of the special assessment principal are reported under special assessments receivable. Only the special assessment principal amount that is not due as of December 31, 2013, is included and reported in the special assessments deferred.

These reporting changes do not affect the fund balance and net position; therefore, no restatements were necessary.



Schedule of Revenues, Expenditures, and
Changes in Fund Balances - Budget to Actual
General Fund
For the Year Ended December 31, 2013

	Budgeted Amounts		Actual GAAP Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 18,992,059	\$ 18,992,059	\$ 19,281,503	\$ 289,444
Licenses and permits	1,391,750	1,391,750	1,458,454	66,704
Intergovernmental revenues	1,001,966	1,001,966	1,320,055	318,089
Charges for services	6,265,875	6,265,875	6,367,390	101,515
Fines and forfeitures	675,000	675,000	731,114	56,114
Other revenues	429,000	429,000	226,828	(202,172)
Total revenues	28,755,650	28,755,650	29,385,344	629,694
EXPENDITURES				
Current:				
General government	6,075,269	6,075,269	5,448,849	626,420
Security of persons and property	11,084,317	11,084,317	10,895,692	188,625
Physical environment	4,194,932	4,194,932	3,921,115	273,817
Economic environment	1,359,534	1,362,917	1,210,504	152,413
Mental and physical health	8,360	8,360	7,839	521
Culture and recreation	6,323,231	6,339,128	6,106,511	232,617
Debt service:				
Principal retirement	-	-	28,277	(28,277)
Interest	-	-	2,629	(2,629)
Total expenditures	29,045,643	29,064,923	27,621,416	1,443,507
Excess of revenue over (under) expenditures	(289,993)	(309,273)	1,763,928	2,073,201
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of assets	-	-	2,836	2,836
Transfers in	839,269	839,269	839,269	-
Transfers out	(505,180)	(2,217,673)	(2,217,673)	-
Total other financing sources	334,089	(1,378,404)	(1,375,568)	2,836
Net change in fund balances	44,096	(1,687,677)	388,360	2,076,037
Fund balance - beginning	14,494	1,746,267	23,268,582	21,522,315
Fund balance-ending	\$ 58,590	\$ 58,590	\$ 23,656,942	\$ 23,598,352

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



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 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]
12/31/2013 \$	0 \$	5,934,055 \$	5,934,055	0.0%	1,864,751	318%
12/31/2012	0	4,166,686	4,166,686	0.0%	1,792,676	232%
12/31/2011	0	4,130,053	4,130,053	0.0%	1,701,702	243%

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)



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, 2013

	Special Revenue Funds			Debt Service Fund
	Street Fund	Lodging Tax	Community Development Block Grant	General Obligation Bond Fund
ASSETS				
Current cash and cash equivalents	\$ 2,849,592	\$ 916,533	\$ 12,708	\$ 318,580
Receivables (net of allowances):				
Taxes	154,765	38,633	-	35,860
Customer accounts	238,439	-	282,093	-
Due from other governmental units	18,543	-	-	-
Restricted assets:				
Cash & cash equivalents	-	-	-	-
Long term loan receivable-TCOMM	-	-	-	-
Total assets	<u>3,261,339</u>	<u>955,166</u>	<u>294,801</u>	<u>354,440</u>
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	57,695	29,280	-	-
Due to other governmental units	4,701	-	-	-
Custodial accounts:				
Deposits	-	-	-	-
Total Liabilities	<u>62,396</u>	<u>29,280</u>	<u>-</u>	<u>-</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenues-property tax	-	-	-	24,347
Unavailable revenues-grants & contracts	-	-	282,093	-
Total deferred inflows of resources	<u>-</u>	<u>-</u>	<u>282,093</u>	<u>24,347</u>
Fund balances				
Restricted	-	925,886	12,708	-
Committed	2,125,000	-	-	-
Assigned	1,073,943	-	-	330,093
Total fund balances	<u>3,198,943</u>	<u>925,886</u>	<u>12,708</u>	<u>330,093</u>
Total liabilities and fund balances	<u>\$ 3,261,339</u>	<u>\$ 955,166</u>	<u>\$ 294,801</u>	<u>\$ 354,440</u>



Capital Project Funds				Total Other Governmental Funds
Building Improvement	Capital Expenditure	Parks & Open Space Fund	Regional Athletic Complex Capital	
\$ 4,358,111	\$ 3,663,470	\$ 2,842,865	\$ 386,211	\$ 15,348,070
-	36,183	70,649	-	336,090
-	9,247	3,483	134,813	668,075
50,000	22,200	114,031	-	204,774
-	-	850	-	850
-	840,756	-	-	840,756
<u>4,408,111</u>	<u>4,571,856</u>	<u>3,031,878</u>	<u>521,024</u>	<u>17,398,615</u>
26,609	11,993	-	-	125,577
-	22,852	389	-	27,942
-	-	850	-	850
<u>26,609</u>	<u>34,845</u>	<u>1,239</u>	<u>-</u>	<u>154,369</u>
-	-	-	-	24,347
<u>50,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>332,093</u>
<u>50,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>356,440</u>
-	1,010,362	-	20,000	1,968,956
3,105,116	1,560,000	1,000,000	-	7,790,116
1,226,386	1,966,649	2,030,639	501,024	7,128,734
<u>4,331,502</u>	<u>4,537,011</u>	<u>3,030,639</u>	<u>521,024</u>	<u>16,887,806</u>
<u>\$ 4,408,111</u>	<u>\$ 4,571,856</u>	<u>\$ 3,031,878</u>	<u>\$ 521,024</u>	<u>\$ 17,398,615</u>



Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
 Other Governmental Funds
 For the Year Ended December 31, 2013

	Special Revenue Funds			Debt Service Fund
	Street Fund	Lodging Tax	Community Development Block Grant	General Obligation Bond Fund
REVENUES				
Taxes	\$ 2,110,631	\$ 390,900	\$ -	\$ 1,504,216
Licenses and permits	-	-	-	-
Intergovernmental revenues	688,950	-	3,899	-
Charges for services	8,147	-	-	-
Other revenues	21,665	1,954	44	2,707
Total revenues	<u>2,829,393</u>	<u>392,854</u>	<u>3,943</u>	<u>1,506,923</u>
EXPENDITURES				
Current:				
Transportation	2,806,629	-	-	-
Economic environment	-	-	1,477	-
Culture and recreation	-	261,989	-	-
Capital outlay	-	-	-	-
Debt service:				
Principal retirement	-	-	-	1,345,000
Interest	-	-	-	705,630
Total expenditures	<u>2,806,629</u>	<u>261,989</u>	<u>1,477</u>	<u>2,050,630</u>
Excess of revenue over (under) expenditures	<u>22,764</u>	<u>130,865</u>	<u>2,466</u>	<u>(543,707)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	-	589,130
Transfers out	-	(133,500)	-	-
Total other financing sources (uses)	<u>-</u>	<u>(133,500)</u>	<u>-</u>	<u>589,130</u>
Net change in fund balances	<u>22,764</u>	<u>(2,635)</u>	<u>2,466</u>	<u>45,423</u>
Fund balance - beginning	3,176,179	928,521	10,242	284,670
Fund Balance - ending	<u>\$ 3,198,943</u>	<u>\$ 925,886</u>	<u>\$ 12,708</u>	<u>\$ 330,093</u>



Capital Project Funds				Total
Building Improvement	Capital Expenditure	Parks & Open Space Fund	Regional Athletic Complex Capital	Other Governmental Funds
\$ -	\$ 494,097	\$ 961,039	\$ -	\$ 5,460,883
-	36,893	-	-	36,893
-	56,373	214,344	735,278	1,698,844
-	-	-	-	8,147
83,547	34,949	61,638	754	207,258
<u>83,547</u>	<u>622,312</u>	<u>1,237,021</u>	<u>736,032</u>	<u>7,412,025</u>
-	-	-	-	2,806,629
-	2,573	-	-	4,050
-	-	2,882	1,842	266,713
880,081	238,633	4,183	97,303	1,220,200
-	150,719	-	-	1,495,719
-	22,641	-	-	728,271
<u>880,081</u>	<u>414,566</u>	<u>7,065</u>	<u>99,145</u>	<u>6,521,582</u>
<u>(796,534)</u>	<u>207,746</u>	<u>1,229,956</u>	<u>636,887</u>	<u>890,443</u>
714,216	800	350,000	-	1,654,146
-	(101,723)	(705,769)	(589,130)	(1,530,122)
<u>714,216</u>	<u>(100,923)</u>	<u>(355,769)</u>	<u>(589,130)</u>	<u>124,024</u>
(82,318)	106,823	874,187	47,757	1,014,467
4,413,820	4,430,188	2,156,452	473,267	15,873,339
<u>\$ 4,331,502</u>	<u>\$ 4,537,011</u>	<u>\$ 3,030,639</u>	<u>\$ 521,024</u>	<u>\$ 16,887,806</u>



Schedule of Revenues, Expenditures, and
Changes in Fund Balances - Budget to Actual
Street Fund
For the Year Ended December 31, 2013

	Budgeted Amounts		Actual GAAP Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 2,119,414	\$ 2,119,414	\$ 2,110,631	\$ (8,783)
Intergovernmental revenues	630,934	630,934	688,950	58,016
Charges for services	15,000	15,000	8,147	(6,853)
Other revenues	6,000	6,000	21,665	15,665
Total revenues	<u>2,771,348</u>	<u>2,771,348</u>	<u>2,829,393</u>	<u>58,045</u>
EXPENDITURES				
Current:				
Transportation	<u>2,771,348</u>	<u>2,899,730</u>	<u>2,806,629</u>	<u>93,101</u>
Total expenditures	<u>2,771,348</u>	<u>2,899,730</u>	<u>2,806,629</u>	<u>93,101</u>
Excess of revenue over (under) expenditures	<u>-</u>	<u>(128,382)</u>	<u>22,764</u>	<u>151,146</u>
Net change in fund balances	-	(128,382)	22,764	151,146
Fund balance - beginning	-	128,382	3,176,179	3,047,797
Fund balance-ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,198,943</u>	<u>\$ 3,198,943</u>



Schedule of Revenues, Expenditures, and
Changes in Fund Balances - Budget to Actual
Arterial Streets
For the Year Ended December 31, 2013

	Budgeted Amounts		Actual GAAP Basis	Variance with Final Budget
	Original	Final		Positive (Negative)
REVENUES				
Taxes	\$ 911,677	\$ 911,677	\$ 1,203,464	\$ 291,787
Intergovernmental revenues	3,947,346	3,947,346	619,812	(3,327,534)
Charges for services	343,437	343,437	968,919	625,482
Other revenues	11,500	11,500	54,382	42,882
Total revenues	<u>5,213,960</u>	<u>5,213,960</u>	<u>2,846,577</u>	<u>(2,367,383)</u>
EXPENDITURES				
Capital outlay	7,414,915	7,775,901	2,469,488	5,306,413
Total expenditures	<u>7,414,915</u>	<u>7,775,901</u>	<u>2,469,488</u>	<u>5,306,413</u>
Excess of revenue over (under) expenditures	<u>(2,200,955)</u>	<u>(2,561,941)</u>	<u>377,089</u>	<u>2,939,030</u>
Net change in fund balances	(2,200,955)	(2,561,941)	377,089	2,939,030
Fund balance - beginning	2,200,955	2,561,941	13,696,774	11,134,833
Fund balance-ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 14,073,863</u>	<u>\$ 14,073,863</u>



Schedule of Revenues, Expenditures, and
Changes in Fund Balances - Budget to Actual
Lodging Tax
For the Year Ended December 31, 2013

	Budgeted Amounts		Actual GAAP Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 400,000	\$ 400,000	\$ 390,900	\$ (9,100)
Other revenues	2,400	2,400	1,954	(446)
Total revenues	402,400	402,400	392,854	(9,546)
EXPENDITURES				
Current:				
Culture and recreation	273,500	273,500	261,989	11,511
Total expenditures	273,500	273,500	261,989	11,511
Excess of revenue over (under) expenditures	128,900	128,900	130,865	1,965
OTHER FINANCING SOURCES (USES)				
Transfers out	(133,500)	(133,500)	(133,500)	-
Total other financing sources	(133,500)	(133,500)	(133,500)	-
Net change in fund balances	(4,600)	(4,600)	(2,635)	1,965
Fund balance - beginning	4,600	4,600	928,521	923,921
Fund balance-ending	\$ -	\$ -	\$ 925,886	\$ 925,886



Schedule of Revenues, Expenditures, and
Changes in Fund Balances - Budget to Actual
Community Development Block Grant
For the Year Ended December 31, 2013

	Budgeted Amounts		Actual GAAP Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental revenues	\$ -	\$ 1,478	\$ 3,899	\$ 2,421
Other revenue	200	200	44	(156)
Total revenues	<u>200</u>	<u>1,678</u>	<u>3,943</u>	<u>2,265</u>
EXPENDITURES				
Current:				
Economic environment	-	1,478	1,477	1
Total expenditures	<u>-</u>	<u>1,478</u>	<u>1,477</u>	<u>1</u>
Excess of revenue over (under) expenditures	<u>200</u>	<u>200</u>	<u>2,466</u>	<u>2,266</u>
Net change in fund balance	200	200	2,466	2,266
Fund balance - beginning	-	-	10,242	10,242
Fund balance-ending	<u>\$ 200</u>	<u>\$ 200</u>	<u>\$ 12,708</u>	<u>\$ 12,508</u>



Schedule of Revenues, Expenditures, and
Changes in Fund Balances - Budget to Actual
General Obligation Bond Fund
For the Year Ended December 31, 2013

	Budgeted Amounts		Actual GAAP Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 1,494,747	\$ 1,494,747	\$ 1,504,216	\$ 9,469
Other revenues	500	500	2,707	2,207
Total revenues	<u>1,495,247</u>	<u>1,495,247</u>	<u>1,506,923</u>	<u>11,676</u>
EXPENDITURES				
Debt service:				
Principal retirement	1,330,000	1,330,000	1,345,000	(15,000)
Interest	<u>753,877</u>	<u>753,877</u>	<u>705,630</u>	<u>48,247</u>
Total expenditures	<u>2,083,877</u>	<u>2,083,877</u>	<u>2,050,630</u>	<u>33,247</u>
Excess of revenue over (under) expenditures	<u>(588,630)</u>	<u>(588,630)</u>	<u>(543,707)</u>	<u>44,923</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	<u>589,130</u>	<u>589,130</u>	<u>589,130</u>	<u>-</u>
Total other financing sources	<u>589,130</u>	<u>589,130</u>	<u>589,130</u>	<u>-</u>
Net change in fund balance	500	500	45,423	44,923
Fund balance - beginning	-	-	284,670	284,670
Fund balance-ending	<u>\$ 500</u>	<u>\$ 500</u>	<u>\$ 330,093</u>	<u>\$ 329,593</u>



Schedule of Revenues, Expenditures, and
Changes in Fund Balances - Budget to Actual
L.I.D. Redemption
For the Year Ended December 31, 2013

	Budgeted Amounts		Actual GAAP Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Other revenues	\$ 271,340	\$ 821,441	\$ 934,121	\$ 112,680
Total revenues	<u>271,340</u>	<u>821,441</u>	<u>934,121</u>	<u>112,680</u>
EXPENDITURES				
Debt service:				
Principal retirement	124,987	749,924	749,923	1
Interest	22,498	24,529	24,529	-
Total expenditures	<u>147,485</u>	<u>774,453</u>	<u>774,452</u>	<u>1</u>
Excess of revenue over (under) expenditures	<u>123,855</u>	<u>46,988</u>	<u>159,669</u>	<u>112,681</u>
Net change in fund balance	123,855	46,988	159,669	112,681
Fund balance - beginning	-	76,867	1,496,502	1,419,635
Fund balance-ending	<u>\$ 123,855</u>	<u>\$ 123,855</u>	<u>\$ 1,656,171</u>	<u>\$ 1,532,316</u>



Schedule of Revenues, Expenditures, and
Changes in Fund Balances - Budget to Actual
Building Improvement
For the Year Ended December 31, 2013

	Budgeted Amounts		Actual GAAP Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental revenues	\$ 300,000	\$ 408,000	\$ -	\$ (408,000)
Other revenues	112,000	112,000	83,547	(28,453)
Total revenues	412,000	520,000	83,547	(436,453)
EXPENDITURES				
Capital outlay	1,155,880	2,111,221	880,081	1,231,140
Total expenditures	1,155,880	2,111,221	880,081	1,231,140
Excess of revenue over (under) expenditures	(743,880)	(1,591,221)	(796,534)	794,687
OTHER FINANCING SOURCES (USES)				
Transfers in	21,723	714,216	714,216	-
Total other financing sources	21,723	714,216	714,216	-
Net change in fund balance	(722,157)	(877,005)	(82,318)	794,687
Fund balance - beginning	724,157	1,129,005	4,413,820	3,284,815
Fund balance-ending	\$ 2,000	\$ 252,000	\$ 4,331,502	\$ 4,079,502



Schedule of Revenues, Expenditures, and
Changes in Fund Balances - Budget to Actual
Capital Expenditure
For the Year Ended December 31, 2013

	Budgeted Amounts		Actual GAAP Basis	Variance with Final Budget
	Original	Final		Positive (Negative)
REVENUES				
Taxes	\$ 495,433	\$ 495,433	\$ 494,097	\$ (1,336)
Licenses and permits	36,500	36,500	36,893	393
Intergovernmental revenues	-	6,468	56,373	49,905
Other revenues	193,361	193,361	34,949	(158,412)
Total revenues	725,294	731,762	622,312	(109,450)
EXPENDITURES				
Current:				
Economic environment	-	-	2,573	(2,573)
Capital outlay	596,010	645,149	238,633	406,516
Debt service:				
Principal retirement	150,719	150,719	150,719	-
Interest	22,642	22,642	22,641	1
Total expenditures	769,371	818,510	414,566	403,944
Excess of revenue over (under) expenditures	(44,077)	(86,748)	207,746	294,494
OTHER FINANCING SOURCES (USES)				
Transfers in	800	800	800	-
Transfers out	(21,723)	(101,723)	(101,723)	-
Total other financing sources	(20,923)	(100,923)	(100,923)	-
Net change in fund balances	(65,000)	(187,671)	106,823	294,494
Fund balance-beginning	65,000	187,671	4,430,188	4,242,517
Fund balance-ending	\$ -	\$ -	\$ 4,537,011	\$ 4,537,011



Schedule of Revenues, Expenditures, and
Changes in Fund Balances - Budget to Actual
Parks & Open Space
For the Year Ended December 31, 2013

	Budgeted Amounts		Actual GAAP Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 971,984	\$ 971,984	\$ 961,039	\$ (10,945)
Intergovernmental revenues	-	34,066	214,344	180,278
Other revenues	32,386	37,498	61,638	24,140
Total revenues	<u>1,004,370</u>	<u>1,043,548</u>	<u>1,237,021</u>	<u>193,473</u>
EXPENDITURES				
Current:				
Culture and recreation	-	-	2,882	(2,882)
Capital outlay	-	106,467	4,183	102,284
Total expenditures	<u>-</u>	<u>106,467</u>	<u>7,065</u>	<u>99,402</u>
Excess of revenue over (under) expenditures	<u>1,004,370</u>	<u>937,081</u>	<u>1,229,956</u>	<u>292,875</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	-	350,000	350,000	-
Transfers out	(705,769)	(705,769)	(705,769)	-
Total other financing sources	<u>(705,769)</u>	<u>(355,769)</u>	<u>(355,769)</u>	<u>-</u>
Net change in fund balances	298,601	581,312	874,187	292,875
Fund balance - beginning	-	67,289	2,156,452	2,089,163
Fund balance-ending	<u>\$ 298,601</u>	<u>\$ 648,601</u>	<u>\$ 3,030,639</u>	<u>\$ 2,382,038</u>



Schedule of Revenues, Expenditures, and
Changes in Fund Balances - Budget to Actual
Regional Athletic Complex Capital
For the Year Ended December 31, 2013

	Budgeted Amounts		Actual GAAP Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental revenues	\$ 855,211	\$ 855,211	\$ 735,278	\$ (119,933)
Other revenues	1,500	1,500	754	(746)
Total revenues	<u>856,711</u>	<u>856,711</u>	<u>736,032</u>	<u>(120,679)</u>
EXPENDITURES				
Current:				
Culture and recreation	13,997	145,698	1,842	143,856
Capital outlay	-	-	97,303	(97,303)
Total expenditures	<u>13,997</u>	<u>145,698</u>	<u>99,145</u>	<u>46,553</u>
Excess of revenue over (under) expenditures	<u>842,714</u>	<u>711,013</u>	<u>636,887</u>	<u>(74,126)</u>
OTHER FINANCING SOURCES (USES)				
Transfers out	(589,130)	(589,130)	(589,130)	-
Total other financing sources	<u>(589,130)</u>	<u>(589,130)</u>	<u>(589,130)</u>	<u>-</u>
Net change in fund balances	253,584	121,883	47,757	(74,126)
Fund balance-beginning	-	131,701	473,267	341,566
Fund balance-ending	<u>\$ 253,584</u>	<u>\$ 253,584</u>	<u>\$ 521,024</u>	<u>\$ 267,440</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, 2013

	Governmental Activities		
	Internal Service Funds		
	Equipment Rental	Information Services	Total
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 8,385,717	\$ 2,768,263	\$ 11,153,980
Restricted cash and cash equivalents:			
Customer deposits	23	-	23
Receivables (net of allowances):			
Customer accounts	1,911	-	1,911
Due from governmental units	11,210	-	11,210
Total current assets:	<u>8,398,861</u>	<u>2,768,263</u>	<u>11,167,124</u>
Noncurrent assets:			
Capital assets, net of depreciation:			
Buildings	127,224	-	127,224
Improvements other than buildings	51,911	-	51,911
Equipment	2,704,280	143,500	2,847,780
Construction in progress	-	19,707	19,707
Total noncurrent assets	<u>2,883,415</u>	<u>163,207</u>	<u>3,046,622</u>
Total assets	<u>11,282,276</u>	<u>2,931,470</u>	<u>14,213,746</u>
LIABILITIES			
Current liabilities:			
Accounts payable	18,627	20,970	39,597
Due to other governmental units	23	6,181	6,204
Compensated absences	10,966	15,178	26,144
Total current liabilities	<u>29,616</u>	<u>42,329</u>	<u>71,945</u>
Noncurrent liabilities:			
Compensated absences	13,751	13,575	27,326
Total noncurrent liabilities	<u>13,751</u>	<u>13,575</u>	<u>27,326</u>
Total liabilities	<u>43,367</u>	<u>55,904</u>	<u>99,271</u>
NET POSITION			
Investment in capital assets	2,883,415	163,207	3,046,622
Unrestricted	<u>8,355,494</u>	<u>2,712,359</u>	<u>11,067,853</u>
Total net position	<u>\$ 11,238,909</u>	<u>\$ 2,875,566</u>	<u>\$ 14,114,475</u>



Combining Statement of Revenues, Expenses, and Changes in Fund Net Position
Internal Service Funds
For the Year Ended December 31, 2013

	Governmental Activities		
	Internal Service Funds		
	Equipment Rental	Information Services	Total
OPERATING REVENUES			
Charges for services	\$ 2,435,382	\$ 1,554,492	\$ 3,989,874
Total operating revenue	2,435,382	1,554,492	3,989,874
OPERATING EXPENSES			
Operating expense	1,137,557	1,041,253	2,178,810
Maintenance expense	64,163	218,305	282,468
Depreciation expense	657,002	82,235	739,237
Taxes	300	-	300
Total operating expenses	1,859,022	1,341,793	3,200,815
OPERATING INCOME (LOSS)	576,360	212,699	789,059
NONOPERATING REVENUES (EXPENSES)			
Investment earnings	15,540	4,555	20,095
Miscellaneous nonoperating revenues	8,952	2,537	11,489
Gain (loss) on sale of capital assets	13,104	-	13,104
Total nonoperating revenues (expenses)	37,596	7,092	44,688
Income (loss) before contributions and transfers	613,956	219,791	833,747
Capital Contributions - interfund	70,147	(10,839)	59,308
Changes in net position	684,103	208,952	893,055
NET POSITION - BEGINNING	10,554,806	2,666,614	13,221,420
NET POSITION - ENDING	\$ 11,238,909	\$ 2,875,566	\$ 14,114,475



Statement of Cash Flows
Internal Service Funds
For the Year Ended December 31, 2013

	Governmental Activities		
	Internal Service Funds		
	Equipment Rental	Information Services	Total Internal Service
CASH FLOW FROM OPERATING ACTIVITIES:			
Receipts from customers and users	\$ 100,108	\$ 2,536	\$ 102,644
Receipts from interfund services	2,344,833	1,554,493	3,899,326
Payments for interfund services	(7,345)	-	(7,345)
Payments to suppliers	(817,798)	(380,191)	(1,197,989)
Payments to employees	(378,076)	(859,846)	(1,237,922)
Payments for taxes	(300)	-	(300)
Net cash provided by operating activities	<u>1,241,422</u>	<u>316,992</u>	<u>1,558,414</u>
CASH FLOW FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Acquisition and construction of capital assets	(514,506)	(108,856)	(623,362)
Proceeds from sales of capital assets	16,149	-	16,149
Net cash used by capital and related financing activities	<u>(498,357)</u>	<u>(108,856)</u>	<u>(607,213)</u>
CASH FLOW FROM INVESTING ACTIVITIES:			
Purchase of investment	(1,896)	-	(1,896)
Interest received on investments	15,540	4,555	20,095
Net cash provided (used) by investing activities	<u>13,644</u>	<u>4,555</u>	<u>18,199</u>
Net increase (decrease) in cash and cash equivalents	756,709	212,691	969,400
Cash and cash equivalents January 1	7,417,354	2,555,572	9,972,926
Cash and cash equivalents December 31 (see Note below)	<u>\$ 8,174,063</u>	<u>\$ 2,768,263</u>	<u>\$ 10,942,326</u>
CASH PROVIDED BY OPERATING ACTIVITIES:			
Net operating income	\$ 576,360	\$ 212,699	\$ 789,059
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:			
Depreciation	657,002	82,235	739,237
(Increase)/decrease in customer receivables	5,593	-	5,593
(Increase)/decrease in intergovernmental receivables	(4,986)	-	(4,986)
Miscellaneous non-operating revenues	8,952	2,537	11,489
Increase/(decrease) in accounts payables	(5,559)	7,079	1,520
Increase/(decrease) in intergovernmental payables	23	6,181	6,204
Increase/(decrease) in compensated absences payables	4,037	6,261	10,298
Net cash provided by operating activities	<u>\$ 1,241,422</u>	<u>\$ 316,992</u>	<u>\$ 1,558,414</u>
Statement of noncash investing, capital, and financing activities:			
Capital asset transferred from (to) other funds	\$ 70,147	\$ (10,839)	\$ 59,308
Note: Reconciling Cash and cash equivalents with the amounts on the fund statement of net position:			
Statement of net position	\$ 8,385,740	\$ 2,768,263	\$ 11,154,003
Less investments with maturity over 3 months	(211,677)	-	(211,677)
Cash flow statements	<u>\$ 8,174,063</u>	<u>\$ 2,768,263</u>	<u>\$ 10,942,326</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, 2013

	Joint Animal Services	Thurston County Nartotics Task Force	Capital Area Public Facilities District	Total
ASSETS				
Cash and cash equivalents	\$ 2,359,315	\$ 170,372	\$ 70,031	\$ 2,599,718
Prepays	616	372	-	988
Accounts receivables, net of uncollectible accounts	-	5,121	-	5,121
Due from other governmental units	-	22,799	234,272	257,071
Total assets	2,359,931	198,664	304,303	2,862,898
LIABILITIES				
Accounts payable	20,073	1,384	-	21,457
Accrued employee leave payable	69,538	6,663	-	76,201
Capital lease payable	2,231	8,824	-	11,055
Notes payable	112,773	-	-	112,773
Due to other governmental units	2,155,316	181,793	304,303	2,641,412
Total liabilities	\$ 2,359,931	\$ 198,664	\$ 304,303	\$ 2,862,898



Combining Statement of Changes in Assets and Liabilities
Agency Funds
For the Year Ended December 31, 2013

	Joint Animal Services			Balance December 31, 2013
	Balance December 31, 2012	Additions	Deductions	
ASSETS				
Cash and cash equivalents	\$ 2,210,876	\$ 1,653,204	\$ 1,504,765	\$ 2,359,315
Prepays	1,084	3,830	4,298	616
Accounts receivables, net of uncollectible accounts	2,588	944,745	947,333	-
Due from other governmental units	-	-	-	-
Total assets	2,214,548	2,601,779	2,456,396	2,359,931
LIABILITIES				
Accounts payable	25,805	377,209	382,941	20,073
Accrued employee leave payable	63,109	45,856	39,427	69,538
Capital lease payable	4,477	-	2,246	2,231
Notes payable	131,434	-	18,661	112,773
Due to other governmental units	1,989,723	2,031,570	1,865,977	2,155,316
Total liabilities	\$ 2,214,548	\$ 2,454,635	\$ 2,309,252	\$ 2,359,931

	Thurston County Narcotics Task Force			Balance December 31, 2013
	Balance December 31, 2012	Additions	Deductions	
ASSETS				
Cash and cash equivalents	\$ 158,263	\$ 608,434	\$ 596,325	\$ 170,372
Prepays	452	1,900	1,980	372
Accounts receivables, net of uncollectible accounts	6,149	5,121	6,149	5,121
Due from other governmental units	23,729	22,799	23,729	22,799
Total assets	188,593	638,254	628,183	198,664
LIABILITIES				
Accounts payable	2,580	542,103	543,299	1,384
Accrued employee leave payable	6,178	4,792	4,307	6,663
Capital lease payable	11,170	-	2,346	8,824
Notes payable	-	-	-	-
Due to other governmental units	168,665	738,429	725,301	181,793
Total liabilities	\$ 188,593	\$ 1,285,324	\$ 1,275,253	\$ 198,664



Combining Statement of Changes in Assets and Liabilities
Agency Funds
For the Year Ended December 31, 2013

	Capital Area Public Facilities District			Balance December 31, 2013
	Balance December 31, 2012	Additions	Deductions	
ASSETS				
Cash and cash equivalents	\$ 69,757	\$ 1,298,792	\$ 1,298,518	\$ 70,031
Due from other governmental units	227,139	234,997	227,864	234,272
Total assets	296,896	1,533,789	1,526,382	304,303
LIABILITIES				
Accounts payable	-	2,567	2,567	-
Due to other governmental units	296,896	1,994,475	1,987,068	304,303
Total liabilities	\$ 296,896	\$ 1,997,042	\$ 1,989,635	\$ 304,303

	Total All Agencies			Balance December 31, 2013
	Balance December 31, 2012	Additions	Deductions	
ASSETS				
Cash and cash equivalents	\$ 2,438,896	\$ 3,560,430	\$ 3,399,608	\$ 2,599,718
Prepays	1,536	5,730	6,278	988
Accounts receivables, net of uncollectible accounts	8,737	949,866	953,482	5,121
Due from other governmental units	250,868	257,796	251,593	257,071
Total assets	2,700,037	4,773,822	4,610,961	2,862,898
LIABILITIES				
Accounts payable	28,385	921,879	928,807	21,457
Accrued employee leave payable	69,287	50,648	43,734	76,201
Capital lease payable	15,647	-	4,592	11,055
Notes payable	131,434	-	18,661	112,773
Due to other governmental units	2,455,284	4,764,474	4,578,346	2,641,412
Total liabilities	\$ 2,700,037	\$ 5,737,001	\$ 5,574,140	\$ 2,862,898



CITY
OF **LACEY**



Schedule of Operations - Budget to Actual
Water Fund
For the Year Ended December 31, 2013

	Budgeted Amounts		Actual GAAP Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
OPERATING REVENUES				
Charges for services	\$ 11,825,813	\$ 11,825,813	\$ 11,481,719	\$ (344,094)
Miscellaneous operating revenues	210,250	210,250	157,780	(52,470)
Total operating revenue	<u>12,036,063</u>	<u>12,036,063</u>	<u>11,639,499</u>	<u>(396,564)</u>
OPERATING EXPENSES				
Operating expense	3,278,539	3,284,539	3,049,322	235,217
Maintenance expense	13,233,311	13,449,984	3,631,475	9,818,509
Depreciation expense	3,500,000	3,500,000	3,130,234	369,766
Taxes	467,214	467,214	478,364	(11,150)
Total operating expenses	<u>20,479,064</u>	<u>20,701,737</u>	<u>10,289,395</u>	<u>10,412,342</u>
OPERATING INCOME (LOSS)	<u>(8,443,001)</u>	<u>(8,665,674)</u>	<u>1,350,104</u>	<u>10,015,778</u>
NONOPERATING REVENUES (EXPENSES)				
Special assessments	-	-	348,260	(348,260)
Debt issuance cost	-	(73,205)	(73,205)	-
Investment earnings	31,853	31,853	39,768	(7,915)
Revenue bond proceeds	5,338,000	6,894,876	-	6,894,876
Premium on bonds	-	346,752	-	346,752
Interest expense	-	-	(44,543)	44,543
Total nonoperating revenues (expenses)	<u>5,369,853</u>	<u>7,200,276</u>	<u>270,280</u>	<u>6,929,996</u>
Income (loss) before contributions and transfers	(3,073,148)	(1,465,398)	1,620,384	16,945,774
Capital Contributions	-	-	1,052,612	1,052,612
Transfers in	1,504,380	2,458,973	2,458,973	-
Changes in net position	(1,568,768)	993,575	5,131,969	17,998,386
NET POSITION - BEGINNING	<u>3,499,900</u>	<u>3,799,715</u>	<u>117,008,831</u>	<u>113,209,116</u>
NET POSITION - ENDING	<u>\$ 1,931,132</u>	<u>\$ 4,793,290</u>	<u>\$ 122,140,800</u>	<u>\$ 131,207,502</u>

This schedule is presented as supplemental information



Schedule of Operations - Budget to Actual
Wastewater Fund
For the Year Ended December 31, 2013

	Budgeted Amounts		Actual GAAP Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
OPERATING REVENUES				
Charges for services	\$ 13,722,884	\$ 13,722,884	\$ 13,940,042	\$ 217,158
Miscellaneous operating revenues	-	-	14,452	14,452
Total operating revenue	13,722,884	13,722,884	13,954,494	231,610
OPERATING EXPENSES				
Operating expense	9,750,071	9,750,071	9,904,395	(154,324)
Maintenance expense	4,574,194	5,430,118	2,246,613	3,183,505
Depreciation expense	2,350,000	2,350,000	1,876,625	473,375
Taxes	146,905	146,905	162,469	(15,564)
Total operating expenses	16,821,170	17,677,094	14,190,102	3,486,992
OPERATING INCOME (LOSS)	(3,098,286)	(3,954,210)	(235,608)	3,718,602
NONOPERATING REVENUES (EXPENSES)				
Investment earnings	19,349	19,349	38,448	19,099
Interfund loan	382,004	382,004	-	(382,004)
Miscellaneous non-operating revenues	231,000	231,000	-	(231,000)
Total nonoperating revenues (expenses)	632,353	632,353	38,448	(593,905)
Income (loss) before contributions and transfers	(2,465,933)	(3,321,857)	(197,160)	3,124,697
Capital contributions	-	-	1,183,720	1,183,720
Transfers out	-	(138,692)	(138,692)	-
Changes in net position	(2,465,933)	(3,460,549)	847,868	4,308,417
NET POSITION - BEGINNING	2,465,933	3,460,549	85,448,635	81,988,086
NET POSITION - ENDING	\$ -	\$ -	\$ 86,296,503	\$ 86,296,503

This schedule is presented as supplemental information



Schedule of Operations - Budget to Actual
Stormwater Fund
For the Year Ended December 31, 2013

	Budgeted Amounts		Actual GAAP Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
OPERATING REVENUES				
Charges for services	\$ 2,143,775	\$ 2,143,775	\$ 2,178,675	\$ 34,900
Miscellaneous operating revenues	-	-	7,014	7,014
Total operating revenue	<u>2,143,775</u>	<u>2,143,775</u>	<u>2,185,689</u>	<u>41,914</u>
OPERATING EXPENSES				
Operating expense	1,138,492	1,138,492	1,065,098	73,394
Maintenance expense	901,026	1,026,026	862,973	163,053
Depreciation expense	1,650,000	1,650,000	1,601,692	48,308
Taxes	38,545	38,545	50,381	(11,836)
Total operating expenses	<u>3,728,063</u>	<u>3,853,063</u>	<u>3,580,144</u>	<u>272,919</u>
OPERATING INCOME (LOSS)	<u>(1,584,288)</u>	<u>(1,709,288)</u>	<u>(1,394,455)</u>	<u>314,833</u>
NONOPERATING REVENUES (EXPENSES)				
Debt issuance cost	-	(14,812)	(14,812)	-
Investment earnings	4,421	4,421	6,336	1,915
Revenue bond proceeds	-	1,395,127	-	(1,395,127)
Premium on bonds	-	70,163	-	(70,163)
Interest expense	-	-	(6,923)	(6,923)
Total nonoperating revenues (expenses)	<u>4,421</u>	<u>1,454,899</u>	<u>(15,399)</u>	<u>(1,470,298)</u>
Income (loss) before contributions and transfers	(1,579,867)	(254,389)	(1,409,854)	(1,155,465)
Capital contributions	-	-	454,298	454,298
Transfers out	-	(65,901)	(65,901)	-
Changes in net position	<u>(1,579,867)</u>	<u>(320,290)</u>	<u>(1,021,457)</u>	<u>(701,167)</u>
NET POSITION - BEGINNING	1,675,367	1,800,367	48,145,607	46,345,240
NET POSITION - ENDING	<u>\$ 95,500</u>	<u>\$ 1,480,077</u>	<u>\$ 47,124,150</u>	<u>\$ 45,644,073</u>

This schedule is presented as supplemental information



Schedule of Operations - Budget to Actual
Reclaimed Water
For the Year Ended December 31, 2013

	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
Depreciation expense	-	-	19,442	(19,442)
Total operating expenses	100,000	100,000	19,442	80,558
OPERATING INCOME (LOSS)	(100,000)	(100,000)	(19,442)	80,558
NONOPERATING REVENUES (EXPENSES)				
Investment earnings	5,400	5,400	5,883	483
Total nonoperating revenues (expenses)	5,400	5,400	5,883	483
Income (loss) before contributions and transfers	(94,600)	(94,600)	(13,559)	81,041
Transfers out	(1,000,000)	(1,000,000)	(1,000,000)	-
Changes in net position	(1,094,600)	(1,094,600)	(1,013,559)	81,041
NET POSITION - BEGINNING	1,094,600	1,094,600	4,373,100	3,278,500
NET POSITION - ENDING	\$ -	\$ -	3,359,541	\$ 3,359,541

This schedule is presented as supplemental information



Schedule of Operations - Budget to Actual
Equipment Rental Fund
For the Year Ended December 31, 2013

	Budgeted Amounts		Actual GAAP Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
OPERATING REVENUES				
Charges for services	\$ 2,451,050	\$ 2,451,050	\$ 2,435,382	\$ (15,668)
Miscellaneous operating revenues	-	-	-	
Total operating revenue	<u>2,451,050</u>	<u>2,451,050</u>	<u>2,435,382</u>	<u>(15,668)</u>
OPERATING EXPENSES				
Operating expense	1,867,550	1,947,421	1,137,557	809,864
Maintenance expense	55,346	55,346	64,163	(8,817)
Depreciation expense	693,512	693,512	657,002	36,510
Taxes	-	-	300	(300)
Total operating expenses	<u>2,616,408</u>	<u>2,696,279</u>	<u>1,859,022</u>	<u>837,257</u>
OPERATING INCOME (LOSS)	<u>(165,358)</u>	<u>(245,229)</u>	<u>576,360</u>	<u>821,589</u>
NONOPERATING REVENUES (EXPENSES)				
Investment earnings	13,238	13,238	15,540	2,302
Miscellaneous non-operating revenues	-	-	8,952	8,952
Gain (loss) on sale of capital assets	-	-	13,104	13,104
Total nonoperating revenues (expenses)	<u>13,238</u>	<u>13,238</u>	<u>37,596</u>	<u>24,358</u>
Income (loss) before contributions and transfers	(152,120)	(231,991)	613,956	845,947
Capital contributions	-	-	70,147	70,147
Changes in net position	<u>(152,120)</u>	<u>(231,991)</u>	<u>684,103</u>	<u>916,094</u>
NET POSITION - BEGINNING	<u>152,120</u>	<u>231,991</u>	<u>10,554,806</u>	<u>10,322,815</u>
NET POSITION - ENDING	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 11,238,909</u>	<u>\$ 11,238,909</u>

This schedule is presented as supplemental information



Schedule of Operations - Budget to Actual
Information Management Services Fund
For the Year Ended December 31, 2013

	Budgeted Amounts		Actual GAAP Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
OPERATING REVENUES				
Charges for services	\$ 1,554,493	\$ 1,554,493	\$ 1,554,492	\$ (1)
Total operating revenue	1,554,493	1,554,493	1,554,492	(1)
OPERATING EXPENSES				
Operating expense	1,328,494	1,328,494	1,041,253	287,241
Maintenance expense	234,000	234,000	218,305	15,695
Depreciation expense	140,000	140,000	82,235	57,765
Total operating expenses	1,702,494	1,702,494	1,341,793	360,701
OPERATING INCOME (LOSS)	(148,001)	(148,001)	212,699	360,700
NONOPERATING REVENUES (EXPENSES)				
Investment earnings	4,500	4,500	4,555	55
Miscellaneous non-operating revenues	-	-	2,537	2,537
Total nonoperating revenues (expenses)	4,500	4,500	7,092	2,592
Income (loss) before contributions and transfers	(143,501)	(143,501)	219,791	363,292
Capital contributions	-	-	(10,839)	(10,839)
Changes in net position	(143,501)	(143,501)	208,952	352,453
NET POSITION - BEGINNING	143,501	143,501	2,666,614	2,523,113
NET POSITION - ENDING	\$ -	\$ -	\$ 2,875,566	\$ 2,875,566

This schedule is presented as supplemental information



City of Lacey, Washington
 Schedule of Expenditures of Federal Awards
 For the Year Ended December 31, 2013

Federal Agency Name / Pass-Through Agency Name	Federal Program Name	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	34923	\$ 61,573		\$ 61,573	
Department of Agriculture / Pass-through from WA Department of Natural Resources	Cooperative Forestry Assistance	10.664	IAA-12-230/K244-10-DG-010	141		141	
US Department of Justice / Pass-through from Thurston County Narcotics Task Force	Joint Law Enforcement Operations (JLEO)	16.111	OCDEFT #PW-WAW-0272	2,356		2,356	
US Department of Justice	Public Safety Partnership And Community Policing Grants	16.710	2010CKWX0226		\$ 49,905	49,905	
US Department of Justice / Pass-through from WA State Department of Commerce	Edward Byrne Memorial Justice Assistance Grant Program	16.738	M12-34021-010	88,139		88,139	4
		16.738	M13-31440-010	36,453		36,453	4
		16.738	Subtotal	124,592	-	124,592	
US Department of Justice / Pass-through from Thurston County Narcotics Task Force	Equitable Sharing Program	16.922	TNT	2,186		2,186	
US Department of Transportation / Pass-through from WA State Department of Transportation	Highway Planning and Construction	20.205	LA-7792 (HSIP-0000S-304)	13,477		13,477	
		20.205	LA-7580 (STPUS-5291-001)	97,295		97,295	
		20.205	Subtotal	110,772	-	110,772	
US Department of Transportation / Pass-through from: Washington Traffic Safety Commission Washington Traffic Safety Commission Thurston County Sheriff's Office Washington Association of Sheriffs and Police Chiefs	State and Community Highway Safety	20.600	Target Zero, FFY 2013	2,758		2,758	
		20.600	Target Zero, FFY 2014	856		856	
		20.600	Party Patrol	1,789		1,789	
		20.600	Traffic Safety Equipment	3,479		3,479	
		20.600	Subtotal	8,882	-	8,882	
		20.602	Target Zero, FFY 2013	880		880	
Executive Office of the President	High Intensity Drug Trafficking Areas Program	95.001	G13NW0005A		13,816	13,816	4
Executive Office of the President		95.001	G12NW0005A		45,863	45,863	4
Executive Office of the President / Pass-through Thurston County Narcotics Task Force		95.001	TNT	3,666		3,666	
		95.001	Subtotal	3,666	59,679	63,345	
Department of Homeland Security / Pass-through from Thurston County Emergency Management	Homeland Security Program (HSGP)	97.067	EMW-2012-SS-00115-S01	2,789		2,789	
Total Federal Awards Expensed				\$ 317,837	\$ 109,584	\$ 427,421	

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, 2013**

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 2013 was \$2,422. The City has received approval from Washington Department of Commerce (formerly CTED) to utilize the program revenues to finance future CDBG approved projects.

Note 4 - Amounts Awarded to Subrecipients

Included in the total amount expended for this program is \$184,271 that was passed through to subrecipients that administered their own projects.



Schedule of State and Local Financial Assistance
For The Year Ended December, 31, 2013

Grantor/Program Title	Identification Number	Current Year Expenditures	Note
WA State Transportation Improvement Board (TIB:)			
Yelm Highway Sidewalk Connection	9W197(P01)1	\$ 159,815	
<u>Total WA State Transportation Improvement Board (TIB)</u>		<u>159,815</u>	
WA State Department of Transportation			
College Street & 22nd Ave Roundabout	LA-7245 (STPUS-5289-004)	59,128	
I-5 Martin & Marvin IJR Phase 3	GCB-1208	8,764	
<u>Total WA State Department of Transportation</u>		<u>67,892</u>	
WA State Department of Commerce:			
Multi-Jurisdictional Drug-Gang Task Force Program	M13-31440-010	30,931	1
Multi-Jurisdictional Drug-Gang Task Force Program	M12-34021-010	15,461	1
<u>Total WA State Department of Commerce</u>		<u>46,392</u>	
WA State Department of Ecology:			
Municipal Stormwater Capacity Program	G1100058-FY11	57,619	
Statewide Stormwater Grant Program	G1200508	11,883	
Supplemental Statewide Stormwater Grant Program	SS12028	50,042	
<u>Total WA State Department of Ecology</u>		<u>119,544</u>	
WA State Recreation and Conservation Office:			
Lacey Woodland Trail Development	06-1797D	313	
Greg J. Cuoio Community Park Project	10-1690A	114,031	2
<u>Total WA State Recreation and Conservation Office</u>		<u>114,344</u>	
WA State Superintendent of Public Instruction:			
Summer Food Service Program for Children - state match	SFSP 2013	1,448	
<u>Total WA State Superintendent of Public Instruction</u>		<u>1,448</u>	
Washington Traffic Safety Commission:			
School Zone Grant		6,468	
<u>Total Washington Traffic Safety Commission:</u>		<u>6,468</u>	
<u>TOTAL STATE ASSISTANCE</u>		<u>515,903</u>	
Thurston County Board of Commissioners			
Palm Creek Headwater's Acquisition Project	N/A	100,000	
Washington Auto Theft Prevention Authority			
Auto Theft Grant program Mini-Grant		2,150	
<u>Total Washington Auto Theft Prevention Authority</u>		<u>2,150</u>	
<u>TOTAL LOCAL ASSISTANCE</u>		<u>102,150</u>	
<u>TOTAL STATE AND LOCAL ASSISTANCE</u>		<u>\$ 618,053</u>	

Note:

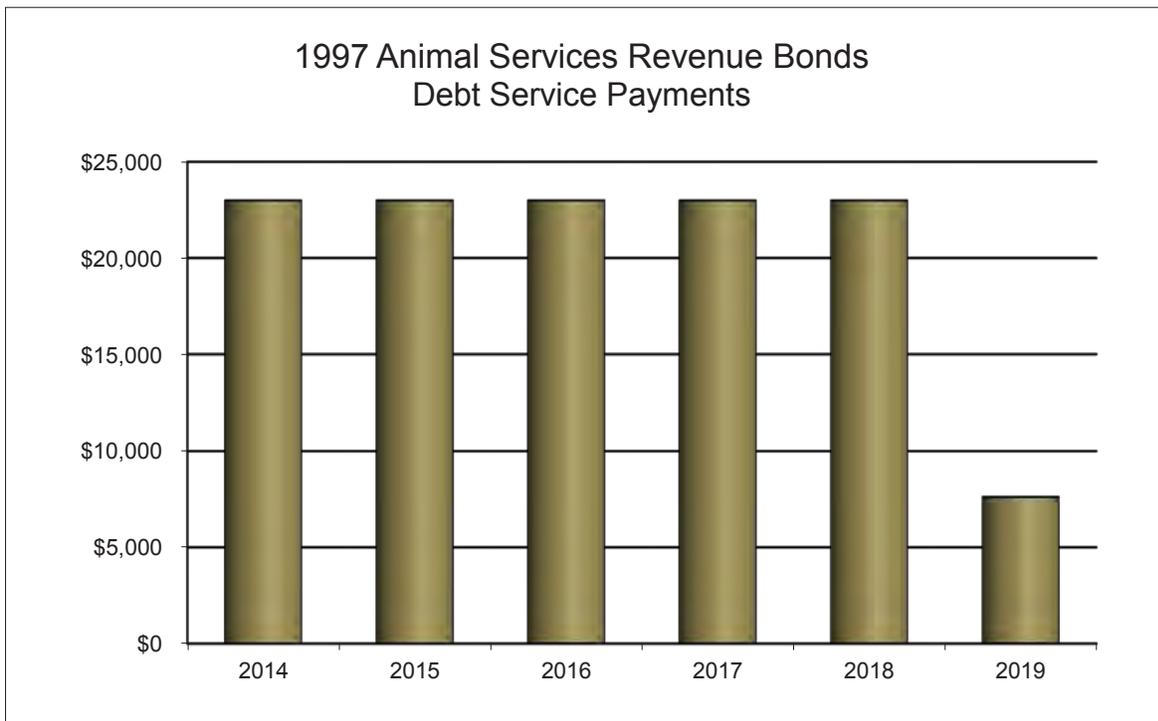
1. Amount passed through to subrecipients that administered their own projects.
2. Includes \$113,204 for 2012 expenditures reimbursed in 2013 due to grant funding percentage increase during 2013.



City of Lacey
1997 Animal Services Revenue Bonds
December 31, 2013

Year Ended 31-Dec	Interest Rate - %	Interest Annual*	Principal Annual*	Total Debt Service
2014	3.978%	\$ 3,253	\$ 19,744	\$ 22,997
2015	3.978%	2,625	20,373	22,998
2016	3.978%	1,983	21,015	22,998
2017	3.978%	1,309	21,689	22,998
2018	3.978%	619	22,379	22,998
2019	3.978%	48	7,573	7,621
		<u>\$ 9,837</u>	<u>\$ 112,773</u>	<u>\$ 122,610</u>

*Actual payments made are equal monthly installments.

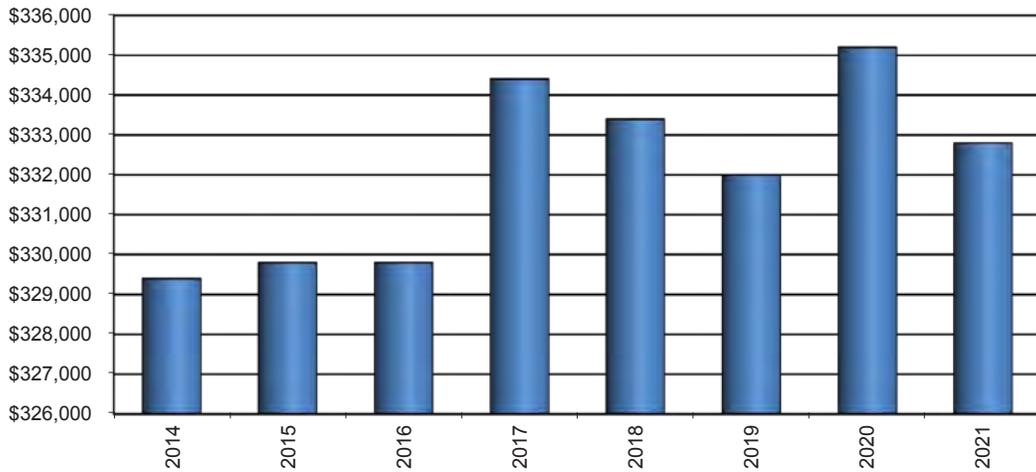




City of Lacey General Obligation Bond Debt
 2006 Limited Tax General Obligation Bonds
 December 31, 2013

Year Ended 31-Dec	Interest Rate - %	Interest Due - 01 Jun	Interest Due - 01 Dec	Principal Due - 01 Dec	Total Debt Service
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>\$ 210,900</u>	<u>\$ 210,900</u>	<u>\$ 2,235,000</u>	<u>\$ 2,656,800</u>

2006 Limited Tax General Obligation Bonds
 Debt Service Payments

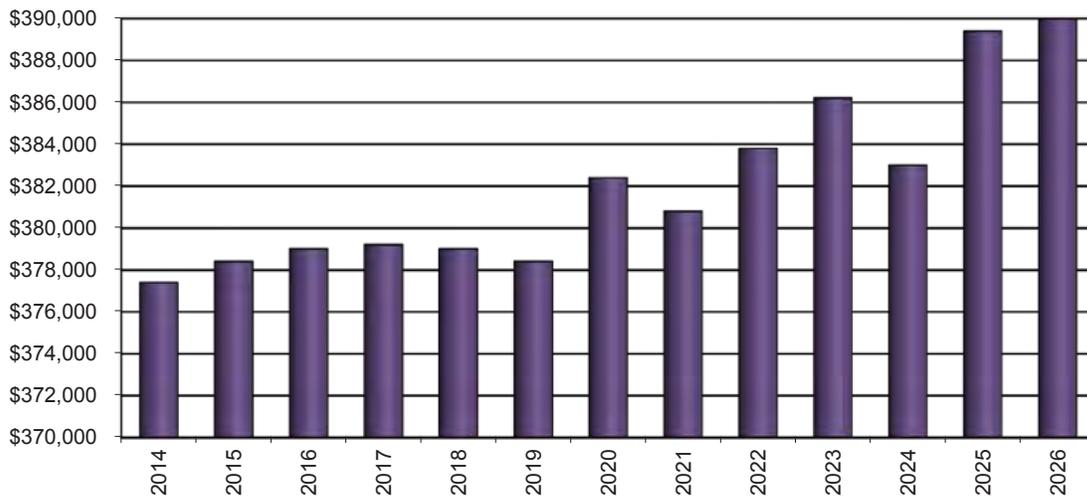




City of Lacey General Obligation Bond Debt
 2006 Unlimited Tax General Obligation Bonds
 December 31, 2013

Year Ended 31-Dec	Interest Rate - %	Interest Due - 01 Jun	Interest Due - 01 Dec	Principal Due - 01 Dec	Total Debt Service
2014	4.000%	\$ 76,200	\$ 76,200	\$ 225,000	\$ 377,400
2015	4.000%	71,700	71,700	235,000	378,400
2016	4.000%	67,000	67,000	245,000	379,000
2017	4.000%	62,100	62,100	255,000	379,200
2018	4.000%	57,000	57,000	265,000	379,000
2019	4.000%	51,700	51,700	275,000	378,400
2020	4.000%	46,200	46,200	290,000	382,400
2021	4.000%	40,400	40,400	300,000	380,800
2022	4.000%	34,400	34,400	315,000	383,800
2023	4.000%	28,100	28,100	330,000	386,200
2024	4.000%	21,500	21,500	340,000	383,000
2025	4.000%	14,700	14,700	360,000	389,400
2026	4.000%	7,500	7,500	375,000	390,000
		<u>\$ 578,500</u>	<u>\$ 578,500</u>	<u>\$ 3,810,000</u>	<u>\$4,967,000</u>

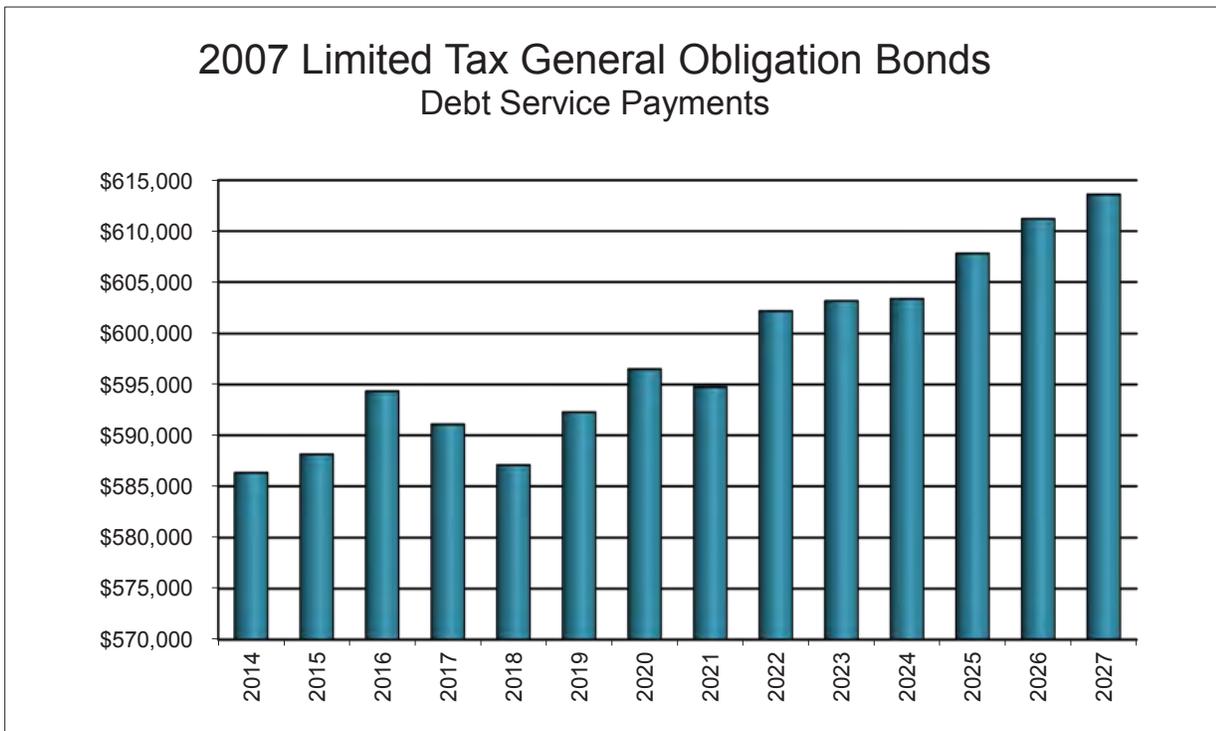
2006 Unlimited Tax General Obligation Bonds
 Debt Service Payments





City of Lacey General Obligation Bond Debt
 2007 Limited Tax General Obligation Bonds
 December 31, 2013

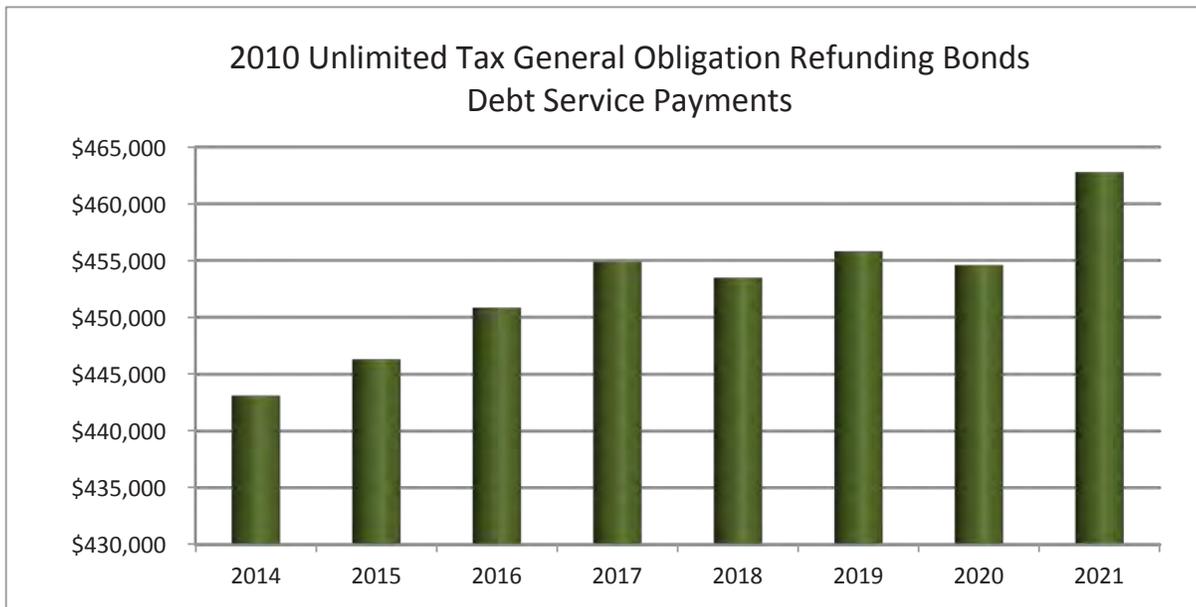
<u>Year Ended 31-Dec</u>	<u>Interest Rate - %</u>	<u>Interest Due - 01 Jun</u>	<u>Interest Due - 01 Dec</u>	<u>Principal Due - 01 Dec</u>	<u>Total Debt Service</u>
2014	4.000%	\$ 128,165	\$ 128,165	\$ 330,000	\$ 586,330
2015	4.000%	121,565	121,565	345,000	588,130
2016	5.000%	114,665	114,665	365,000	594,330
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>\$ 1,038,433</u>	<u>\$ 1,038,433</u>	<u>\$ 6,295,000</u>	<u>\$ 8,371,866</u>





City of Lacey General Obligation Bond Debt
2010 Unlimited Tax General Obligation Refunding Bonds
December 31, 2013

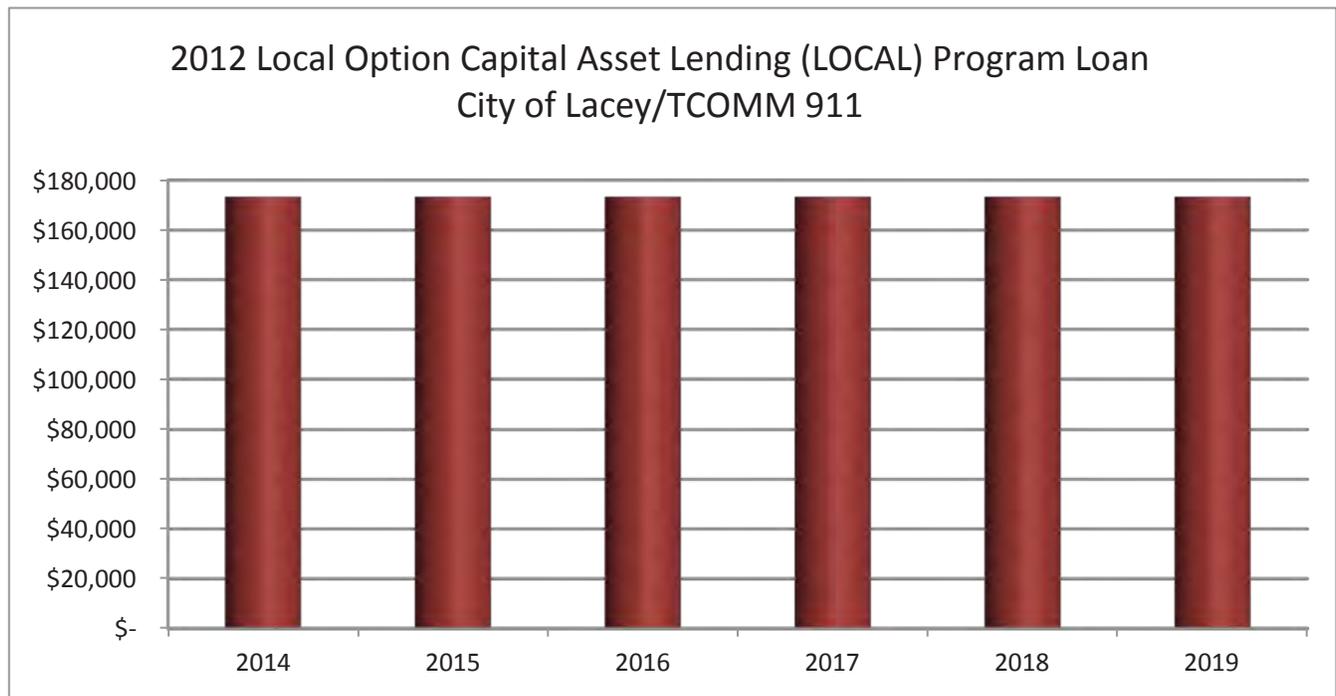
Year Ended 31-Dec	Interest Rate - %	Interest Due - 01 Jun	Interest Due - 01 Dec	Principal Due - 01 Dec	Total Debt Service
2014	2.000%	\$ 51,563	\$ 51,563	\$ 340,000	\$ 443,125
2015	3.000%	48,163	48,163	350,000	446,325
2016	3.000%	42,913	42,913	365,000	450,825
2017	3.000%	37,438	37,438	380,000	454,875
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
		<u>\$ 263,413</u>	<u>\$ 263,413</u>	<u>\$ 3,095,000</u>	<u>\$ 3,621,825</u>





City of Lacey/TCOMM 911
 2012 Local Option Capital Asset Lending (LOCAL) Program Loan
 December 31, 2013

<u>Year Ended 31-Dec</u>	<u>Interest Rate - %</u>	<u>Principal Due - 01 Jun</u>	<u>Interest Due - 01 Jun</u>	<u>Due - 01 Dec</u>	<u>Total Debt Service</u>
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
		<u>\$ 971,314</u>	<u>\$ 39,708</u>	<u>\$ 29,141</u>	<u>\$ 1,040,162</u>

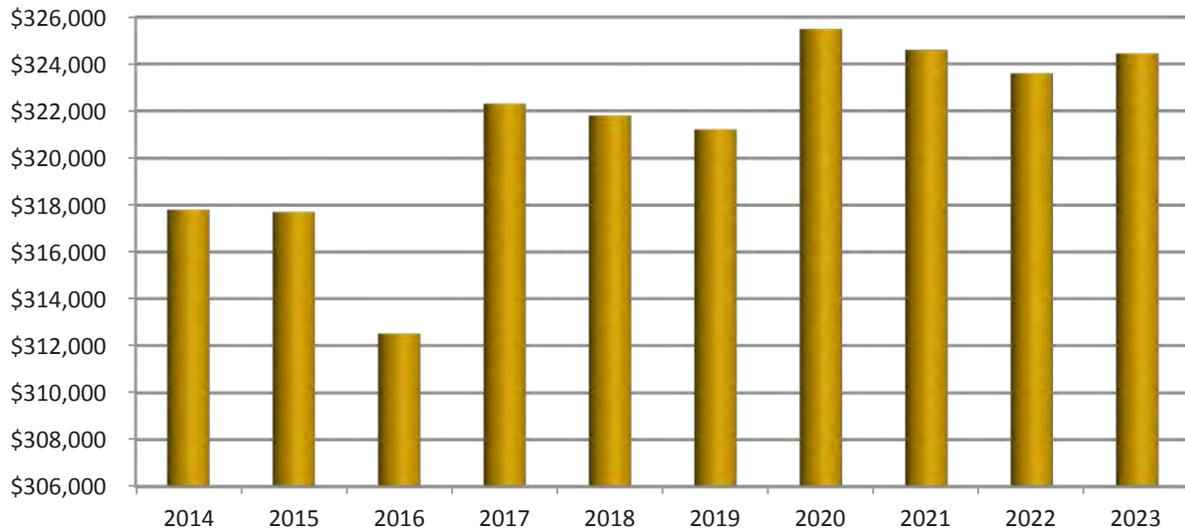




City of Lacey General Obligation Bond Debt
 2012 Unlimited Tax General Obligation Refunding Bonds
 December 31, 2013

Year Ended 31-Dec	Interest Rate - %	Interest Due - 01 Jun	Interest Due - 01 Dec	Principal Due - 01 Dec	Total Debt Service
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
		<u>\$ 190,725</u>	<u>\$ 190,725</u>	<u>\$ 2,830,000</u>	<u>\$ 3,211,450</u>

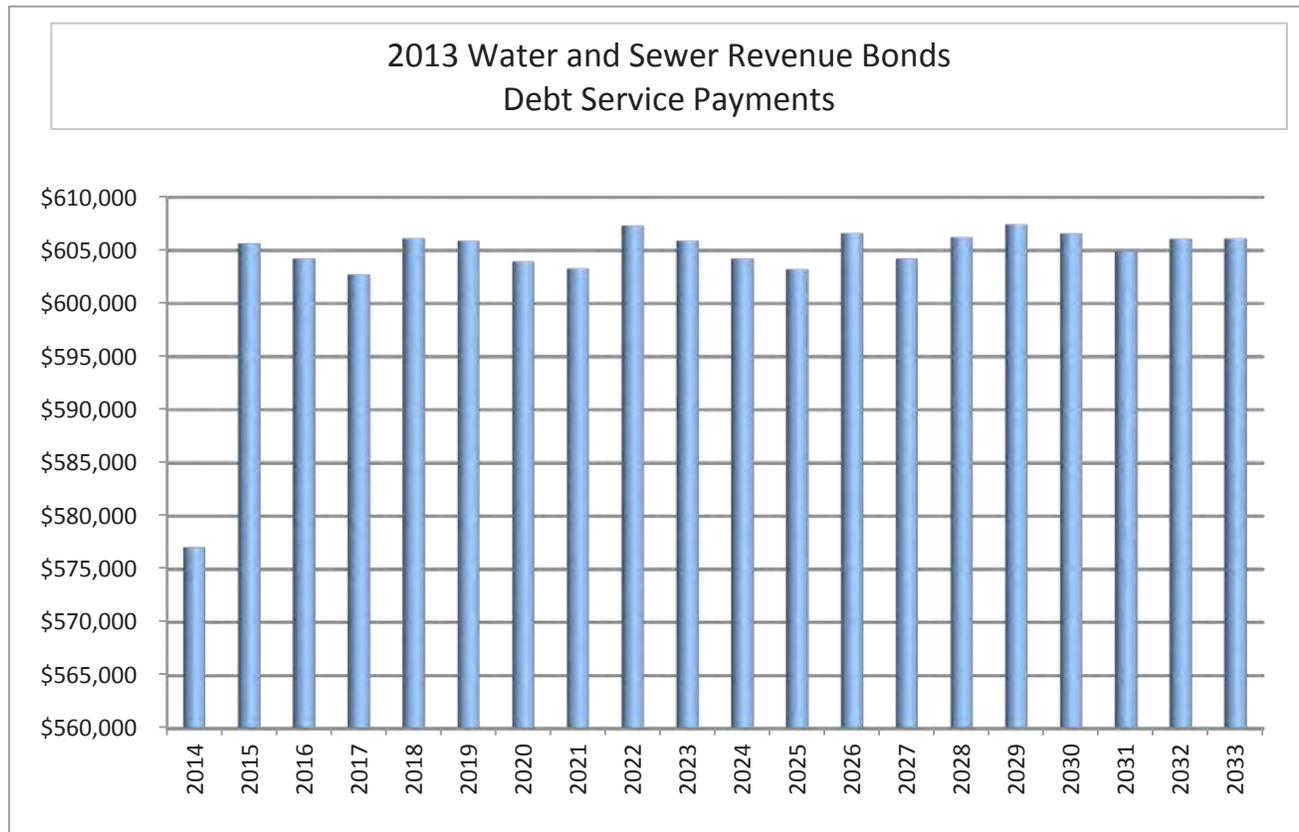
2012 Unlimited Tax General Obligation Refunding Bonds
 Debt Service Payments





City of Lacey
2013 Water and Sewer Revenue Bonds
December 31, 2013

Year Ended 31-Dec	Interest Rate - %	Interest Due - 01 May	Due - 01 Nov	Principal Due - 01 Nov	Total Debt Service
2014	2.000%	\$ 131,231	\$ 145,813	\$ 300,000	\$ 577,044
2015	2.000%	142,813	142,813	320,000	605,625
2016	2.000%	139,613	139,613	325,000	604,225
2017	2.000%	136,363	136,363	330,000	602,725
2018	3.000%	133,063	133,063	340,000	606,125
2019	2.000%	127,963	127,963	350,000	605,925
2020	3.000%	124,463	124,463	355,000	603,925
2021	3.000%	119,138	119,138	365,000	603,275
2022	3.000%	113,663	113,663	380,000	607,325
2023	3.000%	107,963	107,963	390,000	605,925
2024	4.000%	102,113	102,113	400,000	604,225
2025	4.000%	94,113	94,113	415,000	603,225
2026	4.000%	85,813	85,813	435,000	606,625
2027	4.000%	77,113	77,113	450,000	604,225
2028	4.000%	68,113	68,113	470,000	606,225
2029	4.250%	58,713	58,713	490,000	607,425
2030	4.250%	48,300	48,300	510,000	606,600
2031	4.500%	37,463	37,463	530,000	604,925
2032	4.500%	25,538	25,538	555,000	606,075
2033	4.500%	13,050	13,050	580,000	606,100
		<u>\$ 1,886,594</u>	<u>\$ 1,901,175</u>	<u>\$ 8,290,000</u>	<u>\$12,077,769</u>





CITY
OF **LACEY**

SECTION 3

Statistical Section

Financial Trends

Revenue Capacity

Debt Capacity

Demographic and Economic Information

Operating Information

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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
<u>Financial Trends</u>	
These schedules contain trend information to help the reader understand how the city’s financial performance and well-being have changed over time.	
1 Net Position by Component.....	8-2
2 Changes in Net Position.....	8-3
3 Fund Balances of Governmental Funds.....	8-4
4 Changes in Fund Balances of Governmental Funds.....	8-5
<u>Revenue Capacity</u>	
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.	
5 Governmental Activities Tax Revenues by Source.....	8-6
6 Sales Tax Revenues by Type, Governmental Funds.....	8-7
7 Assessed Value and Estimated Actual Value of Taxable Property.....	8-8
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9 Principal Property Taxpayers.....	8-10
10 Property Tax Levies and Collections.....	8-11
<u>Debt Capacity</u>	
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.	
11 Ratio of Outstanding Debt by Type.....	8-12
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These schedules offer demographic and economic indicators to help the reader understand the environment within which the city’s financial activities take place.	
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17 Principal Employers.....	8-18
<u>Operating Information</u>	
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.	
18 Full-time Equivalent City Government Employees by Function.....	8-19
19 Operating Indicators by Function.....	8-20
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Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year.



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

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Governmental activities										
Net investment in capital assets	\$ 184,942	\$ 219,565	\$ 254,410	\$ 269,717	\$ 281,557	\$ 287,705	\$ 302,167	\$ 304,458	\$ 304,245	\$ 298,885
Restricted	1,169	1,289	10,136	16,780	2,430	1,261	995	7,909	1,182	1,253
Unrestricted	41,755	44,417	47,198	50,043 *	64,706 *	68,455	63,256	53,522	61,630	63,392
Total governmental activities net position	\$ 227,866	\$ 265,271	\$ 311,743	\$ 336,540	\$ 348,693 *	\$ 357,421	\$ 366,418	\$ 365,889	\$ 367,057	\$ 363,530
Business-type activities										
Net investment in capital assets	\$ 107,181	\$ 133,961	\$ 155,634	\$ 182,646	\$ 215,424	\$ 218,450	\$ 221,544	224,593	230,039	228,482
Restricted	1,049	1,049	413	-	-	-	-	-	-	6,091
Unrestricted	15,813	18,481	24,625	22,336	14,983	16,861	18,139	22,355	25,189	24,858
Total business-type activities net position	\$ 124,043	\$ 153,491	\$ 180,672	\$ 204,982	\$ 230,407	\$ 235,311	\$ 239,683	\$ 246,948	\$ 255,228	\$ 259,431
Primary government										
Net investment in capital assets	\$ 292,123	\$ 353,526	\$ 410,044	\$ 452,363	\$ 496,981	\$ 506,155	\$ 523,711	\$ 529,051	\$ 534,284	527,366
Restricted	2,218	2,337	10,549	16,780	2,430	1,261	995	7,909	1,182	7,344
Unrestricted	57,568	62,899	71,823	72,379	79,689	85,316	81,395	75,877	86,819	88,251
Total primary government net position	\$ 351,909	\$ 418,762	\$ 492,416	\$ 541,522	\$ 579,100	\$ 592,732	\$ 606,101	\$ 612,837	\$ 622,285	\$ 622,961

*Restatement reduced the balance by \$743,453 (see 2009 Note 4.G)

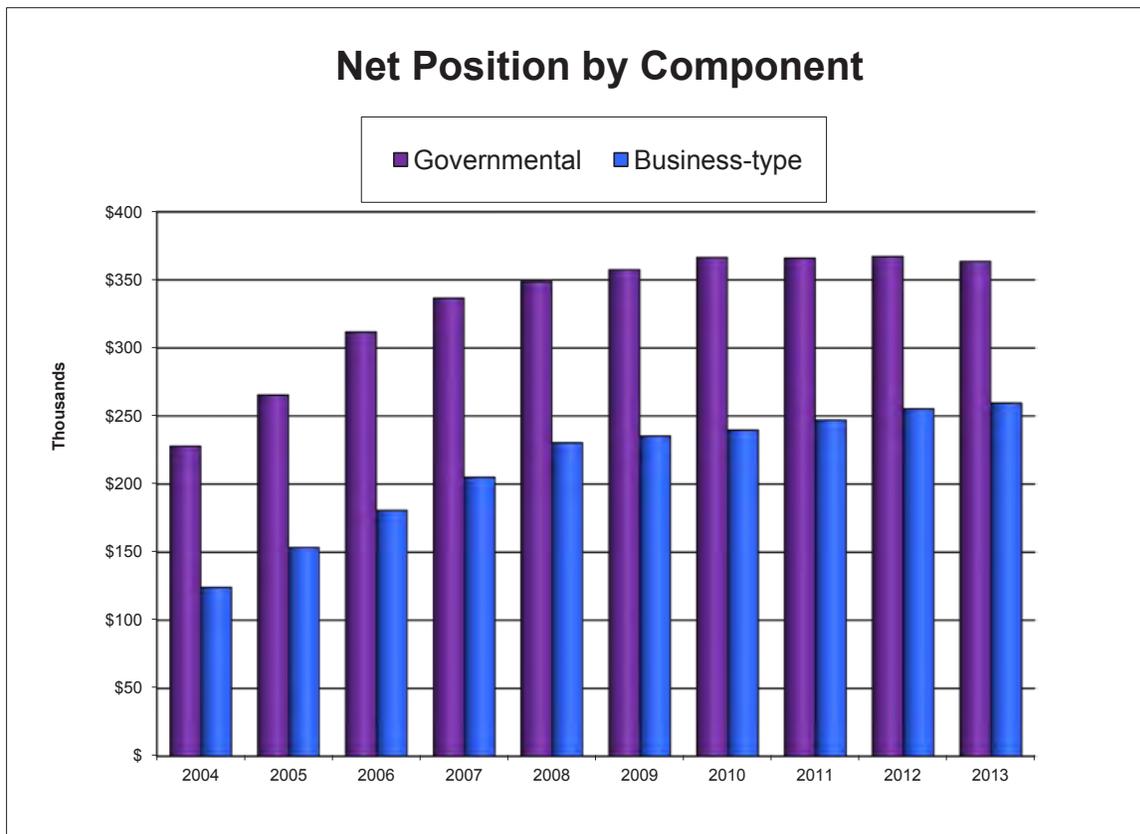




Table 2
Changes in Net Position
Last Ten Fiscal Years
(accrual basis of accounting)
(amounts expressed in thousands)

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Expenses										
Governmental activities:										
General government	\$ 3,730	\$ 4,174	\$ 4,849	\$ 5,459	\$ 5,745	\$ 5,550	\$ 5,210	\$ 6,056	\$ 5,920	\$ 5,863
Security of persons and property	12,043	10,487	11,914	12,337	13,348	14,088	15,284	10,599	10,879	11,137
Physical environment	2,380	2,805	2,827	3,139	3,526	3,656	3,605	3,566	3,625	3,724
Transportation	7,967	8,865	10,116	11,086 *	13,821	10,748	12,402	13,048	12,726	13,734
Economic development	1,015	1,076	1,138	1,271	1,260	1,173	1,492	1,287	1,211	1,286
Mental and physical health	7	8	5	10	8	11	8	10	11	8
Culture and recreation	3,266	3,570	4,819	4,429	5,757	6,519	7,388	7,033	7,640	7,860
Interest on long-term debt	925	829	722	924	1,122	1,023	977	875	811	752
Total governmental activities	31,333	31,814	36,390	38,655 *	44,587	42,768	46,366	42,474	42,823	44,364
Business-type activities:										
Water	6,399	6,500	7,493	8,468	9,843	9,784	10,030	10,088	10,540	10,283
Wastewater	7,445	7,862	8,802	9,513	10,507	11,114	11,821	12,750	13,397	14,109
Stormwater	1,442	1,507	1,959	2,343	2,825	3,220	3,166	3,330	3,334	3,549
Reclaimed Water	-	-	-	332	67	-	-	-	49	20
Total business-type activities	15,286	15,869	18,254	20,656	23,242	24,118	25,017	26,168	27,320	27,961
Total primary government expenses	\$ 46,619	\$ 47,683	\$ 54,644	\$ 59,311	\$ 67,829	\$ 66,886	\$ 71,383	\$ 68,642	\$ 70,143	\$ 72,325
Program Revenues										
Governmental activities:										
Charges for services:										
General government	\$ 365	\$ 406	\$ 476	\$ 812	\$ 1,235	\$ 1,005	\$ 561	\$ 853	\$ 867	\$ 909
Security of persons and property	283	316	190	337	849	1,385	1,624	1,210	879	887
Physical environment	15	22	23	2,285	2,677	2,858	2,827	2,537	2,550	2,994
Transportation	954	1,492	1,328	1,097	1,065	1,467	2,319	1,015	1,082	1,062
Economic development	1,518	3,196	3,811	3,328	1,863	1,084	1,117	1,577	1,450	1,178
Culture and recreation	760	880	923	988	1,065	1,303	1,451	1,500	1,554	1,586
Operating grants and contributions	1,952	1,731	3,785	1,478	1,464	2,006	3,221	2,947	3,011	2,822
Capital grants and contributions	11,532	32,405	38,117	19,499	13,470	9,780	7,920	8,464	6,933	4,264
Total governmental activities program revenues	17,379	40,448	48,653	29,824	23,688	20,888	21,040	20,103	18,326	15,702
Business type activities:										
Charges for services:										
Water	6,782	7,649	10,734	10,556	10,632	11,320	10,436	11,535	12,140	11,640
Wastewater	8,248	9,357	11,499	10,651	11,112	11,161	11,873	12,817	13,216	13,954
Stormwater	1,380	1,421	1,533	1,685	1,826	1,929	1,992	2,103	2,091	2,186
Operating grants and contributions	-	-	-	51	-	-	9	32	48	-
Capital grants and contributions	11,999	26,212	20,314	18,675	23,931	4,219	4,994	3,684	8,000	3,070
Total business-type activities program revenue	28,409	44,639	44,081	41,618	47,501	28,629	29,304	30,171	35,495	30,850
Total primary government program revenues	\$ 45,788	\$ 85,087	\$ 92,733	\$ 71,442	\$ 71,189	\$ 49,517	\$ 50,344	\$ 50,274	\$ 53,821	\$ 46,552
Net (expenses)/revenue:										
Governmental activities	\$ (13,954)	\$ 8,634	\$ 12,262	\$ (8,831) *	\$ (20,899)	\$ (21,880)	\$ (25,326)	\$ (22,371)	\$ (24,497)	\$ (28,662)
Business-type activities	13,123	28,770	25,828	20,962	24,259	4,511	4,287	4,004	\$ 8,175	\$ 2,889
Total primary government net (expense) revenue	\$ (831)	\$ 37,404	\$ 38,090	\$ 12,131 *	\$ 3,360	\$ (17,369)	\$ (21,039)	\$ (18,367)	\$ (16,322)	\$ (25,773)
General Revenues and Other Changes in Net Position										
Governmental activities:										
Taxes										
Property taxes	\$ 6,372	\$ 6,910	\$ 7,393	\$ 8,524	\$ 9,594	\$ 10,096	\$ 10,447	\$ 5,929	\$ 6,313	\$ 6,538
Retail taxes	6,610	8,031	8,812	10,506	10,230	9,111	9,064	8,930	9,139	9,152
Business taxes	5,015	5,331	6,580	7,400	7,748	7,827	7,642	7,823	7,851	8,498
Excise taxes	2,674	3,211	3,448	3,300	2,390	1,610	1,298	1,383	1,548	1,685
Penalties and interest	10	6	8	7	2	-	-	-	-	-
Investment earnings**	1,189	1,463	2,463	3,579	2,164	711	374	414	760	375
Miscellaneous	3,841	5,827	5,110	1,648	1,022	1,226	871	203	269	111
Special items	-	-	-	-	-	-	4,703	-	-	-
Transfers	402	225	396	(1,336)	(98)	27	(77)	(3,775)	(18)	(1,224)
Total governmental activities	26,113	31,003	34,210	33,628	33,052	30,608	34,322	20,907	25,862	25,135
Business-type activities:										
Investment earnings**	318	559	1,094	1,238	684	199	74	79	87	90
Miscellaneous	264	343	656	774	384	221	(66)	190	-	-
Transfers	(402)	(225)	(396)	1,336	98	(27)	77	3,775	18	1,224
Total business-type activities	180	677	1,354	3,348	1,166	393	85	4,044	105	1,314
Total primary government	\$ 26,293	\$ 31,681	\$ 35,564	\$ 36,976	\$ 34,218	\$ 31,001	\$ 34,407	\$ 24,951	\$ 25,967	\$ 26,449
Change in net position										
Governmental activities	\$ 12,159	\$ 39,638	\$ 46,472	\$ 24,797	\$ 12,153	\$ 8,728	\$ 8,996	\$ (1,464)	\$ 1,365	\$ (3,527)
Business-type activities	13,303	29,447	27,181	24,310	25,425	4,904	4,372	8,048	8,280	4,203
Total primary government	\$ 25,461	\$ 69,085	\$ 73,653	\$ 49,107	\$ 37,578	\$ 13,632	\$ 13,368	\$ 6,584	\$ 9,645	\$ 676

*Restatement increased expenses by \$743,453 and reduced changes in net assets by \$743,453 (see 2009 Note 4. G.)

**Amount includes special assessment interest and penalties and interfund loan interest revenues.

Total investment earnings, primary government	\$ 1,506	\$ 2,021	\$ 3,558	\$ 4,816	\$ 2,848	\$ 910	\$ 448	\$ 493	\$ 847	\$ 465
Less interfund loan interest	13	13	9	-	184	69	24	15	13	-
Less special assessment interests & penalties	718	580	485	465	374	189	148	235	544	208
Net investment interest earnings	\$ 775	\$ 1,428	\$ 3,064	\$ 4,351	\$ 2,290	\$ 652	\$ 276	\$ 243	\$ 290	\$ 257



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

	2004	2005	2006 ¹	2007 ²	2008	2009	2010	2011 ³	2012 ⁴	2013
General fund										
Nonspendable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5	\$ 6	\$ 10
Restricted	184	302	129	137	129	133	11	6,113	134	124
Committed	-	-	-	-	-	-	-	4,770	4,770	11,895
Assigned	-	-	-	-	-	-	-	614	6,113	363
Unassigned	12,987	14,553	18,324	21,863	22,706	25,195	27,066	10,196	12,245	11,265
Total general fund	13,171	14,855	18,453	22,000	22,835	25,328	27,077	21,698	23,268	23,657
All other governmental funds										
Restricted	-	1,101	1,214	1,352	2,301	1,128	995	1,791	2,202	1,969
Committed	-	-	-	-	-	-	-	12,151	9,579	9,490
Assigned:										
Special revenue funds	5,108	5,984	9,961	7,703	11,651	14,183	16,274	10,753	13,652	1,074
Debt service funds	1,099	1,648	1,061	585	522	465	478	261	758	1,986
Capital projects funds	7,426	6,664	18,272	26,931	10,462	8,723	11,250	3,438	4,681	18,099
Total assigned	13,633	14,296	29,294	35,219	22,635	23,371	28,002	14,452	19,091	21,159
Unassigned-debt service funds	-	-	-	-	-	-	-	-	195	-
Total all other governmental funds	13,633	15,397	30,508	36,571	24,936	24,499	28,997	28,394	31,067	32,618
Total governmental funds	<u>\$ 26,804</u>	<u>\$ 30,252</u>	<u>\$ 48,961</u>	<u>\$ 58,571</u>	<u>\$ 47,771</u>	<u>\$ 49,827</u>	<u>\$ 56,074</u>	<u>\$ 50,092</u>	<u>\$ 54,335</u>	<u>\$ 56,275</u>

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 spike in capital project funds assigned fund balance was mainly contributable to the \$8 million G.O bond issued in December 2007 and remain spent 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.

Fund Balance Governmental Funds

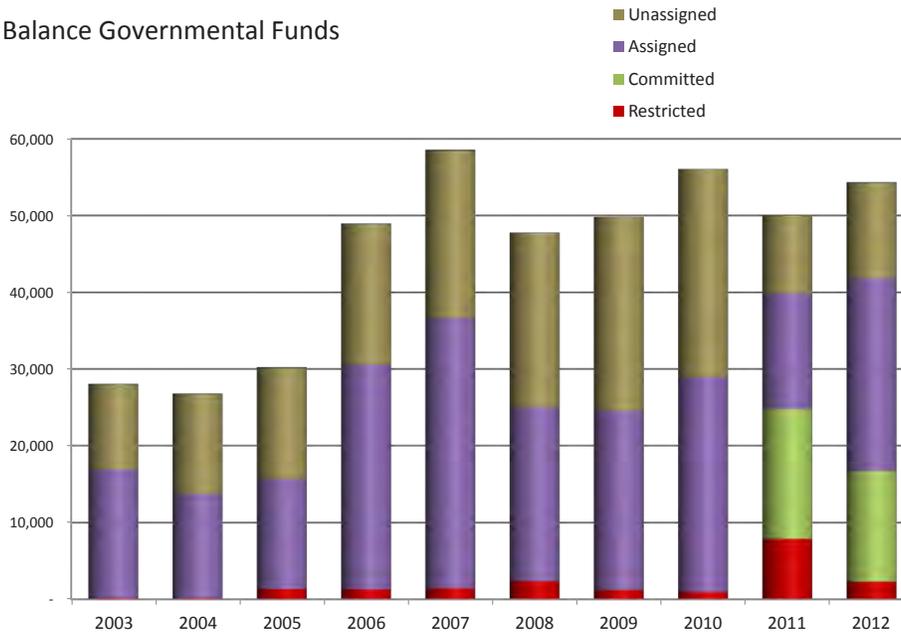




Table 4
Changes in Fund Balances of Governmental Funds
Last Ten Fiscal Years
(modified accrual basis of accounting)
(amounts expressed in thousands)

Fiscal Year	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Revenues										
Taxes	\$ 21,127	\$ 23,498	\$ 26,225	\$ 29,718	\$ 29,838	\$ 28,531	\$ 28,404	\$ 24,100	\$ 25,104	\$ 25,946
Licenses and permits	1,245	2,589	3,229	2,849	1,743	1,386	1,431	1,599	1,701	1,495
Intergovernmental revenues	2,822	3,812	6,234	4,138	10,947	8,342	6,181	7,072	7,764	3,639
Charges for services	5,029	6,307	6,627	6,978	7,145	7,564	8,530	7,803	7,428	7,344
Fines & forfeitures	454	294	334	444	492 *	930	747	728	666	731
Other revenue	2,137	3,375	3,396	4,410	3,096	1,185	1,899	1,268	2,163	1,423
Total revenues	32,814	39,875	46,045	48,537	53,261	47,938	47,192	42,571	44,826	40,578
Expenditures										
General government	3,483	3,660	3,877	4,216	4,540	5,235	5,110	5,436	5,393	5,449
Securities of persons and property	9,332	10,153	10,875	12,295	13,342	13,893	14,964	10,419	10,689	10,896
Physical environment	2,421	2,829	2,875	3,169	3,560	3,668	3,620	3,757	3,784	3,921
Transportation	1,503	1,678	2,020	2,281	2,397	2,350	2,579	2,646	2,711	2,807
Economic environment	904	993	1,011	1,196	1,187	1,083	1,406	1,207	1,131	1,214
Mental and physical health	7	8	6	10	9	11	8	10	11	8
Culture and recreation	3,069	3,389	4,387	4,157	4,561	5,824	5,584	5,924	6,179	6,373
Capital outlay	9,801	9,483	8,180	14,951	30,641	11,257	6,292	11,851	8,723	3,690
Debt service										
Principal	2,481	3,371	2,006	2,216	2,121	1,571	1,624	1,952	2,182	2,274
Interest	985	869	705	933	1,152	1,074	1,013	896	850	755
Debt issue costs	-	-	-	135	-	-	51	47	59	-
Total expenditures	33,986	36,433	35,942	45,559	63,510	45,966	42,251	44,146	41,712	37,387
Excess of revenue over (under) expenditures	(1,172)	3,442	10,103	2,978	(10,249)	1,972	4,941	(1,575)	3,114	3,191
Other financing sources (uses)										
Transfers in	2,716	3,655	2,393	3,624	16,516	2,110	2,160	11,471	2,624	2,493
Transfers out	(2,381)	(3,655)	(2,393)	(5,124)	(17,066)	(2,110)	(2,260)	(15,467)	(2,724)	(3,748)
Capital leases	-	-	-	-	-	27	35	36	13	-
Debt issued	-	-	8,485	8,000	-	-	3,790	-	3,967	-
Premium on bonds issued	-	-	120	128	-	-	104	-	233	-
Payments to refunded bond escrow agent	-	-	-	-	-	-	(3,843)	-	(2,984)	-
Proceeds from sale of capital assets	5	9	2	4	-	57	-	-	-	3
Total other financing sources (uses)	340	9	8,607	6,632	(550)	84	(14)	(3,960)	1,129	(1,252)
Special item:										
Payment from County for RAC settlement	-	-	-	-	-	-	1,321	-	-	-
Net change in fund balances	\$ (832)	\$ 3,451	\$ 18,710	\$ 9,610	\$ (10,799)	\$ 2,056	\$ 6,248	\$ (5,535)	\$ 4,243	\$ 1,939
Debt services as a percentage of noncapital expenditures	12.6%	15.2%	9.1%	9.9%	6.6%	7.6%	7.1%	8.2%	9.0%	8.5%

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
2004	\$ 6,372	\$ 0	\$ 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
2013	6,538	-	9,152	8,498	1,685	-	25,873

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

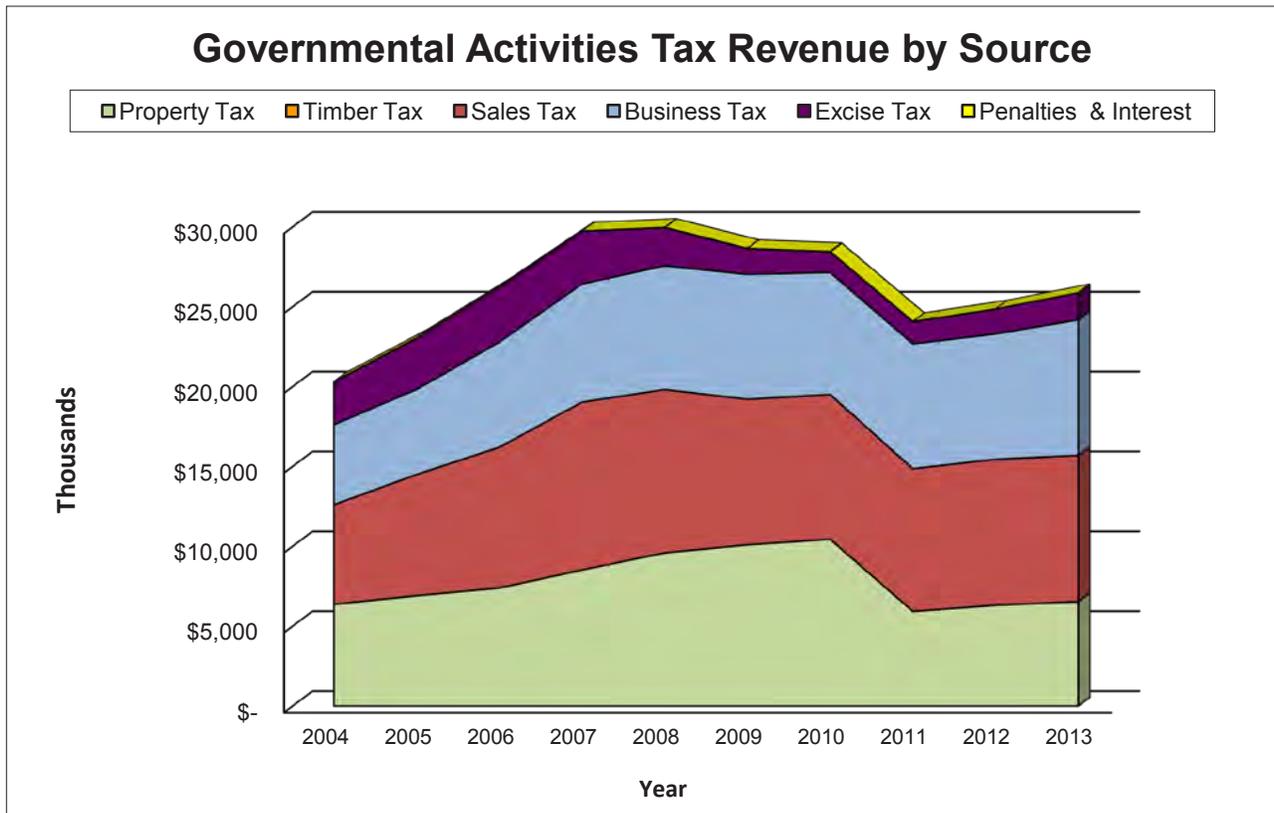




Table 6
Sales Tax Revenues by Type, Governmental Funds
Last Ten Fiscal Years
(modified accrual basis of accounting)
(amounts expressed in thousands except for per capita*)

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
General Merchandise Stores	\$1,232	\$1,351	\$1,760	\$1,977	\$1,883	\$1,911	\$1,952	\$1,810	\$1,815	\$1,852
Food Services, Drinking Places	450	520	612	654	697	734	748	762	795	850
Sporting Goods, Hobby, Books	102	110	169	326	630	706	690	673	633	637
Building Material and Garden	76	117	316	394	461	437	458	446	473	521
Specialty Trade Contractors	270	394	722	815	514	368	348	359	407	407
Miscellaneous Store Retailers	225	249	320	341	360	350	375	381	363	400
Construction of Buildings	568	1,070	919	1,331	1,182	628	330	367	509	338
Motor Vehicle and Parts Dealer	337	438	431	470	434	372	351	297	337	311
Wholesale Trade, Durable Goods	154	219	272	424	312	219	264	212	245	261
Food and Beverage Stores	209	202	246	283	294	290	328	249	280	253
Telecommunications	151	220	186	234	257	254	242	248	244	252
Electronics and Appliances	79	98	182	255	264	296	285	274	240	244
Repair and Maintenance	122	135	149	167	169	181	190	183	188	200
Clothing and Accessories	38	41	45	120	162	162	172	170	170	177
Administrative and Support Svc	97	89	124	159	154	149	162	163	176	139
Furniture and Home Furnishings	109	117	195	237	180	134	137	140	131	125
Nonstore Retailers	65	100	112	137	165	110	113	110	113	118
Rental and Leasing Services	127	111	118	145	141	122	99	95	86	103
Professional, Scientific, Tech	37	40	45	60	57	63	70	108	135	102
Amusement, Gambling & Recreation	88	87	119	83	119	118	121	126	123	99
Subtotal for top 20	4,536	5,708	7,042	8,612	8,435	7,604	7,435	7,173	7,463	7,389
Other (remaining)	1,009	1,126	975	1,007	858	618	730	782	666	741
Total Sales Tax	\$5,545	\$6,834	\$8,017	\$9,619	\$9,293	\$8,222	\$8,165	\$7,955	\$8,129	\$8,130
Local Tax Rate	0.85%	0.85%	0.85%	0.85%	0.85%	0.85%	0.85%	0.85%	0.85%	0.85%
Population	32,530	33,180	34,060	35,870	38,040	39,250	42,393	42,830	43,600	44,350
Per Capita (*expressed in dollar)										
Per Capita Top 20	\$ 139	\$ 172	\$ 207	\$ 240	\$ 222	\$ 194	\$ 175	\$ 167	\$ 171	\$ 167
Per Capita All Sales Tax	\$ 170	\$ 206	\$ 235	\$ 268	\$ 244	\$ 209	\$ 193	\$ 186	\$ 186	\$ 183

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
2004	\$ 2,058,894	\$ 130,907	\$ 2,189,801	\$ 3	\$ 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%
2013	3,896,774	179,722	4,076,496	1.61	4,432,649	91.97%

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.

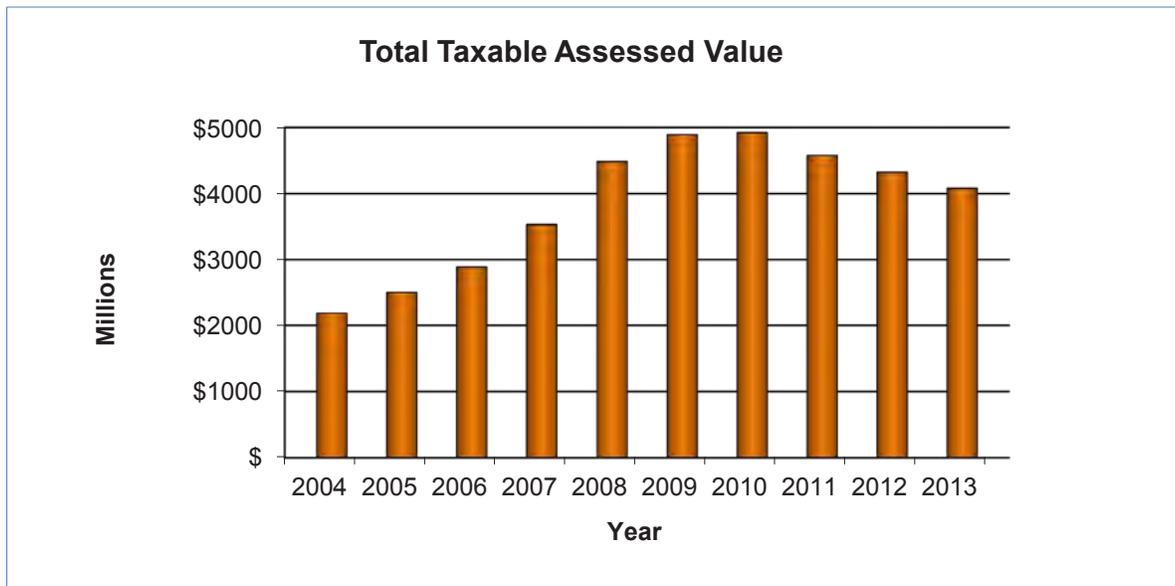




Table 8
Property Tax Rates
Direct and Overlapping Governments
Last Ten Fiscal Years

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		
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	
2013	1.32	0.29	1.61	2.51	1.50	0.40	0.01	0.41	5.15	1.46	0.20	13.25	

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.

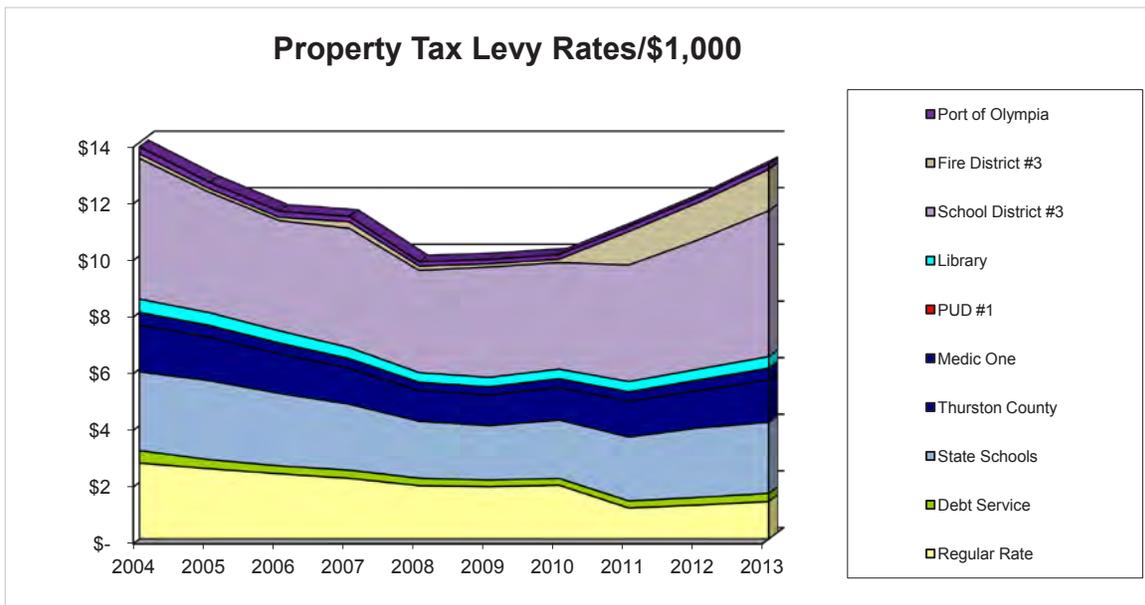


Table 9
Principal Property Taxpayers
Current Year and Nine Years Ago
December 31, 2013
(amounts expressed in thousands)

Taxpayer	Type of Business	2013			2004		
		Taxable Assessed Value	Rank	Percentage of Total Taxable Assessed Value	Taxable Assessed Value	Rank	Percentage of Total Taxable Assessed Value
Target Corporation	Retail/Warehouse	\$ 89,126	1	2.20%	\$ 52,581	1	2.40%
Panorama City Inc	Retirement Community	59,926	2	1.47%	47,970	2	2.19%
WIG Properties LLC	Real Estate Development	37,280	3	0.91%			
Capital Development Company	Real Estate Development	32,712	4	0.80%	19,911	5	0.91%
Home Depot USA Inc	Retail/Warehouse	30,611	5	0.75%	28,494	3	1.30%
Cabela's Wholesale INC	Wholesale/retail	25,787	6	0.63%			
MWSH South Lacey LLC	Real Estate Development	24,085	7	0.59%	14,277	10	0.65%
FR/CAL Meridian LLC	Real Estate Development	23,959	8	0.59%			
VCG-Lacey LLC	Leasing/Land Development	23,177	9	0.57%			
Lacey Market Square I and II LLC	Leasing/Land Development	22,208	10	0.54%	22,961	4	1.05%
Illuminet Inc	Utility				17,824	7	0.81%
U.S. West Communications	Utility	-			16,380	8	0.75%
Wal-Mart Stores Inc	Retail	-			17,927	6	0.82%
Lacey Center Partners	Leasing/Land Development				15,741	9	0.72%
Totals		368,871		9.05%	254,066		11.60%
Balance of Taxpayers		3,707,625		90.95%	1,935,735		88.40%
Total Assessed Values		\$ 4,076,496		100.00%	\$ 2,189,801		100.00%

Source: Thurston County Assessor

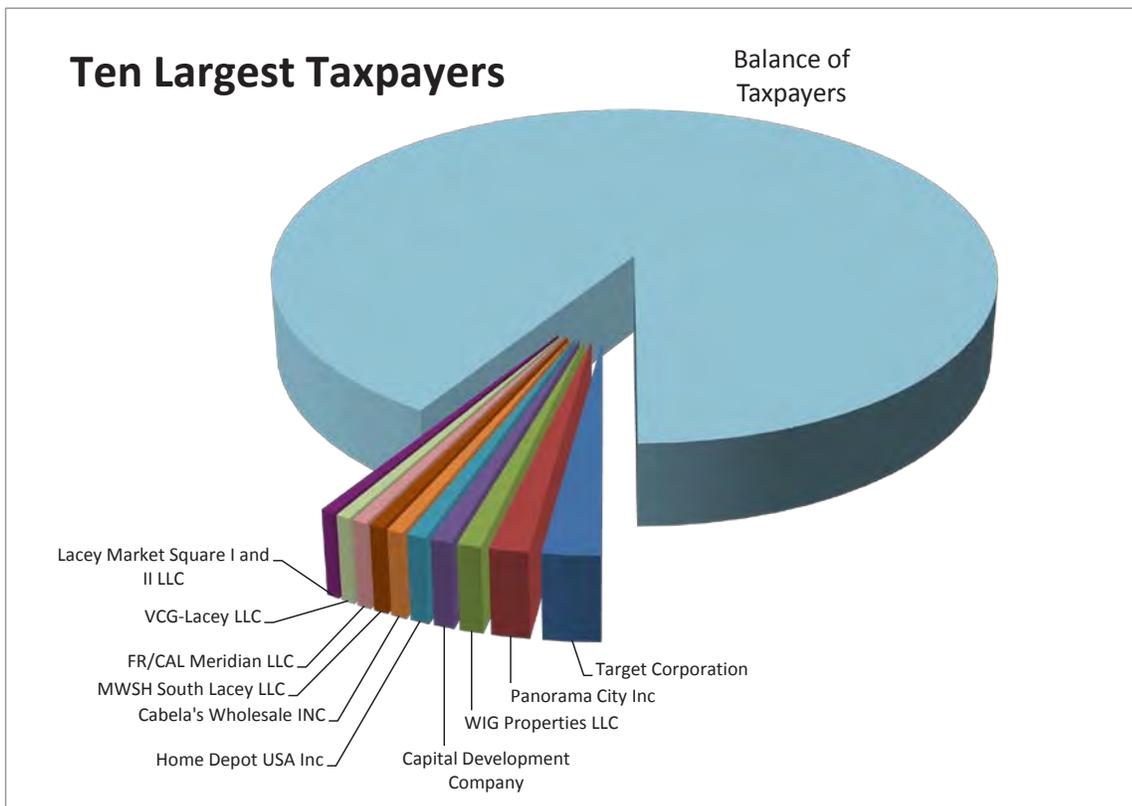




Table 10
Property Tax Levies and Collections
Last Ten Fiscal Years
(amounts expressed in thousands)

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
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	7,532	1,003	8,535	8,334	97.64%	201	8,535	100.00%
2008	8,401	1,174	9,575	9,357	97.72%	217	9,574	99.99%
2009	8,917	1,172	10,089	9,802	97.16%	283	10,085	99.96%
2010	9,229	1,161	10,390	10,180	97.98%	196	10,376	99.87%
2011 ³	4,935	1,137	6,072	5,960	98.16%	86	6,046	99.57%
2012	5,158	1,162	6,320	6,226	98.51%	58	6,284	99.43%
2013	5,364	1,165	6,529	6,442	98.67%	-	6,442	98.67%

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: Tax levy for fiscal years 2007 through 2013 have been adjusted for subsequent certification adjustments.

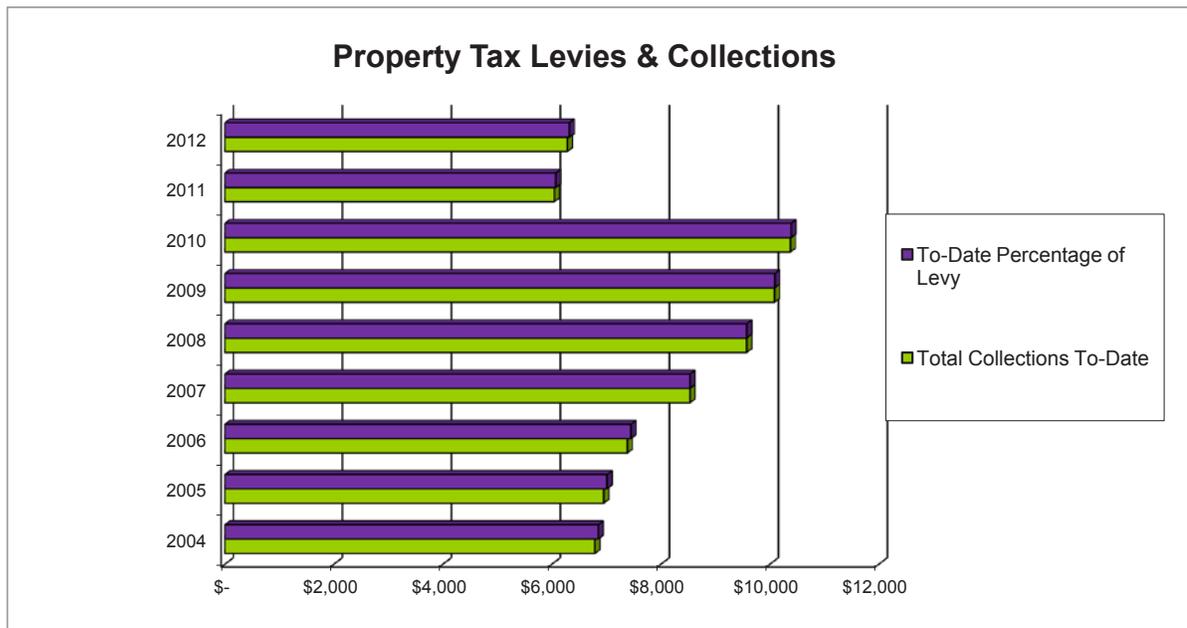




Table 11
Ratio of Outstanding Debt by Type
Last Ten Fiscal Years
(amounts expressed in thousands, except per capital amount)

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		Capital Leases	Contracts Payable	Revenue Bonds ¹					
					Animal Services ⁴				Water Fund	Wastewater Fund				Stormwater Fund
2004	\$ 12,110	\$ 5,190	\$ 2,750	\$ -	\$ 1,248	\$ -	\$ -	\$ 1,107	\$ 1,161	\$ -	\$ 23,566	2.15%	\$ 724	
2005	10,235	3,890	2,553	-	241	-	-	720	600	-	18,239	1.56%	550	
2006	18,309	2,610	2,357	-	227	-	-	316	17	-	23,836	1.87%	700	
2007	25,609	1,405	2,161	-	213	99	-	-	-	-	29,487	2.05%	822	
2008	24,541	535	1,964	-	197	46	-	-	-	-	27,283	1.71%	717	
2009	23,418	270	1,768	-	182	27	743	-	-	-	26,408	1.68%	673	
2010	22,459	-	1,571	-	166	54	743	-	-	-	24,993	1.48%	590	
2011	21,201	-	875	-	149	69	743	-	-	-	23,037	1.30%	538	
2012	20,067	-	750	1,122	131	59	-	-	-	-	22,129	1.23%	508	
2013	18,680	-	-	971	113	30	-	7,240	-	1,464	28,498	1.56%	643	

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.

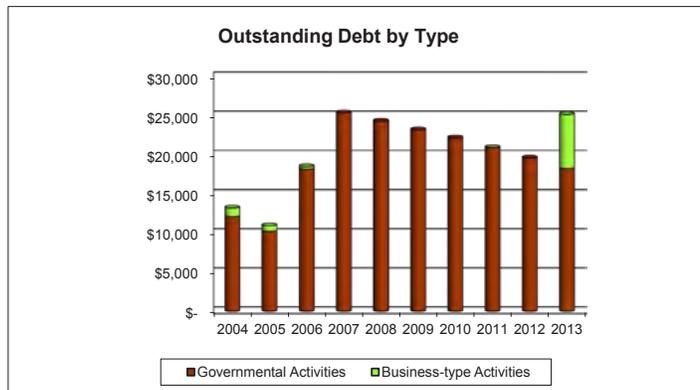
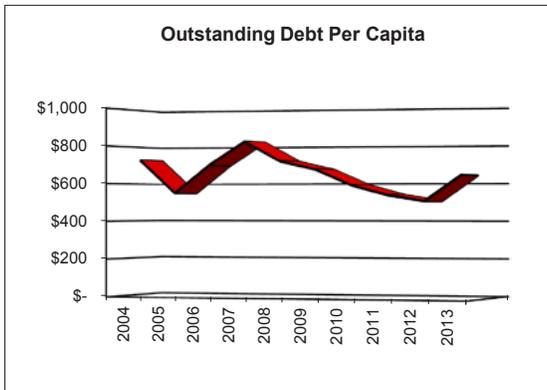




Table 12
Ratios of General Bonded Debt Outstanding
Last Ten Fiscal Years
 (amounts expressed in thousands, except per capita amount)

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
2004	\$ 12,110	\$ 426	\$ 11,684	0.50%	\$ 167
2005	10,235	820	9,415	0.34%	120
2006	18,309	721	17,588	0.55%	206
2007	25,609	368	25,241	0.62%	247
2008	24,541	373	24,168	0.49%	203
2009	23,418	356	23,062	0.43%	171
2010	22,459	344	22,115	0.41%	162
2011	21,201	259	20,942	0.42%	173
2012	20,067	280	19,787	0.41%	171
2013	18,680	319	18,361	0.41%	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 capital data can be found in the Demographic and Economic Statistics on page 8-18.

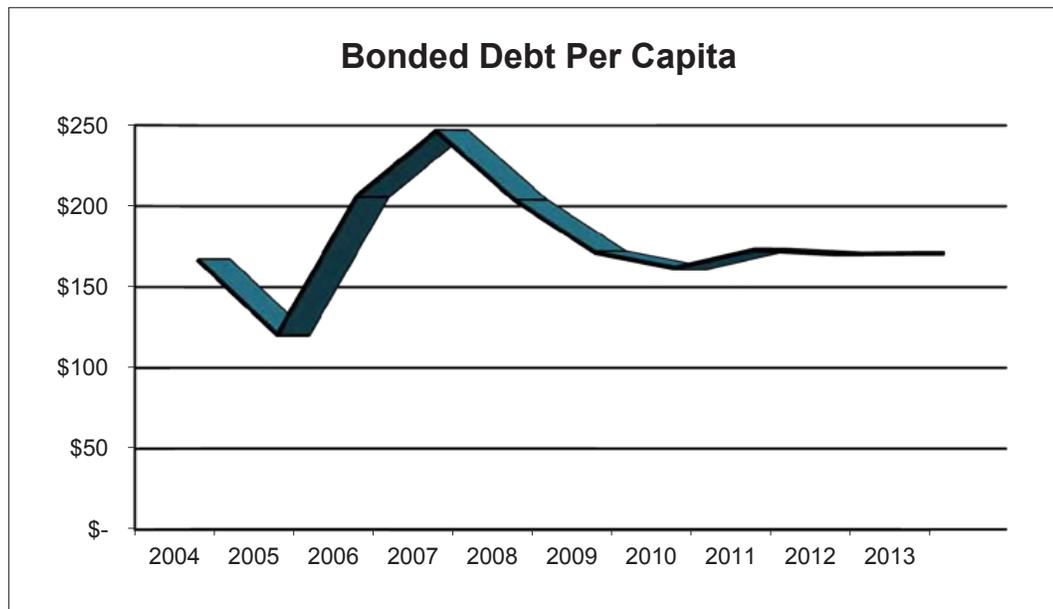




Table 13
 Direct and Overlapping Government Activities Debt
 As of December 31, 2013
 (amounts expressed in thousands)

Governmental Unit	Debt Outstanding	Estimated Percentage Applicable ¹	Direct and Estimated Share of Overlapping Debt
Debt repaid with property taxes:			
Thurston County	\$ 92,179	17.13%	\$ 15,791
Port of Olympia	39,915	17.13%	6,838
North Thurston School District #3	115,960	48.96%	56,775
Fire Districts ²	4,050	50.38%	2,041
	<u>252,104</u>		<u>81,445</u>
City of Lacey's direct debt ³	<u>18,680</u>		<u>18,680</u>
Total direct and overlapping debt	<u>\$ 270,784</u>		<u>\$ 100,125</u>

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

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

Explanation

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

² Include fire district #03 and #08.

³ Presented net of original premiums.



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

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Debt Limit	\$ 164,235	\$ 187,662	\$ 216,506	\$ 264,815	\$ 336,404	\$ 366,945	\$ 369,400	\$ 343,427	\$ 324,209	\$ 305,737
Total net debt applicable to limit	11,684	9,415	17,587	25,340	24,214	23,089	22,169	21,011	19,846	18,391
Legal debt margin	<u>\$ 152,551</u>	<u>\$ 178,247</u>	<u>\$ 198,919</u>	<u>\$ 239,475</u>	<u>\$ 312,190</u>	<u>\$ 343,856</u>	<u>\$ 347,231</u>	<u>\$ 322,416</u>	<u>\$ 304,363</u>	<u>\$ 287,346</u>
Total net debt applicable to the limit as a percentage of debt limit	7.1%	5.0%	8.1%	9.6%	7.2%	6.3%	6.0%	6.1%	6.1%	6.0%

Legal Debt Margin Calculations:

Total Assessed Valuation of Taxable Real & Personal Property	<u>\$ 4,076,496</u>
Legal Debt limit (7.5% of total assessed value)	<u>\$ 305,737</u>
Outstanding General Obligation Indebtedness as of December 31, 2013	
Governmental Activities - general obligation bonds, net of premium	\$ 18,680
Governmental Activities - capital leases	30
Total Indebtedness subject to debt limit	18,710
Less: Amount set aside for repayment of general obligation debt	(319)
Net Indebtedness subject to debt limit	<u>\$ 18,391</u>
Legal debt margin	<u>\$ 287,346</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	
2004	\$ 15,221	\$ 11,230	\$ 3,991	\$ 2,315	\$ 201	\$ 2	\$ 1,464	\$ 1,736	\$ 467	0.66	
2005	17,348	11,507	5,841	945	98	5.60	2,005	1,496	377	1.07	
2006	22,888	12,936	9,952	985	57	9.55	1,244	1,476	302	0.70	
2007	22,027	14,148	7,880	330	11	23.11	1,453	1,401	224	0.89	
2008	22,124	16,022	6,102	-	-	-	1,130	1,066	148	0.93	
2009	22,703	16,489	6,213	-	-	-	515	461	91	0.93	
2010	22,525	17,194	5,331	-	-	-	557	466	69	1.04	
2011	24,541	18,026	6,515	-	-	-	777	696	47	1.05	
2012	25,356	19,055	6,301	-	-	-	1,513	125	31	9.70	
2013*	27,780	21,450	6,330	-	-	-	928	750	25	1.20	

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.

Amounts for 2004 through 2012 did not include stormwater fund revenues and expenses

*Includes revenues and expense of the City's Waterworks Utility which includes water, wastewater, and stormwater funds.



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
2004	32,530	\$ 1,093,854	\$ 33,626	13,079	5.4%
2005	33,180	1,168,931	35,230	13,119	4.7%
2006	34,060	1,273,095	37,378	13,370	4.5%
2007	35,870	1,434,908	40,003	13,601	4.5%
2008	38,040	1,591,441	41,836	13,843	6.3%
2009	39,250	1,570,707	40,018	14,025	8.6%
2010	42,393	1,691,989	39,912	13,816	8.3%
2011	42,830	1,766,780	41,251	14,194	8.2%
2012	43,600	1,798,544	41,251 ⁴	13,957	7.5%
2013	44,350	1,829,482	41,251 ⁴	14,560	6.8%

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, December for the year, seasonally adjusted.

⁴ Current year data is not available. Used 2011 data.

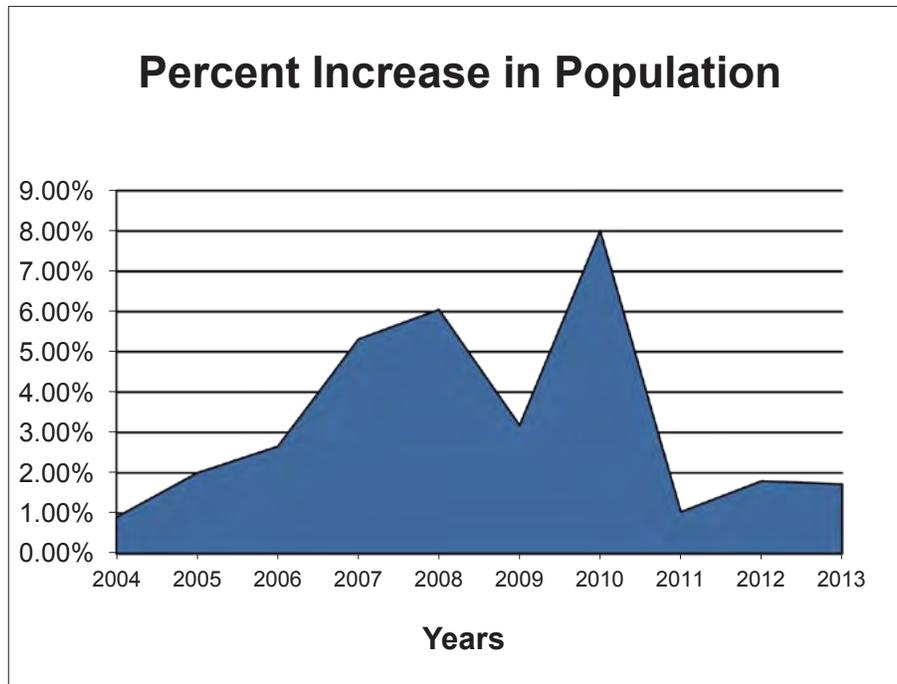


Table 17
Principal Employers
Current Year and Nine Years Ago

Employer	Business type	2013		2004 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	2,396	10%	3,545 ⁷	19%
North Thurston Public Schools ³	Education	1,700	7%	1,700 ⁸	9%
Panorama City ⁴	Retirement Community	300-400	2%	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	2%
Target Corporation ²	Retail	100-500	1%	250-499	2%
Wal-Mart Corporation ²	Retail	100-500	1%		
City of Lacey ¹	Government	241	1%	205	2%
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%
Total		5,237 - 7,737	28%	6,600 - 7,943	40%

Source

- ¹ City of Lacey, full-time equivalent
- ² Thurston Regional Planning Council, The Profile 2013
- ³ North Thurston Public Schools
- ⁴ Panorama Corporation
- ⁵ City of Lacey 2004 Comprehensive Annual Financial Reports. Business with more than 100 employees within Lacey zip code area.

Explanation:

- ⁶ Percentage of total city employment for 2013 is based on 2010 total estimated jobs 23,625. 2004 total estimated jobs was 19,000.
- ⁷ Includes Lacey and Urban Growth Area, 2004 data unavailable. 2006 data used.
- ⁸ 2004 data unavailable. 2006 data used.

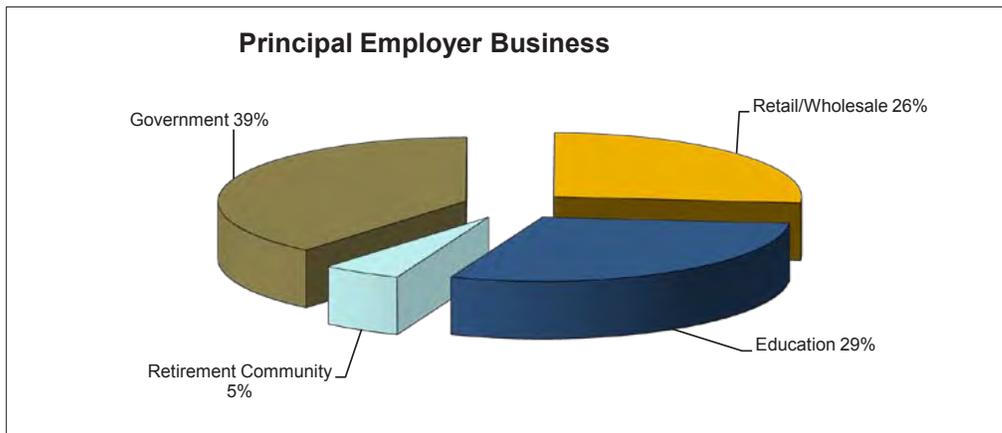




Table 18
Full-time Equivalent City Government Employees by Function
Last Ten Fiscal Years

Function	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
General government	24.00	24.00	27.00	27.00	30.00	30.00	30.00	30.00	31.00	31.00
Security of persons and property										
Police Officers	47.00	47.00	49.00	51.00	54.00	56.00	56.00	55.00	55.00	53.00
Civilians	12.41	12.41	12.41	14.28	14.28	14.28	14.28	14.28	14.28	11.64
Transportation										
Engineering	31.00	32.00	36.00	37.00	38.00	38.00	38.00	38.00	38.00	35.00
Maintenance	26.68	27.68	28.68	30.68	30.50	33.50	33.50	34.50	34.50	34.50
Economic development	13.50	15.75	16.75	17.75	17.75	17.75	17.75	17.75	17.75	15.00
Culture and recreation	11.75	13.00	13.00	14.00	14.88	16.00	16.00	16.00	16.00	15.00
Water	19.41	22.95	21.95	23.95	25.45	24.45	25.45	25.00	24.45	24.00
Wastewater	13.59	14.05	15.05	16.05	14.55	14.55	14.55	14.00	14.55	15.00
Stormwater	5.32	5.32	5.32	5.32	6.50	6.50	6.50	6.50	6.50	6.50
Total	204.66	214.16	225.16	237.03	245.91	251.03	252.03	251.03	252.03	240.64

Source: City of Lacey Budget Records

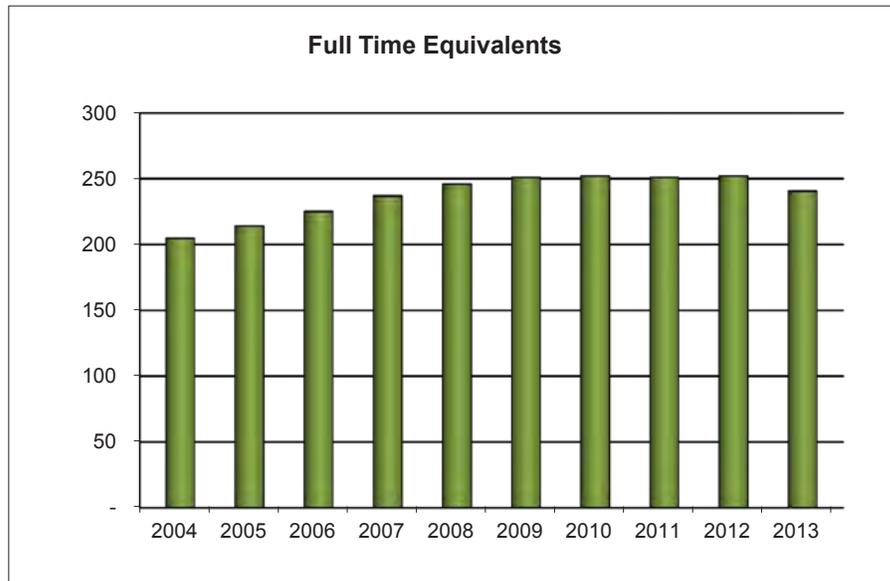




Table 19
Operating Indicators by Function
Last Ten Fiscal Years

Function	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Police										
Total Arrests	2,463	2,473	3,333	4,006	4,331	4,084	4,169	3,795	3,136	3,380
Total citations issued	6,331	4,977	4,713	4,997	6,180	7,571	5,736	5,824	4,455	6,121
Incidents	35,895	32,783	34,203	36,744	38,049	39,161	36,557	34,014	32,510	39,242
Overall crime rate per thousand population	51.3	56.0	50.0	51.4	48.2	41.1	41.1	34.8	35.4	34.4
Highways and streets										
State of the street (% of Very Good or Good Condition)	65.0%	87.0%	90.0%	91.0%	95.0%	93.0%	94.0%	96.0%	95.9%	96.3%
St Ft of sidewalk replaced	-	-	-	4,311	4726	1035	202	3,007	2,028	2,625
Yards of sweeper debris collected	1,187	1,268	1,124	1,772	904	1,682	1,438	1,156	1,339	1,517
Economic Development										
Number of building permits issued	494	1,025	1,604	1,157	494	402	362	325	283	225
Number of building inspections	8,977	15,819	20,589	17,002	9,467	7,351	6,586	6,915	7,132	7,587
Number of complaints processed	106	135	127	154	129	127	93	98	84	83
Commercial site plan reviews	23	25	27	29	32	10	12	9	12	10
Culture and recreation										
Community center bookings	925	900	951	911	921	724	765	760	778	788
Regional Athletic Complex (RAC) fields bookings	-	-	-	-	-	1,235	1,872	1,955	2,194	2,247
RAC Nmber of participants - leagues, tournaments	-	-	-	-	-	-	42,785	47,685	50,243	50,315
Average number of programs offered per year	-	-	1,061	1,026	985	1,074	1,044	1,176	1,255	1,340
Program registrations	13,829	8,206	11,687	12,350	13,582	13,181	13,740	12,108	13,538	9,001
Community-wide special events	34	35	32	38	40	40	41	41	31	31
Water										
Gallons of water pumped (millions)	2,435	2,490	3,083	2,774	2,666	2,595	2,199	2,243	2,396	2,416
Gallons of water sold (millions)	2,097	2,009	2,350	2,259	2,249	2,336	2,061	2,188	2,186	2,165
Percentage of water sold	86%	81%	76%	81%	84%	90%	94%	98%	91%	90%
Average daily consumption (millions of gallons)	6	6	6	6	6	6	6	6	7	7
Number of valves exercised	3,703	3,132	5,794	1,184	1,924	3,617	1,653	1,456	2,230	3,186
Number of hydrants exercised	449	662	335	2,879	3,060	3,334	3,432	3,492	2,510	1,073
Number of water mains breaks	160	243	201	220	173	198	168	130	104	93
Number of customers served	17,172	17,916	19,267	20,295	20,863	21,362	21,812	22,840	23,237	22,813
Number of irrigation customers	549	593	635	651	693	709	724	692	702	713
Wastewater										
Number of lift station incident responses	522	588	317	333	288	231	324	363	390	376
Number of STEP system connections	2,666	2,835	2,779	2,814	2,837	2,861	3,656	3,882	3,901	4,058
Number of STEP system incident responses	591	659	258	236	247	278	188	201	186	221
Lines cleaned (in feet)	151,274	180,517	212,633	130,511	104,219	390,555	390,644	323,671	373,410	331,763
Lines televised (in feet)	78,202	208,976	94,470	181,212	290,829	263,451	346,117	267,686	328,911	285,785
Odor complaints	20	18	8	7	11	1	1	3	-	3
Stormwater										
City responses to spills	43	49	56	56	57	54	109	137	106	134

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	2013
Security of persons and property											
Police station	1	1	1	1	1	1	1	1	1	1	1
Patrol vehicles	14	14	16	16	16	18	21	22	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	360 LM
Miles of sidewalk										191 CL	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	4,311
Number of street signs	4,529	5,030	5,636	5,983	6,674	7,027	7,400	7,528	7,606	7,674	7,726
Number of traffic signals	26	27	39	40	40	40	42	42	55	56	56
Culture and recreation											
Number of parks	25	25	25	24	24	25	25	25	25	25	25
Parks acreage including outside city limits	501	501	501	501	501	531	579	501	568	568	568
Developed parks acres	82	122	122	162	186	237	265	297	335	335	335
Total open space acres with outside city limits	-	-	-	-	-	-	-	163	561	648	648
Soccer fields	5	8	8	8	8	8	10	10	10	10	10
Tennis courts	4	8	9	9	9	9	9	9	9	9	9
Baseball, softball fields	3	7	7	7	7	7	12	12	12	12	12
Community centers	1	1	1	1	1	1	1	1	1	1	1
Senior centers	1	1	1	1	1	1	1	1	1	1	1
Community buildings	3	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	20
Miles of water lines	304	310	334	342	353	348	357	360	370	385	393
Number of reservoirs	8	8	8	8	8	8	7	7	8	7	7
Number of booster stations	8	8	8	8	8	8	6	6	10	6	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	10,399
Number of Hydrants ²	2,479	2,666	2,848	2,928	3,037	4,216	3,424	3,469	3,479	3,500	3,572
Wastewater											
Miles of sewer transmission lines	94	113	125	132	136	145	147	151	154	156	157
Number of lift stations	32	36	38	39	46	44	44	45	48	47	48
Miles of STEP transmission lines	43	46	47	49	49	51	52	52	52	55	55
Odor control facilities	10	11	11	11	11	11	13	14	14	15	14
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	5,198
Number of city storm ponds	-	-	36	37	38	38	43	49	49	56	62
Acres of storm ponds ³	39	39	464	625	681	1,037	1,027	1,235	1,768	105	109

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 express 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.



CITY
OF **LACEY**