



City of Lacey, Washington
2010 Comprehensive Annual Financial Report
for the year ended December 31, 2010

City of Lacey, Washington
Comprehensive Annual Financial Report
For the Year Ended December 31, 2010



PREPARED BY THE FINANCE DEPARTMENT

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FINANCE DIRECTOR

TIMOTHY F. McGUIRE
FINANCIAL SERVICES MANAGER

PAMELA S. MEREDITH
ACCOUNTING MANAGER

CHUN K. SAUL, CPA
SENIOR ACCOUNTANT



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**COMPREHENSIVE ANNUAL FINANCIAL REPORT
OF THE CITY OF LACEY, WASHINGTON
FOR THE YEAR ENDING DECEMBER 31, 2010**

TABLE OF CONTENTS

I. INTRODUCTORY SECTION	PAGE
Letter of transmittal	1-1
Certificate of Achievement for Excellence in Financial Reporting	1-6
City of Lacey organizational chart	1-7
List of officials	1-8
 II. FINANCIAL SECTION	
Independent auditor's report.....	2-1
 A. MANAGEMENT DISCUSSION AND ANALYSIS	3-1
 B. BASIC FINANCIAL STATEMENTS	
Government-wide Financial Statements	
Statement of Net Assets	4-1
Statement of Activities	4-2
 Fund Statements	
Governmental Fund Financial Statements	
Balance Sheet	4-4
Reconciliation of the Balance Sheet to the Statement of Net Assets Governmental Funds.....	4-7
Statement of Revenues, Expenditures and Changes in Fund Balances	4-8
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	4-10
Proprietary Fund Financial Statements	
Statement of Net Assets - Proprietary Funds	4-11
Statement of Revenues, Expenses, and Changes in Net Assets - Proprietary Funds	4-12
Statement of Cash Flows - Proprietary Funds.....	4-13
Fiduciary Fund Statements	
Statement of Fiduciary Net Assets.....	4-14
Notes to Financial Statements	4-15
 C. REQUIRED SUPPLEMENTAL INFORMATION OTHER THAN MD&A	
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget to Actual	
General Fund.....	5-1
Arterial Street Fund	5-2
Notes to Required Supplemental Information.....	5-3
 D. COMBINING & INDIVIDUAL FUND STATEMENTS & SCHEDULES	
Non-Major Funds - Other Governmental Funds	6-1
Combining Balance Sheet - Other Governmental Funds	6-2
Combining Statement of Revenues, Expenditures and Changes in Fund Balance - Other Governmental Funds	6-4
Budget to Actual Comparison Non-Major - Other Governmental Funds	
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget to Actual	
Street Fund.....	6-6
 D. COMBINING & INDIVIDUAL FUND STATEMENTS & SCHEDULES (CONTINUED)	

Regional Athletic Complex Maintenance and Operations Fund	6-7
Lodging Tax Fund	6-8
Community Development Block Grant Fund	6-9
General Obligation Bond Fund	6-10
L.I.D. Redemption Fund.....	6-11
Building Improvement Fund.....	6-12
Capital Expenditure Fund	6-13
Parks & Open Space Fund.....	6-14
Regional Athletic Complex Capital.....	6-15
Internal Service Funds	6-16
Combining Statement of Net Assets.....	6-17
Combining Statement of Revenues, Expenditures and Changes in Fund Net Assets	6-18
Combining Statement of Cash Flows	6-19
Fiduciary Funds - Agency Funds	6-20
Combining Statement of Fiduciary Net Assets-Agency Funds	6-21
Combining Statement of Changes in Assets and Liabilities - Agency Funds.....	6-22

E. SUPPLEMENTAL INFORMATION

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

Funds of the Primary Government

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

Schedules

Schedule of Expenditures of Federal Awards.....	7-7
Notes to the Schedule of Expenditures of Federal Awards	7-8
Schedule of State and Local Financial Assistance	7-9
City of Lacey General Obligation Bond Debt, Unlimited Tax 2002	7-10
City of Lacey General Obligation Bond Debt, Unlimited Tax 2003	7-11
City of Lacey Public Works Trust Fund Loan	7-12
City of Lacey Animal Services Revenue Bond.....	7-13
City of Lacey General Obligation Bond Debt, Limited Tax 2006.....	7-14
City of Lacey General Obligation Bond Debt, Unlimited Tax 2006	7-15
City of Lacey General Obligation Bond Debt, Limited Tax 2007	7-16
City of Lacey General Obligation Bond Debt, Unlimited Tax 2010	7-17

STATISTICAL SECTION

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



INTRODUCTORY SECTION



CITY COUNCIL

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

CITY MANAGER
GREG J. CUOIO

July 20, 2011

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, 2010, is submitted herewith. Management assumes full responsibility for the completeness and reliability of the information contained in this report, based upon a comprehensive framework of internal control that it has established for this purpose. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

State statute requires an annual audit by the Washington State Auditor's Office. In addition to meeting the requirements set forth in state statutes, the audit also was designed to meet the requirements of the Federal Single Audit Act amendments of 1996 and related Office of Management and Budget Circular A-133. The independent auditor's report is located at the front of the financial section of this report.

The management's discussion and analysis (MD&A) immediately follows the independent auditor's report and provides a narrative introduction, overview and analysis of the basic financial statements. The MD&A complements this letter of transmittal and should be read in conjunction with it.

Profile of the Government

The City of Lacey Incorporated in 1966, and is the twenty-fifth largest of 281 cities in the state of Washington. It is located approximately 60 miles south of Seattle on Interstate 5 and encompasses an area of 16.6 square miles. The cities of Olympia and Tumwater are adjacent to Lacey, and together, the three cities constitute the major population center within Thurston County. Lacey has grown from a population of 7,650 in 1967 to a 2010 population of 40,130.

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

The City of Lacey provides a full range of municipal services either directly or through contracts. The City provides police, parks and recreation, planning and zoning, building inspection, street maintenance and construction, engineering and general administrative services. The City also operates enterprise funds for water, wastewater services, storm water management and reclaimed water. At a special election held on April 27, 2010, the qualified voters of the City of Lacey and

the qualified voters of Thurston County Fire Protection District No. 3 approved the annexation of the City of Lacey into Thurston County Fire Protection District No. 3. Upon annexation of the City to the Lacey Fire District 3, the District became solely responsible for providing fire protection, fire suppression, and emergency medical services within the incorporated boundaries of the City. By agreement with Thurston County, Olympia, and Tumwater, Lacey provides administrative support services to Joint Animal Services and the Thurston County Narcotics Task Force. The City also entered into an agreement with the Capital Area Regional Public Facilities District to provide administrative support services and distribute PFD revenues to the cities of Olympia and Lacey for their agreed upon projects.

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

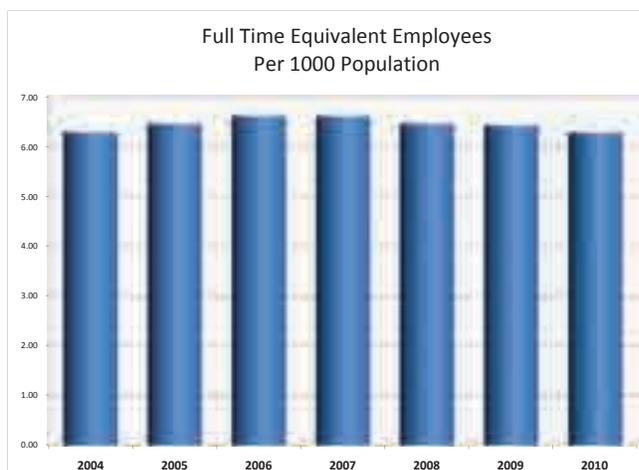
Local Economy

Lacey's economy remains predominately retail/commercial and service oriented. State government is the single largest employer in the region. Other employers include St. Peter's Hospital (regional), North Thurston Public Schools, Target Stores import/distribution center, Home Depot distribution center, Econet, Fred Meyer, Wal-Mart, Safeway, Weyerhaeuser container factory, Ostrom Mushroom Company, VeriSign, Callisons, Shipwreck Beads, Cabelas, Sunset Air, St. Martin's University, Port of Olympia (regional), State Farm (regional), and Intel (regional). Economic influence of nearby Joint Base Lewis-McChord has been present for many years in the Lacey area. Lacey is also the home to Panorama, a large full-service retirement community, and St. Martin's University and abbey/seminary.

It has been Lacey's policy to encourage and facilitate diversification in the region's employment base. The development of Lacey's northeast area has been the major key to success in this goal.

During the past five years, Lacey's population growth has placed significant demands on services. General government staffing has grown 7.2 percent (191.7 to 205.5 FTE's) and 2.6 percent (45.3 to 46.5 FTE's) in the utility or enterprise funds. Lacey's population increased 11.9 percent during this same period. The growth rate to staffing levels being lower than the population growth is indicative of the fact that the city's conservative and responsible fiscal approach. In addition, a few positions are being held open or hiring delayed.

Prior to 2009 and 2010, Lacey had been fortunate to have had new and increasing general fund



revenues to match the growing demand for services during the past five years. Beginning late 2008 and throughout 2010, revenue trends began to show a decline in fees and sales tax receipts. Revenues from sales tax and fees directly related to planning and building activity were on the decline. During early 2009, a proactive step was taken by the city manager and City Council to identify reductions in spending to off-set the trend. \$2.1 million in budget reductions were made in the general fund to compensate for anticipated revenue shortfall. Certain reductions were restored in 2010, but overall the 2010 Budget did not include growth

to maintenance and operations.

Property tax, one of the General Fund's largest single sources of revenues, has experienced healthy growth due to high levels of new construction, but the growth rate is slowing. Although the property levy rate has declined, adjustments for new construction value coupled with allowable 1 percent adjustment have generated a 40.4 percent increase during the past five years. The new construction level is expected to return to historical levels, which will result in a slower property tax growth rate. In addition the City voluntarily lowered its property tax levy due to the aforementioned voter approved fire district annexation, which will lessen the impact of future new construction.

Long-term Financial Planning

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

As part of a long-term economic development plan, the City envisions the development of a regional



mixed use town center to be located on 250 acres of property north of Interstate 5. This has become known as the Gateway Project. The first phase of development included the construction of a Cabela's outdoor sporting goods store. Coordinated efforts between the City, property owner, and retailer resulted in a successful grant application that assisted with the cost of transportation and infrastructure improvements. The grant was funded by the 2007 State legislature and totaled \$9.9 million. Current estimates place the total cost of infrastructure improvements for the Gateway Project in the \$35 to \$50 million range. Of that amount, the City has committed to fund \$5 million for transportation and utility services. The

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

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



Regional Athletic Complex

Relevant Financial Policies

It is the City of Lacey's policy that "one-time" revenue inflows not be used for operating purposes. As a result, Lacey has been able to construct several public buildings and enhance its residential street overlay program. The Council and city administration clearly recognize that significant growth in revenues associated with increased housing starts should be considered "one-time" revenues. Healthy fund balances demonstrate this commitment. In addition to allowing the City address much needed capital needs, this policy has helped the City weather the economic downturn. By applying "one-time" revenues to capital needs, the operating expenses have been contained to sustainable levels.

Major Initiatives

With approximately 22,500 water accounts, the City's Water Utility serves a population approaching 57,000. In 2007, construction was completed on permanent chlorination facilities at all city well sites. This required a significant capital investment in equipment and facilities in excess of \$4.5 million. Delays in the City's acquisition and approval of additional water rights required the development of a water treatment facility for the Hawks Prairie well and future new well. This treatment facility is now operational at a cost of approximately \$12 million. Because of these substantial costs, the Water Construction Fund received short-term cash interfund loan in the amount of \$10 million from the Wastewater Construction Fund to supplement its available resources. An interfund loan was set in place so that the Water Utility can avoid some of the costs associated with the impact of long-term debt. It was anticipated that by the end of 2008 the Water Utility would pursue long-term financing from the bond market. This was delayed until the City can obtain additional water rights. In the meantime, a principal payment of \$500,000 was made in 2009 and a principal payment of \$700,000 was made in 2010. A \$600,000 principal payment is budgeted in 2011.

Current transportation projects include the Carpenter Road Capacity improvements and construction of the westbound lane of Britton Parkway. A substantial enhancement was made to the residential street overlay program in 2008 for a total of \$1 million and \$850,000 in 2009 and 2010. The 2011 budget includes \$1 million. The resources to cover these improvements include \$1.1 million in Real Estate Excise Tax revenues, a transfer in of \$850,000 from the General Fund, grants, and miscellaneous revenues from State Fuel tax and collected mitigation fees.

Awards and Acknowledgments

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Lacey for its comprehensive annual financial report (CAFR) for the fiscal years ended December 31, 1999-2007 and again for the fiscal year ended December 31, 2009. 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.



Residential Overlay Program

A Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements. We are submitting the 2010 CAFR to the GFOA to determine its eligibility for another certificate.

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

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

Respectfully submitted,

Troy M. Woo
Finance Director

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Lacey Washington

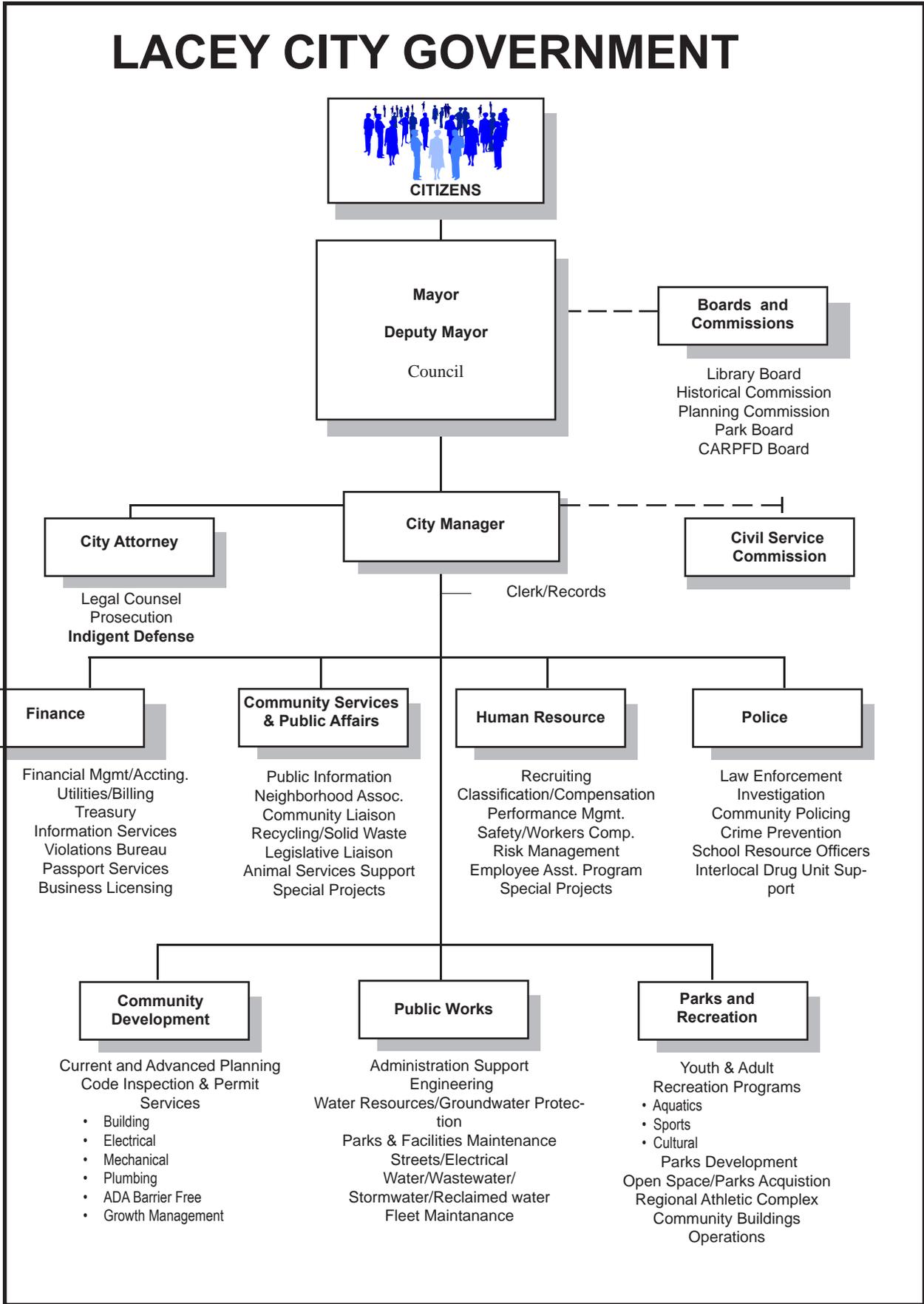
For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
December 31, 2009

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



President

Executive Director



CITY OF LACEY, WASHINGTON

Mayor

Thomas Nelson Term - Dec. 2011

Deputy Mayor

Virgil Clarkson Term - Dec. 2013

Council

Jason Hearn	Term - Dec. 2011
Mary Dean	Term - Dec. 2011
Ron Lawson	Term - Dec. 2013
Cynthia Pratt	Term - Dec. 2013
Andy Ryder	Term - Dec. 2013

City Manager

Greg J. Cuoio

ADMINISTRATION

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



FINANCIAL SECTION



**Washington State Auditor
Brian Sonntag**

INDEPENDENT AUDITOR'S REPORT

July 13, 2011

Mayor and City Council
City of Lacey
Lacey, Washington

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Lacey, Thurston County, Washington, as of and for the year ended December 31, 2010, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Lacey, Thurston County, Washington, as of December 31, 2010, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 2, during the year ended December 31, 2010, the City has implemented the Governmental Accounting Standards Board Statement No. 51 - Accounting and Financial Reporting for Intangible Assets.

In accordance with *Government Auditing Standards*, we will also issue our report dated July 13, 2011, on our consideration of the City's internal control over financial reporting and on our tests

of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report will be issued under separate cover in the City's Single Audit Report. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3.1 through 3.15, budgetary comparison on pages 5.1 through 5.2 and information on postemployment benefits other than pensions on page 5.3 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying information listed as combining and individual fund statements and schedules and supplemental information on pages 6.1 through 7.17 is presented for purposes of additional analysis and is not a required part of the basic financial statements. This information has been subjected to auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

Sincerely,

A handwritten signature in black ink, appearing to read "Brian Sonntag", written in a cursive style.

BRIAN SONNTAG, CGFM
STATE AUDITOR



MANAGEMENT DISCUSSION AND ANALYSIS

Management's Discussion and Analysis

Within this section of the City of Lacey, Washington annual financial report, the City's management is pleased to provide this narrative overview and analysis of the financial activities of the City for the fiscal year ended December 31, 2010. We encourage readers to consider the information presented herein conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages 1-1 to 1-5 of this report.

Financial Highlights

- The government's overall financial position improved in 2010 as compared to 2009.
- At the end of the fiscal year the assets of the City exceeded its liabilities by \$606.1 million. Net assets invested in capital assets (net of depreciation and related debt) account for 86.4 percent of the amount (\$523.7 million). Of the remaining net assets \$82.4 million, \$1.0 million are subject to external restrictions and \$81.4 million may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's total net assets increased by \$13.4 million. The governmental net assets increased by \$9.0 million over the previous year. Business-type net assets were increased by \$4.4 million. The business-type increase included net assets for the Water Utility of \$2.2 million, \$1.7 million for the Wastewater Utility, \$541,209 net increase for the Stormwater Utility and \$114,984 net loss for the Reclaimed Water Utility. The balance of the offset is the result of the consolidation of the Internal Service Funds' activities related to the Enterprise Funds.
- At the close of 2010 the City's governmental funds reported a combined ending fund balance of \$56.1 million, an increase of \$6.2 million. Of the major funds, the fund balance of the General Fund increased \$1.7 million and the Arterial Street Fund increased \$1.6 million. The major fund balance increases were augmented by an increase of \$22,353 in the L.I.D. Redemption Fund and an increase of \$2.8 million in the nonmajor governmental funds. The capital improvement funds combined resulted in an increase of \$2.4 million which was a result of the early Regional Athletic Complex partnership termination, which included a financial settlement. All other nonmajor fund balances increased moderately \$437,121. Approximately \$55.1 million (98.2 percent) of the combined ending fund balance is unreserved fund balance available to the City for discretionary spending.
- At the end of 2010 the unreserved fund balance for the General Fund was \$27.1 million increase of \$1.9 million over the prior year's amount of \$25.2 million.
- The City's total outstanding bonded debt decreased \$1.52 million (6.0 percent) to \$23.9 million during the current fiscal year.
- Revenues from local tax sources, including property, sales, business excise, and miscellaneous other taxes decreased by \$191,562 to \$28.5 million, a 0.67 percent decrease compared to 2009.

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

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the City of Lacey's basic financial statements. The City of Lacey's basic financial statements comprise of three components: (1) government-wide financial statements, (2) fund financial statements, and (3)

notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves. The intent of this section of the management discussion and analysis is to introduce and explain the basic financial statements. The financial statements are prepared in accordance with accounting principles generally accepted in the United States as proclaimed by the GASB principles.

Government-wide Financial Statements

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

The **Statement of Net Assets** presents information on all of the City's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating. Evaluation of the overall health of the City would extend to other nonfinancial factors such as changes to the City's property tax base, changes to the sales tax base, and the condition of the City's infrastructure.

The **Statement of Activities** presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of when the cash is received or paid*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave). An important purpose of the design of the statement of activities is to show the financial reliance of the City's distinct activities or functions on revenues provided by the City's taxpayers.

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

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

Fund Financial Statements

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Lacey, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Within the basic financial statements, fund financial statements focus on the City's most significant funds rather than the City as a whole. Major funds are separately reported while all others are combined into a single, aggregate presentation. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

Governmental Funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus

on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating annual financing requirements of governmental programs and the commitment of spendable resources for the near-term.

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

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

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

The basic governmental fund financial statements can be found on pages 4-4 to 4-10 of this report.

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

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

The basic proprietary fund financial statements can be found on pages 4-11 to 4-13 of this report.

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

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

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 4-16 to 4-47 of this report.

Required Supplementary Information

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

Combining Statements

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

Government-wide Financial Analysis

Net Assets

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Lacey, assets exceeded liabilities by \$606.1 million at the close of the most recent fiscal year.

The following table provides a summary of the City's net assets as of December 31, 2010 and December 31, 2009:

	Governmental Activities		Business-Type Activities		Total		Percentage Of Total	
	2010	2009	2010	2009	2010	2009	2010	2009
Assets:								
Current assets	\$ 72,329,097	\$ 67,594,230	\$ 19,415,713	\$ 5,879,050	\$ 91,744,810	\$ 73,473,280	14.4%	11.7%
Restricted assets	904,522	938,919	362,481	12,601,131	1,267,003	13,540,050	0.2%	2.2%
Investment in joint venture	556,231	15,839,828	-	-	556,231	15,839,828	0.1%	2.5%
Capital assets	322,086,789	305,697,326	221,544,130	218,450,015	543,630,919	524,147,341	85.3%	83.6%
Total assets	395,876,639	390,070,303	241,322,324	236,930,196	637,198,963	627,000,499	100.0%	100.0%
Liabilities:								
Current liabilities	2,879,397	4,964,894	1,456,371	1,443,116	4,335,768	6,408,010	13.9%	18.7%
Long-term liabilities	26,579,122	27,684,267	182,859	175,773	26,761,981	27,860,040	86.1%	81.3%
Total liabilities	29,458,519	32,649,161	1,639,230	1,618,889	31,097,749	34,268,050	100.0%	100.0%
Net assets:								
Investment in capital assets, net of debt	302,166,889	287,705,043	221,544,130	218,450,014	523,711,019	506,155,057	86.4%	85.4%
Restricted	995,175	1,261,334	-	-	995,175	1,261,334	0.2%	0.2%
Unrestricted	63,256,056	68,454,765	18,138,964	16,861,293	81,395,020	85,316,058	13.4%	14.4%
Total net assets	\$ 366,418,120	\$ 357,421,142	\$ 239,683,094	\$ 235,311,307	\$ 606,101,214	\$ 592,732,449	100.0%	100.0%

By far the largest portion of the City of Lacey's net assets (86.4 percent) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment) less any related debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net assets (\$1.0 million) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* (\$81.4 million) may be used to meet the government's ongoing obligations to citizens and creditors.

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

Changes in Net Assets

The City's total net assets were increased by \$13.4 million in 2010. The increase is explained in the following discussion of governmental and business-type activities.

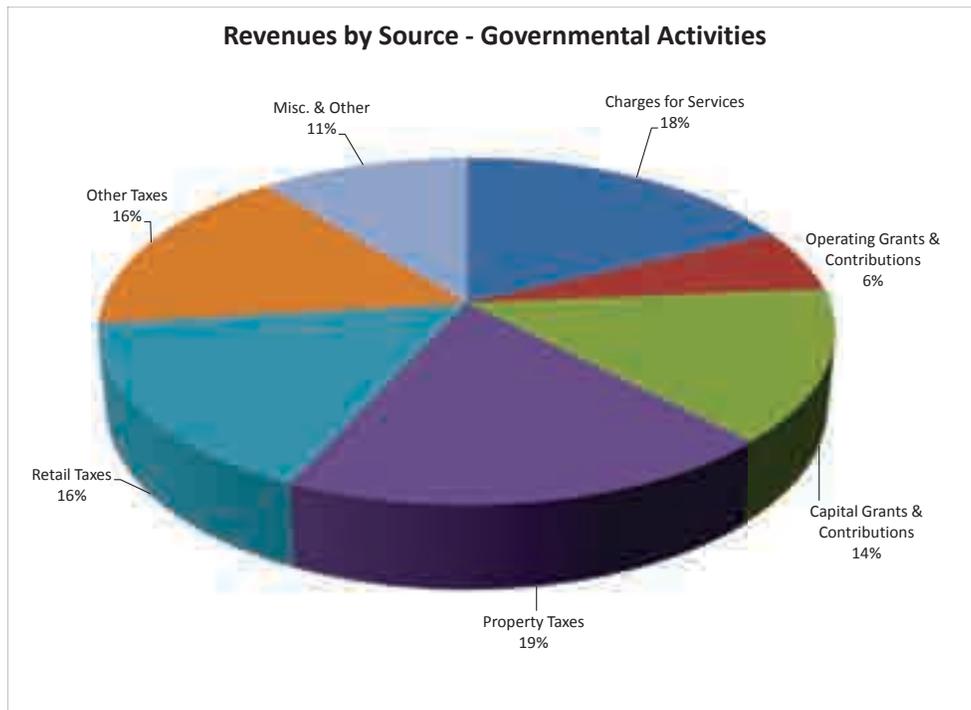
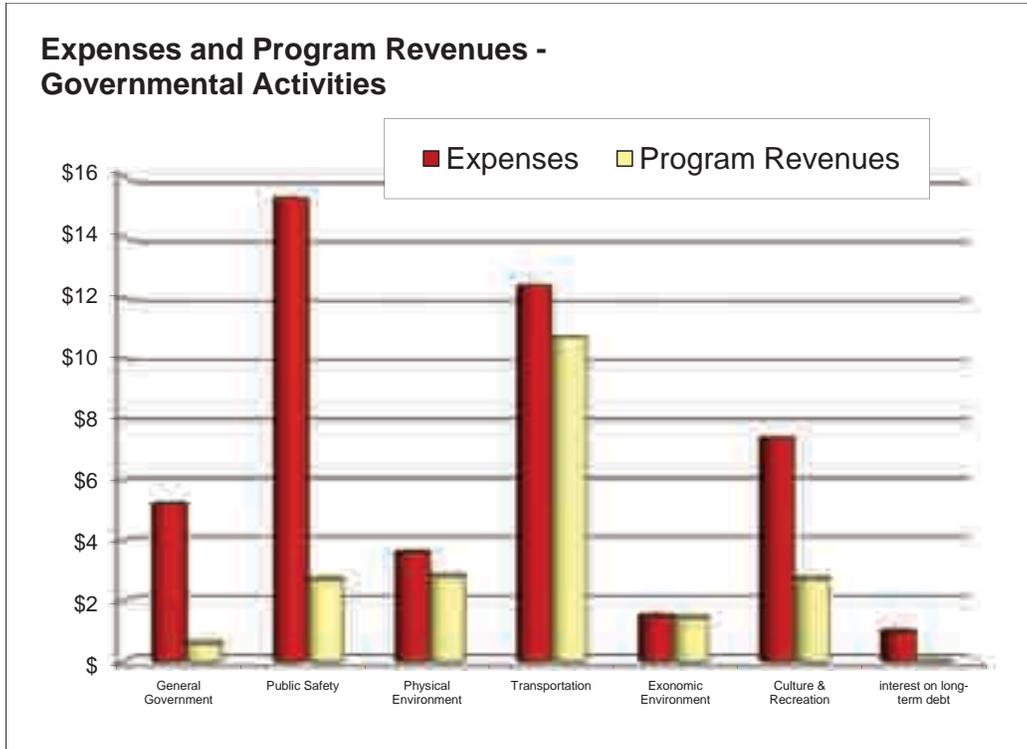
The following table provides a summary of the City's changes in net assets as of December 31, 2010 and December 31, 2009:

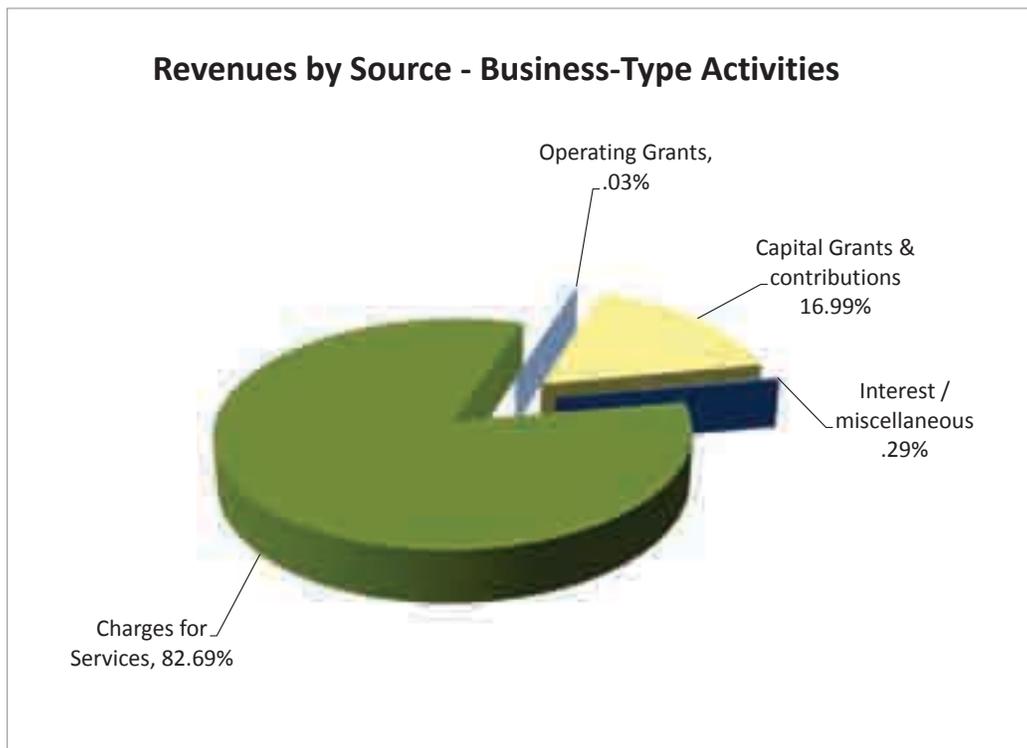
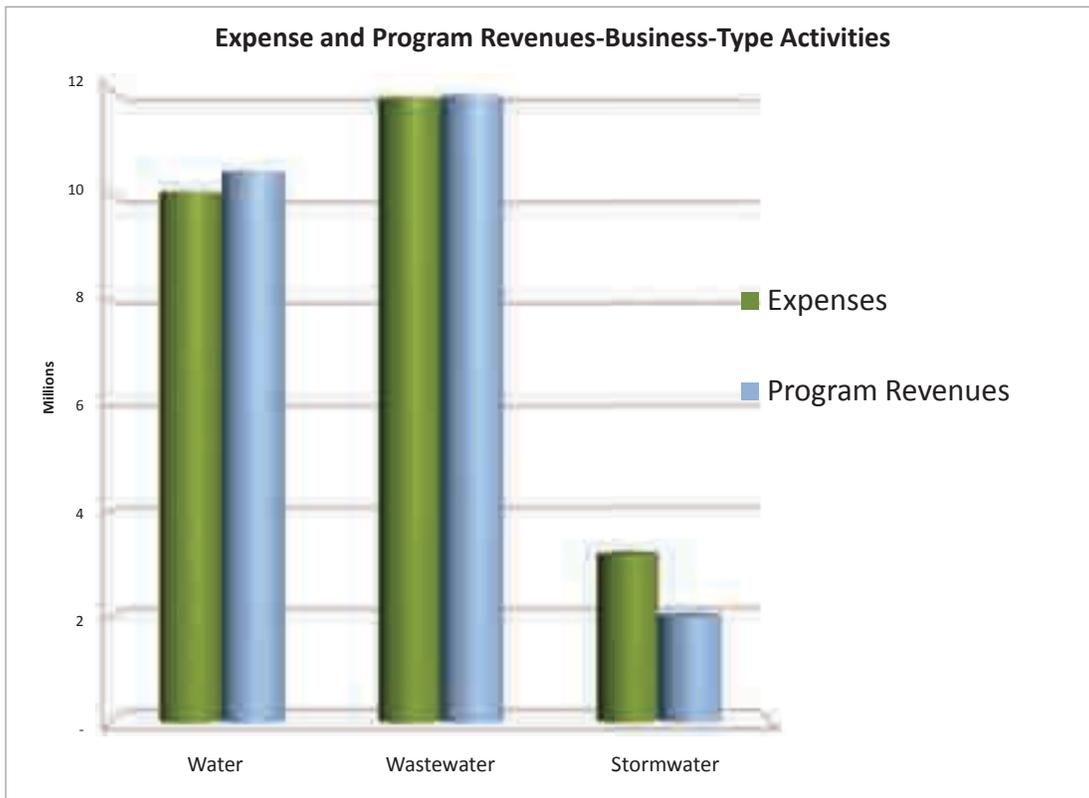
	Governmental		Business-Type		Total		Percentage	
	Activities		Activities				Of Total	
	2010	2009	2010	2009	2010	2009	2010	2009
Revenues:								
Program:								
Charges for services	\$ 9,898,919	\$ 9,102,142	\$ 24,301,443	\$ 24,410,456	\$ 34,200,362	\$ 33,512,598	42.7%	41.6%
Fines and forfeits	-	-	-	-	-	-	0.0%	0.0%
Miscellaneous	870,664	1,227,287	(66,626)	221,157	804,038	1,448,444	1.0%	1.8%
Operating Grants	3,220,944	2,006,006	8,985	-	3,229,929	2,006,006	4.0%	2.5%
Capital Grants	7,920,534	9,779,352	4,993,921	4,218,566	12,914,455	13,997,918	16.1%	17.4%
General:								
Taxes	28,450,989	28,642,551	-	-	28,450,989	28,642,551	35.5%	35.6%
Interest	374,989	711,513	73,845	199,078	448,834	910,591	0.6%	1.1%
Disposition of capital assets	-	-	-	-	-	-	0.0%	0.0%
Total revenues	50,737,039	51,468,851	29,311,568	29,049,257	80,048,606	80,518,108	100.0%	100.0%
Program expenses:								
General Government	5,209,671	5,549,521	-	-	5,209,671	5,549,521	7.3%	8.3%
Security of Persons and Property	15,284,219	14,087,614	-	-	15,284,219	14,087,614	21.4%	21.1%
Physical Environment	3,604,912	3,655,963	-	-	3,604,912	3,655,963	5.1%	5.5%
Transportation	12,402,493	10,748,270	-	-	12,402,493	10,748,270	17.4%	16.1%
Economic Environment	1,492,127	1,173,736	-	-	1,492,127	1,173,736	2.1%	1.8%
Mental and Physical Health	8,117	11,076	-	-	8,117	11,076	0.0%	0.0%
Culture & Recreation	7,387,696	6,518,885	-	-	7,387,696	6,518,885	10.3%	9.7%
Int on Long-Term Debt	976,661	1,023,190	-	-	976,661	1,023,190	1.4%	1.5%
Water	-	-	10,030,474	9,784,403	10,030,474	9,784,403	14.1%	14.6%
Wastewater	-	-	11,821,217	11,113,695	11,821,217	11,113,695	16.6%	16.6%
Stormwater	-	-	3,165,523	3,219,900	3,165,523	3,219,900	4.4%	4.8%
Reclaimed Water	-	-	-	-	-	-	0.0%	0.0%
Total expenses	46,365,896	42,768,255	25,017,214	24,117,998	71,383,110	66,886,253	100.0%	100.0%
Excess revenues	4,371,143	8,700,596	4,294,354	4,931,259	8,665,497	13,631,855		
Special Items	4,703,268	-	-	-	4,703,268	-		
Transfers	(77,433)	27,332	77,433	(27,332)	-	-		
Change in net assets	8,996,978	8,727,928	4,371,787	4,903,927	13,368,765	13,631,855		
Beginning net assets	357,421,142	348,693,214	235,311,307	230,407,380	592,732,449	579,100,594		
Ending net assets	\$ 366,418,120	\$ 357,421,142	\$ 239,683,094	\$ 235,311,307	\$ 606,101,214	\$ 592,732,449		

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

Governmental Activities

Governmental activities increased the City's net assets by \$9.0 million, thereby accounting for 67.3 percent of the total growth in the net assets of the City of Lacey.





- Operating revenues (charges for services) increased by \$796,777. Program expenses for general government, security of persons, property physical environment and culture and recreation incurred increases in the combined amount of \$1.7 million. Economic environment and transportation experienced a combined increase of \$2.0 million as a result of an increase to mitigation increases within the Arterial Street Fund.
- Operating grants and contributions increased \$1,214,938 mostly due to increases to Community Development Block Grants and Public Facility District sales tax receipts.
- Capital grants and contributions decreased by \$1,858,818. Transportation reported a \$1.2 million decrease which is mostly from a \$1.3 million decrease of State Job Development Fund grant, \$1.0 million decrease of federal American Recovery and Reinvestment Act of 2009 grant, \$548,569 increase to Transportation Improvement Board grants and a \$1.8 million increase in developer contributed assets. Culture and recreation reported a decrease of \$671,289 mostly due to the Public Facilities District sales tax receipts were reported in operating grants and contributions in 2010.
- General and miscellaneous revenues increased \$3.7 million. Property, retail sales, business and excise taxes combined decreased by \$191,562, mostly due to continued recession and slow recovery impacts to retail sales and business taxes. Interest and investment earnings and miscellaneous revenue decreased \$693,147. Interest and investment earnings accounted for slightly less than half of the decrease due to severe interest rate declines.
- Expenses increased \$3.6 million (8.4 percent), an increase of \$1.7 million to transportation expenses due to an increase to depreciation of \$700,000 and completed road project (Martin Way left turn), an economic environment increase of \$318,391 mostly due to aforementioned Department of Housing and Urban Development grant expenses, an increase of \$1.2 million to security of persons and property due to emergency medical and fire services, jail services, and law enforcement cost of labor, and an increase of \$868,811 due to number of culture and recreation expenses including the first full year operation of the Regional Athletic Complex accounted for the expense increase. All program expenses were impacted by increases to equipment and information system replacement charges, which were reinstated in 2010 after a one year suspension in 2009 due to declining revenues. Other increases in expenditures paralleled inflation and growth.

Business-type Activities

Business-type activities increased the City's net assets by \$4.4 million, accounting for 32.7 percent of the total growth in the government's net assets. Key elements of this increase are as follows:

- Water, Wastewater and Stormwater sales decreased 0.5 percent (\$109,013) despite increases to utility rates. The primary reason for the decrease was low water sales due to below average temperatures and above average precipitation that occurred during the 2010 summer months.
- Contributed Capital attributed to 17.0 percent (\$5.0 million) of business-type revenues and interest and investment earnings totaled \$73,845.

Governmental Functional Expenses

Public safety costs make up 33.0 percent of the total governmental expenses. Transportation costs comprise 26.8 percent of the City's total governmental expenses. The culture and recreation expenses make up 15.9 percent and general government services expenses make up

11.2 percent of governmental expenses.

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

	Governmental Activities			
	Total Cost Of Services		Net Cost Of Services	
	2010	2009	2010	2009
General Government	\$ 5,209,671	\$ 5,549,521	\$ (4,610,039)	\$ (4,422,986)
Public Safety	15,284,219	14,087,614	(12,567,808)	(11,906,890)
Physical Environment	3,604,912	3,655,963	(777,793)	(797,533)
Transportation	12,402,493	10,748,270	(1,692,443)	337,677
Economic Environment	1,492,127	1,173,736	(37,549)	(70,257)
Culture & Recreation	7,387,696	6,518,885	(4,655,089)	(3,986,500)
Int & Other Debt Service Costs	976,661	1,023,190	(976,661)	(1,023,190)
Mental & Physical Health	8,117	11,076	(8,117)	(11,076)
	<u>\$ 46,365,896</u>	<u>\$ 42,768,255</u>	<u>\$ (25,325,499)</u>	<u>\$ (21,880,755)</u>

Financial Analysis of City Funds

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

The following table provides a revenue, expenditure, and fund balance summary for the City's governmental funds as of December 31, 2010 and December 31, 2009:

Major Funds	Revenue, Expenditure, and Fund Balance Summary Governmental Funds					
	General Fund		Arterial Street Fund		L.I.D. Redemption Fund	
	2010	2009	2010	2009	2010	2009
Revenues						
Taxes	\$ 20,960,354	\$ 19,792,424	\$ 872,328	\$ 1,171,202	\$ -	\$ -
License and permits	1,392,896	1,367,259	-	-	-	-
Intergovernmental revenues	1,663,680	1,371,647	2,461,471	5,262,842	-	-
Charges for services	5,893,893	5,908,656	2,296,004	1,422,704	-	-
Fines & forfeitures	747,165	929,978	-	-	-	-
Other revenue	231,905	372,080	709,200	104,727	558,000	515,998
Total revenues	<u>30,889,893</u>	<u>29,742,044</u>	<u>6,339,003</u>	<u>7,961,475</u>	<u>558,000</u>	<u>515,998</u>
Expenditures	29,390,931	27,629,423	5,543,145	7,107,523	535,647	552,391
Other Financing Sources and Uses						
Proceeds from capital lease	34,927	26,740	-	-	-	-
Transfers	215,348	353,096	850,000	850,000	-	-
Total other financing sources and uses	<u>250,275</u>	<u>379,836</u>	<u>850,000</u>	<u>850,000</u>	<u>-</u>	<u>-</u>
Fund Balances						
Reserved	11,001	133,089	-	120,000	-	-
Unreserved, designated	15,119,939	15,113,166	-	-	-	-
Unreserved, undesignated	11,946,128	10,081,576	12,633,649	10,867,791	126,600	104,247
Total fund balances	<u>\$ 27,077,068</u>	<u>\$ 25,327,831</u>	<u>\$ 12,633,649</u>	<u>\$ 10,987,791</u>	<u>\$ 126,600</u>	<u>\$ 104,247</u>

Revenue, Expenditure, and Fund Balance Summary
Governmental Funds

Nonmajor Funds	Special Revenue Funds		Debt Service Funds		Capital Projects Funds	
	2010	2009	2010	2009	2010	2009
Revenues						
Taxes	\$ 2,270,111	\$ 2,192,173	\$ 1,497,421	\$ 1,489,470	\$ 2,804,174	\$ 3,885,866
License and permits	-	-	-	-	38,170	18,636
Intergovernmental revenues	1,224,443	980,769	-	-	831,510	727,346
Charges for services	340,068	212,470	-	-	-	20,000
Fines & forfeitures	-	-	-	-	-	-
Other revenue	339,588	78,890	957	2,839	58,901	110,124
Total revenues	4,174,210	3,464,302	1,498,378	1,492,309	3,732,755	4,761,972
Expenditures						
	3,913,006	3,251,745	2,142,885	2,092,950	725,778	5,332,246
Other Financing Sources and Uses						
Premium on bonds	-	-	103,810	-	-	-
Debt issuance	-	-	3,790,000	-	-	-
Refunding debt escrow	-	-	(3,842,817)	-	-	-
Transfers	185,302	202,431	584,130	579,730	(1,934,780)	(1,985,257)
Total other financing sources and uses	185,302	202,431	635,123	579,730	(1,934,780)	(1,985,257)
Special item:						
Payment from County for RAC settlement	-	-	-	-	1,320,910	-
Fund Balances						
Reserved	995,175	1,008,246	-	-	-	-
Unreserved, designated	435,000	435,000	-	-	3,208,420	3,181,089
Unreserved, undesignated	3,205,733	2,746,156	351,006	360,391	8,041,749	5,675,973
Total fund balances	\$ 4,635,908	\$ 4,189,402	\$ 351,006	\$ 360,391	\$ 11,250,169	\$ 8,857,062

Governmental Funds

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

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$56.1 million, an increase of \$6.2 million in comparison with the prior year. Approximately 64.7 percent (\$36.3 million) of this total amount constitutes *unreserved, undesignated fund balance*, which is available for spending at the government's discretion. The \$19.8 million remaining of the fund balance is *reserved or designated* to indicate that it is not available for new spending because it has already been committed for 1) lodging tax total fund balance (\$950,555), 2) a variety of other restricted purposes (\$55,621), and 3) a variety of other *fund designated* purposes (\$18.8 million). Additional information on the City's designated purposes can be found on page 4-24 of this report.

The **General Fund** is the chief operating fund of the City. At the end of the current fiscal year, unreserved, undesignated fund balance of the general fund was \$11.9 million, while the total fund balance reached \$27.1 million. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved, undesignated fund balance represents 40.7 percent of the total general fund expenditures, while total fund balance represents 92.1 percent of that same amount.

The fund balance of the City's General Fund was increased by \$1.7 million during the current fiscal year. Key factors in this growth are as follows:

- Revenues experienced modest increases due to larger allocations of retail sales and utility taxes. The tax allocation changes represented a shift from one-time capital projects to operations.
- Current expenditures increased by 6.4 percent (\$1.7 million) primarily due to increases to contract services, operating costs for a new park facility, equipment replacement contributions and payroll expenditures due cost of living and market increases as well as contractual increases for benefits.

The **Arterial Street Fund** has a total fund balance of \$12.6 million, of which the entire amount is unreserved to indicate that it is available for new spending. Revenues decreased \$1.6 million mostly due to the 2009 collection of state job development fund grant in 2008 and 2009 for the Gateway project and federal American Recovery and Reinvestment Act of 2009 grant taking place in the prior year. Expenditures decreased by \$1.6 million. The net increase in the fund balance during the current year was \$1.6 million.

The **Local Improvement District Bond Fund** has a total fund balance of \$126,600 as of the end of current fiscal year. The L.I.D 19 (NE area transportation improvements district) is the only remaining improvement in this fund as of the end of current fiscal year,

Proprietary Funds

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

Unrestricted net assets of the Water, Wastewater, Stormwater and Reclaimed Water operations at the end of the year amounted to \$17.2 million. The total growth in net assets for these funds was \$4.3 million. Other factors regarding the finances of these funds have already been addressed in the discussion of the City of Lacey's business-type activities.

General Fund Budgetary Highlights

During the year there was a \$59,905 increase in appropriations between the original and final amended budget. Following are the significant components of the 2010 General Fund budget amendments:

- A special election for fire annexation was held in 2010. The City of Lacey share for the election costs were \$54,633.
- Unanticipated increases to property and fire insurance premiums amounted to \$4,772.

In total, actual General Fund revenues exceeded the final budget by \$431,823 or a 1.4 percent difference. The total actual expenditures were \$1,398,088 less than budget or a 4.5 percent below budget.

On the revenue side of the budget, the primary difference between the final budget and the actual amounts relates to intergovernmental revenues. The difference in intergovernmental revenues relates to various grant proceed receipts that were not budgeted. It is worth noting that tax revenues were \$342,922 below budget. Sales tax receipts were \$213,507 below budget and business and occupation (B&O) tax receipts were \$69,923 below budget. These tax revenue sources are directly impacted by the health of the economy.

On the expenditure side of the budget, the largest variances between the final budget and the actual amounts occurred in the general government, security of persons and property, physical

environment, and culture and recreation functions. In reaction to declining revenues certain authorized and budgeted employee positions are being held vacant, which impacts the majority of the General Fund functions. 10 positions were held vacant during 2010. In addition, significant contract service payments were lower than anticipated and a budgeted lawsuit contingency was not necessary.

Capital Assets and Debt Administration

Capital assets

The City's investment in capital assets for its governmental and business-type activities as of December 31, 2010, amounts to \$543.6 million (net of accumulated depreciation). This investment in capital assets includes land, buildings and system improvements, machinery and equipment, park facilities, and infrastructure. The City's investments in capital assets were increased by \$19.5 million or 3.7% (5.4% from governmental activities and 1.4% from business-type activities) from previous year. The following schedule shows the City's investment in capital assets.

	Capital Assets (Amounts Presented in \$1,000's)							
	Governmental Activities		Business-Type Activities		Total		Percentage Of Total	
	2010	2009	2010	2009	2010	2009	2010	2009
Non-depreciable assets:								
Land & land rights	\$ 127,628	\$ 121,582	\$ 10,627	\$ 9,584	\$ 138,255	\$ 131,166	18.7%	18.7%
Construction in progress	1,952	13,172	966	5,765	2,918	18,937	0.4%	2.7%
Total non-depreciable	<u>129,580</u>	<u>134,754</u>	<u>11,593</u>	<u>15,349</u>	<u>141,173</u>	<u>150,103</u>	<u>19.1%</u>	<u>21.4%</u>
Depreciable assets:								
Buildings	27,261	27,051	1,521	1,521	28,782	28,572	3.9%	4.1%
Improvements	26,547	11,046	257,713	244,953	284,260	255,999	38.4%	36.5%
Infrastructure	272,970	254,381	-	-	272,970	254,381	36.9%	36.2%
Machinery and equipment	10,753	10,732	2,461	2,530	13,214	13,262	1.8%	1.9%
Total depreciable assets	<u>337,531</u>	<u>303,210</u>	<u>261,695</u>	<u>249,004</u>	<u>599,226</u>	<u>552,214</u>	<u>80.9%</u>	<u>78.6%</u>
Total cost of capital assets	467,111	437,964	273,288	264,353	740,399	702,317	<u>100.0%</u>	<u>100.0%</u>
Less accumulated depreciation	<u>145,024</u>	<u>132,267</u>	<u>51,744</u>	<u>45,903</u>	<u>196,768</u>	<u>178,170</u>		
Book value - capital assets	<u>\$ 322,087</u>	<u>\$ 305,697</u>	<u>\$ 221,544</u>	<u>\$ 218,450</u>	<u>\$ 543,631</u>	<u>\$ 524,147</u>		
Percentage depreciated	31.0%	30.2%	18.9%	17.4%	26.6%	25.4%		

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

- Land and land rights for the governmental activities increased by \$6.0 million, which includes \$2.4 million from developer contributed land and rights of way, \$1.2 million from land parcels and right of way purchased by the City for the City's various street projects, and the remaining \$2.6 million was from the capital asset transfer of the Regional Athletic Complex to the City. Business-type activities had a \$1.0 million increase which was mainly from donated easements from developers and citizens.
- Construction in progress for governmental activities has a net decrease of \$11.2 million. A total of \$4.0 million new projects were started during 2010 which included about \$3.8 million of street projects, \$48,000 for the senior center expansion, and \$84,000 for parks nature trail projects. Whereas an estimated \$15 million decrease is from reclassifying street project costs that were began prior to 2010 and completed during 2010 to infrastructure asset class. Business-type activities reported a net decrease of \$4.8 million. A total of ap-

proximately \$437,000 in new capital projects began in 2010 including the Hawks Prairie well project and various lift station projects. Whereas an estimated \$5.3 million decrease was experienced mostly due to the completion of Gateway lift station project during 2010. Prior year capitalized costs were reclassified to improvement asset class in 2010.

- Improvements for governmental activities reported \$15.5 million increase during 2010 which included \$15.5 million of the Regional Athletic Complex capital assets transferred to the City. Business-type activities reported a net increase of \$12.8 million. A \$9.1 million of the net increase was from reclassification from construction in progress to improvements for projects began prior to or during 2010 and completed during 2010. Also included in the net increase was \$3.9 million in developer contributed utilities lines and pipes.
- Infrastructure for governmental activities increased by \$18.6 million. \$15.0 million of the total increase was from reclassification of construction in progress to infrastructure assets during 2010. Also included is \$3.3 million of developer contributed streets and street lights.

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

Debt Administration

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

The ratios of general obligation debt to assessed valuation and the amount of debt per capita are useful to citizens, management and investors as indicators of the City's debt position.

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

The City is authorized to issue revenue bonds to finance capital improvements for its various enterprise activities, requiring only a majority approval vote of the Council. The City has a revenue bond coverage ratio requirement of 120 percent of maximum annual debt.

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

As the demand for public sector investment in infrastructure continues to grow, the issuance of debt has become an increasingly important component of state and local government capital

programs. While the issuance of debt is frequently an appropriate method of financing capital projects at the local level, it also entails careful monitoring of such obligations to ensure an erosion of the City’s credit quality does not result. Lacey’s general facilities connection charges for water and wastewater services have minimized the need to issue debt.

Long-term Debt

At the end of the current fiscal year, the City of Lacey had total bonded debt outstanding of \$22.2 million and a State of Washington (Public Works projects) loan of \$1.6 million. The entire \$22.2 million comprises debt backed by the full faith and credit of the government. The bonded debt includes \$3,790,000 of advance refunded bonds. The special assessment debt for which the government is liable in the event of default by the property owners subject to the assessment was retired during 2010. The remainder of the City of Lacey’s debt represents bonds secured solely by specified revenue sources (i.e. revenue bonds).

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

	Governmental Activities		Business-Type Activities		Totals		Percentage Change
	2010	2009	2010	2009	2010	2009	
General obligation bonds	\$ 22,170	\$ 23,210	\$ -	\$ -	\$ 22,170	\$ 23,210	(4.5%)
Special assessment debt	-	270	-	-	-	270	(100.0%)
Revenue bonds	166	182	-	-	166	182	(8.9%)
Capital leases	-	-	-	-	-	-	0.0
PWTF and other loans	1,571	1,768	-	-	1,571	1,768	(11.1%)
Total	\$ 23,907	\$ 25,430	\$ -	\$ -	\$ 23,907	\$ 25,430	(6.0%)

The City’s total outstanding debt decreased by \$1.5 million (6.0 percent) during the current fiscal year of which equals to the amount of debt redemption during 2010. The debt per capita was approximately \$595.74, which is substantially below the national average.

Additional information on the City of Lacey’s long-term debt can be found in note 4-H on pages 4-32 to 4-36.

Economic Factors and Next Year’s Budgets and Rates

- The 2010 average unemployment rate for the County was 8.2 percent, which is an increase from a rate of 7.9 percent a year ago. This is lower compared to the state and national average unemployment rates of 9.6 percent.
- The City’s population continues to grow, (40,130 in the current fiscal year) and is placing more demand on services. Prior to the recession, revenue growth to property tax, sales tax, and planning and inspection fees offset the costs associated with growth. In 2009 and 2010 revenues declined, so the growth no longer offsets rising operating costs. The City’s population is growing faster than the State average. The City’s population increased 2.2 percent while the State’s population only increased by 1.0 percent.

During the current fiscal year, unreserved, undesignated fund balance in the general fund increased \$1.9 million (18.5 percent) to \$11.9 million. This increase did not impact the net increase in fund balance in 2010.

The Water utility rates in the 2010 budget year were increased by 4.0 percent. The City has phased in a water rate schedule that places more emphasis on conservation. The conserva-

tion rates place greater emphasis on the relationship of water usage to the amount paid by the customer. This change rewards the conservative customer while encouraging, through a higher rate, the high-end consumer to conserve water resources. Wastewater rates increased \$1.75 per month in the 2010 budget. These rates along with general facility charges, fund the current operating expenses, maintenance of the system, replacement, and/or emergency repairs, and fund needed capital improvements.

Requests for Information

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



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BASIC FINANCIAL STATEMENTS

Statement of Net Assets
December 31, 2010

	Primary Government		Total
	Governmental Activities	Business-Type Activities	
ASSETS			
Cash and cash equivalents	\$ 61,756,187	\$ 17,133,723	\$ 78,889,910
Receivables (net)	11,250,849	1,150,484	12,401,333
Internal balances	(902,425)	902,425	-
Inventories	-	218,991	218,991
Prepayments	11,001	10,090	21,091
Deferred charges	213,485	-	213,485
Restricted:			
Cash and cash equivalents	139,658	362,481	502,139
Investments	764,865	-	764,865
Investment in joint venture	556,231	-	556,231
Capital assets:			
Non-depreciable	129,580,281	11,593,657	141,173,938
Depreciable, net	192,506,507	209,950,473	402,456,980
Total assets	<u>395,876,639</u>	<u>241,322,324</u>	<u>637,198,963</u>
LIABILITIES			
Accounts payable	766,878	1,456,371	2,223,249
Interest payable	94,588	-	94,588
Unearned revenue	2,017,931	-	2,017,931
Non current liabilities:			
Due within one year	2,403,894	105,698	2,509,592
Due in more than one year	24,175,228	77,161	24,252,389
Total liabilities	<u>29,458,519</u>	<u>1,639,230</u>	<u>31,097,749</u>
NET ASSETS			
Invested in capital assets, net of related debt	302,166,889	221,544,130	523,711,019
Restricted for:			
Culture and recreation	950,555	-	950,555
Other purposes	44,620	-	44,620
Unrestricted	63,256,056	18,138,964	81,395,020
Total net assets	<u>\$ 366,418,120</u>	<u>\$ 239,683,094</u>	<u>\$ 606,101,214</u>

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

Statement of Activities
For the Year Ended December 31, 2010

Functions/Program	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants & Contributions
Primary government:				
Governmental activities:				
General government	\$ 5,209,671	\$ 560,742	\$ 38,890	\$ -
Security of persons and property	15,284,219	1,623,714	1,047,394	45,303
Physical environment	3,604,912	2,827,119	-	-
Transportation	12,402,493	2,319,227	602,829	7,787,994
Economic environment	1,492,127	1,117,087	300,728	36,763
Mental and physical health	8,117	-	-	-
Culture and recreation	7,387,696	1,451,030	1,231,103	50,474
Interest on long-term debt	976,661	-	-	-
Total governmental activities	46,365,896	9,898,919	3,220,944	7,920,534
Business-type activities:				
Water	10,030,474	10,435,974	-	1,634,192
Wastewater	11,821,217	11,873,620	-	1,645,298
Stormwater	3,165,523	1,991,849	8,985	1,714,431
Total business-type activities	25,017,214	24,301,443	8,985	4,993,921
Total primary government	\$ 71,383,110	\$ 34,200,362	\$ 3,229,929	\$ 12,914,455

General revenues:

Property taxes
Retail taxes
Business taxes
Excise taxes
Penalties & interest
Interest and investment earnings
Miscellaneous
Special items
Transfers
Total general revenues, special items, and transfers

Change in net assets

Net assets - beginning

Net assets - ending

Net(Expense)Revenues and Changes in Net Assets Primary Government		
Governmental Activities	Business-Type Activities	Total
\$ (4,610,039)	\$ -	\$ (4,610,039)
(12,567,808)	-	(12,567,808)
(777,793)	-	(777,793)
(1,692,443)	-	(1,692,443)
(37,549)	-	(37,549)
(8,117)	-	(8,117)
(4,655,089)	-	(4,655,089)
(976,661)	-	(976,661)
<u>(25,325,499)</u>	<u>-</u>	<u>(25,325,499)</u>
-	2,039,692	2,039,692
-	1,697,701	1,697,701
-	549,742	549,742
-	<u>4,287,135</u>	<u>4,287,135</u>
<u>(25,325,499)</u>	<u>4,287,135</u>	<u>(21,038,364)</u>
10,447,158	-	10,447,158
9,063,890	-	9,063,890
7,642,301	-	7,642,301
1,297,640	-	1,297,640
463	-	463
374,526	73,845	448,371
870,664	(66,626)	804,038
4,703,268	-	4,703,268
(77,433)	77,433	-
<u>34,322,477</u>	<u>84,652</u>	<u>34,407,129</u>
8,996,978	4,371,787	13,368,765
<u>357,421,142</u>	<u>235,311,307</u>	<u>592,732,449</u>
<u>\$ 366,418,120</u>	<u>\$ 239,683,094</u>	<u>\$ 606,101,214</u>

Balance Sheet
Governmental Funds
December 31, 2010

	General	Arterial Street	L.I.D. Redemption
ASSETS			
Current cash & cash equivalents	\$ 24,592,956	\$ 13,140,261	\$ 126,583
Receivables (net of allowances):			
Taxes	3,058,192	94,523	-
Customer accounts	1,047,939	202,475	-
Accrued interest and penalty	-	-	16
Due from other governmental units	48,501	482,929	165,874
Prepayments	11,001	-	-
Restricted assets:			
Cash & cash equivalents	135,144	600	-
Investments	-	764,865	-
Special assessments deferred	-	-	4,327,451
Total assets	<u>\$ 28,893,733</u>	<u>\$ 14,685,653</u>	<u>\$ 4,619,924</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 304,627	\$ 3,034	\$ -
Due to other governmental units	108,688	2,852	-
Advance payments	-	-	-
Custodial accounts:			
Deposits	135,144	600	-
Deferred revenue	1,138,274	159,942	4,493,324
Unearned revenue	129,932	1,885,576	-
Total liabilities	<u>1,816,665</u>	<u>2,052,004</u>	<u>4,493,324</u>
Fund balances			
Reserved for:			
Culture and recreation	-	-	-
Prepaid items	11,001	-	-
Other purposes	-	-	-
Unreserved, designated for, reported in:			
Contingency	1,460,940	-	-
Criminal bail	154,392	-	-
Furniture and equipment	217,500	-	-
Property acquisitions	1,500,000	-	-
Insurance	200,000	-	-
Parks	137,107	-	-
Community center	50,000	-	-
Gateway project	5,200,000	-	-
Senior center addition	1,500,000	-	-
City Facilities	2,000,000	-	-
Utilities	2,700,000	-	-
Special revenue funds	-	-	-
Capital project funds	-	-	-
Unreserved, undesignated for:			
General fund	11,946,128	-	-
Special revenue funds	-	12,633,649	-
Debt service funds	-	-	126,600
Capital project funds	-	-	-
Total fund balances	<u>27,077,068</u>	<u>12,633,649</u>	<u>126,600</u>
Total liabilities and fund balances	<u>\$ 28,893,733</u>	<u>\$ 14,685,653</u>	<u>\$ 4,619,924</u>

Other Governmental Funds	Total Governmental Funds
\$ 15,139,950	\$ 52,999,750
825,715	3,978,430
675,327	1,925,741
-	16
253,847	951,151
-	11,001
3,914	139,658
-	764,865
-	4,327,451
<u>\$ 16,898,753</u>	<u>\$ 65,098,063</u>
\$ 91,126	\$ 398,787
1,439	112,979
-	-
2,475	138,219
564,207	6,355,747
2,423	2,017,931
<u>661,670</u>	<u>9,023,663</u>
950,555	950,555
-	11,001
44,620	44,620
-	1,460,940
-	154,392
-	217,500
-	1,500,000
-	200,000
-	137,107
-	50,000
-	5,200,000
-	1,500,000
-	2,000,000
-	2,700,000
435,000	435,000
3,208,420	3,208,420
-	11,946,128
3,205,733	15,839,382
351,006	477,606
8,041,749	8,041,749
<u>16,237,083</u>	<u>56,074,400</u>
<u>\$ 16,898,753</u>	<u>\$ 65,098,063</u>



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Reconciliation of the Balance Sheet
To the Statement of Net Assets
Governmental Funds
For the Year Ended December 31, 2010

Fund balances - total governmental funds		\$ 56,074,400
Amounts reported for governmental activities in the statement of net assets are different because:		
Certain assets used in governmental activities are not financial resources and therefore are not reported in the fund statement:		
Deferred charges	\$ 213,485	
Investment in joint venture	<u>556,231</u>	769,716
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds:		
Non-depreciable assets	129,580,281	
Depreciable assets (net)	<u>188,972,145</u>	318,552,426
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the governmental funds:		
Deferred revenues:		
Local court revenue receivable	694,736	
Contractor receivable	359,942	
Property taxes receivable	500,844	
Special assessments receivable	<u>4,800,225</u>	6,355,747
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	(94,588)	
Bonds and loans including unamortized bond premium \$288,834 and deferral on refunding \$161,584	(24,034,451)	
Capital leases	(54,112)	
Claims and judgments and contracts payable	(994,815)	
Compensated absences and OPEB Liabilities	<u>(1,466,044)</u>	(26,644,010)
Internal service funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the internal service funds are reported in the statement of net assets.		
	<u>11,309,841</u>	<u>11,309,841</u>
Net assets of government activities.		<u><u>\$ 366,418,120</u></u>

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, 2010

	General	Arterial Street	L.I.D. Redemption
REVENUES			
Taxes	\$ 20,960,354	\$ 872,328	\$ -
Licenses and permits	1,392,896	-	-
Intergovernmental revenues	1,663,680	2,461,471	-
Charges for services	5,893,893	2,296,004	-
Fines and forfeitures	747,165	-	-
Other revenues	231,905	709,200	558,000
Total revenues	30,889,893	6,339,003	558,000
EXPENDITURES			
Current:			
General government	5,110,160	-	-
Security of persons and property	14,963,767	-	-
Physical environment	3,620,129	-	-
Transportation	-	-	-
Economic environment	1,105,361	-	-
Mental and physical health	8,117	-	-
Culture and recreation	4,539,410	-	-
Capital outlay	34,927	5,543,145	-
Debt service:			
Principal retirement	7,555	-	466,416
Interest	1,505	-	69,231
Debt issue costs	-	-	-
Total expenditures	29,390,931	5,543,145	535,647
Excess (deficiency) of revenue over (under) expenditures	1,498,962	795,858	22,353
OTHER FINANCING SOURCES (USES)			
Premium on refunding bonds issued	-	-	-
Capital leases	34,927	-	-
Refunding bonds issued	-	-	-
Payment to refunded bond escrow agent	-	-	-
Transfers in	315,348	850,000	-
Transfers out	(100,000)	-	-
Total other financing sources (uses)	250,275	850,000	-
SPECIAL ITEM			
Payment from County for RAC settlement	-	-	-
Net change in fund balances	1,749,237	1,645,858	22,353
FUND BALANCES - JANUARY 1	25,327,831	10,987,791	104,247
FUND BALANCES - DECEMBER 31	\$ 27,077,068	\$ 12,633,649	\$ 126,600

Other Governmental Funds	Total Governmental Funds
\$ 6,571,706	\$ 28,404,388
38,170	1,431,066
2,055,953	6,181,104
340,068	8,529,965
-	747,165
399,446	1,898,551
<u>9,405,343</u>	<u>47,192,239</u>
-	5,110,160
-	14,963,767
-	3,620,129
2,579,133	2,579,133
300,728	1,406,089
-	8,117
1,044,536	5,583,946
714,387	6,292,459
1,150,000	1,623,971
941,944	1,012,680
50,941	50,941
<u>6,781,669</u>	<u>42,251,392</u>
<u>2,623,674</u>	<u>4,940,847</u>
103,810	103,810
-	34,927
3,790,000	3,790,000
(3,842,817)	(3,842,817)
994,432	2,159,780
<u>(2,159,780)</u>	<u>(2,259,780)</u>
<u>(1,114,355)</u>	<u>(14,080)</u>
<u>1,320,910</u>	<u>1,320,910</u>
2,830,229	6,247,677
13,406,854	49,826,723
<u>\$ 16,237,083</u>	<u>\$ 56,074,400</u>

Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances of Governmental Funds
To the Statement of Activities
Governmental Funds
For the Year Ended December 31, 2010

Net changes in total fund balances per fund financial statements		\$ 6,247,677
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	\$ 5,269,937	
Current year depreciation	<u>(12,296,976)</u>	(7,027,039)
<p>Issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.</p>		
Capital lease financing	(34,927)	
Debt principal repayments	1,640,097	
Debt issuance including premium and issuance costs	(3,842,869)	
Debt advance refunding	3,842,817	
Amortization of bond premium/issuance costs	<u>5,848</u>	1,610,966
<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	47,063	
Deferred revenue - special assessments	(453,309)	
Deferred revenue - grants earned but not available	(87,950)	
Deferred revenue - court local revenue earned but not available	497,160	
Deferred revenue - contract receivable	<u>(414,418)</u>	(411,454)
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.</p>		
Claims and judgments	41,609	
Changes in investment in joint venture	(15,283,597)	
Changes in compensated absences and OPEB Liabilities	(314,082)	
Changes in accrued interest payable	<u>14,473</u>	(15,541,597)
<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>		
		138,927
<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	9,039,087	
Investment in joint venture transferred to capital assets	<u>14,940,411</u>	<u>23,979,498</u>
Changes in net assets of governmental activities		<u>\$ 8,996,978</u>

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

Statement of Net Assets
Proprietary Funds
December 31, 2010

	Business-type Activities Enterprise Funds				Total	Governmental Activities
	Water	Waste- Water	Storm Water	Reclaimed Water		Internal Service Funds
ASSETS						
Current assets:						
Cash and cash equivalents	\$ 5,656,666	\$ 7,351,631	\$ 1,899,641	\$ 2,225,785	\$ 17,133,723	\$ 8,756,437
Restricted cash and cash equivalents:						
Customer deposits	186,928	175,553	-	-	362,481	-
Receivables (net of allowances):						
Customer accounts	404,107	602,380	110,306	-	1,116,793	56,095
Accrued interest & penalty	1,730	3,909	-	-	5,639	-
Prepayments	10,090	-	-	-	10,090	-
Due from governmental units	-	-	7,626	-	7,626	11,967
Inventory	218,991	-	-	-	218,991	-
Total current assets:	<u>6,478,512</u>	<u>8,133,473</u>	<u>2,017,573</u>	<u>2,225,785</u>	<u>18,855,343</u>	<u>8,824,499</u>
Non-current assets:						
Special assessments	7,275	-	-	-	7,275	-
Special assessments deferred	13,150	-	-	-	13,150	-
Interfund loan receivable	-	8,800,000	-	-	8,800,000	-
Capital assets, net of depreciation:						
Land	6,593,818	1,254,348	2,778,907	-	10,627,073	-
Buildings	468,100	721,780	-	-	1,189,880	159,741
Improvements other than buildings	101,608,026	62,726,574	44,209,063	-	208,543,663	5,908
Equipment	73,394	136,581	6,954	-	216,929	3,368,713
Construction in progress	556,578	355,703	-	54,303	966,584	-
Total non-current assets	<u>109,320,341</u>	<u>73,994,986</u>	<u>46,994,924</u>	<u>54,303</u>	<u>230,364,554</u>	<u>3,534,362</u>
Total assets	<u>115,798,853</u>	<u>82,128,459</u>	<u>49,012,497</u>	<u>2,280,088</u>	<u>249,219,897</u>	<u>12,358,861</u>
LIABILITIES						
Current liabilities:						
Accounts payable	117,699	257,452	25,226	-	400,377	115,090
Due to other governmental units	62,061	626,138	5,313	-	693,512	1,805
Compensated absences	62,850	31,823	11,025	-	105,698	18,935
Current liabilities payable from restricted assets:						
Customer deposits	186,927	175,553	-	-	362,480	-
Total current liabilities	<u>429,537</u>	<u>1,090,966</u>	<u>41,564</u>	<u>-</u>	<u>1,562,067</u>	<u>135,830</u>
Non-current liabilities:						
Compensated absences	43,260	26,199	7,702	-	77,161	10,765
Interfund loan payable	8,800,000	-	-	-	8,800,000	-
Total non-current liabilities	<u>8,843,260</u>	<u>26,199</u>	<u>7,702</u>	<u>-</u>	<u>8,877,161</u>	<u>10,765</u>
Total liabilities	<u>9,272,797</u>	<u>1,117,165</u>	<u>49,266</u>	<u>-</u>	<u>10,439,228</u>	<u>146,595</u>
NET ASSETS						
Investment in capital assets	109,299,915	65,194,987	46,994,924	54,303	221,544,129	3,534,362
Unrestricted	(2,773,859)	15,816,307	1,968,307	2,225,785	17,236,540	8,677,904
Total net assets	<u>\$ 106,526,056</u>	<u>\$ 81,011,294</u>	<u>\$ 48,963,231</u>	<u>\$ 2,280,088</u>	<u>238,780,669</u>	<u>\$ 12,212,266</u>
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.					902,425	
Net assets of business-type activities.					<u>\$ 239,683,094</u>	

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

Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended December 31, 2010

	Business-Type Activities Enterprise Funds				Total	Governmental Activities Internal Service Funds
	Water	Waste- Water	Storm Water	Reclaimed Water		
OPERATING REVENUES						
Charges for services	\$ 10,435,974	\$ 11,873,620	\$ 1,991,849	\$ -	\$ 24,301,443	\$ 3,167,588
Total operating revenue	<u>10,435,974</u>	<u>11,873,620</u>	<u>1,991,849</u>	<u>-</u>	<u>24,301,443</u>	<u>3,167,588</u>
OPERATING EXPENSES						
Operating expense	2,824,424	8,198,898	996,730	-	12,020,052	1,978,722
Maintenance expense	3,764,481	1,854,827	610,307	-	6,229,615	282,038
Depreciation expense	3,041,157	1,638,476	1,531,358	-	6,210,991	891,225
Taxes	412,047	138,874	35,672	-	586,593	-
Total operating expenses	<u>10,042,109</u>	<u>11,831,075</u>	<u>3,174,067</u>	<u>-</u>	<u>25,047,251</u>	<u>3,151,985</u>
OPERATING INCOME (LOSS)	<u>393,865</u>	<u>42,545</u>	<u>(1,182,218)</u>	<u>-</u>	<u>(745,808)</u>	<u>15,603</u>
NON-OPERATING REVENUES (EXPENSES)						
Intergovernmental revenue	-	48,728	8,985	-	57,713	-
Investment earnings	6,602	58,079	4,148	5,016	73,845	24,033
Miscellaneous non-operating revenues	213,882	899	1,007	-	215,788	7,857
Gain (loss) on sale of capital assets	(282,414)	-	-	-	(282,414)	54,347
Total non-operating Revenues (expenses)	<u>(61,930)</u>	<u>107,706</u>	<u>14,140</u>	<u>5,016</u>	<u>64,932</u>	<u>86,237</u>
Income (loss) before contributions and transfers	331,935	150,251	(1,168,078)	5,016	(680,876)	101,840
Capital contributions	1,634,192	1,596,570	1,714,431	-	4,945,193	106,256
Transfers in	220,000	-	-	-	220,000	22,567
Transfers out	(17,423)	-	(5,144)	(120,000)	(142,567)	(61,701)
Changes in net assets	2,168,704	1,746,821	541,209	(114,984)	4,341,750	168,962
NET ASSETS - BEGINNING	<u>104,357,352</u>	<u>79,264,473</u>	<u>48,422,022</u>	<u>2,395,072</u>		<u>12,043,304</u>
NET ASSETS - ENDING	<u>\$ 106,526,056</u>	<u>\$ 81,011,294</u>	<u>\$ 48,963,231</u>	<u>\$ 2,280,088</u>		<u>\$ 12,212,266</u>
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.					30,037	
Change in net assets of business-type activities.					<u>\$ 4,371,787</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, 2010

	Business-type Activities Enterprise Funds				Total	Governmental
	Water	Waste- Water	Storm Water	Reclaimed Water		Activities
						Internal Services Funds
CASH FLOW FROM OPERATING ACTIVITIES:						
Receipts from customers and users	\$ 10,689,000	\$ 11,846,357	\$ 1,990,089	\$ -	\$ 24,525,446	\$ 3,118,251
Payments to suppliers	(4,176,191)	(8,226,270)	(955,218)	-	(13,357,679)	(993,737)
Payments to employees	(2,511,016)	(1,621,862)	(648,742)	-	(4,781,620)	(1,218,274)
Payments for taxes	(412,048)	(138,874)	(35,672)	-	(586,594)	-
Net cash provided by operating activities	<u>3,589,745</u>	<u>1,859,351</u>	<u>350,457</u>	<u>-</u>	<u>5,799,553</u>	<u>906,240</u>
CASH FLOW FROM NON-CAPITAL FINANCING ACTIVITIES:						
Transfers in from other funds	100,000	-	-	-	100,000	-
Net cash provided by non-capital financing activities	<u>100,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>100,000</u>	<u>-</u>
CASH FLOW FROM CAPITAL AND RELATED FINANCING ACTIVITIES:						
Acquisition and construction of capital assets	(1,457,457)	(3,049,558)	(81,011)	(54,303)	(4,642,329)	(419,928)
Proceeds from sales of capital assets	-	-	-	-	-	84,348
Receipt (payment) on Interfund loan	(700,000)	700,000	-	-	-	-
Principal payments received on special assessments	13,064	15,914	-	-	28,978	-
Interest and penalty payments received on special assessments	1,817	-	-	-	1,817	-
Subsidy from grant	66,551	53,266	1,359	-	121,176	-
Transfer out to other funds	(17,423)	-	(5,144)	(120,000)	(142,567)	-
Transfer in from other funds for capital acquisitions	120,000	-	-	-	120,000	128,823
Net cash used by capital and related financing activities	<u>(1,973,448)</u>	<u>(2,280,378)</u>	<u>(84,796)</u>	<u>(174,303)</u>	<u>(4,512,925)</u>	<u>(206,757)</u>
CASH FLOW FROM INVESTING ACTIVITIES:						
Interest received on investments	6,436	62,821	4,148	5,016	78,421	24,034
Net cash provided (used) by investing activities	<u>6,436</u>	<u>62,821</u>	<u>4,148</u>	<u>5,016</u>	<u>78,421</u>	<u>24,034</u>
Net increase (decrease) in cash and cash equivalents	1,722,733	(358,206)	269,809	(169,287)	1,465,049	723,517
Cash and cash equivalents January 1	4,120,861	7,885,390	1,629,832	2,395,072	16,031,155	8,032,920
Cash and cash equivalents December 31 (including restricted cash & cash equivalents)	<u>\$ 5,843,594</u>	<u>\$ 7,527,184</u>	<u>\$ 1,899,641</u>	<u>\$ 2,225,785</u>	<u>\$ 17,496,204</u>	<u>\$ 8,756,437</u>
CASH PROVIDED BY OPERATING ACTIVITIES:						
Net operating income	\$ 393,865	\$ 42,545	\$ (1,182,218)	\$ -	\$ (745,808)	\$ 15,603
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:						
Depreciation	3,041,157	1,638,476	1,531,358	-	6,210,991	891,225
(Increase)/decrease in customer receivables	27,742	(56,537)	(2,768)	-	(31,563)	(53,964)
(increase)/decrease in customer deposits	11,399	28,376	-	-	39,775	-
(increase) decrease in intergovernmental receivables	-	-	-	-	-	(3,229)
(increase) decrease in prepaids	(3,081)	168,213	-	-	165,132	-
(Increase)/decrease in inventories	(35,329)	-	-	-	(35,329)	-
Miscellaneous non-operating revenues	213,885	898	1,008	-	215,791	7,856
Increase/(decrease) in accounts payable	(109,302)	(581,540)	2,124	-	(688,718)	56,642
Increase/(decrease) in intergovernmental payables	42,422	616,756	3,018	-	662,196	1,805
Increase/(decrease) in compensated absences	6,987	2,164	(2,065)	-	7,086	(9,698)
Net cash provided by operating activities	<u>\$ 3,589,745</u>	<u>\$ 1,859,351</u>	<u>\$ 350,457</u>	<u>\$ -</u>	<u>\$ 5,799,553</u>	<u>\$ 906,240</u>
Noncash investing, capital and financing activities:						
Capital asset transferred from (to) other funds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (61,701)
Contributions of capital assets from developers	\$ 1,634,192	\$ 1,596,570	\$ 1,714,431	\$ -	\$ 4,945,193	\$ -

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

Statement of Fiduciary Net Assets
Fiduciary Funds
December 31, 2010

	<u>Agency Funds</u>
ASSETS	
Cash and cash equivalents	\$ 2,216,082
Due from other governmental units	40,601
Prepays	1,701
Total assets	<u>\$ 2,258,384</u>
LIABILITIES	
Accounts payable	\$ 18,357
Accrued employee leave payable	74,081
Capital lease payable	8,439
Notes payable	165,874
Due to other governmental units	1,991,633
Total liabilities	<u>\$ 2,258,384</u>

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

**Notes to the Financial Statements
December 31, 2010**

Basic Financial Statements		
Notes		page
1.	Summary of significant accounting policies	16
	A. Reporting entity.....	16
	B. Basic financial statements	16
	C. Measurement focus, basis of accounting and financial presentation	19
	D. Assets, liabilities and net assets or equities.....	20
	E. Revenues, expenditures and expenses.....	23
2.	Changes in Accounting and Reporting Policies and Disclosures	24
3.	Stewardship, compliance, and accountability	24
	A. Procedures for adopting the original budget.....	24
	B. Amending the budget.....	24
4.	Detailed notes on all funds	26
	A. Deposits and investments.....	26
	B. Receivables	27
	C. Property taxes.....	28
	D. Capital assets	28
	E. Interfund receivables, payables and transfers	30
	F. Restricted assets	31
	G. Leases	31
	H. Long-term liabilities	32
	I. Fund Equity	36
5.	Other Information	36
	A. Employee retirement systems and pension plans	36
	B. Deferred compensation.....	40
	C. Postemployment benefits other than pensions (OPEB).....	40
	D. Contingencies	43
	E. Risk management	44
	F. Interlocal agreements and joint ventures	45
	G. Special Items	47

City of Lacey
Notes to the Financial Statements
December 31, 2010

Note 1. Summary of significant accounting policies

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

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

The significant accounting policies are described below.

A. Reporting entity

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

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

B. Basic financial statements

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

Government-wide financial statements

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

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

Stormwater utilities and Reclaimed Water utilities. For the most part, the effect of interfund activity has been removed from these statements.

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

Fund financial statements

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

GASB Statement 34 sets forth the minimum criteria for the determination of a major fund. The following describes each fund as presented in the fund financial statements:

Major funds

Governmental funds

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

Arterial Street Fund provides funding for street construction and transportation improvement projects. Revenues come from state shared fuel taxes, utility taxes, real estate excise taxes, state and federal grants and mitigation impact fees. Work accomplished includes right-of-way acquisition, design, and construction of roadways, storm drainage, sidewalks, street lighting, traffic signals, and landscaping.

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

Enterprise funds

Water Utility Fund accounts for revenues and reserve dollars to construct or replace the water production and distribution system. The funds provide high quality drinking water in sufficient quantity and pressure to support the citizens of Lacey and service areas outside the City. Water comes primarily from wells that are owned and operated by the Utility. Water is also purchased from the City of Olympia.

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

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

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

Non-major funds

Governmental funds

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

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

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

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

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

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

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

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

Regional Athletic Complex (RAC) 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.

Other fund types

Internal Service Funds

Equipment Rental Fund accounts for fleet management services provided to other departments within the City of Lacey, on a cost reimbursement basis. Activities of the fund include the maintenance and replacement of City owned vehicles and equipment. The City's finance department provides administrative and accounting services while the public works department provides maintenance and repair services.

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

Fiduciary funds

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

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

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

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

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

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of

the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. Certain taxes including property taxes, business and licensing taxes, utility taxes, and excise taxes, certain charges for services, intergovernmental revenues such as grants where program expenditures are the prime for determining reimbursements, and earned interest associated within the current period are considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessment receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the City.

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

D. Assets, liabilities and net assets or equities

1. Cash, deposits and investments

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

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

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

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

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

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

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

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

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

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

3. Inventories and prepaid items

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

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

4. Restricted assets

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

5. Capital assets and depreciation

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

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

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

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

The City implemented the general provisions of GASB Statement No. 34 in fiscal year 1999 and the infrastructure acquired prior to fiscal years ended after June 30, 1980, is reported. These assets were reported at estimated historical costs through back-trending method (i.e. estimating the current

replacement cost of the infrastructure to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year).

The City implemented the general provisions of GASB Statement No. 51 (Accounting and Financial Reporting for Intangible Assets) in fiscal year 2010. The City opted to not to retroactively report intangible assets that are considered to have indefinite useful lives as of the effective date of this Statement and those that would be considered internally generated.

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

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

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

6. Deferred revenues

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

7. Custodial accounts

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

8. Compensated absences

It is the City's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. Vacation pay may accumulate up to 240 hours at December 31 and is payable upon resignation, retirement or death. Sick leave may accumulate up to 960 hours or as provided by contract. Sick leave does not vest until retirement. Upon retiring from employment with the City, each bargaining unit employee shall be paid for all accumulated sick leave beyond 60 days (480 hours) at the rate of 1 day (8 hours) of pay at his/her regular rate for each 3 days (24 hours) accumulated for a maximum payoff of forty-five (45) days sick leave (fifteen (15) days pay). Accrued sick leave is considered immaterial and is not accrued. All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements. The liabilities for compensated absences are considered to be long-term liabilities and are included in Note 4.H.

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 assets. Bond premiums and discounts, as well as issuance

costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payables are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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

10. Fund balance designations and reservations

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

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

E. Revenues, expenditures and expenses

1. Program revenues

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

2. General revenues

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

3. Interfund transfers

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

4. Expenditures/expenses

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

5. Operating and non-operating revenues and expenses

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

Note 2. Changes in Accounting and Reporting Policies and Disclosures

The City implemented GASB Statement No. 51 Accounting and Financial Reporting for Intangible Assets for the year ended December 31, 2010. The City opted to not 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. There were no intangible assets that met the requirements for retroactive reporting.

The City's has a policy to maintain an operating reserve at 11.5% of the total budgeted revenues and requires city council approval for expenses from the reserve accounts. The City's enterprise funds maintain certain cash reserves for future capital acquisition purposes under this policy, and the City had reported the cash reserves as restricted assets previously. A review of this classification during 2010 determined that it does not meet the restricted asset definition per GASB Statement 34; and therefore, its classification was changed to non-restricted cash and cash equivalents on 2010 financial statements of net assets.

Certain interfund charges (i.e. common facilities and administrative overhead charges) were previously regarded as services provided and used and reported on the government-wide statement of activities. During 2010, the City reviewed the nature of these charges and determined that these charges are of indirect costs nature. Accordingly, the City changed its past reporting practices and eliminated these amounts from current year government-wide statement of activities. This change did not affect the beginning equity as both revenues and expenses are reduced by the same amount.

The city changed its reporting of certain contributions that can be used for either capital or operating per City's discretion as capital grants and contributions. In previous year, the portion of the contributions that the City designated for capital purposes were reported as capital grants and contributions.

Note 3. Stewardship, compliance and accountability

A. Procedures for adopting the original budget

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

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

B. Amending the budget

The budget, as adopted, constitutes the legal authority for expenditures. Budgets are reported

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

Original budgeted inflows as compared to the final budgeted inflows for the year ended December 31, 2010, are as follows:

Fund	Original Budgeted Inflows	Final Budgeted Inflows	Increase (Decrease) Budgeted Inflows
General Fund	\$ 30,773,418	\$ 30,773,418	\$ -
City Street Fund	2,454,551	2,454,551	-
Arterial Fund	8,042,046	8,042,046	-
Regional Athletic Complex Operating Fund	830,504	830,504	-
Lodging Fund	370,500	325,500	(45,000)
G.O. Bond Redemption Fund	2,118,350	2,118,350	-
L.I.D. Redemption Fund	535,655	535,655	-
Building Fund	10,000	10,000	-
Capital Expenditure Fund	1,883,055	1,925,100	42,045
Parks & Open Space Fund	905,273	2,226,183	1,320,910
Regional Athletic ComplexCapital Fund	818,322	818,322	-
Equipment Rental Fund	1,769,000	1,769,000	-
Information Services Fund	1,482,789	1,482,789	-
Water Fund	11,226,033	11,226,033	-
Wastewater Fund	12,568,211	12,568,211	-
Stormwater Fund	2,031,535	2,031,535	-
Totals	\$ 77,819,242	\$ 79,137,197	\$ 1,317,955

The original budgeted outflows as compared to the final budgeted outflows for the year ended December 31, 2010, are as follows:

Fund	Original Budgeted Outflows	Final Budgeted Outflows	Increase (Decrease) Budgeted Outflows
General Fund	\$ 30,829,118	\$ 30,889,023	\$ 59,905
City Street Fund	2,454,551	2,529,421	74,870
Arterial Fund	9,566,114	9,566,114	-
Regional Athletic Complex Operating Fund	830,504	831,391	887
Lodging Fund	392,500	395,224	2,724
Community Development Block Fund			-
G.O. Bond Redemption Fund	2,091,950	2,091,950	-
L.I.D. Redemption Fund	535,655	535,655	-
Building Fund	10,000	250,151	240,151
Capital Expenditure Fund	1,946,372	2,097,622	151,250
Parks & Open Space Fund	600,650	838,650	238,000
Regional Athletic ComplexCapital Fund	692,130	792,130	100,000
Equipment Rental Fund	2,137,392	2,155,519	18,127
Information Services Fund	1,711,089	1,711,089	-
Water Fund	15,327,693	15,638,469	310,776
Wastewater Fund	17,906,261	17,936,569	30,308
Stormwater Fund	4,056,000	4,056,000	-
Reclaimed Water Fund	360,000	360,000	-
Totals	\$ 91,447,979	\$ 92,674,977	\$ 1,226,998

Note 4. Detailed notes on all funds

A. Deposits and investments

The City's deposits, including money markets and certificates are entirely covered by the federal depository insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (WPDPC). The WPDPC is a statutory authority established under Chapter 39.58 of the Revised Code of Washington. The FDIC insures 100 percent of the City's deposits in non-interest bearing accounts and up to \$250,000 for interest bearing accounts, and the WPDPC covers amounts not covered by FDIC.

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

The State Treasurer's Local Government Investment Pool (LGIP) operates in accordance with appropriate state laws and regulations (RWC 43.250.020). The LGIP is comparable to a Rule 2a-7 money market fund recognized by the Securities and Exchange Commission (17CFR.270.2a-7). Rule 2a-7 funds are limited to high quality obligations with limited maximum and average maturities, the effect of which is to minimize both market and credit risk. Investments or deposits held by the LGIP are either insured or held by a third-party custody provider in the LGIP's name. The reported value of City investment in the LGIP is dollar for dollar equal to the fair value of pool shares.

Interest rate risk. In accordance with its investment policy, the City manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to less than 24 months. The interest rate risks of participants' balances in the LGIP are limited as the weighted average maturity of the portfolio will not exceed 90 days. The LGIP has a weighted average maturity of 49 days in 2010.

Credit risk. As required by state law, it is the City's policy to limit its investments in debt securities to the obligations of U.S. Government, U.S. agency issues, obligations of the State of Washington, general obligations of Washington State municipalities and the State Treasurer's Local Government Investment Pool (LGIP). The credit risk of the LGIP is limited as most investments are either obligations of the US government, government sponsored enterprises, or insured demand deposit accounts and certificates of deposit. The LGIP is not rated by an outside agency.

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

Amounts reported as in the fund statements for the year ended December 31, 2010 are as follows:

<u>Governmental Funds</u>	<u>Amount</u>
Cash and cash equivalents and investments	\$ 52,999,750
Restricted cash and cash equivalents and investments	904,523
Total governmental funds	<u>53,904,273</u>

Proprietary Funds

Cash and cash equivalents	25,890,160
Restricted cash and cash equivalents (deposits)	362,481
Total proprietary funds	<u>26,252,641</u>

Fiduciary Funds

Cash and cash equivalents	2,216,082
Total fiduciary funds	<u>2,216,082</u>
Total all funds	<u><u>\$ 82,372,996</u></u>

Cash, deposits, and investments for the year ended December 31, 2010 are as follows:

	Amount
Cash on hand	\$ 16,400
Checking accounts	27,738,231
Money market accounts	18,398,282
Certificates of deposits	2,506,545
Washington State Investment Pool (LGIP)	33,713,538
Total	<u><u>\$ 82,372,996</u></u>

B. Receivables

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

	Unavailable	Unearned
Delinquent property taxes receivable (general fund)	\$ 443,538	\$ -
Local court revenue earned but not available (general fund)	694,736	-
Contract receivable (advance reservations) earnings process not yet complete (general fund)	-	129,932
Contract receivable (advance reservations) earnings process not yet complete (regional athletic complex fund)	-	2,423
Grants met all eligibility requirements not yet collected (arterial street fund)	-	-
Mitigation fees collected but earnings process not yet complete (arterial street fund)	-	1,885,576
Contract receivable earned but not yet available (arterial street fund)	159,942	-
Contract receivable earned but not yet available (parks and open space fund)	200,000	-
Special assessments due not yet available (community block grant)	306,902	-
Delinquent property taxes receivable (debt service fund)	57,305	-
Special assessments not yet due (debt service fund)	4,493,324	-
Total deferred/unearned revenue for governmental funds	<u><u>\$ 6,355,747</u></u>	<u><u>\$ 2,017,931</u></u>

C. Property taxes

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

Taxes are levied annually on January 1 on property values listed as of the prior May 31. 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 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) 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 2010 was \$1.90 per \$1,000 on an assessed valuation of \$4,925,326,551 for a total regular levy of \$9,342,838. Additionally, special levies for G.O. bond obligations totaled \$1,178,114.

D. Capital assets

Capital asset activity for the year ended December 31, 2010 was as follows:

Governmental Activities	Beginning Balance 1/1/2010	Increases	Decreases	Ending Balance 12/31/2010
Non-depreciable Capital Assets				
Land and land rights	\$ 121,582,604	\$ 6,045,477	\$ -	\$ 127,628,081
Construction in progress	13,171,733	3,957,321	15,176,854	1,952,200
Total non-depreciable assets	<u>134,754,337</u>	<u>10,002,798</u>	<u>15,176,854</u>	<u>129,580,281</u>
Depreciable Capital Assets:				
Buildings	27,050,602	210,437	-	27,261,039
Improvements	11,045,683	15,501,454	-	26,547,137
Infrastructure	254,380,832	18,589,078	-	272,969,910
Machinery & equipment	10,732,522	548,098	527,733	10,752,887
Total depreciable assets at cost	<u>303,209,639</u>	<u>34,849,067</u>	<u>527,733</u>	<u>337,530,973</u>
Less accumulated depreciation:				
Buildings	7,728,010	648,432	-	8,376,442
Improvements	2,028,237	1,341,009	-	3,369,246
Infrastructure	116,428,835	10,277,323	-	126,706,158
Machinery & equipment	6,081,568	963,595	472,543	6,572,620
Total accumulated depreciation	<u>132,266,650</u>	<u>13,230,359</u>	<u>472,543</u>	<u>145,024,466</u>
Total Depreciable assets, net	<u>170,942,989</u>	<u>21,618,708</u>	<u>55,190</u>	<u>192,506,507</u>
Governmental activities capital assets, net	<u>\$ 305,697,326</u>	<u>\$ 31,621,506</u>	<u>\$ 15,232,044</u>	<u>\$ 322,086,788</u>

Business-type activities	Beginning Balance 1/1/2010	Increase	Decrease	Ending Balance 12/31/2010
Non-depreciable Capital Assets:				
Land and land rights	\$ 9,584,461	\$ 1,042,612	\$ -	\$ 10,627,073
Construction in process	5,764,478	4,296,287	9,094,181	966,584
Total non-depreciable assets	<u>15,348,939</u>	<u>5,338,899</u>	<u>9,094,181</u>	<u>11,593,657</u>
Depreciable Capital Assets:				
Buildings	1,520,813	-	-	1,520,813
Improvements	244,953,460	13,336,712	577,333	257,712,839
Machinery & equipment	2,530,336	6,090	75,372	2,461,054
Total depreciable assets at cost	<u>249,004,609</u>	<u>13,342,802</u>	<u>652,705</u>	<u>261,694,706</u>
Less accumulated depreciation:				
Buildings	293,858	37,075	-	330,933
Improvements	43,355,103	6,108,992	294,919	49,169,176
Machinery & equipment	2,254,572	64,924	75,372	2,244,124
Total accumulated depreciation	<u>45,903,533</u>	<u>6,210,991</u>	<u>370,291</u>	<u>51,744,233</u>
Total depreciable assets, net	<u>203,101,076</u>	<u>7,131,811</u>	<u>282,414</u>	<u>209,950,473</u>
Business-type activities capital assets, net	<u>\$ 218,450,015</u>	<u>\$ 12,470,710</u>	<u>\$ 9,376,595</u>	<u>\$ 221,544,130</u>

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

Current Year Depreciation:	Amount
Governmental activities	
General Government	\$ 334,674
Security of persons and property	140,625
Physical environment	1,411
Transportation	10,247,585
Economic environment	84,177
Culture and recreation	1,488,504
Internal services funds	891,225
Total governmental-type activities depreciation expense	<u>\$ 13,188,201</u>
Business-type activities	
Water	\$ 3,041,157
Wastewater	1,638,476
Stormwater	1,531,358
Total business-type activities depreciation expense	<u>\$ 6,210,991</u>

Construction in progress included in proprietary fund balance sheets represents expenditures to date on projects for which authorizations total \$7,050,300. Of the committed balance of \$6,083,716 the proprietary funds will not require future financing.

E. Interfund receivables, payables, and transfers

Interfund transactions are classified as follows:

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

The composition of interfund balances as of December 31, 2010, is as follows:

Loans/advances from/to other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Wastewater Fund	Water Fund	8,800,000
Total		<u>\$ 8,800,000</u>

The outstanding balances between Water and Wastewater funds are for capital acquisition purposes. The amount loaned shall be repaid from funds becoming available to the Water Capital Fund together with interest at a rate equal to that earned on the City's investment in the Local Government Investment Pool of the State Treasurer. A payment of \$700,000 was made in 2010 to reduce principal. Another \$500,000 is expected to be repaid in year 2011.

Interfund transfers activities for the year is as follows:

Fund	Purpose	Amounts Transferred In	Amounts Transferred Out
<u>Governmental Funds:</u>			
General Fund	Routine transfer from Parks and Open Space Fund for Rainier Vista Park maintenance. Non-routine transfer to Water utility fund for working capital.	\$ 315,348	\$ 100,000
Arterial Street Fund	Non-routine transfer from Capital Expenditure Fund for street improvements.	850,000	-
Non-major Governmental Funds:	\$310,302 routine transfers in Regional Athletic Complex Operating Fund from Parks and Open Space Fund 185,302 and Lodging Tax Fund \$125,000; routine transfer of \$584,130 to General Obligations Bond Fund from Regional Athletic Complex Fund, and non-routine transfer of \$100,000 in Regional Athletic Complex Capital Fund from Parks and Open Space Fund.	994,432	-

Fund	Purpose	Amounts Transferred In	Amounts Transferred Out
	Routine transfers of \$125,000 from Lodging Tax Fund to Regional Athletic Complex Operating Fund; non-routine transfer of \$850,000 from Capital Improvement Fund to Arterial Street Fund; routine transfer of \$315,348 to General Fund and \$185,302 to Regional Athletic Complex M&O fund, and non-routine transfer of \$100,000 to Regional Athletic Complex Capital fund from Parks and Open Space Fund. Routine transfer of \$584,130 to General Obligation Bond Fund from Regional Athletic Complex Capital Fund.	-	2,159,780
Total Governmental Funds		2,159,780	2,259,780
Proprietary Funds:			
Internal services funds	Non-routine transfers in to Equipment Rental Fund: \$17,412 from Water fund and \$5,144 from Stormwater Fund for capital asset acquisition.	22,567	-
	Non-routine transfer out from Information Services fund for capital assets reassigned to general government.		61,701
Enterprise Funds:			
Water fund	\$100,000 non-routine transfer from General Fund for working capital and \$120,000 non-routing transfer from Reclaimed Water Fund for capital acquisition.	220,000	-
	Non-routine transfer to Equipment Rental Fund for capital asset acquisition	-	17,423
Stormwater fund	Non-routine transfer to Equipment Rental Fund for capital asset acquisition.	-	5,144
Reclaimed water fund	Non-routine transfer of \$120,000 to Water fund for capital acquisition.		120,000
Total Proprietary Funds		242,567	204,268
Total		\$ 2,402,347	\$ 2,464,048

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	\$ 139,658	\$ 362,481
Contract letter of credit	764,865	-
Total	\$ 904,523	\$ 362,481

G. Leases

Capital Leases

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

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

The assets acquired through capital lease are as follows:

	Governmental Activities
Assets:	
Machinery and equipment	\$ 61,667
Less: Accumulated depreciation	(11,967)
Total	<u>\$ 49,700</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2010, were as follows:

<u>Year Ending December 31</u>	Governmental Activities
2011	15,975
2012	15,975
2013	15,975
2014	12,577
Total minimum lease payments	<u>60,502</u>
Less: amount representing interest	(6,390)
Present value of minimum lease payments	<u>\$ 54,112</u>

Operating Leases

The City of Lacey has lease commitments for leases of office machinery and equipment that are non-cancelable with lease terms primarily from month to month with one that extends to 48 months. Operating lease expenditures for the year ended December 31, 2010 were \$39,944.

H. Long-term liabilities

1. Disclosures about each significant debt incurred

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

The City's long-term liabilities are segregated between the amounts to be repaid from governmental activities and amounts to be repaid from business-type activities. Internal service funds predominantly serve the governmental funds. Accordingly, long-term liabilities for them are included as part of the above totals for governmental-activities. For the governmental funds, long-term liabilities other than debt (i.e. compensated absences and other postemployment benefits) are generally liquidated by the general fund. For contracts payable and claims and judgments outstanding as of December 31, 2010 will be liquidated by the arterial street fund.

General Obligation Bonds

General obligation bonds are direct obligations and pledge the full faith and credit of the government. Payments on voter approved bonds (unlimited) are funded from property tax levies. Non-voter approved bonds (limited) have been funded by other sources of revenues such as sales tax

and transfers in. Variable-rate debt used was the effective interest rate as of December 31, 2010.

General Obligation Bonds outstanding as of December 31, 2010 are as follows:

Description	Balance
2002 Unlimited Tax General Obligation Bonds original issue amount of \$5,990,000; dated February 2002; interest rate of 3.0-5.0% with final maturity dated December 2021. Outstanding 2002 Bonds maturing in the years 2012 through 2021 were refunded in year 2010. Issued to provide for fire safety improvements. Payments are funded by special property tax levies. Interest rate in 2011 is 4.125%	\$ 280,000
2003 Unlimited Tax General Obligation Bonds original issue amount of \$5,000,000; dated July 2003; interest rate of 2.50-4.00% with final maturity date of December 2023. Purpose was to provide funds for parks improvements. Payments are funded by special property tax levies. Interest rates are 2.5% in 2009; 2.7% in 2010; 2.9% in 2011; 3% in 2012; 3.1% in 2013; 3.2% in 2014; 3.4% in 2014; 3.5% in 2016; 3.65% in 2017; 3.75% in 2018; 3.875% in 2019; 3.9% in 2020; 4% in 2021-2023.	3,550,000
2006 Limited Tax General Obligation Bonds issued amount of \$3,500,000 dated November 30, 2006; interest rate of 4% with final maturity date of December 1, 2010. Issued to provide funds to construct an addition to City Hall. Payments are funded by sales tax and transfers in from other funds.	2,905,000
2006 Unlimited Tax General Obligation Bonds issue amount of \$4,985,000; dated November 30, 2006; interest rate of 4% with final maturity date of December 30, 2026. Issued to provide funds to make improvements to multiple park locations within the City, including improvements to athletic fields, swimming beaches and picnic facilities. Payments are funded by special property tax levies.	4,435,000
2007 Limited Tax General Obligation Bonds issue amount of \$8,000,000; dated December 20, 2007; interest rate of 3.75-5.00% with final maturity date of December 1, 2027. Issued to provide funds for phase 2 of the Regional Athletic Complex construction. Payments are funded with the sales and use tax levied by the Capital Area Regional Public Facilities District, pursuant to RCW 82.14.390. Interest rates are 4% in 2008-2015, 5% in 2016 & 2017; 3.75-3.90% in 2018-2021 and 4% in 2022-2027.	7,210,000
	3,790,000
2010 Unlimited Tax General Obligation Refunding Bonds issued amount of \$3,790,000; dated December 1, 2010; interest rates of 2.0-4.0% with maturity date of December 1, 2021. 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.	
Total	\$ 22,170,000

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

Year Ending December 31	Governmental Activities	
	Principal	Interest
2011	\$ 1,235,000	\$ 843,763
2012	1,290,000	796,727
2013	1,330,000	753,877
2014	1,375,000	709,447
2015	1,430,000	663,167
2016-2020	8,105,000	2,451,191
2021-2025	5,875,000	925,550
2026-2027	1,530,000	84,800
Total	\$ 22,170,000	\$ 7,228,522

Advance refunding:

In 2010 the City of Lacey issued Unlimited Tax General Obligation Refunding Bonds in the amount of \$ 3,790,000. This issue was to advance refund a portion of the City's outstanding 2002 Unlimited Tax General Obligation Bonds. The City is responsible for \$ 545,000 of debt owing which \$ 265,000 was redeemed in 2010 with the remaining \$ 280,000 amount due in 2011. This advance refunding was undertaken to reduce total debt service payments over the next 11 years by \$239,800.06. U.S. Bank N.A. holds proceeds from the sale in trust and the investments and earnings from the investments are sufficient to fully service all future debt service payments of \$3,680,000 of the 2002 general obligation bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the governmental activities column of the statement of net assets. The reacquisition price exceeded the net carrying amount of the old debt by \$162,817. This amount is being netted against the new debt and amortized over the remaining life of the new debt issued, which is the same life of the refunded debt. Total assets in irrevocable trust escrow at December 31, 2010 were \$3,842,817.13.

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, 2010 is as follows:

Description	Balance
1997 Animal Services Revenue Bonds original issue amount of \$1,800,000; dated September 1997; original interest rate of 6%; refinanced at interest rate 3.978% in September 2003 with final maturity dated April 2019. Interest rate was re-priced in August 2008 at 4.406% and scheduled to adjust every five years. The next re-pricing will be in August 2013. <i>Issued to provide funds for the acquisition, remodeling and equipping the joint animal service facility. Remaining payments are funded from the City of Olympia by an interlocal agreement.</i>	\$ 165,874
Total	\$ 165,874

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

Year Ending December 31	Governmental Activities	
	Principal	Interest
2011	\$ 16,851	\$ 6,970
2012	17,590	6,231
2013	18,399	5,422
2014	19,227	4,594
2015	20,091	3,730
2016-2020	73,716	5,688
Total	\$ 165,874	\$ 32,635

Government Loans and Contracts Payable

Government loans and contract payable outstanding as of December 31, 2010 are as follows:

Description	Balance
Washington State Public Works Trust Fund Loan original draw down amount of \$620,006; dated April 1998; (the final draw down of \$2,948,110 was made in 2001); interest rate 3.00% with final maturity date July 2018. Purpose was to fund Street/Utility Improvements. Payments funded from the Arterial Street Fund and LID#19	\$ 1,571,326
The City has issued a credit instrument in lieu of cash as a part of agreement with Puget Sound Energy (PSE) pursuant to Schedule 85 of PSE's electric Tariff G. The purpose was to fund Lacey Gateway project duct and vault system constructed in 2007. Payments funded by Arterial Street Fund. A certificate of deposit in the face amount of the agreement is issued and deposited with the First Citizens Bank with the maturity equal to the payment due date. Payable 10/25/2012 without interest.	743,453
Total	\$ 2,314,779

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

Year Ending December 31	Governmental Activities	
	Principal	Interest
2011	\$ 196,416	\$ 47,140
2012	939,869	41,247
2013	196,416	35,355
2014	196,416	29,462
2015	196,416	23,570
2016-2020	589,246	35,358
Total	\$ 2,314,779	\$ 212,132

2. Changes in long-term liabilities

The following is a summary of changes in long-term liabilities for the year ended December 31, 2010:

Type of Debt	Beginning Balance	Additions	Reductions/ Adjustments	Ending Balance	Due Within One Year
Governmental Activities:					
G.O. bonds	\$ 23,210,000	\$ 3,790,000	\$ 4,830,000	\$ 22,170,000	\$ 1,235,000
Unamortized premiums	207,804	103,810	22,780	288,834	22,780
Unamortized deferral on refunding	-	(162,817)	(1,233)	(161,584)	(14,802)
Revenue bonds	182,000	-	16,126	165,874	16,851
Special assessment bonds	270,000	-	270,000	-	-
Total bonds payable	23,869,804	3,730,993	5,137,673	22,463,124	1,259,829
Public Works Trust Fund Loan	1,767,742	-	196,416	1,571,326	196,416
Capital leases payable	26,740	34,927	7,555	54,112	13,105
Contracts payable	743,453	-	-	743,453	-
Arbitrage	42,971	-	-	42,971	42,971
Claims and judgments	250,000	-	41,609	208,391	208,391
Net OPEB Obligation	360,148	352,873	152,607	560,414	210,960
Compensated absences	831,213	1,102,163	998,045	935,331	472,222
Total governmental activities	\$ 27,892,071	\$ 5,220,956	\$ 6,533,905	\$ 26,579,122	\$ 2,403,894
Business-type Activities:					
Compensated absences	\$ 175,773	\$ 184,785	\$ 177,699	\$ 182,859	\$ 105,698
Total Business-type activities	\$ 175,773	\$ 184,785	\$ 177,699	\$ 182,859	\$ 105,698

3. Other disclosure

Bond discounts and premiums:

In 2006, 2007, and 2010, the City of Lacey issued general obligation bonds at premium. These bond premiums and the related issuance costs are deferred and are amortized under the straight-line method over the life of the bonds (11-20 years). The deferred amounts are disclosed in the statement of net assets.

Arbitrage:

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

I. **Fund Equity**

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change. As of December 31, 2010, the City's governmental funds reports the following reserved fund balances:

Purpose	Fund Reserved	Authority	Amount
Prepaid items	General Fund		\$ 11,001
Cultural and Recreational	Lodging Tax Fund	RCW 67.28.180	950,555
Other purposes	Community Development Block Grant Fund	CDBG	44,620
Total			\$ 1,006,176

Note 5. Other Information

A. Employee retirement systems and pension plans

Substantially all City's full-time and qualifying part-time employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit and defined contribution retirement plans. The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to: Department of Retirement Systems, Communications Unit, and P.O. Box 48380, Olympia, WA 98504-8380. The following disclosures are made pursuant to GASB Statement No. 27, *Accounting for Pensions by State and Local Government Employers* and No. 50 *Pension Disclosures, and Amendment of GAS Statement No. 25 and No. 27*.

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

Plan description

PERS is a cost-sharing multiple-employer retirement system comprised of three separate plans for membership purposes: Plans 1 and 2 are defined benefit plans, and Plan 3 is a combination of defined benefit/defined contribution plan. Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior courts (other than judges in a judicial retirement system); employees of legislative committees; community and technical colleges, college and university employees (not in national higher education retirement programs); judges of district and municipal courts; and employees of local governments. PERS participants who joined

the system by September 30, 1977, are Plan 1 members. Those joined on or after October 1, 1977 and by either, February 28, 2002 for state and higher education employees, or August 31, 2002 for local government employees, are Plan 2 members unless they exercise an option to transfer their membership to Plan 3. PERS participants joining the system on or after March 1, 2002 for state and higher education employees, or September 1, 2002 for local government employees have the option of choosing membership in either PERS Plan 2 or PERS Plan 3. The option must be exercised within 90 days of employment. An employee is reported in Plan 2 until a choice is made. Employees who fail to choose within 90 days default to PERS Plan 3. PERS defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions. PERS retirement benefit provisions are established in state statute and may be amended only by the State Legislature.

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

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

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

There are 1,189 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation data for the plan as of June 30, 2009:

Type of Members	Number of Participants
Retirees and beneficiaries receiving benefits	74,857
Terminated plan members entitled to but not yet receiving benefits	28,074
Active plan members vested	105,339
Active plan members non vested	53,896
Total	262,166

Funding policy

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

The required contributions rates expressed as a percentage of current-year covered payroll, as of December 31, 2010 were as follows:

<u>Contributor</u>	<u>PERS Plan 1</u>	<u>PERS Plan 2</u>	<u>PERS Plan 3</u>
Employer*	5.31%	5.31%	5.31%**
Employee	6.00%	3.90%	***

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

** Plan 3 defined benefit portion only.

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

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

<u>Year</u>	<u>PERS Plan 1</u>	<u>PERS Plan 2</u>	<u>PERS Plan 3</u>
2010	\$ 21,991	\$ 528,869	\$ 115,885
2009	\$ 44,414	\$ 642,760	\$ 140,113
2008	\$ 59,680	\$ 632,660	\$ 137,683

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

Plan description

LEOFF is a cost-sharing multiple-employer retirement system comprised of two defined benefit plans. Membership in the system includes all full-time, fully compensated; local law enforcement officers and firefighters. LEOFF is comprised primarily of non-state employees. LEOFF participants who

joined the system by September 30, 1977 are Plan 1 members. Those who joined on or after October 1, 1977 are Plan 2 members. Effective January 1, 2003 firefighter emergency medical technicians (EMT's) may transfer PERS Plan 1 or Plan 2 service credit to LEOFF Plan 2 if while employed for the city, town, county, or district the EMT's job was relocated to a fire department from another city, town, county or district. LEOFF defined benefits are financed from a combination of investment earnings, employer and employee contributions, and a special funding situation in which the state pays the remainder through state legislative appropriations. LEOFF retirement benefit provisions are established in state statute and may be amended only by the State Legislature.

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

<u>Term of Service</u>	<u>Percent of Final Average</u>
20 or more years	2.00%
10 but less than 20 years	1.50%
5 but less than 10 years	1.00%

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

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

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

There are 372 participating employers in LEOFF. Membership in LEOFF consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2009:

<u>Type of Members</u>	<u>Number of Participants</u>
Retirees and beneficiaries receiving benefits	9,454
Terminated plan members entitled to but not yet receiving benefits	674
Active plan members vested	13,363
Active plan members non vested	3,944
<u>Total</u>	<u>27,435</u>

Funding policy

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

The required contribution rates expressed as a percentage of current year covered payroll, as of December 31, 2010 were as follows:

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

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

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

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

Year	LEOFF Plan 1	LEOFF Plan 2
2010	\$ 174	\$ 265,175
2009	\$ 161	\$ 248,420
2008	\$ 154	\$ 235,784

B. Deferred compensation

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

C. Postemployment benefits other than pensions (OPEB)

In addition to the pension benefits described in Note 5-A, the City of Lacey provides post employment health care benefits.

1. LEOFF I Retiree Medical Plan

Plan Description. The City's Disability Board, in conjunction with the City's Human Resources de-

partment, 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, 2010, the plan has thirteen (13) Police retired members and one (1) Police active member, a total of fourteen (14) plan members. The LEOFF 1 Retiree Health Plan does not issue a 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 2008 through 2010 by the City are as follows:

	2010	2009	2008
AWC medical premiums	\$ 164,984	\$ 160,656	\$ 162,428
Reimbursement of other eligible costs	(17,999)	61,449	16,642
Long-term care insurance premiums	5,622	5,154	5,868
Total	<u>152,607</u>	<u>227,259</u>	<u>184,938</u>
Average cost per retiree	11,739	17,481	14,226

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

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

	2010
Annual required contribution (ARC):	
Normal cost	\$ 10,785
Amortization of UAAL*	359,416
Total ARC	370,201
Interest on net OPEB obligation	16,207
Adjustment to annual required contribution	(33,535)
Annual OPEB cost (expense)	352,873
Contributions made	(152,607)
Increase in net OPEB obligation	200,266
Net OPEB obligation - Beginning of year	360,148
Net OPEB obligation - End of year	\$ 560,414

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for fiscal year 2010 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
12/31/2008	406,014	184,938	46%	221,076
12/31/2009	366,331	227,259	60%	360,148
12/31/2010	352,873	152,607	43%	560,414

Funding Status and Funding Progress. As of December 31, 2010, the actuarial accrued liability for benefits was \$ 3,859,968, all of which was unfunded. The covered payroll (total annual amount for police department benefits budget) was \$1,540,626, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 251 percent.

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

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

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

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

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

Funding Policy. The Trust provides that contribution requirements of Participating Employers and of participating employees, retirees and other beneficiaries, if any, are established and may be amended by the Board of Trustees of the Trust. Retirees of the City receiving medical benefits from the Trust contribute \$668.43 per month for non-Medicare enrolled retiree-only coverage, \$1,339.17 for non-Medicare enrolled retiree and spouse coverage, \$364.82 for Medicare enrolled retiree and \$367.13 for non-Medicare enrolled spouse (or non-Medicare enrolled retiree and Medicare-enrolled spouse) and \$731.95 for Medicare-enrolled retiree and spouse coverage.

Participating employers are contractually required to contribute at a rate assessed each year by Trust, currently computed at 7.94 percent of annual covered payroll. The City's contributions to the Trust for the year ended December 31, 2010, was \$2,020,385, which equaled the required contributions of that year.

D. Contingencies

Litigation

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

Contingencies under grant provisions

The City participates in a number of federal and state assisted programs. These grants are subject to audit by the grantors of their representatives. Such audits could result in requests for reimburse-

ment to grantor agencies for expenditures disallowed under the terms of the grants. The City's management believes that such disallowances, if any, will be immaterial.

Bond indentures

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

Construction Commitments

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

- College Street corridor right of way acquisition
- Mullen Road & Carpenter Road & Willamette/31st intersection improvements
- Britton Parkway additional westbound lane
- Carpenter Road widening
- Martin Way Interchange Justification Report
- Marvin Road Interchange Justification Report
- College Street & 22nd Avenue roundabout
- College Street NE extension
- Transportation improvement comp plan
- Willamette /Hogum Bay intersection improvements

The 2010 Arterial Street Fund budgeted expenditures are \$15,509,500 which includes the completion of these projects

E. Risk management

The City of Lacey is a member of the Washington Cities Insurance Authority (WCIA).

Utilizing Chapter 48.62 RCW (self-insurance regulation) and Chapter 39.34 RCW (Interlocal Cooperation Act), nine cities originally formed WCIA on January 1, 1981. WCIA was created for the purpose of providing a pooling mechanism for jointly purchasing insurance, jointly self-insuring, and/or jointly contracting for risk management services. WCIA has a total of 145 members.

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

Liability coverage is written on an occurrence basis, without deductibles. Coverage includes general, automobile, police professional, public officials' errors or omissions, stop gap, and employee benefits liability. Limits are \$4 million per occurrence self insured layer, and \$16 million per occurrence in the re-insured excess layer. The excess layer is insured by the purchase of reinsurance and insurance and is subject to aggregate limits. Total limits are \$20 million per occurrence subject to aggregate sublimits in the excess layers. The Board of Directors determines the limits and terms of coverage annually.

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

In-house services include risk management consultation, loss control field services, claims and

litigation administration, and loss analyses. WCIA contracts for the claims investigation consultants for personnel issues and land use problems, insurance brokerage, and lobbyist services.

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

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

A Board of Directors governs WCIA, which is comprised of one designated representative from each member. The Board elects an Executive Committee and appoints a Treasurer to provide general policy direction for the organization. The WCIA Executive Director reports to the Executive Committee and is responsible for conducting the day to day operations of WCIA. The WCIA's financial statements can be obtained from Washington Cities Insurance Authority Treasurer, P.O. Box 88030, Tukwila, WA 98138.

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

F. Interlocal agreements and joint ventures

Capital Area Regional Public Facilities District (PFD).

In 2003, the City of Lacey entered into a contract with the Capital Area Regional Public Facilities District (PFD) for the acquisition, development, operation and maintenance of the Lacey Area Athletic, Recreation and Special Events Complex. The PFD imposes a sales and use tax pursuant to RCW 82.14.390 to repay financing obtained to fund the design, construction, acquisition, operation and maintenance of the complex project. The moneys collected as sales taxes shall only be used for the purposes permitted under RCW 82.14.390 and RCW 35.57.020. In 2010, the City of Lacey received \$891,342 in sale taxes levied by the PFD and is accounted for within the Regional Athletic Complex Operating Fund and Regional Athletic Complex Capital Fund.

Interlocal Drug Unit

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

Total net assets, as of December 31, 2010 were \$198,890. Assets purchased by or forfeited to the drug unit are owned by the participants. All monies and equipment remain with the drug unit until withdrawal of any permanent participant. Disposition of net equity upon dissolution is not specified in the agreement; and therefore, is not recorded in the City of Lacey's financial statements. There is no ongoing financial responsibility.

Completed financial statements can be obtained from the City of Lacey Finance Department, P.O. Box 3400, Lacey, WA 98509-3400.

Joint Animal Services

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

An equity interest exists and is based on total contributions to-date by the City of Lacey (16 percent), the City of Olympia (23 percent), the City of Tumwater (7 percent), and the Thurston County (54 percent). Total Net Assets, as of December 31, 2010 were \$3,433,527. The City of Lacey reports its share of equity interest as investment in joint venture, in the government-wide statement of net assets.

An ongoing financial interest exists for the City of Lacey, the City of Olympia, the City of Tumwater, and Thurston County for loan proceeds borrowed for the purpose of purchasing/constructing the Martin Way animal shelter. The agreement specifies the funding formula that allocates costs based on serviced animal cases and population per jurisdiction in the prior year. For 2010 the City of Lacey's contribution was \$190,238 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, P.O. Box 3400, Lacey, WA 98509-3400.

Regional Athletic Complex

The Regional Athletic Complex was a joint venture governed by Thurston County and the City of Lacey. In 1998, Thurston County and the City of Lacey entered an agreement to jointly purchase and own recreational lands, cooperatively development such lands, and jointly share the costs of maintaining the recreational facilities. In September 2009, the complex (phase 2) was dedicated and opened for the benefit of the citizens of Thurston County. During 2010 the City and Thurston County reached an agreement for the early transfer of the County's share of the ownership in the Regional Athletic Complex to the City of Lacey along with all responsibilities for the operation and maintenance of the Regional Athletic Complex. The financial arrangements for this transfer are disclosed in more detail in the Note 5.G. (Special Items).

The total net carrying value of the capital assets of the Regional Athletic Complex at time of the transfer was \$18,122,769 (City's equity interest in the capital assets was \$14,940,411 and the County's equity interest in the capital assets was \$3,182,358) and was reported in the City of Lacey's statement of net assets for governmental activities.

Additional financial information may be obtained from City of Lacey Finance Department, P.O. Box 3400, Lacey, Washington 98509.

The following is condensed financial information on joint ventures for which the City has equity interest as of December 31, 2010:

	Joint Animal Services <u>12/31/2010</u>
Total Assets	\$ 3,687,319
Total Liabilities	<u>253,792</u>
Total Net Assets 12/31/2010	<u>\$ 3,433,527</u>
Capital assets, net of accumulated depreciation	<u>\$ 1,776,877</u>
Revenues	\$ 1,483,658
Expenses	<u>(1,485,222)</u>
Net increase (decrease) in net assets	(1,564)
Beginning net assets 1/1/2010	<u>3,435,091</u>
Ending net assets 12/31/2010	<u>\$ 3,433,527</u>

The City of Lacey’s equity interests in joint ventures activities for the year ended December 31, 2010 were as follows:

Governmental Type Activities	Beginning Balance	Increase	Decrease	Ending Balance
	<u>01/01/2010</u>			<u>12/31/2010</u>
Regional Athletic Complex	\$ 15,289,526	\$ -	\$ 15,289,526	\$ -
Joint Animal Services	550,302	5,929	-	556,231
Investment in Joint Venture	<u>\$ 15,839,828</u>	<u>\$ 5,929</u>	<u>\$ 15,289,526</u>	<u>\$ 556,231</u>

G. Special Items

The \$4,703,268 contribution from Thurston County on the Statement of Activities was for the transfer of the County’s share of the ownership of the Regional Athletic Complex to the City of Lacey along with all responsibilities for the operating and maintenance of the Regional Athletic Complex. The County paid a sum of \$1,625,000 to the City of Lacey as reimbursement for the County’s share of all costs associated with the purchase, planning, development and other capital and operating costs made towards the Regional Athletic Complex. In addition, the County agreed to pay the City an additional \$200,000 for qualified future parks and open space property purchases by the City. The amount reported as special item includes \$1,520,910 of the \$1,850,000 financial settlements less the County’s share of current and prior year operating costs and \$3,182,358 of the County’s equity interest in the capital assets of the Regional Athletic Complex.

The \$1,320,910 contribution from Thurston County reported on the parks and open space statement equals the \$1,625,000 cash settlement paid by the County less the County’s share of past and current year operating expenses.



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REQUIRED SUPPLEMENTAL INFORMATION

Schedule of Revenues, Expenditures, and
Changes in Fund Balances - Budget to Actual
General Fund
For the Year Ended December 31, 2010

	Budgeted Amounts		Actual GAAP Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 21,303,276	\$ 21,303,276	\$ 20,960,354	\$ (342,922)
Licenses and permits	1,169,260	1,169,260	1,392,896	223,636
Intergovernmental revenues	954,073	938,644	1,663,680	725,036
Charges for services	5,714,961	5,714,961	5,893,893	178,932
Fines and forfeitures	839,650	839,650	747,165	(92,485)
Other revenues	476,850	492,279	231,905	(260,374)
Total revenues	30,458,070	30,458,070	30,889,893	431,823
EXPENDITURES				
Current:				
General government	5,557,683	5,615,774	5,110,160	505,614
Security of persons and property	15,259,937	15,259,937	14,963,767	296,170
Physical environment	3,890,910	3,890,910	3,620,129	270,781
Economic environment	1,210,828	1,210,996	1,105,361	105,635
Mental and physical health	8,360	8,360	8,117	243
Culture and recreation	4,801,400	4,803,046	4,539,410	263,636
Capital outlay	-	-	34,927	(34,927)
Debt service:				
Principal retirement	-	-	7,555	(7,555)
Interest	-	-	1,505	(1,505)
Total expenditures	30,729,118	30,789,023	29,390,931	1,398,092
Excess of revenue over (under) expenditures	(271,048)	(330,953)	1,498,962	1,829,915
OTHER FINANCING SOURCES (USES)				
Capital leases	-	-	34,927	34,927
Transfers in	315,348	315,348	315,348	-
Transfers out	(100,000)	(100,000)	(100,000)	-
Total other financing sources	215,348	215,348	250,275	34,927
Net change in fund balances	(55,700)	(115,605)	1,749,237	1,864,842
FUND BALANCES - JANUARY 1	55,700	115,605	25,327,831	25,212,226
FUND BALANCES - DECEMBER 31	\$ -	\$ -	\$ 27,077,068	\$ 27,077,068

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

Schedule of Revenues, Expenditures, and
Changes in Fund Balances - Budget to Actual
Arterial Streets
For the Year Ended December 31, 2010

	Budgeted Amounts		Actual GAAP Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 1,051,000	\$ 1,051,000	\$ 872,328	\$ (178,672)
Intergovernmental revenues	4,106,666	4,106,666	2,461,471	(1,645,195)
Charges for services	1,075,745	1,075,745	2,296,004	1,220,259
Other revenues	958,635	958,635	709,200	(249,435)
Total revenues	7,192,046	7,192,046	6,339,003	(853,043)
EXPENDITURES				
Capital outlay	9,566,114	9,566,114	5,543,145	4,022,969
Total expenditures	9,566,114	9,566,114	5,543,145	4,022,969
Excess of revenue over (under) expenditures	(2,374,068)	(2,374,068)	795,858	3,169,926
OTHER FINANCING SOURCES (USES)				
Transfers in	850,000	850,000	850,000	-
Total other financing sources	850,000	850,000	850,000	-
Net change in fund balances	(1,524,068)	(1,524,068)	1,645,858	3,169,926
FUND BALANCES - JANUARY 1	1,524,068	1,524,068	10,987,791	9,463,723
FUND BALANCES - DECEMBER 31	\$ -	\$ -	\$ 12,633,649	\$ 12,633,649

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

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

Notes to the Required Supplemental Information

Budgetary information

The City's annual budget is adopted on a basis consistent with Generally Accepted Accounting Principles (GAAP) for all governmental funds. Thus there is no difference between GAAP and the budgetary basis of accounting. For more detailed information see the Notes to the financial statements (Note 3, pages 4-24 to 4-25)

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll ©	UAAL as a Percentage of Covered Payroll [{(b-a)/c}]
12/31/2008* \$	0 \$	4,240,300	\$ 4,240,300	0.0%	\$ 1,319,263	321%
12/31/2009	0	3,931,976	3,931,976	0.0%	1,384,900	284%
12/31/2010	0	3,859,968	3,859,968	0.0%	1,540,626	251%

*2008 information was recalculated including total police department annual benefits budget instead of one active member's annual payroll.



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COMBINING & INDIVIDUAL FUND STATEMENTS & SCHEDULES

NON-MAJOR OTHER GOVERNMENTAL FUNDS

Special Revenue Funds

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

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

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

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

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

Debt Service Funds

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

Capital Project Funds

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

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

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

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

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, 2010

	Special Revenue Funds			
	Street Fund	Regional Athletic Complex	Lodging Tax	Community Development Block Grant
ASSETS				
Current cash and cash equivalents	\$ 2,898,251	\$ 260,807	\$ 921,640	\$ 44,620
Receivables (net of allowances):				
Taxes	297,208	-	44,163	-
Customer accounts	185,829	6,823	-	306,902
Due from other governmental units	12,056	-	-	2,017
Restricted assets:				
Cash & cash equivalents	-	1,625	-	-
Total assets	<u>\$ 3,393,344</u>	<u>\$ 269,255</u>	<u>\$ 965,803</u>	<u>\$ 353,539</u>
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	16,782	1,036	15,248	2,017
Due to other governmental units	-	-	-	-
Advance payments	-	-	-	-
Deposits	-	1,625	-	-
Deferred revenue	-	-	-	306,902
Unearned revenue	-	2,423	-	-
Total Liabilities	<u>16,782</u>	<u>5,084</u>	<u>15,248</u>	<u>308,919</u>
Fund balances				
Reserved for:				
Culture and recreation	-	-	950,555	-
Other Purposes	-	-	-	44,620
Unreserved, designated for, reported in:				
Special revenue funds	435,000	-	-	-
Capital project funds	-	-	-	-
Unreserved, undesignated for:				
Special revenue funds	2,941,562	264,171	-	-
Debt service funds	-	-	-	-
Capital project funds	-	-	-	-
Total fund balances	<u>3,376,562</u>	<u>264,171</u>	<u>950,555</u>	<u>44,620</u>
Total liabilities and fund balances	<u>\$ 3,393,344</u>	<u>\$ 269,255</u>	<u>\$ 965,803</u>	<u>\$ 353,539</u>

Debt Service Fund General Obligation Bond Fund	Capital Project Funds				Total Other Governmental Funds
	Building Improvement	Capital Expenditure	Parks & Open Space Fund	Regional Athletic Complex Capital	
\$ 344,327	\$ 375,079	\$ 7,331,652	\$ 2,813,519	\$ 150,055	\$ 15,139,950
63,984	-	271,266	149,094	-	825,715
-	-	9,477	-	166,296	675,327
-	-	-	239,774	-	253,847
-	-	-	850	1,439	3,914
<u>\$ 408,311</u>	<u>\$ 375,079</u>	<u>\$ 7,612,395</u>	<u>\$ 3,203,237</u>	<u>\$ 317,790</u>	<u>\$ 16,898,753</u>
-	-	56,043	-	-	91,126
-	-	-	-	1,439	1,439
-	-	-	-	-	-
-	-	-	850	-	2,475
57,305	-	-	200,000	-	564,207
-	-	-	-	-	2,423
<u>57,305</u>	<u>-</u>	<u>56,043</u>	<u>200,850</u>	<u>1,439</u>	<u>661,670</u>
-	-	-	-	-	950,555
-	-	-	-	-	44,620
-	-	-	-	-	435,000
-	105,114	3,103,306	-	-	3,208,420
-	-	-	-	-	3,205,733
351,006	-	-	-	-	351,006
-	269,965	4,453,046	3,002,387	316,351	8,041,749
<u>351,006</u>	<u>375,079</u>	<u>7,556,352</u>	<u>3,002,387</u>	<u>316,351</u>	<u>16,237,083</u>
<u>\$ 408,311</u>	<u>\$ 375,079</u>	<u>\$ 7,612,395</u>	<u>\$ 3,203,237</u>	<u>\$ 317,790</u>	<u>\$ 16,898,753</u>

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Other Governmental Funds
For the Year Ended December 31, 2010

	Special Revenue Funds			
	Street Fund	Regional Athletic Fund	Lodging Tax	Community Development Block Grant
REVENUES				
Taxes	\$ 1,936,361	\$ -	\$ 333,750	\$ -
Licenses and permits	-	-	-	-
Intergovernmental revenues	614,885	283,492	-	326,066
Charges for services	16,300	323,768	-	-
Other revenues	319,727	3,801	16,060	-
Total revenues	2,887,273	611,061	349,810	326,066
EXPENDITURES				
Current:				
Transportation	2,579,133	-	-	-
Economic environment	-	-	-	300,728
Culture and recreation	-	800,644	232,501	-
Capital outlay	-	-	-	-
Principal retirement	-	-	-	-
Interest	-	-	-	-
Debt issue cost	-	-	-	-
Total expenditures	2,579,133	800,644	232,501	300,728
Excess of revenue over (under) expenditures	308,140	(189,583)	117,309	25,338
OTHER FINANCING SOURCES (USES)				
Premium on refunding bonds issued	-	-	-	-
Refunding bonds issued	-	-	-	-
Payment to refunded bond escrow agent	-	-	-	-
Transfers in	-	310,302	-	-
Transfers out	-	-	(125,000)	-
Total other financing sources (uses)	-	310,302	(125,000)	-
SPECIAL ITEM				
Payment from County for RAC settlement	-	-	-	-
Net change in fund balances	308,140	120,719	(7,691)	25,338
FUND BALANCES - JANUARY 1	3,068,422	143,452	958,246	19,282
FUND BALANCES - DECEMBER 31	\$ 3,376,562	\$ 264,171	\$ 950,555	\$ 44,620

Debt Service Fund General Obligation Bond Fund	Capital Project Funds				Total Other Governmental Funds
	Building Improvement	Capital Expenditure	Parks & Open Space Fund	Regional Athletic Complex Capital	
\$ 1,497,421	\$ -	\$ 1,874,342	\$ 929,832	\$ -	\$ 6,571,706
-	-	38,170	-	-	38,170
-	-	53,728	39,774	738,008	2,055,953
-	-	-	-	-	340,068
957	8,759	25,590	24,552	-	399,446
<u>1,498,378</u>	<u>8,759</u>	<u>1,991,830</u>	<u>994,158</u>	<u>738,008</u>	<u>9,405,343</u>
-	-	-	-	-	2,579,133
-	-	-	-	-	300,728
-	-	-	4,292	7,099	1,044,536
-	102,530	416,839	88,146	106,872	714,387
1,150,000	-	-	-	-	1,150,000
941,944	-	-	-	-	941,944
50,941	-	-	-	-	50,941
<u>2,142,885</u>	<u>102,530</u>	<u>416,839</u>	<u>92,438</u>	<u>113,971</u>	<u>6,781,669</u>
<u>(644,507)</u>	<u>(93,771)</u>	<u>1,574,991</u>	<u>901,720</u>	<u>624,037</u>	<u>2,623,674</u>
103,810	-	-	-	-	103,810
3,790,000	-	-	-	-	3,790,000
(3,842,817)	-	-	-	-	(3,842,817)
584,130	-	-	-	100,000	994,432
-	-	(850,000)	(600,650)	(584,130)	(2,159,780)
<u>635,123</u>	<u>-</u>	<u>(850,000)</u>	<u>(600,650)</u>	<u>(484,130)</u>	<u>(1,114,355)</u>
-	-	-	1,320,910	-	1,320,910
(9,384)	(93,771)	724,991	1,621,980	139,907	2,830,229
360,390	468,850	6,831,361	1,380,407	176,444	13,406,854
<u>\$ 351,006</u>	<u>\$ 375,079</u>	<u>\$ 7,556,352</u>	<u>\$ 3,002,387</u>	<u>\$ 316,351</u>	<u>\$ 16,237,083</u>

Schedule of Revenues, Expenditures, and
Changes in Fund Balances - Budget to Actual
Street Fund
For the Year Ended December 31, 2010

	Budgeted Amounts		Actual GAAP Basis	Variance with Final Budget
	Original	Final		Positive (Negative)
REVENUES				
Taxes	\$ 1,796,134	\$ 1,796,134	\$ 1,936,361	\$ 140,227
Intergovernmental revenues	622,877	622,877	614,885	(7,992)
Charges for services	15,000	15,000	16,300	1,300
Other revenues	20,540	20,540	319,727	299,187
Total revenues	<u>2,454,551</u>	<u>2,454,551</u>	<u>2,887,273</u>	<u>432,722</u>
EXPENDITURES				
Current:				
Transportation	<u>2,454,551</u>	<u>2,529,421</u>	<u>2,579,133</u>	<u>(49,712)</u>
Total expenditures	<u>2,454,551</u>	<u>2,529,421</u>	<u>2,579,133</u>	<u>(49,712)</u>
Excess of revenue over (under) expenditures	<u>-</u>	<u>(74,870)</u>	<u>308,140</u>	<u>383,010</u>
Net change in fund balances	-	(74,870)	308,140	383,010
FUND BALANCES - JANUARY 1	<u>-</u>	<u>74,870</u>	<u>3,068,422</u>	<u>2,993,552</u>
FUND BALANCES - DECEMBER 31	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,376,562</u>	<u>\$ 3,376,562</u>

Schedule of Revenues, Expenditures, and
Changes in Fund Balances - Budget to Actual
Regional Athletic Complex Maintenance and Operations
For the Year Ended December 31, 2010

	Budgeted Amounts		Actual GAAP Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental revenues	\$ 345,302	\$ 345,302	\$ 283,492	\$ (61,810)
Charges for services	165,000	165,000	323,768	158,768
Other revenues	9,900	9,900	3,801	(6,099)
Total revenues	<u>520,202</u>	<u>520,202</u>	<u>611,061</u>	<u>90,859</u>
EXPENDITURES				
Current:				
Culture and recreation	830,504	831,391	800,644	30,747
Total expenditures	<u>830,504</u>	<u>831,391</u>	<u>800,644</u>	<u>30,747</u>
Excess of revenue over (under) expenditures	<u>(310,302)</u>	<u>(311,189)</u>	<u>(189,583)</u>	<u>121,606</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	310,302	310,302	310,302	-
Total other financing sources	<u>310,302</u>	<u>310,302</u>	<u>310,302</u>	<u>-</u>
Net change in fund balances	-	(887)	120,719	121,606
FUND BALANCES - JANUARY 1	<u>-</u>	<u>887</u>	<u>143,452</u>	<u>142,565</u>
FUND BALANCES - DECEMBER 31	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 264,171</u>	<u>\$ 264,171</u>

Schedule of Revenues, Expenditures, and
Changes in Fund Balances - Budget to Actual
Lodging Tax
For the Year Ended December 31, 2010

	Budgeted Amounts		Actual GAAP Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 350,593	\$ 305,593	\$ 333,750	\$ 28,157
Other revenues	19,907	19,907	16,060	(3,847)
Total revenues	<u>370,500</u>	<u>325,500</u>	<u>349,810</u>	<u>24,310</u>
EXPENDITURES				
Current:				
Culture and recreation	267,500	270,224	232,501	37,723
Total expenditures	<u>267,500</u>	<u>270,224</u>	<u>232,501</u>	<u>37,723</u>
Excess of revenue over (under) expenditures	<u>103,000</u>	<u>55,276</u>	<u>117,309</u>	<u>62,033</u>
OTHER FINANCING SOURCES (USES)				
Transfers out	(125,000)	(125,000)	(125,000)	-
Total other financing sources	<u>(125,000)</u>	<u>(125,000)</u>	<u>(125,000)</u>	<u>-</u>
Net change in fund balances	(22,000)	(69,724)	(7,691)	62,033
FUND BALANCES - JANUARY 1	<u>22,000</u>	<u>69,724</u>	<u>958,246</u>	<u>888,522</u>
FUND BALANCES - DECEMBER 31	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 950,555</u>	<u>\$ 950,555</u>

Schedule of Revenues, Expenditures, and
 Changes in Fund Balances - Budget to Actual
 Community Development Block Grant
 For the Year Ended December 31, 2010

	Budgeted Amounts		Actual GAAP Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental revenues	\$ -	\$ -	\$ 326,066	\$ 326,066
Total revenues	-	-	326,066	326,066
EXPENDITURES				
Current:				
Economic environment	-	-	300,728	(300,728)
Total expenditures	-	-	300,728	(300,728)
Excess of revenue over (under) expenditures	-	-	25,338	25,338
Net change in fund balance	-	-	25,338	25,338
FUND BALANCES JANUARY 1	-	-	19,282	19,282
FUND BALANCES DECEMBER 31	\$ -	\$ -	\$ 44,620	\$ 44,620

Schedule of Revenues, Expenditures, and
Changes in Fund Balances - Budget to Actual
General Obligation Bond Fund
For the Year Ended December 31, 2010

	Budgeted Amounts		Actual GAAP Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 1,531,220	\$ 1,531,220	\$ 1,497,421	\$ (33,799)
Other revenues	3,000	3,000	957	(2,043)
Total revenues	<u>1,534,220</u>	<u>1,534,220</u>	<u>1,498,378</u>	<u>(35,842)</u>
EXPENDITURES				
Debt service:				
Principal retirement	1,150,000	1,150,000	1,150,000	-
Interest	941,950	941,950	941,944	6
Debt issuance cost	-	-	50,941	(50,941)
Total expenditures	<u>2,091,950</u>	<u>2,091,950</u>	<u>2,142,885</u>	<u>(50,935)</u>
Excess of revenue over (under) expenditures	<u>(557,730)</u>	<u>(557,730)</u>	<u>(644,507)</u>	<u>(86,777)</u>
OTHER FINANCING SOURCES (USES)				
Premium on refunding bonds issued	-	-	103,810	103,810
Refunding bonds issued	-	-	3,790,000	3,790,000
Payments to refunded bond escrow agent	-	-	(3,842,817)	-
Transfers in	584,130	584,130	584,130	-
Total other financing sources	<u>584,130</u>	<u>584,130</u>	<u>635,123</u>	<u>50,993</u>
Net change in fund balance	26,400	26,400	(9,384)	(86,777)
FUND BALANCES JANUARY 1	<u>(26,400)</u>	<u>(26,400)</u>	<u>360,390</u>	<u>386,790</u>
FUND BALANCES DECEMBER 31	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 351,006</u>	<u>\$ 351,006</u>

Schedule of Revenues, Expenditures, and
Changes in Fund Balances - Budget to Actual
L.I.D. Redemption
For the Year Ended December 31, 2010

	Budgeted Amounts		Actual GAAP Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Other revenues	\$ 535,655	\$ 535,655	\$ 558,000	\$ 22,345
Total revenues	535,655	535,655	558,000	22,345
EXPENDITURES				
Debt service:				
Principal retirement	466,420	466,420	466,416	4
Interest	69,235	69,235	69,231	4
Total expenditures	535,655	535,655	535,647	8
Excess of revenue over (under) expenditures	-	-	22,353	22,353
Net change in fund balance	-	-	22,353	22,353
FUND BALANCES JANUARY 1	-	-	104,247	104,247
FUND BALANCES DECEMBER 31	\$ -	\$ -	\$ 126,600	\$ 126,600

Schedule of Revenues, Expenditures, and
Changes in Fund Balances - Budget to Actual
Building Improvement
For the Year Ended December 31, 2010

	Budgeted Amounts		Actual GAAP Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Other revenues	\$ 10,000	\$ 10,000	\$ 8,759	\$ (1,241)
Total revenues	10,000	10,000	8,759	(1,241)
EXPENDITURES				
Current:				
General government	10,000	39,151	-	39,151
Capital outlay	-	211,000	102,530	108,470
Total expenditures	10,000	250,151	102,530	147,621
Excess of revenue over (under) expenditures	-	(240,151)	(93,771)	146,380
Net change in fund balance	-	(240,151)	(93,771)	146,380
FUND BALANCES JANUARY 1	-	240,151	468,850	228,699
FUND BALANCES DECEMBER 31	\$ -	\$ -	\$ 375,079	\$ 375,079

Schedule of Revenues, Expenditures, and
Changes in Fund Balances - Budget to Actual
Capital Expenditure
For the Year Ended December 31, 2010

	Budgeted Amounts		Actual GAAP Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 1,763,055	\$ 1,763,055	\$ 1,874,342	\$ 111,287
Licenses and permits	36,000	36,000	38,170	2,170
Intergovernmental revenues	-	42,045	53,728	11,683.00
Other revenues	84,000	84,000	25,590	(58,410)
Total revenues	<u>1,883,055</u>	<u>1,925,100</u>	<u>1,991,830</u>	<u>66,730</u>
EXPENDITURES				
Current:				
Capital outlay	1,096,372	1,247,622	416,839	830,783
Total expenditures	<u>1,096,372</u>	<u>1,247,622</u>	<u>416,839</u>	<u>830,783</u>
Excess of revenue over (under) expenditures	<u>786,683</u>	<u>677,478</u>	<u>1,574,991</u>	<u>897,513</u>
OTHER FINANCING SOURCES (USES)				
Transfers out	<u>(850,000)</u>	<u>(850,000)</u>	<u>(850,000)</u>	<u>-</u>
Total other financing sources	<u>(850,000)</u>	<u>(850,000)</u>	<u>(850,000)</u>	<u>-</u>
Net change in fund balances	(63,317)	(172,522)	724,991	897,513
FUND BALANCES - JANUARY 1	<u>63,317</u>	<u>172,522</u>	<u>6,831,361</u>	<u>6,658,839</u>
FUND BALANCES DECEMBER - 31	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,556,352</u>	<u>\$ 7,556,352</u>

Schedule of Revenues, Expenditures, and
Changes in Fund Balances - Budget to Actual
Parks & Open Space
For the Year Ended December 31, 2010

	Budgeted Amounts		Actual GAAP Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 885,818	\$ 885,818	\$ 929,832	\$ 44,014
Intergovernmental revenues	-	-	39,774	39,774
Other revenues	19,455	19,455	24,552	5,097
Total revenues	905,273	905,273	994,158	88,885
EXPENDITURES				
Current:				
Culture and recreation	-	-	4,292	(4,292)
Capital outlay	-	238,000	88,146	149,854
Total expenditures	-	238,000	92,438	145,562
Excess of revenue over (under) expenditures	905,273	667,273	901,720	234,447
OTHER FINANCING SOURCES (USES)				
Transfers out	(600,650)	(600,650)	(600,650)	-
Total other financing sources	(600,650)	(600,650)	(600,650)	-
SPECIAL ITEM				
Payment from County for RAC Settlement	-	1,320,910	1,320,910	-
Net change in fund balances	304,623	1,387,533	1,621,980	234,447
FUND BALANCES - JANUARY 1	(304,623)	(1,387,533)	1,380,407	2,767,940
FUND BALANCES - DECEMBER 31	\$ -	\$ -	\$ 3,002,387	\$ 3,002,387

Schedule of Revenues, Expenditures, and
Changes in Fund Balances - Budget to Actual
Regional Athletic Complex Capital
For the Year Ended December 31, 2010

	Budgeted Amounts		Actual GAAP Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental revenues	\$ 713,996	\$ 713,996	\$ 738,008	\$ 24,012
Other revenues	4,326	4,326	-	(4,326)
Total revenues	<u>718,322</u>	<u>718,322</u>	<u>738,008</u>	<u>19,686</u>
EXPENDITURES				
Current:				
Culture and recreation	108,000	208,000	7,099	200,901
Capital outlay	-	-	106,872	(106,872)
Total expenditures	<u>108,000</u>	<u>208,000</u>	<u>113,971</u>	<u>94,029</u>
Excess of revenue over (under) expenditures	<u>610,322</u>	<u>510,322</u>	<u>624,037</u>	<u>113,715</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	100,000	100,000	100,000	-
Transfers out	(584,130)	(584,130)	(584,130)	-
Total other financing sources	<u>(484,130)</u>	<u>(484,130)</u>	<u>(484,130)</u>	<u>-</u>
Net change in fund balances	126,192	26,192	139,907	113,715
FUND BALANCES - JANUARY 1	<u>(126,192)</u>	<u>(26,192)</u>	<u>176,444</u>	<u>202,636</u>
FUND BALANCES - DECEMBER 31	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 316,351</u>	<u>\$ 316,351</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 Assets
Internal Service Funds
December 31, 2010

	Governmental Activities		
	Internal Service Funds		
	Equipment Rental	Information Services	Total
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 6,549,593	\$ 2,206,844	\$ 8,756,437
Receivables (net of allowances):			
Customer accounts	56,095	-	56,095
Due from governmental units	11,967	-	11,967
Total current assets:	<u>6,617,655</u>	<u>2,206,844</u>	<u>8,824,499</u>
Non-current assets:			
Capital assets, net of depreciation:			
Buildings	159,741	-	159,741
Improvements other than buildings	5,908	-	5,908
Equipment	2,961,329	407,384	3,368,713
Total non-current assets	<u>3,126,978</u>	<u>407,384</u>	<u>3,534,362</u>
Total assets	<u>9,744,633</u>	<u>2,614,228</u>	<u>12,358,861</u>
LIABILITIES			
Current liabilities:			
Accounts payable	53,994	61,096	115,090
Due to other governmental units	-	1,805	1,805
Compensated absences	7,044	11,891	18,935
Total current liabilities	<u>61,038</u>	<u>74,792</u>	<u>135,830</u>
Non-current liabilities:			
Compensated absences	6,015	4,750	10,765
Total non-current liabilities	<u>6,015</u>	<u>4,750</u>	<u>10,765</u>
Total liabilities	<u>67,053</u>	<u>79,542</u>	<u>146,595</u>
NET ASSETS			
Investment in capital assets	3,126,978	407,384	3,534,362
Unrestricted	6,550,602	2,127,302	8,677,904
Total net assets	<u>\$ 9,677,580</u>	<u>\$ 2,534,686</u>	<u>\$ 12,212,266</u>

Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets
Internal Service Funds
For the Year Ended December 31, 2010

	Governmental Activities		
	Internal Service Funds		
	Equipment Rental	Information Services	Total
OPERATING REVENUES			
Charges for services	\$ 1,706,799	\$ 1,460,789	\$ 3,167,588
Total operating revenue	<u>1,706,799</u>	<u>1,460,789</u>	<u>3,167,588</u>
OPERATING EXPENSES			
Operating expense	939,224	1,039,498	1,978,722
Maintenance expense	54,338	227,700	282,038
Depreciation expense	652,364	238,861	891,225
Total operating expenses	<u>1,645,926</u>	<u>1,506,059</u>	<u>3,151,985</u>
OPERATING INCOME (LOSS)	<u>60,873</u>	<u>(45,270)</u>	<u>15,603</u>
NON-OPERATING REVENUES (EXPENSES)			
Investment earnings	17,627	6,406	24,033
Miscellaneous non-operating revenues	7,856	1	7,857
Gain (loss) on sale of capital assets	54,347	-	54,347
Total non-operating revenues (expenses)	<u>79,830</u>	<u>6,407</u>	<u>86,237</u>
Income (loss) before contributions and transfers	140,703	(38,863)	101,840
Capital contributions	59,611	46,645	106,256
Transfers in	22,567	-	22,567
Transfers out	-	(61,701)	(61,701)
Changes in net assets	222,881	(53,919)	168,962
NET ASSETS - BEGINNING	<u>9,454,699</u>	<u>2,588,605</u>	<u>12,043,304</u>
NET ASSETS - ENDING	<u>\$ 9,677,580</u>	<u>\$ 2,534,686</u>	<u>\$ 12,212,266</u>

Statement of Cash Flows
Internal Service Funds
For the Year Ended December 31, 2010

	Governmental Activities		
	Internal Service Funds		
	Equipment Rental	Information Services	Total Internal Service
CASH FLOW FROM OPERATING ACTIVITIES:			
Receipts from customers and users	\$ 1,657,461	\$ 1,460,790	\$ 3,118,251
Payments to suppliers	(630,137)	(363,600)	(993,737)
Payments to employees	(354,647)	(863,627)	(1,218,274)
Net cash provided by operating activities	<u>672,677</u>	<u>233,563</u>	<u>906,240</u>
CASH FLOW FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Acquisition and construction of capital assets	(304,904)	(115,024)	(419,928)
Proceeds from sales of capital assets	84,348	-	84,348
Transfers received from other funds for capital acquisition	82,178	46,645	128,823
Net cash used by capital and related financing activities	<u>(138,378)</u>	<u>(68,379)</u>	<u>(206,757)</u>
CASH FLOW FROM INVESTING ACTIVITIES:			
Interest received on investments	17,628	6,406	24,034
Net cash provided (used) by investing activities	<u>17,628</u>	<u>6,406</u>	<u>24,034</u>
Net increase (decrease) in cash and cash equivalents	551,927	171,590	723,517
Cash and cash equivalents January 1	5,997,665	2,035,255	8,032,920
Cash and cash equivalents December 31	<u>\$ 6,549,592</u>	<u>\$ 2,206,845</u>	<u>\$ 8,756,437</u>
CASH PROVIDED BY OPERATING ACTIVITIES:			
Net operating income	\$ 60,873	\$ (45,270)	\$ 15,603
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:			
Depreciation	652,364	238,861	891,225
(Increase)/decrease in customer receivables	(53,964)	-	(53,964)
(Increase)/decrease in intergovernmental receivables	(3,229)	-	(3,229)
(Increase)/decrease in interfund loans	-	-	-
Miscellaneous non-operating revenues	7,855	1	7,856
Increase/(decrease) in accounts payables	14,493	42,149	56,642
Increase/(decrease) in intergovernmental payables	-	1,805	1,805
Increase/(decrease) in compensated absences payables	(5,715)	(3,983)	(9,698)
Net cash provided by operating activities	<u>\$ 672,677</u>	<u>\$ 233,563</u>	<u>\$ 906,240</u>
Noncash investing, capital and financing activities:			
Capital assets (non-cash) transferred (to) from other funds	\$ -	\$ (61,701)	\$ (61,701)

Fiduciary Funds

Agency Funds

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

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

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

Combining Statement of Fiduciary Net Assets
Agency Funds
December 31, 2010

	Joint Animal Services	Thurston County Nartotics Task Force	Capital Area Public Facilities District	Total
ASSETS				
Cash and cash equivalents	\$ 1,909,324	\$ 237,378	\$ 69,380	\$ 2,216,082
Prepays	1,118	583	-	1,701
Due from other governmental units	-	38,597	2,004	40,601
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total assets	<u>\$ 1,910,442</u>	<u>\$ 276,558</u>	<u>\$ 71,384</u>	<u>\$ 2,258,384</u>
LIABILITIES				
Accounts payable	\$ 14,849	\$ 3,508	\$ -	\$ 18,357
Accrued employee leave payable	62,023	12,058	-	74,081
Capital lease payable	8,439	-	-	8,439
Notes payable	165,874	-	-	165,874
Due to other governmental units	1,659,257	260,992	71,384	1,991,633
	<u>1,659,257</u>	<u>260,992</u>	<u>71,384</u>	<u>1,991,633</u>
Total liabilities	<u>\$ 1,910,442</u>	<u>\$ 276,558</u>	<u>\$ 71,384</u>	<u>\$ 2,258,384</u>

Combining Statement of Changes in Assets and Liabilities
Agency Funds
For the Year Ended December 31, 2010

	Joint Animal Services			Balance December 31, 2010
	Balance December 31, 2009	Additions	Deductions	
ASSETS				
Cash and cash equivalents	\$ 1,848,414	\$ 1,691,178	\$ 1,630,268	\$ 1,909,324
Prepays	1,593	4,950	5,425	1,118
Accounts receivables, net of uncollectible accounts	-	833,046	833,046	-
Total assets	\$ 1,850,007	\$ 2,529,174	\$ 2,468,739	\$ 1,910,442
LIABILITIES				
Accounts payable	\$ 21,646	\$ 350,981	\$ 357,778	\$ 14,849
Accrued employee leave payable	61,998	46,003	45,978	62,023
Capital lease payable	-	10,183	1,744	8,439
Notes payable	182,000	-	16,126	165,874
Due to other governmental units	1,584,363	2,002,999	1,928,105	1,659,257
Total liabilities	\$ 1,850,007	\$ 2,410,166	\$ 2,349,731	\$ 1,910,442
Thurston County Narcotics Task Force				
	Balance December 31, 2009	Additions	Deductions	Balance December 31, 2010
ASSETS				
Cash and cash equivalents	\$ 467,883	\$ 920,316	\$ 1,150,821	\$ 237,378
Prepays	-	2,600	2,017	583
Due from other governmental units	49,003	38,597	49,003	38,597
Total assets	\$ 516,886	\$ 961,513	\$ 1,201,841	\$ 276,558
LIABILITIES				
Accounts payable	\$ 131,133	\$ 659,361	\$ 786,986	\$ 3,508
Accrued employee leave payable	12,504	9,575	10,021	12,058
Due to other governmental units	373,249	1,032,551	1,144,808	260,992
Total liabilities	\$ 516,886	\$ 1,701,487	\$ 1,941,815	\$ 276,558

Combining Statement of Changes in Assets and Liabilities
 Agency Funds
 For the Year Ended December 31, 2010

	Capital Area Public Facilities District			
	Balance December 31, 2009	Additions	Deductions	Balance December 31, 2010
ASSETS				
Cash and cash equivalents	\$ 69,201	\$ 1,257,128	\$ 1,256,949	\$ 69,380
Due from other governmental units	-	2,004	-	2,004
Total assets	\$ 69,201	\$ 1,259,132	\$ 1,256,949	\$ 71,384
LIABILITIES				
Accounts payable	\$ -	\$ 9,890	\$ 9,890	\$ -
Due to other governmental units	69,201	1,255,382	1,253,199	71,384
Total liabilities	\$ 69,201	\$ 1,265,272	\$ 1,263,089	\$ 71,384
Total All Agencies				
	Balance December 31, 2009	Additions	Deductions	Balance December 31, 2010
ASSETS				
Cash and cash equivalents	\$ 2,385,498	\$ 3,868,622	\$ 4,038,038	\$ 2,216,082
Prepays	1,593	7,550	7,442	1,701
Accounts receivables, net of uncollectible accounts	-	833,046	833,046	-
Due from other governmental units	49,003	40,601	49,003	40,601
Total assets	\$ 2,436,094	\$ 4,749,819	\$ 4,927,529	\$ 2,258,384
LIABILITIES				
Accounts payable	\$ 152,779	\$ 1,020,232	\$ 1,154,654	\$ 18,357
Accrued employee leave payable	74,502	55,578	55,999	74,081
Capital lease payable	-	10,183	1,744	8,439
Notes payable	182,000	-	16,126	165,874
Due to other governmental units	2,026,813	4,290,932	4,326,112	1,991,633
Total liabilities	\$ 2,436,094	\$ 5,376,925	\$ 5,554,635	\$ 2,258,384



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SUPPLEMENTAL INFORMATION

Schedule of Operations - Budget to Actual
Water Fund
For the Year Ended December 31, 2010

	Budgeted Amounts		Actual GAAP Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
OPERATING REVENUES				
Charges for services	\$ 10,812,027	\$ 10,812,027	\$ 10,435,974	\$ (376,053)
Total operating revenue	<u>10,812,027</u>	<u>10,812,027</u>	<u>10,435,974</u>	<u>(376,053)</u>
OPERATING EXPENSES				
Operating expense	2,990,514	2,990,514	2,824,424	166,090
Maintenance expense	8,400,384	8,711,160	3,764,481	4,946,679
Debt discount amortization	-	-	-	-
Depreciation expense	3,500,000	3,500,000	3,041,157	458,843
Taxes	436,795	436,795	412,047	24,748
Total operating expenses	<u>15,327,693</u>	<u>15,638,469</u>	<u>10,042,109</u>	<u>5,596,360</u>
OPERATING INCOME (LOSS)	<u>(4,515,666)</u>	<u>(4,826,442)</u>	<u>393,865</u>	<u>5,220,307</u>
NON-OPERATING REVENUES (EXPENSES)				
Investment earnings	-	-	6,602	6,602
Miscellaneous non-operating revenues	194,006	194,006	213,882	19,876
Gain (loss) on sale of fixed assets	-	-	(282,414)	(282,414)
Total non-operating revenues (expenses)	<u>194,006</u>	<u>194,006</u>	<u>(61,930)</u>	<u>(255,936)</u>
Income (loss) before contributions and transfers	(4,321,660)	(4,632,436)	331,935	4,964,371
Capital contributions	-	-	1,634,192	1,634,192
Transfers in	220,000	220,000	220,000	-
Transfers out	-	-	(17,423)	(17,423)
Changes in net assets	<u>(4,101,660)</u>	<u>(4,412,436)</u>	<u>2,168,704</u>	<u>6,581,140</u>
NET ASSETS - BEGINNING	<u>4,101,660</u>	<u>4,412,436</u>	<u>104,357,352</u>	<u>99,944,916</u>
NET ASSETS - ENDING	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 106,526,056</u>	<u>\$ 106,526,056</u>

This schedule is presented as supplemental information

Schedule of Operations - Budget to Actual
Wastewater Fund
For the Year Ended December 31, 2010

	Budgeted Amounts		Actual GAAP Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
OPERATING REVENUES				
Charges for services	\$ 11,846,690	\$ 11,846,690	\$ 11,873,620	\$ 26,930
Total operating revenue	11,846,690	11,846,690	11,873,620	26,930
OPERATING EXPENSES				
Operating expense	8,251,795	8,251,795	8,198,898	52,897
Maintenance expense	7,176,101	7,206,409	1,854,827	5,351,582
Depreciation expense	2,350,000	2,350,000	1,638,476	711,524
Taxes	128,365	128,365	138,874	(10,509)
Total operating expenses	17,906,261	17,936,569	11,831,075	6,105,494
OPERATING INCOME (LOSS)	(6,059,571)	(6,089,879)	42,545	6,132,424
NON-OPERATING REVENUES (EXPENSES)				
Intergovernmental revenue	-	-	48,728	48,728
Investment earnings	21,521	21,521	58,079	36,558
Interfund loan	600,000	600,000	-	(600,000)
Interest expense	100,000	100,000	899	(99,101)
Total non-operating revenues (expenses)	721,521	721,521	107,706	(613,815)
Income (loss) before contributions and transfers	(5,338,050)	(5,368,358)	150,251	5,518,609
Capital contributions	-	-	1,596,570	1,596,570
Changes in net assets	(5,338,050)	(5,368,358)	1,746,821	7,115,179
NET ASSETS - BEGINNING	5,338,050	5,368,358	79,264,473	73,896,115
NET ASSETS - ENDING	\$ -	\$ -	\$ 81,011,294	\$ 81,011,294

This schedule is presented as supplemental information

Schedule of Operations - Budget to Actual
Stormwater Fund
For the Year Ended December 31, 2010

	Budgeted Amounts		Actual GAAP Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
OPERATING REVENUES				
Charges for services	\$ 2,023,384	\$ 2,023,384	\$ 1,991,849	\$ (31,535)
Charges for services	2,023,384	2,023,384	1,991,849	(31,535)
OPERATING EXPENSES				
Operating expense	1,102,493	1,102,493	996,730	105,763
Maintenance expense	1,522,127	1,522,127	610,307	911,820
Debt discount amortization	-	-	-	-
Depreciation expense	1,400,000	1,400,000	1,531,358	(131,358)
Taxes	31,380	31,380	35,672	(4,292)
Total operating expenses	4,056,000	4,056,000	3,174,067	881,933
OPERATING INCOME (LOSS)	(2,032,616)	(2,032,616)	(1,182,218)	850,398
NON-OPERATING REVENUES (EXPENSES)				
Intergovernmental revenue	-	-	8,985	8,985
Investment earnings	8,151	8,151	4,148	(4,003)
Interfund loan	-	-	-	-
Miscellaneous non-operating revenues	-	-	1,007	1,007
Total non-operating revenues (expenses)	8,151	8,151	14,140	5,989
Income (loss) before contributions and transfers	(2,024,465)	(2,024,465)	(1,168,078)	856,387
Capital contributions	-	-	1,714,431	1,714,431
Transfers out	-	-	(5,144)	(5,144)
Changes in net assets	(2,024,465)	(2,024,465)	541,209	2,565,674
NET ASSETS - BEGINNING	2,024,465	2,024,465	48,422,022	46,397,557
NET ASSETS - ENDING	\$ -	\$ -	\$ 48,963,231	\$ 48,963,231

This schedule is presented as supplemental information

Schedule of Operations - Budget to Actual
Reclaimed Water
For the Year Ended December 31, 2010

	Budgeted Amounts		Actual GAAP Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
OPERATING REVENUES				
Charges for services	\$ -	\$ -	\$ -	\$ -
Charges for services	-	-	-	-
OPERATING EXPENSES				
Operating expense	100,000	100,000	-	100,000
Maintenance expense	140,000	140,000	-	140,000
Total operating expenses	240,000	240,000	-	240,000
OPERATING INCOME (LOSS)	(240,000)	(240,000)	-	240,000
NON-OPERATING REVENUES (EXPENSES)				
Investment earnings	12,500	12,500	5,016	(7,484)
Total non-operating revenues (expenses)	12,500	12,500	5,016	(7,484)
Income (loss) before contributions and transfers	(227,500)	(227,500)	5,016	232,516
Transfers out	(120,000)	(120,000)	(120,000)	-
Changes in net assets	(347,500)	(347,500)	(114,984)	232,516
NET ASSETS - BEGINNING	347,500	347,500	2,395,072	2,047,572
NET ASSETS - ENDING	\$ -	\$ -	2,280,088	\$ 2,280,088

This schedule is presented as supplemental information

Schedule of Operations - Budget to Actual
Equipment Rental Fund
For the Year Ended December 31, 2010

	Budgeted Amounts		Actual GAAP Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
OPERATING REVENUES				
Charges for services	\$ 1,708,500	\$ 1,708,500	\$ 1,706,799	\$ (1,701)
Total operating revenue	<u>1,708,500</u>	<u>1,708,500</u>	<u>1,706,799</u>	<u>(1,701)</u>
OPERATING EXPENSES				
Operating expense	1,454,755	1,472,882	939,224	533,658
Maintenance expense	55,346	55,346	54,338	1,008
Depreciation expense	627,291	627,291	652,364	(25,073)
Total operating expenses	<u>2,137,392</u>	<u>2,155,519</u>	<u>1,645,926</u>	<u>509,593</u>
OPERATING INCOME (LOSS)	<u>(428,892)</u>	<u>(447,019)</u>	<u>60,873</u>	<u>507,892</u>
NON-OPERATING REVENUES (EXPENSES)				
Investment earnings	60,500	60,500	17,627	(42,873)
Miscellaneous non-operating revenues	-	-	7,856	7,856
Gain (loss) on sale of fixed assets	-	-	54,347	54,347
Total non-operating revenues (expenses)	<u>60,500</u>	<u>60,500</u>	<u>79,830</u>	<u>19,330</u>
Income (loss) before contributions and transfers	(368,392)	(386,519)	140,703	527,222
Capital contributions	-	-	59,611	59,611
Transfers in	-	-	22,567	22,567
Changes in net assets	(368,392)	(386,519)	222,881	609,400
NET ASSETS - BEGINNING	<u>368,392</u>	<u>386,519</u>	<u>9,454,699</u>	<u>9,068,180</u>
NET ASSETS - ENDING	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,677,580</u>	<u>\$ 9,677,580</u>

This schedule is presented as supplemental information

Schedule of Operations - Budget to Actual
Information Management Services Fund
For the Year Ended December 31, 2010

	Budgeted Amounts		Actual GAAP Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
OPERATING REVENUES				
Charges for services	\$ 1,460,789	\$ 1,460,789	\$ 1,460,789	\$ -
Total operating revenue	1,460,789	1,460,789	1,460,789	-
OPERATING EXPENSES				
Operating expense	1,293,885	1,293,885	1,039,498	254,387
Maintenance expense	226,000	226,000	227,700	(1,700)
Depreciation expense	191,204	191,204	238,861	(47,657)
Total operating expenses	1,711,089	1,711,089	1,506,059	205,030
OPERATING INCOME (LOSS)	(250,300)	(250,300)	(45,270)	205,030
NON-OPERATING REVENUES (EXPENSES)				
Investment earnings	22,000	22,000	6,406	(15,594)
Miscellaneous non-operating revenues	-	-	1	1
Total non-operating revenues (expenses)	22,000	22,000	6,407	(15,593)
Income (loss) before contributions and transfers	(228,300)	(228,300)	(38,863)	189,437
Capital contributions	-	-	46,645	46,645
Transfers out	-	-	(61,701)	(61,701)
Changes in net assets	(228,300)	(228,300)	(53,919)	174,381
NET ASSETS - BEGINNING	228,300	228,300	2,588,605	2,360,305
NET ASSETS - ENDING	\$ -	\$ -	\$ 2,534,686	\$ 2,534,686

This schedule is presented as supplemental information

City of Lacey, Washington
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2010

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 / WA State Superintendent of Public Instruction	Summer Food Service Program for Children	10.559	10-34923	\$ 67,069	\$ -	\$ 67,069	
US Department of Housing and Urban Development (HUD) / WA State Department of Commerce	Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	14.228	08-F6401-011	300,728	-	300,728	4
US Department of Justice / WA State Department of Commerce	ARRA - Violence Against Women Formula Grant	16.588	F09-31701-200	52,662	-	52,662	5
US Department of Justice Bureau of Justice Assistance	Bulletproof Vest Partnership Program	16.607	FY2009 Awards	-	1,709	1,709	
US Department of Justice /WA State Department of Commerce	Edward Byrne Memorial Justice Assistance Grant Program	16.738	M10-34021-010	102,112	-	102,112	4
US Department of Justice /WA State Department of Commerce	Edward Byrne Memorial Justice Assistance Grant Program	16.738	M09-34021-010	120,853	-	120,853	4
		16.738	Subtotal	222,965	-	222,965	
US Department of Justice / WA State Department of Commerce	ARRA - Edward Byrne Memorial Justice Assistance Grant (JAG) Program / Grants to States and Territories	16.803	F09-34721-010	77,741	-	77,741	4, 5
US Department of Justice	ARRA - Edward Byrne Memorial Justice Assistance Grant (JAG) Program / Grants to Units of Local Government	16.804	2009-SB-B9-0528	-	42,045	42,045	5
US Department of Transportation / WA State DOT	Highway Planning and Construction	20.205	LA-06708	3,663	-	3,663	
US Department of Transportation / WA Sheriff & Police Chief's Association	State and Community Highway Safety	20.600	LPD098	3,939	-	3,939	
US Department of Transportation / WA State Traffic Safety Commission		20.600	LPD102	6,366	-	6,366	
		20.600	LPDTZ0	2,097	-	2,097	
		20.600	LPDTZ1	11,361	-	11,361	
		20.600	Subtotal	23,763	-	23,763	
US Department of Transportation / WA Traffic Safety Commission	Alcohol Impaired Driving Countermeasures Incentive Grants I	20.601	LPDTZ1	9,100	-	9,100	
US Department of Transportation / WA Traffic Safety Commission	Occupant Protection Incentive Grants	20.602	LPDTZ1	4,313	-	4,313	
US Department of Energy	ARRA - Energy Efficiency and Conservation Block Grant Program (EECBG)	81.128	DE-RW0000226	-	38,390	38,390	4, 5
Department of Justice / Thurston County Sheriff's Office	Drug Enforcement Administration. Domestic Cannabis Eradication/Suppression	16.C100902FED	C100902FED	1,079	-	1,079	4
Executive Office of the President / Northwest HIDTA	High Intensity Drug Trafficking Areas Program	95.001	G09NW0005A	16,408	-	16,408	4
Executive Office of the President / Northwest HIDTA		95.001	G10NW0005A	22,949	-	22,949	4
Executive Office of the President / WA State Patrol		95.001	C100542FED	13,872	-	13,872	4
		95.001	Subtotal	53,229	-	53,229	
Total Federal Awards Expended				\$ 816,312	\$ 82,144	\$ 898,456	

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, 2010**

Note 1 - Basis of Accounting

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

Note 2 - Program Costs

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

Note 3 - Revolving Loan - Program Income

The City has a loan program under the Department of Housing & Urban Development. Under this federal program repayments to the City are considered program revenues (income). No interest is charged on the loans and full payment is due upon sale of the property. \$25,336.16 was repaid during 2010. The City has received approval from Department of Commerce (formerly CTED) to utilize the program revenues to finance cost overruns on the CDBG-funded Child Care and Family Services Center and other CDBG approved projects.

Note 4 - Amounts Awarded to Subrecipients

Included in the total amount expended for this program is \$660,742 that was passed through to subrecipients that administered their own projects.

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

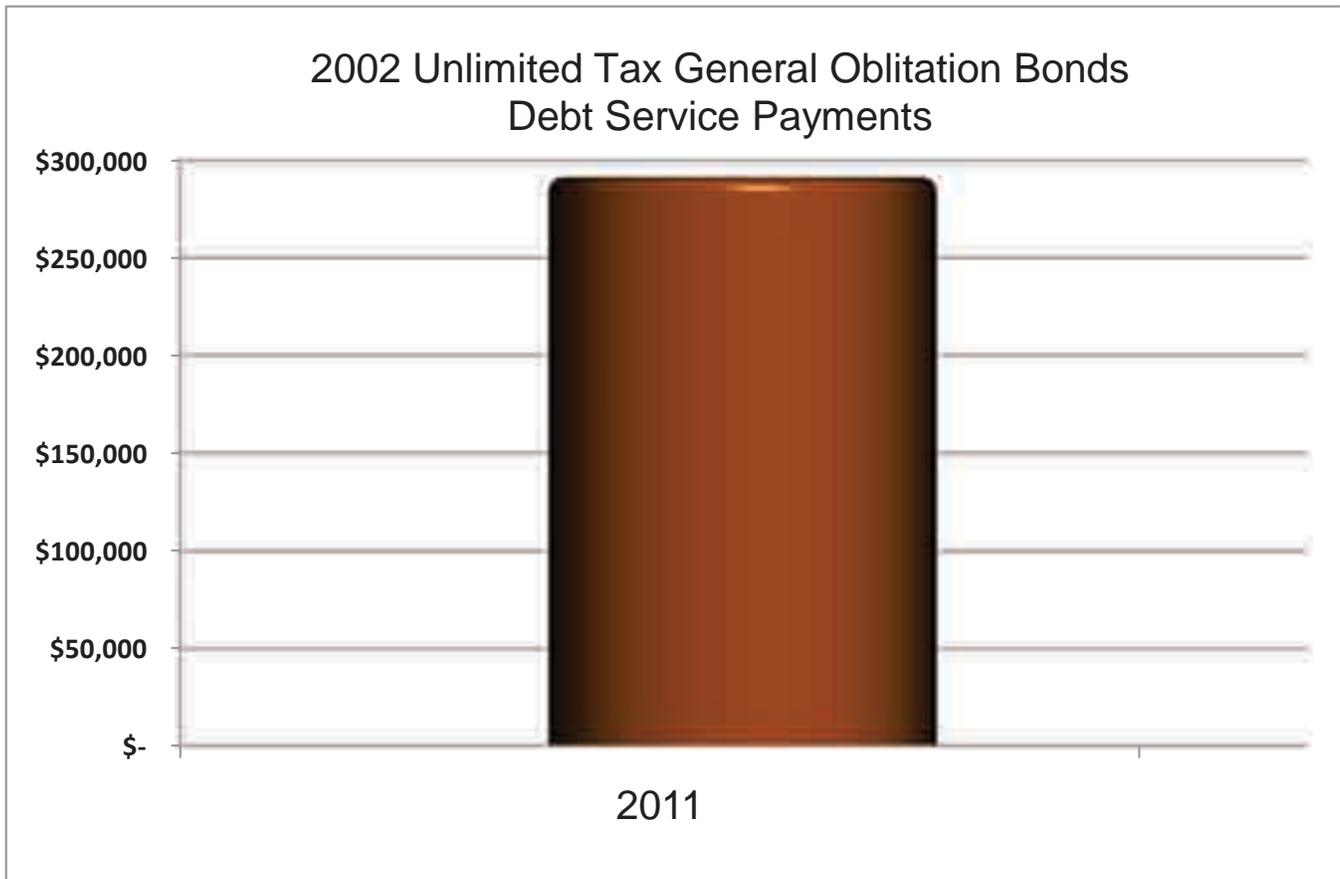
Expenditures for this program were funded by ARRA.

Schedule of State and Local Financial Assistance
For The Year Ended December, 31, 2010

Grantor/ Pass-Through Grantor Program Title	Other Identification Number	Current Year Expenditures
<u>WA State Department of Transportation</u>		
Mullen Road-College-Ruddell	9-W-197(007)-1	\$ 1,508,527
Carpenter Road - right of way	8-5-197 (6)-1	505,861
Total Department of Transportation		2,014,388
<u>WA State Higher Education Coordinating Board</u>		
	Work Study	4,192
<u>Washington Traffic Safety Commission (WTSC)</u>		
School Zone Enforcement Program	LPD098	3,258
Thurston County Target Zero Manager Program	LPD102	36,528
Total WTSC		39,786
<u>WA State Department of Commerce</u>		
Community Economic Revitalization Board		
Job Development Fund Grant Program	J2008-005	155,277
Multi-Jurisdictional Narcotics Task Force	M10-34021-010	66,392
Multi-Jurisdictional Narcotics Task Force	M09-34021-010	7,309
Total WA State Department of Commerce		228,978
<u>WA State Department of Health/ West Region EMS and Trauma Care Council</u>		
Car seats & signage for seatbelt checks	LPDTZ0	259
<u>WA State Recreation and Conservation Office</u>		
Lacey Woodland Trail Development	06-1797D	39,774
<u>WA State Department of Ecology</u>		
Implement & Management of Stormwater Program	G100018FY10	14,410
<u>WA State Superintendent of Public Instruction</u>		
Summer Food Service Program for Children - state matc		1,650
Total Expenditures of State Awards		\$ 2,343,437

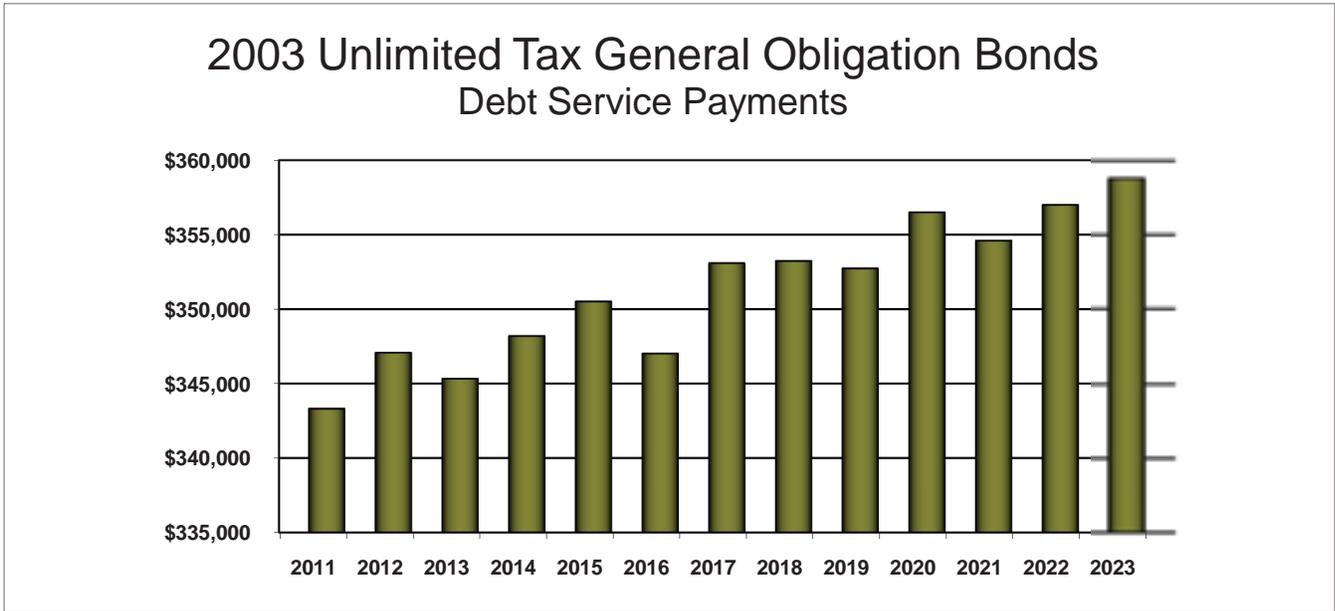
City of Lacey General Obligation Bond Debt
 2002 Unlimited Tax General Obligated Bonds
 December 31, 2010

Year Ended 31-Dec	Interest Rate - %	Interest		Principal Due - 01 Dec	Total Debt Service
		Due - 01 Jun	Due - 01 Dec		
2011	4.125%	5,775	5,775	280,000	291,550
		<u>\$ 5,775</u>	<u>\$ 5,775</u>	<u>\$ 280,000</u>	<u>\$ 291,550</u>



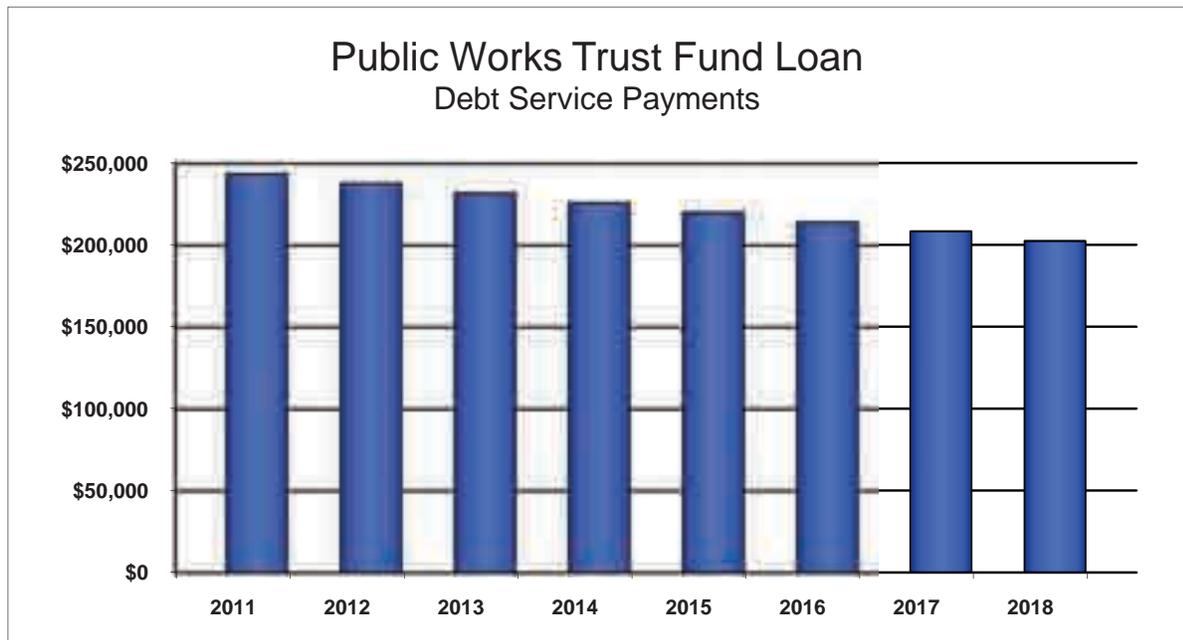
City of Lacey General Obligation Bond Debt
 2003 Unlimited Tax General Obligated Bonds
 December 31, 2010

Year Ended 31-Dec	Interest Rate - %	Interest		Principal Due - 01 Dec	Total Debt Service
		Due - 01 Jun	Due - 01 Dec		
2011	2.900%	\$ 64,154	\$ 64,154	\$ 215,000	\$ 343,308
2012	3.000%	61,036	61,036	225,000	347,072
2013	3.100%	57,661	57,661	230,000	345,322
2014	3.200%	54,096	54,096	240,000	348,192
2015	3.400%	50,256	50,256	250,000	350,512
2016	3.500%	46,006	46,006	255,000	347,012
2017	3.650%	41,544	41,544	270,000	353,088
2018	3.750%	36,616	36,616	280,000	353,232
2019	3.875%	31,366	31,366	290,000	352,732
2020	3.900%	25,748	25,748	305,000	356,496
2021	4.000%	19,800	19,800	315,000	354,600
2022	4.000%	13,500	13,500	330,000	357,000
2023	4.000%	6,900	6,900	345,000	358,800
		<u>\$ 508,683</u>	<u>\$ 508,683</u>	<u>\$ 3,550,000</u>	<u>\$ 4,567,366</u>



City of Lacey
Public Works Trust Fund Loan
December 31, 2010

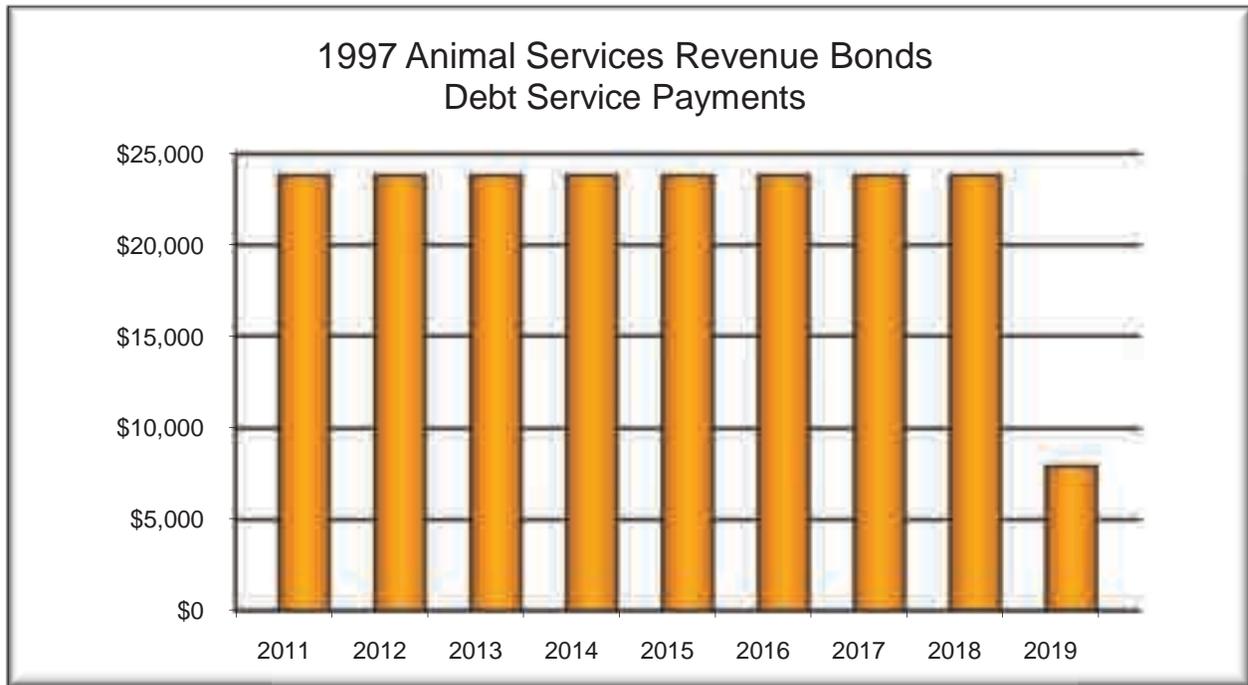
Year Ended 31-Dec	Interest Rate - %	Interest 01-Jul	Principal 01-Jul	Total Debt Service
2011	3.000%	\$ 47,140	\$ 196,416	\$ 243,556
2012	3.000%	41,247	196,416	237,663
2013	3.000%	35,355	196,416	231,771
2014	3.000%	29,462	196,416	225,878
2015	3.000%	23,570	196,416	219,986
2016	3.000%	17,677	196,416	214,093
2017	3.000%	11,785	196,416	208,201
2018	3.000%	5,896	196,414	202,310
		\$ 212,132	\$ 1,571,326	\$ 1,783,458



City of Lacey
1997 Animal Services Revenue Bond
December 31, 2010

Year Ended 31-Dec	Interest Rate - %	Interest Annual*	Principal Annual*	Total Debt Service
2011	3.978%	\$ 6,970	\$ 16,851	\$ 23,821
2012	3.978%	6,231	17,590	23,821
2013	3.978%	5,422	18,399	23,821
2014	3.978%	4,594	19,227	23,821
2015	3.978%	3,730	20,091	23,821
2016	3.978%	2,835	20,985	23,820
2017	3.978%	1,883	21,938	23,821
2018	3.978%	897	22,924	23,821
2019	3.978%	73	7,869	7,942
		<u>\$ 32,635</u>	<u>\$ 165,874</u>	<u>\$ 198,509</u>

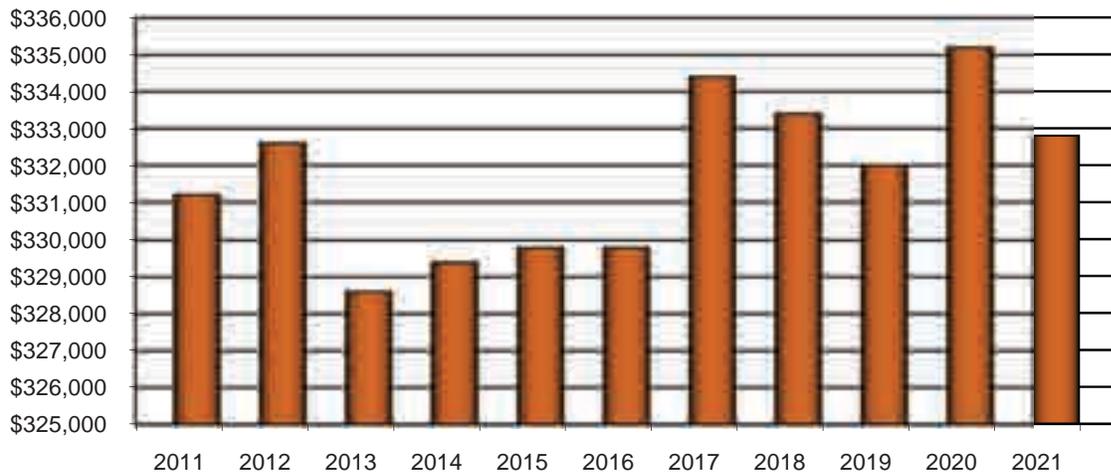
*Actual payments made are equal monthly installments.



City of Lacey General Obligation Bond Debt
 2006 Limited Tax General Obligated Bonds
 December 31, 2010

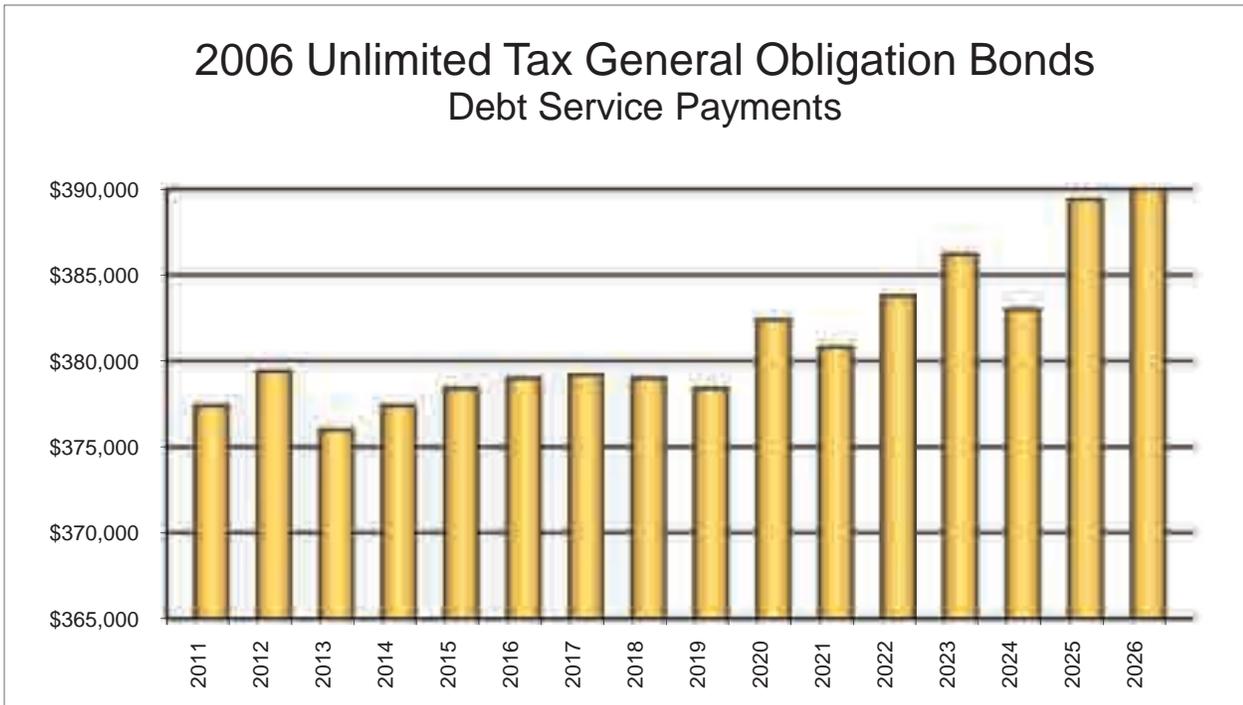
Year Ended 31-Dec	Interest Rate - %	Interest		Principal Due - 01 Dec	Total Debt Service
		Due - 01 Jun	Due - 01 Dec		
2011	4.000%	\$ 58,100	\$ 58,100	\$ 215,000	\$ 331,200
2012	4.000%	53,800	53,800	225,000	332,600
2013	4.000%	49,300	49,300	230,000	328,600
2014	4.000%	44,700	44,700	240,000	329,400
2015	4.000%	39,900	39,900	250,000	329,800
2016	4.000%	34,900	34,900	260,000	329,800
2017	4.000%	29,700	29,700	275,000	334,400
2018	4.000%	24,200	24,200	285,000	333,400
2019	4.000%	18,500	18,500	295,000	332,000
2020	4.000%	12,600	12,600	310,000	335,200
2021	4.000%	6,400	6,400	320,000	332,800
		<u>\$ 372,100</u>	<u>\$ 372,100</u>	<u>\$ 2,905,000</u>	<u>\$ 3,649,200</u>

2006 Limited Tax General Obligation Bonds
 Debt Service Payments



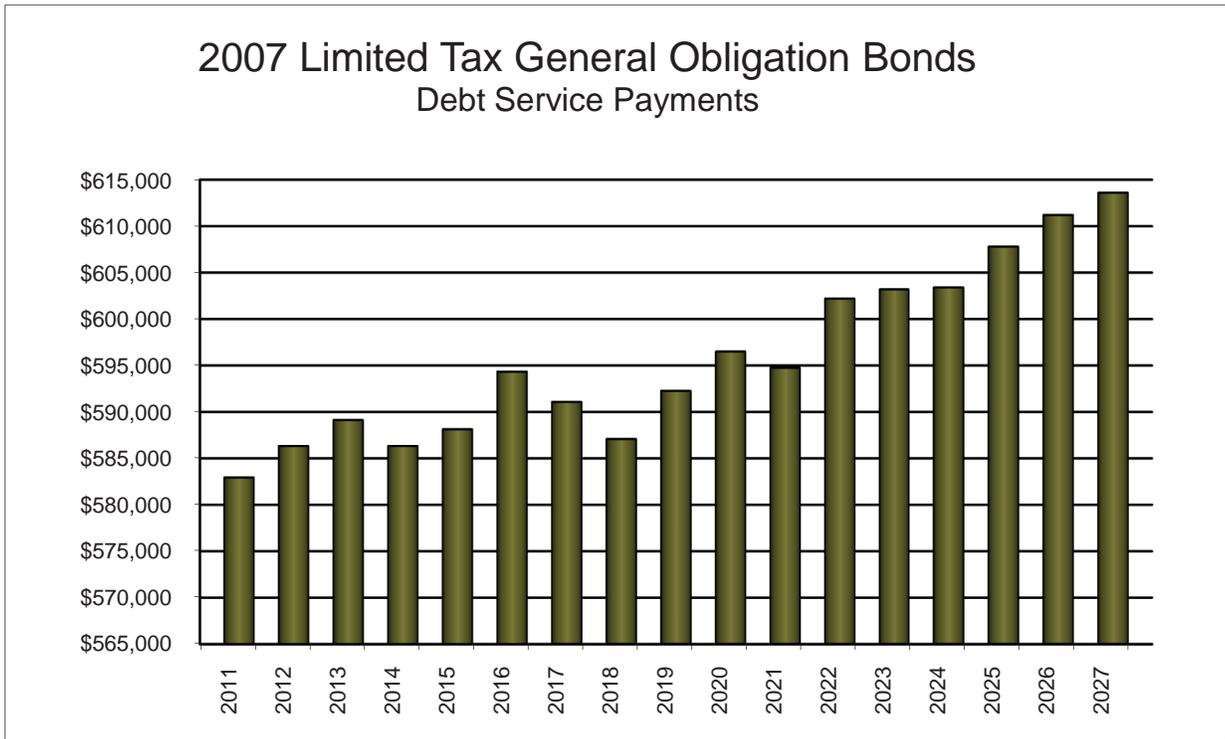
City of Lacey General Obligation Bond Debt
 2006 Unlimited Tax General Obligated Bonds
 December 31, 2010

Year Ended 31-Dec	Interest Rate - %	Interest		Principal Due - 01 Dec	Total Debt Service
		Due - 01 Jun	Due - 01 Dec		
2011	4.000%	\$ 88,700	\$ 88,700	\$ 200,000	\$ 377,400
2012	4.000%	84,700	84,700	210,000	379,400
2013	4.000%	80,500	80,500	215,000	376,000
2014	4.000%	76,200	76,200	225,000	377,400
2015	4.000%	71,700	71,700	235,000	378,400
2016	4.000%	67,000	67,000	245,000	379,000
2017	4.000%	62,100	62,100	255,000	379,200
2018	4.000%	57,000	57,000	265,000	379,000
2019	4.000%	51,700	51,700	275,000	378,400
2020	4.000%	46,200	46,200	290,000	382,400
2021	4.000%	40,400	40,400	300,000	380,800
2022	4.000%	34,400	34,400	315,000	383,800
2023	4.000%	28,100	28,100	330,000	386,200
2024	4.000%	21,500	21,500	340,000	383,000
2025	4.000%	14,700	14,700	360,000	389,400
2026	4.000%	7,500	7,500	375,000	390,000
		<u>\$ 832,400</u>	<u>\$ 832,400</u>	<u>\$ 4,435,000</u>	<u>\$ 6,099,800</u>



City of Lacey General Obligation Bond Debt
 2007 Limited Tax General Obligated Bonds
 December 31, 2010

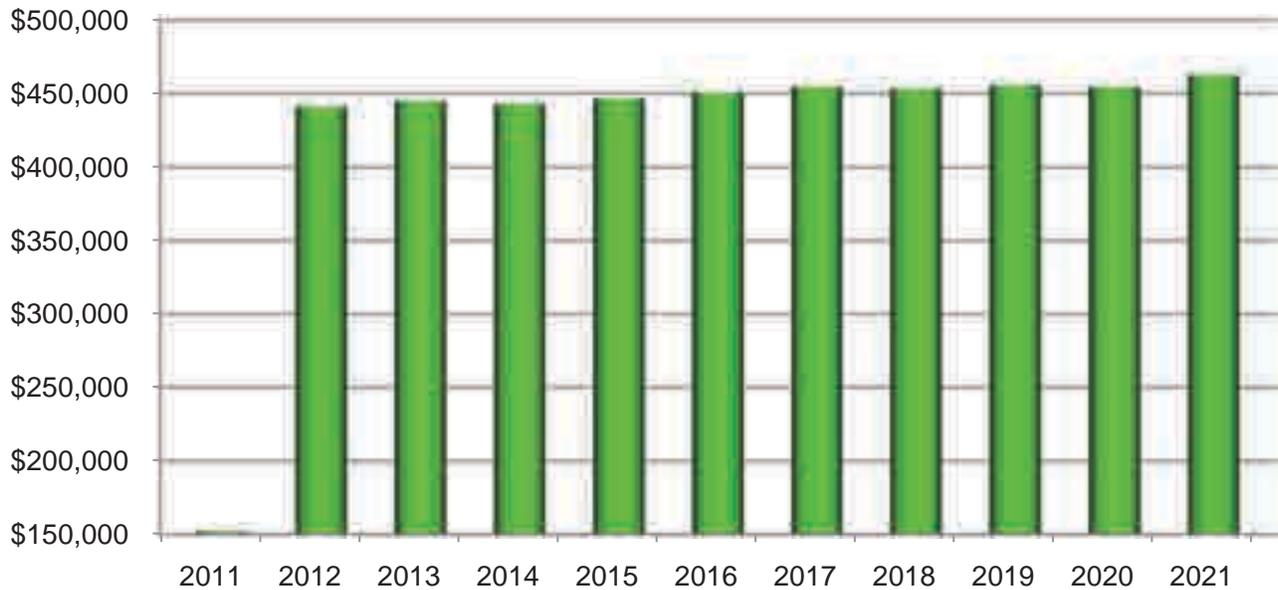
Year Ended 31-Dec	Interest Rate - %	Interest		Principal Due - 01 Dec	Total Debt Service
		Due - 01 Jun	Due - 01 Dec		
2011	4.000%	\$ 146,465	\$ 146,465	\$ 290,000	\$ 582,930
2012	4.000%	140,665	140,665	305,000	586,330
2013	4.000%	134,565	134,565	320,000	589,130
2014	4.000%	128,165	128,165	330,000	586,330
2015	4.000%	121,565	121,565	345,000	588,130
2016	5.000%	114,665	114,665	365,000	594,330
2017	5.000%	105,540	105,540	380,000	591,080
2018	3.750%	96,040	96,040	395,000	587,080
2019	3.800%	88,634	88,634	415,000	592,268
2020	3.850%	80,749	80,749	435,000	596,498
2021	3.900%	72,375	72,375	450,000	594,750
2022	4.000%	63,600	63,600	475,000	602,200
2023	4.000%	54,100	54,100	495,000	603,200
2024	4.000%	44,200	44,200	515,000	603,400
2025	4.000%	33,900	33,900	540,000	607,800
2026	4.000%	23,100	23,100	565,000	611,200
2027	4.000%	11,800	11,800	590,000	613,600
		<u>\$ 1,460,128</u>	<u>\$ 1,460,128</u>	<u>\$ 7,210,000</u>	<u>\$ 10,130,256</u>



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

Year Ended 31-Dec	Interest Rate - %	Interest		Principal Due - 01 Dec	Total Debt Service
		Due - 01 Jun	Due - 01 Dec		
2011	3.000%	\$ 58,687	\$ 58,688	\$ 35,000	\$ 152,375
2012	2.000%	58,163	58,162	325,000	441,325
2013	2.000%	54,912	54,913	335,000	444,825
2014	2.000%	51,563	51,562	340,000	443,125
2015	3.000%	48,162	48,163	350,000	446,325
2016	3.000%	42,913	42,912	365,000	450,825
2017	3.000%	37,437	37,438	380,000	454,875
2018	3.250%	31,738	31,737	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>\$ 435,175</u>	<u>\$ 435,175</u>	<u>\$ 3,790,000</u>	<u>\$ 4,660,350</u>

2010 Unlimited Tax Obligated Refunding Bonds
 Debt Service Payments





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STATISTICAL SECTION

 Statistical Section

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

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

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

Table of contents
Statistical Section

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

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

	Fiscal Year									
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Governmental activities										
Invested in capital assets, net of related debt	\$ 21,507	\$ 29,315	\$ 40,590	\$ 184,942	\$ 219,565	\$ 254,410	\$ 269,717	\$ 281,557	\$ 287,705	\$ 302,167
Restricted	453	715	513	1,169	1,289	10,136	16,780	2,430	1,261	995
Unrestricted	26,589	43,689	43,980	41,755	44,417	47,198	50,043 *	64,706 *	68,455	63,256
Total governmental activities net assets	\$ 48,549	\$ 73,719	\$ 85,083	\$ 227,866	\$ 265,271	\$ 311,743	\$ 336,540 *	\$ 348,693 *	\$ 357,421	\$ 366,418
Business-type activities										
Invested in capital assets, net of related debt	\$ 45,416	\$ 85,983	\$ 93,221	\$ 107,181	\$ 133,961	\$ 155,634	\$ 182,646	\$ 215,424	\$ 218,450	\$ 221,544
Restricted	-	-	-	1,049	1,049	413	-	-	-	-
Unrestricted	20,060	19,638	17,565	15,813	18,481	24,625	22,336	14,983	16,861	18,139
Total business-type activities net assets	\$ 65,476	\$ 105,621	\$ 110,786	\$ 124,043	\$ 153,491	\$ 180,672	\$ 204,982	\$ 230,407	\$ 235,311	\$ 239,683
Primary government										
Invested in capital assets, net of related debt	\$ 66,924	\$ 115,298	\$ 133,811	\$ 292,123	\$ 353,526	\$ 410,044	\$ 452,363	\$ 496,981	\$ 506,155	\$ 523,711
Restricted	453	715	513	2,218	2,337	10,549	16,780	2,430	1,261	995
Unrestricted	46,648	63,327	61,545	57,568	62,899	71,823	72,379 *	79,689 *	85,316	81,395
Total primary government net assets	\$ 114,025	\$ 179,340	\$ 195,869	\$ 351,909	\$ 418,762	\$ 492,416	\$ 541,522 *	\$ 579,100 *	\$ 592,732	\$ 606,101

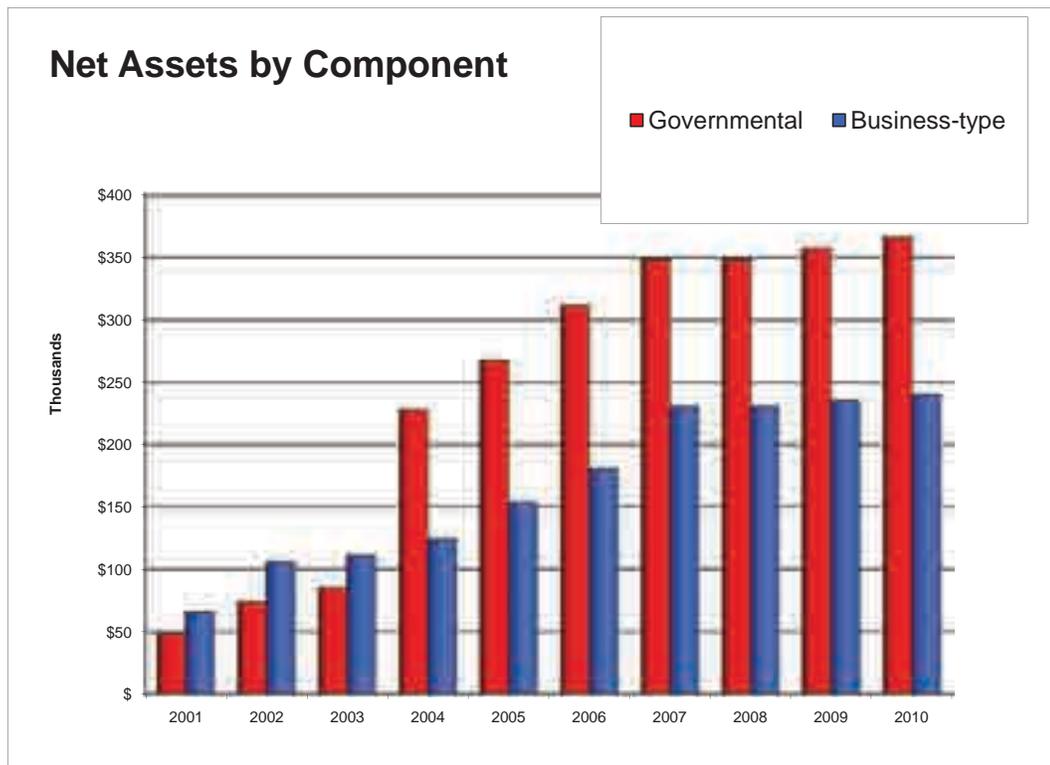


Table 2
Changes in Net Assets
Last Ten Fiscal Years
(accrual basis of accounting)
(amounts expressed in thousands)

	Fiscal Year									
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Expenses										
Governmental activities:										
General government	\$ 4,493	\$ 3,522	\$ 3,666	\$ 3,730	\$ 4,174	\$ 4,849	\$ 5,459	\$ 5,745	\$ 5,550	\$ 5,210 *
Security of persons and property	8,203	9,564	9,157	12,043	10,487	11,914	12,337	13,348	14,088	15,284
Physical environment	2,042	2,132	2,259	2,380	2,805	2,827	3,139	3,526	3,656	3,605
Transportation	1,243	2,916	3,705	7,967	8,865	10,116	11,086 *	13,821	10,748	12,402
Economic development	816	1,271	963	1,015	1,076	1,138	1,271	1,260	1,173	1,492
Mental and physical health	5	216	6	7	8	5	10	8	11	8
Culture and recreation	2,686	1,636	3,054	3,266	3,570	4,819	4,429	5,757	6,519	7,388
Interest on long-term debt	471	996	958	925	829	722	924	1,122	1,023	977
Total governmental activities	19,959	22,253	23,768	31,333	31,814	36,390	38,655 *	44,587	42,768	46,366
Business-type activities:										
Water	3,714	5,381	5,364	6,399	6,500	7,493	8,468	9,843	9,784	10,030
Wastewater	6,310	7,353	7,154	7,445	7,862	8,802	9,513	10,507	11,114	11,821
Stormwater	687	1,566	1,850	1,442	1,507	1,959	2,343	2,825	3,220	3,166
Reclaimed Water	-	-	-	-	-	-	332	67	-	-
Total business-type activities	10,711	14,300	14,368	15,286	15,869	18,254	20,656	23,242	24,118	25,017
Total primary government expenses	\$ 30,670	\$ 36,553	\$ 38,136	\$ 46,619	\$ 47,683	\$ 54,644	\$ 59,311	\$ 67,829	\$ 66,886	\$ 71,383
Program Revenues										
Governmental activities:										
Charges for services:										
General government	\$ 2,119	\$ 327	\$ 264	\$ 365	\$ 406	\$ 476	\$ 812	\$ 1,235	\$ 1,005	\$ 561 *
Transportation	589	1,367	528	954	1,492	1,328	1,097	1,065	1,467	2,319
Economic development	1,250	894	1,158	1,518	3,196	3,811	3,328	1,863	1,084	1,117
Culture and recreation	674	603	723	760	880	923	988	1,065	1,303	1,451
Other activities	403	432	388	298	338	213	2,622	3,526	4,243	4,451
Operating grants and contributions	1,150	2,149	1,487	1,952	1,731	3,785	1,478	1,464	2,006	3,221
Capital grants and contributions	12,366	94	5,061	11,532	32,405	38,117	19,499	13,470	9,780	7,920
Total governmental activities program revenues	18,551	5,866	9,609	17,379	40,448	48,653	29,824	23,688	20,888	21,040
Business-type activities:										
Charges for services:										
Water	5,041	5,648	6,337	6,782	7,649	10,734	10,556	10,632	11,320	10,436
Wastewater	7,069	6,815	7,469	8,248	9,357	11,499	10,651	11,112	11,161	11,873
Stormwater	1,498	1,270	1,270	1,380	1,421	1,533	1,685	1,826	1,929	1,992
Operating grants and contributions	-	-	-	-	-	-	51	-	-	9
Capital grants and contributions	2	6,036	3,648	11,999	26,212	20,314	18,675	23,931	4,219	4,994
Total business-type activities program revenue	13,610	19,769	18,724	28,409	44,639	44,081	41,618	47,501	28,629	29,304
Total primary government program revenues	\$ 32,161	\$ 25,635	\$ 28,333	\$ 45,788	\$ 85,087	\$ 92,733	\$ 71,442	\$ 71,189	\$ 49,517	\$ 50,344
Net (expenses)/revenue:										
Governmental activities	\$ (1,408)	\$ (16,387)	\$ (14,159)	\$ (13,954)	\$ 8,634	\$ 12,262	\$ (8,831) *	\$ (20,899)	\$ (21,880)	\$ (25,326)
Business-type activities	2,899	5,469	4,356	13,123	28,770	25,828	20,962	24,259	4,511	4,287
Total primary government net (expense) revenue	\$ 1,491	\$ (10,918)	\$ (9,803)	\$ (831)	\$ 37,404	\$ 38,090	\$ 12,131 *	\$ 3,360	\$ (17,369)	\$ (21,039)
General Revenues and Other Changes in Net Assets										
Governmental activities:										
Taxes										
Property taxes	5,226	\$ 5,975	\$ 6,428	\$ 6,372	\$ 6,910	\$ 7,393	\$ 8,524	9,594	\$ 10,096	\$ 10,447
Timber taxes	-	-	-	-	-	-	-	-	-	-
Retail taxes	4,937	5,937	5,843	6,610	8,031	8,812	10,506	10,230	9,111	9,064
Business taxes	4,034	4,376	4,412	5,015	5,331	6,580	7,400	7,748	7,827	7,642
Excise taxes	1,141	1,422	1,941	2,674	3,211	3,448	3,300	2,390	1,610	1,298
Penalties and interest	5	7	5	10	6	8	7	2	-	-
Investment earnings	1,328	1,320	1,300	1,189	1,463	2,463	3,579	2,164	711	374
Miscellaneous	2,542	4,959	5,096	3,841	5,827	5,110	1,648	1,022	1,226	871
Special items	-	-	-	-	-	-	-	-	-	4,703
Transfers	68	93	45	402	225	396	(1,336)	(98)	27	(77)
Total governmental activities	19,281	24,089	25,070	26,113	31,003	34,210	33,628	33,052	30,608	34,322
Business-type activities:										
Investment earnings	818	538	319	318	559	1,094	1,238	684	199	74
Miscellaneous	58	164	536	264	343	656	774	384	221	(66)
Transfers	(68)	(93)	(45)	(402)	(225)	(396)	1,336	98	(27)	77
Total business-type activities	808	609	810	180	677	1,354	3,348	1,166	393	85
Total primary government	\$ 20,089	\$ 24,698	\$ 25,880	\$ 26,293	\$ 31,681	\$ 35,564	\$ 36,976	\$ 34,218	\$ 31,001	\$ 34,407
Change in Net Assets										
Governmental activities	\$ 17,873	\$ 7,702	\$ 10,911	\$ 12,159	\$ 39,638	\$ 46,472	\$ 24,797 *	\$ 12,153	\$ 8,728	\$ 8,996
Business-type activities	3,707	6,078	5,166	13,303	29,447	27,181	24,310	25,425	4,904	4,372
Total primary government	\$ 21,580	\$ 13,780	\$ 16,077	\$ 25,461	\$ 69,085	\$ 73,654	\$ 49,107 *	\$ 37,578	\$ 13,632	\$ 13,368

*Decreased in general government expenses and charges for services are due to changes in reporting in 2010. Certain indirect internal charges are removed from both revenues and expenses.

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

	Fiscal Year									
	2001 ¹	2002 ²	2003	2004	2005	2006 ³	2007 ⁴	2008	2009	2010
General fund										
Reserved	\$ 453	\$ 338	\$ 186	\$ 184	\$ 302	\$ 129	\$ 137	\$ 129	\$ 133	\$ 11
Unreserved	10,045	9,523	11,101	12,987	14,553	18,324	21,863	22,706 *	25,195	27,066
Total general fund	10,498	9,861	11,287	13,171	14,855	18,453	22,000	22,835 *	25,328	27,077
All other governmental funds										
Reserved	-	-	-	-	1,101	1,214	1,352	2,301	1,128	995
Unreserved, reported in:										
Special revenue funds	5,137	6,855	3,354	5,108	5,984	9,961	7,703	11,651	14,183	16,274
Debt service funds	1,441	1,415	1,835	1,099	1,648	1,061	585	522	465	478
Capital projects funds	2,314	8,446	11,591	7,426	6,664	18,272	26,931	10,462	8,723	11,250
Total all other governmental funds	8,892	16,716	16,780	13,633	15,397	30,508	36,571	24,936	24,499	28,997
Total governmental funds	\$ 19,390	\$ 26,577	\$ 28,067	\$ 26,804	\$ 30,252	\$ 48,961	\$ 58,571	\$ 47,771 *	\$ 49,827	\$ 56,074

Note:

- ¹ The City issued debt (L.I.D. bonds and a long-term loan) in the amount of \$9.5 million. The increase in unreserved fund balance is due to the unspent bond proceeds remaining in special revenue funds.
- ² The increase in unreserved fund balance in Capital project funds was due to unspent bond proceeds from an issuance during the period for capital projects.
- ³ The City issued G.O. bonds in the amount of \$8.49 million late in 2006. The increase in unreserved fund balance in capital project funds is due to the unspent bonds proceeds at the end of the year.
- ⁴ The increase in capital project funds unreserved fund balance is mainly contributable to the \$8 G.O bond issued in December 2007 and remain unspent at the year end.
- * Restatement reduced the balance by \$175,386. (See 2009 Note 4.G)

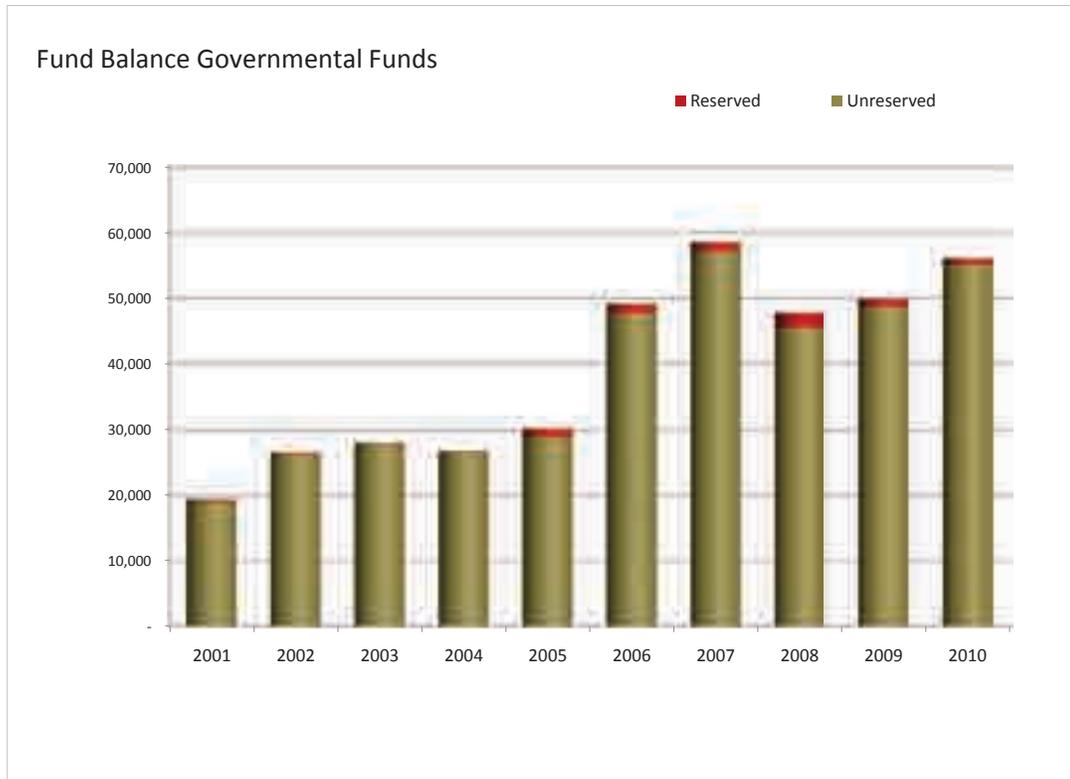


Table 4
Changes in Fund Balances of Governmental Funds
Last Ten Fiscal Years
(modified accrual basis of accounting)
(amounts expressed in thousands)

Fiscal Year	Fiscal Year									
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Revenues										
Taxes	\$ 15,548	\$ 17,742	\$ 18,816	\$ 21,127	\$ 23,498	\$ 26,225	\$ 29,718	\$ 29,838	\$ 28,531	\$ 28,404
Licenses and permits	1,046	899	961	1,245	2,589	3,229	2,849	1,743	1,386	1,431
Intergovernmental revenues	3,519	3,299	4,371	2,822	3,812	6,234	4,138	10,947	8,342	6,181
Charges for services	4,689	4,184	5,047	5,029	6,307	6,627	6,978	7,145	7,564	8,530
Fines & forfeitures	275	377	537	454	294	334	444	492 *	930	747
Other revenue	2,130	2,397	3,113	2,137	3,375	3,396	4,410	3,096	1,185	1,899
Total revenues	27,207	28,898	32,845	32,814	39,875	46,045	48,537	53,261	47,938	47,192
Expenditures										
General government	2,959	3,296	3,321	3,483	3,660	3,877	4,216	4,540	5,235	5,110
Securities of persons and property	8,106	8,948	9,162	9,332	10,153	10,875	12,295	13,342	13,893	14,964
Physical environment	2,058	2,160	2,312	2,421	2,829	2,875	3,169	3,560	3,668	3,620
Transportation	1,446	1,290	1,574	1,503	1,678	2,020	2,281	2,397	2,350	2,579
Economic environment	760	760	840	904	993	1,011	1,196	1,187	1,083	1,406
Mental and physical health	5	6	6	7	8	6	10	9	11	8
Culture and recreation	2,547	2,567	2,786	3,069	3,389	4,387	4,157	4,561	5,824	5,584
Capital outlay	5,969	6,008	13,247	9,801	9,483	8,180	14,951	30,641	11,257	6,292
Debt service										
Principal	1,381	1,893	2,186	2,481	3,371	2,006	2,216	2,121	1,571	1,624
Interest	371	1,016	988	985	869	705	933	1,152	1,074	1,013
Debt issue costs	-	-	-	-	-	-	135	-	-	51
Total expenditures	25,602	27,944	36,422	33,986	36,433	35,942	45,559	63,510	45,966	42,251
Excess of revenue over (under) expenditures	1,605	954	(3,577)	(1,172)	3,442	10,103	2,978	(10,249) *	1,972	4,941
Other financing sources (uses)										
Transfers in	518	3,115	1,418	2,716	3,655	2,393	3,624	16,516	2,110	2,160
Transfers out	(518)	(3,115)	(1,418)	(2,381)	(3,655)	(2,393)	(5,124)	(17,066)	(2,110)	(2,260)
Capital leases	-	-	-	-	-	-	-	-	27	35
Special assessment debt issued	6,565	-	-	-	-	-	-	-	-	-
Public works trust fund loan issued	2,948	-	-	-	-	-	-	-	-	-
Bonds issued	-	6,232	5,000	-	-	8,485	8,000	-	-	3,790
Premium on bonds issued	-	-	2	-	-	120	128	-	-	104
Discount on bonds issued	-	-	-	-	-	-	-	-	-	-
Payments to refunded bond escrow agent	-	-	-	-	-	-	-	-	-	(3,843)
Proceeds from sale of capital assets	-	-	69	5	9	2	4	-	57	-
Total other financing sources (uses)	9,513	6,232	5,071	340	9	8,607	6,632	(550)	84	(14)
Special item										
Payment from County for RAC settlement	-	-	-	-	-	-	-	-	-	1,321
Net change in fund balances	\$ 11,118	\$ 7,186	\$ 1,494	\$ (832)	\$ 3,451	\$ 18,710	\$ 9,610	\$ (10,799) *	\$ 2,056	\$ 6,248
Debt services as a percentage of noncapital expenditures	8.6%	12.7%	12.8%	12.6%	15.2%	9.1%	10.3%	6.6%	7.6%	7.3%

* Restatement reduced the revenue and the changes in fund balance by \$175,386 .(see 2009 Note 4.G)

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

Fiscal Year	Property Tax	Timber Tax	Sales Tax	Business Tax	Excise Tax	Penalties & Interest	Total
2001	5,226	0.2	4,937	4,034	1,141	5	15,343
2002	5,975	0.3	5,937	4,376	1,422	7	17,717
2003	6,428	0.2	5,613	4,412	1,941	5	18,399
2004	6,372	0.1	6,231	5,015	2,674	10	20,302
2005	6,910	0.2	7,588	5,331	3,211	6	23,046
2006	7,393	0.2	8,812	6,580	3,448	8	26,242
2007	8,524	0.2	10,507	7,400	3,301	7	29,739
2008	9,594	0.1	10,230	7,748	2,390	2	29,964
2009	10,096	-	9,111	7,827	1,610	1	28,645
2010	10,447	-	9,064	7,642	1,298	1	28,452

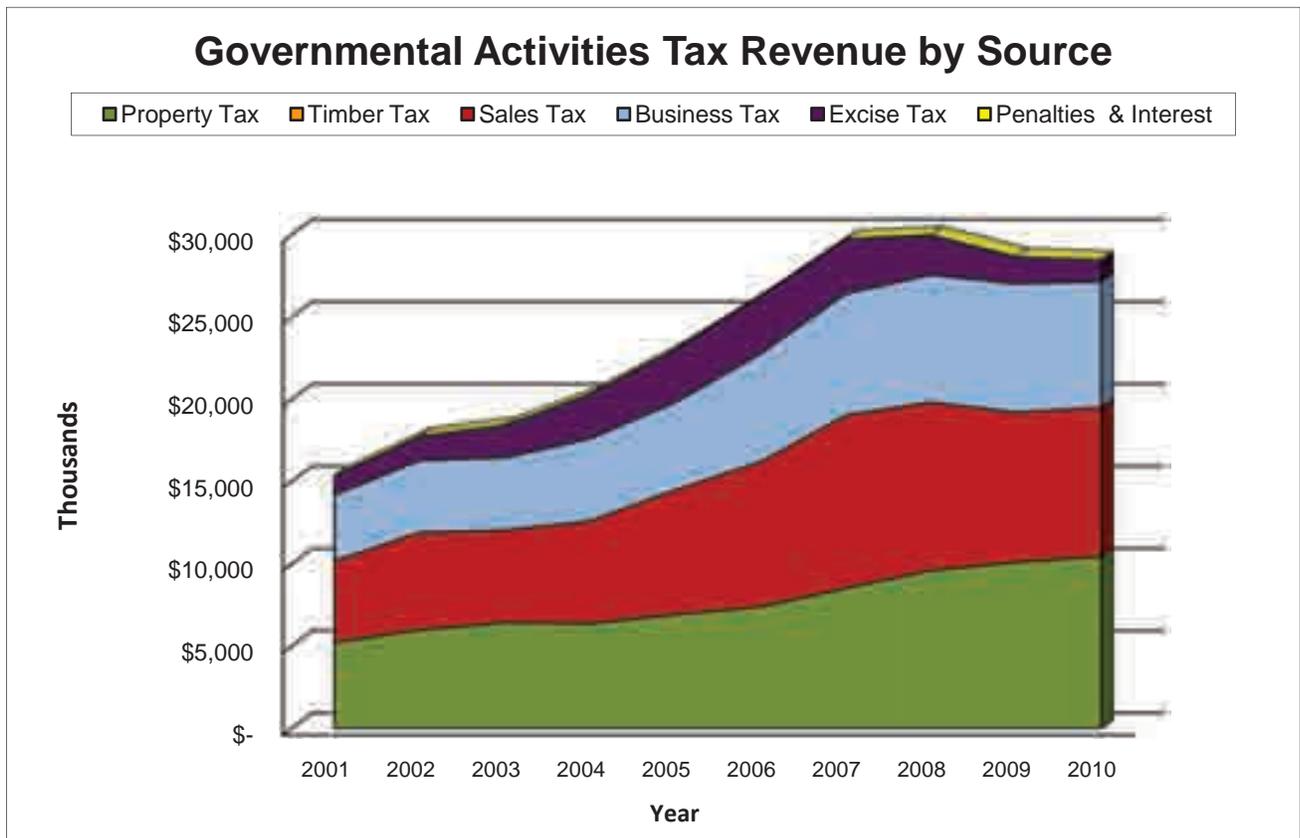


Table 6
 Assessed Value and Estimated Actual Value of Taxable Property
 Last Ten Fiscal Years
 (amounts expressed in thousands)

Fiscal Year Ended December 31	Real Property*	Personal Property*	Total Taxable Assessed Value*	Total Direct Regular Tax Rate	Estimated Actual Taxable Value	Assessed Value as a Percentage of Actual Value ¹
2001	1,598,738	100,610	1,699,348	3.03	1,856,603	91.53%
2002	1,753,082	106,976	1,860,058	2.88	2,032,184	91.53%
2003	1,912,156	127,810	2,039,966	2.76	2,223,042	91.76%
2004	2,058,894	130,907	2,189,801	2.68	2,355,362	92.97%
2005	2,369,109	133,050	2,502,159	2.48	2,754,785	90.83%
2006	2,753,153	133,598	2,886,751	2.30	3,187,531	90.56%
2007	3,385,318	145,554	3,530,872	2.14	4,095,492	86.21%
2008	4,320,765	164,624	4,485,389	1.88	4,974,321	90.17%
2009	4,706,716	185,887	4,892,603	1.84	5,386,885	90.82%
2010	4,749,994	175,333	4,925,327	1.90	5,453,794	90.31%

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.

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

¹ Ratio set by the Washington Department of Revenue. Actual ratios for years 2001 and 2002 are not available and the five-year average from years 2003 to 2007 are used.

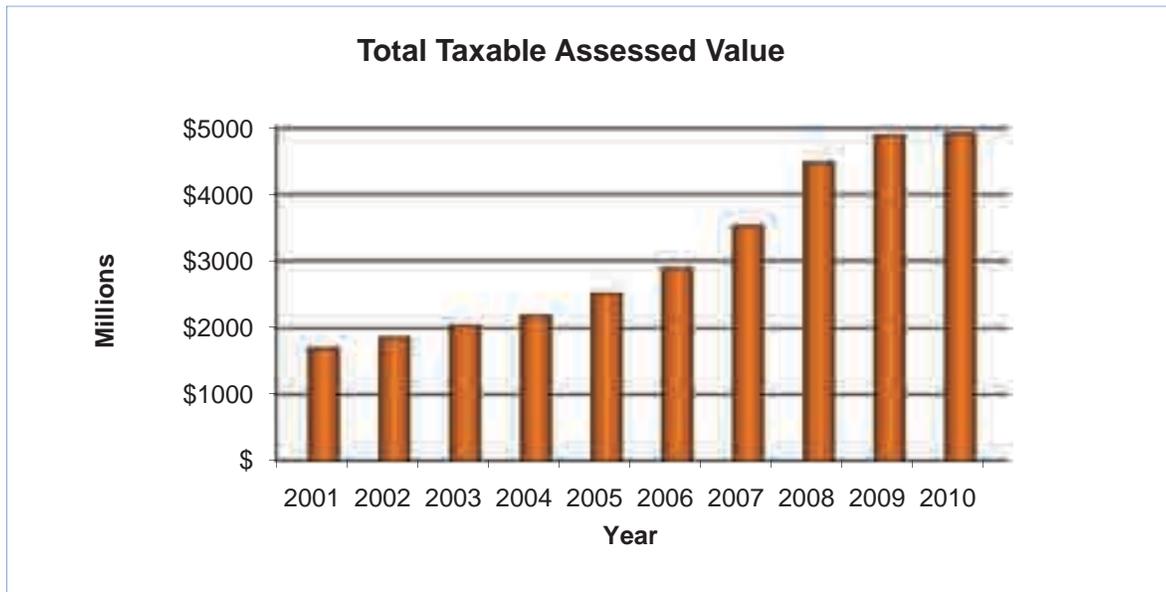


Table 7
Property Tax Rates
Direct and Overlapping Governments
Last Ten Fiscal Years

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

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

Explanation

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

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

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

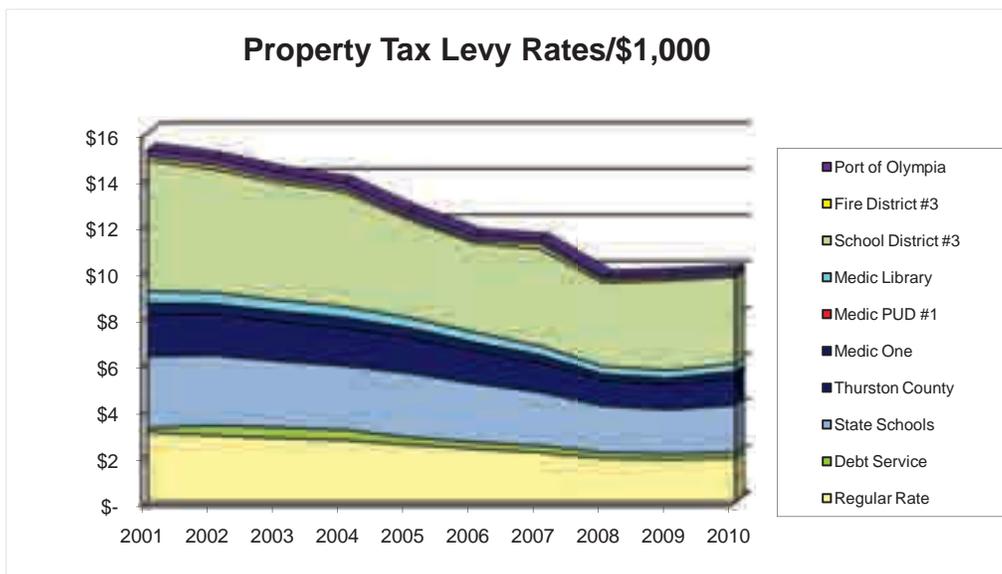


Table 8
Principal Property Taxpayers
Current Year and Nine Years Ago
December 31, 2010
(amounts expressed in thousands)

Taxpayer	Type of Business	2010		Percentage of Total Taxable Assessed Value	2001		Percentage of Total Taxable Assessed Value
		Taxable Assessed Value	Rank		Taxable Assessed Value	Rank	
Target Corporation	Retail/Warehouse	100,526	1	2.05%	\$ 23,933	4	1.40%
Panorama City Inc	Retirement Community	83,900	2	1.70%	45,451	1	2.67%
CDC Properties II LLC	Leasing/Land Development	52,039	3	1.06%			
Hawks Prairie Investment LLC	Real Estate Development	42,859	4	0.87%			
Home Depot USA Inc	Retail/Warehouse	39,508	5	0.80%			
Capital Development Company	Real Estate Development	37,618	6	0.76%	39,023	3	2.30%
FR/CAL Meridian LLC	Real Estate Development	32,357	7	0.66%			
MWSH South Lacey LLC	Real Estate Development	31,358	8	0.64%			
Lacey Market Square I and II LLC	Leasing/Land Development	29,737	9	0.60%			
Wal-Mart Stores Inc #3531	Retail	29,682	10	0.60%			
Rainier General, Inc	Real Estate Development	-		-	39,417	2	2.32%
Weyerhaeuser Vicwood Partnership	Real Estate Development	-		-	22,854	5	1.34%
Campbell Family Partnership	Real Estate Development	-		-	17,452	6	1.03%
API/Pichon VIII LLC	Real Estate Development	-		-	14,954	7	0.88%
Cox, Walter W	Real Estate Development	-		-	14,620	8	0.86%
U.S. West Communications	Utility	-		-	14,494	9	0.85%
Puget Sound Energy, Inc	Electrical Utility	-		-	14,146	10	0.83%
Totals		479,584		9.74%	246,344		14.49%
Balance of Taxpayers		4,445,743		90.26%	1,453,003		85.51%
Total Assessed Values		\$ 4,925,327		100.00%	\$ 1,699,348		100.00%

Source: Thurston County Assessor

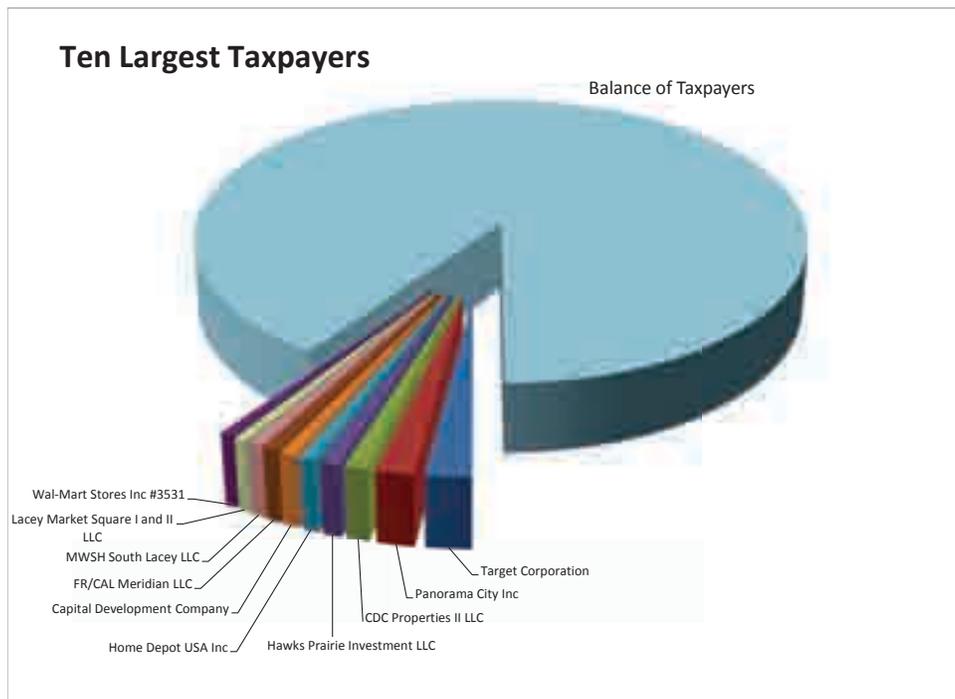


Table 9
Property Tax Levies and Collections
Last Ten Fiscal Years
(amounts expressed in thousands)

Fiscal Year Ended December 31	Regular Tax Levy for Fiscal Year *	Special Tax Levy for Fiscal Year *	Total Tax Levy for Fiscal Year *	Collected within the Fiscal Year of the Levy**		Collections in subsequent Years**	Total Collections To-Date	
				Amount	Percentage of Levy		Amount	Percentage of Levy
2001	5,158	272	5,430	5,207	95.89%	148	5,355	98.62%
2002	5,363	807	6,170	5,928	96.08%	72	6,000	97.24%
2003	5,633	952	6,585	6,402	97.22%	123	6,525	99.09%
2004	5,889	961	6,850	6,694	97.72%	94	6,788	99.09%
2005	6,214	798	7,012	6,845	97.62%	106	6,951	99.13%
2006	6,654	797	7,451	7,269	97.56%	115	7,384	99.10%
2007	7,554	1,003	8,557	8,334	97.39%	199	8,533	99.72%
2008	8,438	1,177	9,615	9,357	97.31%	178	9,535	99.17%
2009	9,002	1,181	10,183	9,802	96.26%	155	9,957	97.78%
2010	9,343	1,178	10,521	10,180	96.76%	-	10,180	96.76%

*Source: Thurston County Assessor

**Source: City of Lacey Finance Department

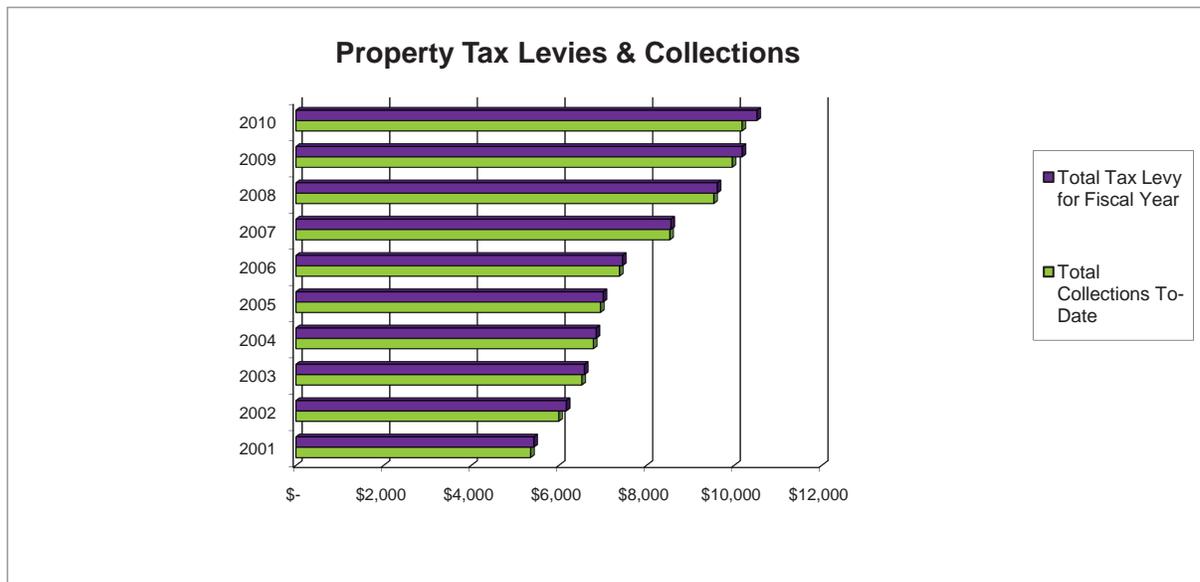


Table 10
Ratio of Outstanding Debt by Type
Last Ten Fiscal Years
(amounts expressed in thousands, except per capita amount)

Fiscal Year	Governmental Activities				Business-Type Activities			Total Primary Government	Percentage of Personal Income	Per Capita ³
	General Obligation Bonds	Special Assessment Bonds	PWTF Loan	Revenue Bond ¹ Animal Services	Water Bonds	Wastewater Bonds	DOE Loan			
2001	\$ 3,195	\$ 8,845	\$ 3,339	- \$	3,901	3,139	266	22,685	2.48%	726
2002	8,595	7,980	3,143	1,374	3,405	2,645	177	27,319	2.77%	865
2003	12,855	6,730	2,946	1,312	2,884	1,691	89	28,507	2.86%	895
2004	12,110	5,190	2,750	1,248	1,104	1,156	-	23,558	2.28%	731
2005	10,235	3,890	2,553	241	718	597	-	18,234	1.67%	561
2006	18,190	2,610	2,357	227	135	195	-	23,714	2.03%	715
2007	25,375	1,405	2,161	213	-	-	-	29,154	2.30%	856
2008	24,320	535	1,964	197	-	-	-	27,016	1.91%	753 *
2009	23,210	270	1,768	182	-	-	-	25,430	1.67%	669 *
2010	22,170	-	1,571	166	-	-	-	23,907	1.52%	609 *

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

¹ The City of Lacey administers the Animal Services financials. The balance at fiscal year-end 2010 represents the amount of debt due from the City of Olympia.

² Approximately 34.83% of the City of Lacey's utility customers reside outside the corporate city limit.

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

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

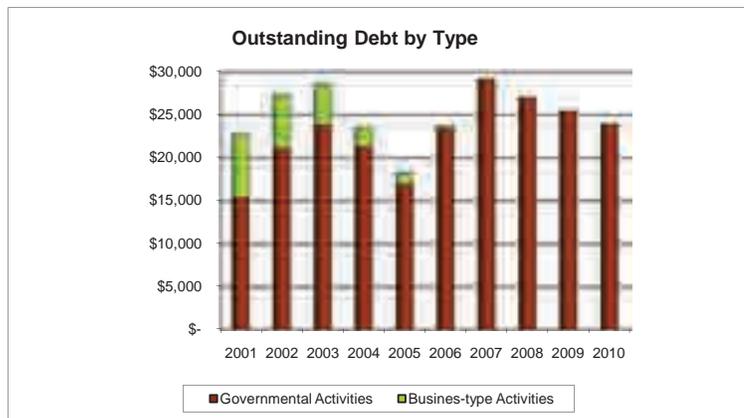
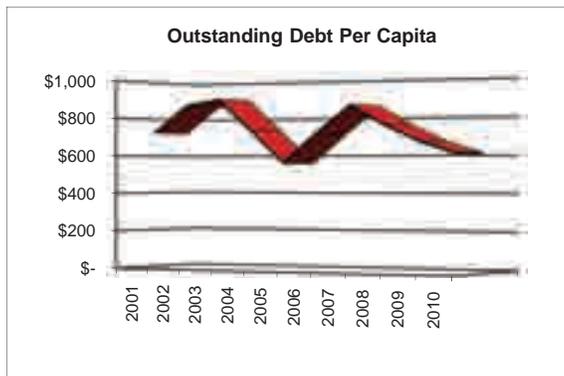


Table 11
 Ratios of General Bonded Debt Outstanding
 Last Ten Fiscal Years
 (amounts expressed in thousands, except per capita amount)

Fiscal Year	General Obligation Bonds	Less: Amounts Available in Debt Service Fund	Total	Percentage of Estimated Actual Taxable Value ¹ of Property	Per Capita ²
2001	\$ 3,195	\$ 236	\$ 2,959	0.16%	\$ 50
2002	8,595	376	8,219	0.40%	126
2003	12,855	438	12,417	0.56%	179
2004	12,110	428	11,682	0.50%	166
2005	10,235	820	9,415	0.34%	120
2006	18,190	728	17,462	0.55%	204
2007	25,375	375	25,000	0.61%	241
2008	24,320	381	23,939	0.48%	192
2009	23,210	360	22,850	0.42%	170 *
2010	22,170	351	21,819	0.40%	160 *

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

Explanation

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

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

* Per capita personal income for the year not yet available. Calculation is based on 2008 income.

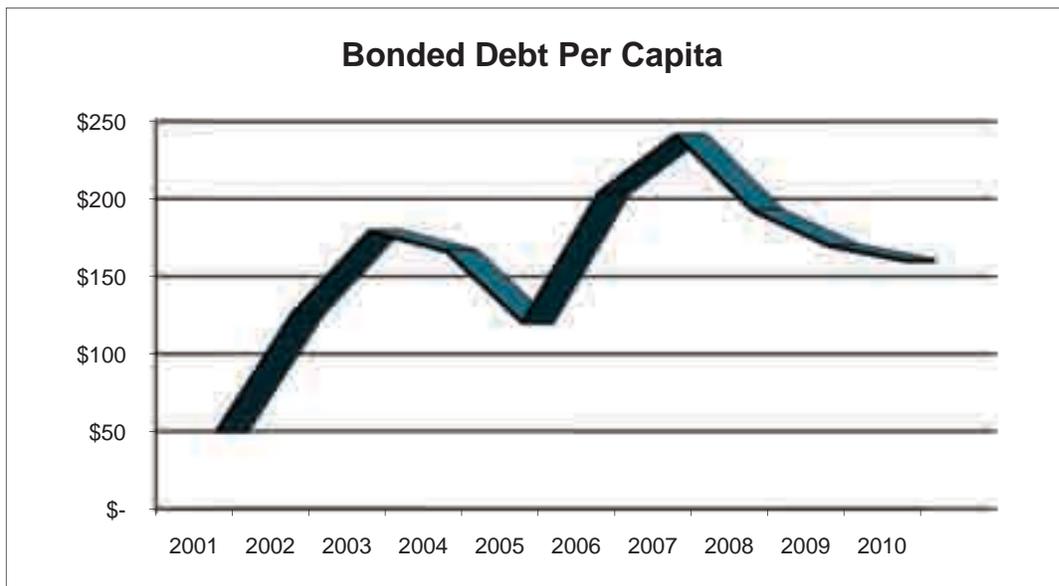


Table 12
 Direct and Overlapping Government Activities Debt
 As of December 31, 2010
 (amounts expressed in thousands)

Governmental Unit	Debt Outstanding	Estimated Percentage Applicable ¹	Estimated Share of Overlapping Debt
Debt repaid with property taxes:			
Thurston County	\$ 107,708	16.84%	\$ 18,138
Port of Olympia	30,195	16.84%	5,085
North Thurston School District	134,267	47.98%	64,425
Fire Districts ²	4,470	74.44%	<u>3,328</u>
Subtotal, overlapping debt			90,976
City of Lacey's direct debt			<u>23,741</u>
Total direct and overlapping debt			\$ <u><u>114,717</u></u>

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

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

Explanation

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

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

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

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Debt Limit	\$ 127,451	\$ 139,504	\$ 152,997	\$ 164,235	\$ 187,662	\$ 216,506	\$ 264,815	\$ 336,404	\$ 366,945	\$ 369,400
Total net debt applicable to limit	2,959	8,219	12,417	11,682	9,415	17,462	25,000	23,939	22,850	21,819
Legal debt margin	\$ 124,491	\$ 131,285	\$ 140,580	\$ 152,553	\$ 178,247	\$ 199,044	\$ 239,815	\$ 312,465	\$ 344,095	\$ 347,581
Total net debt applicable to the limit as a percentage of debt limit	2.32%	5.89%	8.12%	7.11%	5.02%	8.07%	9.44%	7.12%	6.23%	5.91%

Legal Debt Margin Calculations:

Assessed Value	\$ 4,925,327
Total assessed value	\$ 4,925,327
Debt limit (7.5% of total assessed value)	\$ 369,400
Debt applicable to limit:	
General obligation bonds	22,170
Less: Amount set aside for repayment of general obligation debt	(351)
Total net debt applicable to limit	\$ 21,819
Legal debt margin	\$ 347,581

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

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

Fiscal Year	Sewer/Water Revenue Bonds						Special Assessment Bonds			
	Total	Less	Net	Debt Service			Special	Debt Service		
	Operating Revenues	Operating Expenses	Available Revenue	Principal	Interest	Coverage	Assessment Collections	Principal	Interest	Coverage
2001	12,110	8,980	3,130	950	408	2.31	1,180	775	179	1.24
2002	12,464	9,524	2,940	990	311	2.26	1,517	1,062	640	0.89
2003	13,805	9,923	3,882	1,035	261	3.00	2,329	1,446	536	1.18
2004	15,098	11,231	3,867	2,315	201	1.54	1,464	1,736	467	0.66
2005	17,007	11,464	5,543	945	98	5.31	2,005	1,496	377	1.07
2006	22,233	12,936	9,297	985	57	8.92	1,244	1,476	302	0.70
2007	21,207	14,148	7,059	330	11	20.70	1,453	1,401	224	0.89
2008	21,744	16,022	5,722	-	-	-	1,130	1,066	148	0.93
2009	22,481	16,489	5,992	-	-	-	515	461	91	0.93
2010	22,310	17,194	5,116	-	-	-	557	466	69	1.04

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

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

Operating expenses do not include interest or depreciation expenses.

Public trust fund loan is included for Special assessment bonds.

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

Table 15
Demographic and Economic Statistics
Last Ten Fiscal Years

Fiscal Year	Population	Personal Income (amounts expressed in thousands)	Thurston County Per Capita Personal Income ¹	North Thurston Public School Enrollment	Thurston County Unemployment Rate
2001	31,600	984,846	31,166	12,188	5.7%
2002	31,860	995,338	31,241	12,887	5.8%
2003	32,240	1,033,614	32,060	13,089	5.7%
2004	32,530	1,091,154	33,543	13,079	5.2%
2005	33,180	1,165,779	35,135	13,119	5.0%
2006	34,060	1,269,552	37,274	13,370	4.6%
2007	35,870	1,416,327	39,485	13,601	4.5%
2008	38,040	1,521,144	39,988	13,843	5.0%
2009	39,250	1,569,529 *	39,988 *	14,025	7.2%
2010	40,130	1,604,718 *	39,988 *	13,816	7.5%

Data Sources:

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

Washington State Employment Security Department - Employment Situation Report

Explanation:

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

*The information presented is based on the most recent available statistical data (2008).

2010 county unemployment rate is November 2010 Not seasonally adjusted unemployment rate.

(Source: Washington State Employment Security Department Labor Market and Economic Analysis)

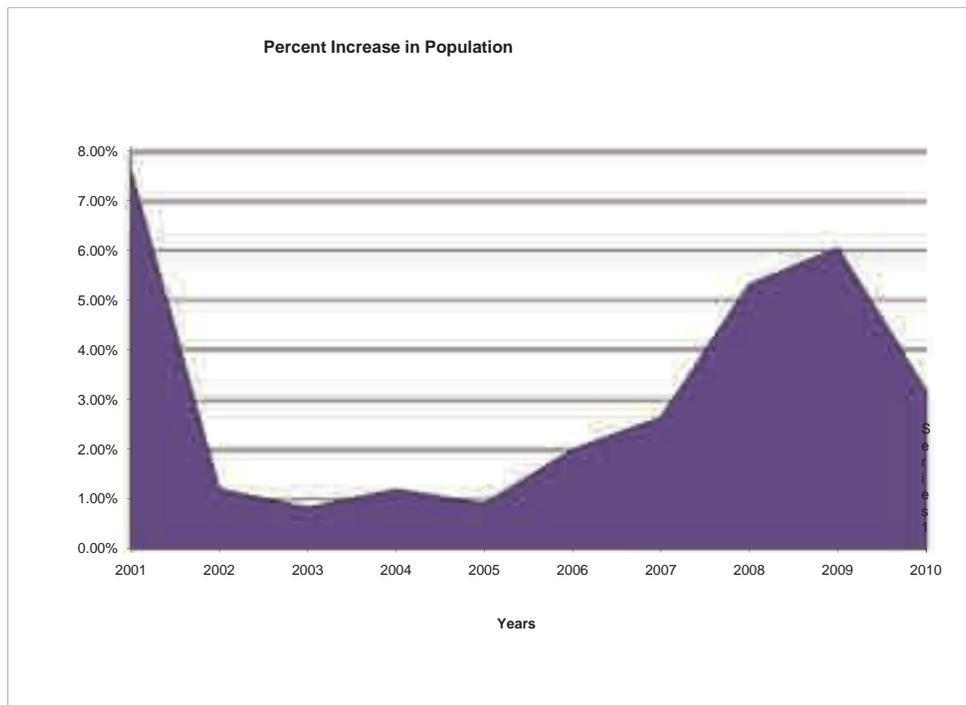


Table 16
Principal Employers
Current Year and Nine Years Ago

Employer	Business type	2010		2001 ⁵	
		Number of Employees	Percentage of Total City Employment	Number of Employees	Percentage of Total City Employment
State of Washington ¹	Government	3,150	17%	2,570 *	16%
North Thurston Public Schools ²	Education	1,700	9%	1,500 *	9%
Panorama City ³	Retirement Community	300	2%	250-499	2%
Cabelas ¹	Retail	100-500	2%		
Costco Corporation ¹	Retail	100-500	2%		
Safeway Corporation ¹	Retail	100-500	2%		
St. Martin's College ¹	Education	100-500	2%	250-499	2%
Target Corporation	Retail	100-500	2%		
Wal-Mart Corporation	Retail	100-500	2%		
City of Lacey ⁴	Government	252	1%	190	1%
Illuminet (as of 2002, Verisign)	Retail			100-249	1%
Fred Meyers	Retail			250-499	2%
Sears Roebuck & Co.	Retail			100-249	1%
Roo-Lan Healthcare	Retirement Community			100-249	1%
Shopko	Retail			100-249	1%
Total		6002-8402	38%	5,410 - 6,753	39%

Source

- 1. Thurston Regional Planning Council (TRPC), 2009 Profile
- 2. North Thurston Public Schools
- 3. Panorama Corporation
- 4. City of Lacey (full-time equivalent employees)
- 5. City of Lacey 2001 Comprehensive Annual Financial Report

Notes: Percentage of total employment is based on the midpoints in the ranges given. Total city employment data are based on 2009 TRPC Profile (2003 total jobs 19,000) and 2000 TRPC Profile (1998 total jobs 15,808)

*Actual number of employee for 2000 not available. Used 1998 information.

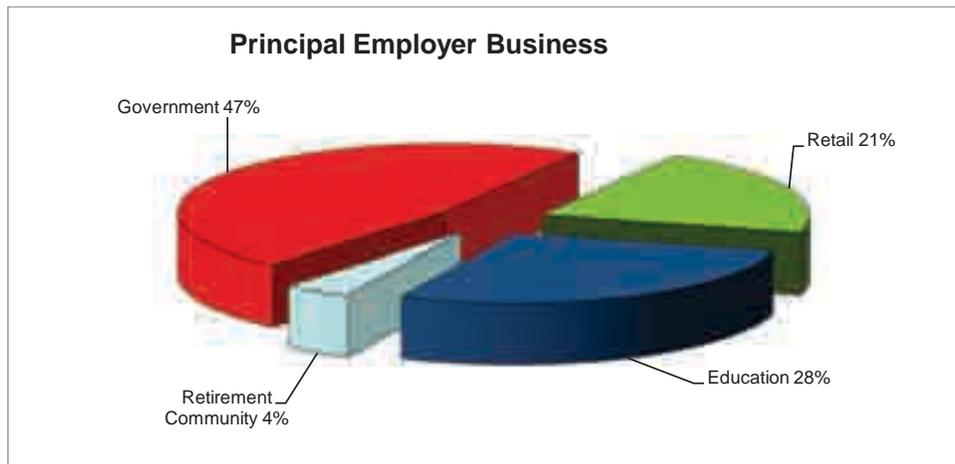


Table 17
Full-time Equivalent City Government Employees by Function
Last Ten Fiscal Years

Function	Full-Time Equivalent Employees as of December 31									
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
General government	23.75	23.75	24.00	24.00	24.00	27.00	27.00	30.00	30.00	30.00
Security of persons and property										
Police Officers	45.00	46.00	47.00	47.00	47.00	49.00	51.00	54.00	56.00	56.00
Civilians	12.91	12.41	12.41	12.41	12.41	12.41	14.28	14.28	14.28	14.28
Transportation										
Engineering	30.50	31.50	31.50	31.00	32.00	36.00	37.00	38.00	38.00	38.00
Maintenance	22.70	23.68	24.68	26.68	27.68	28.68	30.68	30.50	33.50	33.50
Economic development	13.50	13.50	13.50	13.50	15.75	16.75	17.75	17.75	17.75	17.75
Culture and recreation	10.75	11.75	11.75	11.75	13.00	13.00	14.00	14.88	16.00	16.00
Water	17.70	15.53	17.41	19.41	22.95	21.95	23.95	25.45	25.45	25.45
Wastewater	11.30	13.47	13.59	13.59	14.05	15.05	16.05	14.55	14.55	14.55
Stormwater	5.30	5.32	5.32	5.32	5.32	5.32	5.32	6.50	6.50	6.50
Total	193.41	196.91	201.16	204.66	214.16	225.16	237.03	245.91	252.03	252.03

Source: City of Lacey Budget Records

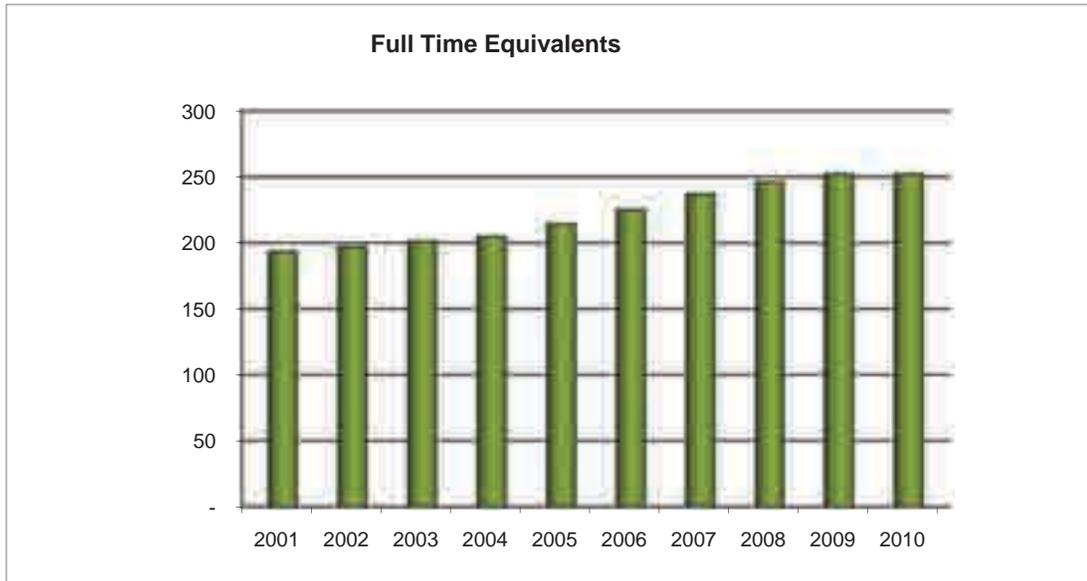


Table 18
Operating Indicators by Function
Last Ten Fiscal Years

Function	Fiscal Year									
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Police										
Arrests	2,515	2,533	2,598	2,463	2,473	3,333	4,006	4,331	4,084	4,169
Total citations issued	4,702	6,876	6,718	6,331	4,977	4,713	4,997	6,180	7,571	5,736
Incidents	38,253	40,002	42,779	35,895	32,783	34,203	36,744	38,049	39,161	36,557
Crime rate calls per thousand population	50	48	50	51	56	50	51	48	41	41
Highways and streets										
Miles of street swept	3,991	4,153	4,529	5,030	4,038	3,640	4,000	3,900	4,223	5,411
Miles of edge of road line maintained	38	38	-	27	18	18	18	25	19	18
State of the street (% of Very Good or Good Condition)	57%	52%	63%	65%	87%	90%	91%	95%	93%	94%
Economic Development										
Number of building permits issued	327	321	364	494	1,025	1,604	1,157	494	402	362
Number of building inspections	4,977	4,444	5,225	8,977	15,819	20,589	17,002	9,467	7,351	6,586
Number of complaints processed	157	123	99	106	135	127	154	129	127	93
Commercial site plan reviews	22	24	28	23	25	27	29	32	10	12
Culture and recreation										
Community center bookings	575	572	733	925	900	951	911	921	724	765
Regional Athletic Complex bookings	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	1,235	1,872
Average number of programs offered per quarter	268	215	218	276	323	265	257	246	269	261
Program registrations	11,832	15,368	13,272	13,829	8,206	11,687	12,350	13,582	13,181	13,740
Community-wide special events	56	60	29	34	35	32	38	40	40	41
Water										
Gallons of water pumped (millions)	1,935	2,228	2,299	2,435	2,490	3,083	2,774	2,666	2,595	2,199
Gallons of water sold (millions)	1,877	1,999	2,100	2,097	2,009	2,350	2,259	2,249	2,336	2,061
Percentage of water sold	97%	90%	91%	86%	81%	76%	81%	84%	90%	94%
Average daily consumption (millions of gallons)	5	5	6	6	6	6	6	6	6	6
Number of valves exercised	739	2,016	1,720	3,703	3,132	5,794	1,184	1,924	3,617	1,653
Number of hydrants exercised	N/A	226	448	449	662	335	2,879	3,060	3,334	3,432
Number of water mains breaks	N/A	190	134	160	243	201	220	173	198	168
Number of customers served	16,300	16,346	16,346	17,172	17,916	19,267	20,295	20,863	21,362	21,812
Number of irrigation customers	464	487	516	549	593	635	651	693	709	724
Wastewater										
Number of lift station incident responses	203	411	292	522	588	317	333	288	231	324
Number of STEP system connections	1,980	2,270	2,493	2,666	2,835	2,779	2,814	2,837	2,861	3,656
Number of STEP system incident responses	270	206	316	591	659	258	236	247	278	188
Lines cleaned (in feet)	144,658	143,708	102,147	151,274	180,517	212,633	130,511	104,219	390,555	390,644
Lines televised (in feet)	120,186	33,916	91,645	78,202	208,976	94,470	181,212	290,829	263,451	346,117
Odor complaints	N/A	N/A	N/A	20	18	8	7	11	1	1
Stormwater										
Percentage of catch basins cleaned	100%	100%	100%	100%	62%	60%	42%	100%	100%	100%
Acres of storm ponds maintained	36	36	39	39	494	625	681	1,037	1,027	1,235
City responses to spills	31	44	57	43	49	56	56	57	54	109

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

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

Table 19
Capital Asset Statistics by Function
Last Ten Fiscal Years

Function	Fiscal Year									
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Security of persons and property										
Police station	1	1	1	1	1	1	1	1	1	1
Patrol vehicles	14	14	14	14	16	16	16	18	21	22
Highways and streets										
Miles of street ¹	111 CL	115 CL	116 CL	117 CL	121 CL	122 CL	132 CL	148 CL	345 LM	351 LM
Number of streetlights	1,900	2,300	2,375	2,433	2,852	2,973	3,246	3,653	3,796	3,842
Number of street signs	3,991	4,153	4,529	5,030	5,636	5,983	6,674	7,027	7,400	7,528
Number of traffic signals	25	25	26	27	28	30	40	40	42	42
Culture and recreation										
Number of habitat reserves	-	-	-	-	-	-	-	-	-	6
Number of parks	25	26	25	25	25	24	24	25	25	25
Parks acreage including outside city limits	462	501	501	501	501	501	501	661	661	661
Developed parks acres	70	72	82	122	122	162	187	187	241	401
Soccer fields	5	5	5	8	8	8	8	8	10	10
Tennis courts	4	4	4	8	9	9	9	9	9	9
Baseball, softball fields	3	3	3	7	7	7	7	7	12	12
Community centers	1	1	1	1	1	1	1	1	1	1
Senior centers	-	-	1	1	1	1	1	1	1	1
Community buildings	2	3	3	3	3	3	3	3	3	3
Water										
Number of production wells	19	19	19	19	20	19	19	19	19	19
Miles of water lines	286	301	304	310	334	342	353	348	357	360
Number of reservoirs	7	8	8	8	8	8	8	8	7	7
Number of booster stations	7	8	8	8	8	8	8	8	6	6
Number of valves ²	6,466	6,466	6,835	7,437	8,516	9,597	10,023	10,187	10,002	10,174
Number of Hydrants 2	2,374	2,375	2,479	2,666	2,848	2,928	3,037	4,216	3,424	3,469
Wastewater										
Miles of sewer transmission lines	103	92	94	113	125	132	136	145	147	151
Number of lift stations	25	25	32	36	38	39	46	44	44	45
Miles of STEP transmission lines	38	41	43	46	47	49	49	51	52	52
Odor control facilities	10	10	10	11	11	11	11	11	13	14
Stormwater										
Number of catch basins	3,217	3,217	3,217	3,073	3,665	3,300	3,580	3,741	4,010	4,419
Number of city storm ponds	N/A	N/A	N/A	N/A	36	37	38	38	43	49
Number of acres of storm ponds maintained	36	36	39	39	464	625	681	1,037	1,027	1,235

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

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

Note:

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

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



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