

Washington State Auditor's Office
Financial Statements Audit Report

City of Lacey
Thurston County

Audit Period
January 1, 2013 through December 31, 2013

Report No. 1012138

Issue Date
June 30, 2014



Washington State Auditor
Troy Kelley

Independence • Respect • Integrity



**Washington State Auditor
Troy Kelley**

June 30, 2014

Mayor and City Council
City of Lacey
Lacey, Washington

Report on Financial Statements

Please find attached our report on the City of Lacey's financial statements.

We are issuing this report in order to provide information on the City's financial condition.

Sincerely,

TROY KELLEY
STATE AUDITOR

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Thurston County
January 1, 2013 through December 31, 2013**

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**Independent Auditor's Report on Internal Control over
Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in
Accordance with *Government Auditing Standards***

**City of Lacey
Thurston County
January 1, 2013 through December 31, 2013**

Mayor and City Council
City of Lacey
Lacey, Washington

We have audited, 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, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Lacey, Thurston County, Washington, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 20, 2014.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be

material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of the City's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.



TROY KELLEY
STATE AUDITOR

June 20, 2014

Independent Auditor's Report on Financial Statements

**City of Lacey
Thurston County
January 1, 2013 through December 31, 2013**

Mayor and City Council
City of Lacey
Lacey, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Lacey, Thurston County, Washington, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed on page 6.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Lacey, as of December 31, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 7 through 19, budgetary comparison information on page 66 and information on postemployment benefits other than pensions on page 67 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated June 20, 2014 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report

is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Troy X. Kelley".

TROY KELLEY
STATE AUDITOR

June 20, 2014

Financial Section

**City of Lacey
Thurston County
January 1, 2013 through December 31, 2013**

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Statement of Activities – 2013

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REQUIRED SUPPLEMENTARY INFORMATION

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Management's Discussion and Analysis

As management of the City of Lacey, we offer readers of the City of Lacey's financial statements this narrative overview and analysis of the financial activities of the City of Lacey for the fiscal year ended December 31, 2013. We encourage readers to consider the information presented here, in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages 1-1 to 1-5 of this report.

Financial Highlights

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

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

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

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

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

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

Overview of the Financial Statements

This discussion and analysis provided here are intended to serve as an introduction to the City of Lacey's basic financial statements. The City of Lacey's basic financial statements comprise of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. This report also includes supplementary information intended to furnish additional detail to support the basic financial statements themselves.

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

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

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

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

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

Fund Financial Statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Lacey, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City of Lacey can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

Governmental Funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in assessing a government's near-term financing requirements.

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

of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

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

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

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

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

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

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

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

The basic fiduciary fund financial statement can be found on page 4-11 of this report.

Notes to the Financial Statements. The notes provide additional information that is necessary to acquire a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 4-13 to 4-48 of this report.

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

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

Government-wide Overall Financial Analysis

As noted earlier, net position over time, may serve as a useful indicator of a government's financial position. In the case of the City of Lacey, assets and deferred outflows of resources exceeded liabilities by \$623.0 million at the close of the most recent fiscal year.

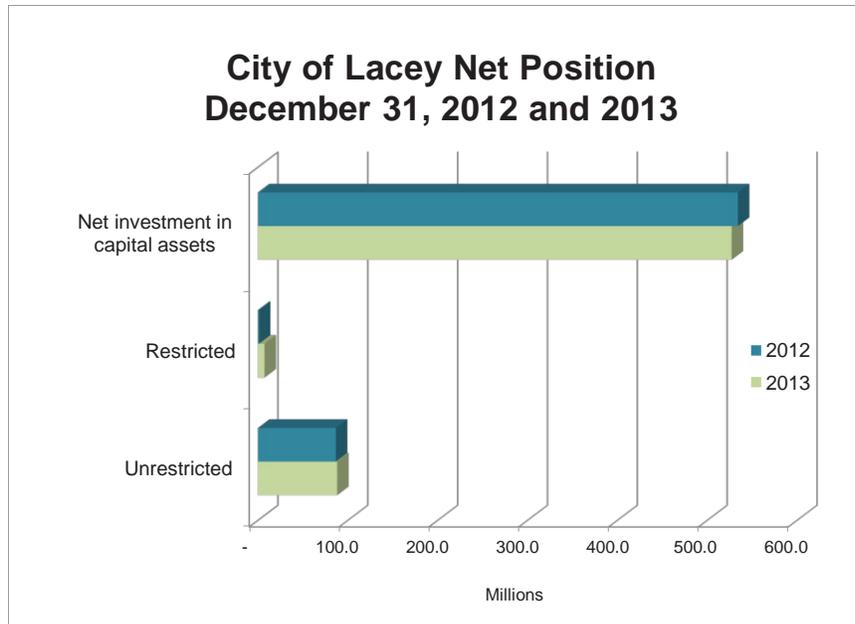
The following table provides a summary of the City of Lacey's net position as of December 31, 2013 and December 31, 2012:

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

By far the largest portion of the City of Lacey's net position (84.6 percent) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment) less any related debt used to acquire those assets that are still outstanding. The City of Lacey uses these capital assets to provide services to citizens. Accordingly, these assets are *not* available for future spending. Although the City of Lacey's investment in its capital assets is reported net of related debt, it should be noted that the resources used to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City of Lacey's net position (\$7.3 million) represents resources that are subject to external restrictions on how they may be used. Reported as unrestricted net position, the governing body has committed and assigned \$42.9 million of the City's net position for specific purposes. The remaining balance of unrestricted *net position* (\$45.3 million) may be used to meet the government's ongoing obligations to citizens and creditors.

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



The City of Lacey's overall net position increased by \$675,950 in 2013. The increase is explained in the following discussion of governmental and business-type activities.

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

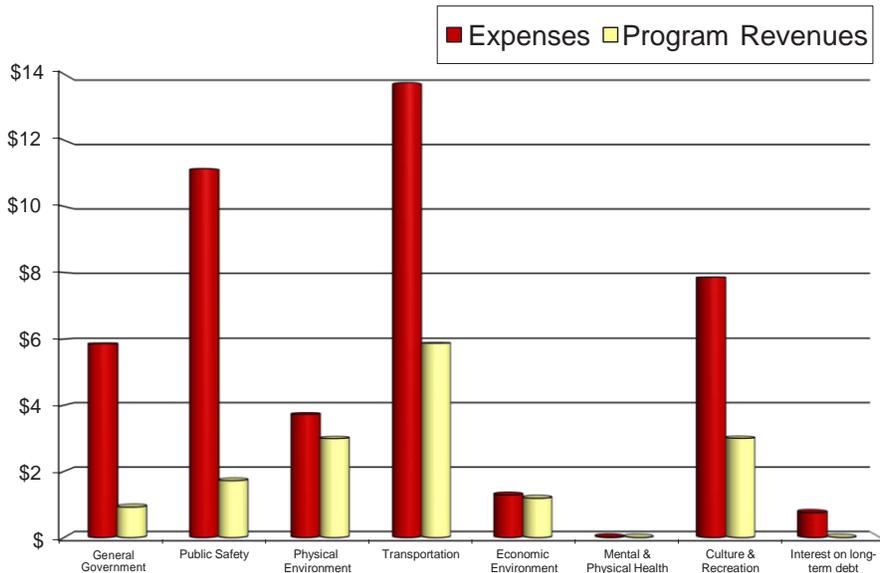
- Operating revenues (charges for services) increased by \$233,612. Program expenses for governmental activities increased in the amount of \$1.5 million. Security of persons and property program expenses increased \$257,693 due to rising costs for labor, jail services, and district court services. Transportation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

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

Summary of Changes in Net Position

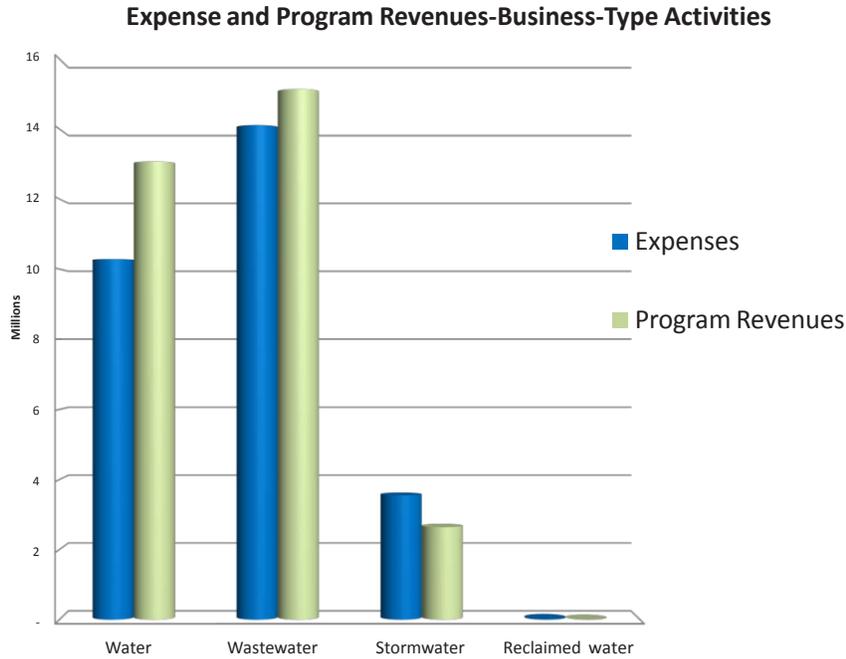
	Governmental Activities		Business-Type Activities		Total		Percentage Of Total	
	2013	2012	2013	2012	2013	2012	2013	2012
Revenues:								
Program:								
Charges for services	\$ 8,616,365	\$ 8,382,753	\$ 27,779,682	\$ 27,446,676	\$ 36,396,047	\$ 35,829,429	49.9%	44.9%
Operating Grants	2,821,878	3,010,859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

Expenses and Program Revenues - Governmental Activities



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

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



Governmental Functional Expenses. Transportation costs make up 31.0 percent of the total governmental expenses. Security of persons and property costs comprise 25.1 percent of the City of Lacey’s total governmental expenses. The culture and recreation expenses make up 17.7 percent and general government services expenses make up 13.2 percent of governmental expenses.

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

	Governmental Activities			
	Total Cost Of Services		Net Cost Of Services	
	2013	2012	2013	2012
General Government	\$ 5,863,148	\$ 5,919,872	\$ (4,942,854)	\$ (4,852,697)
Security of persons and property	11,136,647	10,878,954	(9,417,085)	(9,105,001)
Physical Environment	3,724,075	3,624,395	(729,990)	(1,074,301)
Transportation	13,734,267	12,726,138	(7,857,068)	(5,318,824)
Economic Environment	1,286,095	1,210,945	(96,760)	303,654
Culture & Recreation	7,859,663	7,640,239	(4,857,643)	(3,627,033)
Int & Other Debt Service Costs	751,977	811,378	(751,977)	(811,378)
Mental & Physical Health	7,839	10,691	(7,839)	(10,691)
	<u>\$ 44,363,711</u>	<u>\$ 42,822,612</u>	<u>\$ (28,661,216)</u>	<u>\$ (24,496,271)</u>

Financial Analysis of Governmental Funds

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

The following table provides a revenue, expenditure, and fund balance summary for the City of Lacey's governmental funds as of December 31, 2013 and December 31, 2012:

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

Nonmajor Funds	Special Revenue Funds		Debt Service Funds		Capital Projects Funds	
	2013	2012	2013	2012	2013	2012
Revenues						
Taxes	\$ 2,501,531	\$ 2,438,175	\$ 1,504,216	\$ 1,520,215	\$ 1,455,136	\$ 2,282,739
License and permits	-	-	-	-	36,893	36,802
Intergovernmental revenues	692,849	658,732	-	-	1,005,995	2,766,047
Charges for services	8,147	19,034	-	-	-	-
Other revenue	23,663	43,230	2,707	2,564	180,888	101,068
Total revenues	\$ 3,226,190	\$ 3,159,171	\$ 1,506,923	\$ 1,522,779	\$ 2,678,912	\$ 5,186,656
Expenditures	\$ 3,070,095	\$ 2,972,361	\$ 2,050,630	\$ 2,132,782	\$ 1,400,857	\$ 3,705,959
Other Financing Sources and Uses						
Premium on bonds	\$ -	\$ -	\$ -	\$ 185,946	\$ -	\$ 46,538
Debt issuance	-	-	-	-	-	1,122,033
Refunding bonds issue	-	-	-	2,845,000	-	-
Payments to refunded bonds escrow agent	-	-	-	(2,983,707)	-	-
Transfers	(133,500)	(238,100)	589,130	586,330	(331,606)	(1,681,721)
Total other financing sources and uses	\$ (133,500)	\$ (238,100)	\$ 589,130	\$ 633,569	\$ (331,606)	\$ (513,150)
Fund Balances						
Restricted	\$ 938,594	\$ 863,763	\$ -	\$ -	\$ 1,030,362	\$ 1,338,471
Committed	2,125,000	2,200,000	-	-	5,665,116	5,454,493
Assigned	1,073,943	1,051,178	330,093	284,670	5,724,698	4,680,764
Total fund balances	\$ 4,137,537	\$ 4,114,941	\$ 330,093	\$ 284,670	\$ 12,420,176	\$ 11,473,728

Governmental Funds. The focus of the City of Lacey's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City of Lacey's financing requirements. In particular, *unassigned fund balance* may serve as a useful measure of a government's net resources available for discretionary use as they represent the portion of fund balance which has not yet been limited to use for a particular purpose by either an external party, the City of Lacey itself, or a group or individual that has been delegated authority to assign resources for use for particular purposes by the City of Lacey's Council.

As of the end of the current fiscal year, the City of Lacey's governmental funds reported combined ending fund balances of \$56.3 million, an increase of \$1.9 million in comparison with the prior year. Approximately 20.0 percent (\$11.3 million) of this total amount constitutes *unassigned fund balance*, which is available for spending at the government's discretion. The \$45.0 million remaining of the fund balance is *restricted, committed or assigned* to indicate that it is not available for new spending because it has already been designated for 1) \$840,756 is restricted for the state loan secured on behalf of Thurston 9-1-1 Communications, 2) lodging tax total fund balance of \$925,886, 3) \$326,635 is restricted for a variety of other restricted purposes, and 4) \$42.9 million is for a variety of other *fund committed or assigned* purposes. Additional information on the City of Lacey's restricted, committed, and assigned purposes can be found on page 4-33 to 4-34 of this report.

The general fund is the chief operating fund of the City of Lacey. At the end of the current fiscal year, unassigned fund balance of the general fund was \$11.3 million, while the total fund balance reached \$23.7 million. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 40.8 percent of the total general fund expenditures, while total fund balance represents 85.7 percent of that same amount.

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

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

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

The local improvement district bond fund has a total fund balance of \$1.7 million as of the end of current fiscal year.

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

Unrestricted net position of the Water, Wastewater, Stormwater and Reclaimed Water operations at the end of the year amounted to \$24.3 million. The total growth in net position for enterprise funds was \$4.2 million. Other factors regarding the finances of these funds have already been addressed in the discussion of the City of Lacey's business-type activities.

General Fund Budgetary Highlights

Original budget compared to final budget. During the year there was a \$1.7 million increase in appropriations between the original and final amended budget. Following are the significant components of the 2013 General Fund budget amendments:

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

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

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

On the expenditure side of the budget, the largest variances between the final budget and the actual amounts occurred in the general government, security of persons and property, physical environment, economic environment, and culture and recreation functions.

Capital Assets and Debt Administration

Capital assets. The City of Lacey's investment in capital assets for its governmental and business-type activities as of December 31, 2013, amounts to \$545.7 million (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, buildings and system improvements, machinery and equipment, park facilities, and infrastructure. The City of Lacey's investments in capital assets were decreased by \$5.9 million or 1.1 percent (net additions were \$14.1 million and depreciation expense was \$20.0 million). Governmental activities decreased 2.2 percent and business-type activities increased 0.6 percent from previous year. The following schedule shows the City of Lacey's investment in capital assets.

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

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

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

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

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

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

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

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

The City of Lacey received an “AA” rating with a stable outlook from Standard & Poor’s for its 2012 unlimited tax refunding general obligation bond issue. The previous Standard & Poor’s rating was “AA”. Standard and Poor’s affirmed its view of the City of Lacey’s financial management practices as “strong” under its Financial Management Assessment methodology.

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

As the demand for public sector investment in infrastructure continues to grow, the issuance of debt has become an increasingly important component of state and local government capital programs. While the issuance of debt is frequently an appropriate method of financing capital projects at the local level, it also entails careful monitoring of such obligations to ensure an erosion of the City of Lacey’s credit quality does not result. Lacey’s general facilities connection charges for water and wastewater services have minimized the need to issue debt.

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

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

The City of Lacey’s total outstanding debt increased by \$6.0 million (27.9 percent) during the current fiscal year of which equals to the amount of debt redemption during 2013 net of \$8.3 million of revenue bond debt issued. The debt per capita was approximately \$623.21, which is substantially below the national average.

Additional information on the City of Lacey’s long-term debt can be found in note 3-H on pages 4-29 to 4-33.

Economic Factors and Next Year’s Budgets and Rates

- The 2013 average unemployment rate for the County was 6.8 percent, which is a decrease from a rate of 7.5 percent a year ago. This is slightly higher compared to the state and national average unemployment rates of 6.6 and 6.7 percent, respectively.
- The City of Lacey’s population continues to grow, (44,350 in the current fiscal year) and is placing more demand on services. Prior to the recession, revenue growth to property tax,

sales tax, and planning and inspection fees offset the costs associated with growth. Revenues declined during the years 2009 through 2011. During 2012 and 2013, revenues increased, but were not a result of growth, so the City of Lacey's growth is not producing revenues that offset the rising operating costs. The City of Lacey's population is growing faster than the State average. The City's population increased 1.7 percent while the State's population only increased by 0.9 percent.

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

The Water utility rates in the 2013 budget year were increased by 6.5 percent. The City of Lacey has phased in a water rate schedule that places more emphasis on conservation. The conservation rates place greater emphasis on the relationship of water usage to the amount paid by the customer. This change rewards the conservative customer while encouraging, through a higher rate, the high-end consumer to conserve water resources. Wastewater and Stormwater rates increased 3.0 percent in the 2013 budget. These rates along with general facility charges, fund the current operating expenses, maintenance of the system, replacement, emergency repairs, and fund needed capital improvements.

Requests for Information

This financial report is designed to provide a general overview of the City of Lacey's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City of Lacey's Finance Department, 420 College Street SE, Lacey, Washington, 98503.

Statement of Net Position
December 31, 2013

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

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

Statement of Activities
For the Year Ended December 31, 2013

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

General revenues:
Property taxes
Retail taxes
Business taxes
Excise taxes
Penalties & interest
Interest and investment earnings
Miscellaneous
Transfers
Total general revenues and transfers
Change in net position
Net position - beginning
Net position - ending

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

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

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

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

Page 2 of 2

Balance Sheet
Governmental Funds
December 31, 2013

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

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

Reconciliation of the Balance Sheet
To the Statement of Net Position
Governmental Funds
December 31, 2013

Fund balances - total governmental funds		\$ 56,274,782
Amounts reported for governmental activities in the statement of net position are different because:		
Certain assets used in governmental activities are not financial resources and therefore are not reported in the fund statement:		
Deferred charges on refunding	\$ 202,030	
Investment in joint venture	<u>708,002</u>	910,032
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds:		
Non-depreciable assets	137,565,367	
Depreciable assets (net)	<u>173,605,859</u>	311,171,226
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the governmental funds:		
Deferred revenues:		
Property taxes receivable	139,446	
Special assessments receivable	2,257,193	
Local court revenue receivable	680,606	
Grants earned but not available	50,000	
HUD Loan assessments receivable	<u>394,866</u>	3,522,111
Long-term liabilities, including bonds payable are not due and payable in the current period and therefore are not reported in the governmental funds:		
Interest payable	(57,099)	
Bonds and loans including unamortized debt premiums	(19,763,604)	
Capital leases	(30,363)	
Compensated absences and OPEB Liabilities	<u>(2,101,762)</u>	(21,952,828)
Internal service funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the internal service funds are reported in the statement of net position.		
	<u>13,604,493</u>	13,604,493
Rounding adjustments		<u>2</u>
Net position of government activities.		<u><u>\$ 363,529,818</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, 2013

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

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

Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances of Governmental Funds
To the Statement of Activities
Governmental Funds
For the Year Ended December 31, 2013

Net changes in total fund balances per fund financial statements \$ 1,939,585

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures; however, in the statement of activities the cost of those assets are depreciated over their estimated useful lives. This is the amount by which capital outlays exceeded depreciation in the current period.

Expenditures for capital assets	\$ 1,891,049	
Current year depreciation	<u>(12,625,987)</u>	(10,734,938)

Issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.

Debt principal repayments	2,292,580	
Amortization of bond premiums and deferral on refunding	<u>17,781</u>	2,310,361

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the fund statement.

Deferred revenue - property taxes	(73,506)	
Deferred revenue - special assessments	(831,371)	
Deferred revenue - grants earned but not available	(9,999)	
Deferred revenue - court local revenue earned but not available	<u>(44,554)</u>	

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.

Changes in investment in joint venture	(12,644)	
Changes in compensated absences and OPEB Liabilities	(358,350)	
Changes in accrued interest payable	<u>3,453</u>	(367,541)

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. 635,093

The proceed from the sale of capital assets is reported as revenue in the governmental funds. However, the cost of assets sold offset against the sales proceeds, and only the gain or loss is reported in the statement of activities. (25,929)

Contributed /donated capital assets are included in the statement of activities but are not included in the governmental funds as they do not provide current financial resources:

Contributed from developers and other sources		<u>3,675,966</u>
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Changes in net position of governmental activities \$ (3,526,833)

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

Statement of Net Position
Proprietary Funds
December 31, 2013

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

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

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

	Business-Type Activities Enterprise Funds				Total	Governmental Activities Internal Service Funds
	Water	Waste- Water	Storm Water	Reclaimed Water		
OPERATING REVENUES						
Charges for services	\$ 11,481,719	\$ 13,940,042	\$ 2,178,675	\$ -	\$ 27,600,436	\$ 3,989,874
Miscellaneous operating revenues	157,780	14,452	7,014	-	179,246	-
Total operating revenue	11,639,499	13,954,494	2,185,689	-	27,779,682	3,989,874
OPERATING EXPENSES						
Operating expense	3,049,322	9,904,395	1,065,098	-	14,018,815	2,178,810
Maintenance expense	3,631,475	2,246,613	862,973	-	6,741,061	282,468
Debt discount amortization	-	-	-	-	-	-
Depreciation expense	3,130,234	1,876,625	1,601,692	19,442	6,627,993	739,237
Taxes	478,364	162,469	50,381	-	691,214	300
Total operating expenses	10,289,395	14,190,102	3,580,144	19,442	28,079,083	3,200,815
OPERATING INCOME (LOSS)	1,350,104	(235,608)	(1,394,455)	(19,442)	(299,401)	789,059
NONOPERATING REVENUES (EXPENSES)						
Special assessments	348,260	-	-	-	348,260	-
Debt issuance costs	(73,205)	-	(14,812)	-	(88,017)	-
Investment earnings	39,768	38,448	6,336	5,883	90,435	20,095
Miscellaneous non-operating revenues	-	-	-	-	-	11,489
Interest expense	(44,543)	-	(6,923)	-	(51,466)	-
Gain (loss) on sale of capital assets	-	-	-	-	-	13,104
Total nonoperating revenues (expenses)	270,280	38,448	(15,399)	5,883	299,212	44,688
Income (loss) before contributions and transfers	1,620,384	(197,160)	(1,409,854)	(13,559)	(189)	833,747
Capital Contributions - grants	-	-	119,544	-	119,544	-
Capital Contributions - private	1,083,356	1,183,720	334,754	-	2,601,830	-
Capital Contributions - interfund	(30,744)	-	-	-	(30,744)	59,308
Transfers in	2,458,973	-	-	-	2,458,973	-
Transfers out	-	(138,692)	(65,901)	(1,000,000)	(1,204,593)	-
Changes in net position	5,131,969	847,868	(1,021,457)	(1,013,559)	3,944,821	893,055
NET POSITION - BEGINNING	117,008,831	85,448,635	48,145,607	4,373,100		13,221,420
NET POSITION - ENDING	\$122,140,800	\$ 86,296,503	\$ 47,124,150	\$ 3,359,541		\$ 14,114,475
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.					257,962	
Change in net position of business-type activities.					\$ 4,202,783	

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

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

	Business-type Activities Enterprise Funds				Total	Governmental Activities Internal Services Funds
	Water	Waste- Water	Storm Water	Reclaimed Water		
CASH FLOW FROM OPERATING ACTIVITIES:						
Receipts from customers and users	\$ 11,508,351	\$ 13,941,269	\$ 2,179,124	\$ -	\$ 27,628,744	\$ 102,644
Receipts from interfund services	-	-	-	-	-	3,899,326
Payments for interfund services	(207,198)	(357,973)	(199,507)	-	(764,678)	(7,345)
Payments to suppliers	(3,979,335)	(10,258,508)	(932,682)	(41,932)	(15,212,457)	(1,197,989)
Payments to employees	(2,754,679)	(1,803,621)	(733,619)	-	(5,291,919)	(1,237,922)
Payments for taxes	(478,364)	(162,469)	(50,381)	-	(691,214)	(300)
Net cash provided by operating activities	<u>4,088,775</u>	<u>1,358,698</u>	<u>262,935</u>	<u>(41,932)</u>	<u>5,668,476</u>	<u>1,558,414</u>
CASH FLOW FROM NON-CAPITAL FINANCING ACTIVITIES:						
Transfers in from other funds	708,973	-	-	-	708,973	-
Receipt of interfund loan payment	-	602,676	-	-	602,676	-
Receipt of interfund loan interest payment	-	10,328	-	-	10,328	-
Transfers out to other funds	-	(138,692)	(65,901)	(1,000,000)	(1,204,593)	-
Net cash provided by non-capital financing activities	<u>708,973</u>	<u>474,312</u>	<u>(65,901)</u>	<u>(1,000,000)</u>	<u>117,384</u>	<u>-</u>
CASH FLOW FROM CAPITAL AND RELATED FINANCING ACTIVITIES:						
Acquisition and construction of capital assets	(4,372,791)	(847,788)	(120,929)	-	(5,341,508)	(623,362)
Proceeds from sales of capital assets	-	-	-	-	-	16,149
Proceeds from sales of revenue bonds	7,241,624	-	1,465,290	-	8,706,914	-
Payments for debt issue costs	(73,205)	-	(14,812)	-	(88,017)	-
Receipt (repayment) on Interfund loan	(602,676)	-	-	-	(602,676)	-
Interest paid on interfund loan	(10,328)	-	-	-	(10,328)	-
Payments received on special assessments	48,497	-	-	-	48,497	-
Subsidy from grant	-	-	94,349	202,795	297,144	-
Transfers in from other funds for capital acquisitions	1,750,000	-	-	-	1,750,000	-
Net cash used by capital and related financing activities	<u>3,981,121</u>	<u>(847,788)</u>	<u>1,423,898</u>	<u>202,795</u>	<u>4,760,026</u>	<u>(607,213)</u>
CASH FLOW FROM INVESTING ACTIVITIES:						
Purchase of investments	(607,425)	-	-	-	(607,425)	(1,896)
Interest received on investments	39,768	28,120	6,336	5,883	80,107	20,095
Net cash provided (used) by investing activities	<u>(567,657)</u>	<u>28,120</u>	<u>6,336</u>	<u>5,883</u>	<u>(527,318)</u>	<u>18,199</u>
Net increase (decrease) in cash and cash equivalents	8,211,212	1,013,342	1,627,268	(833,254)	10,018,568	969,400
Cash and cash equivalents January 1	10,575,874	9,213,072	2,031,850	2,901,977	24,722,773	9,972,926
Cash and cash equivalents December 31 (see Note below) (including restricted cash & cash equivalents)	<u>\$ 18,787,086</u>	<u>\$ 10,226,414</u>	<u>\$ 3,659,118</u>	<u>\$ 2,068,723</u>	<u>\$ 34,741,341</u>	<u>\$ 10,942,326</u>
CASH PROVIDED BY OPERATING ACTIVITIES:						
Net operating income	\$ 1,350,104	\$ (235,608)	\$ (1,394,455)	\$ (19,442)	\$ (299,401)	\$ 789,059
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:						
Depreciation	3,130,234	1,876,625	1,601,692	19,442	6,627,993	739,237
(Increase)/decrease in customer receivables	45,784	(32,351)	(9,491)	-	3,942	5,593
(Increase)/decrease in intergovernmental receivables	(213,660)	2,742	-	-	(210,918)	(4,986)
(Increase)/decrease in prepaids	(7,572)	-	-	-	(7,572)	-
(Increase)/decrease in inventories	(5,772)	-	-	-	(5,772)	-
Miscellaneous nonoperating revenues	-	-	-	-	-	11,489
Increase/(decrease) in accounts payable	(227,282)	(21,172)	62,006	(41,932)	(228,380)	1,520
(Increase)/decrease in customer deposits	36,728	16,384	2,926	-	56,038	-
Increase/(decrease) in intergovernmental payables	(29,188)	(247,866)	(2,955)	-	(280,009)	6,204
Increase/(decrease) in compensated absences	9,399	(56)	3,212	-	12,555	10,298
Net cash provided by operating activities	<u>\$ 4,088,775</u>	<u>\$ 1,358,698</u>	<u>\$ 262,935</u>	<u>\$ (41,932)</u>	<u>\$ 5,668,476</u>	<u>\$ 1,558,414</u>
Schedule of noncash capital and related financing activities:						
Capital asset transferred from (to) other funds	\$ (30,744)	\$ -	\$ -	\$ -	\$ (30,744)	\$ 59,308
Contributions of capital assets from developers	\$ 1,083,356	\$ 1,183,720	\$ 334,754	\$ -	\$ 2,601,830	\$ -
Note: Reconciling cash and cash equivalents with the amounts on the fund statement of net position:						
Statement of net position	\$ 19,394,511	\$ 10,226,414	\$ 3,659,118	\$ 2,068,723	\$ 35,348,766	\$ 11,154,003
Less investments with maturity over 3 months	(607,425)	-	-	-	(607,425)	(211,677)
Cash flow statements	<u>\$ 18,787,086</u>	<u>\$ 10,226,414</u>	<u>\$ 3,659,118</u>	<u>\$ 2,068,723</u>	<u>\$ 34,741,341</u>	<u>\$ 10,942,326</u>

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

Statement of Fiduciary Net Position
 Fiduciary Funds
 December 31, 2013

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

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

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

Note 1. Summary of significant accounting policies

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

A. Reporting entity

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

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

B. Basic financial statements

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

Government-wide financial statements

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

Governmental activities, which generally are financed by taxes, inter-government revenues, and other nonexchange revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges to external parties for the goods or services they acquire from the City. Governmental activities include programs/ activities such as general government, public safety, streets, physical environment, transportation, culture and recreation, and health and welfare. Business-type activities, an integral part of the City's activities and responsibilities, include the City's Water utilities, Wastewater utilities, Stormwater utilities and Reclaimed Water utilities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment and may include indirect cost elements. As a general rule, the effect of interfund activity has been eliminated from the government-wide statements. Exceptions to this general rule are charges between the government's utilities functions and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Fund financial statements

Unlike government-wide financial statements, the focus of fund financial statements is directed to specific activities of the City rather than the City as a whole. The fund financial statements provide information about the government's funds, including its fiduciary funds. Separate statements for each fund category – governmental, proprietary, and fiduciary – are presented. The City's fiduciary funds are excluded from the government-wide financial statements, because resources of these funds cannot be used to finance the City's activities. However, the financial statements of fiduciary funds are included in the City's fund financial statements, because the City is financially accountable for those resources, even though they belong to other parties. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds. Major individual governmental and enterprise funds are reported as separate columns in the fund financial statements.

The government reports the following major governmental funds:

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

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

The *local improvement district (L.I.D.) bond redemption fund* was created to provide for the retirement of all local improvement district bonds issued for City facilities or equipment. Debt issued or bonds received without the guarantee of City tax revenues must depend on special assessments against property owners.

The City reports the following major enterprise funds:

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

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

The *stormwater utility fund* accounts for activities for the operations and maintenance of the City-owned storm drainage and flood control systems as well as the activities for the planning, design, property acquisition and construction of capital projects.

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

Additionally, the government reports the following fund types:

Internal services funds account for fleet management services and information management services provided to other departments within the City on a cost-reimbursement basis and include the following funds:

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

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

Fiduciary funds account for cash and investments held by the government on behalf of other governments in an agency capacity, which include Joint Animal Services fund, Interlocal Drug Unit fund, and Capital Area Regional Public Facilities District (CARPFD) fund.

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

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

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

The *governmental fund financial statements* are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

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

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

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

D. Budgetary Information

1. Scope of Budget

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

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

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

2. Amending the budget

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

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

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

1. Cash, deposits, and investments

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

on these investments is prorated to the applicable funds that report the underlying investments.

Investments for the City are reported at fair value, based on the fair market value at fiscal year end, except for the position in the State Treasurer's Local Government Investment Pool (LGIP). The LGIP operates in accordance with appropriate state laws and regulations (RCW 43.250.020). The LGIP is comparable to a Rule 2a-7 money market fund, as currently recognized by the Securities and Exchange Commission (17CFR.270.2a-7). Rule 2a-7 funds are limited to high quality obligations with limited maximum and average maturities, the effect of which is to minimize both market and credit risk. As such, investments are reported at amortized cost (which approximates fair value).

For purposes of the statement of cash flows, the City considers the investment in the LGIP to be cash and cash equivalents.

2. Receivables and payables

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

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

Special assessments are recorded when levied and are liens against the property benefited. Special assessments receivable consist of current and delinquent assessments. *Deferred assessments* on the fund financial statements consist of unbilled special assessments not due within one year.

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

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

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

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

Advances (long-term interfund loan) between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

4. Inventories and prepaid items

Inventories are assets held for internal consumption or for resale. Inventories in governmental funds are reported using purchases methods and expenditures are recognized when they are purchased.

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

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

5. Restricted assets and liabilities

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

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

Capital assets include property, plant, equipment, and infrastructure assets (i.e., roads, sidewalks and similar items), and are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets, other than the infrastructure assets, are defined by the government as assets with an initial, individual cost of \$5,000 or more (land is capitalized regardless of value), and an estimated useful life in excess of two years. For infrastructure assets the capitalization threshold is \$50,000 or more. Major outlays for capital assets and improvements are capitalized as projects are constructed. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. Interest incurred during the construction phase of capital assets of enterprise funds is included as part of the capitalized value of the assets constructed. The amount of interest capitalized depends on the specific circumstances.

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

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

The City implemented the general provisions of GASB Statement No. 34 in fiscal year 1999 and the infrastructure acquired prior to fiscal years ended after June 30, 1980, is reported. These assets were reported at estimated historical costs through back-trending method (i.e. estimating the current replacement cost of the infrastructure to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year).

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

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

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

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

7. Deferred outflows/inflows of resources

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

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

8. Compensated absences

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

Sick leave may accumulate up to 960 hours or as provided by contract. Upon retiring from employment with the City, AFSCME bargaining unit employees shall be paid for all accumulated sick leave beyond 60 days (480 hours) at the rate of 1 day (8 hours) of pay at his/her regular rate for each 3 days (24 hours) accumulated for a maximum payoff of forty-five (45) days sick leave (fifteen (15) days pay). Each January, if sick leave exceeds 60 days, the AFSCME bargaining unit employees also have the option to convert sick leave to vacation on a 3:1 ratio or they can trade three (3) days of sick leave for one (1) day of pay at this same time.

Accrued sick leave is considered immaterial and is not accrued. All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements. The liabilities for compensated absences are considered to be long-term liabilities and are included in Note 3.H. (Long-term liabilities).

9. Long-term liabilities

Long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities in the government-wide financial statements and in the proprietary fund type statement of net position. Bond premiums and discounts, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payables are reported net of the applicable bond premium or discount.

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

10. Fund balance, net position classifications and policies

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

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

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

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

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

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

F. Revenues, expenditures and expenses

1. Program revenues

Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements or a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

2. General revenues

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

3. Interfund transactions and interfund transfers

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

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

As a general rule, the effect of interfund activity within the same functional categories has been eliminated from the government-wide statement of activities. Our policy is not to eliminate the indirect costs portion of the direct charges for interfund services provided and used between functions. Direct expenses (i.e., engineering services provided and used) of the functional categories are included in the government-wide statement of activities while indirect expense allocations are eliminated. Exceptions to this general rule are charges between the government's utilities functions and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

4. Expenditures/expenses

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

5. Operating and nonoperating revenues and expenses

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

Note 2. Stewardship, compliance and accountability

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

Note 3. Detailed notes on all activities and funds

A. Deposits and investments

The City's deposits, including money markets and certificates are entirely covered by the federal depository insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (WPDP). The WPDP is a statutory authority established under Chapter 39.58 of the Revised Code of Washington.

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

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

Interest rate risk. In accordance with its investment policy, the City manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to less than 24 months. The interest rate risks of participants' balances in the LGIP are limited as the weighted average maturity of the portfolio will not exceed 60 days. As of December 31, 2013, the LGIP had a weighted average maturity of 57 days.

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

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

Amounts reported in the fund statements for the year ended December 31, 2013 are as follows:

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

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

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

B. Receivables and unearned and unavailable revenues

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

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

Description	Unearned Revenues
Deposits for advance reservations (general fund)	\$ 162,301
Traffic mitigation fees collected but earnings process not yet complete (arterial street fund)	1,828,853
Total unearned revenues for governmental funds	<u>\$ 1,991,154</u>

C. Property taxes

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

Taxes are levied annually on January 1 and become an enforceable lien against the properties. Property assessments are updated annually by the county assessor and are based on fair market value as of January 1. The County Assessor determines current market value of all property in Thurston County for tax purposes. Levy amounts are based on certified budgets submitted by taxing districts. Each year all properties are revalued to fair market value within one-sixth of the county being physically inspected. Appraisers use valid sales data and current replacement costs (based on labor and material, less depreciation) to arrive at fair market value. This ensures that each owner pays a proportional share of property taxes that support public services, such as schools, libraries, roads, fire, police, and emergency services.

Taxes are due in two equal installments on April 30 and October 31. Tax liens are automatic at the point the taxes are levied. No allowance for uncollectible taxes is established because delinquent taxes are considered fully collectible. The county treasurer remits collections monthly to the appropriate district.

The City is permitted by law to levy up to \$3.60 minus library rate of \$.50 and fire district rate of \$1.50 per \$1,000 of assessed valuation for general governmental services. This amount may be reduced for any of the following three reasons:

1. The Levy Limit: The levy limit calculation applies to a taxing district's budget, and not to increases in the assessed value or tax bill of individual properties. Washington State law (RCW 84.55.010) restricts individual taxing districts from collecting, in any year, more than one percent increase in their regular, non-voted, levy over the highest levy amount since 1985. New construction, annexations, and excess levies approved by the voters are not included in the levy limit calculation. If the assessed valuation increases by more than one percent due to revaluation, the levy rate will be decreased.

2. The One Percent Constitutional Limit: The Washington State Constitution limits the regular (non-voted) combined property tax rate applied to an individual's property to one percent (\$10 per \$1,000) of the market valuation. Voters may vote special levies that are added to this figure. If the taxes of all districts exceed this amount, each is proportionately reduced until the total is at or below the one-percent limit.

3. The City may voluntarily levy taxes below the legal limit. Special levies approved by the voters are not subject to the above limitations. The City's regular levy for 2013 was \$1.3173 per \$1,000 on an assessed valuation of \$4,076,496,444 for a total regular levy of \$5,370,029. Additionally, special levies for G.O. bond obligations totaled \$1,166,148.

D. Capital assets

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

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

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

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

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

Capitalized Interest Costs

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

Construction Commitments

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

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

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

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

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

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

E. Interfund loans and transfers

Loans/advances from/to other funds:

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

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

The interfund loans between Water and Wastewater funds were made in 2007 for capital acquisition purposes with interest rate equal to the state investment pool rate. In February 2012, the City's Resolution No. 982 adopted a definitive repayment schedule for the balance owed at that time. The minimum principal repayment shall be not less than \$400,000 annually, together with interest at a

rate equal to that earned on the City's investment in the Local Government Investment Pool, and full repayment of the loan balance no later than December 31, 2030. The principal repayment and interest paid amount in 2013 were \$602,676 and \$10,328, respectively.

Interfund transfers:

Interfund transfers activities for the year were as follows:

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

F. Restricted assets

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

<u>Purposes</u>	<u>Governmental Funds</u>	<u>Enterprise Funds</u>
Customer deposit	\$ 154,304	\$ 188,742
Revenue bonds covenants	-	607,425
Total	<u>\$ 154,304</u>	<u>\$ 796,167</u>

G. Leases

Capital Leases

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

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

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

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

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

<u>Year Ending December 31</u>	<u>Governmental Activities</u>
2014	27,509
2015	3,815
Total minimum lease payments	31,324
Less: amount representing interest	(961)
Present value of minimum lease payments	<u>\$ 30,363</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. The total operating lease expenditures for the year ended December 31, 2013 was \$4,208.

H. Long-term liabilities

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

General Obligation Bonds

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

General obligation bonds are direct obligations and pledge the full faith and credit of the government. Payments on voter approved bonds (unlimited) are funded from property tax levies. Non-voter approved bonds (limited) have been funded by other sources of revenues such as sales tax and transfers in. Variable-rate debt used was the effective interest rate as of December 31, 2013.

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

Description	Balance
2006 Limited Tax General Obligation Bonds issue amount of \$3,500,000; dated November 30, 2006; interest rate of 4% with final maturity date of December 1, 2021. <i>Issued to provide funds to construct an addition to City Hall. Payments are funded by sales tax and transfers in from other funds.</i>	\$ 2,235,000
2006 Unlimited Tax General Obligation Bonds issue amount of \$4,985,000; dated November 30, 2006; interest rate of 4% with final maturity date of December 30, 2026. <i>Issued to provide funds to make improvements to multiple park locations within the City, including improvements to athletic fields, swimming beaches and picnic facilities. Payments are funded by special property tax levies.</i>	3,810,000
2007 Limited Tax General Obligation Bonds issue amount of \$8,000,000; dated December 20, 2007; interest rate of 3.75-5.00% with final maturity date of December 1, 2027. <i>Issued to provide funds for phase 2 of the Regional Athletic Complex construction. Payments are funded with the sales and use tax levied by the Capital Area Regional Public Facilities District, pursuant to RCW 82.14.390. Interest rates are 4% in 2014-2015, 5% in 2016 & 2017; 3.75-3.90% in 2018-2021 and 4% in 2022-2027.</i>	6,295,000
2010 Unlimited Tax General Obligation Refunding Bonds issue amount of \$3,790,000; dated December 1, 2010; interest rates of 2.0-4.0% with maturity date of December 1, 2021. <i>Issued to advance refund a portion of the City's outstanding 2002 UTGO Bonds maturing on December 1 of the years 2012 through 2021 and to pay the costs of the refunding issuance. Interest rates are 2% in 2014, 3% in 2015-2017, 3.25% in 2018, and 4% in 2019-2021.</i>	3,095,000
2012 Unlimited Tax General Obligation Refunding Bonds issue amount of \$2,845,000; dated December 19, 2012; interest rates of 2.0-3.0% with maturity date of December 1, 2023. <i>Issued to advance refund a portion of the City's outstanding 2003 UTGO Bonds maturing on December 1 of the years 2014 through 2023 and to pay the costs of the refunding issuance.</i>	2,830,000
Total	\$ 18,265,000

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

Year Ending December 31	General Obligation Bonds	
	Governmental Activities	
	Principal	Interest
2014	\$ 1,390,000	\$ 664,055
2015	1,440,000	620,355
2016	1,495,000	571,455
2017	1,565,000	516,855
2018	1,615,000	459,755
2019 - 2023	7,475,000	1,418,066
2024 - 2027	3,285,000	313,400
Total	\$ 18,265,000	\$ 4,563,941

Revenue Bonds

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

Revenue bond outstanding as of December 31, 2013 is as follows:

Description	Balance
1997 Animal Services Revenue Bonds original issue amount of \$1,800,000; dated September 1997; original interest rate of 6%; refinanced at interest rate 3.978% in September 2003 with final maturity dated April 2019. Interest rate was re-priced in August 2013 at 3.1348% and is scheduled for repricing in August 2018. <i>Issued to provide funds for the acquisition, remodeling and equipping the joint animal service facility. Remaining payments are funded from the City of Olympia by an interlocal agreement.</i>	\$ 112,773
2013 Water and Sewer Revenue Bonds issue amount of \$8,290,000; dated November 19, 2013; original interest rates of 2.0%-4.5% with final maturity date of November 1, 2033. Issue to finance improvements to the Waterworks Utility and to fund a reserve account and pay the costs of issuance and sale of the bonds. Payments are funded by the revenues of the Waterworks Utility.	8,290,000
Total	\$ 8,402,773

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

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

Government Loans

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

Description	Balance
Washington State Treasurer LOCAL Program loan issued amount of \$1,122,033.27; dated March 29, 2012; interest rate of 1.54231%; maturity date June 1, 2019. Issued to provide funding for Simulcast/Narrowband Radio System acquisition for TCOMM 911. Payments are funded by TCOMM 911 by an interlocal agreement.	\$ 971,314
Total	\$ 971,314

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

Year Ending December 31	Government Loans Governmental Activities	
	Principal	Interest
	2014	\$ 153,764
2015	156,870	16,491
2016	160,039	13,321
2017	163,272	10,088
2018	166,571	6,790
2019	170,798	2,562
Total	<u>\$ 971,314</u>	<u>\$ 68,849</u>

Legal debt margin

The City is subject to a statutory debt limitation that is 7.5 percent of assessed value of taxable property. At December 31, 2013 that amount was \$305,737,233. As December 31, 2013 the total net outstanding debt applicable to this limit was \$18,391,299 which is 6.0 percent of the total debt limit.

Changes in long-term liabilities

The following is a summary of changes in long-term liabilities for the year ended December 31, 2013:

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

Internal service funds predominantly serve the governmental funds. Accordingly, long-term liabilities for them are included in the totals for governmental activities. For the governmental funds, long-term liabilities other than debt (i.e. compensated absences and other postemployment benefits) are generally liquidated in the general and other governmental funds. Internal service funds' compensated absences for \$53,470 is included in the above total for governmental activities.

Bond discounts and premiums:

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

Bond indentures:

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

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

Arbitrage:

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

I. Fund Balances

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

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

Assigned *:

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

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

J. Employee Pension Plans

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

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

Plan Description

The Legislature established PERS in 1947. Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior courts; employees of legislative committees; community and technical colleges, college and university employees not participating in higher education retirement programs; employees of district and municipal courts; and employees of local governments. Approximately 49 percent of PERS salaries are accounted for by state employment. PERS retirement benefit provisions are established in Chapters 41.34 and 41.40 RCW and may be amended only by the State Legislature.

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

PERS members who joined the system by September 30, 1977 are Plan 1 members. Those who joined on or after October 1, 1977 and by either, February 28, 2002 for state and higher education employees, or August 31, 2002 for local government employees, are Plan 2 members unless they exercised an option to transfer their membership to Plan 3. PERS members joining the system on or after March 1, 2002 for state and higher education employees, or September 1, 2002 for local government employees have the irrevocable option of choosing membership in either PERS Plan 1 or Plan 3. The option must be exercised within 90 days of employment. Employees who fail to choose within 90 days default to Plan 3.

PERS is comprised of and reported as three separate plans for accounting purposes: Plan 1, Plan 2/3, and Plan 3. Plan 1 accounts for the defined benefits of Plan 1 members. Plan 2/3 accounts for the defined benefits of Plan 2 members and the defined benefit portion of benefits for Plan 3 members. Plan 3 accounts for the defined contribution portion of benefits for Plan 3 members. Although members can only be a member of either Plan 2 or Plan 3, the defined benefit portions of Plan 2 and Plan 3 are accounted for in the same pension trust fund. All assets of this Plan 2/3 defined benefit plan may legally be used to pay the defined benefits of any of the Plan 2 or Plan 3 members or beneficiaries, as defined by the terms of the plan. Therefore, Plan 2/3 is considered to be a single plan for accounting purposes.

PERS Plan 1 and Plan 2 retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to the PERS Plan 1 and Plan 2 defined benefit plans accrue interest at a rate specified by the Director of DRS. During DRS' Fiscal Year 2013, the rate was five and one-half percent compounded quarterly. Members in PERS Plan 1 and Plan 2 can elect to withdraw total employee contributions and interest thereon upon separation from PERS-covered employment.

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

PERS Plan 1 members are eligible for retirement after 30 years of service, or at age of 55 with 25 years of service, or at the age of 60 with at least 5 years of service. Plan 1 members retiring from inactive status prior to the age of 65 may receive actuarially reduced benefits.

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

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

Plan 1 members may elect to receive an optional COLA that provides an automatic annual adjustment based on the Consumer Price Index. The adjustment is capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 1 provides duty and non-duty disability benefits. Duty disability retirement benefits for disablement prior to the age of 60 consist of a temporary life annuity. The benefit amount is \$350 a month, or two-thirds of the monthly AFC, whichever is less. The benefit is reduced by any workers' compensation benefit and is payable as long as the member remains disabled or until the member attains the age of 60, at which time the benefit is converted to the member's service retirement account.

A member with five years of covered employment is eligible for non-duty disability retirement. Prior to the age of 55, the benefit amount is 2 percent of the AFC for each year of service reduced by 2 percent for each year that the member's age is less than 55. The total benefit is limited to 60 percent of the AFC and is actuarially reduced to reflect the choice of a survivor option. Plan 1 members may elect to receive an optional COLA amount (based on the Consumer Price Index), capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 2 members are vested after the completion of five years of eligible service. Plan 2 members are eligible for normal retirement at the age of 65 with five years of service. The monthly benefit is 2 percent of the AFC per year of service. The AFC is the monthly average of the 60 consecutive highest-paid service months. There is no cap on years of service credit; and a cost-of-living allowance is granted (based on the Consumer Price Index), capped at 3 percent annually.

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

PERS Plan 2 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions, if hired prior to May 1, 2013:

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

PERS Plan 2 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of 5 percent for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service.

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

PERS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component and member contributions finance a defined contribution component. As established by Chapter 41.34 RCW, employee contribution rates to the defined contribution component range from 5 percent to 15 percent of salaries, based on member choice. Members who do not choose a contribution rate default to a 5 percent rate. There are currently no requirements for employer contributions to the defined contribution component of PERS Plan 3.

PERS Plan 3 defined contribution retirement benefits are dependent upon the results of investment activities. Members may elect to self-direct the investment of their contributions. Any expenses incurred in conjunction with self-directed investments are paid by members. Absent a member's self-direction, PERS Plan 3 contributions are invested in the Retirement Strategy Fund that assumes the member will retire at age 65.

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

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

Effective June 7, 2006, PERS Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years of service, if twelve months of that service are earned after age 44; or after five service credit years earned in PERS Plan 2 by June 1, 2003. Plan 3 members are immediately vested in the defined contribution portion of their plan.

Vested Plan 3 members are eligible for normal retirement at age 65, or they may retire early with the following conditions and benefits:

- If they have at least ten service credit years and are 55 years old, the benefit is reduced by an ERF that varies with age, for each year before age 65.
- If they have 30 service credit years and are at least 55 years old, and were hired before May 1, 2013, they have the choice of a benefit that is reduced by 3 percent for each year before age 65; or a benefit with a smaller (or no) reduction factor (depending on age) that imposes stricter return-to-work rules.

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

PERS Plan 3 benefits are actuarially reduced to reflect the choice, if made, of a survivor option. PERS Plan 2 and Plan 3 provide disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 monthly benefit amount is 2 percent of the AFC per year of service. For Plan 3, the monthly benefit amount is 1 percent of the AFC per year of service. These disability benefit amounts are actuarially reduced for each year that the member's age is less than 65, and to reflect the choice of a survivor option. There is no cap on years of service credit, and a cost-of-living allowance is granted (based on the Consumer Price Index) capped at 3 percent annually.

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

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

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

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

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

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

Funding Policy

Each biennium, the state Pension Funding Council adopts PERS Plan 1 employer contribution rates, PERS Plan 2 employer and employee contribution rates, and PERS Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statute at 6 percent for state agencies and local government unit employees, and at 7.5 percent for state government elected officials. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. Under PERS Plan 3, employer contributions finance the defined benefit portion of

the plan and member contributions finance the defined contribution portion. The Plan 3 employee contribution rates range from 5 percent to 15 percent.

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

The methods used to determine the contribution requirements are established under state statute in accordance with Chapters 41.40 and 41.45 RCW.

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2013, are as follows:

Members Not Participating in JBM:

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

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

** Plan 3 defined benefit portion only.

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

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

Year	PERS Plan 1	PERS Plan 2	PERS Plan 3
2013	\$ 13,184	\$ 891,535	\$ 192,792
2012	\$ 15,016	\$ 742,434	\$ 165,692
2011	\$ 26,435	\$ 623,989	\$ 143,598

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

Plan Description

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

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

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

LEOFF retirement benefits are financed from a combination of investment earnings, employer and employee contributions, and a special funding situation in which the state pays through legislative appropriations. Employee contributions to the LEOFF Plan 1 and Plan 2 defined benefit plans accrue interest at a rate specified by the Director of DRS. During DRS' Fiscal Year 2013, the rate was five and one-half percent compounded quarterly. Members in LEOFF Plan 1 and Plan 2 can elect to withdraw total employee contributions and interest earnings, in lieu of any retirement benefit, upon separation from LEOFF-covered employment.

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

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

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

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

LEOFF Plan 1 provides death and disability benefits. Death benefits for survivors of Plan 1 members on active duty consist of the following: (1) If there is an eligible spouse, 50 percent of the FAS, plus 5 percent of the FAS for each eligible surviving child, with a limitation on the combined benefit of 60 percent of the FAS; or (2) If there is no eligible spouse, eligible children receive 30 percent of the FAS for the first child plus 10 percent for each additional child, subject to a 60 percent limitation of the FAS, divided equally.

A one-time duty-related death benefit is provided to the beneficiary or the estate of a LEOFF Plan 1 member who dies as a result of injuries or illness sustained in the course of employment, or if the death resulted from an occupational disease or infection that arose naturally and proximately out of the member's covered employment, if found eligible by the Department of Labor and Industries.

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

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

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

LEOFF Plan 2 provides disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 benefit amount is 2 percent of the FAS for each year of service. Benefits are reduced to reflect the choice of survivor option and for each year that the member's age is less than 53, unless the disability is duty-related. If the member has at least 20 years of service and is age 50, the reduction is 3 percent for each year prior to age 53.

A disability benefit equal to 70 percent of their FAS, subject to offsets for workers' compensation and Social Security disability benefits received, is also available to those LEOFF Plan 2 members who are catastrophically disabled in the line of duty and incapable of future substantial gainful employment in any capacity. Effective June 2010, benefits to LEOFF Plan 2 members who are catastrophically disabled include payment of eligible health care insurance premiums.

Members of LEOFF Plan 2 who leave service because of a line of duty disability are allowed to withdraw 150 percent of accumulated member contributions. This withdrawal benefit is not subject to federal income tax. Alternatively, members of LEOFF Plan 2 who leave service because of a line of duty disability may be eligible to receive a retirement benefit of at least 10 percent of FAS and 2 percent per year of service beyond five years. The first 10 percent of the FAS is not subject to federal income tax.

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

A one-time duty-related death benefit is provided to the beneficiary or the estate of a LEOFF Plan 2 member who dies as a result of injuries or illness sustained in the course of employment, or if the death resulted from an occupational disease or infection that arose naturally and proximately out of the member's covered employment, if found eligible by the Department of Labor and Industries.

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

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

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

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

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

Funding Policy

Employer and employee contribution rates are developed by the Office of the State Actuary to fully fund the plans. Starting on July 1, 2000, Plan 1 employers and employees contribute zero percent, as long as the plan remains fully funded. Plan 2 employers and employees are required to pay at the level adopted by the LEOFF Plan 2 Retirement Board.

The Legislature, by means of a special funding arrangement, appropriates money from the state General Fund to supplement the current service liability and fund the prior service costs of Plan 2 in accordance with the recommendations of the Pension Funding Council and the LEOFF Plan 2 Retirement Board. This special funding situation is not mandated by the state constitution and could be changed by statute. For DRS' Fiscal Year 2013, the state contributed \$54.2 million to LEOFF Plan 2.

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

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2013, are as follows:

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

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

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

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

K. Postemployment benefits other than pensions (OPEB)

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

1. LEOFF I Retiree Medical Plan

Plan Description. The City's Disability Board, in conjunction with the City's Human Resources department, administers a single-employer defined benefit healthcare plan (LEOFF 1 Retiree Health Plan). The plan provides lifetime healthcare benefits for retired full-time and fully compensated law enforcement officers who established membership in the LEOFF 1 plan retirement system on or before September 30, 1977 in accordance with Washington Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF) Act (RCW 41.26.150). The last employer of a retired LEOFF 1 member is responsible for the full cost of any post-retirement medical benefits. The plan covers retirees who are retired on disability as well as are retired after reaching age requirements. As of December 31, 2013, the plan has thirteen (13) retired members and no active members. The LEOFF 1 Retiree Health Plan does not issue a publically available financial report.

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

Funding policy. These medical benefits are funded on a pay-as-you-go basis through the general fund and paid out of police department budget. Health insurance premiums and long-term care insurance premiums are paid monthly. Other medical services are paid as billings are presented for reimbursement. The City reimbursed 100 percent of the amount of validated claims for medical costs incurred by these individuals. Amounts paid from 2011 through 2013 by the City are as follows:

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

Annual OPEB Cost and Net OPEB Obligation. The City's OPEB cost (expense) is calculated based on the annual required contribution (ARC) of the employer. The City has elected to use the alternative measurement method permitted under GASB statement No. 45 for employers in plans with fewer than one hundred total plan members, utilizing the interactive tool developed by the Office of the State Actuary (OSA) for use by local governments. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed fifteen years. The Federal Patient Protection and Affordable Care Act levies a 40 percent excise tax on employer for the value of health plan costs that exceed certain thresholds starting in the year 2018. The City used the medical inflation trend that included the excise tax in the cost calculation.

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

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

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for fiscal year 2013 and the two preceding fiscal years are as follows:

Fiscal year Ended	Annual OPEB Cost	Annual OPEB Cost Contributed	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
12/31/2013	\$ 490,794	\$ 186,776	38%	\$ 1,163,443
12/31/2012	\$ 352,934	\$ 221,821	63%	\$ 859,425
12/31/2011	\$ 369,602	\$ 201,704	55%	\$ 728,312

Funding Status and Funding Progress. As of December 31, 2013, the actuarial accrued liability for benefits was \$5,934,055 all of which was unfunded. The covered payroll (total annual amount for police department benefits) was \$1,864,751, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 318 percent.

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

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

A single *retirement age* of 56.24 was assumed for all remaining active member for the purpose of determining the actuarial accrued liability (AAL) and normal cost. *Retirement, disablement, termination and mortality rates* were assumed to follow the LEOFF1 rates used in the June 30, 2011 actuarial valuation report issued by the by the Office of the State Actuary (OSA). *Healthcare costs and trends* were determined by Milliman and used by OSA in the state-wide LEOFF 1 medical study performed in 2013. The results were based on grouped data with 4 active groupings and 4 inactive groupings. *The actuarial cost method* used to determine the actuarial accrued liability was Projected Unit Credit. The AAL and NOO are amortized on an open basis as a level dollar over 15 years. These assumptions are individually and collectively reasonable for the purposes of this valuation.

The expected *medical inflation trend* assumption, with the federal excise tax, for members over age 65, starts at 7.5 percent in 2013, peaks at 12.9 percent in 2017, and decreases to an ultimate rate of 4.6 percent in 2089. Comparatively, the medical inflation trend assumption, for members under age 65, starts at 7.5 percent in 2013, peaks at 24.7 percent in 2017, and decreases to an ultimate rate of 6.2 percent in 2018. The expected long-term care inflation trend is 4.5 percent for all years. *Payroll growth rate* due to inflation was assumed at 4.5 percent per year and is reduced by the payroll each member that leaves active service.

2. Association of Washington Cities Employee Benefit Trust (“Trust”) – Non-LEOFF1 Retiree Medical Plan

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

Funding Policy. The Trust provides that contribution requirements of participating employers and of participating employees, retirees and other beneficiaries, if any, are established and may be amended by the Board of Trustees of the Trust. Retirees of the City receiving medical benefits from the Trust contribute the following monthly amounts for 2013 valuation year:

AWC HealthFirst® 1000

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

AWC HealthFirst® 2500

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

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

L. Contingencies

Litigation

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

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

Contingencies under grant provisions

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

M. Risk management

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

Utilizing Chapter 48.62 RCW (self-insurance regulation) and Chapter 39.34 RCW (Interlocal Cooperation Act), nine cities originally formed WCIA on January 1, 1981. WCIA was created for the purpose of providing a pooling mechanism for jointly purchasing insurance, jointly self-insuring, and/or jointly contracting for risk management services. WCIA has a total of 162 members.

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

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

Insurance coverage for property, automobile physical damage, fidelity, inland marine, and boiler and machinery are purchased on a group basis. Various deductibles may apply by type of cover-

age. Property insurance and auto physical damages are self-funded from the members' deductible to \$750,000, for all perils other than flood and earthquake, and insured above that amount by the purchase of reinsurance.

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

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

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

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

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

N. Interlocal agreements and joint ventures

Capital Area Regional Public Facilities District (CARPFD).

In 2003, the City of Lacey entered into a contract with the Capital Area Regional Public Facilities District (CARPFD) for the acquisition, development, operation and maintenance of the Lacey Area Athletic, Recreation and Special Events Complex. The CARPFD imposes a sales and use tax pursuant to RCW 82.14.390 to repay financing obtained to fund the design, construction, acquisition, operation and maintenance of the complex project. The monies collected as sales taxes shall only be used for the purposes permitted under RCW 82.14.390 and RCW 35.57.020. In 2012, the City of Lacey received \$935,278 in sales taxes levied by the CARPFD and is accounted for within the Regional Athletic Complex Operating Fund and Regional Athletic Complex Capital Fund.

Interlocal Drug Unit

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

Total net position, as of December 31, 2013 was \$186,442. Any party may withdraw from this Agreement by giving ninety (90) days written notice to the other parties. Monies contributed during the calendar year of a party's withdraws will be returned to that party, on a prorated basis, after determination by the Executive Committee of any purchase commitments made prior to the notification of a party's withdrawal. Money so refunded will be used by the withdrawing party for its use in carrying

out drug enforcement activities pursuant to Ch. 69.50 RCW. Property purchased with the drug unit funds or forfeited to the drug unit will remain the property of the non-withdrawing parties and the withdrawing party will have no interest in or claim of title to said property. All monies and equipment remain with the drug unit until the drug unit disbands entirely. Disposition and disbursement of net equity upon dissolution is not specified in the agreement, therefore, is not recorded in the City of Lacey's financial statements. There is no ongoing financial responsibility.

Completed financial statements can be obtained from the City of Lacey Finance Department, 420 College Street SE, Lacey, WA 98503.

Joint Animal Services

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

An equity interest exists and is based on total contributions to-date by the cities of Lacey, Olympia, Tumwater, and the Thurston County. The net position, as of December 31, 2013 was \$3,840,244. The City of Lacey has a 16.69 percent share of the equity as of December 31, 2013. The City of Lacey reports its share of equity interest as investment in joint venture, in the government-wide statement of net position.

An ongoing financial interest exists for the City of Lacey, the City of Olympia, the City of Tumwater, and Thurston County for loan proceeds borrowed for the purpose of purchasing/constructing the Martin Way animal shelter. The agreement specifies the funding formula that allocates costs based on serviced animal cases and population per jurisdiction in the prior year. For 2013 the City of Lacey's contribution for the annual agreement was \$233,562 and is accounted for within the general fund. The City of Olympia has responsibility to contribute annual assessments for the remaining loan balance until April 2019.

Completed Financial Statements can be obtained from the City of Lacey Finance Department, 420 College Street SE, Lacey, WA 98503.

Law Enforcement Records Management System (LERMS)

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

An equity interest exists for the cities of Lacey, Olympia, Tenino, Tumwater, and Yelm. Net position as of December 31, 2013, was \$152,268. As of December 31, 2013, the City of Lacey has a 39% share of the equity. The City of Lacey reports its share of equity interest as an investment in joint venture, in the government-wide statement of net position.

An ongoing financial interest exists for the cities of Lacey, Olympia, Tenino, Tumwater, and Yelm. The agreement specifies a funding formula that annually assesses member cities based on current

year population as determined by the Thurston Regional Planning Council (unless otherwise adjusted by the Consortium). All property is considered to be jointly owned. Parties will be reimbursed based on their contribution upon sale of property upon the dissolution of LERMS. Any member may withdraw from the agreement at the end of any calendar year, providing a notice to the Consortium no less than six months prior to the date of withdrawal. Withdrawal of a party will not terminate the agreement of the remaining parties.

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

The following is condensed financial information on joint ventures for which the City has equity interest as of December 31, 2013:

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

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

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

LOTT Clean Water Alliance (“LOTT”)

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

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

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

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

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

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

O. Accounting and Reporting Changes

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

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

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

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

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll* ©	UAAL as a Percentage of Covered Payroll [(b-a)/c]
12/31/2013	\$ 0	\$ 5,934,055	\$ 5,934,055	0.0%	\$ 1,864,751	318%
12/31/2012	0	4,166,686	4,166,686	0.0%	1,792,676	232%
12/31/2011	0	4,130,053	4,130,053	0.0%	1,701,702	243%

Notes to the Required Supplemental Information

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



ABOUT THE STATE AUDITOR'S OFFICE

The State Auditor's Office is established in the state's Constitution and is part of the executive branch of state government. The State Auditor is elected by the citizens of Washington and serves four-year terms.

We work with our audit clients and citizens as an advocate for government accountability. As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

The State Auditor's Office employees are located around the state to deliver services effectively and efficiently.

Our audits look at financial information and compliance with state, federal and local laws on the part of all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits of state agencies and local governments and fraud, whistleblower and citizen hotline investigations.

The results of our work are widely distributed through a variety of reports, which are available on our Web site and through our free, electronic subscription service.

We take our role as partners in accountability seriously. We provide training and technical assistance to governments and have an extensive quality assurance program.

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