

City of Lacey, Washington  
**2004 Comprehensive Annual  
Financial Report**  
for the year ended December 31, 2004

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# City of Lacey, Washington

## Comprehensive Annual Financial Report

### For the Year Ended December 31, 2004



PREPARED BY THE FINANCE DEPARTMENT

**BLAINE L. MARTIN**  
FINANCE DIRECTOR

**TIMOTHY McGUIRE**  
FINANCIAL SERVICES MANAGER

**PAMELA MEREDITH**  
ACCOUNTING MANAGER

**CHUN K. SAUL, CPA**  
SENIOR ACCOUNTANT



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**Comprehensive Annual Financial Report  
Of The City of Lacey, Washington  
For The Year Ending December 31, 2004**

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# INTRODUCTORY SECTION

# INTRODUCTORY SECTION



## CITY COUNCIL

VIRGIL S. CLARKSON  
*Mayor*  
NANCY J. PETERSON  
*Deputy Mayor*  
ANN BURGMAN  
JOHN DARBY  
MARY DEAN  
THOMAS L. NELSON  
GRAEME SACKRISON

CITY MANAGER  
GREG J. CUOIO

June 1, 2005

Honorable Mayor and City Councilmembers  
To the Citizens of Lacey, Washington:

The Comprehensive Annual Financial Report of the City of Lacey for the fiscal year ended December 31, 2004, is submitted herewith. We believe the information, as presented, is accurate in all material aspects. That it is presented in a manner designed to set forth fairly the financial position and results of operations of the City as measured and reported by the financial activity of its various funds. That all disclosures necessary to enable the reader to gain an adequate understanding of the City's financial affairs have been included. Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, including all disclosures, rests with city management.

This letter of transmittal is designed to compliment the Management's discussion and analysis (MD&A) and should be read in conjunction with it. The MD&A can be found immediately following the auditor's report.

### **Financial Statement Presentation**

This report was prepared by the City's Finance Department in accordance with generally accepted accounting principles (GAAP) and is intended to provide sufficient information to permit the assessment of stewardship and accountability, to demonstrate legal compliance, and to provide management control.



The Comprehensive Annual Financial Report is presented in three sections: introduction, financial, and statistical. This introductory section includes the letter of transmittal, our City's governmental organizational structure, and a list of principal officials. The financial section includes Management's Discussion and Analysis, Government-wide Financial Statements, Fund Financial Statements, Notes to the Financial Statements, and Other Required Supplemental information. The statistical section includes selected financial and demographic information,

generally presented on a multi-year basis.

This report includes all funds and agencies that are controlled by, or dependent on, the city's administrative and legislative authority.

## Profile of the Government

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

The City of Lacey provides a full range of municipal services either directly or through contracts. The City provides police, parks and recreation, planning and zoning, building inspection, street maintenance and construction, engineering and general administrative services. The City also operates enterprise funds for water and wastewater services and storm water management.



Emergency medical, fire suppression and inspection services are provided under contract with Lacey Fire District 3. By agreement with Thurston County, Olympia, and Tumwater, Lacey provides administrative support services to Joint Animal Services and the Thurston County Drug Enforcement Task Force.

Incorporated in 1966, Lacey is the twenty-eighth largest of 281 cities in the state of Washington. It is located approximately 60 miles south of Seattle on Interstate 5 and encompasses an area of 16.27 square miles. The cities of Olympia and Tumwater are adjacent to Lacey, and together, the three cities constitute the major population center within Thurston County. Lacey has grown from a population of 7,650 in 1967 to a 2004 population of 32,530.

## City Highlights

- Following voter approval of a \$9.98 million parks development bond issue, the first major project at the 46 acre Rainier Vista Park located on 45<sup>th</sup> Avenue has been completed. Improvements will begin very soon on other existing City park facilities. Grants totaling \$575,000 were awarded for Rainier Vista and Wonderwood Parks improvements.
- Lacey's partnership with Thurston County for the development of a Regional Athletic, Recreation, and Special Events Complex has become a reality with the completion of the first phase. Phase 2 improvements will be funded by revenues from the newly formed Public Facilities District and Lacey voter approved Parks Improvement Bonds. Design work for the second phase is now completed.



- In partnership with Lacey Fire District 3, Lacey voters approved bonds for the constructions of two satellite stations and a new headquarters station. These three buildings have been completed. New firefighting equipment has also been acquired with bond funds.
- 2004 initiated the first Farmers' Market...Lacey's Market on the Green...located at Huntamer Park in the Central Business District.
- By the close of 2004, Univera, Shipwreck Beads, Callison's,

Parametrix, Harborstone Credit Union, and the Cancer Care Center were situated in their new locations with Regal Cinemas, Ramblin Jack's, the Ram, Twin County Credit Union headquarters facilities under construction. Also announced was the construction of Home Depot, to be partnered with other significant retail outlets, on the former DNR property at Marvin Rd. and Martin Way.

- Awarded a \$240,000 IAC Grant for field lighting at the Regional Sports Complex.
- A matching grant of \$408,000 was received from IAC for the acquisition and rail banking of the Burlington Northern RR running parallel to Pacific Avenue. Negotiations were concluded in late 2004 and the closing on the purchase of the three mile right of way will take place in January 2005.



- Secured grant funds for intersection improvements at 22<sup>nd</sup> Avenue and Ruddell Road and enhanced the annual street overlay program by \$500,000.

- Illuminated street signs were installed at key intersections throughout the City.



- A \$2.5 million Mullen Road im-

provements. transportation grant was awarded to Lacey for

- The City operates three utilities that provide water, wastewater, and stormwater services. During 2004, Lacey and LOTT (regional wastewater treatment partnership) began construction of the area's first satellite wastewater treatment plant.

- The City acquired the Betti Water System, adding 460 acre feet of additional water rights to Lacey's system and upgraded the Evergreen Well to optimize water production at 700 gpm. A new well was also constructed to provide redundancy in the Madrona well field.



- Constructed a new 8,400 square foot Equipment Maintenance Building and a 1,600 square foot maintenance building at Rainier Vista Park.
- Completed plans and specifications for improvements to Yelm Highway and the 6<sup>th</sup> Avenue realignment.

**Economic Outlook**

Lacey's economy is predominately retail/commercial and service oriented. State government is the single largest employer in the region. Additional employment is provided by regional employers such as St. Peter's Hospital, North Thurston Public Schools, Target Stores import/distribution center, Home Depot distribution center, Fred Meyer, Wal-Mart, Weyerhaeuser container factory, Ostrom Mushroom Company, VeriSign, Port of Olympia, State Farm, and Intel. Economic influence of nearby Fort Lewis Army Post and McChord Air Force Base has been present for some time in the Lacey area. Lacey is also the home to Panorama City, a large-scale, full-service retirement community, and St. Martin's College and abbey/seminary.

Mutual Materials and Spring Air are the two largest manufacturing firms situated in the Meridian Campus planned community still under development in northeast Lacey. This development contains zoning for light industrial, commercial/retail use, and 2,800 residential units.



Construction is now completed for the headquarters and production facilities of Callisons, a mint-oil producer. Univara has moved into temporary quarters until they begin construction of a new headquarters/research and development campus next to Callisons.

Jenamar Development has begun the development of several hundred acres directly west of Meridian Campus known as the Hawks Prairie Planned Community. The development includes an 18-hole golf course adjacent to The Links (Vicwood) golf course. They will share a future clubhouse. The master plan identifies a conference center, 500-650 multi-family units, 1,000-1,300 single family homes and 334 acres of light industrial development.

Under new ownership, the former Home Base site is now being redeveloped with Regal Cinemas being the first to announce its intent to occupy a portion of the building. The new cinemas plan to open in the summer of 2005. Other retail and restaurant tenants are anticipated to follow. The former Smith Furniture building (neighbor to the former Home Base building) is now owned and occupied by Home Furniture stores.



Lacey's comprehensive plans have focused on preparing for the anticipated growth of the Thurston County urban area. This region of the state offers a beautiful physical setting and quality of life. Lacey must now prepare to serve a larger and more economically diverse community. Increased employment and housing equate to more pressure on the City's infrastructure and services. Responding to these demands requires reliable sources of revenue and their efficient application. This has become a challenge since the property tax referenda. However, revenue and expenditure receipts for fiscal year 2004 were able to adjust and absorb the impact of these changes without restriction of services.

Fiscal year 2004 ended with sales receipts reaching a new all time high of \$5.5 million. Utility tax revenues performed stronger than in prior years. The consistent growth in sales and utility taxes mirrors Lacey's overall growth. The City's regular property tax levy, which has been restricted in prior years to the \$3.10 levy rate declined for the fourth year to \$2.69 in 2004 due to the added value from new construction and general growth in property values.



All City resources are being managed efficiently and year-end fund balances remain strong.

The council and administration remain concerned about Lacey's fiscal environment. Considerable effort and time is being spent on enhancing the revenue generation potential of the central business district and future contributions from the emerging Hawks Prairie area. Council and staff have set specific goals and objectives to ensure the development of revenues to match growing demands.

## Major Initiatives

### *Mission Statement*

*Our mission is to enrich the quality of life in Lacey for all our citizens . . . to build an attractive, inviting, culturally diverse and secure community.*

*We pledge to work in partnership with our residents to foster community pride, to develop a vibrant, diversified economy, to plan for the future, and to preserve and enhance the natural beauty of our environment.*

Councilmembers seek and welcome input from citizens. They also participate in organized outreach efforts to inform Lacey's residents about issues facing their community. Regularly scheduled City Council meetings are now televised on Thurston Community Television (cable channel 3). The City continues to periodically produce its *LaceyLive* television programs. These programs focus on current issues, topics, and services that impact our community. The City also publishes a newsletter called *LaceyLife* for distribution to each household as well as to those living within its urban boundaries. This publication is produced five to six times each year. In addition to the above, periodic neighborhood association meetings are hosted by the City to discuss issues of importance to residents.



When citizens are asked about essential government services, certainly the functions of public safety especially police, fire, and emergency medical services are the first to be identified. A feeling of safety and freedom of movement around our community is critical to a quality of life. Lacey's police department has directed significant resources toward crime prevention and other outreach programs. One of the most significant programs allocates three commissioned personnel as Resources Officers assigned to local high and middle schools. Other outreach programs achieving success include CRIME STOPPERS, the Multi-Housing Crime Prevention program, Senior Patrol,

traffic enforcement emphasis, and Citizen Police Academies.

The City contracts with Lacey Fire District No. 3 for fire suppression and emergency medical services. As a result of this on-going partnership since 1966, the citizens of Lacey have the most cost-effective and quality service available to any community in the state. The current contract has been extended to the end of 2005. The City and District have completed an aggressive capital improvement program following voter approval authorizing an excess levy for each jurisdiction to sell \$5.99 million in general obligation debt. This joint effort funded the construction of two new fire sub-stations in Lacey, build a new headquarters station also located in Lacey, and provided additional fire apparatus including a ladder truck to be purchased.



Significant time and resources are dedicated each year to updating and refining adopted comprehensive land use plans. The water comprehensive plan update has been completed and the sewer comprehensive plan update is in progress. From time to time, specific areas of the community were targeted for master planning in cooperation with property owners. Annual amendments are adopted each July.

The City continues to focus significant resources on the challenge of maintaining the City's transportation infrastructure. The City's six year Transportation Improvement Plan identifies each project and the anticipated source of funds. Efforts to improve traffic flow in the central business district have been rewarded with the construction of a \$6 million one-way couplet. Other significant improvements are in progress for Yelm Highway, College Street to Ruddell Road; and, Carpenter Road.



Lacey Councilmembers have dedicated much time and energy to the challenges facing youth living in and around our community. They have combined their efforts with

members of North Thurston Public Schools Board of Directors by forming the Lacey Area Youth Task Force. A partnership with TOGETHER! provides a very successful biweekly social activity for middle school age youth. The Council's WIN (Work Involvement Now) program was developed to provide youth groups and organizations opportunities to earn money for their activities by performing service to the community. These programs continue to be very popular and effective.

The City continues to qualify for the fourteenth consecutive year as Tree City USA, and a Groundwater Guardian Community.

## RISK MANAGEMENT

The City of Lacey is a member of the Washington Cities Insurance Authority (the "Authority"), which includes 111 other local governments in the State of Washington. Coverage includes general, automobile, police professional, public officials' errors or omissions, stop gap, and employee benefits liability. Limits are \$3 million per occurrence self insured layer, and \$11 million per occurrence in the re-insured excess layer with no annual aggregate except \$10 million per member for public officials errors and omissions. The excess layer is insured by the purchase of reinsurance and insurance. Total limits are \$14 million per occurrence. The Board of Directors determines the limits and terms of coverage annually.

In addition to the liability insurance provided by the Authority, the City has established its own self-insurance fund that can be used for risk management items not included in the Authority's coverage. The City also has up to \$75,000,000 in earthquake insurance and \$50,000,000 in flood insurance; each policy has a 2 percent per site deductible.

## OTHER INFORMATION

### Independent Audit

State statute requires an annual audit by the Washington State Auditor's Office. In addition to meeting the requirements set forth in state statutes, the audit also was designed to meet the requirements of the Federal Single Audit Act amendments of 1996 and related Office of Management and Budget Circular A-133. The auditor's opinion letter on the general-purpose financial statements is included in the financial section of this report. The complete auditor's report is available at the City of Lacey Finance Department.

### Awards and Acknowledgments

The City's comprehensive annual financial report for the fiscal year ended December 31, 2003 qualified for a Certificate of Achievement for Excellence in Financial Reporting from the Government Finance Officers Association of the United States and Canada (GFOA). This is the highest form of recognition in governmental accounting reporting. The City of Lacey has received this award for five years. In order to be awarded a Certificate of Achievement, a must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.



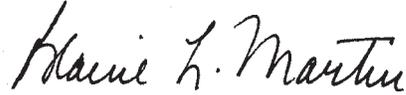
A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of



Achievement Program's requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

Preparation of this report could not have been accomplished without the professional, efficient, and dedicated services of the staff of the Finance Department. Appreciation is also extended to the City Manager and Council for their encouragement, interest, and support in conducting financial operations for the City in a sound and progressive manner. The efficient assistance of examiners from the office of the State Auditor is also appreciated.

Respectfully submitted,



Blaine L. Martin  
Finance Director

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Lacey,  
Washington

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
December 31, 2003

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



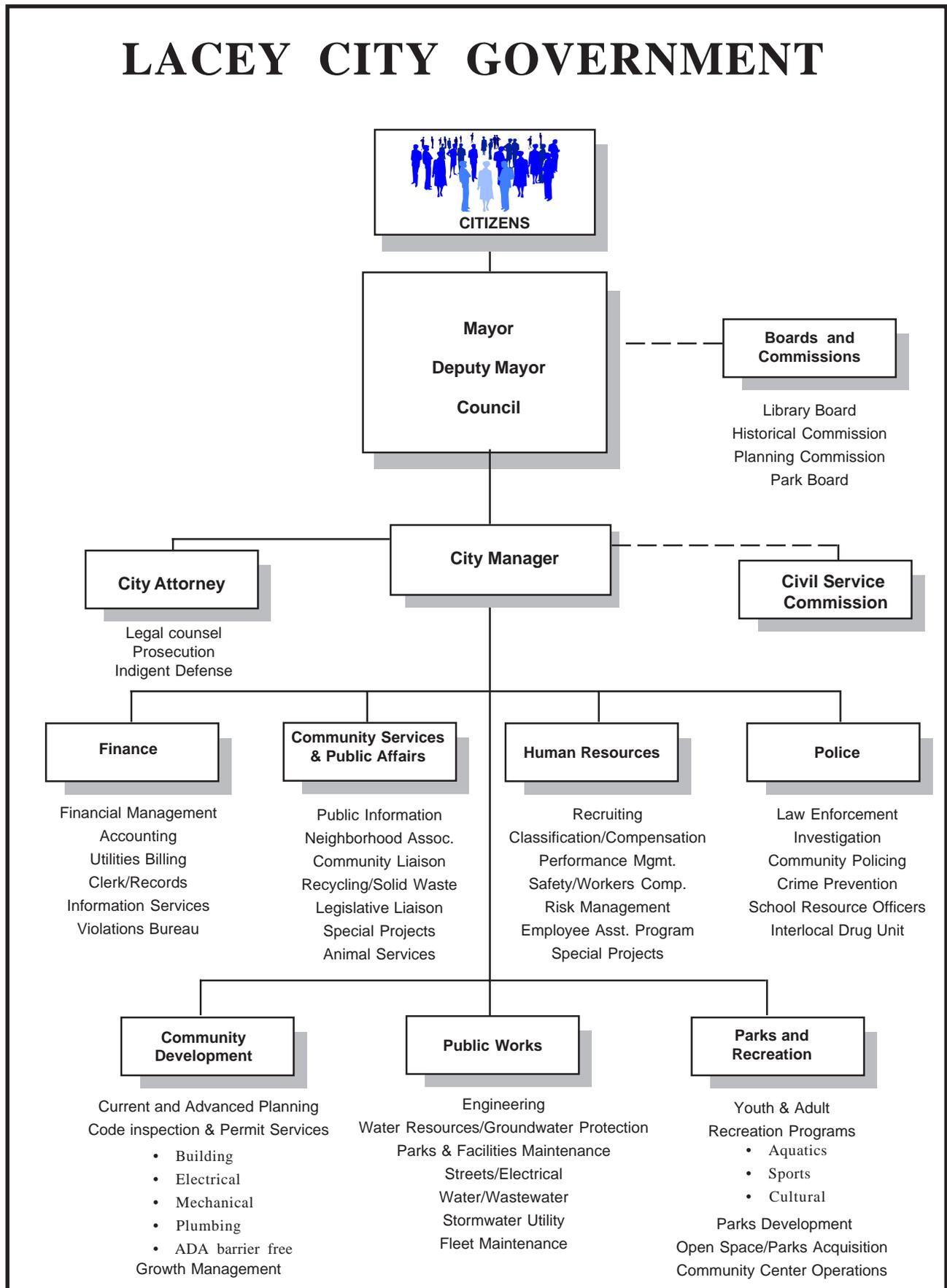
*Nancy L. Zielke*

President

*Jeffrey R. Emer*

Executive Director

# LACEY CITY GOVERNMENT



**CITY OF LACEY, WASHINGTON**

**Mayor**

Virgil Clarkson                      Term - Dec. 2005

**Deputy Mayor**

Nancy Peterson                      Term - Dec. 2007

**Council**

Ann Burgman                      Term - Dec. 2005  
John Darby                      Term - Dec. 2005  
Mary Dean                      Term - Dec. 2007  
Thomas Nelson                      Term - Dec. 2007  
Graeme Sackrison                      Term - Dec. 2005

**City Manager**

Greg J. Cuoio

**ADMINISTRATION**

Scott H. Spence	Assistant City Manager
Kenneth R. Ahlf	City Attorney
Jerald R. Litt	Community Development Director
Blaine L. Martin	Finance Director
Merri A. Lannoye	Human Resource Director
Jim L. Sheler	Parks & Recreation Director
Lawrence Dickerson	Police Chief
Dennis E. Ritter	Public Works Director

# FINANCIAL SECTION

# FINANCIAL SECTION



Sunset Building  
PO Box 40021  
Olympia, Washington 98504-0021

**Washington State Auditor**  
**Brian Sonntag**

(360) 902-0370  
FAX (360) 753-0646  
TDD Relay 1-800-833-6388  
<http://www.sao.wa.gov>

**INDEPENDENT AUDITOR'S REPORT**

June 3, 2005

Mayor and City Council  
City of Lacey  
Lacey, Washington

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Lacey, Thurston County, Washington, as of and for the year ended December 31, 2004, as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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 City of Lacey, as of December 31, 2004, and the respective changes in financial position and cash flows, where applicable, thereof, for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 3-1 through 3-12 and budgetary comparison information on pages 5-1 through 5-2 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying information listed as combining financial statements and supplemental information on pages 6-1 through 7-18 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The combining financial statements and supplemental information has been subjected to auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The information identified in the table of contents as the Introductory and Statistical Sections has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

Sincerely,

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

**BRIAN SONNTAG, CGFM**  
STATE AUDITOR

# MANAGEMENT DISCUSSION & ANALYSIS

# MANAGEMENT DISCUSSION & ANALYSIS

## Management's Discussion and Analysis

The City of Lacey's discussion and analysis is designed to:

1. assist the reader in focusing on significant financial issues;
2. provide an overview of the City's financial activity;
3. identify changes in the City's financial position (its ability to address the next and subsequent year challenges);
4. identify any material deviations from the financial plan, the adopted budget; and,
5. identify individual fund issues or concerns.

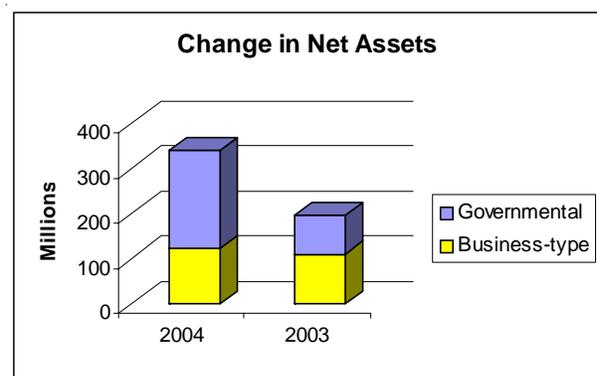
Since the Management's Discussion and Analysis (MD&A) is designed to focus on the report year's activities, resulting changes and currently known facts, please read it in conjunction with the Transmittal Letter found in the introductory section (1) on page 1-1 and the City's financial statements found in the basic financial statement section (4) starting on page 4-1.

### FINANCIAL INFORMATION

The City's government-wide financial statements have been prepared on the full-accrual basis of accounting in conformity with generally accepted accounting principles (GAAP). The City's fund financial statements for governmental funds (General, Special Revenue, Debt Service, and Capital Projects) have been prepared on the modified accrual basis of accounting in conformity with GAAP. The City's proprietary funds (Enterprise and Internal Service) are accounted for on the accrual basis. A detailed discussion on Government-wide and Fund financial statements can be found on pages 3-2 to 3-4.

### Financial Highlights

- The assets of the City of Lacey exceeded its liabilities at December 31, 2004 by \$351,908,090. Of this amount, \$57,567,707 may be used to meet the government's ongoing obligations to citizens and creditors.
- The City of Lacey's total net assets increased \$156,039,277. Prior to implementation of the new reporting model (GASB 34) infrastructure assets (primarily roads, rights of way, and lighting systems) were not reported as capital assets of the city. Approximately 95% of the increase results from the addition of infrastructure assets and developer contributed assets in the water, wastewater, and stormwater funds.
- At the close of the fiscal year, the City of Lacey's governmental funds reported combined ending funds of \$26,803,423, a decrease of \$831,874 in comparison with the prior year. Approximately 99% of this amount is available for spending at the government's discretion. These monies are intended to provide a cushion against significant downturns in revenues and to maintain sufficient working capital and cash flow to meet daily financial needs. Other reserves have been designated by management to address annual budget amendments, furniture and equipment replacement, major building repairs, street improvements, property acquisitions, and future facilities. These reserves assist to minimize future debt.
- At the end of the current fiscal year, unreserved fund balances for the general fund was \$12,987,097, or 68% of general fund expenditures.
- From the Statement of Activities, General Revenues, primarily from property, sales,



- utility, and general taxes were used to support the following major activities:
- a. \$3,365,589 for General Government purposes – Administration, Finance, Facilities, and City Council;
  - b. \$11,031,236 for Security of Persons and Property – Police, Fire, Violations, and Code Enforcement;
  - c. \$2,364,842 for Physical Environment – Engineering, Building and Electrical Code Enforcement; and,
  - d. \$1,737,414 for Culture & Recreation - Parks programs, Facility and Grounds Maintenance, and Community Buildings.

**Using This Annual Report**

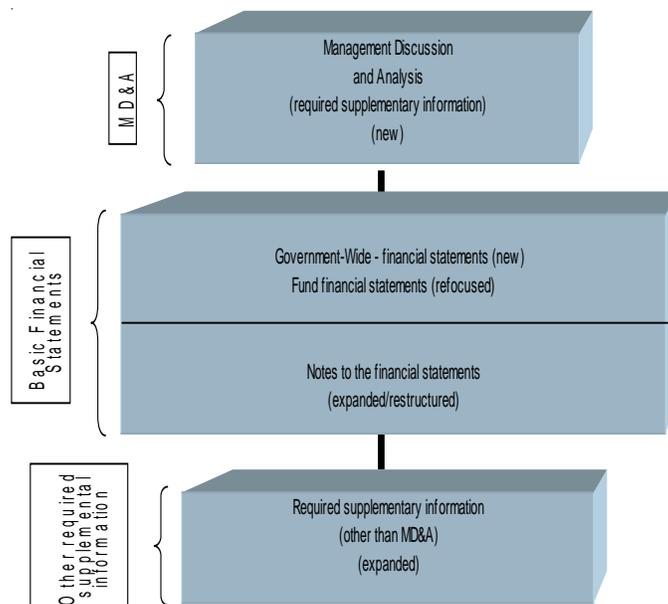
The financial statement’s focus is on both the City as a whole (government-wide) and on the major individual funds. Both perspectives allow the user to address relevant questions, broadens a basis for annual comparisons or comparability with other governments, and enhances the City’s accountability. The following graphic is provided to illustrate the composition of the reports.

The primary focus of Lacey’s financial statements since the time of incorporation was to summarize fund type information. With this new report, the old method has been discarded. The new focus is on both the City as a whole (government-wide) and the major individual funds. Providing both perspectives (government-wide and major fund) allows the user to address relevant questions, broaden a basis for comparison whether year to year or government to government, and enhance the City’s accountability.

**Government-Wide Financial Statements**

The government-wide financial statements (see basic financial statement section (4) pages 4-1 to 4-3) are designed to be corporate-like in that all governmental and business-type activities are consolidated into columns which add to a total for the Primary Government. The focus of the Statement of Net Assets (the “Unrestricted Net Assets”) is designed to be similar to a bottom line for the City and its governmental and business-type activities. This statement combines and consolidates governmental fund’s current financial resources (short-term spendable resources) with capital assets (note: infrastructure will be phased in) and long-term obligations.

The Statement of Activities (see basic financial statement section (4) pages 4-2 to 4-3) is focused on both the gross and net cost of various activities (including governmental and business-type) which are provided by the government’s general tax and other revenues. This is intended to summarize and simplify the user’s analysis of cost of various governmental services and/or subsidy to various business-type activities.



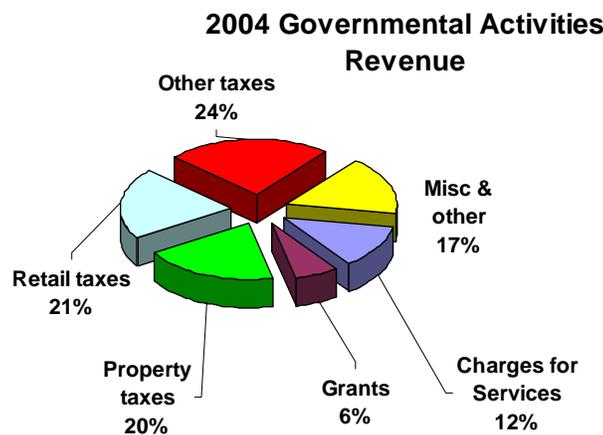
The Governmental Activities reflects the City’s basic functions: General Government; Security of Persons and Property; Physical Environment; Transportation; Economic Environment; and Mental and Physical Health. Property, sales, and utility taxes finance the majority of these functions. The Business-type Activities reflect private sector type operations (e.g., Water, Wastewater, and Stormwater), where the fee for service typically covers all or most of the cost of operation including depreciation.

**Fund Financial Statements**

Traditional users of governmental financial statements will find the Fund Financial Statements presentation more familiar. The focus is now on Major Funds, rather than types. A Major Fund is defined in the following manner:

- a. Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least ten percent (10%) of the corresponding total (assets, liabilities, etc.) for all funds of that category or type (that is, total governmental or total enterprise funds); and
- b. Total assets, liabilities, revenues, or expenditures/expenses of the individual government fund or enterprise fund are at least five percent (5%) of the corresponding total for all governmental and enterprise funds combined; or,
- c. Any other governmental or enterprise fund the government’s officials believe is particularly important to financial statement users.

The Government Major Fund (see basic financial statement section (4) pages 4-4 to 4-8) disclosure is presented on a sources and uses of liquid resources basis. This is the manner in which the budget is typically developed. The flow and availability of liquid resources is a clear and appropriate focus of any analysis of government. Funds are established for various purposes and financial statement presentation of uses and/or budgetance associated. These statements required supplementation section (5)



The City has two Enterprise Funds, Enterprise and Internal Service. The City uses Enterprise to account for its water, and activities. Internal Service Funds are used to account for the City’s fleet vehicles and information management systems. Enterprise Funds are presented as Business-type Activities in the Fund Financial Statements. Internal Service Funds were established to accumulate and allocate costs for the benefit of the City’s internal functions. They have been included in the Governmental Activities in the Government-wide Financial Statements.

The Fund Financial Statements also allow the government to address its Fiduciary or Agency responsibilities (see basic financial statement section (4) page 4-16). While these Agency Funds represent trust responsibilities of the government, these assets are restricted in purpose and do not represent discretionary assets of the government. Therefore, these assets are not presented as part of the Government-wide Financial Statements.

The Total column on the Business-type Fund Financial Statements (see basic financial statement section (4) pages 4-9 to 4-13) is reconciled to the Business-type column at the Government-wide Financial Statements when they are different. The Governmental Major Funds Total column required reconciliation because of the different measurement focus (current financial resources versus total economic resources) which is reflected on the page following each statement (see basic financial statement section (4) pages 4-6 & 4-8). The flow of current financial resources will reflect bond proceeds and interfund transfers as other financial sources as well as capital expenditures and bond principal payments as expenditures. The reconciliation will eliminate these transactions and incorporate the capital assets and long-term obligation into the Government Activities column (in the Government-wide Statements).

### Government-Wide Statement

The overall financial position has improved for the City of Lacey as compared to the prior year. An analysis of the Statement of Net Assets and Statement of Activities follows:

### Statement of Net Assets

The following table reflects the condensed Statement of Net Assets compared to the prior year.

Table 1  
Statement of Net Assets (in Millions)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2004	2003	2004	2003	2004	2003
Current and other assets	\$ 46.8	\$ 47.7	\$ 17.9	\$ 18.6	\$ 64.7	\$ 66.3
Capital assets	205.0	63.1	109.4	97.8	314.4	160.9
Total assets	<u>\$ 251.8</u>	<u>\$ 110.8</u>	<u>\$ 127.3</u>	<u>\$ 116.4</u>	<u>\$ 379.1</u>	<u>\$ 227.2</u>
Payables	\$ 2.0	\$ 1.4	\$ 0.9	\$ 1.0	\$ 2.9	\$ 2.4
Long-term Debt	21.9	24.4	2.4	4.6	24.3	29.0
Total liabilities	<u>\$ 23.9</u>	<u>\$ 25.8</u>	<u>\$ 3.3</u>	<u>\$ 5.6</u>	<u>\$ 27.2</u>	<u>\$ 31.4</u>
Net assets:						
Invested in capital, net of debt	\$ 184.9	\$ 40.6	\$ 107.2	\$ 93.2	\$ 292.1	\$ 133.8
Restricted	1.2	0.5	1.0	-	2.2	0.5
Unrestricted	41.8	43.9	15.8	17.6	57.6	61.5
Total net assets	<u>\$ 227.9</u>	<u>\$ 85.0</u>	<u>\$ 124.0</u>	<u>\$ 110.8</u>	<u>\$ 351.9</u>	<u>\$ 195.8</u>

For more detailed information see basic financial statement section (4) page 4-1 of the Statement of Net Assets.

### Normal Impacts

There are six basis (normal) transactions that will affect the comparability of the Statement of Net Assets summary presentation.

Net Results of Activities – which will impact (increase/decrease) current assets and unrestricted

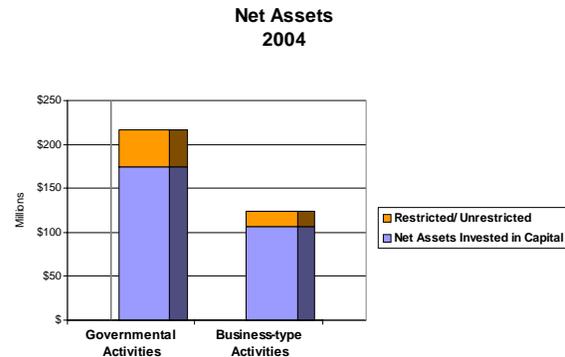
net assets.

Borrowing for Capital – which will increase current assets and long-term debt.

Spending Borrowed Proceeds on New Capital –which will reduce current assets and increase capital assets. There is a second impact, an increase in capital assets and an increase in related net debt which will not change the investment in capital assets, net of debt.

Principal Payment on Debt – which will (a) reduce current assets and reduce long-term debt and (b) reduce unrestricted net assets and increase investment in capital assets, net of debt.

Reduction of Capital Assets through Depreciation – which will reduce capital assets and invested in capital assets, net of debt.



### Current Year Impacts

#### Governmental Activities:

- Net capital assets (spending on capital assets) increased from \$63.1 to \$205 million for a total increase of \$142.0 million. The City of Lacey is utilizing the phase in period for infrastructure assets. \$140.7 million of the increase is for current and prior year infrastructure additions. Significant additions in Capital Assets are discussed under the Capital Assets & Debt Administration section of the MD&A and within the Notes to the Financial Statements (Note 6).
- The net decrease in long-term debt (borrowing for capital) was \$4.8 million. Long-term debt payable and changes in long-term debt are discussed in detail within the Notes to the Financial Statements (Note 14).

#### Business-type Activities:

- Net capital assets (spending on capital assets) increased from \$97.8 to \$109.4 million for a total increase of \$11.6 million.

#### Statement of Activities

The following schedule compares the revenues and expenses for the current and previous fiscal year.

Table 2  
Changes in Net Assets  
(In Million)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2004	2003	2004	2003	2004	2003
<b>Revenues</b>						
<b>Program Revenues:</b>						
Charges for services	\$ 3.9	\$ 3.0	\$ 16.4	\$ 15.1	\$ 20.3	\$ 18.1
Operating grants and contributions	2.0	1.5	-	-	2.0	1.5
Capital grants and contributions	11.5	5.1	12.0	3.6	23.5	8.7
<b>General revenues:</b>						
Property taxes	6.3	6.4	-	-	6.3	6.4
Retail taxes	6.6	5.9	-	-	6.6	5.9
Business taxes	5.0	4.4	-	-	5.0	4.4
Excise	2.7	2.0	-	-	2.7	2.0
Interest and investment earnings	1.2	1.3	0.3	0.3	1.5	1.6
Miscellaneous	3.8	5.1	0.2	0.5	4.0	5.6
<b>Total revenues</b>	<b>\$ 43.0</b>	<b>\$ 34.7</b>	<b>\$ 28.9</b>	<b>\$ 19.5</b>	<b>\$ 71.9</b>	<b>\$ 54.2</b>
<b>Program expenses including indirect expenses:</b>						
General government	\$ 3.7	\$ 3.7	\$ -	\$ -	\$ 3.7	\$ 3.7
Security of persons and property	12.0	9.2	-	-	12.0	9.2
Physical environment	2.4	2.2	-	-	2.4	2.2
Transportation	7.9	3.7	-	-	7.9	3.7
Economic environment	1.0	1.0	-	-	1.0	1.0
Culture and recreation	3.3	3.0	-	-	3.3	3.0
Interest on long-term debt	0.9	1.0	-	-	0.9	1.0
Water	-	-	6.4	5.4	6.4	5.4
Wastewater	-	-	7.4	7.1	7.4	7.1
Stormwater	-	-	1.4	1.8	1.4	1.8
<b>Total expenses</b>	<b>\$ 31.2</b>	<b>\$ 23.8</b>	<b>\$ 15.2</b>	<b>\$ 14.3</b>	<b>\$ 46.4</b>	<b>\$ 38.1</b>
<b>Increase in net assets before transfers</b>						
	11.8	10.9	13.7	5.2	25.5	16.1
<b>Transfers</b>	<b>0.4</b>	<b>-</b>	<b>(0.4)</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Change in net assets</b>	<b>\$ 12.2</b>	<b>\$ 10.9</b>	<b>\$ 13.3</b>	<b>\$ 5.2</b>	<b>\$ 25.5</b>	<b>\$ 16.1</b>
<b>Net Assets - Beginning Balance (Restated)</b>						
	\$ 215.7	\$ 74.1	\$ 110.7	\$ 105.6	\$ 326.4	\$ 179.7
<b>Net Assets - Ending Balance</b>	<b>\$ 227.9</b>	<b>\$ 85.0</b>	<b>\$ 124.0</b>	<b>\$ 110.8</b>	<b>\$ 351.9</b>	<b>\$ 195.8</b>

## Normal Impacts

There are nine basic impacts on revenues and expenses as reflected below.

### Revenues:

Economic Condition – Various indicators can reflect a declining, stable or growing economic environment and can have a substantial impact on property, sales, gas or other tax revenue as well as public spending habits for building permits, elective user fees and volumes of consumption.

Increase/Decrease in Council approved rates – While certain tax rates are set by statute, the City Council has significant authority to impose and periodically increase/decrease rates (water, wastewater, permitting, recreation user fees, etc.).

Increase/Decrease in Voter approved rates – Washington voters approved an initiative that limits property tax levy increases to 1% of the prior year's levy (excluding adjustments for new construction). This limitation became effective with property tax levies for 2002.

Changing Patterns in Intergovernmental and Grant Revenues (both recurring and non-recurring) – Certain recurring revenues (state revenue sharing, block grants, etc.) may experience significant changes periodically while non-recurring (or one-time) grants are less predictable and often distorting in their impact on year to year comparisons.

Market Impacts on Investment Income – The City's investment portfolio is heavily dependent on the performance of the Local Government Investment Pool managed by the State Treasurer's Office. Other funds are competitively placed with local financial institutions for longer periods of time. Both investment avenues are subject to market conditions that may cause investment income to fluctuate.

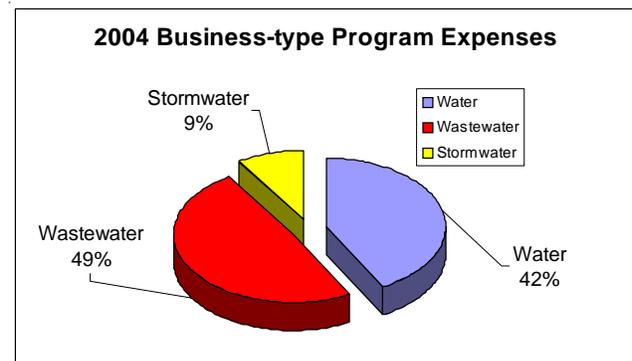
### Expenses:

Changes in Services – Within the functional expense categories (general government, security of persons & property, transportation, etc.), individual programs may be added or deleted to meet changing community needs.

Changes in Personnel – Changes in service demand may cause the Council to increase/decrease authorized staffing. Staff costs (salary and related benefits) represent 53% of the City's operating costs.

Salary Increases (cost of living, step increases, and market adjustments) – The City's ability to attract and retain human and intellectual resources requires that the City strive to approach a competitive salary range position in the marketplace.

Inflation – The cost of goods and services provided to the City may experience increases due to inflation.



### Current Year Impacts

#### Governmental Activities:

- Capital Grants and Contributions increased \$6.47 million. The majority of the increase occurred in the transportation program, of which included the developer contributed capital assets.

#### Business-type Activities:

- Operating revenues increased 8.86% and operating expenses increased 6.39% resulting in no significant change in operating income.

### The City Funds

#### Governmental Funds

The governmental funds, as presented on the balance sheets in the basic financial statement section (4) pages 4-4 to 4-5, reported a combined fund balance of \$26,803,423 that is 3% or \$831,874 lower than the beginning of the year.

##### Arterial Street Fund:

- Total assets increased by \$1,695,700, from \$4,593,107 to \$6,288,807, due to reduced activities in street projects. Total expenditures incurred were \$1.98 million, and total revenues including grants and mitigation amounted to \$2.65 million.

##### Parks and Open Space Fund:

- Total assets decreased by \$1,412,140, from \$4,300,885 to \$2,888,745, due to increased expenditures for park improvements. Total expenditures incurred were \$3,579,521, and the total revenues amounted to \$1,729,069.

##### Community Development Block Grant Fund:

- The Fund deficit of \$295,880 is a result of costs associated with the construction of the Senior Center. As CDBG program dollars are cycled back to the City from various housing grants, the shortfall will be recovered.

##### Building Improvement Fund:

- Total Assets decreased by \$3,642,568, from \$3,808,606 to \$1,166,038, due to the costs of constructing two new fire stations and fire equipment, and the construction of equipment rental building facility.

#### Business Type Funds

Lacey's enterprise operations are comprised of water, wastewater, and stormwater utilities. An updated Water Comprehensive Plan was completed and adopted by the Council in 2004. The City's Wastewater Comprehensive Plan was completed by the end of 1998 and was officially adopted by the Council in early 1999. An update of this plan is currently underway and should be completed by the end of 2005. The statement located in the basic financial statement section (4) on page 4-12 summarizes the total revenue, expenses and net income (loss) for each of the enterprise funds in 2004.

Wastewater treatment has been processed at a regional facility operated by the City of Olympia. By the end of 1999, Lacey, Olympia, Tumwater and Thurston County entered into an agreement to form the LOTT Alliance, a non-profit organization that will own and operate this regional wastewater treatment facility. Each participating jurisdiction has a designated representative on the LOTT Alliance board of directors. A transfer of assets to the new Alliance took place on July 1, 2002. The new LOTT Alliance will contract with the City of Olympia to operate the treatment facility and perform accounting and treasurer functions until other arrangements are made.

Water Utility Fund - Beginning in 2001 the City adopted a new water rate schedule that placed more emphasis on conservation. During 2004 the resident customer using 900 cubic feet of water saw a \$0.39 or 2.52% increase over 2004. The 2005 rate will increase 2.52% over 2004.

Wastewater Utility Fund – The LOTT rate for 2004 remained at \$25.50. The City increased its fee by \$0.25 per month to \$4.00. In 2005 the fee will increase to by \$0.25 per month to \$14.25.

### Budgetary Highlights

The following is a brief review of the budgeting changes from the adopted original budget to the amended final budget and from the amended final budget to actual for the general fund. Please note budget to actual comparisons for all budgets start on page 5-1 of the required supplemental information section (5).

- \$76,950 contract and professional services
- \$10,000 litigation provided by the city attorney
- \$43,575 allocated to the police department to cover time spent on investigations
- \$58,855 provided for unexpected common facility rentals, liability insurance and utility costs
- \$80,168 allocated to the parks maintenance department for added costs to bring Rainier Vista park online.
- \$15,500 primarily allocated to parks & recreation for youth and teens program costs and unanticipated costs to replace equipment
- \$220,000 transfer out to cover cost of senior center construction change orders

The total increase in expenditures totaled \$523,713. Of this increase, \$104,948 was funded with sales tax receipts; \$170,000 by an increase in permit application revenues and \$15,500 from increased grant revenues. The remaining balance was budgeted from available fund balances.

## Capital Assets and Debt Administration

### Capital Assets

While the City has elected to early implement the major model portions of GASB Statement #34, the City is phasing in implementing the infrastructure. Final implementation of infrastructure assets will be done in 2005. Historically, a government's largest group of assets (e.g., roads, traffic signals, street lighting, etc.) have not been reported nor depreciated in government financial statements. This new statement requires that these assets be valued and reported within the Government column of the Government-wide Statements. The government has elected to depreciate these assets over their estimated useful life.

As of year-end, the City had invested \$314,432,461 in a variety of capital assets as illustrated in Note 6. A net increase of \$130,579,643 or 86% was realized from the prior year.

Table 3  
Capital Assets at Year-end  
(Net of Depreciation)

	Governmental Activities		Business-type Activities		Totals	
	2004	2003	2004	2003	2004	2003
Land and						
Improvements	\$ 81,233,073	\$ 12,900,099	\$ 3,913,986	\$ 3,214,082	\$ 95,147,059	\$ 16,114,181
Buildings	9,192,830	8,589,875	1,412,328	1,449,403	10,605,158	10,039,278
Improvements	666,043	766,267	103,306,142	92,453,142	103,972,185	93,219,409
Infrastructure	95,341,681	32,960,334	-	-	95,341,681	32,960,334
Machinery and						
Equipment	2,298,820	2,338,038	556,240	655,698	2,855,060	2,993,736
Construction						
in Progress	6,043,671	5,374,674	252,333	112,425	6,296,004	5,487,099
Joint Venture	215,314	191,587	-	-	215,314	191,587
<b>Total</b>	<b>\$ 204,991,432</b>	<b>\$ 63,120,874</b>	<b>\$ 109,441,029</b>	<b>\$ 97,884,750</b>	<b>\$ 314,432,461</b>	<b>\$ 161,005,624</b>

The following reconciliation summarizes the change in Capital Assets, which is presented in detail in section (4) on pages 4-29 and 4-30 of the notes.

Table 4  
Change in Capital Assets

	Governmental Activities	Business-type Activities	Total
Beginning Balance			
as Previously Reported	\$ 63,120,874	\$ 97,884,750	\$ 161,005,624
Prior Period Adjustment	131,111,374	(45,659)	131,065,715
Beginning Balance (restated)	194,232,248	97,839,091	292,071,339
Additions	18,498,034	14,596,132	33,094,166
Depreciation	(7,456,378)	(2,878,959)	(10,335,337)
Retirements	(964,644)	(130,307)	(1,094,951)
Depreciation	682,172	15,072	697,244
<b>Total</b>	<b>\$ 204,991,432</b>	<b>\$ 109,441,029</b>	<b>\$ 314,432,461</b>

The retirement in the construction work-in-progress is equally reflected as an addition to Capital Assets.

This year's major additions are:

Government Activities:

- Improvements to the 45<sup>th</sup> Avenue Park
- Construction of Equipment Rental Building
- Purchase of rail road right of way.

- d. Vehicle and Information Systems hardware replacements
- e. Addition of prior year infrastructure assets
- g. Addition of prior year infrastructure assets

Business-type Activities:

- a. Purchase of Betti well & water rites.
- b. Addition of developer contributed water, wastewater, and storm water lines

**Debt Administration**

The City of Lacey is authorized to issue debt pursuant to the Acts of the State of Washington. The City has three types of debt issues outstanding: general obligation, revenue, and special assessment debt. With voter approval, the City can issue debt up to 2.5 percent of the assessed valuation. Without a vote, the City can incur debt up to an amount equal to 1.5 percent of the assessed valuation of taxable property within the City. The combination of unlimited tax and limited tax general obligation debt for all purposes cannot exceed 7.5 percent of assessed valuation. Further, voted indebtedness is permitted for water, artificial lights, and sewerage up to 2.5 percent of assessed valuation, with an additional 2.5 percent available for acquiring open space for parks facilities. Table 8 in the statistical section illustrates the City's Limitation of Indebtedness.

The ratios of general obligation debt to assessed valuation and the amount of debt per capita are useful to citizens, management and investors as indicators of the City's debt position. The City's total debt and debt ratios for the last ten years are illustrated on Table 7 in the statistical section of this report.

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

The City is authorized to issue revenue bonds to finance capital improvements for its various enterprise activities, requiring only a majority approval vote of the Council. The City has a revenue bond coverage ratio requirement of 120% of maximum annual debt. For the year ended December 31, 2004 this debt ratio was 296%. Ratios for prior years can be found in the statistical section on Table 11.

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

**Debt Outstanding**

As of year-end, the City had \$21,864,692 in long-term governmental activity debt, which in-

cludes internal service fund debt. It also had \$2,368,986 in long-term business-type debt outstanding. (See Note 14 in the footnotes.)

### **Economic Factors**

The State of Washington, by constitution, does not have a state personal income tax and therefore the state operates primarily using property, sales, business and occupation, and gasoline taxes. Local governments (cities, counties, school districts) primarily rely on property and a limited array of permitted other taxes (sales, utility, business and occupation) and fees (franchise, occupational licenses, etc.) for their government activities. There are a limited number of state-shared revenues and recurring and non-recurring grants from both the state and federal government.

For the business-type and certain governmental activities (permitting, recreation programs, etc.) the user pays a related fee or charge associated therewith.

The level of taxes, fees and charges for services (including development related mitigation fees) will have a bearing on the specific City's competitive ability to encourage retail, office, residential, and industrial development to locate in their jurisdiction. The City places significant emphasis on encouraging economic development with family wage paying jobs. There are three cities in north Thurston County with Lacey being the second largest. Even so, approximately 34% of the county's population live outside of any city limits.

The letter of transmittal includes a detail discussion on the economic outlook of Lacey's economy. (Starting on page 1-3)

### **Financial Contact**

The City's financial statements are designed to present users with a general overview of the City's finances and to demonstrate the City's accountability. If you have questions about this report or need additional financial information, contact the City's Finance Department, 420 College Street, P.O. Box 3400, Lacey, Washington 98509-3400.

# BASIC FINANCIAL STATEMENTS

# BASIC FINANCIAL STATEMENTS

Statement of Net Assets  
December 31, 2004

	Primary Government		Total
	Governmental Activities	Business-Type Activities	
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ 7,511,308	\$ 13,184,565	\$ 20,695,873
Investments	24,825,000	-	24,825,000
Receivables (Net)	14,434,780	1,356,301	15,791,081
Internal Balances	(87,792)	87,792	-
Inventories	-	50,625	50,625
Prepayments	9,700	-	9,700
Deferred Charges	-	12,937	12,937
Capital Assets:			
Restricted:			
Cash and Cash Equivalents	75,026	3,200,023	3,275,049
Non-Depreciable	97,492,058	4,166,319	101,658,377
Depreciable, net	107,499,374	105,274,710	212,774,084
Total assets	<u>\$ 251,759,454</u>	<u>\$ 127,333,272</u>	<u>\$ 379,092,726</u>
<b>LIABILITIES</b>			
Accounts Payable	\$ 1,743,383	\$ 904,884	\$ 2,648,267
Interest Payable	182,168	8,651	190,819
Deferred Revenue	103,750	-	103,750
Unamortized Premium	-	8,122	8,122
Long-Term Liabilities	-	-	-
Due within one year	1,412,681	1,045,500	2,458,181
Due in more than one year	15,262,011	1,323,486	16,585,497
Special Assessment Debt	-	-	-
Due within one year	730,000	-	730,000
Due in more than one year	4,460,000	-	4,460,000
Total liabilities	<u>\$ 23,893,993</u>	<u>\$ 3,290,643</u>	<u>\$ 27,184,636</u>
<b>NET ASSETS</b>			
Invested in Capital, net of related debt	\$ 184,941,612	\$ 107,181,029	\$ 292,122,641
Restricted for:			
Debt service	-	1,048,810	1,048,810
Capital projects	71,493	-	71,493
Other Purposes	1,097,439	-	1,097,439
Unrestricted (Deficit)	41,754,917	15,812,790	57,567,707
Total net assets	<u>\$ 227,865,461</u>	<u>\$ 124,042,629</u>	<u>\$ 351,908,090</u>

The Accompanying Notes Are An Integral Part Of This Statement

Statement of Activities  
For The Year Ended December 31, 2004

Functions/Program	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants & Contributions
Primary government:				
Governmental activities:				
General government	\$ 3,730,367	\$ 364,778	\$ -	\$ -
Security of persons and property	12,042,671	283,062	728,373	-
Physical environment	2,380,253	15,411	-	-
Transportation	7,967,273	954,294	454,887	11,466,953
Economic environment	1,015,216	1,517,737	-	64,970
Mental and physical health	6,572	-	-	-
Culture and recreation	3,265,826	759,912	768,500	-
Interest on long-term debt	925,249	-	-	-
<b>Total governmental activities</b>	<b>\$ 31,333,427</b>	<b>\$ 3,895,194</b>	<b>\$ 1,951,760</b>	<b>\$ 11,531,923</b>
Business-type activities:				
Water	\$ 6,398,856	\$ 6,781,902	\$ -	\$ 4,575,686
Wastewater	7,445,200	8,247,508	-	5,177,214
Stormwater	1,441,934	1,380,469	-	2,245,915
<b>Total business-type activities</b>	<b>\$ 15,285,990</b>	<b>\$ 16,409,879</b>	<b>\$ -</b>	<b>\$ 11,998,815</b>
<b>Total primary government</b>	<b>\$ 46,619,417</b>	<b>\$ 20,305,073</b>	<b>\$ 1,951,760</b>	<b>\$ 23,530,738</b>

General revenues:  
 Taxes:  
 Property taxes  
 Timber taxes  
 Retail taxes  
 Business taxes  
 Excise taxes  
 Penalties & interest  
 Interest and investment earnings  
 Miscellaneous  
 Transfers

Total general revenues, special items, and transfers

Change in net assets

Net assets - beginning (restated)

Net assets - ending

The Accompanying Notes Are An Integral Part of This Statement

Net(Expense)Revenues and Changes in Net Assets		
Primary Government		
Governmental Activities	Business-Type Activities	Total
\$ (3,365,589)	\$ -	\$ (3,365,589)
(11,031,236)	-	(11,031,236)
(2,364,842)	-	(2,364,842)
4,908,861	-	4,908,861
567,491	-	567,491
(6,572)	-	(6,572)
(1,737,414)	-	(1,737,414)
(925,249)	-	(925,249)
<u>\$ (13,954,550)</u>	<u>\$ -</u>	<u>\$ (13,954,550)</u>
\$ -	\$ 4,958,732	\$ 4,958,732
-	5,979,522	5,979,522
-	2,184,450	2,184,450
<u>\$ -</u>	<u>\$ 13,122,704</u>	<u>\$ 13,122,704</u>
<u>\$ (13,954,550)</u>	<u>\$ 13,122,704</u>	<u>\$ (831,846)</u>
\$ 6,371,694	\$ -	\$ 6,371,694
144	-	144
6,610,103	-	6,610,103
5,015,472	-	5,015,472
2,673,674	-	2,673,674
9,822	-	9,822
1,188,617	317,537	1,506,154
3,840,632	263,785	4,104,417
401,612	(401,612)	-
<u>\$ 26,111,770</u>	<u>\$ 179,710</u>	<u>\$ 26,291,480</u>
\$ 12,157,220	\$ 13,302,414	\$ 25,459,634
<u>\$ 215,708,241</u>	<u>\$ 110,740,215</u>	<u>\$ 326,448,456</u>
<u>\$ 227,865,461</u>	<u>\$ 124,042,629</u>	<u>\$ 351,908,090</u>

Balance Sheet  
Governmental Funds  
December 31, 2004

	General	Arterial Street	L.I.D. Redemption	Parks and Open Space	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>						
Current cash & cash equivalents	\$ 1,593,901	\$ 54,581	\$ 70,399	\$ 68,082	\$ 389,078	\$ 2,176,041
Investments	9,420,000	6,035,000	600,000	2,255,000	6,515,000	24,825,000
Receivables (net of allowances)						
Taxes	161,624	-	-	-	25,936	187,560
Customer accounts	931,338	9,478	-	91,143	741,429	1,773,388
Accrued interest & penalty	33,771	17,094	1,005	2,676	58,175	112,721
Interfund loans receivable	121,880	-	-	-	-	121,880
Due from other governmental units	1,281,388	172,654	1,067,143	471,254	221,479	3,213,918
Prepayments	9,700	-	-	-	-	9,700
Restricted assets:						
Cash deposits	74,436	-	-	590	-	75,026
Advances due from other funds	174,000	-	-	-	-	174,000
Special assessments deferred	-	-	9,066,963	-	-	9,066,963
<b>TOTAL ASSETS</b>	<u>\$ 13,802,038</u>	<u>\$ 6,288,807</u>	<u>\$ 10,805,510</u>	<u>\$ 2,888,745</u>	<u>\$ 7,951,097</u>	<u>\$ 41,736,197</u>

The Accompanying Notes Are An Integral Part Of This Statement

Balance Sheet  
Governmental Funds  
December 31, 2004

	General	Arterial Street	L.I.D. Redemption	Parks and Open Space	Other Governmental Funds	Total Governmental Funds
<b>LIABILITIES AND FUND BALANCES</b>						
<b>Liabilities</b>						
Accounts payable	\$ 366,457	\$ 71,012	\$ -	\$ 735,726	\$ 158,275	\$ 1,331,470
Due to other governmental units	-	404,145	-	-	-	404,145
Advance payments	28,724	-	-	-	-	28,724
Interfund loans payable	-	-	-	-	121,880	121,880
Custodial accounts						
Deposits	74,436	-	-	590	-	75,026
<b>Long-term liabilities</b>						
Advances payable to other funds	-	-	-	-	174,000	174,000
Deferred revenue	161,624	2,124,806	10,134,106	-	376,993	12,797,529
<b>Total liabilities</b>	<b>\$ 631,241</b>	<b>\$ 2,599,963</b>	<b>\$ 10,134,106</b>	<b>\$ 736,316</b>	<b>\$ 831,148</b>	<b>\$ 14,932,774</b>
<b>Fund balances</b>						
<b>Reserved for:</b>						
Advances to other funds	\$ 174,000	\$ -	\$ -	\$ -	\$ -	\$ 174,000
Prepaid items	9,700	-	-	-	-	9,700
<b>Unreserved, reported in:</b>						
General fund	12,987,097	-	-	-	-	12,987,097
Special revenue funds	-	3,688,844	-	-	1,418,785	5,107,629
Debt service funds	-	-	671,404	-	427,577	1,098,981
Capital project funds	-	-	-	2,152,429	5,273,587	7,426,016
<b>Total fund balances</b>	<b>\$ 13,170,797</b>	<b>\$ 3,688,844</b>	<b>\$ 671,404</b>	<b>\$ 2,152,429</b>	<b>\$ 7,119,949</b>	<b>\$ 26,803,423</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 13,802,038</b>	<b>\$ 6,288,807</b>	<b>\$ 10,805,510</b>	<b>\$ 2,888,745</b>	<b>\$ 7,951,097</b>	<b>\$ 41,736,197</b>

The Accompanying Notes Are An Integral Part Of This Statement

Reconciliation of the Balance Sheet  
To the Statement of Net Assets  
Governmental Funds  
December 31, 2004

Fund balances - total governmental funds	\$	26,803,423
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.		
Non-Depreciable Assets	\$ 97,492,058	
Depreciable Assets (net)	105,457,908	202,949,966
<hr/>		
The focus of governmental funds is on short-term financing, assets are offset by deferred revenue and not included in fund balances.		
Deferred Revenue		
Property taxes	\$ 187,560	
Special assessments	10,485,163	
Developer fees	2,124,806	12,797,529
<hr/>		
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	\$ (182,168)	
Bonds & loans payable	(21,298,111)	
Compensated absences	(538,288)	(22,018,567)
<hr/>		
Internal service funds are used by management to charge the costs of certain activities to individual funds.		
Total assets and liabilities of the internal service funds that are reported with governmental activities.	\$ 7,333,110	7,333,110
<hr/>		
Net assets of government activities.		\$ 227,865,461
<hr/>		

The Accompanying Notes Are An Integral Part Of This Statement

Statement of Revenues, Expenditures, and Changes in Fund Balances  
Governmental Funds  
For the Year Ended December 31, 2004

	General	Arterial Street	L.I.D. Redemption	Parks and Open Space	Other Governmental Funds	Total Governmental Funds
<b>REVENUES</b>						
Taxes	\$ 14,471,121	\$ 1,012,866	\$ -	\$ 1,001,713	\$ 4,641,008	\$ 21,126,708
Licenses and permits	1,245,253	-	-	-	-	1,245,253
Intergovernmental revenues	857,197	768,270	-	669,724	526,958	2,822,149
Charges for services	4,259,464	769,834	-	-	99	5,029,397
Fines & forfeitures	453,628	-	-	-	-	453,628
Other revenue	310,307	100,434	1,477,430	57,632	190,902	2,136,705
<b>Total revenues</b>	<b>\$ 21,596,970</b>	<b>\$ 2,651,404</b>	<b>\$ 1,477,430</b>	<b>\$ 1,729,069</b>	<b>\$ 5,358,967</b>	<b>\$ 32,813,840</b>
<b>EXPENDITURES</b>						
<b>Current:</b>						
General government	\$ 3,483,483	\$ -	\$ -	\$ -	\$ -	\$ 3,483,483
Security of persons and property	9,331,690	-	-	-	-	9,331,690
Physical environment	2,421,294	-	-	-	-	2,421,294
Transportation	-	-	-	-	1,502,854	1,502,854
Economic environment	902,159	-	-	-	1,348	903,507
Mental and physical health	6,572	-	-	-	-	6,572
Culture and recreation	2,930,545	-	-	6,271	132,322	3,069,138
Capital outlay	6,077	1,984,819	-	3,573,250	4,236,707	9,800,853
Debt service:	-	-	-	-	-	-
Principal retirement	-	-	1,736,416	-	745,000	2,481,416
Interest	-	-	466,842	-	518,135	984,977
<b>Total expenditures</b>	<b>\$ 19,081,820</b>	<b>\$ 1,984,819</b>	<b>\$ 2,203,258</b>	<b>\$ 3,579,521</b>	<b>\$ 7,136,366</b>	<b>\$ 33,985,784</b>
Excess (deficiency) of revenue over (under) expenditures	\$ 2,515,150	\$ 666,585	\$ (725,828)	\$ (1,850,452)	\$ (1,777,399)	\$ (1,171,944)
<b>OTHER FINANCING SOURCES (USES)</b>						
Proceeds from sale of capital assets	\$ 5,070	\$ -	\$ -	\$ -	\$ -	\$ 5,070
Transfers in	198,314	1,032,710	-	400,000	1,085,455	2,716,479
Transfers out	(835,000)	-	-	(198,314)	(1,348,165)	(2,381,479)
<b>Total other financing sources</b>	<b>\$ (631,616)</b>	<b>\$ 1,032,710</b>	<b>\$ -</b>	<b>\$ 201,686</b>	<b>\$ (262,710)</b>	<b>\$ 340,070</b>
<b>Net change in fund balances</b>	<b>\$ 1,883,534</b>	<b>\$ 1,699,295</b>	<b>\$ (725,828)</b>	<b>\$ (1,648,766)</b>	<b>\$ (2,040,109)</b>	<b>\$ (831,874)</b>
<b>FUND BALANCES JANUARY 1</b>	<b>\$ 11,287,265</b>	<b>\$ 1,989,547</b>	<b>\$ 1,397,232</b>	<b>\$ 3,801,195</b>	<b>\$ 9,160,058</b>	<b>\$ 27,635,297</b>
<b>FUND BALANCES DECEMBER 31</b>	<b>\$ 13,170,799</b>	<b>\$ 3,688,842</b>	<b>\$ 671,404</b>	<b>\$ 2,152,429</b>	<b>\$ 7,119,949</b>	<b>\$ 26,803,423</b>

The Accompanying Notes 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, 2004

Net changes in total fund balances per fund financial statements		\$	(831,874)
Amounts reported for governmental activities in the statement of activities are different because:			
Governmental funds report capital outlays as expenditures, but they are presented as assets in the statement of activities and are depreciated over their estimated useful lives.			
Expenditures for capital assets	\$	6,581,549	
Current year depreciation		(6,880,000)	(298,451)
Repayment of bond/loan principal is reported as expenditure in governmental funds, but the principal repayments reduce the liabilities in the statement of net assets.			2,456,401
Generally revenues and expenditures recognized in the governmental fund statement are limited to only those that provide or use of current financial resources, but they are recognized in the statement of			(706,828)
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 a			370,690
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.			(23,521)
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.			11,190,803
Changes in net assets of governmental activities		\$	12,157,220

The Accompanying Notes Are An Integral Part Of This Statement

Statement of Net Assets  
Proprietary Funds  
December 31, 2004

	Business-type Activities Enterprise Funds				Governmental Activities Internal Service Funds
	Water	Waste- Water	Storm Water	Total	
<b>ASSETS</b>					
Current assets:					
Cash and Cash Equivalents	\$ 965,113	\$ 3,360,257	\$ 1,503,973	\$ 5,829,343	\$ 5,335,267
Restricted Cash and Residual Investments:					
Customer deposits	76,514	-	-	76,514	-
Current Maturities of Revenue Bond	428,858	619,952	-	1,048,810	-
Receivables (Net of Allowances)					
Customer Accounts	233,267	355,383	99,472	688,122	-
Accrued Interest & Penalty	26,585	64,544	3,046	94,175	74,574
Interfund Loan Receivable	-	400,000	-	400,000	-
Due from Governmental Units	-	1,930	-	1,930	5,656
Inventory	50,625	-	-	50,625	-
Total current assets:	<u>\$ 1,780,962</u>	<u>\$ 4,802,066</u>	<u>\$ 1,606,491</u>	<u>\$ 8,189,519</u>	<u>\$ 5,415,497</u>
Non-current assets:					
Restricted:					
Debt Service:					
Cash and Residual Investments	\$ 762,366	\$ -	\$ -	\$ 762,366	\$ -
Investments, at FMV	-	634,420	-	634,420	-
Capital Acquisition:					
Cash and Residual Investments	1,509,629	6,250,736	272,770	8,033,135	-
Special Assessments	13,228	186,953	-	200,181	-
Special Assessments Deferred	123,517	264,118	-	387,635	-
Fixed Assets, Net of Depreciation:					
Land	2,372,534	770,599	770,851	3,913,984	-
Buildings	556,214	856,114	-	1,412,328	125,127
Improvements Other Than Buildings	51,452,323	37,403,375	14,450,443	103,306,141	10,777
Equipment	368,238	142,162	45,841	556,241	1,905,562
Construction in Progress	53,877	198,458	-	252,335	-
Deferred Charges	5,290	7,647	-	12,937	-
Total Non-Current Assets	<u>\$ 57,217,216</u>	<u>\$ 46,714,582</u>	<u>\$ 15,539,905</u>	<u>\$ 119,471,703</u>	<u>\$ 2,041,466</u>
Total assets	<u>\$ 58,998,178</u>	<u>\$ 51,516,648</u>	<u>\$ 17,146,396</u>	<u>\$ 127,661,222</u>	<u>\$ 7,456,963</u>

The Accompanying Notes Are An Integral Part of This Statement

Statement of Net Assets  
Proprietary Funds  
December 31, 2004

	Business-type Activities Enterprise Funds				Governmental Activities Internal Service Funds
	Water	Waste- Water	Storm Water	Total	
<b>LIABILITIES</b>					
Current liabilities:					
Accounts Payable	\$ 112,607	\$ 693,901	\$ 14,878	\$ 821,386	\$ 7,768
Payable from restricted assets:					
Matured Interest Payable	3,537	5,114	-	8,651	-
Due to Other Funds	400,000	-	-	400,000	-
Due to Other Governmental Units	12,548	8,682	1,496	22,726	-
Deposits	76,514	-	-	76,514	-
Current Portion of Revenue Bonds	386,410	558,590	-	945,000	-
Unamortized Premium	3,321	4,801	-	8,122	-
<b>Total current liabilities</b>	<b>\$ 994,937</b>	<b>\$ 1,271,088</b>	<b>\$ 16,374</b>	<b>\$ 2,282,399</b>	<b>\$ 7,768</b>
Non-current liabilities					
Compensated Absences	\$ 66,032	\$ 38,979	\$ 3,973	\$ 108,984	\$ 28,293
Bonds Payable After One Year	717,620	597,381	-	1,315,001	-
<b>Total non-current liabilities</b>	<b>\$ 783,652</b>	<b>\$ 636,360</b>	<b>\$ 3,973</b>	<b>\$ 1,423,985</b>	<b>\$ 28,293</b>
<b>Total liabilities</b>	<b>\$ 1,778,589</b>	<b>\$ 1,907,448</b>	<b>\$ 20,347</b>	<b>\$ 3,706,384</b>	<b>\$ 36,061</b>
<b>NET ASSETS</b>					
Investment in Capital Assets, net of related debt	\$ 53,699,155	\$ 38,214,737	\$ 15,267,135	\$ 107,181,027	\$ 2,041,466
Restricted:					
Debt Service	572,440	476,370	-	1,048,810	-
Unrestricted	2,947,993	10,918,093	1,858,914	15,725,000	5,379,436
<b>Total net assets</b>	<b>\$ 57,219,589</b>	<b>\$ 49,609,200</b>	<b>\$ 17,126,049</b>	<b>\$ 123,954,838</b>	<b>\$ 7,420,902</b>

The Accompanying Notes Are An Integral Part Of This Statement

Reconciliation of the Statement of Net Assets -Proprietary Funds  
To the Statement of Net Assets -Business-Type  
Proprietary Funds  
December 31, 2004

Total Net Assets - Proprietary Funds			
Water	\$	57,219,588	
Wastewater		49,609,200	
Stormwater		17,126,049	\$ 123,954,837
		<hr/>	
Amounts reported for business-type activities in the statement of activities are different, because certain Internal Service Fund assets and liabilities are included with business-type activities.			<hr/> 87,792
Net assets of business-type activities.			<hr/> <hr/> \$ 124,042,629

The Accompanying Notes Are An Integral Part Of This Statement

Statement of Revenues, Expenses, and Changes in Fund Net Assets  
Proprietary Funds  
For the Year Ended December 31, 2004

	Business-Type Activities Enterprise Funds			Total	Governmental Activities Internal Service Funds
	Water	Waste- Water	Storm Water		
<b>OPERATING REVENUES</b>					
Charges for services	\$ 6,781,902	\$ 8,247,508	\$ 1,380,469	\$ 16,409,879	\$ 2,120,547
Total operating revenue	<u>\$ 6,781,902</u>	<u>\$ 8,247,508</u>	<u>\$ 1,380,469</u>	<u>\$ 16,409,879</u>	<u>\$ 2,120,547</u>
<b>OPERATING EXPENSES</b>					
Operating expense	\$ 2,144,483	\$ 5,198,676	\$ 627,613	\$ 7,970,772	\$ 1,132,370
Maintenance expense	2,381,600	1,089,337	427,966	3,898,903	192,557
Debt discount amortization	13,361	2,622	-	15,983	-
Depreciation expense	1,495,702	990,673	380,584	2,866,959	576,378
Taxes	287,937	112,687	19,779	420,403	-
Total operating expenses	<u>\$ 6,323,083</u>	<u>\$ 7,393,995</u>	<u>\$ 1,455,942</u>	<u>\$ 15,173,020</u>	<u>\$ 1,901,305</u>
OPERATING INCOME (LOSS)	<u>\$ 458,819</u>	<u>\$ 853,513</u>	<u>\$ (75,473)</u>	<u>\$ 1,236,859</u>	<u>\$ 219,242</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>					
Investment earnings	\$ 79,898	\$ 216,039	\$ 21,601	\$ 317,538	\$ 99,806
Miscellaneous non-operating revenues	186,362	5,333	106,156	297,851	259
Interest expense	(120,456)	(80,311)	-	(200,767)	-
Gain (loss) on sale of fixed assets	(34,062)	-	-	(34,062)	13,594
Total non-operating Revenues (expenses)	<u>\$ 111,742</u>	<u>\$ 141,061</u>	<u>\$ 127,757</u>	<u>\$ 380,560</u>	<u>\$ 113,659</u>
Income (loss) before contributions and transfers	\$ 570,561	\$ 994,574	\$ 52,284	\$ 1,617,419	\$ 332,901
Capital Contributions	\$ 4,575,686	\$ 5,177,214	\$ 2,245,915	\$ 11,998,815	\$ 58,969
Transfers in (out)	(208,326)	(158,286)	(35,000)	(401,612)	66,612
Changes in net assets	\$ 4,937,921	\$ 6,013,502	\$ 2,263,199	\$ 13,214,622	\$ 458,482
NET ASSETS - BEGINNING	<u>\$ 52,281,668</u>	<u>\$ 43,595,698</u>	<u>\$ 14,862,850</u>	<u>\$ 110,740,216</u>	<u>\$ 6,962,420</u>
NET ASSETS - ENDING	<u><u>\$ 57,219,589</u></u>	<u><u>\$ 49,609,200</u></u>	<u><u>\$ 17,126,049</u></u>	<u><u>\$ 123,954,838</u></u>	<u><u>\$ 7,420,902</u></u>

The Accompanying Notes Are An Integral Part of This Statement

Reconciliation of the Statement of Revenues, Expenditures,  
and Changes in Fund Balances of the Proprietary Funds  
To the Statement of Activities  
Business-Type Activities  
For the Year Ended December, 31 2004

Net Changes in Fund Balances - Proprietary Funds	\$	4,937,921	
Water		6,013,502	
Wastewater		2,263,199	\$ 13,214,622
Stormwater		<u>                    </u>	<u>                    </u>
<p>Some amounts reported for business-type activities in the statement of activities are different because, the net revenue (expense) of certain Internal Service Funds activities is reported in the business-type activities.</p>			
			<u>87,792</u>
Change in net assets of business-type activities.			<u>\$ 13,302,414</u>

The Accompanying Notes Are An Integral Part Of This Statement

Statement of Cash Flows  
Proprietary Funds  
For the Year Ended December 31, 2004

	Business-type Activities Enterprise Funds			Total	Governmental Activities Internal Service Funds
	Water	Waste- Water	Storm Water		
<b>CASH FLOW FROM OPERATING ACTIVITIES:</b>					
Cash received from customers	\$ 6,817,701	\$ 8,241,418	\$ 1,411,287	\$ 16,470,406	\$ 2,043,970
Non-operating income	186,361	5,333	68,228	259,922	-
Cash payments for maintenance and operations	(2,821,662)	(5,414,725)	(683,685)	(8,920,072)	(716,695)
Cash payments to employees	(1,678,990)	(780,380)	(371,729)	(2,831,099)	(608,648)
Other non-operating receipts	-	-	-	-	259
Cash payments for taxes	(287,937)	(112,687)	(19,779)	(420,403)	-
Net cash provided by operating activities	<u>\$ 2,215,473</u>	<u>\$ 1,938,959</u>	<u>\$ 404,322</u>	<u>\$ 4,558,754</u>	<u>\$ 718,886</u>
<b>CASH FLOW FROM NON-CAPITAL FINANCING ACTIVITIES:</b>					
Transfers in from (out to) other funds	\$ (208,326)	\$ (158,286)	\$ (35,000)	\$ (401,612)	\$ -
Operating grant received	-	-	21,925	21,925	-
Net cash provided by non-capital financing activities	<u>\$ (208,326)</u>	<u>\$ (158,286)</u>	<u>\$ (13,075)</u>	<u>\$ (379,687)</u>	<u>\$ -</u>
<b>CASH FLOW FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>					
Acquisition and construction of capital assets	\$ (1,954,724)	\$ (486,057)	\$ (63,364)	\$ (2,504,145)	\$ (482,676)
Proceeds from the sale of assets	-	-	-	-	29,533
Interfund loan received (loaned)	(400,000)	400,000	-	-	-
Principal paid on revenue bonds and DOE loan	(1,780,055)	(534,946)	(88,712)	(2,403,713)	-
Interest paid on revenue bonds	(128,790)	(83,829)	-	(212,619)	-
Principal payments received on special assessments	41,111	248,289	-	289,400	-
Interest and penalties payments received on special assessments	9,776	33,477	-	43,253	-
Capital Contributions	-	-	-	-	125,581
Net cash used by capital and related financing activities	<u>\$ (4,212,682)</u>	<u>\$ (423,066)</u>	<u>\$ (152,076)</u>	<u>\$ (4,787,824)</u>	<u>\$ (327,562)</u>

The Accompanying Notes Are An Integral Part of This Statement

Statement of Cash Flows  
Proprietary Funds  
For the Year Ended December 31, 2004

	Business-type Activities Enterprise Funds			Total	Governmental Activities Internal Service Funds
	Water	Waste- Water	Storm Water		
<b>CASH FLOW FROM INVESTING ACTIVITIES:</b>					
Interest on investments	61,539	207,162	18,555	287,256	99,806
Net cash provided (used) by investing activities	\$ 61,539	\$ 207,162	\$ 18,555	\$ 287,256	\$ 99,806
Net increase (decrease) in cash and cash equivalents	(2,143,996)	1,564,769	257,726	(321,501)	491,130
Cash and cash equivalents January 1	\$ 5,886,476	\$ 9,300,596	\$ 1,519,017	\$ 16,706,089	\$ 4,844,137
Cash and cash equivalents December 31	\$ 3,742,480	\$ 10,865,365	\$ 1,776,743	\$ 16,384,588	\$ 5,335,267
<b>CASH PROVIDED BY OPERATING ACTIVITIES:</b>					
Net operating income	\$ 458,819	\$ 853,513	\$ (75,473)	\$ 1,236,859	\$ 219,242
<b>ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>					
Depreciation	\$ 1,495,702	\$ 990,673	\$ 380,584	\$ 2,866,959	\$ 576,378
Debt discount amortization	13,361	2,622	-	15,983	-
(Increase)/decrease in customer receivables	35,801	(6,087)	30,818	60,532	(76,577)
(Increase)/decrease in inventories	8,228	-	-	8,228	-
Increase (decrease) in miscellaneous	186,361	5,333	68,228	259,922	-
Non-operating revenue					
Non-operating revenues	-	-	-	-	259
Increase/(decrease) in accounts payable	3,917	91,354	(63)	95,208	(3,404)
Increase/(decrease) in salaries payable	13,284	1,551	228	15,063	2,988
Net cash provided by operating activities	\$ 2,215,473	\$ 1,938,959	\$ 404,322	\$ 4,558,754	\$ 718,886

The Accompanying Notes Are An Integral Part of This Statement

Statement Fiduciary Net Assets  
Fiduciary Funds  
December 31, 2004

	<u>Agency Funds</u>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 1,421,152
Investments, at FMV	<u>70,978</u>
Total assets	<u>\$ 1,492,130</u>
<b>LIABILITIES</b>	
Due to other governments	\$ <u>1,492,130</u>
Total liabilities	<u>\$ 1,492,130</u>

*The Accompanying Notes Are An Integral Part of This Statement*

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2004**

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**NOTES TO FINANCIAL STATEMENTS**  
**January 1, 2004 through December 31, 2004**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

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

The significant accounting policies are described below.

**A. REPORTING ENTITY**

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

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

**B. BASIC FINANCIAL STATEMENTS**

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

**Government-Wide Financial Statements**

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

The primary government is further divided into governmental activities and business-type activities. Governmental activities are generally financed through taxes, inter-government revenues, and other nonexchange revenues, while business-type activities are financed to some degree by charging external parties for the goods or services they acquire from the City. Governmental activities include programs/ activities such as general government, public safety, streets, 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, and Stormwater Utilities. For the most part, the effect of interfund activity has been removed from these statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function

or segments are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Our policy is not to allocate indirect costs to a specific function or segment. 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 of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

### **Fund Financial Statements**

Unlike government-wide financial statements, the focus of fund financial statements is directed to specific activities of the City rather than the city as a whole. The City's fund financial statements are divided into three broad categories, namely, (1) governmental funds, (2) proprietary funds, and (3) fiduciary funds. The City's fiduciary funds are excluded from the government-wide financial statements, because resources of these funds cannot be used to finance the City's activities. However, the financial statements of fiduciary funds are included in the City's financial statements, because the City is financially accountable for those resources, even though they belong to other parties. GASB Statement 34 sets forth the minimum criteria for the determination of a major fund. For consistency purposes, the City has elected to add the Parks & Open Space fund in addition to the required major funds.

The following describes each fund as presented in the fund financial statements:

### **Major Funds**

#### **Governmental Funds**

##### **GENERAL FUND**

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

##### **ARTERIAL STREET FUND**

The Arterial Street Fund provides funding for street construction and transportation improvement projects. Work accomplished includes right-of-way acquisition, design, and construction of roadways, storm drainage, sidewalks, street lighting, traffic signals, and landscaping.

##### **LOCAL IMPROVEMENT DISTRICT (L.I.D.) BOND FUND**

Local Improvement District (L.I.D.) Bond Fund was created to provide for the retirement of all local improvement district bonds issued for City facilities or equipment. Debt issued or bonds received without the guarantee of City tax revenues must depend on special assessments against property owners. There are three improvements in this fund: College Street (widening and overlay), Commerce Place & Campus Park (new road construction) and the NE area transportation improvements.

##### **PARKS AND OPEN SPACE FUND**

Parks and Open Space Fund accounts for the resources accumulated by Council action to set aside

the revenue generated by a one percent of Utility Tax rate for acquisition of property for future parks and open space, and/or the development of existing parks sites.

### **Enterprise Funds**

#### **WATER UTILITY FUND**

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 and Capitol City Golf Course.

#### **WASTEWATER UTILITY FUND**

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

#### **STORMWATER UTILITY FUND**

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.

### **Non-major Funds**

#### **Governmental Funds**

#### **CITY STREET FUND**

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

#### **LODGING TAX FUND**

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

#### **COMMUNITY DEVELOPMENT BLOCK GRANT FUND**

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

#### **GENERAL OBLIGATION BOND FUND**

The General Obligation (G.O.) Bond Fund was created to provide for the retirement of all general purpose bonds issued for City facilities or equipment. When capital expenditures are funded by debt authorized by voter approval, the revenues generated to retire this debt come from property taxes.

Debt issued or bonds received without guarantee to the City property tax revenues must depend on all sources of general City revenue to retire debt.

#### **BUILDING IMPROVEMENT FUND**

The Building Improvement Fund is only used when there is a need to account for a significant building project or equipment acquisition that is usually funded by a bond sale. Each year, an amount equivalent to \$.25 per capita is deposited into this fund from sales tax revenue for the purpose of acquiring public art.

#### **CAPITAL EXPENDITURE FUND**

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

### **Other Fund Types**

#### **Internal Service Funds**

##### **EQUIPMENT RENTAL FUND**

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**

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

### **Fiduciary Funds**

##### **JOINT ANIMAL SERVICES FUND**

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

##### **INTERLOCAL DRUG UNIT FUND**

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

### **C. Measurement Focus, Basis of Accounting and Financial Statement Presentation**

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

*The government-wide financial statements are reported using the economic resources*

measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

Property taxes, licenses, and interest associated within the current period are considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessment receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the City.

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

#### **D. Assets, Liabilities and Net Assets or Equities**

##### 1. Cash and Cash Equivalents

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

##### 2. Investments – (Refer to Note 4 B).

##### 3. Receivables and Payables (Amounts owed/payable to/by the City at year-end.)

Taxes receivable consists of property taxes and related interest and penalties (Refer to Note 5). Accrued interest receivable consists of amounts earned on investments, notes, and contracts. Accrued interest payable consists of amounts owed on notes, loans, and contracts.

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

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

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

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to either "*due to/from other funds*" (i.e., the current portion of interfund loans) or "*advances to/from other funds*" (i.e., the non-current portion of interfund loans). All other outstanding balances between the governmental activities and business-type activities are reported in the government-wide financial statements as "*internal balances*". (Refer to Note 11.)

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

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

Unamortized Premium *is the unamortized portion of the excess of bond proceeds over their face value (excluding accrued interest and issuance costs.)*

*Deferred Amount-Refunding* is the difference between the carrying amount of redeemed/defeased debt and its reacquisition price. This amount is deferred and amortized over the remaining life of the debt or the life of the new debt, whichever is shorter.

#### 4. Inventories and prepaid items

All City inventories are maintained on a consumption basis of accounting where items are purchased for inventory and charged to the budgetary accounts as the items are consumed. Any material inventories at year-end are included in the balance sheet of the appropriate fund. Inventories are carried at cost on the first in, first out – FIFO basis.

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.

#### 5. Restricted Assets

Certain proceeds of the City's enterprise fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the statement of net assets, because their use is limited by applicable bond covenants. These accounts contain resources for construction and debt service, including current and delinquent special assessments receivable in enterprise funds.

#### 6. Capital Assets and Depreciation – (Refer to Note 6).

#### 7. Deferred Revenues

This account includes amounts recognized as receivables but not revenues in governmental funds because the revenue recognition criterion has not been met.

#### 8. Custodial Accounts

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

#### 9. Compensated Absences - (Refer to Note 7 A).

#### 10. Fund Balance Designations and Reservations

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change. As of December 31, 2004, the City has the following reserved and designated fund balances:

<b>Purpose</b>	<b>Fund Reserved</b>	<b>Amount</b>
Advances to Other Funds	General Fund	\$ 174,000
Prepaid Items	General Fund	9,700

<b>Purpose</b>	<b>Fund Designated</b>	<b>Amount</b>
Art	Building Improvement Fund	\$ 29,608
Budget Adjustments	General Fund	575,000
Budget Adjustments	Street Fund	85,000
Budget Adjustments	Capital Expenditure Fund	97,500
Childcare Development	Capital Expenditure Fund	50,000
City Hall	Capital Expenditure Fund	300,000
Community Center	General Fund	51,125
Criminal Bail	General Fund	9,643
Furniture/Equipment	General Fund	217,500
Insurance	General Fund	200,000
Library	Capital Expenditure Fund	100,000
LID Guarantee	General Fund	100,000
LID Guarantee	Street Fund	50,000
LID Guarantee	Arterial Street Fund	500,000
Operating Cash	Capital Expenditure Fund	149,000
Parks	General Fund	164,067
PFD-Sports Complex	Parks & Open Space Fund	71,493
Property Acquisitions	General Fund	500,000
Senior Center	Building Improvement Fund	82,008
Senior Center	Capital Expenditure Fund	50,000
Shop Development	Street Fund	100,000
Street Improvements	Street Fund	250,000
Street Improvements	Capital Expenditure Fund	1,500,000
Vessel Registration	Capital Expenditure Fund	18,004

11. Net Assets – (Refer to Note 12.)

## **E. Revenues, Expenditures and Expenses**

### 1. Program Revenues

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

### 2. General Revenues

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

### 3. Interfund transfers

Permanent reallocation of resources between funds of the reporting entity are classified as interfund

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

#### 4. Expenditures/expenses

Expenses in the government-wide statement of activities are reported by function as a governmental activities (general government, security of persons & property, physical environment, transportation, economic environment, culture & recreation, or interest on long-term debt) or business-type activities (water, wastewater, or stormwater). 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. CHANGES IN ACCOUNTING AND REPORTING POLICIES**

During 2004, the City increased its capitalization threshold for its capital assets, other than infrastructure assets, to \$5,000. As a result the beginning general capital asset inventory for fiscal year 2004 was restated. The affects from this change in accounting policy is included in Note 13 (Prior Period Adjustments).

### **NOTE 3. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

There have been no material violations of finance-related legal or contractual provisions, and there have been no expenditures exceeding legal appropriations in any of the funds of the City.

A deficit fund balance of \$295,880 exists in the Community Development Block Fund resulting from an unexpectedly high cost of construction of the Senior Center. The City of Lacey has received approval to apply future program income from the CDBG Housing Rehabilitation program to cover this shortfall. Program income is received and recognized upon the sale of homes that used CDBG monies. In 2005, the City will be reviewing this additional shortfall.

#### **A. PROCEDURES FOR ADOPTING THE ORIGINAL BUDGET**

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

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

- (4) Any revisions that alter the total amount of expenditures/expenses of any fund must be approved by the City Council.

#### B. AMENDING THE BUDGET

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

Original budgeted inflows as compared to the final budgeted inflows for the year ended December 31, 2004, are as follows:

<b>Fund</b>	<b>Original Budgeted Inflows</b>	<b>Final Budgeted Inflows</b>	<b>Increase(Decrease) Budgeted Inflows</b>
General Fund	\$ 19,531,915	\$ 19,822,363	\$ 290,448
City Street Fund	1,532,498	1,568,298	35,800
Arterial Fund	7,045,098	7,045,098	-
Lodging Fund	192,000	192,000	-
Community Development Block Fund	-	220,000	220,000
G.O. Bond Redemption	1,263,302	1,263,302	-
L.I.D. Redemption	1,938,265	2,203,265	265,000
Building Fund	759,060	759,060	-
Capital Expenditure	1,192,051	1,192,051	-
Parks & Open Space	1,644,355	1,644,355	-
Equipment Rental	1,132,953	1,132,953	-
Information Services	982,725	982,725	-
Water	5,915,620	5,915,620	-
Wastewater	8,273,813	8,273,813	-
Stormwater	1,271,325	1,271,325	-
<b>Totals</b>	<b>\$ 52,674,980</b>	<b>\$ 53,486,228</b>	<b>\$ 811,248</b>

The original budgeted outflows as compared to the final budgeted outflows for the year ended December 31, 2004, are as follows:

<b>Fund</b>	<b>Original Budgeted Outflows</b>	<b>Final Budgeted Outflows</b>	<b>Increase (Decrease) Budgeted Ourflows</b>
General Fund	\$ 20,039,915	\$ 20,563,628	\$ 523,713
City Street Fund	1,582,498	1,658,813	76,315
Arterial Fund	7,742,378	7,742,378	-
Lodging Fund	192,000	192,000	-
Community Development Block Fund	-	220,000	220,000
G.O. Bond Redemption	1,263,137	1,263,137	-
L.I.D. Redemption	1,938,265	2,203,265	265,000
Building Fund	3,162,015	4,242,015	1,080,000

Fund	Original Budgeted	Final Budgeted	Increase (Decrease)
	Outflows	Outflows	Budgeted Outflows
Capital Expenditure	2,058,551	2,054,716	(3,835)
Parks & Open Space	4,529,355	6,104,329	1,574,974
Equipment Rental	1,163,896	1,189,256	25,360
Information Services	1,091,408	1,091,408	-
Water	8,039,504	9,704,009	1,664,505
Wastewater	14,824,604	15,033,378	208,774
Stormwater	2,128,324	2,168,404	40,080
Totals	\$ 69,755,850	\$ 75,430,736	\$ 5,674,886

#### NOTE 4. DEPOSITS AND INVESTMENTS

##### A. DEPOSITS

The City's deposits and certificates of deposit 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 (PDPC). The PDPC is a statutory authority established under Chapter 39.58 of the Revised Code of Washington.

##### B. INVESTMENTS

As required by state law, 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 (PDPC).

Investments are shown on the government-wide Statement of Net Assets at fair value. The State Treasurer's Local Government Investment Pool operates in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the fair value of the pool shares.

As of December 31, 2004, the City had the following investments:

Investment Type	Fair Value	Weighted Average Maturity (Months)
U.S. Treasuries	\$ 286,933	24.00
Washington State Local Government Investment Pool	20,960,000	1.12
Total fair value	<u>\$ 21,246,933</u>	
Portfolio weighted average maturity		1.43

*Custodial credit risk- investments.* This is the risk that, in event of a failure of the counterparty to an investment transaction, the City would not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. As of December 31, 2004, the City did not have any investments that are subject to the custodial credit risk.

*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.

*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 (the State Treasurer's Local Government Investment Pool (LGIP)). The policy of the LGIP is to invest in securities and instruments that are rated A-1 by Standard and Poor's Corporation and P-1 by Moody's Investors Services, Inc.

### C. SUMMARY OF DEPOSITS AND INVESTMENTS

Amounts reported in the fund statements for the year ended December 31, 2004 are as follows:

<b>Governmental Funds</b>	<b>Amount</b>
Cash and cash equivalents	\$ 2,176,041
Investments	24,825,000
Restricted cash (Deposits)	75,026
<b>Total Governmental Funds</b>	<b>\$ 27,076,067</b>
<b>Proprietary Funds</b>	<b>Amount</b>
Cash & cash equivalents	\$ 10,486,697
Restricted cash & residual investments (Debt Service)	1,913,090
Restricted investments (Debt Service)	1,286,933
Restricted cash & residual investments (Capital Acquisition)	8,033,135
<b>Total Proprietary Funds</b>	<b>\$ 21,719,855</b>
<b>Fiduciary Funds</b>	<b>Amount</b>
Cash & cash Equivalents	\$ 1,421,152
<b>Total Fiduciary Funds</b>	<b>\$ 1,421,152</b>
<b>Total All Funds</b>	<b>\$ 50,217,074</b>

Cash, Deposits, and Investments for the year ended December 31, 2004 are as follows:

Cash on Hand	\$ 10,748
Checking Accounts	859,393
Certificates of Deposit	28,100,000
State Investment Pool	20,960,000
U.S. Treasuries	286,933
<b>Total</b>	<b>\$ 50,217,074</b>

### NOTE 5. PROPERTY TAXES

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

Taxes are levied annually on January 1 on property values listed as of the prior May 31. Assessed values are established by the county assessor at 100 percent of fair market value. A revaluation of all property is required every four years.

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 uncollectable taxes is established because delinquent taxes are considered fully collectible. The county treasurer remits collections monthly to the

appropriate district.

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

- a. 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. Initiative 747 restricts individual taxing districts from collecting, in any year, more than a 1% 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.
- b. 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 \$1000) 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.
- c. 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 2004 was slightly over \$2.68 per \$1000 on an assessed valuation of \$2,189,800,865 for a total regular levy of \$5,887,420. Additionally, special levies for G.O. bond obligations totaled \$960,207.

## **NOTE 6. CAPITAL ASSETS AND DEPRECIATION**

### **A. GENERAL POLICIES**

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

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

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

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

### **B. GOVERNMENTAL CAPITAL ASSETS**

Governmental capital assets of the City purchased, leased, or constructed are recorded as expenditures in the governmental funds and are capitalized, net of depreciation, in the government-wide statements. The City capitalized certain retroactive infrastructure assets (assets acquired prior to January 1, 2000) in 2004. These assets were reported at estimated historical costs through backtrending (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 plans to complete the reporting of its remaining retroactive infrastructure assets in 2005.

**C. PROPRIETARY FUND CAPITAL ASSETS**

Capital assets of proprietary funds are capitalized in their respective statement of net assets.

**D. DEPRECIATION**

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

Depreciation expense was charged to governmental and business-type activities as follows:

<u>Governmental Activities</u>	<u>Amount</u>
General government	\$ 92,195
Security of persons & property	135,001
Physical environment	2,022
Transportation	6,357,310
Economic environment	88,085
Culture & recreation	205,387
Internal Service Funds	576,378
Total governmental activities depreciation expense	<u>\$ 7,456,378</u>
<u>Business-type Activities</u>	<u>Amount</u>
Water	\$ 1,495,702
Wastewater	990,673
Stormwater	380,584
Total business-type activities depreciation expense	<u>\$ 2,866,959</u>

**E. SUMMARY OF CHANGES**

<u>Governmental Activities</u>	<u>Restated Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Non-depreciable Capital Assets				
Land and improvements	\$ 89,074,401	\$ 2,158,673	\$ -	\$ 91,233,073
Joint Venture	191,587	23,727	-	215,314
Construction in progress	2,762,247	3,404,126	122,702	6,043,671
Total non-depreciable assets	<u>92,028,235</u>	<u>5,586,526</u>	<u>122,702</u>	<u>97,492,058</u>
Depreciable Capital Assets:				
Buildings	13,492,210	1,080,230	38,002	14,534,438
Improvements	1,154,873	27,629	74,990	1,107,512
Infrastructure	158,499,502	10,927,783	-	169,427,285
Machinery & equipment	5,958,724	875,867	728,950	6,105,641
Total depreciable assets at cost	<u>179,105,309</u>	<u>12,911,509</u>	<u>841,942</u>	<u>191,174,876</u>

<b>Governmental Activities</b>	<b>Restated Beginning Balance</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balance</b>
Less accumulated depreciation:				
Buildings	4,904,085	454,318	16,795	5,341,608
Improvements	393,947	47,522	-	441,469
Infrastructure	67,752,777	6,332,827	-	74,085,604
Machinery & equipment	3,850,487	621,711	665,377	3,806,821
Total accumulated depreciation	76,901,296	7,456,378	682,172	83,675,502
Governmental activities capital assets, net	\$194,232,248	\$11,041,656	\$ 282,472	\$204,991,432

<b>Business-type activities</b>	<b>Restated Beginning Balance</b>	<b>Increase</b>	<b>Decrease</b>	<b>Ending Balance</b>
Non-depreciable Capital Assts				
Land and improvements	\$ 3,214,082	\$ 699,904	\$ -	\$ 3,913,986
Construction in process	112,424	221,080	81,171	252,333
Total non-depreciable assets	3,326,506	920,984	81,171	4,166,319
<b>Depreciable Capital Assets:</b>				
Buildings	1,520,813	-	-	1,520,813
Improvements	112,107,256	13,642,270	48,168	125,701,358
Machinery & equipment	2,542,661	32,878	968	2,574,571
Total depreciable assets at cost	116,170,730	13,675,148	49,136	129,796,742
<b>Less accumulated depreciation:</b>				
Buildings	71,410	37,075	-	108,485
Improvements	19,667,896	2,741,426	14,106	22,395,216
Machinery & equipment	1,918,839	100,458	966	2,018,331
Total accumulated depreciation	21,658,145	2,878,959	15,072	24,522,032
<b>Business-type activities capital assets, net</b>	<b>\$ 97,839,091</b>	<b>\$11,717,173</b>	<b>\$ 115,235</b>	<b>\$109,441,029</b>

Construction in progress included in proprietary fund balance sheets represents expenditures to date on projects for which authorizations total \$1,427,074. Of the committed balance of \$1,263,413 the proprietary funds will not require future financing.

## NOTE 7. PENSIONS

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

### A. Public Employees Retirement System (PERS) Plans 1, 2 and 3

#### Plan Description

PERS is a cost-sharing multiple-employer retirement system comprised of three separate plans for

membership purposes: Plans 1 and 2 are defined benefit plans and Plan 3 is a combination of defined benefit/defined contribution plan. Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior courts (other than judges in a judicial retirement system); employees of legislative committees; community and technical colleges, college and university employees (not in national higher education retirement programs); judges of district and municipal courts; and employees of local governments. PERS participants who joined the system by September 30, 1977, are Plan 1 members. Those joined on or after October 1, 1977 and by either, February 28, 2002 for state and higher education employees, or August 31, 2002 for local government employees, are Plan 2 members unless they exercise an option to transfer their membership to Plan 3. PERS participants joining the system on or after March 1, 2002 for state and higher education employees, or September 1, 2002 for local government employees have the option of choosing membership in either PERS Plan 2 or PERS Plan 3. The option must be exercised within 90 days of employment. An employee is reported in Plan 2 until a choice is made. Employees who fail to choose within 90 days default to PERS Plan 3. PERS defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions. PERS retirement benefit provisions are established in state statute and may be amended only by the State Legislature.

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

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

Plan 3 as a dual benefit structure. Employer contributions finance a defined benefit component, and member contributions finance a defined contribution component. The defined benefit portion provides a benefit calculation at 1 percent of the average final compensation per year of service. The average final compensation is based on the greatest compensation during any eligible consecutive 60-month period. Plan 3 members become eligible for retirement if they have: at least ten years of service; or five years including twelve months that were earned after age 54; or five service credit years earned in PERS Plan 2 prior to June 1, 2003. Plan 3 retirements prior to the age 65 receive reduced benefits. If retirement is at age 55 or older with at least 30 years of service, a 3 percent per year reduction applies; otherwise an actuarial reduction will apply. There is no cap on years of service credit; and Plan 3 provides the same cost-of-living allowance as Plan 2. The defined contribution portion can be distributed in accordance with an option selected by the member, either as a lump sum or pursuant to other options authorized by the Employee Retirement Benefits Board.

There are 1,168 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of September 30, 2003:

Retirees and Beneficiaries Receiving Benefits	65,362
Terminated Plan Members Entitled To But Not Yet Receiving Benefits	20,001
Active Plan Members Vested	100,469
Active Plan Members Nonvested	54,081
Total	239,913

Funding Policy

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

The required contributions rates expressed as a percentage of current-year covered payroll, as of December 31, 2004 were as follows:

Contributor	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer*	1.38%	1.38%	1.38%
Employee	6.00%	1.18%	***

\*The employer rates include the employer administrative expense fee currently set at 0.19%.

\*\*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
2004	\$13,326	\$91,560	\$16,480
2003	\$13,202	\$87,023	\$10,191
2002	\$13,020	\$91,590	\$625

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

Plan Description

LEOFF is a cost-sharing multiple-employer retirement system comprised of two defined benefit plans. Membership in the system includes all full-time, fully compensated; local law enforcement officers and firefighters. LEOFF is comprised primarily of non-state employees. LEOFF participants who joined the system by September 30, 1977 are Plan 1 members. Those who joined on or after October 1, 1977 are Plan 2 members. Effective January 1, 2003 firefighter emergency medical technicians (EMTs) may transfer PERS Plan 1 or Plan 2 service credit to LEOFF Plan 2 if while employed for the city, town, county, or district the EMT's job was relocated to a fire department from another city, town, county or district. LEOFF defined benefits are financed from a combination of investment earnings, employer and employee contributions, and a special funding situation in which the state pays the remainder through state legislative appropriations. LEOFF retirement benefit provisions are established in state statute and may be amended only by the State Legislature.

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

Term of Service	Percent of Final Average
20 or more years	2.0%
10 but less than 20 years	1.5%
5 but less than 10 years	1.0%

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

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

There are 368 participating employers in LEOFF. Membership in LEOFF consisted of the following as of the latest actuarial valuation date for the plans of September 30, 2003:

Retirees and Beneficiaries Receiving Benefits	8,370
Terminated Plan Members Entitled To But Not Yet Receiving Benefits	453
Active Plan Members Vested	11,548
Active Plan Members Nonvested	4,003
Total	24,374

**Funding Policy**

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

The required contribution rates expressed as a percentage of current year covered payroll, as of December 31, 2004 were as follows:

Contributor	LEOFF Plan 1	LEOFF Plan 2
Employer*	0.19%	3.25%**
Employee	0.00%	5.09%
State	n/a	2.03%

\*The employer rates include the employer administrative expense fee currently set at 0.19%.

\*\*The employer rate for ports and universities is 5.28%.

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

Year	LEOFF Plan 1	LEOFF Plan 2
2004	\$ 536	\$ 94,592
2003	548	93,430
2002	537	83,495

**NOTE 8. OTHER EMPLOYEE BENEFITS****A. COMPENSATED ABSENCES**

It is the City's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. Vacation pay may accumulate up to 240 hours at December 31 and is payable upon resignation, retirement or death. Sick leave may accumulate up to 960 hours or as provided by contract. Sick leave does not vest until retirement. 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 debt and are included in Note 13.

**B. DEFERRED COMPENSATION**

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

**C. POST EMPLOYMENT BENEFITS**

Post employment benefits are provided in accordance with the Washington Law Enforcement Officers and Fire Fighters Retirement System (LEOFF) Act (RCW 41.26). The City provides certain health care benefits for retired full-time, fully compensated, law enforcement officers who established membership in the LEOFF 1 retirement system on or before September 30, 1977. The City's Personnel Department pays or reimburses retired LEOFF 1 police officers for reasonable medical charges as described in the LEOFF Act. A total of 13 retirees received benefits under this act. As of December 31, 2004, there are three additional officers who may become eligible for these benefits. The benefits to participants are accounted for on a pay-as-you-go basis through the general fund. The City expended \$141,486 for post employment benefits during 2004.

**NOTE 9. CONTINGENCIES**Litigation

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

Contingencies under Grant Provisions

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

Bond Indentures

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

Construction Commitments

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

- Update transportation comprehensive plan

- Complete Yelm Highway widening project from College Street to Ruddell Road
- Mullen road reconstruction design – Ruddell road to East city limits.
- College street rehabilitation
- Design Mullen Road extension
- Design Carpenter Road capacity improvements
- 53<sup>rd</sup> Avenue upgrade
- Enhancement of residential street repair and rehabilitation

The 2005 Arterial Street Fund budgeted expenditures are \$8,634,747 which includes the completion of these projects.

#### **NOTE 10. 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 110 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 \$3 million per occurrence self insured layer, and \$11 million per occurrence in the re-insured excess layer within no annual aggregate except \$10 million per member for public officials' errors and omissions. The excess layer is insured by the purchase of reinsurance and insurance. Total limits are \$14 million per occurrence. The Board of Directors determines the limits and terms of coverage annually.

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

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

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

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

A Board of Directors governs WCIA, which is comprised of one designated representative from each member. The Board elects an Executive Committee and appoints a Treasurer to provide general policy direction for the organization. The WCIA Executive Director reports to the Executive

Committee and is responsible for conducting the day to day operations of WCIA.

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

#### NOTE 11. INTERFUND TRANSACTIONS

Interfund transactions are classified as follows:

1. Services Provided - Transactions that would be treated as revenues, expenditures or expenses if they involve external organizations, such as buying goods and services or payments in lieu of taxes, are similarly treated when they involve other funds of the City of Lacey.
2. Transfers - Transactions to support the operations of other funds are recorded as "Transfers" and classified with "Other Financing Sources or Uses" in the fund statements. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the Government-wide financial statements.
3. Contributions - Contributions to the capital of enterprise or internal service funds, transfers of capital assets between proprietary and governmental funds, transfers to establish or reduce working capital in other funds, and transfers of remaining balances when funds are closed are classified non-operating revenue.
4. Loans/Advances - Loans between funds are classified as interfund loans receivable and payable or as advances to and from other funds in the fund statements. Interfund loans do not affect total fund equity, but advances to other funds are offset by a reservation of fund equity. Loans and Advances are subject to elimination upon consolidation.

As of December 31, 2004, outstanding interfund balances (resulting from various interfund transactions) were as follows:

Interfund Loans	Purpose	Receivable Amount	Payable Amount
General Fund	Cash Flow	\$121,880	
Nonmajor governmental fund	Childcare facility		\$121,880
Sub-total		\$121,880	\$121,880
Advances from/to Other Funds	Purpose	Receivable Amount	Payable Amount
General Fund	Cash Flow	\$174,000	
Nonmajor governmental fund	Childcare facility		\$174,000
Sub-total		\$174,000	\$174,000
Totals		\$295,880	295,880

Advances are long-term liabilities expected to be paid within 2 years.

Transfers for 2004 are as follows:

Fund	Purpose	Amounts Transferred Out	Amounts Transferred In
Governmental Funds			
General Fund	Non-routine transfer to the Community Block Grant	\$ 835,000	

Fund	Purpose	Amounts Transferred Out	Amounts Transferred In
General Fund (cont.)	Fund for the Senior Center building \$220,000; to Arterial Street Fund \$250,000 for street improvements; to Building Improvement Fund \$365,000 for police department remodeling project.		
	Non-routine transfer in from Parks and Open Space Fund \$198,314 for maintenance of Rainier Vista Park.		\$ 198,314
Nonmajor Governmental Funds	Non-routine transfer to the Arterial Street Fund for street improvements \$782,710, to the Parks and Open Space Fund \$400,000 for the purchase of land for BNR trail. Non-routine transfer to Building Improvement Fund for police department remodeling project \$165,455.00	\$ 1,348,165	
	Non-routine transfers of \$365,000 from General Fund, \$50,000 from Street Fund, \$115,455 from General Obligation Bond Fund for the police department, \$150,000 from Water Utility enterprise fund, \$150,000 from Wastewater Utility enterprise fund, and \$35,000 from Stormwater Utility enterprise fund for police department facility remodeling project. Non-routine transfers from General Fund \$220,000 for Senior Center building.		\$ 1,085,455
Arterial Street Fund	Non-routine transfer from the Capital Project Funds \$782,710 and from General Fund \$250,000 for street improvements.		\$ 1,032,710
Parks and Open Space Fun	Non-routine transfer to General Fund \$198,314 for maintenance of Rainier Vista Park.	\$ 198,314	
	Non-routine transfer from the Capital Project Fund for City's match for IAC Grant, to purchase land for the BNR trail.		\$ 400,000
<b>Total Governmental Funds</b>		<b>\$ 2,381,479</b>	<b>\$ 2,716,479</b>
Proprietary Funds Internal Service Fund	Non-routine transfer of capital assets from the Water Fund \$8,326 and Waste-Water Fund \$58,286 to the Equipment Rental fund.		\$ 66,612

Fund	Purpose	Amounts Transferred Out	Amounts Transferred In
Proprietary Fund (cont.) Water Fund	Non-routine transfer of capital assets to the Equipment Rental Fund \$58,326 and non-routine transfer of \$150,000 to the Building Improvement Fund for police department facility remodeling project.	\$ 208,326	
Wastewater Fund	Non-routine transfer of capital assets to the Equipment Rental Fund \$8,286 and non-routine transfer of \$150,000 to the Building Improvement Fund for police department facility remodeling project.	\$ 158,286	
Stormwater Fund	Non-routine transfer to the Building Improvement Fund for police department remodeling project.	\$ 35,000	
Total Proprietary Funds		\$ 401,612	\$ 66,612

All transfers are consistent with the activities of the funds making the transfers.

#### NOTE 12. NET ASSETS

The government-wide and business type fund financial statements utilize a net asset presentation. Net assets are the difference between assets and liabilities. Net assets are categorized as investment in capital assets (net of related debt), restricted, and unrestricted.

- A. Investment in Capital Assets (net of related debt) is intended to reflect the portion of net assets which are associated with non-liquid, capital assets less outstanding capital asset related debt.

The net related debt is the debt less the outstanding liquid assets and any associated unamortized cost. Additionally, until the infrastructure assets are reported, infrastructure related debt would reduce the investment in other non-infrastructure fixed assets.

- B. Restricted Net Assets are liquid assets (generated from revenues and not bond proceeds) which have third party (statutory, bond covenant, or granting agency) limitations on their use. The City would typically use restricted assets first, as appropriate opportunities arise, but reserve the right to selectively defer the use thereof to a future project or replacement equipment acquisition.

During 2003, the City of Lacey entered into a contract with the Capital Area Regional Public Facilities District (PFD) for the acquisition, development, operation and maintenance of the Lacey Area Athletic, Recreation and Special Events Complex. The PFD imposes a sales and use tax pursuant to RCW 82.14.390 to repay financing obtained to fund the design, construction, acquisition, operation and maintenance of the complex project. The moneys collected as sales taxes shall only be used for the purposes permitted under RCW 82.14.390 and RCW 35.57.020. In 2004, the City of Lacey received \$378,784 in sale taxes levied by the PFD.

Restricted Assets are as follows:

<b>Fund</b>	<b>Purpose</b>	<b>Amount</b>
<b><u>Governmental Funds</u></b>		
Lodging Tax Fund	Hotel/Motel Tax (RCW 67.40.100)	\$ 429,436
General Fund	Vessel Registration Fees Boating Registration Program (RCW 88.02.040)	\$ 18,004
	Guaranteed funds for Special Assessment Debt	\$ 100,000
Arterial Street Fund	Guaranteed funds for Special Assessment Debt	\$ 500,000
Parks and Open Space Fund	Public Facility Development Sports Complex Project (RCW 35.57.020)	\$ 71,493
Street Fund	Guaranteed funds for Special Assessment Debt	\$ 50,000
Total Governmental Funds		\$ 1,168,932
<b><u>Proprietary Funds</u></b>		
Water Fund	Debt service per revenue bond covenant	\$ 572,440
Wastewater Fund	Debt service per revenue bond covenant	\$ 476,370
Total Proprietary Funds		\$ 1,048,810

C. Unrestricted Assets represent unrestricted liquid assets. The City's management may have plans or tentative commitments to expend resources for certain purposes in future periods. Further legal action will be required to authorize the actual expenses or expenditures.

#### **NOTE 13. PRIOR-PERIOD ADJUSTMENT AND RESTATEMENT OF EQUITY BALANCES**

The following required prior year restatement of beginning balances:

During 2004 the City increased its capitalization threshold to \$5,000. As a result, the beginning general capital asset inventory for fiscal year 2004 was restated. The total net adjustment (reduction) to the beginning capital assets balance from the increase in capitalization threshold for the City was \$284,039.

It was determined that the certain construction cost that the City capitalized in 2003 did not meet the capitalization requirements for the City; therefore, the asset was removed from the City's capital assets. The amount of adjustment for this item was \$2,612,426. Also during the capital asset inventory in 2004, certain infrastructure assets that were in the City's capital assets records were identified as no longer exist and had been disposed in the previous year. Therefore, these assets were removed from the capital assets account, and the beginning balance was adjusted. The net adjustment for these assets was \$195,613.

During 2004, the City retroactively capitalized certain infrastructure assets that were acquired in prior to 2000 as a part the GASB 34 implementation. The net adjustment (increase) to the beginning

infrastructure assets balance from this activity was \$134,157,792.

The restatement of the beginning balances of the City's capital assets are summarized below:

Asset Class	Previously Reported Balance 12/31/2003	Adjustments to 12/31/03 Data	Adjusted Balance 12/31/03
<b>Governmental Activities</b>			
Land	\$ 12,900,099	\$ 76,174,302	\$ 89,074,401
Investment in joint venture	191,587	-	191,587
Construction in Progress	5,374,673	(2,612,426)	2,762,247
Non-depreciable assets, net	18,466,359	73,561,876	92,028,235
Buildings	8,589,875	(1,750)	8,588,125
Improvements	766,267	(5,341)	760,926
Infrastructure	32,960,334	57,786,391	90,746,725
Machinery and Equipment	2,338,039	(229,802)	2,108,237
Depreciable assets, net	44,654,515	57,549,498	102,204,013
Governmental activities capital assets, net	\$ 63,120,874	\$ 131,111,374	\$ 194,232,248
<b>Business-type Activities</b>			
Land	\$ 3,214,082	\$ -	\$ 3,214,082
Buildings	1,449,403	-	1,449,403
Improvements	92,453,142	(13,782)	92,439,360
Machinery and Equipment	655,698	(31,876)	623,822
Construction in Progress	112,425	(1)	112,424
Business-type activities capital assets, net	\$ 97,884,750	\$ (45,659)	\$ 97,839,091

It was determined that in 2003 an error was made in reporting certain funds received through the revenue exchange agreement between the City of Lacey and the Thurston County, TRPC. A portion of the funds was to be allocated and returned to the Thurston County at a later time per the agreement, therefore, should not have been reported as revenue. The prior period adjustment for the amount reported as revenue that should have been a payable in 2003 was \$432,500. It was determined that the deferred revenue was under reported by \$53,571 in 2003.

These prior period adjustments had the following effects on equity of the major and nonmajor funds of the City as they were previously reported:

	Fund Equity @ 12/31/2003	Correct error in reporting @ 12/31/2003	Increase in Capitalization Threshold	Adjusted Fund Equity @ 12/31/2003
<b>Governmental Funds:</b>				
Arterial Street	\$ 2,422,047	\$ (432,500)	\$ -	\$ 1,989,547
<b>Internal Service Funds:</b>				
Equipment Rental	\$ 5,079,960	\$ -	\$ (56,845)	\$ 5,023,115
Information Services	\$ 2,109,964	\$ -	\$ (170,659)	\$ 1,939,305

	Fund Equity @12/31/2003	Correct error in reporting @ 12/31/2003	Increase in Capitalization Threshold	Adjusted Fund Equity @ 12/31/2003
<b>Enterprise Funds:</b>				
Water	\$ 52,307,591	\$ -	\$ (25,923)	\$ 52,281,668
Waste Water	\$ 43,611,289	\$ -	\$ (15,591)	\$ 43,595,698
Stormwater	\$ 14,866,994	\$ -	\$ (4,144)	\$ 14,862,850

The above restatements had the following affects on the net assets of the City’s government-wide statements as they were previously reported:

	Governmental Activities	Business-type Activities
Net Assets @ 12/31/2003 as previously reported	\$ 85,082,939	\$ 110,785,874
Correct error in reporting @ 12/31/2003	(486,071)	-
Increase in Capitalization threshold	(238,380)	(45,659)
Remove previously capitalized assets	(2,808,039)	
Capitalize retroactive infrastructure assets (net of accumulated depreciation)	134,157,792	
Net Assets @12/31/2003, Restated	\$ 215,708,241	\$ 110,740,215

**NOTE 14. LONG-TERM DEBT**

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

**Governmental Activities:**

As of December 31, 2004, the governmental long-term debt of the financial the City consisted of the following:

1995 Limited Tax General Obligation Bonds original issue amount of \$2,400,000; dated September 1995; interest rate of 4.35 to 5.625% with final maturity dated December 2015. <i>Councilmanic bonds issued to provide funds for constructing and equipping an extension to City Hall. Payments to be funded from sales taxes, business and occupation taxes, and transfers in from other funds. Interest rates are; 4.75% in 2004; 4.85% in 2005; 4.95% in 2006; 5% in 2007; 5.125% in 2008; 5.02% in 2009; 5.3% in 2010; 5.4% in 2011; 5.5% in 2012; &amp; 5.625% in 2013-2015.</i>	\$1,360,000
1998 Limited Tax General Obligation Refunding Bonds original issue amount of \$1,200,000; dated March 1998; interest rate of 4.00-4.50% with final maturity dated December 2009. <i>Issued to provide funds in an irrevocable trust to refund a portion of the 1989 GO Bonds, which were issued to provide funds for a library building. The 1989 GO Bonds were paid in full in 1998. Payments to be funded from sales taxes, business and occupation taxes, and transfers in from other funds. Interest rates are; 4.2% in 2004; 4.3% in 2006; 4.35% in 2007; 4.4% in 2008; &amp; 4.5% in 2009.</i>	\$610,000
2002 Unlimited Tax General Obligation Bonds original issue amount of \$5,990,000; dated February 2002; interest rate of 3.0% to 5.0% with final maturity dated December 2021. <i>Issued to provide for fire safety improvements. Payments are funded by special property tax levies. Interest rates are 3.0% for 2002-2006; 3.375% in 2007; 3.625% in 2008; 3.875% in 2009; 4.0% in 2010; 4.125% in 2011 &amp; 2012; 4.375% in 2013 &amp; 2014; 4.55% in 2015; 4.625% in 2016; 4.75% in 2017 &amp; 2018; 4.875% in 2019; and 5.0% in 2020 &amp; 2021.</i>	\$5,405,000

Washington State Public Works Trust Fund Loan original draw down amount of \$620,006; dated April 1998; (the final draw down of \$2,948,110 was made in 2001), interest rate 3.00% with final maturity date July 2018. Purpose was to fund Street/Utility Improvements. Payments funded from the Arterial Street Fund and LID #19.	\$2,749,820
Special Assessment Bonds original issue amount of \$1,963,429; dated November 1993; interest rate of 3.75-6.00% with final maturity dated January 2016. Purpose was to fund Street/Utility Improvements. Payments funded from collections from Local Improvement District #13. Interest rates are 5.6-5.7% in 2004; 5.7-5.8% in 2005; 5.8-5.85% in 2006; 5.85-5.9% in 2007; 5.9% in 2008; 5.95% in 2009; & 6% in 2010-2011.	\$510,000
Special Assessment Bonds original issue amount of \$6,101,880; dated December 1993; interest rate of 3.60-6.10% with final maturity dated February 2011. Purpose was to fund Street/Utility Improvements. Payments funded from collections from Local Improvement District #16. Interest rates are 6-6.05% in 2004; 6.10% in 2005.	\$120,000
Special Assessment Bonds original issue amount of \$6,565,198; dated August 2001; interest rate of 4.00-6.00% with final maturity date October 2016. Purpose was to fund Street/Utility Improvements. Payments funded from the Arterial Street Fund and LID#19. Interest rates are 4.5 % in 2004; 4.75% in 2005; 5% in 2006; 5.15% in 2007; 5.3% in 2008; 5.5% in 2009; 5.6% in 2010; 5.7% in 2011; 5.8% in 2012; 5.85% in 2013; 5.9% in 2014; 5.95% in 2015; & 6% in 2016.	\$4,560,000
2003 Unlimited Tax General Obligation Bonds original issue amount of \$5,000,000; dated July 2003; interest rate of 2.50-4.00% with final maturity date of December 2023. Purpose was to provide funds for parks improvements. Payments are funded by special property tax levies. Interest rates are 2.5% in 2003-2009; 2.7% in 2010; 2.9% in 2011; 3% in 2012; 3.1% in 2013; 3.2% in 2014; 3.4% in 2015; 3.5% in 2016; 3.65% in 2017; 3.75% in 2018; 3.875% in 2019; 3.9% in 2020; 4% in 2021-2023.	\$4,735,000
1997 Animal Services Revenue Bonds original issue amount of \$1,800,000; dated September 1997; original interest rate of 6%; refinanced at interest rate of 3.978% in September 2003 with final maturity dated April 2019. Issued to provide funds for the acquisition, remodeling, and equipping of the animal service facility. Payments funded by an interlocal agreement between Thurston County, City of Olympia, City of Lacey, and City of Tumwater.	\$1,248,291
Compensated Absences – <i>Compensated absences are considered long-term debt for the fund statements. In the Government-wide statements the short-term portion is not material and is reported as long-term debt also.</i>	\$538,288
Total Governmental Activity Debt without Internal Service Fund Debt	\$21,836,399
Add Internal Service Fund Debt	\$28,293
Total Governmental Activity Debt	\$21,864,692

*Special Assessments Bonds are not a direct responsibility. The government is obligated for special assessment debt to the extent that it is required to establish a guaranty fund. The guaranty fund is maintained at approximately 12.82% of the total outstanding bonds under the fund balance of the general fund, street fund, and arterial street fund. LID 16 is fully guaranteed by an irrevocable letter of credit at 1.5 times the next year's interest. The purpose is to guarantee payments of the special assessment bonds in the event there are insufficient funds in the Local Improvement Fund. As of December 31, 2004 the amount of delinquent special assessment receivable was \$97,059.*

Business-type Activities:

As of December 31, 2004, the long-term debt payable from enterprise fund resources consisted of the following:

Revenue bonds original issue amounts of \$7,030,000; dated March 1998; interest rate of 4.00-5.00% with final maturity dated December 2009. Purpose was to refund water/sewer bonds used for water/sewer additions/improvements. Payments funded from revenues from the water and wastewater funds. Interest rates are 4.2% in 2004, 4.25% in 2004; 5% in 2006; 4.35% in 2007; 4.4% in 2008; & 4.5% in 2009	\$2,260,000
Compensated Absences – <i>Compensated absences are considered long-term debt for the fund statements. In the Government-wide statements the short-term portion is not material and is reported as long-term debt also.</i>	\$108,986
<b>Total Business-type Long-term Debt</b>	<b>\$2,368,986</b>

Changes in Long-term Debt

The following is a summary of changes in long-term debt for the year ended December 31, 2004:

Type of Debt	BalanceOwed 01/01/2004	Additions	Deductions	BalanceOwed 12/31/2004	Amount Due WithinOne Year
<b>Governmental Activities</b>					
G.O. Bonds	\$ 14,167,028	\$ 0	\$ 808,737	\$ 13,358,291	\$ 676,465
Special Assessment Bonds	6,730,000	0	1,540,000	5,190,000	730,000
PWTF Loan	2,946,236	19	6,416	2,749,820	196,416
Compensated Absences	474,841	653,070	561,330	566,581	539,800
<b>Total Governmental Activities</b>	<b>\$ 24,318,105</b>	<b>\$ 653,070</b>	<b>\$ 3,106,483</b>	<b>\$ 21,864,692</b>	<b>\$2,142,681</b>
<b>Business-type Activities</b>					
Revenue Bonds	\$ 4,575,000	\$ 0	\$ 2,315,000	\$ 2,260,000	\$ 945,000
DOE Loan	88,714		88,714	0	0
Compensated Absences	93,921	127,625	112,562	108,986	100,500
<b>Total Business-type activities</b>	<b>\$ 4,757,635</b>	<b>\$ 127,625</b>	<b>\$ 2,516,276</b>	<b>\$ 2,368,986</b>	<b>\$1,045,500</b>
<b>Totals</b>	<b>\$ 29,075,740</b>	<b>\$ 780,695</b>	<b>\$ 5,622,769</b>	<b>\$ 24,233,678</b>	<b>\$3,188,181</b>

Annual Debt Service Requirements:

The annual debt service requirements to maturity, including principal and interest, for long-term debt as of December 31, 2004, are as follows:

Year Ending December 31	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2005	\$ 1,602,881	\$ 917,927	\$ 945,000	\$ 103,810
2006	1,480,574	849,043	985,000	63,648
2007	1,278,376	787,785	245,000	14,398
2008	1,256,175	735,364	85,000	3,740

Year Ending December 31	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2009	1,329,320	684,648		
2010-2014	6,681,491	2,595,491		
2015-2019	5,479,294	1,097,871		
2020-2023	2,190,000	199,646		
Total	\$ 21,298,111	\$ 7,867,775	\$ 2,260,000	\$ 185,596

Variable-rate debt used was the effective interest rate as of December 31, 2004.

#### Refunded Debt:

In 2002 the City of Lacey had a partial defeasance of the 1998 Water and Sewer Utility Revenue Refunding Bonds. The refunding resulted from the sale of a lift station, originally purchased with bond proceeds, to LOTT Wastewater Alliance. U.S. Bank holds proceeds from the sale in trust. The investments and earnings from the investments on partial defeased debt are sufficient to fully service the partial defeased debt until the debt is called or matures. For financial reporting purposes, the debt has been considered defeased and therefore removed as a liability from the City financial statements. The amount of in-substance defeased debt that remains outstanding but removed from liability as of December 31, 2004 is \$498,890.

#### Bond discounts:

In accordance with generally accepted accounting principles for regulated businesses, the Water and Wastewater funds have deferred bond discounts of \$12,937 in 2004, which will be amortized on the straight-line method over 4-11 years. These charges, for ratemaking purposes, are treated as applicable to future periods.

#### NOTE 15: SUBSEQUENT EVENTS

On January 14, 2005, the City received a tax refund claim from a taxpayer for the Lacey Business and Occupational taxes they had paid for the period covering January 1, 2000 through September 30, 2003. The estimated refunds claimed are approximately \$527,000. The refund claim is currently under investigation and the actual refund amount, if any, has not yet been determined. This company has filed a refund as well with the Washington State Department of Revenue. If the ruling is made in favor of the business, then Lacey will agree with this decision.

#### NOTE 16. JOINT VENTURES

A joint venture is a legal entity or other organization that results from a contractual agreement and that is owned, operated or governed by two or more participants as a separate and specific activity subject to joint control in which the participants retain (a) an on-going financial interest or (b) an on-going financial responsibility. The City participates in the following joint ventures:

##### A. 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.

Total Net Assets, as of December 31, 2004 were \$1,368,529. An Equity Interest exists and is based on total contributions contributed by the City of Lacey (15%), City of Olympia (24%), the City of

Tumwater (6%), and Thurston County (55%). The City of Lacey reports its share of equity interest in the Non-depreciable Capital Asset section of Governmental Activities within the Governmental-wide Financial Statements.

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. Each jurisdiction contributes annual assessments for the loan payment until April 2019. The agreement specifies the funding formula that allocates costs based on serviced animal cases and population per jurisdiction in the prior year. For 2004 the City of Lacey's contribution was \$215,314 and is accounted for within the General Fund.

Completed Financial Statements can be obtained from the City of Lacey, Post Office Box 3400, Lacey, WA 98509-3400.

#### **B. INTERLOCAL DRUG UNIT**

An executive committee comprised of members from the City of Lacey, the City of Olympia, the City of Tumwater, Thurston County, and the Washington State Patrol operates the Interlocal Drug Unit.

Total Net Assets, as of December 31, 2004 were \$634,847. Assets purchased by, or forfeited to, the drug unit are owned by the participants. All monies and equipment remain with the Drug Unit until withdrawal of any permanent participant. Disposition of net equity upon dissolution is not specified in the agreement and therefore is not recorded in the City of Lacey's Financial Statements. There is no ongoing financial responsibility.

Completed Financial Statements can be obtained from the City of Lacey, Post Office Box 3400, Lacey, WA 98509-3400.

The following is condensed financial information as of December 31, 2004, on each Joint Venture:

	Joint Animal Services	Interlocal Drug Unit
Assets	\$2,770,814	\$734,981
Liabilities	\$1,335,385	\$100,134
Net Assets	\$1,435,429	\$634,847

# REQUIRED SUPPLEMENTAL INFORMATION

# REQUIRED SUPPLEMENTAL INFORMATION

Schedule of Revenues, Expenditures, and  
Changes in Fund Balances - Budget to Actual  
General Fund  
For the Year Ended December 31, 2004

	Budgeted Amounts		Actual GAAP Basis	Variance with Final Budget Positive(Negative)
	Original	Final		
<b>REVENUES</b>				
Taxes	\$ 13,401,529	\$ 13,506,477	\$ 14,471,121	\$ 964,644
Licenses and permits	840,410	940,410	1,245,253	304,843
Intergovernmental revenues	471,140	486,640	857,197	370,557
Charges for services	3,735,265	3,805,265	4,259,464	454,199
Fines & forfeitures	404,400	404,400	453,628	49,228
Other revenue	480,857	480,857	310,307	(170,550)
Total revenues	<u>\$ 19,333,601</u>	<u>\$ 19,624,049</u>	<u>\$ 21,596,970</u>	<u>\$ 1,972,921</u>
<b>EXPENDITURES</b>				
Current:				
General government	\$ 3,512,114	\$ 3,612,869	\$ 3,483,483	\$ 129,386
Security of persons and property	9,483,921	9,528,396	9,331,690	196,706
Physical environment	2,475,700	2,475,700	2,421,294	54,406
Economic environment	877,809	892,454	902,159	(9,705)
Mental and physical health	6,500	6,500	6,572	(72)
Culture and recreation	3,063,071	3,206,909	2,930,545	276,364
Capital outlay	5,800	5,800	6,077	(277)
Total expenditures	<u>\$ 19,424,915</u>	<u>\$ 19,728,628</u>	<u>\$ 19,081,820</u>	<u>\$ 646,808</u>
Excess of revenue over (under) expenditures	<u>\$ (91,314)</u>	<u>\$ (104,579)</u>	<u>\$ 2,515,150</u>	<u>\$ 2,619,729</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds from sale of capital assets	\$ -	\$ -	\$ 5,070	\$ 5,070
Operating transfers in	198,314	198,314	198,314	-
Operating transfers out	(615,000)	(835,000)	(835,000)	-
Total other financing sources	<u>\$ (416,686)</u>	<u>\$ (636,686)</u>	<u>\$ (631,616)</u>	<u>\$ 5,070</u>
Net change in fund balances	\$ (508,000)	\$ (741,265)	\$ 1,883,534	\$ 2,624,799
FUND BALANCES - JANUARY 1	<u>\$ 508,000</u>	<u>\$ 741,265</u>	<u>\$ 11,287,265</u>	<u>\$ 10,546,000</u>
FUND BALANCES DECEMBER 31	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 13,170,799</u>	<u>\$ 13,170,799</u>

The Accompanying Notes Are An Integral Part of This Statement.

Schedule of Revenues, Expenditures, and  
Changes in Fund Balances - Budget to Actual  
Arterial Streets  
For the Year Ended December 31, 2004

	Budgeted Amounts		Actual GAAP Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Taxes	\$ 380,000	\$ 380,000	\$ 1,012,866	\$ 632,866
Intergovernmental revenues	5,264,407	5,264,407	768,270	(4,496,137)
Charges for services	352,981	352,981	769,834	416,853
Other revenue	15,000	15,000	100,434	85,434
Total revenues	<u>\$ 6,012,388</u>	<u>\$ 6,012,388</u>	<u>\$ 2,651,404</u>	<u>\$ (3,360,984)</u>
<b>EXPENDITURES</b>				
Current:				
Capital outlay	\$ 7,742,378	\$ 7,742,378	\$ 1,984,819	\$ 5,757,559
Total expenditures	<u>\$ 7,742,378</u>	<u>\$ 7,742,378</u>	<u>\$ 1,984,819</u>	<u>\$ 5,757,559</u>
Excess of revenue over (under) expenditures	<u>\$ (1,729,990)</u>	<u>\$ (1,729,990)</u>	<u>\$ 666,585</u>	<u>\$ 2,396,575</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Operating transfers in	\$ 1,032,710	\$ 1,032,710	\$ 1,032,710	\$ -
Total other financing sources	<u>\$ 1,032,710</u>	<u>\$ 1,032,710</u>	<u>\$ 1,032,710</u>	<u>\$ -</u>
Net change in fund balances	\$ (697,280)	\$ (697,280)	\$ 1,699,295	\$ 2,396,575
FUND BALANCES - JANUARY 1	<u>\$ 697,280</u>	<u>\$ 697,280</u>	<u>\$ 1,989,547</u>	<u>\$ 1,292,267</u>
FUND BALANCES - DECEMBER 31	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,688,842</u>	<u>\$ 3,688,842</u>

The Accompanying Notes Are An Integral Part of This Statement.

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION**

**BUDGETARY INFORMATION**

The City's annual budget is adopted on a basis consistent with Generally Accepted Accounting Principles (GAAP) for all governmental funds. Thus there is no difference between GAAP and the budgetary basis of accounting. For more detailed information see the Notes to the financial statements (Note 2, pages 4-23 to 4-24)



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# COMBINING STATEMENTS

# COMBINING STATEMENTS

**NON-MAJOR FUNDS*****Other Governmental Funds*****CITY STREET FUND**

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

**LODGING TAX FUND**

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

**COMMUNITY DEVELOPMENT BLOCK GRANT FUND**

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

**GENERAL OBLIGATION BOND FUND**

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

**BUILDING IMPROVEMENT FUND**

The Building Improvement Fund is only used when there is a need to account for a significant building project or equipment acquisition that is usually funded by a bond sale. Each year, an amount equivalent to \$.25 per capita is deposited into this fund from sales tax revenue for the purpose of acquiring public art.

**CAPITAL EXPENDITURE FUND**

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

***Internal Service Funds*****EQUIPMENT RENTAL FUND**

The Equipment Rental Fund is an internal service fund created to provide for maintenance and replacement of City owned vehicles and equipment. The Finance Department provides administrative and accounting services while the Public Works Department provides maintenance and repair services.

**INFORMATION MANAGEMENT SERVICES FUND**

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

Combining Balance Sheet  
Other Governmental Funds  
December 31, 2004

	Special Revenue Funds			Debt Service Fund
	Street Fund	Lodging Tax	Community Development Block Grant	General Obligation Bond Fund
<b>ASSETS</b>				
Current cash & cash equivalents	\$ 82,623	\$ 14,640	\$ -	\$ 151,328
Investments	845,000	400,000	-	275,000
Receivables (net of allowances)				
Taxes	-	-	-	25,936
Customer accounts	266,074	-	351,057	-
Accrued interest & penalty	8,695	715	-	668
Due from other governmental units	85,081	29,153	-	581
<b>TOTAL ASSETS</b>	<b>\$ 1,287,473</b>	<b>\$ 444,508</b>	<b>\$ 351,057</b>	<b>\$ 453,513</b>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>Liabilities</b>				
Accounts payable	\$ 2,244	\$ 15,072	\$ -	\$ -
Interfund loans payable	-	-	121,880	-
Long-term liabilities				
Advances payable to other funds	-	-	174,000	-
Deferred revenue	-	-	351,057	25,936
<b>Total Liabilities</b>	<b>\$ 2,244</b>	<b>\$ 15,072</b>	<b>\$ 646,937</b>	<b>\$ 25,936</b>
<b>Fund balances</b>				
<b>Reserved for:</b>				
Special revenue funds	\$ 1,285,229	\$ 429,436	\$ (295,880)	\$ -
Debt service funds	-	-	-	427,577
Capital project funds	-	-	-	-
<b>Total fund balances</b>	<b>\$ 1,285,229</b>	<b>\$ 429,436</b>	<b>\$ (295,880)</b>	<b>\$ 427,577</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 1,287,473</b>	<b>\$ 444,508</b>	<b>\$ 351,057</b>	<b>\$ 453,513</b>

<u>Capital Project Funds</u>		<u>Total Other Governmental Funds</u>
<u>Building Improvement</u>	<u>Capital Expenditure</u>	
\$ 4,532	\$ 135,955	\$ 389,078
1,155,000	3,840,000	6,515,000
-	-	25,936
-	124,298	741,429
6,506	41,591	58,175
-	106,664	221,479
<u>\$ 1,166,038</u>	<u>\$ 4,248,508</u>	<u>\$ 7,951,097</u>
\$ 118,991	\$ 21,968	\$ 158,275
-	-	121,880
-	-	174,000
-	-	376,993
<u>\$ 118,991</u>	<u>\$ 21,968</u>	<u>\$ 831,148</u>
\$ -	\$ -	\$ 1,418,785
-	-	427,577
1,047,047	4,226,540	5,273,587
<u>\$ 1,047,047</u>	<u>\$ 4,226,540</u>	<u>\$ 7,119,949</u>
<u>\$ 1,166,038</u>	<u>\$ 4,248,508</u>	<u>\$ 7,951,097</u>

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances  
Other Governmental Funds  
For the Year Ended December 31, 2004

	Special Revenue Funds			Debt Service Fund
	Street Fund	Lodging Tax	Community Development Block Grant	General Obligation Bond Fund
<b>REVENUES</b>				
Taxes	\$ 1,275,387	\$ 217,764	\$ -	\$ 1,111,798
Intergovernmental revenues	467,988	-	58,970	-
Charges for services	99	-	-	-
Other revenue	40,607	23,110	-	25,465
<b>Total revenues</b>	<b>\$ 1,784,081</b>	<b>\$ 240,874</b>	<b>\$ 58,970</b>	<b>\$ 1,137,263</b>
<b>EXPENDITURES</b>				
<b>Current:</b>				
Transportation	\$ 1,502,854	\$ -	\$ -	\$ -
Economic environment	-	-	-	-
Culture and recreation	-	132,322	-	-
Capital outlay	-	3,527	128,748	-
<b>Debt service:</b>				
Principal retirement	-	-	-	745,000
Interest	-	-	-	518,135
<b>Total expenditures</b>	<b>\$ 1,502,854</b>	<b>\$ 135,849</b>	<b>\$ 128,748</b>	<b>\$ 1,263,135</b>
Excess of revenue over (under) expenditures	\$ 281,227	\$ 105,025	\$ (69,778)	\$ (125,872)
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers In	\$ -	\$ -	\$ 220,000	\$ 115,455
Transfers Out	(50,000)	-	-	-
<b>Total other financing sources</b>	<b>\$ (50,000)</b>	<b>\$ -</b>	<b>\$ 220,000</b>	<b>\$ 115,455</b>
<b>Net change in fund balances</b>	<b>\$ 231,227</b>	<b>\$ 105,025</b>	<b>\$ 150,222</b>	<b>\$ (10,417)</b>
<b>FUND BALANCES - JANUARY 1</b>	<b>\$ 1,054,002</b>	<b>\$ 324,411</b>	<b>\$ (446,102)</b>	<b>\$ 437,994</b>
<b>FUND BALANCES - DECEMBER 31</b>	<b>\$ 1,285,229</b>	<b>\$ 429,436</b>	<b>\$ (295,880)</b>	<b>\$ 427,577</b>

<u>Capital Project Funds</u>		<u>Total Other Governmental Funds</u>
<u>Building Improvement</u>	<u>Capital Expenditure</u>	
\$ 8,133	\$ 2,027,926	\$ 4,641,008
-	-	526,958
-	-	99
34,393	67,327	190,902
<u>\$ 42,526</u>	<u>\$ 2,095,253</u>	<u>\$ 5,358,967</u>
\$ -	\$ -	\$ 1,502,854
-	1,348	1,348
-	-	132,322
3,554,085	550,347	4,236,707
-	-	745,000
<u>-</u>	<u>-</u>	<u>518,135</u>
<u>\$ 3,554,085</u>	<u>\$ 551,695</u>	<u>\$ 7,136,366</u>
\$ (3,511,559)	\$ 1,543,558	\$ (1,777,399)
\$ 750,000	\$ -	\$ 1,085,455
<u>-</u>	<u>(1,298,165)</u>	<u>(1,348,165)</u>
<u>\$ 750,000</u>	<u>\$ (1,298,165)</u>	<u>\$ (262,710)</u>
\$ (2,761,559)	\$ 245,393	\$ (2,040,109)
<u>\$ 3,808,606</u>	<u>\$ 3,981,147</u>	<u>\$ 9,160,058</u>
<u>\$ 1,047,047</u>	<u>\$ 4,226,540</u>	<u>\$ 7,119,949</u>

Schedule of Revenues, Expenditures, and  
Changes in Fund Balances - Budget to Actual  
Street Fund  
For the Year Ended December 31, 2004

	Budgeted Amounts		Actual GAAP Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Taxes	\$ 1,068,147	\$ 1,086,647	\$ 1,275,387	\$ 188,740
Intergovernmental revenues	455,551	455,551	467,988	12,437
Charges for services	-	-	99	99
Other revenue	8,800	26,100	40,607	14,507
Total revenues	<u>\$ 1,532,498</u>	<u>\$ 1,568,298</u>	<u>\$ 1,784,081</u>	<u>\$ 215,783</u>
<b>EXPENDITURES</b>				
Current:				
Transportation	\$ 1,532,498	\$ 1,608,813	\$ 1,502,854	\$ 105,959
Total expenditures	<u>\$ 1,532,498</u>	<u>\$ 1,608,813</u>	<u>\$ 1,502,854</u>	<u>\$ 105,959</u>
Excess of revenue over (under) expenditures	<u>\$ -</u>	<u>\$ (40,515)</u>	<u>\$ 281,227</u>	<u>\$ 321,742</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Operating transfers out	\$ (50,000)	\$ (50,000)	\$ (50,000)	\$ -
Total other financing sources	<u>\$ (50,000)</u>	<u>\$ (50,000)</u>	<u>\$ (50,000)</u>	<u>\$ -</u>
Net change in fund balances	\$ (50,000)	\$ (90,515)	\$ 231,227	\$ 321,742
FUND BALANCES - JANUARY 1	<u>\$ 50,000</u>	<u>\$ 90,515</u>	<u>\$ 1,054,002</u>	<u>\$ 963,487</u>
FUND BALANCES - DECEMBER 31	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 1,285,229</u></u>	<u><u>\$ 1,285,229</u></u>

Schedule of Revenues, Expenditures, and  
Changes in Fund Balances - Budget to Actual  
Lodging Tax  
For the Year Ended December 31, 2004

	Budgeted Amounts		Actual GAAP Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Taxes	\$ 189,500	\$ 189,500	\$ 217,764	\$ 28,264
Other revenue	2,500	2,500	23,110	20,610
Total revenues	<u>\$ 192,000</u>	<u>\$ 192,000</u>	<u>\$ 240,874</u>	<u>\$ 48,874</u>
<b>EXPENDITURES</b>				
Current:				
Culture and recreation	\$ 179,200	\$ 179,200	\$ 132,322	\$ 46,878
Capital outlay	12,800	12,800	3,527	9,273
Total expenditures	<u>\$ 192,000</u>	<u>\$ 192,000</u>	<u>\$ 135,849</u>	<u>\$ 56,151</u>
Excess of revenue over (under) expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 105,025</u>	<u>\$ 105,025</u>
Net change in fund balances	\$ -	\$ -	\$ 105,025	\$ 105,025
FUND BALANCES - JANUARY 1	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 324,411</u>	<u>\$ 324,411</u>
FUND BALANCES - DECEMBER 31	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 429,436</u></u>	<u><u>\$ 429,436</u></u>

Schedule of Revenues, Expenditures, and  
Changes in Fund Balances - Budget to Actual  
Community Development Block Grant  
For the Year Ended December 31, 2004

	Budgeted Amounts		Actual GAAP Basis	Variance with Final Budget
	Original	Final		Positive (Negative)
<b>REVENUES</b>				
Intergovernmental revenues	\$ -	\$ -	\$ 58,970	\$ 58,970
Total revenues	\$ -	\$ -	\$ 58,970	\$ 58,970
<b>EXPENDITURES</b>				
Current:				
Capital outlay	\$ -	\$ 220,000	\$ 128,748	\$ 91,252
Total expenditures	\$ -	\$ 220,000	\$ 128,748	\$ 91,252
Excess of revenue over (under) expenditures	\$ -	\$ (220,000)	\$ (69,778)	\$ 150,222
<b>OTHER FINANCING SOURCES (USES)</b>				
Operating transfers in	\$ -	\$ 220,000	\$ 220,000	\$ -
Total other financing sources	\$ -	\$ 220,000	\$ 220,000	\$ -
Net change in fund balances	\$ -	\$ -	\$ 150,222	\$ 150,222
FUND BALANCES - JANUARY 1	\$ -	\$ -	\$ (446,102)	\$ (446,102)
FUND BALANCES - DECEMBER 31	\$ -	\$ -	\$ (295,880)	\$ (295,880)

Schedule of Revenues, Expenditures, and  
Changes in Fund Balances - Budget to Actual  
General Obligation Bond Fund  
For the Year Ended December 31, 2004

	Budgeted Amounts		Actual GAAP Basis	Variance with Final Budget
	Original	Final		Positive (Negative)
<b>REVENUES</b>				
Taxes	\$ 1,120,207	\$ 1,120,207	\$ 1,111,798	\$ (8,409)
Other revenue	27,640	27,640	25,465	(2,175)
Total revenues	<u>\$ 1,147,847</u>	<u>\$ 1,147,847</u>	<u>\$ 1,137,263</u>	<u>\$ (10,584)</u>
<b>EXPENDITURES</b>				
Debt service:				
Principal retirement	\$ 745,000	\$ 745,000	\$ 745,000	\$ -
Interest	518,137	518,137	518,135	2
Total expenditures	<u>\$ 1,263,137</u>	<u>\$ 1,263,137</u>	<u>\$ 1,263,135</u>	<u>\$ 2</u>
Excess of revenue over (under) expenditures	<u>\$ (115,290)</u>	<u>\$ (115,290)</u>	<u>\$ (125,872)</u>	<u>\$ (10,582)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Operating transfers in	\$ 115,455	\$ 115,455	\$ 115,455	\$ -
Total other financing sources	<u>\$ 115,455</u>	<u>\$ 115,455</u>	<u>\$ 115,455</u>	<u>\$ -</u>
Net change in fund balances	\$ 165	\$ 165	\$ (10,417)	\$ (10,582)
FUND BALANCES - JANUARY 1	<u>\$ (165)</u>	<u>\$ (165)</u>	<u>\$ 437,994</u>	<u>\$ 438,159</u>
FUND BALANCES - DECEMBER 31	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 427,577</u></u>	<u><u>\$ 427,577</u></u>

Schedule of Revenues, Expenditures, and  
Changes in Fund Balances - Budget to Actual  
Building Improvement  
For the Year Ended December 31, 2004

	Budgeted Amounts		Actual GAAP Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Taxes	\$ 8,060	\$ 8,060	\$ 8,133	\$ 73
Other revenue	1,000 1,000	34,393 33,393		
Total revenues	<u>\$ 9,060</u>	<u>\$ 9,060</u>	<u>\$ 42,526</u>	<u>\$ 33,466</u>
<b>EXPENDITURES</b>				
Current:				
Capital outlay	\$ 3,162,015	\$ 4,242,015	\$ 3,554,085	\$ 687,930
Total expenditures	<u>\$ 3,162,015</u>	<u>\$ 4,242,015</u>	<u>\$ 3,554,085</u>	<u>\$ 687,930</u>
Excess of revenue over (under) expenditures	<u>\$ (3,152,955)</u>	<u>\$ (4,232,955)</u>	<u>\$ (3,511,559)</u>	<u>\$ 721,396</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Operating transfers in	\$ 750,000	\$ 750,000	\$ 750,000	\$ -
Total other financing sources	<u>\$ 750,000</u>	<u>\$ 750,000</u>	<u>\$ 750,000</u>	<u>\$ -</u>
Net change in fund balances	\$ (2,402,955)	\$ (3,482,955)	\$ (2,761,559)	\$ 721,396
FUND BALANCES - JANUARY 1	<u>\$ 2,402,955</u>	<u>\$ 3,482,955</u>	<u>\$ 3,808,606</u>	<u>\$ 325,651</u>
FUND BALANCES - DECEMBER 31	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 1,047,047</u></u>	<u><u>\$ 1,047,047</u></u>

Schedule of Revenues, Expenditures, and  
Changes in Fund Balances - Budget to Actual  
Capital Expenditure  
For the Year Ended December 31, 2004

	Budgeted Amounts		Actual GAAP Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Taxes	\$ 1,160,831	\$ 1,160,831	\$ 2,027,926	\$ 867,095
Other revenue	31,220	31,220	67,327	36,107
Total revenues	<u>\$ 1,192,051</u>	<u>\$ 1,192,051</u>	<u>\$ 2,095,253</u>	<u>\$ 903,202</u>
<b>EXPENDITURES</b>				
Current:				
Economic environment	\$ -	\$ -	\$ 1,348	\$ (1,348)
Capital outlay	740,121	756,551	550,347	206,204
Total expenditures	<u>\$ 740,121</u>	<u>\$ 756,551</u>	<u>\$ 551,695</u>	<u>\$ 204,856</u>
Excess of revenue over (under) expenditures	<u>\$ 451,930</u>	<u>\$ 435,500</u>	<u>\$ 1,543,558</u>	<u>\$ 1,108,058</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Operating transfers out	\$ (1,318,430)	\$ (1,298,165)	\$ (1,298,165)	\$ -
Total other financing sources	<u>\$ (1,318,430)</u>	<u>\$ (1,298,165)</u>	<u>\$ (1,298,165)</u>	<u>\$ -</u>
Net change in fund balances	\$ (866,500)	\$ (862,665)	\$ 245,393	\$ 1,108,058
FUND BALANCES - JANUARY 1	<u>\$ 866,500</u>	<u>\$ 862,665</u>	<u>\$ 3,981,147</u>	<u>\$ 3,118,482</u>
FUND BALANCES DECEMBER - 31	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 4,226,540</u></u>	<u><u>\$ 4,226,540</u></u>

Schedule of Revenues, Expenditures, and  
Changes in Fund Balances - Budget to Actual  
L.I.D. Redemption  
For the Year Ended December 31, 2004

	Budgeted Amounts		Actual GAAP Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Other revenue	\$ 1,938,265	\$ 2,203,265	\$ 1,477,430	\$ (725,835)
Total revenues	\$ 1,938,265	\$ 2,203,265	\$ 1,477,430	\$ (725,835)
<b>EXPENDITURES</b>				
Debt service:				
Principal retirement	\$ 1,471,420	\$ 1,736,420	\$ 1,736,416	\$ 4
Interest	466,845	466,845	466,842	3
Total expenditures	\$ 1,938,265	\$ 2,203,265	\$ 2,203,258	\$ 7
Excess of revenue over (under) expenditures	\$ -	\$ -	\$ (725,828)	\$ (725,828)
Net change in fund balances	\$ -	\$ -	\$ (725,828)	\$ (725,828)
FUND BALANCES - JANUARY 1	\$ -	\$ -	\$ 1,397,232	\$ 1,397,232
FUND BALANCES - DECEMBER 31	\$ -	\$ -	\$ 671,404	\$ 671,404

Schedule of Revenues, Expenditures, and  
Changes in Fund Balances - Budget to Actual  
Parks & Open Space  
For the Year Ended December 31, 2004

	Budgeted Amounts		Actual GAAP Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Taxes	\$ 824,546	\$ 824,546	\$ 1,001,713	\$ 177,167
Intergovernmental revenues	410,279	410,279	669,724	259,445
Other revenue	9,530	9,530	57,632	48,102
Total revenues	<u>\$ 1,244,355</u>	<u>\$ 1,244,355</u>	<u>\$ 1,729,069</u>	<u>\$ 484,714</u>
<b>EXPENDITURES</b>				
Current:				
Culture and recreation	\$ 8,500	\$ 8,500	\$ 6,271	\$ 2,229
Capital outlay	4,340,441	5,897,515	3,573,250	2,324,265
Total expenditures	<u>\$ 4,348,941</u>	<u>\$ 5,906,015</u>	<u>\$ 3,579,521</u>	<u>\$ 2,326,494</u>
Excess of revenue over (under) expenditures	<u>\$ (3,104,586)</u>	<u>\$ (4,661,660)</u>	<u>\$ (1,850,452)</u>	<u>\$ 2,811,208</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Operating transfers in	\$ 400,000	\$ 400,000	\$ 400,000	\$ -
Operating transfers out	(180,414)	(198,314)	(198,314)	-
Total other financing sources	<u>\$ 219,586</u>	<u>\$ 201,686</u>	<u>\$ 201,686</u>	<u>\$ -</u>
Net change in fund balances	\$ (2,885,000)	\$ (4,459,974)	\$ (1,648,766)	\$ 2,811,208
FUND BALANCES - JANUARY 1	<u>\$ 2,885,000</u>	<u>\$ 4,459,974</u>	<u>\$ 3,801,195</u>	<u>\$ (658,779)</u>
FUND BALANCES - DECEMBER 31	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,152,429</u>	<u>\$ 2,152,429</u>

Statement of Net Assets  
Combining Statement of Net Assets  
Internal Service Funds  
December 31, 2004

	Governmental Activities		
	Internal Service Funds		
	Equipment Rental	Information Services	Total
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$ 3,348,896	\$ 1,986,371	\$ 5,335,267
Receivables (net of allowances)			
Accrued interest & penalty	49,044	25,530	74,574
Due from governmental units	5,656	-	5,656
Total current assets:	\$ 3,403,596	\$ 2,011,901	\$ 5,415,497
Non-current assets:			
Restricted:			
Debt service:			
Fixed assets, net of depreciation:			
Buildings	\$ 125,127	\$ -	\$ 125,127
Improvements other than buildings	10,777	-	10,777
Equipment	1,812,532	93,030	1,905,562
Total non-current assets	\$ 1,948,436	\$ 93,030	\$ 2,041,466
Total assets	\$ 5,352,032	\$ 2,104,931	\$ 7,456,963
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable	\$ 4,676	\$ 3,092	\$ 7,768
Total current liabilities	\$ 4,676	\$ 3,092	\$ 7,768
Non-current liabilities			
Compensated absences	\$ 15,076	\$ 13,217	\$ 28,293
Total non-current liabilities	\$ 15,076	\$ 13,217	\$ 28,293
Total liabilities	\$ 19,752	\$ 16,309	\$ 36,061
<b>NET ASSETS</b>			
Investment in capital assets, net of related debt	\$ 1,948,436	\$ 93,030	\$ 2,041,466
Unrestricted	3,383,844	1,995,592	5,379,436
Total net assets	\$ 5,332,280	\$ 2,088,622	\$ 7,420,902

Statement of Revenues, Expenses, and Changes in Fund Net Assets  
Internal Service Funds  
For the Year Ended December 31, 2004

	Governmental Activities		
	Internal Service Funds		
	Equipment Rental	Information Services	Total
<b>OPERATING REVENUES</b>			
Charges for services	\$ 1,137,822	\$ 982,725	\$ 2,120,547
Total operating revenue	\$ 1,137,822	\$ 982,725	\$ 2,120,547
<b>OPERATING EXPENSES</b>			
Operating expense	\$ 503,167	\$ 629,203	\$ 1,132,370
Maintenance expense	36,223	156,334	192,557
Depreciation	499,185	77,193	576,378
Total operating expenses	\$ 1,038,575	\$ 862,730	\$ 1,901,305
OPERATING INCOME (LOSS)	\$ 99,247	\$ 119,995	\$ 219,242
<b>NON-OPERATING REVENUES (EXPENSES)</b>			
Investment earnings	\$ 66,192	\$ 33,614	\$ 99,806
Miscellaneous non-operating revenues	259	-	259
Gain (loss) on sale of fixed assets	24,913	(11,319)	13,594
Total non-operating revenues (expenses)	\$ 91,364	\$ 22,295	\$ 113,659
Income (loss) before contributions and transfers	\$ 190,611	\$ 142,290	\$ 332,901
Capital Contributions	\$ 51,942	\$ 7,027	\$ 58,969
Transfers in (out)	66,612	-	66,612
Changes in net assets	\$ 309,165	\$ 149,317	\$ 458,482
NET ASSETS - BEGINNING	\$ 5,023,115	\$ 1,939,305	\$ 6,962,420
NET ASSETS - ENDING	\$ 5,332,280	\$ 2,088,622	\$ 7,420,902

Statement of Cash Flows  
Internal Service Funds  
For the Year Ended December 31, 2004

	Governmental Activities		
	Internal Service Funds		
	Equipment Rental	Information Services	Total Internal Service
<b>CASH FLOW FROM OPERATING ACTIVITIES:</b>			
Cash received from customers	\$ 1,086,775	\$ 957,195	\$ 2,043,970
Cash payments for maintenance and operations	(351,739)	(364,956)	(716,695)
Cash payments to employees	(184,547)	(424,101)	(608,648)
Other non-operating receipts	259	-	259
Net cash provided by operating activities	<u>\$ 550,748</u>	<u>\$ 168,138</u>	<u>\$ 718,886</u>
<b>CASH FLOW FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>			
Acquisition and construction of capital assets	\$ (471,943)	\$ (10,733)	\$ (482,676)
Proceeds from the sale of fixed assets	26,408	3,125	29,533
Capital Contributions	118,554	7,027	125,581
Net cash used by capital and related financing activities	<u>\$ (326,981)</u>	<u>\$ (581)</u>	<u>\$ (327,562)</u>
<b>CASH FLOW FROM INVESTING ACTIVITIES:</b>			
Interest on investments	66,192	33,614	99,806
Net cash provided (used) by investing activities	<u>\$ 66,192</u>	<u>\$ 33,614</u>	<u>\$ 99,806</u>
Net increase (decrease) in cash and cash equivalents	289,959	201,171	491,130
Cash and cash equivalents January 1	<u>\$ 3,058,937</u>	<u>\$ 1,785,200</u>	<u>\$ 4,844,137</u>
Cash and cash equivalents December 31	<u><u>\$ 3,348,896</u></u>	<u><u>\$ 1,986,371</u></u>	<u><u>\$ 5,335,267</u></u>

Statement of Cash Flows  
Internal Service Funds  
For the Year Ended December 31, 2004

	Governmental Activities		
	Internal Service Funds		
	Equipment Rental	Information Services	Total Internal Service
CASH PROVIDED BY OPERATING ACTIVITIES:			
Net operating income	\$ 99,247	\$ 119,995	\$ 219,242
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:			
Depreciation	\$ 499,185	\$ 77,193	\$ 576,378
(Increase)/decrease in customer receivables	(51,047)	(25,530)	(76,577)
Non-operating revenue	259	-	259
Increase/(decrease) in accounts payable	1,313	(4,717)	(3,404)
Increase/(decrease) in salaries payable	1,791	1,197	2,988
Net cash provided by operating activities	<u>\$ 550,748</u>	<u>\$ 168,138</u>	<u>\$ 718,886</u>



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# SUPPLEMENTAL INFORMATION

# SUPPLEMENTAL INFORMATION

Schedule of Operations - Budget to Actual  
Water Fund  
For the Year Ended December 31, 2004

	Budgeted Amounts		Actual GAAP Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>OPERATING REVENUES</b>				
Charges for services	\$ 5,724,975	\$ 5,724,975	\$ 6,781,902	\$ 1,056,927
Total operating revenue	\$ 5,724,975	\$ 5,724,975	\$ 6,781,902	\$ 1,056,927
<b>OPERATING EXPENSES</b>				
Operating expense	\$ 2,626,262	\$ 2,973,082	\$ 2,144,483	\$ 828,599
Maintenance expense	3,825,313	4,907,168	2,381,600	2,525,568
Debt discount amortization	2,960	2,960	13,361	(10,401)
Depreciation expense	1,240,000	1,240,000	1,495,702	(255,702)
Taxes	208,149	293,979	287,937	6,042
Total operating expenses	\$ 7,902,684	\$ 9,417,189	\$ 6,323,083	\$ 3,094,106
OPERATING INCOME (LOSS)	\$ (2,177,709)	\$ (3,692,214)	\$ 458,819	\$ 4,151,033
<b>NON-OPERATING REVENUES (EXPENSES)</b>				
Investment earnings	\$ 86,350	\$ 86,350	\$ 79,898	\$ (6,452)
Miscellaneous non-operating revenues	104,295	104,295	186,362	82,067
Interest expense	(136,820)	(136,820)	(120,456)	16,364
Gain (loss) on sale of fixed assets	-	-	(34,062)	(34,062)
Total non-operating Revenues (expenses)	\$ 53,825	\$ 53,825	\$ 111,742	\$ 57,917
Income (loss) before contributions and transfers	\$ (2,123,884)	\$ (3,638,389)	\$ 570,561	\$ 4,208,950
Capital Contributions	\$ -	\$ -	\$ 4,575,686	\$ 4,575,686
Transfers in (out)	-	(150,000)	(208,326)	(58,326)
Changes in net assets	\$ (2,123,884)	\$ (3,788,389)	\$ 4,937,921	\$ 8,726,310
NET ASSETS - BEGINNING (Restated)	\$ 2,123,884	\$ 3,788,389	\$ 52,281,668	\$ 48,493,279
NET ASSETS - ENDING	\$ -	\$ -	\$ 57,219,589	\$ 57,219,589

This schedule is presented as supplemental information

Schedule of Operations - Budget to Actual  
Wastewater Fund  
For the Year Ended December 31, 2004

	Budgeted Amounts		Actual GAAP Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>OPERATING REVENUES</b>				
Charges for services	\$ 8,041,113	\$ 8,041,113	\$ 8,247,508	\$ 206,395
Total operating revenue	\$ 8,041,113	\$ 8,041,113	\$ 8,247,508	\$ 206,395
<b>OPERATING EXPENSES</b>				
Operating expense	\$ 6,292,057	\$ 6,300,757	\$ 5,198,676	\$ 1,102,081
Maintenance expense	7,042,843	6,990,121	1,089,337	5,900,784
Debt discount amortization	1,865	1,865	2,622	(757)
Depreciation expense	1,055,000	1,055,000	990,673	64,327
Taxes	90,000	115,200	112,687	2,513
Total operating expenses	\$ 14,481,765	\$ 14,462,943	\$ 7,393,995	\$ 7,068,948
OPERATING INCOME (LOSS)	\$ (6,440,652)	\$ (6,421,830)	\$ 853,513	\$ 7,275,343
<b>NON-OPERATING REVENUES (EXPENSES)</b>				
Investment earnings	\$ 232,200	\$ 232,200	\$ 216,039	\$ 16,161
Miscellaneous non-operating revenues	500	500	5,333	(4,833)
Interest expense	(95,435)	(95,435)	(80,311)	(15,124)
Total non-operating Revenues (expenses)	\$ 137,265	\$ 137,265	\$ 141,061	\$ (3,796)
Income (loss) before contributions and transfers	\$ (6,303,387)	\$ (6,284,565)	\$ 994,574	\$ 7,279,139
Capital Contributions	\$ -	\$ -	\$ 5,177,214	\$ 5,177,214
Transfers in (out)	(247,404)	(475,000)	(158,286)	316,714
Changes in net assets	\$ (6,550,791)	\$ (6,759,565)	\$ 6,013,502	\$ 12,773,067
NET ASSETS - BEGINNING Restated	\$ 6,550,791	\$ 6,759,565	\$ 43,595,698	\$ 36,836,133
NET ASSETS - ENDING	\$ -	\$ -	\$ 49,609,200	\$ 49,609,200

This schedule is presented as supplemental information

Schedule of Operations - Budget to Actual  
Stormwater Fund  
For the Year Ended December 31, 2004

	Budgeted Amounts		Actual GAAP Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>OPERATING REVENUES</b>				
Charges for services	\$ 1,244,375	\$ 1,244,375	\$ 1,380,469	\$ 136,094
Charges for services	\$ 1,244,375	\$ 1,244,375	\$ 1,380,469	\$ 136,094
<b>OPERATING EXPENSES</b>				
Operating expense	\$ 605,756	\$ 618,136	\$ 627,613	\$ (9,477)
Maintenance expense	1,338,318	1,331,018	427,966	903,052
Depreciation expense	165,700	165,700	380,584	(214,884)
Taxes	18,550	18,550	19,779	(1,229)
Total operating expenses	\$ 2,128,324	\$ 2,133,404	\$ 1,455,942	\$ 677,462
OPERATING INCOME (LOSS)	\$ (883,949)	\$ (889,029)	\$ (75,473)	\$ 813,556
<b>NON-OPERATING REVENUES (EXPENSES)</b>				
Investment earnings	\$ 26,450	\$ 26,450	\$ 21,601	\$ (4,849)
Miscellaneous non-operating revenues	500	500	106,156	105,656
Total non-operating Revenues (expenses)	\$ 26,950	\$ 26,950	\$ 127,757	\$ 100,807
Income (loss) before contributions and transfers	\$ (856,999)	\$ (862,079)	\$ 52,284	\$ 914,363
Capital Contributions	\$ -	\$ -	\$ 2,245,915	\$ 2,245,915
Transfers in (out)	-	(35,000)	(35,000)	-
Changes in net assets	\$ (856,999)	\$ (897,079)	\$ 2,263,199	\$ 3,160,278
NET ASSETS - BEGINNING Restated	\$ 856,999	\$ 897,079	\$ 14,862,850	\$ 13,965,771
NET ASSETS - ENDING	\$ -	\$ -	\$ 17,126,049	\$ 17,126,049

*This schedule is presented as supplemental information*

Schedule of Operations - Budget to Actual  
Equipment Rental Fund  
For the Year Ended December 31, 2004

	Budgeted Amounts		Actual GAAP Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>OPERATING REVENUES</b>				
Charges for services	\$ 1,132,953	\$ 1,132,953	\$ 1,137,822	\$ 4,869
Total operating revenue	\$ 1,132,953	\$ 1,132,953	\$ 1,137,822	\$ 4,869
<b>OPERATING EXPENSES</b>				
Operating expense	\$ 655,480	\$ 680,840	\$ 503,167	\$ 177,673
Maintenance expense	49,546	49,546	36,223	13,323
Depreciation expense	458,870	458,870	-	458,870
Taxes	-	-	499,185	(499,185)
Total operating expenses	\$ 1,163,896	\$ 1,189,256	\$ 1,038,575	\$ 150,681
OPERATING INCOME (LOSS)	\$ (30,943)	\$ (56,303)	\$ 99,247	\$ 155,550
<b>NON-OPERATING REVENUES (EXPENSES)</b>				
Investment earnings	\$ -	\$ -	\$ 66,192	\$ 66,192
Miscellaneous non-operating revenues	-	-	259	259
Gain (loss) on sale of fixed assets	-	-	24,913	24,913
Total non-operating Revenues (expenses)	\$ -	\$ -	\$ 91,364	\$ 91,364
Income (loss) before contributions and transfers	\$ (30,943)	\$ (56,303)	\$ 190,611	\$ 246,914
Capital Contributions	\$ -	\$ -	\$ 51,942	\$ 51,942
Transfers in (out)	-	-	66,612	66,612
Changes in net assets	\$ (30,943)	\$ (56,303)	\$ 309,165	\$ 365,468
NET ASSETS - BEGINNING	\$ 30,943	\$ 56,303	\$ 5,023,115	\$ 4,966,812
NET ASSETS - ENDING	\$ -	\$ -	\$ 5,332,280	\$ 5,332,280

*This schedule is presented as supplemental information*

Schedule of Operations - Budget to Actual  
Information Management Services Fund  
For the Year Ended December 31, 2004

	Budgeted Amounts		Actual GAAP Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>OPERATING REVENUES</b>				
Charges for services	\$ 982,725	\$ 982,725	\$ 982,725	\$ -
Total operating revenue	\$ 982,725	\$ 982,725	\$ 982,725	\$ -
<b>OPERATING EXPENSES</b>				
Operating expense	\$ 694,919	\$ 694,919	\$ 629,203	\$ 65,716
Maintenance expense	157,822	157,822	156,334	1,488
Depreciation expense	238,667	238,667	-	238,667
Taxes	-	-	77,193	(77,193)
Total operating expenses	\$ 1,091,408	\$ 1,091,408	\$ 862,730	\$ 228,678
OPERATING INCOME (LOSS)	\$ (108,683)	\$ (108,683)	\$ 119,995	\$ 228,678
<b>NON-OPERATING REVENUES (EXPENSES)</b>				
Investment earnings	\$ -	\$ -	\$ 33,614	\$ 33,614
Gain (loss) on sale of fixed assets	-	-	(11,319)	(11,319)
Total non-operating Revenues (expenses)	\$ -	\$ -	\$ 22,295	\$ 22,295
Income (loss) before contributions and transfers	\$ (108,683)	\$ (108,683)	\$ 142,290	\$ 250,973
Capital Contributions	\$ -	\$ -	\$ 7,027	\$ 7,027
Changes in net assets	\$ (108,683)	\$ (108,683)	\$ 149,317	\$ 258,000
NET ASSETS - BEGINNING	\$ 108,683	\$ 108,683	\$ 1,939,305	\$ 1,830,622
NET ASSETS - ENDING	\$ -	\$ -	\$ 2,088,622	\$ 2,088,622

*This schedule is presented as supplemental information*

Schedule of Expenditures of Federal Awards  
For The Year Ending December 31, 2004  
Federal Assistance Received Directly From a Federal Agency or  
Received Indirectly Through a State Agency or Other Local Government

Grantor/ Pass-Through Grantor Program Title	Federal CFDA Number	Other Identification Number	Current Year Expenditures
<u>DEPARTMENT OF AGRICULTURE - FOOD AND NUTRITION SERVICE</u>			
USDA/SPI indirect:	10.559	34-923	\$ 36,039
<u>DEPARTMENT OF HOUSING &amp; URBAN DEVELOPMENT-COMMUNITY PLANNING AND DEVELOPMENT</u>			
<u>US HUD/CTED INDIRECT:</u>			
Program income	14.228	1-96-745-006	\$ 58,970
<u>DEPARTMENT OF JUSTICE - BUREAU OF JUSTICE ASSISTANCE</u>			
<u>US DOJ/CTED INDIRECT:</u>			
Byrne Formula Grant Program - Narcotics Control	16.579	F03-67403010	\$ 76,822
Byrne Formula Grant Program - Narcotics Control	16.579	F04-67404010	113,362
Drug Fee Communities Support Program Grant	16.729	Together	2,482
Police Corp - Criminal Justice Training Commission	16.712		500
			\$ 193,166
<u>US DOJ DIRECT:</u>			
Bulletproof Vest Partnership Program	16.607	3019054	2,800
COPS Universal Hiring Program Grant	16.710	2003UMWX0127 (LPD054)	40,451
			\$ 43,251
<u>Total Department of Justice</u>			\$ 236,417
<u>DEPARTMENT OF TRANSPORTATION FEDERAL HIGHWAY ADMINISTRATION</u>			
<u>US DOT/WS DOT INDIRECT:</u>			
College Street Rehab	20.205	LA-5098	\$ 21,695
Sleater Kinney/6th	20.205	LA-5203	5,707
One Way Couplet	20.205	LA-5434/LA-3249 355.64	203,540
Martin Way-East	20.205	LA-4095	9,558
Total CFDA number	20.205		\$ 240,500
<u>NATIONAL HIGHWAY TRAFFIC SAFETY ADMINISTRATION</u>			
<u>US DOT/WS DOT INDIRECT:</u>			
Intense Traffic Safety Enforcement Grants	20.604		13,013
<u>Total Department of Transportation</u>			\$ 253,513
<u>ENVIRONMENTAL PROTECTION AGENCY-NONPOINT SOURCE IMPLEMENTATION GRANTS</u>			
<u>EPA-DOE INDIRECT:</u>			
Stormwater Pond Maintenance Outreach	66.460	G0200279	\$ 21,925
<u>EXECUTIVE OFFICE OF THE PRESIDENT OFFICE OF NATIONAL DRUG CONTROL POLICY</u>			
HIDTA Grant	99.999	I4PNWP516Z	\$ 63,088
<u>Total Expenditures of Federal Awards</u>			\$ 669,952

Schedule of State and Local Financial Assistance  
For The Year Ended December, 31, 2004

Grantor/ Pass-Through Grantor Program Title	Other Identification Number	Current Year Expenditures
Department of Community, Trade & Economic Development Growth Management Update Grant	S04-62600-062	\$ 20,000 <u>\$ 20,000</u>
Department of Transportation Sleater-Kinney	LA5203	\$ 55,237
Mullen Road East to City Limits	8-5-197 (023)-1	7,643
Yelm Highway	8-5-197 (022)-1	38,074
One-way Couplet	9835199W	117,458
Carpenter-Pacific to Martin Way	8-5-197 (020) -1	96,667
		<u>\$ 315,079</u>
Department of Ecology Shorelands & Environmental Assistant Program	G0500065	\$ 16,000 <u>\$ 16,000</u>
<u>Higher Education Coordinating Board</u>	Work Study	\$ 6,084 <u>\$ 6,084</u>
Interagency Committee for Outdoor Recreation IAC - Rainier Vista Community Park Development	02-1268 D	\$ 270,000
IAC Railroad Grant	02-1298A	399,724
		<u>\$ 669,724</u>
Total Expenditures of State Awards		<u>\$ 1,026,887</u>

Notes to the Schedule of Expenditures of Federal Awards  
And State/Local Financial Assistance

Note 1 - Basis of Accounting

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

Note 2 - Program Costs

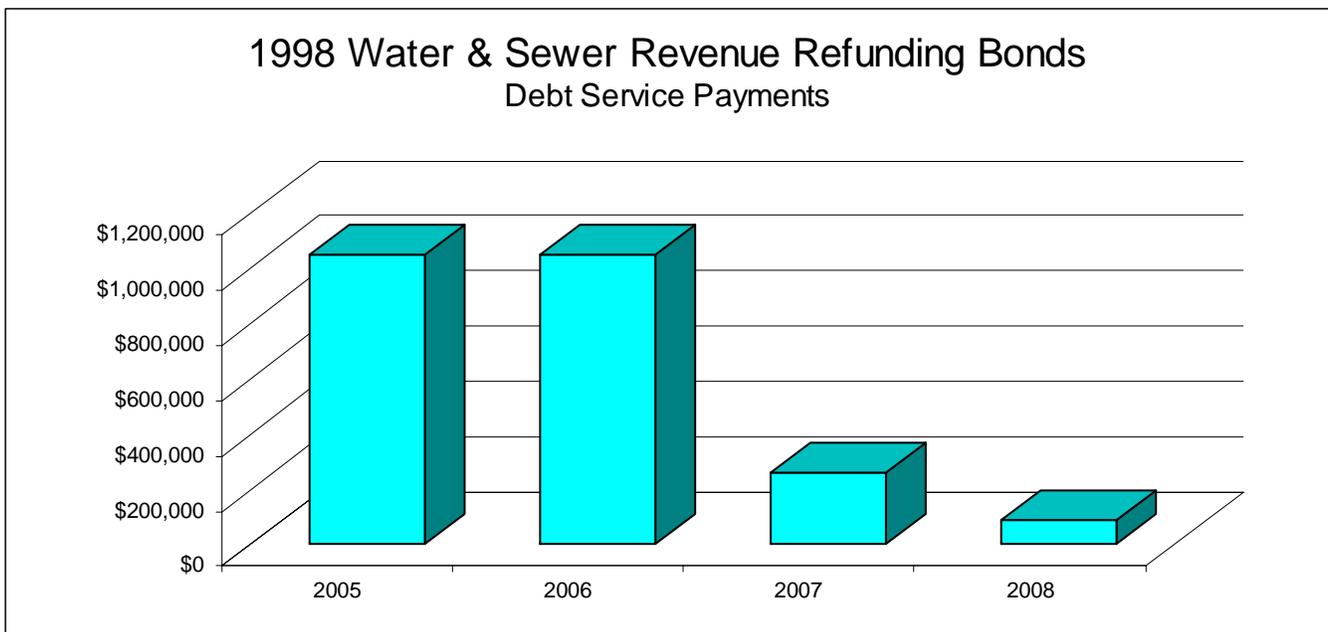
The amount shown as current year expenditures represents only the City's grant portion of the program costs. Entire program costs, including the City portion may be more than shown.

Note 3 - Revolving Loan - Program Income

The City has a loan program under the Department of Housing & Urban Development. Under this federal program repayments to the City are considered program revenues (income). No interest is charged on the loans and full payment is due upon sale of the property. \$58,970 was repaid during 2004. The City has received approval from CTED to utilize the program revenues to finance cost overruns on the CDBG-funded Child Care and Family Services Center.

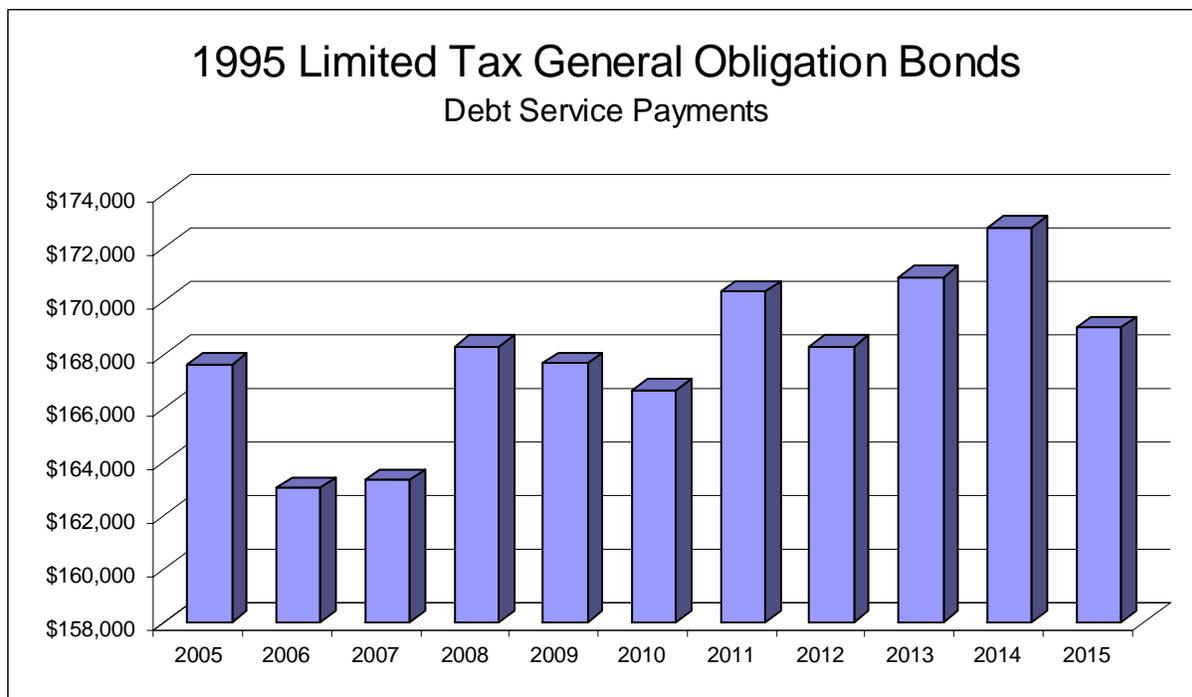
City of Lacey Water & Sewer Revenue Bonds  
 1998 Water & Sewer Utility Revenue Refunding Bonds  
 December 31, 2004

Year Ended 31-Dec	Interest Rate - %	Interest		Principal	Total Debt Service
		1-Jun	1-Dec	1-Dec	
2005	4.250%	51,905	51,905	945,000	1,048,810
2006	5.000%	31,824	31,824	985,000	1,048,648
2007	4.350%	7,199	7,199	245,000	259,398
2008	4.400%	1,870	1,870	85,000	88,740
		<u>\$ 92,798</u>	<u>\$ 92,798</u>	<u>\$ 2,260,000</u>	<u>\$ 2,445,596</u>



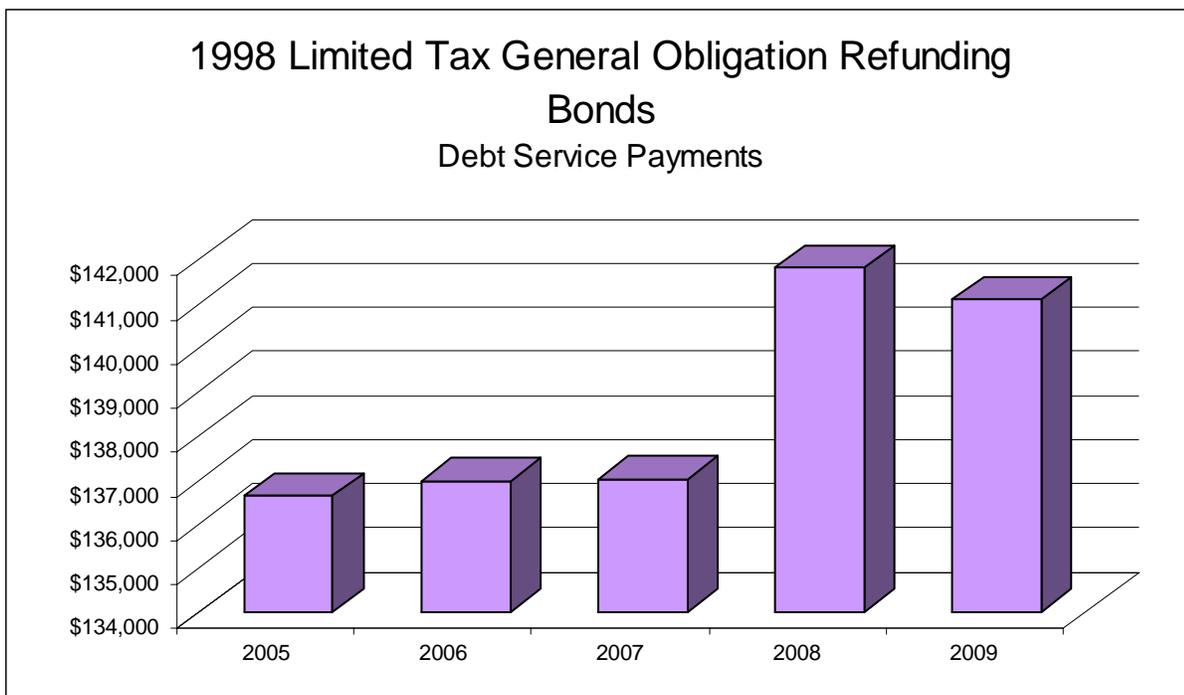
City of Lacey General Obligation Bond Debt  
 1995 Limited Tax General Obligation Bonds  
 December 31, 2004

Year Ended 31-Dec	Interest Rate - %	Interest		Principal 1-Dec	Total Debt Service
		1-Jun	1-Dec		
2005	4.850%	36,304	36,304	95,000	167,608
2006	4.950%	34,000	34,000	95,000	163,000
2007	5.000%	31,649	31,649	100,000	163,298
2008	5.125%	29,149	29,149	110,000	168,298
2009	5.020%	26,330	26,330	115,000	167,660
2010	5.300%	23,340	23,340	120,000	166,680
2011	5.400%	20,160	20,160	130,000	170,320
2012	5.500%	16,650	16,650	135,000	168,300
2013	5.625%	12,938	12,938	145,000	170,876
2014	5.625%	8,859	8,859	155,000	172,718
2015	5.625%	4,500	4,500	160,000	169,000
		<u>\$ 243,879</u>	<u>\$ 243,879</u>	<u>\$ 1,360,000</u>	<u>\$ 1,847,758</u>



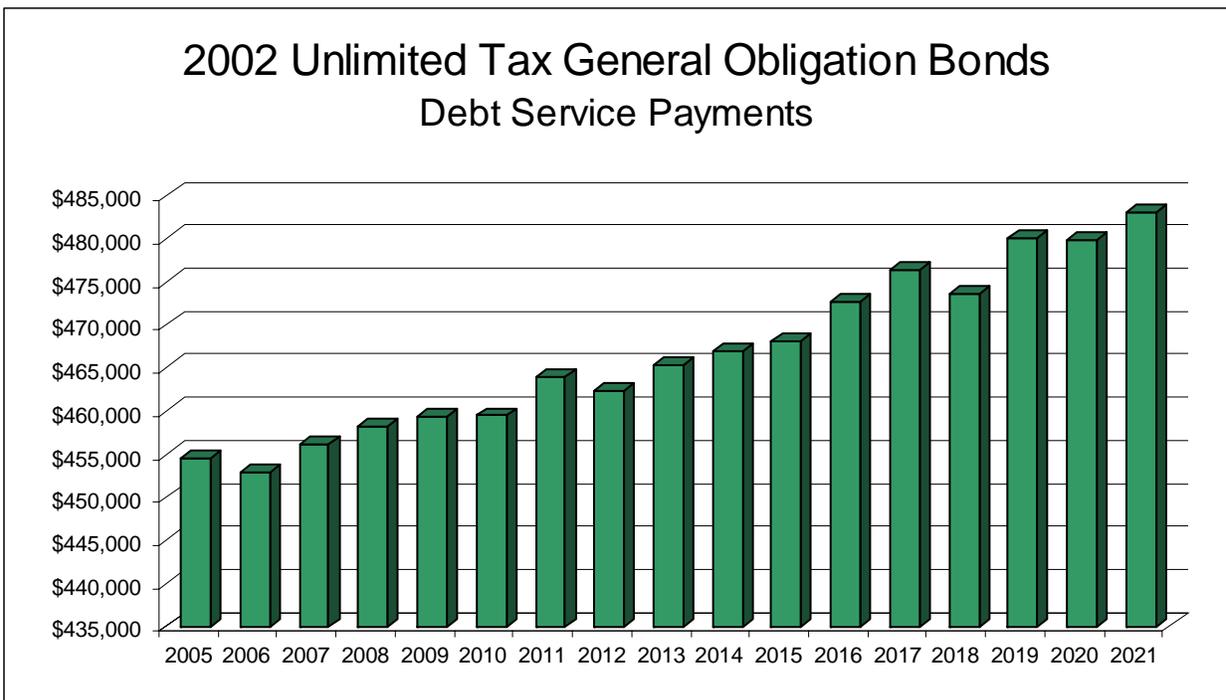
City of Lacey General Obligation Bond Debt  
 1998 Limited Tax General Obligation Refunding Bonds  
 December 31, 2004

Year Ended 31-Dec	Interest Rate - %	Interest		Principal	Total Debt Service
		1-Jun	1-Dec	1-Dec	
2005	4.250%	13,318	13,318	110,000	136,636
2006	4.300%	10,980	10,980	115,000	136,960
2007	4.350%	8,508	8,508	120,000	137,016
2008	4.400%	5,898	5,898	130,000	141,796
2009	4.500%	3,038	3,038	135,000	141,076
		<u>\$ 41,742</u>	<u>\$ 41,742</u>	<u>\$ 610,000</u>	<u>\$ 693,484</u>



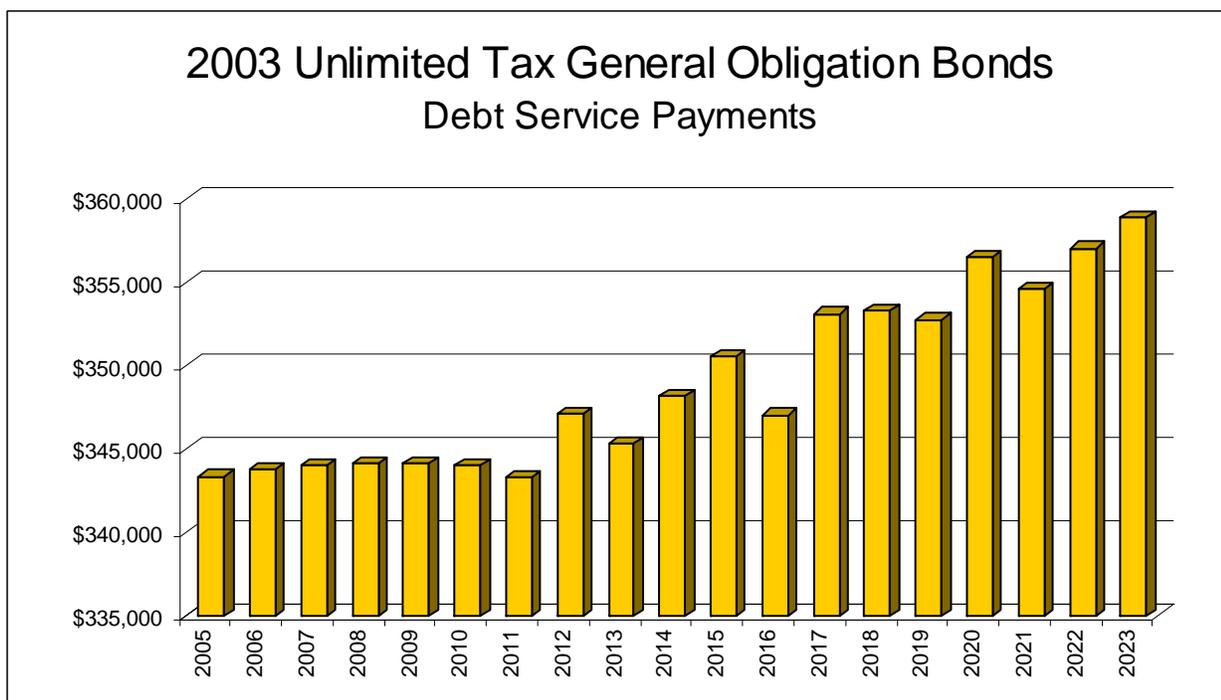
City of Lacey General Obligation Bond Debt  
 2002 Unlimited Tax General Obligated Bonds  
 December 31, 2004

Year Ended 31-Dec	Interest Rate - %	Interest		Principal	Total Debt Service
		Due - 01 Jun	Due - 01 Dec	Due - 01 Dec	
2005	3.000%	117,240	117,240	220,000	454,480
2006	3.000%	113,940	113,940	225,000	452,880
2007	3.375%	110,565	110,565	235,000	456,130
2008	3.625%	106,599	106,600	245,000	458,199
2009	3.875%	102,159	102,159	255,000	459,318
2010	4.000%	97,218	97,218	265,000	459,436
2011	4.125%	91,918	91,918	280,000	463,836
2012	4.125%	86,143	86,143	290,000	462,286
2013	4.375%	80,162	80,162	305,000	465,324
2014	4.375%	73,490	73,490	320,000	466,980
2015	4.550%	66,490	66,490	335,000	467,980
2016	4.625%	58,869	58,869	355,000	472,738
2017	4.750%	50,659	50,660	375,000	476,319
2018	4.750%	41,753	41,753	390,000	473,506
2019	4.875%	32,491	32,490	415,000	479,981
2020	5.000%	22,375	22,375	435,000	479,750
2021	5.000%	11,500	11,500	460,000	483,000
		<u>\$ 1,263,571</u>	<u>\$ 1,263,572</u>	<u>\$ 5,405,000</u>	<u>\$ 7,932,143</u>



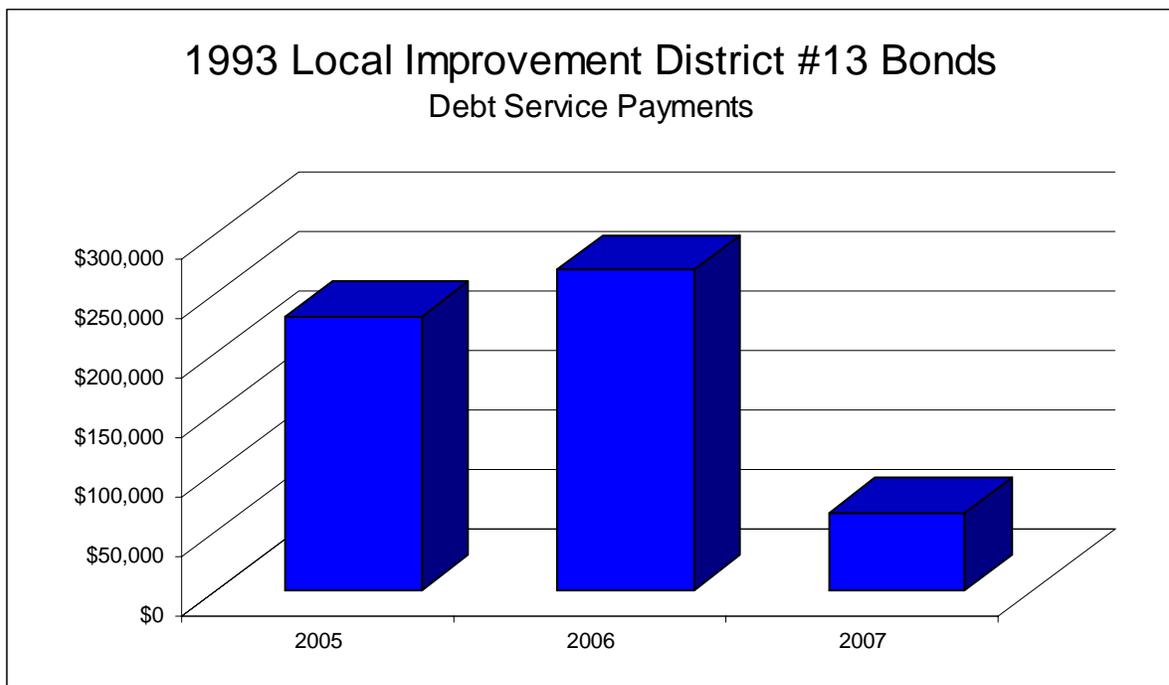
City of Lacey General Obligation Bond Debt  
 2003 Unlimited Tax General Obligated Bonds  
 December 31, 2004

Year Ended 31-Dec	Interest Rate - %	Interest		Principal Due - 01 Dec	Total Debt Service
		Due - 01 Jun	Due - 01 Dec		
2005	2.500%	79,176	79,176	185,000	343,352
2006	2.500%	76,864	76,864	190,000	343,728
2007	2.500%	74,489	74,489	195,000	343,978
2008	2.500%	72,051	72,051	200,000	344,102
2009	2.500%	69,551	69,551	205,000	344,102
2010	2.700%	66,989	66,989	210,000	343,978
2011	2.900%	64,154	64,154	215,000	343,308
2012	3.000%	61,036	61,036	225,000	347,072
2013	3.100%	57,661	57,661	230,000	345,322
2014	3.200%	54,096	54,096	240,000	348,192
2015	3.400%	50,256	50,256	250,000	350,512
2016	3.500%	46,006	46,006	255,000	347,012
2017	3.650%	41,544	41,544	270,000	353,088
2018	3.750%	36,616	36,616	280,000	353,232
2019	3.875%	31,366	31,366	290,000	352,732
2020	3.900%	25,748	25,748	305,000	356,496
2021	4.000%	19,800	19,800	315,000	354,600
2022	4.000%	13,500	13,500	330,000	357,000
2023	4.000%	6,900	6,900	345,000	358,800
		\$ 947,803	\$ 947,803	\$ 4,735,000	\$ 6,630,606



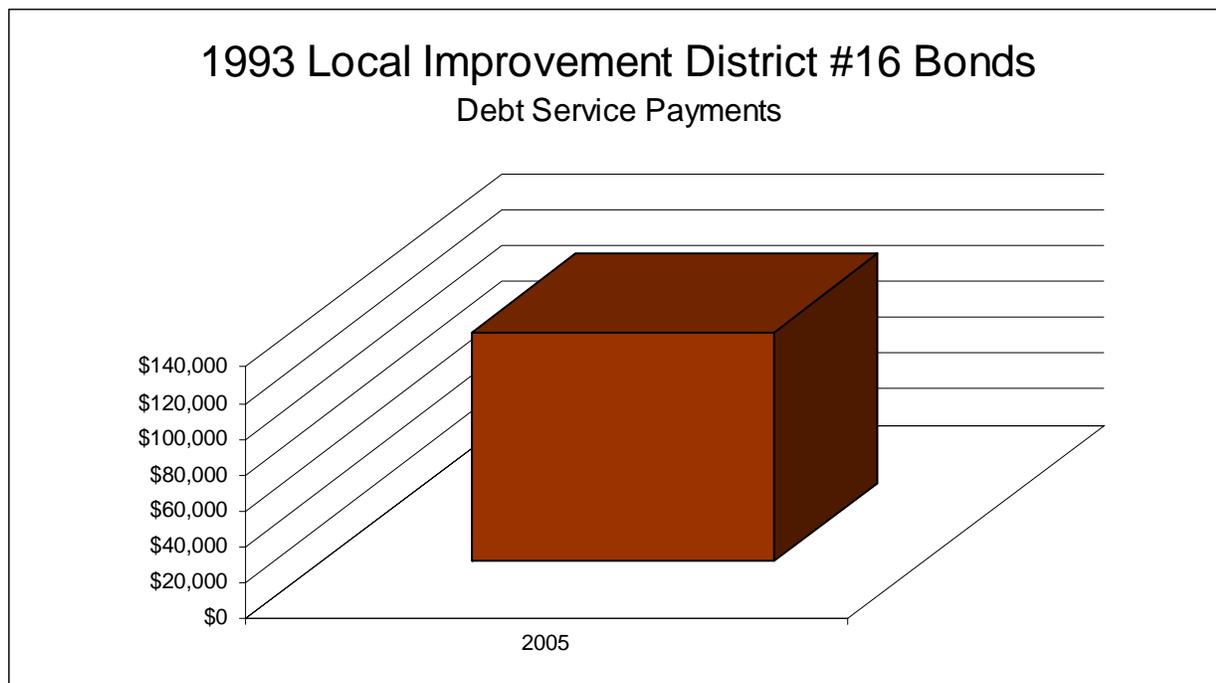
City of Lacey  
 1993 Local Improvement District #13 Bonds  
 December 31, 2004

Year Ended 31-Dec	Interest Range Rate - %		Interest 1-Jan	Principal 1-Jan	Total Debt Service
2005	5.800%	5.900%	30,200	200,000	230,200
2006	5.900%	6.000%	18,500	250,000	268,500
2007	6.000%	6.000%	4,800	60,000	64,800
			<u>\$ 53,500</u>	<u>\$ 510,000</u>	<u>\$ 563,500</u>



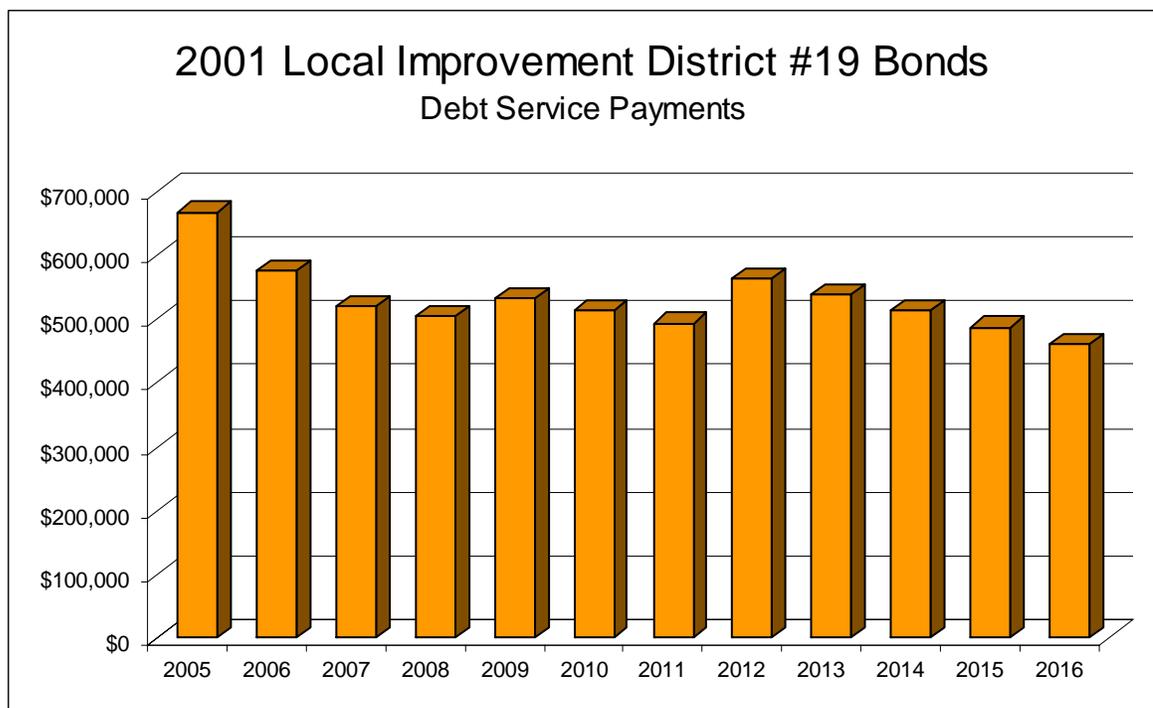
City of Lacey  
 1993 Local Improvement District #16 Bonds  
 December 31, 2004

Year Ended 31-Dec	Interest Range Rate - %		Interest 1-Feb	Principal 1-Feb	Total Debt Service
2005	6.100%	6.100%	7,320	120,000	127,320
			<u>\$ 7,320</u>	<u>\$ 120,000</u>	<u>\$ 127,320</u>



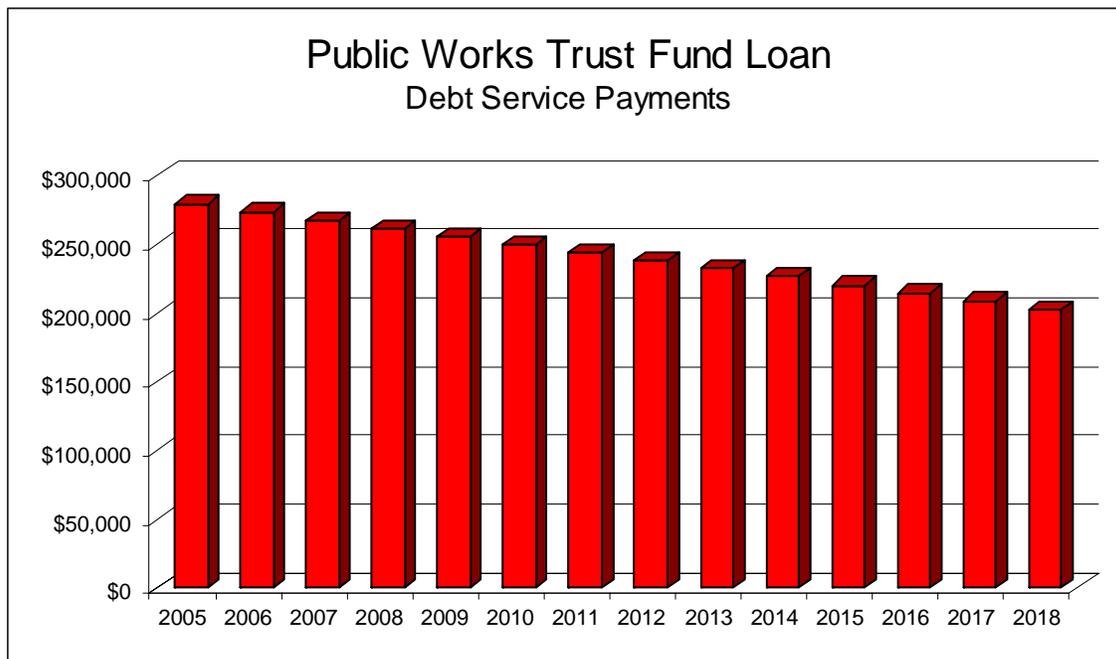
City of Lacey  
 2001 Local Improvement District #19 Bonds  
 December 31, 2004

Year Ended 31-Dec	Interest Range Rate - %		Interest 1-Oct	Principal 1-Oct	Total Debt Service
2005	5.000%	5.000%	257,385	410,000	667,385
2006	5.000%	5.000%	236,615	340,000	576,615
2007	5.150%	5.150%	218,895	300,000	518,895
2008	5.300%	5.300%	202,995	300,000	502,995
2009	5.500%	5.500%	186,555	345,000	531,555
2010	5.600%	5.600%	167,400	345,000	512,400
2011	5.700%	5.700%	147,990	345,000	492,990
2012	5.800%	5.800%	128,325	435,000	563,325
2013	5.850%	5.850%	103,095	435,000	538,095
2014	5.900%	5.900%	77,648	435,000	512,648
2015	5.950%	5.950%	51,983	435,000	486,983
2016	6.000%	6.000%	26,100	435,000	461,100
			\$ 1,804,986	\$ 4,560,000	\$ 6,364,986



City of Lacey  
Public Works Trust Fund Loan  
December 31, 2004

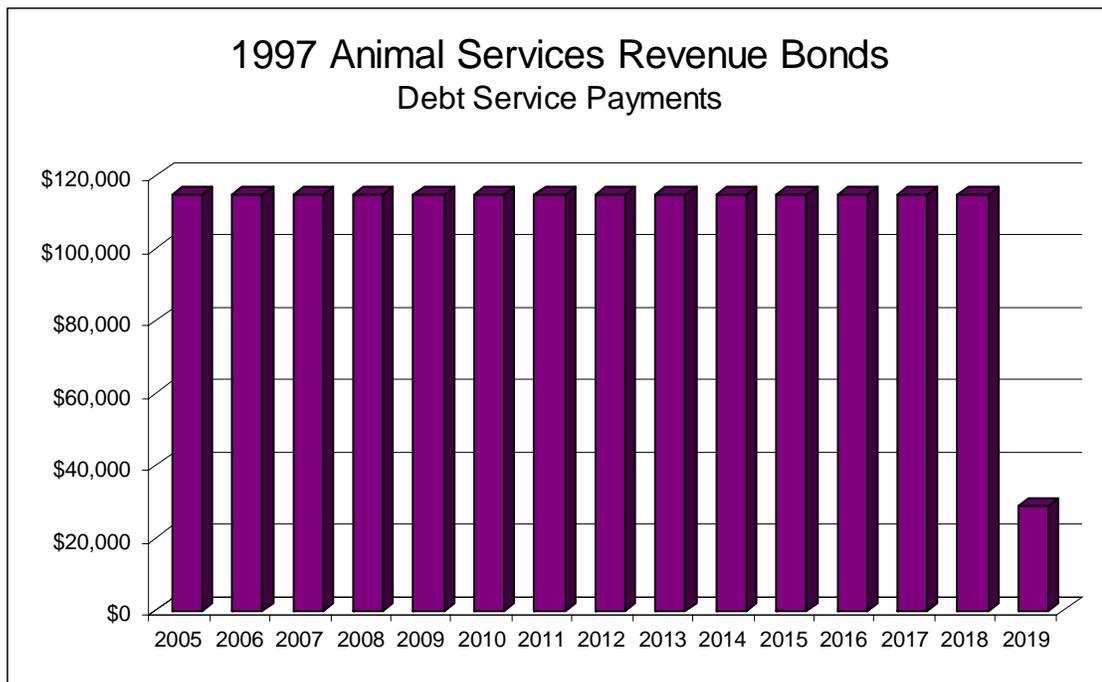
Year Ended 31-Dec	Interest Rate - %	Interest 1-Jul	Principal 1-Jul	Total Debt Service
2005	3.000%	82,495	196,416	278,911
2006	3.000%	76,602	196,416	273,018
2007	3.000%	70,710	196,416	267,126
2008	3.000%	64,817	196,416	261,233
2009	3.000%	58,925	196,416	255,341
2010	3.000%	53,032	196,416	249,448
2011	3.000%	47,140	196,416	243,556
2012	3.000%	41,247	196,416	237,663
2013	3.000%	35,355	196,416	231,771
2014	3.000%	29,462	196,416	225,878
2015	3.000%	23,570	196,416	219,986
2016	3.000%	17,677	196,416	214,093
2017	3.000%	11,785	196,416	208,201
2018	3.000%	5,896	196,412	202,308
		<u>\$ 618,713</u>	<u>\$ 2,749,820</u>	<u>\$ 3,368,533</u>



City of Lacey  
1997 Animal Services Revenue Bond  
December 31, 2004

Year Ended 31-Dec	Interest Rate - %	Interest Annual*	Principal Annual*	Total Debt Service
2005	3.978%	48,451	66,465	114,916
2006	3.978%	45,758	69,158	114,916
2007	3.978%	42,956	71,960	114,916
2008	3.978%	40,157	74,759	114,916
2009	3.978%	37,012	77,904	114,916
2010	3.978%	33,856	81,060	114,916
2011	3.978%	30,572	84,344	114,916
2012	3.978%	27,235	87,681	114,916
2013	3.978%	23,603	91,313	114,916
2014	3.978%	19,903	95,013	114,916
2015	3.978%	16,054	98,862	114,916
2016	3.978%	12,086	102,830	114,916
2017	3.978%	7,883	107,033	114,916
2018	3.978%	3,547	111,369	114,916
2019	3.978%	190	28,540	28,730
		\$ 389,263	\$ 1,248,291	\$ 1,637,554

\*Actual payments made are equal monthly installments.





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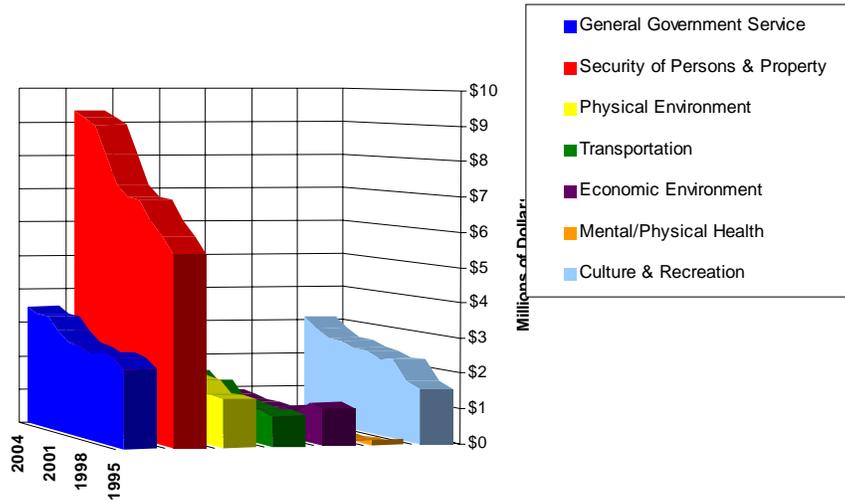
# STATISTICAL SECTION

# STATISTICAL SECTION

TABLE 1

GENERAL GOVERNMENTAL EXPENDITURES BY FUNCTION  
LAST TEN FISCAL YEARS

General Governmental Expenditures by Function



Includes General, Special Revenue, Debt Service and Capital Funds excluding Capital Outlay & Debt Service Principal and Interest.

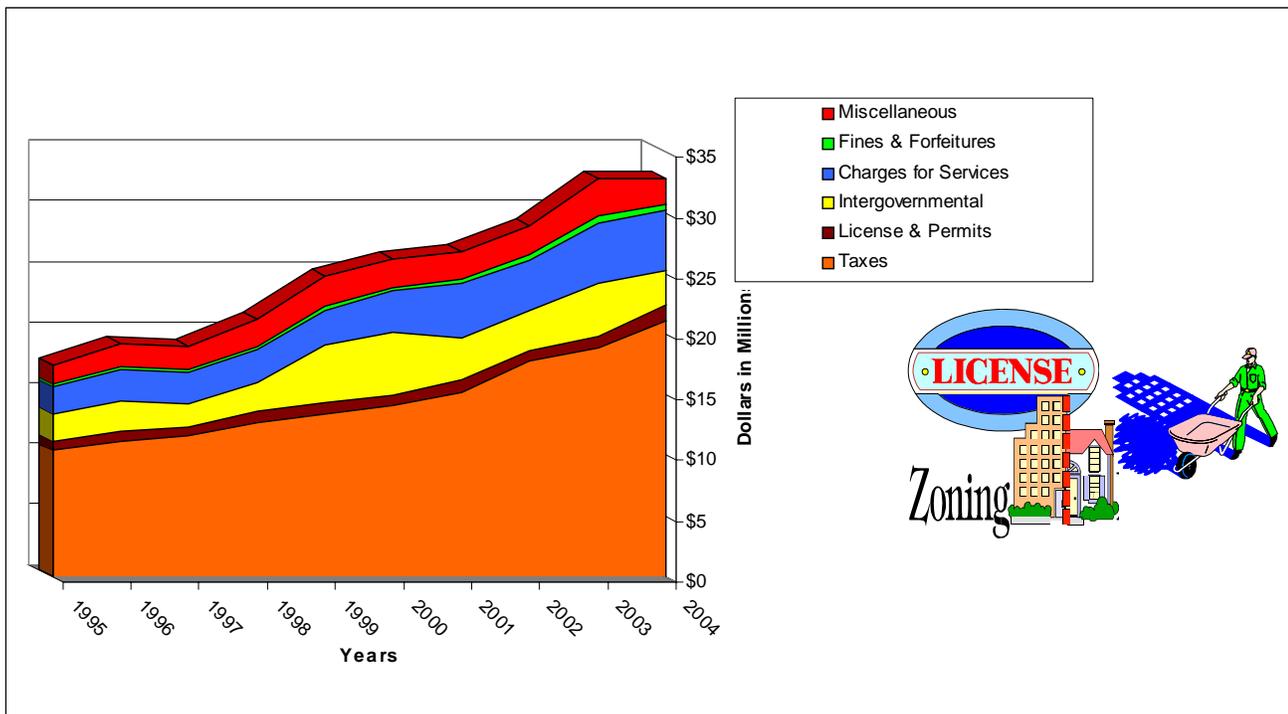


Fiscal Year	General Government Service	Security of Persons & Property	Physical Environment	Transportation	Economic Environment	Mental & Physical Health	Culture & Recreation	Totals
1995	2,234,391	5,441,676	1,358,700	862,854	1,049,857	156,921	1,562,690	12,667,089
1996	2,496,969	5,885,639	1,395,443	965,100	1,152,994	19,286	1,714,338	13,629,769
1997	2,586,124	6,306,303	1,371,886	913,897	769,437	27,837	2,280,364	14,255,848
1998	2,461,457	6,860,549	1,692,564	962,111	908,256	5,655	2,225,670	15,116,262
1999	2,596,117	6,931,832	1,706,874	1,024,605	704,041	4,818	2,375,895	15,344,182
2000	2,640,855	7,235,697	1,934,256	1,022,512	714,271	5,419	2,409,641	15,962,651
2001	2,959,350	8,105,859	2,058,128	1,446,481	759,864	5,412	2,547,077	17,882,171
2002	3,296,470	8,948,214	2,159,930	1,289,917	760,427	6,234	2,567,191	19,028,383
2003	3,320,662	9,162,454	2,311,858	1,573,668	839,768	6,334	2,785,860	20,000,604
2004	3,483,483	9,331,690	2,421,294	1,502,854	903,507	6,572	3,069,138	20,718,538

TABLE 2

GENERAL GOVERNMENTAL REVENUES BY SOURCE  
LAST TEN FISCAL YEARS

General Governmental Revenues By Source



Fiscal Year	Taxes	License & Permits	Inter-governmental	Charges For Services	Fines & Forfeitures	Miscellaneous	Totals
1995	10,394,833	719,187	2,272,876	2,321,135	164,426	1,597,089	17,469,546
1996	11,139,295	830,008	2,491,383	2,623,688	226,748	1,869,072	19,180,194
1997	11,681,650	670,909	1,937,897	2,539,582	263,498	1,835,290	18,928,826
1998	12,716,154	911,750	2,364,555	2,692,511	244,312	2,275,801	21,205,083
1999	13,434,273	913,278	4,710,255	2,925,938	261,480	2,540,330	24,785,554
2000	14,178,430	726,761	5,202,828	3,456,238	247,551	2,341,910	26,153,718
2001	15,148,726	1,046,214	3,519,487	4,503,171	274,978	2,315,159	26,807,735
2002	17,742,376	899,375	3,299,482	4,184,053	376,687	2,396,850	28,898,823
2003	18,815,710	960,884	4,370,943	5,046,768	536,800	3,112,577	32,843,682
2004	21,126,708	1,245,253	2,822,149	5,029,397	453,628	2,136,705	32,813,840

Includes General, Special Revenue, Debt Service and Capital Funds excluding Capital Outlay & Debt Service Principal and Interest.

TABLE 3

PROPERTY TAX LEVIES AND COLLECTIONS  
LAST TEN FISCAL YEARS

Fiscal Year	Tax* Levy	Current** Tax Collections	% of Levy Collected	Delinquent** Tax Collections	Total Tax Collections	% of Total Tax Collection to Tax Levy	Outstanding Delinquent Taxes	Outstanding Delinquent to Tax
1995	3,355,484	3,252,580	96.93%	45,177	3,297,757	98.28%	137,870	4.11%
1996	3,750,962	3,634,591	96.90%	54,973	3,689,564	98.36%	165,262	4.41%
1997	4,183,079	4,028,884	96.31%	66,234	4,095,118	97.90%	253,967	6.07%
1998	4,507,005	4,458,245	98.92%	76,777	4,535,022	100.62%	191,475	4.25%
1999	4,643,730	4,541,872	97.81%	102,533	4,644,405	100.01%	199,560	4.30%
2000	4,893,180	4,755,120	97.18%	90,293	4,845,413	99.02%	219,682	4.49%
2001	5,157,846	4,941,773	95.81%	139,455	5,081,228	98.51%	194,033	3.76%
2002	5,339,107	5,153,971	96.53%	67,995	5,221,966	97.81%	296,585	5.55%
2003	5,633,365	5,487,429	97.41%	181,669	5,669,098	100.63%	187,601	3.33%
2004	5,889,343	5,768,035	97.94%	97,658	5,865,693	99.60%	161,324	2.74%

\*Source: Thurston County Assessor

\*\*Source: City of Lacey Finance Department (Schedule 08)

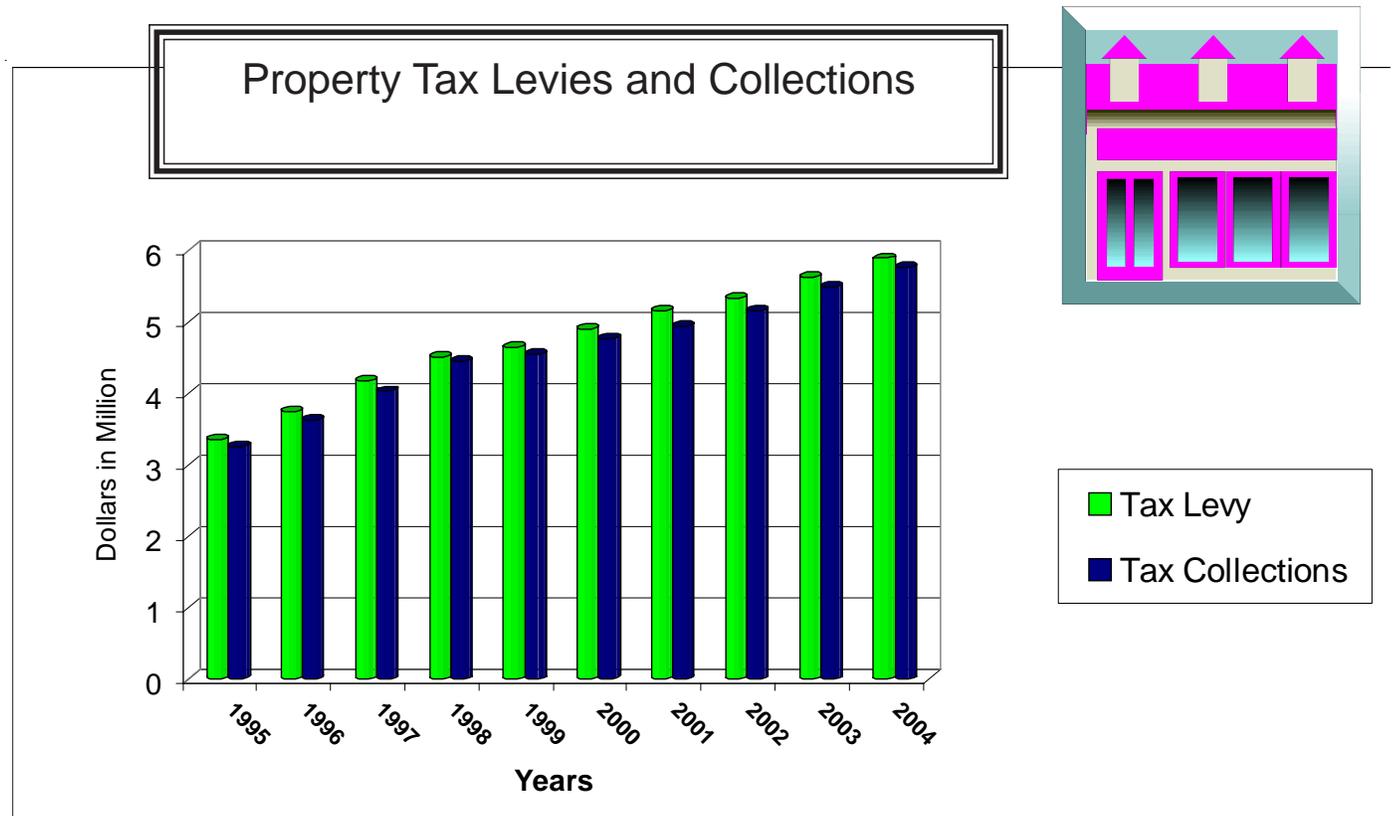
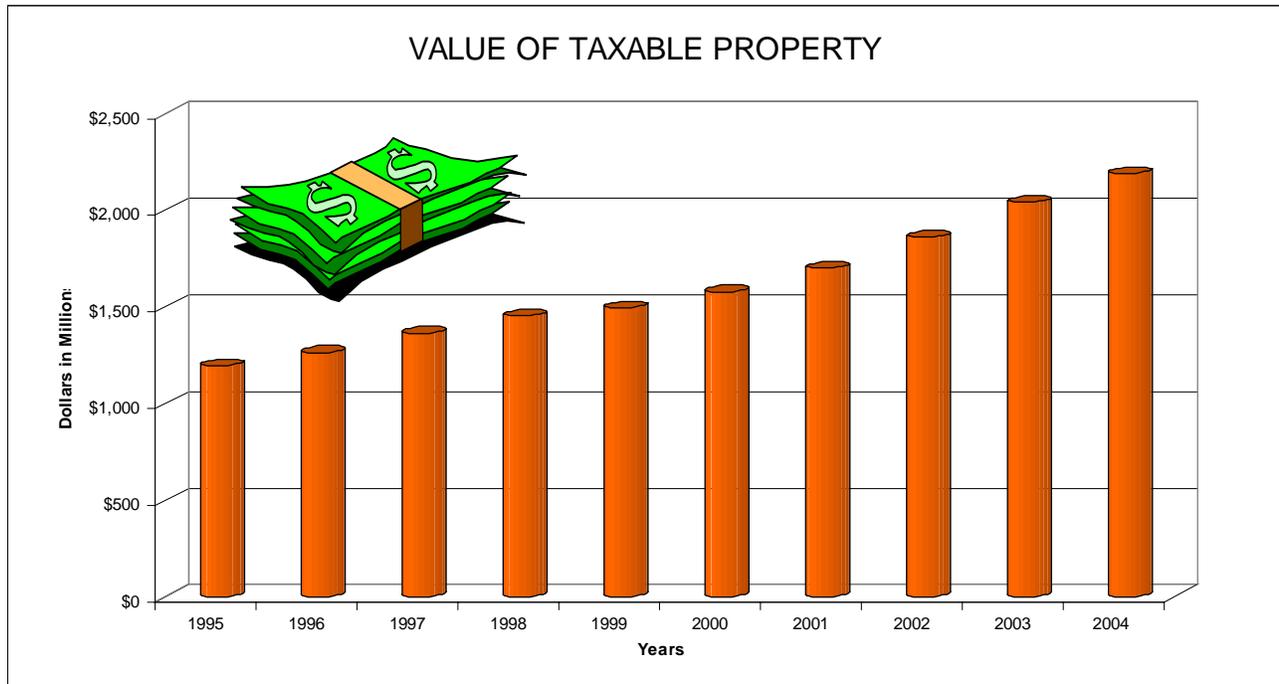


TABLE 4

ASSESSED AND ESTIMATED ACTUAL VALUE OF TAXABLE PROPERTY  
LAST TEN FISCAL YEARS



\*Source: Thurston County Assessor, *Statistical Report of 2003 Assessments for Taxes Payable in 2004*

Fiscal Year	Real & Personal Property Total	Percent Increase (Decrease)
1995	1,194,675,287	19.65%
1996	1,264,184,515	5.82%
1997	1,364,789,304	7.96%
1998	1,453,333,833	6.49%
1999	1,495,035,563	2.87%
2000	1,578,379,306	5.57%
2001	1,699,347,399	7.66%
2002	1,860,057,113	9.46%
2003	2,039,965,671	9.67%
2004	2,189,808,865	7.34%

TABLE 5

PROPERTY TAX RATES - DIRECT AND OVERLAPPING GOVERNMENTS  
(PER \$1,000 OF ASSESSED VALUATION)  
LAST TEN FISCAL YEARS

Fiscal Year	General Fund	Debt Service	State School	County* Levy	Medic One	PUD #1	Excess Library	Excess School	Fire*	Port	Total
1995	2.81	0.27	3.56	1.75	0.33	0.02	0.47	1.84	0.10	0.21	11.36
1996	2.97	0.26	3.55	1.79	0.32	-	0.46	5.39	0.09	0.19	15.02
1997	3.06	0.24	3.63	1.84	0.31	-	0.47	5.52	0.06	0.18	15.31
1998	3.10	0.23	3.44	1.81	0.32	-	0.47	5.54	0.08	0.22	15.21
1999	3.11	0.19	3.37	1.83	0.32	-	0.49	6.46	0.21	0.22	16.20
2000	3.10	0.19	3.38	1.86	0.50	0.01	0.50	6.04	0.20	0.19	15.97
2001	3.03	0.16	3.13	1.84	0.47	-	0.50	5.67	0.20	0.28	15.28
2002	2.88	0.44	3.03	1.78	0.46	-	0.49	5.35	0.20	0.28	14.91
2003	2.76	0.47	2.88	1.71	0.44	0.01	0.48	5.09	0.17	0.27	14.28
2004	2.68	0.44	2.78	1.65	0.44	0.01	0.47	4.97	0.16	0.25	13.85

Source: Thurston County Assessor, *Statistical Report of 2003 Assessments for Taxed Payable in 2004*

\*The Fire Levy rate for District #03 was used. Range of Levy is between 0 and 42.09 cents per \$1,000 for 2003.

\*\*Includes Land Conservation Futures Rate

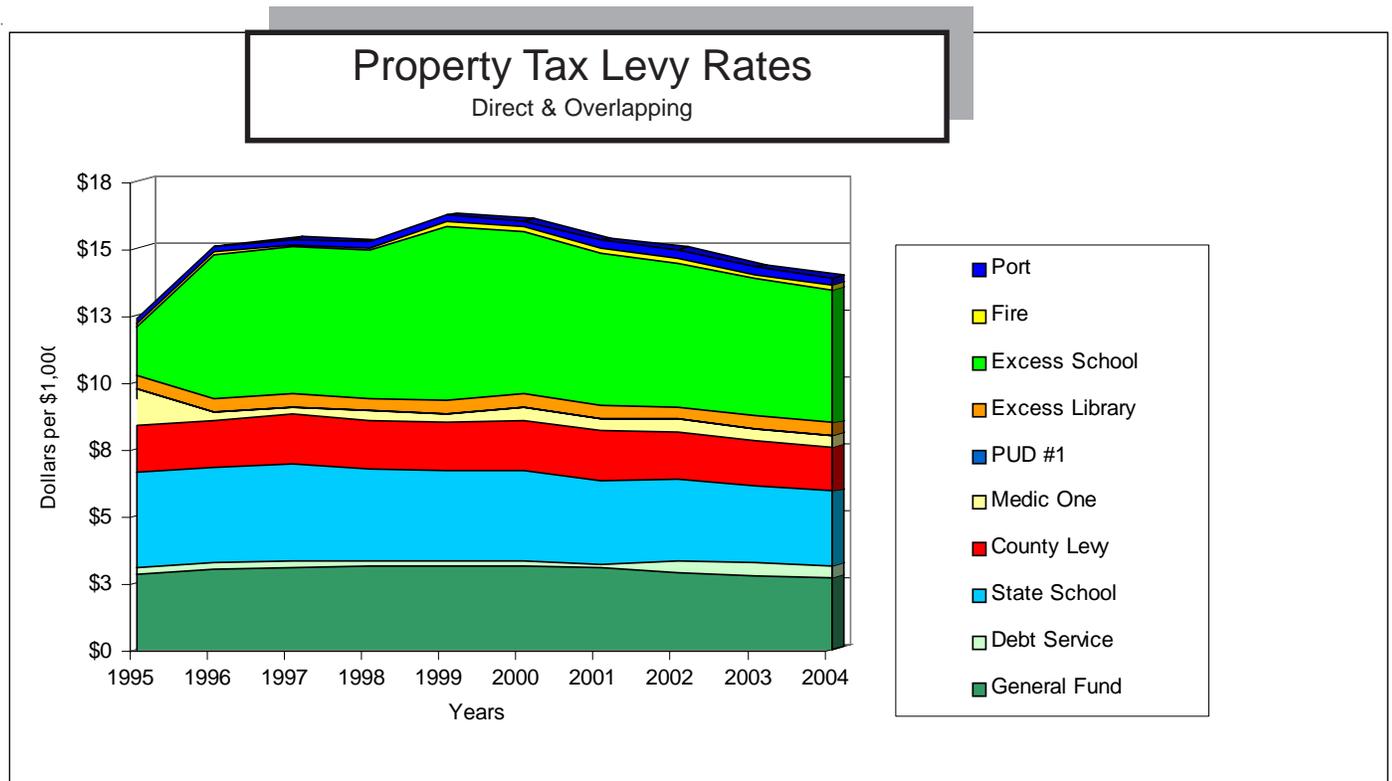


TABLE 6

SPECIAL ASSESSMENT LEVIES AND COLLECTIONS  
LAST TEN FISCAL YEARS

Fiscal Year	Beginning Balance	Additional Assessments	Billings	Collections	Ending Balance
1995	9,987,283	-	559,860	731,827	9,255,456
1996	9,255,456	-	611,418	942,797	8,312,659
1997	8,312,659	756,573	617,267	977,201	8,092,031
1998	8,092,031	-	669,918	1,105,096	6,986,935
1999	6,986,935	719,994	685,058	1,814,658	5,892,271
2000	6,303,544	-	625,915	1,056,605	5,246,939
2001	5,246,939	10,338,731	579,267	1,357,384	14,228,286
2002	14,228,286	-	906,885	1,364,951	12,863,335
2003	12,863,335	-	1,130,346	2,137,181	10,726,154
2004	10,726,154	-	1,016,126	1,071,376	9,654,778

Source: City of Lacey Finance Department



**Special Assessment Collections**

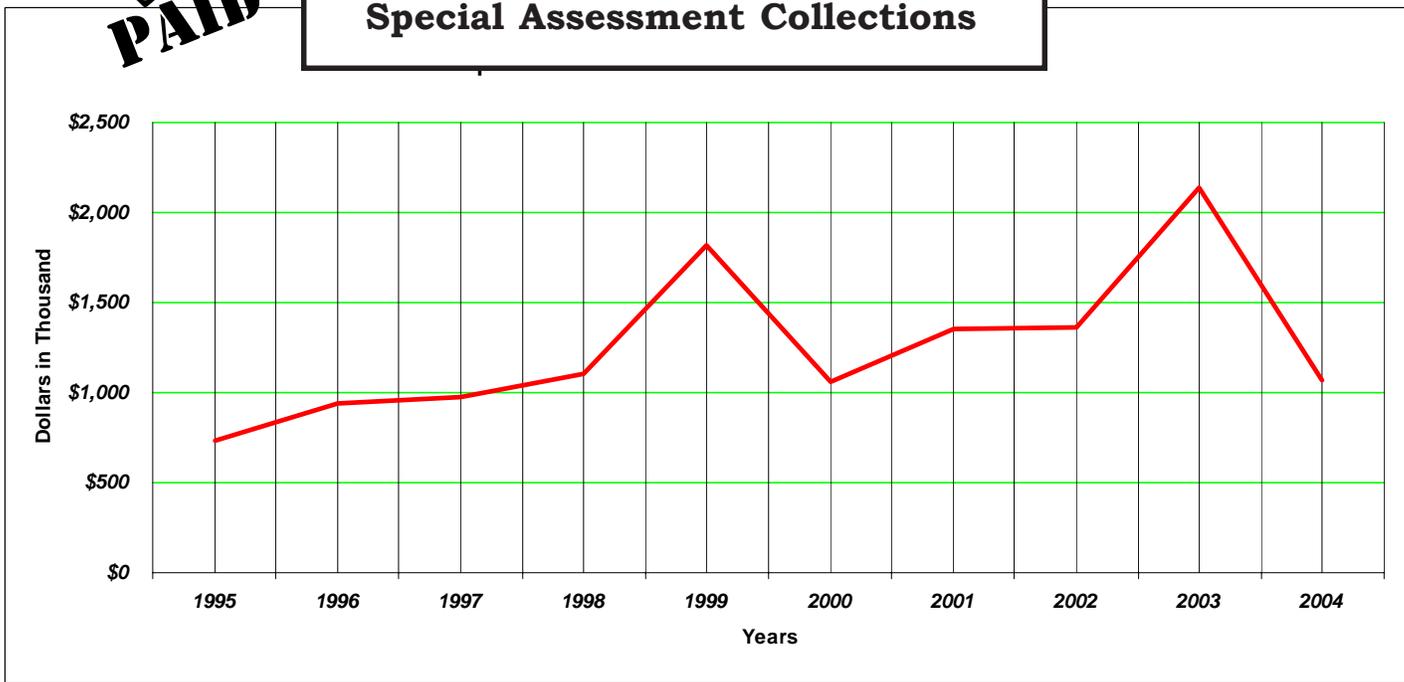


TABLE 7

RATIO OF NET GENERAL BONDED DEBT  
TO ASSESSED VALUE AND NET BONDED DEBT PER CAPITA  
LAST TEN FISCAL YEARS

Fiscal Year	Population*	Assessed Value**	G.O. Bonded Debt	Less Debt Service Fund***	Net Bonded Debt	Ratio of Net Bonded Debt to Assessed Value	Net Bonded Debt Per Capita
1995	25,110	1,194,675,287	5,890,000	161,125	5,728,875	0.48%	228
1996	26,170	1,264,184,515	5,480,000	180,631	5,299,369	0.42%	202
1997	27,570	1,364,789,304	4,910,000	89,194	4,820,806	0.35%	175
1998	28,240	1,453,333,833	4,565,000	173,631	4,391,369	0.30%	156
1999	29,020	1,495,035,563	4,100,000	200,586	3,899,414	0.26%	134
2000	31,226	1,578,379,306	3,605,000	232,310	3,372,690	0.21%	108
2001	31,600	1,699,347,399	3,195,000	235,625	2,959,375	0.17%	94
2002	31,860	1,860,057,113	8,595,000	375,828	8,219,172	0.44%	258
2003	32,240	2,039,965,671	12,855,000	437,994	12,417,006	0.61%	385
2004	32,530	2,189,800,865	12,110,000	453,336	11,656,664	0.53%	358

\*Source: State of Washington, Office of Financial Management

\*\* Source: Thurston County Assessor

\*\*\*Excluding LID Control and LID Guaranty Funds

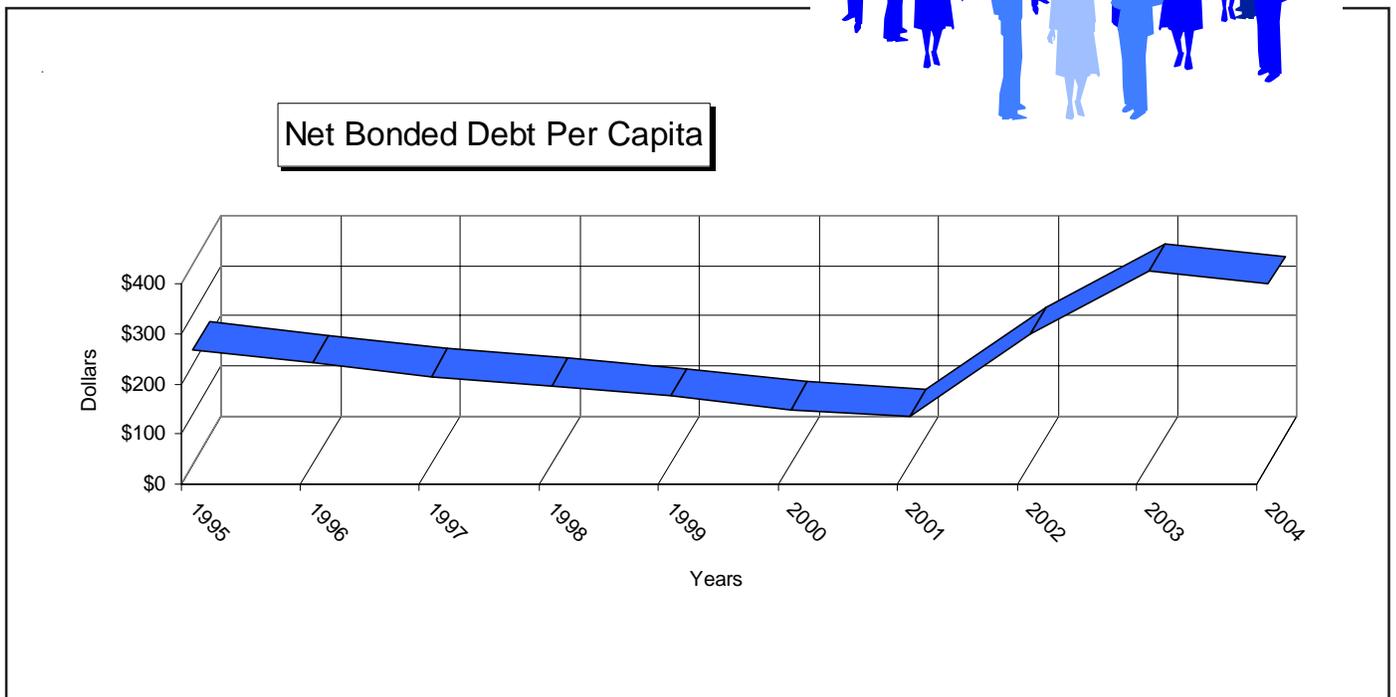


TABLE 8  
 SCHEDULE OF LIMITATION OF INDEBTEDNESS  
 FOR THE YEAR ENDED DECEMBER 31, 2004

Total Taxable Property Value		\$ 2,483,118,431
		Remaining Debt Capacity
2.5 % General purposes limit is allocated between:	\$ 62,077,961	
<i>Up to 1.5% debt <b>without</b> a vote (councilmanic)</i>	\$ 37,246,776	
Less: outstanding debt	\$ 1,970,000	
Add: available assets	\$ 114,235	
Equals: Remaining debt capacity without a vote		\$ 35,391,011
<i>1.0% debt <b>with</b> a vote</i>	\$ 24,831,184	
Less: outstanding debt	\$ 10,140,000	
Add: available assets	\$ 339,101	
Equals: Remaining debt capacity with a vote		\$ 15,030,285
<i>2.5% <b>utility</b> purpose limit, voted</i>	\$ 62,077,961	
Equals: Remaining debt capacity - utility purpose, voted		\$ 62,077,961
<i>2.5% <b>open space, park and capital facilities</b>, voted</i>	\$ 62,077,961	
Equals: Remaining debt capacity - open space, park, and capital facilities, voted		\$ 62,077,961

TABLE 9

RATIO OF ANNUAL DEBT SERVICE EXPENDITURES FOR  
GENERAL BONDED DEBT TO TOTAL GENERAL EXPENDITURES  
LAST TEN FISCAL YEARS

Fiscal Year	Principal	Interest	Total Annual Debt Service Expenditures	Total General Expenditures	Ratio of Debt Service To General Expenditures (Percent)
1995	290,000	288,148	578,148	12,667,089	4.56%
1996	410,000	416,223	826,223	13,629,769	6.06%
1997	720,519	356,969	1,077,488	14,255,848	7.56%
1998	490,000	200,858	690,858	15,116,262	4.57%
1999	465,000	207,645	672,645	15,344,182	4.38%
2000	495,000	187,883	682,883	15,962,651	4.28%
2001	410,000	167,523	577,523	17,882,171	3.23%
2002	603,417	363,728	967,145	19,028,383	5.08%
2003	740,000	449,116	1,189,116	20,000,604	5.95%
2004	745,000	518,135	1,263,135	20,718,540	6.10%

Source: City of Lacey Finance Department

Includes General, Special Revenue, and Debt Service Funds (excluding LID control and LID Guaranty)

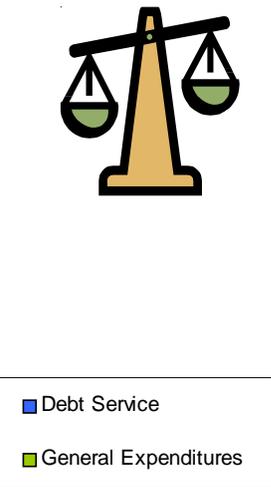
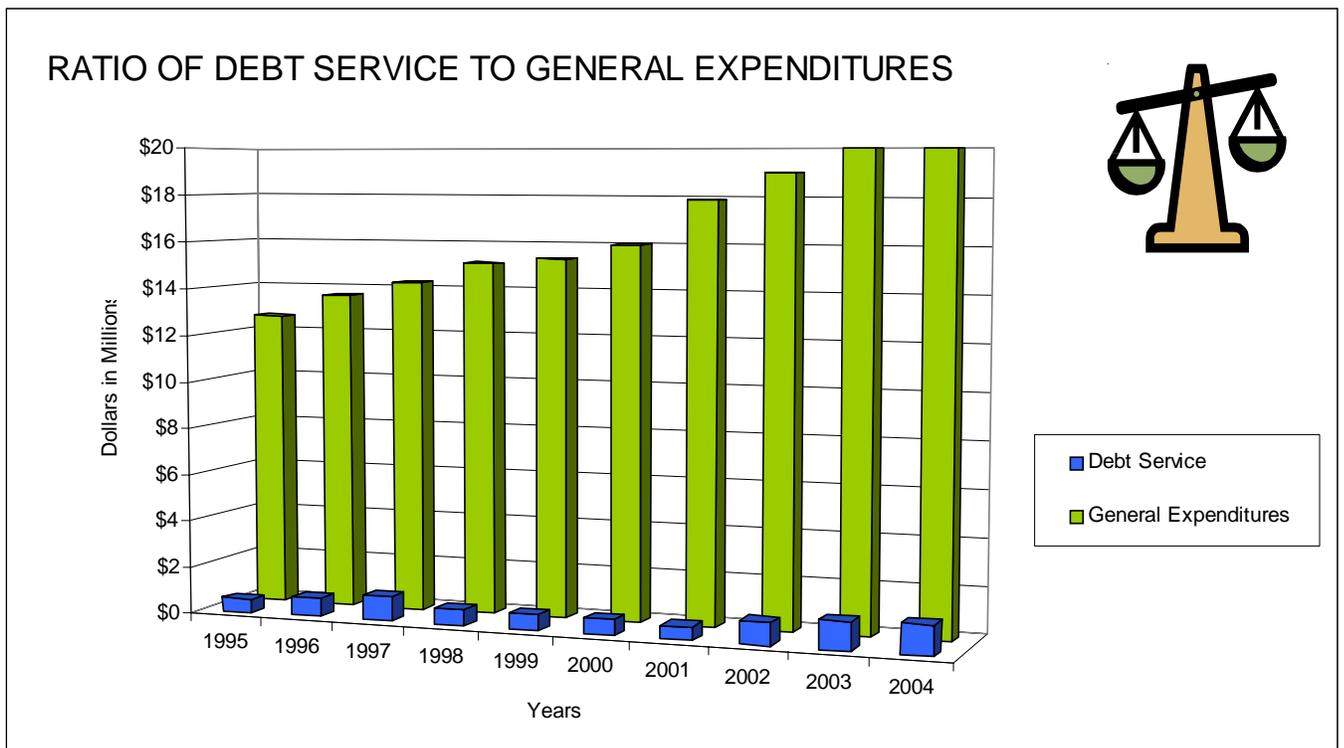


TABLE 10  
 COMPUTATION OF DIRECT AND OVERLAPPING DEBT  
 AS OF DECEMBER 31, 2004

Jurisdiction	Gross General Obligation Debt Outstanding	Percentage Applicable to Lacey	Amount Applicable to Lacey
Thurston County	\$ 53,616,263	14.420%	\$ 7,731,604
Port of Olympia	26,665,000	14.420%	3,845,162
North Thurston S.D.	73,055,000	42.500%	31,048,308
Fire Districts	9,194,665	10.914%	1,003,495

Source: City of Lacey Finance Department & Thurston County Assessor and Treasurer Offices

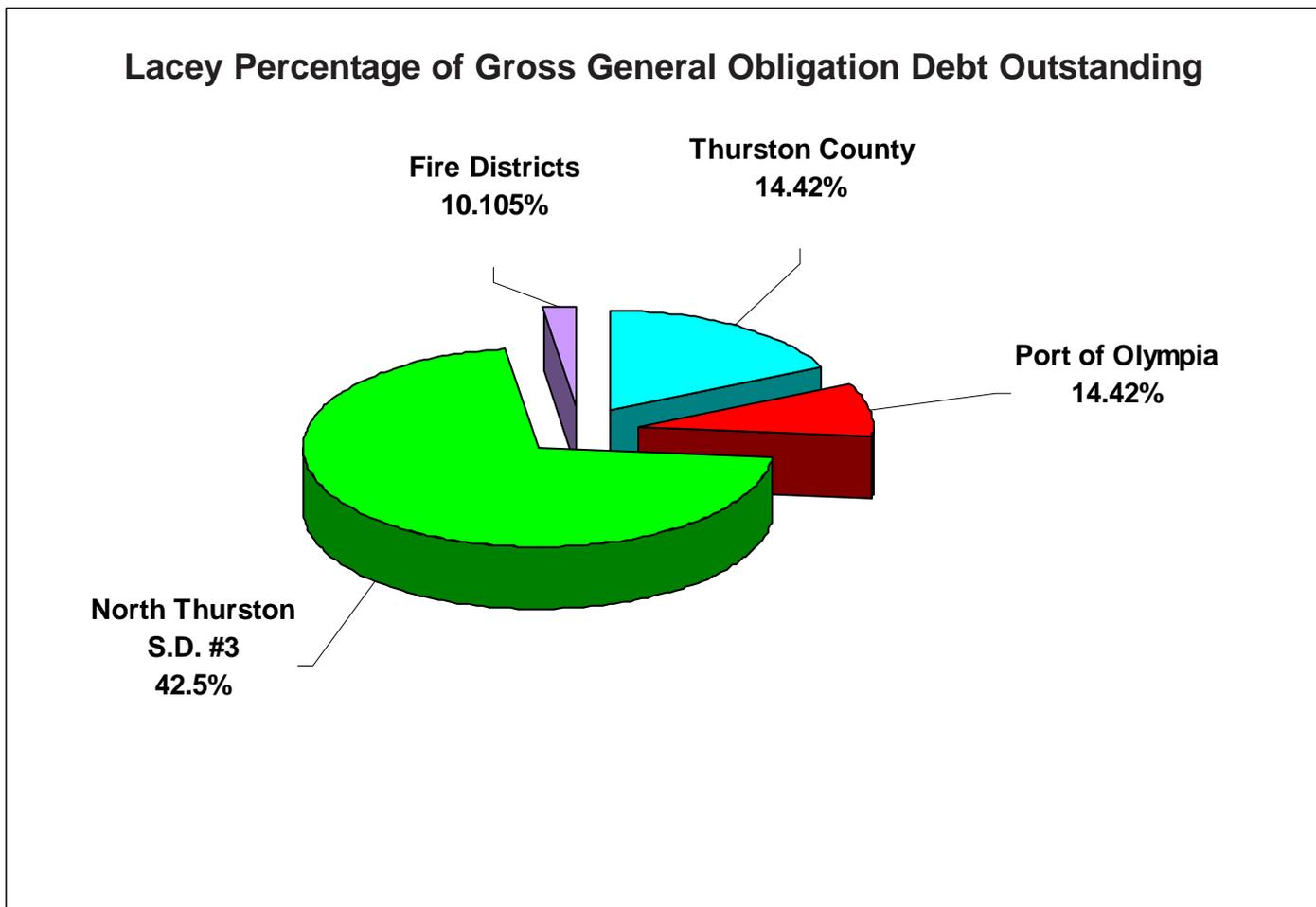


TABLE 11  
REVENUE BOND COVERAGE  
LAST TEN FISCAL YEARS

Fiscal Year	Total Revenue	Less Operating and Maintenance Expense*	Revenue Available for Coverage	Maximum Annual Debt Requirement	Actual Coverage	Coverage Maximum Annual Debt Service Required
1995	9,619,541	5,764,238	3,855,303	1,207,875	3.19	1.20
1996	10,126,203	6,196,007	3,930,196	1,400,430	2.81	1.20
1997	10,956,209	6,216,115	4,740,094	1,390,029	3.41	1.20
1998	10,912,860	7,063,889	3,848,971	1,326,676	2.90	1.20
1999	11,317,348	7,301,783	4,015,565	1,301,119	3.09	1.20
2000	11,408,262	8,556,792	2,851,470	1,296,950	2.20	1.20
2001	12,110,265	8,979,900	3,130,365	1,310,758	2.39	1.20
2002	12,463,566	9,523,933	2,939,633	1,310,758	2.24	1.20
2003	13,805,450	9,923,092	3,882,358	1,312,453	2.96	1.20
2004	15,097,697	11,230,698	3,866,999	1,307,250	2.96	1.20

\*Excludes depreciation expense

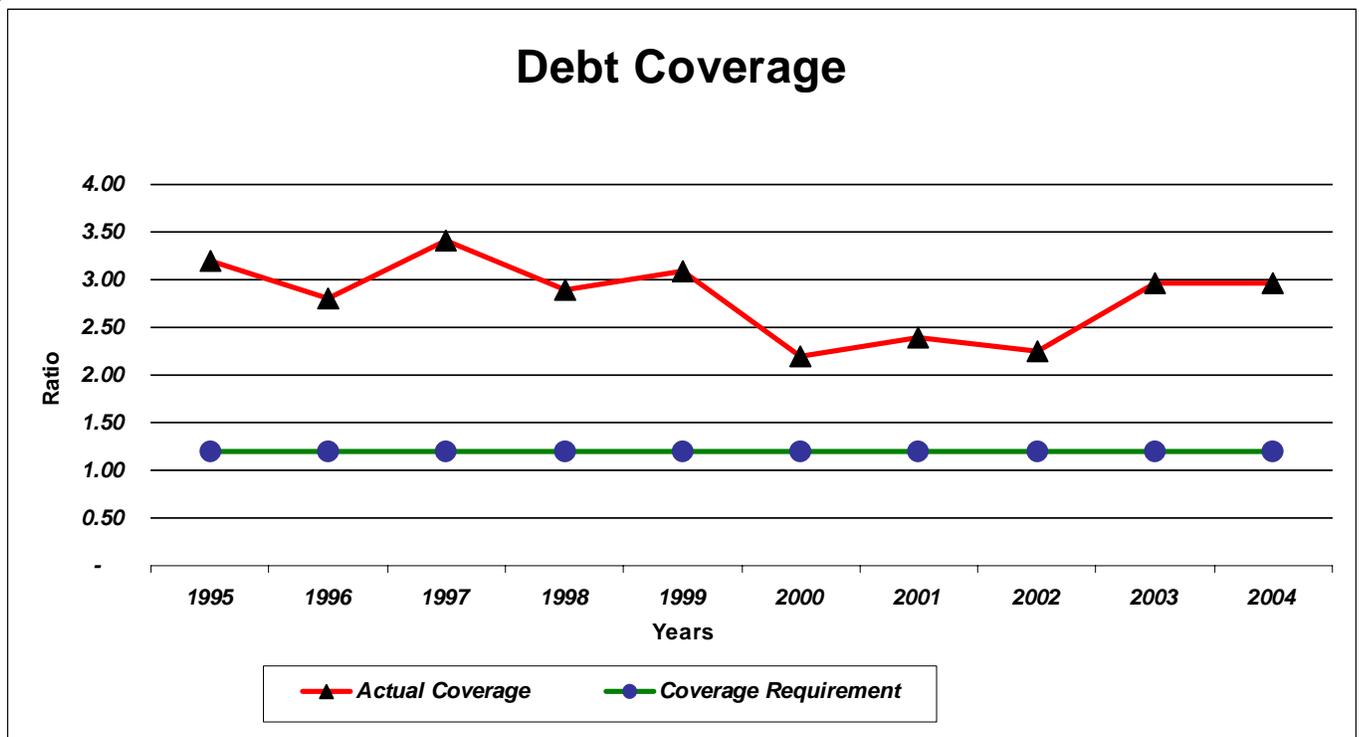


TABLE 12

DEMOGRAPHIC STATISTICS  
LAST TEN FISCAL YEARS

Fiscal Year	Population**	Percent Increase	School Enrollment**	Number of Housing Units**	County %Rate of Unemployment**	County Median Income per Household**	County Income Per Capita** Average Annual Wage
1995	25,110	3.42%	13,150	10,707	6.2%	37,716	23,690
1996	26,170	4.22%	13,049	11,673	6.6%	38,796	25,073
1997	27,570	5.35%	13,118	11,160	5.1%	40,801	26,454
1998	28,240	2.43%	13,116	not available	4.9%	42,275	28,384
1999	29,020	2.76%	12,979	12,557	4.6%	46,975	30,037
2000	31,226	7.60%	12,231	13,160	5.0%	49,454	31,780
2001	31,600	1.20%	12,188	13,078	5.7%	50,517	32,271
2002	31,860	0.82%	12,887	not available	5.8%	52,127	32,638
2003	32,240	1.19%	13,089	not available	5.7%	52,764	not available
2004	32,530	0.90%	13,079	not available	not available	not available	not available

\*\*Source: "The Profile", Thurston Regional Planning Council, 1995- 2004



Percent Increase in Population  
From the Prior Year

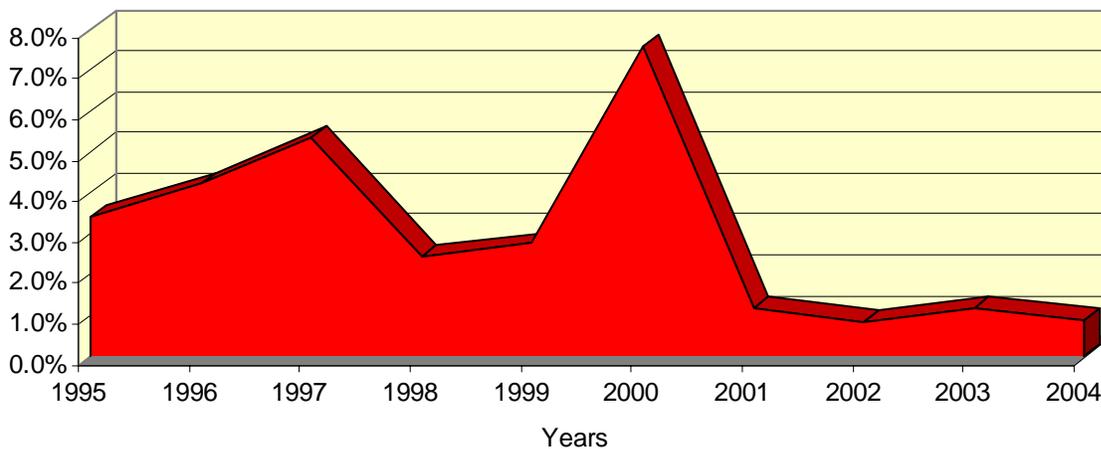


TABLE 13

PROPERTY VALUE, NEW CONSTRUCTION ACTIVITY, AND BANK DEPOSITS  
LAST TEN FISCAL YEARS

Fiscal Year	Commercial Construction		Residential Construction		Bank Deposit (in thousands)	Total Property Value
	Number of Buildings	Value	Number of Units	Value		
1995	36	8,737,081	420	33,693,007	351,117	1,194,675,287
1996	20	5,101,801	358	32,221,294	381,014	1,264,184,515
1997	14	3,831,842	295	27,385,746	325,466	1,364,789,304
1998	42	17,495,467	284	27,293,862	368,174	1,453,333,833
1999	38	18,751,280	272	27,544,073	420,670	1,495,035,563
2000	48	23,770,151	125	12,968,562	456,157	1,578,379,306
2001	29	61,497,191	198	21,092,406	473,199	1,699,347,399
2002	35	39,677,457	169	17,398,700	n/a	1,860,057,113
2003	53	29,253,689	238	31,433,667	n/a	2,039,965,671
2004	50	28,526,390	261	41,934,535	n/a	2,189,800,865

Source: City of Lacey, Department of Community Development

Source: Venture Bank (excludes Credit Unions), Marketing Department

Source: Thurston County Assessor's Office, *Statistical Report of 2003 Assessments for Taxes Payable in 2004*

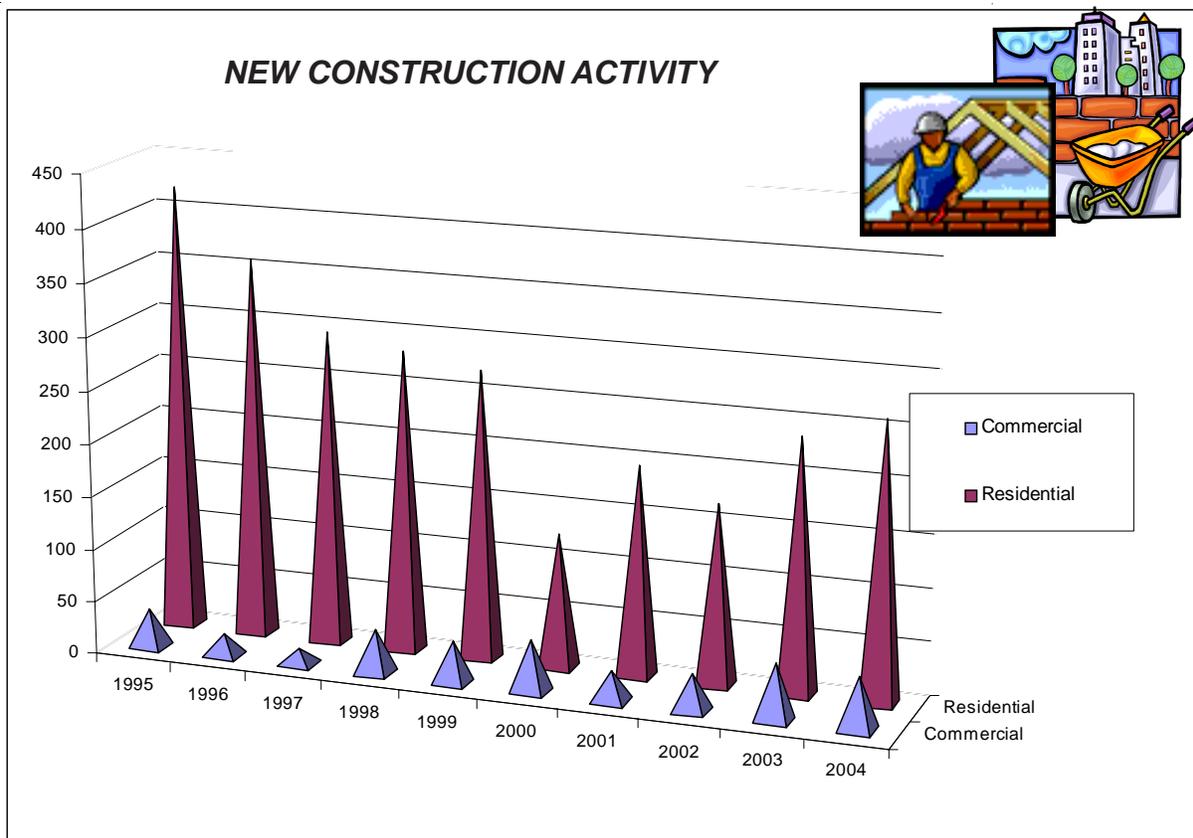
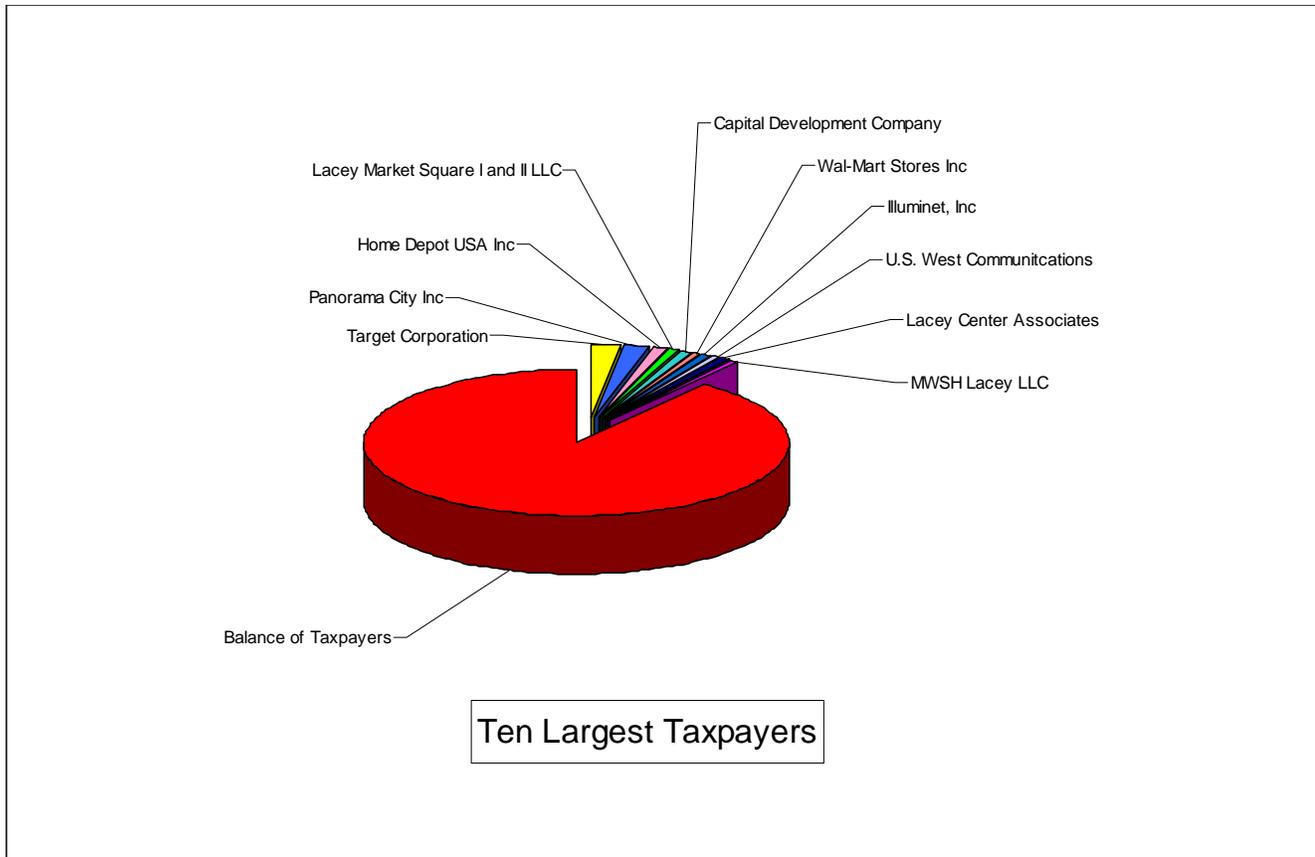


TABLE 14  
 PRINCIPAL PROPERTY TAXPAYERS  
 FOR THE YEAR ENDED DECEMBER 31, 2004



Source: Thurston County Assessor

Name	Type of Business	2004 Assessed Valuation	Percent of Total Assessed Value
Target Corporation	Retail/Warehouse	\$ 52,581,400	2.11%
Panorama City Inc	Retirement Community	47,969,857	1.92%
Home Depot USA Inc	Retail/Warehouse	28,493,650	1.14%
Lacey Market Square I and II L	Real Estate Development	22,961,300	0.92%
Capital Development Company	Leasing/Land Development	19,911,350	0.80%
Wal-Mart Stores Inc	Retail	17,926,550	0.72%
Illuminet, Inc	Utility	17,823,869	0.71%
U.S. West Communications	Utility	16,380,261	0.66%
Lacey Center Associates	Leasing/Land Development	15,740,550	0.63%
MWSH Lacey LLC	Leasing/Land Development	14,277,450	0.57%
Balance of Taxpayers		2,240,533,610	89.82%
<b>Total Assessed Values</b>		<b>\$ 2,494,599,847</b>	<b>100.00%</b>

TABLE 15  
MISCELLANEOUS STATISTICS  
AS OF DECEMBER 31, 2004

DATE OF INCORPORATION	December 5, 1966
FORM OF GOVERNMENT	Council/Manager
TYPE OF GOVERNMENT	Non-Charter/Code City
AREA 16.27	
NUMBER OF EMPLOYEES	205
<b>FIRE PROTECTION</b>	
Fire District	Fire District #3*
Number of Emergency Responders (approx)	109
Number of Stations within City Limits	2
Number of Stations outside City Limits	3
*Small portion served by Fire District #8	
<b>POLICE PROTECTION</b>	
Number of Police Officers	45
2000 - Offenses per 1000 People (All Crimes)	48
<b>UTILITY SERVICES</b>	
Customers Served-# of services	17,172
Customers Served-# of irrigation	549
Water:	
Storage Capacity	12.91 MG
Average Daily Demand	5.41 MG
Seasonal Usage:	
Winter	4.5-5.5 MGD
Summer	9.0-15.5 MGD
Sources:	
	19
City owned wells on the main system, one well owned by the Capital City Golf Club that is intertied with the Lacey Main system and governed by an intertie agreement, and interties with the City of Olympia governed by an intertie agreement.	
Miles of Main	310 Miles of Main
Sewer	
Miles of Main	113
Number of Pumplift Stations	36
Sewer Treatment	LOTT Regional Sewer Treatment Facility
Storm	
Total Number of Catch Basins, Clean Outs, Junction Boxes, Manholes, & Dry Wells (2001)	3,073
Number of Private Storm Ponds (2001)	350
<b>PARKS</b>	
Number of Parks	25
Number of Acres	529
<b>TRANSPORTATION</b>	
Miles of Paved Roads	117
<b>PUBLIC SCHOOLS</b>	
The City of Lacey students primarily attend schools located within North Thurston School District #3.	
Number of Schools Inside City Limits	
Elementary	4
Junior High	2
High School	4

TABLE 15 CONTINUED  
 MISCELLANEOUS STATISTICS  
 AS OF DECEMBER 31, 2004

Number of Schools Outside City Limits	
Elementary	8
Junior High	1

SAMPLE OF LACEY BUSINESSES OR EMPLOYMENT SITE WITH  
 MORE THAN 100 EMPLOYEES (WITHIN LACEY ZIP CODE AREA)

Between 250-499:  
 Fred Meyers  
 Panorama City  
 Target Corporation

Between 100-249  
 Alarm Center, Inc.  
 Illuminet  
 Roo-Lan Healthcare  
 Sears Roebuck & Co.  
 Shopko  
 St. Martin's College  
 City of Lacey  
 Home Depot

SOURCES OF INFORMATION

City of Lacey Department of Personnel  
 City of Lacey Finance Department  
 City of Lacey Public Works Department  
 Fire District #3  
 Thurston County Planning, "The Profile"