



City of Lacey, Washington
**2005 Comprehensive Annual
Financial Report**
for the year ended December 31, 2005

City of Lacey, Washington

Comprehensive Annual Financial Report

For the Year Ended December 31, 2005



PREPARED BY THE FINANCE DEPARTMENT

BLAINE L. MARTIN
FINANCE DIRECTOR

TIMOTHY F. McGUIRE
FINANCIAL SERVICES MANAGER

PAMELA S. MEREDITH
ACCOUNTING MANAGER

CHUN K. SAUL, CPA
SENIOR ACCOUNTANT



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**Comprehensive Annual Financial Report
Of The City of Lacey, Washington
For The Year Ending December 31, 2005**

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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 20, 2006

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, 2005, is submitted herewith. Management assumes full responsibility for the completeness and reliability of the information contained in this report, based upon a comprehensive framework of internal control that it has established for this purpose. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

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.

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.



Profile of the Government

The City of Lacey Incorporated in 1966, and 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 2005 population of 33,180.

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

and agreements, and maintenance of peace and order in the city. The City Manager appoints the heads of the various departments.



The City of Lacey provides a full range of municipal services either directly or through contracts. The City provides police, parks and recreation, planning and zoning, building inspection, street maintenance and construction, engineering and general administrative services. The City also operates legally separated 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.

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

Local Economy

Lacey's economy 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 many years in the Lacey area. Lacey is also the home to Panorama City, a large full-service retirement community, and St. Martin's University and abbey/seminary.



It has been Lacey's policy to encourage and facilitate diversification in the region's employment base. The development of Lacey's northeast area has been the major key to success in this goal. Because of the impact of state government employment in the region, unemployment rates have been stable and are consistently in the 4.6 to 5.0 percent. It is anticipated that unemployment statistics will remain stable for the foreseeable future.

During the past six years, Lacey's population growth has placed significant demands on services. General government staffing has grown 13 percent (159 to 180 FTE's) and 26 percent (34 to 43 FTE's) in the utility or enterprise funds. This higher growth rate in the utilities is indicative of the fact that the city's utilities have a significant customer base outside its corporate limits. Other general government departments (e.g., Community Development, Parks and Recreation, and Public Works Maintenance) have also experienced double digit growth rates. This is mainly due to accelerated commercial and residential development activity and the addition of parks and right-of-way improvements.



During this same period of time, cost of providing services, while continuing to increase, has been matched by increased general fund revenues. Charges for services (specifically in planning and

building inspection fees) have also generated revenue to cover the impact of expenses. Property and sales taxes continue to provide 50 to 52 percent of the revenue needs for general government services. Although the property levy rate has declined, adjustments for new construction value coupled with allowable 1 percent adjustment have generated a 29 percent increase during the past six years. Sales tax revenues during this same period of time have improved 67 percent.

Long-term Financial Planning

Unreserved, designated fund balances in the governmental funds (11 percent of total governmental fund revenues) are set aside for specific budgetary and capital improvements that are planned and selected by the City Council. Although this amount varies from year to year, it has enabled the Council to reduce and/or eliminate the need for long-term borrowing.

As part of a long-term economic development plan, the Council envisions the development of a regional retail/commercial center to be located on property adjacent to Interstate 5. Property owners are currently working on a development proposal that will bring a significant retail name that has a history of creating a regional draw. Coordinating efforts between the City, property owner, and retailer have initiated grant applications to assist with the cost of transportation and infrastructure improvements. A form of tax increment financing is also being considered. Current estimates place the total cost of improvements in the \$35 to \$50 million range. Of that amount, the City has committed to fund \$5 million for transportation and utility services.

In partnership with Thurston County, it is anticipated that the final phases of development of a regional sports and activities complex will move forward. The first phase of this proposed 93 acre complex is complete. Funding of the improvement cost have and will come from a special Public Facilities District revenue source from the State's portion of the retail sales tax. Other revenues have come from general obligation bonds approved by voters as well as general fund revenues. Because there have been conflicting projects proposed by each jurisdiction participating in the PFD, construction of this project has been delayed for almost two years. It appears that a resolution of these conflicts has been made. Upon completion, this complex will likely incur significant additional operating costs to staff, operate, and maintain. It is anticipated that user fees, excess PFD revenues over debt service needs, and dedicated revenues from the City's hotel/motel tax will substantially address these increased costs.



Relevant Financial Policies

It is the City of Lacey's policy that "onetime" revenue inflows not be used for operating purposes. As a result, Lacey has been able to construct many facilities or enhance its residential street overlay program. The Council and city administration clearly recognize that significant growth in revenues directly or indirectly associated with increased housing starts can and should be considered "onetime" revenues. Unrestricted fund balances demonstrate this commitment.

Major Initiatives

The State of Washington is in process of implementing the requirements of participating in the national Streamlined Sales Tax (SST) initiative. In doing so, a change in the method of sales tax distribution will take place that will effect cities. Currently, sales tax collection is distributed on the basis of "point of sale." Under SST, sales tax will be distributed based on "point of delivery." Fortunately, Lacey will not experience any significant impact from this change in distribution methods.



With approximately 18,500 water accounts, the City's Water Utility serves a population approaching 50,000 persons. In 2006, a major change will come into play as the City constructs permanent chlorination facilities at various well sites. This requires a significant capital investment in equipment and facilities estimated at \$1.85 million. Because of this substantial cost, it will be necessary for the Water Construction Fund to have a source of short-term cash to supplement its available resources. An interfund loan will be set in place from the Wastewater Fund so that the Utility can avoid the cost of long-

term debt usually associated with this scope of improvement.

The next transportation projects include the Carpenter Road Capacity improvements and right of way at an estimate of \$2.03 million and the College Street rehabilitation project estimated at \$1.64 million, as well as substantial enhancements to the residential street overlay program. The resources to cover these improvements include \$1.05 million in Real Estate Excise Tax revenues, a transfer in of \$1.25 million from the General Fund and miscellaneous revenues from State Fuel tax and collected mitigation fees.



Risk Management

The City of Lacey is a member of the Washington Cities Insurance Authority (the "Authority"), which includes 115 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.

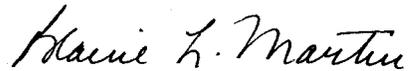
Awards and Acknowledgments

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Lacey for its comprehensive annual financial report (CAFR) for the fiscal year ended December 31, 2004. This is the sixth consecutive year that the government has received this prestigious award. In order to be awarded a Certificate of Achievement, the government had to publish an easily readable and efficiently organized CAFR that satisfied both the generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements 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. We wish to express our appreciation to all members of the department who assisted and contributed to the preparation of this report. Credit also must be given to the City Manager and Council for their unfailing support for maintaining the highest standards of professionalism in the management of the City of Lacey's finances.

Respectfully submitted,



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, 2004

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.



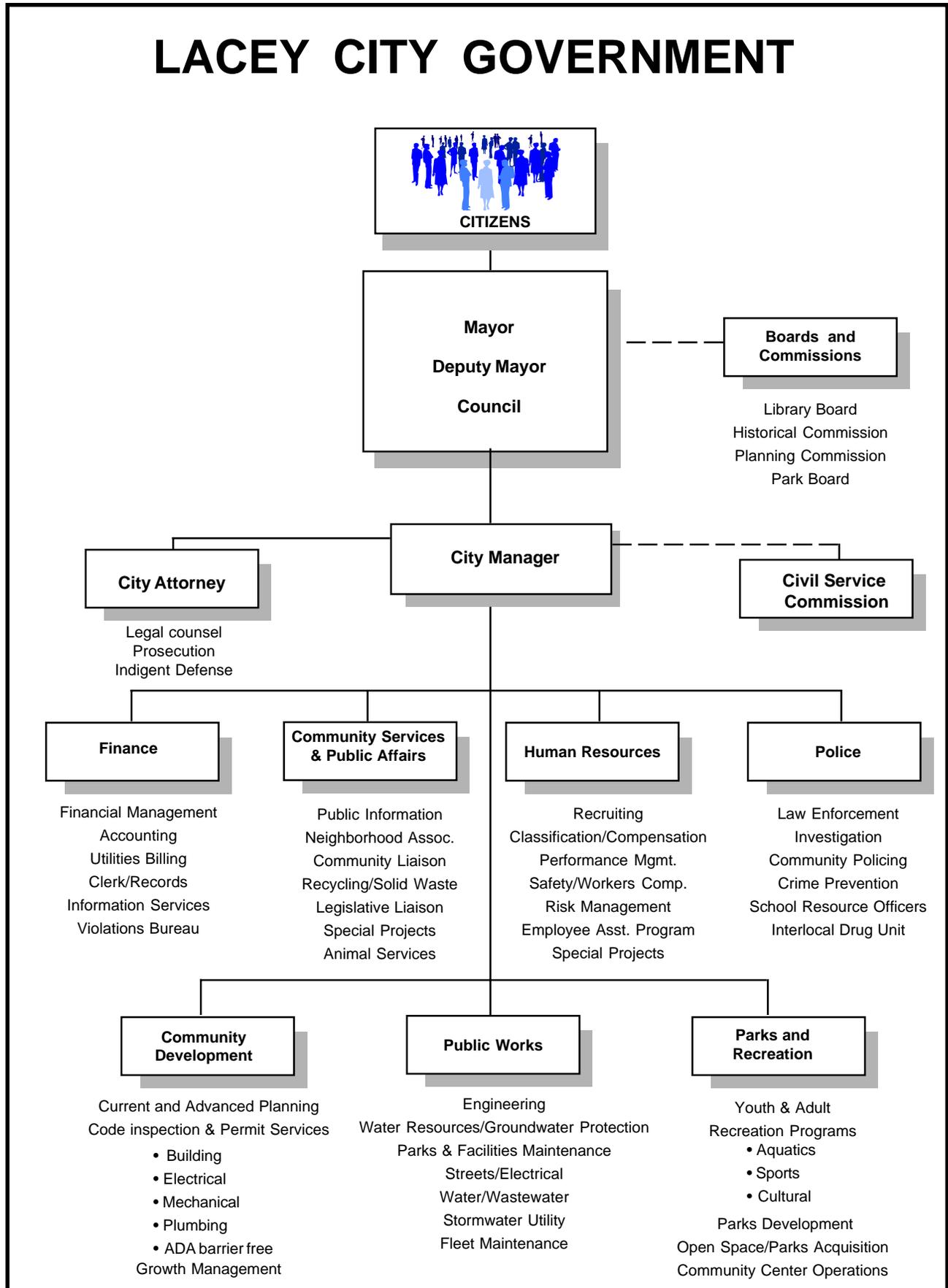
Carla E. Perry

President

Jeffrey R. Emer

Executive Director

LACEY CITY GOVERNMENT



CITY OF LACEY, WASHINGTON

Mayor

Virgil Clarkson Term - Dec. 2009

Deputy Mayor

Nancy Peterson Term - Dec. 2007

Council

Ann Burgman Term - Dec. 2009
John Darby Term - Dec. 2009
Mary Dean Term - Dec. 2007
Thomas Nelson Term - Dec. 2007
Graeme Sackrison Term - Dec. 2009

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
Dusty D Pierpoint	Police Chief
Dennis E. Ritter	Public Works Director

FINANCIAL SECTION

FINANCIAL SECTION



Washington State Auditor
Brian Sonntag

INDEPENDENT AUDITOR'S REPORT

June 14, 2006

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, 2005, 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 misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Lacey, Thurston County, Washington, as of December 31, 2005, 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 3-13 and budgetary comparison information on pages 5-1 through 5-3 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying information listed as combining financial statements and supplemental information on pages 6-1 through 7-15 is presented for purposes of additional analysis and is not a required part of the basic financial statements. This information has been subjected to auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

Sincerely,

A handwritten signature in black ink, appearing to read "Brian Sonntag". The signature is written in a cursive, flowing style with a large initial "B" and "S".

BRIAN SONNTAG, CGFM
STATE AUDITOR

MANAGEMENT DISCUSSION & ANALYSIS

MANAGEMENT DISCUSSION & ANALYSIS

Management's Discussion and Analysis

As management of the City of Lacey, we offer readers of the City of Lacey's financial statements this narrative overview and analysis of the financial activities of the City of Lacey for the fiscal year ended December 31, 2005. We encourage readers to consider the information presented herein conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages 1-1 to 1-5 of this report.

Financial Highlights

- The assets of the City of Lacey exceeded its liabilities at December 31, 2005 by \$420.99 million. Of this amount, \$63.1 million may be used to meet the government's ongoing obligations to citizens and creditors.
- The City of Lacey's total net assets increased by \$69.1 million. Approximately 86 percent 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 \$30.25 million, an increase of \$3.4 million in comparison with the prior year. Approximately 96 percent 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 \$14.5 million or 70 percent of general fund expenditures.
- The City of Lacey's total debt decreased by \$5.29 million (25 percent) during the current fiscal year. The key factor in this decrease was the retirement of 1995 bonds.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the City of Lacey's basic financial statements. The City of Lacey's basic financial statements comprise of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

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

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

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash*

flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

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

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

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

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

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

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

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

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

Proprietary funds. The City of Lacey maintains two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City of Lacey uses enterprise funds to account

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

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

The basic proprietary fund financial statements can be found on pages 4-9 to 4-13 of this report.

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

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

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 4-15 to 4-43 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning the City of Lacey's budgetary comparisons, original to final budget compared to actual revenues and expenditures. Required supplementary information can be found on pages 5-1 to 5-3 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Lacey, assets exceeded liabilities by \$420.99 million at the close of the most recent fiscal year.

By far the largest portion of the City of Lacey's net assets (82 percent) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment), less any related debt used to acquire those assets that are still outstanding. The City of Lacey uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City of Lacey's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

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

	City of Lacey's Net Assets (in Millions)					
	Governmental Activities		Business-type Activities		Total Primary Government	
	2005	2004	2005	2004	2005	2004
Current and other assets	\$ 51.1	\$ 46.8	\$ 21.2	\$ 17.9	\$ 72.3	\$ 64.7
Capital assets	235.3	205.0	135.3	109.4	370.6	314.4
Total assets	\$ 286.4	\$ 251.8	\$ 156.5	\$ 127.3	\$ 442.9	\$ 379.1
Payables	\$ 1.4	\$ 2.0	\$ 1.6	\$ 0.9	\$ 3.0	\$ 2.9
Long-term Debt	17.5	21.9	1.4	2.4	18.9	24.3
Total liabilities	\$ 18.9	\$ 23.9	\$ 3.0	\$ 3.3	\$ 21.9	\$ 27.2
Net assets:						
Invested in capital, net of debt	\$ 219.6	\$ 184.9	\$ 134.0	\$ 107.2	\$ 353.6	\$ 292.1
Restricted	1.3	1.2	1.0	1.0	2.3	2.2
Unrestricted	46.6	41.8	18.5	15.8	65.1	57.6
Total net assets	\$ 267.5	\$ 227.9	\$ 153.5	\$ 124.0	\$ 421.0	\$ 351.9

An additional portion of the City of Lacey's net assets (\$2.3 million) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* (\$65.1 million) may be used to meet the government's ongoing obligations to citizens and creditors.

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

The government's net assets increased by \$69.1 million during the current fiscal year. About 82 percent (\$56.2 million) of this increase represents the increase in net capital assets that are attributable primarily to the developer contributed streets, rights of way, and water, sewer, and storm water lines. Approximately another 5 percent (\$3.6 million) represents an increase in the permits and fees, property taxes and business and sales taxes attributable to an increase in new construction. Approximately another 3 percent (\$2 million) is attributable to an increase in water and wastewater rates for the current fiscal year. The remainder of this growth largely reflects rate increases, increase in capital grants, and investment earnings and the degree to which increases in ongoing revenues have outstripped similar increases in ongoing expenses.

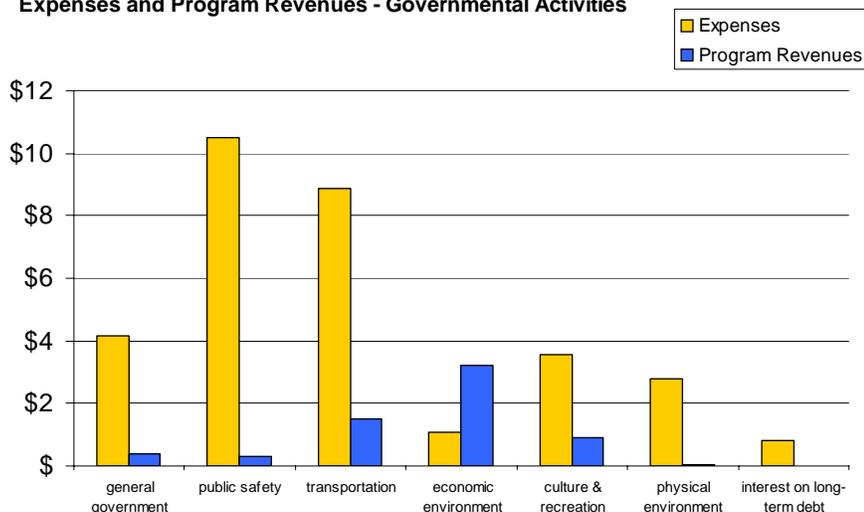
Governmental activities. Governmental activities increased the City of Lacey's net assets by \$39.6 million, thereby accounting for 57 percent of the total growth in the net assets of the City of Lacey. Key elements of this increase are as follows:

City of Lacey's Changes in Net Assets
(In Millions)

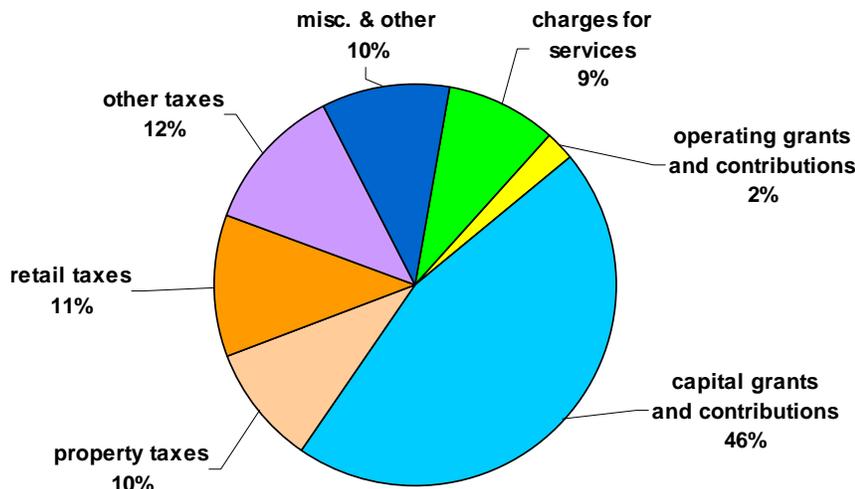
	Governmental Activities		Business-type Activities		Total Primary Government	
	2005	2004	2005	2004	2005	2004
Revenues						
Program Revenues:						
Charges for services	\$ 6.31	\$ 3.90	\$ 18.43	\$ 16.40	\$ 24.74	\$ 20.30
Operating grants and contributions	1.73	2.00	-	-	1.73	2.00
Capital grants and contributions	32.40	11.50	26.21	12.00	58.61	23.50
General revenues:						
Property taxes	6.91	6.30	-	-	6.91	6.30
Retail taxes	8.03	6.60	-	-	8.03	6.60
Business taxes	5.33	5.00	-	-	5.33	5.00
Excise	3.21	2.70	-	-	3.21	2.70
Interest and investment earnings	1.47	1.20	0.56	0.30	2.03	1.50
Miscellaneous	5.83	3.80	0.34	0.20	6.17	4.00
Total revenues	\$ 71.22	\$ 43.00	\$ 45.54	\$ 28.90	\$ 116.76	\$ 71.90
Program expenses:						
General government	\$ 4.17	\$ 3.70	\$ -	\$ -	\$ 4.17	\$ 3.70
Security of persons and property	10.48	12.00	-	-	10.48	12.00
Physical environment	2.81	2.40	-	-	2.81	2.40
Transportation	8.87	7.90	-	-	8.87	7.90
Economic environment	1.08	1.00	-	-	1.08	1.00
Culture and recreation	3.58	3.30	-	-	3.58	3.30
Interest on long-term debt	0.83	0.90	-	-	0.83	0.90
Water	-	-	6.50	6.40	6.50	6.40
Wastewater	-	-	7.86	7.40	7.86	7.40
Stormwater	-	-	1.51	1.40	1.51	1.40
Total expenses	\$ 31.82	\$ 31.20	\$ 15.87	\$ 15.20	\$ 47.69	\$ 46.40
Increase in net assets before transfers	\$ 39.40	\$ 11.80	\$ 29.67	\$ 13.70	\$ 69.07	\$ 25.50
Transfers in (out)	0.23	0.40	(0.23)	(0.40)	-	-
Changes in net assets	\$ 39.63	\$ 12.20	\$ 29.44	\$ 13.30	\$ 69.07	\$ 25.50
Net Assets - Beginning Balance	\$ 227.87	\$ 215.70	\$ 124.05	\$ 110.70	\$ 351.92	\$ 326.40
Net Assets - Ending Balance	\$ 267.50	\$ 227.90	\$ 153.49	\$ 124.00	\$ 420.99	\$ 351.90

- Operating revenues (charges for services) increased \$2.4 million. About 71 percent (\$1.7 million) of this increase occurred in the economic environment program as a result of an increase in new construction through permits and fees revenues. Approximately another 22 percent (\$.5 million) of this increase occurred in the transportation program as a result of mitigation fees.
- Capital grants and contributions increased \$20.8 million, mostly in the transportation program. Capital grants from the Transportation Improvement Board increased by \$1.6 million for the completion of Yelm Highway construction. The majority of the remaining increase is attributable to the developer contributed capital assets.
- Retail sales taxes increased by \$1.4 million (4 percent), mostly due to one time tax on new construction, as well as new retail development in the City's northeast area. For the most part, increases in expenses closely paralleled inflation and growth in the demand for services. One exception is a decrease in security of persons and property

Expenses and Program Revenues - Governmental Activities



Revenues by Source - Governmental Activities

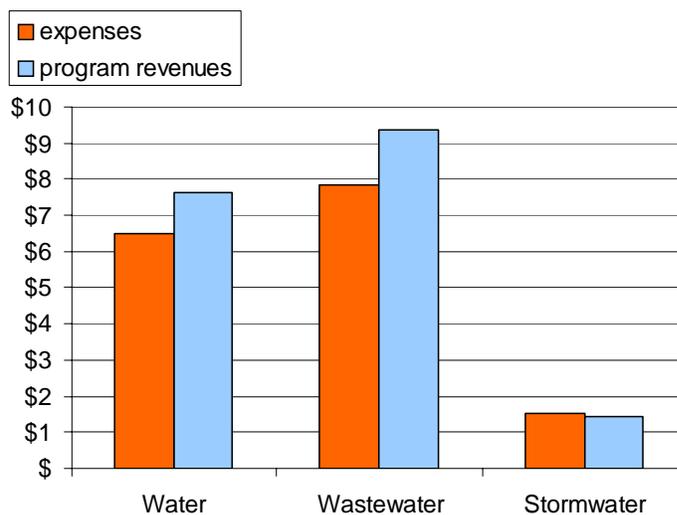


due to a reduction in capital expenditures upon completion of the police department remodel.

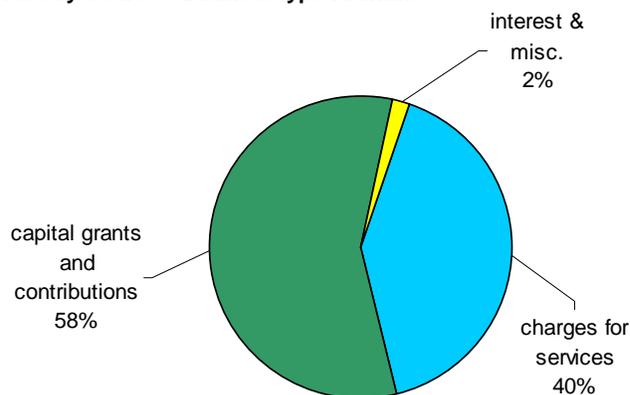
Business-type Activities. Business-type activities increased the City of Lacey’s net assets by \$29.5 million, accounting for 43 percent of the total growth in the government’s net assets. Key elements of this increase are as follows:

- Charges for services for business-type activities increased 13 percent (\$2.1 million). The majority of this increase is due to an increase in water and wastewater rates for the current fiscal year.
- Capital contributions emerged as a major revenue source for the Water, Wastewater and Stormwater operations during the current fiscal year, producing an increased \$14.2 million. The increase is mostly a result of developer contributed capital assets.
- Investment earnings increased by \$.2 million because of an overall increase in the size of the investment portfolio, as well as a strong market.

Expense and Program Revenues - Business-type



Revenues by Source - Business-type Activities



Financial Analysis of the Government's Funds

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

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

As of the end of the current fiscal year, the City of Lacey's governmental funds reported combined ending fund balances of \$30 million, an increase of \$3 million in comparison with the prior year. Approximately 80 percent (\$24 million) of this total amount constitutes *unreserved, undesignated fund balance*, which is available for spending at the government's discretion. The remainder (\$6 million) of the fund balance is *reserved or designated* to indicate that it is not available for new spending because it has already been committed for 1) advances payable to other funds (\$174,000), 2) lodging tax total fund balance (\$550,720), 3) debt service (\$650,000), 4) a variety of other restricted purposes (\$28,150), or 5) a variety of other designated purposes (\$4,580,186). Additional information on the City of Lacey's designated purposes can be found on page 4-21 of this report.

General Fund

The General Fund is the chief operating fund of the City of Lacey. At the end of the current fiscal year, unreserved, undesignated fund balance of the general fund was \$12.8 million, while the total fund balance reached \$14.8 million. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved, undesignated fund balance represents 61 percent of the total general fund expenditures, while total fund balance represents 71 percent of that same amount.

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

- An increase in retail sales tax revenues of \$1.3 million, mostly due to one time tax on new construction, as well as new retail development in the City's northeast area.
- An increase in new construction resulted in increase of \$1.3 million in permits and fees revenues.
- Current expenditures increased by 9 percent (\$1.8 million). Approximately 55 percent (\$1 million) of the \$1.8 million increase is from an increase in payroll expenditures due to the addition of 5 new budgeted FTE's, cost of living and market increases as well as contractual increases for benefits.
- Property and business tax revenues increased by \$.5 million and \$.3 million, respectively, due to new construction and increased activity.
- A one time net transfer out of \$2.5 million was used to retire debt and pay for the police department remodel and expansion.

Arterial Street Fund:

The Arterial Street Fund has a total fund balance of \$5.27 million, of which \$.5 million is reserved for the payment of debt service, and the remaining \$4.7 million is unreserved to indicate that it is available for new spending. An increase in real estate excise tax increased tax revenue by \$1.3 million. Intergovernmental revenue increased by \$1.4 million as a result of funding increases from the Transportation Improvement Board for the Yelm Highway construction

project. Capital outlay increased by \$2.9 million, of which \$2.6 million was attributable to the Yelm Highway construction project. The net increase in the fund balance during the current year was \$1.6 million.

Parks and Open Space Fund:

Intergovernmental revenues decreased by \$.4 million due to the \$.4 million IAC grant received in 2004 for the railroad acquisition. Capital outlay expenditures decreased by \$1.8 million as well. About \$1.2 million (67 percent) of this decrease was due to completion of Rainier Vista Park project in 2004. New spending on various park improvement projects in 2005 amounted to \$1.6 million, including Wonderwood park and Long Lake park improvement projects. The total fund balance in the Parks and Open Space Fund as of the end of current fiscal year is \$1.5 million, of which \$71,493 is reserved for the Public Facility Development Sports Complex project.

Local Improvement District (L.I.D.) Bond Fund:

The Local Improvement District Bond Fund has a total fund balance of \$.8 million as of the end of current fiscal year. L.I.D.16 debt was retired during the current fiscal year. There are two remaining improvements in this fund as of the end of current fiscal year: College Street widening and overlay (L.I.D.13) and the NE area transportation improvements (L.I.D.19).

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

Unrestricted net assets of the Water, Wastewater and Stormwater operations at the end of the year amounted to \$18.3 million. The total growth in net assets for these funds was \$29.3 million. Other factors concerning the finances of these funds have already been addressed in the discussion of the City of Lacey's business-type activities.

General Fund Budgetary Highlights

During the year there was a \$2.3 million increase in appropriations between the original and final amended budget. Following are the components of the increase:

- \$257,480 contract and professional services
- \$15,000 Council approved increase to salaries in City Manager department
- \$101,000 labor arbitration & recruitment personnel matters
- \$10,000 litigation City Attorney services
- \$51,000 allocated to the police department to cover time spent on investigations
- \$53,700 provided for unexpected common facility rentals, HVAC repairs and maintenance costs
- \$16,200 allocated to the Public Works Engineering for overtime related inspection services to contractors and projects
- \$68,700 allocated to Community Development for overtime and professional service contracts due to personnel shortages
- \$64,000 primarily allocated to parks & recreation for youth and teens program costs related to staffing increases to child nutrition program
- \$1,675,000 transfer out to pay off L.T.G.O. debt

The total increase was possible because of additional anticipated revenues and an available unreserved fund balance. Those revenues included an upturn in sale tax receipts (\$292,380); an increase in permit application revenues (\$141,620) and increased grant revenues (\$20,600). The remaining balance was budgeted from available fund balances.

Capital Assets and Debt Administration

Capital assets. The City of Lacey's investment in capital assets for its governmental and business-type activities as of December 31, 2005, amounts to \$370.58 million (net of accumulated depreciation). This investment in capital assets includes land, buildings and system improvements, machinery and equipment, park facilities, and infrastructure. The total increase in the City of Lacey's investment in capital assets for the current fiscal year was 19 percent (a 16.5 percent increase for governmental activities and a 2.5 percent increase for business-type activities).

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

- Land improvement increased by \$7.8 million. Substantially all of it is from the developer contributed rights of way, which was about 66 acres, during the fiscal year.
- Construction in progress increased by \$7.1 million, which consist of \$1.7 million on parks facilities improvement projects, \$1.4 million on police department remodeling, \$2.6 million for the Yelm Highway construction project, \$.6 million for various street reconstruction projects, and \$.1 million for water chlorination. Construction in progress as of the end of the current fiscal year had reached \$12 million.
- Infrastructure assets increased by \$25.9 million with \$7.1 million in depreciation for 2005. The net increase (net of depreciation) was \$18.8 million. Approximately 94 percent of the increase is attributable to the developer contributed streets. Approximately 20 lane miles of residential and collector streets were contributed by the developers which amounted to \$24.5 million.
- Improvements include park facilities, water, sewer and wastewater lines and facilities, as well as other improvements. Improvements assets increased by \$28.9 million with depreciation for the fiscal year amounting to \$3.3 million. The net increase is \$25.6 million. Approximately \$18.4 million (64 percent) of the increase is attributable to the developer contributed assets. Other key factors for the increase were: purchase of automated meter reading system at a cost of \$.7 million, acquisition of Betti Well water rights at a cost of \$.9 million, completion of waterline looping project at a total cost of \$.7 million, and improvements to the stormwater facilities at a cost of \$.3 million.

City of Lacey's Capital Assets
(Net of Depreciation)
(In Millions)

	Governmental Activities		Business-type Activities		Totals	
	2005	2004	2005	2004	2005	2004
Land and improvements	\$ 97.74	\$ 89.94	\$ 3.91	\$ 3.91	\$ 101.65	\$ 93.85
Buildings Improvements	8.75	9.19	1.38	1.41	10.13	10.60
Infrastructure	0.63	0.67	129.04	103.31	129.67	103.98
Machinery and equipment	114.18	95.34	0.00	0.00	114.18	95.34
Construction in progress	2.44	2.30	0.55	0.56	2.99	2.86
	11.56	4.56	0.40	0.25	11.96	4.81
Total	\$ 235.30	\$ 202.00	\$ 135.28	\$ 109.44	\$ 370.58	\$ 311.44

Additional information on the City of Lacey's capital assets can be found in Note 5 starting on page 4-27 of this report.

Debt Administration

The City of Lacey is authorized to issue debt pursuant to the Acts of the State of Washington. The City has 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 percent of maximum annual debt. For the year ended December 31, 2005 this debt ratio was 519 percent. Ratios for prior years can be found in the statistical section on Table 11.

The City of Lacey maintains an "Aaa" rating from Standard & Poor's and "AAA" rating from Moody's Investors Service for general obligation debt. The revenue bonds of the City's water and sewer utilities funds have been rated "A" by Standard & Poor's and "Aaa" from Moody's Investors Service.

The City of Lacey has a voter-approved commitment to spend \$4.99 million to improve its park properties. It is the City's intent to issue general obligation bonds to support this capital expenditure in the 2006 budget year.

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

Long-term Debt. At the end of the current fiscal year, the City of Lacey had total bonded debt outstanding of \$15.68 million and a State of Washington (Public Works projects) loan of \$2.55 million. Of the \$15.68 million bonded debt, \$10.23 million comprises debt backed by the full faith and credit of the government and \$3.89 million is special assessment debt for which the government is liable in the event of default by the property owners subject to the assessment. The remainder of the City of Lacey’s debt represents bonds secured solely by specified revenue sources (i.e. revenue bonds).

City of Lacey’s Outstanding Debt
Bonds and Notes
(In Millions)

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
General obligation bonds	\$ 10.23	\$ 12.11	\$ -	\$ -	\$ 10.23	\$ 12.11
Revenue bonds	.24	1.25	1.32	2.26	1.56	3.51
Special assessment debt with governmental commitment	3.89	5.19	-	-	3.89	5.19
PWTF loan	2.55	2.75	-	-	2.55	2.75
Total	\$ 16.91	\$ 21.30	\$ 1.32	\$ 2.26	\$ 18.23	\$ 23.56

The City of Lacey’s total debt decreased by \$5.3 million (23 percent) during the current fiscal year. The key factors in this decrease were:

- Retirement of \$1.26 million of 1995 G.O. debt. Undesignated fund balance was used to allow early redemption.
- Principal reduction of \$.94 million of the animal services revenue bond . The Cities of Lacey and Tumwater along with Thurston County opted to pay off their proportionate share of obligations.

Additional information on the City of Lacey’s long-term debt can be found in note 13 on pages 4-39 to 4-42.

Economic Factors and Next Year’s Budgets and Rates

- The unemployment rate for the County is currently 5.1 percent, which is a decrease from a rate of 5.2 percent a year ago. This compares favorably to the state’s average unemployment rate of 5.5 percent and the national average rate of 5.1 percent.
- The City’s population continues to grow, (33,180 in the current fiscal year) and is placing more demand on services. Fortunately, even though the cost of providing services has increased, revenues (specifically in planning and building inspection fees) have grown to offset the costs, matching this increase. Property tax and sales tax revenues have also increased to keep up with this growth.

During the current fiscal year, unreserved, undesignated fund balance in the general fund increased to \$12.8 million. The City of Lacey has appropriated \$.9 million of this amount for

spending in the 2006 fiscal year budget. It is intended that this use of available fund balance will provide the necessary transfers out to the Arterial Street fund to cover council approved projects such as the enhanced residential overlay program and the construction of the Burlington Northern Railroad trail.

The Water utility rates in the 2006 budget year increased by 7.9 percent. The City adopted a new water rate schedule that places more emphasis on conservation. The new rates place greater emphasis on the relationship of water usage to the amount paid by the customer. This change rewards the conservative customer while encouraging, through a higher rate, the high-end consumer to conserve water resources. The new rates will have four tiers instead of the past two tiers. Wastewater rates increased a moderate \$.25 cents per month in the 2006 budget. These rates along with general facility charges, fund the current operating expenses, maintenance of the system, replacement, and/or emergency repairs, and fund needed capital improvements.

Requests for Information

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



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BASIC FINANCIAL STATEMENTS

BASIC FINANCIAL STATEMENTS

Statement of Net Assets
December 31, 2005

	Primary Government		Total
	Governmental Activities	Business-Type Activities	
ASSETS			
Cash and cash equivalents	\$ 34,698,566	\$ 6,107,576	\$ 40,806,142
Receivables (net)	13,335,728	1,105,971	14,441,699
Internal balances	(186,780)	186,780	-
Inventories	-	305,904	305,904
Prepayments	11,800	-	11,800
Deferred charges	-	8,501	8,501
Restricted:			
Cash and cash equivalents	142,726	13,490,037	13,632,763
Investment in joint venture	3,160,960	-	3,160,960
Capital assets:			
Non-depreciable	109,294,788	4,312,790	113,607,578
Depreciable, net	126,008,477	130,963,440	256,971,917
Total assets	\$ 286,466,265	\$ 156,480,999	\$ 442,947,264
LIABILITIES			
Accounts payable	\$ 1,123,214	\$ 1,560,116	\$ 2,683,330
Interest payable	142,108	5,304	147,412
Unearned revenue	176,737	-	176,737
Unamortized premium	-	5,338	5,338
Long-term liabilities:			
Due within one year	1,044,422	1,039,632	2,084,054
Due in more than one year	12,588,389	379,558	12,967,947
Special assessment debt:			
Due within one year	1,070,000	-	1,070,000
Due in more than one year	2,820,000	-	2,820,000
Total liabilities	\$ 18,964,870	\$ 2,989,948	\$ 21,954,818
NET ASSETS			
Invested in capital assets, net of related debt	\$ 219,564,861	\$ 133,961,230	\$ 353,526,091
Restricted for:			
Culture and recreation	550,720	-	550,720
Debt service	650,000	1,048,648	1,698,648
Capital projects	71,493	-	71,493
Other purposes	16,350	-	16,350
Unrestricted (deficit)	46,647,971	18,481,173	65,129,144
Total net assets	\$ 267,501,395	\$ 153,491,051	\$ 420,992,446

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

Statement of Activities
For The Year Ended December 31, 2005

Functions/Program	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants & Contributions
Primary government:				
Governmental activities:				
General government	\$ 4,174,341	\$ 406,277	\$ -	\$ -
Security of persons and property	10,487,387	316,097	782,540	-
Physical environment	2,805,289	21,510	-	-
Transportation	8,865,441	1,491,545	602,123	32,394,193
Economic environment	1,076,084	3,196,222	-	11,281
Mental and physical health	7,941	-	-	-
Culture and recreation	3,570,004	879,809	346,722	-
Interest on long-term debt	829,415	-	-	-
Total governmental activities	\$ 31,815,902	\$ 6,311,460	\$ 1,731,385	\$ 32,405,474
Business-type activities:				
Water	\$ 6,499,885	\$ 7,649,090	\$ -	\$ 12,393,683
Wastewater	7,862,120	9,357,448	-	6,172,669
Stormwater	1,506,632	1,421,484	-	7,646,090
Total business-type activities	\$ 15,868,637	\$ 18,428,022	\$ -	\$ 26,212,442
Total primary government	\$ 47,684,539	\$ 24,739,482	\$ 1,731,385	\$ 58,617,916

General revenues:
 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

Net assets - ending

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

Net(Expense)Revenues and Changes in Net Assets		
Primary Government		
Governmental Activities	Business-Type Activities	Total
\$ (3,768,064)	\$ -	\$ (3,768,064)
(9,388,750)	-	(9,388,750)
(2,783,779)	-	(2,783,779)
25,622,420	-	25,622,420
2,131,419	-	2,131,419
(7,941)	-	(7,941)
(2,343,473)	-	(2,343,473)
(829,415)	-	(829,415)
<u>\$ 8,632,417</u>	<u>\$ -</u>	<u>\$ 8,632,417</u>
\$ -	\$ 13,542,888	\$ 13,542,888
-	7,667,997	7,667,997
-	7,560,942	7,560,942
<u>\$ -</u>	<u>\$ 28,771,827</u>	<u>\$ 28,771,827</u>
<u>\$ 8,632,417</u>	<u>\$ 28,771,827</u>	<u>\$ 37,404,244</u>
\$ 6,910,369	\$ -	\$ 6,910,369
196	-	196
8,030,886	-	8,030,886
5,330,858	-	5,330,858
3,210,745	-	3,210,745
6,211	-	6,211
1,462,519	558,637	2,021,156
5,826,950	342,741	6,169,691
224,783	(224,783)	-
<u>\$ 31,003,517</u>	<u>\$ 676,595</u>	<u>\$ 31,680,112</u>
\$ 39,635,934	\$ 29,448,422	\$ 69,084,356
\$ 227,865,461	\$ 124,042,629	\$ 351,908,090
<u>\$ 267,501,395</u>	<u>\$ 153,491,051</u>	<u>\$ 420,992,446</u>

Balance Sheet
Governmental Funds
December 31, 2005

	General	Arterial Street	L.I.D. Redemption	Parks and Open Space	Other Governmental Funds	Total Governmental Funds
ASSETS						
Current cash & cash equivalents	\$ 12,235,746	\$ 6,930,498	\$ 828,039	\$ 1,254,368	\$ 7,460,461	\$ 28,709,112
Receivables (net of allowances)						
Taxes	156,678	-	-	-	22,379	179,057
Customer accounts	1,154,137	443,914	-	186,224	985,671	2,769,946
Accrued interest & penalty	46,818	24,091	343	1,294	47,604	120,150
Interfund loans receivable	121,880	-	-	-	-	121,880
Due from other governmental units	1,485,962	607,199	204,741	247,500	1,744	2,547,146
Prepayments	11,800	-	-	-	-	11,800
Restricted assets:						
Cash deposits	142,726	-	-	-	-	142,726
Advances due from other funds	174,000	-	-	-	-	174,000
Special assessments deferred	-	-	7,612,349	-	-	7,612,349
Total assets	\$ 15,529,747	\$ 8,005,702	\$ 8,645,472	\$ 1,689,386	\$ 8,517,859	\$ 42,388,166
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable	\$ 248,388	\$ 96,364	\$ -	\$ 106,217	\$ 101,880	\$ 552,849
Due to other governmental units	92,977	402,076	-	41,399	1,319	537,771
Advance payments	34,011	-	-	-	-	34,011
Interfund loans payable	-	-	-	-	121,880	121,880
Custodial accounts:						
Deposits	142,726	-	-	-	-	142,726
Long-term liabilities:						
Advances payable to other funds	-	-	-	-	174,000	174,000
Unearned revenue	156,678	2,230,707	7,817,091	-	368,155	10,572,631
Total liabilities	\$ 674,780	\$ 2,729,147	\$ 7,817,091	\$ 147,616	\$ 767,234	\$ 12,135,868

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

Balance Sheet
Governmental Funds
December 31, 2005

	General	Arterial Street	L.I.D. Redemption	Parks and Open Space	Other Governmental Funds	Total Governmental Funds
Fund balances						
Reserved for:						
Advances to other funds	\$ 174,000	\$ -	\$ -	\$ -	\$ -	\$ 174,000
Culture and recreation	-	-	-	-	550,720	550,720
Debt service	100,000	500,000	-	-	50,000	650,000
Other purposes	16,350	-	-	-	-	16,350
Prepaid items	11,800	-	-	-	-	11,800
Unreserved, designated for, reported in:						
Budget adjustments	575,000	-	-	-	-	575,000
Criminal bail	17,188	-	-	-	-	17,188
Furniture and equipment	217,500	-	-	-	-	217,500
Property acquisitions	500,000	-	-	-	-	500,000
Insurance	200,000	-	-	-	-	200,000
Parks	156,469	-	-	-	-	156,469
Community center	51,125	-	-	-	-	51,125
PFD-Sports complex	-	-	-	71,493	-	71,493
Special revenue funds	-	-	-	-	435,000	435,000
Capital project funds	-	-	-	-	2,356,411	2,356,411
Unreserved, undesignated for:						
General fund	12,835,535	-	-	-	-	12,835,535
Special revenue funds	-	4,776,555	-	-	772,212	5,548,767
Debt service funds	-	-	828,381	-	819,985	1,648,366
Capital project funds	-	-	-	1,470,277	2,766,297	4,236,574
Total fund balances	\$ 14,854,967	\$ 5,276,555	\$ 828,381	\$ 1,541,770	\$ 7,750,625	\$ 30,252,298
Total liabilities and fund balances	\$ 15,529,747	\$ 8,005,702	\$ 8,645,472	\$ 1,689,386	\$ 8,517,859	\$ 42,388,166

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

Reconciliation of the Balance Sheet
 To the Statement of Net Assets
 Governmental Funds
 December 31, 2005

Fund balances - total governmental funds		\$ 30,252,298
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities and investment in joint venture are not financial resources and therefore are not reported in the governmental funds.		
Investment in joint venture	\$ 3,160,960	
Non-depreciable assets	\$ 109,294,788	
Depreciable assets (net)	123,972,865	236,428,613
The focus of governmental funds is on short-term financing, assets are offset by deferred revenue and not included in fund balances.		
Deferred revenues:		
Property taxes	\$ 179,057	
Special assessments	8,162,867	
Developer fees	2,230,707	10,572,631
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	\$ (142,108)	
Bonds & loans payable	(16,919,817)	
Compensated absences	(575,417)	(17,637,342)
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.	\$ 7,885,195	7,885,195
Net assets of government activities.		\$ 267,501,395

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

Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2005

	General	Arterial Street	L.I.D. Redemption	Parks and Open Space	Other Governmental Funds	Total Governmental Funds
REVENUES						
Taxes	\$ 15,925,873	\$ 2,347,415	\$ -	\$ 1,063,455	\$ 4,161,024	\$ 23,497,767
Licenses and permits	2,588,721	-	-	-	-	2,588,721
Intergovernmental revenues	859,776	2,152,073	-	261,969	538,640	3,812,458
Charges for services	4,924,391	1,375,804	-	-	6,652	6,306,847
Fines & forfeitures	294,021	-	-	-	-	294,021
Other revenue	520,562	342,928	2,030,793	46,580	433,654	3,374,517
Total revenues	<u>\$ 25,113,344</u>	<u>\$ 6,218,220</u>	<u>\$ 2,030,793</u>	<u>\$ 1,372,004</u>	<u>\$ 5,139,970</u>	<u>\$ 39,874,331</u>
EXPENDITURES						
Current:						
General government	\$ 3,660,132	\$ -	\$ -	\$ -	\$ -	\$ 3,660,132
Security of persons and property	10,153,107	-	-	-	-	10,153,107
Physical environment	2,829,292	-	-	-	-	2,829,292
Transportation	-	-	-	-	1,677,835	1,677,835
Economic environment	993,161	-	-	-	-	993,161
Mental and physical health	7,941	-	-	-	-	7,941
Culture and recreation	3,204,279	-	-	33,237	151,156	3,388,672
Capital outlay	26,470	4,907,984	-	1,738,107	2,810,753	9,483,314
Debt service:						
Principal retirement	-	-	1,496,416	-	1,875,000	3,371,416
Interest	-	-	377,400	-	492,075	869,475
Total expenditures	<u>\$ 20,874,382</u>	<u>\$ 4,907,984</u>	<u>\$ 1,873,816</u>	<u>\$ 1,771,344</u>	<u>\$ 7,006,819</u>	<u>\$ 36,434,346</u>
Excess of revenue over (under) expenditures	<u>\$ 4,238,962</u>	<u>\$ 1,310,236</u>	<u>\$ 156,977</u>	<u>\$ (399,340)</u>	<u>\$ (1,866,849)</u>	<u>\$ 3,439,985</u>
OTHER FINANCING SOURCES (USES)						
Proceeds from sale of assets	\$ 8,889	\$ -	\$ -	\$ -	\$ -	\$ 8,889
Transfers in	211,319	277,475	-	-	3,166,455	3,655,249
Transfers out	(2,775,000)	-	-	(211,319)	(668,930)	(3,655,249)
Total other financing sources	<u>\$ (2,554,792)</u>	<u>\$ 277,475</u>	<u>\$ -</u>	<u>\$ (211,319)</u>	<u>\$ 2,497,525</u>	<u>\$ 8,889</u>
Net change in fund balances	\$ 1,684,170	\$ 1,587,711	\$ 156,977	\$ (610,659)	\$ 630,676	\$ 3,448,875
FUND BALANCES						
JANUARY 1	<u>\$ 13,170,797</u>	<u>\$ 3,688,844</u>	<u>\$ 671,404</u>	<u>\$ 2,152,429</u>	<u>\$ 7,119,949</u>	<u>\$ 26,803,423</u>
DECEMBER 31	<u>\$ 14,854,967</u>	<u>\$ 5,276,555</u>	<u>\$ 828,381</u>	<u>\$ 1,541,770</u>	<u>\$ 7,750,625</u>	<u>\$ 30,252,298</u>

Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances of Governmental Funds
To the Statement of Activities
Governmental Funds
For the Year Ended December 31, 2005

Net changes in total fund balances per fund financial statements.		\$ 3,448,875
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	\$ 8,446,564	
Current year depreciation	(7,649,534)	797,030
Repayment of long -term debt (e.g. bonds, loans) is reported as expenditure in governmental funds, but the principal repayments reduce the liabilities in the statement of net assets.		4,341,166
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 activities.		(2,184,837)
Internal service funds or activities are used by management to charge the costs of certain activities to individual funds. The net revenue of certain activities of internal service funds is reported with governmental activities.		552,085
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.		32,681,615
Changes in net assets of governmental activities		\$ 39,635,934

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

Statement of Net Assets
Proprietary Funds
December 31, 2005

	Business-type Activities Enterprise Funds				Governmental Activities Internal Service Funds
	Water	Waste- Water	Storm Water	Total	
ASSETS					
Current assets:					
Cash and cash equivalents	\$ 497,087	\$ 3,860,484	\$ 1,750,005	\$ 6,107,576	\$ 5,989,454
Restricted cash and cash equivalents:					
Customer deposits	98,304	-	-	98,304	-
Current maturities of revenue bond	402,767	582,233	-	985,000	-
Receivables (net of allowances):					
Customer accounts	215,920	372,147	77,234	665,301	-
Accrued interest & penalty	26,051	68,492	-	94,543	96,250
Interfund loan receivable	-	400,000	-	400,000	-
Due from governmental units	134	3,424	-	3,558	10,830
Inventory	305,904	-	-	305,904	-
Total current assets:	\$ 1,546,167	\$ 5,286,780	\$ 1,827,239	\$ 8,660,186	\$ 6,096,534
Non-current assets:					
Restricted:					
Debt service:					
Cash and cash equivalents	\$ 139,255	\$ 208,882	\$ -	\$ 348,137	\$ -
Capital acquisition:					
Cash and cash equivalents	3,092,704	8,721,862	244,029	12,058,595	-
Special assessments	10,655	209,918	-	220,573	-
Special assessments deferred	66,743	55,253	-	121,996	-
Capital assets, net of depreciation:					
Land	2,372,534	770,599	770,851	3,913,984	-
Buildings	541,529	833,725	-	1,375,254	116,147
Improvements other than buildings	64,496,987	42,767,035	21,773,837	129,037,859	9,966
Equipment	314,825	109,203	126,299	550,327	1,909,499
Construction in progress	383,641	-	15,165	398,806	-
Deferred charges	3,476	5,025	-	8,501	-
Total non-current assets	\$ 71,422,349	\$ 53,681,502	\$ 22,930,181	\$ 148,034,032	\$ 2,035,612
Total assets	\$ 72,968,516	\$ 58,968,282	\$ 24,757,420	\$ 156,694,218	\$ 8,132,146

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

Statement of Net Assets
Proprietary Funds
December 31, 2005

	Business-type Activities Enterprise Funds				Governmental Activities Internal Service Funds
	Water	Waste- Water	Storm Water	Total	
LIABILITIES					
Current liabilities:					
Accounts payable	\$ 541,128	\$ 109,505	\$ 8,367	\$ 659,000	\$ 28,609
Matured interest payable	2,169	3,135	-	5,304	-
Due to other funds	400,000	-	-	400,000	-
Due to other governmental units	18,399	766,951	17,461	802,811	3,984
Compensated absences	34,558	16,214	3,860	54,632	14,155
Current liabilities payable from restricted assets:					
Deposits	98,304	-	-	98,304	-
Current portion of revenue bonds	402,767	582,233	-	985,000	-
Unamortized premium	2,183	3,155	-	5,338	-
Total current liabilities	\$ 1,499,508	\$ 1,481,193	\$ 29,688	\$ 3,010,389	\$ 46,748
Non-current liabilities:					
Compensated absences	\$ 27,912	\$ 20,080	\$ 1,566	\$ 49,558	\$ 13,423
Bonds payable after one year	314,853	15,147	-	330,000	-
Total non-current liabilities	\$ 342,765	\$ 35,227	\$ 1,566	\$ 379,558	\$ 13,423
Total liabilities	\$ 1,842,273	\$ 1,516,420	\$ 31,254	\$ 3,389,947	\$ 60,171
NET ASSETS					
Investment in capital assets, net of related debt	\$ 67,391,896	\$ 43,883,182	\$ 22,686,152	\$ 133,961,230	\$ 2,035,612
Restricted:					
Debt service	419,459	629,189	-	1,048,648	-
Unrestricted	3,314,888	12,939,491	2,040,014	18,294,393	6,036,363
Total net assets	\$ 71,126,243	\$ 57,451,862	\$ 24,726,166	\$ 153,304,271	\$ 8,071,975
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.				186,780	
Net assets of business-type activities.				<u>\$ 153,491,051</u>	

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

Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended December 31, 2005

	Business-Type Activities Enterprise Funds			Total	Governmental Activities Internal Service Funds
	Water	Waste- Water	Storm Water		
OPERATING REVENUES					
Charges for services	\$ 7,649,090	\$ 9,357,448	\$ 1,421,484	\$ 18,428,022	\$ 2,182,132
Total operating revenue	<u>\$ 7,649,090</u>	<u>\$ 9,357,448</u>	<u>\$ 1,421,484</u>	<u>\$ 18,428,022</u>	<u>\$ 2,182,132</u>
OPERATING EXPENSES					
Operating expense	\$ 2,124,147	\$ 5,452,627	\$ 639,709	\$ 8,216,483	\$ 1,229,843
Maintenance expense	2,360,839	1,129,006	329,088	3,818,933	267,025
Debt discount amortization	1,814	2,622	-	4,436	-
Depreciation expense	1,712,178	1,123,034	538,005	3,373,217	516,001
Taxes	306,661	129,951	20,267	456,879	0
Total operating expenses	<u>\$ 6,505,639</u>	<u>\$ 7,837,240</u>	<u>\$ 1,527,069</u>	<u>\$ 15,869,948</u>	<u>\$ 2,012,869</u>
OPERATING INCOME (LOSS)	<u>\$ 1,143,451</u>	<u>\$ 1,520,208</u>	<u>\$ (105,585)</u>	<u>\$ 2,558,074</u>	<u>\$ 169,263</u>
NON-OPERATING REVENUES (EXPENSES)					
Investment earnings	\$ 127,589	\$ 371,475	\$ 59,574	\$ 558,638	\$ 83,090
Miscellaneous non-operating revenues	337,328	5,375	38	342,741	5,539
Interest expense	(39,941)	(57,738)	-	(97,679)	-
Gain(loss) on sale of capital assets	-	-	-	-	13,838
Total non-operating Revenues (expenses)	<u>\$ 424,976</u>	<u>\$ 319,112</u>	<u>\$ 59,612</u>	<u>\$ 803,700</u>	<u>\$ 102,467</u>
Income (loss) before contributions and transfers	\$ 1,568,427	\$ 1,839,320	\$ (45,973)	\$ 3,361,774	\$ 271,730
Capital contributions	\$ 12,393,683	\$ 6,172,669	\$ 7,646,090	\$ 26,212,442	\$ 154,559
Transfers in (out)	(55,456)	(169,327)	-	(224,783)	224,784
Changes in net assets	\$ 13,906,654	\$ 7,842,662	\$ 7,600,117	\$ 29,349,433	\$ 651,073
NET ASSETS - BEGINNING	<u>\$ 57,219,589</u>	<u>\$ 49,609,200</u>	<u>\$ 17,126,049</u>		<u>\$ 7,420,902</u>
NET ASSETS - ENDING	<u>\$ 71,126,243</u>	<u>\$ 57,451,862</u>	<u>\$ 24,726,166</u>		<u>\$ 8,071,975</u>
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.				<u>\$ 98,989</u>	
Change in net assets of business-type activities.				<u>\$ 29,448,422</u>	

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

Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2005

	Business-type Activities Enterprise Funds			Total	Governmental Activities Internal Service Funds
	Water	Waste- Water	Storm Water		
CASH FLOW FROM OPERATING ACTIVITIES:					
Cash received from customers	\$ 7,666,303	\$ 9,339,190	\$ 1,443,722	\$ 18,449,215	\$ 2,160,821
Non-operating income	337,328	5,375	38	342,741	-
Cash payments for maintenance and operations	(2,411,723)	(5,455,861)	(520,463)	(8,388,047)	(838,799)
Cash payments to employees	(1,875,943)	(954,572)	(437,427)	(3,267,942)	(633,959)
Other non-operating receipts	-	-	-	-	-
Cash payments for taxes	(306,661)	(129,951)	(20,267)	(456,879)	-
Net cash provided by operating activities	\$ 3,409,304	\$ 2,804,181	\$ 465,603	\$ 6,679,088	\$ 688,063
CASH FLOW FROM NON-CAPITAL FINANCING ACTIVITIES:					
Transfers in from (out to) other funds	\$ (55,456)	\$ (169,327)	\$ -	\$ (224,783)	\$ -
Net cash provided by non-capital financing activities	\$ (55,456)	\$ (169,327)	\$ -	\$ (224,783)	\$ -
CASH FLOW FROM CAPITAL AND RELATED FINANCING ACTIVITIES:					
Acquisition and construction of capital assets	\$ (2,624,824)	\$ (60,229)	\$ (310,934)	\$ (2,995,987)	\$ (134,468)
Proceeds from the sale of assets	-	-	-	-	17,502
Principal paid on revenue bonds	(386,410)	(558,590)	-	(945,000)	-
Interest paid on revenue bonds	(42,447)	(61,363)	-	(103,810)	-
Principal payments received on special assessments	59,347	185,900	-	245,247	-
Interest and penalties payments received on special assessments	7,007	23,817	-	30,824	-
Net cash used by capital and related financing activities	\$ (2,987,327)	\$ (470,465)	\$ (310,934)	\$ (3,768,726)	\$ (116,966)

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

Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2005

	Business-type Activities Enterprise Funds			Total	Governmental Activities Internal Service Funds
	Water	Waste- Water	Storm Water		
CASH FLOW FROM INVESTING ACTIVITIES:					
Interest on investments	\$ 121,116	\$ 343,707	\$ 62,622	\$ 527,445	\$ 83,090
Net cash provided (used) by investing activities	<u>\$ 121,116</u>	<u>\$ 343,707</u>	<u>\$ 62,622</u>	<u>\$ 527,445</u>	<u>\$ 83,090</u>
Net increase (decrease) in cash and cash equivalents	487,637	2,508,096	217,291	3,213,024	654,187
Cash and cash equivalents January 1	<u>\$ 3,742,480</u>	<u>\$ 10,865,365</u>	<u>\$ 1,776,743</u>	<u>\$ 16,384,588</u>	<u>\$ 5,335,267</u>
Cash and cash equivalents December 31	<u><u>\$ 4,230,117</u></u>	<u><u>\$ 13,373,461</u></u>	<u><u>\$ 1,994,034</u></u>	<u><u>\$ 19,597,612</u></u>	<u><u>\$ 5,989,454</u></u>
CASH PROVIDED BY OPERATING ACTIVITIES:					
Net operating income	\$ 1,143,451	\$ 1,520,208	\$ (105,585)	\$ 2,558,074	\$ 169,263
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:					
Depreciation	\$ 1,712,178	\$ 1,123,034	\$ 538,005	\$ 3,373,217	\$ 516,001
Debt discount amortization	1,814	2,622	-	4,436	-
(Increase)/decrease in customer receivables	17,213	8,693	22,238	48,144	(26,850)
(Increase)/decrease in inventories	(255,279)	-	-	(255,279)	-
Non-operating revenue					
Non-operating revenues	337,328	5,375	38	342,741	5,538
Increase/(decrease) in accounts payable	450,310	(611,344)	(6,511)	(167,545)	20,841
Increase/(decrease) in due to other government units	5,851	758,269	15,965	780,085	-
Increase/(decrease) in compensated absences	(3,562)	(2,676)	1,453	(4,785)	(715)
Increase/(decrease) in due to other funds	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,984</u>
Net cash provided by operating activities	<u><u>\$ 3,409,304</u></u>	<u><u>\$ 2,804,181</u></u>	<u><u>\$ 465,603</u></u>	<u><u>\$ 6,679,088</u></u>	<u><u>\$ 688,063</u></u>

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

Statement Fiduciary Net Assets
Fiduciary Funds
December 31, 2005

	<u>Agency Funds</u>
ASSETS	
Cash and cash equivalents	\$ 1,486,971
Other receivables	<u>55,844</u>
Total assets	<u>\$ 1,542,815</u>
LIABILITIES	
Accounts payable	\$ 29,467
Due to other governments	<u>1,513,348</u>
Total liabilities	<u>\$ 1,542,815</u>

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

**Notes to the Financial Statements
December 31, 2005**

Basic Financial Statements

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City of Lacey
Notes to the Financial Statements
December 31, 2005

Note 1. Summary of significant accounting policies

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

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

The significant accounting policies are described below.

A. Reporting entity

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

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

B. Basic financial statements

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

Government-wide financial statements

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

The primary government is further divided into governmental activities and business-type activities. Governmental activities are generally financed through taxes, inter-government revenues, and other nonexchange revenues, while business-type activities are financed to some degree by charging external parties for the goods or services they acquire from the City. Governmental activities include programs/ activities such as general government, public safety, streets, 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 and 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. The *General Fund* is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. The general fund includes police, health and social services, parks and recreation, finance and administration, planning, building inspection, community development, park maintenance, public works and engineering management, and services contracted to other agencies such as 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 two remaining improvements in this fund as of the end of the current fiscal year: College Street (widening and overlay), 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 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 Fund* is responsible for keeping all computer and office automation equipment and programs operating and responsive to the City's needs. This is accomplished through researching new computer techniques; correcting and revising programs to meet changing needs; managing computer techniques; and managing computer equipment to achieve maximum performance.

Fiduciary funds

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

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

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 3 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 4). *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 10.)

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 5).

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, 2005, the City has the following reserved and designated fund balances:

<i>Purpose</i>	<i>Fund Reserved</i>	<i>Amount</i>
Advances to other funds	General Fund	\$ 174,000
Culture and recreation	Lodging Tax Fund	550,720
LID guarantee	General Fund	100,000
LID guarantee	Street Fund	50,000
LID guarantee	Arterial Street Fund	500,000
Vessel registration	General Fund	16,350
Prepaid items	General Fund	11,800
Total		\$ 1,402,870
<i>Purpose</i>	<i>Fund Designated</i>	<i>Amount</i>
Art	Building Improvement Fund	\$ 27,903
Budget adjustments	General Fund	575,000
Budget adjustments	Street Fund	85,000
Budget adjustments	Capital Expenditure Fund	97,500
City hall	Capital Expenditure Fund	300,000
Criminal bail	General Fund	17,188
Furniture and equipment	General Fund	217,500
Property purchases	General Fund	500,000
Insurance	General Fund	200,000
Library	Capital Expenditure Fund	100,000
Operating cash	Capital Expenditure Fund	149,000
Parks	General Fund	156,469
Child care center	Capital Expenditure Fund	50,000

<i>Purpose</i>	<i>Fund Designated</i>	<i>Amount</i>
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
Community Center	General Fund	51,125
PFD Sports Complex	Parks and Open Space Fund	71,493
Total		\$ 4,580,186

11. Net assets – (refer to Note 11.)

E. Revenues, expenditures and expenses

1. Program revenues

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

2. General revenues

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

3. Interfund transfers

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

4. Expenditures/expenses

Expenses in the government-wide statement of activities are reported by function as a governmental activities (general government, security of persons and property, physical environment, transportation, economic environment, culture and recreation, or interest on long-term debt) or business-type activities (water, wastewater, 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 non-operating revenues and expenses

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise funds and of the City's internal services funds are charges to customers for sales and services. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital

assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Note 2. 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 \$290,599 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 2006, 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, 2005, are as follows:

Fund	Original Budgeted Inflows	Final Budgeted Inflows	Increase (Decrease) Budgeted Inflows
General Fund	\$ 20,531,303	\$ 20,985,903	\$ 454,600
City Street Fund	1,694,259	1,784,259	90,000
Arterial Fund	6,487,691	6,487,691	-
Lodging Fund	229,500	229,500	-
Community Development Block Fund	-	-	-
G.O. Bond Redemption	1,096,830	2,771,830	1,675,000
L.I.D. Redemption	1,773,820	1,873,820	100,000
Building Fund	1,109,150	1,385,150	276,000
Capital Expenditure	1,269,051	1,305,599	36,548

Fund	Original Budgeted Inflows	Final Budgeted Inflows	Increase (Decrease) Budgeted Inflows
Parks and Open Space	932,175	4,732,175	3,800,000
Equipment Rental	1,245,023	1,245,023	-
Information Services	904,820	904,820	-
Water	6,662,840	6,662,840	-
Wastewater	8,113,275	8,113,275	-
Stormwater	1,330,400	1,330,400	-
Totals	\$ 53,380,137	\$ 59,812,285	\$ 6,432,148

The original budgeted outflows as compared to the final budgeted outflows for the year ended December 31, 2005, are as follows:

Fund	Original Budgeted Outflows	Final Budgeted Outflows	Increase (Decrease) Budgeted Outflows
General Fund	\$ 21,631,303	\$ 23,943,383	\$ 2,312,080
City Street Fund	1,694,259	1,784,259	90,000
Arterial Fund	8,634,747	8,634,747	-
Lodging Fund	223,200	223,200	-
G.O. Bond Redemption	1,102,080	1,512,080	410,000
L.I.D. Redemption	1,773,820	1,873,820	100,000
Building Fund	1,620,165	1,896,165	276,000
Capital Expenditure	1,269,051	1,771,309	502,258
Parks and Open Space	6,858,502	6,858,502	-
Equipment Rental	1,245,023	1,339,198	94,175
Information Services	1,026,589	1,026,589	-
Water	10,116,304	10,375,758	259,454
Wastewater	16,016,580	16,016,580	-
Stormwater	1,865,055	1,865,055	-
Totals	\$ 75,076,678	\$ 79,120,645	\$ 4,043,967

Note 3. 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).

The State Treasurer's Local Government Investment Pool (LGIP) operates in accordance with appropriate state laws and regulations. The LGIP is an un-rated 2a-7 like pool, as defined by GASB 31. Accordingly, participants' balances in the LGIP are not subject to interest rate risk, as the weighted average maturity of the portfolio will not exceed 90 days. Per GASB 40 guidelines the balances are also not subject to custodial credit risk. The credit risk of the LGIP is limited as most investments are either obligations of the US government, government sponsored enterprises, or insured demand deposit accounts and certificates of deposit. Investments or deposits held by the LGIP are all classified as category I risk level investments. They are either insured or held by a third-party custody provider in the LGIP's name. The reported value of the pool is the same as the fair value of the pool shares. Investments are shown on the government-wide Statement of Net Assets at fair value.

As of December 31, 2005, 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 (LGIP)	<u>24,460,000</u>	1.15
Total fair value	<u>\$ 24,746,933</u>	
Portfolio weighted average maturity		1.42

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, 2005, 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, 2005 are as follows:

Governmental Funds	Amount
Cash and cash equivalents	\$ 28,709,112
Restricted cash and cash equivalents	142,726
Total governmental funds	\$ 28,851,838

Proprietary Funds		Amount
Cash and cash equivalents	\$	12,097,030
Restricted cash and cash equivalents (deposits)		98,304
Restricted cash and cash equivalents (debt service)		1,333,137
Restricted cash and cash equivalents (capital acquisition)		12,058,595
Total proprietary funds	\$	25,587,066
Fiduciary Funds		Amount
Cash and cash equivalents	\$	1,486,971
Total fiduciary funds	\$	1,486,971
Total all funds	\$	55,925,875
Cash, deposits, and investments for the year ended December 31, 2005 are as follows:		
Cash on hand	\$	10,750
Checking accounts		3,037,358
Certificates of deposit		28,130,834
State investment pool		24,460,000
U.S. treasuries		286,933
Total	\$	55,925,875

Note 4. 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 percent increase in their regular, non-voted, levy over the highest levy amount since 1985. New construction, annexations, and excess levies approved by the voters are not included in the levy limit calculation. If the assessed valuation increases by more than one percent due to revaluation, the levy rate will be decreased.

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 2005 was slightly over \$2.48 per \$1000 on an assessed valuation of \$2,483,158,569 for a total regular levy of \$6,214,184. Additionally, special levies for G.O. bond obligations totaled \$797,978.

Note 5. 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.

The City implemented the general provisions of GASB Statement in fiscal year 1999 and the infrastructure acquired prior to fiscal years ended after June 30, 1980, is reported. These assets were reported at estimated historical costs through back-trending (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).

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.

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	\$ 122,120
Security of persons and property	136,984
Physical environment	1,943
Transportation	7,093,945
Economic environment	87,442
Culture and recreation	207,099
Internal service funds	516,001
Total governmental activities depreciation expense	\$ 8,165,534
<u>Business-type Activities</u>	<u>Amount</u>
Water	\$ 1,712,178
Wastewater	1,123,034
Stormwater	538,005
Total business-type activities depreciation expense	\$ 3,373,217

E. Summary of changes

<u>Governmental Activities</u>	<u>Restated Beginning Balance 1/1/2005</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance 12/31/2005</u>
Non-depreciable capital assets				
Land and improvements	\$ 89,941,190	\$ 7,797,487	-	\$ 97,738,677
Construction in progress	4,555,933	7,069,575	\$69,397	11,556,111
Total non-depreciable assets	94,497,123	14,867,062	69,397	109,924,788
Depreciable capital assets:				
Buildings	14,534,438	25,952	-	14,560,390
Improvements	1,107,512	17,464	-	1,124,976
Infrastructure	169,427,285	25,917,210	-	195,344,495
Machinery and equipment	6,105,641	717,676	\$124,276	6,699,041
Total depreciable assets at cost	191,174,876	26,678,302	124,276	217,728,902
Less accumulated depreciation:				
Buildings	5,341,608	465,455	-	5,807,063
Improvements	441,469	45,639	-	487,108
Infrastructure	74,085,604	7,078,936	-	81,164,540
Machinery and equipment	3,806,821	575,504	\$120,611	4,261,714
Total accumulated depreciation	83,675,502	8,165,534	120,611	91,720,425
Governmental activities capital assets, net	\$ 201,996,497	\$ 33,379,830	\$ 73,062	\$235,303,265

Business-type activities	Restated Beginning Balance 1/1/2005	Increases	Decreases	Ending Balance 12/31/2005
Non-depreciable capital assets				
Land and improvements	\$ 3,913,986	\$ -	\$ 2	\$ 3,913,984
Construction in process	252,333	1,129,533	983,060	398,806
Total non-depreciable assets	4,166,319	1,129,533	983,062	4,312,790
Depreciable capital assets:				
Buildings	1,520,813	-	-	1,520,813
Improvements	125,701,358	28,975,476	139,873	154,536,961
Machinery and equipment	2,574,571	99,021	27,562	2,646,030
Total depreciable assets at cost	129,796,742	29,074,497	167,435	158,703,804
Less accumulated depreciation:				
Buildings	108,485	37,074	-	145,559
Improvements	22,395,216	3,243,524	139,638	25,499,102
Machinery and equipment	2,018,331	92,619	15,247	2,095,703
Total accumulated depreciation	24,522,032	3,373,217	154,885	27,740,364
Business-type activities capital assets, net	\$ 109,441,029	\$ 26,830,813	\$ 995,612	\$ 135,276,230

Construction in progress included in proprietary fund balance sheets represents expenditures to date on projects for which authorizations total \$2,665,600. Of the committed balance of \$2,281,959 the proprietary funds will not require future financing.

Note 6. 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 1,169 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation data for the plans of September 30, 2004:

Type of Members	Number of Participants
Retirees and beneficiaries receiving benefits	66,846
Terminated plan members entitled to but not yet receiving benefits	21,031
Active plan members vested	103,039
Active plan members nonvested	53,217
Total	244,133

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, 2005 were as follows:

Contributor	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer*	2.44%	2.44%	2.44%
Employee	6.00%	2.25%	***

*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 and actual contributions for the years ended December 31, were as follows:

Year	PERS Plan 1	PERS Plan 2	PERS Plan 3
2005	\$ 19,224	\$ 135,219	\$ 24,305
2004	\$ 13,326	\$ 91,560	\$ 16,480
2003	\$ 13,202	\$ 87,023	\$ 10,191

B. Law Enforcement Officers’ and Fire Fighters’ retirement system (LEOFF) plans 1 and 2

Plan description

LEOFF is a cost-sharing multiple-employer retirement system comprised of two defined benefit plans. Membership in the system includes all full-time, fully compensated; local law enforcement officers and firefighters. LEOFF is comprised primarily of non-state employees. LEOFF participants who joined the system by September 30, 1977 are Plan 1 members. Those who joined on or after October 1, 1977 are Plan 2 members. Effective January 1, 2003 firefighter emergency medical technicians (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 369 participating employers in LEOFF. Membership in LEOFF consisted of the following as of the latest actuarial valuation date for the plans of September 30, 2004:

Type of Members	Number of Participants
Retirees and beneficiaries receiving benefits	8,542
Terminated plan members entitled to but not yet receiving benefits	528
Active plan members vested	12,079
Active plan members nonvested	3,523
Total	24,672

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, 2005 were as follows:

Contributor	LEOFF Plan 1	LEOFF Plan 2
Employer*	0.19%	4.39%**
Employee	0.00%	6.99%
State	n/a	2.79%

*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 and actual contributions for the years ended December 31, were as follows:

Year	LEOFF Plan 1	LEOFF Plan 2
2005	\$ 385	\$ 130,685
2004	536	94,592
2003	548	93,430

Note 7. 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. Postemployment benefits

Postemployment 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, 2005, there are two 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 \$144,891 for post employment benefits during 2005.

Note 8. Contingencies

Litigation

The City has 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.

The City has one claim for inverse condemnation, which in the opinion of the City's counsel, should settle for a sum between \$10,000 and \$50,000. This claim is expected to be resolved in 2006.

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
- 53rd Avenue upgrade
- Enhancement of residential street repair and rehabilitation

The 2006 Arterial Street Fund budgeted expenditures are \$10,975,155 which includes the completion of these projects.

Other

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 9. 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 115 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 10. 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, 2005, outstanding interfund balances (resulting from various interfund transactions) were as follows:

Interfund Loans	Purpose	Receivable Amount	Payable Amount
General Fund Non-major governmental fund	Cash Flow Childcare facility	\$121,880	\$121,880
Sub-total		\$121,880	\$121,880
Advances from/to Other Funds	Purpose	Receivable Amount	Payable Amount
General Fund Non-major governmental fund	Cash Flow Childcare facility	\$174,000	\$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 2005 are as follows:

Fund	Purpose	Amounts Transferred Out	Amounts Transferred In
Governmental Funds General Fund	Non-routine transfer out to General Obligation Bonds Fund \$1,675,000 for 1998 G.O. bonds and retirement of 1995 G.O bonds to Building Improvement Fund \$1,100,000 for police department remodeling project.	\$ 2,775,000	
	Routine transfer in from Parks and Open Space Fund \$211,319 for maintenance of Rainier Vista Park.		\$ 211,319
Nonmajor Governmental Funds	Non-routine transfer out to the Arterial Street Fund for street improvements \$277,475, to Building Improvement Fund for police department remodeling project \$276,000, and to General Obligation Bond Fund \$115,455 for L.T.G.O refunding.	\$ 668,930	
	Non-routine transfers in, \$1,100,000 from General Fund, and \$276,000 from Capital Expenditure Fund for police department remodeling; and \$1,675,000 from General Fund and \$115,455 from Capital Expenditure Fund for retirement of G.O bond.		\$ 3,166,455

Fund	Purpose	Amounts Transferred Out	Amounts Transferred In
Arterial Street Fund	Non-routine transfer from the Capital Improvement Funds \$277,475 for street improvements.		\$ 277,475
Parks and Open Space Fund	Routine transfer to General Fund \$211,319 for maintenance of Rainier Vista Park.	\$ 211,319	
Total Governmental Funds		\$ 3,655,249	\$ 3,655,249
Proprietary Funds			
Internal Service Funds	Non-routine transfer of capital assets from the Water Fund \$55,456 and Wastewater Fund \$169,327 in to the Equipment Rental fund \$215,902 and to the Information Services Fund \$8,881.		\$ 224,783
Enterprise Funds Water Fund	Non-routine transfer of capital assets to the Equipment Rental Fund \$46,575 and to the Information Services Fund \$8,881.	\$ 55,456	
Wastewater Fund	Non-routine transfer of capital assets to the Equipment Rental Fund \$169,327.	\$ 169,327	
Total Proprietary Funds		\$ 224,783	\$ 224,783

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

Note 11. 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 capital 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.

In 2003, the City of Lacey entered into a contract with the Capital Area Regional Public Facilities District (PFD) for the acquisition, development, operation and maintenance of the Lacey Area Athletic, Recreation and Special Events Complex. The PFD imposes a sales and use tax pursuant to RCW 82.14.390 to repay financing obtained to fund the design, construction,

acquisition, operation and maintenance of the complex project. The moneys collected as sales taxes shall only be used for the purposes permitted under RCW 82.14.390 and RCW 35.57.020. In 2005, the City of Lacey received \$443,365 in sale taxes levied by the PFD.

Restricted Assets are as follows:

Fund	Purpose	Amount
Governmental Funds:		
Lodging Tax Fund	Hotel/motel tax (RCW 67.40.100)	\$ 550,720
General Fund	Guaranteed funds for special assessment debt	\$ 100,000
Arterial Street Fund	Guaranteed funds for special assessment debt	\$ 500,000
Street Fund	Guaranteed funds for special assessment debt	\$ 50,000
Parks and Open Space Fund	Public facility development athletic complex Project (RCW 35.57.020)	\$ 71,493
General Fund	Vessel registration fees, boating registration program (RCW 88.02.040)	\$ 16,350
Total governmental funds		\$1,288,563
Proprietary Funds:		
Water Fund	Debt service per revenue bond covenant	\$ 419,459
Wastewater Fund	Debt service per revenue bond covenant	\$ 629,189
Total proprietary funds		\$1,048,648

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 12. Prior-period adjustment

During 2005, it was determined that certain assets that were included in capital assets in 2004 were incorrectly reported and needed to be reclassified. The equity balance, however, had no effect from this reclassification. The beginning balances of each asset affected are restated in 2005 and summarized below.

Asset Class	Previously Reported Balance 12/31/2004	Adjustments to 12/31/2004 Data	Adjusted Balance 1/1/2005
Governmental activities			
Investment in joint venture	\$ -	\$ 2,994,935	\$ 2,994,935
Land	\$ 91,233,072	\$ (1,291,882)	\$ 89,941,190
Investment in joint venture	215,314	(215,314)	-
Construction in progress	6,043,672	(1,487,739)	4,555,933
Non-depreciable assets, net	\$ 97,492,058	\$ (2,994,935)	\$ 94,497,123
Total net adjustments	\$ 97,492,058	\$ -	\$ 97,492,058

Note 13. Long-term liabilities

The City's long-term liabilities are segregated between the amounts to be repaid from governmental activities and amounts to be repaid from business-type activities. For the governmental funds, long-term liabilities other than debt (i.e. compensated absences) are generally liquidated by the general fund.

Governmental Activities:

As of December 31, 2005, the long-term liabilities of the City's governmental activity consisted of the following:

1998 Limited Tax General Obligation Refunding Bonds original issue amount of \$1,200,000; dated March 1998; interest rate of 4.00-4.50 percent with final maturity dated December 2009. Issued to provide funds in an <i>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; 4.3 percent in 2006; 4.35 percent in 2007; 4.4 percent in 2008; and 4.5 percent in 2009.</i>	\$500,000
2002 Unlimited Tax General Obligation Bonds original issue amount of \$5,990,000; dated February 2002; interest rate of 3.0 percent to 5.0 percent with final maturity dated December 2021. Issued to provide for fire safety improvements. <i>Payments are funded by special property tax levies. Interest rates are 3.0 percent for 2002-2006; 3.375 percent in 2007; 3.625 percent in 2008; 3.875 percent in 2009; 4.0 percent in 2010; 4.125 percent in 2011 and 2012; 4.375 percent in 2013 and 2014; 4.55 percent in 2015; 4.625 percent in 2016; 4.75 percent in 2017 and 2018; 4.875 percent in 2019; and 5.0 percent in 2020 and 2021.</i>	\$5,185,000
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 percent with final maturity date July 2018. <i>Purpose was to fund Street/Utility Improvements. Payments funded from the Arterial Street Fund and LID #19.</i>	\$2,553,404
Special Assessment Bonds original issue amount of \$1,963,429; dated November 1993; interest rate of 3.75-6.00 percent with final maturity dated January 2016. Purpose was to fund Street/Utility Improvements. <i>Payments funded from collections from Local Improvement District #13. Interest rates are 5.9 - 6 percent in 2006.</i>	\$310,000
Special Assessment Bonds original issue amount of \$6,565,198; dated August 2001; interest rate of 4.00-6.00 percent with final maturity date October 2016. Purpose was to fund Street/Utility Improvements. <i>Payments funded from the Arterial Street Fund and LID#19. Interest rates are 5.3 - 5.6 percent in 2006; 5.6 - 5.7 percent in 2007; 5.7 percent in 2008; 5.7 - 5.8 percent in 2009; 5.8 - 5.85 percent in 2010; 5.85 percent in 2011; 5.85 - 5.9 percent in 2012; 5.9 - 5.95 percent in 2013; 5.95 percent in 2014; 5.95 - 6.00 percent in 2015; and 6 percent in 2016.</i>	\$3,580,000
2003 Unlimited Tax General Obligation Bonds original issue amount of \$5,000,000; dated July 2003; interest rate of 2.50-4.00 percent with final maturity date of December 2023. Purpose was to provide funds for parks improvements. <i>Payments are funded by special property tax levies. Interest rates are 2.5 percent in 2003-2009; 2.7 percent in 2010; 2.9 percent in 2011; 3 percent in 2012; 3.1 percent in 2013; 3.2 percent in 2014; 3.4 percent in 2015; 3.5 percent in 2016; 3.65 percent in 2017; 3.75 percent in 2018; 3.875 percent in 2019; 3.9 percent in 2020; 4 percent in 2021-2023.</i>	\$4,550,000

1997 Animal Services Revenue Bonds original issue amount of \$1,800,000; dated September 1997; original interest rate of 6 percent; refinanced at interest rate of 3.978 percent in September 2003 with final maturity dated April 2019. In December 2005, the principal balance was reduced and the monthly payment was adjusted to \$1,955.60. The payment amount will remain the same until the interest rate is re-priced August 1, 2008, at which time the payment will be adjusted in accordance with the original amortization. Issued to provide funds for the acquisition, remodeling, and equipping of the animal service facility. Payments funded by an interlocal agreement from the City of Olympia.	\$241,412
Compensated absences – compensated absences are considered long-term liability. Payments are generally liquidated by the general fund.	\$575,417
Total for governmental activity without internal service fund liability.	\$17,495,233
Internal service fund long-term liability (compensated absences)	\$27,578
Total governmental activity long-term liabilities.	\$17,522,811

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 16.71 percent of the total outstanding bonds under the fund balance of the general fund, street fund, and arterial street fund. 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, 2005, the amount of delinquent special assessment receivables was \$114,535.

Business-type activities:

As of December 31, 2005, the long-term liabilities 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 percent 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 5 percent in 2006; 4.35 percent in 2007; 4.4 percent in 2008; and 4.5 percent in 2009	\$1,315,000
Compensated absences – compensated absences are considered long-term liabilities.	\$104,190
Total business-type long-term liabilities.	\$1,419,190

Changes in long-term liabilities

The following is a summary of changes in long-term liabilities for the year ended December 31, 2005:

Type of Debt	Balance Owed 01/01/2005	Additions	Deductions	Balance Owed 12/31/2005	Amount Due Within One Year
Governmental activities:					
G.O. bonds	\$12,110,000	\$ -	\$1,875,000	\$ 10,235,000	\$ 530,000
Revenue bond (Animal services)	1,248,294	-	1,006,879	241,412	14,123
Special assessment bonds	5,190,000	-	1,300,000	3,890,000	1,070,000
PWTF loan	2,749,820	-	196,416	2,553,404	196,416
Compensated absences	566,581	681,640	645,226	602,995	303,883
Total governmental activities	\$21,864,692	\$ 681,640	\$5,023,521	\$ 17,522,811	\$2,114,422

Type of Debt	Balance Owed 01/01/2005	Additions	Deductions	Balance Owed 12/31/2005	Amount Due Within One Year
Business-type activities:					
Revenue bonds	\$ 2,260,000	\$ -	\$ 945,000	\$ 1,315,000	\$ 985,000
Compensated absences	108,986	116,696	121,492	104,190	54,632
Total business-type activities	\$ 2,368,986	\$ 116,696	\$1,066,492	\$ 1,419,190	\$1,039,632
Totals	\$24,233,678	\$ 798,336	\$6,090,013	\$ 18,942,001	\$3,154,054

Annual debt service requirements:

The annual debt service requirements to maturity, including principal and interest, for long-term debt as of December 31, 2005, are as follows:

Year Ending December 31	Government-type Activities		Business -type Activities	
	Principal	Interest	Principal	Interest
2006	\$ 1,810,539	\$ 714,723	\$ 985,000	\$ 63,648
2007	1,061,111	636,290	245,000	14,398
2008	1,066,707	590,084	85,000	3,740
2009	1,087,326	548,012	-	-
2010	967,971	504,217	-	-
2011-2015	5,165,475	1,904,805	-	-
2016-2020	4,310,687	831,846	-	-
2021-2023	1,450,000	103,400	-	-
Total	\$ 16,919,816	\$ 5,833,377	\$ 1,315,000	\$ 81,786

Variable-rate debt used was the effective interest rate as of December 31, 2005.

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, 2005 is \$479,260.

Bond discounts:

In accordance with generally accepted accounting principles for regulated businesses, the Water and Wastewater funds have deferred bond discounts of \$8,501 in 2005, 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 14. 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, 2005 were \$2,564,808. An Equity Interest exists and is based on total contributions contributed by the City of Lacey (15 percent), City of Olympia (22 percent), the City of Tumwater (7 percent), and Thurston County (56 percent). The City of Lacey reports its share of equity interest as investment in joint venture, in the government-wide statement of net assets.

An ongoing financial interest exists for the City of Lacey, the City of Olympia, the City of Tumwater, and Thurston County for loan proceeds borrowed for the purpose of purchasing/constructing the Martin Way animal shelter. The City of Olympia has responsibility to contribute annual assessments for the remaining 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 2005 the City of Lacey's contribution was \$389,594 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, 2005 were \$580,403. 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.

C. Regional athletic complex

The Regional Athletic Complex is a joint venture governed by Thurston County and the City of Lacey. In 1998, Thurston County and the City of Lacey entered an agreement to jointly purchase and own recreational lands, cooperatively development such lands and jointly share the costs of maintaining the recreational facilities. Thurston County paid \$5,543,897 to purchase the land in 1999 and to construct the complex (phase I) through 2005. \$2,458,956 of this cost was funded by the City of Lacey. An additional cost of \$341,587 was incurred by the City of Lacey or the phase II of the development. Any excess for maintenance, operation and capital expenditures shall be the joint and equal responsibility of Thurston County and the City of Lacey. In September 2005, the complex (phase I) was dedicated and opened for the benefit of the citizens of Thurston County. The County may, in its sole discretion, transfer its share of ownership to the City of Lacey after 2014. The equity interest in this complex by Thurston County and City of Lacey was 52 percent and 48 percent, respectively, as of December 31, 2005. Total net assets, as of December 31, 2005 were \$5,826,440. Additional financial information may be obtained from Thurston County Financial Services, 2000 Lakeridge Drive SW, Olympia, Washington 98502.

The following is condensed financial information as of December 31, 2005, on each joint venture:

	Animal Control	Drug Unit	Regional Athletic Complex
Assets	\$ 2,770,814	\$ 734,981	\$ 5,826,440
Liabilities	\$ 1,335,385	\$ 100,134	\$ -
Net assets	\$ 1,435,429	\$ 634,847	\$ 5,826,440



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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, 2005

	Budgeted Amount		Actual GAAP Basis	Variance with Final Budget
	Original	Final		Positive(Negative)
REVENUES				
Taxes	\$ 13,678,903	\$ 13,971,283	\$ 15,925,873	\$ 1,954,590
Licenses and permits	1,055,050	1,149,150	2,588,721	1,439,571
Intergovernmental revenues	519,590	540,190	859,776	319,586
Charges for services	4,189,041	4,236,561	4,924,391	687,830
Fines & forfeitures	455,000	455,000	294,021	(160,979)
Other revenue	422,400	422,400	520,562	98,162
Total revenues	<u>\$ 20,319,984</u>	<u>\$ 20,774,584</u>	<u>\$ 25,113,344</u>	<u>\$ 4,338,760</u>
EXPENDITURES				
Current:				
General government	\$ 3,541,160	\$ 3,716,860	\$ 3,660,132	\$ 56,728
Security of persons and property	9,980,958	10,141,958	10,153,107	(11,149)
Physical environment	2,713,388	2,912,068	2,829,292	82,776
Economic environment	926,779	960,479	993,161	(32,682)
Mental and physical health	7,125	7,125	7,941	(816)
Culture and recreation	3,305,442	3,373,442	3,204,279	169,163
Capital outlay	56,451	56,451	26,470	29,981
Total expenditures	<u>\$ 20,531,303</u>	<u>\$ 21,168,383</u>	<u>\$ 20,874,382</u>	<u>\$ 294,001</u>
Excess of revenue over (under) expenditures	<u>\$ (211,319)</u>	<u>\$ (393,799)</u>	<u>\$ 4,238,962</u>	<u>\$ 4,632,761</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of capital assets	\$ -	\$ -	\$ 8,889	\$ 8,889
Transfers in	211,319	211,319	211,319	-
Transfers out	(1,100,000)	(2,775,000)	(2,775,000)	-
Total other financing sources	<u>\$ (888,681)</u>	<u>\$ (2,563,681)</u>	<u>\$ (2,554,792)</u>	<u>\$ 8,889</u>
Net change in fund balances	<u>\$ (1,100,000)</u>	<u>\$ (2,957,480)</u>	<u>\$ 1,684,170</u>	<u>\$ 4,641,650</u>
FUND BALANCES - JANUARY 1	<u>\$ 1,100,000</u>	<u>\$ 2,957,480</u>	<u>\$ 13,170,797</u>	<u>\$ 10,213,317</u>
FUND BALANCES DECEMBER 31	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 14,854,967</u>	<u>\$ 14,854,967</u>

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

Schedule of Revenues, Expenditures, and
Changes in Fund Balances - Budget to Actual
Arterial Streets
For the Year Ended December 31, 2005

	Budgeted Amounts		Actual GAAP Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 1,051,000	\$ 1,051,000	\$ 2,347,415	\$ 1,296,415
Intergovernmental revenues	5,014,566	5,014,566	2,152,073	(2,862,493)
Charges for services	114,650	114,650	1,375,804	1,261,154
Other revenue	30,000	30,000	342,928	312,928
Total revenues	<u>\$ 6,210,216</u>	<u>\$ 6,210,216</u>	<u>\$ 6,218,220</u>	<u>\$ 8,004</u>
EXPENDITURES				
Capital outlay	<u>\$ 8,634,747</u>	<u>\$ 8,634,747</u>	<u>\$ 4,907,984</u>	<u>\$ 3,726,763</u>
Total expenditures	<u>\$ 8,634,747</u>	<u>\$ 8,634,747</u>	<u>\$ 4,907,984</u>	<u>\$ 3,726,763</u>
Excess of revenue over (under) expenditures	<u>\$ (2,424,531)</u>	<u>\$ (2,424,531)</u>	<u>\$ 1,310,236</u>	<u>\$ 3,734,767</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	<u>\$ 277,475</u>	<u>\$ 277,475</u>	<u>\$ 277,475</u>	<u>\$ -</u>
Total other financing sources	<u>\$ 277,475</u>	<u>\$ 277,475</u>	<u>\$ 277,475</u>	<u>\$ -</u>
Net change in fund balances	\$ (2,147,056)	\$ (2,147,056)	\$ 1,587,711	\$ 3,734,767
FUND BALANCES - JANUARY 1	<u>\$ 2,147,056</u>	<u>\$ 2,147,056</u>	<u>\$ 3,688,844</u>	<u>\$ 1,541,788</u>
FUND BALANCES - DECEMBER 31	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 5,276,555</u></u>	<u><u>\$ 5,276,555</u></u>

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

Notes to the Required Supplemental Information

Budgetary information

The City's annual budget is adopted on a basis consistent with Generally Accepted Accounting Principles (GAAP) for all governmental funds. Thus there is no difference between GAAP and the budgetary basis of accounting. For more detailed information see the Notes to the financial statements (Note 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 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 Fund is responsible for keeping all computer and office automation equipment and programs operating and responsive to the City's needs. This is accomplished through researching new computer techniques; correcting and revising programs to meet changing needs; and managing computer techniques; and managing computer equipment to achieve maximum performance.

Combining Balance Sheet
Other Governmental Funds
December 31, 2005

	Special Revenue Funds			Debt Service Fund
	Street Fund	Lodging Tax	Community Development Block Grant	General Obligation Bond Fund
ASSETS				
Current cash and cash equivalents	\$ 1,126,799	\$ 518,356	\$ 5,281	\$ 820,370
Receivables (net of allowances):				
Taxes	-	-	-	22,379
Customer accounts	413,079	35,008	345,776	3,478
Accrued interest and penalty	11,042	-	-	-
Due from other governmental units	-	-	-	-
Total assets	\$ 1,550,920	\$ 553,364	\$ 351,057	\$ 846,227
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 2,500	\$ 2,644	\$ -	\$ 3,863
Due to other governmental units	609	-	-	-
Interfund loans payable	-	-	121,880	-
Long-term liabilities:				
Advances payable to other funds	-	-	174,000	-
Unearned revenue	-	-	345,776	22,379
Total Liabilities	\$ 3,109	\$ 2,644	\$ 641,656	\$ 26,242
Fund balances				
Reserved for:				
Culture and recreation	\$ -	\$ 550,720	\$ -	\$ -
Debt service	50,000	-	-	-
Unreserved, designated for, reported in:				
Special revenue funds	435,000	-	-	-
Capital project funds	-	-	-	-
Unreserved, undesignated for:				
Special revenue funds	1,062,811	-	(290,599)	-
Debt service funds	-	-	-	819,985
Capital project funds	-	-	-	-
Total fund balances	\$ 1,547,811	\$ 550,720	\$ (290,599)	\$ 819,985
Total liabilities and fund balances	\$ 1,550,920	\$ 553,364	\$ 351,057	\$ 846,227

Capital Project Funds		Total Other Governmental Funds
Building Improvement	Capital Expenditure	
\$ 593,175	\$ 4,396,480	\$ 7,460,461
-	-	22,379
-	188,330	985,671
7,767	28,795	47,604
-	1,744	1,744
<u>\$ 600,942</u>	<u>\$ 4,615,349</u>	<u>\$ 8,517,859</u>
\$ 7,093	\$ 85,780	\$ 101,880
-	710	1,319
-	-	121,880
-	-	174,000
-	-	368,155
<u>\$ 7,093</u>	<u>\$ 86,490</u>	<u>\$ 767,234</u>
\$ -	\$ -	\$ 550,720
-	-	50,000
-	-	435,000
109,911	2,246,500	2,356,411
-	-	772,212
-	-	819,985
<u>483,938</u>	<u>2,282,359</u>	<u>2,766,297</u>
<u>\$ 593,849</u>	<u>\$ 4,528,859</u>	<u>\$ 7,750,625</u>
<u>\$ 600,942</u>	<u>\$ 4,615,349</u>	<u>\$ 8,517,859</u>

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
 Other Governmental Funds
 For the Year Ended December 31, 2005

	Special Revenue Funds			Debt Service Fund
	Street Fund	Lodging Tax	Community Development Block Grant	General Obligation Bond Fund
REVENUES				
Taxes	\$ 1,371,037	\$ 242,299	\$ -	\$ 945,513
Intergovernmental revenues	494,763	-	5,281	-
Charges for services	6,652	-	-	-
Other revenue	67,964	30,437	-	23,515
Total revenues	\$ 1,940,416	\$ 272,736	\$ 5,281	\$ 969,028
EXPENDITURES				
Current:				
Transportation	\$ 1,677,835	\$ -	\$ -	\$ -
Culture and recreation	-	151,156	-	-
Capital outlay	-	295	-	-
Debt service:				
Principal retirement	-	-	-	1,875,000
Interest	-	-	-	492,075
Total expenditures	\$ 1,677,835	\$ 151,451	\$ -	\$ 2,367,075
Excess of revenue over (under) expenditures	\$ 262,581	\$ 121,285	\$ 5,281	\$ (1,398,047)
OTHER FINANCING SOURCES (USES)				
Transfers in	\$ -	\$ -	\$ -	\$ 1,790,455
Transfers out	-	-	-	-
Total other financing sources	\$ -	\$ -	\$ -	\$ 1,790,455
Net change in fund balances	\$ 262,581	\$ 121,285	\$ 5,281	\$ 392,408
FUND BALANCES - JANUARY 1	\$ 1,285,230	\$ 429,435	\$ (295,880)	\$ 427,577
FUND BALANCES - DECEMBER 31	\$ 1,547,811	\$ 550,720	\$ (290,599)	\$ 819,985

<u>Capital Project Funds</u>		<u>Total Other Governmental Funds</u>
<u>Building Improvement</u>	<u>Capital Expenditure</u>	
\$ 8,295	\$ 1,593,880	\$ 4,161,024
-	38,596	538,640
-	-	6,652
<u>35,935</u>	<u>275,803</u>	<u>433,654</u>
\$ 44,230	\$ 1,908,279	\$ 5,139,970
\$ -	\$ -	\$ 1,677,835
-	-	151,156
1,873,428	937,030	2,810,753
-	-	1,875,000
-	-	492,075
<u>1,873,428</u>	<u>937,030</u>	<u>7,006,819</u>
\$ (1,829,198)	\$ 971,249	\$ (1,866,849)
\$ 1,376,000	\$ -	\$ 3,166,455
-	(668,930)	(668,930)
<u>1,376,000</u>	<u>(668,930)</u>	<u>2,497,525</u>
\$ (453,198)	\$ 302,319	\$ 630,676
<u>1,047,047</u>	<u>4,226,540</u>	<u>7,119,949</u>
<u>593,849</u>	<u>4,528,859</u>	<u>7,750,625</u>

Schedule of Revenues, Expenditures, and
Changes in Fund Balances - Budget to Actual
Street Fund
For the Year Ended December 31, 2005

	Budgeted Amounts		Actual GAAP Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 1,222,004	\$ 1,312,004	\$ 1,371,037	\$ 59,033
Intergovernmental revenues	466,155	466,155	494,763	28,608
Charges for services	-	-	6,652	6,652
Other revenue	6,100	6,100	67,964	61,864
Total revenues	<u>\$ 1,694,259</u>	<u>\$ 1,784,259</u>	<u>\$ 1,940,416</u>	<u>\$ 156,157</u>
EXPENDITURES				
Current:				
Transportation	\$ 1,694,259	\$ 1,784,259	\$ 1,677,835	\$ 106,424
Total expenditures	<u>\$ 1,694,259</u>	<u>\$ 1,784,259</u>	<u>\$ 1,677,835</u>	<u>\$ 106,424</u>
Excess of revenue over (under) expenditures	\$ -	\$ -	\$ 262,581	\$ 262,581
Net change in fund balances	\$ -	\$ -	\$ 262,581	\$ 262,581
FUND BALANCES - JANUARY 1	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,285,230</u>	<u>\$ 1,285,230</u>
FUND BALANCES - DECEMBER 31	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 1,547,811</u></u>	<u><u>\$ 1,547,811</u></u>

Schedule of Revenues, Expenditures, and
 Changes in Fund Balances - Budget to Actual
 Lodging Tax
 For the Year Ended December 31, 2005

	Budgeted Amounts		Actual GAAP Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 215,000	\$ 215,000	\$ 242,299	\$ 27,299
Other revenue	14,500	14,500	30,437	15,937
Total revenues	\$ 229,500	\$ 229,500	\$ 272,736	\$ 43,236
EXPENDITURES				
Current:				
Culture and recreation	\$ 223,200	\$ 223,200	\$ 151,156	\$ 72,044
Capital outlay	-	-	295	(295)
Total expenditures	\$ 223,200	\$ 223,200	\$ 151,451	\$ 71,749
Excess of revenue over (under) expenditures	\$ 6,300	\$ 6,300	\$ 121,285	\$ 114,985
Net change in fund balances	\$ 6,300	\$ 6,300	\$ 121,285	\$ 114,985
FUND BALANCES - JANUARY 1	\$ (6,300)	\$ (6,300)	\$ 429,435	\$ 435,735
FUND BALANCES - DECEMBER 31	\$ -	\$ -	\$ 550,720	\$ 550,720

Schedule of Revenues, Expenditures, and
 Changes in Fund Balances - Budget to Actual
 Community Development Block Grant
 For the Year Ended December 31, 2005

	Budgeted Amounts		Actual GAAP Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental revenues	\$ -	\$ -	\$ 5,281	\$ 5,281
Total revenues	\$ -	\$ -	\$ 5,281	\$ 5,281
EXPENDITURES				
Capital outlay	\$ -	\$ -	\$ -	\$ -
Total expenditures	\$ -	\$ -	\$ -	\$ -
Excess of revenue over (under) expenditures	\$ -	\$ -	\$ 5,281	\$ 5,281
Net change in fund balances	\$ -	\$ -	\$ 5,281	\$ 5,281
FUND BALANCES - JANUARY 1	\$ -	\$ -	\$ (295,880)	\$ (295,880)
FUND BALANCES - DECEMBER 31	\$ -	\$ -	\$ (290,599)	\$ (290,599)

Schedule of Revenues, Expenditures, and
Changes in Fund Balances - Budget to Actual
General Obligation Bond Fund
For the Year Ended December 31, 2005

	Budgeted Amounts		Actual GAAP Basis	Variance with Final Budget
	Original	Final		Positive (Negative)
REVENUES				
Taxes	\$ 957,835	\$ 957,835	\$ 945,513	\$ (12,322)
Other revenue	23,540	23,540	23,515	(25)
Total revenues	\$ 981,375	\$ 981,375	\$ 969,028	\$ (12,347)
EXPENDITURES				
Debt service:				
Principal retirement	\$ 610,000	\$ 1,020,000	\$ 1,875,000	\$ (855,000)
Interest	492,080	492,080	492,075	5
Total expenditures	\$ 1,102,080	\$ 1,512,080	\$ 2,367,075	\$ (854,995)
Excess of revenue over (under) expenditures	\$ (120,705)	\$ (530,705)	\$ (1,398,047)	\$ (867,342)
OTHER FINANCING SOURCES (USES)				
Transfers in	\$ 115,455	\$ 1,790,455	\$ 1,790,455	\$ -
Total other financing sources	\$ 115,455	\$ 1,790,455	\$ 1,790,455	\$ -
Net change in fund balances	\$ (5,250)	\$ 1,259,750	\$ 392,408	\$ (867,342)
FUND BALANCES - JANUARY 1	\$ 5,250	\$ (1,259,750)	\$ 427,577	\$ 1,687,327
FUND BALANCES - DECEMBER 31	\$ -	\$ -	\$ 819,985	\$ 819,985

Schedule of Revenues, Expenditures, and
Changes in Fund Balances - Budget to Actual
Building Improvement
For the Year Ended December 31, 2005

	Budgeted Amounts		Actual GAAP Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 8,150	\$ 8,150	\$ 8,295	\$ 145
Other revenue	1,000	1,000	35,935	34,935
Total revenues	<u>\$ 9,150</u>	<u>\$ 9,150</u>	<u>\$ 44,230</u>	<u>\$ 35,080</u>
EXPENDITURES				
Capital outlay	\$ 1,620,165	\$ 1,896,165	\$ 1,873,428	\$ 22,737
Total expenditures	<u>\$ 1,620,165</u>	<u>\$ 1,896,165</u>	<u>\$ 1,873,428</u>	<u>\$ 22,737</u>
Excess of revenue over (under) expenditures	<u>\$ (1,611,015)</u>	<u>\$ (1,887,015)</u>	<u>\$ (1,829,198)</u>	<u>\$ 57,817</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	\$ 1,100,000	\$ 1,376,000	\$ 1,376,000	\$ -
Total other financing sources	<u>\$ 1,100,000</u>	<u>\$ 1,376,000</u>	<u>\$ 1,376,000</u>	<u>\$ -</u>
Net change in fund balances	\$ (511,015)	\$ (511,015)	\$ (453,198)	\$ 57,817
FUND BALANCES - JANUARY 1	\$ 511,015	\$ 511,015	\$ 1,047,047	\$ 536,032
FUND BALANCES - DECEMBER 31	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 593,849</u>	<u>\$ 593,849</u>

Schedule of Revenues, Expenditures, and
Changes in Fund Balances - Budget to Actual
Capital Expenditure
For the Year Ended December 31, 2005

	Budgeted Amounts		Actual GAAP Basis	Variance with Final Budget
	Original	Final		Positive (Negative)
REVENUES				
Taxes	\$ 1,243,051	\$ 1,243,051	\$ 1,593,880	\$ 350,829
Intergovernmental revenues	-	36,548	38,596	2,048
Other revenue	26,000	26,000	275,803	249,803
Total revenues	<u>\$ 1,269,051</u>	<u>\$ 1,305,599</u>	<u>\$ 1,908,279</u>	<u>\$ 602,680</u>
EXPENDITURES				
Capital outlay	\$ 876,121	\$ 1,102,379	\$ 937,030	\$ 165,349
Total expenditures	<u>\$ 876,121</u>	<u>\$ 1,102,379</u>	<u>\$ 937,030</u>	<u>\$ 165,349</u>
Excess of revenue over (under) expenditures	<u>\$ 392,930</u>	<u>\$ 203,220</u>	<u>\$ 971,249</u>	<u>\$ 768,029</u>
OTHER FINANCING SOURCES (USES)				
Transfers out	\$ (392,930)	\$ (668,930)	\$ (668,930)	\$ -
Total other financing sources	<u>\$ (392,930)</u>	<u>\$ (668,930)</u>	<u>\$ (668,930)</u>	<u>\$ -</u>
Net change in fund balances	\$ -	\$ (465,710)	\$ 302,319	\$ 768,029
FUND BALANCES - JANUARY 1	<u>\$ -</u>	<u>\$ 465,710</u>	<u>\$ 4,226,540</u>	<u>\$ 3,760,830</u>
FUND BALANCES DECEMBER - 31	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 4,528,859</u></u>	<u><u>\$ 4,528,859</u></u>

Schedule of Revenues, Expenditures, and
Changes in Fund Balances - Budget to Actual
L.I.D. Redemption
For the Year Ended December 31, 2005

	Budgeted Amounts		Actual GAAP Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Other revenue	\$ 1,773,820	\$ 1,873,820	\$ 2,030,793	\$ 156,973
Total revenues	\$ 1,773,820	\$ 1,873,820	\$ 2,030,793	\$ 156,973
EXPENDITURES				
Debt service:				
Principal retirement	\$ 1,396,420	\$ 1,496,420	\$ 1,496,416	\$ 4
Interest	377,400	377,400	377,400	-
Total expenditures	\$ 1,773,820	\$ 1,873,820	\$ 1,873,816	\$ 4
Excess of revenue over (under) expenditures	\$ -	\$ -	\$ 156,977	\$ 156,977
Net change in fund balances	\$ -	\$ -	\$ 156,977	\$ 156,977
FUND BALANCES - JANUARY 1	\$ -	\$ -	\$ 671,404	\$ 671,404
FUND BALANCES - DECEMBER 31	\$ -	\$ -	\$ 828,381	\$ 828,381

Schedule of Revenues, Expenditures, and
Changes in Fund Balances - Budget to Actual
Parks & Open Space
For the Year Ended December 31, 2005

	Budgeted Amounts		Actual GAAP Basis	Variance with Final Budget
	Original	Final		Positive (Negative)
REVENUES				
Taxes	\$ 922,645	\$ 922,645	\$ 1,063,455	\$ 140,810
Intergovernmental revenues	-	-	261,969	261,969
Other revenue	9,530	9,530	46,580	37,050
Total revenues	<u>\$ 932,175</u>	<u>\$ 932,175</u>	<u>\$ 1,372,004</u>	<u>\$ 439,829</u>
EXPENDITURES				
Current:				
Culture and recreation	\$ 8,500	\$ 8,500	\$ 33,237	\$ (24,737)
Capital outlay	6,638,683	6,638,683	1,738,107	4,900,576
Total expenditures	<u>\$ 6,647,183</u>	<u>\$ 6,647,183</u>	<u>\$ 1,771,344</u>	<u>\$ 4,875,837</u>
Excess of revenue over (under) expenditures	<u>\$ (5,715,008)</u>	<u>\$ (5,715,008)</u>	<u>\$ (399,340)</u>	<u>\$ 5,315,668</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from long-term debt	\$ -	\$ 3,800,000	\$ -	\$ (3,800,000)
Transfers out	(211,319)	(211,319)	(211,319)	-
Total other financing sources	<u>\$ (211,319)</u>	<u>\$ 3,588,681</u>	<u>\$ (211,319)</u>	<u>\$ (3,800,000)</u>
Net change in fund balances	\$ (5,926,327)	\$ (2,126,327)	\$ (610,659)	\$ 1,515,668
FUND BALANCES - JANUARY 1	<u>\$ 5,926,327</u>	<u>\$ 2,126,327</u>	<u>\$ 2,152,429</u>	<u>\$ 26,102</u>
FUND BALANCES - DECEMBER 31	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 1,541,770</u></u>	<u><u>\$ 1,541,770</u></u>

Statement of Net Assets
Combining Statement of Net Assets
Internal Service Funds
December 31, 2005

	Governmental Activities		
	Internal Service Funds		
	Equipment Rental	Information Services	Total
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 3,943,618	\$ 2,045,836	\$ 5,989,454
Receivables (net of allowances)			
Accrued interest and penalty	63,250	33,000	96,250
Due from governmental units	10,830	-	10,830
Total current assets:	<u>\$ 4,017,698</u>	<u>\$ 2,078,836</u>	<u>\$ 6,096,534</u>
Non-current assets:			
Restricted:			
Fixed assets, net of depreciation			
Buildings	\$ 116,147	\$ -	\$ 116,147
Improvements other than buildings	9,966	-	9,966
Equipment	1,752,040	157,459	1,909,499
Total non-current assets	<u>\$ 1,878,153</u>	<u>\$ 157,459</u>	<u>\$ 2,035,612</u>
Total assets	<u>\$ 5,895,851</u>	<u>\$ 2,236,295</u>	<u>\$ 8,132,146</u>
LIABILITIES			
Current liabilities:			
Accounts payable	\$ 14,153	\$ 14,456	\$ 28,609
Due to other governmental	-	3,984	3,984
Compensated absences	7,025	7,130	14,155
Total current liabilities	<u>\$ 21,178</u>	<u>\$ 25,570</u>	<u>\$ 46,748</u>
Non-current liabilities			
Compensated absences	<u>\$ 7,678</u>	<u>\$ 5,745</u>	<u>\$ 13,423</u>
Total non-current liabilities	<u>\$ 7,678</u>	<u>\$ 5,745</u>	<u>\$ 13,423</u>
Total liabilities	<u>\$ 28,856</u>	<u>\$ 31,315</u>	<u>\$ 60,171</u>
NET ASSETS			
Investment in capital assets, net of related debt	\$ 1,878,153	\$ 157,459	\$ 2,035,612
Unrestricted	3,988,842	2,047,521	6,036,363
Total net assets	<u>\$ 5,866,995</u>	<u>\$ 2,204,980</u>	<u>\$ 8,071,975</u>

Statement of Revenues, Expenses, and Changes in Fund Net Assets
Internal Service Funds
For the Year Ended December 31, 2005

	Governmental Activities		
	Internal Service Funds		
	Equipment Rental	Information Services	Total
OPERATING REVENUES			
Charges for services	\$ 1,277,312	\$ 904,820	\$ 2,182,132
Total operating revenue	\$ 1,277,312	\$ 904,820	\$ 2,182,132
OPERATING EXPENSES			
Operating expense	\$ 624,223	\$ 605,620	\$ 1,229,843
Maintenance expense	35,158	231,867	267,025
Depreciation expense	460,674	55,327	516,001
Total operating expenses	\$ 1,120,055	\$ 892,814	\$ 2,012,869
OPERATING INCOME (LOSS)	\$ 157,257	\$ 12,006	\$ 169,263
NON-OPERATING REVENUES (EXPENSES)			
Investment earnings	\$ 58,723	\$ 24,367	\$ 83,090
Miscellaneous non-operating revenues	5,539	-	5,539
Gain (loss) on sale of capital assets	13,838	-	13,838
Total non-operating revenues (expenses)	\$ 78,100	\$ 24,367	\$ 102,467
Income (loss) before contributions and transfers	\$ 235,357	\$ 36,373	\$ 271,730
Capital contributions	\$ 83,456	\$ 71,104	\$ 154,560
Transfers in (out)	215,902	8,881	224,783
Changes in net assets	\$ 534,715	\$ 116,358	\$ 651,073
NET ASSETS - BEGINNING (restated)	\$ 5,332,280	\$ 2,088,622	\$ 7,420,902
NET ASSETS - ENDING	\$ 5,866,995	\$ 2,204,980	\$ 8,071,975

Statement of Cash Flows
Internal Service Funds
For the Year Ended December 31, 2005

	Governmental Activities		
	Internal Service Funds		
	Equipment Rental	Information Services	Total Internal Service
CASH FLOW FROM OPERATING ACTIVITIES:			
Cash received from customers	\$ 1,263,471	\$ 897,350	\$ 2,160,821
Cash payments for maintenance and operations	(451,308)	(387,491)	(838,799)
Cash payments to employees	(198,969)	(434,990)	(633,959)
Net cash provided by operating activities	<u>\$ 613,194</u>	<u>\$ 74,869</u>	<u>\$ 688,063</u>
CASH FLOW FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Acquisition and construction of capital assets	\$ (94,697)	\$ (39,771)	\$ (134,468)
Proceeds from the sale of capital assets	17,502	-	17,502
Net cash used by capital and related financing activities	<u>\$ (77,195)</u>	<u>\$ (39,771)</u>	<u>\$ (116,966)</u>
CASH FLOW FROM INVESTING ACTIVITIES:			
Interest on investments	58,723	24,367	83,090
Net cash provided (used) by investing activities	<u>\$ 58,723</u>	<u>\$ 24,367</u>	<u>\$ 83,090</u>
Net increase (decrease) in cash and cash equivalents	594,722	59,465	654,187
Cash and cash equivalents January 1	<u>\$ 3,348,896</u>	<u>\$ 1,986,371</u>	<u>\$ 5,335,267</u>
Cash and cash equivalents December 31	<u><u>\$ 3,943,618</u></u>	<u><u>\$ 2,045,836</u></u>	<u><u>\$ 5,989,454</u></u>

Statement of Cash Flows
 Internal Service Funds
 For the Year Ended December 31, 2005

	Governmental Activities		
	Internal Service Funds		
	Equipment Rental	Information Services	Total Internal Service
CASH PROVIDED BY OPERATING ACTIVITIES:			
Net operating income	\$ 157,257	\$ 12,006	\$ 169,263
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:			
Depreciation	\$ 460,674	\$ 55,327	\$ 516,001
(Increase)/decrease in customer receivables	(19,380)	(7,470)	(26,850)
Non-operating revenue	5,538	-	5,538
Increase/(decrease) in accounts payable	9,478	11,364	20,842
Increase/(decrease) in compensated absences	(373)	(342)	(715)
Increase/(decrease) in due to other funds	-	3,984	3,984
Net cash provided by operating activities	\$ 613,194	\$ 74,869	\$ 688,063

Statement of Changes in Assets and Liabilities
Agency Funds
December 31, 2005

	Balance January 1, 2005	Additions	Deductions	Balance December 31, 2005
ASSETS				
Cash and cash equivalents	\$ 1,492,130	\$ 3,302,410	\$ 3,307,569	\$ 1,486,971
Other receivable	-	91,017	35,173	55,844
Total assets	<u>\$ 1,492,130</u>	<u>\$ 3,393,427</u>	<u>\$ 3,342,742</u>	<u>\$ 1,542,815</u>
LIABILITIES				
Accounts payables	\$ -	\$ 991,229	\$ 961,762	\$ 29,467
Due to other governments	1,492,130	264,607	243,389	1,513,348
Total liabilities	<u>\$ 1,492,130</u>	<u>\$ 1,255,836</u>	<u>\$ 1,205,151</u>	<u>\$ 1,542,815</u>

SUPPLEMENTAL INFORMATION

SUPPLEMENTAL INFORMATION

Schedule of Operations - Budget to Actual
Water Fund
For the Year Ended December 31, 2005

	Budgeted Amounts		Actual GAAP Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
OPERATING REVENUES				
Charges for services	\$ 6,428,340	\$ 6,428,340	\$ 7,649,090	\$ 1,220,750
Total operating revenue	\$ 6,428,340	\$ 6,428,340	\$ 7,649,090	\$ 1,220,750
OPERATING EXPENSES				
Operating expense	\$ 2,305,835	\$ 2,344,235	\$ 2,124,147	\$ 220,088
Maintenance expense	5,760,691	5,981,745	2,360,839	3,620,906
Debt discount amortization	1,290	1,290	1,814	(524)
Depreciation expense	1,700,000	1,700,000	1,712,178	(12,178)
Taxes	298,013	298,013	306,661	(8,648)
Total operating expenses	\$ 10,065,829	\$ 10,325,283	\$ 6,505,639	\$ 3,819,644
OPERATING INCOME (LOSS)	\$ (3,637,489)	\$ (3,896,943)	\$ 1,143,451	\$ 5,040,394
NON-OPERATING REVENUES (EXPENSES)				
Investment earnings	\$ 62,850	\$ 62,850	\$ 127,589	\$ 64,739
Miscellaneous non-operating revenues	171,650	171,650	337,328	165,678
Interest expense	(50,475)	(50,475)	(39,941)	10,534
Total non-operating Revenues (expenses)	\$ 184,025	\$ 184,025	\$ 424,976	\$ 240,951
Income (loss) before contributions and transfers	\$ (3,453,464)	\$ (3,712,918)	\$ 1,568,427	\$ 5,281,345
Capital contributions	\$ -	\$ -	\$ 12,393,683	\$ 12,393,683
Transfers in (out)	-	-	(55,456)	(55,456)
Changes in net assets	\$ (3,453,464)	\$ (3,712,918)	\$ 13,906,654	\$ 17,619,572
NET ASSETS - BEGINNING	\$ 3,453,464	\$ 3,712,918	\$ 57,219,589	\$ 53,506,671
NET ASSETS - ENDING	\$ -	\$ -	\$ 71,126,243	\$ 71,126,243

This schedule is presented as supplemental information

Schedule of Operations - Budget to Actual
Wastewater Fund
For the Year Ended December 31, 2005

	Budgeted Amounts		Actual GAAP Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
OPERATING REVENUES				
Charges for services	\$ 7,941,275	\$ 7,941,275	\$ 9,357,448	\$ 1,416,173
Total operating revenue	\$ 7,941,275	\$ 7,941,275	\$ 9,357,448	\$ 1,416,173
OPERATING EXPENSES				
Operating expense	\$ 6,217,314	\$ 6,217,314	\$ 5,452,627	\$ 764,687
Maintenance expense	8,404,431	8,404,431	1,129,006	7,275,425
Debt discount amortization	1,865	1,865	2,622	(757)
Depreciation expense	1,230,000	1,230,000	1,123,034	106,966
Taxes	90,000	90,000	129,951	(39,951)
Total operating expenses	\$ 15,943,610	\$ 15,943,610	\$ 7,837,240	\$ 8,106,370
OPERATING INCOME (LOSS)	\$ (8,002,335)	\$ (8,002,335)	\$ 1,520,208	\$ 9,522,543
NON-OPERATING REVENUES (EXPENSES)				
Investment earnings	\$ 171,500	\$ 171,500	\$ 371,475	\$ (199,975)
Miscellaneous non-operating revenues	500	500	5,375	(4,875)
Interest expense	(72,970)	(72,970)	(57,738)	(15,232)
Total non-operating Revenues (expenses)	\$ 99,030	\$ 99,030	\$ 319,112	\$ (220,082)
Income (loss) before contributions and transfers	\$ (7,903,305)	\$ (7,903,305)	\$ 1,839,320	\$ 9,742,625
Capital contributions	\$ -	\$ -	\$ 6,172,669	\$ 6,172,669
Transfers in (out)	-	-	(169,327)	(169,327)
Changes in net assets	\$ (7,903,305)	\$ (7,903,305)	\$ 7,842,662	\$ 15,745,967
NET ASSETS - BEGINNING	\$ 7,903,305	\$ 7,903,305	\$ 49,609,200	\$ 41,705,895
NET ASSETS - ENDING	\$ -	\$ -	\$ 57,451,862	\$ 57,451,862

This schedule is presented as supplemental information

Schedule of Operations - Budget to Actual
Stormwater Fund
For the Year Ended December 31, 2005

	Budgeted Amounts		Actual GAAP Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
OPERATING REVENUES				
Charges for services	\$ 1,324,900	\$ 1,324,900	\$ 1,421,484	\$ 96,584
Charges for services	\$ 1,324,900	\$ 1,324,900	\$ 1,421,484	\$ 96,584
OPERATING EXPENSES				
Operating expense	\$ 638,891	\$ 638,891	\$ 639,709	\$ (818)
Maintenance expense	1,041,914	1,041,914	329,088	712,826
Depreciation expense	165,700	165,700	538,005	(372,305)
Taxes	18,550	18,550	20,267	(1,717)
Total operating expenses	\$ 1,865,055	\$ 1,865,055	\$ 1,527,069	\$ 337,986
OPERATING INCOME (LOSS)	\$ (540,155)	\$ (540,155)	\$ (105,585)	\$ 434,570
NON-OPERATING REVENUES (EXPENSES)				
Investment earnings	\$ 5,000	\$ 5,000	\$ 59,574	\$ 54,574
Miscellaneous non-operating revenues	500	500	38	(462)
Total non-operating Revenues (expenses)	\$ 5,500	\$ 5,500	\$ 59,612	\$ 54,112
Income (loss) before contributions and transfers	\$ (534,655)	\$ (534,655)	\$ (45,973)	\$ 488,682
Capital contributions	\$ -	\$ -	\$ 7,646,090	\$ 7,646,090
Changes in net assets	\$ (534,655)	\$ (534,655)	\$ 7,600,117	\$ 8,134,772
NET ASSETS - BEGINNING	\$ 534,655	\$ 534,655	\$ 17,126,049	\$ 16,591,394
NET ASSETS - ENDING	\$ -	\$ -	\$ 24,726,166	\$ 24,726,166

This schedule is presented as supplemental information

Schedule of Operations - Budget to Actual
Equipment Rental Fund
For the Year Ended December 31, 2005

	Budgeted Amounts		Actual GAAP Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
OPERATING REVENUES				
Charges for services	\$ 1,245,023	\$ 1,245,023	\$ 1,277,312	\$ 32,289
Total operating revenue	\$ 1,245,023	\$ 1,245,023	\$ 1,277,312	\$ 32,289
OPERATING EXPENSES				
Operating expense	\$ 736,607	\$ 830,782	\$ 624,223	\$ 206,559
Maintenance expense	49,546	49,546	35,158	14,388
Depreciation expense	458,870	458,870	460,674	(1,804)
Total operating expenses	\$ 1,245,023	\$ 1,339,198	\$ 1,120,055	\$ 219,143
OPERATING INCOME (LOSS)	\$ -	\$ (94,175)	\$ 157,257	\$ 251,432
NON-OPERATING REVENUES (EXPENSES)				
Investment earnings	\$ -	\$ -	\$ 58,723	\$ 58,723
Miscellaneous non-operating revenues	-	-	5,539	5,539
Gain (loss) on sale of fixed assets	-	-	13,838	13,838
Total non-operating Revenues (expenses)	\$ -	\$ -	\$ 78,100	\$ 78,100
Income (loss) before contributions and transfers	\$ -	\$ (94,175)	\$ 235,357	\$ 329,532
Capital contributions	\$ -	\$ -	\$ 83,456	\$ 83,456
Transfers in (out)	-	-	215,902	215,902
Changes in net assets	\$ -	\$ (94,175)	\$ 534,715	\$ 628,890
NET ASSETS - BEGINNING	\$ -	\$ 94,175	\$ 5,332,280	\$ 5,238,105
NET ASSETS - ENDING	\$ -	\$ -	\$ 5,866,995	\$ 5,866,995

This schedule is presented as supplemental information

Schedule of Operations - Budget to Actual
Information Management Services Fund
For the Year Ended December 31, 2005

	Budgeted Amounts		Actual GAAP Basis	Variance with Final Budget
	Original	Final		Positive (Negative)
OPERATING REVENUES				
Charges for services	\$ 904,820	\$ 904,820	\$ 904,820	\$ -
Total operating revenue	<u>\$ 904,820</u>	<u>\$ 904,820</u>	<u>\$ 904,820</u>	<u>\$ -</u>
OPERATING EXPENSES				
Operating expense	\$ 761,291	\$ 761,291	\$ 605,620	\$ 155,671
Maintenance expense	157,822	157,822	231,867	(74,045)
Depreciation expense	<u>107,476</u>	<u>107,476</u>	<u>55,327</u>	<u>52,149</u>
Total operating expenses	<u>\$ 1,026,589</u>	<u>\$ 1,026,589</u>	<u>\$ 892,814</u>	<u>\$ 133,775</u>
OPERATING INCOME (LOSS)	<u>\$ (121,769)</u>	<u>\$ (121,769)</u>	<u>\$ 12,006</u>	<u>\$ 133,775</u>
NON-OPERATING REVENUES (EXPENSES)				
Investment earnings	\$ -	\$ -	\$ 24,367	\$ 24,367
Total non-operating revenues (expenses)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 24,367</u>	<u>\$ 24,367</u>
Income (loss) before contributions and transfers	\$ (121,769)	\$ (121,769)	\$ 36,373	\$ 158,142
Capital contributions	\$ -	\$ -	\$ 71,104	\$ 71,104
Transfers in (out)	<u>-</u>	<u>-</u>	<u>8,881</u>	<u>8,881</u>
Changes in net assets	\$ (121,769)	\$ (121,769)	\$ 116,358	\$ 238,127
NET ASSETS - BEGINNING	<u>\$ 121,769</u>	<u>\$ 121,769</u>	<u>\$ 2,088,622</u>	<u>\$ 1,966,853</u>
NET ASSETS - ENDING	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 2,204,980</u></u>	<u><u>\$ 2,204,980</u></u>

This schedule is presented as supplemental information

Schedule of Expenditures of Federal Awards
For The Year Ending December 31, 2005
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	\$ 42,777
<u>DEPARTMENT OF HOUSING & URBAN DEVELOPMENT-COMMUNITY PLANNING AND DEVELOPMENT</u>			
<u>US HUD/CTED INDIRECT:</u>			
Program income	14.228	1-96-745-006	\$ 5,281
<u>DEPARTMENT OF JUSTICE - BUREAU OF JUSTICE ASSISTANCE</u>			
<u>US DOJ/CTED indirect:</u>			
Byrne Formula Grant Program - Narcotics Control	16.579	F04-67404010	\$ 75,807
Byrne Formula Grant Program - Narcotics Control	16.579	F05-66201110	90,856
TOTAL US DOJ/CTED INDIRECT			\$ 166,663
<u>US DOJ DIRECT:</u>			
Justice Assistance Grant	16.580		\$ 15,596
COPS Universal Hiring Program Grant	16.710	2003UMWX0127 (LPD054)	24,617
TOTAL US DOJ DIRECT:			\$ 40,213
TOTAL DEPARTMENT OF JUSTICE			\$ 206,876
<u>DEPARTMENT OF TRANSPORTATION - FEDERAL HIGHWAY ADMINISTRATION</u>			
<u>US DOT/WS DOT INDIRECT:</u>			
College Street Rehab	20.205	LA-5098	\$ 32,658
Sleater Kinney/6th	20.205	LA-5203	19,020
TOTAL CFDA NUMBER	20.205		\$ 51,678
<u>NATIONAL HIGHWAY TRAFFIC SAFETY ADMINISTRATION</u>			
<u>WASHINGTON TRAFFIC SAFETY COMMISSION INDIRECT:</u>			
Micro Survey Tracking	20.601		\$ 2,981
Map Scenes Software	20.601		720
DUI Emphasis Patrol Over-time	20.604		8,268
IDL Grant Over-time	20.604		2,452
LIDAR	20.604		4,400
Alco-Sensor	20.604		1,421
Seat-belt Incentive (Click or Ticket)	20.604		2,523
TACT Pilot program	20.604		19,881
TOTAL DEPARTMENT OF TRANSPORTATION			\$ 42,646
<u>OFFICE OF NATIONAL DRUG CONTROL POLICY (ONDCP):</u>			
<u>ONDCP DIRECT:</u>			
High Intensity Drug Trafficking Program (HIDTA)	07.000	I4PNWP516Z	\$ 57,600
<u>ONDCP INDIRECT:</u>			
Washington State Patrol	07.000	CO50869GSC	\$ 7,500
Washington State Patrol	07.000	CO51062GSC	3,869
TOTAL ONDCP INDIRECT:			\$ 11,369
TOTAL OFFICE OF NATIONAL DRUG CONTROL POLICY			\$ 68,969
<u>DEPARTMENT OF HOMELAND SECURITY</u>			
Thurston County Emergency Management indirect	97.004	01905015-2004GET4003	\$ 38,596
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 456,823

Schedule of State and Local Financial Assistance
For The Year Ended December, 31, 2005

Grantor/ Pass-Through Grantor Program Title	Other Identification Number	Current Year Expenditures
Department of Transportation		
Sleater-Kinney	LA5203	\$ 26,668
Mullen Road East to City Limits	8-5-197 (023)-1	5,883
Yelm Highway	8-5-197 (022)-1	1,613,603
Carpenter-Pacific to Martin Way	8-5-197 (020) -1	221,146
Total Department of Transportation		<u>\$ 1,867,300</u>
<u>Higher Education Coordinating Board</u>	Work Study	<u>\$ 5,354</u>
<u>Capital City Council Blind</u>	Audible traffic signals	<u>\$ 5,000</u>
Interagency Committee for Outdoor Recreation		
IAC - Rainier Vista Community Park Development	02-1268 D	\$ 14,469
IAC - Wonderwood Community Park Development	02-1270 D	247,500
Total Interagency Committee for Outdoor Recreation		<u>\$ 261,969</u>
Total Expenditures of State Awards		<u><u>\$ 2,139,623</u></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

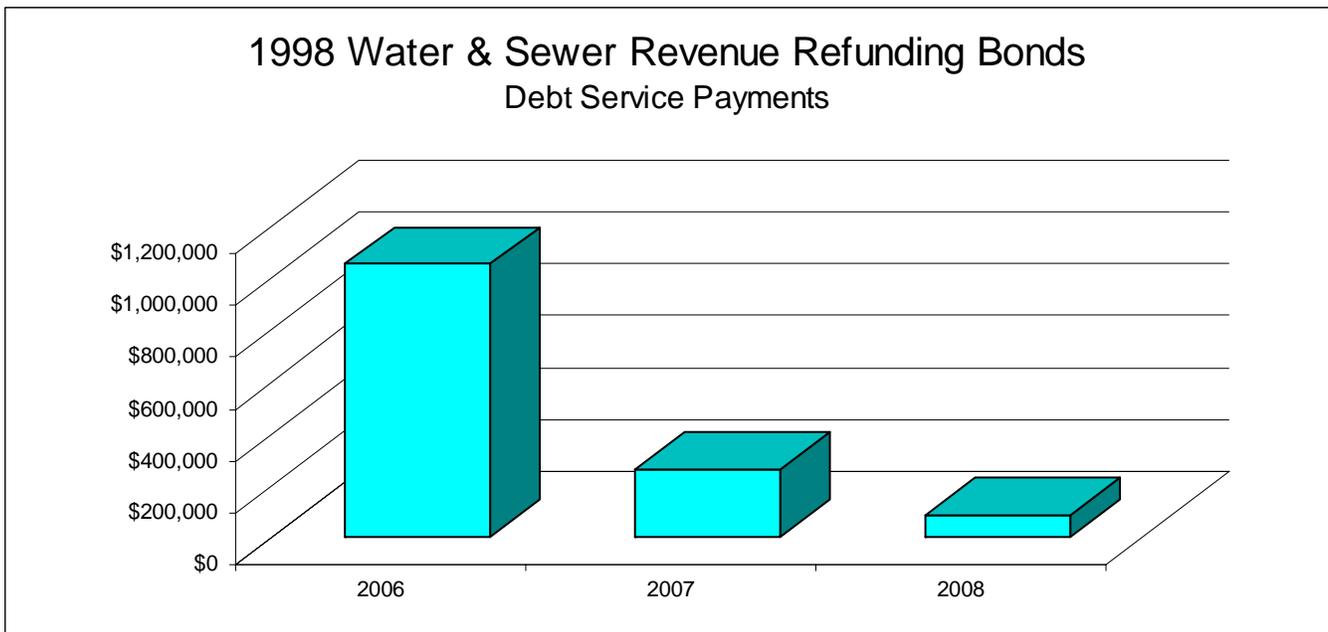
The amount shown as current year expenditures represents only the City's grant portion of the program costs. Entire program costs, including the City portion may be more than shown.

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. \$5,281 was repaid during 2005. 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.

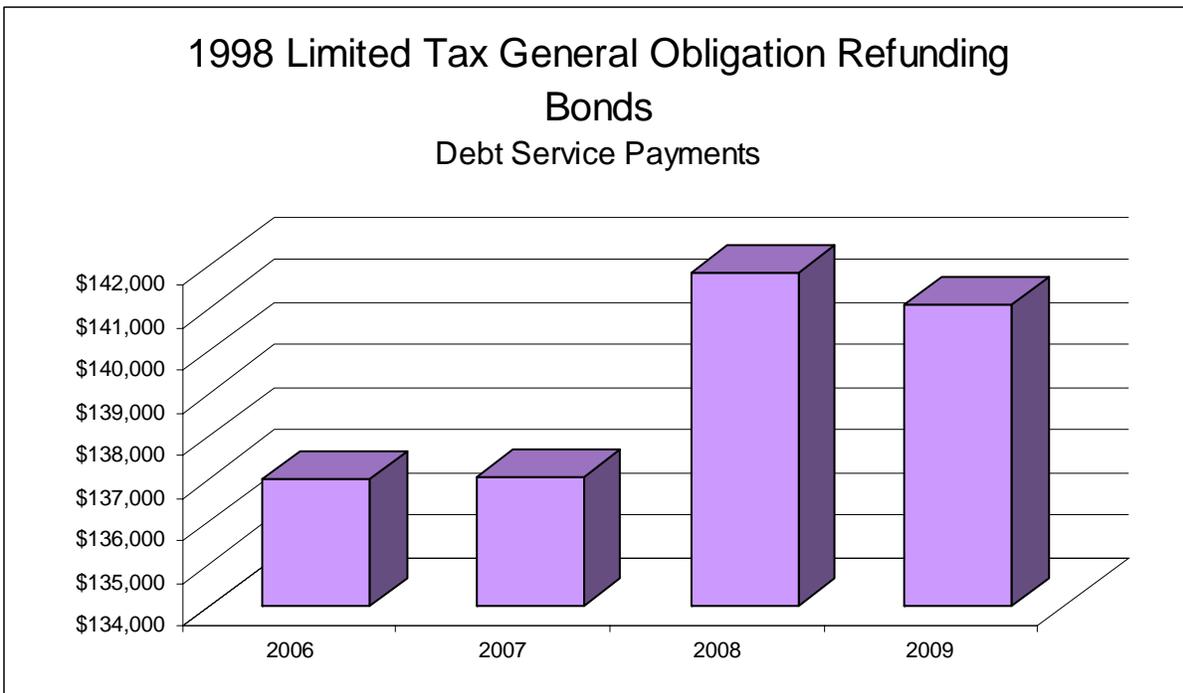
City of Lacey Water & Sewer Revenue Bonds
 1998 Water & Sewer Utility Revenue Refunding Bonds
 December 31, 2005

Year Ended 31-Dec	Interest Rate - %	Interest		Principal	Total Debt Service
		1-Jun	1-Dec	1-Dec	
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>\$ 40,893</u>	<u>\$ 40,893</u>	<u>\$ 1,315,000</u>	<u>\$ 1,396,786</u>



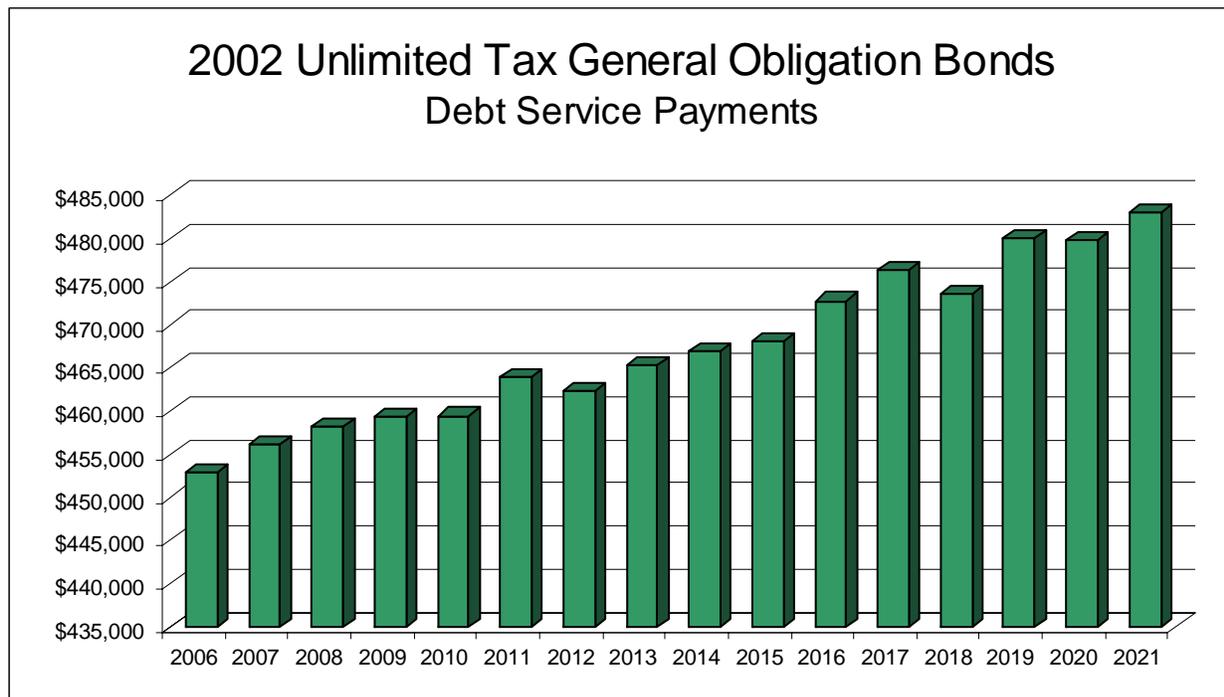
City of Lacey General Obligation Bond Debt
1998 Limited Tax General Obligation Refunding Bonds
December 31, 2005

Year Ended 31-Dec	Interest Rate - %	Interest		Principal	Total Debt Service
		1-Jun	1-Dec	1-Dec	
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>\$ 28,424</u>	<u>\$ 28,424</u>	<u>\$ 500,000</u>	<u>\$ 556,848</u>



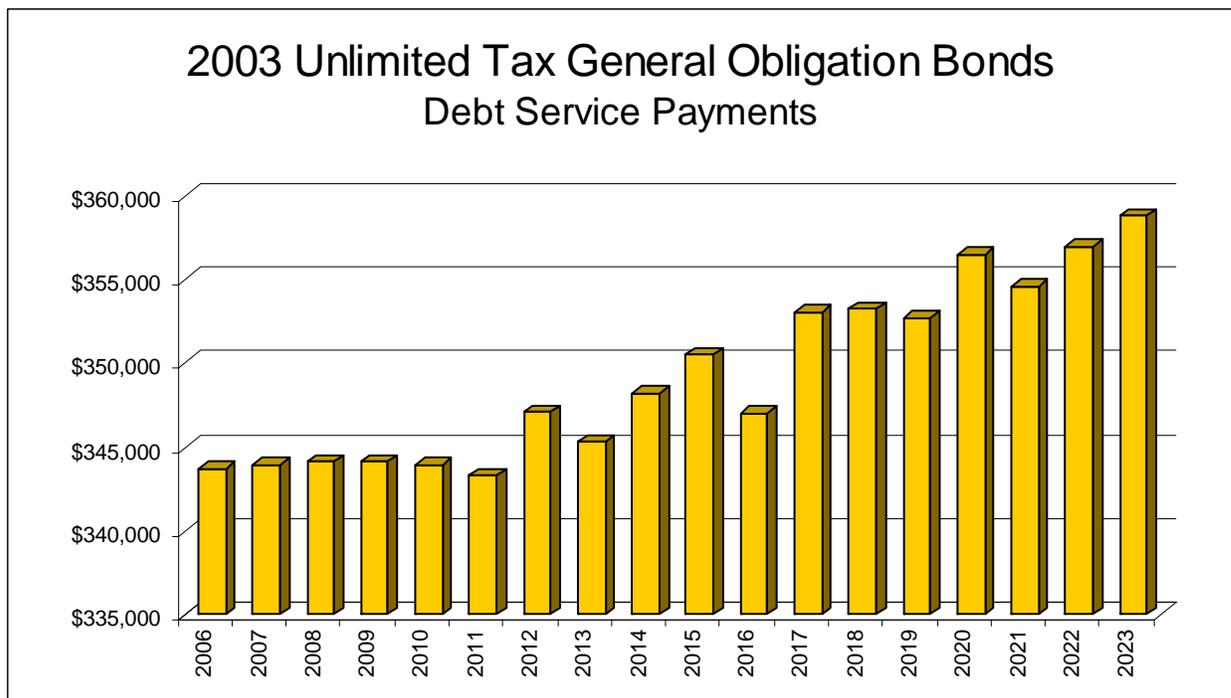
City of Lacey General Obligation Bond Debt
 2002 Unlimited Tax General Obligated Bonds
 December 31, 2005

Year Ended 31-Dec	Interest Rate - %	Interest		Principal	Total Debt Service
		Due - 01 Jun	Due - 01 Dec	Due - 01 Dec	
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>\$ 1,146,331</u>	<u>\$ 1,146,332</u>	<u>\$ 5,185,000</u>	<u>\$ 7,477,663</u>



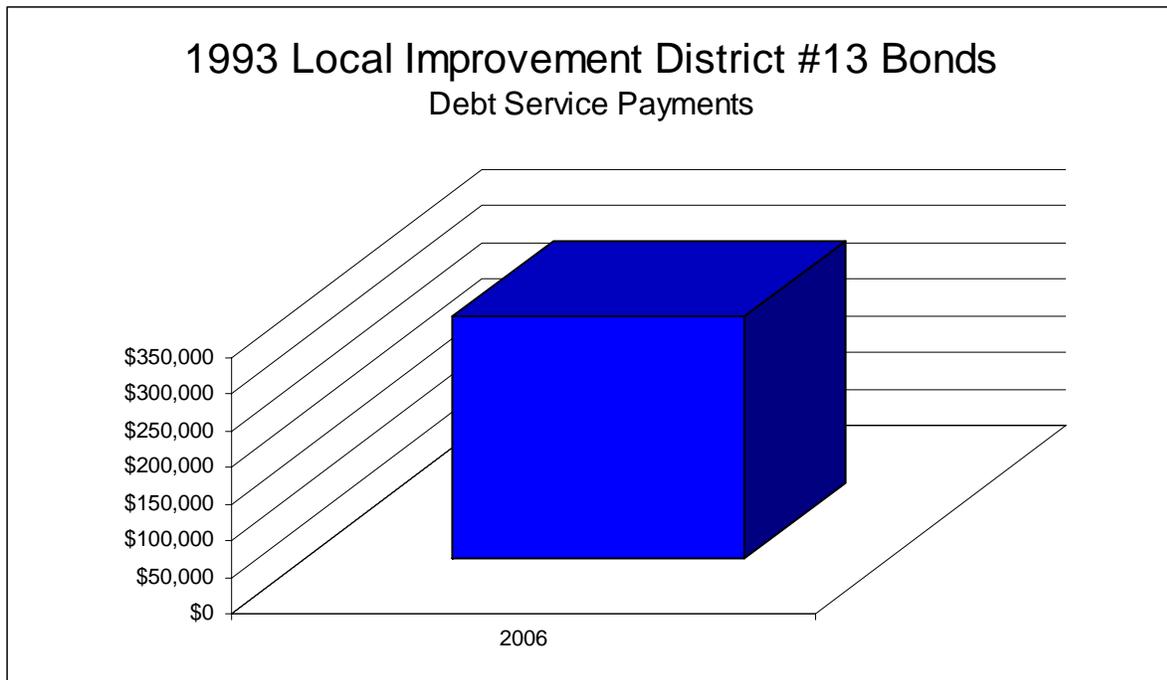
City of Lacey General Obligation Bond Debt
 2003 Unlimited Tax General Obligated Bonds
 December 31, 2005

Year Ended 31-Dec	Interest Rate - %	Interest		Principal Due - 01 Dec	Total Debt Service
		Due - 01 Jun	Due - 01 Dec		
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
		<u>\$ 868,627</u>	<u>\$ 868,627</u>	<u>\$ 4,550,000</u>	<u>\$ 6,287,254</u>



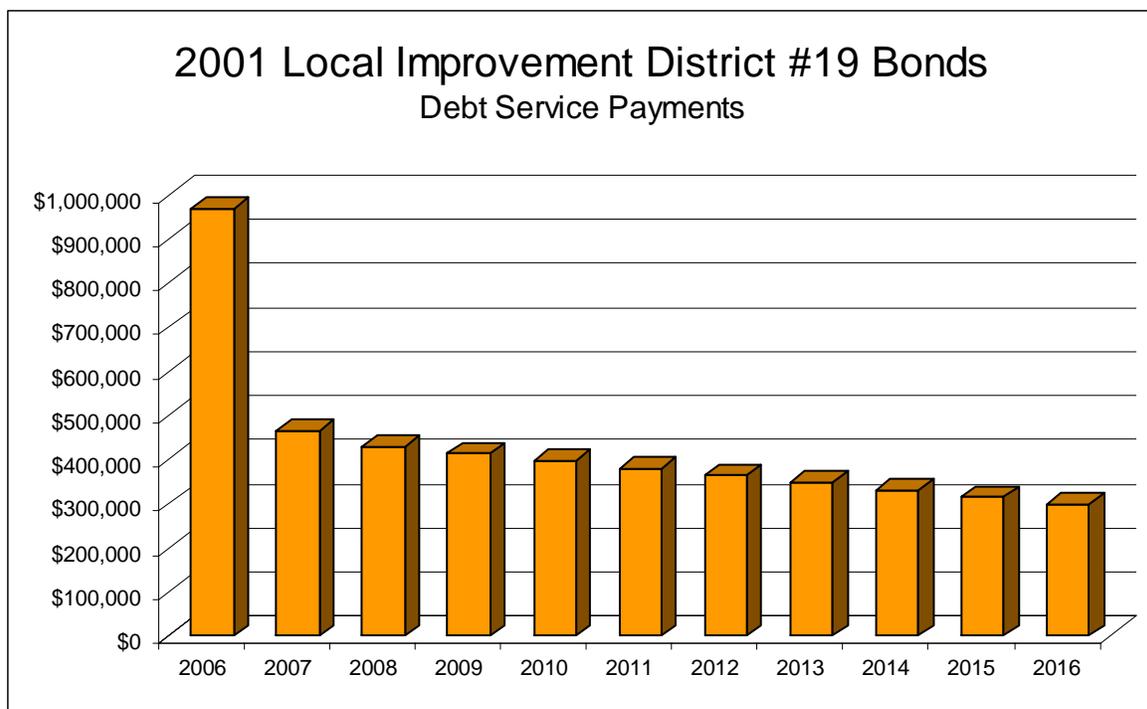
City of Lacey
 1993 Local Improvement District #13 Bonds
 December 31, 2005

Year Ended 31-Dec	Interest Range Rate - %		Interest 1-Jan	Principal 1-Jan	Total Debt Service
2006	5.900%	6.000%	18,500	310,000	268,500
			<u>\$ 23,300</u>	<u>\$ 310,000</u>	<u>\$ 328,500</u>



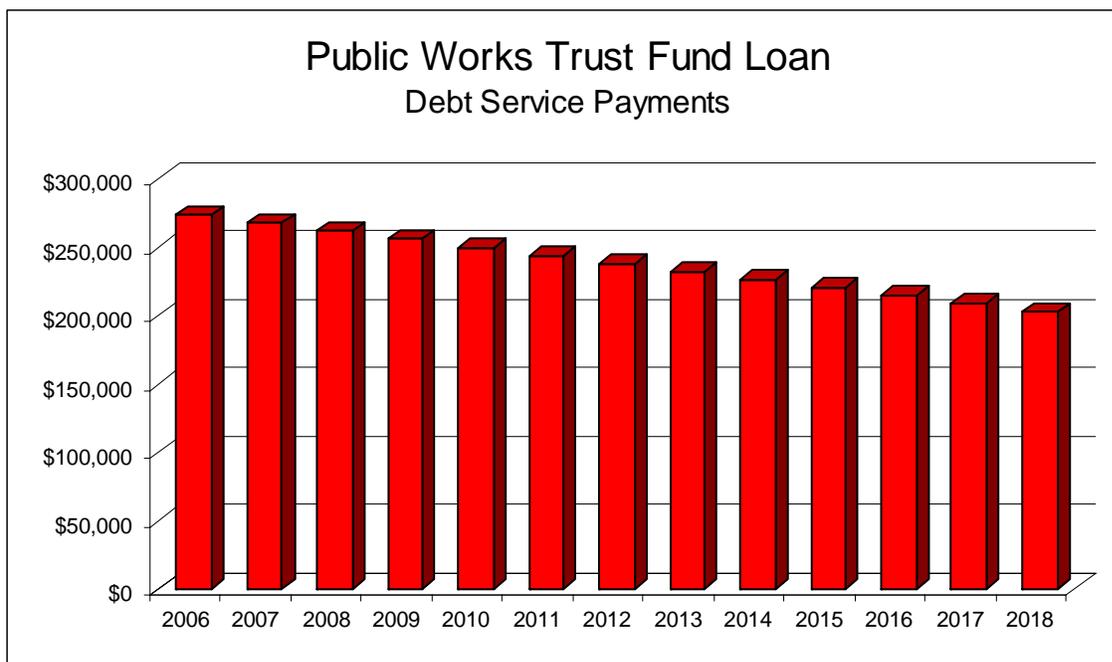
City of Lacey
 2001 Local Improvement District #19 Bonds
 December 31, 2005

Year Ended 31-Dec	Interest Range Rate - %		Interest 1-Oct	Principal 1-Oct	Total Debt Service
2006	5.300%	5.600%	206,705	760,000	966,705
2007	5.600%	5.700%	164,880	300,000	464,880
2008	5.700%	5.700%	147,990	280,000	427,990
2009	5.700%	5.800%	132,030	280,000	412,030
2010	5.800%	5.850%	115,855	280,000	395,855
2011	5.850%	5.850%	99,585	280,000	379,585
2012	5.850%	5.900%	83,205	280,000	363,205
2013	5.900%	5.950%	66,733	280,000	346,733
2014	5.950%	5.950%	50,198	280,000	330,198
2015	5.950%	6.000%	33,538	280,000	313,538
2016	6.000%	6.000%	16,800	280,000	296,800
			<u>\$ 1,117,519</u>	<u>\$ 3,580,000</u>	<u>\$ 4,697,519</u>



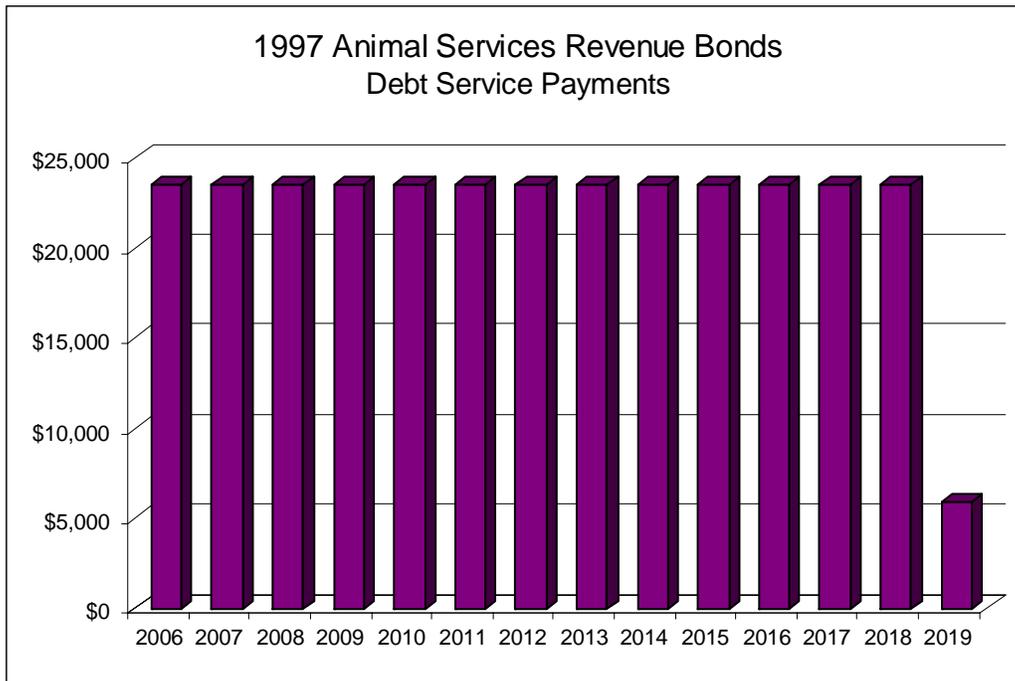
City of Lacey
Public Works Trust Fund Loan
December 31, 2005

Year Ended 31-Dec	Interest Rate - %	Interest 1-Jul	Principal 1-Jul	Total Debt Service
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>\$ 536,218</u>	<u>\$ 2,553,404</u>	<u>\$ 3,089,622</u>



City of Lacey
 1997 Animal Services Revenue Bond
 December 31, 2005

Year Ended 31-Dec	Interest Rate - %	Interest Annual*	Principal Annual*	Total Debt Service
2006	3.978%	9,348	14,123	23,471
2007	3.978%	8,776	14,695	23,471
2008	3.978%	8,180	15,291	23,471
2009	3.978%	7,561	15,910	23,471
2010	3.978%	6,916	16,555	23,471
2011	3.978%	6,245	17,226	23,471
2012	3.978%	5,548	17,923	23,471
2013	3.978%	4,821	18,650	23,471
2014	3.978%	4,066	19,405	23,471
2015	3.978%	3,280	20,191	23,471
2016	3.978%	2,462	21,009	23,471
2017	3.978%	1,611	21,860	23,471
2018	3.978%	725	22,746	23,471
2019	3.978%	36	5,828	5,864
		<u>\$ 69,575</u>	<u>\$ 241,412</u>	<u>\$ 310,987</u>





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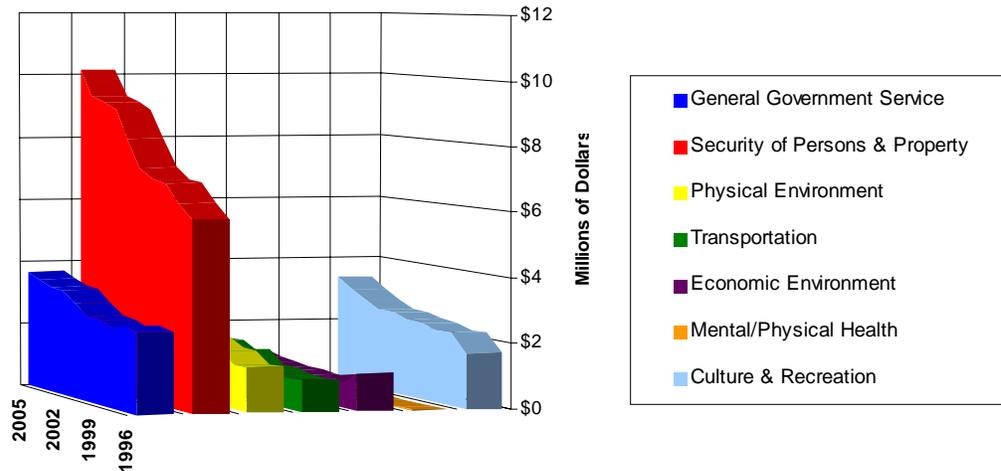
STATISTICAL SECTION

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.

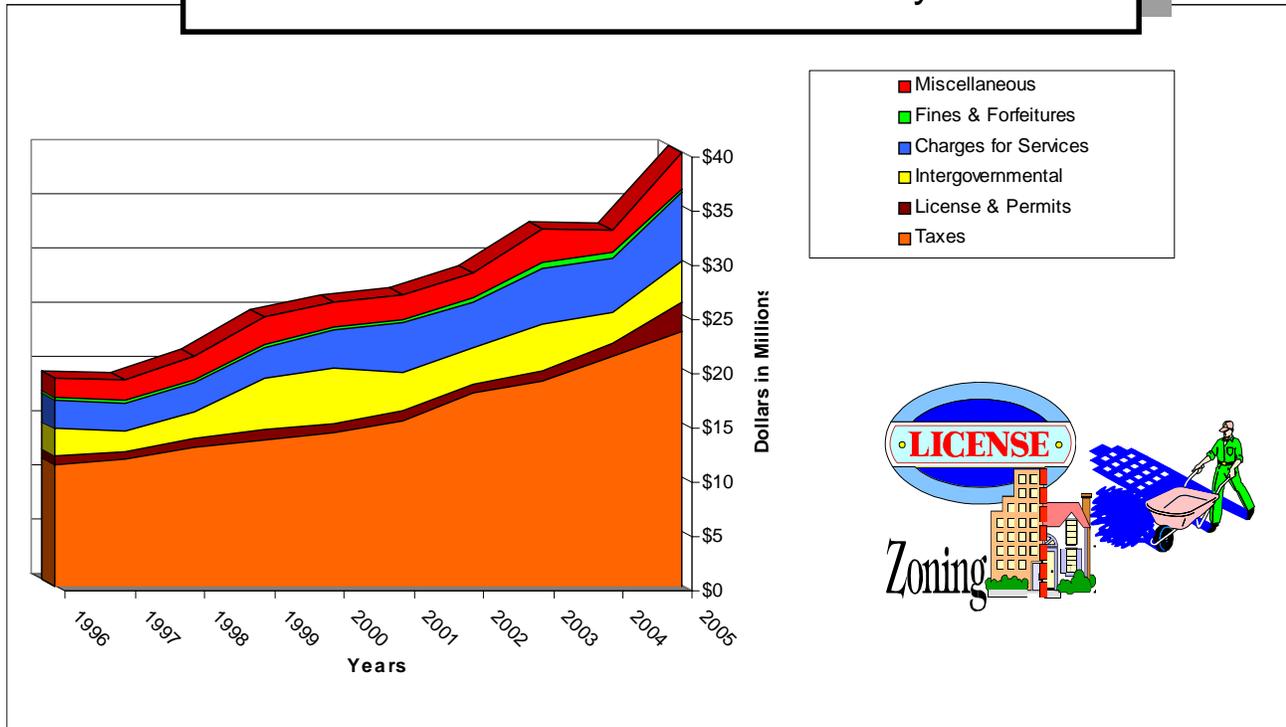


Fiscal Year	General Government Service	Security of Persons & Property	Physical Environment	Transportation	Economic Environment	Mental & Physical Health	Culture & Recreation	Totals
1996	2,496,969	5,885,639	1,395,443	965,100	1,152,994	19,286	1,714,338	13,629,769
1997	2,586,124	6,306,303	1,371,886	913,897	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	3,483,485	9,331,690	2,421,294	1,502,854	903,507	6,572	3,069,138	20,718,540
2005	3,660,132	10,153,107	2,829,292	1,677,835	993,161	7,941	3,388,672	22,710,140

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
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
2005	23,497,767	2,588,721	3,812,458	6,306,847	294,021	3,374,517	39,874,331

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
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%
2005	6,214,184	6,081,204	97.86%	77,161	6,158,365	99.10%	156,678	2.52%

*Source: Thurston County Assessor

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

Property Tax Levies and Collections

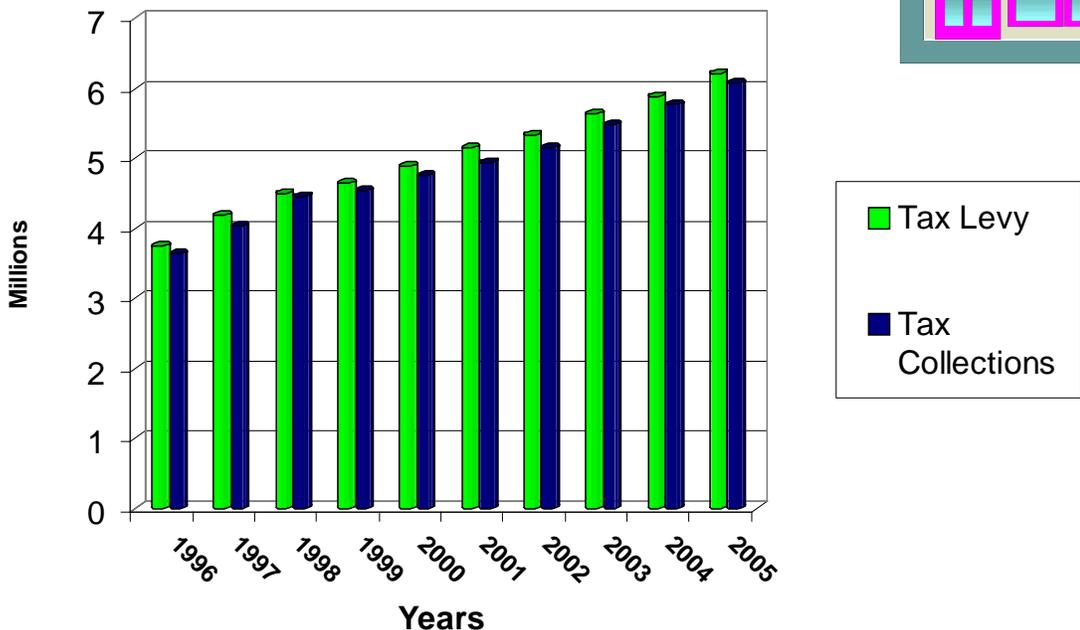
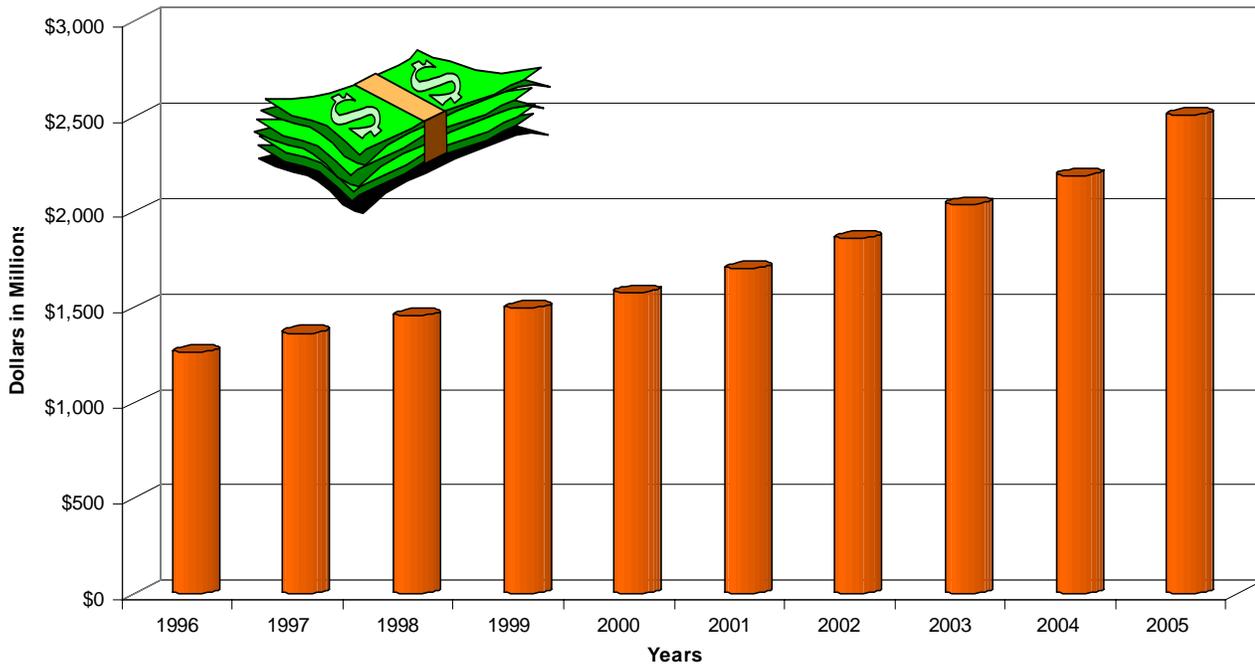


TABLE 4

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

VALUE OF TAXABLE PROPERTY



Fiscal Year	Real & Personal Property Total	Percent Increase (Decrease)
1996	1,264,184,515	26.62%
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	2,189,800,865	7.34%
2005	2,502,159,196	14.26%

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

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
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
2005	2.48	0.32	2.79	1.53	0.41	0.01	0.45	4.25	0.13	0.22	12.59

Source: Thurston County Assessor, *Statistical Report of 2004 Assessments for Taxed Payable in 2005*

*The Fire Levy rate for District #03 was used. Range of Levy is between 0 and 31.45 cents per \$1,000 for 2004.

**Includes Land Conservation Futures Rate

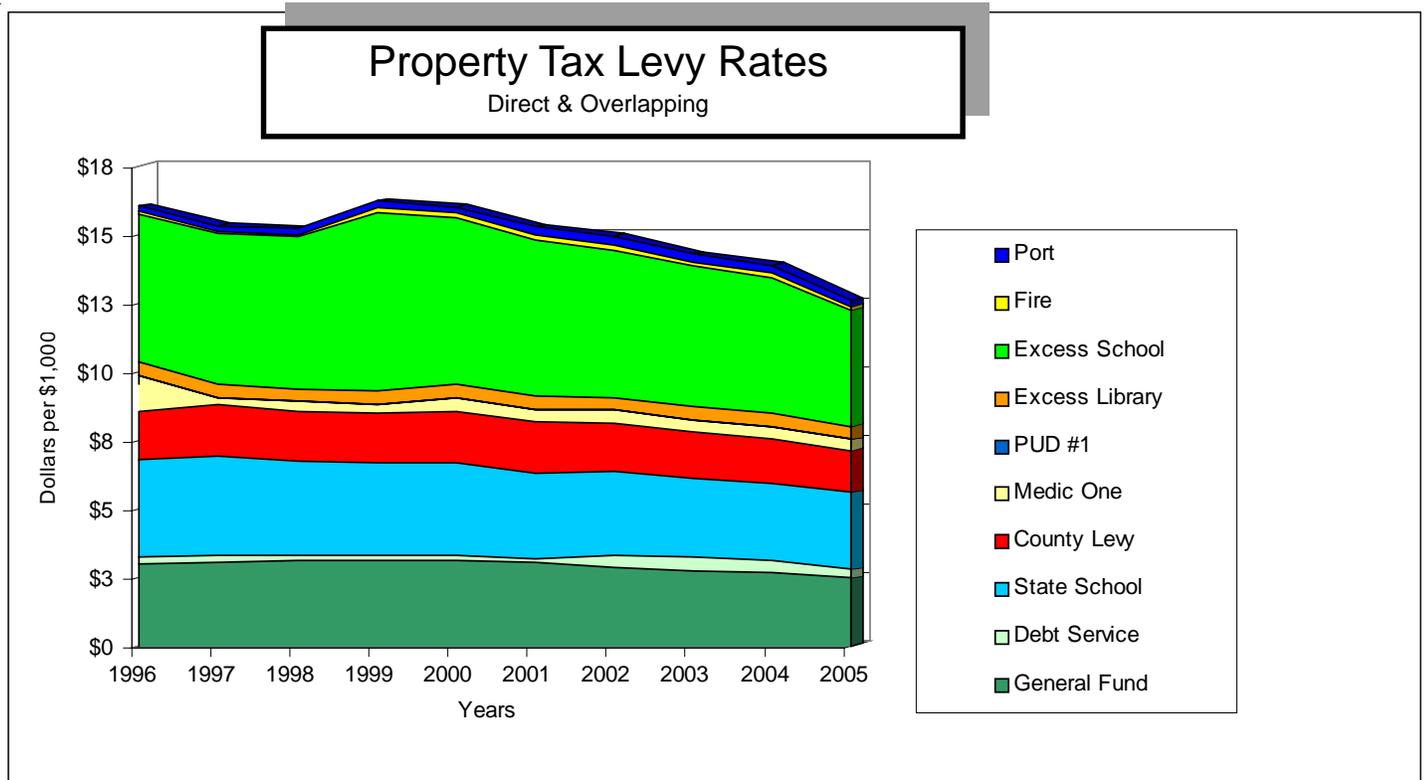


TABLE 6
SPECIAL ASSESSMENT LEVIES AND COLLECTIONS
LAST TEN FISCAL YEARS

Fiscal Year	Beginning Balance	Additional Assessments	Billings	Collections	Ending Balance
1996	9,987,283	-	611,418	942,797	9,044,486
1997	9,044,486	756,573	617,267	977,201	8,823,858
1998	8,823,858	-	669,918	1,105,096	7,718,762
1999	7,718,762	719,994	685,058	1,814,658	6,624,098
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
2005	9,654,778	-	957,040	1,699,859	7,954,919

Source: City of Lacey Finance Department



Special Assessment Collections

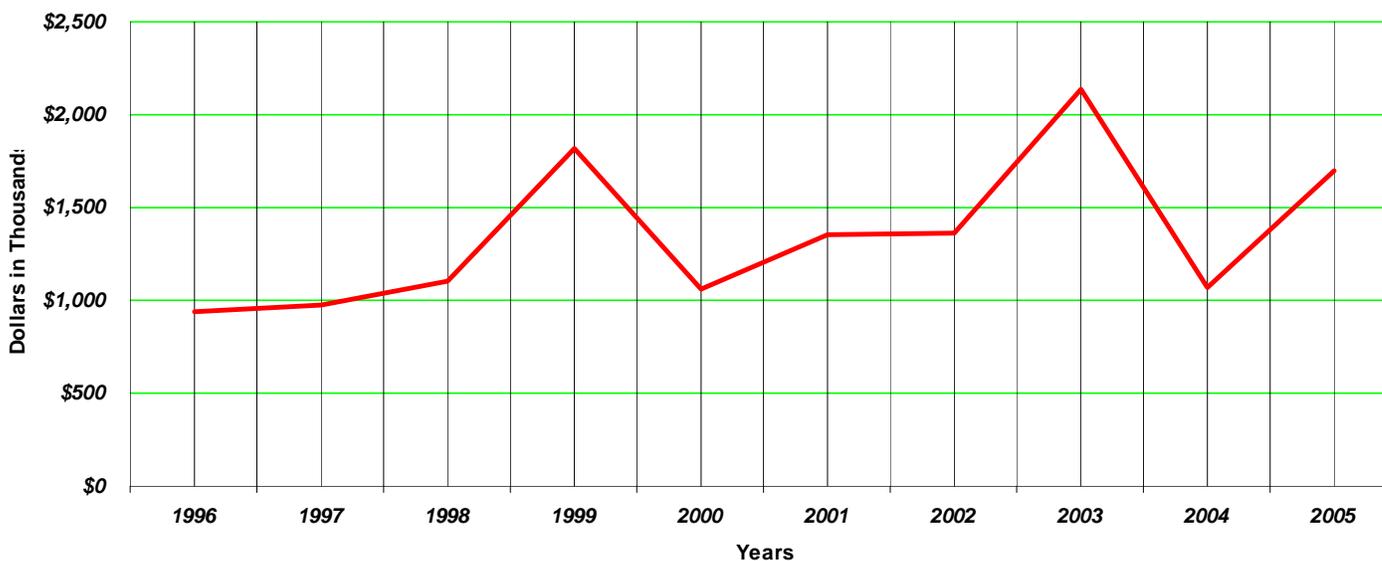


TABLE 7

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
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
2005	33,180	2,483,158,569	10,235,000	846,228	9,388,772	0.38%	283

*Source: State of Washington, Office of Financial Management

** Source: Thurston County Assessor

***Excluding LID Control and LID Guaranty Funds

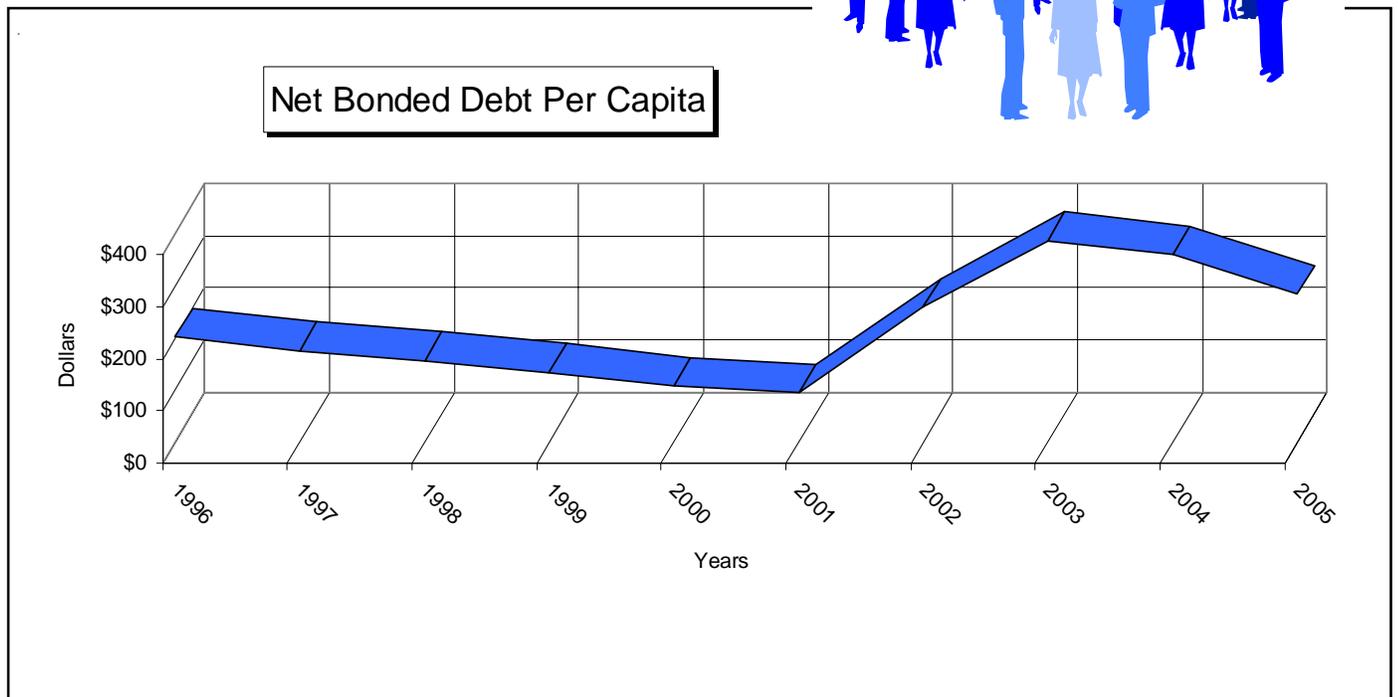


TABLE 8
 SCHEDULE OF LIMITATION OF INDEBTEDNESS
 FOR THE YEAR ENDED DECEMBER 31, 2005

Total Taxable Property Value		\$ <u>2,483,158,569</u>
Remaining Debt Capacity		
2.5 % General purposes limit is allocated between:	\$ 62,078,964	
<i>Up to 1.5% debt without a vote (councilmanic)</i>	37,247,379	
Less: outstanding debt	500,000	
Add: available assets	<u>504,830</u>	
Equals: Remaining debt capacity without a vote		\$ <u>37,252,209</u>
<i>1.0% debt with a vote</i>	\$ 24,831,586	
Less: outstanding debt	9,735,000	
Add: available assets	<u>341,398</u>	
Equals: Remaining debt capacity with a vote		\$ <u>15,437,984</u>
<i>2.5% utility purpose limit, voted</i>	\$ <u>62,078,964</u>	
Equals: Remaining debt capacity - utility purpose, voted		\$ <u>62,078,964</u>
<i>2.5% open space, park and capital facilities, voted</i>	\$ <u>62,078,964</u>	
Equals: Remaining debt capacity - open space, park, and capital facilities, voted		\$ <u>62,078,964</u>

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)
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	20,718,538	6.10%
2005	1,875,000	492,075	2,367,075	22,710,140	10.42%

Source: City of Lacey Finance Department
Includes General, Special Revenue, and Debt Service Funds (excluding LID control and LID Guaranty)

RATIO OF DEBT SERVICE TO GENERAL EXPENDITURES

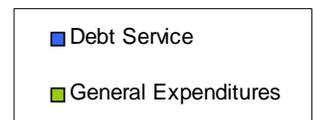
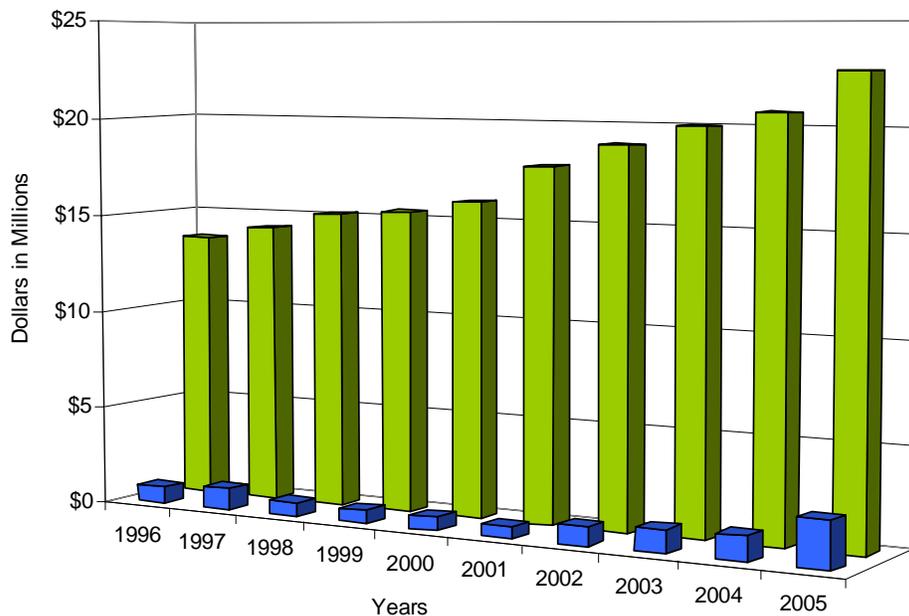


TABLE 10

COMPUTATION OF DIRECT AND OVERLAPPING DEBT
AS OF DECEMBER 31, 2005

Jurisdiction	Gross General Obligation Debt Outstanding	Percentage Applicable to Lacey	Amount Applicable to Lacey
Thurston County	\$ 53,561,624	14.420%	\$ 7,723,725
Port of Olympia	24,640,000	14.420%	3,553,152
North Thurston Public Scho	67,305,000	42.500%	28,604,563
Fire Districts	7,615,000	13.178%	1,003,495

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

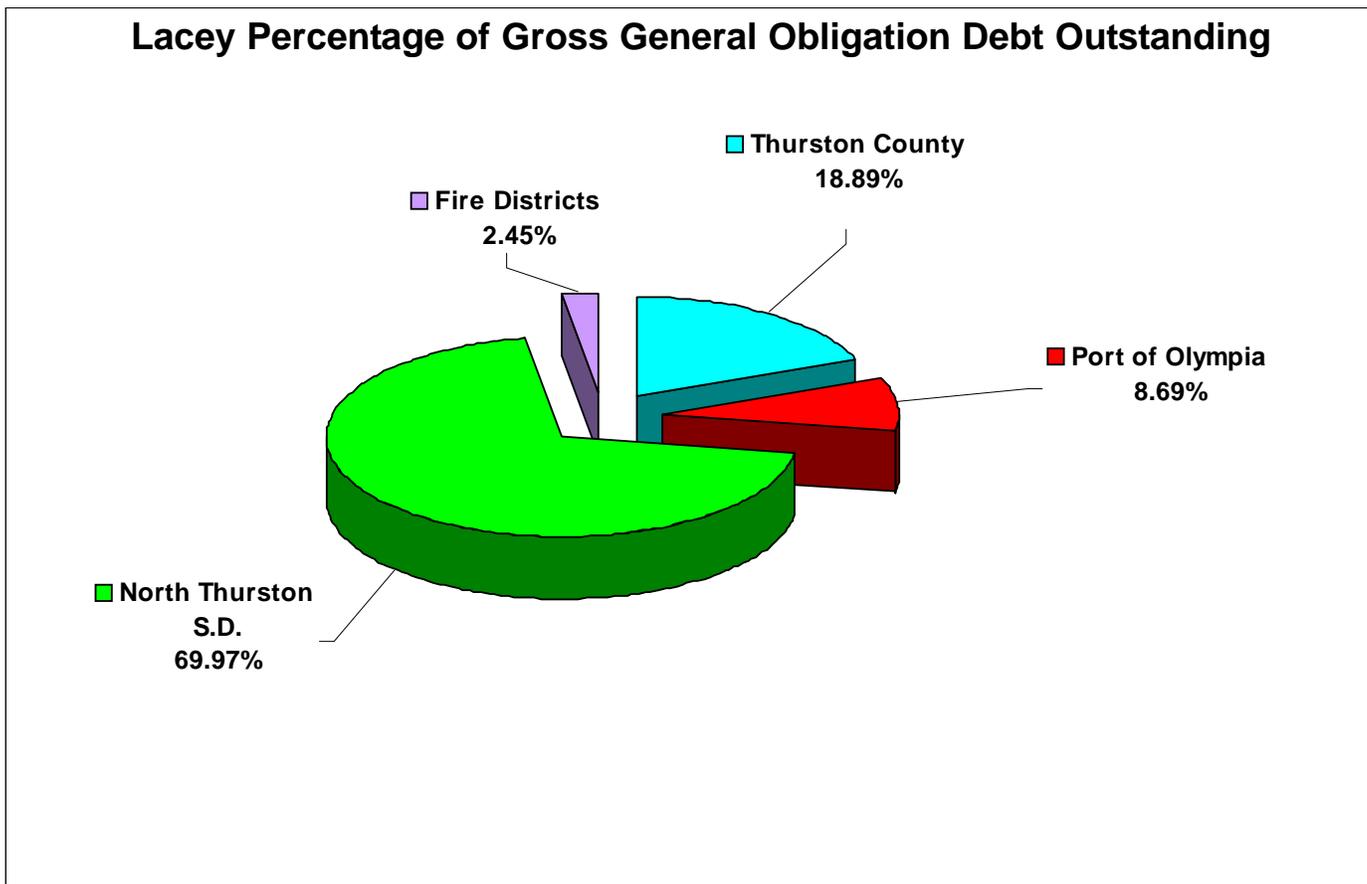


TABLE 11
REVENUE BOND COVERAGE
LAST TEN FISCAL YEARS

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
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
2005	17,006,538	11,463,859	5,542,679	1,068,278	5.19	1.20

*Excludes depreciation expense

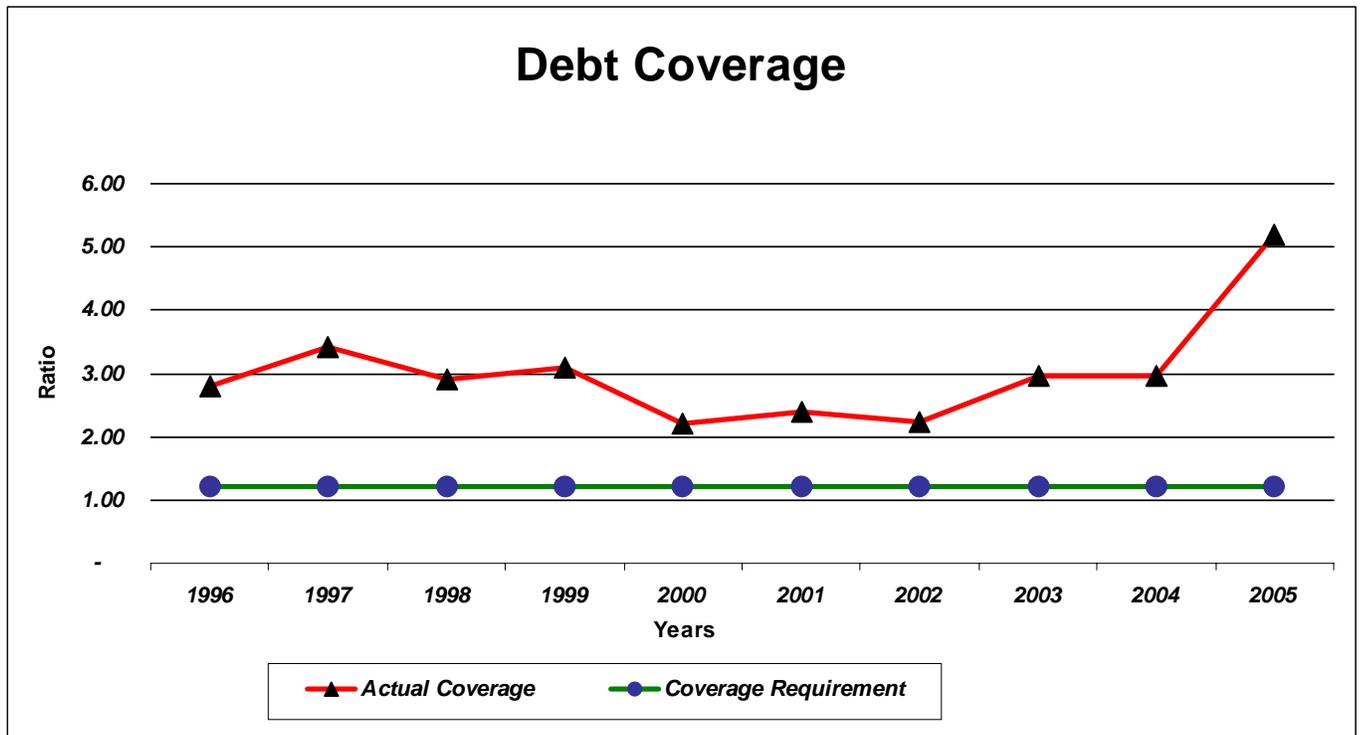


TABLE 12

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
1996	26,170	7.78%	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	12,557	4.9%	42,275	28,384
1999	29,020	2.76%	12,979	13,160	4.6%	46,975	30,037
2000	31,226	7.60%	12,231	13,078	5.0%	50,517	31,780
2001	31,600	1.20%	12,188	13,300	5.7%	51,477	32,271
2002	31,860	0.82%	12,887	13,490	5.8%	51,513	32,638
2003	32,240	1.19%	13,089	13,590	5.7%	50,363	31,343
2004	32,530	0.90%	13,079	13,770	5.2%	51,195	not available
2005	33,180	2.00%	13,119	14,220	not available	not available	not available

**Source: "The Profile", Thurston Regional Planning Council, 1996-2005



Percent Increase in Population
From the Prior Year

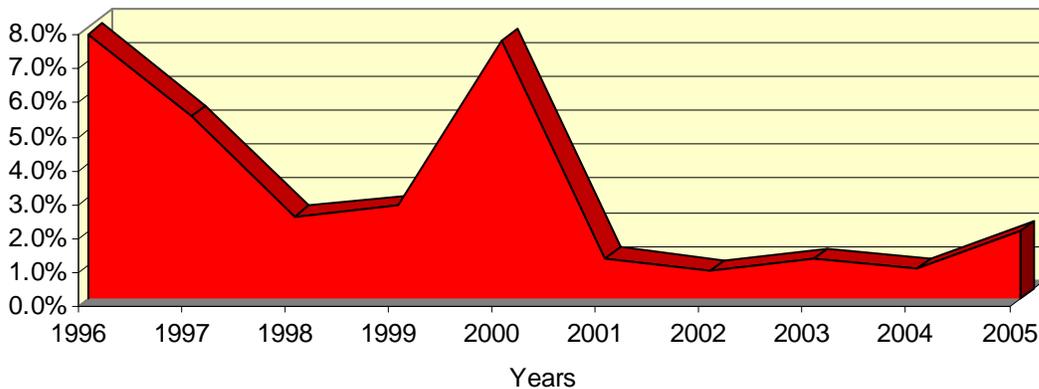


TABLE 13

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

Fiscal Year	Commercial Construction		Residential Construction		Bank Deposits (in thousands)	Total Property Value
	Number of Buildings	Value	Number of Units	Value		
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
2005	47	42,676,946	836	140,545,096	2,400,000	2,502,159,156

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 2004 Assessments for Taxes Payable in 2005*

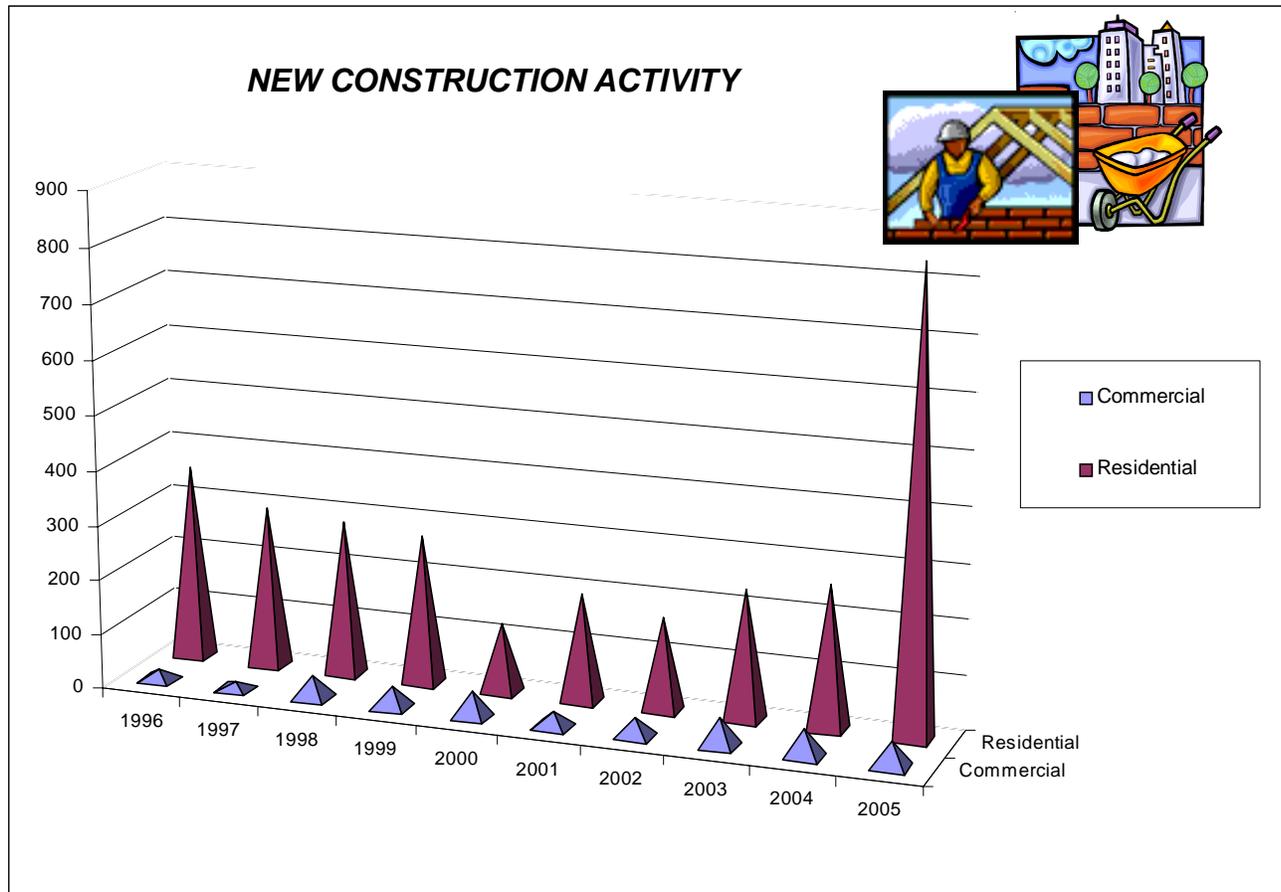
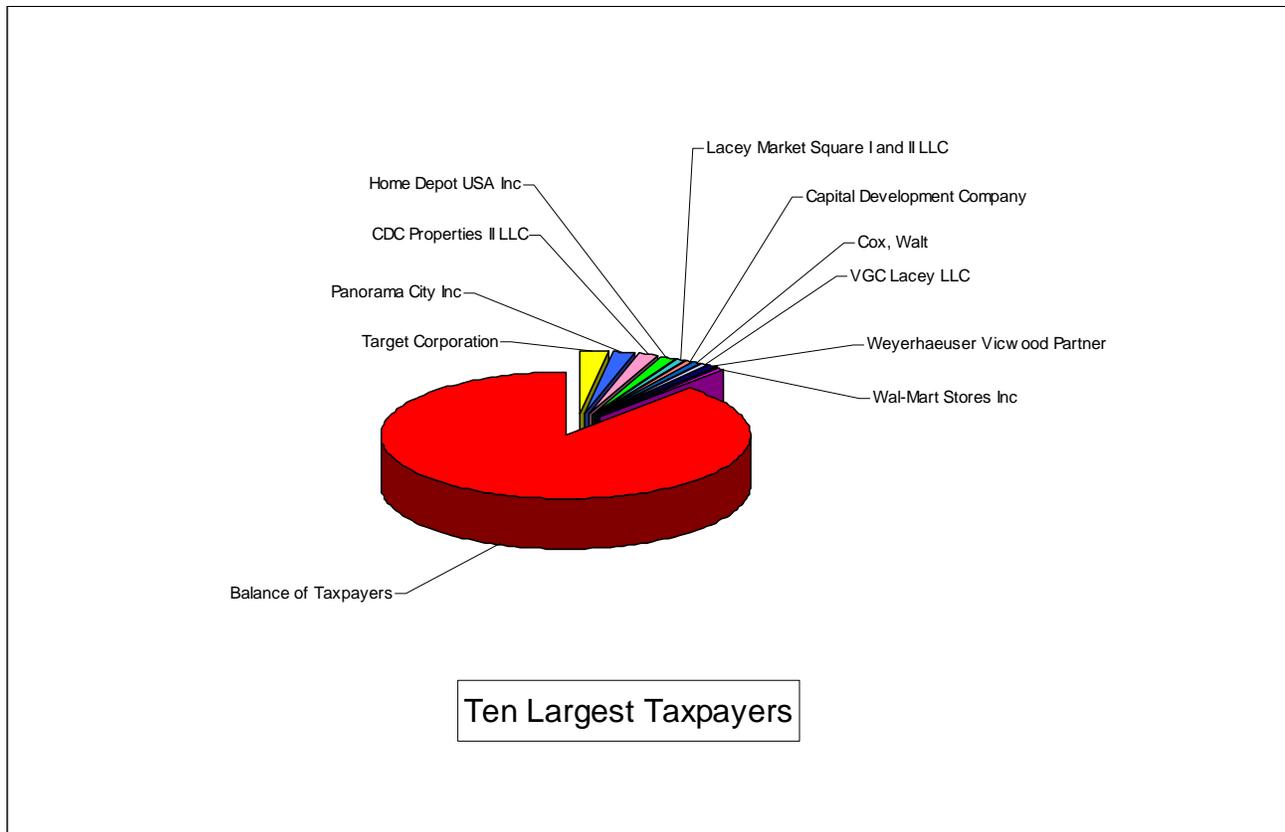


TABLE 14
 PRINCIPAL PROPERTY TAXPAYERS
 FOR THE YEAR ENDED DECEMBER 31, 2005



Source: Thurston County Assessor

Name	Type of Business	2005 Assessed Valuation	Percent of Total Assessed Value
Target Corporation	Retail/Warehouse	\$ 73,331,250	2.54%
Panorama City Inc	Retirement Community	54,540,301	1.89%
CDC Properties II LLC	Leasing/Land Development	47,361,400	1.64%
Home Depot USA Inc	Retail/Warehouse	40,249,400	1.39%
Lacey Market Square I and II L	Real Estate Development	23,193,750	0.80%
Capital Development Company	Leasing/Land Development	21,833,700	0.76%
Cox, Walt	Leasing/Land Development	21,741,804	0.75%
VGC Lacey LLC	Leasing/Land Development	18,276,050	0.63%
Weyerhaeuser Vicwood Partner	Leasing/Land Development	17,875,700	0.62%
Wal-Mart Stores Inc	Retail	16,891,550	0.59%
Balance of Taxpayers		2,551,455,468	88.39%
Total Assessed Values		\$ 2,886,750,373	100.00%

TABLE 15
MISCELLANEOUS STATISTICS
AS OF DECEMBER 31, 2005

Date of incorporation:	December 5, 1966
Form of government:	Council/Manager
Type of government:	Non-Charter/Code City
Area:	16.27 miles
Number of employees:	214

Services

Fire protection

*Fire District #3	
Number of emergency responders (approx)	103
Number of stations within city limits	3
Number of stations outside city limits	2
*Small portion served by Fire District #8	

Police protection

Number of Police Officers	46
2005 - Offenses per 1000 People (Major Crimes)	21.7

Utility services

Customers Served-# of services	17,916
Customers Served-# of irrigation	593
Water:	
Storage Capacity	12.91 MG
Average Daily Demand	6.82 MG
Seasonal Usage:	
Winter	5.04MGD
Summer	14.2 MGD

Sources: 20 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 Sewer	334 Miles of Main
Miles of Main	172
Number of Pumplift Stations	38

Sewer Treatment-LOTT Regional Sewer Treatment Facility

Storm	
Total Number of Catch Basins	3,665
Number of Private Storm Ponds (2001)	381

Parks

Number of Parks	25
Number of Acres	529

Transportation

Miles of Paved Roads	122
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TABLE 15 CONTINUED
MISCELLANEOUS STATISTICS
AS OF DECEMBER 31, 2005

Public schools

The City of Lacey students primarily attend schools located within NorthThurston School District #3.

Number of Schools Inside City Limits:

Elementary	6
Junior High	2
High School	4

Number of Schools Outside City Limit:

Elementary	6
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
- North Thurston Public Schools
- Target Corporation

Between 100-249

- Alarm Center, Inc.
- Illuminet
- Roo-Lan Healthcare
- Sears Roebuck & Co.
- Shopko
- St. Martin 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"