



City of Lacey, Washington
**2006 Comprehensive Annual
Financial Report**
for the year ended December 31, 2006

City of Lacey, Washington

Comprehensive Annual Financial Report

For the Year Ended December 31, 2006



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, 2006**

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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, 2007

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, 2006, 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.

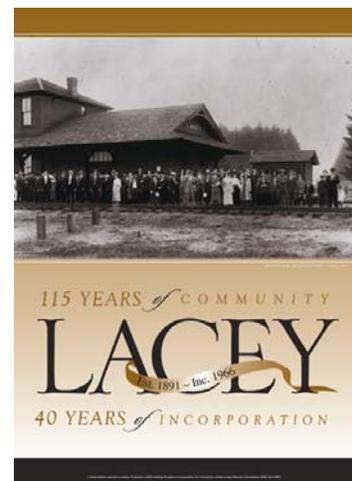
This letter of transmittal is designed to compliment the Management's discussion and analysis (MD&A) and should be read in conjunction with it. The MD&A can be found immediately following the auditor's report.

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 2006 population of 34,060.

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, 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 City also entered into an agreement with the Capital Area Regional Public Facilities District to provide administrative support services and distribute PFD revenues to the cities of Olympia and Lacey for their agreed upon projects.

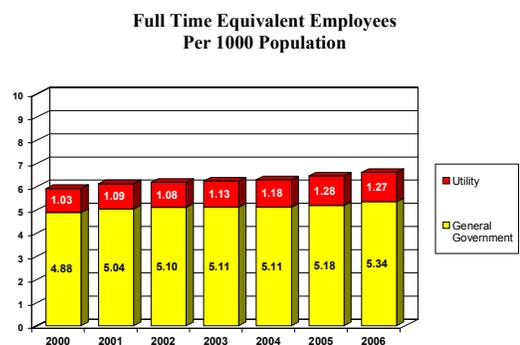
The Council is required to adopt a final budget by no later than the close of the fiscal year. This annual budget serves as the foundation for the City of Lacey financial planning and control. The budget is prepared by fund, department (e.g., Police), and program (e.g., protection and enforcement patrol).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

Local Economy

Lacey's economy is predominately retail/commercial and service oriented. State government is the single largest employer in the region. This past year has brought the opening of a Costco, Best Buy, Sportsman's Warehouse, Office Max, and various other familiar but smaller retail outlets. Additional employment is provided by employers such as St. Peter's Hospital (regional), North Thurston Public Schools, Target Stores import/distribution center, Home Depot distribution center, Econet, Fred Meyer, Wal-Mart, Weyerhaeuser container factory, Ostrom Mushroom Company, VeriSign, Port of Olympia (regional), State Farm (regional), and Intel (regional). 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, 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 4.4 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 15 percent (159 to 183 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 Devel-



opment, 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 45 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 41 percent increase during the past six years. Sales tax revenues during this same period of time have improved 78 percent.

Long-term Financial Planning

Unreserved, designated fund balances in the governmental funds (14 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 north of Interstate 5. This has become known as the Gateway Project. Property owners have begun work on the first phase of development which includes the construction of a Cabela's outdoor sporting goods store. Coordinated efforts between the City, property owner, and retailer have resulted in a successful grant application to assist with the cost of transportation and infrastructure improvements. The grant has been funded by the 2007 State legislature and totals \$9.9 million. Current estimates place

the total cost of improvements for the Gateway Project in the \$35 to \$50 million range. Of that amount, the City has committed to fund \$5 million for transportation and utility services. The City has future obligations to develop a civic center and park as certain milestones in development are reached by the developer.

In partnership with Thurston County, the second phase of development of the regional sports and activities complex began this year. This will complete the improvements to the original 68 acre complex. Additional property will be acquired in 2007 to bring the total project to 93 acres. Funding of the improvement cost has and will come from a special Public Facilities District revenue source taken from the State's portion of the retail sales tax. Other revenues have come from general obligation bonds approved by voters as well as general fund revenues. 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 will be implementing the requirements of 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 20,000 water accounts, the City’s Water Utility serves a population approaching 50,000. In 2007, a major change will come into play as the City completes construction of permanent chlorination facilities at various well sites. This requires a significant capital investment in equipment and facilities estimated at a total cost of \$4.5 million. Delays in the City’s acquisition and approval of additional water rights has required the development of water treatment facility for the Hawks Prairie well and future well. Current estimates place the cost at just over \$8 million. Because of these substantial costs, 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 some of the costs associated with the impact of long-term debt.

Water treatment plant



The next transportation projects include the Carpenter Road Capacity improvements and right-of-way estimated to cost \$2.03 million; Mullen Road east reconstruction at \$2.2 million; and, expansion of the south-bound exit lanes for Interstate 5 and SR 510. A substantial enhancement is being made to the residential street overlay program in 2007 for a total of \$1 million. The resources to cover these improvements include \$1.25 million in Real Estate Excise Tax revenues, a transfer in of \$1 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 124 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 \$12 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 \$15 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 million in earthquake insurance and \$50 million in flood insurance; each policy has a 2 percent per site deductible.

Awards and Acknowledgments

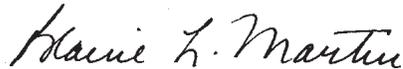
The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Lacey for its comprehensive annual financial

report (CAFR) for the fiscal year ended December 31, 2005. This is the seventh consecutive year that the City 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, 2005

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.



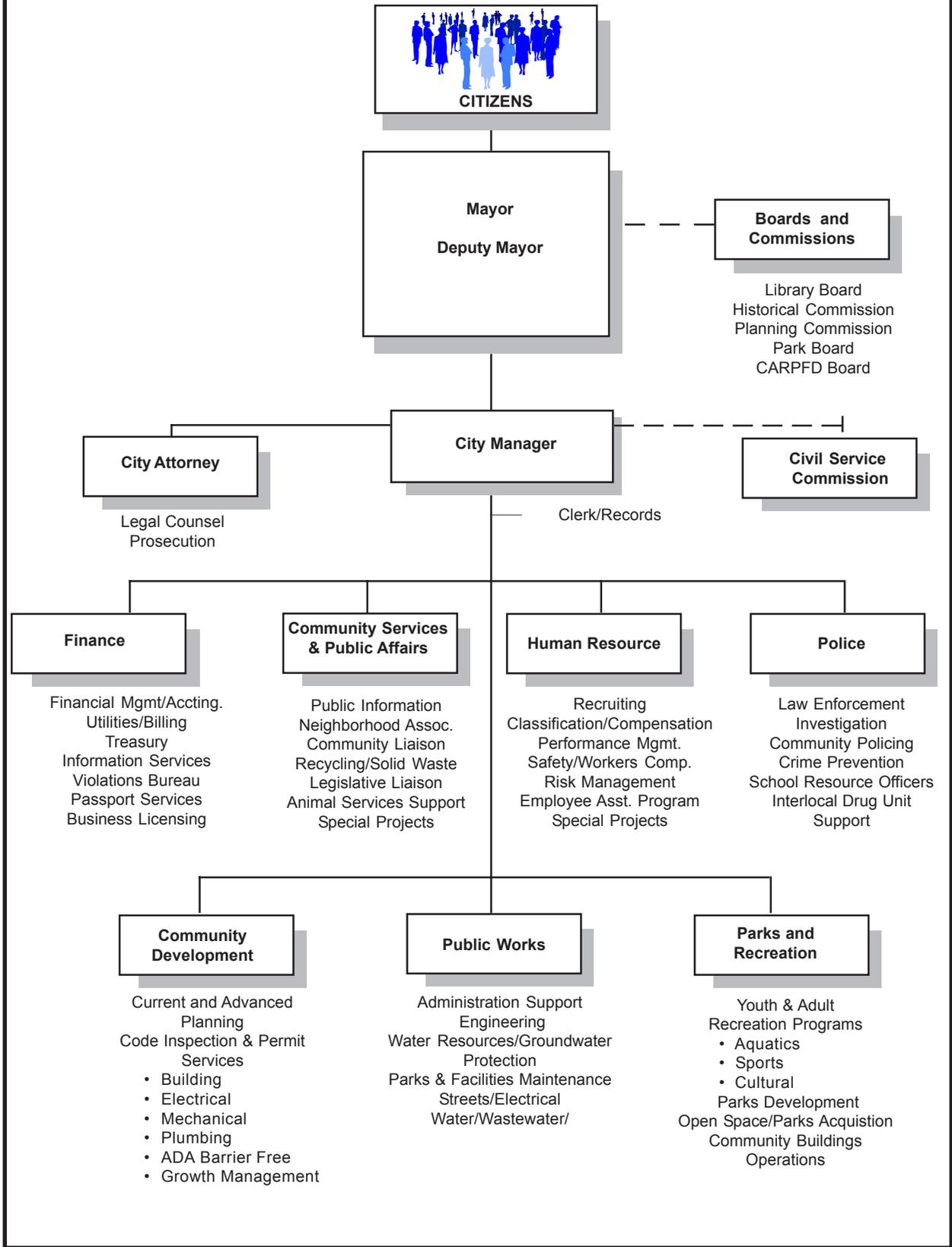
A handwritten signature in black ink, appearing to read "Thomas J. Hain".

President

A handwritten signature in black ink, appearing to read "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 Ritter	Public Works Director

FINANCIAL SECTION

FINANCIAL SECTION



**Washington State Auditor
Brian Sonntag**

INDEPENDENT AUDITOR'S REPORT

June 19, 2007

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, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Lacey, Thurston County, Washington, as of December 31, 2006, and the respective changes in financial position and, where applicable, cash flows thereof, for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 3.1 through 3.16 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 7.16 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 fluid and cursive, with the first name "Brian" and last name "Sonntag" clearly distinguishable.

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 for the fiscal year ended December 31, 2006. We encourage readers to consider the information presented herein conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages 1-1 to 1-5 of this report.

Financial Highlights

- The government's overall financial position improved in 2006 as compared to 2005.
- At the end of the fiscal year the assets of the City exceeded its liabilities by \$492 million. Net assets invested in capital assets (net of depreciation and related debt) account for 83 percent of the amount (\$410 million). Of the remaining assets \$82 million, 12.2 percent (\$10 million) are subject to external restrictions and \$72 million may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's total net assets increased by \$73.6 million. The governmental net assets increased by \$46.4 million over the previous year. Business-type net assets increased by \$27.1 million. The business-type increase included net income for the Water Utility of \$10.3 million, \$11.5 million for the Wastewater Utility and \$5.2 million for the Stormwater Utility. The balance of the offset is the result of the consolidation of the Internal Service Funds' activities related to the Enterprise Funds.
- At the close of 2006 the City's governmental funds reported a combined ending fund balance of \$48.9 million an increase of \$18.7 million (62 percent). Of the major funds, the fund balance of the General Fund increased \$3.6 million, the Arterial Street Fund increased \$3.3 million, and the Parks and Open Space Fund increased \$6.4 million. The fund balance increases were offset by a decrease of \$.5 million in the L.I.D. Redemption Fund. The fund balances of the nonmajor governmental funds increased by \$5.9 million. The overall increase reflects an improved regional economic condition in 2006. Strong growth in retail sales and new construction added significantly to the City's tax revenues. Approximately \$47.6 million (98 percent) of the combined ending fund balance is unreserved fund balance available to the City for discretionary spending.
- At the end of 2006 the unreserved fund balance for the General Fund was \$18.3 million, and increase of \$3.8 million over the prior years amount of \$14.5 million, again reflecting the improved economic situation in 2006.
- The City's total outstanding bonded debt increased \$5.68 million (36 percent) to \$21.36 million during the current fiscal year. While there were new general obligation bonds issued totaling \$8.49 million, redemptions totaled \$2.81 million. The City issued \$4.99 million in unlimited general obligation (G.O.) bonds to complete our park improvements in the Parks & Open Space Fund, as well as \$3.5 million limited G.O. bonds in the Building Improvement Fund to support the new city hall expansion project.
- Revenues from local tax sources, including property, sales, business excise, miscellaneous other taxes, penalties and interest on taxes, increased by \$2.8 million to \$26.2 million, a 11.7 percent increase over 2005.

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's finances, in a manner similar to a private-sector business.

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

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

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

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

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

The basic proprietary fund financial statements can be found on pages 4-9 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'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 4-42 of this report.

Required Supplementary Information

This report also contains other required supplementary information (RSI) on budgetary comparisons for major governmental funds.

Combining Statements

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

Government-wide Financial Analysis

Net Assets

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Lacey, assets exceeded liabilities by \$492 million at the close of the most recent fiscal year.

Statement of Net Assets

Table 1

Condensed Statement of Net Assets (in Millions)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2006	2005	2006	2005	2006	2005
Current and other assets	\$ 70.2	\$ 51.1	\$ 26.9	\$ 21.2	\$ 97.1	\$ 72.3
Capital assets	270.1	235.3	155.9	135.3	426.0	370.6
Total assets	\$ 340.3	\$ 286.4	\$ 182.8	\$ 156.5	\$ 523.1	\$ 442.9
Payables	\$ 4.6	\$ 3.6	\$ 1.7	\$ 1.9	\$ 6.3	\$ 5.2
Long-term Debt	24.0	17.5	.4	1.4	24.4	18.9
Total liabilities	\$ 28.6	\$ 21.1	\$ 2.1	\$ 3.0	\$ 30.7	\$ 24.1
Net assets:						
Invested in capital, net of debt	\$ 254.4	\$ 219.6	\$ 155.6	\$ 134.0	\$ 410.0	\$ 353.6
Restricted	10.1	1.3	.4	1.0	10.5	2.3
Unrestricted	47.2	44.4	24.7	18.5	71.9	62.9
Total net assets	\$ 311.7	\$ 265.3	\$ 180.7	\$ 153.5	\$ 492.4	\$ 418.8

By far the largest portion of the City of Lacey's net assets (83 percent) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment), less any related debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net assets (\$10 million) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* (\$72 million) may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City is able to report positive balances in all three

categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior fiscal year.

Changes in Net Assets

The City's total net assets increased by \$73.65 million in 2006. The increase is explained in the following discussion of governmental and business-type activities.

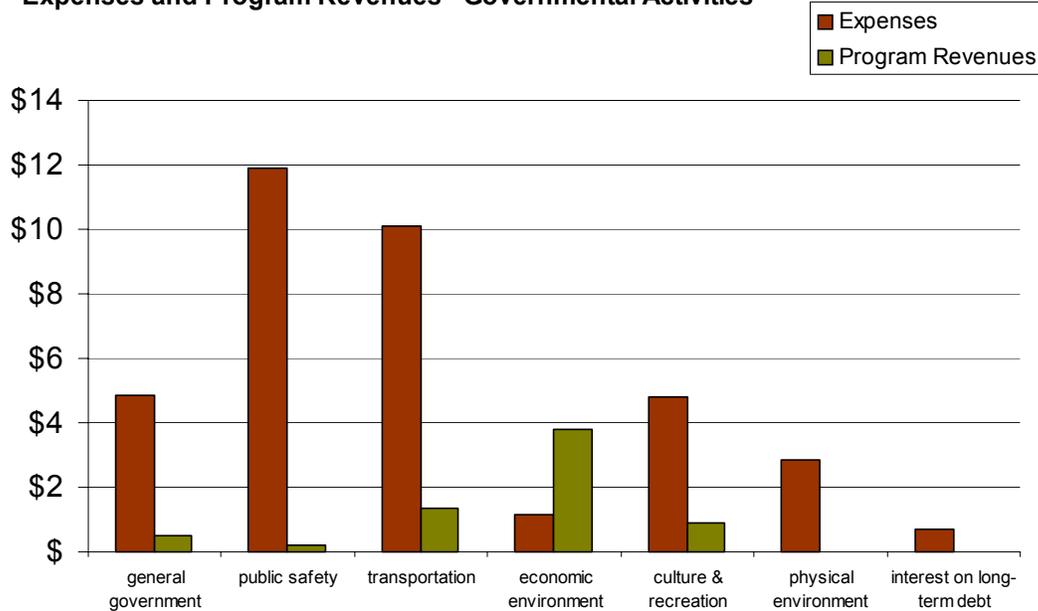
Table 2

Changes in Net Assets (In Millions)

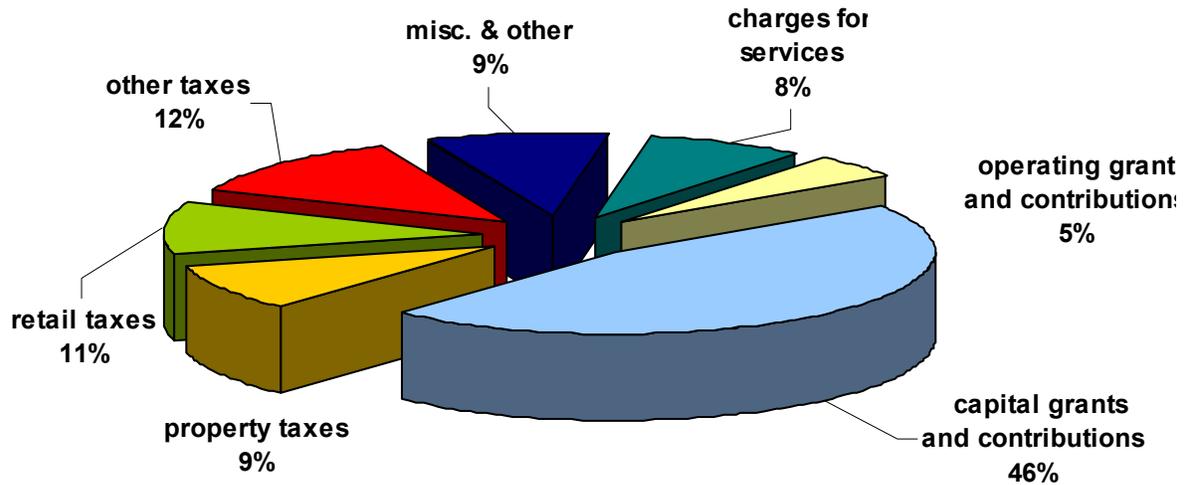
	Governmental Activities		Business-type Activities		Total Primary Government	
	2006	2005	2006	2005	2006	2005
Revenues						
Program Revenues:						
Charges for services	\$ 6.75	\$ 6.31	\$ 23.77	\$ 18.43	\$ 30.52	\$ 24.74
Operating grants and contributions	3.78	1.73	-	-	3.78	1.73
Capital grants and contributions	38.12	32.40	20.31	26.21	58.43	58.61
General revenues:						
Property taxes	7.39	6.91	-	-	7.39	6.91
Retail taxes	8.81	8.03	-	-	8.81	8.03
Business taxes	6.58	5.33	-	-	6.58	5.33
Excise	3.45	3.21	-	-	3.45	3.21
Interest and investment earnings	2.46	1.47	1.09	0.56	3.55	2.03
Miscellaneous	5.12	5.83	0.66	0.34	5.78	6.17
Total revenues	\$ 82.46	\$ 71.22	\$ 45.83	\$ 45.54	\$ 128.29	\$ 116.76
Program expenses including indirect expenses:						
General government	\$ 4.85	\$ 4.17	\$ -	\$ -	\$ 4.85	\$ 4.17
Security of persons and property	11.91	10.48	-	-	11.91	10.48
Physical environment	2.83	2.81	-	-	2.83	2.81
Transportation	10.12	8.87	-	-	10.12	8.87
Economic environment	1.14	1.08	-	-	1.14	1.08
Culture and recreation	4.82	3.58	-	-	4.82	3.58
Interest on long-term debt	0.72	0.83	-	-	0.72	0.83
Water	-	-	7.49	6.50	7.49	6.50
Wastewater	-	-	8.80	7.86	8.80	7.86
Stormwater	-	-	1.96	1.51	1.96	1.51
Total expenses	\$ 36.39	\$ 31.82	\$ 18.25	\$ 15.87	\$ 54.64	\$ 47.69
Increase in net assets before transfers	\$ 46.07	\$ 39.40	\$ 27.58	\$ 29.67	\$ 73.65	\$ 69.07
Transfers in (out)	0.40	0.23	(0.40)	(0.23)	-	-
Changes in net assets	\$ 46.47	\$ 39.63	\$ 27.18	\$ 29.44	\$ 73.65	\$ 69.07
Net Assets - Beginning Balance (Restated)	\$ 265.27	\$ 225.63	\$ 153.49	\$ 124.05	\$ 418.76	\$ 349.69
Net Assets - Ending Balance	\$ 311.74	\$ 265.27	\$ 180.67	\$ 153.49	\$ 492.41	\$ 418.76

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

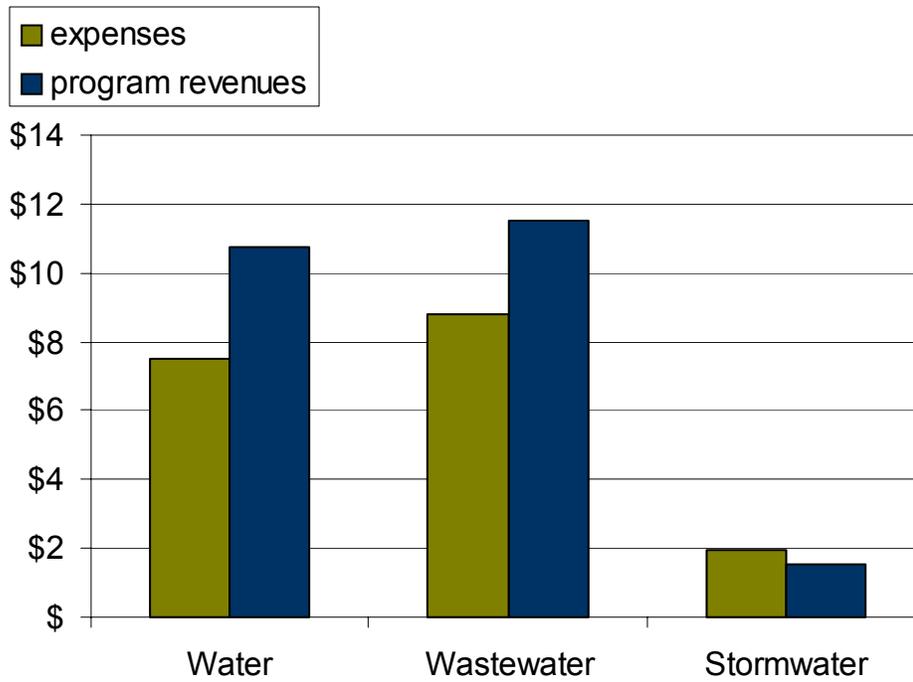
Expenses and Program Revenues - Governmental Activities



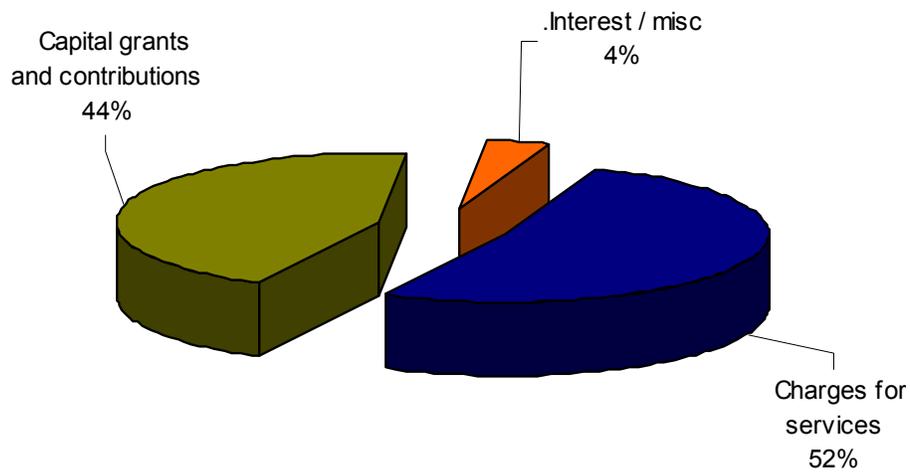
Revenues by Source - Governmental Activities



Expense and Program Revenues - Business-type



Revenues by Source - Business-type Activities



Governmental Activities

Governmental activities increased the City's net assets by \$46.5 million, thereby accounting for 63 percent of the total growth in the net assets of the City of Lacey.

- Operating revenues (charges for services) increased \$.44 million. Although there was an increase in the economic environment program (\$.62 million) there was a decrease in transportation, (\$.16 million) due to a decrease in traffic mitigation revenues and also a decrease in the security of persons and property program (\$.13 million) due to changes in contractual agreements. General government and culture and recreation incurred moderate increases resulting in an increase of \$.11 million.
- Operating grants and contributions increased \$2.05 million, mostly in the culture and recreation program. A Community Development (HUD) grant was received from CTED (\$.65 million) and was passed through to the Community Action Council for their new building. Contributions from the Capital Area Public Facilities District, (\$1.5 million) were for the construction of the Regional Athletic Complex. State entitlements for vehicle fuel tax and public safety contributions decreased by .19 million due to a decrease in funding.
- Capital grants and contributions increased \$5.7 million, which is attributed entirely to the transportation program. Capital grants from the Department of Transportation increased \$1.4 million for the College street rehabilitation project. The majority of the remaining increase is attributable to the developer contributed capital assets.
- General revenues increased \$3.0 million. Property, retail sales and business taxes combined increased by \$2.5 million, mostly due to one time tax on new construction, as well as new retail development in the City's northeast area.
- Expenses increased \$4.6 million (14 percent), mostly due to increase staffing (11 FTE's) to support an increased demand for services. For the most part, other increases in expenses closely paralleled inflation and growth. One exception is an increase in cultural and recreation. The City received a pass through grant from HUD for \$.65 million that was passed on to the Community Action Council to purchase their new community services center.

Business-type Activities

Business-type activities increased the City's net assets by \$27.2 million, accounting for 37 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 30 percent (\$5.3 million). The majority of this increase is due to an increase in water and wastewater rates for the current fiscal year and a 7.5 percent increase in water customers.
- Investment earnings increased by \$.5 million because of an overall increase in the size of the investment portfolio, as well as a strong market.

Financial Analysis of City Funds

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

Table 3

**Revenue, Expenditure, and Fund Balance Summary
Governmental Funds
(In Millions)**

	Major Funds			
	General Fund		Arterial Street Fund	
	2006	2005	2006	2005
Revenues				
Taxes	\$ 17.0	\$ 15.9	\$ 2.9	\$ 2.3
License and permits	3.2	2.6	-	-
Intergovernmental revenues	0.8	0.9	2.2	2.2
Charges for services	5.3	4.9	1.3	1.4
Fines & forfeitures	0.3	0.3	-	-
Other revenue	0.9	0.5	0.5	0.3
Total revenues	<u>\$ 27.5</u>	<u>\$ 25.1</u>	<u>\$ 6.9</u>	<u>\$ 6.2</u>
Expenditures	<u>\$ 22.3</u>	<u>\$ 20.9</u>	<u>\$ 4.9</u>	<u>\$ 4.9</u>
Other Financing Sources and Uses				
Transfers	\$ (1.6)	\$ (2.6)	\$ 1.3	\$ 0.3
Total other financing sources and uses	<u>\$ (1.6)</u>	<u>\$ (2.6)</u>	<u>\$ 1.3</u>	<u>\$ 0.3</u>
Fund Balances				
Reserved	\$ 0.1	\$ 0.3	\$ 0.5	\$ 0.5
Unreserved, designated	8.4	1.7	-	-
Unreserved, undesignated	10.0	12.9	8.1	4.8
Total fund balances	<u>\$ 18.5</u>	<u>\$ 14.9</u>	<u>\$ 8.6</u>	<u>\$ 5.3</u>

	Major Funds			
	L.I.D. Redemption		Parks & Open Space	
	2006	2005	2006	2005
Revenues				
Taxes	\$ -	\$ -	\$ 0.7	\$ 1.1
Intergovernmental revenues	-	-	2.1	0.3
Other revenue	1.3	2.0	0.1	-
Total revenues	<u>\$ 1.3</u>	<u>\$ 2.0</u>	<u>\$ 2.9</u>	<u>\$ 1.4</u>
Expenditures	<u>\$ 1.8</u>	<u>\$ 1.9</u>	<u>\$ 1.4</u>	<u>\$ 1.8</u>
Other Financing Sources and Uses				
G.O bond premium & proceeds	\$ -	\$ -	\$ 5.1	\$ -
Transfers	-	-	(0.2)	(0.2)
Total other financing Sources and uses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4.9</u>	<u>\$ (0.2)</u>
Fund Balances				
Reserved	\$ -	\$ -	\$ -	\$ -
Unreserved, designated	-	-	5.6	0.1
Unreserved, undesignated	0.3	0.8	2.3	1.4
Total fund balances	<u>\$ 0.3</u>	<u>\$ 0.8</u>	<u>\$ 7.9</u>	<u>\$ 1.5</u>

Table 3

**Revenue, Expenditure, and Fund Balance Summary
Governmental Funds
(In Millions)**

	Nonmajor Funds			
	Special Revenue Funds		Debt Service Funds	
	2006	2005	2006	2005
Revenues				
Taxes	\$ 2.0	\$ 1.6	\$ 0.8	\$ 0.9
Intergovernmental revenues	1.1	0.5	-	-
Other revenue	0.3	0.1	-	-
Total revenues	\$ 3.4	\$ 2.2	\$ 0.8	\$ 0.9
Expenditures	\$ 2.8	\$ 1.8	\$ 0.9	\$ 2.4
Other Financing Sources and Uses				
Transfers	\$ 0.3	\$ -	\$ -	\$ 1.8
Total other Financing Sources and uses	\$ 0.3	\$ -	\$ -	\$ 1.8
Fund Balances				
Reserved	\$ 0.7	\$ 0.6	\$ -	\$ -
Unreserved, designated	0.4	0.4	-	-
Unreserved, undesignated	1.5	0.8	0.7	0.9
Total fund balances	\$ 2.6	\$ 1.8	\$ 0.7	\$ 0.9

	Nonmajor Funds			
	Capital Project Funds		Total Governmental Funds	
	2006	2005	2006	2005
Revenues				
Taxes	\$ 2.9	\$ 1.6	\$ 26.3	\$ 23.4
License and permits	-	-	3.2	2.6
Intergovernmental revenues	0.1	-	6.3	3.9
Charges for services	-	-	6.6	6.3
Fines & forfeitures	-	-	0.3	0.3
Other revenue	0.2	0.3	3.3	3.2
Total revenues	\$ 3.2	\$ 1.9	\$ 46.0	\$ 39.7
Expenditures	\$ 1.8	\$ 2.8	\$ 35.9	\$ 36.5
Other Financing Sources and Uses				
Bond premium & proceeds	\$ 3.5	\$ -	\$ 8.6	\$ -
Transfers	0.2	0.7	-	-
Total other Financing Sources and Uses	\$ 3.7	\$ 0.7	\$ 8.6	\$ -
Fund Balances				
Reserved	\$ -	\$ -	\$ 1.3	\$ 1.4
Unreserved, designated	5.6	2.4	20.0	4.6
Unreserved	4.7	2.7	27.6	24.3
Total fund balances	\$ 10.3	\$ 5.1	\$ 48.9	\$ 30.3

Governmental Funds

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

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$49 million, an increase of \$19 million in comparison with the prior year. Approximately 56 percent (\$28 million) of this total amount constitutes *unreserved, undesignated fund balance*, which is available for spending at the government's discretion. The remainder (\$21.3 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) lodging tax total fund balance (\$0.66 million), 2) debt service (\$0.65 million), 3) a variety of other restricted purposes (\$0.03 million), or 4) a variety of other *fund designated* purposes (\$20 million). Additional information on the City's designated purposes can be found on page 4-22 of this report.

The **General Fund** is the chief operating fund of the City. At the end of the current fiscal year, unreserved, undesignated fund balance of the general fund was \$9.9 million, while the total fund balance reached \$18.5 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 44 percent of the total general fund expenditures, while total fund balance represents 83 percent of that same amount.

The fund balance of the City's General Fund increased by \$3.5 million during the current fiscal year. Key factors in this growth are as follows:

- An increase in property, retail sales and business tax revenues of \$1.2 million, were mostly due to one time tax on new construction, as well as new retail development in the City's northeast area and increased activity.
- An increase in new construction resulted in increase of \$.64 million in permits and fees revenues.
- Current expenditures increased by 7 percent (\$1.3 million). Approximately 68 percent (\$.92 million) is from an increase in payroll expenditures due to the addition of 8 new budgeted FTE's, cost of living and market increases as well as contractual increases for benefits.
- A one time net transfer out of \$1.9 million was used to fund several arterial street projects and fund design costs for new city hall expansion project.

The **Arterial Street Fund** has a total fund balance of \$8.5 million, of which \$.5 million is reserved for the payment of debt service, and the remaining \$8.0 million is unreserved to indicate that it is available for new spending. Revenues increased \$.73 million. Real estate excise tax attributed to (81 percent) \$.59 million of the increase. Intergovernmental revenues (grants) increased moderately and were mostly allocated to the College street rehabilitation project. A one time transfer was received from the general fund \$1.25 million to support current projects. The net increase in the fund balance during the current year was \$3.3 million.

The **Parks and Open Space Fund** had an ending fund balance of \$7.9 million of which 1.3 million is reserved for the Regional Athletic Complex (RAC). Total assets increased \$6.3

million due to the issuance of \$4.99 million in unlimited general obligation bonds for park improvements. Intergovernmental revenues increased by \$1.78 million due to a new agreement with the Capital Area Regional Public Facilities District, which distributed \$1.9 million of sales tax revenues to construct the RAC. A decrease in utility tax revenues \$.34 million was due to a management decision to reallocate revenues. Capital outlay expenditures decreased by \$.35 million as well, due to completion of Wonderwood and Long Lake parks in 2005. New spending on various park improvement projects in 2006 amounted to \$1.4 million, including Wonderwood park and Long Lake park improvement projects.

The **Local Improvement District Bond Fund** has a total fund balance of \$.3 million as of the end of current fiscal year. There is one remaining improvement in this fund as of the end of current fiscal year: 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 \$24.2 million. The total growth in net assets for these funds was \$27.3 million. Other factors regarding the finances of these funds have already been addressed in the discussion of the City of Lacey's business-type activities.

General Fund Budgetary Highlights

During the year there was a \$1.2 million increase in appropriations between the original and final amended budget. Following are the components of the increase:

- A \$.14 million was used to cover unexpected contracts and professional services for recruitment, repairs to equipment, utility (electric) increases and parks program costs.
- The Police Department budget increased \$.13 million for LEOFFI medical claims, labor consultant services and overtime spent on investigations.
- The Public Works Engineering Department increased \$.04 million due to overtime related inspection services to contractors, projects and an approved midyear hire of an Engineering Tech III position based on increased activity.
- Allocated \$.3 million to Community Development for overtime and professional service contracts due to personnel shortages and a midyear approval to hire a new Department Assistant III position based on increased construction activity.
- A midyear staffing increase in Water Resource Department \$.07 million was approved to add an Engineering Tech III and new Civil Engineer based on increased regulations.
- Transfers out increased \$.5 million to pay off a HUD loan and cover design costs for new city hall addition.

The total increase was possible because of additional anticipated revenues and an available unreserved fund balance. Those revenues included an increase in permit application revenues (\$.67 million), increased program registration revenues (\$.38 million), and new police services contract with new theaters (\$.03 million). The remaining balance was budgeted from available fund balances.

Capital Assets and Debt Administration

Capital assets

The City's investment in capital assets for its governmental and business-type activities as of December 31, 2006, amounts to \$426.06 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's investment in capital assets for the current fiscal year was 15 percent (a 9 percent increase for governmental activities and a 6 percent increase for business-type activities).

The following schedule shows the City's investment in capital assets.

Table 4

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

	Governmental Activities		Business-type Activities		Totals	
	2006	2005	2006	2005	2006	2005
Land and Improvements	\$ 107.95	\$ 97.74	\$ 4.42	\$ 3.91	\$ 112.37	\$ 101.65
Buildings	9.85	8.75	1.33	1.38	11.18	10.13
Improvements	5.76	0.63	147.63	129.04	153.39	129.67
Infrastructure	140.74	114.18	0.00	0.00	140.74	114.18
Machinery and Equipment	3.12	2.44	0.29	0.55	3.41	2.99
Construction in Progress	2.68	11.56	2.29	0.40	4.97	11.96
Total	\$ 270.10	\$ 235.30	\$ 155.96	\$ 135.28	\$ 426.06	\$ 370.58

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

- Land improvement increased by \$10.7 million. Substantially all of it is from the developer contributed rights of way, which was about 99.8 acres, during the fiscal year.
- Construction in progress decreased by \$7.1 million. About \$11.53 million construction in progress that began prior to 2006 was completed in current year, which includes the police department remodel project (\$1.56 million), various city street constructions projects including Yelm Highway construction project (\$4.18 million), parks improvements projects (\$4.96 million), and water utility projects (\$.83 million). Constructions began in 2006 but not yet completed is about \$4.47 million, which consists of various city streets (\$.72 million), additional parks improvement projects (\$.75 million), city hall expansion project (\$.28 million), and water utility projects including chlorinization and Hawks Prairie water evaluation (\$2.64 million).
- Infrastructure assets increased by \$34.7 million with \$8.1 million in depreciation for 2006. The net increase (net of depreciation) was \$26.6 million. Approximately \$27.0 million (78 percent) of the increase is attributable to the developer contributed streets, which represents about 21 lane miles of residential and collector streets.
- Improvements include park facilities, water, sewer and wastewater lines and facilities, as well as other improvements. Improvements assets increased by \$27.9 million with depreciation for the fiscal year amounting to \$4.2 million. The net increase is \$23.7 million. Approximately \$20.3 million (72 percent) of the increase is attributable to the developer contributed assets. Other key factors for the increase were: completion of waterline looping project at a total cost of \$.3 million and stormwater facilities at a cost of \$.5 million.

Additional information on the City'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 13 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 11 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, 2006 this debt ratio was 2400 percent. Ratios for prior years can be found in the statistical section on Table 14.

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.

As mention previously, the City issued \$4.99 million in voter approved general obligation (G.O.) bonds in 2006 to improve its park properties. It also issued \$3.5 million in G.O. debt to fund the expansion of city hall and will be paid off with existing revenues.

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 \$21.36 million and a State of Washington (Public Works projects) loan of \$2.36 million. Of the \$21.36 million bonded debt, \$18.19 million comprises debt backed by the full faith and credit of the government and \$2.61 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	
	2006	2005	2006	2005	2006	2005
General obligation bonds	\$ 18.19	\$ 10.23	\$ -	\$ -	\$ 18.19	\$ 10.23
Revenue bonds	.23	.24	.33	1.32	.56	1.56
Special assessment debt with governmental commit- ment	2.61	3.89	-	-	2.61	3.89
PWTF loan	2.36	2.55	-	-	2.36	2.55
Total	<u>\$ 23.39</u>	<u>\$ 16.91</u>	<u>\$.33</u>	<u>\$ 1.32</u>	<u>\$ 23.72</u>	<u>\$ 18.23</u>

The City's total debt increased by \$5.5 million (30 percent) during the current fiscal year. The key factors in this increase were:

- Issued \$4.99 million of 2006 G.O. debt. This was approved by the voters for park improvements.
- Issued \$3.5 million of 2006 G.O. debt. This is to fund an expansion of city hall and will be paid off with existing revenues

Additional information on the City of Lacey's long-term debt can be found in Note 13 on pages 4-37 to 4-41.

Economic Factors and Next Year's Budgets and Rates

- The unemployment rate for the County is currently 4.6 percent, which is a decrease from a rate of 5.0 percent a year ago. This compares favorably to the state's average unemployment rate of 5.0 percent and the national average rate of 4.6 percent.
- The City's population continues to grow, (34,060 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 decreased 29 percent to \$10 million. This was due to a one time designation of \$5.2 million for construction of the Gateway project, and \$1 million designated to an addition to the Senior Center. The City of Lacey has appropriated \$2.8 million of this amount for spending in the 2007 fiscal year budget. It is intended that this use of available fund balance will

provide the necessary transfers out to the Arterial Street fund (\$.9 million) to cover council approved projects such as the enhanced residential overlay program, \$1 million to the Building Improvement Fund for the city hall expansion and \$1 million to the new Reclaimed Water Utility Fund for design services to construct a new facility.

The Water utility rates in the 2007 budget year increased by 5 percent. The City is phasing in 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 2007 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.

BASIC FINANCIAL STATEMENTS

BASIC FINANCIAL STATEMENTS

Statement of Net Assets
December 31, 2006

	Primary Government		Total
	Governmental Activities	Business-Type Activities	
ASSETS			
Cash and cash equivalents	\$ 53,994,861	\$ 4,119,240	\$ 58,114,101
Receivables (net)	13,347,347	1,314,435	14,661,782
Internal balances	(397,191)	397,191	-
Inventories	-	772,765	772,765
Prepayments	7,850	337	8,187
Deferred charges	76,203	4,066	80,269
Restricted:			
Cash and cash equivalents	143,510	20,265,652	20,409,162
Investment in joint venture	3,110,903	-	3,110,903
Capital assets:			
Non-depreciable	110,636,851	6,710,210	117,347,061
Depreciable, net	159,467,790	149,253,846	308,721,636
Total assets	\$ 340,388,124	\$ 182,837,742	\$ 523,225,866
LIABILITIES			
Accounts payable	\$ 1,364,029	\$ 1,718,331	\$ 3,082,360
Interest payable	159,633	1,200	160,833
Unearned revenue	2,963,708	-	2,963,708
Unamortized premium	119,618	2,553	122,171
Long-term liabilities:			
Due within one year	1,065,320	380,736	1,446,056
Due in more than one year	20,362,351	62,440	20,424,791
Special assessment debt:			
Due within one year	1,150,000	-	1,150,000
Due in more than one year	1,460,000	-	1,460,000
Total liabilities	\$ 28,644,659	\$ 2,165,260	\$ 30,809,919
NET ASSETS			
Invested in capital assets, net of related debt	\$ 254,409,530	\$ 155,634,056	\$ 410,043,586
Restricted for:			
Culture and recreation	663,750	-	663,750
Debt service	650,000	413,278	1,063,278
Capital projects	8,801,493	-	8,801,493
Other purposes	20,707	-	20,707
Unrestricted	47,197,985	24,625,148	71,823,133
Total net assets	\$ 311,743,465	\$ 180,672,482	\$ 492,415,947

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

Statement of Activities
For the Year Ended December 31, 2006

Functions/Program	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants & Contributions
Primary government:				
Governmental activities:				
General government	\$ 4,848,810	\$ 475,951	\$ 600	\$ -
Security of persons and property	11,913,696	189,459	719,123	-
Physical environment	2,827,353	22,544	-	-
Transportation	10,116,333	1,328,355	467,014	38,111,430
Economic environment	1,137,832	3,811,331	-	6,000
Mental and physical health	5,405	-	-	-
Culture and recreation	4,818,746	922,940	2,598,230	-
Interest on long-term debt	722,323	-	-	-
Total governmental activities	\$ 36,390,498	\$ 6,750,580	\$ 3,784,967	\$ 38,117,430
Business-type activities:				
Water	\$ 7,493,122	\$ 10,734,221	\$ -	\$ 5,898,103
Wastewater	8,802,075	11,499,259	-	8,799,531
Stormwater	1,958,469	1,533,370	-	5,616,750
Total business-type activities	\$ 18,253,666	\$ 23,766,850	\$ -	\$ 20,314,384
Total primary government	\$ 54,644,164	\$ 30,517,430	\$ 3,784,967	\$ 58,431,814

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 restated

Net assets - ending

Net(Expense)Revenues and Changes in Net Assets		
Primary Government		
Governmental Activities	Business-Type Activities	Total
\$ (4,372,259)	\$ -	\$ (4,372,259)
(11,005,114)	-	(11,005,114)
(2,804,809)	-	(2,804,809)
29,790,466	-	29,790,466
2,679,499	-	2,679,499
(5,405)	-	(5,405)
(1,297,576)	-	(1,297,576)
(722,323)	-	(722,323)
<u>\$ 12,262,479</u>	<u>\$ -</u>	<u>\$ 12,262,479</u>
\$ -	\$ 9,139,202	\$ 9,139,202
-	11,496,715	11,496,715
-	5,191,651	5,191,651
<u>\$ -</u>	<u>\$ 25,827,568</u>	<u>\$ 25,827,568</u>
<u>\$ 12,262,479</u>	<u>\$ 25,827,568</u>	<u>\$ 38,090,047</u>
\$ 7,392,516	\$ -	\$ 7,392,516
171	-	171
8,811,804	-	8,811,804
6,580,264	-	6,580,264
3,448,392	-	3,448,392
8,162	-	8,162
2,462,493	1,094,059	3,556,552
5,110,081	656,219	5,766,300
396,415	(396,415)	-
<u>\$ 34,210,298</u>	<u>\$ 1,353,863</u>	<u>\$ 35,564,161</u>
\$ 46,472,777	\$ 27,181,431	\$ 73,654,208
<u>\$ 265,270,688</u>	<u>\$ 153,491,051</u>	<u>\$ 418,761,739</u>
<u>\$ 311,743,465</u>	<u>\$ 180,672,482</u>	<u>\$ 492,415,947</u>

Balance Sheet
Governmental Funds
December 31, 2006

	General	Arterial Street	L.I.D. Redemption	Parks and Open Space	Other Governmental Funds	Total Governmental Funds
ASSETS						
Current cash & cash equivalents	\$ 16,018,576	\$ 10,575,750	\$ 330,675	\$ 7,735,726	\$ 12,719,212	\$ 47,379,939
Receivables (net of allowances)						
Taxes	172,950	-	-	-	21,984	194,934
Customer accounts	1,152,729	451,609	-	121,992	976,463	2,702,793
Accrued interest & penalty	42,530	27,191	2,852	7,587	27,106	107,266
Due from other governmental units	1,748,810	791,350	227,206	172,940	554,371	3,494,677
Prepayments	7,850	-	-	-	-	7,850
Restricted assets:						
Cash deposits	142,060	600	-	850	-	143,510
Special assessments deferred	-	-	6,825,136	-	-	6,825,136
Total assets	\$ 19,285,505	\$ 11,846,500	\$ 7,385,869	\$ 8,039,095	\$ 14,299,136	\$ 60,856,105
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable	\$ 461,042	\$ 127,127	\$ -	\$ 92,162	\$ 234,558	\$ 914,889
Due to other governmental units	25,084	378,518	-	19,529	-	423,131
Advance payments	31,419	-	-	-	-	31,419
Custodial accounts deposits	142,060	600	-	850	-	143,510
Long-term liabilities:						
Deferred revenue	172,950	-	7,052,342	-	367,760	7,593,052
Unearned revenue	-	2,788,780	-	-	-	2,788,780
Total liabilities	\$ 832,555	\$ 3,295,025	\$ 7,052,342	\$ 112,541	\$ 602,318	\$ 11,894,781

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

Balance Sheet
Governmental Funds
December 31, 2006

	General	Arterial Street	L.I.D. Redemption	Parks and Open Space	Other Governmental Funds	Total Governmental Funds
Fund balances						
Reserved for:						
Culture and recreation	\$ -	\$ -	\$ -	\$ -	\$ 663,750	\$ 663,750
Debt service	100,000	500,000	-	-	50,000	650,000
Other purposes	20,707	-	-	-	-	20,707
Prepaid items	7,850	-	-	-	-	7,850
Unreserved, designated for, reported in:						
Budget adjustments	575,000	-	-	-	-	575,000
Criminal bail	35,590	-	-	-	-	35,590
Furniture and equipment	217,500	-	-	-	-	217,500
Property acquisitions	1,000,000	-	-	-	-	1,000,000
Insurance	200,000	-	-	-	-	200,000
Parks	162,819	-	-	-	-	162,819
Community center	51,125	-	-	-	-	51,125
Parks improvements	-	-	-	4,281,461	-	4,281,461
PFD-Sports complex	-	-	-	1,296,199	-	1,296,199
Gateway project	5,200,000	-	-	-	-	5,200,000
Senior center addition	1,000,000	-	-	-	-	1,000,000
Special revenue funds	-	-	-	-	435,000	435,000
Capital project funds	-	-	-	-	5,585,506	5,585,506
Unreserved, undesignated for:						
General fund	9,882,359	-	-	-	-	9,882,359
Special revenue funds	-	8,051,475	-	-	1,474,446	9,525,921
Debt service funds	-	-	333,527	-	727,920	1,061,447
Capital project funds	-	-	-	2,348,894	4,760,196	7,109,090
Total fund balances	\$ 18,452,950	\$ 8,551,475	\$ 333,527	\$ 7,926,554	\$ 13,696,818	\$ 48,961,324
Total liabilities and fund balances	\$ 19,285,505	\$ 11,846,500	\$ 7,385,869	\$ 8,039,095	\$ 14,299,136	\$ 60,856,105

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, 2006

Fund balances - total governmental funds	\$	48,961,324
Amounts reported for governmental activities in the statement of net assets are different because:		
Certain assets used in governmental activities are not financial resources and therefore are not reported in the fund statement:		
Deferred charges	\$	76,203
Investment in joint venture		3,187,106
		3,110,903
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.		
Non-depreciable assets	\$	110,636,851
Depreciable assets (net)		267,185,373
		156,548,522
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the governmental funds.		
Deferred revenues:		
Property taxes	\$	194,936
Special assessments		7,593,054
		7,398,118
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	\$	(159,633)
Bonds and loans payable, including unamortized bond premium \$119,618		(24,288,006)
Compensated absences		(24,288,006)
		(624,559)
Internal service funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the internal service funds are reported in the statement of		
	\$	9,104,614
		9,104,614
Net assets of government activities.	\$	311,743,465

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, 2006

	General	Arterial Street	L.I.D. Redemption	Parks and Open Space	Other Governmental Funds	Total Governmental Funds
REVENUES						
Taxes	\$ 16,935,291	\$ 2,941,121	\$ -	\$ 726,122	\$ 5,622,903	\$ 26,225,437
Licenses and permits	3,228,729	-	-	-	-	3,228,729
Intergovernmental revenues	767,203	2,236,407	-	2,043,121	1,186,912	6,233,643
Charges for services	5,307,380	1,319,229	-	-	-	6,626,609
Fines & forfeitures	334,497	-	-	-	-	334,497
Other revenue	879,414	451,618	1,283,369	146,813	634,459	3,395,673
Total revenues	<u>\$ 27,452,514</u>	<u>\$ 6,948,375</u>	<u>\$ 1,283,369</u>	<u>\$ 2,916,056</u>	<u>\$ 7,444,274</u>	<u>\$ 46,044,588</u>
EXPENDITURES						
Current:						
General government	\$ 3,877,241	\$ -	\$ -	\$ -	\$ -	\$ 3,877,241
Security of persons and property	10,875,124	-	-	-	-	10,875,124
Physical environment	2,874,651	-	-	-	-	2,874,651
Transportation	-	-	-	-	2,019,824	2,019,824
Economic environment	1,010,009	-	-	-	1,357	1,011,366
Mental and physical health	5,405	-	-	-	-	5,405
Culture and recreation	3,556,902	-	-	9,623	820,268	4,386,793
Capital outlay	32,511	4,923,455	-	1,390,912	1,832,989	8,179,867
Debt service:						
Principal retirement	-	-	1,476,416	-	530,000	2,006,416
Interest	-	-	301,807	-	403,568	705,375
Total expenditures	<u>\$ 22,231,843</u>	<u>\$ 4,923,455</u>	<u>\$ 1,778,223</u>	<u>\$ 1,400,535</u>	<u>\$ 5,608,006</u>	<u>\$ 35,942,062</u>
Excess (deficiency) of revenue over (under) expenditures	<u>\$ 5,220,671</u>	<u>\$ 2,024,920</u>	<u>\$ (494,854)</u>	<u>\$ 1,515,521</u>	<u>\$ 1,836,268</u>	<u>\$ 10,102,526</u>
OTHER FINANCING SOURCES (USES)						
Proceeds from sale of assets	\$ 1,304	\$ -	\$ -	\$ -	\$ -	\$ 1,304
Premium on sale of bonds	-	-	-	64,870	55,326	120,196
Proceeds from bonds - G.O.	-	-	-	4,985,000	3,500,000	8,485,000
Transfers in	266,607	1,250,000	-	86,000	790,599	2,393,206
Transfers out	<u>(1,890,599)</u>	<u>-</u>	<u>-</u>	<u>(266,607)</u>	<u>(236,000)</u>	<u>(2,393,206)</u>
Total other financing sources	<u>\$ (1,622,688)</u>	<u>\$ 1,250,000</u>	<u>\$ -</u>	<u>\$ 4,869,263</u>	<u>\$ 4,109,925</u>	<u>\$ 8,606,500</u>
Net change in fund balances	<u>\$ 3,597,983</u>	<u>\$ 3,274,920</u>	<u>\$ (494,854)</u>	<u>\$ 6,384,784</u>	<u>\$ 5,946,193</u>	<u>\$ 18,709,026</u>
FUND BALANCES						
JANUARY 1	<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>
DECEMBER 31	<u>\$ 18,452,950</u>	<u>\$ 8,551,475</u>	<u>\$ 333,527</u>	<u>\$ 7,926,554</u>	<u>\$ 13,696,818</u>	<u>\$ 48,961,324</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, 2006

Net changes in total fund balances per fund financial state		\$ 18,709,026
Amounts reported for governmental activities in the statement of activities are different because:		
<p>Governmental funds report capital outlays as expenditures; however, in the statement of activities the cost of those assets are depreciated over their estimated useful lives. This is the amount by which depreciation exceeded capital outlays in the current period.</p>		
Expenditures for capital assets	6,091,200	
Current year depreciation	<u>(8,835,716)</u>	(2,744,516)
<p>Issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.</p>		
Debt principal repayments	2,020,622	
Debt issue proceeds, net of unamortized bond premi	<u>(8,604,618)</u>	
Unamortized issuance cost	76,203	(6,507,793)
<p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the fund statement.</p>		
Deferred revenue - property taxes	(771,335)	
Deferred revenue - special assessments	<u>22,465</u>	(748,870)
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.</p>		
Changes in compensated absences	(49,142)	
Changes in investment in joint venture	(50,057)	
Changes in accrued interest payable	<u>(17,529)</u>	(116,728)
<p>Internal service funds or activities are used by management to charge the costs of certain activities to individual funds. The net revenue of certain activities of internal service funds is reported with governmental activities.</p>		
		1,219,421
<p>Donated capital assets are included in the statement of activities but are not included in the governmental funds as they do not provide current financial resources.</p>		
		<u>36,662,237</u>
Changes in net assets of governmental activities		<u>\$ 46,472,777</u>

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

Statement of Net Assets
Proprietary Funds
December 31, 2006

	Business-type Activities Enterprise Funds			Total	Governmental Activities Internal Service Funds
	Water	Waste- Water	Storm Water		
ASSETS					
Current assets:					
Cash and cash equivalents	\$ 383,249	\$ 3,138,942	\$ 592,030	\$ 4,114,221	\$ 6,614,922
Restricted cash and cash equivalents					
Customer deposits	123,180	-	-	123,180	-
Current maturities of revenue bond Receivables (net of allowances)	314,853	15,147	-	330,000	-
Customer accounts	265,609	383,985	77,298	726,892	-
Accrued interest & penalty	26,104	66,251	9,883	102,238	16,223
Prepayments	337	-	-	337	-
Due from governmental units	22,247	289,030	-	311,277	6,318
Inventory	772,765	-	-	772,765	-
Total current assets:	\$ 1,908,344	\$ 3,893,355	\$ 679,211	\$ 6,480,910	\$ 6,637,463
Non-current assets:					
Restricted:					
Capital acquisition:					
Cash and cash equivalents	4,588,004	13,503,831	1,720,637	19,812,472	-
Special assessments	10,772	70,690	-	81,462	-
Special assessments deferred	56,955	40,630	-	97,585	-
Capital assets, net of depreciation:					
Land	2,880,734	770,599	770,851	4,422,184	-
Buildings	526,843	811,336	-	1,338,179	107,166
Improvements other than buildings	70,367,723	50,616,684	26,642,568	147,626,975	9,154
Equipment	189,610	81,521	17,561	288,692	2,802,947
Construction in progress	2,185,008	2,881	100,137	2,288,026	-
Deferred charges	1,663	2,403	-	4,066	-
Total non-current assets	\$ 80,807,312	\$ 65,900,575	\$ 29,251,754	\$ 175,959,641	\$ 2,919,267
Total assets	\$ 82,715,656	\$ 69,793,930	\$ 29,930,965	\$ 182,440,551	\$ 9,556,730

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			Total	Governmental Activities Internal Service Funds
	Water	Waste- Water	Storm Water		
LIABILITIES					
Current liabilities:					
Accounts payable	\$ 762,804	\$ 766,095	\$ 37,448	\$ 1,566,347	\$ 26,009
Matured interest payable	491	709	-	1,200	-
Due to other governmental units	17,423	10,097	1,284	28,804	-
Compensated absences	32,170	15,563	3,003	50,736	14,909
Payable from restricted assets:					
Deposits	123,180	-	-	123,180	-
Current portion of revenue bonds	314,853	15,147	-	330,000	-
Unamortized premium	1,044	1,509	-	2,553	-
Total current liabilities	\$ 1,251,965	\$ 809,120	\$ 41,735	\$ 2,102,820	\$ 40,918
Non-current liabilities					
Compensated absences	\$ 37,244	\$ 21,259	\$ 3,937	\$ 62,440	\$ 14,007
Total non-current liabilities	\$ 37,244	\$ 21,259	\$ 3,937	\$ 62,440	\$ 14,007
Total liabilities	\$ 1,289,209	\$ 830,379	\$ 45,672	\$ 2,165,260	\$ 54,925
NET ASSETS					
Investment in capital assets, net of related debt	\$ 75,835,065	\$ 52,267,874	\$ 27,531,117	\$ 155,634,056	\$ 2,919,267
Restricted:					
Debt service	394,308	18,970	-	413,278	-
Unrestricted	5,197,074	16,676,707	2,354,176	24,227,957	6,582,538
Total net assets	\$ 81,426,447	\$ 68,963,551	\$ 29,885,293	\$ 180,275,291	\$ 9,501,805
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.				397,191	
Net assets of business-type activities.				\$ 180,672,482	

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, 2006

	Business-Type Activities Enterprise Funds			Total	Governmental Activities Internal Service Funds
	Water	Waste- Water	Storm Water		
OPERATING REVENUES					
Charges for services	\$ 10,734,222	\$ 11,499,262	\$ 1,533,370	\$ 23,766,854	\$ 2,403,333
Total operating revenue	\$ 10,734,222	\$ 11,499,262	\$ 1,533,370	\$ 23,766,854	\$ 2,403,333
OPERATING EXPENSES					
Operating expense	\$ 2,482,048	\$ 5,938,765	\$ 816,069	\$ 9,236,882	\$ 1,441,522
Maintenance expense	2,508,264	1,422,576	398,433	4,329,273	213,139
Debt discount amortization	1,814	2,622	-	4,436	-
Depreciation expense	2,168,837	1,304,771	761,036	4,234,644	558,114
Taxes	395,132	185,062	21,889	602,083	-
Total operating expenses	\$ 7,556,095	\$ 8,853,796	\$ 1,997,427	\$ 18,407,318	\$ 2,212,775
OPERATING INCOME (LOSS)	\$ 3,178,127	\$ 2,645,466	\$ (464,057)	\$ 5,359,536	\$ 190,558
NON-OPERATING REVENUES (EXPENSES)					
Investment earnings	\$ 217,234	\$ 775,887	\$ 100,937	\$ 1,094,058	\$ 340,206
Miscellaneous non-operating revenues	644,575	10,423	1,217	656,215	22,086
Interest expense	(23,209)	(33,550)	-	(56,759)	-
Gain (loss) on sale of capital assets	-	-	-	-	10,329
Total non-operating revenues (expenses)	\$ 838,600	\$ 752,760	\$ 102,154	\$ 1,693,514	\$ 372,621
Income (loss) before contributions and transfers	\$ 4,016,727	\$ 3,398,226	\$ (361,903)	\$ 7,053,050	\$ 563,179
Capital contributions	\$ 5,898,103	\$ 8,799,531	\$ 5,616,750	\$ 20,314,384	\$ 470,236
Transfers in (out)	385,374	(686,068)	(95,720)	(396,414)	396,415
Changes in net assets	\$ 10,300,204	\$ 11,511,689	\$ 5,159,127	\$ 26,971,020	\$ 1,429,830
NET ASSETS - BEGINNING	\$ 71,126,243	\$ 57,451,862	\$ 24,726,166		\$ 8,071,975
NET ASSETS - ENDING	\$ 81,426,447	\$ 68,963,551	\$ 29,885,293		\$ 9,501,805
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.				\$ 210,411	
Change in net assets of business-type activities.				\$ 27,181,431	

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, 2006

	Business-type Activities Enterprise Funds			Total	Governmental Activities Internal Services Funds
	Water	Waste- Water	Storm Water		
CASH FLOW FROM OPERATING ACTIVITIES:					
Receipts from customers and users	\$ 10,687,296	\$ 11,601,818	\$ 1,533,306	\$ 23,822,420	\$ 2,509,959
Miscellaneous non-operating revenues	644,575	10,423	1,217	656,215	-
Payments to suppliers	(3,715,044)	(6,269,964)	(704,068)	(10,689,076)	(928,121)
Payments to employees	(1,914,823)	(1,191,113)	(496,016)	(3,601,952)	(731,786)
Payments for taxes	<u>(395,132)</u>	<u>(185,062)</u>	<u>(21,889)</u>	<u>(602,083)</u>	<u> </u>
Net cash provided by operating activities	<u>\$ 5,306,872</u>	<u>\$ 3,966,102</u>	<u>\$ 312,550</u>	<u>\$ 9,585,524</u>	<u>\$ 850,052</u>
CASH FLOW FROM NON-CAPITAL FINANCING ACTIVITIES:					
Transfers in from (out to) other funds	<u>\$ 461,674</u>	<u>\$ (679,745)</u>	<u>\$ -</u>	<u>\$ (218,071)</u>	<u>\$ -</u>
Net cash provided by non-capital financing activities	<u>\$ 461,674</u>	<u>\$ (679,745)</u>	<u>\$ -</u>	<u>\$ (218,071)</u>	<u>\$ -</u>
CASH FLOW FROM CAPITAL AND RELATED FINANCING ACTIVITIES:					
Acquisition and construction of capital assets	\$ (4,387,436)	\$ (314,022)	\$ (84,971)	\$ (4,786,429)	\$ (1,116,828)
Proceeds from sales of capital assets	-	-	-	-	15,546
Principal paid on revenue bonds	(402,767)	(582,233)	-	(985,000)	-
Interest paid on revenue bonds	(26,026)	(37,622)	-	(63,648)	-
Principal payments received on special assessments	9,671	153,851	-	163,522	-
Interest and penalties payments received on special assessments	4,616	16,917	-	21,533	-
Transfer received from other funds for capital acquisitions	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>536,491</u>
Net cash used by capital and related financing activities	<u>\$ (4,801,942)</u>	<u>\$ (763,109)</u>	<u>\$ (84,971)</u>	<u>\$ (5,650,022)</u>	<u>\$ (564,791)</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, 2006

	Business-type Activities Enterprise Funds			Total	Governmental Activities Internal Services Funds
	Water	Waste- Water	Storm Water		
CASH FLOW FROM INVESTING ACTIVITIES:					
Interest received on investments	\$ 212,565	\$ 761,211	\$ 91,054	\$ 1,064,830	\$ 340,207
Net cash provided (used) by investing activities	\$ 212,565	\$ 761,211	\$ 91,054	\$ 1,064,830	\$ 340,207
Net increase (decrease) in cash and cash equivalents	1,179,169	3,284,459	318,633	4,782,261	625,468
Cash and cash equivalents January 1	\$ 4,230,117	\$ 13,373,461	\$ 1,994,034	\$ 19,597,612	\$ 5,989,454
Cash and cash equivalents December 31	\$ 5,409,286	\$ 16,657,920	\$ 2,312,667	\$ 24,379,873	\$ 6,614,922
CASH PROVIDED BY OPERATING ACTIVITIES:					
Net operating income	\$ 3,178,127	\$ 2,645,466	\$ (464,057)	\$ 5,359,536	\$ 190,558
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:					
Depreciation	\$ 2,168,837	\$ 1,304,771	\$ 761,036	\$ 4,234,644	\$ 558,114
(Increase)/decrease in customer receivables	(49,689)	(11,838)	(64)	(61,591)	80,027
(increase)/decrease in customer deposits	24,876	-	-	24,876	-
(Increase)/decrease in due from other funds	-	-	-	-	4,512
(increase) decrease in due from other government	(22,113)	(285,606)	-	(307,719)	-
(increase) decrease in prepaids	(337)	-	-	(337)	-
(Increase)/decrease in inventories	(466,861)	-	-	(466,861)	-
(increase) decrease in interfund loan receivable	-	400,000	-	400,000	-
(Increase)/decrease in deferred charges	1,813	2,622	-	4,435	-
Miscellaneous non-operating revenues	644,575	10,423	1,217	656,215	22,087
Increase/(decrease) in accounts payable	221,676	656,590	29,081	907,347	(2,600)
Increase/(decrease) in due to other government u	(976)	(756,854)	(16,177)	(774,007)	-
Increase/(decrease) in due to other funds	-	-	-	-	(3,984)
Increase/(decrease) in interfund loan payable	(400,000)	-	-	(400,000)	-
Increase/(decrease) in compensated absences	6,944	528	1,514	8,986	1,338
Net cash provided by operating activities	\$ 5,306,872	\$ 3,966,102	\$ 312,550	\$ 9,585,524	\$ 850,052
Noncash investing, capital and financing activities:					
Capital asset transferred from (to) other funds	\$ (76,300)	\$ (6,323)	\$ (95,720)	\$ (178,343)	\$ 330,160

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

Statement of Fiduciary Net Assets
Fiduciary Funds
December 31, 2006

	<u>Agency Funds</u>
ASSETS	
Cash and cash equivalents	\$ 1,847,332
Accounts receivables, net of uncollectible accounts	7,812
Due from other governmental units	<u>46,502</u>
Total assets	<u>\$ 1,901,646</u>
LIABILITIES	
Accounts payable	\$ 84,696
Accrued employee leave payable	57,190
Notes payable	227,206
Due to other governmental units	<u>1,532,554</u>
Total liabilities	<u>\$ 1,901,646</u>

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

**Notes to the Financial Statements
December 31, 2006**

Basic Financial Statements

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City of Lacey
Notes to the Financial Statements
December 31, 2006

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 one remaining improvements in this fund as of the end of the current fiscal year for 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. This fund also receives Public Facility District revenues, which are allocated to the construction of the Regional Athletic Complex.

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.

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

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

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

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

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

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

Restricted assets in the enterprise funds are moneys which are restricted by legal or contractual requirements. These amounts contain resources for construction and debt service, including current and delinquent special assessments receivable (refer to Note 11). The current portion of related liabilities are shown as payable from restricted assets. Specific debt service reserve requirements are described in Note 14 (Long-Term Liabilities).

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.

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

As of December 31, 2006, the City has the following reserved and designated fund balances:

<i>Purpose</i>	<i>Fund Reserved</i>	<i>Amount</i>
Culture and recreation	Lodging Tax Fund	663,750
LID guarantee	General Fund	100,000
LID guarantee	Street Fund	50,000
LID guarantee	Arterial Street Fund	500,000
Vessel registration	General Fund	20,707
Prepaid items	General Fund	7,850
Total		\$ 1,342,307

<i>Purpose</i>	<i>Fund Designated</i>	<i>Amount</i>
Budget adjustments	General Fund	575,000
Criminal bail	General Fund	35,590
Furniture and equipment	General Fund	217,500
Property purchases	General Fund	1,000,000
Insurance	General Fund	200,000
Parks	General Fund	162,819
Community Center	General Fund	51,125
Gateway project	General Fund	5,200,000
Senior Center addition	General Fund	1,000,000
PFD Sports Complex	Parks and Open Space Fund	1,296,199
Parks improvement projects	Parks and Open Space Fund	4,281,461
Street improvements	Street Fund	435,000
City hall expansion	Building improvement fund	3,223,832
Art	Building Improvement Fund	33,166
Senior center	Building Improvement Fund	82,008
City hall expansion	Capital Expenditure Fund	2,246,500
Total		\$20,040,200

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. Procedures for adopting the original budget

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

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

B. Amending the budget

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

Original budgeted inflows as compared to the final budgeted inflows for the year ended December 31, 2006, are as follows:

Fund	Original Budgeted Inflows	Final Budgeted Inflows	Increase (Decrease) Budgeted Inflows
General Fund	\$ 22,878,836	\$ 23,623,271	\$ 744,435
City Street Fund	1,931,927	2,040,247	108,320
Arterial Fund	8,383,970	8,383,970	-
Lodging Fund	239,500	239,500	-
Community Development Block Fund	-	945,885	945,885
G.O. Bond Redemption	805,260	805,260	-
L.I.D. Redemption	1,608,230	1,778,230	170,000
Building Fund	309,295	1,709,295	1,400,000

Fund	Original Budgeted	Final Budgeted	Increase (Decrease)
	Inflows	Inflows	Budgeted Inflows
Capital Expenditure	1,509,139	1,630,780	121,641
Parks & Open Space	1,136,276	6,126,276	4,990,000
Equipment Rental	1,394,946	1,394,946	-
Information Services	957,788	957,788	-
Water	9,248,005	9,857,460	609,455
Wastewater	8,853,885	8,916,370	62,485
Stormwater	2,890,290	2,890,290	-
Totals	\$ 62,147,347	\$ 71,299,568	\$ 9,152,221

The original budgeted outflows as compared to the final budgeted outflows for the year ended December 31, 2006, are as follows:

Fund	Original Budgeted	Final Budgeted	Increase (Decrease)
	Inflows	Inflows	Budgeted Inflows
General Fund	\$ 23,778,836	\$ 24,971,376	\$ 1,192,540
City Street Fund	1,931,927	2,040,247	108,320
Arterial Fund	10,975,155	10,975,155	-
Lodging Fund	238,500	238,500	-
Community Development Block Fund	-	945,885	945,885
G.O. Bond Redemption	933,570	933,570	-
L.I.D. Redemption	1,608,230	1,778,230	170,000
Building Fund	309,295	1,709,295	1,400,000
Capital Expenditure	1,794,139	1,940,780	146,641
Parks & Open Space	6,126,276	6,126,276	-
Equipment Rental	1,447,878	1,447,878	-
Information Services	1,094,780	1,094,780	-
Water	13,295,383	14,343,592	1,048,209
Wastewater	18,089,332	18,798,192	708,860
Stormwater	4,739,450	4,994,715	255,265
Totals	\$ 86,362,751	\$ 92,338,471	\$ 5,975,720

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 and the City's investment policies, all investments of the City's funds are

obligations of the U.S. Government, U.S. agency issues, obligations of the State of Washington, general obligations of Washington State municipalities (the State Treasurer's Local Government Investment Pool (LGIP)), or certificates of deposit with commercial banks and savings and loan associations that are approved by the Washington Public Protection Commission (PDPC).

The State Treasurer's Local Government Investment Pool (LGIP) operates in accordance with appropriate state laws and regulations (RWC 43.250.020). In its management of LGIP the State Treasurer adheres, at all times, to the principles appropriate for the prudent investment of public funds. In priority order, they are the safety of principal, the assurance of sufficient liquidity to meet cash flow demands and attainment of the highest possible yield within the constraints of the first two goals. Historically, the LGIP has had sufficient liquidity to meet all cash flow demands. The interest rate risks of participants' balances in the LGIP are limited as the weighted average maturity of the portfolio will not exceed 90 days. 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 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, 2006, the City had the following investments:

Investment Type	Fair Value	Weighted Average Maturity (Days)
Washington State Local Government Investment Pool (LGIP)	42,760,000	36
Total fair value	\$ 42,760,000	

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. It is the City's policy that if the City enters into a repurchase agreement, the City must have a signed master repurchase agreement approved by the Public Securities Association. Transactions will be conducted with primary dealers or financial institutions qualified by the Washington Public Deposit Protection Commission. As stated beginning of this section, the City's deposits and certificates of deposits are covered by federal depository insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administrated by the Washington Public Deposit Protection Commission.

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, 2006 are as follows:

Investment Type	Fair Value	Weighted Average Maturity (Days)
Cash and cash equivalents	\$	47,379,940
Restricted cash and cash equivalents		143,510
Total governmental funds	\$	47,523,450
Proprietary Funds		Amount
Cash and cash equivalents	\$	10,729,142
Restricted cash and cash equivalents (deposits)		123,180
Restricted cash and cash equivalents (debt service)		330,000
Restricted cash and cash equivalents (capital acquisition)		19,812,472
Total proprietary funds	\$	30,994,794
Fiduciary Funds		Amount
Cash and cash equivalents	\$	1,847,332
Total fiduciary funds	\$	1,847,332
Total all funds	\$	80,365,576

Cash, deposits, and investments for the year ended December 31, 2006 are as follows:

Cash on hand	\$	15,800
Checking accounts		262,733
Certificates of deposit		6,923,535
Money market accounts		30,403,508
State investment pool		42,760,000
Total	\$	80,365,576

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

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

- 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 2006 was slightly over \$2.30 per \$1000 on an assessed valuation of \$2,886,750,373 for a total regular levy of \$6,654,400. Additionally, special levies for G.O. bond obligations totaled \$796,594.

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 No. 34 in fiscal year 1999 and the infrastructure acquired prior to fiscal years ended after June 30, 1980, is reported. These assets were reported at estimated historical costs through back-trending (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 expenses were charged to functions/programs of the primary government as follows:

<u>Governmental Activities</u>	<u>Amount</u>
General Government	\$ 119,356
Security of persons and property	136,154
Physical environment	-
Transportation	8,166,846
Economic environment	84,730
Culture and recreation	328,630
Internal services funds	558,114
Total governmental-type activities depreciation expense	<u>\$ 9,393,830</u>
<u>Business-type activities</u>	<u>Amount</u>
Water	\$ 2,168,838
Wastewater	1,304,771
Stormwater	761,036
Total business-type activities depreciation expense	<u>\$ 4,234,645</u>

E. Summary of changes

<u>Governmental Activities</u>	<u>Beginning Balance 1/1/2006</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance 12/31/2006</u>
Non-depreciable Capital Assets				
Land and improvements	\$ 97,738,677	\$ 10,216,100	\$ -	\$ 107,954,777
Construction in progress	11,556,111	1,827,020	10,701,057	2,682,074
Total non-depreciable assets	<u>109,294,788</u>	<u>12,043,120</u>	<u>10,701,057</u>	<u>110,636,851</u>
Depreciable Capital Assets:				
Buildings	\$ 14,560,390	\$ 1,558,834	\$ 16,100	\$ 16,103,124
Improvements	1,124,976	5,291,893	-	6,416,869
Infrastructure	195,344,495	34,706,517	271,613	229,779,399
Machinery & equipment	6,699,041	1,536,353	492,633	7,742,761
Total accumulated depreciation	<u>217,728,902</u>	<u>43,093,597</u>	<u>780,346</u>	<u>260,042,153</u>
Less accumulated depreciation:				
Buildings	5,807,063	465,608	16,100	6,256,571
Improvements	487,108	165,931	-	653,039
Infrastructure	81,164,540	8,152,390	272,165	89,044,765
Machinery & equipment	4,261,714	609,901	251,627	4,619,988
Total accumulated depreciation	<u>91,720,425</u>	<u>9,393,830</u>	<u>539,892</u>	<u>100,574,363</u>
Total Depreciable assets, net	\$ <u>126,008,477</u>	\$ <u>33,699,767</u>	\$ <u>240,454</u>	\$ <u>159,467,790</u>
Governmental activities capital assets, net	\$ <u>235,303,265</u>	\$ <u>45,742,887</u>	\$ <u>10,941,511</u>	\$ <u>270,104,641</u>

Business-type Activities	Beginning Balance 1/1/2006	Increases	Decreases	Ending Balance 12/31/2006
Business-type activities				
Non-depreciable Capital Assets				
Land and improvements	\$ 3,913,984	\$ 508,202	\$ 2	\$ 4,422,184
Construction in process	398,806	2,722,963	833,743	2,288,026
Total non-depreciable assets	\$ 4,312,790	\$ 3,231,165	\$ 833,745	6,710,210
Depreciable Capital Assets:				
Buildings	\$ 1,520,813	\$ -	\$ -	1,520,813
Improvements	154,536,961	22,689,788	1,147,438	176,079,311
Machinery & equipment	2,646,030	13,604	242,813	2,416,821
Total depreciable assets at cost	\$ 158,703,804	\$ 22,703,392	\$ 1,390,251	180,016,945
Less accumulated depreciation:				
Buildings	145,559	37,075	-	182,634
Improvements	25,499,102	4,100,672	1,147,438	28,452,336
Machinery & equipment	2,095,703	96,898	64,472	2,128,129
Total accumulated depreciation	\$ 27,740,364	\$ 4,234,645	\$ 1,211,910	30,763,099
Business-type activities capital assets, net	\$ 135,276,230	\$ 21,699,912	\$ 1,012,086	\$ 155,964,056

Construction in progress included in proprietary fund balance sheets represents expenditures to date on projects for which authorizations total \$12,040,585. Of the committed balance of \$9,752,560 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. Effective June 7, 2006, Plan 3 members are vested in the defined benefit portion of their plan after ten years of services, or after five years if twelve months of that service are earned after age 44; or after five service credit years earned in PERS Plan 2 prior to June 1, 2003. Plan 3 members are immediately vested in the defined contribution portion of their plan. Vested Plan 3 members are eligible to retire with full benefits at age 65, or at age 55 with 10 years of service. Retirements prior to the age of 65 receive reduced benefits. If retirement is at age 55 or older with at least 30 years of service, a 3 percent per year reduction applied; otherwise an actuarial reduction will apply. The benefit is also actuarially reduced to reflect the choice of a survivor option. There is no cap on years of service credit; and Plan 3 provides the same cost-of-living allowance as Plan 2. The defined contribution portion can be distributed in accordance with an option selected by the member, either as a lump sum or pursuant to other options authorized by the Employee Retirement Benefits Board.

There are 1,181 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation data for the plans of September 30, 2005:

Type of Members	Number of Participants
Retirees and beneficiaries receiving benefits	68,609
Terminated plan members entitled to but not yet receiving benefits	22,567
Active plan members vested	104,574
Active plan members nonvested	51,004
Total	246,754

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, 2006 were as follows:

Contributor	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer*	3.69%	3.69%	3.69% **
Employee	6.00%	3.50%	***

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

**Plan 3 defined benefit portion only.

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

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

Year	PERS Plan 1	PERS Plan 2	PERS Plan 3
2006	\$ 28,292	\$ 245,050	\$ 43,159
2005	\$ 19,224	\$ 135,219	\$ 24,305
2004	\$ 13,326	\$ 91,560	\$ 16,480

B. Law Enforcement Officers' and Fire Fighters' retirement system (LEOFF) plans 1 and 2Plan 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 376 participating employers in LEOFF. Membership in LEOFF consisted of the following as of the latest actuarial valuation date for the plans of September 30, 2005:

Type of Members	Number of Participants
Retirees and beneficiaries receiving benefits	8,723
Terminated plan members entitled to but not yet receiving benefits	577
Active plan members vested	12,348
Active plan members nonvested	3,543
Total	25,191

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, 2006 were as follows:

Contributor	LEOFF Plan 1	LEOFF Plan 2
Employer*	0.18%	4.90%**
Employee	0.00%	7.85%
State	n/a	3.13%

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

**The employer rate for ports and universities is 8.03%.

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
2006	\$ 240	\$ 161,550
2005	\$ 385	\$ 130,685
2004	\$ 536	\$ 94,592

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 fourteen (14) retirees received benefits under this act. As of December 31, 2006, there is one (1) additional officer 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 \$166,895 for post employment benefits during 2006.

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.

Contingencies under grant provisions

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

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

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:

- I-5 access study (Carpenter Road)
- Sleater-Kinney pedestrian crossing
- Enhancement of residential street repair, rehabilitation and maintenance
- Update transportation comprehensive plan
- Mullen Road East
- Lacey Gateway project
- 6th Avenue realignment/Sleater-Kinney rehabilitation
- Woodland Trail improvement – phase II
- Complete College Street corridor Study
- College street NE extension - pre-design

The 2007 Arterial Street Fund budgeted expenditures are \$12,945,576 which includes the completion of these projects

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 121 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 \$12 million per occurrence in the re-insured excess layer. The excess layer is insured by the purchase of reinsurance and insurance and is subject to aggregate limits. Total limits are \$15 million per occurrence subject to aggregate sublimits in the excess layers. The Board of Directors determines the limits and terms of coverage annually.

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

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

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

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

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

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

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.

There were no outstanding interfund balances as of December 31, 2006.

Transfers for 2006 are as follows:

Fund	Purpose	Amounts Transferred In	Amounts Transferred Out
Governmental Funds General Fund	Non-routine transfer out to Arterial Street fund \$1,100,000 for street improvement projects; to Building Improvement Fund \$500,000 for city hall expansion project; \$290,599 to Community Block Grant fund for operating fund balance.	\$ 1,890,599	

Fund	Purpose	Amounts Transferred In	Amounts Transferred Out
	Routine transfer in from Parks and Open Space Fund for maintenance of Rainier Vista Park.		\$ 266,607
<u>Nonmajor Governmental Funds</u>	Non-routine transfer out from Capital Expenditure fund to Open Space fund \$86,000 for park project management services park improvements and to Arterial Street fund \$ 150,000 for street Improvements.	\$ 236,000	
	Non-routine transfers from General Fund \$290,599 to Community Block Grant fund for operating fund balance and \$500,000 from General Fund to Building Improvement fund for city hall expansion.		\$ 790,599
<u>Arterial Street Fund</u>	Non-routine transfer from the Capital Improvement Fund \$150,000 and \$1,100,000 from General Fund for street improvements.	\$	\$ 1,250,000
<u>Parks and Open Space Fund</u>	Routine transfer to General Fund for maintenance of Rainier Vista Park	\$ 266,607	
	Non-routine transfer from Capital Improvement fund for project management services park improvements.		\$ 86,000
Total Governmental Funds		\$ 2,393,206	\$ 2,393,206
<u>Proprietary Funds: Internal Service Funds</u>	Non-routine transfer for capital assets from the Water Fund \$164,626, Waste-Water Fund \$136,068, and Storm Water fund \$95,720 to the Equipment Rental fund.		\$ 396,414
<u>Enterprise Funds Water Fund</u>	Non-routine transfer to Equipment Rental fund for capital assets \$164,626	\$ 164,626	
	Non-routing transfer in from Wastewater fund for revenue bond debt service.		550,000
<u>Wastewater Fund</u>	Non-routine transfer to Water fund for revenue bond debt service \$550,000 and to Equipment Rental fund for capital assets \$136,068.	\$ 686,068	
<u>Stormwater Fund</u>	Non-routine transfer to the Equipment Rental fund for capital assets.	\$ 95,720	
Total Proprietary Funds		\$ 946,414	\$ 946,414

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

Note 11. Restricted assets

The balance of the restricted assets accounts in the enterprise funds are as follows:

Cash and cash equivalents for debt service	\$ 330,000
Cash and cash equivalents for construction	19,812,472
Customer deposits	123,180
Special assessments receivable	179,047
 Total restricted assets	 \$ 20,444,699

Note 12. Prior-period adjustments and Accounting changes

During 2006, it was determined that the mitigation fees collected had not been reported correctly in the government-wide statements. The mitigation fees collected is an unearned revenue in both governmental fund statements and the government-wide statements, as its earnings process has not been complete. This, however, was reported as revenues in the government-wide statements. As of December 31, 2005, the total cumulative net effects on the net assets of the governmental activities amounted to \$2,230,707. The City’s governmental fund statements have been presented correctly; therefore, no adjustments to the fund balance of the City’s governmental fund statements were needed. The beginning net assets of the governmental activities have been restated as:

Asset Class	Previously Reported Balance 12/31/2005	Adjustments to 12/31/2005 Data	Adjusted Balance 1/1/2006
Governmental activities Net Assets - unrestricted	\$267,501,395	\$ (2,230,707)	\$ 265,270,688

In 2006, a new Agency Fund (Fund 630 – PFD fund) was established to account for the cash and investments held by the City of Lacey for the Capital Area Regional Public Facilities District (PFD) in an agency capacity.

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, 2006, 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% with final maturity dated December 2009. Issued to provide funds in an irrevocable trust to refund a portion of the 1989 GO Bonds, which were issued to provide funds for a library building. The 1989 GO Bonds were paid in full in 1998. Payments to be funded from sales taxes, business and occupation taxes, and transfers in from other funds. Interest rates are; 4.35% in 2007; 4.4% in 2008; & 4.5% in 2009.	\$ 385,000
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2002 Unlimited Tax General Obligation Bonds original issue amount of \$5,990,000; dated February 2002; interest rate of 3.0% to 5.0% with final maturity dated December 2021. Issued to provide for fire safety improvements. Payments are funded by special property tax levies. Interest rates are 3.375% in 2007; 3.625% in 2008; 3.875% in 2009; 4.0% in 2010; 4.125% in 2011 & 2012; 4.375% in 2013 & 2014; 4.55% in 2015; 4.625% in 2016; 4.75% in 2017 & 2018; 4.875% in 2019; and 5.0% in 2020 & 2021.	\$ 4,960,000
2003 Unlimited Tax General Obligation Bonds original issue amount of \$5,000,000; dated July 2003; interest rate of 2.50-4.00% with final maturity date of December 2023. Purpose was to provide funds for parks improvements. Payments are funded by special property tax levies. Interest rates are 2.5% in 2003-2009; 2.7% in 2010; 2.9% in 2011; 3% in 2012; 3.1% in 2013; 3.2% in 2014; 3.4% in 2015; 3.5% in 2016; 3.65% in 2017; 3.75% in 2018; 3.875% in 2019; 3.9% in 2020; 4% in 2021-2023.	\$ 4,360,000
Special Assessment Bonds original issue amount of \$6,565,198; dated August 2001; interest rate of 4.00-6.00% with final maturity date October 2016. Purpose was to fund Street/Utility Improvements. Payments funded from the Arterial Street Fund and LID#19. Interest rates are: 5.7%-5.85 in 2007; 5.85% in 2008; 5.9% in 2009-2010; 5.95% in 2011-2012; 6.00% in 2013-2016.	\$ 2,610,000
Washington State Public Works Trust Fund Loan original draw down amount of \$620,006; dated April 1998; (the final draw down of \$2,948,110 was made in 2001), interest rate 3.00% with final maturity date July 2018. Purpose was to fund Street/Utility Improvements. Payments funded from the Arterial Street Fund and LID #19.	\$ 2,356,988
1997 Animal Services Revenue Bonds original issue amount of \$1,800,000; dated September 1997; original interest rate of 6%; refinanced at interest rate of 3.978% in September 2003 with final maturity dated April 2019. 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.	\$ 227,206
2006 Limited Tax General Obligation Bonds issued amount of \$3,500,000; dated November 30, 2006; interest rate of 4% with final maturity date of December 1, 2021. Issued to provide funds to construct an addition to City Hall as authorized by the Bond Ordinance.	\$ 3,500,000
2006 Unlimited Tax General Obligation Bonds issued amount of \$4,985,000; dated November 30, 2006; interest rate of 4% with final maturity date of December 1, 2026. Issued to provide funds to make improvements to multiple park locations within the City, including improvements to athletic fields, swimming beaches, and picnic facilities, all as authorized by Ordinance No. 1172 of the City passed on January 10, 2002, and approved by the voters at an election held in the City on March 12, 2002.	\$ 4,985,000
Total long-term debt	\$ 23,384,194
Compensated absences – Compensated absences are considered long-term liability. Payments are generally liquidated by the general fund.	\$ 624,561

Total for governmental activities without internal service fund liability.	\$ 24,008,755
Internal service fund long-term liability (compensated absences)	\$ 28,916
Total governmental activities long-term liabilities.	\$ 24,037,671

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, 2006, the amount of delinquent special assessment receivables was \$215,702.

Business-type activities:

As of December 31, 2006, 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% with final maturity dated December 2009. Purpose was to refund water/sewer bonds used for water/sewer additions/improvements. Payments funded from revenues from the water and wastewater funds. Interest rates are; 4.35% in 2007; 4.4% in 2008; & 4.5% in 2009.	\$ 330,000
Compensated absences – Compensated absences are considered long-term liabilities.	\$ 113,176
Total business-type long-term liabilities.	\$ 443,176

Changes in long-term liabilities

The following is a summary of changes in long-term liabilities for the year ended December 31, 2006:

Type of Debt	Balance Owed 01/01/2006	Additions	Deductions	Balance Owed 12/31/2006	Amount Due Within One Year
Governmental Activities:					
G.O. bonds	\$ 10,235,000	\$ 8,485,000	\$ 530,000	\$ 18,190,000	\$ 550,000
Revenue bonds (Animal Services)	241,412	-	14,206	227,206	14,695
Special assessment bonds	3,890,000	-	1,280,000	2,610,000	1,150,000
PWT loan	2,553,404	-	196,416	2,356,988	196,416
Compensated absences	602,995	757,825	707,343	653,477	304,209
Total governmental activities	<u>\$17,522,811</u>	<u>\$ 9,242,825</u>	<u>\$ 2,727,965</u>	<u>\$ 24,037,671</u>	<u>\$ 2,215,320</u>

Type of Debt	Balance Owed 01/01/2006	Additions	Deductions	Balance Owed 12/31/2006	Amount Due Within One Year
Business-type Activities:					
Revenue bonds	\$ 1,315,000	\$ -	\$ 985,000	\$ 330,000	\$ 330,000
Compensated absences	104,190	159,240	150,254	113,176	50,736
Total Business-type Activities	\$ 1,419,190	\$ 159,240	\$ 1,135,254	\$ 443,176	\$ 380,736
Totals	\$18,942,001	\$ 9,402,065	\$ 3,863,219	\$ 24,480,847	\$ 2,596,056

Annual debt service requirements:

Water and sewer revenue bond covenants require that revenue available for debt service (defined as operating revenues less operating expenses requiring payment to outside entities) exceed the annual debt payment of both principal and interest by a ratio of 1.20 times the maximum annual debt service. The City complies with bond covenants, maintaining a current ratio coverage of 24.09 (see statistical section Table 14). There are certain limitations contained in the bond indentures. The City is in compliance with all significant limitations and restrictions.

To serve revenue debt \$ 413,278 is available in the reserve accounts of the water and wastewater enterprise funds as of December 31, 2006 in compliance with applicable bond covenants.

The annual debt service requirements to maturity, including principal and interest, for long-term debt as of December 31, 2006, are as follows (refer to pages 7-9 to 7-16 of this report for additional annual debt service requirements on individual debt issues):

Year Ending December 31	Governmental Activities		Business -type Activities	
	Principal	Interest	Principal	Interest
2007	\$ 1,911,111	\$ 942,160	\$ 330,000	\$ 14,398
2008	1,306,707	868,209	-	-
2009	1,427,326	818,430	-	-
2010	1,282,971	761,545	-	-
2011	1,358,642	711,112	-	-
2012-2016	6,854,258	2,717,406	-	-
2017-2021	6,848,179	1,345,357	-	-
2021-2026	2,395,000	253,200	-	-
Total	\$ 23,384,194	\$ 8,417,419	\$ 330,000	\$ 14,398

Variable-rate debt used was the effective interest rate as of December 31, 2006.

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, 2006 is \$449,815.

Bond discounts and premiums:

In accordance with generally accepted accounting principles for regulated businesses, the Water and Wastewater funds have deferred bond discounts of \$4,066 in 2006, which is amortized under the straight-line method over the life of the bonds. These charges, for ratemaking purposes, are treated as applicable to future periods.

During 2006, the City of Lacey issued two general obligation bonds at premium. These bond premiums and the related issuance costs are deferred and are amortized under the straight-line method over the life of the bonds (15-20 years). The deferred amounts are disclosed in the statement of net assets.

Arbitrage:

There is no arbitrage liability at the end of 2006 on each of the City's general obligation bonds and revenue bonds.

Note 14. Interlocal agreements

In 2003, the City of Lacey entered into a contract with the Capital Area Regional Public Facilities District (CARPFD) for the acquisition, development, operation and maintenance of the Thurston County/City of Lacey Regional Athletic Complex. The CARPFD imposes a sales and use tax pursuant to RCW 82.14.390 to repay financing obtained to fund the design, construction, acquisition, operation and maintenance of the complex project. The moneys collected as sales taxes shall only be used for the purposes permitted under RCW 82.14.390 and RCW 35.57.020. In 2006, the City of Lacey received \$2,015,621 in sale taxes levied by the PFD and is accounted for within the parks and open space fund.

Note 15. 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, 2006 were \$2,728,927. 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 2006 the City of Lacey's contribution was \$190,445 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, 2006 were \$680,276. 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. In September 2005, the complex (phase I) was dedicated and opened for the benefit of the citizens of Thurston County. An ongoing financial interest exists for the City of Lacey and Thurston County for the funding for the send phase of development of the complex. Any excess for maintenance, operation and capital expenditures shall be the joint and equal responsibility of Thurston County and the City of Lacey. 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 at December 31, 2006 was \$2,965,424 (53 percent) and \$2,779,644 (47 percent), respectively, as of December 31, 2006. For 2006 the City’s contribution was \$67,208, and is accounted for within the parks and open space fund. 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.

Additional financial information may be obtained from Thurston County Financial Services, 2000 Lakeridge Drive SW, Olympia, Washington 98502.

The following is condensed financial information on joint ventures as of December 31, 2006:

Balance Sheet Date	Joint Animal Control 12/31/2006	Interlocal Drug Unit 12/31/2006	Regional Athletic Complex 12/31/2006
Total Assets	\$ 3,019,819	\$ 758,477	\$ 5,859,477
Total Liabilities	\$ 290,892	\$ 78,201	\$ -
Total Net Assets	\$ 2,728,927	\$ 680,276	\$ 5,859,477
Capital assets, net of accumulated depreciation	\$ 1,879,557	\$ 60,745	\$ 5,745,068
Total revenues	\$ 1,389,525	\$ 764,746	\$ 220,710
Total expenditures	\$ 1,225,404	\$ 661,677	\$ 315,887
Net increase (decrease) in Net Assets	\$ 164,121	\$ 103,069	\$ (79,424)

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, 2006

	Budgeted Amount		Actual GAAP Basis	Variance with Final Budget Positive(Negative)
	Original	Final		
REVENUES				
Taxes	\$ 15,380,027	\$ 15,380,027	\$ 16,935,291	\$ 1,555,264
Licenses and permits	1,299,800	1,969,735	3,228,729	1,258,994
Intergovernmental revenues	561,695	567,695	767,203	199,508
Charges for services	4,377,807	4,446,307	5,307,380	861,073
Fines & forfeitures	455,000	455,000	334,497	(120,503)
Other revenue	537,900	537,900	879,414	341,514
Total revenues	\$ 22,612,229	\$ 23,356,664	\$ 27,452,514	\$ 4,095,850
EXPENDITURES				
Current:				
General government	\$ 4,071,092	\$ 4,134,941	\$ 3,877,241	\$ 257,700
Security of persons and property	10,642,562	11,048,162	10,875,124	173,038
Physical environment	2,957,375	3,068,115	2,874,651	193,464
Economic environment	1,009,999	1,040,834	1,010,009	30,825
Mental and physical health	7,376	7,376	5,405	1,971
Culture and recreation	3,677,997	3,744,617	3,556,902	187,715
Capital outlay	12,435	31,446	32,511	(1,065)
Total expenditures	\$ 22,378,836	\$ 23,075,491	\$ 22,231,843	\$ 843,648
Excess of revenue over (under expenditures)	\$ 233,393	\$ 281,173	\$ 5,220,671	\$ 4,939,498
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of capital assets	\$ -	\$ -	\$ 1,304	\$ 1,304
Transfers in	266,607	266,607	266,607	-
Transfers out	(1,400,000)	(1,895,885)	(1,890,599)	(5,286)
Total other financing sources	\$ (1,133,393)	\$ (1,629,278)	\$ (1,622,688)	\$ (3,982)
Net change in fund balances	\$ (900,000)	\$ (1,348,105)	\$ 3,597,983	\$ 4,946,088
FUND BALANCES - JANUARY 1	\$ 900,000	\$ 1,348,105	\$ 14,854,967	\$ 13,506,862
FUND BALANCES DECEMBER 31	\$ -	\$ -	\$ 18,452,950	\$ 18,452,950

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, 2006

	Budgeted Amounts		Actual GAAP Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 1,051,000	\$ 1,051,000	\$ 2,941,121	\$ 1,890,121
Intergovernmental revenues	4,802,805	4,802,805	2,236,407	(2,566,398)
Charges for services	1,280,165	1,280,165	1,319,229	39,064
Other revenue	-	-	451,618	451,618
Total revenues	<u>\$ 7,133,970</u>	<u>\$ 7,133,970</u>	<u>\$ 6,948,375</u>	<u>\$ (185,595)</u>
EXPENDITURES				
Capital outlay	<u>\$ 10,975,155</u>	<u>\$ 10,975,155</u>	<u>\$ 4,923,455</u>	<u>\$ 6,051,700</u>
Total expenditures	<u>\$ 10,975,155</u>	<u>\$ 10,975,155</u>	<u>\$ 4,923,455</u>	<u>\$ 6,051,700</u>
Excess of revenue over (under) expenditures	<u>\$ (3,841,185)</u>	<u>\$ (3,841,185)</u>	<u>\$ 2,024,920</u>	<u>\$ 5,866,105</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	<u>\$ 1,250,000</u>	<u>\$ 1,250,000</u>	<u>\$ 1,250,000</u>	<u>\$ -</u>
Total other financing sources	<u>\$ 1,250,000</u>	<u>\$ 1,250,000</u>	<u>\$ 1,250,000</u>	<u>\$ -</u>
Net change in fund balances	\$ (2,591,185)	\$ (2,591,185)	\$ 3,274,920	\$ 5,866,105
FUND BALANCES - JANUARY 1	<u>\$ 2,591,185</u>	<u>\$ 2,591,185</u>	<u>\$ 5,276,555</u>	<u>\$ 2,685,370</u>
FUND BALANCES - DECEMBER 31	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,551,475</u>	<u>\$ 8,551,475</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, 2006

	Special Revenue Funds			Debt Service Fund
	Street Fund	Lodging Tax	Community Development Block Grant	General Obligation Bond Fund
ASSETS				
Current cash and cash equivalents	\$ 1,483,175	\$ 634,253	\$ -	\$ 721,606
Receivables (net of allowances):				
Taxes	-	-	-	21,984
Customer Accounts	397,734	-	345,776	1,541
Accrued Interest & Penalty	3,332	2,702	-	4,773
Due from Other Governmental Units	94,829	35,009	-	-
Total assets	\$ 1,979,070	\$ 671,964	\$ 345,776	\$ 749,904
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 19,624	\$ 8,214	\$ -	\$ -
Deferred revenue	-	-	345,776	21,984
Total Liabilities	\$ 19,624	\$ 8,214	\$ 345,776	\$ 21,984
Fund balances				
Reserved for:				
Culture and recreation	\$ -	\$ 663,750	\$ -	\$ -
Debt service	50,000	-	-	-
Unreserved, designated for, reported in:				
Special revenue funds	435,000	-	-	-
Capital project funds	-	-	-	-
Unreserved, undesignated for:				
Special revenue funds	1,474,446	-	-	-
Debt service funds	-	-	-	727,920
Capital project funds	-	-	-	-
Total fund balances	\$ 1,959,446	\$ 663,750	\$ -	\$ 727,920
Total liabilities and fund balances	\$ 1,979,070	\$ 671,964	\$ 345,776	\$ 749,904

<u>Capital Project Funds</u>		<u>Total Other Governmental Funds</u>
<u>Building Improvement</u>	<u>Capital Expenditure</u>	
\$ 4,532,389	\$ 5,347,789	\$ 12,719,212
-	-	21,984
-	231,412	976,463
5,403	10,896	27,106
399,494	25,039	554,371
<u>\$ 4,937,286</u>	<u>\$ 5,615,136</u>	<u>\$ 14,299,136</u>
\$ 50,466	\$ 156,254	\$ 234,558
<u>-</u>	<u>-</u>	<u>367,760</u>
<u>\$ 50,466</u>	<u>\$ 156,254</u>	<u>\$ 602,318</u>
\$ -	\$ -	\$ 663,750
-	-	50,000
-	-	435,000
3,339,006	2,246,500	5,585,506
-	-	1,474,446
-	-	727,920
1,547,814	3,212,382	4,760,196
<u>\$ 4,886,820</u>	<u>\$ 5,458,882</u>	<u>\$ 13,696,818</u>
<u>\$ 4,937,286</u>	<u>\$ 5,615,136</u>	<u>\$ 14,299,136</u>

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Other Governmental Funds
For the Year Ended December 31, 2006

	Special Revenue Funds			Debt Service Fund
	Street Fund	Lodging Tax	Community Development Block Grant	General Obligation Bond Fund
REVENUES				
Taxes	\$ 1,664,008	\$ 244,060	\$ -	\$ 789,067
Intergovernmental revenues	476,140	-	650,000	-
Other revenue	291,311	41,038	-	52,436
Total revenues	\$ 2,431,459	\$ 285,098	\$ 650,000	\$ 841,503
EXPENDITURES				
Current:				
Transportation	\$ 2,019,824	\$ -	\$ -	\$ -
Economic environment	-	-	-	-
Culture and recreation	-	170,268	650,000	-
Capital outlay	-	1,800	-	-
Debt service:				
Principal retirement	-	-	-	530,000
Interest	-	-	-	403,568
Total expenditures	\$ 2,019,824	\$ 172,068	\$ 650,000	\$ 933,568
Excess (deficiency) of revenue over (under) expenditures	\$ 411,635	\$ 113,030	\$ -	\$ (92,065)
OTHER FINANCING SOURCES (USES)				
Premium on bonds	\$ -	\$ -	\$ -	\$ -
Proceeds from long-term debt	-	-	-	-
Transfers in	-	-	290,599	-
Transfers out	-	-	-	-
Total other financing sources	\$ -	\$ -	\$ 290,599	\$ -
Net change in fund balances	\$ 411,635	\$ 113,030	\$ 290,599	\$ (92,065)
FUND BALANCES - JANUARY 1	\$ 1,547,811	\$ 550,720	\$ (290,599)	\$ 819,985
FUND BALANCES - DECEMBER 31	\$ 1,959,446	\$ 663,750	\$ -	\$ 727,920

Capital Project Funds		Total Other Governmental Funds
Building Improvement	Capital Expenditure	
\$ 1,217,129	\$ 1,708,639	\$ 5,622,903
-	60,772	1,186,912
37,938	211,736	634,459
<u>\$ 1,255,067</u>	<u>\$ 1,981,147</u>	<u>\$ 7,444,274</u>
\$ -	\$ -	\$ 2,019,824
-	1,357	1,357
-	-	820,268
1,017,422	813,767	1,832,989
-	-	530,000
-	-	403,568
<u>\$ 1,017,422</u>	<u>\$ 815,124</u>	<u>\$ 5,608,006</u>
\$ 237,645	\$ 1,166,023	\$ 1,836,268
\$ 55,326	\$ -	\$ 55,326
3,500,000	-	3,500,000
500,000	-	790,599
-	(236,000)	(236,000)
<u>\$ 4,055,326</u>	<u>\$ (236,000)</u>	<u>\$ 4,109,925</u>
\$ 4,292,971	\$ 930,023	\$ 5,946,193
\$ 593,849	\$ 4,528,859	\$ 7,750,625
<u>\$ 4,886,820</u>	<u>\$ 5,458,882</u>	<u>\$ 13,696,818</u>

Schedule of Revenues, Expenditures, and
Changes in Fund Balances - Budget to Actual
Street Fund
For the Year Ended December 31, 2006

	Budgeted Amounts		Actual GAAP Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 1,391,324	\$ 1,464,644	\$ 1,664,008	\$ 199,364
Intergovernmental revenues	534,503	534,503	476,140	(58,363)
Other revenue	6,100	41,100	291,311	250,211
Total revenues	<u>\$ 1,931,927</u>	<u>\$ 2,040,247</u>	<u>\$ 2,431,459</u>	<u>\$ 391,212</u>
EXPENDITURES				
Current:				
Transportation	\$ 1,931,927	\$ 2,040,247	\$ 2,019,824	\$ 20,423
Total expenditures	<u>\$ 1,931,927</u>	<u>\$ 2,040,247</u>	<u>\$ 2,019,824</u>	<u>\$ 20,423</u>
Excess of revenue over (under) expenditures	\$ -	\$ -	\$ 411,635	\$ 411,635
Net change in fund balances	\$ -	\$ -	\$ 411,635	\$ 411,635
FUND BALANCES - JANUARY 1	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,547,811</u>	<u>\$ 1,547,811</u>
FUND BALANCES - DECEMBER 31	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 1,959,446</u></u>	<u><u>\$ 1,959,446</u></u>

Schedule of Revenues, Expenditures, and
Changes in Fund Balances - Budget to Actual
Lodging Tax
For the Year Ended December 31, 2006

	Budgeted Amounts		Actual GAAP Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 218,000	\$ 218,000	\$ 244,060	\$ 26,060
Other revenue	21,500	21,500	41,038	19,538
Total revenues	<u>\$ 239,500</u>	<u>\$ 239,500</u>	<u>\$ 285,098</u>	<u>\$ 45,598</u>
EXPENDITURES				
Current:				
Culture and recreation	\$ 238,500	\$ 238,500	\$ 170,268	\$ 68,232
Capital outlay	-	-	1,800	(1,800)
Total expenditures	<u>\$ 238,500</u>	<u>\$ 238,500</u>	<u>\$ 172,068</u>	<u>\$ 66,432</u>
Excess of revenue over (under) expenditures	<u>\$ 1,000</u>	<u>\$ 1,000</u>	<u>\$ 113,030</u>	<u>\$ 112,030</u>
Net change in fund balances	\$ 1,000	\$ 1,000	\$ 113,030	\$ 112,030
FUND BALANCES - JANUARY 1	<u>\$ (1,000)</u>	<u>\$ (1,000)</u>	<u>\$ 550,720</u>	<u>\$ 551,720</u>
FUND BALANCES - DECEMBER 31	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 663,750</u></u>	<u><u>\$ 663,750</u></u>

Schedule of Revenues, Expenditures, and
Changes in Fund Balances - Budget to Actual
Community Development Block Grant
For the Year Ended December 31, 2006

	Budgeted Amounts		Actual GAAP Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental revenues	\$ -	\$ 650,000	\$ 650,000	\$ -
Total revenues	\$ -	\$ 650,000	\$ 650,000	\$ -
EXPENDITURES				
Current:				
Culture and recreation	\$ -	\$ -	\$ 650,000	\$ (650,000)
Capital outlay	-	650,000	-	650,000
Debt service:				
Interest	-	295,885	-	295,885
Total expenditures	\$ -	\$ 945,885	\$ 650,000	\$ 295,885
Excess (deficiency) of revenue over (under) expenditures	\$ -	\$ (295,885)	\$ -	\$ 295,885
OTHER FINANCING SOURCES (USES)				
Operating transfers in	\$ -	\$ 295,885	\$ 290,599	\$ (5,286)
Total other financing sources	\$ -	\$ 295,885	\$ 290,599	\$ (5,286)
Net change in fund balances	\$ -	\$ -	\$ 290,599	\$ 290,599
FUND BALANCES - JANUARY 1	\$ -	\$ -	\$ (290,599)	\$ (290,599)
FUND BALANCES - DECEMBER 31	\$ -	\$ -	\$ -	\$ -

Schedule of Revenues, Expenditures, and
Changes in Fund Balances - Budget to Actual
General Obligation Bond Fund
For the Year Ended December 31, 2006

	Budgeted Amounts		Actual GAAP Basis	Variance with Final Budget
	Original	Final		Positive (Negative)
REVENUES				
Taxes	\$ 796,610	\$ 796,610	\$ 789,067	\$ (7,543)
Other revenue	8,650	8,650	52,436	43,786
Total revenues	<u>\$ 805,260</u>	<u>\$ 805,260</u>	<u>\$ 841,503</u>	<u>\$ 36,243</u>
EXPENDITURES				
Debt service:				
Principal retirement	\$ 530,000	\$ 530,000	\$ 530,000	\$ -
Interest	403,570	403,570	403,568	2
Total expenditures	<u>\$ 933,570</u>	<u>\$ 933,570</u>	<u>\$ 933,568</u>	<u>\$ 2</u>
Excess (deficiency) of revenue over (under) expenditures	<u>\$ (128,310)</u>	<u>\$ (128,310)</u>	<u>\$ (92,065)</u>	<u>\$ 36,245</u>
OTHER FINANCING SOURCES (USES)				
Net change in fund balances	\$ (128,310)	\$ (128,310)	\$ (92,065)	\$ 36,245
FUND BALANCES - JANUARY 1	<u>\$ 128,310</u>	<u>\$ 128,310</u>	<u>\$ 819,985</u>	<u>\$ 691,675</u>
FUND BALANCES - DECEMBER 31	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 727,920</u>	<u>\$ 727,920</u>

Schedule of Revenues, Expenditures, and
Changes in Fund Balances - Budget to Actual
Building Improvement
For the Year Ended December 31, 2006

	Variance with		Actual GAAP Basis	Final Budget Positive (Negative)
	Budgeted Amounts			
	Original	Final		
REVENUES				
Taxes	\$ 8,295	\$ 1,208,295	\$ 1,217,129	\$ 8,834
Other revenue	1,000	1,000	37,938	36,938
Total revenues	<u>\$ 9,295</u>	<u>\$ 1,209,295</u>	<u>\$ 1,255,067</u>	<u>\$ 45,772</u>
EXPENDITURES				
Capital outlay	\$ 309,295	\$ 1,709,295	\$ 1,017,422	\$ 691,873
Total expenditures	<u>\$ 309,295</u>	<u>\$ 1,709,295</u>	<u>\$ 1,017,422</u>	<u>\$ 691,873</u>
Excess (deficiency) of revenue over (under) expenditures	<u>\$ (300,000)</u>	<u>\$ (500,000)</u>	<u>\$ 237,645</u>	<u>\$ 737,645</u>
OTHER FINANCING SOURCES (USES)				
Premium on bonds	\$ -	\$ -	\$ 55,326	\$ 55,326
Proceeds from long-term debt	-	-	3,500,000	3,500,000
Transfers in	300,000	500,000	500,000	-
Total other financing sources	<u>\$ 300,000</u>	<u>\$ 500,000</u>	<u>\$ 4,055,326</u>	<u>\$ 3,555,326</u>
Net change in fund balances	\$ -	\$ -	\$ 4,292,971	\$ 4,292,971
FUND BALANCES - JANUARY 1	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 593,849</u>	<u>\$ 593,849</u>
FUND BALANCES - DECEMBER 31	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 4,886,820</u></u>	<u><u>\$ 4,886,820</u></u>

Schedule of Revenues, Expenditures, and
Changes in Fund Balances - Budget to Actual
Capital Expenditure
For the Year Ended December 31, 2006

	Budgeted Amounts		Actual GAAP Basis	Variance with Final Budget
	Original	Final		Positive (Negative)
REVENUES				
Taxes	\$ 1,422,639	\$ 1,495,639	\$ 1,708,639	\$ 213,000
Intergovernmental revenues	-	48,641	60,772	12,131
Other revenue	86,500	86,500	211,736	125,236
Total revenues	<u>\$ 1,509,139</u>	<u>\$ 1,630,780</u>	<u>\$ 1,981,147</u>	<u>\$ 350,367</u>
EXPENDITURES				
Current:				
Economic environment	\$ -	\$ -	\$ 1,357	\$ (1,357)
Capital outlay	1,558,139	1,704,780	813,767	891,013
Total expenditures	<u>\$ 1,558,139</u>	<u>\$ 1,704,780</u>	<u>\$ 815,124</u>	<u>\$ 889,656</u>
Excess (deficiency) of revenue over (under) expenditures	<u>\$ (49,000)</u>	<u>\$ (74,000)</u>	<u>\$ 1,166,023</u>	<u>\$ 1,240,023</u>
OTHER FINANCING SOURCES (USES)				
Transfers out	\$ (236,000)	\$ (236,000)	\$ (236,000)	\$ -
Total other financing sources	<u>\$ (236,000)</u>	<u>\$ (236,000)</u>	<u>\$ (236,000)</u>	<u>\$ -</u>
Net change in fund balances	\$ (285,000)	\$ (310,000)	\$ 930,023	\$ 1,240,023
FUND BALANCES - JANUARY 1	<u>\$ 285,000</u>	<u>\$ 310,000</u>	<u>\$ 4,528,859</u>	<u>\$ 4,218,859</u>
FUND BALANCES DECEMBER - 31	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,458,882</u>	<u>\$ 5,458,882</u>

Schedule of Revenues, Expenditures, and
Changes in Fund Balances - Budget to Actual
L.I.D. Redemption
For the Year Ended December 31, 2006

	Budgeted Amounts		Actual GAAP Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Other revenue	\$ 1,608,230	\$ 1,778,230	\$ 1,283,369	\$ (494,861)
Total revenues	\$ 1,608,230	\$ 1,778,230	\$ 1,283,369	\$ (494,861)
EXPENDITURES				
Debt service:				
Principal retirement	\$ 1,306,420	\$ 1,476,420	\$ 1,476,416	\$ 4
Interest	301,810	301,810	301,807	3
Total expenditures	\$ 1,608,230	\$ 1,778,230	\$ 1,778,223	\$ 7
Excess (deficiency) of revenue over (under) expenditures	\$ -	\$ -	\$ (494,854)	\$ (494,854)
Net change in fund balances	\$ -	\$ -	\$ (494,854)	\$ (494,854)
FUND BALANCES - JANUARY 1	\$ -	\$ -	\$ 828,381	\$ 828,381
FUND BALANCES - DECEMBER 31	\$ -	\$ -	\$ 333,527	\$ 333,527

Schedule of Revenues, Expenditures, and
Changes in Fund Balances - Budget to Actual
Parks & Open Space
For the Year Ended December 31, 2006

	Budgeted Amounts		Actual GAAP Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 1,039,946	\$ 1,039,946	\$ 726,122	\$ (313,824)
Intergovernmental revenues	-	-	2,043,121	2,043,121
Other revenue	10,330	10,330	146,813	136,483
Total revenues	\$ 1,050,276	\$ 1,050,276	\$ 2,916,056	\$ 1,865,780
EXPENDITURES				
Current:				
Culture and recreation	\$ 65,000	\$ 65,000	\$ 9,623	\$ 55,377
Capital outlay	5,794,669	5,794,669	1,390,912	4,403,757
Total expenditures	\$ 5,859,669	\$ 5,859,669	\$ 1,400,535	\$ 4,459,134
Excess (deficiency) of revenue over (under) expenditures	\$ (4,809,393)	\$ (4,809,393)	\$ 1,515,521	\$ 6,324,914
OTHER FINANCING SOURCES (USES)				
Premium on bonds	\$ -	\$ -	\$ 64,870	\$ 64,870
Proceeds from long-term debt	-	4,990,000	4,985,000	(5,000)
Operating transfers in	86,000	86,000	86,000	-
Operating transfers out	(266,607)	(266,607)	(266,607)	-
Total other financing sources	\$ (180,607)	\$ 4,809,393	\$ 4,869,263	\$ 59,870
Net change in fund balances	\$ (4,990,000)	\$ -	\$ 6,384,784	\$ 6,384,784
FUND BALANCES - JANUARY 1	\$ 4,990,000	\$ -	\$ 1,541,770	\$ 1,541,770
FUND BALANCES - DECEMBER 31	\$ -	\$ -	\$ 7,926,554	\$ 7,926,554

Statement of Net Assets
Combining Statement of Net Assets
Internal Service Funds
December 31, 2006

	Governmental Activities		
	Internal Service Funds		
	Equipment Rental	Information Services	Total
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 4,388,495	\$ 2,226,427	\$ 6,614,922
Receivables (net of allowances)			
Accrued interest and penalty	13,116	3,107	16,223
Due from governmental units	6,318	-	6,318
Total current assets:	<u>\$ 4,407,929</u>	<u>\$ 2,229,534</u>	<u>\$ 6,637,463</u>
Non-current assets:			
Restricted:			
Fixed assets, net of depreciation:			
Buildings	\$ 107,166	\$ -	\$ 107,166
Improvements other than buildings	9,154	-	9,154
Equipment	2,562,246	240,701	2,802,947
Total non-current assets	<u>\$ 2,678,566</u>	<u>\$ 240,701</u>	<u>\$ 2,919,267</u>
Total assets	<u>\$ 7,086,495</u>	<u>\$ 2,470,235</u>	<u>\$ 9,556,730</u>
LIABILITIES			
Current liabilities:			
Accounts payable	\$ 14,523	\$ 11,486	\$ 26,009
Compensated absences	6,870	8,039	14,909
Total current liabilities	<u>\$ 21,393</u>	<u>\$ 19,525</u>	<u>\$ 40,918</u>
Non-current liabilities			
Compensated absences	\$ 8,829	\$ 5,178	\$ 14,007
Total non-current liabilities	<u>\$ 8,829</u>	<u>\$ 5,178</u>	<u>\$ 14,007</u>
Total liabilities	<u>\$ 30,222</u>	<u>\$ 24,703</u>	<u>\$ 54,925</u>
NET ASSETS			
Investment in capital assets, net of related debt	\$ 2,678,566	\$ 240,701	\$ 2,919,267
Unrestricted	4,377,707	2,204,831	6,582,538
Total net assets	<u>\$ 7,056,273</u>	<u>\$ 2,445,532</u>	<u>\$ 9,501,805</u>

Statement of Revenues, Expenses, and Changes in Fund Net Assets
Internal Service Funds
For the Year Ended December 31, 2006

	Governmental Activities		
	Internal Service Funds		
	Equipment Rental	Information Services	Total
OPERATING REVENUES			
Charges for services	\$ 1,445,545	\$ 957,788	\$ 2,403,333
Total operating revenue	\$ 1,445,545	\$ 957,788	\$ 2,403,333
OPERATING EXPENSES			
Operating expense	\$ 736,382	\$ 705,140	\$ 1,441,522
Maintenance expense	28,071	185,068	213,139
Depreciation expense	468,498	89,616	558,114
Total operating expenses	\$ 1,232,951	\$ 979,824	\$ 2,212,775
OPERATING INCOME (LOSS)	\$ 212,594	\$ (22,036)	\$ 190,558
NON-OPERATING REVENUES (EXPENSES)			
Investment earnings	\$ 205,661	\$ 134,545	\$ 340,206
Miscellaneous non-operating revenues	17,794	4,292	22,086
Gain (loss) on sale of capital assets	10,329	-	10,329
Total non-operating revenues (expenses)	\$ 233,784	\$ 138,837	\$ 372,621
Income (loss) before contributions and transfers	\$ 446,378	\$ 116,801	\$ 563,179
Capital contributions	\$ 346,485	\$ 123,751	\$ 470,236
Transfers in (out)	396,415	-	396,415
Changes in net assets	\$ 1,189,278	\$ 240,552	\$ 1,429,830
NET ASSETS - BEGINNING	\$ 5,866,995	\$ 2,204,980	\$ 8,071,975
NET ASSETS - ENDING	\$ 7,056,273	\$ 2,445,532	\$ 9,501,805

Statement of Cash Flows
Internal Service Funds
For the Year Ended December 31, 2006

	Governmental Activities		
	Internal Service Funds		
	Equipment Rental	Information Services	Total Internal Service
CASH FLOW FROM OPERATING ACTIVITIES:			
Receipts from customers and users	\$ 1,517,985	\$ 991,974	\$ 2,509,959
Payments to suppliers	(557,684)	(370,437)	(928,121)
Payments to employees	(205,403)	(526,383)	(731,786)
Net cash provided by operating activities	\$ 754,898	\$ 95,154	\$ 850,052
CASH FLOW FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Acquisition and construction of capital assets	\$ (958,139)	\$ (158,689)	\$ (1,116,828)
Proceeds from sales of capital assets	15,546	-	15,546
Transfers received from other funds for capital acquisition	426,910	109,581	536,491
Net cash (used) by capital and related financing activities	\$ (515,683)	\$ (49,108)	\$ (564,791)
CASH FLOW FROM INVESTING ACTIVITIES:			
Interest received on investments	205,662	134,545	340,207
Net cash provided (used) by investing activities	\$ 205,662	\$ 134,545	\$ 340,207
Net increase (decrease) in cash and cash equivalents	444,877	180,591	625,468
Cash and cash equivalents January 1	\$ 3,943,618	\$ 2,045,836	\$ 5,989,454
Cash and cash equivalents December 31	\$ 4,388,495	\$ 2,226,427	\$ 6,614,922

Statement of Cash Flows
Internal Service Funds
For the Year Ended December 31, 2006

	Governmental Activities		
	Internal Service Funds		
	Equipment Rental	Information Services	Total Internal Service
CASH PROVIDED BY OPERATING ACTIVITIES:			
Net operating income	\$ 212,594	\$ (22,036)	\$ 190,558
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:			
Depreciation	\$ 468,498	\$ 89,616	\$ 558,114
(Increase)/decrease in customer receivables	50,134	29,893	80,027
(Increase)/decrease in due from other funds	4,512	-	4,512
Miscellaneous non-operating revenues	17,794	4,293	22,087
Increase/(decrease) in accounts payable	370	(2,970)	(2,600)
Increase/(decrease) in due to other funds	-	(3,984)	(3,984)
Increase/(decrease) in compensated absences	996	342	1,338
Net cash provided by operating activities	<u>\$ 754,898</u>	<u>\$ 95,154</u>	<u>\$ 850,052</u>
Noncash investing, capital and financing activities:			
Capital asset transferred from other funds	\$ 315,990	\$ 14,170	\$ 330,160

Combining Statement of Changes in Assets and Liabilities
Agency Funds
December 31, 2006

	Joint Animal Services			Balance December 31, 2006
	Balance December 31, 2005	Additions	Deductions	
ASSETS				
Cash and cash equivalents	\$ 921,098	\$ 1,571,244	\$ 1,374,610	\$ 1,117,732
Accounts receivables, net of uncollectible accounts	-	4,863	-	4,863
Due from other governmental units	17,484	17,668	17,484	17,668
Total assets	\$ 938,582	\$ 1,593,775	\$ 1,392,094	\$ 1,140,263
LIABILITIES				
Accounts payable	\$ 21,891	\$ 366,542	\$ 371,349	\$ 17,084
Accrued employee leave payable	36,253	46,601	36,253	46,601
Notes payable	241,411	14,692	28,897	227,206
Due to other governmental units	639,027	1,165,940	955,595	849,372
Total liabilities	\$ 938,582	\$ 1,593,775	\$ 1,392,094	\$ 1,140,263

	Thurston County Narcotics Task Force			Balance December 31, 2006
	Balance December 31, 2005	Additions	Deductions	
ASSETS				
Cash and cash equivalents	\$ 565,873	\$ 1,056,744	\$ 956,668	\$ 665,949
Accounts receivables, net of uncollectible accounts	-	2,949	-	2,949
Due from other governmental units	38,360	37,030	46,556	28,834
Total assets	\$ 604,233	\$ 1,096,723	\$ 1,003,224	\$ 697,732
LIABILITIES				
Accounts payable	\$ 7,576	\$ 452,442	\$ 392,406	\$ 67,612
Accrued employee leave payable	10,691	10,589	10,691	10,589
Notes payable	-	-	-	-
Due to other governmental units	585,966	633,692	600,127	619,531
Total liabilities	\$ 604,233	\$ 1,096,723	\$ 1,003,224	\$ 697,732

Combining Statement of Changes in Assets and Liabilities
Agency Funds
December 31, 2006

	Capital Area Public Facilities District			Balance December 31, 2006
	Balance December 31, 2005	Additions	Deductions	
ASSETS				
Cash and cash equivalents	\$ -	\$ 950,723	\$ 887,072	\$ 63,651
Due from other governmental units	-	212	212	-
Total assets	\$ -	\$ 950,935	\$ 887,284	\$ 63,651
LIABILITIES				
Due to other governmental units	\$ -	\$ 950,935	\$ 887,284	\$ 63,651
Total liabilities	\$ -	\$ 950,935	\$ 887,284	\$ 63,651

	Total All Agencies			Balance December 31, 2006
	Balance December 31, 2005	Additions	Deductions	
ASSETS				
Cash and cash equivalents	\$ 1,486,971	\$ 3,578,711	\$ 3,218,350	\$ 1,847,332
Accounts receivables, net of uncollectible accounts	-	7,812	-	7,812
Due from other governmental units	55,844	54,910	64,252	46,502
Total assets	\$ 1,542,815	\$ 3,641,433	\$ 3,282,602	\$ 1,901,646
LIABILITIES				
Accounts payable	\$ 29,467	\$ 818,984	\$ 763,755	\$ 84,696
Accrued employee leave payable	46,944	57,190	46,944	57,190
Notes payable	241,411	14,692	28,897	227,206
Due to other governmental units	1,224,993	2,750,567	2,443,006	1,532,554
Total liabilities	\$ 1,542,815	\$ 3,641,433	\$ 3,282,602	\$ 1,901,646

Combining Statement of Fiduciary Net Assets
Agency Funds
December 31, 2006

	Joint Animal Services	Thurston County Nartotics Task Force	Capital Area Public Facilities District	Total
ASSETS	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Cash and cash equivalents	\$ 1,117,732	\$ 665,949	\$ 63,651	\$ 1,847,332
Accounts recevables, net of uncollectible accounts	4,863	2,949	-	7,812
Due from other governmental units	<u>17,668</u>	<u>28,834</u>	<u>-</u>	<u>46,502</u>
Total assets	<u>\$ 1,140,263</u>	<u>\$ 697,732</u>	<u>\$ 63,651</u>	<u>\$ 1,901,646</u>
 LIABILITIES				
Accounts payable	\$ 17,084	\$ 67,612	\$ -	\$ 84,696
Accrued employee leave payable	46,601	10,589	-	57,190
Notes payable	227,206	-	-	227,206
Due to other governmental units	<u>849,372</u>	<u>619,531</u>	<u>63,651</u>	<u>1,532,554</u>
Total liabilities	<u>\$ 1,140,263</u>	<u>\$ 697,732</u>	<u>\$ 63,651</u>	<u>\$ 1,901,646</u>

SUPPLEMENTAL INFORMATION

SUPPLEMENTAL INFORMATION

Schedule of Operations - Budget to Actual
Water Fund
For the Year Ended December 31, 2006

	Budgeted Amounts		Actual GAAP Basis	Variance with Final Budget
	Original	Final		Positive (Negative)
OPERATING REVENUES				
Charges for services	\$ 6,785,585	\$ 6,845,040	\$ 10,734,222	\$ 3,889,182
Total operating revenue	\$ 6,785,585	\$ 6,845,040	\$ 10,734,222	\$ 3,889,182
OPERATING EXPENSES				
Operating expense	\$ 2,150,371	\$ 2,949,330	\$ 2,482,048	\$ 467,282
Maintenance expense	8,058,884	8,274,634	2,508,264	5,766,370
Debt discount amortization	1,815	1,815	1,814	1
Depreciation expense	1,800,000	1,800,000	2,168,837	(368,837)
Taxes	298,013	331,513	395,132	(63,619)
Total operating expenses	\$ 12,309,083	\$ 13,357,292	\$ 7,556,095	\$ 5,801,197
OPERATING INCOME (LOSS)	\$ (5,523,498)	\$ (6,512,252)	\$ 3,178,127	\$ 9,690,379
NON-OPERATING REVENUES (EXPENSES)				
Investment earnings	\$ 43,500	\$ 43,500	\$ 217,234	\$ 173,734
Miscellaneous non-operating revenues	178,650	178,650	644,575	465,925
Interest expense	(26,030)	(26,030)	(23,209)	2,821
Total non-operating Revenues (expenses)	\$ 196,120	\$ 196,120	\$ 838,600	\$ 642,480
Income (loss) before contributions and transfers	\$ (5,327,378)	\$ (6,316,132)	\$ 4,016,727	\$ 10,332,859
Capital contributions	\$ -	\$ -	\$ 5,898,103	\$ 5,898,103
Transfers in (out)	1,280,000	1,830,000	385,374	(1,444,626)
Changes in net assets	\$ (4,047,378)	\$ (4,486,132)	\$ 10,300,204	\$ 14,786,336
NET ASSETS - BEGINNING (Restated)	\$ 4,047,378	\$ 4,486,132	\$ 71,126,243	\$ 66,640,111
NET ASSETS - ENDING	\$ -	\$ -	\$ 81,426,447	\$ 81,426,447

This schedule is presented as supplemental information

Schedule of Operations - Budget to Actual
Wastewater Fund
For the Year Ended December 31, 2006

	Budgeted Amounts		Actual GAAP Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
OPERATING REVENUES				
Charges for services	\$ 8,580,480	\$ 8,642,965	\$ 11,499,262	\$ 2,856,297
Total operating revenue	\$ 8,580,480	\$ 8,642,965	\$ 11,499,262	\$ 2,856,297
OPERATING EXPENSES				
Operating expense	\$ 5,836,880	\$ 5,955,090	\$ 5,938,765	\$ 16,325
Maintenance expense	10,660,307	10,696,157	1,422,576	9,273,581
Debt discount amortization	2,625	2,625	2,622	3
Depreciation expense	1,280,000	1,280,000	1,304,771	(24,771)
Taxes	119,490	124,290	185,062	(60,772)
Total operating expenses	\$ 17,899,302	\$ 18,058,162	\$ 8,853,796	\$ 9,204,366
OPERATING INCOME (LOSS)	\$ (9,318,822)	\$ (9,415,197)	\$ 2,645,466	\$ 12,060,663
NON-OPERATING REVENUES (EXPENSES)				
Investment earnings	\$ 120,500	\$ 120,500	\$ 775,887	\$ (655,387)
Miscellaneous non-operating revenues	500	500	10,423	(9,923)
Interest expense	(37,625)	(37,625)	(33,550)	(4,075)
Total non-operating Revenues (expenses)	\$ 83,375	\$ 83,375	\$ 752,760	\$ (669,385)
Income (loss) before contributions and transfers	\$ (9,235,447)	\$ (9,331,822)	\$ 3,398,226	\$ 12,730,048
Capital contributions	\$ -	\$ -	\$ 8,799,531	\$ 8,799,531
Transfers in (out)	-	(550,000)	(686,068)	(136,068)
Changes in net assets	\$ (9,235,447)	\$ (9,881,822)	\$ 11,511,689	\$ 21,393,511
NET ASSETS - BEGINNING Restated	\$ 9,235,447	\$ 9,881,822	\$ 57,451,862	\$ 47,570,040
NET ASSETS - ENDING	\$ -	\$ -	\$ 68,963,551	\$ 68,963,551

This schedule is presented as supplemental information

Schedule of Operations - Budget to Actual
Stormwater Fund
For the Year Ended December 31, 2006

	Budgeted Amounts		Actual GAAP Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
OPERATING REVENUES				
Charges for services	\$ 1,384,790	\$ 1,384,790	\$ 1,533,370	\$ 148,580
Charges for services	\$ 1,384,790	\$ 1,384,790	\$ 1,533,370	\$ 148,580
OPERATING EXPENSES				
Operating expense	\$ 727,449	\$ 797,914	\$ 816,069	\$ (18,155)
Maintenance expense	2,070,821	2,076,321	398,433	1,677,888
Depreciation expense	420,700	600,000	761,036	(161,036)
Taxes	20,480	20,480	21,889	(1,409)
Total operating expenses	\$ 3,239,450	\$ 3,494,715	\$ 1,997,427	\$ 1,497,288
OPERATING INCOME (LOSS)	\$ (1,854,660)	\$ (2,109,925)	\$ (464,057)	\$ 1,645,868
NON-OPERATING REVENUES (EXPENSES)				
Investment earnings	\$ 5,000	\$ 5,000	\$ 100,937	\$ 95,937
Miscellaneous non-operating revenues	500	500	1,217	717
Total non-operating Revenues (expenses)	\$ 5,500	\$ 5,500	\$ 102,154	\$ 96,654
Income (loss) before contributions and transfers	\$ (1,849,160)	\$ (2,104,425)	\$ (361,903)	\$ 1,742,522
Capital contributions	\$ -	\$ -	\$ 5,616,750	\$ 5,616,750
Transfers in (out)	-	-	(95,720)	(95,720)
Changes in net assets	\$ (1,849,160)	\$ (2,104,425)	\$ 5,159,127	\$ 7,263,552
NET ASSETS - BEGINNING	\$ 1,849,160	\$ 2,104,425	\$ 24,726,166	\$ 22,621,741
NET ASSETS - ENDING	\$ -	\$ -	\$ 29,885,293	\$ 29,885,293

This schedule is presented as supplemental information

Schedule of Operations - Budget to Actual
Equipment Rental Fund
For the Year Ended December 31, 2006

	Budgeted Amounts		Actual GAAP Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
OPERATING REVENUES				
Charges for services	\$ 1,394,946	\$ 1,394,946	\$ 1,445,545	\$ 50,599
Total operating revenue	\$ 1,394,946	\$ 1,394,946	\$ 1,445,545	\$ 50,599
OPERATING EXPENSES				
Operating expense	\$ 938,662	\$ 938,662	\$ 736,382	\$ 202,280
Maintenance expense	50,346	50,346	28,071	22,275
Depreciation expense	458,870	458,870	468,498	(9,628)
Total operating expenses	\$ 1,447,878	\$ 1,447,878	\$ 1,232,951	\$ 214,927
OPERATING INCOME (LOSS)	\$ (52,932)	\$ (52,932)	\$ 212,594	\$ 265,526
NON-OPERATING REVENUES (EXPENSES)				
Investment earnings	\$ -	\$ -	\$ 205,661	\$ 205,661
Miscellaneous non-operating revenues	-	-	17,794	17,794
Gain (loss) on sale of fixed assets	-	-	10,329	10,329
Total non-operating Revenues (expenses)	\$ -	\$ -	\$ 233,784	\$ 233,784
Income (loss) before contributions and transfers	\$ (52,932)	\$ (52,932)	\$ 446,378	\$ 499,310
Capital contributions	\$ -	\$ -	\$ 346,485	\$ 346,485
Transfers in (out)	-	-	396,415	396,415
Changes in net assets	\$ (52,932)	\$ (52,932)	\$ 1,189,278	\$ 1,242,210
NET ASSETS - BEGINNING	\$ 52,932	\$ 52,932	\$ 5,866,995	\$ 5,814,063
NET ASSETS - ENDING	\$ -	\$ -	\$ 7,056,273	\$ 7,056,273

This schedule is presented as supplemental information

Schedule of Operations - Budget to Actual
Information Management Services Fund
For the Year Ended December 31, 2006

	Budgeted Amounts		Actual GAAP Basis	Variance with Final Budget
	Original	Final		Positive (Negative)
OPERATING REVENUES				
Charges for services	\$ 957,788	\$ 957,788	\$ 957,788	\$ -
Total operating revenue	\$ 957,788	\$ 957,788	\$ 957,788	\$ -
OPERATING EXPENSES				
Operating expense	\$ 859,304	\$ 859,304	\$ 705,140	\$ 154,164
Maintenance expense	178,000	178,000	185,068	(7,068)
Depreciation expense	57,476	57,476	89,616	(32,140)
Total operating expenses	\$ 1,094,780	\$ 1,094,780	\$ 979,824	\$ 114,956
OPERATING INCOME (LOSS)	\$ (136,992)	\$ (136,992)	\$ (22,036)	\$ 114,956
NON-OPERATING REVENUES (EXPENSES)				
Investment earnings	\$ -	\$ -	\$ 134,545	\$ 134,545
Miscellaneous non-operating revenues	-	-	4,293	4,293
Total non-operating Revenues (expenses)	\$ -	\$ -	\$ 138,838	\$ 138,838
Income (loss) before contributions and transfers	\$ (136,992)	\$ (136,992)	\$ 116,802	\$ 253,794
Capital contributions	\$ -	\$ -	\$ 123,751	\$ 123,751
Changes in net assets	\$ (136,992)	\$ (136,992)	\$ 240,553	\$ 377,545
NET ASSETS - BEGINNING	\$ 136,992	\$ 136,992	\$ 2,204,980	\$ 2,067,988
NET ASSETS - ENDING	\$ -	\$ -	\$ 2,445,533	\$ 2,445,533

This schedule is presented as supplemental information

Schedule of Expenditures of Federal Awards
For The Year Ending December 31, 2006
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/WA SPI indirect:	10.559	34-923	\$ 39,489
<u>DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u>			
US HUD/WA CTED indirect:			
Community Block Grant Program	14.228	06-64006-25	\$ 650,000
<u>DEPARTMENT OF JUSTICE - BUREAU OF JUSTICE ASSISTANCE</u>			
US DOJ direct:			
COPS Universal Hiring Program Grant	16.710	2003UMWX0127	\$ 9,932
Bullet Proof Vest Grant	16.600	FY 2005	8,757
Total US DOJ direct:			<u>18,689</u>
US DOJ/WA CTED INDIRECT:			
Justice Assistance Grant - Drug Interdiction Pro	16.738	F05-66201110	70,478
Justice Assistance Grant - Drug Interdiction Pro	16.738	F06-66201010	91,674
Total US DOJ/CTED indirect			<u>162,152</u>
Total DOJ			<u>\$ 180,841</u>
<u>DEPARTMENT OF TRANSPORTATION (DOT) - HIGHWAY PLANNING AND CONSTRUCTION</u>			
US DOT/WS DOT indirect:			
College Street Rehab	20.205	LA-5098	\$ 1,221,423
Sleater Kinney/6th	20.205	LA-5203	69,122
Woodland Trail	20.219	LA-6074	223,900
Total DOT			<u>\$ 1,514,445</u>
<u>NATIONAL HIGHWAY TRAFFIC SAFETY ADMINISTRATION (NITSA)</u>			
NITSA/Washington Traffic Safety Commission indirect:			
Safe Driving Education Program	20.601	LPD 072	\$ 5,991
DUI Enforcement	20.601	LPD 073, 077, 08	4,489
Total NITSA			<u>\$ 10,480</u>
<u>OFFICE OF NATIONAL DRUG CONTROL POLICY (ONDCP):</u>			
ONDCP/NWHIDTA indirect:			
High Intensity Drug Trafficking Program (HIDTA)	07.000	I6PNWP516Z	\$ 52,325
<u>DEPARTMENT OF HOMELAND SECURITY (DHS) - ODP:</u>			
DHS/Thurston County Emergency Management indirect:			
Terrorism Prevenstion Program	97.004	019-05-015	\$ 15,992
Terrorism Prevenstion Program	97.067	019EM-06-037	14,042
Terrorism Prevenstion Program	97.067	019EM-06-023	25,039
Terrorism Prevenstion Program (Non-Cash) ⁴	97.067	019EM-06-104	1,022
Total DHS -ODP			<u>\$ 56,095</u>
Total Expenditures of Federal Awards			<u>\$ 2,503,675</u>

Schedule of State and Local Financial Assistance
For The Year Ended December, 31, 2006

Grantor/ Pass-Through Grantor Program Title	Other Identification Number	Current Year Expenditures
Department of Transportation		
Mullen Road East to City Limits	8-5-197 (023)-1	\$ 177,660
Sleater-Kinney	8-5-197 (021)-1	(5,654)
Yelm Highway	8-5-197 (022)-1	182,406
Carpenter-Pacific to Martin Way	8-5-197 (020) -1	60,533
Total Department of Transportation		<u>\$ 414,945</u>
<u>Higher Education Coordinating Board</u>	Work Study	<u>\$ 3,447</u>
<u>Washington Traffic Safety Commission</u>	LPD 078	<u>\$ 5,700</u>
Interagency Committee for Outdoor Recreation		
IAC Wonderwood Community Park Development	02-1270D	<u>\$ 27,500</u>
Total Expenditures of State Awards		<u><u>\$ 451,592</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

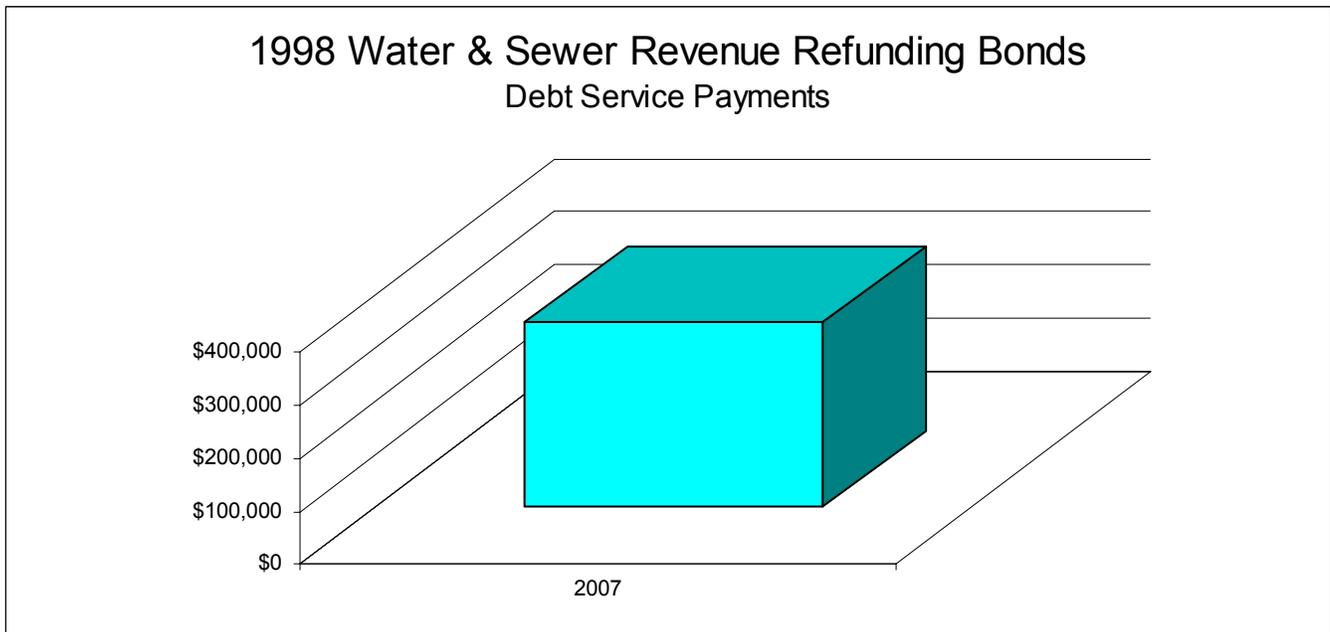
The City has a loan program under the Department of Housing & Urban Development. Under this federal program repayments to the City are considered program revenues (income). No interest is charged on the loans and full payment is due upon sale of the property. There were no repayments during 2006. The 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.

Note 4 - Noncash Awards - Equipment

The City received equipment and supplies that were purchased with federal Homeland Security funds by the Thurston County Emergency Management. The amount reported on the schedule is the value of the property on the date it was received by the City and priced by the state of Washington.

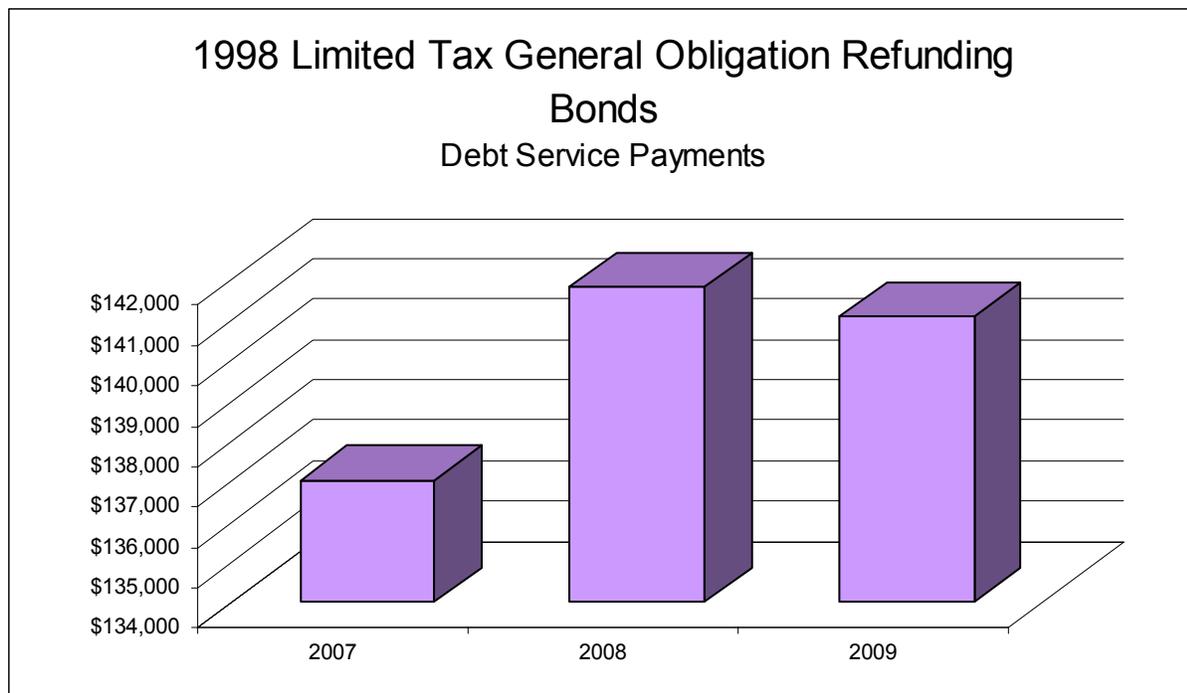
City of Lacey Water & Sewer Revenue Bonds
 1998 Water & Sewer Utility Revenue Refunding Bonds
 December 31, 2006

Year Ended 31-Dec	Interest Rate - %	Interest		Principal	Total Debt Service
		1-Jun	1-Dec	1-Dec	
2007	4.35 & 4.40%	7,199	7,199	330,000	344,398
		\$ 7,199	\$ 7,199	\$ 330,000	\$ 344,398



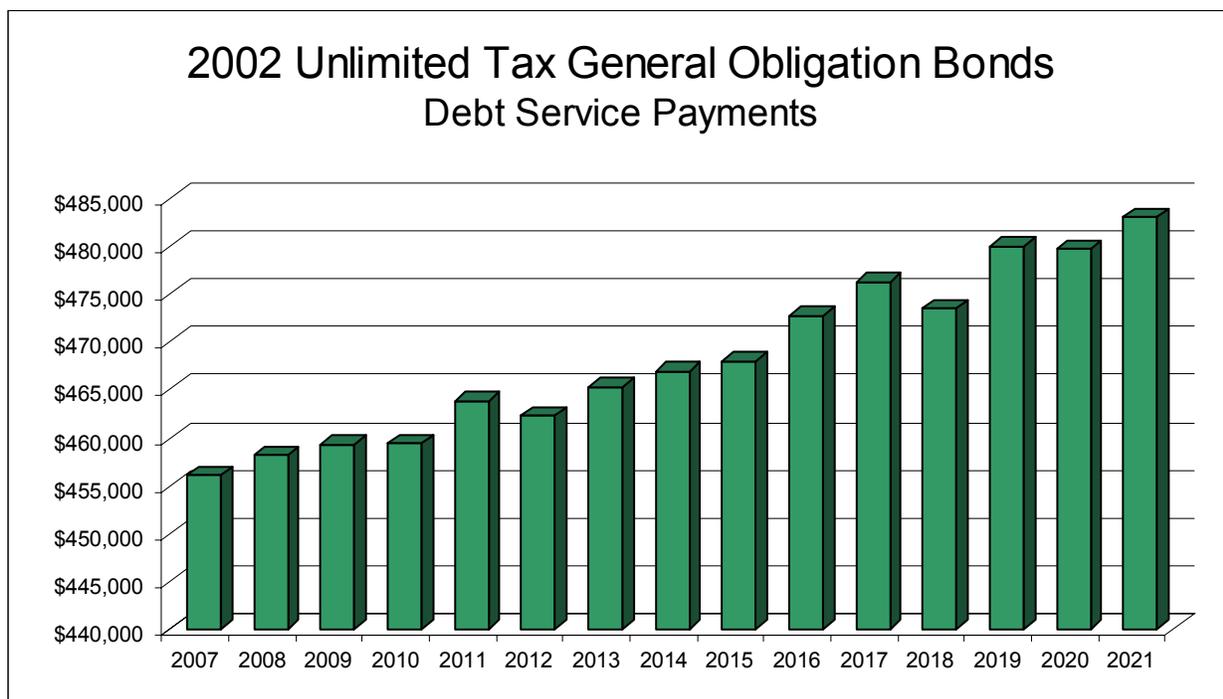
City of Lacey General Obligation Bond Debt
 1998 Limited Tax General Obligation Refunding Bonds
 December 31, 2006

Year Ended 31-Dec	Interest Rate - %	Interest		Principal	Total Debt Service
		1-Jun	1-Dec	1-Dec	
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>\$ 17,444</u>	<u>\$ 17,444</u>	<u>\$ 385,000</u>	<u>\$ 419,888</u>



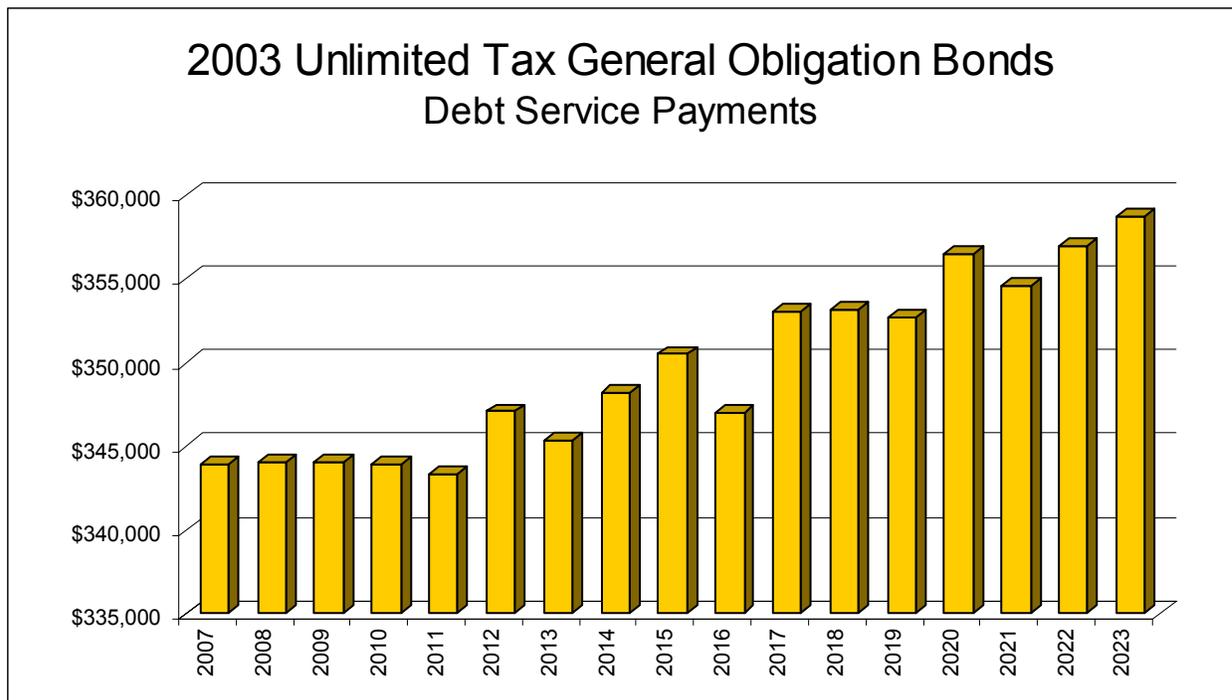
City of Lacey General Obligation Bond Debt
 2002 Unlimited Tax General Obligated Bonds
 December 31, 2006

Year Ended 31-Dec	Interest Rate - %	Interest		Principal	Total Debt Service
		Due - 01 Jun	Due - 01 Dec	Due - 01 Dec	
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>\$ 1,032,391</u>	<u>\$ 1,032,392</u>	<u>\$ 4,960,000</u>	<u>\$ 7,024,783</u>



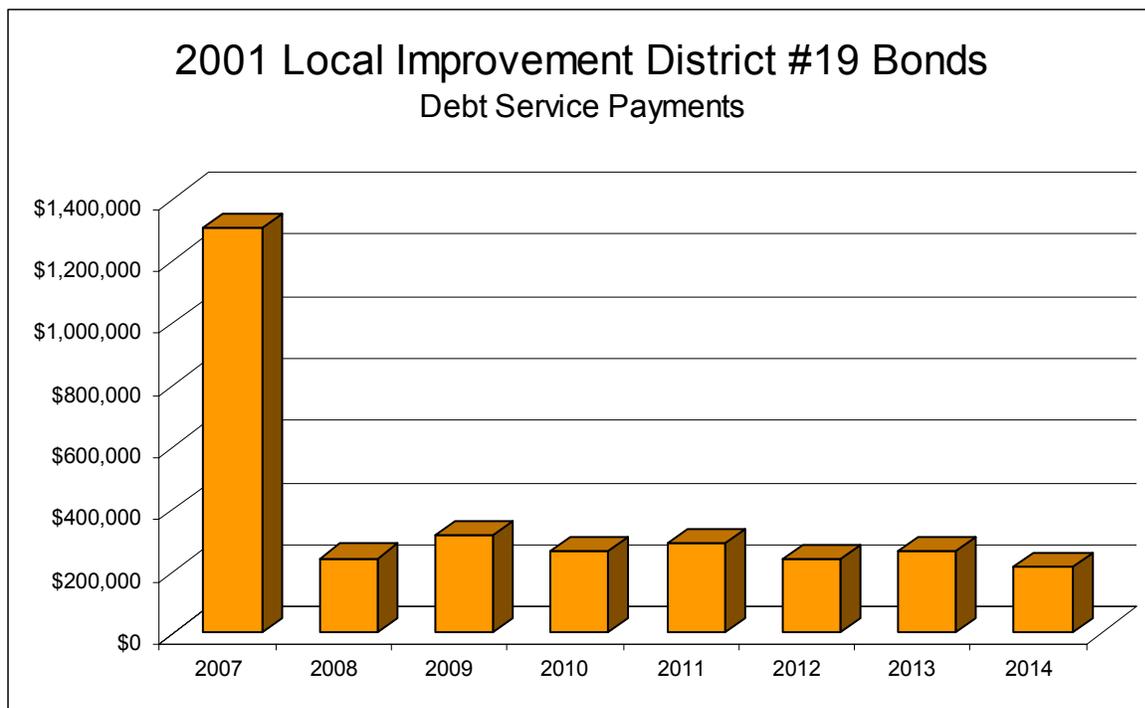
City of Lacey General Obligation Bond Debt
 2003 Unlimited Tax General Obligated Bonds
 December 31, 2006

Year Ended 31-Dec	Interest Rate - %	Interest		Principal Due - 01 Dec	Total Debt Service
		Due - 01 Jun	Due - 01 Dec		
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>\$ 791,763</u>	<u>\$ 791,763</u>	<u>\$ 4,360,000</u>	<u>\$ 5,943,526</u>



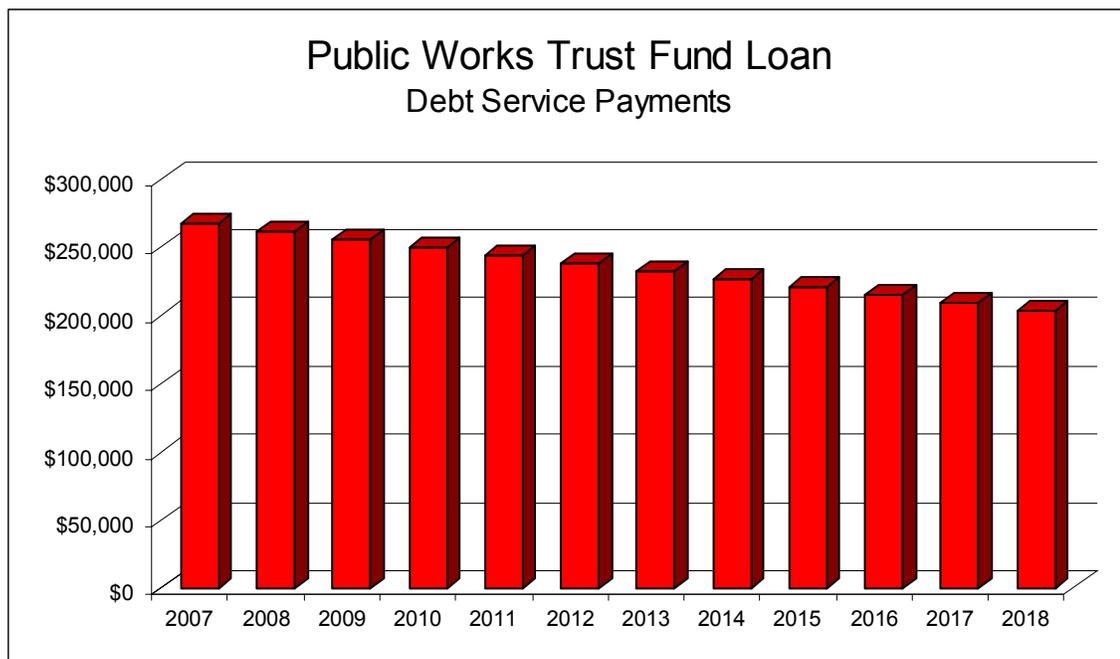
City of Lacey
2001 Local Improvement District #19 Bonds
December 31, 2006

Year Ended 31-Dec	Interest Range Rate - %		Interest 1-Oct	Principal 1-Oct	Total Debt Service
2007	5.700%	5.850%	153,120	1,150,000	1,303,120
2008	5.850%	5.850%	86,715	155,000	241,715
2009	5.900%	5.900%	77,648	235,000	312,648
2010	5.900%	5.900%	63,783	200,000	263,783
2011	5.950%	5.950%	51,983	235,000	286,983
2012	5.950%	5.950%	38,000	200,000	238,000
2013	6.000%	6.000%	26,100	235,000	261,100
2014	6.000%	6.000%	12,000	200,000	212,000
			<u>\$ 509,349</u>	<u>\$ 2,610,000</u>	<u>\$ 3,119,349</u>



City of Lacey
Public Works Trust Fund Loan
December 31, 2006

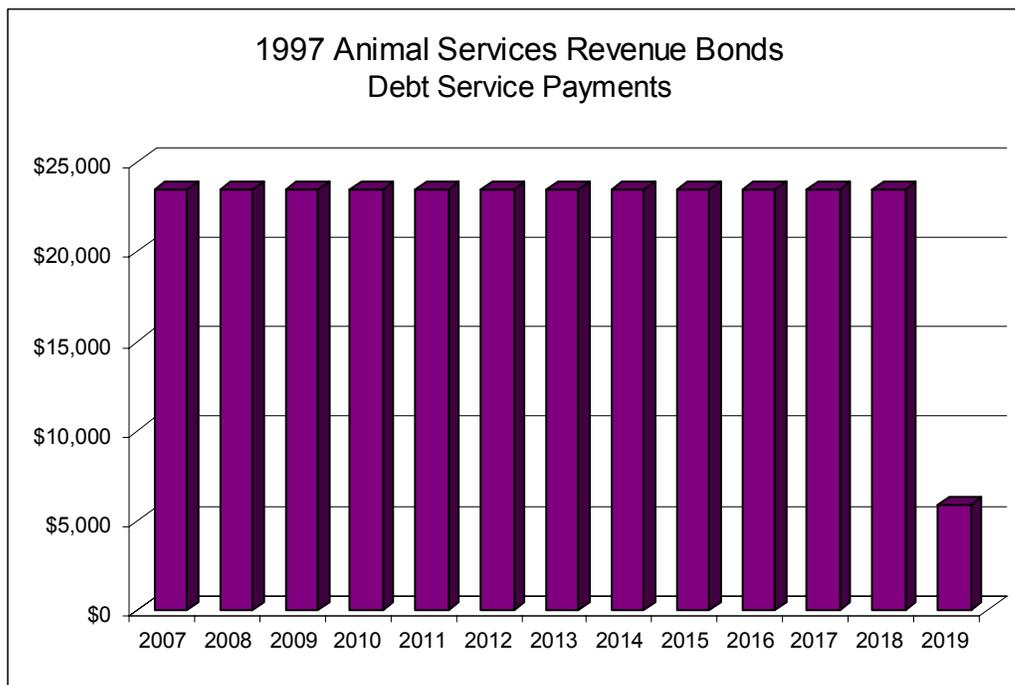
Year Ended 31-Dec	Interest Rate - %	Interest 1-Jul	Principal 1-Jul	Total Debt Service
2007	3.000%	70,710	196,416	267,126
2008	3.000%	64,817	196,416	261,233
2009	3.000%	58,925	196,416	255,341
2010	3.000%	53,032	196,416	249,448
2011	3.000%	47,140	196,416	243,556
2012	3.000%	41,247	196,416	237,663
2013	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>\$ 459,616</u>	<u>\$ 2,356,988</u>	<u>\$ 2,816,604</u>



City of Lacey
 1997 Animal Services Revenue Bond
 December 31, 2006

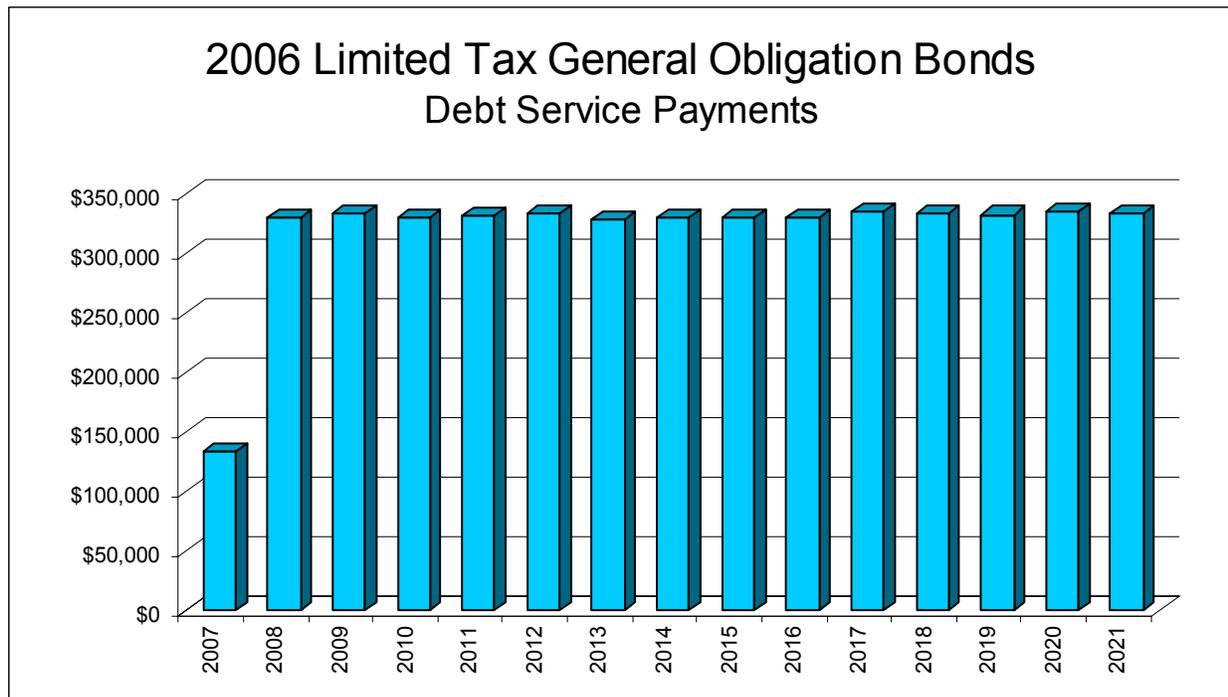
Year Ended 31-Dec	Interest Rate - %	Interest Annual*	Principal Annual*	Total Debt Service
2007	3.978%	8,776	14,695	23,471
2008	3.978%	8,180	15,291	23,471
2009	3.978%	7,561	15,910	23,471
2010	3.978%	6,916	16,555	23,471
2011	3.978%	6,245	17,226	23,471
2012	3.978%	5,548	17,923	23,471
2013	3.978%	4,821	18,650	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	5,745	5,781
		\$ 60,227	\$ 227,206	\$ 287,433

*Actual payments made are equal monthly installments.



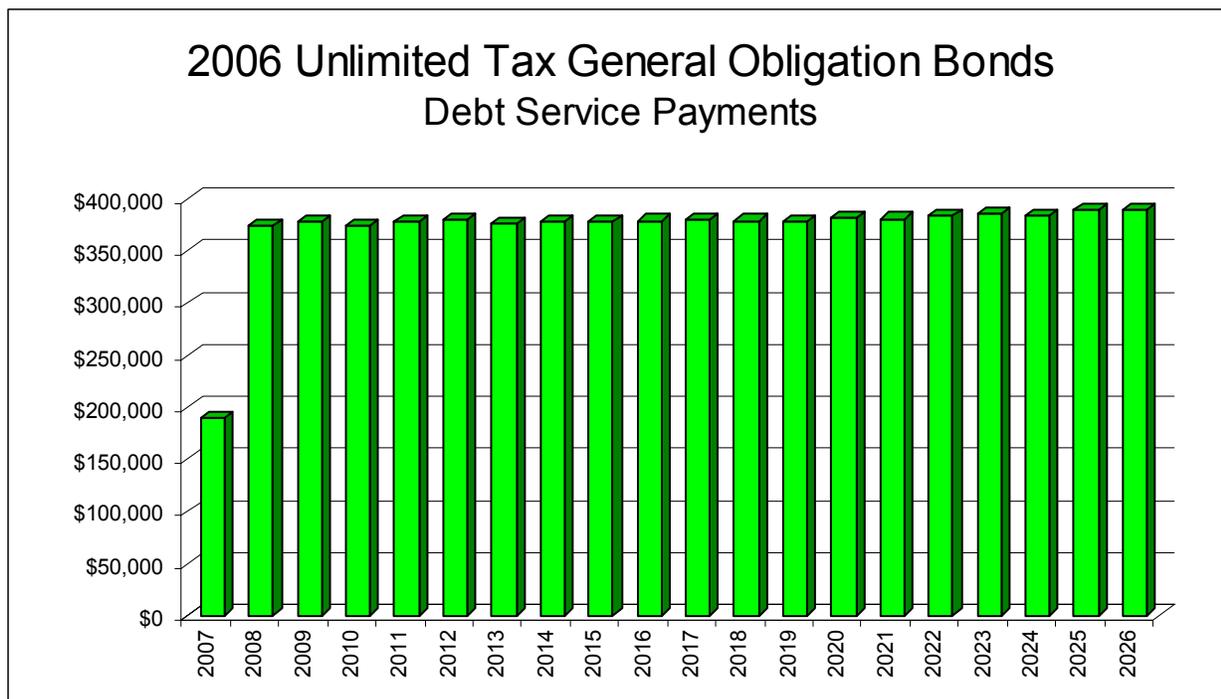
City of Lacey General Obligation Bond Debt
 2006 Limited Tax General Obligated Bonds
 December 31, 2006

Year Ended 31-Dec	Interest Rate - %	Interest Due - 01 Jun	Principal Due - 01 Dec	Total Debt Due - 01 Dec	Service
2007	4.000%	63,000	70,000	-	133,000
2008	4.000%	70,000	70,000	190,000	330,000
2009	4.000%	66,200	66,200	200,000	332,400
2010	4.000%	62,200	62,200	205,000	329,400
2011	4.000%	58,100	58,100	215,000	331,200
2012	4.000%	53,800	53,800	225,000	332,600
2013	4.000%	49,300	49,300	230,000	328,600
2014	4.000%	44,700	44,700	240,000	329,400
2015	4.000%	39,900	39,900	250,000	329,800
2016	4.000%	34,900	34,900	260,000	329,800
2017	4.000%	29,700	29,700	275,000	334,400
2018	4.000%	24,200	24,200	285,000	333,400
2019	4.000%	18,500	18,500	295,000	332,000
2020	4.000%	12,600	12,600	310,000	335,200
2021	4.000%	\$6,400	\$6,400	\$320,000	332,800
		<u>\$ 633,500</u>	<u>\$ 640,500</u>	<u>\$ 3,500,000</u>	<u>\$ 4,774,000</u>



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

Year Ended 31-Dec	Interest Rate - %	Interest Due - 01 Jun	Principal Due - 01 Dec	Total Debt Due - 01 Dec	Service
2007	4.000%	89,730	99,700	-	189,430
2008	4.000%	99,700	99,700	175,000	374,400
2009	4.000%	96,200	96,200	185,000	377,400
2010	4.000%	92,500	92,500	190,000	375,000
2011	4.000%	88,700	88,700	200,000	377,400
2012	4.000%	84,700	84,700	210,000	379,400
2013	4.000%	80,500	80,500	215,000	376,000
2014	4.000%	76,200	76,200	225,000	377,400
2015	4.000%	71,700	71,700	235,000	378,400
2016	4.000%	67,000	67,000	245,000	379,000
2017	4.000%	62,100	62,100	255,000	379,200
2018	4.000%	57,000	57,000	265,000	379,000
2019	4.000%	51,700	51,700	275,000	378,400
2020	4.000%	46,200	46,200	290,000	382,400
2021	4.000%	40,400	40,400	300,000	380,800
2022	4.000%	34,400	34,400	315,000	383,800
2023	4.000%	28,100	28,100	330,000	386,200
2024	4.000%	21,500	21,500	340,000	383,000
2025	4.000%	14,700	14,700	360,000	389,400
2026	4.000%	\$7,500	\$7,500	\$375,000	390,000
		<u>\$ 1,210,530</u>	<u>\$ 1,220,500</u>	<u>\$ 4,985,000</u>	<u>\$ 7,416,030</u>



STATISTICAL SECTION

STATISTICAL SECTION

STATISTICAL SECTION

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Table 1

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

Fiscal Year	2000	2001	2002	2003	2004	2005	2006
Governmental activities							
Invested in capital assets, net of related debt	\$ 14,203	\$ 21,507	\$ 29,315	\$ 40,590	\$ 184,942	\$ 219,565	\$ 254,410
Restricted	457	453	715	513	1,169	1,289	10,136
Unrestricted	16,014	26,589	43,689	43,980	41,755	44,417	47,198
Total governmental activities net assets	\$ 30,674	\$ 48,549	\$ 73,719	\$ 85,083	\$ 227,866	\$ 265,271	\$ 311,743
Business-type activities							
Invested in capital assets, net of related debt	\$ 42,239	\$ 45,416	\$ 85,983	\$ 93,221	\$ 107,181	\$ 133,961	\$ 155,634
Restricted	-	-	-	-	1,049	1,049	413
Unrestricted	19,548	20,060	19,638	17,565	15,813	18,481	24,625
Total business-type activities net assets	\$ 61,787	\$ 65,476	\$ 105,621	\$ 110,786	\$ 124,043	\$ 153,491	\$ 180,672
Primary government							
Invested in capital assets, net of related debt	\$ 56,442	\$ 66,924	\$ 115,298	\$ 133,811	\$ 292,123	\$ 353,526	\$ 410,044
Restricted	457	453	715	513	2,218	2,337	10,549
Unrestricted	35,562	46,648	63,327	61,545	57,568	62,899	71,823
Total primary government net assets	\$ 92,461	\$ 114,025	\$ 179,340	\$ 195,869	\$ 351,909	\$ 418,762	\$ 492,416

* The City first implemented GASB Statement No. 34 in fiscal year 2000.

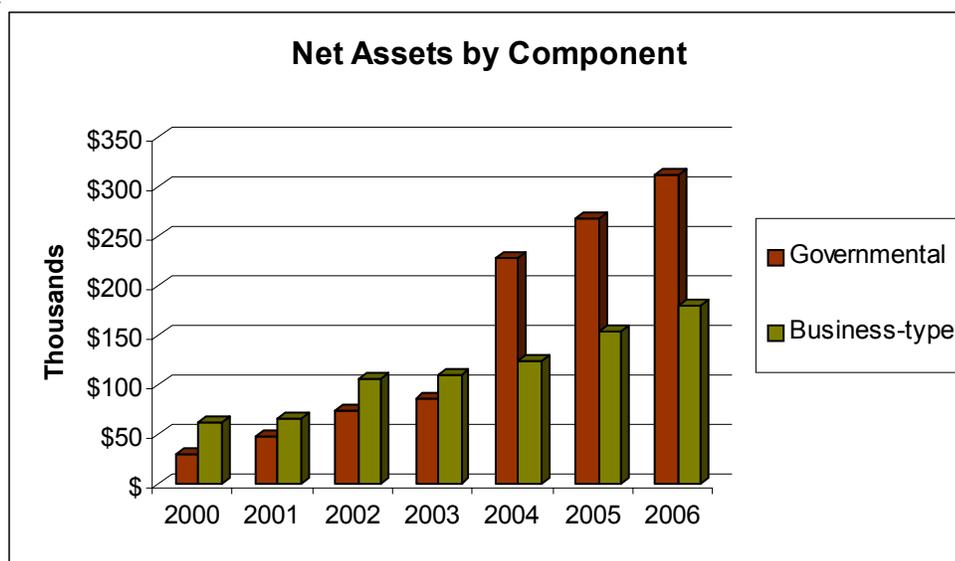


Table 2

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

Fiscal Year	2000	2001	2002	2003	2004	2005	2006
Expenses							
Governmental activities:							
General government	\$ 1,861	\$ 4,493	\$ 3,522	\$ 3,666	\$ 3,730	\$ 4,174	\$ 4,849
Security of persons and property	7,399	8,203	9,564	9,157	12,043	10,487	11,914
Physical environment	1,941	2,042	2,132	2,259	2,380	2,805	2,827
Transportation	4,950	1,243	2,916	3,705	7,967	8,865	10,116
Economic development	756	816	1,271	963	1,015	1,076	1,138
Mental and physical health	5	5	216	6	7	8	5
Culture and recreation	2,608	2,686	1,636	3,054	3,266	3,570	4,819
Interest on long-term debt	428	471	996	958	925	829	722
Total governmental activities	\$ 19,948	\$ 19,959	\$ 22,253	\$ 23,768	\$ 31,333	\$ 31,814	\$ 36,390
Business-type activities:							
Water	\$ 3,426	\$ 3,714	\$ 5,381	\$ 5,364	\$ 6,399	\$ 6,500	\$ 7,493
Wastewater	6,247	6,310	7,353	7,154	7,445	7,862	8,802
Stormwater	675	687	1,566	1,850	1,442	1,507	1,959
Total business-type activities	\$ 10,348	\$ 10,711	\$ 14,300	\$ 14,368	\$ 15,286	\$ 15,869	\$ 18,254
Total primary government expenses	\$ 30,296	\$ 30,670	\$ 36,553	\$ 38,136	\$ 46,619	\$ 47,683	\$ 54,644
Program Revenues							
Governmental activities:							
Charges for services:							
General government	\$ 283	\$ 2,119	\$ 327	\$ 264	\$ 365	\$ 406	\$ 476
Transportation	869	589	1,367	528	954	1,492	1,328
Economic development	747	1,250	894	1,158	1,518	3,196	3,811
Culture and recreation	638	674	603	723	760	880	923
Other activities	358	403	432	388	298	338	213
Operating grants and contributions	1,044	1,150	2,149	1,487	1,952	1,731	3,785
Capital grants and contributions	4,162	12,366	94	5,061	11,532	32,405	38,117
Total governmental activities program revenues	\$ 8,101	\$ 18,551	\$ 5,866	\$ 9,609	\$ 17,379	\$ 40,448	\$ 48,653
Business type activities:							
Charges for services:							
Water	\$ 4,767	\$ 5,041	\$ 5,648	\$ 6,337	\$ 6,782	\$ 7,649	\$ 10,734
Wastewater	6,537	7,069	6,815	7,469	8,248	9,357	11,499
Stormwater	1,283	1,498	1,270	1,270	1,380	1,421	1,533
Capital grants and contributions	1,430	2	6,036	3,648	11,999	26,212	20,315
Total business-type activities program revenue	\$ 14,017	\$ 13,610	\$ 19,769	\$ 18,724	\$ 28,409	\$ 44,639	\$ 44,081
Total primary government program revenues	\$ 22,118	\$ 32,161	\$ 25,635	\$ 28,333	\$ 45,788	\$ 85,087	\$ 92,734

Table 2 Continued

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

Fiscal Year	2000	2001	2002	2003	2004	2005	2006
Net (expenses)/revenue:							
Governmental activities	\$ (11,847)	\$ (1,408)	\$ (16,387)	\$ (14,159)	\$ (13,954)	\$ 8,634	\$ 12,262
Business-type activities	3,669	2,899	5,469	4,356	13,123	28,770	25,828
Total primary government net (expense) revenue	\$ (8,178)	\$ 1,491	\$ (10,918)	\$ (9,803)	\$ (831)	\$ 37,404	\$ 38,090
General Revenues and Other Changes in Net Assets							
Governmental activities:							
Taxes							
Property taxes	\$ 5,224	\$ 5,226	\$ 5,975	\$ 6,428	\$ 6,372	\$ 6,910	\$ 7,393
Retail taxes	4,649	4,937	5,937	5,843	6,610	8,031	8,812
Business taxes	3,620	4,034	4,376	4,412	5,015	5,331	6,580
Excise taxes	768	1,141	1,422	1,941	2,674	3,211	3,448
Penalties and interest	6	5	7	5	10	6	8
Investment earnings	1,247	1,328	1,320	1,300	1,189	1,463	2,463
Miscellaneous	1,271	2,542	4,959	5,096	3,841	5,827	5,110
Transfers	(50)	68	93	45	402	225	396
Total governmental activities	\$ 16,735	\$ 19,281	\$ 24,089	\$ 25,070	\$ 26,113	\$ 31,004	\$ 34,210
Business-type activities:							
Investment earnings	\$ 1,127	\$ 818	\$ 538	\$ 319	\$ 318	\$ 559	\$ 1,094
Miscellaneous	231	58	164	536	264	343	656
Transfers	50	(68)	(93)	(45)	(402)	(225)	(396)
Total business-type activities	\$ 1,408	\$ 808	\$ 609	\$ 810	\$ 180	\$ 677	\$ 1,354
Total primary government	\$ 18,143	\$ 20,089	\$ 24,698	\$ 25,880	\$ 26,293	\$ 31,681	\$ 35,564
Change in Net Assets							
Governmental activities	\$ 4,888	\$ 17,873	\$ 7,702	\$ 10,911	\$ 12,159	\$ 39,638	\$ 46,472
Business-type activities	5,077	3,707	6,078	5,166	13,303	29,447	27,181
Total primary government	\$ 9,965	\$ 21,580	\$ 13,780	\$ 16,077	\$ 25,462	\$ 69,085	\$ 73,654

* The City first implemented GASB Statement No. 34 in fiscal year 2000.

Table 3

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

Fiscal Year	1997	1998	1999	2000	2001 ¹
General fund					
Reserved	\$ 681	\$ 434	\$ 600	\$ 575	\$ 453
Unreserved	3,086	3,893	5,390	7,575	10,045
Total general fund	\$ 3,767	\$ 4,327	\$ 5,990	\$ 8,150	\$ 10,498
All other governmental funds					
Reserved	\$ 1,640	\$ 2,062	\$ 1,693	\$ -	\$ -
Unreserved, reported in:					
Special revenue funds	1,433	1,389	204	(3,232)	5,137
Debt service funds	-	-	-	1,190	1,441
Capital projects funds	1,016	1,884	1,057	2,166	2,314
Total all other governmental funds	\$ 4,089	\$ 5,335	\$ 2,954	\$ 124	\$ 8,892
Total governmental funds	\$ 7,856	\$ 9,662	\$ 8,944	\$ 8,274	\$ 19,390

Note:

- ¹ The City issued debt (L.I.D. bonds and a long-term loan) in the amount of \$9.5 million. The increase in unreserved fund balance is due to the unspent bond proceeds remaining in special revenue funds.
- ² The increase in unreserved fund balance in Capital project funds was due to unspent bond proceeds from an issuance during the period for capital projects.

2002 ²	2003	2004	2005	2006
\$ 338	\$ 186	\$ 184	\$ 302	\$ 129
9,523	11,101	12,987	14,553	18,324
\$ 9,861	\$ 11,287	\$ 13,171	\$ 14,855	\$ 18,453
\$ -	\$ -	\$ -	\$ 1,101	\$ 1,214
6,855	3,354	5,108	5,984	9,961
1,415	1,835	1,099	1,648	1,061
8,446	11,591	7,426	6,664	18,272
\$ 16,716	\$ 16,780	\$ 13,633	\$ 15,397	\$ 30,508
\$ 26,577	\$ 28,067	\$ 26,804	\$ 30,252	\$ 48,961

Table 4

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

Fiscal Year	1997	1998	1999	2000	2001
Revenues					
Taxes	\$ 11,682	\$ 12,716	\$ 13,434	\$ 14,178	\$ 15,548
Licenses and permits	671	912	913	727	1,046
Intergovernmental revenues	1,938	2,365	4,710	5,203	3,519
Charges for services	2,540	2,693	2,926	3,426	4,689
Fines & forfeitures	263	244	261	248	275
Other revenue	1,835	2,276	2,540	2,342	2,130
Total revenues	\$ 18,929	\$ 21,206	\$ 24,784	\$ 26,124	\$ 27,207
Expenditures					
General government	\$ 2,586	\$ 2,461	\$ 2,596	\$ 2,641	\$ 2,959
Securities of persons and property	6,306	6,861	6,933	7,236	8,106
Physical environment	1,372	1,693	1,707	1,934	2,058
Transportation	914	962	1,025	1,023	1,446
Economic environment	769	908	704	714	760
Mental and physical health	28	6	5	5	5
Culture and recreation	2,280	2,226	2,376	2,410	2,547
Capital outlay	1,307	2,679	8,274	9,966	5,969
Debt service					
Principal	1,541	1,195	1,605	1,328	1,381
Interest	711	518	490	471	371
Total expenditures	\$ 17,814	\$ 19,509	\$ 25,715	\$ 27,728	\$ 25,602
Excess of revenue over (under) expenditures	\$ 1,115	\$ 1,697	\$ (931)	\$ (1,604)	\$ 1,605
Other financing sources (uses)					
Transfers in	\$ 664	\$ 428	\$ 699	\$ 1,099	\$ 518
Transfers out	(664)	(428)	(699)	(1,384)	(518)
Special assessment debt proceeds	-	-	-	-	6,565
Public works trust fund loan	-	620	-	-	2,948
Bonds issued	-	-	-	-	-
Premium on bonds issued	-	-	-	-	-
Sale of capital assets	-	-	-	-	-
Total other financing sources (uses)	-	620	-	(285)	9,513
Net change in fund balances	\$ 1,115	\$ 2,317	\$ (931)	\$ (1,889)	\$ 11,118
Debt services as a percentage of noncapital expenditures	12.8%	9.0%	9.2%	8.2%	8.6%

2002	2003	2004	2005	2006
\$ 17,742	\$ 18,816	\$ 21,127	\$ 23,498	\$ 26,225
899	961	1,245	2,589	3,229
3,299	4,371	2,822	3,812	6,234
4,184	5,047	5,029	6,307	6,627
377	537	454	294	334
2,397	3,113	2,137	3,375	3,396
\$ 28,898	\$ 32,845	\$ 32,814	\$ 39,875	\$ 46,045
\$ 3,296	\$ 3,321	\$ 3,483	\$ 3,660	\$ 3,877
8,948	9,162	9,332	10,153	10,875
2,160	2,312	2,421	2,829	2,875
1,290	1,574	1,503	1,678	2,020
760	840	904	993	1,011
6	6	7	8	6
2,567	2,786	3,069	3,389	4,387
6,008	13,247	9,801	9,483	8,180
1,893	2,186	2,481	3,371	2,006
1,016	988	985	869	705
\$ 27,944	\$ 36,422	\$ 33,986	\$ 36,433	\$ 35,942
\$ 954	\$ (3,577)	\$ (1,172)	\$ 3,442	\$ 10,103
\$ 3,115	\$ 1,418	\$ 2,716	\$ 3,655	\$ 2,393
(3,115)	(1,418)	(2,381)	(3,655)	(2,393)
-	-	-	-	-
-	-	-	-	-
6,232	5,000	-	-	8,485
-	2	-	-	120
-	69	5	9	2
6,232	5,071	340	9	8,607
\$ 7,186	\$ 1,494	\$ (832)	\$ 3,451	\$ 18,710
12.7%	12.8%	12.6%	15.2%	9.1%

Table 5

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

Fiscal Year	Property Tax	Timber Tax	Sales Tax	Business Tax	Excise Tax	Penalties & Interest	Total
1997*	\$ 4,407	\$ 0.4	\$ 3,588	\$ 2,806	\$ 876	\$ 4	\$ 11,681
1998*	4,872	0.4	3,996	3,052	793	4	12,717
1999*	4,924	0.3	4,427	3,275	803	5	13,434
2000	5,224	0.2	4,649	3,620	768	6	14,267
2001	5,226	0.2	4,937	4,034	1,141	5	15,343
2002	5,975	0.3	5,937	4,376	1,422	7	17,717
2003	6,428	0.2	5,843	4,412	1,941	5	18,629
2004	6,372	0.1	6,610	5,015	2,674	10	20,681
2005	6,910	0.2	8,031	5,331	3,211	6	23,489
2006	7,393	0.2	8,812	6,580	3,448	8	26,241

* The City first implemented GASB Statement 34 in fiscal year 2000; therefore, the data presented for the fiscal years 1996 through 1999 represent the amounts under modified accrual basis of accounting. The amounts for the fiscal years 2000 and thereafter represent the amounts under accrual basis of accounting.

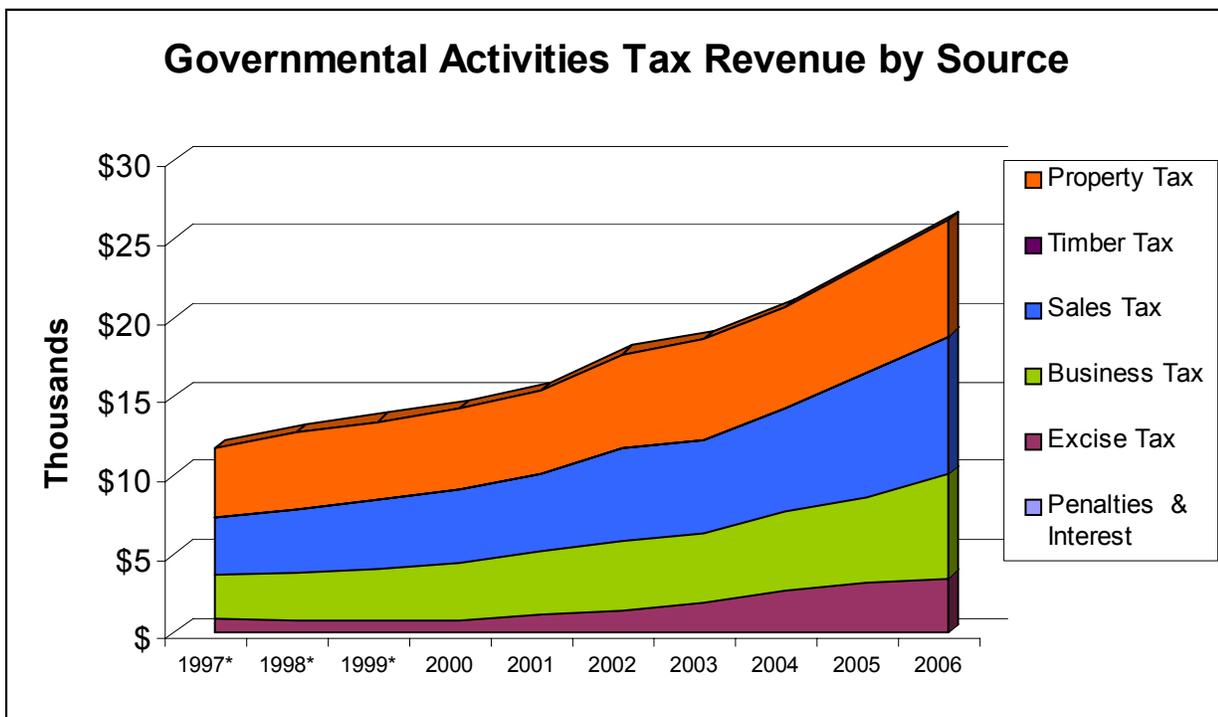


Table 6

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

Fiscal Year Ended December 31	Real Property*	Personal Property*	Total Taxable Assessed Value*	Total Direct Tax Rate	Estimated Actual Taxable Value	Assessed Value as a Percentage of Actual Value ¹
1997	\$ 1,270,503	\$ 94,287	\$ 1,364,790	3.30	\$ 1,491,085	91.53%
1998	1,380,744	72,590	1,453,334	3.33	1,587,822	91.53%
1999	1,412,771	82,265	1,495,036	3.30	1,633,383	91.53%
2000	1,493,700	84,679	1,578,379	3.29	1,724,439	91.53%
2001	1,598,738	100,610	1,699,348	3.19	1,856,603	91.53%
2002	1,753,082	106,976	1,860,058	3.32	2,032,184	91.53%
2003	1,912,156	127,810	2,039,966	3.23	2,223,042	91.76%
2004	2,058,894	130,907	2,189,801	3.12	2,355,362	92.97%
2005	2,369,109	133,050	2,502,159	2.80	2,754,785	90.83%
2006	2,753,153	133,598	2,886,751	2.58	3,187,531	90.56%

Source: Thurston County Assessor, Statistical Report of 2005 Assessments for Taxes Payable in 2006.

Explanation:

Property in the county is revalued each year to Fair Market Value with one-sixth of the county being physically inspected. Taxable assessed values have been adjusted for all tax-exempt real property. Tax rates are per \$1,000 of assessed value.

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

¹ Ratio set by the Washington Department of Revenue. Actual ratios for years 1997 to 2002 are not available. The four-year average from years 2003 to 2006 are used.

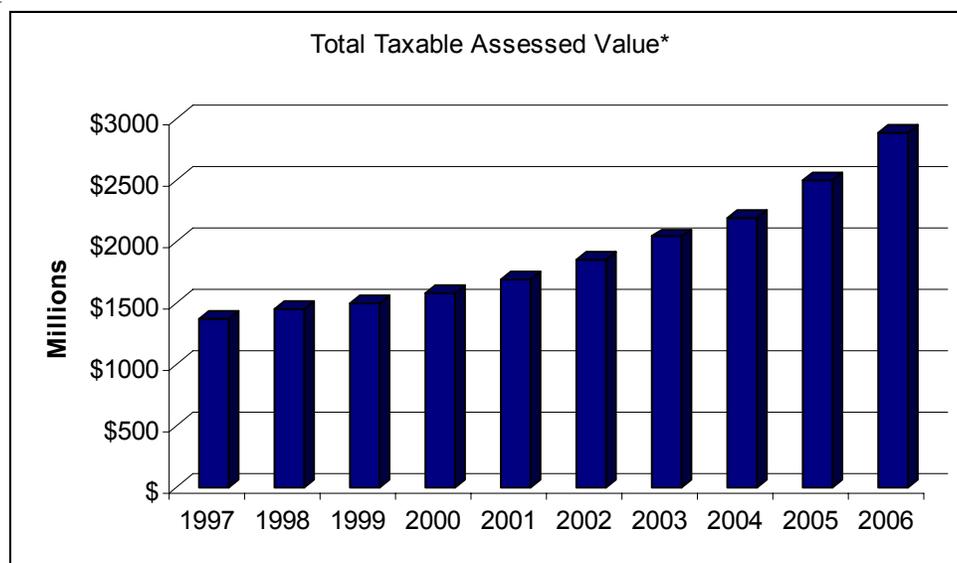
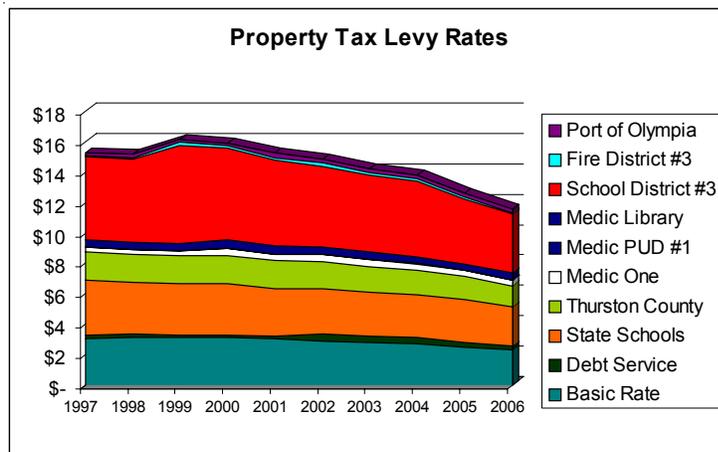


Table 7
 Property Tax Rates
 Direct and Overlapping Governments
 Last Ten Fiscal Years

Fiscal Year	City of Lacey			Overlapping Rates ¹									Total Direct & Overlapping rates
	Basic Rate	Debt Service	General Obligation Total Direct Rates	State Schools	Thurston County	Medic One	PUD #1	Library	North Thurston School District #3	Fire District #3	Port of Olympia		
1997	3.06	0.24	3.30	3.63	1.84	0.31	-	0.47	5.52	0.06	0.18	15.31	
1998	3.10	0.23	3.33	3.44	1.81	0.32	-	0.47	5.54	0.08	0.22	15.21	
1999	3.11	0.19	3.30	3.37	1.83	0.32	-	0.49	6.46	0.21	0.22	16.20	
2000	3.10	0.19	3.29	3.38	1.86	0.50	0.01	0.50	6.04	0.20	0.19	15.97	
2001	3.03	0.16	3.19	3.13	1.84	0.47	-	0.50	5.67	0.20	0.28	15.28	
2002	2.88	0.44	3.32	3.03	1.78	0.46	-	0.49	5.35	0.20	0.28	14.91	
2003	2.76	0.47	3.23	2.88	1.71	0.44	0.01	0.48	5.09	0.17	0.27	14.28	
2004	2.68	0.44	3.12	2.78	1.65	0.44	0.01	0.47	4.97	0.16	0.25	13.85	
2005	2.48	0.32	2.80	2.79	1.53	0.41	0.01	0.45	4.25	0.13	0.22	12.59	
2006	2.30	0.28	2.58	2.56	1.40	0.37	0.01	0.43	3.89	0.12	0.21	11.57	



Source: Thurston County Assessor, Statistical Report of 2005 Assessments for Taxes Payable in 2006.
 Explanation

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

Note: The levy limit calculation applies to a taxing district's budget, and not to increases in the assessed value or tax bill of individual properties. Initiative 747 restricts individual taxing districts from collecting, in any year, more than one percent increase in their regular, non-voted, levy over the highest levy amount since 1985. To increase the basic rate to the maximum of 3.60 would require a vote.

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

Table 8
Principal Property Taxpayers
Current Year and Nine Years Ago
December 31, 2006
 (amounts expressed in thousands)

Taxpayer	Type of Business	2006			1997		
		Taxable Assessed Value	Rank	Percentage of Total Taxable Assessed Value	Taxable Assessed Value	Rank	Percentage of Total Taxable Assessed Value
Target Corporation	Retail/Warehouse	\$ 73,111	1	2.53%	\$ -		
Panorama City Inc	Retirement Community	53,621	2	1.86%	43,912	1	3.22%
CDC Properties II LLC	Leasing/Land Development	47,361	3	1.64%	-		-
Home Depot USA Inc	Retail/Warehouse	30,405	4	1.05%	-		-
Lacey Market Square I and II LLC	Real Estate Development	23,194	5	0.80%	-		-
Capital Development Company	Leasing/Land Development	21,834	6	0.76%	38,236	2	2.80%
Cox, Walter W.	Real Estate Development	21,740	7	0.75%	108,443	9	7.95%
VGC Lacey LLC	Leasing/Land Development	18,276	8	0.63%	-		-
Weyerhaeuser Vicwood Partnership	Real Estate Development	17,520	9	0.61%	20,207	4	1.48%
Wal-Mart Stores Inc	Retail	16,891	10	0.59%	-		-
U.S. West Communications	Utility	-		-	13,542	7	0.99%
Rainier General, Inc	Real Estate Development	-		-	27,719	3	2.03%
Gemini Development Corp	Real Estate Development	-		-	15,167	5	1.11%
Puget Sound Energy, Inc	Electrical Utility	-		-	14,572	6	1.07%
API/Pichon VIII LLC	Real Estate Development	-		-	12,013	8	0.88%
Mastro, Michael	Real Estate Development	-		-	10,774	10	0.79%
Totals		323,953		11.22%	304,585		22.31%
Balance of Taxpayers		2,562,798		88.78%	1,060,205		77.69%
Total Assessed Values		\$ 2,886,751		100.00%	\$ 1,364,790		100.00%

Source: Thurston County Assessor

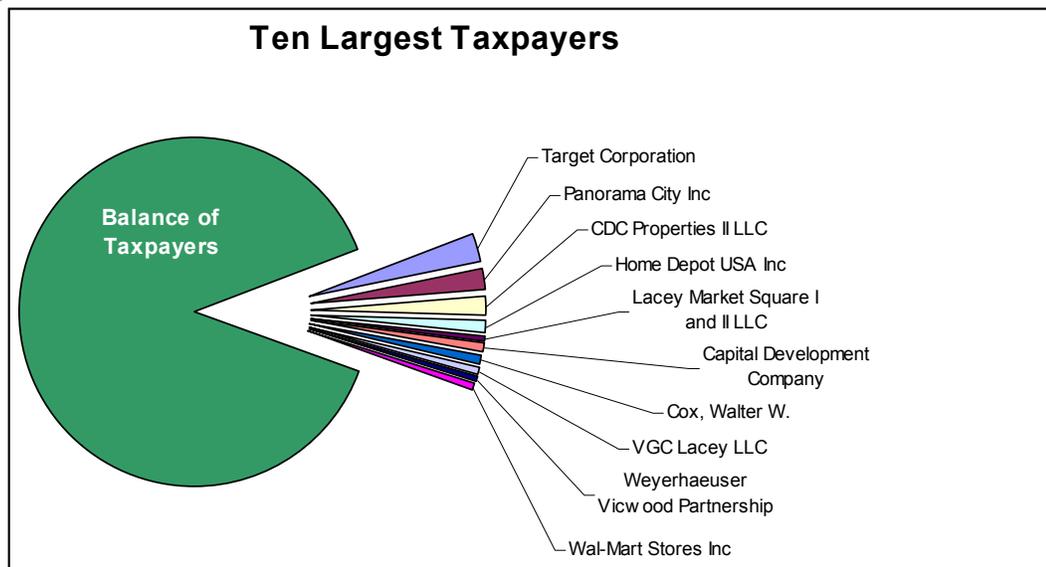


Table 9

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

Fiscal Year Ended December 31	Total Tax Levy for Fiscal Year*	Collected within the Fiscal Year of the Levy**		Collections in subsequent Years**	Total Collections to Date	
		Amount	Percentage of Levy		Amount	Percentage of Levy
1997	\$ 4,183	\$ 4,029	96.31%	\$ 66	\$ 4,095	97.90%
1998	4,507	4,458	98.92%	77	4,535	100.62%
1999	4,644	4,542	97.81%	103	4,645	100.04%
2000	4,893	4,755	97.18%	91	4,846	99.04%
2001	5,158	4,942	95.81%	139	5,081	98.51%
2002	5,339	5,154	96.53%	68	5,222	97.81%
2003	5,633	5,487	97.41%	182	5,669	100.63%
2004	5,889	5,768	97.94%	98	5,866	99.60%
2005	6,214	6,081	97.86%	77	6,158	99.10%
2006	6,654	6,505	97.76%	86	6,591	99.05%

*Source: Thurston County Assessor
**Source: City of Lacey Finance Department

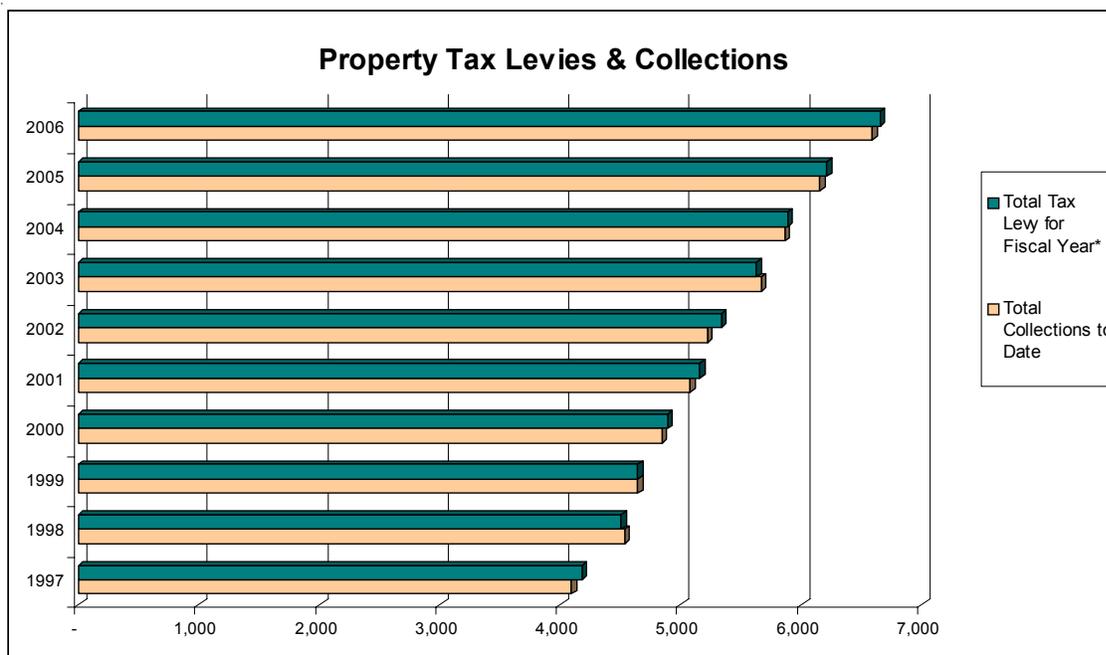


Table 10

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

Fiscal Year	Governmental Activities				Business-Type Activities			Primary Government	Total Percentage of Personal Income	Per Capita ³
	General Obligation Bonds	Special Assessment Bonds	PWTF Loan	Revenue ¹ Bond Animal Services	² Water Bonds	² Wastewater Bonds	² DOE Loan			
1997	\$ 4,910	\$ 5,700	\$ -	\$ -	\$ 5,305	\$ 5,100	\$ -	\$ 21,015	3.13%	\$ 762
1998	4,565	4,995	-	-	4,956	4,789	-	19,305	2.65%	684
1999	4,100	3,855	620	-	4,169	4,266	-	17,010	2.20%	586
2000	3,605	3,055	587	-	4,270	3,720	355	15,592	1.71%	499
2001	3,195	8,845	3,339	-	3,901	3,139	266	22,685	2.35%	718
2002	8,595	7,980	3,143	1,374	3,405	2,645	177	27,319	2.80%	857
2003	12,855	6,730	2,946	1,312	2,884	1,691	89	28,507	2.85%	884
2004	12,110	5,190	2,750	1,248	1,104	1,156	-	23,558	2.25%	724
2005*	10,235	3,890	2,553	241	718	597	-	18,234	1.71%	550
2006*	18,190	2,610	2,357	227	135	195	-	23,714	2.16%	696

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

¹ The City of Lacey administers the Animal Services financials. The balance at fiscal year-end 2006 represents the amount of debt due from the City of Olympia.

² Approximately 37.6% of the City of Lacey's utility customers reside outside the corporate city limit.

³ See the Schedule of Demographic and Economics on page 8-20 for personal income and population data.

* Personal income per capital for the year is not available. This information represents estimation based on most recent available information.

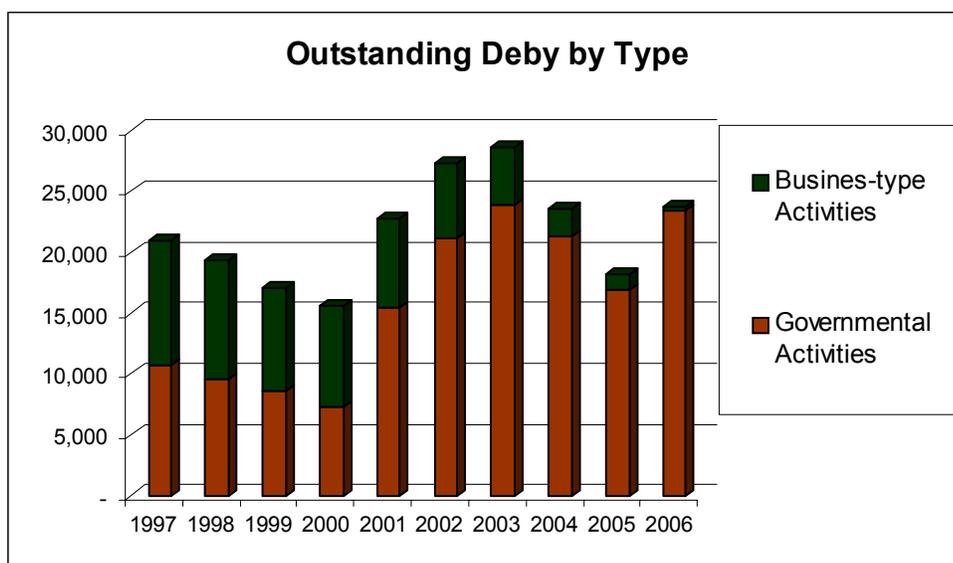


Table 11

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

General Fiscal Year	Obligation Bonds	Less: Amounts Available in Debt Service Fund	Total	Percentage of Estimated Actual Taxable Value ¹ of Property	Per Capita ²
1997	\$ 4,910	\$ 89	\$ 4,821	0.32%	\$ 79
1998	4,565	174	4,391	0.28%	71
1999	4,100	201	3,899	0.24%	64
2000	3,605	232	3,373	0.20%	57
2001	3,195	236	2,959	0.16%	49
2002	8,595	376	8,219	0.40%	124
2003	12,855	438	12,417	0.56%	173
2004	12,110	428	11,682	0.50%	160
2005	10,235	820	9,415	0.34%	110*
2006	18,190	728	17,462	0.55%	176*

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

Explanation:

¹ See the Schedule of Assessed Value and Estimated Actual Value of Taxable Property on page 8-11 for property value data.

² Per capita data can be found in the Schedule of Demographic and Economic Statistics on page 8-21.

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

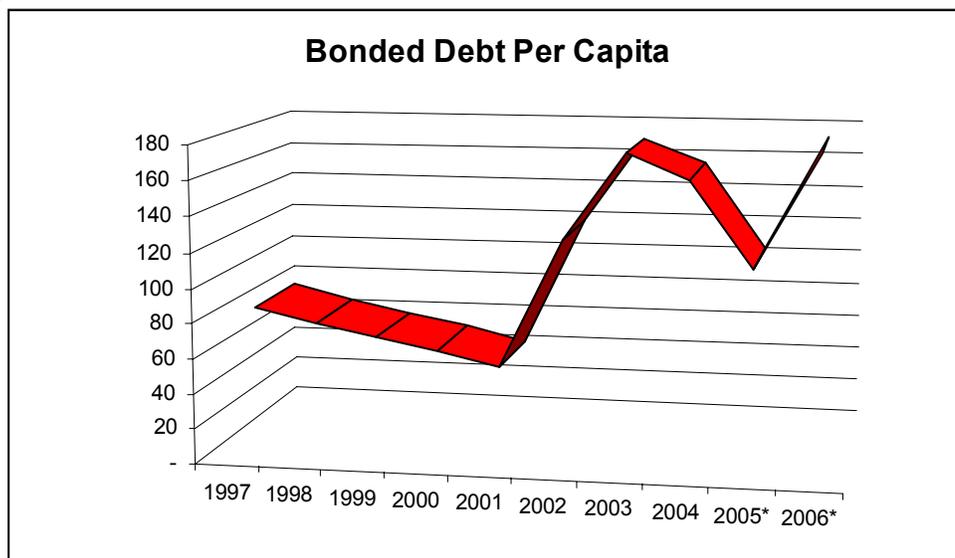


Table 12
Direct and Overlapping Government Activities Debt
As of December 31, 2006
 (amounts expressed in thousands)

Governmental Unit	Estimated Debt Outstanding	Estimated Percentage Applicable ¹	Estimated Share of Overlapping Debt
Debt repaid with property taxes:			
Thurston County	\$ 50,689	14.420%	\$ 7,310
Port of Olympia	22,900	14.420%	3,302
North Thurston School District	106,489	42.500%	45,258
Fire Districts	7,600	13.178%	1,002
Subtotal, overlapping debt			<u>\$ 56,872</u>
City's direct debt			<u>23,157</u>
Total direct and overlapping debt			<u><u>\$ 80,029</u></u>

Source: Assessed value data used to estimate applicable percentages provided by the Thurston County Assessor and Treasurer Offices.

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

Explanation

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

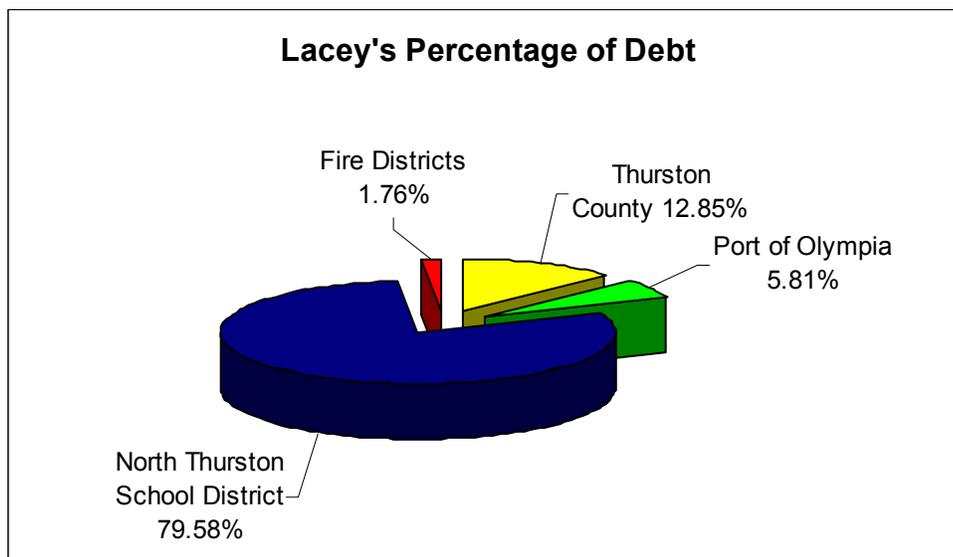


Table 13

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

	1997	1998	1999	2000	2001
Debt Limit	\$ 102,359	\$ 109,000	\$ 112,128	\$ 118,378	\$ 127,451
Total net debt applicable to limit	4,821	4,391	3,899	3,373	2,959
Legal debt margin	\$ 97,538	\$ 104,609	\$ 108,229	\$ 115,005	\$ 124,492
Total net debt applicable to the limit as a percentage of debt limit	4.71%	4.03%	3.48%	2.85%	2.32%

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

2002	2003	2004	2005	2006
\$ 139,504	\$ 152,997	\$ 164,235	\$ 187,662	\$ 216,506
8,219	12,417	11,682	9,415	17,462
\$ 131,285	\$ 140,580	\$ 152,553	\$ 178,247	\$ 199,044
5.89%	8.12%	7.11%	5.02%	8.07%

Legal Debt Margin Calculations for 2006:

Assessed Value	\$ 2,886,751
Add back: exempt real property	-
Total assessed value	\$ 2,886,751
Debt limit (7.5% of total assessed value)	\$ 216,508
Debt applicable to limit:	
General obligation bonds	18,190
Less: Amount set aside for repayment of general obligation debt	(728)
Total net debt applicable to limit	17,462
Legal debt margin	\$ 199,044

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

Fiscal Year	Sewer/Water Revenue Bonds						Special Assessment Bonds			
	Total Operating Revenues	Less Operating Expenses	Net Available Revenue	Debt Service		Coverage	Assessment Collections	Special Debt Service		Coverage
			Principal	Interest				Principal	Interest	
1997	10,956	6,216	4,470	685	700	3.42	1,067	820	354	0.91
1998	10,913	7,064	3,849	660	486	3.36	1,313	705	317	1.28
1999	11,317	7,302	4,015	860	492	2.97	1,005	1,140	282	0.71
2000	11,408	8,557	2,851	950	454	2.03	929	800	223	0.91
2001	12,110	8,980	3,130	990	408	2.24	1,180	775	179	1.24
2002	12,464	9,524	2,940	1,035	311	2.18	1,517	865	540	1.08
2003	13,805	9,923	3,882	2,315	261	1.51	2,329	655	446	2.12
2004	15,098	11,231	3,867	945	201	3.37	1,464	1,540	378	0.76
2005	17,007	11,464	5,543	985	98	5.12	2,005	1,300	295	1.26
2006	22,233	12,936	9,297	330	56	24.09	1,244	1,280	225	0.83

Note: Details regarding the city's outstanding debt can be found in the notes to the financial statements.
Operating revenues do not include investment earnings and other non-operating revenues.
Operating expenses do not include interest or depreciation expenses.

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

Table 15

Demographic and Economic Statistics
Last Ten Fiscal Years

Fiscal Year	Population	Personal Income (amounts expressed in thousands)	County Per Capita Personal Income ¹	North Thurston Public School Enrollment	County Unemployment Rate ²
1997	27,570	\$ 671,853	\$ 24,369	13,118	5.1%
1998	28,240	727,378	25,757	13,116	4.9%
1999	29,020	774,021	26,672	12,979	4.6%
2000	31,226	913,361	29,250	12,231	5.0%
2001	31,600	964,495	30,522	12,188	5.7%
2002	31,860	976,159	30,639	12,887	5.8%
2003	32,240	1,000,536	31,034	13,089	5.7%
2004	32,530	1,046,815	32,180	13,079	5.2%
2005	33,180	1,067,732*	32,180*	13,119	5.0%
2006	34,060	1,096,051*	32,180*	13,370	4.6%

Data Sources:

Thurston Regional Planning Council, *The Profile* October 2006 (www.trpc.org)

U.S. Department of Commerce, Bureau of Economic Analysis Regional Economic Information System (REIS) (<http://www.bea.doc.gov/bea/regional/statelocal.htm>)

Explanation:

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

Note: *The information presented is based on the most recent available statistical data (2004).

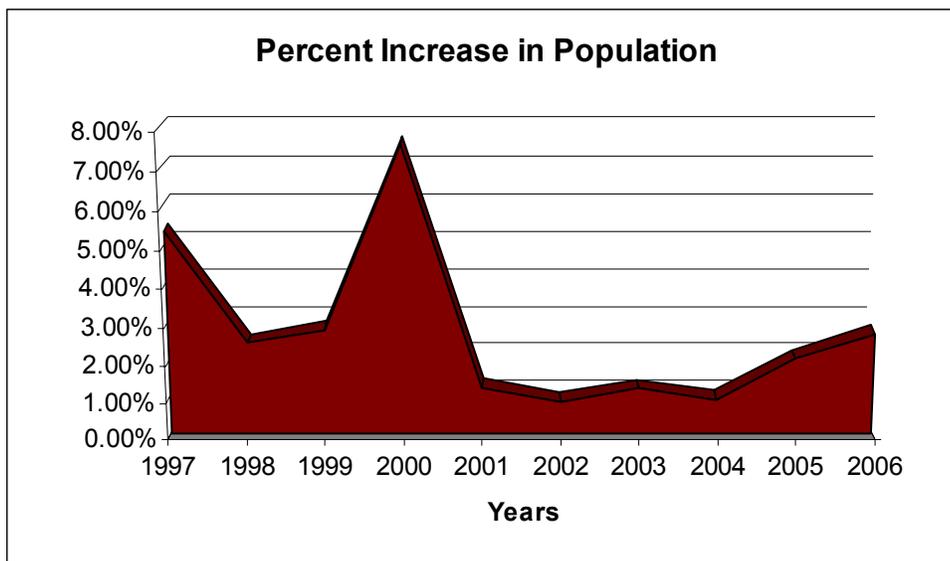


Table 16
Principal Employers
Current Year and Nine Years Ago

Employer	2006		1997	
	Number of Employees	Percentage of Total City Employment ²	Number of Employees	Percentage of Total City Employment ²
State of Washington ¹	3,545	19%	2,570	16%
North Thurston Public Schools	1,710	9%	1,500	9%
Wal-Mart Stores	400-500	2%	-	-
City of Lacey	450	2%	169	1%
Target Corporation	300-500	2%	-	-
Paranoma City	360	2%	285	2%
St. Martin's College	350	2%	201	1%
Ostrom Mushroom Company	305	2%	-	-
Illuminet (as of 2002, Verisign)	250	1%	137	1%
Fred Meyers	240	1%	330	2%
Safeway Stores	-	-	150	1%
Sears Roebuck & Co.	-	-	170	1%
Capital Development Co.	-	-	190	1%
Total	7,910- 8,210	42%	5,702	36%

Source:
Thurston County Regional Planning Council (TRPC), Profile 2006 (www.trpc.org).
Human resources offices of the employers
The City of Lacey, 1997 Comprehensive Annual Financial Report.

Explanations:

- ¹ Includes Lacey and Urban Growth Area. Actual statistical data not available for years 1997 and 2006. The number of employees for years 1998 and 2003/2005 are used for 1997 and 2006, respectively. Numbers include both full-time and part-time employees.
- ² Total City employment data not available for years 2006 and 1997. The percentage presented are based on the estimated total employment in year 2003 and 1998, respectively.

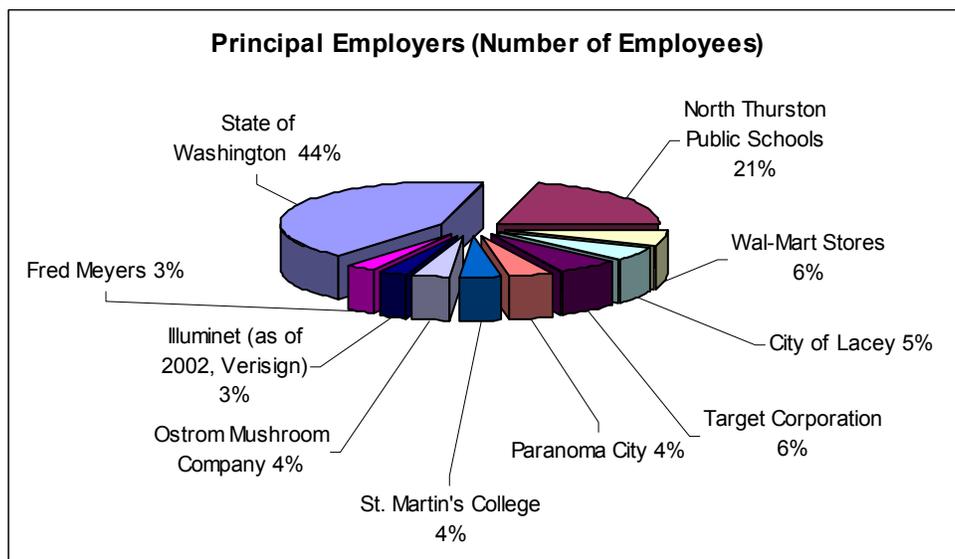


Table 17

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

Function	Full-Time Equivalent Employees as of December 31									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
General government	21.50	22.00	22.25	23.75	23.75	23.75	24.00	24.00	24.00	27.00
Security of persons and property										
Police Officers	41.00	41.00	41.00	42.00	45.00	46.00	47.00	47.00	47.00	49.00
Civilians	9.50	9.50	10.50	10.50	12.91	12.41	12.41	12.41	12.41	12.41
Transportation										
Engineering	26.50	28.50	28.50	30.50	30.50	31.50	31.50	31.00	32.00	36.00
Maintenance	21.50	21.50	21.70	21.70	22.70	23.68	24.68	26.68	27.68	28.68
Economic development	13.75	13.75	13.75	13.50	13.50	13.50	13.50	13.50	15.75	16.75
Culture and recreation	8.50	9.50	9.50	10.50	10.75	11.75	11.75	11.75	13.00	13.00
Water	16.65	15.62	15.62	15.70	17.70	15.53	17.41	19.41	22.95	21.95
Wastewater	6.35	9.38	11.38	11.30	11.30	13.47	13.59	13.59	14.05	15.05
Stormwater	3.50	3.50	5.30	5.30	5.30	5.32	5.32	5.32	5.32	5.32
Total	168.75	174.25	179.50	184.75	193.41	196.91	201.16	204.66	214.16	225.16

Source: City of Lacey Budget Records

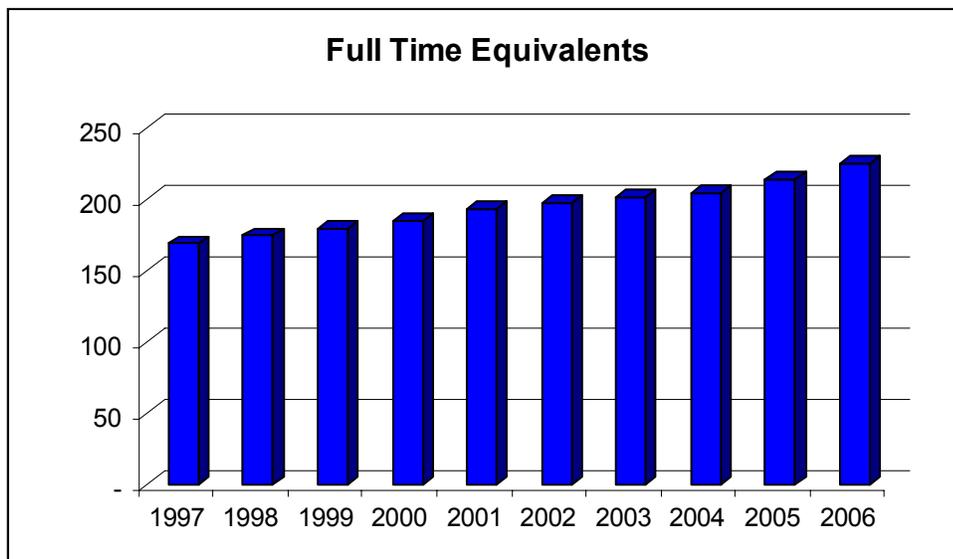


Table 18

Operating Indicators by Function
Last Ten Fiscal Years

Function	Fiscal Year									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Police										
Physical arrests	3,016	2,259	2,689	2,454	2,418	2,494	2,968	2,711	2,651	3,255
Traffic citations	6,786	5,667	6,272	5,217	4,716	7,135	7,385	7,807	5,660	5,623
Number of calls for service	42,200	38,106	37,997	37,593	38,335	40,023	42,802	43,103	43,232	46,452
Crime rate calls per thousand population	37.2	30.9	N/A	27.3	24.5	22.1	22.6	21.7	22.6	24.0
Highways and streets										
Miles of street resurfacing	3	2	3	N/A	4	1	4	8	10	13
Miles of street swept	278	3,666	3,735	3,807	3,991	4,153	4,529	5,030	4,038	3,640
State of the street (% of Good Condition)	49%	60%	61%	61%	57%	52%	63%	65%	87%	90%
Economic Development										
Number of building permits issued	394	551	518	250	327	321	364	494	1,025	1,604
Number of building inspections	6,564	6,214	6,220	4,666	4,977	4,444	5,225	8,977	15,819	20,589
Number of complaints processed	165	111	191	188	157	123	99	106	135	127
Commercial site plan reviews	12	35	40	29	22	24	28	23	25	27
Culture and recreation										
Community center bookings	N/A	397	709	824	575	572	733	925	900	951
Average number of programs offered per quarter	N/A	262	300	305	268	215	218	276	323	265
Program registrations	N/A	7,971	8,755	11,454	11,832	15,368	13,272	13,829	8,206	11,687
Community-wide special events	N/A	19	61	61	56	60	29	34	35	32
Number of street trees maintained	1518	1,518	1,580	1,580	1,866	1,866	1,918	2,195	2,195	2,346
Water										
Gallons of water pumped (millions)	1,906	2,112	1,933	2,029	1,935	2,228	2,299	2,435	2,490	3,083
Gallons of water sold (millions)	1,747	1,923	1,877	1,960	1,877	1,999	2,100	2,097	2,009	2,350
Average daily consumption (millions of gallons)	5.23	5.82	5.30	5.56	5.31	6.11	6.30	6.68	6.83	8.45
Number of valves exercised	1,420	854	1,364	1,315	739	2,016	1,720	3,703	3,132	5,794
Number of hydrants exercised	511	267	268	1,315	N/A	226	448	449	662	335
Number of water mains breaks	N/A	N/A	N/A	N/A	N/A	190	134	160	243	201
Number of customers served	15,000	15,000	15,621	15,664	16,300	16,346	16,346	17,172	17,916	19,267
Wastewater										
Number of lift station incident responses	269	262	328	254	203	411	292	522	588	317
Number of STEP system incident responses	324	350	389	248	270	206	316	591	659	258
Lines cleaned (in feet)	9,672	66,991	96,191	133,815	144,658	143,708	102,147	151,274	180,517	212,633
Lines televised (in feet)	3,000	30,940	111,307	103,353	120,186	33,916	91,645	78,202	208,976	94,470
Odor complaints	N/A	N/A	N/A	N/A	N/A	N/A	N/A	20	18	8
Stormwater										
Percentage of catch basins cleaned	77%	43%	90%	100%	100%	100%	100%	100%	100%	100%
Acres of storm ponds maintained	25.6	28.0	30.6	30.6	35.6	35.6	38.7	38.7	38.7	38.7
City responses to spills	47	22	42	32	31	44	57	43	49	56

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

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

Table 19

Capital Asset Statistics by Function
Last Ten Fiscal Years

Function	Fiscal Year									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Security of persons and property										
Police station	1	1	1	1	1	1	1	1	1	1
Patrol units	N/A	N/A	N/A	N/A	14	14	14	14	16	16
Highways and streets										
Miles of paved street	95	103	108	111	111	115	116	117	128	122
Number of streetlights	1,777	1,875	1,849	1,900	1,900	2,300	2,375	2,433	2,852	2,973
Number of street signs	3,580	3,666	3,735	3,807	3,991	4,153	4,529	5,030	5,636	5,983
Traffic signals	25	26	26	27	25	25	26	27	28	30
Culture and recreation										
Number of parks	23	23	24	25	25	26	25	25	25	24
Parks acreage including outside city limits	465	465	465	444	462	501	501	501	501	501
Developed acres	70	70	70	70	70	70	70	151	151	162
Soccer fields	5	5	5	5	5	5	5	12	14	16
Tennis courts	4	4	4	4	4	4	4	8	8	8
Community centers	1	1	1	1	1	1	1	1	1	1
Baseball, softball fields	3	3	3	3	3	3	3	7	7	7
Water										
Miles of water lines	274	282	289	315	286	301	304	310	334	342
Number of reservoirs	6	6	7	7	7	8	8	8	8	8
Number of booster stations	5	5	6	6	7	8	8	8	8	8
Maximum storage capacity (millions of gallons)	10	10	11	11	13	13	13	13	13	13
Number of production wells	14	14	19	19	19	19	19	19	20	19
Number of Hydrants	N/A	2,130	2,130	2,200	2,374	2,375	2,479	2,666	2,848	5,528
Wastewater										
Miles of sewer transmission lines	105	106	106	98	103	92	94	113	125	132
Miles of STEP transmission lines	29	33	35	34	38	41	43	46	47	49
Odor control facilities	2	3	8	13	10	10	10	11	11	11
Number of lift stations	23	23	23	23	25	25	32	36	38	39
Stormwater										
Number of catch basins	2,300	2,277	2,417	2,504	3,217	3,217	3,217	3,073	3,665	3,300
Number of private storm ponds	231	197	200	197	244	244	244	350	381	403

Sources: Various city departments and the "Statiscal Measurements" reports from City Manager's Office.
Note: No capital asset indicators are available for the general government or physical environment.



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