



**Office of the Washington State Auditor**  
**Pat McCarthy**

**Financial Statements and Federal Single Audit  
Report**  
**City of Lacey**

**For the period January 1, 2019 through December 31, 2019**

**Published July 30, 2020**

**Report No. 1026723**





**Office of the Washington State Auditor  
Pat McCarthy**

July 30, 2020

Mayor and City Council  
City of Lacey  
Lacey, Washington

**Report on Financial Statements and Federal Single Audit**

Please find attached our report on the City of Lacey's financial statements and compliance with federal laws and regulations.

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

Sincerely,

Pat McCarthy  
State Auditor  
Olympia, WA

***Americans with Disabilities***

*In accordance with the Americans with Disabilities Act, we will make this document available in alternative formats. For more information, please contact our Office at (564) 999-0950, TDD Relay at (800) 833-6388, or email our webmaster at [webmaster@sao.wa.gov](mailto:webmaster@sao.wa.gov).*

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# SCHEDULE OF FINDINGS AND QUESTIONED COSTS

## City of Lacey January 1, 2019 through December 31, 2019

### SECTION I – SUMMARY OF AUDITOR’S RESULTS

The results of our audit of the City of Lacey are summarized below in accordance with Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

#### Financial Statements

We issued an unmodified opinion on the fair presentation of the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information in accordance with accounting principles generally accepted in the United States of America (GAAP).

Internal Control over Financial Reporting:

- *Significant Deficiencies:* We reported no deficiencies in the design or operation of internal control over financial reporting that we consider to be significant deficiencies.
- *Material Weaknesses:* We identified deficiencies that we consider to be material weaknesses.

We noted no instances of noncompliance that were material to the financial statements of the City.

#### Federal Awards

Internal Control over Major Programs:

- *Significant Deficiencies:* We reported no deficiencies in the design or operation of internal control over major federal programs that we consider to be significant deficiencies.
- *Material Weaknesses:* We identified no deficiencies that we consider to be material weaknesses.

We issued an unmodified opinion on the City's compliance with requirements applicable to its major federal program.

We reported no findings that are required to be disclosed in accordance with 2 CFR 200.516(a).

### **Identification of Major Federal Programs**

The following program was selected as a major program in our audit of compliance in accordance with the Uniform Guidance.

<u>CFDA No.</u>	<u>Program or Cluster Title</u>
20.205	Highway Planning and Construction Cluster – Highway Planning and Construction

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by the Uniform Guidance, was \$750,000.

The City did not qualify as a low-risk auditee under the Uniform Guidance.

### **SECTION II – FINANCIAL STATEMENT FINDINGS**

See Finding 2019-001.

### **SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

None reported.

## SCHEDULE OF AUDIT FINDINGS AND RESPONSES

### City of Lacey

January 1, 2019 through December 31, 2019

**2019-001 The City lacked adequate internal controls over its calculation for determining major funds to present in its financial statements.**

#### *Background*

The City is responsible for designing, implementing and maintaining internal controls that provide reasonable assurance regarding the timeliness and reliability of financial reporting. Failure to submit timely financial reports limits access by the public, state and federal agencies, and other interested parties to financial and other information about the City.

*Government Auditing Standards* requires the auditor to communicate a material weakness, as defined below in the Applicable Laws and Regulations section, as a finding.

The focus of governmental and proprietary fund financial statements is on major funds. Under generally accepted accounting principles (GAAP), major funds are presented individually and non-major funds are reported in aggregate. Accounting standards provide a quantitative threshold for identifying which funds must be reported as major.

#### *Description of Condition*

The City's Transportation Benefit District fund current year transactions were large enough that accounting standards required the City to report it as a major fund. However, the City incorrectly reported this fund as a nonmajor fund. The City's review process during financial statement preparation was not sufficient to detect this error.

We consider this deficiency to be a material weakness.

#### *Cause of Condition*

The City initially used-prior year transactions to determine which funds were major, and did not have a process in place to confirm the major funds reported were correct once final current year financial statement transactions were determine

### ***Effect of Condition***

The City omitted a major fund from the presentation of governmental funds financial statements. The City has corrected this error.

### ***Recommendation***

We recommend the City improve internal controls over its calculation of major funds and strengthen its financial statement review processes to detect errors.

### ***City's Response***

*The City confirms that the Transportation Benefit District (TBD) should have been reported as a major fund on the 2019 financial statements. The City originally presented TBD in the "Other Governmental Funds" column on the Governmental Fund Statement, rather than a separate major fund column. The financial statement classification was corrected immediately and is reflected accurately in the published financial statements. The classification of the TBD as a major fund is expected to be a one-time occurrence. Due to a large grant-funded overlay project, there was more activity than in previous years and expected to be in future years. Going forward, the major fund calculation will be reviewed again prior to finalizing the financial statements.*

### ***Auditor's Remarks***

We appreciate the City's commitment to resolve this finding and thank the City for its cooperation and assistance during the audit. We will review the corrective action taken during the next regular audit.

### ***Applicable Laws and Regulations***

RCW 43.09.200 Local government accounting – Uniform system of accounting

*Budgeting, Accounting and Reporting Systems* manual – Accounting, Accounting Principles and General Procedures, Internal Control, Section 3.1.3

Government Auditing Standards, December 2011 Revision, paragraph 4.23

The American Institute of Certified Public Accountants defines significant deficiencies and material weaknesses in its Codification of Statements on Auditing Standards, section 265

Governmental Accounting Standards Board, Statement, No. 34, paragraph 75-76

Audit and Accounting Guides (AICPA), State and Local Governments, Chapter 16 Audit Reporting, paragraph 53

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND  
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

**City of Lacey  
January 1, 2019 through December 31, 2019**

Mayor and City Council  
City of Lacey  
Lacey, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Lacey, as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated July 24, 2020.

As discussed in Note O to the financial statements, in February 2020, a state of emergency was declared that could have a negative financial effect on the City.

**INTERNAL CONTROL OVER FINANCIAL REPORTING**

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying

Schedule of Audit Findings and Responses, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Audit Findings and Responses as Finding 2019-001 to be a material weakness.

## **COMPLIANCE AND OTHER MATTERS**

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

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

## **CITY'S RESPONSE TO FINDINGS**

The City's response to the findings identified in our audit is described in the accompanying Schedule of Audit Findings and Responses. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

## **PURPOSE OF THIS REPORT**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and

compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

A handwritten signature in black ink that reads "Pat McCarthy". The signature is written in a cursive, flowing style.

Pat McCarthy  
State Auditor  
Olympia, WA

July 24, 2020

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR  
EACH MAJOR FEDERAL PROGRAM AND REPORT ON  
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE  
WITH THE UNIFORM GUIDANCE**

**City of Lacey  
January 1, 2019 through December 31, 2019**

Mayor and City Council  
City of Lacey  
Lacey, Washington

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL  
PROGRAM**

We have audited the compliance of the City of Lacey, with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended December 31, 2019. The City's major federal programs are identified in the accompanying Schedule of Findings and Questioned Costs.

**Management's Responsibility**

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 *U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements

referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination on the City's compliance.

### **Opinion on Each Major Federal Program**

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2019.

## **REPORT ON INTERNAL CONTROL OVER COMPLIANCE**

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program in order to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Purpose of this Report**

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

A handwritten signature in black ink that reads "Pat McCarthy". The signature is written in a cursive, flowing style.

Pat McCarthy  
State Auditor  
Olympia, WA

July 24, 2020

# INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

## City of Lacey January 1, 2019 through December 31, 2019

Mayor and City Council  
City of Lacey  
Lacey, Washington

### REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Lacey, as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed on page 18.

#### Management's Responsibility for the Financial Statements

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

#### Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether

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

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

## **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, as of December 31, 2019, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Matters of Emphasis**

As discussed in Note O to the financial statements, in February 2020, a state of emergency was declared that could have a negative financial effect on the Council. Our opinion is not modified with respect to this matter.

## **Other Matters**

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information listed on page 18 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for

consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### ***Supplementary and Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by Title 2 *U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). This schedule is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

## **OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS**

In accordance with *Government Auditing Standards*, we have also issued our report dated July 24, 2020 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral

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

A handwritten signature in cursive script that reads "Pat McCarthy".

Pat McCarthy

State Auditor

Olympia, WA

July 24, 2020

## FINANCIAL SECTION

### City of Lacey January 1, 2019 through December 31, 2019

#### REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2019

#### BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2019

Statement of Activities – 2019

Governmental Funds Balance Sheet – 2019

Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Position – 2019

Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental Funds – 2019

Reconciliation of Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance to the Statement of Activities – 2019

Statement of Net Position – Proprietary Funds – 2019

Statement of Revenues, Expenses and Changes in Fund Net Position – Proprietary Funds – 2019

Statement of Cash Flows – Proprietary Funds – 2019

Statement of Net Position – Fiduciary Funds – 2019

Notes to Financial Statements – 2019

#### REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget to Actual – General Fund – 2019

Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget to Actual – Transportation Benefit District – 2019

Schedule of Proportionate Share of Net Pension Liability – PERS 1, PERS 2/3, LEOFF 1, LEOFF 2 – 2019

Schedule of Employer Contributions – PERS 1, PERS 2/3, LEOFF 2 – 2019

Changes in Total OPEB Liability – LEOFF 1 – 2019

## **SUPPLEMENTARY AND OTHER INFORMATION**

Schedule of Expenditures of Federal Awards – 2019

Notes to the Schedule of Expenditures of Federal Awards – 2019

## Management's Discussion and Analysis

As management of the City of Lacey, we offer readers of the City of Lacey's financial statements this narrative overview and analysis of the financial activities of the City of Lacey for the fiscal year ended December 31, 2019. We encourage readers to consider the information presented here, in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages 1-1 to 1-4 of this report.

### Financial Highlights

- The City of Lacey's overall financial position improved in 2019 as compared to 2018.
- At the end of the fiscal year, the assets and deferred outflows of resources of the City of Lacey exceeded its liabilities and deferred inflows of resources by \$782.7 million. Net investments in capital assets account for 74.3 percent of the amount (\$581.1 million). Of the remaining net position in the amount of \$201.6 million, \$5.9 million is subject to external restrictions and \$195.7 million may be used to meet the City's ongoing obligations to citizens and creditors.
- The City of Lacey's total net position increased by \$47.5 million. The governmental activity net position increased by \$24.8 million compared to the previous year. The business-type activity net position increased by \$22.7 million. The business-type increase included net position for the Water Utility of \$14.8 million, \$6.1 million for the Wastewater Utility, \$1.5 million for the Stormwater Utility, and \$53,716 for the Reclaimed Water Utility.
- At the close of 2019, the City of Lacey's governmental funds reported a combined ending fund balance of \$106.2 million, an increase of \$11.6 million.

Of the major funds, the ending fund balance of the General Fund increased \$5.2 million, the Arterial Street Fund increased \$4.6 million, and the Transportation Benefit District Fund increased \$577,310.

Nonmajor funds combined fund balance increased \$1.2 million. A \$458,402 increase to fund balance occurred in the Capital Equipment Fund due to slower than expected equipment replacement during 2019. The Parks and Open Space Fund experienced a \$401,286 decrease to fund balance due to scheduled park and facility improvements. An \$851,706 increase to fund balanced occurred in the Regional Athletic Complex Capital Fund due to higher than expected sales tax collections.

Approximately \$18.8 million (17.7 percent) of the combined ending fund balance is unassigned and reported in the General Fund, which is an increase of \$3.4 million compared to the prior year's amount of \$15.4 million. Unassigned fund balance is available to the City of Lacey for discretionary spending.

- The City of Lacey's total outstanding debt decreased \$1.9 million (11.0 percent) to \$15.7 million during the current fiscal year. The decrease is equal to the debt redemption during 2019.
- Revenues from local tax sources, including property, sales, business excise, and miscellaneous other taxes increased by \$1.8 million to \$40.4 million, a 4.6 percent increase compared to 2018. Retail sales taxes experienced the largest

increase due to strong construction activity and modest retail sales increases.

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

## **Overview of the Financial Statements**

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

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

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

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

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

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

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

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

fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in assessing a government's near-term financing requirements.

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

The City of Lacey maintains thirteen 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 and arterial street fund, which are considered to be major funds. Data from the other eleven governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

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

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

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

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

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

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

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

**Notes to the Financial Statements.** The notes provide additional information that is necessary to acquire a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 4-13 to 4-52 of this report.

**Required Supplementary Information.** This report also contains other required supplementary information (RSI) on budgetary comparisons for major governmental funds and trend data on the funding status of other postemployment benefits. The required supplementary information can be found on pages 5-1 to 5-6 of this report.

**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 on pages 6-1 to 6-23 of this report.

### Government-wide Overall Financial Analysis

As noted earlier, net position over time, may serve as a useful indicator of a government's financial position. In the case of the City of Lacey, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$782.7 million at the close of the most recent fiscal year.

The following table provides a summary of the City of Lacey's net position as of December 31, 2019 and December 31, 2018:

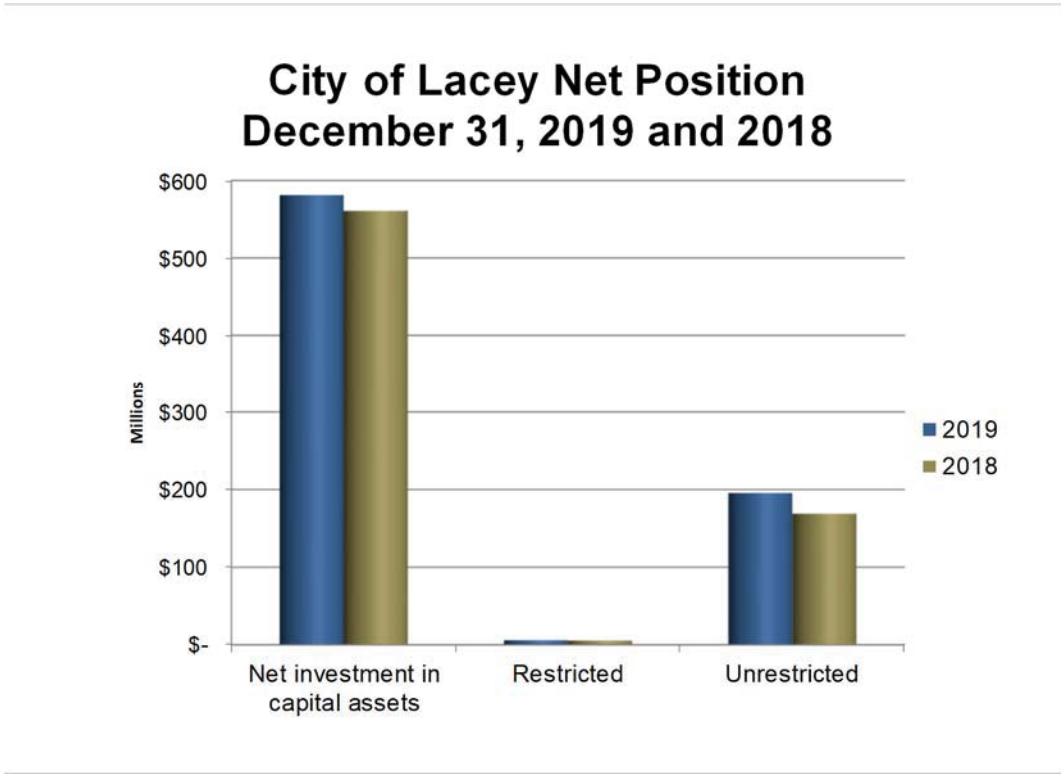
	Governmental		Business-Type		Total		Percentage	
	Activities		Activities				Of Total	
	2019	2018	2019	2018	2019	2018	2019	2018
<b>Assets:</b>								
Current assets	\$ 129,234,786	\$ 115,378,227	\$ 91,327,739	\$ 81,520,596	\$ 220,562,525	\$ 196,898,823	26.8%	25.3%
Restricted assets	23,805	63,596	914,222	917,119	938,027	980,715	0.1%	0.1%
Investment in joint venture	667,731	623,484	-	-	667,731	623,484	0.1%	0.1%
Net pension asset	4,756,967	4,098,908	-	-	4,756,967	4,098,908	0.6%	0.5%
Capital assets	321,701,079	314,544,620	274,790,485	263,161,632	596,491,564	577,706,252	72.4%	74.0%
<b>Total assets</b>	<b>456,384,368</b>	<b>434,708,835</b>	<b>367,032,446</b>	<b>345,599,347</b>	<b>823,416,814</b>	<b>780,308,182</b>	<b>100.0%</b>	<b>100.0%</b>
<b>Deferred outflow s of resources</b>								
Deferred charge on refunding	455,821	532,207	-	-	455,821	532,207	14.5%	18.7%
Deferred outflow s related to OPEB	61,740	77,607	-	-	61,740	77,607	2.0%	2.7%
Deferred outflow s related to pensions	2,133,587	1,826,376	476,218	414,753	2,609,805	2,241,129	83.5%	78.6%
<b>Total deferred outflow s of resources</b>	<b>2,651,148</b>	<b>2,436,190</b>	<b>476,218</b>	<b>414,753</b>	<b>3,127,366</b>	<b>2,850,943</b>	<b>100.0%</b>	<b>100.0%</b>
<b>Liabilities:</b>								
Current liabilities	7,046,871	6,126,414	2,431,719	2,824,812	9,478,590	8,951,226	24.6%	20.8%
Long-term liabilities	19,631,502	23,918,110	9,412,956	10,233,420	29,044,458	34,151,530	75.4%	79.2%
<b>Total liabilities</b>	<b>26,678,373</b>	<b>30,044,524</b>	<b>11,844,675</b>	<b>13,058,232</b>	<b>38,523,048</b>	<b>43,102,756</b>	<b>100.0%</b>	<b>100.0%</b>
<b>Deferred inflow s of resources</b>								
Deferred inflow s related to pensions	4,475,548	4,018,870	880,081	828,695	5,355,629	4,847,565	100.0%	100.0%
<b>Total deferred inflow s of resources</b>	<b>4,475,548</b>	<b>4,018,870</b>	<b>880,081</b>	<b>828,695</b>	<b>5,355,629</b>	<b>4,847,565</b>	<b>100.0%</b>	<b>100.0%</b>
<b>Net Position:</b>								
Net investment in capital assets	314,137,823	306,006,621	266,976,119	254,790,496	581,113,942	560,797,117	74.2%	76.3%
Restricted	5,196,976	4,781,984	694,361	694,361	5,891,337	5,476,345	0.8%	0.7%
Unrestricted	108,546,796	92,293,026	87,113,428	76,642,316	195,660,224	168,935,342	25.0%	23.0%
<b>Total net position</b>	<b>\$ 427,881,595</b>	<b>\$ 403,081,631</b>	<b>\$ 354,783,908</b>	<b>\$ 332,127,173</b>	<b>\$ 782,665,503</b>	<b>\$ 735,208,804</b>	<b>100.0%</b>	<b>100.0%</b>

By far, the largest portion of the City of Lacey’s net position (74.3 percent) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment) less any related debt used to acquire those assets that are still outstanding. The City of Lacey uses these capital assets to provide services to citizens. Accordingly, these assets are *not* available for future spending. Although the City of Lacey’s investment in its capital assets is reported net of related debt, it should be noted that the resources used to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City of Lacey’s net position (\$5.9 million) represents resources that are subject to external restrictions on how they may be used. Reported as unrestricted net position, the governing body has committed and assigned \$85.6 million of the City’s net position for specific purposes. The remaining balance of unrestricted *net position* (\$110.1 million) may be used to meet the government’s ongoing obligations to citizens and creditors.

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

The City of Lacey’s overall net position increased by \$47.5 million in 2019. The increase is explained in the following discussion of governmental and business-type activities.



**Governmental Activities.** Governmental activities increased the City of Lacey’s net position by \$24.8 million.

- Operating revenues (charges for services) increased by \$1.8 million, mainly due to increases to transportation revenue relating to traffic mitigation fees and building permit fees and plan review volume from construction activity. Program expenses for general government activities increased in the amount of \$505,642

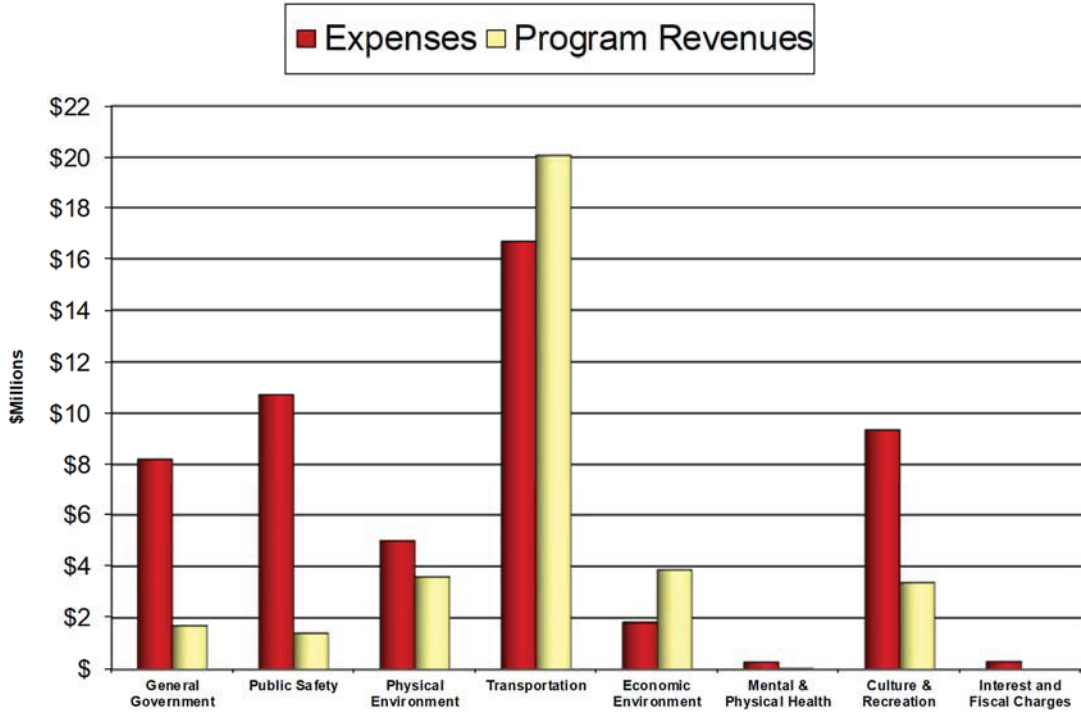
due to inflationary increases and the addition a full-time position for emergency management. Transportation program expenses increased \$2.8 million due to a significantly larger scope street overlay maintenance project, which a grant award contributed the majority of the funding. Culture and Recreation increased \$885,963 due to inflationary increases and the addition of a full-time position to address parks maintenance needs.

- Transportation capital grant and contribution revenues increased \$9.9 million due to higher developer contributed assets, traffic mitigation fees, and grant reimbursements.
- General revenues increased \$2.7 million. Retail sales taxes increased by \$893,637, because of overall higher retail sales activities and strong construction activity. Interest and investment earnings revenue increased \$892,529, due to the rising interest rate environment and full implementation of the City's updated investment policy.

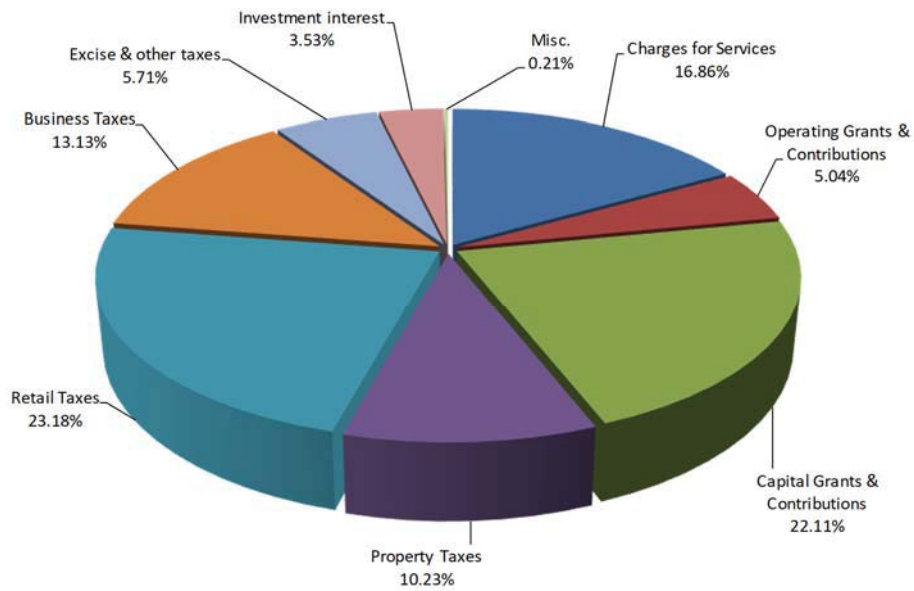
The following table provides a summary of the City's changes in net position as of December 31, 2019 and December 31, 2018:

	Governmental Activities		Business-Type Activities		Total		Percentage Of Total	
	2019	2018	2019	2018	2019	2018	2019	2018
<b>Revenues:</b>								
<b>Program</b>								
Charges for services	\$ 13,033,228	\$ 11,183,738	\$ 44,111,229	\$ 44,179,413	\$ 57,144,457	\$ 55,363,151	41.8%	47.1%
Operating Grants	3,895,231	3,649,832	31,759	-	3,926,990	3,649,832	2.9%	3.1%
Capital Grants	17,095,752	7,307,994	13,178,692	9,329,616	30,274,444	16,637,610	22.2%	14.1%
<b>General</b>								
Taxes	40,409,268	38,625,406	-	-	40,409,268	38,625,406	29.6%	32.8%
Interest	2,728,902	1,836,373	1,892,450	1,240,571	4,621,352	3,076,944	3.4%	2.6%
Gain (loss) on disposal of capital assets	41,071	37,102	932	-	42,003	37,102	0.0%	0.1%
Miscellaneous	159,202	110,118	-	143,654	159,202	253,772	0.1%	0.2%
<b>Total revenues</b>	<b>77,362,654</b>	<b>62,750,563</b>	<b>59,215,062</b>	<b>54,893,254</b>	<b>136,577,716</b>	<b>117,643,817</b>	<b>100.0%</b>	<b>100.0%</b>
<b>Program expenses:</b>								
General Government	8,200,456	7,694,814	-	-	8,200,456	7,694,814	9.2%	9.4%
Security of Persons and Property	10,718,803	10,821,755	-	-	10,718,803	10,821,755	12.0%	13.1%
Physical Environment	4,993,270	4,607,000	-	-	4,993,270	4,607,000	5.6%	5.6%
Transportation	16,678,416	13,869,660	-	-	16,678,416	13,869,660	18.7%	16.8%
Economic Environment	1,829,865	1,725,457	-	-	1,829,865	1,725,457	2.1%	2.1%
Mental and Physical Health	279,050	119,956	-	-	279,050	119,956	0.3%	0.2%
Culture & Recreation	9,345,813	8,459,850	-	-	9,345,813	8,459,850	10.5%	10.3%
Interest and fiscal charges	298,469	337,779	-	-	298,469	337,779	0.3%	0.4%
Water	-	-	13,947,884	13,451,539	13,947,884	13,451,539	15.7%	16.3%
Wastewater	-	-	18,586,515	17,398,069	18,586,515	17,398,069	20.9%	21.1%
Stormwater	-	-	4,210,023	3,876,731	4,210,023	3,876,731	4.7%	4.7%
Reclaimed Water	-	-	32,453	32,084	32,453	32,084	0.0%	0.0%
<b>Total expenses</b>	<b>52,344,142</b>	<b>47,636,271</b>	<b>36,776,875</b>	<b>34,758,423</b>	<b>89,121,017</b>	<b>82,394,694</b>	<b>100.0%</b>	<b>100.0%</b>
Excess (deficiency) of revenues over (under) expenses	25,018,512	15,114,292	22,438,187	20,134,831	47,456,699	35,249,122		
Transfers	(218,548)	(328,218)	218,548	328,218	-	-		
<b>Change in net position</b>	<b>24,799,964</b>	<b>14,786,074</b>	<b>22,656,735</b>	<b>20,463,048</b>	<b>47,456,699</b>	<b>35,249,122</b>		
Net position - beginning as previously reported	403,081,631	392,208,220	332,127,173	311,664,125	735,208,804	703,872,345		
Changes in accounting principle	-	(3,912,663)	-	-	-	(3,912,663)		
<b>Net position - beginning, adjusted</b>	<b>403,081,631</b>	<b>388,295,557</b>	<b>332,127,173</b>	<b>311,664,125</b>	<b>735,208,804</b>	<b>699,959,682</b>		
<b>Net position - ending</b>	<b>\$ 427,881,595</b>	<b>\$ 403,081,631</b>	<b>\$ 354,783,908</b>	<b>\$ 332,127,173</b>	<b>\$ 782,665,503</b>	<b>\$ 735,208,804</b>		

## Expenses and Program Revenues - Governmental



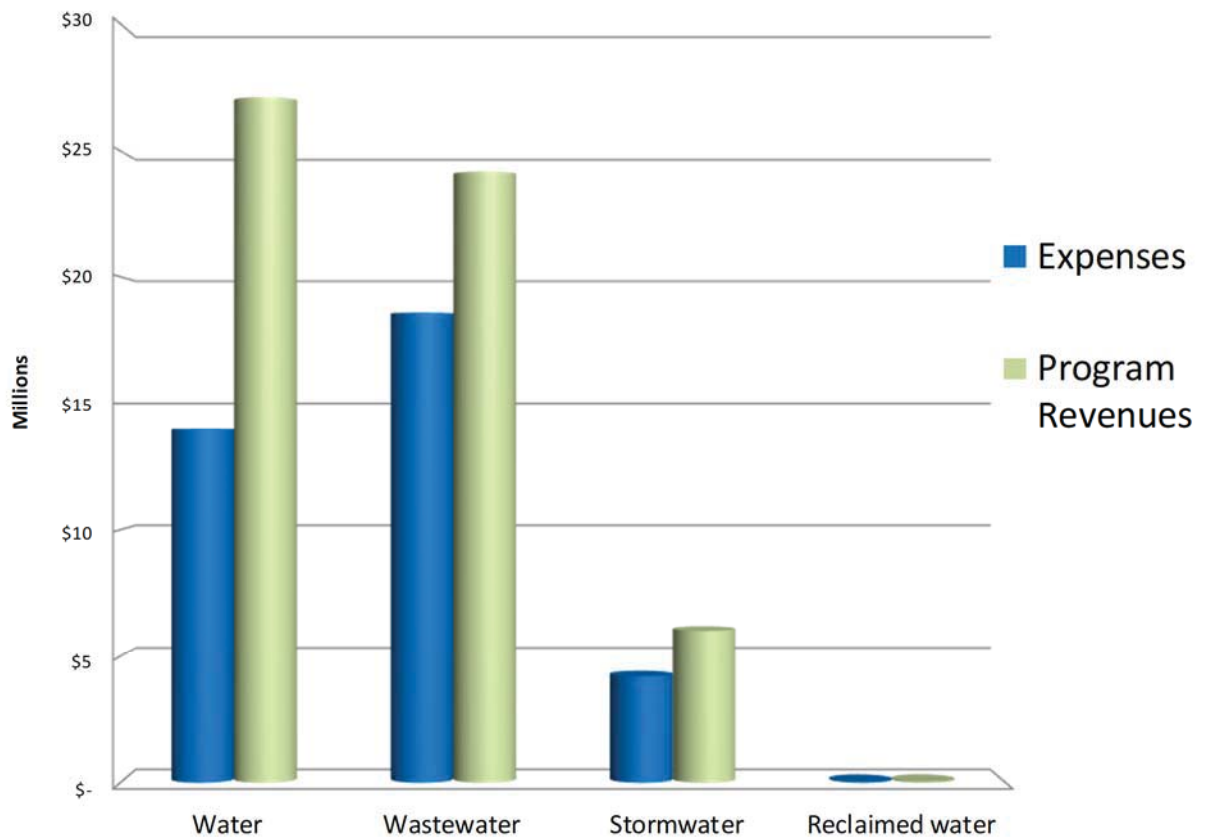
## Revenues by Source - Governmental Activities



**Business-type Activities.** Business-type activities increased the City of Lacey’s net position by \$22.7 million. Key elements of this increase are as follows:

- Water, Wastewater, and Stormwater charges for services decreased \$68,184 (0.2 percent) due to significant decreases to water and wastewater general facilities charge collections. These decreases were partially offset by higher charges for services due to increased water sales volume and adopted utility rate increases.
- Capital grants and contributions attributed to 22.3 percent (\$13.2 million) of business-type revenues. This was an increase of \$3.8 million compared to the previous year.

### Expense and Program Revenues - Business-Type Activities



**Governmental Functional Expenses.** Transportation costs make up 31.9 percent of the total governmental expenses. Public safety costs comprise 20.5 percent of the City of Lacey’s total governmental expenses. The culture and recreation expenses make up 17.9 percent and general government services expenses make up 15.7 percent of governmental expenses.

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

Governmental Activities

	Total Cost Of Services		Net Cost Of Services	
	2019	2018	2019	2018
General Government	\$ 8,200,456	\$ 7,694,814	\$ (6,506,562)	\$ (6,548,717)
Public Safety	10,718,803	10,821,755	(9,314,882)	(9,296,537)
Natural Environment	4,993,270	4,607,000	(1,402,921)	(331,328)
Transportation	16,678,416	13,869,660	3,391,056	(5,008,071)
Economic Environment	1,829,865	1,725,457	2,036,252	1,350,416
Social Services	279,050	119,956	(248,825)	(94,836)
Culture and Recreation	9,345,813	8,459,850	(5,975,580)	(5,227,855)
Interest and Fiscal Charges	298,469	337,779	(298,469)	(337,779)
	<u>\$ 52,344,142</u>	<u>\$ 47,636,271</u>	<u>\$ (18,319,931)</u>	<u>\$ (25,494,707)</u>

**Financial Analysis of Governmental Funds**

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

The following table provides a revenue, expenditure, and fund balance summary for the City of Lacey's governmental funds as of December 31, 2019 and December 31, 2018:

Revenue, Expenditure, and Fund Balance Summary  
Governmental Funds

Major Funds	General Fund		Arterial Street Fund		Transportation Benefit District*	
	2019	2018	2019	2018	2019	2018
<b>Revenues</b>						
Taxes	\$ 31,635,309	\$ 30,400,275	\$ 4,005,070	\$ 3,681,472	\$ 3,112,508	\$ 2,962,764
License and permits	3,598,241	3,186,351	-	-	-	-
Intergovernmental revenues	1,552,680	1,560,821	2,789,109	2,314,757	2,837,364	89,241
Charges for services	7,998,622	7,435,270	1,843,214	510,380	-	-
Fines & forfeitures	252,468	243,491	-	-	-	-
Other revenue	1,572,610	1,144,554	747,247	490,514	68,710	34,241
<b>Total revenues</b>	<u>\$ 46,609,930</u>	<u>\$ 43,970,762</u>	<u>\$ 9,384,640</u>	<u>\$ 6,997,123</u>	<u>\$ 6,018,582</u>	<u>\$ 3,086,246</u>
<b>Expenditures</b>	<u>\$ 35,593,842</u>	<u>\$ 32,606,844</u>	<u>\$ 4,629,080</u>	<u>\$ 2,579,622</u>	<u>\$ 5,441,272</u>	<u>\$ 1,430,320</u>
<b>Other Financing Sources and Uses</b>						
Initiation of capital leases	53,818	40,620	-	-	-	-
Transfers	(5,881,802)	(5,892,096)	(150,000)	(82,597)	-	-
<b>Total other financing sources and uses</b>	<u>\$ (5,827,984)</u>	<u>\$ (5,851,476)</u>	<u>\$ (150,000)</u>	<u>\$ (82,597)</u>	<u>\$ -</u>	<u>\$ -</u>
<b>Fund Balances</b>						
Nonspendable	\$ 123,959	\$ 38,907	\$ 750	\$ 750	-	-
Restricted	426,076	327,030	-	-	-	-
Committed	27,212,116	19,474,716	-	-	-	-
Assigned	3,683,459	9,787,901	28,867,665	24,262,105	3,509,873	2,932,563
Unassigned	18,782,792	15,411,744	-	-	-	-
<b>Total fund balances</b>	<u>\$ 50,228,402</u>	<u>\$ 45,040,298</u>	<u>\$ 28,868,415</u>	<u>\$ 24,262,855</u>	<u>\$ 3,509,873</u>	<u>\$ 2,932,563</u>

\*Note: in 2019, the Transportation Benefit District fund is displayed as a major fund. For comparative purposes, this table reflects the same adjustment for 2018.

Revenue, Expenditure, and Fund Balance Summary  
Governmental Funds

Nonmajor Funds	Special Revenue Funds*		Debt Service Funds		Capital Projects Funds	
	2019	2018	2019	2018	2019	2018
<b>Revenues</b>						
Taxes	\$ 517,293	\$ 469,345	\$ 1,125,322	\$ 1,125,045	\$ -	\$ -
License and permits	-	-	-	-	39,282	38,952
Intergovernmental revenues	758,380	758,149	-	-	1,275,330	1,218,610
Charges for services	46,404	73,597	-	-	-	-
Fines & forfeitures	-	-	-	-	-	-
Other revenue	244,419	222,012	121,798	300,409	356,080	244,273
<b>Total revenues</b>	<b>\$ 1,566,496</b>	<b>\$ 1,523,103</b>	<b>\$ 1,247,120</b>	<b>\$ 1,425,454</b>	<b>\$ 1,670,692</b>	<b>\$ 1,501,835</b>
<b>Expenditures</b>	<b>\$ 4,119,695</b>	<b>\$ 3,418,592</b>	<b>\$ 1,695,350</b>	<b>\$ 1,693,125</b>	<b>\$ 2,603,999</b>	<b>\$ 1,820,436</b>
<b>Other Financing Sources and Uses</b>						
Transfers	\$ 2,717,188	\$ 2,524,947	\$ 584,625	\$ 581,325	\$ 1,863,659	\$ 2,202,730
<b>Total other financing sources and uses</b>	<b>\$ 2,717,188</b>	<b>\$ 2,524,947</b>	<b>\$ 584,625</b>	<b>\$ 581,325</b>	<b>\$ 1,863,659</b>	<b>\$ 2,202,730</b>
<b>Fund Balances</b>						
Restricted	\$ 1,185,227	\$ 1,160,568	\$ -	\$ -	\$ 107,340	\$ 226,972
Committed	750,000	750,000	-	-	6,688,937	7,777,883
Assigned	2,053,677	1,914,347	4,467,677	4,331,282	8,368,735	6,229,805
<b>Total fund balances</b>	<b>\$ 3,988,904</b>	<b>\$ 3,824,915</b>	<b>\$ 4,467,677</b>	<b>\$ 4,331,282</b>	<b>\$ 15,165,012</b>	<b>\$ 14,234,660</b>

\*Note: in 2019, the Transportation Benefit District fund is displayed as a major fund. For comparative purposes, this table reflects the same adjustment for 2018.

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

As of the end of the current fiscal year, the City of Lacey’s governmental funds reported combined ending fund balances of \$106.2 million, an increase of \$11.6 million in comparison with the prior year. Approximately 17.7 percent (\$18.8 million) of this total amount constitutes *unassigned fund balance*, which is available for spending at the government’s discretion. The \$87.4 million remaining of the fund balance is *nonspendable, restricted, committed or assigned* to indicate that it is not available for new spending because it has already been designated for: 1) \$426,076 for restricted fund balance which includes criminal bail, property abatement, and various others, 2) lodging tax total fund balance of \$1.1 million, 3) \$123,959 for nonspendable which includes General Fund prepaid expenses, 4) \$107,340 for restricted capital equipment fund balance which includes building repairs and public, education and property abatement funds, and 5) \$85.6 million is restricted for a variety of other *fund committed or assigned* purposes. Additional information on the City of Lacey’s restricted, committed, and assigned purposes can be found in Note 3-l starting page 4-35 of this report.

The general fund is the chief operating fund of the City of Lacey. At the end of the current fiscal year, unassigned fund balance of the general fund was \$18.8 million, while the total fund balance reached \$50.2 million. As a measure of the general fund’s liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 52.8 percent of the total general fund expenditures, while total fund balance represents 141.1 percent of that same amount.

The fund balance of the City of Lacey's general fund was increased by \$5.2 million during the current fiscal year. Key factors in this increase are as follows:

- Total tax revenues increased by \$1.2 million. This increase is primarily due to higher retail taxes from construction activity and higher property taxes primarily due new construction.
- Licenses and permit revenues increased by \$411,890. Non-business (building) permit fees increased during 2019 due to stronger commercial development.
- Charges for service revenues increased by \$563,352 primarily due to increased fees related to development.
- Other revenues increased by \$428,056 due to increased interest and investment earnings.
- The total expenditure increase was \$3.0 million. Salaries and benefits increased \$2.3 million due to inflationary increases and the addition of seven full-time positions to meet the growing demand on city services.

The arterial street fund has a total fund balance of \$28.9 million, of which the entire amount is committed or assigned to indicate that it is not available for new spending. Total revenues increased \$2.4 million. Traffic mitigation fees increased \$1.3 million, Real Estate Excise taxes increased \$323,598, and grant and intergovernmental revenues increased \$474,352 during 2019. The net increase in the fund balance during the current year was \$4.6 million.

The transportation benefit district fund has a total fund balance of \$3.5 million, of which the entire amount is assigned to indicate that it is not available for new spending. Total revenues increased \$2.9 million. Taxes increased \$149,744 and grant and intergovernmental revenues increased \$2.7 million during 2019. Capital outlay expenditures increased \$4.0 million. The significant increases to intergovernmental revenues and capital outlay are related to a Federal grant funded pavement rehabilitation project. The net increase in the fund balance during the current year was \$577,310.

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

Unrestricted net position of the Water, Wastewater, Stormwater and Reclaimed Water operations at the end of the year amounted to \$85.1 million. The total change in net position for enterprise funds was \$22.7 million, which includes total growth of \$22.4 million from 2019 activities. Other factors regarding the finances of these funds have already been addressed in the discussion of the City of Lacey's business-type activities.

### **General Fund Budgetary Highlights**

*Original budget compared to final budget.* During the year, there was a \$4.5 million increase in appropriations between the original and final amended budget. Following are the significant components of the 2019 General Fund budget amendments:

- Economic development strategic investment (Lacey MakerSpace, Port of Olympia building improvements, and Woodland District improvements) amendments totaling \$872,159 were carried over from the 2018 Budget.

- The budget was amended \$2.0 million for grant-funded improvements to the Lacey Veterans Services Hub.
- An amendment for \$500,000 for tenant improvements to the Veterans Affairs Lacey Outstation Veteran's Center building.
- Transfer Out (to the Building Improvement and Capital Equipment funds) was amended \$1.0 million for the construction of the Train Depot Trail Amenity project, City Hall Security Fencing project, and the Greg Cuoio Community Park master plan.
- The building permit system upgrade required an amendment of \$215,880.

*Final budget compared to actual results.* In total, actual General Fund revenues exceeded the final budget by \$3.2 million, or a 7.4 percent difference. The total actual expenditures were \$4.6 million less than budget or 11.4 percent below budget.

On the revenue side of the budget, the primary difference between the final budget and the actual amounts relates to taxes and license and permit fees. Sales tax experienced significant variances due to strong construction activity. Non-business (building) permit fees increased during 2019 due to stronger commercial development.

On the expenditure side of the budget, the largest variances between the final budget and the actual amounts occurred in the general government, public safety, and culture and recreation functions.

### **Capital Assets and Debt Administration**

**Capital assets.** The City of Lacey's investment in capital assets for its governmental and business-type activities as of December 31, 2019, amounts to \$596.5 million (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, buildings and system improvements, machinery and equipment, park facilities, and infrastructure. The City of Lacey's investments in capital assets were increased by \$18.8 million (net additions were \$38.9 million and depreciation expense was \$20.1 million). Governmental activities increased 2.3 percent and business-type activities increased 4.4 percent, a 3.3 percent total increase from previous year. The following schedule shows the City of Lacey's investment in capital assets.

Capital Assets  
(Amounts Presented in \$1,000's)

	Governmental Activities		Business-Type Activities		Total		Percentage Of Total	
	2019	2018	2019	2018	2019	2018	2019	2018
Non-depreciable assets:								
Land & land rights	\$ 154,722	\$ 152,043	\$ 19,656	\$ 17,165	\$ 174,378	\$ 169,209	18.0%	18.2%
Construction in progress	\$ 7,925	\$ 10,284	\$ 6,746	\$ 11,206	\$ 14,671	\$ 21,490	1.5%	2.3%
Total non-depreciable	\$ 162,647	\$ 162,327	\$ 26,402	\$ 28,371	\$ 189,049	\$ 190,698	19.5%	20.5%
Depreciable assets:								
Buildings	\$ 31,039	\$ 31,039	\$ 1,521	\$ 1,521	\$ 32,560	\$ 32,560	3.4%	3.5%
Improvements	\$ 27,616	\$ 27,346	\$ 358,675	\$ 336,870	\$ 386,291	\$ 364,216	39.8%	39.1%
Infrastructure	\$ 344,730	\$ 328,069	\$ -	\$ -	\$ 344,730	\$ 328,069	35.6%	35.3%
Machinery and equipment	\$ 15,723	\$ 13,918	\$ 1,122	\$ 1,101	\$ 16,846	\$ 15,019	1.7%	1.6%
Total depreciable assets	\$ 419,108	\$ 400,373	\$ 361,318	\$ 339,492	\$ 780,427	\$ 739,865	80.5%	79.5%
Total cost of capital assets	\$ 581,755	\$ 562,700	\$ 387,720	\$ 367,863	\$ 969,476	\$ 930,563	100.0%	100.0%
Less accumulated depreciation	\$ 260,054	\$ 248,156	\$ 112,930	\$ 104,701	\$ 372,984	\$ 352,857		
Book value - capital assets	\$ 321,701	\$ 314,544	\$ 274,790	\$ 263,162	\$ 596,493	\$ 577,706		
Percentage depreciated	44.7%	44.1%	29.1%	28.5%	38.5%	37.9%		

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

- Land and land rights for the City increased by \$5.2 million, which included \$1.6 million for land parcels and right of way purchases for streets and utilities projects, and \$3.6 million in developer contributed easements and right of ways for streets and utilities.
- Construction in progress for governmental activities had a net decrease of \$2.4 million. A total of \$5.8 million was added during 2019, which included new and existing street projects and various other projects. A total of \$8.2 million of various city street projects that began during and/or prior to 2019 were completed during 2019.
- Construction in progress for business-type activities had a net decrease of \$4.5 million. A total of \$6.0 million was added during 2019 for new and existing Water, Wastewater, and Stormwater utilities projects. Various utilities improvement projects were completed during the current fiscal year at a cost of \$10.5 million, which includes the completion of the completion of WA Line College & 22nd, Well Source 15 & 16, Steilacoom Rd Watermain, Union Mills Overflow, Union Mills Seismic Upgrade, Union Mills Rd Water Service Line, Watermain Replacement at Nisqually, Watermain Replacement Central 337 PZ, City Water Stubs, College & Yelm Water Improvements, Gateway Division II - Reclaimed Water, Lebanon Watermain Improvement, College & 22nd Utilities, Lift Station #2 Replacement, Sleater Kinney Gravity, and Lift Station #9 Corrosion. Construction in progress as of the close of the fiscal year had reached \$6.7 million, which includes \$1,079,045 Shady Lane Watermain Replacement, \$838,108 Shady Lane Sewer, \$421,005 Lift Station 22 New Equipment, \$603,775 Lift Station Generators, \$627,883 33rd Ct SE and Stikes Stormwater, and other various projects.
- Improvements for business-type activities increased by \$21.8 million, which includes \$10.5 million of projects that were completed and reclassified from construction in progress in 2019 and \$11.3 million in developer contributed utilities.
- For governmental activities, various new equipment for fleet vehicles, parks

maintenance, and information technology equipment were purchased at a cost of \$2.3 million; the cost of various obsolete and out of service machinery and equipment that was replaced or removed totaled \$688,717.

Additional information on the City of Lacey's capital assets can be found in Note 3-D starting on page 4-26 of this report.

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

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

In March 2019, Standard & Poor's Global Ratings reviewed the City of Lacey credit rating. The City of Lacey general obligation bond rating was raised to "AAA" with a stable outlook. This is the strongest possible credit rating issued by Standard & Poor's Global Ratings.

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

During September 2019, Standard & Poor's Global Ratings reviewed the City of Lacey Waterworks Utilities credit rating. The City of Lacey Waterworks Utilities revenue bond rating was raised to "AA+" with a stable outlook.

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

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

**Long-term Debt.** At the end of the current fiscal year, the City of Lacey had total bonded

debt outstanding of \$15.6 million. \$8.1 million is comprised of debt backed by the full faith and credit of the government and \$7.5 million is guaranteed by revenues generated by the City's water, wastewater, and stormwater utilities. The entire outstanding general obligation bonded debt consists of refunded bonds. No new debt was issued during 2019.

	Governmental		Business-Type		Totals		Percentage Change
	Activities		Activities				
	2019	2018	2019	2018	2019	2018	
General obligation bonds	\$ 8,140	\$ 9,500	\$ -	\$ -	\$ 8,140	\$ 9,500	-14.3%
Revenue bonds	-	-	7,469	7,893	7,469	7,893	-5.4%
Capital leases	64	39	-	-	64	39	0.0%
LOCAL loans	-	171	-	-	-	171	-100.0%
<b>Total</b>	<b>\$ 8,204</b>	<b>\$ 9,710</b>	<b>\$ 7,469</b>	<b>\$ 7,893</b>	<b>\$ 15,673</b>	<b>\$ 17,603</b>	<b>-11.0%</b>

The City of Lacey's total outstanding debt decreased by \$1.9 million (11.1 percent) during the current fiscal year. The decrease is equal to the amount of debt redemption during the year. The debt per capita was approximately \$305.21, which is considered low.

Additional information on the City of Lacey's long-term debt can be found in note 3-H on pages 4-31 to 4-34.

### **Economic Factors and Next Year's Budgets and Rates**

- The City's economic outlook was strong, positive, and more certain prior to the start of the COVID-19 public health emergency. The City of Lacey declared a state of emergency on March 13, 2020. The widespread closures of schools, restaurants, and other businesses began the week of March 16, 2020. On March 23, 2020, the Washington State Governor imposed a "Stay Home, Stay Healthy" order requiring every Washingtonian to stay home unless they are engaged in an essential activity and banning all gatherings for social, spiritual and recreational purposes and ordering all businesses to close unless they are designated as an essential business. As of the submittal date, the Governor's order was extended through May 31, 2020 and the implementation of the State's Safe Start recovery plan began.
- The precautionary measures taken in response to the COVID-19 virus have already had a financial and operational impact on the City of Lacey. In addition, the situation is rapidly evolving, and the extent of the future impact on each entity is currently unknown and potentially significant. The City of Lacey has adjusted its 2020 Budget to reflect the projected short-term revenue shortfall and will continue to monitor the economic environment. If the economic indicators reflect worsening conditions, the City of Lacey will act accordingly.
- The 2019 average unemployment rate for the County was 4.4 percent, which is unchanged from a year ago. This is higher compared to the state and national average unemployment rates of 4.3 and 3.5 percent, respectively.
- The City of Lacey's population continues to grow (51,270 in the current fiscal year) and is placing more demand on services. The City of Lacey's population is growing faster than the State average, 2.2 percent and 1.6 percent, respectively.

- Prior to the recession, revenue growth to property tax, sales tax, and planning and inspection fees offset the costs associated with growth. Revenues declined during the years 2009 through 2011. 2012 through 2015, revenues increased, but not at a level to offset the rising operating costs. The revenue growth experienced during 2016 and 2017 was primarily due to strong sales tax growth from one-time new construction and overall growth to retail sales in 2017. The impact from new construction increased during 2018. New construction continued to have a positive impact to retail sales during 2019. Prior to the COVID-19 public health emergency, construction levels were expected to remain elevated during 2020. Sales tax is expected to be the City's most COVID-19 impacted source of revenue. With the high degree of uncertainty of the economic impacts related to COVID-19, the City has developed budget actions to address declines to revenues and is continuously monitoring economic indicators for early warning signs more budget actions are required.

During the current fiscal year, unassigned fund balance in the general fund increased \$3.4 million (21.9 percent) to \$18.8 million compared to the 2018 unassigned fund balance.

The Water utility rates in the 2019 budget year were increased by 3.0 percent. The City of Lacey has phased in a water rate schedule that places more emphasis on conservation. The conservation rates place greater emphasis on the relationship of water usage to the amount paid by the customer. This change rewards the conservative customer while encouraging, through a higher rate, the high-end consumer to conserve water resources. Wastewater and Stormwater rates increased 4.25 percent and 6.0 percent, respectively, in the 2019 budget. These rates along with general facility charges, fund the current operating expenses, maintenance of the system, replacement, emergency repairs, and needed capital improvements.

### **Requests for Information**

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

City of Lacey  
Statement of Net Position  
December 31, 2019

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$ 70,326,482	\$ 49,706,263	\$ 120,032,745
Investments	51,934,990	34,827,141	86,762,131
Receivables (net)	8,343,720	5,001,455	13,345,175
Internal balances	(1,590,368)	1,590,368	-
Inventories	65,787	202,240	268,027
Prepaid expenses and deposits	154,175	272	154,447
Restricted:			
Cash and cash equivalents	23,805	914,222	938,027
Investment in joint venture	667,731	-	667,731
Net pension asset	4,756,967	-	4,756,967
Capital assets:			
Non-depreciable	162,647,000	26,401,834	189,048,834
Depreciable, net	159,054,079	248,388,651	407,442,730
Total assets	<u>456,384,368</u>	<u>367,032,446</u>	<u>823,416,814</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred charge on refunding	455,821	-	455,821
Deferred outflows related to OPEB	61,740	-	61,740
Deferred outflows related to pension	2,133,587	476,218	2,609,805
Total deferred outflows of resources	<u>2,651,148</u>	<u>476,218</u>	<u>3,127,366</u>
<b>LIABILITIES</b>			
Accounts payable	2,018,730	2,363,385	4,382,115
Interest payable	24,446	68,334	92,780
Unearned revenues	5,003,695	-	5,003,695
Noncurrent liabilities:			
Due within one year	2,309,180	575,777	2,884,957
Due in more than one year	17,322,322	8,837,179	26,159,501
Total liabilities	<u>26,678,373</u>	<u>11,844,675</u>	<u>38,523,048</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred inflows related to pension	4,475,548	880,081	5,355,629
Total deferred inflows of resources	<u>4,475,548</u>	<u>880,081</u>	<u>5,355,629</u>
<b>NET POSITION</b>			
Net investment in capital assets	314,137,823	266,976,119	581,113,942
Restricted for:			
Pension related	3,744,080	-	3,744,080
Developer/other special	5,000	-	5,000
Criminal bail	176,852	-	176,852
Lodging/tourism	986,195	-	986,195
HUD grant	21,783	-	21,783
City facilities	107,340	-	107,340
Other	155,726	-	155,726
Debt Service	-	694,361	694,361
Unrestricted	108,546,796	87,113,428	195,660,224
Total net position	<u>\$ 427,881,595</u>	<u>\$ 354,783,908</u>	<u>\$ 782,665,503</u>

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

City of Lacey  
Statement of Activities  
For the Year Ended December 31, 2019

Functions/Program	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants & Contributions
Primary government:				
Governmental activities:				
General government	\$ 8,200,456	\$ 1,558,614	\$ 135,280	\$ -
Public safety	10,718,803	333,872	1,070,049	-
Natural environment	4,993,270	3,590,349	-	-
Transportation	16,678,416	1,927,646	1,052,224	17,089,602
Economic environment	1,829,865	3,860,117	-	6,000
Social services	279,050	-	30,225	-
Culture and recreation	9,345,813	1,762,630	1,607,453	150
Interest and fiscal charges	298,469	-	-	-
Total governmental activities	<u>52,344,142</u>	<u>13,033,228</u>	<u>3,895,231</u>	<u>17,095,752</u>
Business-type activities:				
Water	13,947,884	19,798,316	-	7,314,569
Wastewater	18,586,515	20,368,145	-	3,780,175
Stormwater	4,210,023	3,944,768	31,759	2,047,099
Reclaimed water	32,453	-	-	36,849
Total business-type activities	<u>36,776,875</u>	<u>44,111,229</u>	<u>31,759</u>	<u>13,178,692</u>
Total primary government	<u>\$ 89,121,017</u>	<u>\$ 57,144,457</u>	<u>\$ 3,926,990</u>	<u>\$ 30,274,444</u>

General revenues:  
Property taxes  
Retail taxes  
Business taxes  
Excise taxes  
Interest and investment earnings  
Gain (loss) on disposal of capital assets  
Miscellaneous  
Transfers  
Total general revenues and transfers  
Change in net position  
Net position - beginning  
Net position - ending

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

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

Governmental Activities	Business-Type Activities	Total
\$ (6,506,562)	\$ -	\$ (6,506,562)
(9,314,882)	-	(9,314,882)
(1,402,921)	-	(1,402,921)
3,391,056	-	3,391,056
2,036,252	-	2,036,252
(248,825)	-	(248,825)
(5,975,580)	-	(5,975,580)
(298,469)	-	(298,469)
<u>(18,319,931)</u>	<u>-</u>	<u>(18,319,931)</u>
-	13,165,001	13,165,001
-	5,561,805	5,561,805
-	1,813,603	1,813,603
-	4,396	4,396
<u>-</u>	<u>20,544,805</u>	<u>20,544,805</u>
<u>(18,319,931)</u>	<u>20,544,805</u>	<u>2,224,874</u>
7,911,514	-	7,911,514
17,929,146	-	17,929,146
10,151,877	-	10,151,877
4,416,731	-	4,416,731
2,728,902	1,892,450	4,621,352
41,071	932	42,003
159,202	-	159,202
(218,548)	218,548	-
<u>43,119,895</u>	<u>2,111,930</u>	<u>45,231,825</u>
24,799,964	22,656,735	47,456,699
403,081,631	332,127,173	735,208,804
<u>\$ 427,881,595</u>	<u>\$ 354,783,908</u>	<u>\$ 782,665,503</u>

Balance Sheet  
Governmental Funds  
December 31, 2019

	General	Arterial Street	Transportation Benefit District	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>					
Current cash & cash equivalents	\$ 26,122,510	\$ 18,834,087	\$ 1,934,599	\$ 13,259,155	\$ 60,150,351
Investments	20,218,838	14,033,268	1,133,502	10,022,765	45,408,373
Receivables (net of allowances):					
Taxes	4,038,671	563,084	558,770	78,976	5,239,501
Customer accounts	822,113	-	-	386,344	1,208,457
Accrued interest and penalty	102,729	71,301	5,759	50,926	230,715
Due from other funds	-	-	-	5,859	5,859
Due from other governmental units	132,400	819,041	233,554	414,807	1,599,802
Prepayments	123,959	750	-	-	124,709
Interfund loan receivable	-	-	-	431,048	431,048
Long term contracts receivable	-	12,585	-	-	12,585
Restricted assets:					
Cash & cash equivalents	21,805	-	-	2,000	23,805
<b>Total assets</b>	<b>51,583,025</b>	<b>34,334,116</b>	<b>3,866,184</b>	<b>24,651,880</b>	<b>114,435,205</b>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>Liabilities:</b>					
Accounts payable	541,902	264,970	122,758	676,713	1,606,343
Due to other governmental units	271,561	12,972	-	1,212	285,745
Customer deposits	21,805	-	-	2,000	23,805
Unearned revenue	239,976	4,763,718	-	-	5,003,694
<b>Total liabilities</b>	<b>1,075,244</b>	<b>5,041,660</b>	<b>122,758</b>	<b>679,925</b>	<b>6,919,587</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Unavailable revenues-property tax	60,044	-	-	10,360	70,404
Unavailable revenues-special assessments	-	-	-	1,212	1,212
Unavailable revenues-violations	217,365	-	-	-	217,365
Unavailable revenues-grants and loans	1,970	424,041	233,553	338,790	998,354
<b>Total deferred inflows of resources</b>	<b>279,379</b>	<b>424,041</b>	<b>233,553</b>	<b>350,362</b>	<b>1,287,335</b>
<b>Fund balances</b>					
Nonspendable	123,959	750	-	-	124,709
Restricted	426,076	-	-	1,292,567	1,718,643
Committed	27,212,116	-	-	7,438,937	34,651,053
Assigned	3,683,459	28,867,665	3,509,873	14,890,089	50,951,086
Unassigned	18,782,792	-	-	-	18,782,792
<b>Total fund balances</b>	<b>50,228,402</b>	<b>28,868,415</b>	<b>3,509,873</b>	<b>23,621,593</b>	<b>106,228,283</b>
<b>Total liabilities, deferred inflows of resources and fund balances</b>	<b>\$ 51,583,025</b>	<b>\$ 34,334,116</b>	<b>\$ 3,866,184</b>	<b>\$ 24,651,880</b>	<b>\$ 114,435,205</b>

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

City of Lacey  
Reconciliation of the Balance Sheet  
To the Statement of Net Position  
Governmental Funds  
December 31, 2019

Fund balances - total governmental funds \$ 106,228,283

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

Certain assets used in governmental activities are not financial resources and therefore are not reported in the fund statement:

Inventory - unused supplies on-hand	\$ 65,787	
Investment in joint venture	667,731	
Deferred charges on refunding	455,821	
Net pension asset	4,756,967	5,946,306

Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds:

Non-depreciable assets	162,647,000	
Depreciable assets (net)	154,231,439	316,878,439

Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the governmental funds:

Deferred inflows of resources: unavailable revenues		
Property taxes receivable	70,404	
Special assessments receivable	1,212	
Local court revenue receivable	217,365	
Grants earned but not available	718,283	
HUD & Other Loan assessments receivable	280,071	1,287,335

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	(24,446)	
Bonds and loans including unamortized debt premiums	(8,951,630)	
Capital leases	64,275	
Claims and judgments and contracts payable		
Compensated absences	(1,319,337)	(10,231,138)

Total OPEB liability and OPEB related deferred outflows of resources

Total OPEB Liability	(4,851,502)	
Deferred outflow of resources related to OPEB	61,740	(4,789,762)

Internal service funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the internal service funds are reported in the statement of net position.

18,944,659	18,944,659
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Net pension asset, liability and pension related deferred outflows and inflows of resources are not due in the current period, and therefore, are not reported in the funds. These amounts consist of:

Net pension liability	(4,142,225)	
Deferred outflows of resources	2,013,716	
Deferred inflows of resources	(4,254,018)	(6,382,527)

Net position of government activities. \$ 427,881,595

*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, 2019

	General	Arterial Street	Transportation Benefit District	Other Governmental Funds	Total Governmental Funds
<b>REVENUES</b>					
Taxes	\$ 31,635,309	\$ 4,005,070	\$ 3,112,508	\$ 1,642,615	\$ 40,395,502
Licenses and permits	3,598,241	-	-	39,282	3,637,523
Intergovernmental revenues	1,552,680	2,789,109	2,837,364	2,033,710	9,212,863
Charges for services	7,998,622	1,843,214	-	46,404	9,888,240
Fines and forfeitures	252,468	-	-	-	252,468
Other revenues	1,572,610	747,247	68,710	722,297	3,110,864
<b>Total revenues</b>	<b>46,609,930</b>	<b>9,384,640</b>	<b>6,018,582</b>	<b>4,484,308</b>	<b>66,497,460</b>
<b>EXPENDITURES</b>					
Current:					
General government	7,680,498	-	-	-	7,680,498
Public safety	12,718,168	-	-	-	12,718,168
Natural environment	5,443,807	-	-	-	5,443,807
Transportation	-	-	-	3,440,066	3,440,066
Economic environment	1,793,074	-	-	41,366	1,834,440
Social services	255,225	-	-	-	255,225
Culture and recreation	7,580,436	-	-	328,532	7,908,968
Capital outlay	87,626	4,629,080	5,441,272	2,740,370	12,898,348
Debt service:					
Principal retirement	28,174	-	-	1,530,798	1,558,972
Interest	6,834	-	-	337,912	344,746
<b>Total expenditures</b>	<b>35,593,842</b>	<b>4,629,080</b>	<b>5,441,272</b>	<b>8,419,044</b>	<b>54,083,238</b>
Excess (deficiency) of revenue over (under) expenditures	11,016,088	4,755,560	577,310	(3,934,736)	12,414,222
<b>OTHER FINANCING SOURCES (USES)</b>					
Initiation of capital leases	53,818	-	-	-	53,818
Transfers in	933,135	-	-	7,057,537	7,990,672
Transfers out	(6,814,937)	(150,000)	-	(1,892,065)	(8,857,002)
<b>Total other financing sources (uses)</b>	<b>(5,827,984)</b>	<b>(150,000)</b>	<b>-</b>	<b>5,165,472</b>	<b>(812,512)</b>
<b>Net change in fund balances</b>	<b>5,188,104</b>	<b>4,605,560</b>	<b>577,310</b>	<b>1,230,736</b>	<b>11,601,710</b>
Fund balance - beginning	45,040,298	24,262,855	2,932,563	22,390,857	94,626,573
<b>Fund balance - ending</b>	<b>\$ 50,228,402</b>	<b>\$ 28,868,415</b>	<b>\$ 3,509,873</b>	<b>\$ 23,621,593</b>	<b>\$ 106,228,283</b>

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

City of Lacey  
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, 2019

Net changes in total fund balances per fund financial statements \$ 11,601,710

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

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

Capital outlay	\$ 6,695,821	
Current year depreciation	<u>(11,696,756)</u>	(5,000,935)

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

Contributed from developers and other outside sources	<u>11,136,962</u>	11,136,962
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The proceed from the sale of capital assets is reported as revenue in the governmental funds. However, the cost of assets sold offset against the sales proceeds, and only the gain or loss is reported in the statement of activities.

(358,771)

Issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of 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.

Capital lease financing	(53,818)	
Debt principal repayments	1,558,972	
Net amortization of bond premiums and deferral on refunding	<u>42,350</u>	1,547,504

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

Unavailable revenue - property taxes	13,767	
Unavailable revenue - special assessments	344	
Unavailable revenue - grants earned but not available	707,267	
Unavailable revenue - court local revenue earned but not available	<u>(97,008)</u>	624,370

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.

Increase (decrease) in prepaid supplies on-hand	(25,375)	
Increase (decrease) in investment in joint venture	44,247	
(Increase) decrease in compensated absences	(89,675)	
(Increase) decrease in accrued interest payable	<u>3,927</u>	(66,876)

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.

2,160,661

Changes to total OPEB liability and OPEB related deferred outflows of resources do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

	<u>1,460,365</u>	1,460,365
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Changes to net pension liability and pension related deferred outflows and inflows of resources do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

1,694,974

Changes in net position of governmental activities

\$ 24,799,964

City of Lacey  
Statement of Net Position  
Proprietary Funds  
December 31, 2019

	Business-type Activities Enterprise Funds				Total	Governmental Activities Internal Service Funds
	Water	Waste- Water	Storm Water	Reclaimed Water		
<b>ASSETS</b>						
Current assets:						
Cash and cash equivalents	\$ 29,082,373	\$ 15,386,492	\$ 4,025,651	\$ 1,211,747	\$ 49,706,263	\$ 10,176,131
Investments	19,690,973	11,613,017	2,551,471	971,680	34,827,141	6,526,616
Restricted cash and cash equivalents:						
Customer deposits	196,141	18,546	5,174	-	219,861	-
Receivables (net of allowances):						
Customer accounts	1,173,765	1,771,463	356,062	-	3,301,290	750
Accrued interest & penalty	105,952	137,444	12,964	4,937	261,297	33,161
Prepayments	272	-	-	-	272	29,466
Due from governmental units	10,803	2,058	21,299	-	34,160	12,890
Inventory	202,240	-	-	-	202,240	-
Total current assets:	<u>50,462,519</u>	<u>28,929,020</u>	<u>6,972,621</u>	<u>2,188,364</u>	<u>88,552,524</u>	<u>16,779,014</u>
Noncurrent assets:						
Restricted cash and cash equivalents:						
Revenue bonds covenants	607,425	86,936	-	-	694,361	-
Special assessments	10,681	101,753	-	-	112,434	-
Special assessments - noncurrent	127,371	1,164,903	-	-	1,292,274	-
Capital assets, net of depreciation:						
Land	14,316,637	2,030,745	3,308,394	-	19,655,776	-
Buildings	335,929	520,281	-	-	856,210	71,774
Improvements other than buildings	121,566,866	82,302,436	41,660,569	1,434,986	246,964,857	33,565
Equipment	120,268	431,020	16,296	-	567,584	4,717,301
Construction in progress	2,819,719	3,205,671	720,668	-	6,746,058	-
Total noncurrent assets	<u>139,904,896</u>	<u>89,843,745</u>	<u>45,705,927</u>	<u>1,434,986</u>	<u>276,889,554</u>	<u>4,822,640</u>
Total assets	<u>190,367,415</u>	<u>118,772,765</u>	<u>52,678,548</u>	<u>3,623,350</u>	<u>365,442,078</u>	<u>21,601,654</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>						
Deferred outflows of resources related to pension	271,553	143,737	60,928	-	476,218	119,871
Total deferred outflows of resources	<u>271,553</u>	<u>143,737</u>	<u>60,928</u>	<u>-</u>	<u>476,218</u>	<u>119,871</u>
<b>LIABILITIES</b>						
Current liabilities:						
Accounts payable	473,355	322,458	53,436	-	849,249	102,637
Matured interest payable	34,506	26,846	6,982	-	68,334	-
Due to other funds	-	5,859	-	-	5,859	-
Due to other governmental units	33,854	1,243,622	10,940	-	1,288,416	200
Compensated absences	91,297	36,573	16,907	-	144,777	40,733
Current liabilities payable from restricted assets:						
Customer deposits	196,141	18,546	5,174	-	219,861	-
Current portion of interfund loans payable	-	19,593	-	-	19,593	-
Current portion of revenue bonds payable	295,257	76,000	59,743	-	431,000	-
Total current liabilities	<u>1,124,410</u>	<u>1,749,497</u>	<u>153,182</u>	<u>-</u>	<u>3,027,089</u>	<u>143,570</u>
Noncurrent liabilities:						
Compensated absences	99,461	32,789	14,758	-	147,008	47,277
Long-term portion of interfund loan payable	-	411,455	-	-	411,455	-
Bonds payable (net of premium/discount)	5,205,865	1,068,000	1,053,369	-	7,327,234	-
Net pension liability	777,184	411,376	174,377	-	1,362,937	343,073
Total noncurrent liabilities	<u>6,082,510</u>	<u>1,923,620</u>	<u>1,242,504</u>	<u>-</u>	<u>9,248,634</u>	<u>390,350</u>
Total liabilities	<u>7,206,920</u>	<u>3,673,117</u>	<u>1,395,686</u>	<u>-</u>	<u>12,275,723</u>	<u>533,920</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>						
Deferred inflows of resources related to pension	501,847	265,635	112,599	-	880,081	221,530
Total deferred inflows of resources	<u>501,847</u>	<u>265,635</u>	<u>112,599</u>	<u>-</u>	<u>880,081</u>	<u>221,530</u>
<b>NET POSITION</b>						
Net investment in capital assets	133,633,116	87,346,153	44,561,864	1,434,986	266,976,119	4,822,641
Restricted for debt service	607,425	86,936	-	-	694,361	-
Unrestricted	48,689,660	27,544,661	6,669,327	2,188,364	85,092,012	16,143,434
Total net position	<u>\$182,930,201</u>	<u>\$114,977,750</u>	<u>\$ 51,231,191</u>	<u>\$ 3,623,350</u>	<u>\$ 352,762,492</u>	<u>\$ 20,966,075</u>
Adjustment to reflect the consolidation of internal balances and internal service fund activities related to enterprise funds.					2,021,416	
Net position of business-type activities.					<u>\$ 354,783,908</u>	

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

City of Lacey  
Statement of Revenues, Expenses, and Changes in Fund Net Position  
Proprietary Funds  
For the Year Ended December 31, 2019

	Business-Type Activities Enterprise Funds				Total	Governmental Activities Internal Service Funds
	Water	Waste- Water	Storm Water	Reclaimed Water		
<b>OPERATING REVENUES</b>						
Charges for services	\$ 19,513,430	\$ 20,349,818	\$ 3,944,021	\$ -	\$ 43,807,269	\$ 4,277,295
Miscellaneous operating revenues	284,887	18,327	746	-	303,960	68,469
Total operating revenue	<u>19,798,317</u>	<u>20,368,145</u>	<u>3,944,767</u>	<u>-</u>	<u>44,111,229</u>	<u>4,345,764</u>
<b>OPERATING EXPENSES</b>						
Operating expense	4,716,845	13,140,323	1,262,854	-	19,120,022	2,383,607
Maintenance expense	4,523,695	2,825,393	987,353	-	8,336,441	361,367
Depreciation expense	3,874,627	2,423,702	1,897,856	32,453	8,228,638	907,871
Taxes	745,197	229,685	77,404	-	1,052,286	377
Total operating expenses	<u>13,860,364</u>	<u>18,619,103</u>	<u>4,225,467</u>	<u>32,453</u>	<u>36,737,387</u>	<u>3,653,222</u>
OPERATING INCOME (LOSS)	<u>5,937,953</u>	<u>1,749,042</u>	<u>(280,700)</u>	<u>(32,453)</u>	<u>7,373,842</u>	<u>692,542</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>						
Intergovernmental revenue	-	-	31,759	-	31,759	-
Special assessments interest	4,870	53,721	-	-	58,591	-
Investment earnings	1,049,822	595,611	139,106	49,320	1,833,859	375,575
Interest expense	(194,547)	(47,633)	(39,365)	-	(281,545)	-
Gain (loss) on disposal of capital assets	-	932	-	-	932	41,071
Total nonoperating revenues (expenses)	<u>860,145</u>	<u>602,631</u>	<u>131,500</u>	<u>49,320</u>	<u>1,643,596</u>	<u>416,646</u>
Income (loss) before contributions and transfers	6,798,098	2,351,673	(149,200)	16,867	9,017,438	1,109,188
Capital Contributions - grants	-	-	222,266	-	222,266	-
Capital Contributions - private	7,314,569	3,780,175	1,824,833	36,849	12,956,426	-
Capital Contributions - interfund	-	-	-	-	-	645,748
Transfers in	886,755	-	-	-	886,755	647,782
Transfers out	(161,811)	(58,861)	(447,535)	-	(668,207)	-
Changes in net position	<u>14,837,611</u>	<u>6,072,987</u>	<u>1,450,364</u>	<u>53,716</u>	<u>22,414,678</u>	<u>2,402,718</u>
Net position - beginning	<u>168,092,590</u>	<u>108,904,763</u>	<u>49,780,827</u>	<u>3,569,634</u>		<u>18,563,357</u>
NET POSITION - ENDING	<u>\$ 182,930,201</u>	<u>\$ 114,977,750</u>	<u>\$ 51,231,191</u>	<u>\$ 3,623,350</u>		<u>\$ 20,966,075</u>
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.					242,057	
Change in net position of business-type activities.					<u>\$ 22,656,735</u>	

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

City of Lacey  
Statement of Cash Flows  
Proprietary Funds  
For the Year Ended December 31, 2019

	Business-type Activities Enterprise Funds				Total	Governmental Activities Internal Services Funds
	Water	Waste- Water	Storm Water	Reclaimed Water		
<b>CASH FLOW FROM OPERATING ACTIVITIES:</b>						
Receipts from customers and users	\$ 19,713,841	\$ 20,292,570	\$ 3,918,268	\$ -	\$ 43,924,679	\$ 123,094
Receipts from interfund services	-	-	-	-	-	4,216,706
Payments to suppliers	(5,141,955)	(14,074,731)	(1,073,700)	-	(20,290,386)	(1,184,304)
Payments for interfund services	(651,401)	(443,416)	(297,346)	-	(1,392,163)	(11,204)
Payments for employees	(3,493,741)	(2,095,634)	(936,591)	-	(6,525,966)	(1,543,174)
Payments for taxes	(745,197)	(229,685)	(77,404)	-	(1,052,286)	(377)
<b>Net cash provided by operating activities</b>	<b>9,681,547</b>	<b>3,449,104</b>	<b>1,533,227</b>	<b>-</b>	<b>14,663,878</b>	<b>1,600,741</b>
<b>CASH FLOW FROM NON-CAPITAL FINANCING ACTIVITIES:</b>						
Transfers in from other funds	886,755	-	-	-	886,755	-
Receipt of interfund loan interest payment	-	18,445	-	-	18,445	-
Transfers out to other funds	(161,811)	(58,861)	(447,535)	-	(668,207)	-
Operating grant received	-	-	31,759	-	31,759	-
<b>Net cash provided by non-capital financing activities</b>	<b>724,944</b>	<b>(40,416)</b>	<b>(415,776)</b>	<b>-</b>	<b>268,752</b>	<b>-</b>
<b>CASH FLOW FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>						
Acquisition and construction of capital assets	(4,491,150)	(2,247,488)	(162,425)	-	(6,901,063)	(993,543)
Proceeds from sales of capital assets	-	932	-	-	932	41,071
Proceeds (payment) on Interfund loan	-	(18,821)	-	-	(18,821)	-
Interest paid on interfund loan	-	(18,445)	-	-	(18,445)	-
Principal paid on revenue bonds	(291,098)	(74,000)	(58,902)	-	(424,000)	-
Interest paid on revenue bonds	(212,855)	(31,180)	(43,069)	-	(287,104)	-
Payments received on special assessments	72,231	241,335	5,602	2,664	321,832	-
Subsidy from grant	-	-	269,338	-	269,338	-
<b>Net cash used by capital and related financing activities</b>	<b>(4,922,872)</b>	<b>(2,147,667)</b>	<b>10,544</b>	<b>2,664</b>	<b>(7,057,331)</b>	<b>(952,472)</b>
<b>CASH FLOW FROM INVESTING ACTIVITIES:</b>						
Redemption (purchase) of investments	(7,618,433)	(3,867,024)	(1,121,753)	(291,926)	(12,899,136)	(2,165,684)
Interest received on investments	949,774	518,162	126,142	44,383	1,638,461	359,500
<b>Net cash provided (used) by investing activities</b>	<b>(6,668,659)</b>	<b>(3,348,862)</b>	<b>(995,611)</b>	<b>(247,543)</b>	<b>(11,260,675)</b>	<b>(1,806,184)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(1,185,039)</b>	<b>(2,087,840)</b>	<b>132,384</b>	<b>(244,879)</b>	<b>(3,385,376)</b>	<b>(1,157,915)</b>
Cash and cash equivalents January 1	31,070,978	17,579,814	3,898,441	1,456,626	54,005,859	11,334,046
Cash and cash equivalents December 31 (see Note below) (including restricted cash & cash equivalents)	<u>\$ 29,885,939</u>	<u>\$ 15,491,974</u>	<u>\$ 4,030,825</u>	<u>\$ 1,211,747</u>	<u>\$ 50,620,485</u>	<u>\$ 10,176,131</u>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>						
Net operating income (loss)	\$ 5,937,953	\$ 1,749,042	\$ (280,700)	\$ (32,453)	\$ 7,373,842	\$ 692,542
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:						
Depreciation	3,874,627	2,423,702	1,897,856	32,453	8,228,638	907,871
Decrease (increase) in:						
Customer receivables	(78,595)	(104,303)	(5,636)	-	(188,534)	3,567
Intergovernmental receivables	(6,240)	32,420	(21,299)	-	4,881	(8,765)
Prepaid expenses	-	-	4,641	-	4,641	(766)
Inventories	16,041	-	-	-	16,041	-
Customer deposits	359	(3,692)	436	-	(2,897)	-
Increase (decrease) in:						
Accounts payable	122,634	(108,614)	(14,053)	-	(33)	95,902
Intergovernmental payables	15,534	(410,511)	7,973	-	(387,004)	169
Compensated absences	30,159	8,570	2,020	-	40,749	17,618
Net pension liability, deferred outflows and inflows of pension related resources	(230,925)	(137,510)	(58,011)	-	(426,446)	(107,397)
Total adjustments	3,743,594	1,700,062	1,813,927	32,453	7,290,036	908,199
<b>Net cash provided by operating activities</b>	<b>\$ 9,681,547</b>	<b>\$ 3,449,104</b>	<b>\$ 1,533,227</b>	<b>\$ -</b>	<b>\$ 14,663,878</b>	<b>\$ 1,600,741</b>
Reconciliation of cash and cash equivalents with the amounts on the fund statement of net position:						
Cash and cash equivalents	\$ 29,082,373	\$ 15,386,492	\$ 4,025,651	\$ 1,211,747	\$ 49,706,263	\$ 10,176,131
Restricted cash and cash equivalents	803,566	105,482	5,174	-	\$ 914,222	-
<b>Cash and cash equivalents for cash flow statements</b>	<b>\$ 29,885,939</b>	<b>\$ 15,491,974</b>	<b>\$ 4,030,825</b>	<b>\$ 1,211,747</b>	<b>\$ 50,620,485</b>	<b>\$ 10,176,131</b>
<b>Schedule of noncash capital and related financing activities:</b>						
Contributions of capital assets from developers	\$ 7,314,569	\$ 3,780,175	\$ 1,824,833	\$ 36,849	\$ 12,956,426	\$ -
Capital assets transferred from other funds						1,293,530

City of Lacey  
Statement of Fiduciary Net Position  
Fiduciary Funds  
December 31, 2019

	Agency Funds
<b>ASSETS</b>	
Cash and cash equivalents	\$ 1,578,850
Investments	1,054,819
Prepaid expenses and deposits	245
Accounts receivables, net of uncollectible accounts	5,860
Due from other governmental units	364,455
<b>Total assets</b>	<b>\$ 3,004,229</b>
 <b>LIABILITIES</b>	
Accounts payable	\$ 19,603
Accrued employee leave payable	67,839
Due to other governmental units	2,916,787
<b>Total liabilities</b>	<b>\$ 3,004,229</b>

**City of Lacey**  
**Notes to the Financial Statements**  
**December 31, 2019**

**Note 1. Summary of significant accounting policies**

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

**A. Reporting entity**

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

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

**B. Basic financial statements**

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

**Government-wide financial statements**

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

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

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

## **Fund financial statements**

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

The government reports the following major governmental funds:

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

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

The *transportation benefit district fund* is a special revenue fund that provides funding for street maintenance projects. The Lacey City Council created the Lacey Transportation Benefit District, a quasi-municipal taxing jurisdiction, in 2016. Transportation Benefit Districts are authorized by State law to fund street maintenance. Subsequent to the establishment of the district, Lacey voters approved a sales tax increase of 0.2% (two-tenths of one percent) for a period of ten years to fund street maintenance projects within City limits.

The City reports the following major enterprise funds:

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

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

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

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

Additionally, the government reports the following fund types:

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

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

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

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

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

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

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

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

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

requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 90 days of year-end). Only the portion of special assessment due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period, provided that the amount is received during the period or within the 60-day availability period. All other revenue items are considered to be measurable and available only when cash is received by the City.

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

## **D. Budgetary Information**

### **1. Scope of Budget**

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

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

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

### **2. Amending the budget**

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

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

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

### **1. Cash, deposits, and investments**

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

Investments for the City are reported at fair value, based on the fair market value at fiscal year-end, except for the position in the State Treasurer's Local Government Investment Pool (LGIP). The LGIP operates in

accordance with appropriate state laws and regulations (RCW 43.250.020). The LGIP is comparable to a Rule 2a-7 money market fund, as currently recognized by the Securities and Exchange Commission (17CFR.270.2a-7). Rule 2a-7 funds are limited to high quality obligations with limited maximum and average maturities, the effect of which is to minimize both market and credit risk. As such, investments are reported at amortized cost (which approximates fair value).

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

## **2. Receivables and payables**

*Taxes receivable* consists of property taxes and related interest and penalties.

*Accrued interest receivable* consists of amounts earned on investments, notes, special assessments, and contracts.

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

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

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

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

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

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

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

## **4. Inventories and prepaid items**

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

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

## 5. Restricted assets and liabilities

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

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

Capital assets include property, plant, equipment, and infrastructure assets (i.e., roads, sidewalks and similar items), and are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets, other than the infrastructure assets, are defined by the government as assets with an initial, individual cost of \$5,000 or more (land is capitalized regardless of value), and an estimated useful life in excess of two years. For infrastructure assets, the capitalization threshold is \$50,000 or more. Major outlays for capital assets and improvements are capitalized as projects are constructed. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. Interest incurred during the construction phase of capital assets of enterprise funds is included as part of the capitalized value of the assets constructed. The amount of interest capitalized depends on the specific circumstances. There was no capitalized interest in 2019.

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

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

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

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

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

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

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

## 7. Deferred outflows/inflows of resources

In addition to assets and liabilities, the statement of financial position reports separate sections for deferred outflows of resources and deferred inflows of resources. The *deferred outflows of resources* represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The *deferred inflows of resources* represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time.

Deferred resources related to pension expense and unamortized portions of the loss and gain on refunding debt are reported as deferred outflows and deferred inflows of resources, respectively.

In addition to this, when an asset is recorded in governmental funds balance sheet but the revenue is not available, a deferred inflow of resources is reported until such time as the revenue becomes available.

## **8. Compensated absences**

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

Sick leave may accumulate up to 960 hours or as provided by contract. Upon retiring from employment with the City, AFSCME bargaining unit employees shall be paid for all accumulated sick leave beyond 60 days (480 hours) at the rate of 1 day (8 hours) of pay at his/her regular rate for each 3 days (24 hours) accumulated for a maximum payoff of 45 days (360 hours) sick leave for 15 days' (120 hours) pay. Each January, if sick leave exceeds 60 days, the AFSCME bargaining unit employees also have the option to convert sick leave to vacation on a 3:1 ratio or they can trade three (3) days of sick leave for one (1) day of pay at this same time. The Lacey Police Officers Guild and Lacey Police Senior Management Association bargaining units offer a sick leave buy-back program for unused sick leave up to a maximum of 1,000 hours at the rate of 25% per hour for 150 to 300 hours and at a rate of 33.3% for 301 to 1,000 hours. To be eligible for the buy-back program, an employee must have a minimum of 300 hours of sick leave accrued and qualify for LEOFF retirement or LEOFF Disability retirement.

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

## **9. Long-term liabilities**

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

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

## **10. Fund balance, net position classifications and policies**

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The government itself can establish limitations on the

use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

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

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

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

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

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

## **11. Pensions**

For purpose of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of all state sponsored pension plans and additions to/deductions from those plans' fiduciary net position have been determined on the same basis as they are reported by the Washington State Department of Retirement Systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

## **F. Revenues, expenditures and expenses**

### **1. Program revenues**

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

### **2. General revenues**

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

### **3. Interfund transactions and interfund transfers**

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

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

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

#### **4. Expenditures/expenses**

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

#### **5. Operating and nonoperating revenues and expenses**

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

### **Note 2. Stewardship, compliance and accountability**

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

### **Note 3. Detailed notes on all activities and funds**

#### **A. Deposits and investments**

The City's deposits, including money markets and certificates are entirely covered by the Federal Depository Insurance Corporation (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.

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

As of December 31, 2019, the City held the following investments at amortized cost:

<u>Investment Type</u>	<u>Maturity</u>	<u>Lacey's Own Investments</u>
Washington State Local Government Investment Pool	60 Days	\$ 68,382,754
Total		<u>\$ 68,382,754</u>

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

The LGIP transacts with its participants at a stable net asset value per share of \$1.00, the same method used for reporting. Participants may contribute and withdraw funds on a daily basis. Participants must inform the Office of the State Treasurer (OST) of any contribution or withdrawal over one million dollars no later than 9 a.m. on the same day the transaction is made. Contributions or withdrawals for one million dollars or less can be requested at any time prior to 10 a.m. on the day of the transaction. However, participants may complete transactions greater than one million dollars when notification is made between 9 a.m. and 10 a.m. at the sole discretion of OST. All participants are required to file with the State Treasurer documentation containing the names and titles of the officials authorized to contribute or withdraw funds. The LGIP does not impose liquidity fees or redemption gates on participant withdrawals.

*Custodial Credit Risk.* Custodial credit risk is the risk that, in the event a depository institution or counterparty fails, the LGIP will not be able to recover the value of its deposits, investments or collateral securities that are in the possession of an outside party. Investments held as deposits in financial institutions are insured by the FDIC and / or collateralized. Collateral protection is administered by the PDPC. The PDPC, created by the Legislature per Chapter 39.58 of the Revised Code of Washington, constitutes a multiple financial institution collateral pool comprised of securities pledged to secure uninsured public deposits. Pledged securities are held by the PDPC's agent in the name of the collateral pool. The LGIP investment policy requires that securities purchased be held by the master custodian, acting as an independent third party, in its safekeeping or trust department. Securities utilized in repurchase agreements are subject to additional restrictions. These restrictions are designed to limit the LGIP's exposure to risk and insure the safety of the investment. All securities utilized in repurchase agreements were rated AAA by Moody's and AA+ by Standard & Poor's. The fair value of securities utilized in repurchase agreements must be at least 102 percent of the value of the repurchase agreement. The City does not have a specific deposit policy for custodial risk.

*Interest rate risk.* In accordance with its investment policy, the City manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to five (5) years or less from the date of purchase, unless matched to a specific cash flow or bond reserve funds. The interest rate risks of participants' balances in the LGIP are limited as the weighted average maturity of the portfolio will not exceed 60 days. As of December 31, 2019, the LGIP had a weighted average maturity of 42 days. The City does not have a specific interest rate risk policy.

<u>Investment Type</u>	<u>Investment Maturities (in Years)</u>				
	<u>Fair Value</u>	<u>Less Than 1</u>	<u>1 to 5</u>	<u>6 to 10</u>	<u>More than 10</u>
<u>Debt Securities</u>					
U.S. Treasury Obligations	\$ 37,743,568	\$ 18,808,365	\$ 18,935,203	\$ -	\$ -
U.S. Agency Obligations	44,049,287	6,961,031	37,088,256	-	-
Municipal Debt Obligations	1,964,971	-	1,964,971	-	-
Commercial Paper	3,004,305	-	3,004,305	-	-
Total Debt Securities	\$ 86,762,131	\$ 25,769,396	\$ 60,992,735	\$ -	\$ -
<u>Other Securities</u>					
WA State Local Government Investment Pool	\$ 68,382,754	\$ 68,382,754	\$ -	\$ -	\$ -
Total Other Securities	\$ 68,382,754	\$ 68,382,754	\$ -	\$ -	\$ -
Total Investments	\$ 155,144,885	\$ 94,152,150	\$ 60,992,735	\$ -	\$ -

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

As of December 31, 2019, the City of Lacey's investments had the following credit quality distribution for securities with credit exposure:

	<u>Fair Value</u>	<u>AAA Aaa</u>	<u>AA Aa</u>	<u>A</u>	<u>Unrated</u>
U.S. Treasury Obligations	\$ 37,743,569	\$ -	\$ 37,743,569	\$ -	\$ -
U.S. Agency Obligations	\$ 44,049,286	-	44,049,286	-	-
Municipal Debt Obligations	\$ 1,964,971	-	1,964,971	-	-
Commercial Paper	\$ 3,004,305	3,004,305	-	-	-
Total	\$ 86,762,131	\$ 3,004,305	\$ 83,757,826	\$ -	\$ -

*Concentration of credit risk:* Concentration risk is the risk of loss attributed to the magnitude of the City's investment in a single issuer. The City's investment policy states, with the exception of US Treasury securities and authorized pools, no more than fifty (50) percent of total portfolio may be invested in a single security or with a single financial institution. The City does not have a formal policy for concentration of credit risk.

*Fair Value:* The City of Lacey measures and reports investments at fair value using the valuation input hierarchy established by generally accepted accounting principles, as follows:

- Level 1: Quoted prices in active markets for identical assets or liabilities;
- Level 2: These are quoted market prices for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, or other than quoted prices that are not observable;
- Level 3: Unobservable inputs for an asset or liability.

As of December 31, 2019, the City of Lacey had the following investments measured at fair value:

	<u>Fair Value Measurements Using</u>			
	12/31/2019	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<u>Investments by Fair Value Level</u>				
U.S. Treasury Obligations	\$ 37,743,569	\$ 37,743,569	\$ -	\$ -
U.S. Agency Obligations	44,049,286	44,049,286	-	-
Municipal Debt Obligations	1,964,971		1,964,971	-
Commercial Paper	3,004,305	-	3,004,305	-
Total Investments Reported at Fair Value	<u>\$ 86,762,131</u>	<u>\$ 81,792,855</u>	<u>\$ 4,969,276</u>	<u>\$ -</u>
<u>Investments Measured at Amortized Cost</u>				
WA State Local Government Investment Pool	<u>\$ 68,382,754</u>			
Total Investments Measured at Amortized Cost	<u>\$ 68,382,754</u>			
Total Investments	<u>\$ 155,144,885</u>			

The cash, deposit and investments amounts reported in the fund statements (including the fiduciary funds) for the year ended December 31, 2019 are as follows:

	<u>Amount</u>
<u>Governmental Funds</u>	
Cash and cash equivalents and investments	\$ 60,150,351
Restricted cash and cash equivalents and investments	23,805
Investments	45,408,373
Total governmental funds	<u>105,582,529</u>
<u>Enterprise Funds</u>	
Cash and cash equivalents	49,706,263
Restricted cash and cash equivalents and investments	914,222
Investments	34,827,141
Total proprietary funds	<u>85,447,626</u>
<u>Internal Services Funds</u>	
Cash and cash equivalents	10,176,131
Investments	6,526,616
Total proprietary funds	<u>16,702,747</u>
<u>Fiduciary Funds</u>	
Cash and cash equivalents	1,578,850
Investments	1,054,819
Total fiduciary funds	<u>2,633,669</u>
Total	<u>\$ 210,366,571</u>

Cash, deposits, and investments for all funds, including fiduciary funds, for the year ended December 31, 2019 are as follows:

	Amount
Cash on hand	\$ 7,575
Checking accounts	27,151,300
Public Funds Interest Checking	13,181,725
Investments less than 90 days	12,994,900
Investments	87,816,950
Washington State Investment Pool (LGIP)	69,214,124 <sup>(1)</sup>
<b>Total</b>	<b>\$ 210,366,571</b>

<sup>(1)</sup> Investments measured at amortized cost

## B. Receivables and unearned and unavailable revenues

The \$4,038,671 taxes receivable in the general fund includes \$78,337 property taxes, \$2,380,308 sales and use taxes, \$1,385,033 business and utility taxes, and \$194,994 for other taxes. The customer accounts receivable \$822,112 in the general fund includes \$217,365 in fines for violations.

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

<u>Description</u>	Unearned Revenues 12/31/2019
Deposits for advance reservations (general fund)	\$ 239,976
Traffic mitigation fees collected but earnings process not yet complete (arterial street fund)	4,763,718
<b>Total unearned revenues for governmental funds</b>	<b>\$ 5,003,694</b>

## C. Property taxes

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

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

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

The City is permitted by law to levy up to \$3.60 minus the library rate of \$0.36 and the fire district rate of \$1.50 per \$1,000 of assessed valuation for general governmental services. This amount may be reduced for any of the following three reasons:

1. The Levy Limit: The levy limit calculation applies to a taxing district's budget, and not to increases in the assessed value or tax bill of individual properties. Washington State law (RCW 84.55.010) restricts individual taxing districts from collecting, in any year, more than one percent increase in their regular, non-

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

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

3. The City may voluntarily levy taxes below the legal limit. Special levies approved by the voters are not subject to the above limitations. The City's regular levy rate for 2019 was \$1.0651 per \$1,000 on an assessed valuation of \$6,381,577,858 for a total regular levy of \$6,797,100. Additionally, special levies for G.O. bond obligations totaled \$1,131,150.

#### D. Capital assets

Capital asset activities for the year ended December 31, 2019 were as follows:

Governmental Activities	Beginning Balance 1/1/2019	Increases	Decreases	Ending Balance 12/31/2019
<b>Non-depreciable Capital Assets:</b>				
Land and land rights	\$ 152,043,179	\$ 3,036,169	\$ 357,332	\$ 154,722,016
Construction in progress	10,284,299	5,846,134	8,205,449	7,924,984
Total non-depreciable assets	162,327,478	8,882,303	8,562,781	162,647,000
<b>Depreciable Capital Assets:</b>				
Buildings	31,038,883	-	-	31,038,883
Improvements	27,346,494	288,516	19,348	27,615,662
Infrastructure	328,068,843	16,661,655	-	344,730,498
Machinery & equipment	13,918,476	2,494,506	689,805	15,723,177
Total depreciable assets at cost	400,372,696	19,444,677	709,153	419,108,220
<b>Less accumulated depreciation:</b>				
Buildings	14,319,416	723,722	-	15,043,138
Improvements	14,355,492	1,402,310	19,348	15,738,454
Infrastructure	209,566,578	9,458,302	-	219,024,880
Machinery & equipment	9,914,068	1,020,158	686,557	10,247,669
Total accumulated depreciation	248,155,554	12,604,492	705,905	260,054,141
Total Depreciable assets, net	152,217,142	6,840,185	3,248	159,054,079
<b>Governmental activities capital assets, net</b>	<b>\$ 314,544,620</b>	<b>\$ 15,722,488</b>	<b>\$ 8,566,029</b>	<b>\$ 321,701,079</b>

Business-type activities	Beginning Balance 1/1/2019	Increase	Decrease	Ending Balance 12/31/2019
<b>Non-depreciable Capital Assets:</b>				
Land and land rights	\$ 17,165,378	\$ 2,490,398	\$ -	\$ 19,655,776
Construction in process	11,205,618	6,007,777	10,467,337	6,746,058
Total non-depreciable assets	28,370,996	8,498,175	10,467,337	26,401,834
<b>Depreciable Capital Assets:</b>				
Buildings	1,520,813	-	-	1,520,813
Improvements	336,869,994	21,805,099	-	358,675,093
Machinery & equipment	1,100,856	21,551	-	1,122,407
Total depreciable assets at cost	339,491,663	21,826,650	-	361,318,313
<b>Less accumulated depreciation:</b>				
Buildings	627,531	37,073	-	664,604
Improvements	103,588,336	8,121,899	-	111,710,235
Machinery & equipment	485,160	69,663	-	554,823
Total accumulated depreciation	104,701,027	8,228,635	-	112,929,662
Total depreciable assets, net	234,790,636	13,598,015	-	248,388,651
<b>Business-type activities capital assets, net</b>	<b>\$ 263,161,632</b>	<b>\$ 22,096,190</b>	<b>\$10,467,337</b>	<b>\$ 274,790,485</b>

2019 Depreciation expenses were charged to functions/programs of the primary government as follows:

<u>Governmental activities</u>	<u>Amount</u>
General Government	\$ 496,495
Security of persons and property	10,155
Physical environment	2,133
Transportation	9,452,555
Economic environment	36,930
Culture and recreation	1,697,768
Internal services funds	908,456
Total governmental-type activities depreciation expense	\$ 12,604,492
<u>Business-type activities</u>	<u>Amount</u>
Water	\$ 3,874,627
Wastewater	2,423,702
Stormwater	1,897,856
Reclaimed Water	32,453
Total business-type activities depreciation expense	\$ 8,228,638

### Construction Commitments

The City has active construction projects in progress as of December 31, 2019. The projects include construction of streets in various areas and the construction of various water, wastewater, and stormwater facilities.

At the end of the fiscal year 2019, the City's commitments with contractors for major active utilities construction projects were as follows:

Project description	Spent to-date 12/31/2019	Estimated Remaining Commitment
Rumac Street STEP	\$ -	\$ 693,024
Lift Station 15 Rehab	70,812	516,932
Lift Station 21 Rehab	10,930	761,996
Lift Station Generators	353,085	367,610
33rd Ct SE and Stikes Stormwater	595,674	57,826
<b>Total</b>	<b>\$ 1,030,501</b>	<b>\$ 2,397,388</b>

The City's 2019 budget for utilities capital funds includes expenditures for completion of these projects.

The City had the following major active street capital improvement projects in progress as of December 31, 2019:

- College St. & 22<sup>nd</sup> Ave Roundabout
- Hawks Prairie Road/Marvin Road Roundabout
- Ruddell Road Sidewalk/Retaining Walls
- College Street and Yelm Highway Pavement Rehabilitation

The Arterial Street and Transportation Improvement funds' 2020 capital expenditures budgets of \$7,884,036 includes the funding for these projects.

#### **E. Interfund loans and transfers**

##### **Loans/advances from/to other funds:**

Interfund loan balances at December 31, 2019 were as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
LID Debt Fund	Wastewater Fund	\$ 431,048
Total		<u>\$ 431,048</u>

The interfund loan between Local Improvement District (LID) debt fund and Wastewater fund was issued by Ordinance No. 1475 in 2016 to provide funding for the College Street and Martin Way Sewer improvement project (ULID No. 23) in the form of revenue bonds, with a maturity date of September 1, 2035 and an interest rate of 4.10%. Annual payment is due September 1 of each year.

##### **Interfund transfers:**

Interfund transfers activities for the year were as follows:

Fund	Purpose	Amounts Transferred In	Amounts Transferred Out
<u>Governmental Funds:</u>			
<u>Major Funds:</u>			
General Fund	Routine transfers from Parks & Open Space fund for Rainier Vista Park Maintenance \$381,504 and Regional Athletic Complex (RAC) maintenance \$340,131 from Lodging Tax fund for museum operations \$48,500 and RAC promotion and advertisement \$163,000.	\$ 933,135	
	Routine transfers of fire hydrant flows to Water M&O fund \$886,755; utility tax collections of \$3,725,646 to Street fund, Capital Equipment fund and Parks & Open Space fund to maintain operations and fund capital replacements.		4,612,401
	Non-routine transfers from General fund to Capital Equipment fund of \$1,085,575, Capital Building Fund for Library family restroom, service desk and windows \$100,000, Depot trail amenity \$500,000, city hall fencing project \$216,961 and Parks & Open Space fund for Cuoio Park Master Plan \$300,000.		2,202,536
Arterial Street Fund	Non-routine transfers from Arterial Street Fund of \$150,000 to Street fund for LED Street Light replacement.		150,000
<hr/>			
<u>Non-major Governmental Funds:</u>	Routine transfer of \$564,200 from RAC Capital fund in G.O. Debt fund for debt service; utility tax revenues distribution from General fund in Street fund \$2,778,688 Capital Equipment fund \$426,696 and to Parks and Open Space fund \$520,262.	\$ 4,289,846	
	Non-Routine transfer of \$20,425 from Water debt fund to LID fund, non-routine transfer to RAC capital fund of \$394,730 for replacement of two synthetic fields, fencing and equipment, and non-routine transfer from Arterial Street Fund of \$150,000 to Street fund for LED Street Light replacement.	565,155	
<u>Non-major Governmental Funds - Continued</u>	Non-routine transfers from General fund to Capital Equipment fund of \$1,085,575, Capital Building Fund for Library family restroom, service desk and windows \$100,000, Depot trail amenity \$500,000, city hall fencing project \$216,961 and Parks & Open Space fund for Cuoio Park Master Plan \$300,000.	2,202,536	
	Routine transfer from Lodging Tax Fund to Regional Athletic Complex Operating fund \$163,000 for RAC promotion; from Parks and Open Space fund to General Fund \$381,504 for RAC maintenance and \$340,131 Rainier Vista Parks maintenance. Routine transfer \$564,200 from RAC Capital fund to G.O. Debt Service fund for debt service. Routine transfer of \$48,500 from Lodging Tax fund to RAC Capital fund for museum operations;		1,497,335
	Non-routine transfer of \$394,730 for RAC synthetic field replacement for two fields, fence replacement and equipment refurbishment.		394,730
<hr/> Total Governmental Funds		\$ 7,990,672	\$ 8,857,002

Proprietary Funds:

		\$	647,782	
<u>Internal Services Funds</u>	Non-routine capital asset transfers to Equipment Rental Fund; \$141,386 from Water Fund, \$58,861 from Wastewater Fund and \$447,535 from Stormwater Fund.			
<u>Enterprise Funds:</u>				
Water Fund	Routine transfer from General fund for fire hydrant flow.		886,755	
	Non-routine transfer of \$20,425 from Water debt fund to LID fund			20,425
	Non-routine transfer to Equipment Rental Fund for \$141,386 for capital asset.			141,386
Wastewater Fund	Non-routine transfer to Equipment Rental Fund for \$58,861 for capital asset.			58,861
Stormwater Fund	Non-routine transfer to Equipment Rental Fund for \$447,535 for capital asset.			447,535
<hr/>				
Total Proprietary Funds		\$	1,534,537	\$ 668,207
<hr/>				
Total		\$	9,525,209	\$ 9,525,209

Reconciliation to Statement of Activities

Total net transfers - governmental funds		\$	(866,330)	
Internal Services Fund	Non-routine capital asset transfers to Equipment Rental Fund; \$141,386 from Water Fund, \$58,861 from Wastewater Fund and \$447,535 from Stormwater Fund.			647,782
Total governmental activities, transfers out		\$	(218,548)	
<hr/>				
Total net transfers - enterprise funds		\$	866,330	
Capital asset transfer to governmental activities				(647,782)
Total business-type activities - transfers in		\$	218,548	

**F. Restricted assets**

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

Purposes	Governmental Funds	Enterprise Funds
Customer deposit	\$ 23,805	\$ 219,861
Revenue bonds covenants	-	694,361
Total	<u>\$ 23,805</u>	<u>\$ 914,222</u>

**G. Leases**

Capital Leases

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

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

The assets acquired through capital lease as of December 31, 2019 are as follows:

	Governmental Activities
Assets:	
Machinery and equipment	\$ 128,828
Less: Accumulated depreciation	(66,504)
Total	<u>\$ 62,324</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2019 were as follows:

	Governmental Activities
<u>Year Ending December 31</u>	
2020	\$ 28,474
2021	26,625
2022	17,380
2023	2,897
Total minimum lease payments	<u>75,376</u>
Less: amount representing interest	<u>(11,100)</u>
Present value of minimum lease payments	<u>\$ 64,276</u>

#### Operating Leases

The City of Lacey has lease commitments for leases of office machinery and equipment that are non-cancelable with lease terms primarily from month to month with one that extends to 48 months. The total operating lease expenditures for the year ended December 31, 2019 was \$10,849.

#### **H. Long-term liabilities**

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

#### General Obligation Bonds

The City issues general obligation bonds to finance the acquisition, construction, improvements of capital facilities, and major equipment purchases. General obligation bonds are direct obligations and pledge the full faith and credit of the government. Payments on voter-approved bonds (unlimited) are funded from property tax levies. Non-voter approved bonds (limited) have been funded by other sources of revenues such as sales tax and transfers in. Variable-rate debt used was the effective interest rate as of December 31, 2019.

General Obligation Bonds outstanding as of December 31, 2019 are as follows:

Description	Balance
2010 Unlimited Tax General Obligation Refunding Bonds issue amount of \$3,790,000; dated December 1, 2010; interest rates of 2.0-4.0% with maturity date of December 1, 2021. Issued to advance refund a portion of the City's outstanding 2002 UTGO Bonds maturing on December 1 of the years 2012 through 2021 and to pay the costs of the refunding issuance. Interest rates are 3% in 2016-2017, 3.25% in 2018, and 4% in 2019-2021.	\$ 865,000
2012 Unlimited Tax General Obligation Refunding Bonds issue amount of \$2,945,000; dated December 19, 2012; interest rates of 2.0-3.0% with maturity date of December 1, 2023. Issued to advance refund a portion of the City's outstanding 2003 UTGO Bonds maturing on December 1 of the years 2014 through 2023 and to pay the costs of the refunding issuance.	1,215,000
2015 Unlimited Tax General Obligation Refunding Bonds issue amount of \$2,995,000; dated May 20, 2015; interest rates of 2.0-4.0% with maturity date of December 1, 2026. Issued to advance refund a portion of the City's outstanding 2006 UTGO Bonds maturing on December 1 of the years 2017-2026 and to pay the costs of the refunding issuance. Interest rates are 2% in 2016-2017, 3% in 2018-2021 and 4% in 2022-2027.	2,170,000
2015 Limited Tax General Obligation Refunding Bonds issue amount of \$4,770,000; dated May 20, 2015; interest rate of 2.0-4.0% with final maturity date of December 1, 2027. Issued to advance refund a portion of the City's outstanding 2007 LTGO Bonds maturing on December 1 of the years 2018- 2027 and to pay the costs of the refunding issuance. Interest rates are 2% in 2016-2017, 3% in 2018-2021 and 4% in 2022-2027.	3,890,000
<b>Total</b>	<b>\$ 8,140,000</b>

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

Year Ending December 31	General Obligation Bonds	
	Governmental Activities	
	Principal	Interest
2020	\$ 1,410,000	\$ 293,350
2021	1,465,000	249,800
2022	1,055,000	204,400
2023	1,095,000	165,250
2024	810,000	124,600
2025-2029	2,305,000	173,000
<b>Total</b>	<b>\$ 8,140,000</b>	<b>\$ 1,210,400</b>

### Revenue Bonds

Revenue bonds are bonds where the government pledges income derived from the acquired or constructed assets to pay debt service.

The City issued \$8,290,000 of Water and Sewer Revenue Bonds in November 2013. The City pledges to pay all of the Gross Revenue of the Waterworks Utility (the combined water, sewer and stormwater systems of the City) into the Revenue Fund as collected and make payments required to be made into the Bond Fund to pay the maturing principal and interest and the required debt service reserves as defined in Ordinance No. 1420. The principal and interest on this Bond are payable solely out of the Water Debt Service, Wastewater Debt Service and Stormwater Debt Service Funds (collectively, the "Bond Fund"). The bond covenants require that in each calendar year, the net revenue of the Waterworks Utility will equal at least 1.20 times the annual debt service for such year and also require a reserve account to secure the payment of the principal and interest on the Bonds. The reserve account is to be an amount equal to the

lesser of a) 125% of average annual debt service on the bonds or b) maximum annual debt service on the bonds. A reserve account on the bonds has been established in the Water Debt Service fund. The required minimum debt service reserve is \$607,425.

The City issued \$1,294,000 of Water and Sewer Revenue Bonds in March 2018. The bond provided funding for ULID No. 24 (special assessment). The City pledges to pay all of the Gross Revenue of the Waterworks Utility (the combined water, sewer and stormwater systems of the City) into the Revenue Fund as collected and make payments required to be made into the Bond Fund to pay the maturing principal and interest and the required debt service reserves as defined in Ordinance No. 1504. The principal and interest on this Bond are payable solely out of the Water Debt Service, Wastewater Debt Service and Stormwater Debt Service Funds (collectively, the "Bond Fund"). The bond covenants require that in each calendar year, the net revenue of the Waterworks Utility will equal at least 1.20 times the annual debt service for such year and also require a reserve account to secure the payment of the principal and interest on the Bonds. The reserve account is to be an amount equal to the lesser of a) 125% of average annual debt service on the bonds or b) maximum annual debt service on the bonds. A reserve account on the bonds has been established in the Wastewater Debt Service fund. The required minimum debt service reserve is \$86,936.

The City is in compliance with all significant limitations and restrictions.

Revenue bond outstanding as of December 31, 2019 is as follows:

Description	Balance
2013 Water and Sewer Revenue Bonds issue amount of \$8,290,000; dated November 19, 2013; original interest rates of 2.0%-4.5% with final maturity date of November 1, 2033. Issue to finance improvements to the Waterworks Utility and to fund a reserve account and pay the costs of issuance and sale of the bonds. Payments are funded by the revenues of the Waterworks Utility.	\$ 6,325,000
2017 Water and Sewer Revenue Bonds issue amount of \$1,294,000; dated March 17, 2017; original interest rates of 2.56%-2.74% with final maturity date of February 1, 2032. Issue to finance improvements to the Waterworks Utility and to fund a reserve account and pay the costs of issuance and sale of the bonds. Payments are funded by the revenues of the Waterworks Utility.	1,144,000
<b>Total</b>	<b>\$ 7,469,000</b>

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

Year Ending December 31	Revenue Bonds	
	Business-type Activities	
	Principal	Interest
2020	\$ 431,000	\$ 278,211
2021	442,000	265,616
2022	459,000	252,695
2023	471,000	239,272
2024	483,000	225,499
2025-2029	2,710,000	842,518
2030-2034	2,473,000	265,167
<b>Total</b>	<b>\$ 7,469,000</b>	<b>\$ 2,368,978</b>

## Government Loans

The final payment for the 2012 \$1.1 million Washington State Treasurer LOCAL Program loan was made during 2019.

## Legal debt margin

The City is subject to a statutory debt limitation that is 7.5 percent of assessed value of taxable property. On December 31, 2019, the statutory debt limitation amount was \$478,618,339. As of December 31, 2019, the total net outstanding debt applicable to this limit was \$8,887,355, which is 1.9 percent of the total debt limit.

## Changes in long-term liabilities

The following is a summary of changes in long-term liabilities for the year ended December 31, 2019:

Type of Debt	Beginning Balance 1/1/2019	Additions	Reductions/ Adjustments	Ending Balance 12/31/2019	Due Within One Year
<b>Governmental Activities:</b>					
<u>G.O. Bonds:</u>					
G.O. Bonds, par	\$ 9,500,000	\$ -	\$ 1,360,000	\$ 8,140,000	\$ 1,410,000
Unamortized bonds premiums	801,815	-	118,736	683,079	-
Total G.O. bonds payable:	\$ 10,301,815	\$ -	\$ 1,478,736	\$ 8,823,079	\$ 1,410,000
<u>Other:</u>					
WA LOCAL Program loan	\$ 170,798	\$ -	\$ 170,798	\$ -	\$ -
Capital leases payable	38,631	53,818	28,174	64,275	22,649
Net pension liability	5,779,077	5,515,995	6,809,774	4,485,298	-
Total OPEB liability	6,327,734	239,190	1,715,422	4,851,502	169,130
Compensated absences	1,300,054	1,448,520	1,341,227	1,407,347	707,401
Total other	\$ 13,616,294	\$ 7,257,523	\$ 10,065,395	\$ 10,808,422	\$ 899,180
Total governmental activities	\$ 23,918,109	\$ 7,257,523	\$ 11,544,131	\$ 19,631,501	\$ 2,309,180
<b>Business-type Activities:</b>					
Revenue Bonds, par	\$ 7,893,000	\$ -	\$ 424,000	\$ 7,469,000	\$ 431,000
Unamortized bonds premiums	310,081	-	20,846	289,235	-
Net pension liability	1,779,304	1,676,132	2,092,499	1,362,937	-
Compensated absences	251,036	324,720	283,971	291,785	144,777
Total Business-type activities	\$ 10,233,421	\$ 2,000,852	\$ 2,821,316	\$ 9,412,957	\$ 575,777

Internal service funds predominantly serve the governmental funds. Accordingly, long-term liabilities for them are included in the totals for governmental activities. For the governmental funds, long-term liabilities other than debt (i.e. compensated absences and other postemployment benefits) are generally liquidated in the general and other governmental funds. The compensated absences for Internal service funds for \$88,010 is included in the total for governmental activities.

## Bond discounts and premiums:

The City issued revenue bonds at premium in 2013. The City also had issued general obligation bonds and refunding bonds at premium in 2010, 2012, and 2015. These bond premiums are deferred and are amortized under the straight-line method over the life of the bonds (7-20 years). The unamortized amounts are included in the bonds payable and are reported in the statements of net position.

## Arbitrage:

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

## I. Fund Balances

As of December 31, 2019, the City's governmental funds report the following fund balances:

<b>Non-spendable:</b>			
Fund Restricted	Purpose	Authority	Amount
General Fund	Non-spendable (prepaids)	Non-spendable item	\$ 123,959
Arterial Street Fund	Non-spendable (deposits)	Non-spendable item	750
	<b>Total Non-spendable</b>		<b>\$ 124,709</b>
<b>Restricted:</b>			
Fund Restricted	Purpose	Authority	Amount
General Fund	Criminal bail	RCW 69.50.508	\$ 176,852
	Property Maintenance and Abatement	LMC 14.02.040	78,662
	Crime Prevention Through Environmental Design Prog	LMC 14.02.040	9,836
	Various	Private donor	160,726
	<b>Subtotal for general fund</b>		<b>\$ 426,076</b>
<b>Nonmajor Funds:</b>			
Lodging Tax Fund	Tourism	RCW 67.28.180	\$ 1,061,195
Community Block Grant Fund	HUD approved projects	CDBG Grant	21,783
Hicks Lake Mgmt District Fund	Hicks Lake Management District projects	Ordinance No. 1479	102,249
Capital Equipment Fund	Child care center repairs	Private contract	107,340
	<b>Subtotal for nonmajor funds</b>		<b>\$ 1,292,567</b>
	<b>Total Restricted</b>		<b>\$ 1,718,643</b>
<b>Committed</b>			
Fund Committed	Purpose	Authority	Amount
General Fund	Insurance deductibles	Ordinance No. 1559	\$ 200,000
	City hall facilities improvements	Ordinance No. 1559	1,000,000
	Future pension contribution	Ordinance No. 1559	926,042
	Police Station Facility	Ordinance No. 1559	4,100,000
	Police Succession Planning	Ordinance No. 1559	2,000,000
	Gateway project	Ordinance No. 1559	8,000,000
	College Street Pedestrian Crossing	Ordinance No. 1559	300,000
	Budget policy implementation	Ordinance No. 1559	2,250,000
	Strategic investment program	Ordinance No. 1559	2,500,000
	Mid-Town Amenities	Ordinance No. 1559	50,000
	Trail System (Bike/Pedestrian Plan)	Ordinance No. 1559	250,000
	5700 Pacific Property Improvements	Ordinance No. 1559	500,000
	Parks & Recreation Comp Plan Priorities	Ordinance No. 1559	2,100,000
	Carbon Reduction and Resiliency Plan	Ordinance No. 1559	100,000
	Limited-Term Employee Program	Ordinance No. 1559	593,574
	Future Police Station Expansion	Ordinance No. 1559	1,400,000
	Furniture & equipment replacement	Ordinance No. 1559	67,500
Community building repair	Ordinance No. 1559	500,000	
RAC field replacement (fund 007)	Ordinance No. 1559	375,000	
	<b>Subtotal for general fund</b>		<b>\$ 27,212,116</b>
<b>Nonmajor Funds:</b>			
Street Fund	Transportation building replacement	Ordinance No. 1559	\$ 350,000
	Transportation equipment & replacement	Ordinance No. 1559	400,000
	<b>Subtotal for street fund</b>		<b>\$ 750,000</b>
Building Improvement Fund	Senior center repairs/replacement	Ordinance No. 1559	\$ 82,010
	City facility replacement	Ordinance No. 1559	1,137,500
	Historic Jacob Smith House	Ordinance No. 1559	266,816
	Public arts	Ordinance No. 1559	121,976
	City facilities plan projects	Ordinance No. 1559	1,500,000
	<b>Subtotal for building improvement fund</b>		<b>\$ 3,108,302</b>
Capital Equipment Fund	Unscheduled equipment replacement	Ordinance No. 1559	\$ 500,000
	Park facilities- replacement/repairs	Ordinance No. 1559	385,000
	IMS fiber & telephone replacement/repairs	Ordinance No. 1559	500,000
	Security cameras in parks (fund 302)	Ordinance No. 1559	150,000
	RAC field replacement (fund 302)	Ordinance No. 1559	1,500,000
	<b>Subtotal for capital equipment fund</b>		<b>\$ 3,035,000</b>

**Committed - Continued**

Fund Committed	Purpose	Authority	Amount
Parks and Open Space Fund	Parks property acquisition priority 1	Ordinance No. 1559	\$ 45,635
	<b>Subtotal for parks and open space fund</b>		<b>\$ 45,635</b>
RAC Capital Fund	Sports complex lifecycle replacements	Ordinance No. 1559	\$ 500,000
	<b>Subtotal for RAC capital fund</b>		<b>\$ 500,000</b>
	<b>Total for nonmajor funds:</b>		<b>\$ 7,438,937</b>
	<b>Total Committed</b>		<b>\$ 34,651,053</b>

**Assigned: \***

Fund Assigned	Purpose	Authority	Amount
General Fund	5700 Pacific Property Improvements	Ordinance No. 1559	\$ 81,233
	Affordable Housing	Ordinance No. 1559	60,000
	Strategic investment program (MakerSpace)	Ordinance No. 1559	175,000
	Depot Project (Trail Amenity)	Ordinance No. 1559	96,308
	Police Vehicles and Equipment	Ordinance No. 1559	660,200
	Public Safety Contracts	Ordinance No. 1559	1,200,000
	Water Quality	Ordinance No. 1559	357,143
	Community Center HVAC	Ordinance No. 1559	750,000
	Reorganization (staffing)	Ordinance No. 1559	207,575
	Veterans Services	Ordinance No. 1559	70,000
	Community building repairs/replacement	Ordinance No. 1559	26,000
	<b>Subtotal for general fund</b>		<b>\$ 3,683,459</b>
Arterial Street Fund	Street capital projects		\$ 28,867,665
Transportation Benefit District Fund	Transportation improvements		\$ 3,509,873
<b>Nonmajor Funds:</b>			
Street Fund	Street maintenance		\$ 2,053,677
General Obligation Bond Fund	Debt service		343,129
LID Redemption Fund	Debt service		4,124,548
Building improvement Fund	Capital projects		2,074,158
Capital Expenditure Fund	Capital acquisitions		3,068,995
Capital Expenditure Fund	Credit/Purchasing card implementation	Ordinance No. 1559	15,000
Parks and Open Space Fund	Capital projects		738,212
Regional Athletic Complex Fund	Capital projects		2,472,370
	<b>Subtotal for nonmajor funds</b>		<b>\$ 14,890,089</b>
	<b>Total Assigned</b>		<b>\$ 50,951,086</b>

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

**J. Employee Pension Plans**

The following table represents the aggregate pension amounts for all plans subject to the requirements of the GASB Statement 68, Accounting and Financial Reporting for Pensions for the year 2019:

<b>Aggregate Pension Amounts - All Plans</b>	
Pension assets	\$ 4,756,967
Pension Liabilities	\$ 5,848,235
Deferred outflows of resources	\$ 2,609,805
Deferred inflows of resources	\$ 5,355,629
Pension expense/expenditures	\$ 526,403

Of the \$4,756,967 pension asset, \$3,744,080 is reflected as restricted net pension on the government-wide financial statements. This value is the result of starting with the pension asset and adding the related deferred outflows of \$566,392 and subtracting the related deferred inflows of \$1,579,279.

**State Sponsored Pension Plans**

Substantially all of the City's full-time and qualifying part-time employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing, multiple-employer public employee defined benefit and defined contribution retirement

plans. The state Legislature establishes, and amends, laws pertaining to the creation and administration of all public retirement systems.

The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to:

Department of Retirement Systems  
 Communications Unit  
 P.O. Box 48380  
 Olympia, WA 98504-8380

Alternatively, the DRS CAFR may be downloaded from the DRS website at [www.drs.wa.gov](http://www.drs.wa.gov).

**Public Employee’s Retirement System (PERS)**

PERS members include elected officials; state employees; employees of the Supreme, Appeals and Superior Courts; employees of the legislature; employees of district and municipal courts; employees of local governments; and higher education employees not participating in higher education retirement programs. PERS is comprised of three separate pension plans for membership purposes. PERS plans 1 and 2 are defined benefit plans, and PERS plan 3 is a defined benefit plan with a defined contribution component.

**PERS Plan 1** provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the member’s average final compensation (AFC) times the member’s years of service. The AFC is the average of the member’s 24 highest consecutive service months. Members are eligible for retirement from active status at any age with at least 30 years of service, at age 55 with at least 25 years of service, or at age 60 with at least five years of service. Members retiring from active status prior to the age of 65 may receive actuarially reduced benefits. Retirement benefits are actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and non-duty disability payments, an optional cost-of-living adjustment (COLA), and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. PERS 1 members were vested after the completion of five years of eligible service. The plan was closed to new entrants on September 30, 1977.

Contributions

The **PERS Plan 1** member contribution rate is established by State statute at 6 percent. The employer contribution rate is developed by the Office of the State Actuary and includes an administrative expense component that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates. The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for 2019 were as follows:

<b>PERS Plan 1</b>		
<b>Actual Contribution Rates</b>	<b>Employer</b>	<b>Employee</b>
January – June 2019:		
PERS Plan 1	7.52%	6.00%
PERS Plan 1 UAAL	5.13%	
Administrative Fee	0.18%	
<b>Total</b>	<b>12.83%</b>	<b>6.00%</b>
July – December 2019:		
PERS Plan 1	7.92%	6.00%
PERS Plan 1 UAAL	4.76%	
Administrative Fee	0.18%	
<b>Total</b>	<b>12.86%</b>	<b>6.00%</b>

**PERS Plan 2/3** provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the member’s average final compensation (AFC) times the member’s years of service for Plan 2 and 1 percent of AFC for Plan 3. The AFC is the average of the member’s 60 highest-paid consecutive service months. There is no cap on years of service credit. Members are eligible for retirement with a full benefit at 65 with at least five years of service credit. Retirement before age 65 is considered an early retirement. PERS Plan 2/3 members who have at least 20 years of service credit and are 55 years of age or older, are eligible for early retirement with a benefit that is reduced by a factor that varies according to age for each year before age 65. PERS Plan 2/3 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions:

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

PERS Plan 2/3 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of five percent for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service credit. PERS Plan 2/3 retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit. Other PERS Plan 2/3 benefits include duty and non-duty disability payments, a cost-of-living allowance (based on the CPI), capped at three percent annually and a one-time duty related death benefit, if found eligible by the Department of Labor and Industries. PERS 2 members are vested after completing five years of eligible service. Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years of service if 12 months of that service are earned after age 44.

**PERS Plan 3** defined contribution benefits are completely dependent on employee contributions and investment earnings on those contributions. PERS Plan 3 members choose their contribution rate upon joining membership and have a chance to change rates upon changing employers. As established by statute, Plan 3 required defined contribution rates are set at a minimum of 5 percent and escalate to 15 percent with a choice of six options. Employers do not contribute to the defined contribution benefits. PERS Plan 3 members are immediately vested in the defined contribution portion of their plan.

Contributions

The **PERS Plan 2/3** employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 UAAL and an administrative expense that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates. The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2019 were as follows:

<b>PERS Plan 2/3</b>		
<b>Actual Contribution Rates</b>	<b>Employer</b>	<b>Employee</b>
January – June 2019:		
PERS Plan 2/3	7.52%	7.41%
PERS Plan 1 UAAL	5.13%	
Administrative Fee	0.18%	
Employee PERS Plan 3		varies
<b>Total</b>	<b>12.83%</b>	<b>7.41%</b>
July – December 2019:		
PERS Plan 2/3	7.92%	7.90%
PERS Plan 1 UAAL	4.76%	
Administrative Fee	0.18%	
Employee PERS Plan 3		varies
<b>Total</b>	<b>12.86%</b>	<b>7.90%</b>

The City's actual PERS plan contributions were \$857,199 to PERS Plan 1 and \$1,340,195 to PERS Plan 2/3 for the year ended December 31, 2019.

### **Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF)**

LEOFF membership includes all full-time, fully compensated, local law enforcement commissioned officers, firefighters, and as of July 24, 2005, emergency medical technicians. LEOFF is comprised of two separate defined benefit plans.

**LEOFF Plan 1** provides retirement, disability and death benefits. Retirement benefits are determined per year of service calculated as a percent of final average salary (FAS) as follows:

- 20+ years of service – 2.0% of FAS
- 10-19 years of service – 1.5% of FAS
- 5-9 years of service – 1% of FAS

The FAS is the basic monthly salary received at the time of retirement, provided a member has held the same position or rank for 12 months preceding the date of retirement. Otherwise, it is the average of the highest consecutive 24 months' salary within the last ten years of service. Members are eligible for retirement with five years of service at the age of 50. Other benefits include duty and non-duty disability payments, a cost-of living adjustment (COLA), and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. LEOFF 1 members were vested after the completion of five years of eligible service. The plan was closed to new entrants on September 30, 1977.

#### Contributions

Starting on July 1, 2000, **LEOFF Plan 1** employers and employees contribute zero percent, as long as the plan remains fully funded. The LEOFF Plan 1 had no required employer or employee contributions for fiscal year 2019. Employers paid only the administrative expense of 0.18 percent of covered payroll.

**LEOFF Plan 2** provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the final average salary (FAS) per year of service (the FAS is based on the highest consecutive 60 months). Members are eligible for retirement with a full benefit at 53 with at least five years of service credit. Members who retire prior to the age of 53 receive reduced benefits. If the member has at least 20 years of service and is age 50, the reduction is three percent for each year prior to age 53. Otherwise, the benefits are actuarially reduced for each year prior to age 53. LEOFF 2 retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and non-duty disability payments, a cost-of-living allowance (based on the CPI), capped at three percent annually and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. LEOFF 2 members are vested after the completion of five years of eligible service.

#### Contributions

The **LEOFF Plan 2** employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2. The employer rate included an administrative expense component set at 0.18 percent. Plan 2 employers and employees are required to pay at the level adopted by the LEOFF Plan 2 Retirement Board.

Effective July 1, 2017, when a LEOFF employer charges a fee or recovers costs for services rendered by a LEOFF 2 member to a non-LEOFF employer, the LEOFF employer must cover both the employer and state contributions on the LEOFF 2 basic salary earned for those services. The state contribution rate (expressed as a percentage of covered payroll) was 3.44% as of July 1, 2019.

The LEOFF Plan 2 required contribution rates (expressed as a percentage of covered payroll) for 2019 were as follows:

<b>LEOFF Plan 2</b>		
<b>Actual Contribution Rates:</b>	<b>Employer</b>	<b>Employee</b>
<b>January – June 2019</b>		
State and local governments	5.25%	8.75%
Administrative Fee	0.18%	
<b>Total</b>	<b>5.43%</b>	<b>8.75%</b>
Ports and Universities	8.75%	8.75%
Administrative Fee	0.18%	
<b>Total</b>	<b>8.93%</b>	<b>8.75%</b>
<b>July – December 2019</b>		
State and local governments	5.15%	8.59%
Administrative Fee	0.18%	
<b>Total</b>	<b>5.33%</b>	<b>8.59%</b>
Ports and Universities	8.59%	8.59%
Administrative Fee	0.18%	
<b>Total</b>	<b>8.77%</b>	<b>8.59%</b>

The City's actual contributions to the plan were \$348,046 for the year ended December 31, 2019.

The Legislature, by means of a special funding arrangement, appropriates money from the State General Fund to supplement the current service liability and fund the prior service costs of Plan 2 in accordance with the recommendations of the Pension Funding Council and the LEOFF Plan 2 Retirement Board. This special funding situation is not mandated by the State Constitution and could be changed by statute. For the State fiscal year ending June 30, 2019, the State contributed \$72,959,897 to LEOFF Plan 2. The amount recognized by the City as its proportionate share of this amount is \$221,563.

### **Actuarial Assumptions**

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2019 with a valuation date of June 30, 2018. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's (OSA) *2007-2012 Experience Study*.

Additional assumptions for subsequent events and law changes are current as of the 2018 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2019. Plan liabilities were rolled forward from June 30, 2018, to June 30, 2019, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

- **Inflation:** 2.75% total economic inflation; 3.5% salary inflation
- **Salary increases:** In addition to the base 3.5% salary inflation assumption, salaries are also expected to grow by promotions and longevity.
- **Investment rate of return:** 7.4%

Mortality rates were based on the RP-2000 report's Combined Healthy Table and Combined Disabled Table, published by the Society of Actuaries. The OSA applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100 percent Scale BB. Mortality rates are applied on a generational basis; meaning, each member is assumed to receive additional mortality improvements in each future year throughout his or her lifetime.

There were minor changes in methods and assumptions since the last valuation.

- OSA updated modeling to reflect providing benefit payments to the date of initial retirement eligibility for terminated vested members who delay application for retirement benefits.
- OSA updated Cost-of-Living Adjustment (COLA) programming to reflect legislation signed during the 2018 Legislative Session. This law provides PERS and TRS Plan 1 annuitants who are not receiving a basic minimum, alternative minimum, or temporary disability benefit with a one-time permanent 1.5 percent increase to their monthly retirement benefit, no to exceed an amount of \$62.50 per month.

**Discount Rate**

The discount rate used to measure the total pension liability for all DRS plans was 7.4 percent.

To determine that rate, an asset sufficiency test included an assumed 7.5 percent long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. (All plans use 7.5 percent except LEOFF 2, which has assumed 7.4 percent). Consistent with the long-term expected rate of return, a 7.4 percent future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue being made at contractually required rates (including PERS 2/3, PSERS 2, SERS 2/3, and TRS 2/3 employers, whose rates include a component for the PERS 1, and TRS 1 plan liabilities). Based on these assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.4 percent was used to determine the total liability.

**Long-Term Expected Rate of Return**

The long-term expected rate of return on the DRS pension plan investments of 7.4 percent was determined using a building-block-method. In selecting this assumption, the Office of the State Actuary (OSA) reviewed the historical experience data, considered the historical conditions that produced past annual investment returns, and considered capital market assumptions and simulated expected investment returns provided by the Washington State Investment Board (WSIB). The WSIB uses the capital market assumptions and their target asset allocation to simulate future investment returns over various time horizons.

**Estimated Rates of Return by Asset Class**

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2019, are summarized in the table below. The inflation component used to create the table is 2.2 percent and represents the WSIB's most recent long-term estimate of broad economic inflation.

<b>Asset Class</b>	<b>Target Allocation</b>	<b>% Long-Term Expected Real Rate of Return Arithmetic</b>
Fixed Income	20%	2.20%
Tangible Assets	7%	5.10%
Real Estate	18%	5.80%
Global Equity	32%	6.30%
Private Equity	23%	9.30%
	<b>100%</b>	

**Sensitivity of the Net Pension Liability/(Asset)**

The table below presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.4 percent, as well as what the City's proportionate share of the net pension liability would

be if it were calculated using a discount rate that is 1-percentage point lower (6.4 percent) or 1-percentage point higher (8.4 percent) than the current rate.

<b>Employer's Net Pension Liability</b>			
<b>Pension Plans</b>	<b>1% Decrease (6.4%)</b>	<b>Current Discount Rate (7.4%)*</b>	<b>1% Increase (8.4%)</b>
PERS 1*	\$ 5,521,710	\$ 4,409,189	\$ 3,443,932
PERS 2/3*	\$ 11,036,911	\$ 1,439,046	\$ (6,436,636)
LEOFF1	\$ (413,686)	\$ (505,696)	\$ (585,138)
LEOFF2	\$ (790,491)	\$ (4,251,271)	\$ (7,076,059)

\*Excludes the proportionate share amounts for PERS Plans allocated to and reported in Joint Animal Services, which was \$301,803.

### **Pension Plan Fiduciary Net Position**

Detailed information about the State's pension plans' fiduciary net position is available in the separately issued DRS financial report.

### **Pension Liabilities (Assets), Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

At June 30, 2019, the City reported a total pension asset of \$4,756,967 and net pension liability of \$5,848,235 for its proportionate share of the net pension liabilities (assets) as follows:

<b>Pension Plans</b>	<b>Liability (or Asset)</b>
PERS 1	\$ 4,409,189
PERS 2/3	\$ 1,439,046
LEOFF1	\$ (505,696)
LEOFF2	\$ (4,251,271)

The amount of the asset reported above for LEOFF Plans 1 and 2 reflects a reduction for State pension support provided to the City. The amount recognized by the City as its proportionate share of the net pension asset, the related State support, and the total portion of the net pension asset that was associated with the City were as follows:

<b>Description</b>	<b>Asset</b>
LEOFF 2 - Employer's proportionate share	\$ 4,251,271
LEOFF 2 - State's proportionate share of the net pension asset associated with the employer	2,784,009
<b>TOTAL</b>	<b>\$ 7,035,280</b>

At June 30, the City's proportionate share of the collective net pension liabilities was as follows:

	<b>Proportionate Share 6/30/2018</b>	<b>Proportionate Share 6/30/2019*</b>	<b>Changes in Proportion</b>
PERS 1*	0.113860%	0.114663%	0.000803%
PERS 2/3*	0.145420%	0.148151%	0.002731%
LEOFF1	0.025530%	0.025584%	0.000054%
LEOFF2	0.179065%	0.183506%	0.004441%

\*Excludes the proportionate share % allocated for PERS plans to and reported in Joint Animal Services, which was 0.013562%.

Employer contribution transmittals received and processed by the DRS for the fiscal year ended June 30 are used as the basis for determining each employer's proportionate share of the collective pension amounts reported by the DRS in the *Schedules of Employer and Nonemployer Allocations* for all plans except LEOFF 1.

LEOFF Plan 1 allocation percentages are based on the total historical employer contributions to LEOFF 1 from 1971 through 2000 and the retirement benefit payments in fiscal year 2019. Historical data was obtained from a 2011 study by the Office of the State Actuary (OSA). In fiscal year 2019, the state of Washington contributed 87.12 percent of LEOFF 1 employer contributions and all other employers contributed the remaining 12.88 percent of employer contributions. LEOFF 1 is fully funded and no further employer contributions have been required since June 2000. If the plan becomes underfunded, funding of the remaining liability will require new legislation. The allocation method the plan chose reflects the projected long-term contribution effort based on historical data.

In fiscal year 2019, the state of Washington contributed 39.57 percent of LEOFF 2 employer contributions pursuant to [RCW 41.26.725](#) and all other employers contributed the remaining 60.43 percent of employer contributions.

The collective net pension liability (asset) was measured as of June 30, 2019, and the actuarial valuation date on which the total pension liability (asset) is based was as of June 30, 2018, with update procedures used to roll forward the total pension liability to the measurement date.

### Pension Expense

For the year ended December 31, 2019, the City recognized pension expense as follows:

Pension Plans	Pension Expense
PERS 1	\$ 244,331
PERS 2/3	205,664
LEOFF1	(27,402)
LEOFF2	103,810
TOTAL	\$ 526,403

### Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2019, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following:

PERS Plan 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experiences	\$ -	\$ -
Net difference between projected and actual investment earnings on pension plan investments	-	294,571
Changes of assumptions	-	-
Changes in proportion and differences between contributions and proportionate share of contributions	-	-
Contributions subsequent to the measurement date	439,153	-
TOTAL	\$ 439,153	\$ 294,571

<b>PERS Plan 2/3</b>	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Difference between expected and actual experiences	\$ 412,290	\$ 309,387
Net difference between projected and actual investment earnings on pension plan investments	-	2,094,664
Changes of assumptions	36,849	603,776
Changes in proportion and differences between contributions and proportionate share of contributions	427,733	473,953
Contributions subsequent to the measurement date	727,388	-
<b>TOTAL</b>	<b>\$ 1,604,260</b>	<b>\$ 3,481,780</b>

<b>LEOFF Plan 1</b>	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Difference between expected and actual experiences	\$ -	\$ -
Net difference between projected and actual investment earnings on pension plan investments	-	52,425
Changes of assumptions	-	-
Changes in proportion and differences between contributions and proportionate share of contributions	-	-
Contributions subsequent to the measurement date	-	-
<b>TOTAL</b>	<b>\$ -</b>	<b>\$ 52,425</b>

<b>LEOFF Plan 2</b>	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Difference between expected and actual experiences	\$ 305,917	\$ 76,449
Net difference between projected and actual investment earnings on pension plan investments	-	871,643
Changes of assumptions	7,004	478,404
Changes in proportion and differences between contributions and proportionate share of contributions	79,778	100,358
Contributions subsequent to the measurement date	173,693	-
<b>TOTAL</b>	<b>\$ 566,392</b>	<b>\$ 1,526,854</b>

A total of \$1,340,234 reported as deferred outflows of resources related to pensions resulting from the City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2020. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year	Deferred Outflows (Inflows) of Resources				
	PERS 1	PERS 2/3	LEOFF 1	LEOFF 2	Total
Thereafter	\$ -	\$ 37,173	\$ -	\$ (136,610)	\$ (99,437)
2024	-	(71,232)	-	(43,245)	(114,477)
2023	(20,542)	(284,417)	(3,670)	(113,087)	(421,716)
2022	(54,968)	(506,025)	(9,739)	(205,524)	(776,256)
2021	(154,033)	(1,104,306)	(26,839)	(430,898)	(1,716,076)
2020	(65,028)	(676,108)	(12,177)	(204,792)	(958,105)
<b>Total Deferred Outflows/(Inflows)</b>	<b>\$ (294,571)</b>	<b>\$ (2,604,915)</b>	<b>\$ (52,425)</b>	<b>\$ (1,134,156)</b>	<b>\$ (4,086,067)</b>

**K. Postemployment benefits other than pensions (OPEB)**

In addition to the pension benefits described in Note 3-J, the City of Lacey provides postemployment health care benefits.

**1. LEOFF I Retiree Medical Plan**

**Plan description.** The City’s LEOFF 1 Disability Board, in conjunction with the City’s Human Resources department, administers a single-employer defined benefit healthcare plan (LEOFF 1 Retiree Health Plan). The plan provides lifetime healthcare benefits for retired full-time and fully compensated law enforcement officers who established membership in the LEOFF 1 plan retirement system on or before September 30, 1977 in accordance with Washington Law Enforcement Officers’ and Fire Fighters’ Retirement System (LEOFF) Act (RCW 41.26.150). The last employer of a retired LEOFF 1 member is responsible for the full cost of any post-retirement medical benefits. The plan covers retirees who are retired on disability as well as are retired after reaching age requirements. The LEOFF 1 Retiree Health Plan does not issue a publically available financial report.

These medical benefits are funded on a pay-as-you-go basis through the general fund and paid out of police department budget. There are no assets accumulated in a qualifying trust that meets the criteria in paragraph 4 of Statement 75. Health insurance premiums and long-term care insurance premiums are paid monthly. Other medical services are paid as billings are presented for reimbursement. The City reimbursed 100 percent of the amount of validated claims for medical costs incurred by these individuals.

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

**Employees covered by benefit terms.** At December 31, 2019, the following employees were covered by the benefit terms:

**Employees Covered by Benefit Terms**

Inactive employees or beneficiaries currently receiving benefits	10.0
Inactive employees entitled to but not yet receiving benefits	-
Active employees	-
<b>Total</b>	<b>10.0</b>

**Total OPEB liability.** The City of Lacey's total OPEB liability of \$4,851,502 was measured as of June 30, 2019 and was determined by an actuarial valuation as of that date.

**Actuarial assumptions and methods.** The total OPEB liability in the June 30, 2019 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Valuation Date	June 30, 2019
Measurement Date	June 30, 2019
Actuarial Cost Method	Entry Age
Amortization Method	Recognized Immediately
Discount Rate	3.50 percent
Healthcare Trend Rate	6.00 percent
Long-Term Care Trend Rate	4.50 percent
Medicare Part B Premiums Trend Rate	5.00 percent
Base Mortality	TableRP-2000
Mortality Age Setback	Blended 50%/50% Healthy/Disabled
Mortality Improvements	100% Scale
Mortality Projection Period	Generational

The discount rate was based on the Bond Buyer General Obligation 20 Bond Municipal Bond Index.

The change in assumptions included healthcare costs that increased below expectations during recent past years.

**Changes in the total OPEB Liability.** The City has elected to use the alternative measurement method permitted under GASB statement No. 75 for employers in plans with fewer than one hundred total plan members and do not have a dedicated OPEB Trust Fund for LEOFF 1, utilizing the interactive tool developed by the Office of the State Actuary (OSA) for use by local governments. The total OPEB liability represents the present value of projected benefits that will be provided to active and inactive employees. The projections are based on an established pattern of practice.

The actuarial assumptions used in the June 30, 2019 valuation were based on the results of an actuarial experience study for the period of July 1, 2018 through June 30, 2019. The changes in the total OPEB liability are as follows:

	<b>Total OPEB Liability</b>
<b>Beginning Total OPEB Liability (Jan. 1, 2019)</b>	\$ 6,327,734
<b>Changes for the year:</b>	
Service Cost	-
Interest Cost	239,190
Changes of benefit terms	-
Changes in experience data and assumptions	(1,418,352)
Estimated benefit payments	(297,070)
Other changes	-
<b>Ending Total OPEB Liability (Dec. 31, 2019)</b>	<b>\$ 4,851,502</b>

As of December 31, 2019, the City of Lacey reported deferred outflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Contributions paid subsequent to the measurement date	\$ 61,740	\$ -
Total	\$ 61,740	\$ -

**Sensitivity of the total OPEB liability and expense to changes in the discount rate.** The following illustrates the total OPEB liability of the City of Lacey, as well as what the City's total OPEB liability would be if it were calculated using a discount rate that is one-percentage point lower (2.50 percent) or one-percentage point higher (4.50 percent) than the current discount rate:

	1% Decrease (2.50%)	Current Discount Rate (3.50%)	1% Increase (4.50%)
Total OPEB Liability	\$ 5,439,911	\$ 4,851,502	\$ 4,354,231

**Sensitivity of the total OPEB liability and expense to changes in the healthcare cost trend rates.** The following illustrates the total OPEB liability of the City of Lacey, as well as what the City's total OPEB liability would be if it were calculated using a healthcare cost trend rate that is one-percentage point lower (5.00 percent) or one-percentage point higher (7.00 percent) than the current discount rate:

	1% Decrease (5.00%)	Current Healthcare Cost Trend Rate (6.00%)	1% Increase (7.00%)
Total OPEB Liability	\$ 4,376,606	\$ 4,851,502	\$ 5,400,084

As of December 31, 2019, the City of Lacey recognized OPEB expense of (\$1,460,365).

## **2. Association of Washington Cities Employee Benefit Trust Health Care Program (AWC Trust HCP) –Non-LEOFF I and Non-Medicare Advantage Retiree Medical Plan**

**Trust Description.** The City of Lacey is a member of the Association of Washington Cities Employee Benefit Trust Health Care Program (AWC Trust HCP). Chapter 48.62 RCW provides that two or more local government entities may, by Interlocal agreement under Chapter 39.34 RCW, form together or join a pool or organization for the joint purchasing of insurance, and/or joint self-insurance, to the same extent that they may individually purchase insurance, or self-insure.

An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The AWC Trust HCP was formed on January 1, 2014 when participating cities, towns, and non-city entities of the AWC Employee Benefit Trust in the State of Washington joined together by signing an Interlocal Governmental Agreement to jointly self-insure certain health benefit plans and programs for participating employees, their covered dependents and other beneficiaries through a designated account within the Trust.

As of December 31, 2019, 261 cities/towns/non-city entities participate in the AWC Trust HCP.

The AWC Trust HCP allows members to establish a program of joint insurance and provides health and welfare services to all participating members. The AWC Trust HCP pools claims without regard to individual member experience. The pool is actuarially rated each year with the assumption of projected claims run-out for all current members. The AWC Trust HCP includes medical, dental and vision insurance through the following carriers: Kaiser Foundation Health Plan of Washington, Kaiser Foundation Health Plan of Washington Options, Inc., Regence BlueShield, Asuris Northwest Health, Delta Dental of Washington, and Vision Service Plan. Eligible members are cities and towns within the state of Washington. Non-City Entities (public agency, public corporation, intergovernmental agency, or political subdivision within the state of

Washington) are eligible to apply for coverage into the AWC Trust HCP, submitting application to the Board of Trustees for review as required in the Trust Agreement.

**Funding policy.** Participating employers pay monthly premiums to the AWC Trust HCP. The AWC Trust HCP is responsible for payment of all covered claims. In 2019, the AWC Trust HCP purchased stop loss insurance for Regence/Asuris plans at an Individual Stop Loss (ISL) of \$1.5 million through Life Map, and Kaiser ISL at \$1 million with Companion Life through ASG Risk Management. The aggregate policy is for 200% of expected medical claims.

Retirees of the City receiving medical benefits from the Trust contribute the following monthly amounts:

**HealthFirst® - 1000 Retiree**

\$1,050.20 Non-Medicare Enrolled Retiree

\$1,059.36 Non-Medicare Enrolled Spouse

**HealthFirst® - 2500 Retiree**

\$989.34 Non-Medicare Enrolled Retiree

\$996.54 Non-Medicare Enrolled Spouse

Participating employers contract to remain in the AWC Trust HCP for a minimum of three years. Participating employers with over 250 employees must provide written notice of termination of all coverage a minimum of 12 months in advance of the termination date, and participating employers with under 250 employees must provide written notice of termination of all coverage a minimum of 6 months in advance of termination date. When all coverage is being terminated, termination will only occur on December 31. Participating employers terminating a group or line of coverage must notify the AWC Trust HCP a minimum of 60 days prior to termination. A participating employer's termination will not obligate that member to past debts, or further contributions to the AWC Trust HCP. Similarly, the terminating member forfeits all rights and interest to the AWC Trust HCP Account.

The operations of the Health Care Program are managed by the Board of Trustees or its delegates. The Board of Trustees is comprised of four regionally elected officials from Trust member cities or towns, the Employee Benefit Advisory Committee Chair and Vice Chair, and two appointed individuals from the AWC Board of Directors, who are from Trust member cities or towns.

The Trustees or its appointed delegates review and analyze Health Care Program related matters and make operational decisions regarding premium contributions, reserves, plan options and benefits in compliance with Chapter 48.62 RCW. The Board of Trustees has decision authority consistent with the Trust Agreement, Health Care Program policies, Chapter 48.62 RCW and Chapter 200-110-WAC.

The accounting records of the AWC Trust HCP are maintained in accordance with methods prescribed by the State Auditor's office under the authority of Chapter 43.09 RCW. The AWC Trust HCP also follows applicable accounting standards established by the Governmental Accounting Standards Board ("GASB"). In 2018, the retiree medical plan subsidy was eliminated, and is noted as such in the report for the fiscal year ending December 31, 2018. Year-end financial reporting is done on an accrual basis and submitted to the Office of the State Auditor as required by Chapter 200-110 WAC. The audit report for the AWC Trust HCP is available from the Washington State Auditor's office.

## **L. Contingencies**

### **Litigation**

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

### Contingencies under grant provisions

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

### **M. Risk management**

The City of Lacey is a member of the Washington Cities Insurance Authority (WCIA). Utilizing Chapter 48.62 RCW (self-insurance regulation) and Chapter 39.34 RCW (Interlocal Cooperation Act), nine cities originally formed WCIA on January 1, 1981. WCIA was created for the purpose of providing a pooling mechanism for jointly purchasing insurance, jointly self-insuring, and / or jointly contracting for risk management services. WCIA has a total of 163 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, errors or omissions, stop gap, employment practices and employee benefits liability. Limits are \$4 million per occurrence in the self-insured layer, and \$16 million in limits above the self-insured layer is provided by reinsurance. Total limits are \$20 million per occurrence subject to aggregates and sublimits. The Board of Directors determines the limits and terms of coverage annually.

Insurance for property, automobile physical damage, fidelity, inland marine, and boiler and machinery coverage are purchased on a group basis. Various deductibles apply by type of coverage. Property coverage is self-funded from the members' deductible to \$750,000, for all perils other than flood and earthquake, and insured above that to \$300 million per occurrence subject to aggregates and sublimits. Automobile physical damage coverage is self-funded from the members' deductible to \$250,000 and insured above that to \$100 million per occurrence subject to aggregates and sublimits.

In-house services include risk management consultation, loss control field services, and claims and litigation administration. WCIA contracts for certain claims investigations, consultants for personnel and land use issues, insurance brokerage, actuarial, 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 assessment covers loss, loss adjustment, reinsurance and other administrative expenses. As outlined in the interlocal, WCIA retains the right to additionally assess the membership for any funding shortfall.

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

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

The settlements have not exceeded coverage for each of the past three fiscal years.

### **N. Interlocal agreements and joint ventures**

#### **Capital Area Regional Public Facilities District (CARPFD).**

In 2003, the City of Lacey entered into a contract with the Capital Area Regional Public Facilities District (CARPFD) for the acquisition, development, operation and maintenance of the Lacey Area Athletic,

Recreation and Special Events Complex. The CARPFD imposes a sales and use tax pursuant to RCW 82.14.390 to repay financing obtained to fund the design, construction, acquisition, operation and maintenance of the complex project. The monies collected as sales taxes shall only be used for the purposes permitted under RCW 82.14.390 and RCW 35.57.020. In 2019, the City of Lacey received \$1,457,948 in sales taxes levied by the CARPFD and is accounted for within the Regional Athletic Complex Operating Fund and Regional Athletic Complex Capital Fund.

### **Interlocal Drug Unit**

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

Any party may withdraw from this Agreement by giving ninety (90) days written notice to the other parties. Monies contributed during the calendar year of a party's withdrawal will be returned to that party, on a prorate basis, after determination by the Executive Committee of any purchase commitments made prior to the notification of a party's withdrawal. Money so refunded will be used by the withdrawing party for its use in carrying out drug enforcement activities pursuant to Ch. 69.50 RCW. Property purchased with the drug unit funds or forfeited to the drug unit will remain the property of the non-withdrawing parties and the withdrawing party will have no interest in or claim of title to said property. All monies and equipment remain with the drug unit until the drug unit disbands entirely. Disposition and disbursement of net equity upon dissolution is not specified in the agreement, therefore, is not recorded in the City of Lacey's financial statements. There is no ongoing financial responsibility.

Financial information related to the Interlocal Drug Unit can be obtained from the Thurston County Sheriff's Office Financial Services Bureau, 2000 Lakeridge Drive SW, Olympia, WA 98502.

### **Joint Animal Services**

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

An equity interest exists and is based on total contributions to-date by the cities of Lacey, Olympia, Tumwater, and the Thurston County. The net position, as of December 31, 2019 was \$3,432,156. The City of Lacey has a 17.91 percent (or \$614,699) share of the equity as of December 31, 2019. The City of Lacey reports its share of equity interest as investment in joint venture, in the government-wide statement of net position.

An ongoing financial interest exists for the City of Lacey, the City of Olympia, the City of Tumwater, and Thurston County. The agreement specifies the funding formula that allocates costs based on serviced animal cases and population per jurisdiction in the prior year. For 2019, the City of Lacey's contribution for the annual agreement was \$287,424 and is accounted for within the general fund.

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

### **Law Enforcement Records Management System (LERMS)**

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

An equity interest exists for the cities of Lacey, Olympia, Tenino, Tumwater, and Yelm. Net position as of December 31, 2019, was \$140,450. As of December 31, 2019, the City of Lacey has a 38 percent share (or \$53,371) of the equity. The City of Lacey reports its share of equity interest as an investment in joint venture, in the government-wide statement of net position.

An ongoing financial interest exists for the cities of Lacey, Olympia, Tenino, Tumwater, and Yelm. The agreement specifies a funding formula that annually assesses member cities based on current year population as determined by the Thurston Regional Planning Council (unless otherwise adjusted by the Consortium). For 2019, the City of Lacey's contributed \$155,569 as its share of the annual assessment. All property is considered to be jointly owned. Parties will be reimbursed based on their contribution upon sale of property upon the dissolution of LERMS. Any member may withdraw from the agreement at the end of any calendar year, providing a notice to the Consortium no less than six months prior to the date of withdrawal. Withdrawal of a party will not terminate the agreement of the remaining parties.

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

The following is condensed financial information on joint ventures for which the City has equity interest as of December 31, 2019:

	Joint Animal Services 12/31/2019	Law Enforcement Regional Record Management System 12/31/2019
Total Assets	\$ 3,910,831	\$ 141,421
Total Deferred Outflows of Resources:	105,452	-
Total Liabilities	389,245	971
Total Deferred inflows of Resources:	194,882	-
Total Net Position 12/31/2019	<u>\$ 3,432,156</u>	<u>\$ 140,450</u>
Total Revenues	\$ 1,849,098	\$ 429,636
Total Expenses	<u>1,772,139</u>	<u>364,470</u>
Net increase (decrease) in net position	76,959	65,166
Net position - beginning	<u>3,355,197</u>	<u>75,284</u>
Ending net position 12/31	<u>\$ 3,432,156</u>	<u>\$ 140,450</u>
City of Lacey Equity %	17.91%	38.00%
City of Lacey Equity Interest	\$ 614,699	\$ 53,371

The City of Lacey's equity interests in joint ventures for the year ended December 31, 2019 were as follows:

Governmental Type Activities	Beginning	Increase	Decrease	Ending
	Balance			Balance
	1/1/2019			12/31/2019
Joint Animal Services	\$ 594,876	\$ 19,823	\$ -	\$ 614,699
Law Enforcement Regional Record Management System (LERMS)	28,608	24,763		53,371
Total Investment in Joint Venture	<u>\$ 623,484</u>	<u>\$ 44,586</u>	<u>\$ -</u>	<u>\$ 668,070</u>

### LOTT Clean Water Alliance (“LOTT”)

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

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

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

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

As of December 31, 2019, the City had short-term payables of \$1,231,738, which was paid in early 2020.

### Thurston County Regional Health and Human Services Council

The Thurston County Regional Health and Human Services Council (the “Council”) is a jointly governed organization governed by one elective official from each participating jurisdiction. This Council was formed by an interlocal agreement between Thurston County and the cities of Lacey, Olympia and Tumwater, to work together and join resources necessary to address common gaps in meeting basic health and human services needs within this region. The City of Lacey contributed \$53,368 as its share of annual operations in 2019. The annual funding contribution from each jurisdiction is based on the general sales and use tax collected. Thurston County provides administrative staffing for the Council.

### O. Subsequent Events

In February 2020, the Governor of the state of Washington declared a state of emergency in response to the spread of a deadly new virus. In the weeks following the declaration, precautionary measures to slow the spread of the virus have been ordered. These measures include closing schools, colleges and universities, cancelling public events, prohibiting public and private gatherings, and requiring people to stay home unless they are leaving for an essential function.

Immediately following the Governor’s “Stay Home, Stay Healthy” order, the City of Lacey delayed the hiring of vacant positions and part-time staff, suspended certain capital projects, furloughed part-time parks and

recreation program staff, cancelled city business-related travel, suspended the purchase of select equipment, and began to identify reductions and savings within the adopted 2020 Budget.

On April 9, 2020, the City of Lacey amended the 2020 Budget providing \$1.0 million from its Strategic (Economic Development) Investment committed reserve for the COVID-19 Small Business Stabilization Fund to help small businesses survive the economic impacts of the COVID-19 public health emergency.

On May 14, 2020, the City of Lacey amended the 2020 Budget to address the \$6.7 million or 14.0 percent projected General Fund operating revenue reduction expected due to the COVID-19 public health emergency. The expected shortfall was addressed with a combination of \$3.1 million of operation, maintenance, and capital budget reductions and the use of \$3.6 million (one-half) of a two-month operating reserve intended for cash flow and unforeseen emergencies.

The length of time these measures will be in place, and the full extent of the financial impact on the City of Lacey is unknown at this time.

City of Lacey  
Schedule of Revenues, Expenditures, and  
Changes in Fund Balances - Budget to Actual  
General Fund  
For the Year Ended December 31, 2019

	Budgeted Amounts		Actual GAAP Basis	Variance with Final Budget
	Original	Final		Positive (Negative)
<b>REVENUES</b>				
Taxes	\$ 28,472,020	\$ 28,472,020	\$ 31,635,309	\$ 3,163,289
Licenses and permits	2,176,800	2,176,800	3,598,241	1,421,441
Intergovernmental revenues	1,274,599	3,774,599	1,552,680	(2,221,919)
Charges for services	7,719,617	7,719,617	7,998,622	279,005
Fines and forfeitures	280,000	280,000	252,468	(27,532)
Other revenues	977,811	977,811	1,572,610	594,799
<b>Total revenues</b>	<b>40,900,847</b>	<b>43,400,847</b>	<b>46,609,930</b>	<b>3,209,083</b>
<b>EXPENDITURES</b>				
Current:				
General government	8,157,189	8,359,192	7,680,498	678,694
Public safety	13,130,001	13,341,539	12,718,168	623,371
Natural environment	5,571,281	5,617,673	5,443,807	173,866
Economic environment	1,923,181	1,954,938	1,793,074	161,864
Social services	177,454	459,538	255,225	204,313
Culture and recreation	7,791,239	7,951,932	7,580,436	371,496
Capital outlay	-	2,500,000	87,626	2,412,374
Debt service:				
Principal retirement	-	-	28,174	(28,174) (1)
Interest	-	-	6,834	(6,834) (1)
<b>Total expenditures</b>	<b>36,750,345</b>	<b>40,184,812</b>	<b>35,593,842</b>	<b>4,590,970</b>
Excess (deficiency) of revenue over (under) expenditures	4,150,502	3,216,035	11,016,088	7,800,053
<b>OTHER FINANCING SOURCES (USES)</b>				
Initiation of Capital Leases	-	-	53,818	53,818
Transfers in	933,135	933,135	933,135	-
Transfers out	(5,797,976)	(6,814,937)	(6,814,937)	-
<b>Total other financing sources</b>	<b>(4,864,841)</b>	<b>(5,881,802)</b>	<b>(5,827,984)</b>	<b>53,818</b>
<b>Net change in fund balances</b>	<b>(714,339)</b>	<b>(2,665,767)</b>	<b>5,188,104</b>	<b>7,853,871</b>
Fund balance - beginning	1,213,075	3,164,503	45,040,298	41,875,795
<b>Fund balance - ending</b>	<b>\$ 498,736</b>	<b>\$ 498,736</b>	<b>\$ 50,228,402</b>	<b>\$ 49,729,666</b>

**Explanation of differences:**

(1) Certain equipment lease payments are budgeted as current expenditures but are reported as debt service for GAAP

See accompanying notes to the required supplemental information.

City of Lacey  
Schedule of Revenues, Expenditures, and  
Changes in Fund Balances - Budget to Actual  
Transportation Benefit District  
For the Year Ended December 31, 2019

	Budgeted Amounts		Actual GAAP Basis	Variance with Final Budget
	Original	Final		Positive (Negative)
<b>REVENUES</b>				
Taxes	\$ 2,303,245	\$ 2,303,245	\$ 3,112,508	\$ 809,263
Licenses and permits	-	-	-	-
Intergovernmental revenues	4,200,000	4,200,000	2,837,364	(1,362,636)
Charges for services	-	-	-	-
Fines and forfeitures	-	-	-	-
Other revenues	10,681	10,681	68,710	58,029
<b>Total revenues</b>	<b>6,513,926</b>	<b>6,513,926</b>	<b>6,018,582</b>	<b>(495,344)</b>
<b>EXPENDITURES</b>				
Current:				
General government	-	-	-	-
Public safety	-	-	-	-
Natural environment	-	-	-	-
Economic environment	-	-	-	-
Social services	-	-	-	-
Culture and recreation	-	-	-	-
Capital outlay	6,513,926	6,684,000	5,441,272	1,242,728
Debt service:				
Principal retirement	-	-	-	-
Interest	-	-	-	-
<b>Total expenditures</b>	<b>6,513,926</b>	<b>6,684,000</b>	<b>5,441,272</b>	<b>1,242,728</b>
Excess (deficiency) of revenue over (under) expenditures	-	(170,074)	577,310	747,384
<b>OTHER FINANCING SOURCES (USES)</b>				
Initiation of Capital Leases	-	-	-	-
Transfers in	-	-	-	-
Transfers out	-	-	-	-
<b>Total other financing sources</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net change in fund balances</b>	<b>-</b>	<b>(170,074)</b>	<b>577,310</b>	<b>747,384</b>
Fund balance - beginning	-	500,000	2,932,563	2,432,563
<b>Fund balance - ending</b>	<b>\$ -</b>	<b>\$ 329,926</b>	<b>\$ 3,509,873</b>	<b>\$ 3,179,947</b>

See accompanying notes to the required supplemental information.

**Schedule of the City's Proportionate Share of the Net Pension Liability and Asset and Related Ratios, as of June 30**

	Public Employees' Retirement System Plan 1 (PERS 1)				
	2015	2016	2017	2018	2019 <sup>(1)(3)</sup>
Employer's proportion of the net pension liability	0.123755%	0.120890%	0.103546%	0.113716%	0.114663%
Employer's proportionate share of the net pension liability	\$ 6,473,532	\$ 6,492,344	\$ 4,913,355	\$ 5,078,609	\$ 4,409,190
Covered payroll	\$ 13,876,617	\$ 14,218,880	\$ 14,283,872	\$ 15,295,106	\$ 16,180,209
Employer's proportionate share of the net pension liability as a percentage of covered payroll	46.65%	45.66%	34.40%	33.20%	27.25%
Plan fiduciary net position as a percentage of the total pension liability <sup>(2)</sup>	59.10%	57.03%	61.24%	63.22%	67.12%
	Public Employees' Retirement System Plan 2 and 3 (PERS 2/3)				
	2015	2016	2017	2018	2019 <sup>(1)(3)</sup>
Employer's proportion of the net pension liability	0.154291%	0.152128%	0.132835%	0.145236%	0.148151%
Employer's proportionate share of the net pension liability	\$ 5,502,898	\$ 7,659,513	\$ 4,615,367	\$ 2,479,772	\$ 1,439,046
Covered payroll	\$ 13,759,392	\$ 14,145,039	\$ 14,267,862	\$ 15,295,106	\$ 16,180,209
Employer's proportionate share of the net pension liability as a percentage of covered payroll	39.99%	54.15%	32.35%	16.21%	8.89%
Plan fiduciary net position as a percentage of the total pension liability <sup>(2)</sup>	89.20%	85.82%	90.97%	95.77%	97.77%
	Law Enforcement Officers' and Fire Fighters' Retirement System Plan 1 (LEOFF 1)				
	2015	2016	2017	2018	2019 <sup>(1)(3)</sup>
Employer's proportion of the net pension asset	0.023373%	0.024910%	0.025264%	0.025530%	0.025584%
Employer's proportionate share of the net pension asset	\$ 281,696	\$ 256,644	\$ 383,310	\$ 463,498	\$ 505,696
Covered payroll <sup>(4)</sup>	\$ -	\$ -	\$ -	\$ -	\$ -
Employer's proportionate share of the net pension liability as a percentage of covered payroll	0.00%	0.00%	0.00%	0.00%	0.00%
Plan fiduciary net position as a percentage of the total pension liability <sup>(2)</sup>	127.36%	123.74%	135.96%	144.42%	148.78%
	Law Enforcement Officers' and Fire Fighters' Retirement System Plan 2 (LEOFF 2)				
	2015	2016	2017	2018	2019 <sup>(1)(3)</sup>
Employer's proportion of the net pension asset	0.187222%	0.179668%	0.174254%	0.179065%	0.183506%
Employer's proportionate share of the net pension asset	\$ 1,924,268	\$ 1,045,003	\$ 2,418,081	\$ 3,635,410	\$ 4,251,271
State's proportionate share of the net pension asset associated with the employer	1,272,329	681,266	1,568,567	2,353,855	2,784,009
TOTAL	\$ 3,196,597	\$ 1,726,269	\$ 3,986,648	\$ 5,989,265	\$ 7,035,280
Covered payroll	\$ 5,433,910	\$ 5,445,937	\$ 5,945,653	\$ 5,811,354	\$ 6,238,604
Employer's proportionate share of the net pension liability as a percentage of covered payroll	58.83%	31.70%	67.05%	103.06%	112.77%
Plan fiduciary net position as a percentage of the total pension liability <sup>(2)</sup>	111.67%	106.04%	113.36%	118.50%	119.43%

**Notes to Schedule:**

- <sup>(1)</sup> Measurement date: June 30, 2019
  - <sup>(2)</sup> DRS Participating Employer Financial Information Report, Note 2. E, Net Pension Liability
  - <sup>(3)</sup> Actuarial Methods and Assumptions (See Note J, Employee Pension Plans)
  - <sup>(4)</sup> All LEOFF 1 members are retired (no active members during the covered period).
- \*Schedule is intended to show information for 10 years commencing with the fiscal year ended December 31, 2015. Additional years will be displayed as they become available.

**Schedule of the City's Employer Contributions, as of December 31**

	Public Employees' Retirement System Plan 1 (PERS 1)				
	2015	2016	2017	2018	2019 <sup>(1)</sup>
Statutorily or contractually required contributions	\$ 628,534	\$ 677,848	\$ 721,317	\$ 802,700	\$ 864,752
Contributions in relation to the statutorily or contractually required contributions	(628,534)	(677,848)	(721,317)	(802,700)	(864,752)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Covered payroll	\$ 14,147,427	\$ 14,127,222	\$ 14,716,527	\$ 15,852,895	\$ 17,502,530
Contributions as a percentage of covered payroll	4.44%	4.80%	4.90%	5.06%	4.94%

	Public Employees' Retirement System Plan 2 and 3 (PERS 2/3)				
	2015	2016	2017	2018	2019 <sup>(1)</sup>
Statutorily or contractually required contributions	\$ 792,933	\$ 876,768	\$ 1,010,615	\$ 1,188,973	\$ 1,352,005
Contributions in relation to the statutorily or contractually required contributions	(792,933)	(876,768)	(1,010,615)	(1,188,973)	(1,352,005)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Covered payroll	\$ 14,074,316	\$ 14,073,925	\$ 14,716,527	\$ 15,852,895	\$ 17,502,530
Contributions as a percentage of covered payroll	5.63%	6.23%	6.87%	7.50%	7.72%

	Law Enforcement Officers' and Fire Fighters' Retirement System Plan 2 (LEOFF 2)				
	2015	2016	2017	2018	2019 <sup>(1)</sup>
Statutorily or contractually required contributions	\$ 275,466	\$ 285,892	\$ 312,121	\$ 318,606	\$ 348,046
Contributions in relation to the statutorily or contractually required contributions	(275,466)	(285,892)	(312,121)	(318,606)	(348,046)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Covered payroll	\$ 5,454,776	\$ 5,664,267	\$ 6,014,936	\$ 5,899,979	\$ 6,584,318
Contributions as a percentage of covered payroll	5.05%	5.05%	5.19%	5.40%	5.29%

**Notes to Schedule:**

<sup>(1)</sup> As of December 31

Starting on July 1, 2000, LEOFF 1 has zero contribution percent, as long as the plan remains fully funded. There were no required contributions for fiscal years 2015-2019.

\*Schedule is intended to show information for 10 years commencing with the fiscal year ended December 31, 2015. Additional years will be displayed as they become available.

**City of Lacey**  
**Changes in Total OPEB Liability**  
**As of the Measurement Date June 30, 2019**  
**Last 10 Fiscal Years\***

	<b>2019</b>	<b>2018</b>
Total OPEB Liability		
Interest Cost	\$ 239,190	\$ 230,355
Changes in Experience Data and Assumptions	(1,418,352)	(215,681)
Estimated Benefit Payments	(297,070)	(240,780)
Net Change in Total OPEB Liability	(1,476,232)	(226,106)
Total OPEB Liability - Beginning	6,327,734	6,553,840
Total OPEB Liability - Ending	<u>\$ 4,851,502</u>	<u>\$ 6,327,734</u>
Total OPEB liability as a percentage of covered employee payroll	N/A	N/A

**Notes to Schedule:**

The Law Enforcement Officers and Fire Fighters (LEOFF) Plan 1 does not have assets in trusts or equivalent arrangements and is funded on a pay-as-you-go basis. Potential factors that may significantly affect trends in amounts reported include; changes to the discount rate and health care trend rates.

\*Schedule is intended to show information for 10 years commencing with the fiscal year ended December 31, 2018. Additional years will be displayed as they become available.

**City of Lacey**  
**Schedule of Expenditures of Federal Awards**  
**For the Year Ended December 31, 2019**

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures			Passed through to Subrecipients	Note
				From Pass- Through Awards	From Direct Awards	Total		
OFFICE OF JUSTICE PROGRAMS, JUSTICE, DEPARTMENT OF	Bulletproof Vest Partnership Program	16.607	FY 2017 BVP	-	1,250	1,250	-	1,2
<b>Highway Planning and Construction Cluster</b>								
FEDERAL HIGHWAY ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF (via WA State Department of Transportation)	Highway Planning and Construction	20.205	NHPP-9934 (022)	3,070,917	-	3,070,917	-	1,2
FEDERAL HIGHWAY ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF (via WA State Department of Transportation)	Highway Planning and Construction	20.205	STPUS-5289 (004)	2,145,151	-	2,145,151	-	1,2
FEDERAL HIGHWAY ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF (via WA State Department of Transportation)	Highway Planning and Construction	20.205	STPUS-5289 (005)	14,976	-	14,976	-	1,2
FEDERAL HIGHWAY ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF (via WA State Department of Transportation)	Highway Planning and Construction	20.205	CM-0643(007)	7,353	-	7,353	-	1,2
<b>Total Highway Planning and Construction Cluster:</b>				<b>5,238,397</b>	<b>-</b>	<b>5,238,397</b>	<b>-</b>	
<b>Total Federal Awards Expended:</b>				<b>5,238,397</b>	<b>1,250</b>	<b>5,239,647</b>	<b>-</b>	

The accompanying notes are an integral part of this schedule.

**City of Lacey**  
**Notes to the Schedule of Expenditures of Federal Awards**  
**For the Year Ended December 31, 2019**

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 revolving 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. The amount of loan principal received in loan repayment for the year 2019 was \$0. The City has received approval from Washington Department of Commerce (formerly CTED) to utilize the program revenues to finance future CDBG approved projects.

Note 4 - Indirect Cost Rate

The City has not elected to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.



**CITY COUNCIL**  
**ANDY RYDER**  
*Mayor*  
**CYNTHIA PRATT**  
*Deputy Mayor*

**LENNY GREENSTEIN**  
**MICHAEL STEADMAN**  
**CAROLYN COX**  
**ED KUNKEL**  
**MALCOLM MILLER**

**CITY MANAGER**  
**SCOTT SPENCE**

## **CORRECTIVE ACTION PLAN FOR FINDINGS REPORTED UNDER UNIFORM GUIDANCE**

### **City of Lacey January 1, 2019 through December 31, 2019**

This schedule presents the corrective action planned by the City for findings reported in this report in accordance with Title 2 *U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

<b>Finding ref number:</b> 2019-001	<b>Finding caption:</b> The City lacked adequate internal controls over its calculation for determining major funds to present in its financial statements.
<b>Name, address, and telephone of City contact person:</b> Kristy Wolf, Financial Services Manager 420 College Street SE, Lacey, WA 98503-1238 (360) 493-2668	
<b>Corrective action the auditee plans to take in response to the finding:</b> <i>The City confirms that the Transportation Benefit District (TBD) should have been reported as a major fund on the 2019 financial statements. The City originally presented TBD in the "Other Governmental Funds" column on the Governmental Fund Statement, rather than a separate major fund column. The financial statement classification was corrected immediately and is reflected accurately in the published financial statements. The classification of the TBD as a major fund is expected to be a one-time occurrence. Due to a large grant-funded overlay project, there was more activity than in previous years and expected to be in future years. Going forward, the major fund calculation will be reviewed again prior to finalizing the financial statements.</i>	
<b>Anticipated date to complete the corrective action:</b> Corrected on 2019 financial statements. Process change effective with 2020 reporting cycle.	

## ABOUT THE STATE AUDITOR'S OFFICE

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

We work with our audit clients and citizens to achieve our vision of government that works for citizens, by helping governments work better, cost less, deliver higher value, and earn greater public trust.

In fulfilling our mission to hold state and local governments accountable for the use of public resources, we also hold ourselves accountable by continually improving our audit quality and operational efficiency and developing highly engaged and committed employees.

As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

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

The results of our work are widely distributed through a variety of reports, which are available on our [website](#) and through our free, electronic [subscription](#) service.

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

<b>Contact information for the State Auditor's Office</b>	
<b>Public Records requests</b>	<a href="mailto:PublicRecords@sao.wa.gov">PublicRecords@sao.wa.gov</a>
<b>Main telephone</b>	(564) 999-0950
<b>Toll-free Citizen Hotline</b>	(866) 902-3900
<b>Website</b>	<a href="http://www.sao.wa.gov">www.sao.wa.gov</a>