



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

**Financial Statements and Federal Single Audit  
Report**

**City of Lakewood**

**Pierce County**

**For the period January 1, 2014 through December 31, 2014**

**Republished September 29, 2017**

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**Report No. 1014525**





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

September 29, 2017

Mayor and City Council  
City of Lakewood  
Lakewood, Washington

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

Please find attached our report on the City of Lakewood'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,

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

Pat McCarthy  
State Auditor  
Olympia, WA

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## FEDERAL SUMMARY

**City of Lakewood  
Pierce County  
January 1, 2014 through December 31, 2014**

The results of our audit of the City of Lakewood are summarized below in accordance with U.S. Office of Management and Budget Circular A-133.

### Financial Statements

An unmodified opinion was issued on the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information.

#### 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 no 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 each of its major federal programs.

We reported no findings that are required to be disclosed under section 510(a) of OMB Circular A-133.

## Identification of Major Programs:

The following were major programs during the period under audit:

<u>CFDA No.</u>	<u>Program Title</u>
12.600	Madigan Access Improvements
20.205	Highway Planning and Construction Cluster - Highway Planning and Construction
14.248	Community Development Block Grants Section 108 Loan Guarantees

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by OMB Circular A-133, was \$300,000.

The City did not qualify as a low-risk auditee under OMB Circular A-133.

## STATUS OF PRIOR FEDERAL AUDIT FINDINGS

This schedule presents the status of federal findings reported in prior audit periods. The status listed below is the representation of the City of Lakewood. The State Auditor's Office has reviewed the status as presented by the City.

<b>Audit Period:</b> 1/1/2013-12/31/2013	<b>Report Ref. No:</b> 1012437	<b>Finding Ref. No:</b> 1	<b>CFDA Number(s):</b> 20.205
<b>Federal Program Name and Granting Agency:</b> Highway Construction and Planning, U.S. Department of Transportation		<b>Pass-Through Agency Name:</b> Department of Transportation	
<b>Finding Caption:</b> The City's internal controls were inadequate to ensure compliance with Federal Davis-Bacon Act (prevailing wage) requirements for its Highway Planning and Construction Grant.			
<b>Background:</b> For federally funded construction projects that exceed \$2,000, the Davis-Bacon Act requires contractors to pay federally prescribed prevailing wages to laborers. Grant recipients must include a provision stating the contractor and subcontractors must comply with the Davis-Bacon Act in construction contracts. The provision requires the contractor and subcontractors to submit a weekly copy of payroll and a statement of compliance (certified payrolls) to the grantee.			
<b>Status of Corrective Action: (check one)</b> <div style="display: flex; justify-content: space-between;"> <span><input checked="" type="checkbox"/> Fully Corrected</span> <span><input type="checkbox"/> Partially Corrected</span> <span><input type="checkbox"/> No Corrective Action Taken</span> <span><input type="checkbox"/> Finding is considered no longer valid</span> </div>			
<b>Corrective Action Taken:</b> <i>Each project engineer is responsible to assure that all federal and state requirements of the contract are met. Also, per the City's existing quality assurance/quality control typically prior to closing out a project another project engineer reviews the project file to assure all statement of intents, affidavit of prevailing wages paid and certified payroll are included. Project engineers were reeducated with regards to what needs to be checked off and included in the project file as well as prior to the Public Works Director signing off on any pay estimates, the City has added a check and initial block to denote that certified payroll is on hand.</i>			

**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 Lakewood  
Pierce County  
January 1, 2014 through December 31, 2014**

Mayor and City Council  
City of Lakewood  
Lakewood, 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 Lakewood, Pierce County, Washington, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 23, 2015.

**INTERNAL CONTROL OVER FINANCIAL REPORTING**

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

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

combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

In addition, we noted certain matters that we have reported to the management of the City in a separate letter dated September 27, 2017.

## **COMPLIANCE AND OTHER MATTERS**

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

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

## **PURPOSE OF THIS REPORT**

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

this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

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

June 23, 2015, except for our report on report on the Schedule of Expenditures of Federal Awards and the additional reference for certain matters that we have reported to the management of the City in a separate letter, for which the date is September 27, 2017.

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR  
EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL  
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB  
CIRCULAR A-133**

**City of Lakewood  
Pierce County  
January 1, 2014 through December 31, 2014**

Mayor and City Council  
City of Lakewood  
Lakewood, Washington

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

We have audited the compliance of the City of Lakewood, Pierce County, Washington, with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2014. The City's major federal programs are identified in the accompanying Federal Summary.

**Management's Responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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, 2014.

### **Other Matters – Report Reissuance**

This report, which replaces a previously issued report, has been reissued to report on CFDA 14.248, Community Development Block Grants Section 108 Loan Guarantees, as an additional major program.

## **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 OMB Circular A-133, 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 OMB Circular A-133. 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.



Pat McCarthy

State Auditor

Olympia, WA

June 23, 2015, except for our report on the CFDA 14.248 Community Development Block Grants Section 108 Loan Guarantees, for which the date is September 27, 2017.

# INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

## **City of Lakewood Pierce County January 1, 2014 through December 31, 2014**

Mayor and City Council  
City of Lakewood  
Lakewood, 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 Lakewood, Pierce County, Washington, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed on page 16.

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

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

### **Auditor's Responsibility**

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

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

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

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

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Lakewood, as of December 31, 2014, and the respective changes in financial position and, where applicable, cash flows thereof, and the respective budgetary comparison for the General, Street Capital Projects, and Grant funds for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

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

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 17 through 28 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. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. 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 June 23, 2015 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.



Pat McCarthy

State Auditor

Olympia, WA

June 23, 2015, except for our report on the Schedule of Expenditures of Federal Awards, for which the date is September 27, 2017.

## **FINANCIAL SECTION**

**City of Lakewood  
Pierce County  
January 1, 2014 through December 31, 2014**

### **REQUIRED SUPPLEMENTARY INFORMATION**

Management's Discussion and Analysis – 2014

### **BASIC FINANCIAL STATEMENTS**

Statement of Net Position – 2014

Statement of Activities – 2014

Balance Sheet – Governmental Funds – 2014

Reconciliation of Balance Sheet to the Statement of Net Position – Governmental Funds  
– 2014

Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental  
Funds – 2014

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance  
to the Statement of Activities – Governmental Funds – 2014

Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and  
Actual – General Fund – 2014

Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and  
Actual – Street Capital Projects – 2014

Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and  
Actual – Grant Fund – 2014

Statement of Net Position – Proprietary Funds – 2014

Statement of Revenues, Expenses and Changes in Net Position – Proprietary Funds –  
2014

Statement of Cash Flows – Proprietary Funds – 2014

Statement of Net Position – Fiduciary Funds – 2014

Notes to Financial Statements – 2014

### **SUPPLEMENTARY AND OTHER INFORMATION**

Schedule of Expenditures of Federal Awards – 2014

Notes to the Schedule of Expenditures of Federal Awards – 2014

## MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the City of Lakewood's annual financial report provides a narrative overview of the City's financial activities for the fiscal year ended December 31, 2014. This information should be read in conjunction with the preceding letter of transmittal, the financial statements and notes to the financial statements that follow.

### FINANCIAL HIGHLIGHTS

- The total assets of the City of Lakewood exceeded its liabilities at December 31, 2014 \$159.4 million. Capital Assets (net of depreciation and related debt) account for 85% of this amount with a value of \$136 million. Of the remaining net position of \$23.4 million or 15%, \$18.5 million may be used to meet the government's ongoing obligations to citizens and creditors, without legal restriction.
- The City's total net position increased by \$2.5 million, or 2% compared to 2013. Governmental activities increased by \$2.5 million and business-type activities increased by \$69 thousand.
- Net investment in capital assets for governmental activities increased by \$2.2 million and unrestricted net position increased by \$108 thousand or 1% compared to 2013.
- Restricted net position increased by \$187 thousand or 4% and is largely for funding of grants and capital projects.
- Governmental fund balances at year-end were \$9.6 million, a \$1.5 million increase over the prior year. Of this amount, a total of \$4.5 million, or 47% of the governmental fund balance is unassigned and available to fund ongoing activities. The remaining is earmarked for arterial street projects, LID related debt, street operations and maintenance, hotel/motel lodging tax, police seizure, HUD economic development loan, operating grants, public works trust fund debt, petty cash, property abatement, public art, capital projects, and future general governmental activities.
- Unassigned fund balance in the general fund was \$4.5 million, which increased by \$2 million or 77% from the prior year.
- The City's debt decreased by \$793 thousand during the current fiscal year. General obligation debt, public works trust fund loans, promissory note, and special assessments debt decreased by \$112 thousand, \$428 thousand, \$51 thousand, and \$201 thousand respectively. These changes reflect the annual debt service payments.

### OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City of Lakewood's basic financial statements. The basic financial statements are comprised of three components: 1) government-wide financial statements; 2) fund financial statements, and 3) notes to the financial statements.

In addition to the required components, the City's annual report also includes other supplementary information. The first set of supplementary information is the Combining Statements. These provide Balance Sheets, Schedules of Revenues, Expenditures, and Changes in Fund Balances with Budget to Actual Comparisons, Statement of Net Position, and Cash Flows for all Non-Major Funds. The other set of supplementary information is the Statistical Section. This section provides a four to ten-year (number of years presented based on availability of information) view of the City's revenues, expenditures, debt obligations and capacity, the City's largest taxpayers, and those entities with the largest employment within the City of Lakewood. This section provides a long-term perspective on the City's economy.

#### Government-wide Financial Statements

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

The *Statement of Net Position* presents information on all of the City of Lakewood's assets and deferred outflows liabilities, and deferred inflows, with the difference reported as *net position*. This statement serves a purpose similar to that of a balance sheet in private business. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The **Statement of Activities** presents information showing how the City'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 the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City of Lakewood 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 Lakewood include law enforcement and public safety, construction and maintenance of streets, building inspection, municipal court services, jail services, community planning and development services, parks and recreation facilities, other community services and general administration. The business-type activities of the City include surface water management.

The City has no separately identified component units included in the government-wide financial statements or joint ventures.

The government-wide financial statements can be found immediately following this MD&A.

### **Fund Financial Statements**

The annual financial report includes fund financial statements in addition to the government-wide financial statements. While the government-wide statements present the City's finances based on the type of activity, general government versus business-type, the fund financial statements are presented by fund type such as the general funds, special revenue funds, and proprietary funds. A fund is a specific fiscal and accounting entity with a self-balancing set of accounts used to account for specific activities or meet certain objectives. Funds are often set up in accordance with special regulations, restriction or limitations. The City of Lakewood uses fund accounting to ensure and show compliance with finance-related legal requirements. The City's funds are divided into two categories: governmental funds and proprietary funds.

### **Governmental Funds**

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

Because 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 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 expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City of Lakewood maintains twenty-one individual governmental funds. The City's four major governmental funds, the General Fund, Street Capital Projects Fund, Grant Fund, and LID Debt Service Fund, are presented separately in the governmental fund Balance Sheet and the governmental fund Statement of Revenues, Expenditures, and Changes in Fund Balances. The remaining governmental funds are combined into a single column labeled Nonmajor Governmental Funds. Individual fund data for each of the nonmajor governmental funds can be found in combining statements later on in this report.

The City maintains control over its operating funds through the adoption of the biennial budget. Budgets are adopted at the fund level and according to state law. A budgetary comparison statement is presented for each of the General, Street Capital Projects, Grant, and LID Debt Service funds as a basic financial statement.

The basic governmental fund financial statements can be found on pages after the government-wide statements of this report.

## Proprietary Funds

The City of Lakewood maintains two types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide statements. The City uses enterprise funds to account for its surface water management. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for the accumulation of reserves for fleet and equipment and City Hall and Police Station facilities.

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 Surface Water Management Fund. The internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data is provided in the form of combining statements elsewhere in this report.

The basic proprietary fund financial statements can be found following the governmental fund statements of this report.

## Notes to the Financial Statements

The notes provide additional information that is essential to the full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found immediately following the basic financial statements.

## Other Information

In addition to the basic financial statements and accompanying notes, this report also presents the combining statements for non-major governmental funds, internal service funds, and capital assets of governmental funds.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

This section provides analysis of the government-wide financial statements including long-term and short-term information about the City's overall financial condition. The following tables address the financial results of the City as a whole.

### CONDENSED STATEMENT OF NET POSITION

As of December 31, 2014 and 2013

	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
Current and other assets	\$ 21,759,983	\$ 21,206,394	\$ 7,515,212	\$ 6,720,519	\$ 29,275,195	\$ 27,926,913
Capital assets and CIP, net of accum. depreciation	112,644,013	111,272,188	33,001,351	33,612,887	145,645,364	144,885,075
Total Assets	134,403,996	132,478,582	40,516,563	40,333,406	174,920,559	172,811,988
Current liabilities	4,608,966	4,395,784	472,831	356,923	5,081,797	4,752,707
Long-term liabilities	10,392,750	11,135,417	65,681	67,920	10,458,431	11,203,337
Total Liabilities	15,001,716	15,531,201	538,512	424,843	15,540,228	15,956,044
Deferred inflow of resources	-	-	-	-	-	-
Net Position:						
Net investment in capital assets	103,007,479	100,847,804	33,001,350	33,612,887	136,008,829	134,460,691
Restricted	4,829,728	4,642,845	-	-	4,829,728	4,642,845
Unrestricted	11,565,073	11,456,732	6,976,699	6,295,676	18,541,772	17,752,408
Total Net Position	\$ 119,402,280	\$ 116,947,381	\$ 39,978,049	\$ 39,908,563	\$ 159,380,329	\$ 156,855,944

**Analysis of Net Position**

Total net position of the primary government of \$159.4 million at December 31, 2014 increased \$2.5 million or 1.6% compared to December 31, 2013. The increase is due to general governmental activities which increase \$2.5 million.

The largest component of the City's net position, 85% or \$136 million, is its net investment in capital assets. These capital assets such as land, streets, trails, parks, police vehicles, and parks equipment are used to provide services to the citizens. Consequently, these assets are not available to sell and convert to cash for future spending.

Approximately 40% or \$1.9 million of the City's restricted net position is earmarked for capital improvement projects. Some of the major projects are Bridgeport Way 83<sup>rd</sup>-75<sup>th</sup>, Bridgeport Way JBLM – I-5, LED Street Light Retrofit, Steilacoom Boulevard Safety Improvements, South Tacoma Way (Steilacoom Blvd to 88<sup>th</sup>), and Madigan Access Improvements. The City attempts to fund capital construction projects on a pay-as-you-go basis, aggressively pursuing transportation grant funding and cost sharing with developers to construct large projects in the City that impact the transportation system.

The balance of the City's restricted net position is divided as follows: \$1 million or 22% for debt service payments; \$1 million or 21% for Hotel/Motel Lodging Tax for tourism and related activities, \$171 thousand or 4% for the Neighborhood Stabilization Program grant; \$85 thousand or 2% for the Office of Economic Adjustment grant; \$560 thousand or 12% for law enforcement operations. Of the \$18.5 million unrestricted net position, \$7 million is earmarked for Surface Water Management and \$11.5 million may be used to meet ongoing obligations to citizens and creditors. Examples of other City obligations for which the remaining unrestricted net position may be used are public safety, parks maintenance, and ongoing street maintenance.

At the end of the fiscal year, the City of Lakewood reported positive balances in all three categories of net position, for the government as a whole, as well as for the separate governmental and business-type activities.

**Governmental Activities**

Capitals assets and CIP, net of accumulated depreciation increased by \$1.4 million or 1.2% due to an increase in construction in progress for capital improvement projects. The primary components of the increase are as follows: \$320 thousand for City-Wide Traffic Signal Management, \$1.3 million Madigan Access, \$990 thousand for Bridgeport Way (83<sup>rd</sup> to 75<sup>th</sup>), \$260 thousand for South Tacoma Way (SR-512 to 96<sup>th</sup>), \$79 thousand for Bridgeport Way (JBLM to I-5), \$123 thousand for Gravelly Lake Drive (100<sup>th</sup> to Bridgeport Way), \$41 thousand for Steilacoom Boulevard Safety Improvements.

Long-term liabilities decreased by \$743 thousand or 6.7% due to a lower outstanding balance in GO Bond Loans, Special Assessment Bonds, and Public Works Trust Fund loans.

Other liabilities increased by \$213 thousand or 4.8% due to decrease in accounts payable and accrued expenses primarily in the General Fund and Street Capital Projects Fund due to timing of invoice payments.

Net investments in capital assets increased \$2.2 million or 2.1% primarily due to an increase in transportation capital assets and a decrease in outstanding long-term debt.

Restricted net position for capital projects, amounts that must be used in accordance with external restrictions, increased \$1.1 million or 128% from the prior year primarily due to an increase in amounts restricted for capital projects from in \$841 thousand 2013 to \$1.9 million in 2014.

**Business-Type Activities**

Current and other assets increased by \$795 thousand or 11.8% primarily due expenditures for construction work in progress in the Surface Water Management Fund.

Capital assets and CIP, net of accumulated depreciation decreased by \$612 thousand or 1.8% due to depreciation of \$1.2 million and \$27 thousand for depreciation of infrastructure and machinery and equipment respectively. This decrease was offset by additions to construction in progress and land including: \$77 thousand for the permanent public works

operations and maintenance facility; \$208 thousand for Outfall Water Quality Retrofit; \$70 thousand for 2014 capital drainage; and \$11 thousand for the Zircon Mudslide; and \$190 thousand for Wards Lake land acquisition.

Long-term liabilities decreased by \$2 thousand or 3.3% in 2014 due to an decrease in compensated absences considered payable in more than one year. Other liabilities increased by \$116 thousand or 32.5% primarily due to an increase in accounts payable.

Net investments in capital assets decreased \$612 thousand or 1.8% primarily due to depreciation in Surface Water Management capital assets. The City had no restricted net position for business-type activities, which represents amounts that must be used in accordance with external restrictions. Unrestricted net position increased by \$681 thousand or 10.8% due primarily to the increase in cash 2014.

**CHANGES IN NET POSITION**  
**For the Years Ended December 31, 2014 and 2013**

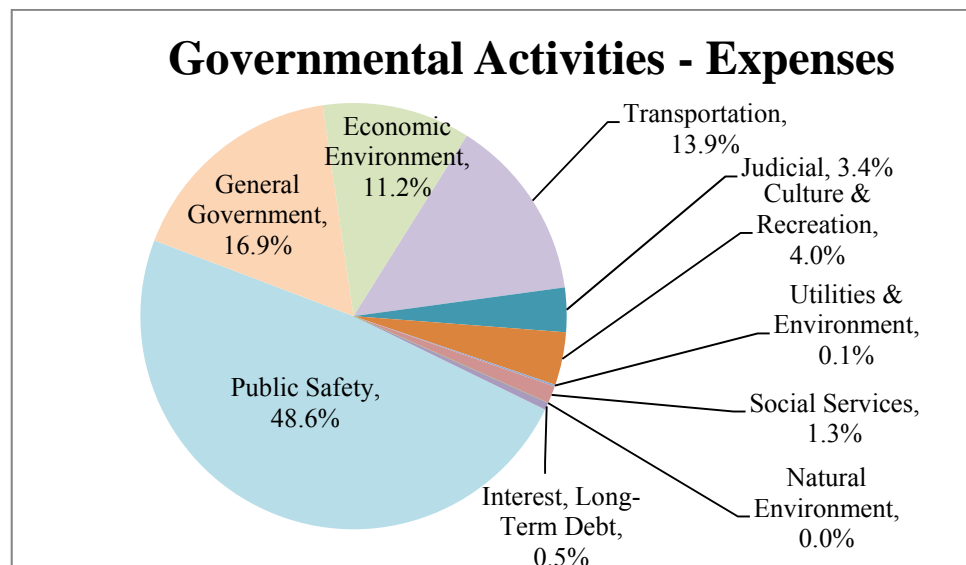
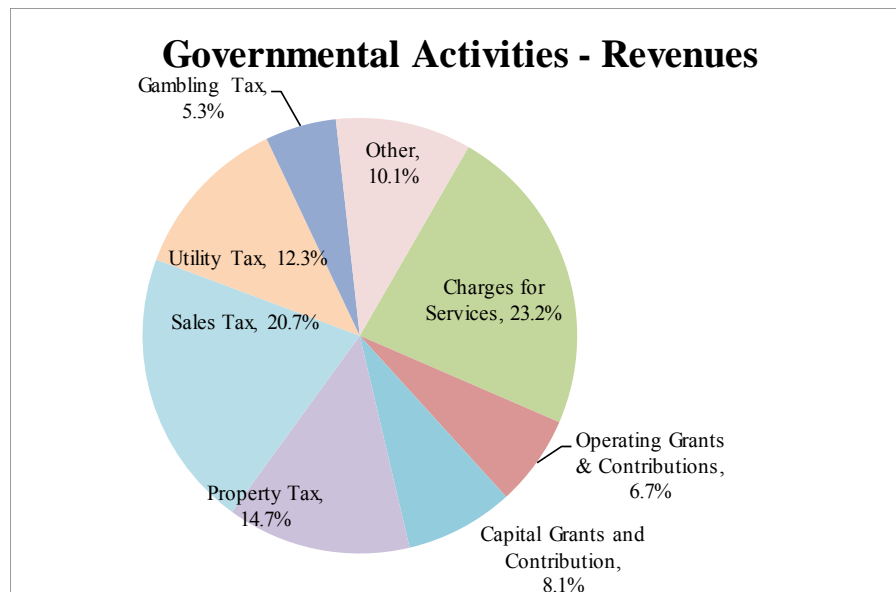
	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Total</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
Revenues:						
Programs revenues:						
Charges for services	\$ 10,864,250	\$ 10,210,207	\$ 2,723,885	\$ 2,720,766	\$ 13,588,135	\$ 12,930,973
Operating grants & contrib.	3,162,494	2,912,689	-	-	3,162,494	2,912,689
Capital grants & contrib.	3,783,553	3,148,911	276,528	913,296	4,060,081	4,062,207
General revenues:						
Property tax	6,424,206	6,199,793	-	-	6,424,206	6,199,793
Sales tax	9,697,424	9,452,945	-	-	9,697,424	9,452,945
Utility tax	5,747,855	5,899,855	-	-	5,747,855	5,899,855
Excise tax	1,106,755	1,159,324	-	-	1,106,755	1,159,324
Gambling tax	2,482,403	2,411,104	-	-	2,482,403	2,411,104
Lodging tax	559,866	537,010	-	-	559,866	537,010
Other tax	2,473,139	2,452,031	-	-	2,473,139	2,452,031
Investment earning	220,902	103,857	11,807	24,555	232,709	128,412
Judgments and settlements	80,838	99,169	-	320	80,838	99,489
Gain on disposition of capital assets	90,971	22,230	-	-	90,971	22,230
Donations of capital assets	10,879	-	-	-	10,879	-
Other/miscellaneous	174,758	195,388	9,435	-	184,193	195,388
Insurance recoveries	16,410	-	-	-	16,410	-
Total Revenue	46,896,703	44,804,513	3,021,655	3,658,937	49,918,358	48,463,450
Expenses:						
General government	7,481,025	7,283,689	-	-	7,481,025	7,283,689
Public safety	21,485,849	21,579,544	-	-	21,485,849	21,579,544
Utilities and environment	59,319	452,972	-	-	59,319	452,972
Transportation	6,157,222	3,623,947	-	-	6,157,222	3,623,947
Social Services	589,071	384,397	-	-	589,071	384,397
Natural & Economic environment	4,970,852	4,238,766	-	-	4,970,852	4,238,766
Culture and recreation	1,775,854	1,978,217	-	-	1,775,854	1,978,217
Judicial	1,490,816	1,717,505	-	-	1,490,816	1,717,505
Natural environment	-	290,056	-	-	-	290,056
Interest on long-term debt	237,174	253,555	-	-	237,174	253,555
Surface water management	-	-	3,141,793	2,491,562	3,141,793	2,491,562
Total Expenses	44,247,182	41,802,648	3,141,793	2,491,562	47,388,975	44,294,210
Change in net position before transfers	2,649,521	3,001,865	(120,138)	1,167,375	2,529,383	4,169,240
Transfers	(189,622)	77,704	189,622	(77,704)	-	-
Change in net position	2,459,899	3,079,569	69,484	1,089,671	2,529,383	4,169,240
Net position - beginning	116,947,381	113,139,012	39,908,563	38,818,892	156,855,944	151,957,904
Prior period adjustment	(5,000)	728,800	-	-	(5,000)	728,800
Adjusted net position - beginning	116,942,381	113,867,812	39,908,563	38,818,892	156,850,944	152,686,704
Net position - ending	\$ 119,402,280	\$ 116,947,381	\$ 39,978,047	\$ 39,908,563	\$ 159,380,327	\$ 156,855,944

### **Analysis of the Change in Net Position**

Total government-wide revenues of the primary government increased \$1.5 million or 3% and total expenses increased \$3.1 million or 7% from the prior year. These changes are discussed in more detail below.

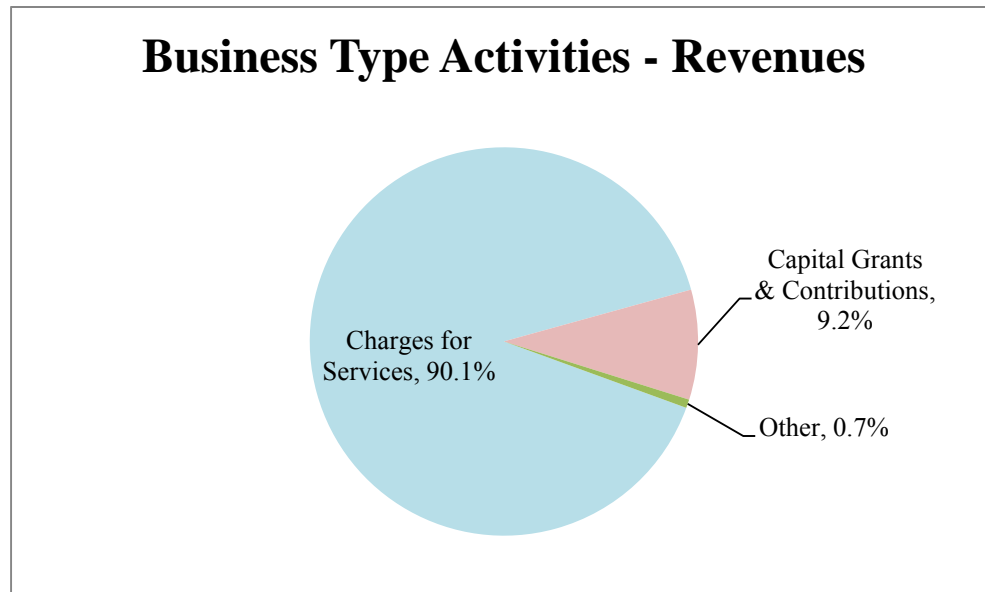
### **Governmental Activities**

Governmental activities increased the City's net position by \$2.5 million or 97% of the total change in net position of \$2.5 million. Total revenues for governmental activities increased \$2.1 million or 5%. The increase is mainly due to: \$654 thousand or 6.4% increase in charges for services; and \$634 thousand or 20.0% increase in capital grants and contributions; \$249 thousand or 8.6% increase in operating grants and contributions; \$244 thousand or 2.6% increase in sales tax; and \$224 thousand or 3.6% increase in property tax. These increases were offset by a decrease in \$152 thousand or 2.6% in utility tax and \$53 thousand or 4.5% in excise tax. Total expenses for governmental activities increased \$2.4 million or 6%. The increase is mainly due to the \$2.5 million or 69.9% increase in transportation expense and \$732 thousand or 17.3% in natural and economic environment expense. These increases were offset by \$394 thousand or 86.9% and \$290 thousand decreases in utilities and environment expense and natural environment, respectively.



## Business-Type Activities

Business-type activities of the City's Surface Water Management system increased the City's net position by \$69 thousand or 3% of the total increase. Key elements of the increase are as follows: total revenues decreased by \$637 thousand or 17% from 2013. The decrease is primarily due to \$637 thousand reduction of capital grants and contributions received in 2014. Total expenditures increased by \$650 thousand or 26% from 2013. The increase is primarily due to a \$519 thousand or 75% increase in depreciation expense from 2013.



## FINANCIAL ANALYSIS OF THE CITY'S FUNDS

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

### Governmental Funds

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

As of the end of 2014, the City's governmental funds had a combined ending fund balance of \$9.6 million\$4.5 million which increased by \$1.5 million or 17.70% from the prior year. Approximately \$4.5 million or 47%47% of this amount constitutes unassigned General Fund balance, which is available for spending at the City Council's discretion. The remainder of the fund balance is restricted (\$4 million) or committed (\$1.1 million) to indicate that it is not available for new spending because it has already been earmarked as previously discussed in the financial highlights.

The General Fund is the chief operating fund of the City. Total fund balance increased \$2 million or 75.6%. The increase in fund balance is mainly due to transferring \$1.8 million excess General Fund contributions to the Grant Fund and Equipment Replacement Fund in previous years back to the General Fund. Overall revenues for the General Fund increased by \$225 thousand or 0.6% compared to 2013 and overall expenditures decreased by \$638 thousand or 1.9% compared to 2013.

The Street Capital Projects Fund was established to account for capital projects related to street infrastructure. In 2014 the ending fund balance increased \$277 thousand or 33.0%.

The Grant Fund was established to account for revenues and expenditures associated with Community Development Block Grants (CDBG), HOME Investment Partnership Act grants, and the STOP Violence Against Women grant. Revenue and other resources reported in this fund include direct and indirect federal grants, state grants, and intergovernmental service revenues.

The Grant Fund's ending fund balance decreased by \$819 thousand in 2014. The decrease was due to transferring excess General Fund contributions to the Grant Fund back to the General Fund.

The LID Debt Service Fund was created to account for the payment of special assessment bonds as well as the collection of assessments from property owners within the local improvement district (LID). Ending fund balance increased \$1 thousand dollars due to assessments being more than principal retired.

### **Proprietary Fund**

The City of Lakewood's proprietary funds provide the same type of information found in the government-wide, but in more detail. Unrestricted net position of the Surface Water Management Fund at the end of the year amounted to \$39.9 million and the total change in net position was an increase of \$69 thousand. Other factors concerning the finances of this fund have already been addressed in the discussion of the City of Lakewood's business-type activities.

### **GENERAL FUND BUDGETARY AND ACTUAL HIGHLIGHTS**

The City of Lakewood budgets on a biennial basis with each budget beginning in an odd numbered year. Appropriations for operating funds are authorized for two years, but must be reviewed and reauthorized by the City Council in the middle of the biennial period. In 2014, the City made three budget adjustments. The following discussion is reflective only of the current year of the biennium.

The General Fund operating expenditure budget increased by \$1.5 million between the original adopted budget and the final adjusted budget for 2014 fiscal year. The following are the major changes for the 2014 budget:

- Added \$300 thousand computer replacement for migration from Windows XP to Windows 7;
- Added \$50 thousand for City contribution to SSMCP to carry out the JBLM Growth Coordination Plan;
- Added \$100 thousand for City visioning;
- Added \$205 thousand for the Fire Marshal contract not previously budgeted;
- Added \$34 thousand for transfer to Equipment Replacement Fund for Municipal Court van;
- Added \$100 thousand for public defender contract due to new laws that determine case load management;
- Added \$41 thousand for transfer to Equipment Replacement Fund for Parks equipment;
- Added \$240 thousand for replacement of City's phone system;
- Added \$36 thousand for 0.2 FTE increase in salaries and benefits of municipal court judge;
- Added \$40 thousand for economic development comprehensive plan professional services; and
- Added \$100 thousand for Bridgeport Gateway Project.

The following are adjustments to the revenues and other sources totaling \$1.9 million:

- Add transfer-in of \$1.0 million from Vehicle and Equipment Replacement Fund of previous years' excess General Fund contributions;
- Add transfer-in of \$840 thousand from Grant Fund of previous years' excess General Fund contributions; and
- Add transfer-in of \$100 thousand from seizure funds for funding of police laptop computers.

The General Fund's ending fund balance of \$4.5 million is \$1.1 million above the projected \$3.4 million for 2014 year-end. Compared to budget, revenues and other sources exceeded estimates by \$961 thousand or 2.8% while expenditures were below estimates by \$171 thousand or 0.5%.

- Revenues and other sources exceeding budget estimates include: \$162 thousand in property tax; \$273 thousand in sales tax; \$82 thousand in parks sales tax; \$54 thousand in natural gas use tax, \$63 thousand in criminal justice sales tax; \$182 thousand in admissions tax; \$1,217 thousand in franchise fees; \$55 thousand in licenses and permits; \$82 thousand in state shared revenues; \$171 thousand in various charges for services and fees; and \$42 thousand in interest and other miscellaneous revenue.
- Revenues and other sources below budget estimates include: \$482 thousand in utility tax; \$238 thousand in gambling tax; \$339 thousand in development service fees; \$38 thousand in intergovernmental; \$213 thousand in fines and forfeitures; and \$120 thousand in grants, donations and contributions.

- Operating expenditures exceeded budget estimates by \$192 thousand offset by savings in other uses of \$363 thousand.

In developing the 2015/2016 Biennial Budget, the City revised its projections via year-end estimates that are not reflected in the adopted budget. Compared to year-end estimates, the General Fund ending fund balance increased by \$498 thousand or 12.4%. Revenues and other sources increased by \$636 thousand or 1.7% and expenditures and other uses increased by \$138 thousand or 0.4%. Major revenue increases include: \$225 thousand in franchise fees; \$133 thousand in sales tax; \$118 thousand in development service fees; and \$100 thousand in property tax. Major revenue decreases include: \$206 thousand in fines and forfeitures; and \$152 thousand in utility tax.

In support of the City's financial integrity, the excess revenue/expenditures savings of \$1.3 million (compared to budget, or \$498 thousand compared to year-end estimates) will be applied toward increasing ending fund balance in the General Fund as part of the financial policies that the City Council adopted in September 2014. The adopted ending fund balance reserves target totals 12% of the combined General and Street Operations & Maintenance Funds operating revenues as follows:

- **2% General Fund Contingency Reserves:** The purpose of this reserve is to accommodate unexpected operational changes, legislative impacts, or other economic events affecting the City's operations which could not have been reasonably anticipated at the time the original budget was prepared. A 2% reserve fund based on the General/Street O&M Funds operating revenues equates to roughly \$740 thousand.
- **5% General Fund Ending Fund Balance Reserves:** The purpose of this reserve is to provide financial stability, cash flow for operations and the assurance that the City will be able to respond to revenue shortfalls with fiscal strength. A 5% reserve fund based on the General/Street O&M Funds operating revenues equates to roughly \$1.85 million.
- **5% Strategic Reserves:** The purpose of this reserve is to provide some fiscal means for the City to respond to potential adversities such as public emergencies, natural disasters or similarly major, unanticipated events. A 5% reserve fund based on the General/Street O&M Funds operating revenues equates to roughly \$1.85 million.

The timeline for achieving the target reserves is no later than December 31, 2016 and is met with the 2015/2016 Adopted Biennial Budget.

## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets

The City of Lakewood's investment in capital assets for its governmental and business-type activities as of December 31, 2014 amounts to \$145.6 million (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment, infrastructure, and construction in progress. For more details, please see Note 7.

#### CAPITAL ASSETS AT YEAR-END, NET OF DEPRECIATION

	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
Land	\$ 21,085,421	\$ 20,911,833	\$ 1,854,447	\$ 1,664,017	\$ 22,939,868	\$ 22,575,850
Construction in progress	5,229,858	5,753,499	1,377,413	2,289,911	6,607,271	8,043,410
Building	22,265,043	22,777,773	163,318	167,008	22,428,361	22,944,781
Improvements other than buildings	60,833,632	59,046,532	29,408,858	29,298,079	90,242,490	88,344,611
Machinery and equipment	3,230,059	2,782,551	197,314	193,872	3,427,373	2,976,423
Total Capital Assets	\$ 112,644,013	\$ 111,272,188	\$ 33,001,350	\$ 33,612,887	\$ 145,645,363	\$ 144,885,075

Major capital asset events during the current fiscal year included the expansion and improvement of city streets and traffic corridors for a total of \$4.8 million, construction of a new Operations and Maintenance facility for a total of \$77 thousand, and the replacement of surface water infrastructure for a total of \$520 thousand.

## Long-term debt

At the end of 2014, the City of Lakewood had total bonded debt outstanding of \$2.1 million for future principal and interest payments which are backed by the full faith and credit of the government. The remainder of the City's debt represents Public Works Trust Fund Loans.

### LONG-TERM DEBT

	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
2009 LTGO	\$ 2,110,000	\$ 2,220,000	\$ -	\$ -	\$ 2,110,000	\$ 2,220,000
2009 LTGO premium	33,560	35,960	-	-	33,560	35,960
Public Works Trust Fund Loan	5,287,303	5,715,529	-	-	5,287,303	5,715,529
Promissory note (59th street)	632,713	684,129	-	-	632,713	684,129
Special Assessment w/ governmental commitments	1,572,959	1,773,938	-	-	1,572,959	1,773,938
Compensated absences	2,218,820	2,144,144	93,830	97,028	2,312,650	2,241,172
<b>Total</b>	<b>\$ 11,855,356</b>	<b>\$ 12,573,700</b>	<b>\$ 93,830</b>	<b>\$ 97,028</b>	<b>\$ 11,949,185</b>	<b>\$ 12,670,728</b>

The City's total debt decreased by \$793 thousand due to annual debt service payments.

In March 2014 Standard & Poor's Ratings Services (S&P) raised the City's credit rating from "A" to "AA-" with respect to the City's General Obligation Bonds. At the same time, Standard & Poor's affirmed the "A-" long-term rating on the City's Special Assessment Bonds for Local Improvement District No. 1101, Series 2006. S&P affirmed a stable outlook based on its review of the City's long-term debt.

Washington State statutes limit the amount of debt a government entity may issue to 7.5% of its total assessed valuation, subject to 60% majority vote of qualified electors. Of the 7.5% limit, 2.5% is for general purposes, 2.5% for open space/park facilities, and 2.5% for utilities. Non-voted general purpose indebtedness is limited to 1.5% of assessed valuation and combination of voted and non-voted general purpose indebtedness cannot exceed 2.5% of assessed valuation.

The City's assessed valuation for 2014 was \$4.74 billion and the total amount of debt the City may issue is \$354 million. Remaining legal debt capacities as of December 31, 2014 are:

Legally Remaining Debt Capacity As of December 31, 2014	
General Government (no vote required)	\$ 64,677,388
General Government (3/5 majority vote required)	44,946,734
Parks and open space (3/5 majority vote required)	112,366,835
Utilities (3/5 majority vote required)	112,366,835
<b>Total Capacity</b>	<b>\$ 334,357,792</b>

Additional information on the City of Lakewood's long-term debt can be found in Note 10 and in the Statistical Section of this report.

## ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The 2015/2016 budget gradually returns the City to sound financial footing by replenishing General Fund reserves to meet our 12% policy objective over a three year period beginning in 2014 and culminating in 2016. Using reserves and one-time monies to finance ongoing programs as was the case in recent years, only masks and pushes out the financial challenges facing the City. The City currently is at a tipping point where failing to address this issue only further weakens the City's financial position. The 2015/2016 biennial budget ensures operating expenditures are within the constraints of available operating revenues and does not use reserves to balance the budget. As a result, the 2015/2016 biennial budget is compliant with the City's financial policies.

As we move into 2015 and 2016, the following programs will undergo a review to provide for more effective delivery of services coupled with identification of funding for those programs currently not funded.

- Continue the development of a six-year financial forecast (2015-2020) that includes facts and assumptions to enable an accurate forecast of the financial future of the city to ensure whether adequate resources will be available to maintain current and projected city service levels with a particular focus on the impact of current economic conditions and, if not, develop strategies to address. The forecast will also serve as a tool to examine financial trends and identify opportunities, particularly as new services or programs are evaluated. The financial forecast will serve as the mechanism to ensure these investments, commitments and contractual obligations “pencil” for at least six years.
- The Community and Economic Development (CED) Department will undertake a coordinated effort to review the manner in which development services are provided. The focus is to improve processes and services to customers and identify areas for continuous improvement, including, turnaround times, predictability of plan reviews, consistency of inspections and overall client service and satisfaction. It will also include a review of fees and charges, program recovery ratios, and resource needs. The goal is to have a streamlined, coordinated, and predictable development services program that provides efficient review of project applications in a manner that meets the definition of success for both the City and prospective applicants. This approach is consistent with the policies contained in the city’s draft economic development comprehensive plan chapter that will come before City Council later this year.
- The Parks, Recreation and Community Services Department regularly reviews its fee structure for classes, programs and facility use using the cost recovery model included in the Legacy Plan. They will be reviewing the fee structure at the class and program level and develop a cost recovery policy that meets our community’s needs. The adoption of a pricing philosophy is crucial to ensure program affordability for the community while maintaining sustainable financing for the Department.
- The Municipal Court will continue its review for process improvements to include implementation of video arraignment and options to implement a paperless system.
- The Administrative Services Department will take the lead in developing financing options to address our short- and long-term needs in support of information technology and property management programs to include the accumulation of replacement reserves.
- The Police Department has initiated the development of a public safety benefit/cost review that will include a comparison of public safety statistics locally, regionally and in other communities nationwide that host a large military installation. This City Council goal will also focus on a review of our policing programs, community and regional partnerships and community safety resource team (CSRT) programs to determine, identify and report on resource allocation, program efficiencies and successes.

There are a continuing number of challenges facing the City currently and in the near term which impact fiscal stability, most notably the continued impacts of the economic challenges that began in December 2007 followed by a very tepid economic recovery as compared to previous recoveries. The result of this lack of economic recovery is that local governments such as our City will continue to face economic hardship and uncertainty given there is more of a recovery lag for local governments as compared to other sectors of the economy.

We face the uncertainty and unpredictability in financial and credit markets that still seems to have stymied economic growth locally, regionally and nationally. Our nation continues to face unemployment and under-employment numbers that are some of the highest in decades. We are also face legislative challenges particularly from the state as they look to balance their budgetary shortfalls and court ordered mandates, such as the McCleary decision. In recent years, the state has had a dramatic impact on cities from the loss of state shared revenues, increased public defender costs, and the loss of the public works trust fund loan program. Likewise the fiscal challenges and a myriad of domestic and international issues facing our federal government has resulted in reduced funding to cities and impact of the Affordable Care Act.

The impact of technology such as the explosion of social media means that local governments such as ours must adapt to a new way of community engagement and dialogue. It has also provided us the opportunity to increase transparency and accountability in how we conduct business and deliver services. The world today is much different from where we were two, five and ten years ago. It is much more complex and it is imperative that we change and adapt to these ever changing forces.

Despite all of this and much more, the City continues to address many challenges with respect to meeting service demands and the ability in providing them to our citizens. The financial challenges we face has required us to re-evaluate the paradigms that have been governing our City for a number of years. We have charted a course for achieving long-term financial sustainability

by beginning to reinvent the way we deliver services, investing in our employees and making smart infrastructure investments that will create jobs and build our tax base.

We will be looking to economic development, focusing primarily in our commercial areas to generate additional property and sales taxes. Locally, we see nothing but opportunity in our key commercial areas such as the Towne Center, Springbrook, Tillicum, and the Pacific Highway South corridor, which is directly adjacent to I-5 with multiple prime properties ready for redevelopment and revitalization. Areas such as the International District and Woodbrook Industrial Business Park area stand ready and available for new investment to create jobs and opportunity for Lakewood and our region. The generation of new revenues from redevelopment and revitalization in these areas will allow us to meet the growing demand for services. These actions will allow Lakewood to continue to support our community's quality of life while implementing our strategic goals for the future.

## **REQUEST FOR INFORMATION**

This financial report is designed to provide a general overview of the City of Lakewood'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 Tho Kraus, Assistant City Manager/Administrative Services, City of Lakewood, 6000 Main Street SW, Lakewood, Washington 98499, telephone 253-983-7706, or visit the City's website at [www.cityoflakewood.us](http://www.cityoflakewood.us).

**City of Lakewood**  
**Statement of Net Position**  
December 31, 2014

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$ 8,815,753	\$ 4,837,016	\$ 13,652,769
Investments	1,845,515	2,245,592	4,091,107
Receivables (net)	8,843,185	106,625	8,949,810
Due from other governments	2,363,986	217,521	2,581,507
Internal balances	(108,456)	108,456	-
Total current assets	<u>21,759,983</u>	<u>7,515,210</u>	<u>29,275,193</u>
Noncurrent assets:			
Capital assets not being depreciated	26,315,279	3,231,859	29,547,138
Capital assets, net of accumulated depreciation	86,328,734	29,769,492	116,098,226
Total noncurrent assets	<u>112,644,013</u>	<u>33,001,351</u>	<u>145,645,364</u>
Total assets	<u>134,403,996</u>	<u>40,516,561</u>	<u>174,920,557</u>
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable and accrued expenses	2,754,751	383,476	3,138,227
Deposits	61,683	1,400	63,083
Unearned revenue	36,432	-	36,432
Due to other governments	272,865	59,806	332,671
Contracts Payable	20,631	-	20,631
LT Due in one year	1,462,604	28,149	1,490,753
Total current liabilities	<u>4,608,966</u>	<u>472,831</u>	<u>5,081,797</u>
Noncurrent liabilities:			
LT Due in more than one year	9,017,791	65,681	9,083,472
Special assessment debt, with governmental commitments, due in more than one year	1,374,959	-	1,374,959
Total noncurrent liabilities	<u>10,392,750</u>	<u>65,681</u>	<u>10,458,431</u>
Total liabilities	<u>15,001,716</u>	<u>538,512</u>	<u>15,540,228</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	-	-	-
Total liabilities and deferred inflows of resources	<u>15,001,716</u>	<u>538,512</u>	<u>15,540,228</u>
<b>NET POSITION</b>			
Net investment in capital assets	103,007,479	33,001,350	136,008,829
Restricted for:			
Capital projects	1,918,777	-	1,918,777
Debt Service	1,043,702	-	1,043,702
Grants	278,593	-	278,593
Law enforcement	560,100	-	560,100
Tourism related activities	1,028,556	-	1,028,556
Unrestricted	11,565,073	6,976,699	18,541,772
Total net position	<u>\$ 119,402,280</u>	<u>\$ 39,978,049</u>	<u>\$ 159,380,329</u>

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

**City of Lakewood**  
**Statement of Activities**  
For the Year Ended December 31, 2014

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for	Operating	Capital	Primary Government		
		Services	Grants and Contributions	Grants and Contributions	Governmental Activities	Business-type Activities	Total
<b>Primary government:</b>							
Governmental activities:							
General government	7,481,025	5,210,528	105,310	-	(2,165,187)	-	(2,165,187)
Public safety	21,485,849	1,252,151	999,672	15,109	(19,218,917)	-	(19,218,917)
Utilities and environment	59,319	781,031	-	-	721,712	-	721,712
Transportation	6,157,222	559,798	10,983	3,768,444	(1,817,997)	-	(1,817,997)
Social services	589,071	-	256,750	-	(332,321)	-	(332,321)
Natural and economic environment	4,970,852	1,059,874	1,707,588	-	(2,203,390)	-	(2,203,390)
Culture and recreation	1,775,854	247,255	82,191	-	(1,446,408)	-	(1,446,408)
Judicial	1,490,816	1,753,612	-	-	262,796	-	262,796
Debt interest	237,174	-	-	-	(237,174)	-	(237,174)
Total governmental activities	44,247,182	10,864,249	3,162,494	3,783,553	(26,436,886)	-	(26,436,886)
Business-type activities:							
Surface Water Management	3,141,793	2,723,885	-	276,528	-	(141,380)	(141,380)
Total business-type activities	3,141,793	2,723,885	-	276,528	-	(141,380)	(141,380)
Total primary government	\$ 47,388,975	\$13,588,134	\$ 3,162,494	\$ 4,060,081	(26,436,886)	(141,380)	(26,578,266)
General revenues:							
Property tax					6,424,206	-	6,424,206
Sales tax					9,697,424	-	9,697,424
Utility tax					5,747,855	-	5,747,855
Excise tax					1,106,755	-	1,106,755
Gambling tax					2,482,403	-	2,482,403
Hotel/motel lodging tax					559,866	-	559,866
Other tax					2,473,139	-	2,473,139
Investment earnings					220,902	11,807	232,709
Judgments and settlements					80,838	-	80,838
Gain (loss) on sale/retirement of capital assets					90,971	-	90,971
Donations of capital assets					10,879	-	10,879
Miscellaneous					174,757	9,435	184,192
Insurance recoveries					16,410	-	16,410
Transfers					(189,622)	189,622	-
Total general revenues, special items, and transfers					28,896,783	210,864	29,107,647
Change in net position					2,459,897	69,484	2,529,381
Net position - beginning					116,947,381	39,908,563	156,855,944
Prior period adjustment					(5,000)	-	(5,000)
Net position - ending					\$ 119,402,278	\$ 39,978,047	\$ 159,380,325

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

**City of Lakewood  
Balance Sheet  
Governmental Funds  
December 31, 2014**

	General Fund	Street Capital Projects	Grant Fund	LID Debt Service	Total Nonmajor Funds	Total Governmental Funds
<b>ASSETS</b>						
Cash and cash equivalents	2,143,912	-	-	1,051	3,333,701	5,478,664
Investments	-	-	-	-	600,632	600,632
Customer accounts receivable	1,891,783	-	9,972	-	44,809	1,946,564
Due from other governments	93,101	1,746,984	354,455	-	273,313	2,467,853
Notes/contracts receivable	-	-	1,164,786	-	88,679	1,253,465
Special assessments receivable	-	-	-	1,910,014	36,692	1,946,706
Taxes receivable	3,246,635	247,275	-	-	98,765	3,592,675
Interfund loan receivable	489,879	-	-	-	-	489,879
Total assets	<u>\$ 7,865,310</u>	<u>\$ 1,994,259</u>	<u>\$ 1,529,213</u>	<u>\$ 1,911,065</u>	<u>\$ 4,476,591</u>	<u>\$ 17,776,438</u>
<b>LIABILITIES</b>						
Accounts payable	714,624	455,161	254,747	-	168,584	1,593,116
Payable to other governments	1,493	133	-	-	451	2,077
Custodial deposits	16,886	-	17	-	39,780	56,683
Unearned revenue	21,157	-	-	-	15,275	36,432
Contracts payable	-	19,631	-	-	1,000	20,631
Other Accrued Liabilities	1,243,265	54,237	11,965	-	83,119	1,392,586
Interfund loan payable	-	346,479	75,317	-	68,083	489,879
Other current liabilities	5,000	-	-	-	-	5,000
Total liabilities	<u>2,002,425</u>	<u>875,641</u>	<u>342,046</u>	<u>-</u>	<u>376,292</u>	<u>3,596,404</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>						
Total liabilities and deferred inflows of resources	1,330,194	-	1,164,786	1,910,014	125,371	4,530,365
	<u>3,332,619</u>	<u>875,641</u>	<u>1,506,832</u>	<u>1,910,014</u>	<u>501,663</u>	<u>8,126,769</u>
<b>FUND BALANCES (DEFICITS)</b>						
Restricted	-	1,118,528	22,381	1,051	2,887,519	4,029,479
Committed	5,750	-	-	-	1,087,409	1,093,159
Assigned	-	-	-	-	-	-
Unassigned	4,526,941	-	-	-	-	4,526,941
Total fund balances (deficits)	<u>4,532,691</u>	<u>1,118,528</u>	<u>22,381</u>	<u>1,051</u>	<u>3,974,928</u>	<u>9,649,579</u>
Total liabilities, deferred inflows, and fund balances (deficits)	<u>\$ 7,865,310</u>	<u>\$ 1,994,169</u>	<u>\$ 1,529,213</u>	<u>\$ 1,911,065</u>	<u>\$ 4,476,591</u>	<u>\$ 17,776,348</u>

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

**City of Lakewood**  
**Reconciliation of Balance Sheet to the Statement of Net Position**  
**December 31, 2014**

Fund balances of governmental funds	\$9,649,579
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and therefore not reported in the funds	110,295,823
Long-term liabilities applicable to the City's activities are not due and payable in the current period and are not reported as fund liabilities:	
Debt and notes payable	(9,636,535)
Compensated absences	(2,218,820)
	<u>(11,855,355)</u>
Some revenue reported on the government-wide Statement of Activities is reported as deferred inflows of resources in the governmental funds	4,530,369
Assets and liabilities of internal service funds are included in governmental activities in the Statement of Net Position	6,890,320
Interfund revenues and expenditures are reported as internal balances in the government-wide statements to avoid overstating revenues and expenditures	(108,456)
	<u><u>\$119,402,280</u></u>

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

**City of Lakewood**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Governmental Funds**  
For the Year Ended December 31, 2014

	General Fund	Street Capital Projects	Grant Fund	LID Debt Service	Total Nonmajor Funds	Total Governmental Funds
<b>REVENUES</b>						
Taxes	\$ 25,056,768	\$ 1,100,298	\$ -	\$ -	\$ 559,866	\$ 26,716,932
Special assessments	-	-	-	179,171	-	179,171
Licenses and permits	4,373,470	1,300	-	-	84,653	4,459,423
Intergovernmental	1,752,558	4,116,754	1,074,352	-	1,646,156	8,589,820
Charges for goods and services	1,975,788	875,259	-	-	973,132	3,824,179
Fines and penalties	1,613,935	-	-	-	-	1,613,935
Interest and other earnings	96,399	105	1,404	105,730	7,987	211,625
Miscellaneous	81,525	-	-	-	128,244	209,769
Contributions and donations	47,889	10,837	12,056	-	16,322	87,104
Total revenues	<u>34,998,332</u>	<u>6,104,553</u>	<u>1,087,812</u>	<u>284,901</u>	<u>3,416,360</u>	<u>45,891,958</u>
<b>EXPENDITURES</b>						
Current:						
General government	7,126,333	-	25,126	-	47	7,151,506
Public safety	20,075,230	1,105	-	-	471,712	20,548,047
Utilities and environment	25,912	-	-	-	32,219	58,131
Transportation	314,567	532,576	-	-	2,050,057	2,897,200
Social services	588,422	-	-	-	-	588,422
Natural and economic environment	2,780,124	-	1,041,519	-	1,186,327	5,007,970
Culture and recreation	1,430,885	-	-	-	122	1,431,007
Judicial	1,468,295	-	-	-	-	1,468,295
Debt service:						
Interest	-	-	-	83,020	156,554	239,574
Principal retirement	-	-	-	200,979	589,639	790,618
Capital outlay:						
Capital	160,855	4,885,381	-	-	146,572	5,192,808
Total expenditures	<u>33,970,623</u>	<u>5,419,062</u>	<u>1,066,645</u>	<u>283,999</u>	<u>4,633,249</u>	<u>45,373,578</u>
Excess (deficiency) of revenues over expenditures	<u>1,027,709</u>	<u>685,491</u>	<u>21,167</u>	<u>902</u>	<u>(1,216,889)</u>	<u>518,380</u>
<b>OTHER FINANCING SOURCES (USES)</b>						
Transfers in	2,328,075	79,890	-	-	1,387,281	3,795,246
Transfers out	(1,422,280)	(487,975)	(840,056)	-	(128,360)	(2,878,671)
Insurance recovery	18,506	-	-	-	(2,096)	16,410
Total other financing source (uses)	<u>924,301</u>	<u>(408,085)</u>	<u>(840,056)</u>	<u>-</u>	<u>1,256,825</u>	<u>932,985</u>
Net change in fund balances	1,952,010	277,406	(818,889)	902	39,936	1,451,365
Fund balances - beginning	2,580,681	841,122	841,270	149	3,934,992	8,198,214
Fund balances - ending	<u>\$ 4,532,691</u>	<u>\$ 1,118,528</u>	<u>\$ 22,381</u>	<u>\$ 1,051</u>	<u>\$ 3,974,928</u>	<u>\$ 9,649,579</u>

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

**City of Lakewood**  
**Reconciliation of the Statement of Revenues, Expenditures and Changes in**  
For the Year Ended December 31, 2014

Net change in fund balances - total governmental funds \$1,451,365

Deferred inflows of resources reported in the funds are reported as revenue in the government-wide financial statements

Prior year deferred inflows	(4,573,558)	
Current year deferred inflows	<u>4,530,365</u>	(43,194)

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of these assets are capitalized and depreciated over the estimated useful lives of the the assets

Capital asset purchases and construction in process capitalized	5,192,808	
Gain/loss on disposal of capital assets		
Donated capital asset	10,879	
Depreciation expense	<u>(4,222,396)</u>	981,291

Expenses for compensated absences 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.

Prior year compensated absences	2,144,144	
Current year compensated absences	<u>(2,218,820)</u>	(74,676)

The repayment of long term debt consumes the current financial resources of governmental funds. These transactions have no effect on net position.

Bond principal retired	790,621	
Bond premium amortized	<u>2,400</u>	793,021

Net revenue (loss) of internal service funds (630,159)

Interfund revenues and expenditures are not reported on the Statement of Activities: (17,750)

\$2,459,899

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

**City of Lakewood**  
**General Fund**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual**  
For the Year Ended December 31, 2014

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget
<b>REVENUES</b>				
Taxes	\$ 25,053,900	\$ 24,953,900	\$ 25,056,768	\$ 102,868
Licenses and permits	3,388,830	3,388,830	4,373,470	984,640
Intergovernmental	1,380,800	1,811,959	1,752,558	(59,401)
Charges for goods and services	1,849,855	1,857,855	1,975,788	117,933
Fines and penalties	1,996,660	1,816,660	1,613,935	(202,725)
Interest and other earnings	136,000	36,000	96,399	60,399
Miscellaneous	28,750	28,750	81,525	52,775
Contributions and donations	35,000	64,000	47,889	(16,111)
Total revenues	<u>33,869,795</u>	<u>33,957,954</u>	<u>34,998,332</u>	<u>1,040,378</u>
<b>EXPENDITURES</b>				
Current:				
General government	6,429,610	6,509,188	7,126,333	(617,145)
Public safety	19,791,580	20,472,814	20,075,230	397,584
Utilities and environment	27,000	27,000	25,912	1,088
Transportation	212,450	361,850	314,567	47,283
Social services	618,060	618,060	588,422	29,638
Natural and economic environment	2,683,410	2,880,616	2,780,124	100,492
Culture and recreation	1,341,170	1,437,270	1,430,885	6,385
Judicial	1,300,600	1,469,800	1,468,295	1,505
Debt service:				
Interest	138,910	-	-	-
Principal retirement	144,760	-	-	-
Capital outlay:				
Capital	50,000	493,000	160,855	332,145
Total expenditures	<u>32,737,550</u>	<u>34,269,598</u>	<u>33,970,623</u>	<u>298,975</u>
Excess (deficiency) of revenues over expenditures	<u>1,132,245</u>	<u>(311,644)</u>	<u>1,027,709</u>	<u>1,339,353</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	298,060	2,328,075	2,328,075	-
Transfers out	(1,064,780)	(1,293,929)	(1,422,280)	(128,351)
Nonrevenues	97,500	97,500	-	(97,500)
Insurance recovery	-	-	18,506	18,506
Total other financing source (uses)	<u>(669,220)</u>	<u>1,131,646</u>	<u>924,301</u>	<u>(207,345)</u>
Net change in fund balances	463,025	820,002	1,952,010	1,132,008
Fund balances - beginning	402,580	2,580,679	2,580,681	2
Fund balances - ending	<u>\$ 865,605</u>	<u>\$ 3,400,681</u>	<u>\$ 4,532,691</u>	<u>\$ 1,132,010</u>

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

**City of Lakewood**  
**Street Capital Projects**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual**  
For the Year Ended December 31, 2014

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget
<b>REVENUES</b>				
Taxes	\$ 600,000	\$ 700,000	\$ 1,100,298	\$ 400,298
Licenses and permits	-	-	1,300	1,300
Intergovernmental	9,391,000	22,962,510	4,116,754	(18,845,756)
Charges for goods and services	-	80,000	875,259	795,259
Interest and other earnings	-	-	105	105
Miscellaneous	100,000	320,000	-	(320,000)
Contributions and donations	-	747,760	10,837	(736,923)
Total revenues	10,091,000	24,810,270	6,104,553	(18,705,717)
<b>EXPENDITURES</b>				
Current:				
Public safety	5,000	5,000	1,105	3,895
Transportation	723,880	946,758	532,576	414,182
Debt service:				
Capital outlay:				
Capital	9,514,000	24,868,405	4,885,381	19,983,024
Total expenditures	10,242,880	25,820,163	5,419,062	20,401,101
Excess (deficiency) of revenues over expenditures	(151,880)	(1,009,893)	685,491	1,695,384
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	560,000	2,176,950	79,890	(2,097,060)
Transfers out	(300,000)	(487,975)	(487,975)	-
Gain (loss) on disposal of capital assets	-	2,570	-	(2,570)
Total other financing source (uses)	260,000	1,691,545	(408,085)	(2,099,630)
Net change in fund balances	108,120	681,652	277,406	(404,246)
Fund balances - beginning	457,430	841,124	841,122	(2)
Fund balances - ending	\$ 565,550	\$ 1,522,776	\$ 1,118,528	\$ (404,248)

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

**City of Lakewood**  
**Grant Fund**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual**  
For the Year Ended December 31, 2014

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget
<b>REVENUES</b>				
Intergovernmental	\$ 689,000	\$ 2,744,274	\$ 1,074,352	\$ (1,669,922)
Fines and penalties	-	-	-	-
Interest and other earnings	-	2,052	1,404	(648)
Contributions and donations	-	12,056	12,056	-
Total revenues	689,000	2,758,382	1,087,812	(1,670,570)
<b>EXPENDITURES</b>				
Current:				
General government	16,720	26,218	25,126	1,092
Natural and economic environment	1,431,670	2,732,164	1,041,519	1,690,645
Debt service:				
Capital outlay:				
Total expenditures	1,448,390	2,758,382	1,066,645	1,691,737
Excess (deficiency) of revenues over expenditures	(759,390)	-	21,167	21,167
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers out	(325,000)	(840,056)	(840,056)	-
Total other financing source (uses)	(325,000)	(840,056)	(840,056)	-
Net change in fund balances	(1,084,390)	(840,056)	(818,889)	21,167
Fund balances - beginning	2,654,170	841,268	841,270	2
Fund balances - ending	\$ 1,569,780	\$ 1,212	\$ 22,381	\$ 21,169

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

**City of Lakewood**  
**Statement of Net Position**  
**Proprietary Funds**  
December 31, 2014

	Business-type Activities Surface Water Management	Governmental Activities Internal Service Funds
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 4,837,016	\$ 3,337,089
Investments	2,245,592	1,244,883
Accounts receivable	106,625	-
Due from other governments	217,520	-
Total current assets	<u>7,406,753</u>	<u>4,581,972</u>
Noncurrent assets:		
Land	1,854,447	278
Construction in Progress	1,377,413	-
Buildings	177,520	-
Improvements other than buildings	42,190,677	137,279
Machinery and equipment	352,174	6,346,507
Less accumulated depreciation	(12,950,881)	(4,135,875)
Total noncurrent assets	<u>33,001,350</u>	<u>2,348,189</u>
Total assets	<u>40,408,103</u>	<u>6,930,161</u>
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable	310,171	39,841
Payable to other governments	48,752	-
Custodial deposits	22,235	-
Other Accrued Liabilities	63,525	-
Total current liabilities	<u>444,683</u>	<u>39,841</u>
Noncurrent liabilities:		
Compensated absences	93,830	-
Total noncurrent liabilities	<u>93,830</u>	<u>-</u>
Total liabilities	<u>538,513</u>	<u>39,841</u>
<b>NET POSITION</b>		
Net investment in capital assets	33,001,351	2,348,189
Unrestricted	6,868,240	4,542,131
Total net position	<u>\$ 39,869,591</u>	<u>\$ 6,890,320</u>
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds	108,456	
Net position of business-type activities	<u>\$ 39,978,047</u>	

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

**City of Lakewood**  
**Statement of Revenues, Expenses, and Changes in Net Position**  
**Proprietary Funds**  
For the Year Ended December 31, 2014

	Business-type Activities Surface Water Management	Governmental Activities Internal Service Funds
<b>OPERATING REVENUES</b>		
Charges for goods and services	\$ 2,723,885	\$ 938,150
Total operating revenues	<u>2,723,885</u>	<u>938,150</u>
<b>OPERATING EXPENSES</b>		
Maintenance and administration	1,747,282	7,388
External and interfund taxes	203,469	-
Depreciation	1,208,792	554,977
Total operating expenses	<u>3,159,543</u>	<u>562,365</u>
Operating income (loss)	<u>(435,658)</u>	<u>375,785</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Miscellaneous	9,437	-
Gain (loss) on disposal of capital assets	-	90,974
Investment earnings	11,807	9,276
Total nonoperating revenues (expenses)	<u>21,244</u>	<u>100,250</u>
Income (loss) before contributions and transfers	(414,414)	476,035
Capital contributions	276,526	-
Transfers in	519,212	-
Transfers out	(329,590)	(1,106,196)
Change in net position	51,734	(630,161)
Total net position - beginning	39,817,857	7,520,481
Total net position - ending	<u>\$ 39,869,591</u>	<u>\$ 6,890,320</u>
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds	17,750	
Changes in net position of business-type activities	<u>\$ 69,484</u>	

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

**City of Lakewood**  
**Statement of Cash Flows**  
**Proprietary Funds**  
For the Year Ended December 31, 2014

	Business-type Activities Enterprise Funds	Governmental Activities
	Surface Water Management	Internal Service Funds
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash receipts from customers	\$ 2,723,886	
Cash from interfund		938,150
Payments to suppliers	(1,837,084)	(7,390)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>886,802</u>	<u>930,760</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Grants	220,500	
Transfers from other funds	189,622	
Transfers to other funds		(1,106,196)
Nonoperating miscellaneous revenue (expense)	9,437	90,975
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	<u>419,559</u>	<u>(1,015,221)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Purchases for capital acquisitions	(597,254)	(925,751)
NET CASH USED FOR CAPITAL AND CAPITAL-RELATED FINANCING ACTIVITIES	<u>(597,254)</u>	<u>(925,751)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sales and maturities of investments	242,318	22
Purchase of investments	-	1,245,543
Interest income	16,467	9,582
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	<u>258,785</u>	<u>1,255,147</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	967,892	244,935
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	3,869,124	3,092,154
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 4,837,016</u>	<u>\$ 3,337,089</u>
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b>		
Operating Income	\$ (435,658)	\$ 375,784
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation	1,208,792	554,976
Changes in assets and liabilities:		
Accounts Payable - Supplier	114,861	-
Payable to other governments	40,605	-
Salaries & Benefits Payable	(3,198)	-
Custodial Deposits	(38,600)	-
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ 886,802</u>	<u>\$ 930,760</u>

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

**City of Lakewood**  
**Statement of Net Position**  
**Fiduciary Funds**  
December 31, 2014

	<u>Agency Funds</u>
<b>ASSETS</b>	
Cash and cash equivalents	62,818
Deposits with fiscal agents	<u>10,000</u>
Total assets	<u>\$ 72,818</u>
 <b>LIABILITIES</b>	
Accounts payable	12,695
Custodial deposits	<u>60,124</u>
Total liabilities	<u>\$ 72,819</u>
 <b>NET POSITION</b>	
	<u>\$ -</u>

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

## **NOTES TO THE BASIC FINANCIAL STATEMENTS**

### **For the Year Ended December 31, 2014**

#### **NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the City of Lakewood have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The significant accounting policies are described below.

#### **REPORTING ENTITY**

The City's Comprehensive Annual Financial Report (CAFR) includes the funds, agencies and boards controlled by or dependent upon the City. In conformance with Governmental Accounting Standards Board (GASB) Statement 14, *The Financial Reporting Entity*, the primary basis of determining whether outside agencies and organizations should be considered component units of the City is financial accountability. Financial accountability is dependent on the City's obligation to redeem the organization's debts, to finance the organization's deficits, and the extent to which subsidies from the City constitute a major portion of the organization's total resources. Applying these criteria as outlined in GASB Statement 14, the City has no relationships that qualify as component units in 2014.

#### **GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

The government-wide financial statements (i.e. the Statement of Net Position and the Statement of Activities) report information on all the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Our policy is to allocate indirect costs to specific functions or segments. 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) grant 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.

Separate fund financial statements are provided for governmental funds, proprietary funds, and the City's one fiduciary fund, even though the latter is excluded from the government-wide financial statements. Major individual governmental funds and the City's one major individual enterprise fund are reported as separate columns in the fund financial statements.

#### **MEASUREMENT FOCUS, BASIS OF ACCOUNTING, and FINANCIAL STATEMENT PRESENTATION**

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

#### **Governmental Funds**

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 of Lakewood considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability

is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, sales taxes, utility taxes, licenses, franchise fees, and interest associated within the current period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end.) Expenditure driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end). Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the City.

### **Proprietary Funds:**

Proprietary funds are used to account for activities similar to those found in the private sector where the intent of the governing body is to finance the full cost of providing services, including depreciation, primarily through user charges. The measurement focus for these funds is based on the commercial model, which uses a flow of economic resources approach. Under this approach, the operating statements for the proprietary funds focus on a measurement of net income (revenues and expenses) and both current and non-current assets and liabilities are reported on the related balance sheets.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the City's Surface Water Management Fund and various other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported to the various functions concerned.

Amounts reported as program revenue include 1) charges to customers, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than program revenues. General revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from non-operating 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 enterprise and internal service funds are primarily user charges, the cost of providing goods or services to the general public on a continuing basis. Operating expenses for enterprise funds and internal service funds includes the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

## **MAJOR FUNDS**

### **Major Governmental Funds:**

The **General Fund** is the City's operating fund. It accounts for all financial resources of the general government, except those required or elected to be accounted for in another fund. These include the costs of legislative and executive departments, municipal court services, finance and information technology departments, legal department, community development services, human resources; parks, recreation, and human services; economic development, police and animal control; and city hall maintenance. Major sources of revenue reported for the General Fund include property, sales and use, utility, and franchise fees.

The **Street Capital Projects Fund** accounts for capital projects related to street infrastructure. Revenue and other resources reported for the Street Capital Projects Fund include real estate excise taxes, direct and indirect federal grants, state grants, and motor vehicle fuel taxes.

The **Grant Fund** was established to account for revenues and expenditures associated with Community Development Block Grants (CDBG), and HOME Investment Partnership Act grants. Revenue and other resources reported in the Grant Fund include direct and indirect federal grants and local donations and contributions.

The **LID Debt Service Fund** was established to account for both the payment of special assessment bonds, as well as the collection of assessments from property owners within the local improvement district (LID). The assessment payments are the revenue source for the debt payments.

#### **Major Proprietary Fund:**

The **Surface Water Management Fund** accounts for activities that provide storm water collection and disposal services to the City. Activities include administration, engineering, construction, operation, maintenance, and repairs, which are primarily supported by user fees. The fees are billed along with Pierce County's semi-annual property taxes, and remitted by the County to the City.

#### **NON-MAJOR FUNDS**

##### **Special Revenue Funds:**

These funds are used to account for proceeds of revenues and sources (other than special assessments, expendable trust, or major capital projects) that are committed or legally restricted to expenditures for specified purposes.

The **Street Operations and Maintenance Fund** is used to account for the receipts and disbursements associated with City planning, establishing, repairing and maintaining City streets, sidewalks, and appurtenances, including pedestrian and bicycle paths, lanes and routes. The fund is supported primarily by an interfund transfer from the General Fund, motor vehicle fuel tax, and permits to a much lesser degree. Primary areas of service are transportation planning, traffic operations and maintenance, neighborhood traffic services, snow and ice response, and street maintenance.

The **Hotel/Motel Lodging Tax Fund** is used to account for the hotel/motel lodging tax revenues and associated disbursements. RCW 67.28 authorizes a transient rental tax of up to two percent for lodging at hotels, motels, private campgrounds, RV parks and similar facilities. RCW 67.28 also authorizes a five percent special hotel/motel tax on the same base. The expenditures from this fund must adhere to the governing state statutes, which limit the expenditures to those costs related to tourism promotion, and acquisition and/or operation of tourism-related facilities.

The **Property Abatement Fund** accounts for projects that the City has identified and processed through the abatement program. All revenues from the rightful recovery of those project expenses, along with all revenues from fees, fines, and interest, and other rightful recoveries from those projects are deposited into the fund for the purpose of funding additional abatement projects.

The sole purpose of the **Public Art Fund** is to account for the revenue from the fees charged for the rental of the McGavick Center by the City and expenditure of that revenue for approved public art activities.

The **Narcotics Seizure Fund** was established for the purposes of tracking assets seized as a result of involvement with the illegal sale, possession, or distribution of drugs or controlled substances, and for the purchase of controlled substances or drugs by law enforcement officers or agents, as well as for such other expenses the City determines to be reasonably connected with public safety activity.

The **Felony Seizure Fund** accounts for assets seized by the police department under RCW 10.105.101 and the related expenditures. The statute authorizes the seizure of assets that have been or was actually employed as an instrumentality in the commission of, or in aiding or abetting in the commission of any felony, or which was furnished or was intended to be furnished by any person in the commission of, as a result of, or as compensation for the commission of, any felony, or which was acquired in whole or in part with proceeds traceable to the commission of a felony.

The **Federal Seizure Fund** was established to track the revenues associated with assets seized as a result of the police department working in conjunction with federal law enforcement. The fund also accounts for public safety expenditures funded by those revenues.

The **Neighborhood Stabilization Program Fund** accounts for the revenues and expenditures associated with the Federal Neighborhood Stabilization Program Grant. The NSP was established for the purpose of stabilizing communities that have suffered from foreclosures and abandonment. The NSP1 program provides funds to purchase and redevelop foreclosed and abandoned homes and residential properties.

The **Office of Economic Adjustment Grant Fund** accounts for the revenues and expenditures associated with the Federal Office of Economic Adjustment Grant Program, which provides grants to assist communities with the alleviation of socioeconomic effects that may result from military base closures and realignments.

The **Public Safety Grant Fund** accounts for the revenues and expenditures related to police department grants and local revenues.

#### **Debt Service Funds:**

The **General Obligation Debt Service Fund** accounts for General Obligation Bonds for the construction of 59<sup>th</sup> Street and the Lakewood Police Station.

The **Sewer Project Debt Service Fund** accounts for the Public Works Trust Fund Loans that the City secured to fund both sewer main construction and the side sewer construction loan program. (The City completed construction of the sewer main and donated it to Pierce County in 2012.)

The **LID Guaranty Debt Service Fund** was created in conjunction with establishing the permanent financing of CLID 1101-1103. It also accounts for the guaranty funds connected with LID 1108.

#### **Capital Projects Funds:**

The **General Governmental Capital Project Fund** accounts for general government capital improvement projects.

The **Sewer Capital Project Fund** accounts for the construction of a sewer system, which was donated to Pierce County. Only minor sewer construction-related activity has taken place in the fund for 2014.

The **Sanitary Sewer Connection Capital Project Fund** accounts for the revenues generated from the sewer availability charges (in conjunction with the new sewer main that was donated to Pierce County), expenditures and transfers that are legally allowable for sewer availability charge fees, and for administrative expenses to maintain and operate the fund.

### **OTHER FUND TYPES**

#### **Internal Service Funds:**

The City uses internal service funds to accumulate reserves for equipment replacement and maintenance to City-owned property. Beginning with the 2015/2016 Budget these will operate as true internal service funds.

The **Vehicle and Equipment Replacement Fund** was established as a revolving fund to be expended for the replacement and purchase of equipment. It currently accounts for vehicle and equipment replacement reserves and capital purchases funded by the accumulated reserves.

The **City Hall Facility Services Fund** accumulates reserves needed for future major repairs and capital improvements to City-owned facilities.

#### **Fiduciary Funds:**

Fiduciary funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governmental units and/or other funds. The City has one agency fund.

The **Municipal Court Trust Account Fund** accounts for monies received by the Municipal Court as bond deposits, cash deposits, or other payments which may be returned to the person making the deposit or payment to the City or which may be applied to fines, penalties, costs, or expenses involved in cases filed with the Municipal Court.

The **Section 125 Fund** accounts for monies received from the salary deductions of participating employees, and from which reimbursements are paid for the applicable medical and childcare expenses of those employees, in conformity with the provisions of Section 125 of the IRS Code.

## Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expenses are recognized and reported in the financial statements.

The **accrual basis** of accounting is used by proprietary funds. Under this method, revenues are recognized when earned, and expenses are recognized when incurred.

The **modified accrual** basis of accounting is used by governmental funds. Revenues and other financial resources are recognized when they become susceptible to accrual, i.e., when the related funds become both measurable and available to finance expenditures of the current period. To be considered "available", revenue must be collected during the current period or soon enough thereafter to pay current liabilities. The City uses thirty days when evaluating the available criteria.

Expenditures are recognized when the related fund liability is incurred. Since the recognition of depreciation does not reduce net financial resources, it is not considered as expenditure. Other exceptions include (1) inventories of materials and prepaid items are reported as expenditures when purchased, (2) interest on long-term debt is not accrued but is recorded as an expenditure when due, (3) accumulated unpaid vacation and sick pay are considered expenditures when paid.

Major revenues recorded on the modified accrual basis are:

**Property Taxes** - Pierce County acts as the City's collection agent for these taxes. Each month, the County electronically transmits to the City the taxes which it has collected on the City's behalf in the prior month. On this basis, property taxes received in January and February are considered both measurable and available and are therefore recognized as revenue in the current year.

**Other Locally Levied Taxes** - Pierce County also acts as the City's collection agent for the ¼% and optional ¼% real estate excise taxes. Although a time lag occurs in payment of these taxes to the City, since the taxes are actually collected by Pierce County in December and receipted to the City within 10 days after the end of the year, they are considered to be both measurable and available, and are, therefore, accrued as revenue at year end. The State of Washington acts as the City's collection agency for the locally levied sales tax. The sales tax is distributed monthly and remitted to the City in the following month. The Sales Tax remittance in January and February are considered both measurable and available and is therefore accrued as revenue at year-end.

**Grant Revenues** - Under Section G60.109 of the Codification of Governmental Accounting and Financial Reporting Standards, revenues for cost reimbursement grants are determined to be earned and, therefore, available at the time related expenditures are incurred. For this reason, grant revenues to be received as reimbursement for expenditures incurred in the current year are also recognized as revenue in that year.

**Shared Revenues** - Revenues that have been collected, but not remitted by an intermediary collection agency to the City, are considered measurable and available.

**Other Revenue Sources** - Other items recognized as revenue in the current year on the modified accrual basis include investment interest earned but not received at year end; inter-fund and intergovernmental service billings related to services provided in the current year which are outstanding at year-end, and any other material revenue amounts determined to be both measurable and available under current modified accrual accounting practices.

## FINANCIAL STATEMENT PRESENTATION

In order to obtain an understanding of changes in the City's position and the results of the City's operations, the financial statements for the year ended December 31, 2014 should be read in conjunction with the government's financial statements for the year ended December 31, 2013.

## **BUDGETARY INFORMATION**

### **Scope of Budget**

Annual appropriated budgets are adopted, on a biennial basis, for the general, special revenue, and capital project funds on the modified accrual basis of accounting. For governmental funds, both budget and actual information is presented on a GAAP basis of accounting. Budgetary accounts are integrated in fund ledgers for all budgeted funds, but the financial statements include budgetary comparisons for the general fund, major special revenue funds, debt service funds, and CIP funds only.

Budgets for debt service funds are adopted at the level of the individual debt issue and for fiscal periods that correspond to the lives of debt issue.

Annual appropriated budgets are adopted at the fund level, and the budgets constitute the legal authority for expenditures at that level. Total fund appropriation includes expenditures, other financing uses, and estimated ending fund balance. Subsidiary revenue and expenditure ledgers are used to compare the budgeted amounts with actual revenues and expenditures.

At the fund level, actual expenditures cannot exceed budgeted appropriations. Appropriations for general and special revenue funds lapse at year-end. The budgeted financial statements represented in this report reflect the final budget authorization, including all amendments.

### **Amending the Budget**

The City Manager is authorized to transfer budgeted amounts between departments within the same fund; however, any revisions that alter the total expenditures of a fund, or that affect salary ranges, hours, or other conditions of employment must be approved by the City Council.

When the City Council determines that it is in the best interest of the City to increase or decrease the appropriation for a particular fund, it may do so by ordinance approved by one more than the majority after holding public hearing(s).

The budget amounts shown in the financial statements are the final authorized amounts as revised during the year.

The financial statements contain 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.

## **ASSETS, LIABILITIES, FUND BALANCE, NET POSITION**

### **Cash and Investments**

It is the City's policy to invest all temporary cash surpluses. At December 31, 2014, the City had \$13,652,769 in short-term residual investments of surplus cash. This amount is classified on the Statement of Net Position as cash and cash equivalents in various funds. The interest on these investments is prorated to the various funds on the basis of the ending cash balance in each participating fund.

For purposes of the statement of cash flows, the City considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

The City's deposits are entirely covered by federal depository insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (WPDPC).

The City is authorized by State law to purchase certificates of deposit issued by Washington State depositories that participate in a state insurance pool managed by the Washington Public Deposit Protection Commission; securities purchased by the Washington State Investment Pool; U.S. Treasury and Agency securities, banker's acceptances trading in the secondary market; and repurchase agreements with dealers that use authorized securities as collateral. In accordance with GASB 31, investments in money market investments and participating interest-earning investment

contracts with a remaining maturity of one year or less at the time of purchase are stated at amortized cost. All other investments are stated at fair value. There was no material deviation from fair value quoted at year-end.

### **Receivables**

Receivables include taxes receivable, accounts receivable, interest receivable, notes receivable and grants receivable. Taxes receivable consist of property taxes receivable. (See Note 5)

Accounts receivable consist of amounts owed from private individuals or organizations for goods and services including amounts owed for which the City is not required to bill. Notes receivable include amounts owed from private individuals for money loaned to provide assistance in paying for side sewer connection costs. Public works trust fund loan proceeds were the funding source for the loans made.

Also included in General Fund receivables are amounts due in connection with municipal court fines, fees, and penalties. The Washington State Administrative Office of the Courts (AOC) provides the primary information system for many courts in the state of Washington through its Judicial Information System (JIS). The City of Lakewood utilizes JIS for tracking all court revenues, and followed the AOC-recommended methodology for determining the amount of current local receivables, as well as for estimating future collections related to current local receivables.

Accrued interest receivable consists of amounts earned on investments and notes at the end of the year.

Grants Receivable consists of amounts owed from governmental or other third parties. Special Assessments are recorded when levied. Special assessments receivable consist of current and delinquent assessments and related interest and penalties. Deferred assessments on the fund financial statements consist of unbilled special assessments that are liens against the property benefited. As of December 31, 2014, no amount of special assessments receivable were delinquent.

Uncollected amounts are considered immaterial and the direct write-off method is used when applicable.

### **Amounts Due to and from Other Funds and Governments, Interfund Loans, and Advances Receivable**

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 funds. All other outstanding balances between funds are reported as due to/from other funds. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as internal balances. See Interfund Transactions Note 12.

### **Inventories**

Inventories in the governmental funds are recorded as expenditures at the time of purchase. Amounts remaining at year-end are immaterial and, therefore, are not reflected on the balance sheets of those funds. There were no material inventories at year-end in the Internal Service or Enterprise Funds.

### **Capital Assets**

Capital assets, which include property, plant, equipment, and infrastructure (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost equal to or greater than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated fair market value if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Land and construction in progress are not depreciated. Infrastructure acquired in fiscal years ending prior to June 30, 2004 is reported.

Costs for additions or improvements to capital assets are capitalized when they increase the effectiveness or efficiency of the asset.

The costs for normal maintenance and repairs are not capitalized.

Major outlays for capital assets and improvements are recorded in Construction in Progress as they are constructed, and capitalized upon completion.

Capital assets of the City are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings & improvements	25 – 75
Improvements other than buildings	10 – 20
Public domain infrastructure	10 – 50
Vehicles	3 – 10
Equipment	3 – 10

### **Compensated Absences**

The City records a liability for all outstanding vacation pay and accrued compensatory time. In governmental funds, vacation pay, personal time off, and compensatory time is recorded as expenditures when paid, which occurs when used or upon termination. In the entity-wide statements and the proprietary fund statements, vacation pay and compensatory time is recorded as a liability and expense in the year earned.

City employees who are non-represented accumulate combination leave and major medical leave. Upon termination or retirement, the employees in this group who have less than three years of service with the City receive 75% of his or her combination leave at the current rate of pay. Employees with three or more years of service receive 100% of their combination leave at their current rate of pay. Those individuals who are of retirement age upon separation or who are laid off from the City receive 25% of their major medical leave at their current rate of pay, with a maximum of 160 hours to be paid out.

The Teamsters Union members and the City approved a new collective bargaining agreement effective on January 1, 2014. Prior to January 1, 2014 Teamsters Union employees received 75% of his or her combination leave at the their current rate of pay with less than three years of service, and 100% of his or her combination leave at the their current rate of pay with more than three years of service. If a Teamsters Union employee was of retirement age, they received 25% of their major medical leave at their current rate of pay. With the settlement of the new contract, Teamsters Union employees now receive one type of leave, Paid Time Off (PTO), and are paid 57.5% of his/her PTO.

The Lakewood Police Independent Guild members receive one type of leave, Paid Time Off (PTO), and are paid 65% of their leave balance upon separation.

The Lakewood Police Management Guild (LPMG), receives a single leave bank, PTO, and upon separation receives 57.5% of the balance at the current rate of pay.

City employees who are members of the Associate of Federal, State, County, and Municipal Employees (AFSCME) union also accumulate PTO, and upon separation receives 57.5% of his/her paid time off, or if laid off 65% at the current rate of pay.

### **Long-term Liabilities**

In the government-wide financial statements and the proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund statement of net position. Long-term debt outstanding at year-end is outlined in Note 10.

### **Deferred Outflows/Inflows of Resources**

The deferred inflow of resources account is used to offset receivables established in the governmental funds for certain revenues that are measurable but not considered available to finance payment of current obligations and, therefore, are not susceptible to accrual on the modified accrual basis. When the receivable amounts are collected in future periods, this liability account is reduced and corresponding revenue is recorded. The portions of Property Taxes that do not meet the available criteria are recorded as deferred inflow of resources. See Note 5.

## Fund Balance Classification

Fund balance is a measurement of available financial resources and is the difference between total assets and total liabilities in each fund.

Beginning with the most restrictive constraints, fund balance amounts will be reported in the following categories:

*Nonspendable* – amounts that are not in a spendable form or are legally or contractually required to be maintained intact.

*Restricted* – amounts that can be spent only for the specific purposes stipulated by external parties either constitutionally or through enabling legislation.

*Committed* – amounts that can be used only for the specific purposes determined by formal action of the City Council. Commitments may be changed or lifted by referring to the formal action that imposed the constraint originally.

*Assigned* – amounts *intended* to be used by the government for specific purposes. Intent is expressed by the governing body (City Council) or a body or official to which the City has delegated the authority to assign amounts to be used for specific purposes (City Manager). In governmental funds other than the general fund, assigned fund balance represents the amount that is not restricted or committed. This indicates that resources in other government funds, at a minimum, are intended to be used for the purpose of that fund.

*Unassigned* – includes all amounts not contained in other classifications and is the residual classification of the general fund only. Unassigned amounts are available for any legal purpose.

The responsibility for designating funds to specific classifications shall be as follows:

*Committed Fund Balance* – The City Council is the highest level of decision-making authority, and the formal action that is required to be taken to establish, modify, or rescind a fund balance commitment is established by ordinance approved by the Council.

When multiple categories of fund balance are available for expenditure, the City will start with the most restricted category and spend those funds first before moving down to the next category of available funds.

In September 2014, the City Council adopted set of financial policies. The fund balance policy requires the General Fund ending fund balance reserves at 12% of the combined General and Street Operations & Maintenance Funds operating revenues. The timeline to achieve the target reserves is no later than December 31, 2016. The 12% ending fund balance reserves equates to \$4.31 million and is achieved at the end of 2014. The 12% fund balance is comprised of:

- *2% General Fund Contingency Reserves:* The purpose of this reserve is to accommodate unexpected operational changes, legislative impacts, or other economic events affecting the City's operations which could not have been reasonably anticipated at the time the original budget was prepared. The City Council will determine how the Contingency Reserves are spent.
- *5% General Fund Ending Fund Balance Reserves:* The purpose of this reserve is to provide financial stability, cash flow for operations and the assurance that the City will be able to respond to revenue shortfalls with fiscal strength.
- *5% Strategic Reserves:* The purpose of this reserve is to provide some fiscal means for the City to respond to potential adversities such as public emergencies, natural disasters or similarly major, unanticipated events.

**Fund Balance Details**

<b>2014 FUND BALANCE CLASSIFICATION</b>						
Fund Balance	General Fund	Street Capital Projects Fund	Grant Fund	LID Debt Service Fund	Nonmajor Governmental	Total
<b>Restricted for:</b>						<b>4,029,479</b>
Arterial Street Projects	-	1,118,528	-	-	-	1,118,528
Local Improvement District-related debt	-	-	-	1,051	-	1,051
Hotel/Motel Lodging Tax	-	-	-	-	1,028,556	1,028,556
Police Seizure	-	-	-	-	560,100	560,100
Neighborhood Stabilization Program Grant	-	-	-	-	171,277	171,277
Office of Economic Adjustment Grant	-	-	-	-	84,719	84,719
Public Safety Grants	-	-	-	-	216	216
Public Works Trust Fund Debt	-	-	-	-	650,854	650,854
LID Guaranty	-	-	-	-	391,797	391,797
Grant Fund	-	-	22,381	-	-	22,381
<b>Committed to:</b>						<b>1,093,159</b>
Petty Cash	5,750	-	-	-	-	5,750
Property Abatement	-	-	-	-	261,771	261,771
Public Art	-	-	-	-	25,389	25,389
General Government CIP	-	-	-	-	10,276	10,276
Sanitary Sewer CIP	-	-	-	-	106,070	106,070
Sanitary Sewer Connection	-	-	-	-	683,903	683,903
<b>Unassigned:</b>						<b>4,526,941</b>
General Fund	4,526,941	-	-	-	-	4,526,941
<b>Total Fund Balance:</b>	<b>4,532,691</b>	<b>1,118,528</b>	<b>22,381</b>	<b>1,051</b>	<b>3,974,928</b>	<b>19,299,158</b>

**NOTE 2 – RECONCILIATION OF GOVERNMENT-WIDE & FUND FINANCIAL STATEMENTS****Explanation of Certain Differences between the Governmental Funds Balance Sheet and the Government-Wide Statement of Net Position**

The governmental funds' balance sheet includes reconciliation between *fund balance – total governmental funds and net position – governmental activities* as reported in the government-wide statement of net position. The details of this \$106.6 million difference are as follows.

Capital assets used in governmental activities are not financial resources and are therefore reported at the government-wide level but not at the fund level:

Governmental Capital Assets (Net) Beginning of Year	\$109,314,532
Plus: Capital Asset Additions	8,871,971
Less: Reclassification of CIP	(3,668,284)
Less: Depreciation Expense	(4,222,396)
	<u>\$110,295,823</u>

Long-term liabilities applicable to the City's activities are not due and payable in the current period and are not reported as fund liabilities:

Debt Outstanding Beginning of Year	\$ (12,573,700)
Less: Debt Redeemed	793,021
Plus: Compensated Absences Issued	(2,065,575)
Less: Compensated Absences Redeemed	1,990,899
	<u>\$(11,855,355)</u>

Some deferred inflows reported in the governmental funds are reported as revenues on the government-wide Statement of Activities:

Property Tax	\$ 236,708
Municipal Court	1,093,490
Abatements	36,692
HUD Loans	1,164,786
Local Improvement Districts	1,910,010
Public Works Trust Fund Loan	88,679
	<u>\$ 4,530,365</u>

Assets and liabilities of internal service funds are included in governmental activities in the Statement of Net Position:

Vehicle & Equipment Replacement Fund Assets	\$ 6,369,732
City Hall Service Fund Assets	560,429
Vehicle & Equipment Replacement Fund Liabilities	(39,841)
	<u>\$ 6,890,320</u>

Interfund revenues and expenditures are reported as internal balances on the government-wide statements to avoid overstating revenues and expenditures:

Interfund balances	<u>\$ (108,456)</u>
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#### **Explanation of Certain Differences between the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-Wide Statement of Activities**

The governmental funds' statement of revenues, expenditure, and changes in fund balances includes reconciliation between *Net Changes in Fund Balances – Total Governmental Funds* and *Changes in Net Position of Governmental Activities* as reported in the Government-wide Statement of Activities. The details of the \$2.1 million difference are as follows.

Some deferred inflows reported in the funds are recognized as revenue in the government-wide financial statements:

Prior year deferred inflows recognized as revenue	\$ (4,573,558)
Current year deferred inflows recognized as revenue	4,530,364
	<u>\$ 43,194</u>

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of these assets are capitalized and depreciated over the estimated useful lives of the assets:

Capital asset purchases and CIP capitalized	\$ 5,192,808
Donated Capital Asset	10,879
Depreciation expense	(4,222,396)
	<u>\$ 981,291</u>

Expenses for compensated absences reported in the Statement of Activities do not require the use of current financial resources and are therefore not reported as expenditures in the governmental funds:

Prior year compensated absences expense	\$ (2,144,144)
Current year compensated absences expense	2,218,820
	<u>\$ (74,676)</u>

The repayment of long-term debt consumes the current financial resources of governmental funds, but these transactions have no effect on government-wide net position:

Bond principal retired	\$ 790,621
Bond premium amortized	2,400
	<u>\$ 793,021</u>

Revenues and expenses of internal service funds are included in governmental activities on the government-wide Statement of Activities:

Vehicle & Equipment Replacement Fund revenues	\$ 1,037,697
Vehicle & Equipment Replacement expenses	(1,657,741)
City Hall Service Fund revenues	703
City Hall Service Fund expenses	(10,818)
	<u>\$ (630,159)</u>

Interfund revenues and expenditures are not reported on the Statement of Activities:

Interfund balances	<u>\$ (17,750)</u>
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### NOTE 3– SUPPLEMENTAL APPROPRIATIONS

#### Operating Budget Funds

Appropriations established during 2014 are provided below. As explained in Note 1, both original and supplemental appropriations are adopted by the City Council by ordinance. Both original and final budget appropriations are shown on the accompanying financial statements. The final budget values include all adopted adjustments to original budget amounts.

Fund Balance	2014		
	Original Budget	Supplemental Appropriations	Final Budget
<i>General Fund</i>	\$ 32,737,550	\$ 1,532,048	\$ 34,269,598
<i>Special Revenue Funds:</i>			
Street Operations & Maintenance	2,133,340	(58,222)	2,075,118
Street Capital Projects	10,242,880	15,577,283	25,820,163
Hotel/Motel Lodging Tax	497,040	810	497,850
Property Abatement	100,000	-	100,000
Public Art	5,000	2,000	7,000
Narcotics Seizure	250,000	128,378	378,378
Felony Seizure	60,000	(44,277)	15,723
Federal Seizure	100,000	(30,480)	69,520
Grant	1,448,390	1,309,992	2,758,382
NSP Grant	77,280	177,299	254,579
OEA Grant	116,840	557,696	674,536
Public Safety Grant	277,140	(49,513)	227,627
<i>Debt Service Funds:</i>			
General Government Debt Service	-	287,758	287,758
LID Debt Service	-	288,470	288,470
Sewer Project Debt	-	458,435	458,435
LID Guaranty	-	-	-
<i>Capital Projects Funds:</i>			
General Government CIP	-	-	-
Sewer Project CIP	184,830	-	184,830
Sanitary Sewer Connection	92,290	-	92,290
<b>Total Fund Balance:</b>	<b>\$ 48,322,580</b>	<b>\$ 20,137,677</b>	<b>\$ 68,460,257</b>

**NOTE 4 – DEPOSITS AND INVESTMENTS****Deposits**

At year-end, the City had \$13,652,769 in cash and cash equivalents. Custodial credit risk for these deposits is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. However, the City's deposits are covered up to \$250,000 through federal depository insurance and through the Washington Public Deposit Protection Commission (WPDPC), a multiple financial institution collateral pool, for amounts over \$250,000. Under Washington State statutes, members of the WPDPC may be assessed on a prorated basis if the pool's collateral is insufficient to cover a loss.

**Investments**

Investments for the city are reported at fair value based on market prices. The City purchases investments with maturities up to a maximum of 36 months. The City does not have an investment policy that addresses exposure to various types of investment risk; however, the City applies the prudent-person rule when making investment purchases. In acquiring, retaining, managing, and disposing of investments, there shall be exercised the judgment and care under the circumstances then prevailing which persons of prudence, discretion, and intelligence exercise in the management of their own affairs, not for the speculation but for investment, considering the probably income as well as the probably safety of the capital.

*Interest rate risk* is the risk that changes in interest rates will adversely affect the fair value of an investment. The City minimizes interest risk by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations and investing operating funds primarily in short-term investments. Because the City has only a few investments in debt securities, the method use to disclose interest rate risk is the specific identification method, which allows simply disclosing the maturity dates for each investment. The City's investments are not subject to call options.

As of December 31, 2014 the City had the following investments:

INVESTMENT MATURITIES				
Investment	Less than 1 year	1 to 3 years	Greater than 3 year	Total
Federal National Mortgage Association	\$ -	\$ 994,770	\$ -	\$ 994,770
Federal Farm Credit Bank	-	994,425	-	994,425
Columbia Bank CD	2,101,912	-	-	2,101,912
<b>Total:</b>	<b>\$ 2,101,912</b>	<b>\$ 1,989,195</b>	<b>\$ -</b>	<b>\$ 4,091,107</b>

*Credit risk* is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The City minimizes credit risk by limiting investments to the safest types of securities and diversifying the investment portfolio. The Federal National Mortgage Association and Federal Farm Credit Bank bonds are both rated AAA by Moody's and AA+ by Standard and Poor's (S&P). The Columbia Bank Public Funds is rated N/R by both Moody's and S&P.

*Concentration of Credit Risk* is the risk of loss attributed to the magnitude of an investment in a single issuer. The City diversifies its investments to avoid unreasonable loss resulting from overconcentration of assets in a specific maturity, a specific issuer, or a specific class of securities.

**Other Information**

The following is a schedule of investments by fund type:

SCHEDULE OF INVESTMENTS BY FUND CATEGORY AND INVESTMENT TYPE AS OF DECEMBER 31, 2014			
Fund Type	US Government Agency Securities	Columbia Bank Certificate of Deposit	Total
Special Revenue Funds	\$ 300,316	\$ -	\$ 300,316
Capital Projects Funds	100,437	-	100,437
Debt Service Funds	199,879	-	199,879
Enterprise Funds	1,194,649	1,050,942	2,245,592
Internal Service Funds	193,913	1,050,970	1,244,883
<b>Total:</b>	<b>\$ 1,989,195</b>	<b>\$ 2,101,912</b>	<b>\$ 4,091,107</b>

**NOTE 5 – RECEIVABLES, DEFERRED INFLOWS, AND DUE FROM OTHER GOVERNMENTS****Property Taxes**

The Pierce County Assessor Treasurer is responsible for collecting property taxes levied in the County by all taxing districts. Amounts collected by the County on the City's behalf are remitted monthly.

**PROPERTY TAX CALENDAR**

- January 1 Taxes are levied and become an enforceable lien against properties.
- February 14 Tax bills are mailed.
- April 30 First of two equal installment payments is due.
- May 31 Assessed value of property established for next year's levy at 100% of market value.
- October 31 Second installment is due.

Taxes are levied and become an enforceable lien against properties as of January 1. Annual tax billings may be paid in two equal installments, due April 30 and October 31. At December 31, 2014, the total balance of property taxes receivable recorded by the City was \$264,211. Of this, \$236,704 is recorded as deferred inflow of resources, since it was not collected within the first 60 days of 2015.

Property taxes are recorded as a receivable when levied, offset by deferred inflow of resources. During the year, property tax revenues are recognized when cash is collected. At year-end, property tax revenues are recognized for collections expected to occur within 30 days. No allowance for uncollectible taxes is established because delinquent taxes are considered fully collectible.

Under State law, the maximum levy (for general governmental services) is up to \$3.60 per \$1,000 of assessed valuation, subject to two limitations, set forth below. Since the City of Lakewood is not a full service city, the City is only allowed \$1.60. The remaining \$2.00 is for the fire district (\$1.50) and library district (\$0.50).

- Chapter 84.55 of the State RCW was amended most recently by Initiative No. 747 (which was passed by voters on November 6, 2001), limits the total dollar amount of regular property taxes levied by the City to the amount of such taxes levied in the three most recent years multiplied by a limit factor, plus an adjustment to account for taxes on new construction, improvements and state-assessed property at the previous year's rate. As amended by Initiative No. 747, the limit factor is the lesser of 101% or 100% plus the percent change in the Implicit Price Deflator, unless a greater amount is approved by a simple majority of the voters; and
- The Washington State Constitution limits the total regular property taxes to 1% of assessed valuation or \$10 per \$1,000 of value. If the taxes of all districts exceed this amount, each is proportionately reduced until the total is at or below the 1% limit.

The City's regular levy for 2014 was \$1.38 per \$1,000 on an assessed valuation of \$4,494,673,400 for a total regular levy of \$6,347,649.

### Deferred Inflows of Resources

The table below provides details of the deferred inflows of resources as reported on the government-wide Statement of Net Position and the governmental funds Balance Sheet. \$1,366,886 of resources reported as Deferred Inflows on the Governmental Funds Balance Sheet are reported as revenue on the Government-Wide Statement of Activities because, while unavailable at December 31, 2014, the amounts were known and due to the City. Grant reimbursements are receivable within one year of the end of the fiscal period.

DEFERRED INFLOWS OF RESOURCES AS OF DECEMBER 31, 2014					
Deferred Inflows of Resources	General	Grant	LID Debt Service	Nonmajor Governmental	Total General Government
HUD Loans	-	1,164,786	-	-	\$ 1,164,786
Local Improvement Districts	-	-	1,910,014	-	\$ 1,910,014
Public Works Trust Fund Loan - Side Sewer	-	-	-	88,679	\$ 88,679
<b>Deferred Inflows - Government-Wide</b>	<b>\$ -</b>	<b>\$ 1,164,786</b>	<b>\$ 1,910,014</b>	<b>\$ 88,679</b>	<b>\$ 3,163,479</b>
Property Tax	236,704	-	-	-	\$ 236,704
Municipal Court	1,093,490	-	-	-	\$ 1,093,490
Abatements	-	-	-	36,692	\$ 36,692
<b>Deferred Inflows Reported as Revenue - Government Wide</b>	<b>1,330,194</b>	<b>-</b>	<b>-</b>	<b>36,692</b>	<b>\$ 1,366,886</b>
<b>Total: Deferred Inflows - Governmental Funds</b>	<b>\$ 1,330,194</b>	<b>\$ 1,164,786</b>	<b>\$ 1,910,014</b>	<b>\$ 125,371</b>	<b>\$ 4,530,365</b>

### Receivables & Due from Other Governments

The receivables and due from other governmental entities for the fiscal year ended December 31, 2014 are detailed in the following schedule.

RECEIVABLES & DUE FROM OTHER GOVERNMENTS AS OF DECEMBER 31, 2014										
Receivable	General	Street Capital Projects	Grant	LID Debt Service	Nonmajor Gov't	Total Gov't Funds	Internal Service Funds	Total Gov't Activities	Total Business Type Activities	Total Primary Government
Property Tax	\$ 323,948	\$ -	\$ -	\$ -	\$ -	\$ 323,948	\$ -	\$ 323,948	\$ -	\$ 323,948
Sales and Use Tax	1,471,554	-	-	-	-	1,471,554	-	1,471,554	-	1,471,554
Other Tax	1,328,901	247,275	-	-	202,550	1,778,726	-	1,778,726	-	1,778,726
Municipal Court Receivables	1,531,330	-	-	-	-	1,531,330	-	1,531,330	-	1,531,330
Other Receivables	360,453	-	9,970	-	44,809	415,232	-	415,232	-	415,232
Interest Receivable	460	-	-	-	-	460	-	460	-	460
Notes/Loans Receivable	-	-	1,164,786	-	88,679	1,253,465	-	1,253,465	-	1,253,465
Abatement Assessments	-	-	-	-	22,451	22,451	-	22,451	-	22,451
Special Assessments	-	-	-	1,910,014	14,241	1,924,255	-	1,924,255	-	1,924,255
Lakewood Water	-	475,145	-	-	-	475,145	-	475,145	-	475,145
Grants	-	-	354,455	-	-	354,455	-	354,455	-	354,455
Other Due From Government Entities:										
Animal Control	3,474	-	-	-	-	3,474	-	3,474	-	3,474
City of Fife - WATPA	-	-	-	-	500	500	-	500	-	500
Court Transport & Public Defender	275	-	-	-	-	275	-	275	-	275
Criminal Justice Training Comm	67,793	-	-	-	-	67,793	-	67,793	-	67,793
Department of Ecology	-	-	-	-	-	-	-	-	182,602	182,602
Department of Justice	-	-	-	-	58,290	58,290	-	58,290	-	58,290
FBI Innocence Lost	3,979	-	-	-	-	3,979	-	3,979	-	3,979
FBI Safe Streets Task Force	4,041	-	-	-	-	4,041	-	4,041	-	4,041
Office of Economic Adjustment	-	-	-	-	91,165	91,165	-	91,165	-	91,165
Pierce County Sheriff	-	-	-	-	1,247	1,247	-	1,247	-	1,247
Pierce County Storm Drainage Fees	-	-	-	-	-	-	-	-	141,544	141,544
Police Extra Duty	6,851	-	-	-	-	6,851	-	6,851	-	6,851
Sex Offender Address Verification	6,188	-	-	-	-	6,188	-	6,188	-	6,188
Traffic Improvement Boards	-	269,728	-	-	-	269,728	-	269,728	-	269,728
WA State Criminal Justice Programs	121,772	-	-	-	-	121,772	-	121,772	-	121,772
WA State Dept of Transportation	-	1,002,022	-	-	-	1,002,022	-	1,002,022	-	1,002,022
WA State Military Department	-	-	-	-	17,952	17,952	-	17,952	-	17,952
WA Traffic Safety Commission	-	-	-	-	374	374	-	374	-	374
Other	500	-	-	-	-	500	-	500	-	500
<b>Total by Fund:</b>	<b>\$ 5,231,519</b>	<b>\$ 1,994,169</b>	<b>\$ 1,529,211</b>	<b>\$ 1,910,014</b>	<b>\$ 542,258</b>	<b>\$ 11,207,171</b>	<b>\$ -</b>	<b>\$ 11,207,171</b>	<b>\$ 324,146</b>	<b>\$ 11,531,317</b>

**NOTE 6 – DUE TO OTHER GOVERNMENTS**

At December 31, 2014, the City recorded \$332,671 as due to other governments as follows:

DUE TO OTHER GOVERNMENTS AS OF DECEMBER 31, 2014							
Payable	General	Street Capital Projects	Grant	Nonmajor Governmental	Total General Government	Surface Water Management	Total
Sales and Use Tax	\$ 1,493	\$ 133	\$ -	\$ 450	\$ 2,076	\$ -	\$ 2,076
Payroll Taxes	245,043	9,216	1,811	14,718	270,789	11,054	281,843
Pierce County Surface Water Management Annual Increase	-	-	-	-	-	48,752	48,752
<b>Total by Fund:</b>	<b>\$ 246,536</b>	<b>\$ 9,349</b>	<b>\$ 1,811</b>	<b>\$ 15,168</b>	<b>\$ 272,865</b>	<b>\$ 59,806</b>	<b>\$ 332,671</b>

**NOTE 7 – CAPITAL ASSETS**

Capital assets activity for governmental funds for the year ended December 31, 2014 is as follows:

	Beginning Balance 1/1/2014	Increases	Decreases	Ending Balance 12/31/2014
<b>Governmental Activities</b>				
Capital assets, not being depreciated:				
Land and land rights	\$ 20,911,555	\$ 173,588	\$ -	\$ 21,085,143
Construction in progress	5,753,499	3,144,643	(3,668,284)	5,229,858
Total capital assets, not being depreciated	26,665,054	3,318,231	(3,668,284)	26,315,001
Capital assets being depreciated:				
Buildings	26,216,346	11,597	-	26,227,943
Improvements other than buildings	95,068,544	5,263,029	-	100,331,573
Machinery and equipment	3,191,295	279,115	-	3,470,410
Total capital assets, being depreciated	124,476,185	5,553,741	-	130,029,926
Less accumulated depreciation for:				
Buildings	(3,438,573)	(524,327)	-	(3,962,900)
Improvements other than buildings	(36,139,440)	(3,472,496)	-	(39,611,936)
Machinery and equipment	(2,248,694)	(225,572)	-	(2,474,266)
Total accumulated depreciation	(41,826,707)	(4,222,396)	-	(46,049,104)
Total capital assets being depreciated, net	82,649,478	1,331,346	-	83,980,823
<b>Subtotal Governmental Activities capital assets, net</b>	<b>\$ 109,314,532</b>	<b>\$ 4,649,576</b>	<b>\$ (3,668,284)</b>	<b>\$ 110,295,824</b>
<b>Internal Service Funds</b>				
Capital assets, not being depreciated:				
Land and land rights	\$ 278	\$ -	\$ -	\$ 278
Total capital assets, not being depreciated	278	-	-	278
Capital assets being depreciated				
Improvements other than buildings	137,279	-	-	137,279
Machinery and equipment	5,886,686	990,727	(530,907)	6,346,507
Total capital assets, being depreciated	6,023,965	990,727	(530,907)	6,483,786
Less accumulated depreciation for:				
Improvements other than buildings	(19,851)	(3,432)	-	(23,283)
Machinery and equipment	(4,046,736)	(551,545)	485,689	(4,112,592)
Total accumulated depreciation	(4,066,587)	(554,977)	485,689	(4,135,875)
Total capital assets being depreciated, net	1,957,378	435,751	(45,218)	2,347,911
<b>Subtotal Internal Service Funds capital assets, net</b>	<b>1,957,656</b>	<b>435,751</b>	<b>(45,218)</b>	<b>2,348,189</b>
<b>Governmental Activities capital assets, net</b>	<b>\$ 111,272,188</b>	<b>\$ 5,085,327</b>	<b>\$ (3,713,501)</b>	<b>\$ 112,644,014</b>

Capital asset activity for Business-type activities for the year ended December 31, 2014, was as follows:

<b>Business-Type Activities</b>	<b>Beginning Balance 1/1/2014</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balance 12/31/2014</b>
Capital assets, not being depreciated:				
Land and land rights	\$ 1,664,017	\$ 190,430	\$ -	\$ 1,854,447
Constuction in progress	2,289,911	292,418	(1,204,917)	1,377,413
Total capital assets, not beng depreciated	3,953,928	482,848	(1,204,917)	3,231,860
Capital assets being depreciated:				
Buildings	177,520	-	-	177,520
Infrastructure	40,902,084	1,288,593	-	42,190,677
Machinery and equipment	321,444	30,730	-	352,174
Total capital assets, being depreciated	41,401,048	1,319,323	-	42,720,371
Less accumulated depreciation for:				
Buildings	(10,512)	(3,690)	-	(14,202)
Infrastructure	(11,604,005)	(1,177,813)	-	(12,781,818)
Machinery and equipment	(127,572)	(27,288)	-	(154,860)
Total accumulated depreciation	(11,742,089)	(1,208,792)	-	(12,950,881)
Total capital assets being depreciated, net	29,658,959	110,531	-	29,769,490
<b>Subtotal Business-Type Activities capital assets, net</b>	<b>\$ 33,612,887</b>	<b>\$ 593,379</b>	<b>\$ (1,204,917)</b>	<b>\$ 33,001,350</b>

Depreciation expense was charged to functions/programs of the primary government and is identified as follows:

<b>Capital Asset Depreciation by Function</b>	
As of December 31, 2014	
Governmental Activities:	
General Government	\$ 309,924
Judicial	12,137
Public Safety (Police)	815,267
Transportation (Highways and Streets)	3,268,132
Economic Environment	30,108
Utilities and Environment	1,189
Culture and Recreation	340,615
<b>Total Depreciation Expense - Governmental Activities</b>	<b>4,777,372</b>
Business-Type Activities:	
Utilities and Environment (Surface Water Management)	1,208,792
<b>Total Depreciation Expense - Business-Type Activities</b>	<b>1,208,792</b>
<b>Total Depreciation Expense</b>	<b>\$ 5,986,164</b>

The City has active construction projects as of December 31, 2014. The City's commitments with contractors are as follows:

Construction Commitments			
Contract Name	Contract Amount	Payments	Balance at 12/31/2014
<b>Construction Contracts:</b>			
Berschauer Construction	\$ 478,078	\$ 18,396	\$ 459,682
KBH Construction	568,797	492,361	76,436
Marshbank Construction	4,078,029	385,109	3,692,920
Miles Resources, Inc.	902,649	764,337	138,312
Northwest Cascade	307,815	170,994	136,821
Northwest Cascade	31,640	68,322	(36,682)
RFI - Security Electronics	49,894	47,047	2,847
Totem Electric, Inc.	805,260	799,074	6,186
<b>Consulting and Engineering Services:</b>			
AHBL	15,000	6,543	8,458
AHBL	94,505	78,563	15,942
AHBL	36,218	27,102	9,116
AHBL	33,845	26,707	7,138
AHBL	302,406	291,759	10,647
Aqua Terra	10,728	12,471	(1,743)
Architects Rasmussen Treibelhorn	60,570	41,344	19,226
Brown and Caldwell	195,409	83,372	112,037
Cascade Right of Way Services	57,010	37,240	19,770
Cascade Right of Way Services	64,655	64,655	-
Cascade Right of Way Services	88,260	35,414	52,846
Cascade Right of Way Services	63,365	10,021	53,344
DKS Associates	117,645	95,279	22,366
DKS Associates	45,000	41,837	3,163
GEO Engineers	28,700	25,862	2,838
GEO Engineers	24,760	22,708	2,052
Jeffrey B. Glander & Assoc.	15,000	3,315	11,685
Jeffrey B. Glander & Assoc.	7,956	7,956	-
KPG	72,741	28,848	43,892
KPG	106,674	100,851	5,823
KPG	77,498	73,229	4,269
Landau Associates	25,000	16,096	8,904
Larson & Associates	4,000	2,903	1,098
Larson & Associates	11,000	8,565	2,435
Larson & Associates	134,632	134,571	61
Transpo Group	40,000	38,993	1,008
Transpo Group	260,848	284,130	(23,281)
Transpo Group	59,305	14,940	44,365
<b>Interlocal Agreements</b>			
WA State Dept of Transportation (Construction Mgmt)	484,135	-	484,135
WA State Dept of Transportation (Design Review)	140,000	117,621	22,379
	<b>\$ 9,899,026</b>	<b>\$ 4,478,535</b>	<b>\$ 5,420,492</b>

**NOTE 8 – PENSION PLANS**

The City participates in three retirement plans. Two are administered by International City Manager's Association (ICMA); one is administered by WA State Department of Retirement Systems (DRS). Descriptions of the plans are as follows:

**Plan 1-City of Lakewood: A Defined Contribution Plan, Retirement Trust - ICMA # 109566**

During the first couple of months of 1995-96 (*the City became incorporated February 28, 1996*), the City of Lakewood employees voted not to join the State's Public Employees Retirement Systems (PERS). Instead, the employees of the City voted to participate in a section 401 (a) - IRS, plan administered through International City Manager's Association (ICMA). The plan was established under the authority of the City Council, which is responsible for amending the provisions and contribution requirements. The plan is a qualified plan – "a defined contribution plan" registered through the Internal Revenue Service (IRS) as a section 401 (a). The vesting schedules are the same as PERS with added enhancements where employees can manage their own investment portfolio of both the employee and employer contributions. Contributions to the plan are not subject to federal income tax (pre-tax dollars). All full time employees are required to participate. A vesting schedule is tied to years of service that an employee may bring from the previous vesting in PERS or another qualified plan. The vesting schedule is below.

Years of Service	Vesting Percentage
0 - 1 Year of Service	20%
1 - 2 Years of Service	40%
2 - 3 Years of Service	60%
3 - 4 Years of Service	80%
4+ Years of Service	100%

The table below shows the percentage contributions that are made bi-monthly by the employer and employee to this qualified money purchase plan. Contributions are made every payroll cycle (*on the 5<sup>th</sup> & 20<sup>th</sup> of each month*). The balance in the trust as of December 31, 2014, was \$15,759,765.

2014 Employer Contribution	2014 Employee Contribution
7.62%	5.08%
\$712,564	\$474,000

Each employee directs his/her investment among various investment options as defined by the ICMA group for both the employee and employer contributions.

Upon separation of service prior to retirement, all employee contributions may be withdrawn without regard to age. Employer contributions will be distributed to the employee based upon the vesting schedule. The contract has identified regular retirement age at 55.

Plan assets, which consist of stocks, bonds, and guaranteed insurance contracts, are not the property of the City are not subject to the claims of the City's general creditors. The program is administered by a private consulting firm, the ICMA. Actuarial determinations are not required because benefits paid to participants upon retirement are limited to: (a) A non-forfeitable, non-transferable annuity contract purchased by the plan's trustee; (b) Retirement benefits paid from the employee's deferred savings to which no contributions by the City or the participants can be added after retirement; or (c) A single lump-sum payment equal to the accumulated balance in the employee's deferred savings account as of his or her retirement date.

**Plan 2-City of Lakewood: A Defined Money Contribution Plan, Money Purchase Retirement Trust-ICMA # 109266**

During the first couple of months of 1995-96 (*the City became incorporated February 28, 1996*), the City of Lakewood employees, through an election, voted not to join Social Security Retirement Plan (SSI). Instead, the City participates in a Money Purchase qualified plan, a defined money contribution plan - Retirement Trust Section

401 (a), administered through ICMA, which is registered with the Internal Revenue Service section 401. The plan was established under the authority of the City Council, which is responsible for amending the provisions and contribution requirements. The benefit package includes the following: 1) long term disability benefits, 2) survivor benefits for spouse and children, 3) lump sum death benefits and, 4) life benefits. Contributions to the plan are not subject to federal income tax. All full time employees and the City Council members who are under the Omnibus Budget Reconciliation Act of 1990 are required to participate. The contribution percentages are listed as follows:

2014 Employer Contribution	2014 Employee Contribution
4.77%	6.20%
\$928,539	\$1,206,903

Each employee directs his/her investment among various investment options for both the employee and employer contribution.

Upon separation of service prior to retirement, all employee contributions may be withdrawn without regard to age which may include a penalty from the Internal Revenue Service. Employer contributions must be left in the plan and distributed when the participant attains age 55. Employee and employer contributions for retirement benefits are 100% vested.

Temporary employees are not part of the 401(a) plan. Temporary employees contribute to social security insurance. The balance in the trust as of December 31, 2014, was \$27,394,849.

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

### Plan Description

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

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

LEOFF defined benefit retirement benefits are financed from a combination of investment earnings, employer and employee contributions, and a special funding situation in which the state pays through state legislative appropriations.

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

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

Years of Service	Percent of Final Average
5 - less than 10	1.0%
10 - less than 20	1.5%
20 +	2.0%

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

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

A one-time duty-related death benefit is provided to the estate (or duly designated nominee) of a LEOFF Plan 1 member who dies as a result of injuries or illness sustained in the course of employment, if found eligible by the Department of Labor and Industries.

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

LEOFF Plan 1 members may purchase up to five years of additional service credit once eligible for retirement. This credit can only be purchased at the time of retirement and can be used only to provide the member with a monthly annuity that is paid in addition to the member's allowance.

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

LEOFF Plan 2 provides disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 allowance amount is 2 percent of the FAS for each year of service. Benefits are actuarially reduced for each year that the member's age is less than 53, unless the disability is duty-related, and to reflect the choice of a survivor option. If the member has at least 20 years of service and is age 50, the reduction is 3 percent for each year prior to age 53. A catastrophic disability benefit equal to 70 percent of their FAS, subject to offsets for workers' compensation and Social Security disability benefits received, is also available to those LEOFF Plan 2 members who are severely disabled in the line of duty and incapable of future substantial gainful employment in any capacity.

Effective June 2010, benefits to LEOFF Plan 2 members who are catastrophically disabled include payment of eligible health care insurance premiums.

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

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

LEOFF Plan 2 members who apply for retirement may purchase up to five years of additional service credit. The cost of this credit is the actuarial equivalent of the resulting increase in the member's benefit.

LEOFF Plan 2 members can receive service credit for military service that interrupts employment. Additionally, LEOFF Plan 2 members who become totally incapacitated for continued employment while servicing in the uniformed services may apply for interruptive military service credit. Should any such member die during this active duty, the member's surviving spouse or eligible child(ren) may request service credit on behalf of the deceased member.

LEOFF Plan 2 members may also purchase up to 24 consecutive months of service credit for each period of temporary duty disability.

Beneficiaries of a LEOFF Plan 2 member who is killed in the course of employment receive retirement benefits without actuarial reduction, if found eligible by the Director of the Department of Labor and Industries. Benefits to eligible surviving spouses and dependent children of LEOFF Plan 2 members killed in the course of employment include the payment of on-going health care insurance premiums paid to the Washington state Health Care Authority.

A one-time duty-related death benefit is provided to the estate (or duly designated nominee) of a LEOFF Plan 2 member who dies as a result of injuries or illness sustained in the course of employment, if found eligible by the Department of Labor and Industries.

There are 374 participating employers in LEOFF. Membership in LEOFF consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2013:

<b>LEOFF VALUATION AS OF JUNE 30, 2013</b>	
Retirees and beneficiaries receiving benefits	10,511
Terminated plan members entitled to but no yet receiving benefits	699
Active plan members, vested	16,830
Active plan members, non-vested	1,600
<b>Total</b>	<b>29,640</b>

#### Funding Policy

Starting on July 1, 2000, LEOFF Plan 1 employers and employees contribute 0% as long as the plan remains fully funded. Employer and employee contribution rates are developed by the Office of the State Actuary to fully fund the plan. LEOFF Plan 2 employers and employees are required to pay at the level adopted by the LEOFF Plan 2 Retirement Board. The Legislature, by means of a special funding arrangement, appropriated money from the state General Fund to supplement the current service liability and fund the prior service costs of LEOFF Plan 2 in accordance with the requirements of the Pension Funding Council and the LEOFF Plan 2 Retirement Board. However, this special funding situation is not mandated by the state constitution and this funding requirement could be returned to the employers by a change of statute.

The required contribution rates expressed as a percentage of current year covered payroll, as of December 31, 2014, were:

<b>LEOFF Plan 2</b>	
Employer	5.23%
Employee	8.41%
State	3.36%

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

<b>LEOFF Plan 2</b>	
2014	\$515,457
2013	\$499,098
2012	\$483,888

#### **NOTE 9 – RISK MANAGEMENT**

The City of Lakewood 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 175 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, public officials' errors or omissions, stop gap, and employee benefits liability. Limits are \$4 million per occurrence self insured layer, and \$16 million per occurrence in the re-insured excess layer. The excess layer is insured by the purchase of reinsurance and insurance and is subject to aggregate limits. Total limits are \$20 million per occurrence subject to aggregate sublimits in the excess layers. The Board of Directors determines the limits and terms of coverage annually.

Insurance coverage for property, automobile physical damage, fidelity, inland marine, and boiler and machinery are purchased on a group basis. Various deductibles apply by type of coverage. Property insurance and auto physical damage are self-funded from the members' deductible to \$750,000, for all perils other than flood and earthquake, and insured above that amount by the purchase of insurance.

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

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

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

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

There were no settlements in excess of insurance for commercially insured activities for 1996 through 2014.

The following is a summary of coverage in force in 2014:

<b>SCHEDULE OF INSURANCE IN FORCE</b>			
<b>AS OF DECEMBER 31, 2014</b>			
<b>Company</b>	<b>Policy Period</b>	<b>Details of Coverage</b>	<b>Limit</b>
WCIA	1/1/14 - 1/1/15	Liability Program (Auto, General, Police, Errors or Omissions, Employment Practices, Employee Benefit and Stop Gap)	\$20,000,000 per Occurrence Subject to Aggregates and Sub-Limits.
WCIA	12/31/13 - 12/31/14	Property Program - Manuscript Policy All Risk Form	\$300,000,000 per occurrence. Sub-Limits: \$150,000,000 Earthquake per Occurrence and Annual Pool Aggregate; \$100,000,000 Flood per Occurrence and Annual Pool Aggregate, except \$50,000,000 Flood Sub-Limit within Flood Zones A and V. Other Sub-Limits may apply
WCIA	12/31/13 - 12/31/14	Auto Physical Damage Program	Actual Cash Value for Scheduled Vehicles Except Optional Replacement Cost Coverage for Vehicles over \$25,000. Deductible Waived for Glass Repair and Damaged Caused by Fire or Lightning.
Hartford Steam Boiler Inspection and Insurance Company	12/1/14 - 12/1/15	Boiler and Machinery (Equipment Breakdown) Insurance	\$100,000,000 Equipment Breakdown subject to other applicable limits.
National Union Fire Insurance Company	12/31/13 - 12/31/14	Crime/Fidelity Insurance Blanket Coverage	\$2,500,000 for: Employee Theft Per Loss Coverage, Forgery or Alteration, Inside Premises – Theft of Money and Securities, Inside Premises – Robbery or Safe Burglary of Other Property, Outside the Premises, Computer Fraud, Funds Transfer Fraud, Money Orders and Counterfeit Money, and Faithful Performance of Duty required by law.
National Union Fire Insurance Company	3/1/14 - 5/1/15	Cyber Insurance including Liability and Regulatory Action, Privacy Event Services and Event management	\$1,000,000 per WCIA Member and \$10,000,000 All members Aggregate, \$100,000 Subject to per Member Sub-Limits of \$1,000,000 Liability, \$100,000 Regulatory, and \$100,000 Event Management and \$75,000 Affected Individuals for Privacy Event Services.
ACE American Insurance Company	3/16/14 - 3/16/15	Environmental Liability for Specified Fuel Storage Tanks	\$1,000,000 Per Storage Tank Incident Limit of Liability and \$2,000,000 Aggregate Limit of Liability for all Storage Tank Incidents; \$1,000,000 Aggregate Limit of Liability for all Legal Defense Expenses for all Storage Tank Incidents; \$3,000,000 Total Policy Aggregate Limit of Liability for all Storage Tank Incidents.

#### NOTE 10 – LONG-TERM LIABILITIES

The City of Lakewood issued general obligation bonds in 2009 to finance construction of the building that houses the Police Department. A promissory note for the purchase of 59<sup>th</sup> Street was issued in 2005. The bonds and note payable are considered obligations of the general government and are being repaid with general governmental revenue sources.

Arbitrage is the reinvestment of the proceeds of tax-exempt securities in materially higher-yielding taxable securities. The federal government requires that such excess earnings be remitted to the federal government (arbitrage rebate). The City reviewed the applicability of arbitrage rebate regulations on its outstanding general obligation and LID bonds and is in compliance with those regulations. The bonds issued by the City are not currently subject to arbitrage rebate as they fall under the small issuer exception (the face amount of the debt is \$5,000,000 or less).

The City has issued special assessment debt to provide funds for the residential infrastructure improvements. Special assessment bonds were created by ordinance, adopted by Council, and repaid from amounts levied against the property owners benefitted by the construction. A separate guaranty fund is available to cover most outstanding delinquencies at the end of the assessment period. The City's obligation doesn't extend beyond the guaranty fund assets. In the event that a deficiency exists because of unpaid or delinquent special assessments at the time a debt service is due, the government

must provide the resources to cover the deficiency until other resources, for example, foreclosure proceeds, are received. The City has an LID Guaranty Fund to finance any uncollectible special assessment debt. As of December 31, 2014, no amount of special assessment receivables was considered delinquent.

The City has three outstanding public works trust fund loans (PWTF) in support of sewer extensions into the Tillicum and Woodbrook neighborhoods that are financed with an assessment on all Lakewood sewer accounts.

Compensated absences are a liability of the City for accrued vacation and compensatory time of employees. The liability for compensated absences in prior years has mainly been liquidated in the General Fund, and to a smaller extent, the Street Operations and Maintenance Fund, Street Capital Projects Fund and the Surface Water management fund.

Debt activity for the year ended December 31, 2014, is recapped in the chart that follows:

Description	Date of Issue	Maturity Date	Interest Rate	Amount Originally Issued	Original Issue Amount	Beginning of Year O/S Debt	Amount Issued	Amount Redeemed	End of Year O/S Debt	Due in One Year	Long-Term Portion
<b>Governmental Activities</b>											
<u>General Obligation Bonds</u>											
			2.25% -								
2009 LTGO	3/31/2009	12/1/2028	5.0%	\$2,695,000	\$2,695,000	\$ 2,220,000	\$ -	\$ 110,000	\$ 2,110,000	\$ 115,000	\$ 1,995,000
2009 LTGO Premium	3/31/2009	12/1/2028	n/a	47,361	n/a	35,960	-	2,400	33,560	2,400	31,160
Subtotal GO Bonds					2,695,000	2,255,960	-	112,400	2,143,560	117,400	2,026,160
<u>Special Assessment Bonds (with governmental commitments)</u>											
			3.75% -								
CLID 1103 debt	12/1/2006	12/1/2026	4.65%	2,824,704	2,824,704	1,260,000	-	145,000	1,115,000	150,000	965,000
			4.22% -								
LID 1108	1/18/2008	12/1/2027	5.30%	880,000	880,000	513,938	-	55,979	457,959	48,000	409,959
Subtotal Special Assessment Bonds					3,704,704	1,773,938	-	200,979	1,572,959	198,000	1,374,959
<u>Notes Payable</u>											
59th Street	4/30/2005	4/30/2025	Varies	1,071,000	1,071,000	684,129	-	51,416	632,713	53,339	579,374
Subtotal Notes Payable					1,071,000	684,129	-	51,416	632,713	53,339	579,374
<u>Government Loans</u>											
PWTF - 04-691-PRE-132	7/7/2005	7/7/2024	1.00%	750,000	593,864	326,870	-	29,718	297,152	29,715	267,437
PWTF - 06-962-022	9/18/2006	9/18/2026	0.50%	1,000,000	5,000,000	3,828,267	-	294,482	3,533,785	294,482	3,239,303
PWTF - 08-951-025	3/1/2008	7/1/2028	0.50%	-	1,840,000	1,560,392	-	104,026	1,456,366	104,026	1,352,340
Subtotal Government Loans					7,433,864	5,715,529	-	428,226	5,287,303	428,223	4,859,080
<u>Compensated Absences</u>						2,144,144	2,065,575	1,990,899	2,218,820	665,646	1,553,174
<b>Subtotal Governmental Activities</b>						12,573,700	2,065,575	2,783,919	11,855,356	1,462,608	10,392,748
<b>Business-type Activities</b>											
<u>Compensated absences</u>						97,028	60,632	63,830	93,830	28,149	65,681
<b>Subtotal Business-type Activities</b>						97,028	60,632	63,830	93,830	28,149	65,681
<b>Total</b>						\$ 12,670,728	\$ 2,126,207	\$ 2,847,749	\$ 11,949,186	\$ 1,490,757	\$ 10,458,429

Future payment requirements on debt balances are as follows:

Year(s)	Principal	Interest
2015	\$ 806,960	\$ 246,036
2016	813,954	228,657
2017	816,024	166,245
2018	825,170	192,448
2019-2023	3,930,968	626,549
2024-2027	2,137,044	157,462
2028	306,416	10,520
<b>Totals</b>	<b>\$ 9,636,536</b>	<b>\$ 1,627,917</b>

### Computation of Legal Debt Margin

Under Washington State law (RCW 39.36.020), a City may incur general obligation debt for general city purposes in an amount not to exceed 2½ percent of the value of all taxable property within the City. State law requires all property to be assessed at 100 percent of its true and fair value. Unlimited tax general obligation debt requires an approving vote of the people, and any election to validate such general obligation debt must have a voter turnout of at least 40 percent of those who voted in the last State general election and of those voting; 60 percent must be in the affirmative. The City Council may, by ordinance, authorize the issuance of limited tax general obligation debt in an amount up to 1.5% of the valuation within the City without a vote of the people. No combination of limited or unlimited tax debt may exceed 7½ percent of the valuation. The debt service on unlimited tax debt is secured by excess property tax levies, whereas the debt service on limited tax debt is secured by property taxes collected with the City's councilmanic levy.

<b>Legally Remaining Debt Capacity</b>	
As of December 31, 2014	
General Government (no vote required)	\$ 64,677,388
General Government (3/5 majority vote required)	44,946,734
Parks and open space (3/5 majority vote required)	112,366,835
Utilities (3/5 majority vote required)	112,366,835
<b>Total Capacity</b>	<b>\$ 334,357,792</b>

### Compensated Absences

The City's liability for accrued vacation and compensatory time balances is recorded in the schedule below. Accrued compensated absences for proprietary fund employees are recorded as liabilities in those funds expected to incur the related future expense.

<b>Compensated Absences</b>	
For the Year Ended December 31, 2014	
<i>Governmental Activities:</i>	
Current Portion	\$ 665,646
Noncurrent Portion	1,553,174
<b>Subtotal Governmental Activities</b>	<b>2,218,820</b>
<i>Business-Type Activities:</i>	
Current Portion	28,149
Noncurrent Portion	65,681
<b>Subtotal Business-Type Activities</b>	<b>93,830</b>
<b>Total Compensated Absences</b>	<b>\$ 2,312,650</b>

### Leases

**Building Leases:** In 2006, the City entered into a cancelable lease agreement with Pierce County to provide facilities for the Senior Center, which was renewed for a 60 month term beginning January 2011. Building lease payments for 2014 totaled \$57,633. The future minimum lease payments are as follows:

2015 \$59,280

**McGavick Center Lease:** In 2007, the City entered into an agreement with Clover Park Technical College to contribute 11% of the construction costs for the McGavick Center. The contribution is in equal installments of \$101,850 over 20 years. In return for the contribution, the City of Lakewood has use of the center for 18 days per year for a 30 year period to be used for tourism related activities. Lease payments to Clover Park Technical College for 2014 totaled \$101,850. The future minimum lease payments are as follows:

2015	\$101,850
2016	\$101,850
2017	\$101,850
2018	\$101,850
2019	\$101,850

**Copier Leases:** The City entered into twelve 60 month non-cancelable copier leases. Nine of the leases expire in March 2015; another lease expires in July of 2016; and the remaining two leases expire in 2018. Lease payments for 2014 were \$36,732. The leases that expire in March 2015 will go to a month-to-month plan while a new contract process is developed. Future minimum lease payments are as follows:

2015	\$14,111
2016	\$4,998
2017	\$3,853
2018	\$2,247

#### NOTE 11 – INTERFUND TRANSACTIONS

Interfund transfers for the year ended December 31, 2014, were as follows:

		Transfer From					
		General Fund	Street Capital Fund	Grant Fund	Surface Water Management Fund	Non-Major Governmental Funds	Total
Transfer To	General Fund	\$ -	\$ -	\$ 840,056	\$ 284,700	\$ 1,203,319	\$2,328,075
	Street Capital Fund	35,000	-	-	44,890	-	79,890
	Grant Fund	-	-	-	-	-	-
	Surface Water Management Fund	-	487,975	-	-	31,237	519,212
	Non-Major Governmental Funds	1,387,280	-	-	-	-	1,387,280
	<b>Total</b>	<b>\$ 1,422,280</b>	<b>\$ 487,975</b>	<b>\$ 840,056</b>	<b>\$ 329,590</b>	<b>\$ 1,234,556</b>	<b>\$4,314,458</b>

The following describes the amounts transferred out during 2014:

##### General Fund:

- \$1,038,675 to Street O&M Fund to subsidize street operations and maintenance;
- \$35,000 to the Street Capital Fund as a contribution for street capital projects;
- \$50,000 to the Office of Economic Adjustment Grant Fund for the City's 2014 contribution towards South Sound Military Communities Partnership;
- \$10,848 to the Public Safety Grant Fund to satisfy the local match requirement for the Office of Justice Program Bulletproof Vest Partnership grant;
- \$287,758 to the General Government Debt Service Fund for debt service payments.

##### Grant Fund:

- \$840,056 to the General Fund to return unspent General Fund source.

## Street Capital Fund:

- \$487,975 to the Surface Water Management Fund for the Street Capital portion of the Public Works Operations and Maintenance Facility;

## Surface Water Management Fund:

- \$284,700 to the General Fund for administrative fees;
- \$44,890 to the Street Capital Fund for the Custer/John Dower capital project.

## Nonmajor Governmental Funds:

- \$28,360 from the Street Operations and Maintenance Fund for General Fund administrative fees;
- \$14,061 from the Narcotics Seizure Fund to the General Fund for computer replacements;
- \$85,939 from the Felony Seizure Fund to the General Fund for computer replacements;
- \$1,000,000 from the Vehicle & Equipment Replacement Fund to the General Fund for one-time fleet and equipment excess reserves;
- \$40,920 from the Vehicle & Equipment Replacement Fund to the General Fund for the purchase of a Parks vehicle and equipment in 2013;
- \$34,039 from the Vehicle & Equipment Replacement Fund to the General Fund for the purchase of a Municipal Court vehicle in 2013;
- \$31,237 from the Vehicle & Equipment Replacement Fund to the Surface Water Management Fund for the replacement of a 2002 Chevy Express Van.

The General Fund made the following interfund loans: \$68,083 to the Public Safety Grant Fund; \$75,317 to the Grant Fund; and \$346,479 to the Street Capital Projects Fund. The loans were made to cover negative cash at the end of the year. In all cases, the negative cash balance was the result of a timing difference between when grant revenues and expenditures are recognized and when cash receipts and payments actually occur.

**NOTE 12 – HEALTH AND WELFARE**

The City of Lakewood 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, 2014, 263 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 insurance through Regence BlueShield and Asuris Northwest Health, dental insurance through Delta Dental of Washington, and vision insurance through 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.

Participating employers pay monthly premiums to the AWC Trust HCP. The AWC Trust HCP is responsible for payment of all covered claims. The AWC Trust HCP purchases stop loss insurance for Regence/Asuris plans at an Individual Stop Loss (ISL) of \$1.5 million through Life Map, and Group Health ISL at \$750,000 through Sun Life. The aggregate policy is for 200% of expected medical claims.

Participating employers contract to remain in the AWC 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 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 HCP. Similarly, the terminating member forfeits all rights and interest to the 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 the AWC Board of Directors President and Vice President. 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 Trust HCP are maintained in accordance with methods prescribed by the State Auditor's office under the authority of Chapter 43.09 RCW. The Trust HCP also follows applicable accounting standards established by the Governmental Accounting Standards Board ("GASB"). 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

#### **NOTE 13 – OTHER POSTEMPLOYMENT BENEFIT (OPEB) PLANS**

##### Trust Description

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

##### Funding Policy

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

Plan	2014		2013		2012	
	City	Retiree	City	Retiree	City	Retiree
Health First - 1000						
Non-Medicare enrolled retiree coverage	\$ -	\$ 830	\$ -	\$ 830	\$ -	\$ 789
Non-Medicare enrolled spouse coverage	-	837	-	837	-	796
Medicare enrolled retiree coverage	-	443	-	443	-	422
Medicare enrolled spouse coverage	-	456	-	456	-	433
Health First - 2500						
Non-Medicare enrolled retiree coverage	\$ -	\$ 724	\$ -	\$ 724	\$ -	689
Non-Medicare enrolled spouse coverage	-	730	-	730	-	694
Medicare enrolled retiree coverage	-	388	-	388	-	369
Medicare enrolled spouse coverage	-	398	-	398	-	379

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

#### NOTE 14 – CONTINGENCIES AND LITIGATION

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

The City Attorney estimates that the amount of actual or potential claims against the City as of March 31, 2015, is an amount which should be within the insurance protection the City holds. The City is also involved in litigation where representation is not provided for under insurance coverage. Those cases involve a claim for a tax refund and two cases involving public disclosure requests. In the tax refund case, the plaintiff claims approximately \$87,000 in recovery (exclusive of interest and other sums). The City prevailed on motions at the trial court which would have limited its liability to no more than approximately \$10,500. This case is on appeal. In one public disclosure request case, in December 2014, the Washington Supreme Court held the City liable for attorney fees. The fee documentation which was supplied at the Court of Appeals suggests that the total fee request will likely be in excess of \$100,000. Despite the Supreme Court Mandate being issued in January 2015 and directing the trial court to affix the amount of fees, no action has been undertaken in the trial court. In the other public disclosure case, the requestor asserts that the City's liability exceeds \$150,000. Following motions in November 2014, the superior court held the City liable for penalties in the approximate amount of \$3,500. This decision has been appealed to the Court of Appeals by the requestor.

#### NOTE 15 – SUBSEQUENT EVENTS

In December 2014 the City Council approved an ordinance authorizing the acquisition of personal property and execution of a financing contract and for the City's LED streetlight retrofit program. The Officer of the State Treasurer financed the transaction under its Local Option Capital Asset Lending Program (LOCAL) and certificates of participation (COPs) were sold on March 3, 2015 by competitive sale. The amount financed is \$1,460,000 and nets the City \$1,655,000. Under the provisions of the financing lease, the City is obligated to pay the State fiscal agent on December 1, 2015 and continue semi-annually thereafter through June 1, 2027. The All Inclusive Cost (AIC) of financing is 2.328%.

#### NOTE 16 – PRIOR PERIOD ADJUSTMENTS

For the year ended December 31, 2014 the City recorded one prior period adjustment in the amount of \$5,000.

Net position was understated in the City's Statement of Net Position dated December 31, 2013 due to a \$5,000 understatement of long-term debt outstanding for the CLID 1103 special assessment bond. The effect of this prior period adjustment is to increase the City's long-term liabilities due in more than one year while concurrently reducing net position of governmental activities. Note 10—Long Term Liabilities—reflects the appropriate debt outstanding at December 31, 2014.

**Schedule of Expenditure of Federal Awards**

**City of Lakewood**

**For Year Ended December 31, 2014**

1	2	3	4	5			6
Federal Agency Name / Pass-Through Agency Name	Federal Program Name	CFDA Number	Other I.D. Number	Expenditures from Pass Through	Expenditures From Direct Awards	Total	Footnote Ref.
US Department of Defense / Office of Economic Adjustment	Community Development Madigan Access Improvements (Lewis-McChord JB Transportation)	12.600	SP1215-12-01		1,247,557.00	1,247,557.00	
US Department of Defense / Office of Economic Adjustment	Community Economic Adjustment Assistance	12.607	GR0752-12-04		45,560.11		2
			HQ-00051310125 (JLUS)		235,907.41		2
			<i>Sub-total</i>		281,467.52	281,467.52	
US Department of Housing & Urban Development	CDBG - Block Grant 2012-2013	14.218	B-12-MC-53-0016		59,566.92		4a
	CDBG - Block Grant 2013-2014		B-13-MC-53-0016		368,930.86		4b
	CDBG - Block Grant 2014-2015		B-14-MC-53-0016		63,801.76		4c
	CDBG - Major Revolving 2014		B-14-MC-53-0016		42,190.31		3
	CDBG - Econ Dev Program Income 2014		B-14-MC-53-0016		1,333.09		3
			<i>Sub-total</i>		535,822.94	535,822.94	
US Department of Housing & Urban Development / WA State Dept. of Commerce	Neighborhood Stabilization Program	14.228	08-F6401-012	154,110.55			4d
	Neighborhood Stabilization Program 3 Tillicum LI Housing	14.228	11-67400-002	96,031.74			4e
			<i>Sub-total</i>	250,142.29		250,142.29	
US Department of Housing & Urban Development / Tacoma Community Redevelopment Authority	HOME Investment Partnership Program	14.239	n/a	504,484.53		504,484.53	4f
US Department of Housing & Urban Development / Office of Community Planning & Development	Community Development Block Grants - Section 108 Loan Guarantees	14.248	B-11-MC-53-0016		700,000.00	700,000.00	5
US Department of Justice / Washington State Department of Commerce	STOP Violence Against Women	16.588	F-13-31103-082	25,126.00		25,126.00	2
US Department of Justice / Pierce County Sheriff's Department	STOP Violence Against Women	16.588	n/a	1,246.99		1,246.99	
US Department of Justice / Bureau of Justice Assistance	Bulletproof Vest Partnership	16.607	n/a		10,896.19	10,896.19	
US Department of Justice / Bureau of Justice Assistance	Justice Assistance Grant - Therapeutic Justice	16.738	2012-DJ-BX-0469		26,788.29		
	Justice Assistance Grant - Metal Theft		2013-DJ-BX-0212		15,108.95		
			<i>Sub-total</i>		41,897.24	41,897.24	
US Department of Justice	Equitable Sharing	16.922	WA0272300		37,432.06	37,432.06	
US Department of Justice / Federal Bureau of Investigation	Safe Streets Task Force	16.999	281D-SE-88930		12,662.23		
	Pacific Northwest Innocence Lost Task Force		na		14,593.04		
			<i>Sub-total</i>		27,255.27	27,255.27	

1	2	3	4	5			6
Federal Agency Name / Pass-Through Agency Name	Federal Program Name	CFDA Number	Other I.D. Number	Expenditures from Pass Through	Expenditures From Direct Awards	Total	Footnote Ref.
US Department of Transportation / Washington Department of Transportation	Lakewood Traffic Signal Upgrade Phase 4	20.205	CM-0665(004)	189,361.93			
	Gravelly Lake (100th Street to Bridgeport Way)	20.205	CM-2885(004)	49,219.32			
	City-wide Safety Improvements	20.205	HSI0005(324)	830,097.43			
	Custer Road & John Dower Intersection	20.205	HSIP-0005(373)	508,270.10			
	Steilacoom Boulevard Safety Improvements	20.205	HSIP-3136(005)	40,630.06			
	Dower Elementary Safe Routes to School	20.205	SRTS-2921(001)	2,771.66			
	Bridgeport Way (JBLM to I-5)	20.205	STPUL-2947(016)	67,959.50			
	Bridgeport Way (83rd to 75th)	20.205	STPUL-2947(017)	173,867.16			
	112th/111th (Bridgeport to Kendrick)	20.205	TAP-3082(001)	1,439.03			
<i>Sub-total</i>				1,863,616.19		1,863,616.19	
US Department of Transportation / Washington State Traffic Safety Commission	State and Community Highway Safety/Impaired Driving Emphasis	20.600	na	5,014.66		5,014.66	
US Department of Transportation / Washington State Traffic Safety Commission	National Priority Safety Programs/Target Zero Teams	20.616	na	4,574.49			
			na	373.96			
			<i>Sub-total</i>	4,948.45		4,948.45	
US Department of Homeland Safety/ Washington State Parks and Recreation Commission	Boating Safety Financial Assistance	97.012	na	17,065.38		17,065.38	
US Department of Homeland Security / Washington State Military	Emergency Management Planning Grant	97.042	E14-225	48,177.00			
			E15-087	17,952.00			
			<i>Sub-total</i>	66,129.00		66,129.00	
US Department of Homeland Security	Homeland Security Investigations State and Local Overtime Reimbursement Program	97.999	WA-0272300	3,064.05		3,064.05	
<b>Total Federal Awards Expended</b>				<b>2,740,837.54</b>	<b>2,882,328.22</b>	<b>5,623,165.76</b>	
The accompanying notes to the Schedule of Expenditures of Federal Awards is an integral part of this schedule.							

CITY OF LAKEWOOD  
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2014

NOTE 1 - BASIS OF ACCOUNTING

This schedule is prepared on the same basis of accounting as the City of Lakewood's financial statements. The City uses the accrual method of accounting.

NOTE 2 - PROGRAM COSTS

The amounts shown as current year expenditures represent only Federal grant costs. Entire program costs, including the city's portion, maybe more than shown.

NOTE 3 - REVOLVING LOAN FUND - PROGRAM INCOME

The city administers a revolving loan program for CDBG Down -Payment Assistance, Major Home Repairs, and Economic Development loans. Under this federal program, repayments to the city program are considered program revenues (income) and loans of such funds to eligible recipients are considered expenditures. The amount of loan funds disbursed to participants for the year was \$8,230.51 and is presented in the schedule. The amount of loan repayments for the year was \$21,227.30.

NOTE 4 - AMOUNTS AWARDED TO SUBRECIPIENTS

Included in the total amount expended for this program is a)\$116.85; b)\$209,381.64; c)\$20,622.88 d)\$141,021.93; e)\$84,887.51; f) \$463,624.00 that was passed through to a subrecipient.

NOTE 5 - LOAN GUARANTEE

Section 108 Loan approved by the U.S. Department of Housing and Urban Development. CFDA 14.248 in the amount of \$700,000.00 to Curbside Motors, Inc. The loan term is from December 2014 to July 2035. The City of Lakewood participates in the U.S. Department of Housing and Urban Development (HUD) Section 108 Loan Guarantee Program in order to leverage economic development projects. The City is able to guarantee up to five times its annual CDBG allocation. The block grant is partial guarantee for the loan, and no City funds are pledged for the 108 loan. The Bank of New York Mellon serves as the City's custodian under a Custodial Agreement, disbursing the Section 108 funds to the borrower, receiving loan payments from the borrower, and remitting the repayments to HUD.

\*The notes to the Schedule of Expenditures of Federal Awards are an integral part of this schedule.

## 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.

Contact information for the State Auditor's Office	
Public Records requests	<a href="mailto:PublicRecords@sao.wa.gov">PublicRecords@sao.wa.gov</a>
Main telephone	(360) 902-0370
Toll-free Citizen Hotline	(866) 902-3900
Website	<a href="http://www.sao.wa.gov">www.sao.wa.gov</a>