



Office of the Washington State Auditor
Pat McCarthy

Financial Statements and Federal Single Audit Report

City of Lacey

For the period January 1, 2017 through December 31, 2017

Published September 20, 2018

Report No. 1022186





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

September 20, 2018

Mayor and City Council
City of Lacey
Lacey, Washington

Report on Financial Statements and Federal Single Audit

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

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

Sincerely,

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

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

City of Lacey January 1, 2017 through December 31, 2017

SECTION I – SUMMARY OF AUDITOR’S RESULTS

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

Financial Statements

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

Internal Control over Financial Reporting:

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

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

Identification of Major Federal Programs:

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

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

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

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

SECTION II – FINANCIAL STATEMENT FINDINGS

None reported.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported.

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

**City of Lacey
January 1, 2017 through December 31, 2017**

Mayor and City Council
City of Lacey
Lacey, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Lacey, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the City’s basic financial statements, and have issued our report thereon dated September 13, 2018.

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 our opinions 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.

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.



Pat McCarthy
State Auditor
Olympia, WA

September 13, 2018

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

City of Lacey
January 1, 2017 through December 31, 2017

Mayor and City Council
City of Lacey
Lacey, Washington

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

We have audited the compliance of the City of Lacey, with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended December 31, 2017. The City's major federal programs are identified in the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

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

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2017.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

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

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

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

Purpose of this Report

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

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

Pat McCarthy

State Auditor

Olympia, WA

September 13, 2018

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

City of Lacey January 1, 2017 through December 31, 2017

Mayor and City Council
City of Lacey
Lacey, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Lacey, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed on page 14.

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 Lacey, as of December 31, 2017, and the respective changes in financial position and cash flows thereof 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 and required supplementary information listed on page 14 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 Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). This schedule is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated September 13, 2018 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

September 13, 2018

FINANCIAL SECTION

City of Lacey January 1, 2017 through December 31, 2017

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2017

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2017

Statement of Activities – 2017

Balance Sheet – Governmental Funds – 2017

Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Position – 2017

Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental Funds – 2017

Reconciliation of Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance to the Statement of Activities – 2017

Statement of Net Position – Proprietary Funds – 2017

Statement of Revenues, Expenses and Changes in Fund Net Position – Proprietary Funds – 2017

Statement of Cash Flows – Proprietary Funds – 2017

Statement of Net Position – Fiduciary Funds – 2017

Notes to the Financial Statements – 2017

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget to Actual – General Fund – 2017

Schedule of the City's Proportionate Share of Net Pension Liabilities and Assets and Related Ratios – PERS 1, PERS 2/3, LEOFF 1 and LEOFF 2 – 2017

Schedule of Employer Contributions – PERS 1, PERS 2/3, LEOFF 1 and LEOFF 2 – 2017

Schedule of Funding Progress, Other Postemployment Benefits (OPEB) Plan – LEOFF 1, Police Officers – 2017

Notes to Required Supplementary Information – 2017

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Expenditures of Federal Awards – 2017

Notes to the Schedule of Expenditures of Federal Awards – 2017

Management's Discussion and Analysis

As management of the City of Lacey, we offer readers of the City of Lacey's financial statements this narrative overview and analysis of the financial activities of the City of Lacey for the fiscal year ended December 31, 2017. We encourage readers to consider the information presented here, in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages 1-1 to 1-4 of this report.

Financial Highlights

- The City of Lacey's overall financial position improved in 2017 as compared to 2016.
- At the end of the fiscal year, the assets and deferred outflows of resources of the City of Lacey exceeded its liabilities and deferred inflows of resources by \$703.9 million. Net investments in capital assets account for 78.4 percent of the amount (\$552.1 million). Of the remaining net position in the amount of \$151.8 million, \$5.0 million is subject to external restrictions and \$146.8 million may be used to meet the City's ongoing obligations to citizens and creditors.
- The City of Lacey's total net position increased by \$32.1 million. The governmental activity net position increased by \$16.6 million compared to the previous year. The business-type activity net position increased by \$15.5 million. The business-type increase included net position for the Water Utility of \$10.8 million, \$4.2 million for the Wastewater Utility, \$196,760 for the Stormwater Utility, and \$86,987 for the Reclaimed Water Utility.
- At the close of 2017, the City of Lacey's governmental funds reported a combined ending fund balance of \$80.3 million, an increase of \$8.0 million.

Of the major funds, the ending fund balance of the General Fund increased \$4.2 million, the Arterial Street Fund increased \$1.3 million, and the L.I.D. Redemption Fund increased \$234,960.

Nonmajor funds combined fund balance increased \$2.3 million. The Transportation Benefit District Fund experienced a \$1.3 million increase to fund balance. The Transportation Benefit District voter-approved sales tax was levied beginning on July 1, 2017. The cashflow timing of the sales tax collection did not allow for capital rehabilitation during the 2017 construction season, so fund balance increased by the amount of sales tax collections. The fund balance in Building Improvement Fund increased \$373,950 due to capital improvement funds not being fully completed during 2017. The Regional Athletic Complex Capital Fund increased \$584,640 due to increased Capital Area Regional Public Facilities District sales tax collections.

Approximately \$18.5 million (23.0 percent) of the combined ending fund balance is unassigned and reported in the General Fund, which is an increase of \$5.3 million compared to the prior year's amount of \$13.2 million. Unassigned fund balance is available to the City of Lacey for discretionary spending.

- The City of Lacey's total outstanding debt decreased \$519,000 (2.6 percent) to \$19.5 million during the current fiscal year. The decrease is equal to a combination of debt redemption and the issuance of \$1.3 million of revenue bonds during 2017.
- Revenues from local tax sources, including property, sales, business excise, and miscellaneous other taxes increased by \$2.7 million to \$33.8 million, an 8.8 percent increase compared to 2016. Retail sales taxes experienced the largest increase due to overall increased retail sales activity.

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

Overview of the Financial Statements

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Combining Statements. The combining statements referred to earlier in connection with the nonmajor funds, internal service funds and fiduciary funds are presented immediately following the required supplementary information on pages 6-1 to 6-23 of this report.

Government-wide Overall Financial Analysis

As noted earlier, net position over time, may serve as a useful indicator of a government's financial position. In the case of the City of Lacey, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$703.9 million at the close of the most recent fiscal year.

The following table provides a summary of the City of Lacey's net position as of December 31, 2017 and December 31, 2016:

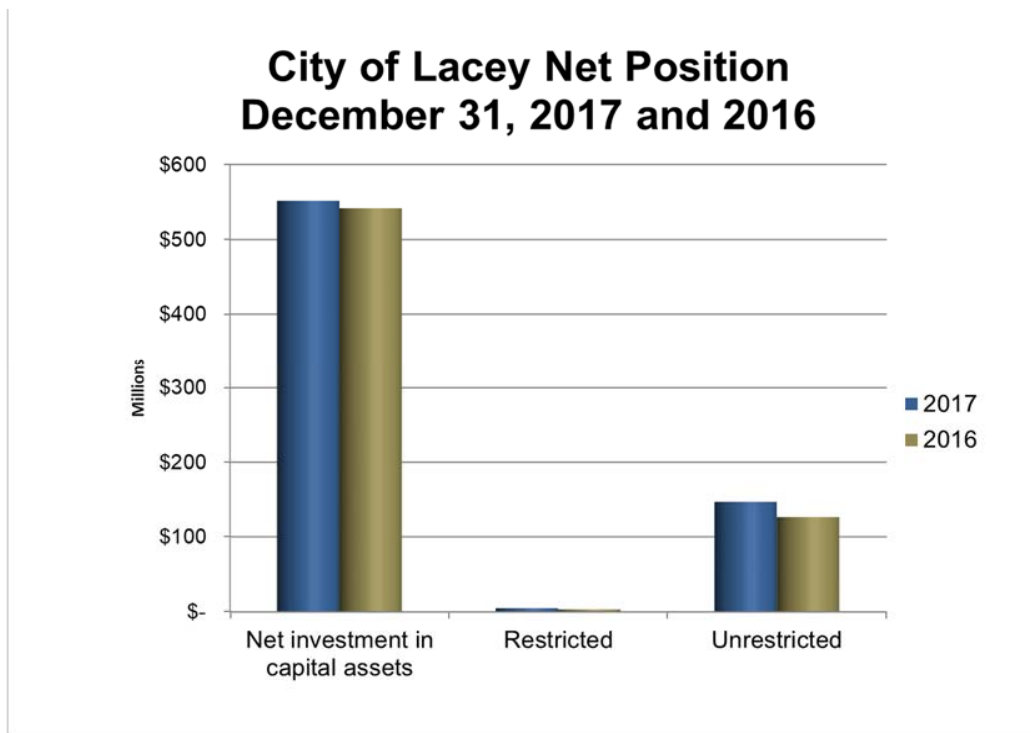
Summary of Net Position								
	Governmental		Business-Type		Total		Percentage	
	Activities		Activities				Of Total	
	2017	2016	2017	2016	2017	2016	2017	2016
Assets:								
Current assets	\$ 101,074,457	\$ 91,614,959	\$ 69,253,498	\$ 60,705,216	\$ 170,327,955	\$ 152,320,175	22.9%	21.3%
Restricted assets	122,023	230,604	988,542	937,683	1,110,565	1,168,287	0.1%	0.2%
Investment in joint venture	614,053	617,752	-	-	614,053	617,752	0.1%	0.1%
Net pension asset	2,801,391	1,301,647	-	-	2,801,391	1,301,647	0.4%	0.2%
Capital assets	315,788,834	312,100,298	254,523,822	248,370,865	570,312,656	560,471,163	76.5%	78.3%
Total assets	420,400,758	405,865,260	324,765,862	310,013,764	745,166,620	715,879,024	100.0%	100.0%
Deferred outflow s of resources								
Deferred charge on refunding	608,593	684,980	-	-	608,593	684,980	24.5%	17.6%
Deferred outflow s related to pensions	1,526,192	2,640,040	345,424	563,361	1,871,616	3,203,401	75.5%	82.4%
Total deferred outflow s of resources	2,134,785	3,325,020	345,424	563,361	2,480,209	3,888,381	100.0%	100.0%
Liabilities:								
Current liabilities	4,633,757	5,195,436	1,730,050	2,944,943	6,363,807	8,140,379	15.7%	17.2%
Long-term liabilities	15,872,907	17,159,248	8,859,069	7,913,581	24,731,976	25,072,829	60.9%	52.9%
Net pension Liability	7,260,873	10,783,301	2,267,849	3,368,556	9,528,722	14,151,857	23.5%	29.9%
Total liabilities	27,767,537	33,137,985	12,856,968	14,227,080	40,624,505	47,365,065	100.0%	100.0%
Deferred inflow s of resources								
Deferred inflow s related to pensions	2,559,786	485,830	590,193	151,767	3,149,979	637,597	100.0%	0.0%
Total deferred inflow s of resources	2,559,786	485,830	590,193	151,767	3,149,979	637,597	100.0%	0.0%
Net Position:								
Net investment in capital assets	306,270,889	301,594,758	245,826,004	240,521,398	552,096,893	542,116,156	78.4%	80.7%
Restricted	4,258,681	2,679,839	694,361	607,425	4,953,042	3,287,264	0.7%	0.5%
Unrestricted	81,678,650	71,291,868	65,143,760	55,069,455	146,822,410	126,361,323	20.9%	18.8%
Total net position	\$ 392,208,220	\$ 375,566,465	\$ 311,664,125	\$ 296,198,278	\$ 703,872,345	\$ 671,764,743	100.0%	100.0%

By far the largest portion of the City of Lacey's net position (78.4 percent) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment) less any related debt used to acquire those assets that are still outstanding. The City of Lacey uses these capital assets to provide services to citizens. Accordingly, these assets are not available for future spending. Although the City of Lacey's investment in its capital assets is reported net of related debt, it should be noted that the resources used to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City of Lacey's net position (\$5.0 million) represents resources that are subject to external restrictions on how they may be used. Reported as unrestricted net position, the governing body has committed and assigned \$60.0 million of the City's net position for specific purposes. The remaining balance of unrestricted *net position* (\$86.8 million) may be used to meet the government's ongoing obligations to citizens and creditors.

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

The City of Lacey's overall net position increased by \$32.1 million in 2017. The increase is explained in the following discussion of governmental and business-type activities.



Governmental Activities. Governmental activities increased the City of Lacey’s net position by \$16.6 million.

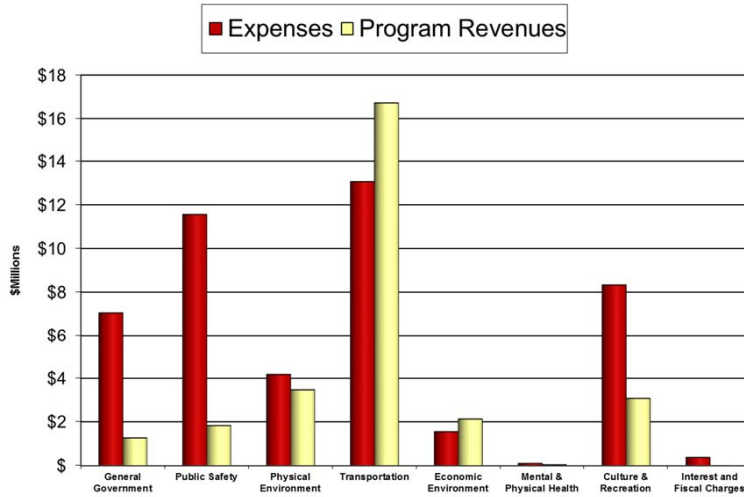
- Operating revenues (charges for services) increased by \$207,442 mainly due to first-time receipts of property tax from the voter-approved transportation benefit district, which were offset by decreased building permit, inspection, and plan review from lower construction activity. Program expenses for general government activities increased in the amount of \$520,588 due to inflationary increases and the addition of ten full-time positions to meet the growing demand on city services. Transportation program expenses decreased \$563,070 due to a \$500,000 one-time 2016 transfer out.
- Transportation capital grant and contribution revenues increased \$8.1 million due to higher developer contributed assets and a \$4.1 million increase to State grant reimbursements and mitigation fee collections.
- General revenues increased \$3.4 million. Retail and business taxes increased by \$1.6 million and \$385,658, respectively, because of overall higher retail sales activities and utility tax collections. Excise taxes increased \$451,906 as a result of increasing real estate excise taxes due to higher home sales activity. Interest and investment earnings revenue increased \$513,420, due to the rising interest rate environment.

The following table provides a summary of the City’s changes in net position as of December 31, 2017 and December 31, 2016:

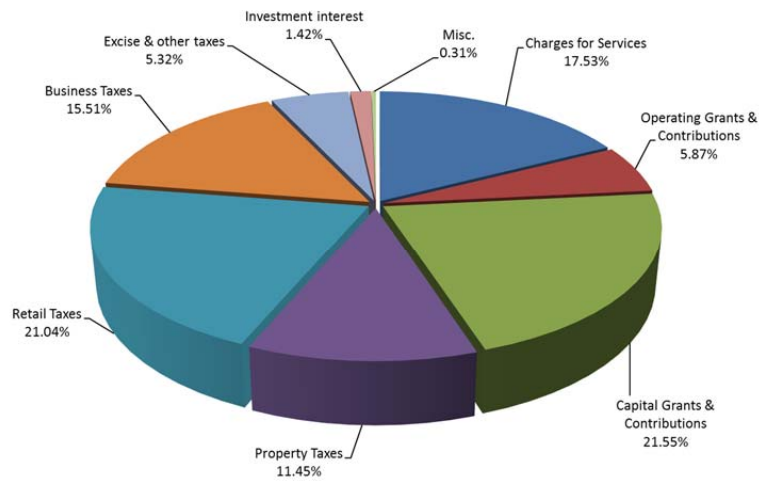
Summary of Changes in Net Position

	Governmental Activities		Business-Type Activities		Total		Percentage Of Total	
	2017	2016	2017	2016	2017	2016	2017	2016
Revenues:								
Program:								
Charges for services	\$ 11,120,401	\$ 10,912,959	\$ 38,559,029	\$ 39,755,147	\$ 49,679,430	\$ 50,668,106	45.1%	51.9%
Operating Grants	3,724,593	3,465,648	-	24,422	3,724,593	3,490,070	3.4%	3.6%
Capital Grants	13,670,183	5,534,442	7,656,766	6,171,865	21,326,949	11,706,307	19.3%	12.0%
General:								
Taxes	33,819,025	31,088,831	-	-	33,819,025	31,088,831	30.7%	31.9%
Interest	899,241	385,821	609,481	277,239	1,508,722	663,060	1.4%	0.1%
Gain (loss) on disposal of capital assets	2,225	(7,202)	(18,493)	-	(16,268)	(7,202)	0.0%	0.0%
Miscellaneous	196,477	824	23,649	-	220,126	824	0.2%	0.0%
Total revenues	63,432,145	51,381,323	46,830,431	46,228,673	110,262,576	97,609,996	100.1%	100.0%
Program expenses:								
General Government	7,047,813	6,527,225	-	-	7,047,813	6,527,225	9.1%	8.5%
Security of Persons and Property	11,555,104	11,408,012	-	-	11,555,104	11,408,012	14.8%	14.8%
Physical Environment	4,177,704	4,275,044	-	-	4,177,704	4,275,044	5.3%	5.5%
Transportation	13,058,619	13,621,689	-	-	13,058,619	13,621,689	16.7%	17.6%
Economic Environment	1,544,332	1,501,210	-	-	1,544,332	1,501,210	2.0%	1.9%
Mental and Physical Health	103,086	12,362	-	-	103,086	12,362	0.1%	0.0%
Culture & Recreation	8,329,433	8,192,800	-	-	8,329,433	8,192,800	10.7%	10.6%
Interest and fiscal charges	378,244	464,178	-	-	378,244	464,178	0.5%	0.6%
Water	-	-	11,418,223	11,183,040	11,418,223	11,183,040	14.6%	14.5%
Wastewater	-	-	16,717,353	16,083,520	16,717,353	16,083,520	21.4%	20.8%
Stormwater	-	-	3,793,969	3,974,944	3,793,969	3,974,944	4.9%	5.1%
Reclaimed Water	-	-	31,095	30,105	31,095	30,105	0.0%	0.0%
Total expenses	46,194,335	46,002,520	31,960,640	31,271,609	78,154,975	77,274,129	100.1%	99.9%
Excess (deficiency) of revenues over (under) expenses	17,237,810	5,378,803	14,869,792	14,957,064	32,107,602	20,335,867		
Transfers	(596,053)	(580,825)	596,053	580,825	-	-		
Change in net position	16,641,757	4,797,978	15,465,845	15,537,889	32,107,602	20,335,867		
Net position - beginning as previously reported	375,566,463	370,768,487	296,198,280	280,660,389	671,764,743	651,428,876		
Net position - ending	\$ 392,208,220	\$ 375,566,465	\$ 311,664,125	\$ 296,198,278	\$ 703,872,345	\$ 671,764,743		

Expenses and Program Revenues - Governmental



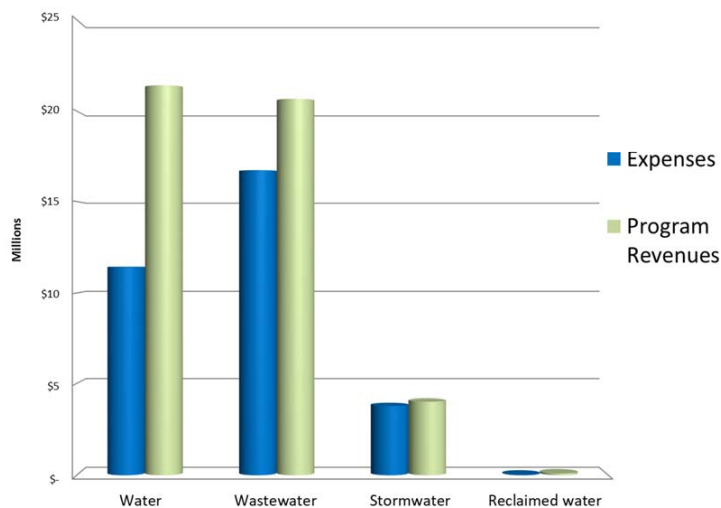
Revenues by Source - Governmental Activities



Business-type Activities. Business-type activities increased the City of Lacey's net position by \$15.5 million. Key elements of this increase are as follows:

- Water, Wastewater and Stormwater revenues decreased 3.0 percent (\$1.2 million) due to lower general facilities charge collections due to slower development, which were offset by higher charges for services due to increased water sales volume and increases relating to adopted utility rate increases.
- Capital grants and contributions attributed to 16.4 percent (\$7.7 million) of business-type revenues. This was an increase of \$1.5 million compared to the previous year. The water, wastewater, and stormwater utilities capital grants and contributions were higher than the previous year. Capital contributions from developers increased \$3.2 million.

Expense and Program Revenues-Business-Type Activities



Governmental Functional Expenses. Transportation costs make up 28.3 percent of the total governmental expenses. Security of persons and property costs comprise 25.0 percent of the City of Lacey's total governmental expenses. The culture and recreation expenses make up 18.0 percent and general government services expenses make up 15.3 percent of governmental expenses.

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

	Governmental Activities			
	Total Cost Of Services		Net Cost Of Services	
	2017	2016	2017	2016
General Government	\$ 7,047,813	\$ 6,527,225	\$ (5,790,491)	\$ (5,308,683)
Security of persons and property	11,555,104	11,408,012	(9,729,399)	(9,728,464)
Physical Environment	4,177,704	4,275,044	(708,319)	(596,810)
Transportation	13,058,619	13,621,689	3,656,385	(6,135,444)
Economic Environment	1,544,332	1,501,210	583,678	1,379,153
Mental & Physical Health	103,086	12,362	(60,185)	(12,362)
Culture & Recreation	8,329,433	8,192,800	(5,252,583)	(5,222,683)
Interest and fiscal charges	378,244	464,178	(378,244)	(464,178)
	<u>\$ 46,194,335</u>	<u>\$ 46,002,520</u>	<u>\$ (17,679,158)</u>	<u>\$ (26,089,471)</u>

Financial Analysis of Governmental Funds

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

The following table provides a revenue, expenditure, and fund balance summary for the City of Lacey's governmental funds as of December 31, 2017 and December 31, 2016:

Major Funds	Revenue, Expenditure, and Fund Balance Summary Governmental Funds					
	General Fund		Arterial Street Fund		L.I.D. Redemption Fund	
	2017	2016	2017	2016	2017	2016
Revenues						
Taxes	\$ 27,909,270	\$ 26,680,287	\$ 2,999,228	\$ 2,536,111	\$ -	\$ -
License and permits	2,259,029	2,824,458	-	-	-	-
Intergovernmental revenues	1,746,837	1,574,749	4,927,205	1,889,720	-	-
Charges for services	6,883,538	6,851,702	1,916,973	871,193	-	-
Fines & forfeitures	276,271	306,335	-	-	-	-
Other revenue	782,874	527,951	251,979	132,453	215,610	546,038
Total revenues	<u>\$ 39,857,819</u>	<u>\$ 38,765,482</u>	<u>\$ 10,095,385</u>	<u>\$ 5,429,477</u>	<u>\$ 215,610</u>	<u>\$ 546,038</u>
Expenditures	<u>\$ 31,426,746</u>	<u>\$ 29,592,397</u>	<u>\$ 8,457,717</u>	<u>\$ 3,237,330</u>	<u>\$ -</u>	<u>\$ -</u>
Other Financing Sources and Uses						
Transfers	(4,266,900)	(3,523,239)	(317,600)	-	19,350	20,425
Total other financing sources and uses	<u>\$ (4,266,900)</u>	<u>\$ (3,523,239)</u>	<u>\$ (317,600)</u>	<u>\$ -</u>	<u>\$ 19,350</u>	<u>\$ 20,425</u>
Fund Balances						
Nonspendable	\$ 33,504	\$ 2,911	\$ -	\$ -	\$ -	\$ -
Restricted	294,313	168,600	-	-	-	-
Committed	12,966,042	12,966,042	-	-	-	-
Assigned	7,769,075	9,046,443	19,927,951	18,607,883	3,698,948	3,463,988
Unassigned	18,464,922	13,179,688	-	-	-	-
Total fund balances	<u>\$ 39,527,856</u>	<u>\$ 35,363,684</u>	<u>\$ 19,927,951</u>	<u>\$ 18,607,883</u>	<u>\$ 3,698,948</u>	<u>\$ 3,463,988</u>

Note: In 2017, Arterial Street and L.I.D. Redemption nonspendable fund balances were reclassified to assigned fund balance.

For comparative purposes, this table reflects the same adjustment for 2016.

Revenue, Expenditure, and Fund Balance Summary
Governmental Funds

Nonmajor Funds	Special Revenue Funds		Debt Service Funds		Capital Projects Funds	
	2017	2016	2017	2016	2017	2016
Revenues						
Taxes	\$ 1,808,026	\$ 483,927	\$ 1,124,968	\$ 1,424,988	\$ -	\$ -
License and permits	-	-	-	-	36,648	37,277
Intergovernmental revenues	751,702	721,400	-	-	1,042,819	1,012,309
Charges for services	55,148	51,590	-	-	-	-
Other revenue	207,839	141,722	8,064	1,595	133,758	79,005
Total revenues	<u>\$ 2,822,715</u>	<u>\$ 1,398,639</u>	<u>\$ 1,133,032</u>	<u>\$ 1,426,583</u>	<u>\$ 1,213,225</u>	<u>\$ 1,128,591</u>
Expenditures	<u>\$ 3,703,549</u>	<u>\$ 3,255,539</u>	<u>\$ 1,701,525</u>	<u>\$ 3,510,525</u>	<u>\$ 1,390,664</u>	<u>\$ 1,653,615</u>
Other Financing Sources and Uses						
Transfers	\$ 2,496,602	\$ 1,532,764	\$ 569,900	\$ 2,058,150	\$ 811,640	\$ (668,925)
Total other financing sources and uses	<u>\$ 2,496,602</u>	<u>\$ 1,532,764</u>	<u>\$ 569,900</u>	<u>\$ 2,058,150</u>	<u>\$ 811,640</u>	<u>\$ (668,925)</u>
Fund Balances						
Restricted	\$ 1,104,352	\$ 1,005,871	\$ -	\$ -	\$ 392,205	\$ 552,473
Committed	750,000	750,000	-	-	6,616,683	6,616,683
Assigned	2,617,742	1,100,455	318,680	317,273	5,341,643	4,547,174
Total fund balances	<u>\$ 4,472,094</u>	<u>\$ 2,856,326</u>	<u>\$ 318,680</u>	<u>\$ 317,273</u>	<u>\$ 12,350,531</u>	<u>\$ 11,716,330</u>

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

As of the end of the current fiscal year, the City of Lacey's governmental funds reported combined ending fund balances of \$80.3 million, an increase of \$8.0 million in comparison with the prior year. Approximately 23.0 percent (\$18.5 million) of this total amount constitutes *unassigned fund balance*, which is available for spending at the government's discretion. The \$61.8 million remaining of the fund balance is *nonspendable, restricted, committed or assigned* to indicate that it is not available for new spending because it has already been designated for 1) \$178,371 restriction for the state loan secured on behalf of Thurston 9-1-1 Communications, 2) lodging tax total fund balance of \$1.0 million, 3) \$33,504 for nonspendable which includes General Fund prepaid expenses, and 4) \$59.5 million is restricted for a variety of other fund committed or assigned purposes. Additional information on the City of Lacey's restricted, committed, and assigned purposes can be found in Note 3 I starting page 4-36 of this report.

The general fund is the chief operating fund of the City of Lacey. At the end of the current fiscal year, unassigned fund balance of the general fund was \$18.5 million, while the total fund balance reached \$39.5 million. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 58.8 percent of the total general fund expenditures, while total fund balance represents 125.8 percent of that same amount.

The fund balance of the City of Lacey's general fund was increased by \$4.2 million during the current fiscal year. Key factors in this increase are as follows:

- Total tax revenues increased by \$1.2 million. This increase is primarily due to higher retail taxes from overall retail sales activity growth, increased utility tax collections due to customer base growth and rate increases, and higher property taxes primarily due new construction.

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- The total expenditure increase was \$1.8 million. Salaries and benefits increased \$1.2 million due to inflationary increases and the addition of ten full-time positions to meet the growing demand on city services. Three of the positions are limited-term employees, acknowledging some of the service demand may be temporary in nature. Professional services increased \$151,161 primarily related to the operations of the Lacey Veteran's Services Hub and tree services for cleanup and repair following a significant storm event. Agreement expenditures increased \$320,826 with the most significant increases relating to the costs of a special election for the Transportation Benefit District sales tax and higher District Court filing fees.
 - Net transfers out decreased \$181,465 primarily due to the one-time 2016 transfer to the General Obligation Bond Fund for the early retirement of the 2006 Limited Tax General Obligation Bonds.

The arterial street fund has a total fund balance of \$19.9 million, of which the entire amount is committed or assigned to indicate that it is not available for new spending. Total revenues increased \$4.7 million. Real Estate Excise taxes increased \$463,117, traffic mitigation fees increased \$1,045,780, and grant revenues increased \$3.0 million during 2017. The net increase in the fund balance during the current year was \$1.3 million.

The local improvement district bond fund has a total fund balance of \$3.7 million as of the end of current fiscal year.

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

Unrestricted net position of the Water, Wastewater, Stormwater and Reclaimed Water operations at the end of the year amounted to \$63.6 million. The total change in net position for enterprise funds was \$16.8 million, which includes total growth of \$15.2 million from 2017 activities. Other factors regarding the finances of these funds have already been addressed in the discussion of the City of Lacey's business-type activities.

General Fund Budgetary Highlights

Original budget compared to final budget. During the year, there was a \$789,469 increase in appropriations between the original and final amended budget. Following are the significant components of the 2017 General Fund budget amendments:

- The \$125,000 adopted budget for the operations of the Lacey Veterans Outreach Center was converted from a single budget line item to a separate multiple line item department budget for improved accountability.
- Unanticipated inmate security and medical costs totaled \$176,375.
- The development of the City's Pedestrian and Bicycle Plan required an amendment of \$127,600.
- Transfers Out (to the Building Improvement Fund) was amended \$250,000 when partial funding for the 50th Anniversary Train Depot Trail Amenity was identified.
- As part of the City's public records management project, a records coordinator position was established for \$52,000.

Final budget compared to actual results. In total, actual General Fund revenues exceeded the final budget by \$3.3 million or a 9.0 percent difference. The total actual expenditures were \$2.4 million less than budget or 7.1 percent below budget.

On the revenue side of the budget, the primary difference between the final budget and the actual amounts

relates to taxes and intergovernmental revenues. Sales and business and occupation taxes experienced significant variances due to stronger than expected general retail activity. Utility tax collections were higher than anticipated due to a combination of growth and rate increases. Intergovernmental revenues exceeded the final budget due to a criminal justice grant and special funding received from the State of Washington for LEOFF pension plan contributions that were not considered by the budget.

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

Capital Assets and Debt Administration

Capital assets. The City of Lacey's investment in capital assets for its governmental and business-type activities as of December 31, 2017, amounts to \$570.3 million (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, buildings and system improvements, machinery and equipment, park facilities, and infrastructure. The City of Lacey's investments in capital assets were increased by \$9.8 million (net additions were \$30.9 million and depreciation expense was \$21.1 million). Governmental activities increased 1.2 percent and business-type activities increased 2.5 percent, a 1.8 percent total increase from previous year. The following schedule shows the City of Lacey's investment in capital assets.

Capital Assets (Amounts Presented in \$1,000's)								
	Governmental Activities		Business-Type Activities		Total		Percentage Of Total	
	2017	2016	2017	2016	2017	2016	2017	2016
Non-depreciable assets:								
Land & land rights	\$ 149,175	\$ 144,940	\$ 16,301	\$ 15,334	\$ 165,477	\$ 160,274	18.3%	18.4%
Construction in progress	11,182	4,223	8,310	4,292	19,492	8,515	2.2%	1.0%
Total non-depreciable	160,357	149,163	24,612	19,626	184,969	168,789	20.5%	19.4%
Depreciable assets:								
Buildings	31,039	31,039	1,521	1,521	32,560	32,560	3.6%	3.7%
Improvements	26,996	26,869	324,290	315,538	351,287	342,407	38.9%	39.2%
Infrastructure	320,668	315,654	-	-	320,668	315,654	35.5%	36.2%
Machinery and equipment	13,083	12,237	933	875	14,016	13,112	1.6%	1.4%
Total depreciable assets	391,786	385,799	326,744	317,934	718,530	703,733	79.6%	80.5%
Total cost of capital assets	552,143	534,962	351,356	337,560	903,499	872,522	100.1%	99.9%
Less accumulated depreciation	236,355	222,862	96,831	89,190	333,186	312,052		
Book value - capital assets	\$ 315,789	\$ 312,100	\$ 254,524	\$ 248,370	\$ 570,313	\$ 560,470		
Percentage depreciated	42.8%	41.7%	27.6%	26.4%	36.9%	35.8%		

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

- Land and land rights for the City increased by \$5.2 million, which included \$949,102 for land parcels and right of way purchases for streets and utilities projects, and \$4.3 million in developer contributed easements and right of ways for streets and utilities.
- Construction in progress for governmental activities had a net increase of \$7.0 million. A total of \$8.1 million was added during 2017, which included new and existing street projects and various other projects. A total of \$1.1 million of various city street projects that began during and/or prior to 2017 were completed during 2017.

-
- Construction in progress for business-type activities had a net increase of \$4.0 million. A total of \$6.1 million was added during 2017 for new and existing Water, Wastewater and Stormwater utilities projects. Various utilities improvement projects were completed during the current fiscal year at a cost of \$2.1 million, which includes the completion of Telemetry Control CLA-VALS, 2015 Critical Valves, Westside BPS VFD/Generator, Beachcrest Water and Wastewater Mains, and the Cantergrove Waterline Replacement. Construction in progress as of the close of the fiscal year had reached \$8.3 million, which includes \$1,043,109 for a Watermain Replacement project at Nisqually, \$1,076,460 for Shady Lane Watermain Replacement, \$832,128 for Shady Lane Sewer, \$2,338,820 for a Regional Lift Station, \$654,631 for Lift Station #2 replacement, and other various projects.
 - Improvements for business-type activities increased by \$8.8 million, which includes \$2.1 million of projects that were completed and reclassified from construction in progress in 2017 and \$6.8 million in developer contributed utilities.
 - For governmental activities, various new equipment for fleet vehicles, parks maintenance, and information technology equipment were purchased at a cost of \$760,197; the cost of various obsolete and out of service machinery and equipment that was replaced or removed totaled \$72,142.

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

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

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

The City of Lacey received an "AA+" rating with a stable outlook from Standard & Poor's for its 2015 unlimited tax refunding general obligation bond and 2015 limited tax general obligation bond issues. This is an upgrade from the previous Standard & Poor's "AA" rating. Standard and Poor's revised its view of the City of Lacey's financial management practices as "strong" from "good" under its Financial Management Assessment methodology after reviewing the City's budgeting practices.

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

The City of Lacey received an "AA" rating with a stable outlook from Standard & Poor's for its 2013 utilities revenue bond issue. The bond rating was the first issued for the City's utilities in many years, so it was considered a new credit.

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

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

Long-term Debt. At the end of the current fiscal year, the City of Lacey had total bonded debt outstanding of \$19.5 million, including a State of Washington LOCAL Program loan of \$337,369. \$10.8 million is comprised of debt backed by the full faith and credit of the government and \$8.3 million is guaranteed by revenues generated by the City's water, wastewater, and stormwater utilities. The entire outstanding general obligation bonded debt consists of refunded bonds. During 2017, \$1.3 million of revenue bonds were issued to reimburse the City for a sewer utility local improvement district construction project.

Outstanding Debt
(in \$1,000's)

	Governmental Activities		Business-Type Activities		Totals		Percentage Change
	2017	2016	2017	2016	2017	2016	
General obligation bonds	\$ 10,820	\$ 12,105	\$ -	\$ -	\$ 10,820	\$ 12,105	-10.6%
Special assessment debt	-	-	-	-	-	-	0.0%
Revenue bonds	-	-	8,309	7,345	8,309	7,345	13.1%
Capital leases	43	77	-	-	43	77	0.0%
LOCAL loans	337	501	-	-	337	501	-32.6%
Total	<u>\$ 11,200</u>	<u>\$ 12,683</u>	<u>\$ 8,309</u>	<u>\$ 7,345</u>	<u>\$ 19,509</u>	<u>\$ 20,028</u>	<u>-2.6%</u>

The City of Lacey's total outstanding debt decreased by \$519,000 (2.6 percent) during the current fiscal year. The decrease is equal to the amount of debt redemption during the year, which is offset by the issuance of utility revenue bonds. The debt per capita was approximately \$400.60, which is considered low.

Additional information on the City of Lacey's long-term debt can be found in note 3-H on pages 4-32 to 4-35.

Economic Factors and Next Year's Budgets and Rates

- The 2017 average unemployment rate for the County was 5.0 percent, which is a decrease from a rate of 5.2 percent a year ago. This is higher compared to the state and national average unemployment rates of 4.5 and 4.1 percent, respectively.
- The City of Lacey's population continues to grow (48,700 in the current fiscal year) and is placing more demand on services. The City of Lacey's population is growing faster than the State average, 2.4 percent and 1.8 percent, respectively.
- Prior to the recession, revenue growth to property tax, sales tax, and planning and inspection fees offset the costs associated with growth. Revenues declined during the years 2009 through 2011. 2012 through 2015, revenues increased, but not at a level to offset the rising operating costs. The revenue growth experienced during 2016 and 2017 was primarily due to strong sales tax growth from one-time new construction in 2016 and overall growth to retail sales in 2017. The impact from new construction lessened during 2017, but it is expected to return to levels that are more robust during 2018. The City will continue its conservative approach matching one-time revenues to capital and other one-time expenditures rather than using the potentially temporary revenue growth for ongoing operational expenditures.

During the current fiscal year, unassigned fund balance in the general fund increased \$5.3 million (40.1 percent) to \$18.5 million compared to the 2016 unassigned fund balance.

The Water utility rates in the 2017 budget year were increased by 6.5 percent. The City of Lacey has phased in a water rate schedule that places more emphasis on conservation. The conservation rates place greater emphasis on the relationship of water usage to the amount paid by the customer. This change rewards the conservative customer while encouraging, through a higher rate, the high-end consumer to conserve water resources. Wastewater and Stormwater rates increased 4.25 percent and 6.0 percent, respectively, in the 2017 budget. These rates along with general facility charges, fund the current operating expenses, maintenance of the system, replacement, emergency repairs, and needed capital improvements.

Requests for Information

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

City of Lacey
Statement of Net Position
December 31, 2017

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 93,075,463	\$ 63,349,212	\$ 156,424,675
Receivables (net)	8,847,604	4,624,602	13,472,206
Internal balances	(1,107,739)	1,107,739	-
Inventories	192,516	167,393	359,909
Prepaid expenses and deposits	66,613	4,552	71,165
Restricted:			
Cash and cash equivalents	122,023	988,542	1,110,565
Investment in joint venture	614,053	-	614,053
Net pension asset	2,801,391	-	2,801,391
Capital assets:			
Non-depreciable	160,357,342	24,611,567	184,968,909
Depreciable, net	155,431,492	229,912,255	385,343,747
Total assets	<u>420,400,758</u>	<u>324,765,862</u>	<u>745,166,620</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred charge on refunding	608,593	-	608,593
Deferred outflows related to pension	1,526,192	345,424	1,871,616
Total deferred outflows of resources	<u>2,134,785</u>	<u>345,424</u>	<u>2,480,209</u>
LIABILITIES			
Accounts payable	1,484,020	1,659,210	3,143,230
Interest payable	31,799	70,840	102,639
Unearned revenues	3,117,938	-	3,117,938
Noncurrent liabilities:			
Due within one year	2,125,101	529,127	2,654,228
Due in more than one year	13,747,806	8,329,942	22,077,748
Net pension liability	7,260,873	2,267,849	9,528,722
Total liabilities	<u>27,767,537</u>	<u>12,856,968</u>	<u>40,624,505</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows related to pension	2,559,786	590,193	3,149,979
Total deferred inflows of resources	<u>2,559,786</u>	<u>590,193</u>	<u>3,149,979</u>
NET POSITION			
Net investment in capital assets	306,270,889	245,826,004	552,096,893
Restricted for:			
Pension related	2,801,391	-	2,801,391
Criminal bail	164,107	-	164,107
Lodging/tourism	1,017,191	-	1,017,191
HUD grant	20,949	-	20,949
City facilities	110,420	-	110,420
Public education fees	103,414	-	103,414
Other	41,209	-	41,209
Debt Service	-	694,361	694,361
Unrestricted	81,678,650	65,143,760	146,822,410
Total net position	<u>\$ 392,208,220</u>	<u>\$ 311,664,125</u>	<u>\$ 703,872,345</u>

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

City of Lacey
Statement of Activities
For the Year Ended December 31, 2017

Functions/Program	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants & Contributions
Primary government:				
Governmental activities:				
General government	\$ 7,047,813	\$ 1,101,031	\$ 156,291	\$ -
Security of persons and property	11,555,104	709,927	1,115,778	-
Physical environment	4,177,704	3,459,375	10,010	-
Transportation	13,058,619	2,021,632	1,029,189	13,664,183
Economic environment	1,544,332	2,122,010	-	6,000
Mental and physical health	103,086	-	42,901	-
Culture and recreation	8,329,433	1,706,426	1,370,424	-
Interest and fiscal charges	378,244	-	-	-
Total governmental activities	<u>46,194,335</u>	<u>11,120,401</u>	<u>3,724,593</u>	<u>13,670,183</u>
Business-type activities:				
Water	11,418,223	17,183,296	-	4,232,051
Wastewater	16,717,353	18,063,353	-	2,612,316
Stormwater	3,793,969	3,312,380	-	713,457
Reclaimed water	31,095	-	-	98,942
Total business-type activities	<u>31,960,640</u>	<u>38,559,029</u>	<u>-</u>	<u>7,656,766</u>
Total primary government	<u>\$ 78,154,975</u>	<u>\$ 49,679,430</u>	<u>\$ 3,724,593</u>	<u>\$ 21,326,949</u>

General revenues:

- Property taxes
- Retail taxes
- Business taxes
- Excise taxes
- Interest and investment earnings
- Gain (loss) on disposal of capital assets
- Miscellaneous

Transfers

Total general revenues and transfers

Change in net position

Net position - beginning

Net position - ending

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

Governmental Activities	Business-Type Activities	Total
\$ (5,790,491)	\$ -	\$ (5,790,491)
(9,729,399)	-	(9,729,399)
(708,319)	-	(708,319)
3,656,385	-	3,656,385
583,678	-	583,678
(60,185)	-	(60,185)
(5,252,583)	-	(5,252,583)
(378,244)	-	(378,244)
<u>(17,679,158)</u>	<u>-</u>	<u>(17,679,158)</u>
-	9,997,124	9,997,124
-	3,958,316	3,958,316
-	231,868	231,868
-	67,847	67,847
<u>-</u>	<u>14,255,155</u>	<u>14,255,155</u>
<u>(17,679,158)</u>	<u>14,255,155</u>	<u>(3,424,003)</u>
7,262,753	-	7,262,753
13,347,972	-	13,347,972
9,833,368	-	9,833,368
3,374,932	-	3,374,932
899,241	609,481	1,508,722
2,225	(18,493)	(16,268)
196,477	23,649	220,126
(596,053)	596,053	-
<u>34,320,915</u>	<u>1,210,690</u>	<u>35,531,605</u>
16,641,757	15,465,845	32,107,603
375,566,463	296,198,280	671,764,743
<u>\$ 392,208,220</u>	<u>\$ 311,664,125</u>	<u>\$ 703,872,345</u>

City of Lacey
Balance Sheet
Governmental Funds
December 31, 2017

	General	Arterial Street	L.I.D. Redemption	Other Governmental Funds	Total Governmental Funds
ASSETS					
Current cash & cash equivalents	\$ 36,186,556	\$ 21,970,126	\$ 3,230,999	\$ 16,311,130	\$ 77,698,811
Receivables (net of allowances):					
Taxes	3,551,620	194,576	-	525,934	4,272,130
Customer accounts	870,554	51	-	334,732	1,205,337
Due from other funds	-	-	6,360	-	6,360
Due from other governmental units	257,449	2,402,623	-	306,012	2,966,084
Special assessments	-	-	207,719	-	207,719
Prepayments	33,504	750	-	-	34,254
Interfund loan receivable	-	-	467,949	-	467,949
Restricted assets:					
Cash & cash equivalents	121,023	-	-	1,000	122,023
Long term loan receivable	-	-	-	178,371	178,371
Total assets	<u>41,020,706</u>	<u>24,568,126</u>	<u>3,913,027</u>	<u>17,657,179</u>	<u>87,159,038</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	527,776	343,021	-	225,712	1,096,509
Due to other governmental units	251,998	109	-	3,326	255,433
Custodial accounts:					
Customer deposits	121,023	-	-	1,000	122,023
Unearned revenue	163,490	2,954,448	-	-	3,117,938
Total liabilities	<u>1,064,287</u>	<u>3,297,578</u>	<u>-</u>	<u>230,038</u>	<u>4,591,903</u>
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenues-property tax	59,284	-	-	10,849	70,133
Unavailable revenues-special assessments	-	-	207,719	775	208,494
Unavailable revenues-violations	366,703	-	-	-	366,703
Unavailable revenues-grants and loans	2,576	1,342,597	6,360	274,212	1,625,745
Total deferred inflows of resources	<u>428,563</u>	<u>1,342,597</u>	<u>214,079</u>	<u>285,836</u>	<u>2,271,075</u>
Fund balances					
Nonspendable	33,504	-	-	-	33,504
Restricted	294,313	-	-	1,496,557	1,790,870
Committed	12,966,042	-	-	7,366,683	20,332,725
Assigned	7,769,075	19,927,951	3,698,948	8,278,065	39,674,039
Unassigned	18,464,922	-	-	-	18,464,922
Total fund balances	<u>39,527,856</u>	<u>19,927,951</u>	<u>3,698,948</u>	<u>17,141,305</u>	<u>80,296,060</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 41,020,706</u>	<u>\$ 24,568,126</u>	<u>\$ 3,913,027</u>	<u>\$ 17,657,179</u>	<u>\$ 87,159,038</u>

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

City of Lacey
Reconciliation of the Balance Sheet
To the Statement of Net Position
Governmental Funds
December 31, 2017

Fund balances - total governmental funds	\$	80,296,060
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Amounts reported for governmental activities in the statement of net position are different because:

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

Inventory - unused supplies on-hand	\$ 192,516		
Investment in joint venture	614,053		
Deferred charges on refunding	608,593		
Net pension asset	<u>2,801,391</u>		4,216,553

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

Non-depreciable assets	160,355,135		
Depreciable assets (net)	<u>153,003,418</u>		313,358,553

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

Deferred inflows of resources: unavailable revenues			
Property taxes receivable	70,133		
Special assessments receivable	208,494		
Local court revenue receivable	366,703		
Grants earned but not available	1,345,174		
HUD & Other Loan assessments receivable	<u>280,572</u>		2,271,076

Long-term liabilities, including bonds payable are not due and payable in the current period and therefore are not reported in the governmental funds:

Interest payable	(31,799)		
Bonds and loans including unamortized debt premiums	(12,120,593)		
Compensated absences and OPEB Liabilities	<u>(3,689,784)</u>		(15,842,176)

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

	<u>15,564,271</u>		15,564,271
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Net pension asset, liability and pension related deferred outflows and inflows of resources are not due in the current period, and therefore, are not reported in the funds. These amounts consist of:

Net pension liability	(6,684,707)		
Deferred outflows of resources	1,438,432		
Deferred inflows of resources	<u>(2,409,842)</u>		(7,656,117)

Net position of government activities.	\$	<u><u>392,208,220</u></u>
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The notes to the financial statements are an integral part of this statement

City of Lacey
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2017

	General	Arterial Street	L.I.D. Redemption	Other Governmental Funds	Total Governmental Funds
REVENUES					
Taxes	\$ 27,909,270	\$ 2,999,228	\$ -	\$ 2,932,994	\$ 33,841,492
Licenses and permits	2,259,029	-	-	36,648	2,295,677
Intergovernmental revenues	1,746,837	4,927,205	-	1,794,521	8,468,563
Charges for services	6,883,538	1,916,973	-	55,148	8,855,659
Fines and forfeitures	276,271	-	-	-	276,271
Other revenues	782,874	251,979	215,610	349,661	1,600,124
Total revenues	<u>39,857,819</u>	<u>10,095,385</u>	<u>215,610</u>	<u>5,168,972</u>	<u>55,337,786</u>
EXPENDITURES					
Current:					
General government	6,605,469	-	-	-	6,605,469
Security of persons and property	11,769,883	-	-	-	11,769,883
Physical environment	4,588,046	-	-	-	4,588,046
Transportation	-	-	-	3,363,433	3,363,433
Economic environment	1,604,319	-	-	34,944	1,639,263
Mental and physical health	103,174	-	-	-	103,174
Culture and recreation	6,714,547	-	-	297,255	7,011,802
Capital outlay	-	8,457,717	-	1,225,221	9,682,938
Debt service:					
Principal retirement	34,257	-	-	1,448,272	1,482,529
Interest	7,051	-	-	426,613	433,664
Total expenditures	<u>31,426,746</u>	<u>8,457,717</u>	<u>-</u>	<u>6,795,738</u>	<u>46,680,201</u>
Excess (deficiency) of revenue over (under) expenditures	<u>8,431,073</u>	<u>1,637,668</u>	<u>215,610</u>	<u>(1,626,766)</u>	<u>8,657,585</u>
OTHER FINANCING SOURCES (USES)					
Transfers in	977,672	-	19,350	5,355,171	6,352,193
Transfers out	<u>(5,244,572)</u>	<u>(317,600)</u>	<u>-</u>	<u>(1,477,029)</u>	<u>(7,039,201)</u>
Total other financing sources (uses)	<u>(4,266,900)</u>	<u>(317,600)</u>	<u>19,350</u>	<u>3,878,142</u>	<u>(687,008)</u>
Net change in fund balances	4,164,173	1,320,068	234,960	2,251,376	7,970,577
Fund balance - beginning	35,363,683	18,607,883	3,463,988	14,889,929	72,325,483
Fund balance - ending	<u>\$ 39,527,856</u>	<u>\$ 19,927,951</u>	<u>\$ 3,698,948</u>	<u>\$ 17,141,305</u>	<u>\$ 80,296,060</u>

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

City of Lacey
Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances of Governmental Funds
To the Statement of Activities
Governmental Funds
For the Year Ended December 31, 2017

Net changes in total fund balances per fund financial statements \$ 7,970,577

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

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

Capital outlay	\$ 8,752,019	
Current year depreciation	<u>(12,844,707)</u>	(4,092,688)

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

Contributed from developers and other outside sources	<u>7,764,068</u>	7,764,068
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Issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.

Debt principal repayments	1,482,529	
Net amortization of bond premiums and deferral on refunding	<u>51,531</u>	1,534,060

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

Unavailable revenue - property taxes	(22,467)	
Unavailable revenue - special assessments	(157,367)	
Unavailable revenue - grants earned but not available	1,328,167	
Unavailable revenue - court local revenue earned but not available	<u>(7,471)</u>	1,140,862

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Increase (decrease) in prepaid supplies on-hand	37,314	
Increase (decrease) in investment in joint venture	(3,699)	
(Increase) decrease in compensated absences and OPEB Liabilities	(310,482)	
(Increase) decrease in accrued interest payable	<u>3,888</u>	(272,979)

Internal service funds or activities are used by management to charge the costs of certain activities to individual funds. The net revenue of certain activities of internal service funds is reported with governmental activities.

942,236

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

1,655,621

Changes in net position of governmental activities		<u>\$ 16,641,757</u>
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The notes to the financial statements are an integral part of this statement

City of Lacey
Statement of Net Position
Proprietary Funds
December 31, 2017

	Business-type Activities Enterprise Funds					Governmental Activities Internal Service Funds
	Water	Waste- Water	Storm Water	Reclaimed Water	Total	
ASSETS						
Current assets:						
Cash and cash equivalents	\$ 33,124,984	\$ 23,768,037	\$ 4,351,934	\$ 2,104,257	\$ 63,349,212	\$ 15,376,651
Restricted cash and cash equivalents:						
Customer deposits	246,526	43,419	4,237	-	294,182	-
Receivables (net of allowances):						
Customer accounts	952,377	1,530,911	290,074	-	2,773,362	11,604
Accrued interest & penalty	14,486	83,409	-	-	97,895	-
Prepayments	357	-	4,194	-	4,551	32,359
Due from governmental units	5,471	-	-	-	5,471	-
Inventory	167,393	-	-	-	167,393	-
Total current assets:	<u>34,511,594</u>	<u>25,425,776</u>	<u>4,650,439</u>	<u>2,104,257</u>	<u>66,692,066</u>	<u>15,420,614</u>
Noncurrent assets:						
Restricted cash and cash equivalents:						
Revenue bonds covenants	607,425	86,936	-	-	694,361	-
Special assessments	16,904	94,691	-	-	111,595	-
Special assessments - noncurrent	203,544	1,432,737	-	-	1,636,281	-
Capital assets, net of depreciation:						
Land	11,401,952	1,590,988	3,308,394	-	16,301,334	-
Buildings	365,300	565,058	-	-	930,358	88,005
Improvements other than buildings	111,838,398	72,663,320	42,529,778	1,462,674	228,494,170	38,751
Equipment	149,059	313,616	25,051	-	487,726	2,301,318
Construction in progress	3,642,077	4,623,122	45,035	-	8,310,234	2,207
Total noncurrent assets	<u>128,224,659</u>	<u>81,370,468</u>	<u>45,908,258</u>	<u>1,462,674</u>	<u>256,966,059</u>	<u>2,430,281</u>
Total assets	<u>162,736,253</u>	<u>106,796,244</u>	<u>50,558,697</u>	<u>3,566,931</u>	<u>323,658,125</u>	<u>17,850,895</u>
DEFERRED OUTFLOWS OF RESOURCES						
Deferred outflows of resources related to pension	192,448	106,923	46,053	-	345,424	87,758
Total deferred outflows of resources	<u>192,448</u>	<u>106,923</u>	<u>46,053</u>	<u>-</u>	<u>345,424</u>	<u>87,758</u>
LIABILITIES						
Current liabilities:						
Accounts payable	132,812	90,122	7,409	-	230,343	10,037
Matured interest payable	36,890	26,486	7,464	-	70,840	-
Due to other funds	-	6,360	-	-	6,360	-
Due to other governmental units	205	1,119,697	8,425	-	1,128,327	18
Compensated absences	69,418	29,226	14,483	-	113,127	28,934
Current liabilities payable from restricted assets:						
Customer deposits	246,526	43,419	4,237	-	294,182	-
Current portion of interfund loans payable	-	18,080	-	-	18,080	-
Current portion of revenue bonds payable	282,781	76,000	57,219	-	416,000	-
Total current liabilities	<u>768,632</u>	<u>1,409,390</u>	<u>99,237</u>	<u>-</u>	<u>2,277,259</u>	<u>38,989</u>
Noncurrent liabilities:						
Compensated absences	69,561	22,595	13,860	-	106,016	33,596
Long-term portion of interfund loan payable	-	449,869	-	-	449,869	-
Bonds payable (net of premium/discount)	5,826,896	1,218,000	1,179,030	-	8,223,926	-
Net pension liability	1,263,499	701,995	302,355	-	2,267,849	576,166
Total noncurrent liabilities	<u>7,159,956</u>	<u>2,392,459</u>	<u>1,495,245</u>	<u>-</u>	<u>11,047,660</u>	<u>609,762</u>
Total liabilities	<u>7,928,588</u>	<u>3,801,849</u>	<u>1,594,482</u>	<u>-</u>	<u>13,324,919</u>	<u>648,751</u>
DEFERRED INFLOWS OF RESOURCES						
Deferred inflows of resources related to pension	328,817	182,690	78,686	-	590,193	149,943
Total deferred inflows of resources	<u>328,817</u>	<u>182,690</u>	<u>78,686</u>	<u>-</u>	<u>590,193</u>	<u>149,943</u>
NET POSITION						
Net investment in capital assets	121,231,701	78,459,620	44,672,009	1,462,674	245,826,004	2,430,281
Restricted for debt service	607,425	86,936	-	-	694,361	-
Unrestricted	32,832,170	24,372,072	4,259,573	2,104,257	63,568,072	14,709,678
Total net position	<u>\$154,671,296</u>	<u>\$102,918,628</u>	<u>\$ 48,931,582</u>	<u>\$ 3,566,931</u>	<u>\$ 310,088,437</u>	<u>\$ 17,139,959</u>
Adjustment to reflect the consolidation of internal balances and internal service fund activities related to enterprise funds.					1,575,688	
Net position of business-type activities.					<u>\$ 311,664,125</u>	

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

City of Lacey
Statement of Revenues, Expenses, and Changes in Fund Net Position
Proprietary Funds
For the Year Ended December 31, 2017

	Business-Type Activities Enterprise Funds					Governmental Activities Internal Service Funds
	Water	Waste- Water	Storm Water	Reclaimed Water	Total	
OPERATING REVENUES						
Charges for services	\$ 17,003,315	\$ 17,817,473	\$ 3,312,380	\$ -	\$ 38,133,168	\$ 3,897,989
Miscellaneous operating revenues	179,982	245,880	-	-	425,862	42,159
Total operating revenue	17,183,297	18,063,353	3,312,380	-	38,559,030	3,940,148
OPERATING EXPENSES						
Operating expense	3,335,522	11,910,080	1,197,174	-	16,442,776	2,010,144
Maintenance expense	3,670,267	2,440,906	728,020	-	6,839,193	284,488
Depreciation expense	3,613,201	2,183,919	1,819,692	31,095	7,647,907	743,039
Taxes	723,296	195,919	64,937	-	984,152	402
Total operating expenses	11,342,286	16,730,824	3,809,823	31,095	31,914,028	3,038,073
OPERATING INCOME (LOSS)	5,841,011	1,332,529	(497,443)	(31,095)	6,645,002	902,075
NONOPERATING REVENUES (EXPENSES)						
Special assessments interest	8,035	65,112	-	-	73,147	-
Debt issuance and service costs	-	(27,510)	-	-	(27,510)	-
Investment earnings	272,807	214,406	29,980	19,140	536,333	137,416
Miscellaneous non-operating revenues	23,649	-	-	-	23,649	-
Interest expense	(208,576)	(46,148)	(42,204)	-	(296,928)	-
Gain (loss) on disposal of capital assets	(14,000)	-	(4,493)	-	(18,493)	2,225
Total nonoperating revenues (expenses)	81,915	205,860	(16,717)	19,140	290,198	139,641
Income (loss) before contributions and transfers	5,922,926	1,538,389	(514,160)	(11,955)	6,935,200	1,041,716
Capital Contributions - grants	-	-	25,000	-	25,000	-
Capital Contributions - private	4,232,051	2,612,316	688,457	98,942	7,631,766	-
Capital Contributions - interfund	-	-	-	-	-	87,392
Transfers in	746,192	-	-	-	746,192	90,954
Transfers out	(147,602)	-	(2,537)	-	(150,139)	-
Changes in net position	10,753,567	4,150,705	196,760	86,987	15,188,019	1,220,062
Net position - beginning	143,917,729	98,767,923	48,734,822	3,479,944		15,919,897
NET POSITION - ENDING	\$ 154,671,296	\$ 102,918,628	\$ 48,931,582	\$ 3,566,931		\$ 17,139,959
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.					277,826	
Rounding adjustment					(1)	
Change in net position of business-type activities.					\$ 15,465,844	

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

City of Lacey
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2017

	Business-type Activities Enterprise Funds				Governmental Activities Internal Services Funds
	Water	Waste- Water	Storm Water	Reclaimed Water	Total
CASH FLOW FROM OPERATING ACTIVITIES:					
Receipts from customers and users	\$ 17,130,086	\$ 17,972,071	\$ 3,289,284	\$ -	\$ 38,391,441
Receipts from interfund services	-	-	-	-	-
Payments to suppliers	(3,858,644)	(13,107,562)	(992,798)	-	(17,959,004)
Payments for interfund services	(622,942)	(401,880)	(263,243)	-	(1,288,065)
Payments for employees	(2,937,523)	(1,972,367)	(768,133)	-	(5,678,023)
Payments for taxes	(723,296)	(195,919)	(64,937)	-	(984,152)
Net cash provided by operating activities	8,987,681	2,294,343	1,200,173	-	12,482,197
CASH FLOW FROM NON-CAPITAL FINANCING ACTIVITIES:					
Transfers in from other funds	746,192	-	-	-	746,192
Receipt of interfund loan interest payment	-	19,898	-	-	19,898
Transfers out to other funds	(147,602)	-	(2,537)	-	(150,139)
Operating grant received	-	-	-	-	-
Net cash provided by non-capital financing activities	598,590	19,898	(2,537)	-	615,951
CASH FLOW FROM CAPITAL AND RELATED FINANCING ACTIVITIES:					
Acquisition and construction of capital assets	(2,850,954)	(3,270,376)	(66,261)	-	(6,187,591)
Proceeds from sales of capital assets	23,649	-	-	-	23,649
Proceeds from sales of revenue bonds	-	1,294,000	-	-	1,294,000
Payments for debt issue and related costs	-	(27,510)	-	-	(27,510)
Proceeds (payment) on Interfund loan	-	(17,368)	-	-	(17,368)
Interest paid on interfund loan	-	(19,898)	-	-	(19,898)
Principal paid on revenue bonds	(274,464)	-	(55,536)	-	(330,000)
Interest paid on revenue bonds	(226,829)	-	(45,899)	-	(272,728)
Payments received on special assessments	19,082	179,540	-	-	198,622
Subsidy from grant	-	-	25,000	-	25,000
Net cash used by capital and related financing activities	(3,309,516)	(1,861,612)	(142,696)	-	(5,313,824)
CASH FLOW FROM INVESTING ACTIVITIES:					
Interest received on investments	272,807	194,508	29,982	19,140	516,437
Net cash provided (used) by investing activities	272,807	194,508	29,982	19,140	516,437
Net increase (decrease) in cash and cash equivalents	6,549,562	647,137	1,084,922	19,140	8,300,761
Cash and cash equivalents January 1 (including restricted cash & cash equivalents)	27,429,373	23,251,255	3,271,249	2,085,117	56,036,994
	<u>\$ 33,978,935</u>	<u>\$ 23,898,392</u>	<u>\$ 4,356,171</u>	<u>\$ 2,104,257</u>	<u>\$ 64,337,755</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:					
Net operating income (loss)	\$ 5,841,011	\$ 1,332,529	\$ (497,443)	\$ (31,095)	\$ 6,645,002
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:					
Depreciation	3,613,201	2,183,919	1,819,692	31,095	7,647,907
Decrease (increase) in:					
Customer receivables	(51,423)	(83,171)	(23,335)	-	(157,929)
Intergovernmental receivables	26,417	-	-	-	26,417
Prepaid expenses	45	-	(4,194)	-	(4,149)
Inventories	6,998	-	-	-	6,998
Customer deposits	(28,205)	(8,111)	239	-	(36,077)
Increase (decrease) in:					
Accounts payable	(82,147)	(96,165)	(28,277)	-	(206,589)
Intergovernmental payables	(43,185)	(953,275)	(913)	-	(997,373)
Compensated absences	(1,105)	(1,138)	4,577	-	2,334
Net pension liability, deferred outflows and inflows of pension related resources	(293,926)	(80,245)	(70,173)	-	(444,344)
Total adjustments	3,146,670	961,814	1,697,616	31,095	5,837,195
Net cash provided by operating activities	<u>\$ 8,987,681</u>	<u>\$ 2,294,343</u>	<u>\$ 1,200,173</u>	<u>\$ -</u>	<u>\$ 12,482,197</u>
Reconciliation of cash and cash equivalents with the amounts on the fund statement of net position:					
Cash and cash equivalents	\$ 33,124,984	\$ 23,768,037	\$ 4,351,934	\$ 2,104,257	\$ 63,349,212
Restricted cash and cash equivalents	853,951	130,355	4,237	-	\$ 988,543
Less investments with maturity over 3 months	-	-	-	-	-
Cash and cash equivalents for cash flow statements	<u>\$ 33,978,935</u>	<u>\$ 23,898,392</u>	<u>\$ 4,356,171</u>	<u>\$ 2,104,257</u>	<u>\$ 64,337,755</u>
Schedule of noncash capital and related financing activities:					
Contributions of capital assets from developers	\$ 4,232,051	\$ 2,612,316	\$ 688,457	\$ 98,942	\$ 7,631,766
Capital assets transferred from other funds	-	-	-	-	-

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

City of Lacey
Statement of Fiduciary Net Position
Fiduciary Funds
December 31, 2017

	Agency Funds
<hr/>	
ASSETS	
Cash and cash equivalents	\$ 3,248,491
Restricted cash and cash equivalents	36,184
Prepaid expenses and deposits	5,983
Accounts receivables, net of uncollectible accounts	111,062
Due from other governmental units	<u>356,948</u>
Total assets	<u><u>\$ 3,758,668</u></u>
LIABILITIES	
Accounts payable	\$ 72,637
Accrued employee leave payable	92,875
Custodial - seizure cases pending	36,184
Capital lease payable	12,614
Due to other governmental units	<u>3,544,358</u>
Total liabilities	<u><u>\$ 3,758,668</u></u>

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

City of Lacey
Notes to the Financial Statements
December 31, 2017

Note 1. Summary of significant accounting policies

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

A. Reporting entity

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

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

B. Basic financial statements

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

Government-wide financial statements

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

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

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

Fund financial statements

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

The government reports the following major governmental funds:

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

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

The *local improvement district (L.I.D.) bond redemption fund* was created to provide for the retirement of all local improvement district bonds issued for City facilities or equipment. Debt issued or bonds received without the guarantee of City tax revenues must depend on special assessments against property owners. The LID fund did not meet the major fund criteria in 2015, 2016, and 2017 but is reported as a major fund to maintain consistency and comparability.

The City reports the following major enterprise funds:

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

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

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

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

Additionally, the government reports the following fund types:

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

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

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

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

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

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

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

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

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

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

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

D. Budgetary Information

1. Scope of Budget

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

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

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

2. Amending the budget

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

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

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

1. Cash, deposits, and investments

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

Investments for the City are reported at fair value, based on the fair market value at fiscal year-end, except for the position in the State Treasurer's Local Government Investment Pool (LGIP). The LGIP operates in accordance with appropriate state laws and regulations (RCW 43.250.020). The LGIP is comparable to a Rule 2a-7 money market fund, as currently recognized by the Securities and Exchange Commission (17CFR.270.2a-7). Rule 2a-7 funds are limited to high quality obligations with limited maximum and average maturities, the effect of which is to minimize both market and credit risk. As such, investments are reported at amortized cost (which approximates fair value).

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

2. Receivables and payables

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

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

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

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

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

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

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

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

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

4. Inventories and prepaid items

Inventories are assets held for internal consumption or for resale. Inventories in governmental funds are

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

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

5. Restricted assets and liabilities

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

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

Capital assets include property, plant, equipment, and infrastructure assets (i.e., roads, sidewalks and similar items), and are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets, other than the infrastructure assets, are defined by the government as assets with an initial, individual cost of \$5,000 or more (land is capitalized regardless of value), and an estimated useful life in excess of two years. For infrastructure assets, the capitalization threshold is \$50,000 or more. Major outlays for capital assets and improvements are capitalized as projects are constructed. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. Interest incurred during the construction phase of capital assets of enterprise funds is included as part of the capitalized value of the assets constructed. The amount of interest capitalized depends on the specific circumstances.

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

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

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

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

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

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

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

7. Deferred outflows/inflows of resources

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

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

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

8. Compensated absences

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

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

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

9. Long-term liabilities

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

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

10. Fund balance, net position classifications and policies

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The government itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

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

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

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

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

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

11. Pensions

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

F. Revenues, expenditures and expenses

1. Program revenues

Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from

goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements or a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

2. General revenues

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

3. Interfund transactions and interfund transfers

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

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

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

4. Expenditures/expenses

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

5. Operating and nonoperating revenues and expenses

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

Note 2. Stewardship, compliance and accountability

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

Note 3. Detailed notes on all activities and funds

A. Deposits and investments

The City's deposits, including money markets and certificates are entirely covered by the Federal Depository Insurance Corporation (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC). The PDPC is a statutory authority established under Chapter 39.58 of the Revised Code of Washington.

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

As of December 31, 2017, the City held the following investments at amortized cost:

<u>Investment Type</u>	<u>Maturity</u>	<u>Lacey's Own Investments</u>	<u>Total</u>
Washington State Local Government Investment Pool	60 Days	138,107,640	138,107,640
Certificate of Deposit	53 Days	433,077	433,077
Total		<u>138,540,717</u>	<u>138,540,717</u>

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

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

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

Interest rate risk. In accordance with its investment policy, the City manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to five (5) years or less from the

date of purchase, unless matched to a specific cash flow or bond reserve funds. The interest rate risks of participants' balances in the LGIP are limited as the weighted average maturity of the portfolio will not exceed 60 days. As of December 31, 2017, the LGIP had a weighted average maturity of 37 days. The City does not have a specific interest rate risk policy.

<u>Investment Type</u>	<u>Fair Value</u>	<u>Less Than 1</u>	<u>1 to 5</u>	<u>6 to 10</u>	<u>More than 10</u>
<u>Debt Securities</u>					
U.S. Treasury Obligations	\$ -	\$ -	\$ -	\$ -	\$ -
U.S. Agency Obligations	-	-	-	-	-
Municipal Debt Obligations	-	-	-	-	-
Total Debt Securities	\$ -	\$ -	\$ -	\$ -	\$ -
<u>Other Securities</u>					
WA State Local Government Investment Pool	\$ 138,107,640	\$ 138,107,640	\$ -	\$ -	\$ -
Certificates of Deposit	433,077	433,077	-	-	-
Total Other Securities	\$ 138,540,717	\$ 138,540,717	\$ -	\$ -	\$ -

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

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

Amounts reported in the fund statements for the year ended December 31, 2017 are as follows:

	<u>Amount</u>
<u>Governmental Funds</u>	
Cash and cash equivalents and investments	\$ 77,698,811
Restricted cash and cash equivalents and investments	122,023
Total governmental funds	<u>77,820,834</u>
<u>Enterprise Funds</u>	
Cash and cash equivalents	63,349,212
Restricted cash and cash equivalents	988,543
Total proprietary funds	<u>64,337,755</u>
<u>Internal Services Funds</u>	
Cash and cash equivalents	15,376,651
Restricted cash and cash equivalents (deposits)	-
Total proprietary funds	<u>15,376,651</u>
<u>Fiduciary Funds</u>	
Cash and cash equivalents	3,248,491
Restricted cash and cash equivalents and investments	36,184
Total fiduciary funds	<u>3,284,675</u>
Total	<u>\$ 160,819,915</u>

Cash, deposits, and investments for the year ended December 31, 2017 are as follows:

	Amount
Cash on hand	\$ 32,725
Checking accounts	7,256,162
Public Funds Interest Checking	14,990,311
Certificates of deposits	433,077 ⁽¹⁾
Washington State Investment Pool (LGIP)	138,107,640 ⁽¹⁾
Total	<u>\$ 160,819,915</u>

⁽¹⁾ Investments measured at amortized cost

B. Receivables and unearned and unavailable revenues

The \$3,551,620 taxes receivable in the general fund includes \$78,361 property taxes, \$1,928,408 sales and use taxes, and \$1,373,946 business and utility taxes, and \$170,905 for other taxes. The customer accounts receivable \$870,554 in the general fund includes \$366,703 in fines for violations.

The special assessment receivable amount of \$207,719 reported in the LID redemption fund includes \$134,279 of delinquent principal and \$65,652 of delinquent interest and penalties, and they are expected to be collected within the next year.

The long-term loan receivable of \$178,371 reported in the other governmental funds represents a loan payable from TCOMM 911. In November 2011, the City entered into a Local Agency Financing Contract with the Washington State Local Option Capital Asset Lending (LOCAL) Program for the acquisition and financing of the 911 Communications equipment. An interlocal agreement was entered between TCOMM 911 and the City, which requires TCOMM 911 to pay the City for the annual debt service payments.

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

Description	Unearned Revenues 12/31/2017
Deposits for advance reservations (general fund)	\$ 163,490
Traffic mitigation fees collected but earnings process not yet complete (arterial street fund)	2,954,448
Total unearned revenues for governmental funds	<u>\$ 3,117,938</u>

C. Property taxes

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

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

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

The City is permitted by law to levy up to \$3.60 minus the library rate of \$0.40 and the fire district rate of \$1.50 per \$1,000 of assessed valuation for general governmental services. This amount may be reduced for any of the following three reasons:

1. The Levy Limit: The levy limit calculation applies to a taxing district's budget, and not to increases in the assessed value or tax bill of individual properties. Washington State law (RCW 84.55.010) restricts individual taxing districts from collecting, in any year, more than one percent increase in their regular, non-voted, levy over the highest levy amount since 1985. New construction, annexations, and excess levies approved by the voters are not included in the levy limit calculation. If the assessed valuation increases by more than one percent due to revaluation, the levy rate will be decreased.
2. The One Percent Constitutional Limit: The Washington State Constitution limits the regular (non-voted) combined property tax rate applied to an individual's property to one percent (\$10 per \$1,000) of the market valuation. Voters may vote special levies that are added to this figure. If the taxes of all districts exceed this amount, each is proportionately reduced until the total is at or below the one-percent limit.
3. The City may voluntarily levy taxes below the legal limit. Special levies approved by the voters are not subject to the above limitations. The City's regular levy rate for 2017 was \$1.1745 per \$1,000 on an assessed valuation of \$5,266,599,967 for a total regular levy of \$6,185,582. Additionally, special levies for G.O. bond obligations totaled \$1,131,626.

D. Capital assets

Capital asset activities for the year ended December 31, 2017 were as follows:

	Beginning			Ending Balance 12/31/2017
Governmental Activities	Balance 1/1/2017	Increases	Decreases	
Non-depreciable Capital Assets:				
Land and land rights	\$ 144,939,559	\$ 4,235,620	\$ -	\$ 149,175,179
Construction in progress	4,223,343	8,063,067	1,104,247	11,182,163
Total non-depreciable assets	149,162,902	12,298,687	1,104,247	160,357,342
Depreciable Capital Assets:				
Buildings	31,038,882	-	-	31,038,882
Improvements	26,869,119	127,354	-	26,996,473
Infrastructure	315,654,484	5,013,605	-	320,668,089
Machinery & equipment	12,236,500	940,883	94,806	13,082,577
Total depreciable assets at cost	385,798,985	6,081,842	94,806	391,786,021
Less accumulated depreciation:				
Buildings	12,845,959	737,220	-	13,583,179
Improvements	11,596,788	1,374,993	-	12,971,781
Infrastructure	189,177,333	10,612,117	-	199,789,450
Machinery & equipment	9,241,509	863,416	94,806	10,010,119
Total accumulated depreciation	222,861,589	13,587,746	94,806	236,354,529
Total Depreciable assets, net	162,937,396	(7,505,904)	-	155,431,492
Governmental activities capital assets, net	\$ 312,100,298	\$ 4,792,782	\$ 1,104,247	\$ 315,788,834

Business-type activities	Beginning			Ending
	Balance 1/1/2017	Increase	Decrease	Balance 12/31/2017
Non-depreciable Capital Assets:				
Land and land rights	\$ 15,333,725	\$ 967,608	\$ -	\$ 16,301,333
Construction in process	4,292,201	6,119,962	2,101,929	8,310,234
Total non-depreciable assets	19,625,926	7,087,570	2,101,929	24,611,567
Depreciable Capital Assets:				
Buildings	1,520,813	-	-	1,520,813
Improvements	315,538,170	8,752,087	-	324,290,257
Machinery & equipment	875,488	67,631	10,484	932,635
Total depreciable assets at cost	317,934,471	8,819,718	10,484	326,743,705
Less accumulated depreciation:				
Buildings	553,381	37,075	-	590,456
Improvements	88,241,661	7,554,424	-	95,796,085
Machinery & equipment	394,491	56,409	5,991	444,909
Total accumulated depreciation	89,189,533	7,647,908	5,991	96,831,450
Total depreciable assets, net	228,744,938	1,171,810	4,493	229,912,255
Business-type activities capital assets, net	\$ 248,370,864	\$ 8,259,380	\$ 2,106,422	\$ 254,523,822

2017 Depreciation expenses were charged to functions/programs of the primary government as follows:

Governmental activities	Amount
General Government	\$ 514,354
Security of persons and property	11,181
Physical environment	2,133
Transportation	10,609,607
Economic environment	36,930
Culture and recreation	1,670,502
Internal services funds	743,039
Total governmental-type activities depreciation expense	<u>\$ 13,587,746</u>
Business-type activities	Amount
Water	\$ 3,613,202
Wastewater	2,183,919
Stormwater	1,819,692
Reclaimed Water	31,095
Total business-type activities depreciation expense	<u>\$ 7,647,908</u>

Construction Commitments

The City has active construction projects in progress as of December 31, 2017. The projects include construction of streets in various areas and the construction of various water, wastewater, and stormwater facilities.

At the end of the fiscal year 2017, the City's commitments with contractors for major active utilities construction projects were as follows:

Project description	Spent to-date 12/31/2017	Estimated Remaining Commitment
Hoh Street Water Transmission Line	\$ 425,113	\$ 23,531
Shady Lane Water Replacement	876,250	55,419
Gateway RPBA	20,312	23,634
2017 Watermain Replacement (Nisqually)	811,421	156,732
Steilacoom Regional Lift Station	2,141,500	845,256
Lift Station #2 Replacement	-	2,599,600
Shady Lane Sewer Replacement	692,550	42,667
Total	\$ 4,967,144	\$ 3,746,839

The City's 2018 budget for utilities capital funds include expenditures for completion of these projects.

The City had the following major active arterial street capital improvement projects in progress as of December 31, 2017:

- College St. & 22nd Ave Roundabout Permit Compliance
- Hogum Bay Road Improvements
- Hawks Prairie Road/Marvin road Roundabout Design
- Ruddell Road Sidewalk/Retaining Walls

The Arterial Street fund's 2018 capital expenditures budget of \$9,257,604 includes the funding for these projects.

E. Interfund loans and transfers

Loans/advances from/to other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
LID Debt Fund	Wastewater Fund	\$ 467,949
		<u>\$ 467,949</u>

Interfund loan balances at December 31, 2017 were as follows:

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

Interfund transfers:

Interfund transfers activities for the year were as follows:

Fund	Purpose	Amounts Transferred In	Amounts Transferred Out
<u>Governmental Funds:</u>			
<u>Major Funds:</u>			
General Fund	Routine transfers from Parks & Open Space fund for Rainier Vista Park \$ 860,072 Maintenance \$391,057 and Regional Athletic Complex (RAC) maintenance \$270,515; from Lodging Tax fund for museum operations \$48,500 and RAC promotion and advertisement \$150,000.		
	Non-routine transfer from Arterial Street fund \$117,600 for bike and pedestrian plan.	117,600	
	Routine transfers of fire hydrant flows to Water M&O fund \$746,192; utility tax collections of \$3,424,984 to Street fund, Capital Equipment fund and Parks & Open Space fund to maintain operations and fund capital replacements.		4,171,176
	Non-routine transfers from General fund \$248,079 to Capital Equipment fund for Veteran HUB signage and equipment, EOC equipment and \$150,000 to RAC Capital Fund for RAC security cameras.		398,079
	Non-routine transfers from General fund \$48,000 to Street fund for street trees and sidewalk project and \$627,317 to Building Fund for museum master plan, public art, Library HVAC, Library bathroom and other building projects.		675,317
Arterial Street Fund	Non-routine transfers from Arterial Street Fund of \$117,600 to General Fund for bike and pedestrian grant plan and \$200,000 to Street fund for LED Street Light replacement.		317,600
L.I.D. Redemption Fund	Non-routine transfer from Water Debt Service fund for ULID21 assessment costs.	19,350	

Fund	Purpose	Amounts Transferred In	Amounts Transferred Out
<u>Non-major Governmental Funds:</u>	Routine transfer of \$569,900 from RAC Capital fund in G.O. Debt fund for debt service; utility tax revenues distribution from General fund in Street fund \$2,407,268, Capital Equipment fund \$510,902 and to Parks and Open Space fund \$506,814.	\$ 3,994,883	
	Non-routine transfers from General Fund \$48,000 to Street Fund for street trees and sidewalk repair; to Building Fund \$627,317 for Museum Master Plan, public art, Library HVAC, Library bathroom and other building projects.	675,317	
	Non-routine transfers from General fund \$248,079 to Capital Equipment fund for Veteran HUB signage, HUB equipment, EOC equipment, and \$150,000 to RAC Capital Fund for RAC security cameras. Capital Equipment fund \$47,057 to Building Fund for security gate, Library building and other building projects ; Water Fund \$39,835 to Hicks Lake fund transferring equity and Arterial Street fund \$200,000 to Arterial Street fund for LED street light replacements.	684,971	
	Routine transfer from Lodging Tax Fund to Regional Athletic Complex Operating fund \$150,000 for RAC promotion; from Parks and Open Space fund to General Fund \$270,515 for RAC maintenance and \$391,057 Rainier Vista Parks maintenance. Routine transfer \$569,900 from RAC Capital fund to G.O. Debt Service fund for debt service. Routine transfer of \$48,500 from Lodging Tax fund to RAC Capital fund for museum operations; \$47,057 to Building fund for building Non-routine transfer to General fund for consolidated commitment reserves; \$500,000 from Street fund and \$560,000 from Capital Equipment fund.		1,477,029
Total Governmental Funds		\$ 6,352,193	\$ 7,039,201
Fund	Purpose	Amounts Transferred In	Amounts Transferred Out
<u>Proprietary Funds:</u>			
<u>Internal Services Funds</u>	Nonroutine capital asset transfers to Equipment Rental Fund; \$88,418 from Water Fund and \$2,537 from Stormwater Fund.	\$ 90,954	
<u>Enterprise Funds:</u>			
Water Fund	Routine transfer from General fund for fire hydrant flow.	746,192	
	Nonroutine transfer to LID Debt Service Fund for ULID21 assessment		59,183
	Nonroutine transfer to Equipment Rental Fund for \$88,418 for capital asset.		88,418
Wastewater Fund	Nonroutine transfer to Equipment Rental Fund for \$2,537 for capital asset.		2,537
Total Proprietary Funds		\$ 837,146	\$ 150,138
Total		\$ 7,189,339	\$ 7,189,339

Reconciliation to Statement of Activities

Total net transfers - governmental funds	\$ (687,007)
Internal Services Nonroutine capital asset transfers to Equipment Rental Fund; \$88,418 from Fund Water Fund and \$2,536 from Stormwater Fund.	90,954
Total governmental activities, transfers out	<u>\$ (596,053)</u>
Total net transfers - enterprise funds	\$ 687,007
Capital asset transfer to governmental activities	(90,954)
Total business-type activities - transfers in	<u>\$ 596,053</u>

F. Restricted assets

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

Purposes	Governmental Funds	Enterprise Funds
Customer deposit	\$ 122,023	\$ 294,182
Revenue bonds covenants	-	694,361
Total	<u>\$ 122,023</u>	<u>\$ 988,543</u>

G. Leases**Capital Leases**

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

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

The assets acquired through capital lease as of December 31, 2017 are as follows:

Assets:	Governmental
	Activities
Machinery and equipment	\$ 135,629
Less: Accumulated depreciation	(109,922)
Total	<u>\$ 25,707</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2017 were as follows:

<u>Year Ending December 31</u>	Governmental
	Activities
2018	\$ 36,111
2019	9,430
Total minimum lease payments	45,541
Less: amount representing interest	(2,868)
Present value of minimum lease payments	<u>\$ 42,673</u>

Operating Leases

The City of Lacey has lease commitments for leases of office machinery and equipment that are non-cancelable with lease terms primarily from month to month with one that extends to 48 months. The total operating lease expenditures for the year ended December 31, 2017 was \$4,503.

H. Long-term liabilities

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

General Obligation Bonds

The City issues general obligation bonds to finance the acquisition, construction, improvements of capital facilities, and major equipment purchases. General obligation bonds are direct obligations and pledge the full faith and credit of the government. Payments on voter-approved bonds (unlimited) are funded from property tax levies. Non-voter approved bonds (limited) have been funded by other sources of revenues such as sales tax and transfers in. Variable-rate debt used was the effective interest rate as of December 31, 2017.

General Obligation Bonds outstanding as of December 31, 2017 are as follows:

Description	Balance
2010 Unlimited Tax General Obligation Refunding Bonds issue amount of \$3,790,000; dated December 1, 2010; interest rates of 2.0-4.0% with maturity date of December 1, 2021. Issued to advance refund a portion of the City's outstanding 2002 UTGO Bonds maturing on December 1 of the years 2012 through 2021 and to pay the costs of the refunding issuance. Interest rates are 3% in 2016-2017, 3.25% in 2018, and 4% in 2019-2021.	\$ 1,660,000
2012 Unlimited Tax General Obligation Refunding Bonds issue amount of \$2,945,000; dated December 19, 2012; interest rates of 2.0-3.0% with maturity date of December 1, 2023. Issued to advance refund a portion of the City's outstanding 2003 UTGO Bonds maturing on December 1 of the years 2014 through 2023 and to pay the costs of the refunding issuance.	1,780,000
2015 Unlimited Tax General Obligation Refunding Bonds issue amount of \$2,995,000; dated May 20, 2015; interest rates of 2.0-4.0% with maturity date of December 1, 2026. Issued to advance refund a portion of the City's outstanding 2006 UTGO Bonds maturing on December 1 of the years 2017-2026 and to pay the costs of the refunding issuance. Interest rates are 2% in 2016-2017, 3% in 2018-2021 and 4% in 2022-2027.	2,695,000
2015 Limited Tax General Obligation Refunding Bonds issue amount of \$4,770,000; dated May 20, 2015; interest rate of 2.0-4.0% with final maturity date of December 1, 2027. Issued to advance refund a portion of the City's outstanding 2007 LTGO Bonds maturing on December 1 of the years 2018- 2027 and to pay the costs of the refunding issuance. Interest rates are 2% in 2016-2017, 3% in 2018-2021 and 4% in 2022-2027.	4,685,000
Total	\$ 10,820,000

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

Year Ending December 31	General Obligation Bonds	
	Governmental Activities	
	Principal	Interest
2018	\$ 1,320,000	\$ 373,125
2019	1,360,000	335,350
2020	1,410,000	293,350
2021	1,465,000	249,800
2022	1,055,000	204,400
2023-2027	4,210,000	462,850
Total	\$ 10,820,000	\$ 1,918,875

Revenue Bonds

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

The City issued \$8,290,000 of Water and Sewer Revenue Bonds in November 2013. The City pledges to pay all of the Gross Revenue of the Waterworks Utility (the combined water, sewer and Stormwater systems of the City) into the Revenue Fund as collected and make payments required to be made into the Bond Fund to pay the maturing principal and interest and the required debt service reserves as defined in Ordinance No. 1420. The principal and interest on this Bond are payable solely out of the Water Debt Service, Wastewater Debt Service and Stormwater Debt Service Funds (collectively, the "Bond Fund"). The bond covenants require that in each calendar year, the net revenue of the Waterworks Utility will equal at least 1.20 times the annual debt service for such year and also require a reserve account to secure the payment of the principal and interest on the Bonds. The reserve account is to be an amount equal to the lesser of a) 125% of average annual debt service on the bonds or b) maximum annual debt service on the bonds. A reserve account on the bonds has been established in the Water Debt Service fund. The required minimum debt service reserve is \$607,425.

The City issued \$1,294,000 of Water and Sewer Revenue Bonds in March 2017. The City pledges to pay all of the Gross Revenue of the Waterworks Utility (the combined water, sewer and Stormwater systems of the City) into the Revenue Fund as collected and make payments required to be made into the Bond Fund to pay the maturing principal and interest and the required debt service reserves as defined in Ordinance No. 1504. The principal and interest on this Bond are payable solely out of the Water Debt Service, Wastewater Debt Service and Stormwater Debt Service Funds (collectively, the "Bond Fund"). The bond covenants require that in each calendar year, the net revenue of the Waterworks Utility will equal at least 1.20 times the annual debt service for such year and also require a reserve account to secure the payment of the principal and interest on the Bonds. The reserve account is to be an amount equal to the lesser of a) 125% of average annual debt service on the bonds or b) maximum annual debt service on the bonds. A reserve account on the bonds has been established in the Wastewater Debt Service fund. The required minimum debt service reserve is \$86,936.

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

Revenue bond outstanding as of December 31, 2017 is as follows:

Description	Balance
2013 Water and Sewer Revenue Bonds issue amount of \$8,290,000; dated November 19, 2013; original interest rates of 2.0%-4.5% with final maturity date of November 1, 2033. Issue to finance improvements to the Waterworks Utility and to fund a reserve account and pay the costs of issuance and sale of the bonds. Payments are funded by the revenues of the Waterworks Utility.	\$ 7,015,000
2017 Water and Sewer Revenue Bonds issue amount of \$1,294,000; dated March 17, 2017; original interest rates of 2.56%-2.74% with final maturity date of February 1, 2032. Issue to finance improvements to the Waterworks Utility and to fund a reserve account and pay the costs of issuance and sale of the bonds. Payments are funded by the revenues of the Waterworks Utility.	1,294,000
Total	\$ 8,309,000

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

Year Ending December 31	Revenue Bonds	
	Business-type Activities	
	Principal	Interest
2018	\$ 416,000	\$ 295,019
2019	424,000	287,106
2020	431,000	278,211
2021	442,000	265,616
2022	459,000	252,695
2023-2027	2,518,000	1,029,636
2028-2032	3,039,000	516,720
2033	580,000	26,100
Total	<u>\$ 8,309,000</u>	<u>\$ 2,951,102</u>

Government Loans

Government loans outstanding as of December 31, 2017 are as follows:

Description	Balance
Washington State Treasurer LOCAL Program loan issued amount of \$1,122,033.27; dated March 29, 2012; interest rate of 1.54231%; maturity date June 1, 2019. Issued to provide funding for Simulcast/Narrowband Radio System acquisition for TCOMM 911. Payments are funded by TCOMM 911 by an interlocal agreement.	\$ 337,369
Total	<u>\$ 337,369</u>

Annual debt service requirements to maturity for government loans are as follows:

Year Ending December 31	Government Loans	
	Governmental Activities	
	Principal	Interest
2018	\$ 166,571	\$ 6,790
2019	170,798	2,562
Total	<u>\$ 337,369</u>	<u>\$ 9,352</u>

Legal debt margin

The City is subject to a statutory debt limitation that is 7.5 percent of assessed value of taxable property. On December 31, 2017, the statutory debt limitation amount was \$394,994,998. As of December 31, 2017, the total net outstanding debt applicable to this limit was \$12,120,594, which is 3.0 percent of the total debt limit.

Changes in long-term liabilities

The following is a summary of changes in long-term liabilities for the year ended December 31, 2017:

Type of Debt	Beginning Balance 1/1/2017	Additions	Reductions/ Adjustments	Ending Balance 12/31/2017	Due Within One Year
Governmental Activities:					
<u>G.O. Bonds:</u>					
G.O. Bonds, par	\$ 12,105,000	\$ -	\$ 1,285,000	\$ 10,820,000	\$ 1,320,000
Unamortized bonds premiums	1,048,469	-	127,918	920,551	-
Total G.O. bonds payable:	\$ 13,153,469	\$ -	\$ 1,412,918	\$ 11,740,551	\$ 1,320,000
<u>Other:</u>					
WA LOCAL Program loan	\$ 500,641	\$ -	\$ 163,272	\$ 337,369	\$ 166,571
Capital leases payable	76,930	-	34,257	42,673	33,543
Net pension liability	10,783,301	3,286,917	6,809,346	7,260,873	-
Net OPEB obligation	2,228,797	487,803	153,753	2,562,847	-
Compensated absences	1,199,411	1,134,719	1,144,663	1,189,467	604,987
Total other	\$ 14,789,080	\$ 4,909,439	\$ 8,305,290	\$ 11,393,229	\$ 805,101
Total governmental activities	\$ 27,942,549	\$ 4,909,439	\$ 9,718,208	\$ 23,133,780	\$ 2,125,101
Business-type Activities:					
Revenue Bonds, par	\$ 7,345,000	\$ 1,294,000	\$ 330,000	\$ 8,309,000	\$ 416,000
Unamortized bonds premiums	351,772	-	20,846	330,926	-
Net pension liability	3,368,556	1,026,630	2,127,337	2,267,849	-
Compensated absences	216,809	242,744	240,410	219,143	113,127
Total Business-type activities	\$ 11,282,137	\$ 2,563,374	\$ 2,718,593	\$ 11,126,919	\$ 529,127

Internal service funds predominantly serve the governmental funds. Accordingly, long-term liabilities for them are included in the totals for governmental activities. For the governmental funds, long-term liabilities other than debt (i.e. compensated absences and other postemployment benefits) are generally liquidated in the general and other governmental funds. The compensated absences for Internal service funds for \$62,530 is included in the total for governmental activities.

Bond discounts and premiums:

The City issued revenue bonds at premium in 2013. The City also had issued general obligation bonds and refunding bonds at premium in 2007, 2010, 2012, and 2015. These bond premiums are deferred and are amortized under the straight-line method over the life of the bonds (7-20 years). The unamortized amounts are included in the bonds payable and are reported in the statements of net position.

Arbitrage:

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

I. Fund Balances

As of December 31, 2017, the City's governmental funds report the following fund balances:

Non-spendable:			
Fund Restricted	Purpose	Authority	Amount
General Fund	Non-spendable (prepaids)	Non-spendable item	\$ 33,504
	Total Non-spendable		\$ 33,504
Restricted:			
Fund Restricted	Purpose	Authority	Amount
General Fund	Criminal bail	RCW 69.50.508	\$ 164,107
	Property Maintenance and Abatement	LMC 14.02.040	79,927
	Crime Prevention Through Environmental Design Prog	LMC 14.02.040	9,070
	Various	Private donor	41,209
	Subtotal for general fund		\$ 294,313
Nonmajor Funds:			
Lodging Tax Fund	Tourism	RCW 67.28.180	\$ 1,017,191
Community Block Grant Fund	HUD approved projects	CDBG Grant	20,949
Hicks Lake Mgmt District Fund	Hicks Lake Management District projects	Ordinance No. 1479	66,212
Capital Equipment Fund	Child care center repairs	Private contract	110,420
	PEG Fees - public education	Private contract	103,414
	Long-term loan receivable (TCOMM911)	GASB No. 54	178,371
	Subtotal for capital equipment fund		\$ 392,205
	Subtotal for nonmajor funds		\$ 1,496,557
	Total Restricted		\$ 1,790,870
Committed:			
Fund Committed	Purpose	Authority	Amount
General Fund	Insurance deductibles	Ordinance No. 1484	\$ 200,000
	City hall facilities improvements	Ordinance No. 1484	250,000
	Future pension contribution	Ordinance No. 1484	926,042
	Gateway project	Ordinance No. 1484	6,000,000
	Budget policy implementation	Ordinance No. 1484	2,000,000
	Strategic investment program	Ordinance No. 1484	2,560,000
	Gambling tax reduction transition	Ordinance No. 1484	87,500
	Furniture & equipment replacement	Ordinance No. 1484	67,500
	Community building repair	Ordinance No. 1484	500,000
	RAC field replacement (fund 007)	Ordinance No. 1484	375,000
	Subtotal for general fund		\$ 12,966,042
Nonmajor Funds:			
Street Fund	Transportation building replacement	Ordinance No. 1484	\$ 350,000
	Transportation equipment & replacement	Ordinance No. 1484	400,000
	Subtotal for street fund		\$ 750,000
Building Improvement Fund	Senior center repairs/replacement	Ordinance No. 1484	\$ 82,010
	City facility replacement	Ordinance No. 1484	1,500,000
	Historic Jacob Smith House	Ordinance No. 1484	266,816
	Public arts	Ordinance No. 1484	23,106
	City facilities plan projects	Ordinance No. 1484	1,500,000
	Subtotal for building improvement fund		\$ 3,371,932
Capital Equipment Fund	Unscheduled equipment replacement	Ordinance No. 1484	\$ 500,000
	Park facilities- replacement/repairs	Ordinance No. 1484	385,000
	IMS fiber & telephone replacement/repairs	Ordinance No. 1484	500,000
	Security cameras in parks (fund 302)	Ordinance No. 1484	150,000
	RAC field replacement (fund 302)	Ordinance No. 1484	750,000
	Subtotal for capital equipment fund		\$ 2,285,000
Parks and Open Space Fund	Parks property acquisition priority 1	Ordinance No. 1484	\$ 45,635
	RAC field replacement (fund 303)	Ordinance No. 1484	500,000
	Woodland trail RCO grant match	Ordinance No. 1484	64,116
	Subtotal for parks and open space fund		\$ 609,751
RAC Capital Fund	Sports complex lifecycle replacements	Ordinance No. 1484	\$ 350,000
	Subtotal for RAC capital fund		\$ 350,000
	Total for nonmajor funds:		\$ 7,366,683
	Total Committed		\$ 20,332,725

Assigned: *

Fund Assigned	Purpose	Authority	Amount
General Fund	Parks reserve	Ordinance No. 1484	\$ 112,901
	Website upgrade/public records	Ordinance No. 1484	50,000
	City hall facilities improvements	Ordinance No. 1484	750,000
	Property Improvement (5700 Pacific)	Ordinance No. 1484	500,000
	Gateway LRF commitment	Ordinance No. 1484	2,000,000
	Limited-term employee program	Ordinance No. 1484	593,574
	Affordable Housing	Ordinance No. 1484	250,000
	Energy Conservation Projects (CR2)	Ordinance No. 1484	100,000
	Parks & Recreation Comp Plan Priorities	Ordinance No. 1484	2,687,600
	Criminal justice facility/equipment	Ordinance No. 1484	725,000
	Subtotal for general fund		\$ 7,769,075
Arterial Street Fund	Street capital projects		\$ 19,927,951
Transportation Benefit District Fund	Transportation improvements		\$ 1,276,637
LID Redemption Fund	Debt service		\$ 3,698,948
Nonmajor Funds:			
Street Fund	Street maintenance		\$ 1,341,105
Debt Service Fund	Debt service		318,680
Building improvement Fund	Capital projects	Ordinance No. 1484	845,103
Capital Expenditure Fund	Capital acquisitions	Ordinance No. 1484	1,135,757
Capital Expenditure Fund	Debt service (TCOMM 911 prepayment)	Ordinance No. 1484	150,813
Capital Expenditure Fund	RAC synthetic field	Ordinance No. 1484	750,000
Capital Expenditure Fund	Credit/Purchasing card implementation	Ordinance No. 1484	15,000
Parks and Open Space Fund	Capital projects	Ordinance No. 1484	888,115
Regional Athletic Complex Fund	Capital projects	Ordinance No. 1484	1,556,855
	Subtotal for nonmajor funds		\$ 7,001,428
	Total Assigned		\$ 39,674,039

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

J. Employee Pension Plans

The following table represents the aggregate pension amounts for all plans subject to the requirements of the GASB Statement 68, Accounting and Financial Reporting for Pensions for the year 2017:

Aggregate Pension Amounts - All Plans	
Pension assets	\$ 2,801,391
Pension Liabilities	\$ 9,528,722
Deferred outflows of resources	\$ 1,871,616
Deferred inflows of resources	\$ 3,149,979
Pension expense/expenditures	\$ 1,158

State Sponsored Pension Plans

Substantially all of the City's full-time and qualifying part-time employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing, multiple-employer public employee defined benefit and defined contribution retirement plans. The state Legislature establishes, and amends, laws pertaining to the creation and administration of all public retirement systems.

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

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

Alternatively, the DRS CAFR may be downloaded from the DRS website at www.drs.wa.gov.

Public Employee's Retirement System (PERS)

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

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

Contributions

The PERS Plan 1 member contribution rate is established by State statute at 6 percent. The employer contribution rate is developed by the Office of the State Actuary and includes an administrative expense component that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates. The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for 2017 were as follows:

PERS Plan 1		
Actual Contribution Rates	Employer	Employee
January – June 2017:		
PERS Plan 1	6.23%	6.00%
PERS Plan 1 UAAL	4.77%	
Administrative Fee	0.18%	
Total	11.18%	6.00%
July – December 2017:		
PERS Plan 1	7.49%	6.00%
PERS Plan 1 UAAL	5.03%	
Administrative Fee	0.18%	
Total	12.70%	6.00%

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

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

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

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

Contributions

The PERS Plan 2/3 employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 UAAL and an administrative expense that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates. The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2017 were as follows:

PERS Plan 2/3		
Actual Contribution Rates	Employer	Employee
January – June 2017:		
PERS Plan 2/3	6.23%	6.12%
PERS Plan 1 UAAL	4.77%	
Administrative Fee	0.18%	
Employee PERS Plan 3		varies
Total	11.18%	6.12%
July – December 2017:		
PERS Plan 2/3	7.49%	7.38%
PERS Plan 1 UAAL	5.03%	
Administrative Fee	0.18%	
Employee PERS Plan 3		varies
Total	12.70%	7.38%

The City's actual PERS plan contributions were \$720,677 to PERS Plan 1 and \$1,009,718 to PERS Plan 2/3 for the year ended December 31, 2017.

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

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

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

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

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

Contributions

Starting on July 1, 2000, LEOFF Plan 1 employers and employees contribute zero percent, as long as the plan remains fully funded. The LEOFF Plan I had no required employer or employee contributions for fiscal year 2017. Employers paid only the administrative expense of 0.18 percent of covered payroll.

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

Contributions

The LEOFF Plan 2 employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2. The employer rate included an administrative expense component set at 0.18 percent. Plan 2 employers and employees are required to pay at the level adopted by the LEOFF Plan 2 Retirement Board. The LEOFF Plan 2 required contribution rates (expressed as a percentage of covered payroll) for 2017 were as follows:

LEOFF Plan 2		
Actual Contribution Rates:	Employer	Employee
January – June 2017:		
State and local governments	5.05%	8.41%
Administrative Fee	0.18%	
Total	5.23%	8.41%
Ports and Universities	8.41%	8.41%
Administrative Fee	0.18%	
Total	8.59%	8.41%
July – December 2017:		
State and local governments	5.25%	8.75%
Administrative Fee	0.18%	
Total	5.43%	8.75%
Ports and Universities	8.75%	8.75%
Administrative Fee	0.18%	
Total	8.93%	8.75%

The City's actual contributions to the plan were \$312,121 for the year ended December 31, 2017.

The Legislature, by means of a special funding arrangement, appropriates money from the State General Fund to supplement the current service liability and fund the prior service costs of Plan 2 in accordance with the recommendations of the Pension Funding Council and the LEOFF Plan 2 Retirement Board. This special funding situation is not mandated by the State Constitution and could be changed by statute. For the State fiscal year ending June 30, 2017, the State contributed \$62,155,262 to LEOFF Plan 2. The amount recognized by the City as its proportionate share of this amount is \$178,566.

Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2017 with a valuation date of June 30, 2016. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's (OSA) 2007-2012 Experience Study.

Additional assumptions for subsequent events and law changes are current as of the 2016 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2017. Plan liabilities were rolled forward from June 30, 2016, to June 30, 2017, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

- Inflation: 3.0% total economic inflation; 3.75% salary inflation
- Salary increases: In addition to the base 3.75% salary inflation assumption, salaries are also expected to grow by promotions and longevity.
- Investment rate of return: 7.5%

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

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

- For all plans except LEOFF Plan 1, how terminated and vested member benefits are valued was corrected.
- How the basic minimum COLA in PERS Plan 1 and TRS Plan 1 is valued for legal order payees was improved.
- The average expected remaining service lives calculation was revised. It is used to recognize the changes in pension expense to no longer discount future years of service back to the present day.

Discount Rate

The discount rate used to measure the total pension liability for all DRS plans was 7.5 percent.

To determine that rate, an asset sufficiency test included an assumed 7.7 percent long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. (All plans use 7.7 percent except LEOFF 2, which has assumed 7.5 percent). Consistent with the long-term expected rate of return, a 7.5 percent future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue being made at contractually required rates (including PERS 2/3, PSERS 2, SERS 2/3, and TRS 2/3 employers, whose rates include a component for the PERS

1, and TRS 1 plan liabilities). Based on these assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.5 percent was used to determine the total liability.

Long-Term Expected Rate of Return

The long-term expected rate of return on the DRS pension plan investments of 7.5 percent was determined using a building-block-method. The Washington State Investment Board (WSIB) used a best estimate of expected future rates of return (expected returns, net of pension plan investment expense, including inflation) to develop each major asset class. Those expected returns make up one component of WSIB's capital market assumptions. The WSIB uses the capital market assumptions and their target asset allocation to simulate future investment returns at various future times. The long-term expected rate of return of 7.5 percent approximately equals the median of the simulated investment returns over a 50-year time horizon.

Estimated Rates of Return by Asset Class

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2017, are summarized in the table below. The inflation component used to create the table is 2.2 percent and represents the WSIB's most recent long-term estimate of broad economic inflation.

Asset Class	Target Allocation	% Long-Term Expected Real Rate of Return Arithmetic
Fixed Income	20%	1.70%
Tangible Assets	5%	4.90%
Real Estate	15%	5.80%
Global Equity	37%	6.30%
Private Equity	23%	9.30%
	100%	

Sensitivity of the Net Pension Liability/(Asset)

The table below presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.5 percent) or 1-percentage point higher (8.5 percent) than the current rate.

Employer's Net Pension Liability			
Pension Plans	1% Decrease (6.5%)	Current Discount Rate (7.5%)*	1% Increase (8.5%)
PERS 1*	\$ 5,985,406	\$ 4,913,355	\$ 3,984,730
PERS 2/3*	\$ 12,434,281	\$ 4,615,367	\$ (1,791,074)
LEOFF1	\$ (284,326)	\$ (383,310)	\$ (468,315)
LEOFF2	\$ 523,269	\$ (2,418,081)	\$ (4,814,570)

*Excludes the proportionate share amounts for PERS Plans allocated to and reported in Joint Animal Services and the Thurston County Narcotics Task Force, which were \$514,114 and \$40,848, respectively.

Pension Plan Fiduciary Net Position

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

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

At June 30, 2017, the City reported a total pension asset of \$2,801,391 and net pension liability of \$9,528,722 for its proportionate share of the net pension liabilities (assets) as follows:

Pension Plans	Liability (or Asset)
PERS 1	\$ 4,913,355
PERS 2/3	\$ 4,615,367
LEOFF1	\$ (383,310)
LEOFF2	\$ (2,418,081)

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

Description	Asset
LEOFF 2 - Employer's proportionate share	\$ 2,418,081
LEOFF 2 - State's proportionate share of the net pension asset associated with the employer	1,568,567
TOTAL	\$ 3,986,648

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

	Proportionate Share 6/30/2016	Proportionate Share 6/30/2017*	Changes in Proportion
PERS 1*	0.120318%	0.103546%	-0.016771%
PERS 2/3*	0.151408%	0.132835%	-0.018573%
LEOFF1	0.024910%	0.025264%	0.000354%
LEOFF2	0.179668%	0.174254%	-0.005414%

*Excludes the proportionate share % allocated for PERS plans to and reported in Joint Animal Services and Thurston County Narcotics Task Force, which were 0.012754% and 0.001013%, respectively.

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

LEOFF Plan 1 allocation percentages are based on the total historical employer contributions to LEOFF 1 from 1971 through 2000 and the retirement benefit payments in fiscal year 2017. Historical data was obtained from a 2011 study by the Office of the State Actuary (OSA). In fiscal year 2017, the state of Washington contributed 87.12 percent of LEOFF 1 employer contributions and all other employers contributed the remaining 12.88 percent of employer contributions. LEOFF 1 is fully funded and no further employer contributions have been required since June 2000. If the plan becomes underfunded, funding of the remaining liability will

require new legislation. The allocation method the plan chose reflects the projected long-term contribution effort based on historical data.

In fiscal year 2017, the state of Washington contributed 39.35 percent of LEOFF 2 employer contributions pursuant to RCW 41.26.725 and all other employers contributed the remaining 60.65 percent of employer contributions.

The collective net pension liability (asset) was measured as of June 30, 2017, and the actuarial valuation date on which the total pension liability (asset) is based was as of June 30, 2016, with update procedures used to roll forward the total pension liability to the measurement date.

Pension Expense

For the year ended December 31, 2017, the City recognized pension expense as follows:

Pension Plans	Pension Expense
PERS 1	\$ (520,038)
PERS 2/3	443,697
LEOFF1	(64,960)
LEOFF2	142,460
TOTAL	\$ 1,158

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following:

	Deferred Outflows of Resources	Deferred Inflows of Resources
PERS Plan 1		
Difference between expected and actual experiences	\$ -	\$ -
Net difference between projected and actual investment earnings on pension plan investments	-	183,353
Changes of assumptions	-	-
Changes in proportion and differences between contributions and proportionate share of contributions	-	-
Contributions subsequent to the measurement date	375,632	-
TOTAL	\$ 375,632	\$ 183,353

	Deferred Outflows of Resources	Deferred Inflows of Resources
PERS Plan 2/3		
Difference between expected and actual experiences	\$ 467,645	\$ 151,791
Net difference between projected and actual investment earnings on pension plan investments	-	1,230,346
Changes of assumptions	49,024	-
Changes in proportion and differences between contributions and proportionate share of contributions	-	914,297
Contributions subsequent to the measurement date	559,053	-
TOTAL	\$ 1,075,722	\$ 2,296,434

LEOFF Plan 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experiences	\$ -	\$ -
Net difference between projected and actual investment earnings on pension plan investments	-	35,618
Changes of assumptions	-	-
Changes in proportion and differences between contributions and proportionate share of contributions	-	-
Contributions subsequent to the measurement date	-	-
TOTAL	\$ -	\$ 35,618

LEOFF Plan 2	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experiences	\$ 106,279	\$ 91,698
Net difference between projected and actual investment earnings on pension plan investments	-	542,876
Changes of assumptions	2,912	-
Changes in proportion and differences between contributions and proportionate share of contributions	151,636	-
Contributions subsequent to the measurement date	159,433	-
TOTAL	\$ 420,260	\$ 634,574

A total of \$1,094,118 reported as deferred outflows of resources related to pensions resulting from the City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2017. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year	Deferred Outflows (Inflows) of Resources				
	PERS 1	PERS 2/3	LEOFF 1	LEOFF 2	Total
Thereafter	\$ -	\$ (87,007)	\$ -	\$ (23,442)	\$ (110,449)
2022	-	(66,929)	-	(5,098)	(72,027)
2021	(89,461)	(603,359)	(16,886)	(218,377)	(928,083)
2020	(9,085)	(219,860)	(2,407)	(2,813)	(234,165)
2019	39,128	(51,630)	6,029	90,929	84,456
2018	(123,935)	(750,979)	(22,354)	(214,950)	(1,112,218)
Total Deferred Outflows/(Inflows)	\$ (183,353)	\$ (1,779,764)	\$ (35,618)	\$ (373,751)	\$ (2,372,486)

K. Postemployment benefits other than pensions (OPEB)

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

1. LEOFF I Retiree Medical Plan

Plan Description. The City's Disability Board, in conjunction with the City's Human Resources department, administers a single-employer defined benefit healthcare plan (LEOFF 1 Retiree Health Plan). The plan provides lifetime healthcare benefits for retired full-time and fully compensated law enforcement officers

who established membership in the LEOFF 1 plan retirement system on or before September 30, 1977 in accordance with Washington Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF) Act (RCW 41.26.150). The last employer of a retired LEOFF 1 member is responsible for the full cost of any post-retirement medical benefits. The plan covers retirees who are retired on disability as well as are retired after reaching age requirements. As of December 31, 2017, the plan has thirteen (13) retired members and no active members. The LEOFF 1 Retiree Health Plan does not issue a publically available financial report.

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

Funding policy. These medical benefits are funded on a pay-as-you-go basis through the general fund and paid out of police department budget. Health insurance premiums and long-term care insurance premiums are paid monthly. Other medical services are paid as billings are presented for reimbursement. The City reimbursed 100 percent of the amount of validated claims for medical costs incurred by these individuals. Amounts paid from 2015 through 2017 by the City are as follows:

Description	Year 2017	Year 2016	Year 2015
AWC medical insurance premiums	\$ 121,914	\$ 119,514	\$ 120,605
Reimbursement of other medical costs	24,625	20,015	5,756
Long-term care insurance premiums	7,214	7,214	18,798
Total	\$ 153,753	\$ 146,743	\$ 145,159
Number of retirees	13	13	13
Average cost per retiree	\$ 11,827	\$ 11,288	\$ 11,166

Annual OPEB Cost and Net OPEB Obligation. The City's OPEB cost (expense) is calculated based on the annual required contribution (ARC) of the employer. The City has elected to use the alternative measurement method permitted under GASB statement No. 45 for employers in plans with fewer than one hundred total plan members, utilizing the interactive tool developed by the Office of the State Actuary (OSA) for use by local governments. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed fifteen years.

The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City's net OPEB obligation to the LEOFF 1 Retiree Health Plan.

Annual OPEB Cost

	Year 2017
UAAL Amortization	\$ 599,111
Normal cost	-
Total Annual required contribution (ARC):	599,111
Interest on net OPEB obligation	89,152
Adjustment to annual required contribution	(200,460)
Annual OPEB cost (expense)	487,803
Contributions made	(153,753)
Increase in net OPEB obligation	334,050
Net OPEB obligation - Beginning of year	2,228,797
Net OPEB obligation - End of year	\$ 2,562,847

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for fiscal year 2017 and the two preceding fiscal years are as follows:

Funding Status and Funding Progress. As of December 31, 2017, the actuarial accrued liability (AAL)

Fiscal year Ended	Annual OPEB Cost	Annual OPEB Cost Contributed	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
12/31/2017	\$ 487,803	\$ 153,753	32%	\$ 2,562,847
12/31/2016	\$ 525,349	\$ 146,743	28%	\$ 2,228,797
12/31/2015	\$ 524,808	\$ 145,159	28%	\$ 1,850,191

for benefits was \$6,661,153 all of which was unfunded. The covered payroll (total annual amount for active LEOFF Plan 1 member) was \$0, as there were no active members, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 0 percent.

The projection of future benefit payments of an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions. Projections of benefits for financial reporting purposes are based on substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

A single retirement age of 55.3 was assumed for all remaining active members for the purpose of determining the actuarial accrued liability (AAL) and normal cost. Retirement, disablement, termination and mortality rates were assumed to follow the LEOFF1 rates used in the June 30, 2014 actuarial valuation report issued by the by the Office of the State Actuary (OSA). Healthcare costs and trends were determined by Milliman and used by OSA in the state-wide LEOFF 1 medical study performed in 2013. The results were based on grouped data with four active groupings and four inactive groupings. The actuarial cost method used to determine the actuarial accrued liability was Projected Unit Credit. The AAL and NOO are amortized on an open basis as a level dollar over 15 years. These assumptions are individually and collectively reasonable for the purposes of this valuation.

The expected medical inflation trend assumption, with the federal excise tax, for members over age 65, starts at 6.2 percent in 2014, peaks to 12.9 percent in 2017 and decreases to an ultimate rate of 4.6 percent in 2089. Comparatively, the medical inflation trend assumption, for members under age 65, starts at 6.2 percent in 2014, peaks to 24.7 percent in 2017, and decreases to an ultimate rate of 6.2 percent in 2018. The expected long-term care inflation trend is 4.75 percent for all years. Investment return assumption (discount rate) used was 4.0 percent. The general inflation rate was assumed at 3.0 percent.

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

Trust Description. The City of Lacey is a member of the Association of Washington Cities Employee Benefit Trust Health Care Program (AWC Trust HCP). Chapter 48.62 RCW provides that two or more local

government entities may, by Interlocal agreement under Chapter 39.34 RCW, form together or join a pool or organization for the joint purchasing of insurance, and/or joint self-insurance, to the same extent that they may individually purchase insurance, or self-insure.

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

As of December 31, 2017, 261 cities/towns/non-city entities participate in the AWC Trust HCP.

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

Funding policy. Participating employers pay monthly premiums to the AWC Trust HCP. The AWC Trust HCP is responsible for payment of all covered claims. In 2017, the AWC Trust HCP purchased stop loss insurance for Regence/Asuris plans at an Individual Stop Loss (ISL) of \$1.5 million through Life Map, and Kaiser ISL at \$1 million with Companion Life through ASG Risk Management. The aggregate policy is for 200% of expected medical claims.

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

HealthFirst® - 1000 Retiree

\$863.64 Non-Medicare Enrolled Retiree

\$871.18 Non-Medicare Enrolled Spouse

HealthFirst® - 2500 Retiree

\$754.08 Non-Medicare Enrolled Retiree

\$759.56 Non-Medicare Enrolled Spouse

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 two appointed individuals from the AWC Board of Directors, who are from Trust member cities or towns. The Trustees or its appointed delegates review and analyze Health Care Program related matters and make operational decisions regarding premium contributions, reserves, plan options and benefits in compliance with Chapter 48.62 RCW.

The Board of Trustees has decision authority consistent with the Trust Agreement, Health Care Program policies, Chapter 48.62 RCW and Chapter 200-110-WAC.

The accounting records of the 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.

L. Contingencies

Litigation

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

Contingencies under grant provisions

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

M. Risk management

The City of Lacey is a member of the Washington Cities Insurance Authority (WCIA). Utilizing Chapter 48.62 RCW (self-insurance regulation) and Chapter 39.34 RCW (Interlocal Cooperation Act), nine cities originally formed WCIA on January 1, 1981. WCIA was created for the purpose of providing a pooling mechanism for jointly purchasing insurance, jointly self-insuring, and / or jointly contracting for risk management services. WCIA has a total of 161 Members.

New members initially contract for a three-year term, and thereafter automatically renew on an annual basis. A one-year withdrawal notice is required before membership can be terminated. Termination does not relieve a former member from its unresolved loss history incurred during membership.

Liability coverage is written on an occurrence basis, without deductibles. Coverage includes general, automobile, police, errors or omissions, stop gap, employment practices and employee benefits liability. Limits are \$4 million per occurrence in the self-insured layer, and \$21 million in limits above the self-insured layer is provided by reinsurance. Total limits are \$25 million per occurrence subject to aggregates and sublimits. The Board of Directors determines the limits and terms of coverage annually.

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

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

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

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

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

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

N. Interlocal agreements and joint ventures

Capital Area Regional Public Facilities District (CARPFD).

In 2003, the City of Lacey entered into a contract with the Capital Area Regional Public Facilities District (CARPFD) for the acquisition, development, operation and maintenance of the Lacey Area Athletic, Recreation and Special Events Complex. The CARPFD imposes a sales and use tax pursuant to RCW 82.14.390 to repay financing obtained to fund the design, construction, acquisition, operation and maintenance of the complex project. The monies collected as sales taxes shall only be used for the purposes permitted under RCW 82.14.390 and RCW 35.57.020. In 2017, the City of Lacey received \$1,242,818 in sales taxes levied by the CARPFD and is accounted for within the Regional Athletic Complex Operating Fund and Regional Athletic Complex Capital Fund.

Interlocal Drug Unit

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

Total net position, as of December 31, 2017 was \$626,503. Any party may withdraw from this Agreement by giving ninety (90) days written notice to the other parties. Monies contributed during the calendar year of a party's withdrawal will be returned to that party, on a prorated basis, after determination by the Executive Committee of any purchase commitments made prior to the notification of a party's withdrawal. Money so refunded will be used by the withdrawing party for its use in carrying out drug enforcement activities pursuant to Ch. 69.50 RCW. Property purchased with the drug unit funds or forfeited to the drug unit will remain the property of the non-withdrawing parties and the withdrawing party will have no interest in or claim of title to said property. All monies and equipment remain with the drug unit until the drug unit disbands entirely. Disposition and disbursement of net equity upon dissolution is not specified in the agreement, therefore, is not recorded in the City of Lacey's financial statements. There is no ongoing financial responsibility.

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

Joint Animal Services

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

An equity interest exists and is based on total contributions to-date by the cities of Lacey, Olympia, Tumwater, and the Thurston County. The net position, as of December 31, 2017 was \$3,353,138. The City of Lacey has a 17.55 percent (or \$588,476) share of the equity as of December 31, 2017. The City of Lacey reports its share of equity interest as investment in joint venture, in the government-wide statement of net position.

An ongoing financial interest exists for the City of Lacey, the City of Olympia, the City of Tumwater, and Thurston County. The agreement specifies the funding formula that allocates costs based on serviced animal cases and population per jurisdiction in the prior year. For 2017, the City of Lacey's contribution for the annual agreement was \$259,235 and is accounted for within the general fund.

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

Law Enforcement Records Management System (LERMS)

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

An equity interest exists for the cities of Lacey, Olympia, Tenino, Tumwater, and Yelm. Net position as of December 31, 2017, was \$67,306. As of December 31, 2017, the City of Lacey has a 38 percent share (or \$25,577) of the equity. The City of Lacey reports its share of equity interest as an investment in joint venture, in the government-wide statement of net position.

An ongoing financial interest exists for the cities of Lacey, Olympia, Tenino, Tumwater, and Yelm. The agreement specifies a funding formula that annually assesses member cities based on current year population as determined by the Thurston Regional Planning Council (unless otherwise adjusted by the Consortium). For 2017, the City of Lacey's contributed \$143,552 as its share of the annual assessment. All property is considered to be jointly owned. Parties will be reimbursed based on their contribution upon sale of property upon the dissolution of LERMS. Any member may withdraw from the agreement at the end of any calendar year, providing a notice to the Consortium no less than six months prior to the date of withdrawal. Withdrawal of a party will not terminate the agreement of the remaining parties.

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

The following is condensed financial information on joint ventures for which the City has equity interest as of December 31, 2017:

	Joint Animal Services 12/31/2017	Law Enforcement Regional Record Management System 12/31/2017
Total Assets	\$ 4,029,935	\$ 67,307
Total Deferred Outflows of Resources:	78,306	-
Total Liabilities	621,308	-
Total Deferred inflows of Resources:	133,795	-
Total Net Position 12/31/2017	<u>\$ 3,353,138</u>	<u>\$ 67,307</u>
Total Revenues	\$ 1,768,895	\$ 394,449
Total Expenses	1,806,415	402,918
Net increase (decrease) in net position	(37,520)	(8,469)
Net position - beginning	3,390,658	75,776
Ending net position 12/31	<u>\$ 3,353,138</u>	<u>\$ 67,307</u>
City of Lacey Equity %	17.55%	38.00%
City of Lacey Equity Interest	\$ 588,476	\$ 25,577

The City of Lacey's equity interests in joint ventures for the year ended December 31, 2017 were as follows:

Governmental Type Activities	Beginning Balance 1/1/2017	Increase	Decrease	Ending Balance 12/31/2017
Joint Animal Services	\$ 588,957	\$ -	\$ 481	\$ 588,476
Law Enforcement Regional Record Management System (LERMS)	28,795		3,219	25,577
Total Investment in Joint Venture	<u>\$ 617,752</u>	<u>\$ -</u>	<u>\$ 3,700</u>	<u>\$ 614,053</u>

LOTT Clean Water Alliance ("LOTT")

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

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

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

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

As of December 31, 2017, the City had short-term payables of \$1,119,697, which was paid in early 2018.

Thurston County Regional Health and Human Services Council

The Thurston County Regional Health and Human Services Council (the "Council") is a jointly governed organization governed by one elective official from each participating jurisdiction. This Council was formed by an interlocal agreement between Thurston County and the cities of Lacey, Olympia and Tumwater, to work together and join resources necessary to address common gaps in meeting basic health and human services needs within this region. The City of Lacey contributed \$47,852 as its share of annual operations in 2017. The annual funding contribution from each jurisdiction is based on the general sales and use tax collected. Thurston County provides administrative staffing for the Council.

City of Lacey
Schedule of Revenues, Expenditures, and
Changes in Fund Balances - Budget to Actual
General Fund
For the Year Ended December 31, 2017

	Budgeted Amounts		Actual	Variance with
	Original	Final	GAAP Basis	Final Budget Positive (Negative)
REVENUES				
Taxes	\$ 25,869,996	\$ 25,869,996	\$ 27,909,270	\$ 2,039,274
Licenses and permits	1,867,367	\$ 1,867,367	2,259,029	391,662
Intergovernmental revenues	1,226,745	\$ 1,226,745	1,746,837	520,092
Charges for services	6,732,268	\$ 6,732,268	6,883,538	151,270
Fines and forfeitures	425,000	\$ 425,000	276,271	(148,729)
Other revenues	432,550	\$ 432,550	782,874	350,324
Total revenues	36,553,926	36,553,926	39,857,819	3,303,893
EXPENDITURES				
Current:				
General government	7,417,949	7,373,167	6,605,469	767,698
Security of persons and property	12,264,171	12,438,411	11,769,883	668,528
Physical environment	4,750,956	4,750,956	4,588,046	162,910
Transportation	-	-	-	-
Economic environment	1,735,745	1,878,945	1,604,319	274,626
Mental and physical health	51,360	212,360	103,174	109,186
Culture and recreation	7,084,161	7,189,972	6,714,547	475,425
Debt service:	-	-		
Principal retirement	-	-	34,257	(34,257)
Interest	-	-	7,051	(7,051)
Total expenditures	33,304,342	33,843,811	31,426,746	2,417,065
Excess (deficiency) of revenue over (under) expenditures	3,249,584	2,710,115	8,431,073	5,720,958
OTHER FINANCING SOURCES (USES)				
Transfers in	860,072	977,672	977,672	-
Transfers out	(4,994,572)	(5,244,572)	(5,244,572)	-
Total other financing sources	(4,134,500)	(4,266,900)	(4,266,900)	-
Net change in fund balances	(884,916)	(1,556,785)	4,164,173	5,720,958
Fund balance - beginning	1,280,691	1,952,560	35,363,683	33,411,123
Fund balance - ending	\$ 395,775	\$ 395,775	\$ 39,527,856	\$ 39,132,081

Explanation of differences:

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

See accompanying notes to the required supplemental information.

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

Public Employees' Retirement System Plan 1 (PERS 1)			
	2015	2016	2017 ⁽¹⁾⁽³⁾
Employer's proportion of the net pension liability	0.123755%	0.120890%	0.103546%
Employer's proportionate share of the net pension liability	\$ 6,473,532	\$ 6,492,344	\$ 4,913,355
Employer's covered employee payroll	\$13,876,617	\$14,218,880	\$ 14,283,872
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	46.65%	45.66%	34.40%
Plan fiduciary net position as a percentage of the total pension liability ⁽²⁾	59.10%	57.03%	61.24%

Public Employees' Retirement System Plan 2 and 3 (PERS 2/3)			
	2015	2016	2017 ⁽¹⁾⁽³⁾
Employer's proportion of the net pension liability	0.154291%	0.152128%	0.132835%
Employer's proportionate share of the net pension liability	\$ 5,502,898	\$ 7,659,513	\$ 4,615,367
Employer's covered employee payroll	\$13,759,392	\$14,145,039	\$ 14,267,862
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	39.99%	54.15%	32.35%
Plan fiduciary net position as a percentage of the total pension liability ⁽²⁾	89.20%	85.82%	90.97%

Law Enforcement Officers' and Fire Fighters' Retirement System Plan 1 (LEOFF 1)			
	2015	2016	2017 ⁽¹⁾⁽³⁾
Employer's proportion of the net pension asset	0.023373%	0.024910%	0.025264%
Employer's proportionate share of the net pension asset	\$ 281,696	\$ 256,644	\$ (383,310)
Employer's covered employee payroll ⁽⁴⁾	\$ -	\$ -	\$ -
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	0.00%	0.00%	0.00%
Plan fiduciary net position as a percentage of the total pension liability ⁽²⁾	127.36%	123.74%	135.96%

Law Enforcement Officers' and Fire Fighters' Retirement System Plan 2 (LEOFF 2)			
	2015	2016	2017 ⁽¹⁾⁽³⁾
Employer's proportion of the net pension asset	0.187222%	0.179668%	0.174254%
Employer's proportionate share of the net pension asset	\$ 1,924,268	\$ 1,045,003	\$ (2,418,081)
State's proportionate share of the net pension asset associated with the employer	1,272,329	681,266	1,568,567
TOTAL	\$ 3,196,597	\$ 1,726,269	\$ (849,514)
Employer's covered employee payroll	\$ 5,433,910	\$ 5,445,937	\$ 5,945,653
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	58.83%	31.70%	-14.29%
Plan fiduciary net position as a percentage of the total pension liability ⁽²⁾	111.67%	106.04%	113.36%

Notes to Schedule:

⁽¹⁾ Measurement date: June 30, 2017

⁽²⁾ DRS Participating Employer Financial Information Report, Note 2. E, Net Pension Liability

⁽³⁾ Actuarial Methods and Assumptions (See Note J. Employee Pension Plans)

⁽⁴⁾ All LEOFF 1 members are retired (no active members during the covered period).

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

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

Public Employees' Retirement System Plan 1 (PERS 1)			
	2015	2016	2017 ⁽¹⁾
Statutorily or contractually required contributions	\$ 628,534	\$ 677,848	\$ 721,317
Contributions in relation to the statutorily or contractually required contributions	(628,534)	(677,848)	(721,317)
Contribution deficiency (excess)	\$ -	\$ -	\$ -
Covered employer payroll	\$ 14,147,427	\$ 14,127,222	\$ 14,716,527
Contributions as a percentage of covered employee payroll	4.44%	4.80%	4.90%

Public Employees' Retirement System Plan 2 and 3 (PERS 2/3)			
	2015	2016	2017 ⁽¹⁾
Statutorily or contractually required contributions	\$ 792,933	\$ 876,768	\$ 1,010,615
Contributions in relation to the statutorily or contractually required contributions	(792,933)	(876,768)	(1,010,615)
Contribution deficiency (excess)	\$ -	\$ -	\$ -
Covered employer payroll	\$ 14,074,316	\$ 14,073,925	\$ 14,716,527
Contributions as a percentage of covered employee payroll	5.63%	6.23%	6.87%

Law Enforcement Officers' and Fire Fighters' Retirement System Plan 1 (LEOFF 1)			
	2015	2016	2017 ⁽¹⁾
Statutorily or contractually required contributions	\$ -	\$ -	\$ -
Contributions in relation to the statutorily or contractually required contributions	-	-	-
Contribution deficiency (excess)	\$ -	\$ -	\$ -
Covered employer payroll	\$ -	\$ -	\$ -
Contributions as a percentage of covered employee payroll ⁽²⁾	N/A	N/A	N/A

Law Enforcement Officers' and Fire Fighters' Retirement System Plan 2 (LEOFF 2)			
	2015	2016	2017 ⁽¹⁾
Statutorily or contractually required contributions	\$ 275,466	\$ 285,892	\$ 312,121
Contributions in relation to the statutorily or contractually required contributions	(275,466)	(285,892)	(312,121)
Contribution deficiency (excess)	\$ -	\$ -	\$ -
Covered employer payroll	\$ 5,454,776	\$ 5,664,267	\$ 6,014,936
Contributions as a percentage of covered employee payroll	5.05%	5.05%	5.19%

Notes to Schedule:

⁽¹⁾ As of December 31

⁽²⁾ Starting on July 1, 2000, LEOFF 1 has zero contribution percent, as long as the plan remains fully funded. There were no required contributions for fiscal year 2017.

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

City of Lacey
Schedule of Funding Progress
Other Postemployment Benefits (OPEB) Plan
LEOFF 1, Police Officers

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll* ©	UAAL as a Percentage of Covered Payroll [(b-a)/c]
12/31/2017	\$ -	\$ 6,661,153	\$ 6,661,153	0%	\$ -	0%
12/31/2016	-	\$ 6,868,370	\$ 6,868,370	0%	-	0%
12/13/2015	-	\$ 6,651,558	\$ 6,651,558	0%	-	0%

Notes to Schedule:

*All LEOFF 1 members are retired as of May 2012. No covered payroll.

Notes to the Required Supplemental Information

1. Budgetary Information

For more detailed information, see the Notes to the financial statements (Note 1, D. Budgetary information).

2. Budgetary Basis of Accounting

The budgetary process is based upon accounting for certain transactions on a basis other than the accounting principles generally accepted in the United States ("GAAP") basis.

The major differences between the budgetary basis and GAAP basis are as follows:

- Certain loan transactions are recognized as expenditures for the budgetary basis, but not for the GAAP basis. When these loans are made, they are recorded as receivables on a GAAP basis and as expenditures on a budgetary basis. When loan payments are received, they are recorded as reductions to the receivables on a GAAP basis, but are recognized as revenues on a budgetary basis.
- Certain advances and loans to other funds are recognized as expenditure for the budgetary basis, but not for the GAAP basis. When these advances and loans are made, they are recorded as receivables on a GAAP basis and as expenditures as on a budgetary basis. When repayments are received, they are recognized as reductions to advances and loans on a GAAP basis, but are recognized as revenues on a budgetary basis.

City of Lacey
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2017

Federal Agency Name / Pass-Through Agency Name	Federal Program Name	CFDA Number	Other I.D. Number	Expenditures		Foot-Note Ref.
				From Pass-Through Awards	From Direct Awards	
Child Nutrition Cluster						
Department of Agriculture / Pass-through from WA State Office of Superintendent of Public Instruction	Summer Food Service Program for Children	10.559	159215	\$ 55,154	\$ 55,154	1,2,4
	Total Child Nutrition Cluster:			55,154	-	55,154
US Department of Justice	Bulletproof Vest Partnership Program	16.607	FY 2017 BVP		2,576	2,576
US Department of Justice / Pass-through from WA State Department of Commerce	Edward Byrne Memorial Justice	16.738	F16-31440-011	95,915		95,915
		16.738	F17-31440-011	29,265		29,265
	Total	16.738		125,180	-	125,180
US Department of Justice	Equitable Sharing Program	16.922	16-DEA-616891		2,674	2,674
Highway Planning and Construction Cluster						
US Department of Transportation / Pass-through from WA State Department of Transportation	Highway Planning and Construction	20.205	LA-7580 (STPLUS-5291-001)	518,565		518,565
	Total Highway Planning and Construction Cluster:			518,565	-	518,565
Executive Office of the President	High Intensity Drug Trafficking Areas Program	95.001	G16NW0005A		49,289	49,289
		95.001	G17NW0005A		22,216	22,216
	Subtotal	95.001		-	71,505	71,505
Total Federal Awards Expensed:				\$ 698,899	\$ 74,081	\$ 775,654
						\$ 199,359

The accompanying notes to the Schedule of Expenditures of Federal Awards are an integral part of this Schedule.

City of Lacey
Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2017

Note 1 - Basis of Accounting

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

Note 2 - Program Costs

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

Note 3 - Revolving Loan - Program Income

The City has a revolving loan program under the Department of Housing & Urban Development. Under this federal program, repayments to the City are considered program revenues (income). No interest is charged on the loans and full payment is due upon sale of the property. The amount of loan principal received in loan repayment for the year 2017 was \$0. The City has received approval from Washington Department of Commerce (formerly CTED) to utilize the program revenues to finance future CDBG approved projects.

Note 4 - Program Income

Summer food service program for children permits the City to earn program income while administering this program and use the income for program purposes in addition to the original grant award. The expenditure amount reported includes a program income of \$0.

Note 5 - Indirect Cost Rate

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

Note 6 - Delayed Remibursement

legislation. Per the program manager for the grant, the application was approved; however, the federal release of funds is still pending and the official contracts have not been sent out. This has delayed all reimbursement requests for this grant. The amount shown is what the City will request for reimbursement for 2017, once the funds are released.

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.

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

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