

**Washington State Auditor's Office**  
**Financial Statements and Federal Single Audit Report**

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**City of Lakewood**  
**Pierce County**

Audit Period  
**January 1, 2010 through December 31, 2010**

**Report No. 1006427**

Issue Date  
**September 26, 2011**



WASHINGTON  
**BRIAN SONNTAG**  
STATE AUDITOR



**Washington State Auditor  
Brian Sonntag**

September 26, 2011

Mayor and City Council  
City of Lakewood  
Lakewood, Washington

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

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

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

Sincerely,

**BRIAN SONNTAG, CGFM**  
STATE AUDITOR

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Pierce County  
January 1, 2010 through December 31, 2010**

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# Federal Summary

**City of Lakewood  
Pierce County  
January 1, 2010 through December 31, 2010**

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

## **FINANCIAL STATEMENTS**

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

### **Internal Control Over Financial Reporting:**

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

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

## **FEDERAL AWARDS**

### **Internal Control Over Major Programs:**

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

We issued an unqualified opinion on the City's compliance with requirements applicable to each of its major federal programs.

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

**Identification of Major Programs:**

The following were major programs during the period under audit:

<u>CFDA No.</u>	<u>Program Title</u>
14.218	ARRA - Community Development Block Grant - Entitlement Grants (Recovery Act)
14.228	Neighborhood Stabilization Program
16.588	Stop Violence Against Women
16.710	ARRA - Public Safety Partnership and Community Policing Grants (Recovery Act)
66.202	Environmental Protection Agency Congressional Mandated Projects
81.128	ARRA - Energy Efficiency and Conservation Block Grant Program (Recovery Act)

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

The City qualified as a low-risk auditee under OMB Circular A-133.

# **Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters in Accordance with *Government Auditing Standards***

City of Lakewood  
Pierce County  
January 1, 2010 through December 31, 2010

Mayor and City Council  
City of Lakewood  
Lakewood, Washington

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Lakewood, Pierce County, Washington, as of and for the year ended December 31, 2010, which collectively comprise the City's basic financial statements, and have issued our report thereon dated September 23, 2011.

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.

## ***INTERNAL CONTROL OVER FINANCIAL REPORTING***

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

## **COMPLIANCE AND OTHER MATTERS**

As part of obtaining reasonable assurance about whether the City's financial statements are free of 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*.

This report is intended for the information and use of management, the Mayor and City Council, federal awarding agencies and pass-through entities. 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.

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**BRIAN SONNTAG, CGFM**  
STATE AUDITOR

September 23, 2011

**Independent Auditor's Report on Compliance  
with Requirements That Could Have a Direct  
and Material Effect on Each Major Program and  
on Internal Control over Compliance in  
Accordance with OMB Circular A-133**

City of Lakewood  
Pierce County  
January 1, 2010 through December 31, 2010

Mayor and City Council  
City of Lakewood  
Lakewood, Washington

**COMPLIANCE**

We have audited the compliance of the City of Lakewood, Pierce County, Washington, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2010. The City's major federal programs are identified in the Federal Summary. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the 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, 2010.

## **INTERNAL CONTROL OVER COMPLIANCE**

The management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended for the information of management, the Mayor and City Council, federal awarding agencies and pass-through entities. 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.



**BRIAN SONNTAG, CGFM**  
STATE AUDITOR

September 23, 2011

# **Independent Auditor's Report on Financial Statements**

**City of Lakewood  
Pierce County  
January 1, 2010 through December 31, 2010**

Mayor and City Council  
City of Lakewood  
Lakewood, Washington

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Lakewood, Pierce County, Washington, as of and for the year ended December 31, 2010, which collectively comprise the City's basic financial statements as listed on page 9. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Lakewood, as of December 31, 2010, and the respective changes in financial position and, where applicable, cash flows thereof, and the respective budgetary comparison for the General Fund and Street Capital Fund, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 10 through 19 is not a required part of the basic financial statements but is supplementary information required by the Governmental

Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. This schedule is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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**BRIAN SONNTAG, CGFM**  
STATE AUDITOR

September 23, 2011

# **Financial Section**

**City of Lakewood  
Pierce County  
January 1, 2010 through December 31, 2010**

## ***REQUIRED SUPPLEMENTAL INFORMATION***

Management's Discussion and Analysis – 2010

## ***BASIC FINANCIAL STATEMENTS***

Statement of Net Assets – 2010  
Statement of Activities – 2010  
Balance Sheet – Governmental Funds – 2010  
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets – 2010  
Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental Funds – 2010  
Reconciliation of Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance to the Statement of Activities – 2010  
Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – General Fund – 2010  
Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – Street Capital Fund – 2010  
Statement of Net Assets – Proprietary Funds – 2010  
Statement of Revenues, Expenses and Changes in Fund Net Assets – Proprietary Funds – 2010  
Statement of Cash Flows – Proprietary Funds – 2010  
Statement of Net Assets – Fiduciary Funds – 2010  
Notes to Financial Statements – 2010

## ***SUPPLEMENTAL INFORMATION***

Schedule of Expenditures of Federal Awards and Notes – 2010

## **CITY OF LAKEWOOD, WASHINGTON MANAGEMENT'S DISCUSSION AND ANALYSIS**

The City of Lakewood's management discussion and analysis is a narrative overview of the City's financial activities for the fiscal year ended December 31, 2010. The information presented here should be read in conjunction with the City's financial statements immediately following this section.

### **Financial Highlights**

- The assets of the City exceeded its liabilities by \$159 million.
- The City's Statement of Activities reflects a change in net assets of \$8.3 million.
- The General Fund reported a net decrease in fund balances of \$1.7 million.

### **Using this Annual Report**

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. Fund financial statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds.

### **Government-Wide Financial Statements**

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

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

The Statement of Activities presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. uncollected taxes and earned but unused vacation leave). The Governmental Activities reflects the City's basic functions: General Government; Public Safety; Physical Environment; Transportation; Health and Human Services, Economic Environment; and Culture and Recreation. Property, sales, gambling, and utility taxes finance the majority of these functions.

## Fund Financial Statements

A fund is a group of related accounts used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into two categories: governmental funds and proprietary 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. The flow and availability of liquid resources is a clear and appropriate focus of any analysis of government. Such information may be useful in evaluating a government's near-term financial 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 City's near term financial decisions. Both the governmental fund balance sheet and governmental fund statement of revenues, expenditures, and change in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Funds are established for various purposes and the Fund Financial Statement allows for the demonstration of sources and uses and/or budgeting compliance associated therewith. These statements begin in the required supplemental information section. The City maintains nineteen 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, Streets Capital Fund, Local Improvement District (LID) Debt Service Fund, and Sewer Project Capital Improvement (CIP) Fund. All of these funds are considered to be major funds. Data from the other fifteen non-major governmental funds are combined into a single aggregated presentation.

**Proprietary Funds** consist of the Surface Water Management enterprise fund, providing service to minimize property damage, protect water quality, and ensure the safety of City streets and rights of way; and two internal service funds used to accumulate and allocate cost internally among the City's various functions. The City uses internal service funds to account for its fleet of vehicles and equipment and City Hall maintenance activities. Because the internal services benefit governmental functions they have been included within governmental activities in the Government-wide Financial Statements, while the enterprise fund is shown as a business-type activity.

**Fiduciary Fund** financial statements consist of a statement of fiduciary net assets. Assets held by the City for other parties (*either as a trustee or as an agent*) and that cannot be used to finance the City's own operating programs are reported in the fiduciary funds. The City is responsible for ensuring that the activities reported in fiduciary funds are based on their intended purposes. 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 Lakewood's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The City of Lakewood has one type of Fiduciary Fund – Municipal Court Trust/Agency Fund in which the City holds in reserve those payments received on behalf of the Municipal Court’s clients. The city is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

The **Notes to the Basic Financial Statements** provide additional information that is essential to a full understanding of the information provided in the government-wide and fund financial statements.

**Other Information** presented includes the Combining Balance Sheets and Combining Statement of Revenues, Expenditures and Changes in Fund Balances for nonmajor governmental funds.

**Government-wide Financial Analysis**

The following table reflects a condensed Summary of Net Assets for the fiscal year 2010 and 2009.

	<u>Governmental Activities</u>		<u>Business Activities</u>		<u>Total</u>	
	2010	2009	2010	2009	2010	2009
Current assets	\$ 21,782,719	\$ 24,516,890	\$ 9,489,276	\$ 13,498,194	\$ 31,271,995	\$ 38,015,084
Capital assets (net of accumulated depreciation)	113,544,901	103,273,689	30,511,792	27,485,680	144,056,693	130,759,369
Total assets	<u>135,327,620</u>	<u>127,790,579</u>	<u>40,001,068</u>	<u>40,983,874</u>	<u>175,328,688</u>	<u>168,774,453</u>
Current liabilities	4,171,013	7,656,110	373,527	133,495	4,544,540	7,789,605
Long-term liabilities	11,738,715	10,256,811	40,190	35,567	11,778,905	10,292,378
Total liabilities	<u>15,909,728</u>	<u>17,912,921</u>	<u>413,717</u>	<u>169,062</u>	<u>16,323,445</u>	<u>18,081,983</u>
Net Assets						
Invested in capital assets	102,079,959	96,668,396	30,511,792	27,485,679	132,591,751	124,154,075
Restricted for debt service	36,493	1,010,512	-	-	36,493	1,010,512
Unrestricted	17,301,440	12,198,750	9,075,559	13,329,132	26,376,999	25,527,882
Total net assets	<u>\$ 119,417,892</u>	<u>\$ 109,877,658</u>	<u>\$ 39,587,351</u>	<u>\$ 40,814,811</u>	<u>\$ 159,005,243</u>	<u>\$ 150,692,469</u>

As of December 31, 2010, the City has positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior year.

By far the largest portion of the City’s net assets (83.4%) reflects its investment in capital assets (e.g. land, buildings, machinery, and equipment) less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending.

Restricted net assets in 2010 represent unspent debt proceeds of \$36 thousand.

The unrestricted net assets of \$26.3 million may be used to meet the City’s ongoing obligations to citizens and creditors.

The following table summarizes revenues and expenses for the years 2010 and 2009.

	<u>Governmental Activities</u>		<u>Business Activities</u>		<u>Total</u>	
	2010	2009	2010	2009	2010	2009
Revenues						
Program revenues:						
Charges for services	\$ 11,245,876	\$ 9,018,140	\$ 2,650,221	\$ 2,847,354	\$ 13,896,097	\$ 11,865,494
Operating grants and contributions	9,975,902	5,523,703	44,675	89,047	10,020,577	5,612,750
Capital grants and contributions	2,227,686	2,588,630	-	-	2,227,686	2,588,630
General revenues:						
Property taxes	6,195,355	5,656,891	-	-	6,195,355	5,656,891
Sales taxes	9,303,662	8,934,948	-	-	9,303,662	8,934,948
B&O taxes	5,675,529	6,249,896	-	-	5,675,529	6,249,896
Excise taxes & other taxes	4,928,444	4,484,474	-	-	4,928,444	4,484,474
Interest earnings on investments	265,548	313,141	68,096	89,895	333,644	403,036
Other general revenues	37,623	106,470	853	7,716	38,476	114,186
Total revenues	<u>49,855,625</u>	<u>42,876,293</u>	<u>2,763,845</u>	<u>3,034,012</u>	<u>52,619,470</u>	<u>45,910,305</u>
Expenses						
General government	8,042,277	8,186,886	-	-	8,042,277	8,186,886
Public safety	20,038,250	19,671,773	-	-	20,038,250	19,671,773
Physical environment	340,858	347,864	-	-	340,858	347,864
Transportation	7,102,402	7,122,004	-	-	7,102,402	7,122,004
Health and human services	538,528	478,344	-	-	538,528	478,344
Economic environment	3,834,314	3,588,091	-	-	3,834,314	3,588,091
Culture and recreation	1,940,260	1,846,044	-	-	1,940,260	1,846,044
Interest on long term debt	290,879	299,103	-	-	290,879	299,103
Surface water management	-	-	2,178,927	2,538,618	2,178,927	2,538,618
Total expenses	<u>42,127,768</u>	<u>41,540,109</u>	<u>2,178,927</u>	<u>2,538,618</u>	<u>44,306,695</u>	<u>44,078,727</u>
Change in net assets before transfers	<u>7,727,857</u>	<u>1,336,184</u>	<u>584,918</u>	<u>495,394</u>	<u>8,312,775</u>	<u>1,831,578</u>
Transfers	1,812,377	901,527	(1,812,377)	(901,527)	-	-
Change in net assets	<u>9,540,234</u>	<u>2,237,711</u>	<u>(1,227,459)</u>	<u>(406,133)</u>	<u>8,312,775</u>	<u>1,831,578</u>
Net assets, beginning	109,877,658	107,627,006	40,814,811	41,220,944	150,692,469	148,847,950
Prior period adjustments	-	12,941	-	-	-	12,941
Net assets, ending	<u>\$ 119,417,892</u>	<u>\$ 109,877,658</u>	<u>\$ 39,587,352</u>	<u>\$ 40,814,811</u>	<u>\$ 159,005,244</u>	<u>\$ 150,692,469</u>

The City experienced increases in many revenue categories, resulting in an increase in program revenue of \$6.07 million or 30.3% from the previous year. Expenses increased in 2010 as well, increasing by \$227.9 thousand or .5% from 2009 amounts.

GASB No.34, *Basic Financial Statements – and Management’s Discussion and Analysis for State and Local Governments* was issued in June 1999 and made dramatic changes to the financial reporting requirements for governmental entities. One of the changes requires governments to report and depreciate infrastructure assets. Prior to GASB No. 34, governments were not required to report general infrastructure assets. Another element of GASB No. 34 is the requirement to retroactively report infrastructure assets acquired from 1980 and forward. Recorded in the 2008 financial statements were adjustments to implement the retroactive reporting provisions under GASB No. 34.

Increase is in *Economic environment* expenses, which increased by a little over \$246 thousand or 6.9% and Health and human services increased by \$60 thousand or 12.6%.

**Business-type Activities** represent the City’s Surface Water Maintenance enterprise activities. Charges for services were \$2.6 million in 2010, as compared to \$2.8 million in 2009, representing a decrease of

\$197 thousand or 6.9%.

Total expense for Business-type activities was \$2.1 million in 2010, as compared to \$2.5 million in 2009, representing a decrease of approximately \$359 thousand or 14.2%.

More detailed information and discussion on the business-type activities can be found in the proprietary fund analysis portion of this document.

### **Financial Analysis of the City's Governmental Funds**

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

The City reports the following **major governmental funds**:

The *General Fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required by law, by GAAP and/or by GASB to be accounted for in another fund.

The *Streets Capital Fund* accounts for the infrastructure of the City's streets including capital related projects of streets. Funding comes from special revenue sources.

The *LID Debt Service Fund* accounts for the payment of special assessment bonds issued to pay for construction costs of infrastructure improvements that were funded through the formation of Local Improvement Districts (LID).

The *Sewer Project Capital Improvement Fund* accounts for construction costs for sanitary infrastructure installation that will be donated to Pierce County once completed.

The following table provides a summary of Revenues, Expenditures and Changes in Fund Balances for the General Fund.

<b><u>General Fund</u></b>	<u>2010</u>	<u>2009</u>	<u>Variance</u>	<u>% Change</u>
Total revenues	\$ 29,906,625	\$ 31,512,175	\$ (1,605,550)	-5.1%
Total expenditures	(32,415,990)	(32,428,453)	(12,463)	0.0%
Total other financing sources and uses	791,803	(2,518,366)	3,310,169	131.4%
Net Change in fund balances	<u>(1,717,562)</u>	<u>(3,434,644)</u>	<u>1,692,156</u>	
Fund balances, beginning of year	5,015,049	8,449,693	(3,434,644)	
Fund balances, end of year	<u>\$ 3,297,487</u>	<u>\$ 5,015,049</u>	<u>\$ (1,717,562)</u>	-34.2%

Total revenues for the General Fund decreased by 5.1 percent, due in large part to decreases in fines and forfeitures, licenses and permits, Intergovernmental Revenues, interest revenue, Excise tax revenues, and B&O tax revenues. Decrease revenues occurred in fines and forfeitures (43.49% / \$1.057 million), decrease in B & O taxes (9.21% / \$500 thousand), and a decrease in Excise taxes (13.64% / \$416 thousand). Increase tax revenues occurred in property taxes (2.57% / \$151 thousand), and other revenues (88.33% or \$357 thousand), increased sales tax activities (3.43% / \$290 thousand).

Total expenditures for the General Fund decreased by .04 percent, and were largely due to increases in public safety costs (.71% / \$131 thousand) and debt payment cost (108% / \$161 thousand) which were offset by General government expenditures decreased (1.90% / \$152 thousand). Transportation expenditures decreased significantly over 2009 (14.45% or \$101 thousand) and Economic environment decreased over 2009 (7.96% or \$205 thousand).

Total other financing sources and uses changed dramatically from 2010 to 2009 (131.4%) as a result of fewer transfers from the General Fund.

The following table provides a summary of Revenues, Expenditures and Changes in Fund Balances for the Street Capital Fund:

<b><u>Street Capital Fund</u></b>	<u>2010</u>	<u>2009</u>	<u>Variance</u>	<u>% Change</u>
Total revenues	\$ 6,461,731	\$ 2,901,215	\$ 3,560,516	122.7%
Total expenditures	(8,621,330)	(4,887,398)	3,733,932	76.4%
Total other financing sources and uses	1,410,300	618,389	791,911	128.1%
Net Change in fund balances	<u>(749,299)</u>	<u>(1,367,794)</u>	<u>618,495</u>	
Fund balances, beginning of year	1,505,070	2,872,866	(1,367,796)	
Fund balances, end of year	<u>\$ 755,771</u>	<u>\$ 1,505,070</u>	<u>\$ (749,301)</u>	-49.8%

The Street Capital Fund expenditures increased \$3.7 million (76.4%) from 2010 to 2009 due to increase in state funding for capital road construction projects. Motor Vehicle Fuel Tax revenues increased slightly during 2010 and real estate taxes decreased due to allocation percentage.

The following table provides a summary of Revenues, Expenditures and Changes in Fund Balances for the LID Debt Fund.

<u>LID Debt Fund</u>	<u>2010</u>	<u>2009</u>	<u>Variance</u>	<u>% Change</u>
Total revenues	\$ 323,062	\$ 779,179	\$ (456,117)	-58.5%
Total expenditures	(366,869)	(757,175)	(390,306)	-51.5%
Total other financing sources and uses	-	-	-	0.0%
Net Change in fund balances	<u>(43,807)</u>	<u>22,004</u>	<u>(65,811)</u>	
Fund balances, beginning of year	73,437	51,433	22,004	
Fund balances, end of year	<u>\$ 29,630</u>	<u>\$ 73,437</u>	<u>\$ (43,807)</u>	-59.7%

The 2010 revenues and expenditures for the LID Debt Fund were less than 2009 due to a single property owner paying its entire assessment in 2009. The early payment increased 2009 revenues and allowed the City to redeem more of the bonds than it had in previous years. That increased level of assessment payment and debt redemption did not occur in 2010.

The following table provides a summary of Revenues, Expenditures and Changes in Fund Balances for the Sewer Project CIP General Fund.

<u>Sewer CIP Fund</u>	<u>2010</u>	<u>2009</u>	<u>Variance</u>	<u>% Change</u>
Total revenues	\$ 1,671,444	\$ 1,035,992	\$ 635,452	61.3%
Total expenditures	(5,552,073)	(3,400,812)	2,151,261	63.3%
Total other financing sources and uses	2,091,477	2,634,594	(543,117)	0.0%
Net Change in fund balances	<u>(1,789,152)</u>	<u>269,774</u>	<u>(2,058,926)</u>	
Fund balances, beginning of year	1,825,633	1,555,859	269,774	
Fund balances, end of year	<u>\$ 36,481</u>	<u>\$ 1,825,633</u>	<u>\$ (1,789,152)</u>	-98.0%

The large changes in the Sewer Project CIP General Fund reflect increased construction activity. The City is constructing a sewer project which, when completed, will be donated to Pierce County.

The City reports the following **major proprietary fund**:

The *Surface Water Management Fund* accounts for Surface Water activities, which is the only utility the City operates. User fees are billed through the bi-annual Property Tax statements sent out by Pierce County; the revenues are also collected by the County and submitted to the City.

The following table provides a summary of the Statement of Revenues, Expenses and Changes in Fund Net Assets for the Surface Water Management Fund.

<b>Surface Water Management Fund</b>	<u>2010</u>	<u>2009</u>	<u>Variance</u>	<u>% Change</u>
Total revenues	\$ 2,650,221	\$ 2,847,354	\$ (197,133)	-6.9%
Total expenditures	(2,191,642)	(2,552,799)	(361,157)	-14.1%
Total nonoperating revenues (expenses)	68,950	97,614	(28,664)	-29.4%
Contributions and transfers	(1,767,703)	(812,480)	(955,223)	117.6%
Net Change in fund balances	<u>(1,240,174)</u>	<u>(420,311)</u>	<u>(819,863)</u>	195.1%
Net asset, beginning of year	40,770,614	41,190,925	(420,311)	
Prior period adjustment	-	-	-	
Net assets, end of year	<u>\$ 39,530,440</u>	<u>\$ 40,770,614</u>	<u>\$ (1,240,174)</u>	-3.0%

The revenues decreased from 2009 to 2010 by 6.9% due in large part to charges for services decreasing 6.9% (\$197 thousand) and operating grants decreasing 49.8% (\$44 thousand).

Expenses decreased 14.1% (\$361 thousand) from 2009 to 2010 due in part to maintenance and operations decreased 14.0% (\$219 thousand).

The combination of decreased revenues (\$197 thousand), decreased expenses (\$361 thousand) and an increase in contributions and transfers (\$955 thousand) impacted the net change in fund balance, decreasing it by \$819 thousand or 195%.

### **General Fund Budgetary Highlights**

The City Council approved a supplemental budget which revised the original appropriations. The changes included recognizing revenue and associated expenditures generated from intergovernmental agreements not in place as of the creation of the original budget. Also revenue in excess of the amount budget was received for gambling taxes, and the City incurred expenditures for parking lot improvements.

Variances between the final amended operating budget and actual results were:

General Fund	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Total revenues	\$ 32,149,883	\$ 29,906,626	\$ (2,243,257)
Total expenditures	(36,588,871)	(32,415,991)	4,172,880
Other financing sources & uses	842,988	791,803	(51,185)
Variance with final budget - positive			<u>\$ 1,878,438</u>

Overall, 2010 operating revenues collected in the General Fund were below the revised budget estimate by \$2.2 million or 6.98%. Overall operating expenditures during 2010 were below the revised budget estimate by \$4.17 million or 11.4%. This combination results in an overall positive variance of \$1.87 million.

## Capital Assets

The City's investment in capital assets for its governmental activities as of December 31, 2010, amounts to \$113.5 million (net of accumulated depreciation). This investment in capital assets includes land, buildings, machinery and equipment, infrastructure and construction in progress.

The following table summarizes capital assets, net of accumulated depreciation as of December 31, 2010 and 2009.

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	2010	2009	2010	2009	2010	2009
Land	\$ 20,520,308	\$ 20,285,610	\$ 889,697	\$ 889,437	\$ 21,410,005	\$ 21,175,047
Construction in progress	23,772,043	10,610,680	5,674,254	2,947,193	29,446,297	13,557,873
Buildings	23,209,818	23,728,841	67,097	34,860	23,276,915	23,763,701
Improvements other than buildings	3,184,125	3,422,683	-	-	3,184,125	3,422,683
Machinery and equipment	2,852,640	2,947,014	122,405	28,204	2,975,045	2,975,218
Infrastructure	40,005,967	42,278,861	23,758,339	23,585,986	63,764,306	65,864,847
<b>Total</b>	<b>\$ 113,544,901</b>	<b>\$ 103,273,689</b>	<b>\$ 30,511,792</b>	<b>\$ 27,485,680</b>	<b>\$ 144,056,693</b>	<b>\$ 130,759,369</b>

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

- The City began several major road improvement projects in 2010
- The City is constructing a new sewer in Tillicum.

Additional information on the City's capital assets can be found in Note 4C in the Notes to the Financial Statements.

## Debt

At the end of the fiscal year, the City had total debt outstanding of \$12.8 million. The City currently has four types of debt outstanding: public works trust fund loans, a privately held promissory note, special assessment debt, and compensated absences.

The following table summarizes outstanding debt as of December 31, 2010 and 2009.

	<u>Governmental Activities</u>		<u>Business Activities</u>		<u>Total</u>	
	2010	2009	2010	2009	2010	2009
2009 LTGO	\$ 2,530,000	\$ 2,630,000	\$ -	\$ -	\$ 2,530,000	\$ 2,630,000
2009 LTGO Premium	43,160	45,560	-	-	43,160	45,560
Public Works Trust Fund	5,689,060	3,840,462	-	-	5,689,060	3,840,462
Promissory Note (59th Street)	827,521	871,914	-	-	827,521	871,914
Special assessment with governmental commitments	2,411,334	2,657,095	-	-	2,411,334	2,657,095
Capital Lease	-	165,134	71,660	-	71,660	165,134
Compensated absences	1,239,770	1,137,107	57,414	50,810	1,297,184	1,187,917
<b>Total</b>	<b>\$ 12,740,845</b>	<b>\$ 11,347,272</b>	<b>\$ 129,074</b>	<b>\$ 50,810</b>	<b>\$ 12,869,919</b>	<b>\$ 11,398,082</b>

Additional information on the City's debt can be found in Note 4D in the Notes to the Financial Statements.

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

The State of Washington, by constitution, does not have a state personal income tax and therefore the state operates primarily using property, sales, business and occupation, and gasoline taxes. Local governments (cities, counties, school districts) primarily rely on property and a limited array of permitted other taxes (sales, utility, business and occupation) and fees (franchise, licenses, etc.) for their governmental activities. There are a limited number of state-shared revenues and recurring and non-recurring grants from both the state and federal government.

For the business-type and certain governmental activities (permitting, recreation programs, etc.) the user pays a related fee or charge associated therewith.

The level of taxes, fees and charges for services (including development related mitigation fees) will have a bearing on the specific City's competitive ability to encourage retail, office, residential, and industrial development to locate in their jurisdiction. The City places significant emphasis on encouraging economic development.

The economic slowdown that the nation has been experiencing has also occurred within Washington State, but to a lesser extent. The City of Lakewood's sales tax revenues have experienced a slight decline since 2008, but to a lesser extent than nearby cities have experienced, due in large part to the two military bases located close by.

The City has been successful in securing a number of State and Federal grants. Many of these grants are recurring and have a guaranteed multi-year commitment on the part of the funding agency.

Some examples include a Department of Justice JAG/BYRNE ARRA grant that commits approximately \$500,000 over three years for the retention of police officers, and a Department of Energy grant for \$300,000 for the installation of traffic light synchronization systems throughout the City.

### **Requests for Information**

This financial report is designed to provide a general overview of the City's financial condition. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Director, 6000 Main Street SW, Lakewood, WA 98499, telephone 253-589-2489, or visit the City's website at [www.cityoflakewood.us](http://www.cityoflakewood.us).

**City of Lakewood**  
**Statement of Net Assets**  
**December 31, 2010**

	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 9,410,668	\$ 7,003,960	\$ 16,414,628
Investments	2,017,282	2,017,282	4,034,564
Receivables (net)	8,996,946	209,122	9,206,068
Due from other governments	1,616,735	-	1,616,735
Internal balances	(258,912)	258,912	-
Capital assets not being depreciated:			
Land	20,520,308	889,697	21,410,005
Construction in progress	23,772,043	5,674,254	29,446,297
Capital assets net of accumulated depreciation:			
Buildings	23,209,818	67,097	23,276,915
Improvements other than buildings	3,184,125	-	3,184,125
Machinery and equipment	2,852,640	122,405	2,975,045
Infrastructure	40,005,967	23,758,339	63,764,306
Total assets	<u>135,327,620</u>	<u>40,001,068</u>	<u>175,328,688</u>
<b>LIABILITIES</b>			
Accounts payable and accrued expenses	2,827,606	284,643	3,112,249
Deposits	207,198	-	207,198
Unearned revenue	134,080	-	134,080
Noncurrent liabilities:			
Due in one year	1,002,129	88,884	1,091,013
Due in more than one year	9,535,381	40,190	9,575,571
Special assessment debt with government commitment, due in more than one year	2,203,334	-	2,203,334
Total liabilities	<u>15,909,728</u>	<u>413,717</u>	<u>16,323,445</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	102,079,959	30,511,792	132,591,751
Restricted for:			
Debt service	36,493	-	36,493
Unrestricted	17,301,440	9,075,559	26,376,999
Total net assets	<u>\$ 119,417,892</u>	<u>\$ 39,587,351</u>	<u>\$ 159,005,243</u>

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

**City of Lakewood**  
**Statement of Activities**  
**For the Year Ended December 31, 2010**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental Activities:							
General government	\$ 8,042,277	\$ 5,393,906	\$ 180,227	\$ 339,968	\$ (2,128,176)	\$ -	\$ (2,128,176)
Public safety	20,038,250	3,360,549	1,413,165	-	(15,264,536)	-	(15,264,536)
Physical environment	340,858	781,345	61,491	-	501,978	-	501,978
Transportation	7,102,402	73,020	5,554,390	1,668,871	193,879	-	193,879
Health and human services	538,528	-	1,129,027	-	590,499	-	590,499
Economic environment	3,834,314	1,426,832	1,564,437	-	(843,045)	-	(843,045)
Culture and recreation	1,940,260	210,224	73,165	218,847	(1,438,024)	-	(1,438,024)
Interest on long term debt	290,879	-	-	-	(290,879)	-	(290,879)
<b>Total governmental activities</b>	<b>42,127,768</b>	<b>11,245,876</b>	<b>9,975,902</b>	<b>2,227,686</b>	<b>(18,678,304)</b>	<b>-</b>	<b>(18,678,304)</b>
Business-type Activities:							
Surface water management	2,178,927	2,650,221	44,675	-	-	515,969	515,969
<b>Total business-type activities</b>	<b>2,178,927</b>	<b>2,650,221</b>	<b>44,675</b>	<b>-</b>	<b>-</b>	<b>515,969</b>	<b>515,969</b>
<b>Total government</b>	<b>\$ 44,306,695</b>	<b>\$ 13,896,097</b>	<b>\$ 10,020,577</b>	<b>\$ 2,227,686</b>	<b>(18,678,304)</b>	<b>515,969</b>	<b>(18,162,335)</b>
General Revenues:							
Taxes:							
Property taxes					6,195,355	-	6,195,355
Sales taxes					9,303,662	-	9,303,662
B&O taxes					5,675,529	-	5,675,529
Excise taxes					3,268,430	-	3,268,430
Other taxes					1,660,014	-	1,660,014
Investment earnings					265,548	68,096	333,644
Gain (loss) on sale/retirement of capital assets					(53,729)	-	(53,729)
Judgements and settlements					1,620	-	1,620
Miscellaneous					89,732	853	90,585
Transfers					1,812,377	(1,812,377)	-
<b>Total general revenues and transfers</b>					<b>28,218,538</b>	<b>(1,743,428)</b>	<b>26,475,110</b>
Change in net assets					9,540,234	(1,227,459)	8,312,775
Net assets, beginning of year					109,877,658	40,814,810	150,692,468
Net assets, end of year					<b>\$ 119,417,892</b>	<b>\$ 39,587,351</b>	<b>\$ 159,005,243</b>

The notes are an integral part of the financial statements.

City of Lakewood  
Balance Sheet  
Governmental Funds  
December 31, 2010

	General Fund	Street Capital Fund	LID Debt Service Fund	Sewer Project CIP Fund	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>						
Cash and cash equivalents	\$ 1,486,981	\$ 607,346	\$ 29,629	\$ 206,742	\$ 3,749,720	\$ 6,080,418
Receivables (net)	5,293,650	162,519	2,664,623	5,003	868,742	8,994,537
Due from other funds	25,711	-	-	-	616,574	642,285
Due from other governmental units	51,944	358,443	-	147,515	1,058,833	1,616,735
Total assets	<u>6,858,286</u>	<u>1,128,308</u>	<u>2,694,252</u>	<u>359,260</u>	<u>6,293,869</u>	<u>17,333,975</u>
<b>LIABILITIES AND FUND BALANCES</b>						
Liabilities:						
Accounts payable	1,898,577	156,308	-	322,778	431,665	2,809,328
Due to other funds	-	-	-	-	642,285	642,285
Payable to other governments	90	-	-	-	-	90
Deposits payable	11,107	95,000	-	-	58,140	164,247
Interfund loan payable	-	-	-	-	202,000	202,000
Deferred revenues	1,651,025	121,229	2,664,623	-	666,205	5,103,082
Total liabilities	<u>3,560,799</u>	<u>372,537</u>	<u>2,664,623</u>	<u>322,778</u>	<u>2,000,295</u>	<u>8,921,032</u>
Fund balances:						
Reserved for Debt service	-	-	29,629	-	1,277,446	1,307,075
Unreserved, undesignated reported in:						
General fund	3,297,487	-	-	-	-	3,297,487
Special Revenue funds	-	755,771	-	-	2,736,825	3,492,596
Capital Projects funds	-	-	-	36,482	279,303	315,785
Total fund balances	<u>3,297,487</u>	<u>755,771</u>	<u>29,629</u>	<u>36,482</u>	<u>4,293,574</u>	<u>8,412,943</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ 6,858,286</u>	<u>\$ 1,128,308</u>	<u>\$ 2,694,252</u>	<u>\$ 359,260</u>	<u>\$ 6,293,869</u>	<u>\$ 17,333,975</u>

The notes are an integral part of the financial statements.

City of Lakewood  
 Reconciliation of Governmental Fund Balances  
 To Net Assets of Governmental Activities  
 December 31, 2010

Total Governmental Fund Balances	\$	8,412,943
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		111,379,259
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Long-term liabilities applicable to the City's activities are not due and payable in the current period and are not reported as fund liabilities:		
Debt and notes payable		(11,501,074)
Compensated absences		(1,239,770)

Deferred revenue reported in the funds are not reported in the government-wide financial statements.		4,968,052
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Internal service funds are used by management to charge the costs of equipment replacement and city hall maintenance services to individual funds.

Net assets of the internal service funds that are reported with governmental activities.		<u>7,398,482</u>
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Net assets of governmental activities	\$	<u><u>119,417,892</u></u>
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*The notes are an integral part of the financial statements.*

**City of Lakewood**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Governmental Funds**  
**For the Year Ended December 31, 2010**

	General Fund	Street Capital Fund	LID Debt Service Fund	Sewer Project CIP Fund	Other Governmental Funds	Total Governmental Funds
<b>REVENUES</b>						
Taxes						
Property	\$ 6,047,325	\$ -	\$ -	\$ -	\$ -	\$ 6,047,325
Sales	8,743,321	-	-	-	560,341	9,303,662
B&O	4,932,816	62,570	-	-	680,143	5,675,529
Excise	2,636,811	1,004,481	-	-	-	3,641,292
Other	761,727	-	-	-	894,867	1,656,594
Licenses and permits	2,629,686	141,526	-	-	325,564	3,096,776
Intergovernmental	767,983	5,131,678	-	1,656,811	3,832,178	11,388,650
Charges for goods and services	1,415,168	-	-	-	555,702	1,970,870
Fines and forfeitures	1,374,295	-	-	-	64,062	1,438,357
Special assessments	-	-	179,170	-	-	179,170
Miscellaneous:						
Investment earnings	58,030	9,868	143,892	2,573	17,839	232,202
Contributions	-	-	-	12,060	-	12,060
Miscellaneous	539,463	111,608	-	-	7,013	658,084
Total revenues	<u>29,906,625</u>	<u>6,461,731</u>	<u>323,062</u>	<u>1,671,444</u>	<u>6,937,709</u>	<u>45,300,571</u>
<b>EXPENDITURES</b>						
Current:						
General government	7,829,951	-	-	-	450,866	8,280,817
Public safety	18,654,981	280	-	-	537,316	19,192,577
Utilities and environment	332,868	-	-	-	-	332,868
Transportation	599,549	832,138	-	25,557	3,270,476	4,727,720
Health and human services	527,808	-	-	-	12,256	540,064
Economic environment	2,371,111	-	-	-	1,432,083	3,803,194
Culture and recreation	1,557,869	-	-	-	16,683	1,574,552
Debt service:						
Principal retirement	310,819	-	245,761	-	229,406	785,986
Interest	153,187	-	121,108	-	18,983	293,278
Capital outlay	77,847	7,788,912	-	5,526,516	455,371	13,848,646
Total expenditures	<u>32,415,990</u>	<u>8,621,330</u>	<u>366,869</u>	<u>5,552,073</u>	<u>6,423,440</u>	<u>53,379,702</u>
Excess (deficiency) of revenues over expenditures	<u>(2,509,365)</u>	<u>(2,159,599)</u>	<u>(43,807)</u>	<u>(3,880,629)</u>	<u>514,269</u>	<u>(8,079,131)</u>
<b>OTHER FINANCING SOURCES (USES)</b>						
Transfers in	1,021,841	1,611,330	-	13,477	431,498	3,078,146
Transfers out	(230,038)	(201,780)	-	-	(948,950)	(1,380,768)
Debt proceeds	-	-	-	2,078,000	-	2,078,000
Proceeds from sale of assets	-	750	-	-	-	750
Total other financing sources and uses	<u>791,803</u>	<u>1,410,300</u>	<u>-</u>	<u>2,091,477</u>	<u>(517,452)</u>	<u>3,776,128</u>
Net Change in fund balances	<u>(1,717,562)</u>	<u>(749,299)</u>	<u>(43,807)</u>	<u>(1,789,152)</u>	<u>(3,183)</u>	<u>(4,303,003)</u>
FUND BALANCES, beginning of year	<u>5,015,049</u>	<u>1,505,070</u>	<u>73,436</u>	<u>1,825,634</u>	<u>4,296,757</u>	<u>12,715,946</u>
FUND BALANCES, end of year	<u>\$ 3,297,487</u>	<u>\$ 755,771</u>	<u>\$ 29,629</u>	<u>\$ 36,482</u>	<u>\$ 4,293,574</u>	<u>\$ 8,412,943</u>

The notes are an integral part of the financial statements.

City of Lakewood  
 Reconciliation of The Statement of Revenue, Expenditures,  
 And Changes In Fund Balances of Governmental Funds  
 To the Statement of Activities  
 For The Year Ended December 31, 2010

Net changes in fund balances - total governmental funds \$ (4,303,003)

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

Certain revenues in the statement of activities do not provide current financial resources and are not reported as revenues in the funds. 4,586,300

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets are allocated over their estimated useful lives as depreciation expense. Amounts related to capital assets are:

Capital asset purchases capitalized	13,848,646	
Depreciation expense	(3,548,437)	
Loss on Donated Capital Assets	<u>(59,112)</u>	
		10,241,097

Expenses for compensated absences reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. (102,663)

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

New debt proceeds		(2,078,000)
Bond principal retired		784,693
Bond premium amortized		2,400

Internal service funds are used by management to charge the costs of equipment replacement and city hall maintenance services to individual funds. The net revenue of the internal service funds is reported with the governmental activities.

Change in net assets		511,705
Elimination of internal service fund's interfund transactions		<u>(102,295)</u>

Change in net assets of governmental activities \$ 9,540,234

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

**City of Lakewood**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Budget and Actual**  
**General Fund**  
**For the Year Ended December 31, 2010**

	Original	Final	Actual	Variance with Final Budget Positive (Negative)
<b>REVENUES</b>				
Taxes				
Property	\$ 5,973,486	\$ 5,973,486	\$ 6,047,325	\$ 73,839
Sales	9,557,511	9,058,411	8,743,321	(315,090)
B&O	5,766,907	5,766,907	4,932,816	(834,091)
Excise	3,114,782	3,114,782	2,636,811	(477,971)
Other	-	-	761,727	761,727
Licenses and permits	2,786,227	2,786,227	2,629,687	(156,540)
Intergovernmental	1,664,821	1,664,821	767,983	(896,838)
Charges for goods and services	1,615,340	1,634,340	1,415,168	(219,172)
Fines, forfeitures, and penalties	1,778,710	1,779,710	1,374,295	(405,415)
Miscellaneous:				
Interest	245,140	245,140	58,030	(187,110)
Other	126,059	126,059	539,463	413,404
Total revenues	<u>32,628,983</u>	<u>32,149,883</u>	<u>29,906,626</u>	<u>(2,243,257)</u>
<b>EXPENDITURES</b>				
Current:				
General government	10,565,460	10,286,273	7,829,952	2,456,321
Public safety	20,290,280	20,169,808	18,654,981	1,514,827
Utilities and environment	371,050	371,050	332,868	38,182
Transportation	721,760	721,760	599,549	122,211
Health and human services	574,140	574,140	527,808	46,332
Economic environment	2,511,130	2,432,830	2,371,111	61,719
Culture and recreation	1,546,910	1,546,910	1,557,869	(10,959)
Debt service:				
Principal retirement	297,720	297,720	310,819	(13,099)
Interest	144,880	144,880	153,187	(8,307)
Capital outlay	32,000	43,500	77,847	(34,347)
Total expenditures	<u>37,055,330</u>	<u>36,588,871</u>	<u>32,415,991</u>	<u>4,172,880</u>
Excess (deficiency) of revenues over expenditures	<u>(4,426,347)</u>	<u>(4,438,988)</u>	<u>(2,509,365)</u>	<u>1,929,623</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Contributions	55,900	55,900	-	(55,900)
Transfers in	924,447	937,088	1,021,841	84,753
Transfers out	(50,000)	(150,000)	(230,038)	(80,038)
Total other financing sources and uses	<u>930,347</u>	<u>842,988</u>	<u>791,803</u>	<u>(51,185)</u>
Net Change in fund balances	<u>(3,496,000)</u>	<u>(3,596,000)</u>	<u>(1,717,562)</u>	<u>1,878,438</u>
FUND BALANCES, beginning of year	<u>5,015,049</u>	<u>5,015,049</u>	<u>5,015,049</u>	
FUND BALANCES, end of year	<u>\$ 1,519,049</u>	<u>\$ 1,419,049</u>	<u>\$ 3,297,487</u>	<u>\$ 1,878,438</u>

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

**City of Lakewood**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Budget and Actual**  
**Street Capital Fund**  
**For the Year Ended December 31, 2010**

	Original	Final	Actual	Variance with Final Budget Positive (Negative)
<b>REVENUES</b>				
Taxes				
B&O	\$ 62,570	\$ 62,570	\$ 62,570	\$ -
Excise	900,000	900,000	1,004,480	104,480
Licenses and permits	-	-	141,527	141,527
Intergovernmental	7,246,870	7,246,870	5,131,678	(2,115,192)
Miscellaneous:				
Interest	-	-	9,868	9,868
Other	95,000	95,000	111,608	16,608
Total revenues	<u>8,304,440</u>	<u>8,304,440</u>	<u>6,461,731</u>	<u>(1,842,709)</u>
<b>EXPENDITURES</b>				
Current:				
Public safety	5,000	5,000	279	4,721
Transportation	1,069,930	1,069,930	832,139	237,791
Capital outlay	11,354,440	11,354,440	7,788,912	3,565,528
Total expenditures	<u>12,429,370</u>	<u>12,429,370</u>	<u>8,621,330</u>	<u>3,808,040</u>
Excess (deficiency) of revenues over expenditures	<u>(4,124,930)</u>	<u>(4,124,930)</u>	<u>(2,159,599)</u>	<u>1,965,331</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	3,770,000	3,770,000	1,611,330	(2,158,670)
Transfers out	(163,280)	(163,280)	(201,780)	(38,500)
Proceeds from sale of assets	-	-	750	750
Total other financing sources and uses	<u>3,606,720</u>	<u>3,606,720</u>	<u>1,410,300</u>	<u>(2,196,420)</u>
Net Change in fund balances	<u>(518,210)</u>	<u>(518,210)</u>	<u>(749,299)</u>	<u>(231,089)</u>
FUND BALANCES, beginning of year	<u>1,505,070</u>	<u>1,505,070</u>	<u>1,505,070</u>	<u>-</u>
FUND BALANCES, end of year	<u>\$ 986,860</u>	<u>\$ 986,860</u>	<u>\$ 755,771</u>	<u>\$ (231,089)</u>

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

**City of Lakewood**  
**Statement of Net Assets**  
**Proprietary Funds**  
**December 31, 2010**

	Business-type Activities - Enterprise Funds		
	Surface Water Management	Total Enterprise Funds	Gov. Activities Internal Service Funds
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$ 7,003,960	\$ 7,003,960	\$ 3,286,767
Investments	2,017,282	2,017,282	2,017,282
Receivables (net of allowance for uncollectible accounts)	209,122	209,122	3,357
Interfund loan receivable - current	202,000	202,000	-
Total current assets:	9,432,364	9,432,364	5,307,406
Noncurrent assets:			
Capital assets:			
Land	889,697	889,697	278
Construction in progress	5,674,254	5,674,254	-
Buildings	74,290	74,290	-
Infrastructure	33,209,432	33,209,432	137,279
Machinery and equipment	204,029	204,029	4,953,346
Less accumulated depreciation	(9,539,910)	(9,539,910)	(2,925,262)
Total noncurrent assets:	30,511,792	30,511,792	2,165,641
<b>TOTAL ASSETS</b>	<b>39,944,156</b>	<b>39,944,156</b>	<b>7,473,047</b>
<b>LIABILITIES AND FUND BALANCES</b>			
Current liabilities:			
Accounts payable and accrued expenses	284,643	284,643	17,653
Lease Payable	71,660	71,660	-
Compensated absences	17,224	17,224	-
Total current liabilities:	373,527	373,527	17,653
Non current liabilities:			
Compensated absences	40,190	40,190	-
Total Non current liabilities:	40,190	40,190	-
<b>TOTAL LIABILITIES</b>	<b>413,717</b>	<b>413,717</b>	<b>17,653</b>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	30,511,792	30,511,792	2,165,641
Unrestricted	9,018,647	9,018,647	5,289,753
<b>TOTAL NET ASSETS</b>	<b>\$ 39,530,439</b>	<b>39,530,439</b>	<b>\$ 7,455,394</b>
Reconciliation to government-wide statement of net assets:			
Some amounts reported for business-type activities in the statement of net assets are different because certain internal service fund assets and liabilities are included with business-type activities.		56,912	
Net assets of business-type activities		<b>\$ 39,587,351</b>	

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

**City of Lakewood**  
**Statement of Revenues, Expenses, and Changes in Fund Net Assets**  
**Proprietary Funds**  
**For the Year Ended December 31, 2010**

	Business-type Activities - Enterprise Funds		
	Surface Water Management	Total Enterprise Funds	Gov. Activities Internal Service Funds
<b>OPERATING REVENUES</b>			
Charges for goods and services	2,650,221	\$ 2,650,221	\$ 727,062
Total operating revenues	2,650,221	2,650,221	727,062
<b>OPERATING EXPENSES</b>			
Cost of sales and services	-	-	18
Maintenance and administration	1,354,227	1,354,227	-
Depreciation	837,415	837,415	578,611
Total operating expenses	2,191,642	2,191,642	578,629
Operating income (loss)	458,579	458,579	148,433
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Gain (loss) on disposal of capital assets	-	-	4,635
Investment earnings	68,096	68,096	32,744
Miscellaneous revenue	854	854	31,743
Interest and other debt service cost	-	-	-
Debt proceeds	-	-	-
Principal retirement	-	-	-
Capital outlay	-	-	-
Grants	44,675	44,675	-
Total nonoperating revenue (expenses)	113,625	113,625	69,122
Income (loss) before contributions and transfers	572,204	572,204	217,555
Capital contributions	-	-	179,150
Transfers in	51,292	51,292	115,000
Transfers out	(1,863,670)	(1,863,670)	-
Change in net assets	(1,240,174)	(1,240,174)	511,705
TOTAL NET ASSETS, beginning of year	40,770,613		6,943,689
TOTAL NET ASSETS, end of year	39,530,439		\$ 7,455,394
Reconciliation to government-wide statement of net assets:			
Some amounts reported for business-type activities in the statement of activities are different because the net revenue (expense) of certain internal service funds are reported with business-type activities			
		12,715	
Change in net assets of business-type activities		\$ (1,227,460)	

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

**City of Lakewood  
Statement of Cash Flows  
Proprietary Funds  
For the Year Ended December 31, 2010**

	Business-type Activities - Enterprise Funds		Gov. Activities Internal Service Funds
	Surface Water Management	Total Enterprise Funds	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from customers and users	\$ 2,625,779	\$ 2,625,779	\$ 727,311
Payments to employees	(516,634)	(516,634)	-
Payments for goods and services	(664,598)	(664,598)	17,636
Net cash provided by operating activities	<u>1,444,547</u>	<u>1,444,547</u>	<u>744,947</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>			
Grants	44,675	44,675	-
Transfers from other funds	51,292	51,292	115,000
Transfers to other funds	(1,863,670)	(1,863,670)	-
Nonoperating miscellaneous revenue	853	853	31,743
Net cash Provided by Noncapital financing	<u>(1,766,850)</u>	<u>(1,766,850)</u>	<u>146,743</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Debt proceeds	71,660	71,660	-
Debt principal payments	-	-	-
Interest paid on debt	-	-	-
Proceeds from sales of equipment or vehicles	-	-	30,837
Capital Lease down payment	(34,503)	(34,503)	-
Payment for capital acquisitions	(3,829,025)	(3,829,025)	(545,273)
Net cash (used) by capital and related financing activities	<u>(3,791,868)</u>	<u>(3,791,868)</u>	<u>(514,436)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Proceeds from sale and maturities of investments	2,586,352	2,586,352	-
Purchase of investments	-	-	(84,389)
Interest income	70,994	70,994	29,845
Net cash (used) by investing activities	<u>2,657,346</u>	<u>2,657,346</u>	<u>(54,544)</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	(1,456,825)	(1,456,825)	322,710
<b>CASH AND CASH EQUIVALENTS, beginning of year</b>	<u>8,460,785</u>	<u>8,460,785</u>	<u>2,964,057</u>
<b>CASH AND CASH EQUIVALENTS, end of the year</b>	<u>\$ 7,003,960</u>	<u>\$ 7,003,960</u>	<u>\$ 3,286,767</u>
<i>per financials</i>	7,003,960	7,003,960	3,286,767
<i>diff</i>	(0)	(0)	(0)
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b>			
Operating income (loss)	\$ 458,579	\$ 458,579	\$ 148,433
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation	837,415	837,415	578,610
(Increase) decrease in accounts receivable	(24,442)	(24,442)	251
Increase (decrease) in accounts payable	166,391	166,391	17,653
Increase (decrease) in compensated absences	6,604	6,604	-
Net cash provided by operating activities	<u>\$ 1,444,547</u>	<u>\$ 1,444,547</u>	<u>\$ 744,947</u>
Noncash investing, capital and financing activities			
Amortization of bond premium/discount	-	-	-
Unrealized gain (loss) on investments	\$ (2,898)	\$ (2,898)	\$ (2,898)
Capital contributions	\$ -	\$ -	\$ 179,150

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

**City of Lakewood  
Statement of Net Assets  
Fiduciary Funds  
December 31, 2010**

	<u>Agency Fund</u>
<b>ASSETS</b>	
Cash and cash equivalents	<u>\$    42,951</u>
Total assets	<u>            42,951</u>
 <b>LIABILITIES</b>	
Custodial accounts payable	<u>            42,951</u>
Total Liabilities	<u>\$    42,951</u>

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

**CITY OF LAKEWOOD, WASHINGTON**  
**NOTES TO THE 2010 FINANCIAL STATEMENTS**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**A. Reporting Entity**

The City of Lakewood, Washington, was incorporated on February 28, 1996, and operates under the laws of the State of Washington applicable to a Non-Charter Code City with a Council-Manager form of government. The City of Lakewood (the City) is a general-purpose local government (*primary government*) with no component units. The City is administered by a full-time City Manager and a seven member City Council, with one of its members serving as Mayor. All terms are four year periods.

**B. Government-wide and Fund Financial Statements**

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

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with the specific function or segment. Program revenues include: 1) Charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and; 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for the governmental funds, proprietary funds, and the City's one fiduciary fund. The City's major individual governmental funds and major individual enterprise fund are reported as separate columns in the fund financial statements.

Accounting records for the City are maintained in accordance with the methods and guidelines as prescribed and required by the State Auditor's Office (SAO) under the authority of Revised Codes of Washington (RCW) 43.09, which is consistent and supportive of GAAP. The City uses the Budgeting, Accounting and Reporting Systems (BARS) manual as published by the State Auditor. The accounting and reporting framework and the more significant accounting policies are discussed in subsequent subsections of these notes.

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

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

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 government considered revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when the payment is due.

Property taxes, sales taxes, licenses, grants receivable, 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. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the City.

The City reports the following major governmental funds:

The *General Fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required by law, by GAAP and/or by GASB to be accounted for in another fund.

The *Streets Capital Projects Fund*, formerly known as the Arterial Streets Fund, accounts for capital projects related to street infrastructure.

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

The *Sewer Project CIP Fund* is utilized to account for the City's construction of a sanitary sewer main. Once completed, the infrastructure will be donated to Pierce County as the City does not have its own sanitary sewer system.

The City reports the following major proprietary fund:

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

by the County to the City.

Additionally, the City reports the following fund types:

*Debt service funds* account for the accumulation of resources for and payments of general long-term debt principal and interest, except those required to be accounted for in another fund.

*Special revenue funds* account for the proceeds of specific revenue sources (other than for major capital projects) that are legally restricted to expenditures for specified purposes.

*Capital project funds* are used to account for the acquisition or construction of major capital facilities which are not financed by Enterprise Funds, Internal Service Funds or Trust Funds. The use of a capital projects fund is required when legally mandated or when projects are financed wholly or in part by bond issues, intergovernmental revenues or major private donations.

*Internal service funds* account for services provided to other departments or agencies of the government on a cost reimbursement basis, which include equipment replacement and facilities replacement.

*Agency funds* represent assets held in a trustee or agency capacity for others and do not report results of operations.

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

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

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish *operating* revenues and expenses from *non-operating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's Surface Water Management Fund and 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 non-operating revenues and expenses. When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

## **D. Assets, Liabilities, and Equity**

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

It is the City's policy to invest all temporary cash surpluses. At December 31, 2010, the treasurer was holding \$16,414,628 in cash and cash equivalents. Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the City to invest in obligations of the U.S. Treasury, U.S. Government agencies and instrumentalities, bankers' acceptances, primary certificates of deposit issued by qualified public depositories, the state's local government investment pool, municipal bonds issued by Washington State, and repurchase agreements collateralized by any previously authorized investments. Investments for the City are reported at fair value.

### **2. Receivables**

Receivables are made up of taxes receivable, accounts receivable and grants receivable.

Taxes Receivable consists of property taxes and related interest and penalties. (See additional information on property taxes at Note 5.) Customer accounts receivable consist of amounts owed from private individuals or organizations for goods and services. Grants Receivable consists of amounts owed from governmental or other third parties.

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

Special Assessments are recorded when levied. Special assessments receivable consists of current and delinquent assessments and related interest and penalties. Deferred assessments consist of unbilled special assessments that are liens against the property benefited.

### **3. Due to – due from other funds, interfund loans and advances receivable**

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year ended December 31, 2010, are referred to as either "due to/from other funds" (*i.e., the current portion of interfund loans*) or "advances to/from other funds" (*i.e., the non-current portion of interfund loans*). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as internal balances. Amounts due to or from other governments for activity such as grants, shared revenues, property taxes and charges for services are accrued at year-end.

4. Capital assets

Capital assets are defined by the City as assets with an initial, individual cost equal to or greater than \$5,000 and an estimated useful life in excess of one year. Included in this asset category are property, plant, equipment and infrastructure assets (*e.g., roads, bridges, sidewalks, and similar items*); they are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost if the actual cost is not available. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

Depreciation on exhaustible assets is recorded as an allocated expense in the Statement of Activities with accumulated depreciation reflected in the Statement of Net Assets and is provided on the straight-line basis over the following estimated useful lives:

<u>Asset Type</u>	<u>Depreciable Life</u>
Buildings and improvements	25-75
Improvements other than buildings	10-20
Public domain infrastructure	10-50
Vehicles	3-10
Equipment	3-10

5. Compensated absences

City employees accumulate combination leave and major medical leave. Upon termination or retirement, employees with less than three years of service with the City receive 75% of his/her combination leave at the current rate of pay. Employees with three or more years of service receive 100% of their combination leave at their current rate of pay. Those individuals who are of retirement age upon separation from the City receive 25% of their major medical leave at their current rate of pay, with a maximum of 80 hours to be paid out. The liability for compensated absences is accrued when incurred in the government-wide and proprietary fund financial statements.

6. Long-term obligations

In the government-wide financial statements and proprietary fund statements, long-term debt and other long-term obligations such as compensated absences are reported as liabilities in the applicable activities. 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 the debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

7. Deferred revenues

This includes amounts recognized as receivables but not available or available but not yet earned.

8. Fund equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

**NOTE 2. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

The government-wide financial statements are prepared using the economic resources measurement focus and the full accrual basis of accounting; the fund financial statements are prepared using the flow of resources measurement focus and the modified accrual basis of accounting. The different measurement focuses and the different basis of accounting will result in certain differences between the government-wide and the fund financial statements.

The governmental fund balance sheet includes a reconciliation of the differences between the fund balance – total governmental fund and the net assets - government activities as reported in the government-wide statement of net assets.

The governmental fund statement of revenues, expenditures, and changes in fund balances includes reconciliation between net changes in fund balances – total governmental funds and the changes in net assets of governmental activities as reported in the government-wide statement of activities.

**NOTE 3. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**A. Budgetary Information**

The City's budget procedures are mandated by the Revised Code of Washington (RCW) 35A.34. Annual appropriated budgets are legally adopted for all funds except for the agency fund. For governmental funds, there are no substantial differences between the budgetary basis and GAAP. Budgetary accounts are integrated in the accounting system in all budgeted governmental funds. Formal budgetary accounting is employed as a management control for all funds of the City. Governmental accounting standards do not require, and the financial statements do not present, budgetary comparisons for Proprietary Fund types.

At the fund level, actual expenditures cannot exceed budgeted appropriations which are adopted at the total fund level including fund balances, operations and operating transfers. However, with proper approval by the City Council subsequent to a series of public hearings on the opening of the budget, budgetary transfers between funds can be made. Budgetary transfers can be made between departments of the same fund by authorization of the City Manager only if the bottom line appropriation stays the same. The budgeted financial statements represented in this report reflect the final budget authorization, including all amendments. Any unexpended appropriations that lapse at the end of the fiscal year are calculated into the Ending Fund Balances.

Annual appropriated budgets are adopted at the fund level. Subsidiary revenue and expenditure ledgers are used to compare the budgeted amounts with actual revenues and expenditures. As a management control device, the subsidiary ledgers monitor expenditures for individual functions and activities by object classification.

Amending the Original Budget

Budget adjustments are made periodically throughout the year when changes in a fund's appropriation are necessary. The financial statements display the original budgets for General fund and Street Capital Projects Fund and amended budgets, where appropriate.

**B. Excess of Expenditures over Appropriations**

There have been no material violations of finance-related legal or contractual provisions, and there have been no expenditures exceeding legal appropriations in any of the funds of the City.

**NOTE 4. DETAILED NOTES ON ALL FUNDS**

**A. Deposits and Investments**

At year end, the City's cash and cash equivalents (short-term investments) amounted to \$16,414,628. The book values of deposits do not differ materially from the bank balances of deposits.

The City holds excess money from operations in a Columbia Bank Public Funds account, where it earns interest through overnight investments. The Columbia Bank Public Funds balance's risk classification is N/R with both Moody's and S&P.

Deposit custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be recovered. The Federal Deposit Insurance Commission (FDIC) insures the City's deposits up to \$250,000. The Washington Public Deposit Protection Commission (WPDPC) insures deposits that exceed the FDIC insured amount of \$250,000. Because deposits are insured through these two entities, the City has no custodial credit risk for deposits for the year ended 2010.

Investments for the City are reported at fair value. The City's investment policy allows for authorized investments up to 36 months to maturity. The City's investment policy is to apply the prudent-person rule: In acquiring, retaining, managing, and disposing of investments, there shall be exercised the judgment and care under the circumstances then prevailing which persons of prudence, discretion, and intelligence exercise in the management of their own affairs, not in regard to speculation but in regard to the permanent disposition of the funds, considering the probable income as well as the probable safety of the capital.

*Interest rate risk* is the risk that changes in interest rates will adversely affect the fair value of an investment. Using the specific identification method, the City had the following investments as of December 31, 2010:

Description	Maturity (Days)	Fair Value
Federal Home Loan Bank	983	\$ 1,994,204
Columbia Bank CD	231	2,040,360
		<u>\$ 4,034,564</u>

As of December 31, 2010, the City's investment with the Federal Home Loan Bank was rated AAA by Moody's and AAA by Standard and Poor's.

**B. Deferred Revenue**

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Delinquent property taxes receivable - (General Fund)	\$ 529,784	
Abatements assessments - (Property Abatement Fund)	155,307	
Special assessments not yet due - (Debt Service Fund)	2,664,623	
CDBG Programs loans receivable - (Grant Fund)	510,898	
Courts Deferred Revenue	1,108,390	
Oak Tree Mitigation		12,850
Traffic Mitigation Fees		121,230
	<u>\$ 4,969,002</u>	<u>\$ 134,080</u>

### C. Capital Assets

Capital asset activity for Governmental-type activities for the year ended December 31, 2010, is as follows:

<b>Governmental Activities</b>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Land and land rights	\$ 20,285,332	\$ 293,812	\$ (59,114)	\$ 20,520,030
Construction in progress	10,610,680	13,202,796	(41,433)	23,772,043
Total capital assets, not being depreciated	<u>30,896,012</u>	<u>13,496,608</u>	<u>(100,547)</u>	<u>44,292,073</u>
Capital assets being depreciated:				
Buildings	25,951,216	-	-	25,951,216
Improvements other than buildings	4,370,422	11,362	-	4,381,784
Machinery and equipment	2,456,238	99,197	(21,874)	2,533,561
Infrastructure	68,368,423	193,337	-	68,561,760
Total capital assets, being depreciated	<u>101,146,299</u>	<u>303,896</u>	<u>(21,874)</u>	<u>101,428,321</u>
Less accumulated depreciation for:				
Buildings	(2,222,374)	(519,024)	-	(2,741,398)
Improvements other than buildings	(947,739)	(249,920)	-	(1,197,659)
Machinery and equipment	(1,423,782)	(316,637)	21,874	(1,718,545)
Infrastructure	(26,220,677)	(2,462,856)	-	(28,683,533)
Total accumulated depreciation	<u>(30,814,572)</u>	<u>(3,548,437)</u>	<u>21,874</u>	<u>(34,341,135)</u>
Total capital assets being depreciated, net	<u>70,331,727</u>	<u>(3,244,541)</u>	<u>0</u>	<u>67,087,186</u>
Subtotal, net capital assets	<u>\$ 101,227,739</u>	<u>\$ 10,252,067</u>	<u>\$ (100,547)</u>	<u>\$ 111,379,259</u>
<b>Internal Service Funds</b>				
Capital assets, not being depreciated:				
Land and land rights	\$ 278	\$ -	\$ -	\$ 278
Total capital assets, not being depreciated	<u>278</u>	<u>-</u>	<u>-</u>	<u>278</u>
Capital assets being depreciated:				
Improvements other than buildings	137,224	55	-	137,279
Machinery and equipment	4,352,412	724,369	(123,435)	4,953,346
Total capital assets, being depreciated	<u>4,489,636</u>	<u>724,424</u>	<u>(123,435)</u>	<u>5,090,625</u>
Less accumulated depreciation for:				
Machinery and equipment	(2,437,853)	(575,180)	97,312	(2,915,721)
Infrastructure	(6,109)	(3,431)	-	(9,540)
Total accumulated depreciation	<u>(2,443,962)</u>	<u>(578,611)</u>	<u>97,312</u>	<u>(2,925,261)</u>
Total capital assets, being depreciated	<u>2,045,674</u>	<u>145,813</u>	<u>(26,123)</u>	<u>2,165,364</u>
Total capital assets, Internal Service Fund	<u>2,045,952</u>	<u>145,813</u>	<u>(26,123)</u>	<u>2,165,642</u>
Net capital assets, Governmental Activities	<u>\$ 103,273,691</u>	<u>\$ 10,397,880</u>	<u>\$ (126,670)</u>	<u>\$ 113,544,901</u>

Capital asset activity for Business-type activities for the year ended December 31, 2010, was as follows:

<b>Business-Type Activities</b>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Land	\$ 889,437	\$ 260	\$ -	\$ 889,697
Construction in progress	2,947,193	3,254,897	(527,835)	5,674,255
Total capital assets, not being depreciated	<u>3,836,630</u>	<u>3,255,157</u>	<u>(527,835)</u>	<u>6,563,952</u>
Capital assets being depreciated:				
Buildings	41,500	32,790	-	74,290
Infrastructure	32,212,343	997,089	-	33,209,432
Machinery and equipment	97,702	106,327	-	204,029
Total capital assets, being depreciated	<u>32,351,545</u>	<u>1,136,206</u>	<u>-</u>	<u>33,487,751</u>
Less accumulated depreciation for:				
Buildings	(6,640)	(553)	-	(7,193)
Infrastructure	(8,626,357)	(824,736)	-	(9,451,093)
Machinery and equipment	(69,498)	(12,126)	-	(81,624)
Total accumulated depreciation	<u>(8,702,495)</u>	<u>(837,415)</u>	<u>-</u>	<u>(9,539,910)</u>
Total capital assets, being depreciated, net	<u>23,649,050</u>	<u>298,791</u>	<u>-</u>	<u>23,947,841</u>
Net capital assets	<u>\$ 27,485,680</u>	<u>\$ 3,553,948</u>	<u>\$ (527,835)</u>	<u>\$ 30,511,793</u>

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

Governmental activities:	
General government	\$ 457,881
Public safety (police)	758,580
Transportation (highways and streets)	2,523,625
Economic Environment	14,759
Physical Environment	8,422
Culture and recreation	363,781
Total depreciation expense - governmental activities	<u>4,127,048</u>
Total depreciation expense - business-type activities:	<u>837,415</u>
Total depreciation expense	<u>\$ 4,964,463</u>

## Construction Commitments

The City has active, on-going, construction projects as of December 31, 2010. At year end the City's construction commitments are as follows:

<b>Contract Name</b>	<b>Contract</b>	<b>Payments</b>	<b>Balance</b>
<b>Construction Contracts</b>			
Northwest Cascade - Phase I Sewer Project	4,743,737	4,571,046	172,691
Northwest Cascade - Phase II Sewer Project	1,751,479	1,726,479	25,000
Miles Resources, LLC. - Pacific Highway Phase IV	4,078,383	4,078,383	-
Miles Resources, LLC. - Bridgeport Way (Steilacoom to 83rd)	1,470,519	42,664	1,427,855
Tucci & Sons - Steilacoom Blvd SW Roadway Improvements	953,699	821,906	131,792
DKS Associates - Traffic Signal Upgrade Phase IV	30,576	13,210	17,366
Northwest Cascade - Storm Drainage & Roadway	4,240,836	4,157,436	83,400
Active Construction - Sanitary Sewer	667,073	127,311	539,761
Active Construction - Woodbrook Storm Drainage & Roadway	523,493	2,403	521,090
Northwest Cascade - 2010 Drywell Replacement	433,095	331,432	101,663
<b>Consulting and Engineering Services</b>			
AHBL - Murray Avenue Surveying	16,000	8,402	7,598
AHBL - Grant Avenue Sewer Project - Surveying	9,800	5,359	4,442
AMEC Earth & Environmental - Geotechnical Engineering	33,510	9,458	24,052
Cascade Right-of-Way Services	66,550	11,302	55,248
Cascade Right-of-Way Services	40,375	11,420	28,955
KPFF Consulting	304,243	27,153	277,091
Larson & Associates - Surveying and Engineering	45,000	23,506	21,494
TranTech Engineering, LLC - Engineering Services	49,600	21,803	27,797
	<b>\$ 19,457,968</b>	<b>\$ 15,990,673</b>	<b>\$ 3,467,295</b>

## D. Debt

Debt activity for the year ended December 31, 2010, is as follows:

Description	Date of Issue	Maturity Date	Interest Rate	Beginning of Year Balance	Amount Issued	Amount Redeemed	End of Year Balance	Due in One Year	LT Portion
<b>Governmental Activities</b>									
<u>General Obligation Bonds</u>									
			2.25% -						
2009 LTGO	03/31/2009	12/01/2028	5.0%	\$ 2,630,000		\$ 100,000	\$ 2,530,000	\$ 100,000	\$ 2,430,000
2009 LTGO Premium	03/31/2009	12/01/2028	n/a	45,560		2,400	43,160	2,400	40,760
Subtotal GO Bonds				2,675,560	-	102,400	2,573,160	102,400	2,470,760
<u>Special Assessment Bonds (with governmental commitments)</u>									
			3.75% -						
CLID 1103 debt	12/01/2006	12/01/2026	4.65%	1,895,000	-	190,000	1,705,000	160,000	1,545,000
LID 1108	01/18/2008	12/01/2027	5.30%	762,095	-	55,761	706,334	48,000	658,334
Subtotal Special Assessment Bonds				2,657,095	-	245,761	2,411,334	208,000	2,203,334
<u>Government Loans</u>									
59th Street	04/30/2005	04/30/2025	Varies	871,914	-	44,393	827,521	44,393	783,128
PWTF - 04-691- PRE-132	07/07/2005	07/07/2024	1.00%	445,730	-	29,715	416,015	29,715	386,300
PWTF - 06-962- 022	09/18/2006	09/18/2026	0.50%	3,394,735	1,250,000	199,690	4,445,045	199,690	4,245,355
PWTF - 08-951- 025	03/01/2008	07/01/2028	0.50%	-	828,000	-	828,000	46,000	782,000
Subtotal Government Loans				4,712,379	2,078,000	273,798	6,516,581	319,798	6,196,783
<u>Capital Leases</u>	07/01/2008	07/01/2010	4.99%	166,425	-	166,425	-	-	-
<u>Compensated Absences</u>				1,137,107	1,601,365	1,498,702	1,239,770	371,931	867,839
<b>Subtotal Governmental Activities</b>				<b>11,348,566</b>	<b>3,679,365</b>	<b>2,287,086</b>	<b>12,740,845</b>	<b>1,002,129</b>	<b>11,738,716</b>
<b>Business-type Activities</b>									
<u>Capital Leases</u>			0%	-	106,163	34,503	71,660	71,660	-
<u>Compensated absences</u>				50,810	56,148	49,544	57,414	17,224	40,190
<b>Subtotal Business-type Activities</b>				<b>50,810</b>	<b>162,311</b>	<b>84,047</b>	<b>129,074</b>	<b>88,884</b>	<b>40,190</b>
<b>Total</b>				<b>\$ 11,399,376</b>	<b>\$ 3,841,676</b>	<b>\$ 2,371,133</b>	<b>\$ 12,869,919</b>	<b>\$ 1,091,013</b>	<b>\$ 11,778,906</b>

The City has issued special assessment debt to provide funds for the residential infrastructure improvements. Special assessment bonds are created by ordinance, adopted by Council, and are repaid from amounts levied against the property owners benefited by the construction. A separate guaranty fund is available to cover most outstanding delinquencies at the end of the assessment

period. The City's obligation doesn't extend beyond the guaranty fund assets. In the event that a deficiency exists because of unpaid or delinquent special assessments at the time a debt service is due, the government must provide the resources to cover the deficiency until other resources, for example, foreclosure proceeds, are received. The City has an LID Guaranty Fund to finance any uncollectible special assessment debt. As of December 31, 2010, no amount of special assessment receivables was considered delinquent.

The City has other long-term debt to provide funds for acquisition and construction of major capital facilities. The debt may either be a direct obligation which pledges the full faith and credit of the City or may be paid from income derived from the acquired or constructed assets.

Future payment requirements on debt balances are as follows:

Year(s)	Principal	Interest
2011	781,642	283,893
2012	716,704	271,013
2013	718,491	257,349
2014	725,344	242,713
2015	732,267	227,463
2016 - 2020	3,743,787	844,530
2021 - 2025	3,161,485	371,494
2026 - 2028	993,015	59,643

The City leases facilities and equipment under non-cancelable operating leases. The future minimum lease payments for these leases are as follows:

2011	\$ 86,876
2012	83,292
2013	76,776
2014	35,232
	<u>\$ 282,176</u>

In 2010, the City entered into a lease-purchase agreement for a backhoe loader; the contract states the City's intent to purchase it in 2011.

**E. Interfund Balances and Transfers**

Interfund receivables and payables within the City consist of interfund loans and other monies due to/from other funds. Interfund loans occur when the City Council adopts a resolution allowing one fund to borrow from another. Due to/from other funds occur when goods are issued or services are rendered to or for the benefit of another fund of the same government. Most interfund balances are expected to be repaid within one year. The General Fund loans that provided cash flow for the reimbursement-based grants in certain special revenue funds will be repaid once the revenues have been received from the grantor. The original Police Felony Seizure fund loan was paid off by the Police Narcotics Seizure Fund. The monies owed to the Surface Water Management fund are repaid with annual interest payments at market rate for the loans three year duration.

The following table displays interfund balances at December 31, 2010.

Lending Fund	Borrowing Fund	Balance at 01/01/2010	New Loans	Repayments / Adjustments	Balance at 12/31/2010
Grant Fund	Neighborhood Stabilization Program Grant	-	33,295	-	33,295
General Fund	Office of Economic Adjustment Grant	265,092	469,562	240,230	494,424
General Fund	Police ARRA Grant	144,048	64,045	144,048	64,045
General Fund	Public Safety Grant	110,440	50,521	110,440	50,521
Surface Water Management	Police Felony Seizure Fund	\$ 202,000	-	202,000	\$ -
Surface Water Management	Police Narcotics Seizure Fund	-	202,000	-	202,000
		<u>\$ 721,580</u>	<u>\$ 819,423</u>	<u>\$ 696,718</u>	<u>\$ 844,285</u>

Transfers are intended to support the normal level of operations in the recipient fund. Transfers are accounted for as “Other Financing Sources or Uses” and are included in the financial statements. Transfers are made for the purposes of operating cash flow, capital contributions for capital related projects, maintenance of operations and/or indirect (overhead) costs associations and matching funds.

The table below displays interfund transfer activity during 2010.

Fund	Transfers In	Transfers Out
General	\$ 1,021,841	\$ 230,038
Street Operations and Maintenance	-	28,360
Street Capital Projects	1,611,330	201,780
Police Narcotics Seizure Fund	-	201,460
Police Felony Seizure Fund	201,460	-
Police Federal Seizure Fund	80,038	-
Grant Fund	-	26,269
Police ARRA Grants	-	478,290
Public Safety Grants	-	99,571
General Government CIP	150,000	115,000
Sewer Projects CIP	13,477	-
Subtotal Governmental Funds	<u>3,078,146</u>	<u>1,380,768</u>
Surface Water Management	51,292	1,863,670
City Hall Maintenance	115,000	-
Total All Funds	<u>\$ 3,244,438</u>	<u>\$ 3,244,438</u>

## F. Fund Balance

The Police ARRA Grant Fund has a deficit fund balance of \$401 as December 31, 2010. This fund accounts for various Police Department grants, all of which operate on a reimbursement basis. A minor, year-end expenditure accrual put the fund balance in a negative position.

## NOTE 5. PROPERTY TAXES

Pierce County Treasurer acts as an agent to collect property taxes levied in the County for all taxing authorities.

### Property Tax Calendar

01-Jan	Taxes are levied and become an enforceable lien against properties.
14-Feb	Tax bills are mailed.
30-Apr	First of two equal installment payments is due.
31-May	Assessed value of property established for next year's levy at 100 percent of market value.
31-Oct	Second installment is due.

Property taxes are recorded as a receivable and revenue when levied. Property taxes collected in advance of the fiscal year to which they apply are recorded as deferred revenue and recognized as revenue of the period to which they apply. No allowance for uncollectible taxes is established because delinquent taxes are considered fully collectible. Prior year tax levies were recorded using the same principal, and delinquent taxes are evaluated annually.

The City may levy up to \$1.60 per \$1,000 of assessed valuation for general governmental services.

The City's regular levy for 2010 was \$1.0624 per \$1,000 on an assessed valuation of \$5,693,170,433 for a total levy of \$6,048,818. Washington State Constitution and Washington State law, RCW 84.55.010, limit the rate.

Property taxes are recorded on the governmental fund balance sheets as "Taxes Receivable" based on the levy date. Taxes assessed upon real property, State Public Service and mobile homes that meet the definition of real property attach as a lien on January 1 of each year. Taxes assessed upon personal property attach as a lien when listed with and valued by the County Assessor. Property taxes are levied for the subsequent year collection by the County.

For the fund financial statements, recorded property taxes receivable that are collected within sixty days after year-end are considered measurable and available and, therefore, are recognized as revenue. The remaining balance is recorded as unearned revenue because it is not deemed available to finance operations of the current period. For the government-wide financial statements the 60 day collection requirement does not exist; all property tax receivable is recognized as revenue.

#### *Important Dates to remember relating to Property Tax Assessment and Taxation*

**All Property** (*other than new construction and mobile homes*) is subject to assessment and taxation on the first day of January in each year.

**Real Property** - Taxes assessed upon real property and mobile homes shall be a lien thereon from and including the first day of January in the year in which they are levied.

**Personal Property** - Taxes assessed upon personal property shall be a lien thereon from and after the date upon which such property is listed and valued by the County Assessor.

**Tax payable to Pierce County Budget/Finance division** on or after February 15 - first half taxes due by April 30. Second half taxes become delinquent after October 31. When total taxes are \$30 or less, entire amount must be paid by April 30. A penalty of 3% is assessed on tax amount delinquent May 31 of the year in which the tax is due. An additional 8% penalty is assessed on taxes delinquent November 30 of the year in which the tax is due.

**Assessment roll listing real & personal property** to be completed by the County Assessor on or before May 31, except for new construction.

**Taxpayer appeals** protesting assessed valuation of real property to be filed with the County Board of Equalization by July 1 or 30 days after the assessment or Valuation Change Notice has been mailed, whichever is later.

**Appeals from the Pierce County Board of Equalization:** If a taxpayer or the Assessor wishes to appeal a decision of the County Board, he or she may appeal for review by the State Board of Tax Appeals. An appeal must be filed with the Clerk of the County Council within thirty days of mailing the Board decision.

**Budgets filed with Clerk of Pierce County Council:** By first, second and third class cities, first call school districts, port districts within or coextensive with the county, on or before the 15<sup>th</sup> of November.

**Levies certified by the Pierce County Assessor:** By County Council, City Councils of first class cities having more than 300,000 population, fourth class towns and other taxing districts having authority to levy rates directly, on or before the 30<sup>th</sup> day of November.

**November 30.** Taxing districts certify to the Pierce County Assessor the amount of taxes to be collected for district purposes.

#### **NOTE 6. PENSION PLANS**

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

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

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

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

The table below shows the percentage contributions that are made bi-monthly by the employer and employee to this qualified money purchase plan. Contributions are made every payroll cycle (on the 5<sup>th</sup> & 20<sup>th</sup> of each month). The balance in the trust as of December 31, 2010, was \$9,699,245.

	<b>2010 Employer Contribution</b>	<b>2010 Employee Contribution</b>
Full Time Employees	7.62 %	5.08 %
	\$ 675,610	\$ 450,407

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

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

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

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

During the first couple of months of 1995-96 (the City became incorporated February 28, 1996), the City of Lakewood employees, through an election, voted not to join Social Security Retirement Plan (SSI). Instead, the City participates in a Money Purchase qualified plan, a defined money contribution plan - Retirement Trust Section 401 (a), administered through ICMA, which is registered with the Internal Revenue Service section 401. The plan was established under the authority of the City Council, which is responsible for amending the provisions and contribution requirements. The benefit package includes the following: 1) long term disability benefits, 2) survivor benefits for spouse and children, 3) lump sum death benefits and, 4) life benefits. Contributions to the plan are not subject to federal income tax. All full time employees and the City Council members who are under the Omnibus Budget Reconciliation Act of 1990 are required to participate. The contribution percentages are listed as follows:

<b>Description</b>	<b>Employer</b>	<b>Employee</b>
Full Time Employees	4.77 %	6.20 %
	\$ 875,202	\$ 1,137,576

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

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

Temporary employees are not part of the 401(a) plan. Temporary employees contribute to social security insurance. The balance in the trust as of December 31, 2010, was \$15,100,330.

### **Plan 3 - Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF) Plans 2**

The Law Enforcement Officers' and Fire Fighters Retirement System (LEOFF) is administered by the Washington State Department of Retirement Systems, under a cost-sharing multiple-employer public employee defined benefit retirement plan. 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 the plan. The DRS CAFR may be obtained by writing to: Department of Retirement Systems, Communications Unit, P.O. Box 48380, Olympia, WA 98504-8380; or it may be downloaded from the DRS website at [www.drs.wa.gov](http://www.drs.wa.gov).

#### Plan Description

LEOFF is a cost-sharing multiple-employer retirement system comprised of two separate defined benefit plans. LEOFF members who joined the system by September 30, 1977 are Plan 1 members. Those who joined on or after October 1, 1977 are Plan 2 members. Membership in the system includes all full-time, fully compensated, local law enforcement commissioned officers, firefighters and, as of July 24, 2005, those emergency medical technicians who were given the option and chose LEOFF Plan 2 membership. LEOFF membership is comprised primarily of non-state employees, with Department of Fish and Wildlife enforcement officers, who were first included prospectively effective July 27, 2003, being an exception.

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

LEOFF defined benefit retirement benefits are financed from a combination of investment earnings, employer and employee contributions, and a special funding situation in which the state pays through state legislative appropriations. LEOFF retirement benefit provisions are established in Chapter 41.26 RCW and may be amended only by the State Legislature.

LEOFF Plan 1 members are vested after the completion of five years of eligible service. Plan 1 members are eligible for retirement with five years of service at the age of 50.

LEOFF Plan 2 members are vested after the completion of five years of eligible service. Plan 2 members may retire at the age of 50 with 20 years of service, or at the age of 53 with five years of

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

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

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

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

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

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

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

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

Beneficiaries of a LEOFF Plan 2 member who is killed in the course of employment receive retirement benefits without actuarial reduction, if found eligible by the Director of the Department of Labor and Industries.

Benefits to eligible surviving spouses and dependent children of LEOFF Plan 2 members killed in the course of employment include the payment of on-going health care insurance premiums paid to the Washington state Health Care Authority.

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

There are 372 participating employers in LEOFF. Membership in LEOFF consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2009:

Retirees and Beneficiaries Receiving Benefits	9,454
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	674
Active Plan Members Vested	13,363
Active Plan Members Non-vested	3,944
<b>Total</b>	<b>27,435</b>

Funding Policy

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

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2010, are as follows:

	<b>LEOFF Plan 2</b>
Employer	5.24%
Employee	8.46%
State	3.38%

Both the City of Lakewood and the employees made the required contributions. The City of Lakewood’s required contributions for the years ended December 31 were as follows:

	<b>LEOFF Plan 2</b>
2010	\$ 490,596
2009	\$ 501,719
2008	\$ 454,650

**NOTE 7. OTHER POST EMPLOYMENT BENEFIT PLANS**

Trust Description

The City is a Participating Employer in the Association of Washington Cities Employee Benefit Trust (“Trust”), a cost-sharing multiple-employer welfare benefit plan administered by the Association of Washington Cities. The Trust provides medical benefits to certain eligible retired

employees of Participating Employers and their eligible family members. Under Article VII of the trust document, the Trustees have the authority and power to amend the amount and the nature of the medical and other benefits provided by the Trust. The Trust issues a publicly available financial report that includes financial statements and requires supplementary information for Trust. That report, along with a copy of the Trust document, may be obtained by writing to Trust at 1076 Franklin Street SE, Olympia, WA 98501-1346 or by calling 1-800-562-8981.

### Funding Policy

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

Health First – 1000  
\$668.43 for non-Medicare enrolled retiree coverage  
\$670.74 for non-Medicare enrolled spouse coverage  
\$364.82 for Medicare enrolled retiree coverage  
\$367.13 for Medicare enrolled spouse coverage  
Selections – 1000  
\$625.93 for non-Medicare enrolled retiree coverage  
\$628.23 for non-Medicare enrolled spouse coverage  
\$334.01 for Medicare enrolled retiree coverage  
\$336.31 for Medicare enrolled spouse coverage

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

## **NOTE 8. RISK MANAGEMENT**

The City of Lakewood is a member of the Washington Cities Insurance Authority (WCIA). Utilizing Chapter 48.62 RCW (self-insurance regulation) and Chapter 39.34 RCW (Interlocal Cooperation Act), nine cities originally formed WCIA on January 1, 1981. WCIA was created for the purpose of providing a pooling mechanism for jointly purchasing insurance, jointly self-insuring, and/or jointly contracting for risk management services. WCIA has a total of 129 Members.

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

Liability coverage is written on an occurrence basis, without deductibles. Coverage includes general, automobile, police, public officials' errors or omissions, stop gap, and employee benefits liability. Limits are \$4 million per occurrence self insured layer, and \$16 million per occurrence in the re-insured excess layer. The excess layer is insured by the purchase of reinsurance and insurance and is subject to aggregate limits. Total limits are \$20 million per occurrence subject to aggregate sublimit in the excess layers. The Board of Directors determines the limits and terms of coverage annually.

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

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

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

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

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

The City of Lakewood has transferred the risk of loss from torts, errors and omissions of City employees, damage to City property, and natural disasters including earthquakes to commercial insurers. There were no settlements in excess of coverage in any of the prior three (3) years.

#### Labor & Industry – Workers Compensation

The City's Industrial Insurance is provided by Washington State and is administered by the Department of Labor & Industries. Coverage is purchased by means of standard rates per working hour and is computed by the basic premium rate assigned to the business risk classification. The following are benefits provided by industrial insurance: 1) Medical Services; 2) Damaged Clothing; 3) Travel Expenses; 4) Time-Loss Payments; 5) Vocational Rehabilitation; 6) Partial Disability Awards; 7) Pension Awards; and 8) Survivor Benefits.

#### Unemployment

The City's unemployment insurance is through the Federal/State system, which provides some compensation to workers who are temporarily and involuntarily unemployed. It is administered in Washington State by the Employment Security Department in accordance with the provisions of the Employment Security Act. The City's employer status for unemployment insurance is as a taxable employer.

There were no reductions in insurance coverage from coverage in 2010 in any of the major categories of risk. Also, the amount of settlements through December 31, 2010, has not exceeded insurance coverage in any of the past three years.

## **NOTE 9. OTHER DISCLOSURES**

### **A. Litigation**

The Risk Manager reports that, as of December 31, 2010, a number of tort claims have been received by the City directly or indirectly, often dealing with potholes, traffic accidents or claims for damage to property because of construction projects. In this regard, the City of Lakewood has contracts with Pierce County for public works - street maintenance related work and Surface Water Management maintenance of lines. According to those contracts, the City of Lakewood is to be defended, indemnified and held harmless by Pierce County where claims arise or result from actions provided by Pierce County through these contracts. The City Attorney estimates that the amount of actual or potential claims against the City as of December 31, 2010, is an amount which should be within the insurance protection the City holds. The City is also involved in litigation where representation is not provided for under insurance coverage. There is one case regarding resolution of a public disclosure request and one case regarding a utility tax issue. The utility tax case is on appeal in State Court pursuant to a bench trial result adverse to the City in the amount of \$ 601,497.75. The class action lawsuit in Federal District Court regarding photo enforcement has been dismissed by summary judgment and affirmed as such by the Ninth Circuit Court of Appeals. Reconsideration was denied.

### **B. Contingencies under Grant Provisions**

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

CITY OF LAKEWOOD						
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS						
For The Year Ended December 31, 2010						
1 & 2	3	4	5			6
Federal Grantor /		Other	Expenditures			Foot-
Pass-through Agency/ Program Title	CFDA Number	Identification Number	Direct Awards	Pass-through Awards	Total	note Ref.
US Department of Commerce						
Investments for Public Works and Econ Devlp Facilities	11.300	07-01-05958	687,801		687,801	2
US Department of Defense						
Community Economic Adjustment Assistance	12.607	GR0752-09-01	180,367			
Community Economic Adjustment Assistance	12.607	GR0752-09-02	1,074,220			
		<i>Sub-total</i>	1,254,587	-	1,254,587	
US Department of Housing & Urban Development						
CDBG-Block Grant 2005-06	14.218	B-05-MC-53-0016	2,116			
CDBG-Block Grant 2006-07	14.218	B-06-MC-53-0016	77,690			
CDBG-Block Grant 2007-08	14.218	B-07-MC-53-0016	110,000			
CDBG-Block Grant 2008-09	14.218	B-08-MC-53-0016	61,942			
CDBG-Block Grant 2009-10	14.218	B-09-MC-53-0016	363,476			
CDBG-Block Grant 2010-11	14.218	B-09-MC-53-0016	88,305			
CDBG-DPA Program Income	14.218	B-07-MC-53-0016	12,369			4
		<i>Sub-total</i>	715,897		715,897	
US Department of Housing & Urban Development						
ARRA - CDBG-Recovery Block Grant 2010-11	14.218	B-09-MC-53-0016	26,269		26,269	6
US Department of Housing & Urban Development						
Neighborhood Stabilization Program through Washington State Department of Commerce	14.228	08-F6401-012		345,239	345,239	
US Department of Justice						
STOP Violence Against Women through Pierce County	16.588	F08-31103-042		8,562		3
STOP Violence Against Women through Pierce County	16.588	F09-31103-042		4,331		3
STOP Violence Against Women Training Grant through Pierce County	16.588	2009-WF-AX-004 / 78555		7,164		2
		<i>Sub-total</i>		20,057	20,057	
US Department of Justice						
ARRA - STOP Violence Against Women through Washington State Dept. of Commerce	16.588	2009-EF-S6-0047		95,000	95,000	2,6
US Department of Justice						
Bulletproof Vest Program	16.607	2005-BUBX05027757	8,647		8,647	2
US Department of Justice						
ARRA - COPS	16.710	2009-RK-WX-0895	227,245		227,245	2,6
US Department of Justice						
JAG - Range Simulator	16.738	2009-DJ-BX-0474	8,870		8,870	
US Department of Justice						
PC Gang Grant Emphasis and Investigation through Pierce County	16.753	2009-D1-BX-0222		17,814	17,814	
US Department of Justice						
ARRA - Edward Byrne Memorial JAG Grant through Pierce County	16.803	F09-34721-402		106,644	106,644	6
US Department of Justice						
ARRA - Edward Byrne Memorial JAG Grant	16.804	2009-SB-B9-0052	106,303		106,303	6
US Department of Justice						
U.S. Marshalls through Washington State Police	16.999	na		869		
Safe Streets Task Force through Federal Bureau of Investigation	16.999	na		14,980		
Pacific Northwest Innocence Lost Task Force through Federal Bureau of Investigation	16.999	na		21,259		
Organized Crime Drug Enforcement Task Force through the Drug Enforcement Agency	16.999	PA-WAW-0228		34,741		
		<i>Sub-total</i>		71,849	71,849	
US Department of Transportation						
ARRA - Lakewood Traffic Signal Upgrade-Phase 3 through WA DOT	20.205	LA 7203		146,483	146,483	6
US Department of Transportation						
Pacific Highway SW-108th to SR512 through WA DOT	20.205	LA 6022		976		2
Pacific Highway SW - Gravelly Lk Drive to BP Way through WA DOT	20.205	LA 6338		3,000,517		2
Bridgeport (Steilacoom to 83rd) through WA DOT	20.205	LA7198		57,978		2
100th St SW (Gravelly Lake Dr SW to 59th) through WA DOT	20.205	LA 7080		86,856		2
Steilacoom Blvd (Farwest Dr to 87th Ave) through WA DOT	20.205	LA 7010		908,897		2
Park Lodge Elementary SRTS through WA DOT	20.205	LA 7064		288,689		2
Lakewood Station Connection through WA DOT	20.205	LA 7109		47,891		2
		<i>Sub-total</i>		4,391,804	4,391,804	

CITY OF LAKEWOOD						
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS						
For The Year Ended December 31, 2010						
US Department of Transportation						
X-52 Speed Emphasis Patrol	20.600			10,000		
through WA Traffic Safety Comm.						
Radar Equipment	20.600			4,000		
through WA Association of Sheriffs and Police Chiefs						
Motorcycle Pins	20.600			398		
through WA Association of Sheriffs and Police Chiefs			<i>Sub-total</i>	14,398	14,398	
US Department of Transportation						
Target Zero Team	20.601			7,000		
through WA Traffic Safety Comm.						
X-52 DUI Emphasis Patrol	20.601			609		
through WA Traffic Safety Comm.						
X-52 DUI Emphasis Patrol	20.601			4,934		
through WA Traffic Safety Comm.						
Portable Breath Tester	20.601			481		
through WA Traffic Safety Comm.						
Impaired Driving Emphasis Patrol	20.601			1,106		
through WA Traffic Safety Comm.			<i>Sub-total</i>	14,130	14,130	
US Department of Transportation						
Nighttime Seatbelt	20.602					
through WA Traffic Safety Comm.				2,063	2,063	
US Department of Transportation						
Target Zero Team						
through WA Traffic Safety Comm.	20.609			2,446	2,446	
US Environmental Protection Agency						
Congressional Mandated Projects	66.202			626,400	626,400	2
US Department of Energy - ARRA						
ARRA - EECBG Signal Synchronization	81.128	DE-SC0002048		533,138	533,138	6
US Department of Homeland Security						
Safer Boating - Boating Activities Account Grant	97.012	2009-59		1,478		
through WA State Parks and Recreation Commission						
Safer Boating - Boating Activities Account Grant	97.012	LE 911-211		14,217		
through WA State Parks and Recreation Commission			<i>Sub-total</i>	15,695	15,695	
US Department of Homeland Security						
Pierce Co. Dept. of Emergency Management Trainings	97.067			7,528		
through Pierce County						
State and Local Domestic Preparedness Equipment Support Pr	97.067	E09-150/E546		6,503		5
through Pierce County Dept. of Emergency Management			<i>Sub-total</i>	14,032	14,032	
<b>TOTAL FEDERAL AWARDS EXPENDED</b>				<b>4,195,157</b>	<b>5,257,653</b>	<b>9,452,809</b>
<b>NOTE 1 - BASIS OF ACCOUNTING</b>						
This schedule is prepared on the same basis of accounting as the City of Lakewood's financial statements. The City uses the modified accrual basis of accounting.						
<b>NOTE 2 - PROGRAM COSTS</b>						
The amounts shown as current year expenditures represent only Federal grant costs. Entire program costs, including the city's portion, may be more than shown.						
<b>NOTE 3 - The City of Fife is the lead agency.</b>						
<b>NOTE 4 - REVOLVING LOAN FUND - PROGRAM INCOME</b>						
The city administers a revolving loan program for CDBG Down-Payment Assistance and Major Home Repairs. Under this federal program, repayments to the city program are considered program revenues (incomes) and loans of such funds to eligible recipients are considered expenditures. The amount of loan funds disbursed to participants for the year was \$12,369 and is presented in this schedule. The amount of the principal received in loan repayments for the year was \$836. The loans are interest free.						
<b>NOTE 5 - NON-CASH AWARDS EQUIPMENT</b>						
The City of Lakewood received this small equipment that was purchased with federal Homeland Security funds by the Pierce County Department of Emergency Management and the state of Washington. The amount reported on the schedule is the value of the property on the date that it was received by the City of Lakewood and priced by Pierce County Department of Emergency Management and the State of Washington.						
<b>NOTE 6 - AMERICAN RECOVERY AND REINVESTMENT ACT (ARRA) OF 2009</b>						
Expenditures of this program were funded by ARRA.						



## **ABOUT THE STATE AUDITOR'S OFFICE**

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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.

Our mission is to work with our audit clients and citizens as an advocate for government accountability. 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.

The State Auditor's Office employees are located around the state to deliver services effectively and efficiently.

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 and fraud, whistleblower and citizen hotline investigations.

The results of our work are widely distributed through a variety of reports, which are available on our Web site and through our free, electronic subscription service.

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

**State Auditor**  
**Chief of Staff**  
**Deputy Chief of Staff**  
**Chief Policy Advisor**  
**Director of Audit**  
**Director of Performance Audit**  
**Director of Special Investigations**  
**Director for Legal Affairs**  
**Director of Quality Assurance**  
**Local Government Liaison**  
**Communications Director**  
**Public Records Officer**  
**Main number**  
**Toll-free Citizen Hotline**

**Brian Sonntag, CGFM**  
**Ted Rutt**  
**Doug Cochran**  
**Jerry Pugnetti**  
**Chuck Pfeil, CPA**  
**Larisa Benson**  
**Jim Brittain, CPA**  
**Jan Jutte, CPA, CGFM**  
**Ivan Dansereau**  
**Mike Murphy**  
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