

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

City of Lakewood
Pierce County

Audit Period
January 1, 2006 through December 31, 2006

Report No. 74091

Issue Date
February 29, 2008



WASHINGTON
BRIAN SONNTAG
STATE AUDITOR



**Washington State Auditor
Brian Sonntag**

February 29, 2008

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.

In addition to this work, we look at other areas of our audit client's operations for compliance with state laws and regulations. The results of that audit will be included in a separately issued accountability report.

Sincerely,

BRIAN SONNTAG, CGFM
STATE AUDITOR

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Pierce County
January 1, 2006 through December 31, 2006**

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Federal Summary

City of Lakewood Pierce County January 1, 2006 through December 31, 2006

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 identified deficiencies in the design or operation of internal control over financial reporting that we consider to be significant deficiencies.
- **Material Weaknesses:** We identified significant 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 significant deficiencies that we consider to be material weaknesses.

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

We reported no findings that are required to be disclosed under OMB Circular A-133.

Identification of Major Programs:

The following was a major program during the period under audit:

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

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.

Schedule of Audit Findings and Responses

City of Lakewood Pierce County January 1, 2006 through December 31, 2006

1. The City of Lakewood had inadequate controls over financial reporting.

Background

The City of Lakewood is the second largest city in Pierce County with a population of approximately 59,000. The City collected \$42.9 million in revenues and spent \$35.6 million in expenditures in 2006.

City management, the state Legislature, state and federal agencies and bondholders rely on financial statement information to reflect the entities position - enabling accurate decisions to be made. It is the responsibility of City management to design and follow internal controls that provide reasonable assurance regarding the reliability of financial reporting. Our audit identified material weaknesses in controls that adversely affect the City's ability to produce accurate financial statements.

Government Auditing Standards, prescribed by the Comptroller General of the United States, require the auditor to communicate material weaknesses as a finding, as defined below in the Applicable Laws and Regulations section.

Description of Condition

We identified the following deficiencies in internal controls over financial reporting that represent a material weakness in accounting of financial transactions and the preparation of the 2006 financial statements:

- The City was unable to provide us with its 2006 financial statements until October 29, 2007, ten months after year end.
- Transaction-level and month-end controls over revenue recording did not prevent or detect numerous significant fund and account coding errors. Adjusting debit entries for the General, Hotel/Motel, and City Streets funds totaled \$536,146.55. Adjusting credit entries for the General, Hotel/Motel, and Arterial Streets Funds totaled \$282,279.79.
- The City was unable to provide accurate supporting documentation for the prior period adjustment of \$1.1 million and increases of \$4.8 million to the Governmental capital asset balances. The City was unable to identify or correct these errors without hiring a financial consultant.
- Our initial review of the financial statements, notes and the management's discussion and analysis revealed formula errors and omissions of required information that had not been detected by management. The City was unable to identify or correct these errors without hiring a financial consultant.
- The City reported a year end cash balance of \$39.3 million. At the time of our audit, the City was six months behind in ensuring general ledger balances matched those reported by its bank.

Cause of Condition

In addition to key financial staff turnover, the City's internal controls were not sufficient to ensure accounting and financial reporting was performed in accordance with generally accepted accounting principles.

Effect of Condition

Failure to ensure internal controls were in place and working as intended prevented the City from maintaining accurate and complete accounting records resulting in the City's inability to produce its 2006 financial statements. Deficiencies in internal controls make it reasonably possible that more significant misstatements could occur and not be prevented or detected by the City. Further, this lapse has prevented the City's citizens from effectively monitoring their government.

After our initial attempt to audit the City's financial statements, the City hired a consultant to aid in its correction. Our subsequent audit found the revised statements to be fairly presented and adequately supported. An unqualified opinion was issued.

Recommendation

We recommend City management:

- Produce financial statements in a timely manner.
- Initiate review processes that will prevent financial statement errors.
- Ensure internal controls overseeing financial recording are working as intended.
- Perform bank reconciliations in a timely manner.

City's Response

The City of Lakewood appreciates the work the Auditor's Office has done in its audit. While the new SAS 112 standards bring to light weaknesses in financial controls that would not have been singled out for findings in the past, it is understood by the City that this new standard is aimed at strengthening public trust in the fiscal operations of its governing bodies.

The City found itself in the midst of a key personnel change at the time that the 2006 financial statements were due; the Chief Financial Officer had been in his position for less than two weeks at the initial filing deadline, and the City was in the process of searching for a new Finance Manager.

These conditions were not conducive to the seamless flow of information in a timely manner, and that lack of internal communication exacerbated the problems in generating accurate financial statements. Additional challenges were posed by the discovery of miscoding and other errors in initial bookings of ledger entries.

The City has undertaken steps to correct each of the deficiencies identified by the audit finding, and will continue to make improvements in internal processes to prevent these types of issues in the future. The City is currently

- *Providing regular and continuing training on aspects of coding revenues and expenditures to all staff who receipt or code transactions, including those staff not directly in the finance department,*
- *Updating its procedures on documentation and communication of prior period corrections,*
- *Increasing resources to ensure catch up and continuous currency in its bank statement reconciliations,*

- *Updating internal controls in all aspects of transaction monitoring and adjusting journal entry approval, and*
- *Recoding and correcting transactions for fiscal year 2007 to ensure accuracy and timeliness in the Fiscal Year 2007 financial statements.*

There is one statement that the City does not agree with in the Auditor's Office finding. The Auditor's Office states that "The City was unable to identify or correct these errors [in the 2006 financial statements] without hiring a financial consultant." This statement is an example of a "post hoc ergo propter hoc" logical error. The reason for the hiring of the consultant for work on corrections to the financial statements was simply one of workload and efficiency, not lack of skill or knowledge.

Additionally, the City would like to stress that the end result of the activities that the City undertook yielded financial statements that the Auditor's Office identified as "fairly presented and adequately supported" and those statements were granted an unqualified opinion.

Finally, the City would like to point out that during the audit process, there was not any identified evidence of fraud, any findings related to legal or regulatory compliance, nor any findings related to inappropriate use of public funds. These issues are also at the heart of public trust in their governing bodies, just as much as timely financial statements.

Auditor's Remarks

We thank the City for its response and appreciate the steps it is taking to resolve this issue. We will review this issue in the next audit.

Applicable Laws and Regulations

RCW 43.09.200 states:

The state auditor shall formulate, prescribe, and install a system of accounting and reporting for all local governments, which shall be uniform for every public institution, and every public office, and every public account of the same class. The system shall exhibit true accounts and detailed statements of funds collected, received, and expended for account of the public for any purpose whatever, and by all public officers, employees, and other persons. The accounts shall show the receipt, use, and disposition of all public funds properly, and the income, if any, derived there from; all sources of public income, and the amounts due and received from each source; all receipts, vouchers, and other documents kept, or required to be kept, necessary to isolate and prove the validity of every transaction; all statements and reports made or required to be made, for the internal administration of the office to which they pertain; and all reports published or required to be published, for the information of the people regarding any and all details of the financial administration of public affairs.

Budget Accounting and Reporting System (BARS) manual – Part 3, Accounting, Chapter 1, Accounting Principles and General Procedures, Section B, Internal Control, states in part:

Internal control is a management process for keeping an entity on course in achieving its business objectives, as adopted by the governing body. This management control system should ensure that resources are guarded against waste, loss and misuse; that reliable data is obtained, maintained, and fairly disclosed in financial statement and other reports; and resource use is consistent with laws, regulations and policies. Each entity is responsible for establishing and maintaining an effective system of internal control throughout their government.

Government Auditing Standards, July 2007 Revision, Section 5.11, states in part:

For all financial audits, auditors should report the following deficiencies in internal control:

- a. Significant deficiency: a deficiency in internal control, or a combination of deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with GAAP such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected.
- b. Material weakness: a significant deficiency, or combination of significant deficiencies, those results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented detected.

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, 2006 through December 31, 2006**

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, 2006, which collectively comprise the City's basic financial statements, and have issued our report thereon dated February 29, 2008.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies involving the internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control over financial reporting. We consider the deficiency described in the accompanying Schedule of Audit Findings and Responses to be a significant deficiency in internal control over financial reporting, and is reported as Finding 1.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control. Our consideration of the 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 the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider Finding 1 to be material weaknesses.

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*.

The City's response to the findings identified in our audit are described in the accompanying Schedule of Audit Findings and Responses. We did not audit the City's response and, accordingly, we express no opinion on it.

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.



BRIAN SONNTAG, CGFM
STATE AUDITOR

February 29, 2008

Independent Auditor's Report on Compliance with Requirements Applicable to its Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133

**City of Lakewood
Pierce County
January 1, 2006 through December 31, 2006**

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 are applicable to its major federal program for the year ended December 31, 2006. The City's major federal program is identified in the Federal Summary. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program 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 the 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 requirements referred to above that are applicable to its major federal program for the year ended December 31, 2006.

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, 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 control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is a more than remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in a more than remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

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 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.

A handwritten signature in black ink, appearing to read "Brian Sonntag". The signature is fluid and cursive, with a large initial "B" and "S".

BRIAN SONNTAG, CGFM
STATE AUDITOR

February 29, 2008

Independent Auditor's Report on Financial Statements

City of Lakewood Pierce County January 1, 2006 through December 31, 2006

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, 2006, which collectively comprise the City's basic financial statements as listed on page 12. 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, 2006, and the respective changes in financial position and, where applicable, cash flows thereof, and the respective budgetary comparison for the General and Arterial Street funds, 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 13 through 23 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 an opinion 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.

A handwritten signature in black ink, appearing to read "Brian Sonntag". The signature is fluid and cursive, with the first name "Brian" and the last name "Sonntag" clearly distinguishable.

BRIAN SONNTAG, CGFM
STATE AUDITOR

February 29, 2008

Financial Section

**City of Lakewood
Pierce County
January 1, 2006 through December 31, 2006**

REQUIRED SUPPLEMENTAL INFORMATION

Management's Discussion and Analysis – 2006

BASIC FINANCIAL STATEMENTS

Statement of Net Assets – 2006

Statement of Activities – 2006

Balance Sheet – Governmental Funds – 2006

Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets – 2006

Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental Funds – 2006

Reconciliation of Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance to the Statement of Activities – 2006

Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – General Fund – 2006

Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – Arterial Street Fund – 2006

Statement of Net Assets – Proprietary Funds – 2006

Statement of Revenues, Expenses and Changes in Net Assets – Proprietary Funds – 2006

Statement of Cash Flows – Proprietary Funds – 2006

Statement of Net Assets – Fiduciary Funds – 2006

Notes to Financial Statements – 2006

SUPPLEMENTAL INFORMATION

Schedule of Expenditures of Federal Awards and Notes – 2006

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, 2006. The information presented here should be read in conjunction with the City's financial statements immediately following this section.

Financial Highlights

- The overall position of the City improved by \$7.5 million.
- Net Assets - The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$60.9 million.
- Change in Net Assets – The City's total net assets increased for governmental activities by \$6.4 million; the City's total net assets increased for business-type activities by \$1.2 million.
- The General Fund reported a net decrease in fund balances of \$1.9 million.
- The City added \$3.8 million of new debt in the year 2006.

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, 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 eleven 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, City Streets Fund, Arterial Streets Fund, and the CIP General Fund. All of these funds are considered to be major funds. Data from the other seven 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 and a statement of changes in 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.

Required Supplementary Information includes financial information that is required by the GASB but is not considered a part of the basic financial statements. The Required Supplementary Information is presented immediately following the notes to the basic financial statements. The information presented in that section are 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 Summary of Net Assets for the fiscal year 2006 and 2005.

CONDENSED STATEMENT OF NET ASSETS

	<u>Governmental Activities</u>		<u>Business Activities</u>		<u>Total</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Current and other assets	\$ 31,506,783	\$20,732,349	\$ 16,087,042	\$ 14,396,690	\$ 47,593,825	\$35,129,039
Capital assets	40,060,154	38,531,327	24,748,141	25,751,600	64,808,295	64,282,927
TOTAL ASSETS	71,566,937	59,263,676	40,835,183	40,148,290	112,402,120	99,411,966
Long-term liabilities	8,448,904	2,140,209	6,494	5,760	8,455,398	2,145,969
Other liabilities	2,238,318	1,506,156	160,941	434,890	2,399,259	1,941,046
TOTAL LIABILITIES	10,687,222	3,646,365	167,435	440,650	10,854,657	4,087,015
NET ASSETS:						
Invested in capital assets, net of related deb	39,625,305	37,526,327	24,748,141	25,751,600	64,373,446	63,277,927
Restricted	46,849	5,769,567	-	-	46,849	5,769,567
Unrestricted	21,207,561	12,321,417	15,919,607	13,956,040	37,127,168	26,277,457
TOTAL NET ASSETS	\$ 60,879,715	\$55,617,311	\$ 40,667,748	\$ 39,707,640	\$ 101,547,463	\$95,324,951

As of December 31, 2006, 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 (65.4%) 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 2006 represent unspent debt proceeds of \$46,849. In 2005 restrictions were placed for grants, streets and tourism.

The unrestricted net assets of \$21.2 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 2006 and 2005.

CONDENSED STATEMENT OF ACTIVITIES

	<u>Governmental Activities</u>		<u>Business Activities</u>		<u>Total</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Revenues:						
Program revenues:						
Charges for services	\$ 5,682,450	\$ 4,120,822	\$ 3,188,276	\$ 3,012,971	\$ 8,870,726	\$ 7,133,793
Operating grants and contributions	3,688,077	1,840,075	7,861	18,523	3,695,938	1,858,598
Capital grants and contributions	3,764,273	282,433	-	-	3,764,273	282,433
General revenues:						
Property taxes	5,718,689	5,284,741	-	-	5,718,689	5,284,741
Sales and use taxes	8,915,709	8,378,180	-	-	8,915,709	8,378,180
B&O taxes	5,891,374	5,648,068	-	-	5,891,374	5,648,068
Excise and other taxes	4,282,686	6,729,385	-	-	4,282,686	6,729,385
Investment earnings	988,469	453,860	732,268	433,166	1,720,737	887,026
Other general revenues	290,877	104,966	1,664	379	292,541	105,345
Total revenues	<u>39,222,604</u>	<u>32,842,530</u>	<u>3,930,069</u>	<u>3,465,039</u>	<u>43,152,673</u>	<u>36,307,569</u>
Expenses:						
General government	7,483,008	6,215,631	-	-	7,483,008	6,215,631
Public safety	17,026,111	15,366,667	-	-	17,026,111	15,366,667
Physical environment	272,213	469,100	-	-	272,213	469,100
Transportation	3,856,536	1,782,437	-	-	3,856,536	1,782,437
Health and human services	432,365	438,699	-	-	432,365	438,699
Economic environment	2,694,729	2,574,269	-	-	2,694,729	2,574,269
Culture and recreation	1,553,022	1,340,849	-	-	1,553,022	1,340,849
Surface Water Management	-	-	2,166,025	1,819,437	2,166,025	1,819,437
Interest and other fiscal charges	122,635	-	-	-	122,635	-
Total expenses	<u>33,440,619</u>	<u>28,187,652</u>	<u>2,166,025</u>	<u>1,819,437</u>	<u>35,606,644</u>	<u>30,007,089</u>
Increase in net assets before transfers	5,781,985	4,654,878	1,764,044	1,645,602	7,546,029	6,300,480
Transfers	570,848	274,410	(570,848)	(274,410)	-	-
Increase in net assets	<u>6,352,833</u>	<u>4,929,288</u>	<u>1,193,196</u>	<u>1,371,192</u>	<u>7,546,029</u>	<u>6,300,480</u>
Net assets - beginning	55,617,311	50,688,023	39,707,640	38,336,448	95,324,951	89,024,471
Prior period adjustments	(1,090,429)	-	(233,088)	-	(1,323,517)	-
Net assets - ending	<u>\$ 60,879,715</u>	<u>\$ 55,617,311</u>	<u>\$ 40,667,748</u>	<u>\$ 39,707,640</u>	<u>\$ 101,547,463</u>	<u>\$ 95,324,951</u>

Combined Governmental and Business Activities increased the City's net assets by \$7.5 million, as compared to \$6.3 million in 2005. The City experienced increases in nearly every revenue category, resulting in an overall increase of \$6.8 million or 18.9% from 2005 amounts. Expenses increased in 2006 as well, rising \$5.6 million or 18.7% from 2005 amounts. The overall increase of \$7.5 million exceeds the 2005 increase by \$1.3 million or 19.8%. (For a more detailed analysis of these changes, please refer the information contained in the sections entitled "Financial Analysis of the City's Governmental Funds" and "Significant changes in the Surface Water Management Fund.")

For **Governmental Activities**, the City experienced increases in charges for services of \$1.6 million or 37.9%; Operating grants and contributions of \$1.8 million or 100.4%; Capital grants and contributions of \$3.4 million or 1,232.8%; Property taxes increased by \$434,000 or 8.2%; Sales and use taxes increased \$537,500 or 6.4%; Investment earnings increased \$534,600 or 117.8%. One category of revenues decreased – that of Excise and Other Taxes decreased by \$2.5 million or 36.4%, in part because of a re-class to B & O taxes of \$810,643, and a decrease in gambling revenues.

Business-type Activities represent the City's Surface Water Maintenance enterprise activities. Charges for services were \$3.2 million in 2006, as compared to \$3.0 million in 2005, representing an overall increase of approximately \$200,000 or 6.6%.

Investment earnings were \$732,300 in 2006, as compared to \$433,200 in 2005, representing an overall increase of \$299,100 or 69.0% as interest rates on investments increased.

Total expense for Business-type activities was \$2.2 million in 2006, as compared to \$1.8 million in 2005, representing an overall increase of approximately \$400,000 or 22.2%. Most of this increase was in the maintenance and operations line, which increased by \$574,950, and covers Surface Water Management's portion of the sewer and drainage projects.

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 *Arterial Streets 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.

The *CIP General Fund* accounts for the capital related projects. Capital Project Funds are used to account for the purchase 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.

Significant changes in the General Fund

At the end of 2006, unreserved and total fund balances of the General Fund were \$6.4 million as compared to \$8.3 million in 2005, representing a decrease in fund balances of \$1.9 million or 22.9%.

Total revenues for the General Fund were \$27.6 million in 2006, as compared to \$25.7 million in 2005, representing an overall increase of \$1.9 million or 7.4%. The most significant increase in revenues occurred in the Fines and forfeitures category. In 2006 Fines and forfeitures were \$1,200,513, as compared to \$559,732 in 2005, representing an increase of 114.5%, due the photo infraction project. Total expenditures for the General Fund were \$26.7 million in 2006, as compared to \$23.9 million in 2005, representing an overall increase of \$2.8 million or 11.7%. A large portion of the increase, almost \$2 million, was salary and benefit costs.

Transfers out for the General Fund were \$3,096,290 in 2006, as compared to \$1,240,410 in 2005, representing an overall increase of \$1,855,880 or 149.6%, in preparation for the construction of the public safety headquarters.

Significant changes in the Arterial Streets Fund

At the end of 2006, unreserved and total fund balances of the Arterial Streets Fund were \$3.9 million as compared to \$2.0 million in 2005, representing an increase in fund balances of \$1.9 million or 95.0%.

Total revenues for the Arterial Streets Fund were \$5.7 million in 2006, as compared to \$3.2 million in 2005, representing an overall increase of \$2.5 million or 78.1%. The most significant increase in revenues occurred in the Intergovernmental category. In 2006 Intergovernmental revenues were \$2,936,679, as compared to \$620,879 in 2005, representing an increase of 373.0%. In 2006, the City received grant revenues from the Washington State Department of Transportation for construction of a commuter rail station in the amount of \$2,172,903.

Total expenditures for the Arterial Streets Fund were \$4,330,156 in 2006, as compared to \$1,481,606 in 2005, representing an overall increase of \$2,848,550 or 192.3%. The most significant increase in expenditures occurred in the Capital Outlay category. In 2006, Capital Outlay expenditures were \$2,460,704, as compared to \$1,180,588 in 2005, representing an increase of \$1,280,116 or 108.4%. In part, this was due to capital improvements for photo enforcement. A large portion was design and construction on Pacific Highway phase 1 for the commuter rail station.

Transfers in for the Arterial Streets Fund were \$466,909 in 2006, as compared to \$39,810 in 2005, representing an overall increase of \$427,099 or 1,072.8%. The increase was to reimburse the fund for expenditures for the surface water management portion of the Sounder station project.

Significant changes in the LID Debt Service Fund

The *LID Debt Service Fund* accounts for the payment of special assessment bonds issued to pay for construction costs of infrastructure improvements and the collection of assessments from property owners. In 2006, no debt payments were required for these bonds. The benefited property owners will reimburse the City beginning in year 2007 through the year 2026. Thus, for 2006, there are no revenues or expenditures in the fund. The assessments from property owners have been recorded in the Statement of Net Assets as Special assessments receivable and Deferred revenue in the amount of \$2,824,704.

Significant changes in the CIP General Fund

At the end of 2006, unreserved and total fund balances of the CIP General Fund were \$9 million as compared to \$2.5 million in 2005, representing an increase in fund balances of \$6.5 million 260.0%.

Total revenues for the CIP General Fund were \$573,339 in 2006, as compared to \$997,240 in 2005, representing an overall decrease of \$423,901 or 42.5%. The most significant changes in revenues occurred in the Intergovernmental and Charges for services categories. In 2006 Intergovernmental revenues were \$10,000, as compared to \$817,500 in 2005, representing a decrease of \$807,500 or 98.8%. No grant revenue was earned in 2006 in this fund. In 2006 Charges for services were \$374,025, as compared to \$27,944 in 2005, representing an increase of \$346,081 or 1,238.5%. Sewer fees, approved by council to fund repayment of the building of the Tillicum sewer expansion, were first collected at the end of 2005, while 2006 fees show a full year of billings. In 2007, a separate fund for the sewer project will be created.

Total expenditures for the CIP General Fund were \$595,160 in 2006, as compared to \$1,156,107 in 2005, representing an overall decrease of \$560,947 or 48.5%. Expenditures decreased in Public safety (0 in 2006 and \$13,610 in 2005); Culture and recreation (0 in 2006, \$232,776 in 2005) and Capital Outlay (\$546,673 in 2006, \$909,721 in 2005).

The categories under Other Financing Sources and Uses section of the financial statement saw significant increases in 2006. Transfers in were \$3,285,185 in 2006, as compared to zero in 2005. The increase was due to budgeted amounts from the General Fund and from the Contingency Fund being transferred in for the Public Safety building. Debt proceeds were \$1,000,000 in 2006, as compared to zero in 2005. This is a new debt issuance from the Public Works Trust fund to assist with financing construction of a sewer treatment plant. Proceeds from sale of assets were \$2,294,826 in 2006, as compared to zero in 2005. This amount represents the proceeds from the sale of a Safeway building.

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

The *Surface Water Management Fund* accounts for Surface Water activities for which user fees are collected through the annual Property Tax statements.

Significant changes in the Surface Water Management Fund

At the end of 2006, unrestricted net assets of the Surface Water Management Fund were \$40.7 million as compared to \$39.7 million in 2005, representing an increase in net assets of \$1.0 million or 2.5%.

Total revenues for the Surface Water Management Fund were \$3.2 million in 2006, as compared to \$3.0 million in 2005, representing an overall increase of approximately \$200,000 or 6.7%.

Total expenses for the Surface Water Management Fund were \$2.2 million in 2006, as compared to \$1.8 million in 2005, representing an overall increase of approximately \$400,000 or 22.2%. Maintenance and operations increased by \$341,862, representing an increase of 33.6% from 2005 results.

Other increases reflected in non-operating items on the financial statement are Investment earnings and Transfers out. Investment earnings were \$732,268 in 2006, as compared to \$433,166 in 2005, representing an overall increase of \$299,102 or 69.1%, due to the increased earning rate. Transfers out were \$645,348 in 2006, as compared to \$306,410 in 2005, representing an overall increase of \$338,938 or 110.6%. Funds to cover SWM's portion of the sewer project and the Pacific Highway were transferred to the Arterial Streets Fund.

General Fund Budgetary Highlights

The City revised the original appropriations approved by the City Council. The changes included an increase in budgeted revenues of approximately \$705,000 or 2.7%; an increase in budgeted expenditures of approximately \$738,000 or 2.8%; and an increase in transfers out of approximately \$774,000 or 37%. Variances between the final amended operating budget and actual results were:

General Fund	<u>Final Budget</u>	<u>Actual</u>	Variance with <u>Final Budget</u>
Total revenues	26,850,000	27,622,353	\$ 772,353
Total expenditures	(26,979,750)	(26,641,533)	338,217
Other financing sources & use	(2,863,940)	(2,863,940)	-
Variance with final budget - positive			<u>\$ 1,110,570</u>

Overall, 2006 operating revenues collected in the General Fund were above the revised budget estimate by \$772,353 or 2.9%. Overall operating expenditures during 2006 were below the revised budget estimate by \$338,217 or 1.3%. This combination results in an overall positive variance of \$1,110,570.

Capital Asset and Debt Administration

Capital Assets

The City's investment in capital assets for its governmental activities as of December 31, 2006, amounts to \$40,060,154 (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 as of December 31, 2006 and 2005.

Summary of Capital Assets
(Net of Depreciation)

	<u>Governmental Activities</u>		<u>Business Activities</u>		<u>Total</u>	
	2006	2005	2006	2005	2006	2005
Land	\$ 10,169,575	\$ 10,211,464	\$ 792,077	\$ 788,077	\$10,961,652	\$ 10,999,541
Construction in progress	426,325	1,820,939	-	233,089	426,325	2,054,028
Buildings	11,120,792	13,509,926	-	-	11,120,792	13,509,926
Improvements other than building:	2,321,978	2,230,453	-	-	2,321,978	2,230,453
Infrastructure	13,742,286	8,784,056	23,908,879	24,704,136	37,651,165	33,488,192
Equipment	2,279,198	1,974,489	47,185	26,298	2,326,383	2,000,787
Total	<u>\$ 40,060,154</u>	<u>\$ 38,531,327</u>	<u>\$ 24,748,141</u>	<u>\$ 25,751,600</u>	<u>\$64,808,295</u>	<u>\$ 64,282,927</u>

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

- Construction in progress of the sewer treatment plant.
- Improvements to City Hall parking lot.
- Improvements to the city's infrastructure (streets and sidewalks).
- Improvements to parks.

Capital assets, other than infrastructure assets, are defined by the City as assets with an initial, individual cost of equal to or greater than \$5,000 (*amount not rounded*) and an estimated useful life in excess of one year.

The City reports infrastructure assets on a network and subsystem basis. Accordingly, the amounts spent for the construction or acquisition of infrastructure assets are capitalized and reported in the government-wide financial statements regardless of their amount. Such assets are recorded at historical costs or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. At present, only infrastructure for years 2003-2006 are recorded for governmental funds, while all previous years' infrastructure will be included by the end of 2007.

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

Prior period adjustments were made in 2006 to correct prior years' stated balances of capital assets. It was discovered that amounts for Construction in Progress had been capitalized based on estimated future costs. Correct accounting procedures capitalize Construction in Progress on actual costs incurred. It was also discovered that various Infrastructure capital assets had not been capitalized. The prior period

adjustments correct the accounting errors for both categories. Additional information on the prior period adjustments can be found in Note 8 in the Notes to the Financial Statements.

Debt

At the end of the fiscal year, the City had total debt outstanding of \$6,254,128. The City currently has four types of debt outstanding: public works trust fund loans, a governmental loan (Community Trade and Economic Development), special assessment debt, and compensated absences. The following table summarizes outstanding debt as of December 31, 2006 and 2005.

Summary of Outstanding Debt

	<u>Governmental Activities</u>		<u>Business Activities</u>		<u>Total</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Public Works Trust Fund	\$ 1,710,526	\$ 750,000	\$ -	\$ -	\$ 1,710,526	\$ 750,000
CTED	939,000	1,005,000	-	-	939,000	1,005,000
Special assessment with governmental commitments	2,824,704	-	-	-	2,824,704	-
Compensated absences	773,404	654,095	6,494	5,760	779,898	659,855
Total	<u>\$ 6,247,634</u>	<u>\$ 2,409,095</u>	<u>\$ 6,494</u>	<u>\$ 5,760</u>	<u>\$ 6,254,128</u>	<u>\$ 2,414,855</u>

In 2006, the City incurred additional debt from WA State Public Works Trust Fund in the amount of \$1,000,000 and Special Assessment debt in the amount of \$2,824,704 for capital asset purposes.

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.

Regional economic trends that affect the financial conditions of the City are generally favorable. The advancement of the Lakewood Towne Center shows continued economic growth within the city and county.

In 2007, the City obtained additional Special Assessment debt in the amount of \$880,000 for capital asset construction and/or acquisition. The debt will be repaid in installments ending in year 2025.

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.

City of Lakewood
Statement of Net Assets
December 31, 2006

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 23,279,994	\$ 16,052,112	\$ 39,332,106
Receivables (net)	8,074,805	25,390	8,100,195
Internal balances	(9,540)	9,540	-
Total current assets	<u>31,345,259</u>	<u>16,087,042</u>	<u>47,432,301</u>
Noncurrent assets:			
Noncurrent receivables	<u>161,524</u>	-	<u>161,524</u>
Capital assets not being depreciated:			
Land	10,169,575	792,077	10,961,652
Construction in progress	426,325	-	426,325
Capital Assets net of accumulated depreciation:			
Buildings	11,120,792	-	11,120,792
Improvements other than buildings	2,321,978	-	2,321,978
Machinery and equipment	2,279,198	47,185	2,326,383
Infrastructure	<u>13,742,286</u>	<u>23,908,879</u>	<u>37,651,165</u>
Total capital assets	<u>40,060,154</u>	<u>24,748,141</u>	<u>64,808,295</u>
Total noncurrent assets	<u>40,221,678</u>	<u>24,748,141</u>	<u>64,969,819</u>
Total assets	<u><u>71,566,937</u></u>	<u><u>40,835,183</u></u>	<u><u>112,402,120</u></u>
LIABILITIES			
Current liabilities:			
Accounts payable and accrued expenses	1,284,583	96,316	1,380,899
Deposits	330,301	64,625	394,926
Compensated absences	232,021	-	232,021
Current portion of long-term debt	105,474	-	105,474
Current portion of special assessment debt with governmental commitments	144,704	-	144,704
Current portion of deferred revenue	<u>141,235</u>	-	<u>141,235</u>
Total current liabilities	<u>2,238,318</u>	<u>160,941</u>	<u>2,399,259</u>
Noncurrent liabilities:			
Deferred revenue	2,683,469	-	2,683,469
Compensated absences	541,383	6,494	547,877
Loans and payables due in more than one year	2,544,052	-	2,544,052
Special assessment debt with governmental commitments	<u>2,680,000</u>	-	<u>2,680,000</u>
Total noncurrent liabilities	<u>8,448,904</u>	<u>6,494</u>	<u>8,455,398</u>
Total liabilities	<u>10,687,222</u>	<u>167,435</u>	<u>10,854,657</u>
NET ASSETS			
Invested in capital assets, net of related debt	39,625,305	24,748,141	64,373,446
Restricted for:			
Debt service	46,849	-	46,849
Unrestricted	<u>21,207,561</u>	<u>15,919,607</u>	<u>37,127,168</u>
Total net assets	<u><u>\$ 60,879,715</u></u>	<u><u>\$ 40,667,748</u></u>	<u><u>\$ 101,547,463</u></u>

The notes are an integral part of the financial statements.

City of Lakewood
Statement of Activities
For the Year Ended December 31, 2006

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental Activities:							
General government	\$ 7,483,008	\$ 3,393,847	\$ 1,188,690	\$ -	\$ (2,900,471)	\$ -	\$ (2,900,471)
Public safety	17,026,111	1,342,584	358,900	406,016	(14,918,611)	-	(14,918,611)
Physical environment	272,213	76,215	-	265,937	69,939	-	69,939
Transportation	3,856,536	73,231	1,255,366	2,820,944	293,005	-	293,005
Health and human services	432,365	62,083	885,121	-	514,839	-	514,839
Economic environment	2,694,729	663,737	-	-	(2,030,992)	-	(2,030,992)
Culture and recreation	1,553,022	70,753	-	271,376	(1,210,893)	-	(1,210,893)
Interest on long term debt	122,635	-	-	-	(122,635)	-	(122,635)
Total governmental activities	33,440,619	5,682,450	3,688,077	3,764,273	(20,305,819)	-	(20,305,819)
Business-type Activities:							
Surface Water Management	2,166,025	3,188,276	7,861	-	-	1,030,112	1,030,112
Total business-type activities	2,166,025	3,188,276	7,861	-	-	1,030,112	1,030,112
Total government	\$ 35,606,644	\$ 8,870,726	\$ 3,695,938	\$ 3,764,273	(20,305,819)	1,030,112	(19,275,707)
General Revenues:							
Taxes:							
Property taxes					5,718,689	-	5,718,689
Sales taxes					8,915,709	-	8,915,709
B&O taxes					5,891,374	-	5,891,374
Excise taxes					4,268,118	-	4,268,118
Other taxes					14,568	-	14,568
Investment earnings					988,469	732,268	1,720,737
Gain on sale of capital assets					285,324	-	285,324
Miscellaneous revenues					5,553	1,664	7,217
Transfers					570,848	(570,848)	-
Total general revenues and transfers					26,658,652	163,084	26,821,736
Change in net assets					6,352,833	1,193,196	7,546,029
Net assets, beginning of year					55,617,311	39,707,640	95,324,951
Prior period adjustments					(1,090,429)	(233,088)	(1,323,517)
Net assets, end of year					\$ 60,879,715	\$ 40,667,748	\$ 101,547,463

The notes are an integral part of the financial statements.

**City of Lakewood
Balance Sheet
Governmental Funds
December 31, 2006**

	GENERAL FUND	ARTERIAL STREETS FUND	LID DEBT SERVICE	CIP GENERAL FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
ASSETS						
Cash and cash equivalents	\$ 4,268,475	\$ 2,877,367	\$ -	\$ 8,923,664	\$ 4,429,743	\$ 20,499,249
Receivables (net)	2,967,815	1,533,702	2,824,704	25,885	720,121	8,072,227
Due from other funds	-	-	-	107,883	-	107,883
Total current assets:	<u>7,236,290</u>	<u>4,411,069</u>	<u>2,824,704</u>	<u>9,057,432</u>	<u>5,149,864</u>	<u>28,679,359</u>
Total assets	<u><u>7,236,290</u></u>	<u><u>4,411,069</u></u>	<u><u>2,824,704</u></u>	<u><u>9,057,432</u></u>	<u><u>5,149,864</u></u>	<u><u>28,679,359</u></u>
LIABILITIES AND FUND BALANCES						
Accounts payable and accrued expenses	528,732	327,652	-	48,716	378,929	1,284,029
Due to other funds	-	-	-	-	107,883	107,883
Custodial accounts payable	-	193,331	-	-	32,001	225,332
Deposits payable	102,433	-	-	-	2,536	104,969
Deferred revenue	165,663	-	2,824,704	-	-	2,990,367
Total current liabilities:	<u>796,828</u>	<u>520,983</u>	<u>2,824,704</u>	<u>48,716</u>	<u>521,349</u>	<u>4,712,580</u>
Total liabilities	<u>796,828</u>	<u>520,983</u>	<u>2,824,704</u>	<u>48,716</u>	<u>521,349</u>	<u>4,712,580</u>
FUND BALANCES:						
Reserved for:						
Debt service	-	-	-	-	282,470	282,470
Unreserved, reported in:						
General fund	6,439,462	-	-	-	-	6,439,462
Special revenue	-	3,890,086	-	-	4,482,168	8,372,254
Capital projects	-	-	-	9,008,716	(136,123)	8,872,593
Total fund balances	<u>6,439,462</u>	<u>3,890,086</u>	<u>-</u>	<u>9,008,716</u>	<u>4,628,515</u>	<u>23,966,779</u>
Total liabilities and fund balances	<u><u>\$ 7,236,290</u></u>	<u><u>\$ 4,411,069</u></u>	<u><u>\$ 2,824,704</u></u>	<u><u>\$ 9,057,432</u></u>	<u><u>\$ 5,149,864</u></u>	<u><u>\$ 28,679,359</u></u>

The notes are an integral part of the financial statements.

City of Lakewood
Reconciliation of the Governmental Balance Sheet
To the Statement of Net Assets
December 31, 2006

Fund balances of governmental funds \$ 23,966,779

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

Capital Assets of governmental funds are not financial resources and are not reported in the funds. 40,060,154

Internal Service funds are used by management to charge the cost of certain activities, such as insurance and fleet management to certain funds. The assets and liabilities of the internal service funds are included in governmental activities in the government-wide statement of net assets (net of the amount allocated to business-type activities). Internal Service Fund balances not included in other reconciling items are:

Current assets	2,773,792	
Current liabilities	<u>(554)</u>	2,773,238

Long term liabilities are not due and payable in the current period and are not reported in the fund.

Due within one year	250,178	
Due in more than one year	<u>5,224,052</u>	(5,474,230)

Compensated absences are not due and payable in the current period and are not reported in the fund.

Due within one year	232,021	
Due in more than one year	<u>541,383</u>	(773,404)

Noncurrent receivables are not reported in the funds. 161,515

Property tax revenue is deferred in the funds but considered revenue in the government-wide financial statements.

165,663

Net assets of governmental activities \$ 60,879,715

The notes are an integral part of the financial statements.

City of Lakewood
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended December 31, 2006

	GENERAL FUND	ARTERIAL STREETS FUND	LID DEBT SERVICE	CIP GENERAL FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
REVENUES						
Taxes						
Property	\$ 5,553,026	\$ -	\$ -	\$ -	\$ -	\$ 5,553,026
Sales	8,544,995	-	-	-	293,714	8,838,709
B&O	4,728,243	418,720	-	-	744,411	5,891,374
Excise	2,279,072	1,989,046	-	-	-	4,268,118
Special assessments	-	-	-	-	265,937	265,937
Other	14,568	-	-	-	-	14,568
Licenses and permits	2,463,403	132,407	-	-	301,048	2,896,858
Intergovernmental	1,344,391	2,936,679	-	10,000	2,376,177	6,667,247
Charges for goods and services	909,793	4,000	-	374,025	1,300	1,289,118
Fines and forfeitures	1,200,513	-	-	-	174,977	1,375,490
Investment earnings	435,338	102,547	-	189,314	151,335	878,534
Rents and leases	5,188	-	-	-	-	5,188
Miscellaneous	143,823	85,421	-	-	3,310	232,554
Total revenues	<u>27,622,353</u>	<u>5,668,820</u>	<u>-</u>	<u>573,339</u>	<u>4,312,209</u>	<u>38,176,721</u>
EXPENDITURES						
Current:						
General government	6,757,644	-	-	1,638	340,314	7,099,596
Public safety	15,446,066	-	-	-	1,118,771	16,564,837
Utilities and environment	260,940	-	-	-	-	260,940
Transportation	-	1,869,452	-	-	1,671,914	3,541,366
Health and human services	396,308	-	-	-	3,793	400,101
Economic environment	2,011,288	-	-	-	675,911	2,687,199
Culture and recreation	1,412,501	-	-	-	-	1,412,501
Debt service:						
Principal retirement	-	-	-	39,474	-	39,474
Interest	-	-	-	7,375	64,110	71,485
Debt issue costs	-	-	-	-	40,150	40,150
Capital outlay	366,786	2,460,704	-	546,673	1,946,895	5,321,058
Total expenditures	<u>26,651,533</u>	<u>4,330,156</u>	<u>-</u>	<u>595,160</u>	<u>5,861,858</u>	<u>37,438,707</u>
Excess (deficiency) of revenues over expenditures	<u>970,820</u>	<u>1,338,664</u>	<u>-</u>	<u>(21,821)</u>	<u>(1,549,649)</u>	<u>738,014</u>
OTHER FINANCING SOURCES (USES)						
Transfers in	232,350	466,909	-	3,285,185	794,999	4,779,443
Transfers out	(3,096,290)	-	-	-	(1,361,475)	(4,457,765)
Debt proceeds	-	-	-	1,000,000	2,824,704	3,824,704
Proceeds from sale of assets	-	93,093	-	2,294,826	16,543	2,404,462
Intergovernment payment	-	-	-	(12,285)	-	(12,285)
Total other financing sources and uses	<u>(2,863,940)</u>	<u>560,002</u>	<u>-</u>	<u>6,567,726</u>	<u>2,274,771</u>	<u>6,538,559</u>
Net Change in fund balances	(1,893,120)	1,898,666	-	6,545,905	725,122	7,276,573
Fund balances, beginning of year	8,332,582	1,991,420	-	2,462,811	3,903,393	16,690,206
Fund balances, end of year	<u>\$ 6,439,462</u>	<u>\$ 3,890,086</u>	<u>\$ -</u>	<u>\$ 9,008,716</u>	<u>\$ 4,628,515</u>	<u>\$ 23,966,779</u>

The notes are an integral part of the financial statements.

City of Lakewood
Reconciliation of the Statement of Revenues, Expenditures,
and Changes in Fund Balances to the Statement of Activities
For the Year Ended December 31, 2006

Net change in fund balances --total governmental funds \$ 7,276,573

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

Governmental funds report capital outlays as expenditures. However, in the government-wide statement of activities and changes in net assets, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of capital asset recorded in the current period. 5,321,058

Depreciation expense on capital assets is reported in the government-wide statement of activities and changes in net assets, but they do not require the use of current financial resources. Therefore, depreciation expense is not reported as an expenditure in governmental funds. (980,185)

Governmental funds report sales of capital assets as other financing sources for the amount of the proceeds. In the government-wide statement of activities those proceeds are netted against the historical cost of the asset and the accumulated depreciation taken on the asset. (2,124,677)

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance cost, premiums, discounts, and similar items when debt is first issued, whereas the amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.

Public Works Trust Fund debt proceeds	(1,000,000)	
LID proceeds	(2,824,704)	
Principal retirement, Public Works Trust Fund debt	39,474	
Principal retirement, 59th Street debt	66,000	(3,719,230)

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

Compensated absences prior year	654,095	
Compensated absences current year	(773,404)	
Net change in compensated absences		(119,309)

Some property tax revenue will not be collected within 60 days after the City's year end. This are not considered "available" revenues in the governmental funds until received. These revenues are recognized in the government-wide financial statements. 165,663

Internal service funds are used to charge the costs of certain activities to individual funds. The net revenue is reported with governmental activities. 757,679

Net change in long-term receivables and other assets. (224,739)

Change in net assets of governmental activities \$ 6,352,833

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
Year Ended December 31, 2006

	Budgeted Amounts		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Taxes				
Property	\$ 5,500,200	\$ 5,611,200	\$ 5,553,026	(58,174)
Sales	7,956,000	8,550,000	8,544,995	(5,005)
B&O	4,328,100	4,768,100	4,728,243	(39,857)
Excise	2,065,500	2,484,200	2,279,072	(205,128)
Other	7,900	16,500	14,568	(1,932)
Licenses and permits	2,081,900	2,100,000	2,463,403	363,403
Intergovernmental	1,093,300	1,100,000	1,344,391	244,391
Charges for goods and services	845,530	915,000	909,793	(5,207)
Fines and forfeitures	2,028,280	1,090,400	1,200,513	110,113
Investment earnings	195,000	178,700	435,338	256,638
Rents and leases	6,250	5,250	5,188	(62)
Miscellaneous	37,150	30,650	143,823	113,173
Total revenues	<u>26,145,110</u>	<u>26,850,000</u>	<u>27,622,353</u>	<u>772,353</u>
EXPENDITURES				
Current:				
General government	6,572,940	6,679,750	6,757,644	(77,894)
Public safety	14,610,140	15,691,690	15,446,066	245,624
Utilities and environment	289,890	285,558	260,940	24,618
Transportation	128,870	-	-	-
Health and human services	12,200	435,700	396,308	39,392
Economic environment	2,673,510	2,041,852	2,011,288	30,564
Culture and recreation	1,511,430	1,402,700	1,412,501	(9,801)
Capital outlay	442,500	442,500	366,786	75,714
Total expenditures	<u>26,241,480</u>	<u>26,979,750</u>	<u>26,651,533</u>	<u>328,217</u>
Excess (deficiency) of revenues over expenditures	<u>(96,370)</u>	<u>(129,750)</u>	<u>970,820</u>	<u>444,136</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	232,350	232,350	232,350	-
Transfers out	<u>(2,322,250)</u>	<u>(3,096,290)</u>	<u>(3,096,290)</u>	<u>-</u>
Total other financing sources and uses	<u>(2,089,900)</u>	<u>(2,863,940)</u>	<u>(2,863,940)</u>	<u>-</u>
Net Change in fund balances	(2,186,270)	(2,993,690)	(1,893,120)	1,100,570
Fund balances, beginning of year	<u>8,332,582</u>	<u>8,332,582</u>	<u>8,332,582</u>	<u>-</u>
Fund balances, end of year	<u>\$ 6,146,312</u>	<u>\$ 5,338,892</u>	<u>\$ 6,439,462</u>	<u>\$ 1,100,570</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
Arterial Street Fund
Year Ended December 31, 2006

	Budgeted Amounts		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Taxes				
B&O	\$ 325,000	\$ 325,000	\$ 418,720	\$ 93,720
Excise	1,200,000	1,200,000	1,989,046	789,046
Licenses and permits	195,000	195,000	132,407	(62,593)
Intergovernmental	5,692,050	5,692,050	2,936,679	(2,755,371)
Charges for goods and services	-	-	4,000	4,000
Investment earnings	-	-	102,547	102,547
Miscellaneous	-	-	85,421	85,421
Total revenues	<u>7,412,050</u>	<u>7,412,050</u>	<u>5,668,820</u>	<u>(1,743,230)</u>
EXPENDITURES				
Current:				
Transportation	1,514,060	1,514,060	1,869,452	(355,392)
Capital outlay	6,744,050	6,744,050	2,460,704	4,283,346
Total expenditures	<u>8,258,110</u>	<u>8,258,110</u>	<u>4,330,156</u>	<u>3,927,954</u>
Excess (deficiency) of revenues over expenditures	<u>(846,060)</u>	<u>(846,060)</u>	<u>1,338,664</u>	<u>2,184,724</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	439,500	555,870	466,909	(88,961)
Proceeds from sale of assets	-	-	93,093	93,093
Intergovernment payment	-	-	-	-
Total other financing sources and uses	<u>439,500</u>	<u>555,870</u>	<u>560,002</u>	<u>4,132</u>
Net Change in fund balances	(406,560)	(290,190)	1,898,666	2,188,856
Fund balances, beginning of year	<u>1,991,420</u>	<u>1,991,420</u>	<u>1,991,420</u>	<u>-</u>
Fund balances, end of year	<u>\$ 1,584,860</u>	<u>\$ 1,701,230</u>	<u>\$ 3,890,086</u>	<u>\$ 2,188,856</u>

The notes are an integral part of the financial statements.

**City of Lakewood
Statement of Net Assets
Proprietary Funds
December 31, 2006**

	Business-type Activities - Enterprise Funds		Gov. Activities Internal Service Funds
	Surface Water Management	Total Proprietary Funds	
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 16,052,112	\$ 16,052,112	\$ 2,780,745
Receivables (net)	25,390	25,390	2,582
Total current assets:	16,077,502	16,077,502	2,783,327
Capital assets:			
Land	792,077	792,077	-
Machinery and equipment	101,312	101,312	3,200,516
Infrastructure	30,159,740	30,159,740	-
Accumulated depreciation	(6,304,988)	(6,304,988)	(1,290,112)
Total capital assets:	24,748,141	24,748,141	1,910,404
Total assets	40,825,643	40,825,643	4,693,731
LIABILITIES AND FUND BALANCES			
Current liabilities:			
Accounts payable and accrued expenses	96,315	96,315	554
Custodial accounts payable	64,626	64,626	-
Total current liabilities:	160,941	160,941	554
Non current liabilities:			
Compensated Absences	6,494	6,494	-
Total Non current liabilities:	6,494	6,494	-
Total liabilities	167,435	167,435	554
NET ASSETS			
Invested in capital assets, net of related debt	24,748,141	24,748,141	1,910,404
Unrestricted	15,910,067	15,910,067	2,782,773
Total net assets	\$ 40,658,208	40,658,208	\$ 4,693,177
Reconciliation to government-wide statement of net assets:			
Adjustment to reflect the consolidations of internal service funds activities related to enterprise funds		9,540	
Net assets of business-type activities		\$ 40,667,748	

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, 2006

	Business-type Activities - Enterprise Funds		
	SURFACE WATER MANAGEMENT	Total Proprietary Funds	Gov. Activities Internal Service Funds
Operating revenues:			
Charges for goods and services	\$ 3,188,276	\$ 3,188,276	\$ 571,070
Total operating revenues	3,188,276	3,188,276	571,070
Operating expenses:			
Maintenance and operations	1,360,703	1,360,703	76,453
Depreciation	814,856	814,856	498,814
Total operating expenses	2,175,559	2,175,559	575,267
Operating income (loss)	1,012,717	1,012,717	(4,197)
Nonoperating revenues (expenses):			
Grants	7,861	7,861	-
Gain on sale of equipment	-	-	6,289
Investment earnings	732,268	732,268	109,936
Miscellaneous revenue	1,658	1,658	-
Total non operating revenue	741,787	741,787	116,225
Income (loss) before contributions and transfers	1,754,504	1,754,504	112,028
Capital contributions	-	-	406,016
Transfers In	74,500	74,500	249,170
Transfers Out	(645,348)	(645,348)	-
Change in net assets	1,183,656	1,183,656	767,214
Net assets at beginning of year	39,707,640		3,925,963
Prior period adjustments	(233,088)		-
Net assets at end of year	\$ 40,658,208		\$ 4,693,177
Reconciliation to government-wide statement of activities:			
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds		9,540	
Change in net assets of business-type activities		\$ 1,193,196	

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, 2006**

	Business-type Activities - Enterprise Funds	
	SURFACE WATER MANAGEMENT	Gov. Activities Internal Service Funds
Cash flows from operating activities:		
Cash received from customers	\$ 3,470,620	\$ 571,070
Payments for goods and services	(1,114,225)	(87,301)
Payments to employees	(413,468)	-
Net cash provided by operating activities	<u>1,942,927</u>	<u>483,769</u>
Cash flows from noncapital financing activities:		
Grants and contributions	7,861	-
Interfund loans	1,300,000	-
Transfers from other funds	74,500	249,170
Transfers to other funds	(645,348)	-
Nonoperating miscellaneous revenues	1,658	-
Net cash (used) by Noncapital financing	<u>738,671</u>	<u>249,170</u>
Cash flows from capital and related financing activities:		
Proceeds from sales of equipment or vehicles	-	6,289
Payment for capital acquisitions	(44,486)	(495,857)
Net cash (used) by capital and related financing activities	<u>(44,486)</u>	<u>(489,568)</u>
Cash flows from investing activities:		
Interest on cash and cash equivalents	519,819	109,936
Net cash provided by investing activities	<u>519,819</u>	<u>109,936</u>
Net Increase (decrease) in cash and cash equivalents	3,156,931	353,307
Cash and cash equivalents, beginning of year	<u>12,895,181</u>	<u>2,427,438</u>
Cash and cash equivalents, end of the year	<u>\$ 16,052,112</u>	<u>\$ 2,780,745</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating income (loss)	\$ 1,012,717	\$ (4,197)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation	814,856	498,814
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	176,118	-
Increase (decrease) in accounts payable	(232,316)	(10,848)
Increase (decrease) in custodial accounts payable	64,593	-
Increase (decrease) in unearned revenue	106,225	-
Increase (decrease) in compensated absences	734	-
Net cash provided by operating activities	<u>\$ 1,942,927</u>	<u>\$ 483,769</u>
Non-cash capital asset additions were:	\$ -	\$ 406,016

The notes are an integral part of the financial statements.

**City of Lakewood
Statement of Net Assets
Fiduciary Funds
December 31, 2006**

	<u>Agency Fund</u>
ASSETS	
Cash and cash equivalents	<u>\$ 78,936</u>
Total assets	<u><u>78,936</u></u>
LIABILITIES	
Custodial accounts payable	<u>78,936</u>
Total Liabilities	<u><u>\$ 78,936</u></u>

The notes are an integral part of the financial statements.

City of Lakewood, Washington
For the Fiscal Year Ended December 31, 2006
Notes to the 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 governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The significant accounting policies are described below.

1-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. The first Council was elected to a two year term, and all seven positions were up for election in 1998 for staggered terms of two and four years. Thereafter, all terms have been set for a period of four years, allowing for consistency and staggered elections.

1-B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and Statement of Activities) report and display 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.

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.

The City of Lakewood complies with Generally Accepted Accounting Principles (*GAAP*) as applied to governmental entities. GAAP also includes all relevant pronouncements from Governmental Accounting Standards Board (*GASB*), the accepted standard setting body for governmental accounting and financial reporting principles. In addition, the financial statements have incorporated all applicable GASB pronouncements as well as the Financial Accounting Standards Board (*FASB*) Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedures issued on or before November 30, 1989, unless pronouncements conflict with or contradicts GASB pronouncements, in which case, GASB prevails. For enterprise funds, GASB Statement Nos. 20 and 34 provide the City the option of electing to apply FASB

pronouncements issued after November 30, 1989. The City has elected not to apply those pronouncements.

The accounting and reporting framework and the more significant accounting policies are discussed in subsequent subsections of these notes. The fiscal year ending December 31, 2006, is the fourth year of City's implementation of the financial reporting requirements of GASB Statement Nos. 33 and 34 specifically, "*Basic Financial Statements and Management Discussion and Analysis for State and Local Governments*", and includes all amendments thereafter.

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. Under BARS, all government type agencies are required to adhere to the same chart of accounts which have the same type meaning. This process provides continuity and consistency with all entities reporting within the State.

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

Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements. The critical issue is the testing of the timing of the recognized transaction and event. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied.

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.

Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

All proprietary fund types utilize the accrual basis of accounting.

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 (Current Expense Fund # 001)* 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 *Arterial Streets Fund (Special Revenue Fund # 102)* accounts for the infrastructure of the City's street program, including capital related projects of streets. Funding comes from special revenue sources.

The *LID Debt Service Fund (General Government #202)* accounts for the payment of special assessment bonds issued to pay for construction costs of infrastructure improvements and the collection of assessments from certain property owners. The benefited property owners will reimburse the City beginning in year 2007 through the year 2026.

The *CIP General Fund (Capital Projects Fund #301)* accounts for the capital related projects. Capital Project Funds are used to account for the purchase 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.

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

The *Surface Water Management Fund (Enterprise Fund # 401)* accounts for Surface Water activities for which user fees are collected through the annual Property Tax statements.

Additionally, the City reports the **following fund types**:

The *Internal Service Fund (Fund # 501)* accounts for fleet equipment provided to other departments of the city on a cost reimbursement basis. Internal Service Fund (*Fund #502*) will provide maintenance for city buildings.

There are other governmental type funds that are **non-major** and they include:

City Streets Fund (Special Revenue Fund # 101)
Contingency Fund (Special Revenue Fund # 103)
Hotel/Motel Fund (Special Revenue Fund #104)
Police Investigations Fund (Special Revenue Fund # 180)
Grant Fund (Special Revenue Fund #190)
LID CIP Fund (General Government Capital Projects # 351).
Debt Service Fund (General Government #201)
LID Guaranty Fund(#251)

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and the delivery of goods or services in connections with a proprietary fund's principal ongoing operations/concern.

Enterprise funds are proprietary funds used to account for business-like activities provided to the general public and are sustained by charges for service such as fees.

Measurement Focus & Basis of Accounting: The operating statement of a proprietary fund focuses on changes in economic resources much like that of a private-sector business and uses the full *accrual* basis of accounting.

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 government has elected not to follow subsequent private-sector guidance.

These funds are used to account for those operations that are financed and operated in a manner similar to private business or where the board has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability. NCGA Statement 1 concludes that an Enterprise Fund should be established if one of the following conditions exists:

1. Operations are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (*expenses, including depreciation*) of providing goods or services to the general public on a continuing basis is financed or recovered primarily through user charges.
2. The governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Surface Water Management Fund (# 401) is a full service Enterprise Fund. The principal operating revenues of the Surface Water Management (SWM) Fund 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.

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 charges to customers for goods, services, or privileges provided; operating grants and contributions, capital grants and contributions.

Fiduciary funds are used to account for assets held by the City in a trustee capacity or as an agent on behalf of governments, special districts, private organizations or individuals and therefore cannot be used to support the government's own programs. The City has one agency type fund. Agency funds are used to account for assets held by the City in a custodial capacity and do not involve measurement of results of operations. The City's role is purely custodial, such as receipt, temporary investment and remittance of fiduciary resources to individuals, private organizations, or other governments. Accordingly, all assets reported in an agency fund are offset by a liability to the party on whose behalf they are held.

The *Municipal Court Agency Fund* (#631) is an Agency Fund established for the Municipal Court to account for all bail as established for each defendant by the court where the City is the agency of the court. As of December 31, 2006, the trust fund accounted for \$78,936.

1-D. Budgetary Information

The City's budget procedures are mandated by the Revised Code of Washington (RCW) 35A.34. Biennial 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.

Biennial 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 Revised Code of Washington (RCW) identifies the process for amending the budget be it "Emergencies - Non-Debatable" or "Emergencies - ...all other". RCW 35A.34.130 - .150 explain the process for amending an existing budget document. The Finance Department monitors the budget through a series of status reports of the several funds that are distributed to the City Manager and the departments on a monthly basis. If a fund is in trouble or if an "emergency" occurs within a fund that is significant, the Finance Department prepares analytical worksheets pointing to the potential problem(s) with budget recommendations. If amending the budget is necessary, it occurs during October - December of each year of the biennium.

The budget was amended in 2006. The financial statements display the original budgets for funds and amended budgets, where appropriate.

1-E. Assets, Liabilities, and Equity

Cash, Deposits and Investments

It is the City's policy to invest all temporary cash surpluses. At December 31, 2006, the treasurer was holding \$39,332,106 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.

(See additional information at Note 4-A.)

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 consist of amounts owed from governmental or other third parties for goods and services rendered.

(See additional information at Note 4-B.)

Due To – Due From and 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, 2006, 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.

Inter-fund transactions

Governmental units operate with a number of self-balancing funds which perform specific functions/programs. There are circumstances where funds are required to interact with other funds or to do business with each other. This type of activity can be categorized as either an inter-fund transaction or an inter-fund transfer.

Inter-fund transactions are divided into two (2) categories: inter-fund services provided and used and/or reimbursement transactions. The inter-fund transactions are those transactions that would be treated as revenues, expenditures or expense if they involved parties external to the City. These types of transactions are accounted for as ordinary revenues, expenditures or expenses of the funds involved. An example would be when Parks Department pays their water bill. This type of transaction is identified as the expenditure for Parks and as a revenue source for the water company.

Reimbursement transactions occur when the expenditure is initially made in a fund that is more appropriate for another fund. These items are recorded as expenditures or expenses of the reimbursing fund and as a reduction of expenditures or expenses in the fund initially charged.

Inter-fund transfers involve transfers between funds either as part of maintenance of operations or one-time for an activity/program.

(See additional information at Note 4-F.)

Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are charged as expenditures as purchased in the governmental fund statements, and capitalized in the proprietary fund statements.

Capital assets, other than infrastructure assets, are defined by the City as assets with an initial, individual cost of equal to or greater than \$5,000 (*amount not rounded*) and an estimated useful life in excess of one year.

The City reports infrastructure assets on a network and subsystem basis. Accordingly, the amounts spent for the construction or acquisition of infrastructure assets are capitalized and reported in the government-wide financial statements regardless of their amount. Such assets are recorded at historical costs or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. At present, only infrastructure for years 2003-2006 are recorded for governmental funds, while all previous years' infrastructure will be included by the end of 2007.

Depreciation on exhaustible assets is recorded as an allocated expense in the State 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

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the assets live are not capitalized.

(See additional information at Note 4-C.)

Compensated Absences

It is the City's policy to accumulate earned but unused vacation and sick pay benefits for employees that have satisfied certain tests that determine the amount to be paid out. Accumulated vested vacation and sick leave are accrued as they are earned. For Governmental Funds the non-current portion (*the amount estimated to be used in subsequent fiscal years*) is maintained separately and represents a reconciling item between the fund-level and government-wide presentations. The current portion of the liability is reported in the governmental funds only for matured payouts calculated on historic trends. In the business-type activities/funds, both the current and long-term liabilities are recorded.

Upon separation from work, 25% of the sick leave/major medical leave can be converted to pay at the current rate.

The City has two option plans for leave, the Combination Leave Plan and the Traditional Leave Plan.

Combination Leave and Major Medical Leave. Upon termination, an employee will receive 75% of the Combination Leave (*which includes sick leave that was moved to the combination leave*), with under three years of service. With over 3 years or more of service, an employee will receive 100% of Combination Leave. Upon retirement, an employee will receive 25% of the Major Medical leave bank. Under no circumstances may an employee's payment for accumulated major medical leave exceed eighty hours. All new employees are required to participate in this plan.

Traditional Vacation and Sick Leave. Upon termination/retirement, an employee will receive 100% of the unused vacation bank. Upon retirement and with five (5) years of service, an employee will receive 25% of unused sick leave bank. There is no cap for standard sick leave. New employees can not participate in this plan.

In governmental (*and similar trust*) funds, compensated absences that are expected to be liquidated with expendable available financial resources are accrued when incurred. A liability is reported only for mature amounts such as for employee resignations and retirements.

The liability for accumulated unused vacation, combo, sick leave and major medical balances as of December 31, 2006 is \$779,898, with \$238,515 expected to be used in one year.

Post-employment healthcare benefits. The City does not provide post-employment benefits except those mandated by the Consolidated Omnibus Budget Reconciliation Act (*COBRA*). The requirements established by COBRA are fully funded by employees who elect coverage under the Act, and no direct costs are incurred by the City.

Family Leave Medical Act. This act mandates that an employee may leave employment (*based upon a set of established rules, procedures & criteria*) for up to twelve weeks annually.

Deferred Revenues

Deferred revenues are amounts recognized as receivables but not revenues because the revenue recognition criteria has not been met.

(See additional information at Note 4-G.)

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. The City has no bond debt.

(See additional information at Note 4-E.)

Equity Classifications

The difference between assets and liabilities in the Statement of Net Assets is labeled as net assets. Generally Accepted Accounting Principles further require that net assets be subdivided into three categories: net assets invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

Invested in capital assets net of related debt consist of capital assets including restricted capital assets, net of accumulated depreciation and, reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributed to the acquisition, construction, or improvement of those assets, if any.

Restricted net assets – Consist of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.

Unrestricted net assets – All other net assets that do not meet the definition of “restricted” or “invested in capital assets” or “invested in capital assets, net of related debt.”

When both restricted and unrestricted resources are available for use, it is the government’s policy to use restricted resources first, then unrestricted resources as they are needed.

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; and 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

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

The LID CIP fund (fund 351, a non-major fund) reports a deficit fund balance at December 31, 2006 in the amount of \$136,123. The fund is used to account for Local Improvement District construction costs. Construction costs began in 2006 and are expected to continue into January 2008. The deficit is expected to be eliminated by securing additional long-term debt to finance the construction costs.

NOTE 4. DETAILED NOTES ON FINANCIAL STATEMENT BALANCES

4-A. Cash & Cash Equivalents

At year end, the City's cash and cash equivalents (short-term investments) amounted to \$39,332,106. 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.

Custodial Credit Risk

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 \$100,000. The Washington Public Deposit Protection Commission (WPDPC) insures amounts over \$100,000. The WPDPC is a multiple financial institution collateral pool established by state statute, to protect public funds against loss. At year end 2006, the bank balances of deposits were entirely insured through the FDIC and the WPDPC. The City had no custodial credit risk for deposits for the year ended 2006.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. 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.

4-B. Receivables

Receivables are composed of tax receivables, account receivables and grant receivables. Balances of receivables as of year-end are identified in the following table.

Governmental Activities	Receivables
Taxes, current	\$ 3,094,436
Taxes, delinquent	105,126
Special assessments	2,824,704
Accounts	625,237
Grant	1,425,302
Subtotal Governmental Activities	<u>8,074,805</u>
Business-type Activities	
Accounts	<u>25,390</u>
Total Receivables	<u>\$ 8,100,195</u>

The Surface Water Management (SWM) fees are part of the property tax bill and as such are due and payable the same cycle and process as the property tax and if not paid, the County will put a lien on the property and assess penalties.

4-C. Capital Assets

All assets are valued at historical cost; or estimated costs where historical cost is not known; or estimated market value for donated assets/or the lower of cost or fair market value when transferred.

Capital Assets that are infrastructure assets (*such as roads, bridges, curbs, and sidewalks*) are considered public property assets and are identified by the types of following activities.

Capital asset activity for Governmental-type activities for the year ended December 31, 2006, was as follows:

Governmental Activities	<u>Beginning Balance</u>	<u>Prior Period Adjustment</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:					
Land and land rights	\$ 10,208,327	-	\$ 70,133	\$ (108,885)	\$ 10,169,575
Construction in progress	1,820,940	(1,820,940)	426,325	-	426,325
Total capital assets, not being depreciated	<u>12,029,267</u>	<u>(1,820,940)</u>	<u>496,459</u>	<u>(108,885)</u>	<u>10,595,901</u>
Capital assets being depreciated:					
Buildings	14,933,720	-	-	(2,179,234)	12,754,486
Improvements other than buildings	2,658,671	-	224,459	-	2,883,130
Machinery and equipment	1,334,972	-	38,694	-	1,373,666
Infrastructure	9,281,338	730,511	4,561,447	-	14,573,296
Total capital assets, being depreciated	<u>28,208,701</u>	<u>730,511</u>	<u>4,824,600</u>	<u>(2,179,234)</u>	<u>31,584,577</u>
Less accumulated depreciation for:					
Buildings	(1,423,794)	-	(373,343)	163,443	(1,633,694)
Improvements other than buildings	(428,218)	-	(132,934)	-	(561,152)
Machinery and equipment	(864,692)	-	(140,180)	-	(1,004,872)
Infrastructure	(497,282)	-	(333,728)	-	(831,010)
Total accumulated depreciation being depreciated	<u>(3,213,986)</u>	<u>-</u>	<u>(980,185)</u>	<u>163,443</u>	<u>(4,030,728)</u>
Total capital assets, being depreciated, net	<u>24,994,715</u>	<u>730,511</u>	<u>3,844,415</u>	<u>(2,015,791)</u>	<u>27,553,849</u>
Subtotal, net capital assets	<u>\$ 37,023,982</u>	<u>(1,090,429)</u>	<u>\$ 4,340,873</u>	<u>\$ (2,124,676)</u>	<u>\$ 38,149,750</u>
Internal Service Funds					
Capital assets being depreciated:					
Machinery and equipment	2,377,036	-	933,624	(110,144)	3,200,516
Total capital assets, being depreciated	<u>2,377,036</u>	<u>-</u>	<u>933,624</u>	<u>(110,144)</u>	<u>3,200,516</u>
Less accumulated depreciation for:					
Machinery and equipment	(869,691)	-	(498,814)	78,393	(1,290,112)
Total accumulated depreciation being depreciated	<u>(869,691)</u>	<u>-</u>	<u>(498,814)</u>	<u>78,393</u>	<u>(1,290,112)</u>
Total capital assets, Internal Service Fund	<u>1,507,345</u>	<u>-</u>	<u>434,810</u>	<u>(31,751)</u>	<u>1,910,404</u>
Net capital assets, Governmental Activities	<u>\$ 38,531,327</u>	<u>(1,090,429)</u>	<u>\$ 4,775,683</u>	<u>\$ (2,156,427)</u>	<u>\$ 40,060,154</u>

Capital asset activity for Business-type activities for the year ended December 31, 2006 was as follows:

Business-Type Activities	<u>Beginning Balance</u>	<u>Prior Period Adjustment</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:					
Land	\$ 788,077	-	\$ 4,000	\$ -	\$ 792,077
Construction in progress	233,088	(233,088)	-	-	-
Total capital assets, not being depreciated	<u>1,021,165</u>	<u>(233,088)</u>	<u>4,000</u>	<u>-</u>	<u>792,077</u>
Capital assets being depreciated:					
Infrastructure	30,154,353	-	5,387	-	30,159,740
Machinery and equipment	86,867	-	35,099	(20,653)	101,313
Total capital assets, being depreciated	<u>30,241,220</u>	<u>-</u>	<u>40,486</u>	<u>(20,653)</u>	<u>30,261,053</u>
Less accumulated depreciation for:					
Infrastructure	(5,450,217)	-	(800,644)	-	(6,250,861)
Machinery and equipment	(60,568)	-	(14,212)	20,652	(54,128)
Total accumulated depreciation being depreciated	<u>(5,510,785)</u>	<u>-</u>	<u>(814,856)</u>	<u>20,652</u>	<u>(6,304,989)</u>
Total capital assets, being depreciated, net	<u>24,730,435</u>	<u>-</u>	<u>(774,370)</u>	<u>(1)</u>	<u>23,956,064</u>
Net capital assets	<u>\$ 25,751,600</u>	<u>\$ (233,088)</u>	<u>\$ (770,370)</u>	<u>\$ (1)</u>	<u>\$ 24,748,141</u>

See Note 8 regarding prior period adjustments for governmental and business-type activities.

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

Governmental activities:	
General government	\$ 425,067
Public safety (police)	32,563
Transportation (highways and streets)	334,167
Culture and recreation	134,161
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the asset	498,814
Total depreciation expense - governmental activities	<u>1,424,772</u>
Total depreciation expense - business-type activities:	<u>814,856</u>
Total depreciation expense	<u>\$2,239,628</u>

Construction Commitments

The City has active, on-going, construction projects as of December 31, 2006. At year end the City's construction commitments are as follows:

<u>Projects</u>	<u>Spent-year Ending 12/31/2006</u>	<u>Remaining Commitment</u>
Sewer Expansion	\$ 324,269	\$ 8,745,731

4-D. Debt

Debt activity for the year ended December 31, 2006, was as follows:

Description	Date of Issue	Maturity Date	Interest Rate	Amount Originally Issued	Beginning of Year Balance	Amount Issued	Amount Redeemed	End of Year Balance
<u>Special Assessment Bonds</u>								
<i>With</i>								
<i>governmental commitments</i>	Dec-2006	Dec-2026	3.75% - 4.65%	2,824,704	-	2,824,704	-	2,824,704
Subtotal Special Assessment Bonds				2,824,704	-	2,824,704	-	2,824,704
<u>Government Loans</u>								
<i>CTED 59th</i>								
Street project	Apr-2005	Apr-2025	Varies	\$ 1,071,000	\$ 1,005,000	-	\$ (66,000)	\$ 939,000
<i>PWIF – 04-691- PRE-132</i>								
	Jul-2005	Jul-2024	1.00%	750,000	750,000	-	(39,474)	710,526
<i>PWIF – 06-962- 022</i>								
	Sep-2006	Sep-2026	0.50%	1,000,000	-	1,000,000	-	1,000,000
Subtotal Govt Loans				2,821,000	1,755,000	1,000,000	(105,474)	2,649,526
Total all debt				\$ 5,645,704	\$ 1,755,000	\$ 3,824,704	\$ (105,474)	\$ 5,474,230

The City issued special assessment debt in December, 2006 to provide funds for the residential infrastructure improvements. Special assessment bonds are created by ordinance, adopted by Council and will be repaid from amounts levied against the property owners benefited by this 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 a local District Guaranty Fund to finance any uncollectible special assessment debt. As of December 31, 2006, 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:

<u>Year(s)</u>	<u>Principal</u>	<u>Interest</u>
2007	\$ 250,178	\$ 133,573
2008	318,105	137,504
2009	318,105	130,766
2010	318,105	123,868
2011	318,105	116,811
2012 - 2016	1,590,526	475,385
2017 - 2021	1,514,526	289,137
2022 - 2026	846,580	49,406
	<u>\$ 5,474,230</u>	<u>\$ 1,456,450</u>

The city leases facilities and equipment under non-cancelable operating leases. Total costs for the year ended Dec. 31, 2006, were \$173,933. The future minimum lease payments for these leases are as follows:

2007	\$ 292,980
2008	288,934
2009	234,368
2010	235,416
2011	60,648
	<u>\$ 1,112,346</u>

4-E. Change in long-term liabilities

Long-term liability activity for the year ended December 31, 2006 was as follows:

	<u>Beginning of Year Balance</u>	<u>Amount Issued</u>	<u>Amount Redeemed</u>	<u>End of Year Balance</u>	<u>Due Within One Year</u>
Governmental Activities					
Compensated absences	\$ 654,095	\$ 1,142,272	\$ (1,022,963)	\$ 773,404	\$ 232,021
Special assessment debt with governmental commitment	-	2,824,704	-	2,824,704	144,704
59th Street Project debt	1,005,000	-	(66,000)	939,000	66,000
PWIF 1 debt	750,000	-	(39,474)	710,526	39,474
PWIF 2 debt	-	1,000,000	-	1,000,000	-
Subtotal Governmental Activities	<u>2,409,095</u>	<u>4,966,976</u>	<u>(1,128,437)</u>	<u>6,247,634</u>	<u>482,199</u>
Business-type Activities					
Compensated absences	<u>5,760</u>	<u>734</u>	<u>-</u>	<u>6,494</u>	<u>6,494</u>
Total all	<u>\$ 2,414,855</u>	<u>\$ 4,967,710</u>	<u>\$ (1,128,437)</u>	<u>\$ 6,254,128</u>	<u>\$ 488,693</u>

4-F. 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. Interfund balances are expected to be repaid within one year.

The following table displays interfund balances at December 31, 2006.

<u>Lending Fund</u>	<u>Borrowing Fund</u>	<u>1/1/2006</u>	<u>New Loans</u>	<u>Repayments / Adjustments</u>	<u>Balance at 12/31/2006</u>
Surface Water	LID CIP Fund	\$ 1,300,000	\$ -	\$ (1,300,000)	\$ -
General Fund	LID CIP Fund	20,871	-	(20,871)	-
General CIP	LID CIP Fund	-	107,883	-	107,883
		<u>\$ 1,320,871</u>	<u>\$ 107,883</u>	<u>\$ (1,320,871)</u>	<u>\$ 107,883</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 on the below displays Interfund Transfer activity during 2006.

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General	\$ 232,350	\$ 3,096,290
City Streets	35,000	-
Arterial Streets	466,909	-
Grant Fund	134,540	185,665
General Govt CIP	3,285,185	-
Police Investigation	523,500	-
LID CIP	101,959	-
Contingency	-	1,175,810
Subtotal Governmental Funds	<u>4,779,443</u>	<u>4,457,765</u>
Surface Water Management	74,500	645,348
Equipment Replacement	139,170	-
City Hall Maintenance	110,000	-
Total All Funds	<u>\$ 5,103,113</u>	<u>\$ 5,103,113</u>

4-G. Deferred Revenue

Deferred revenue, reported on the Statement of Net Assets as \$2,824,704 is for special assessments not yet due.

NOTE 5. PROPERTY TAXES

Pierce County Treasurer acts as an agent to collect property taxes levied in the County for all taxing authorities. Collections are distributed after the end of each month.

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

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

1. Referendum 47 limits the increase of property taxes by an inflation factor called “Implicit Price Deflator (IPD). For Lakewood property taxes, the IPD was .85%. For years 2000-2006, the City Council voted no increase in taxes except for new construction.
2. Washington State law RCW 84.55.010 (after amendment by Initiative 747) limits the growth of regular property taxes to the lesser of one percent per year or inflation as measured by the IPD. If inflation is less than one percent, a district may provide for the use of a limit of up to one percent for that year with a majority vote of the council. The initiative does not limit voter-approved levies.
3. The Washington State Constitution limits the total regular property taxes to one percent of assessed valuation or \$10 per \$1,000 of value. If the taxes of all districts exceed this amount, each is proportionately reduced until the total is at or below the 1 percent limit.

The City’s regular levy for 2006 was \$1.27538 per \$1,000 on a total 2005 assessed valuation of \$4,337,464,703 for a total regular levy of \$5,531,941. State law provides that debt cannot be incurred in excess of the following percentages of the value of the taxable property of the city.

Percentage		Indebtedness Available
<u>Limit</u>	<u>Description</u>	
1.50%	For general purposes, without a vote of the people	\$ 64,997,948
1.50%	Capital leases, without a vote of the people	\$ 62,987,948
2.50%	For general purposes, with a 3/5 vote of the people	\$ 108,329,913
2.50%	For utility purposes, with a 3/5 vote of the people	\$ 103,307,957
2.50%	For open space and parks purposes, with a 3/5 vote of the people	\$ 108,329,913

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 (60) 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.

An allowance for doubtful accounts is not deemed necessary, as uncollectible taxes become a lien on the property. Delinquent property tax receivable at December 31, 2006 was approximately \$105,000.

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 15th 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 30th 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 two retirement plans, both administered by International City Manager’s Association (ICMA). A description of both plans are as follows.

Plan 1 City of Lakewood, A Defined Money Contribution Plan, Money Purchase 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 money purchase qualified plan – “a defined money contribution plan” registered through the Internal Revenue Service (IRS) as a section 401 (a). The allocation and vesting schedules are the same as PERS with added enhancements where employees can manage their own investment portfolio of both the employee and employer contributions. Contributions to the plan are not subject to federal income tax (pre-tax dollars). All full time employees are required to participate. A vesting schedule is tied to years of service that an employee may bring from the previous vesting in PERS or another qualified plan. The vesting schedule is below.

<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 5th & 20th of each month*). The balance in the trust as of 12/31/2006 was \$5,740,490.

	Employer Contribution	Employee Contribution
Full Time Employees	7.62 %	5.08 %

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) plan administered through ICMA which plan is registered with the Internal Revenue Service (IRS) 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 (OBRA) of 1990 are required to participate. The balance in the trust as of 12/31/2006 was \$7,741,207. The contribution percentages are listed as follows:

<u>Description</u>	<u>Employer</u>	<u>Employee</u>
Full Time Employees	4.77%	6.20%
City Council Members	4.77	6.20
Part Time Employees	4.77	6.20
City Manager	10.97	-

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.

Plan assets, which consist of stocks, bonds, and guaranteed insurance contracts, are not the property of the City and are not subject to the claims of the City's general creditors. The program is administered by a private consulting firm, the ICMA trust group. Actuarial determinations are not required because (1) long-term disability and survivor income insurance are provided by a group insurance policy with Standard Insurance company; and (2) benefits paid to participants upon retirement are limited to (a) a non-forfeitable, nontransferable 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.

Major benefits are provided for:

Disability. Provides benefits of 60% of compensation with a \$5,000 per month maximum. Disability Benefit premiums are paid 100% by the City's contributions.

Survivor. Survivor benefits cease for spouse upon decree of divorce. Eligible child benefits cease on the date an unmarried child reaches age 19. If a registered student in full-time attendance at an accredited educational institution, benefits cease on the date the child reaches 25 years of age. Survivor benefit premiums are paid 100% by the City's contributions.

- a. Surviving children or spouse - Benefits will include 30% of the first \$3,000 of monthly earnings. Benefits are limited to a \$900 per month maximum and monthly minimum benefit amount of \$100.
- b. Surviving children and spouse - Benefits will include 60% of the first \$3,000 of monthly earnings. Benefits are limited to a \$1,800 per month maximum and monthly minimum benefit amount of \$200.

Lump Sum Death Benefits - Life Insurance. These benefits equal 100% of annual earnings to a maximum of \$100,000, rounded to the next higher multiple of \$1,000 salary amount. The premium for this benefit is fully paid by the City's contributions.

Retirement Benefits. Employee and employer contributions for retirement benefits are 100% vested.

For more information, write to ICMA RC, 777 North Capitol Street, NE, Washington, DC 20002-4240.

NOTE 7. RISK MANAGEMENT

Liability Insurance

The City is a member for liability insurance of the Cities Insurance Association of Washington (CIAW). Chapter 48.62 of the RCW, authorizes the governing body of any one or more governmental entities to form together into or join a pool or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self-insure, or hire or contract for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 of the RCW, the Inter-local Cooperation Act. The pool was formed on September 1, 1988 when 34 cities in the State of Washington joined together by signing an Inter-local Governmental Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. Currently, the CIAW has 117 member cities and 162 associate members.

The pool allows members to jointly purchase insurance coverage and provide related services, such as administration, risk management, claims administration, etc. Coverage for Public Officials Liability is on a "claims made basis". All other coverage is on an "occurrence basis". The pool provides the following forms of group purchased insurance coverage for its members: property, liability, vehicle liability, other mobile equipment, boiler and machinery, bonds of various types, excess liability (*umbrella*) and public official liability.

The pool acquires liability insurance from unrelated underwriters that are subject to per-occurrence of \$100,000. Members are responsible for the first \$1,000 of the deductible amount of each claim, while the pool is responsible for the remaining \$99,000. Insurance carriers cover insured losses over \$100,000 to the limits of each policy. Since the pool is a cooperative program, there is a joint liability among the participating members towards the sharing of the \$99,000 portion of the deductible. The pool, however, purchases a Stop Loss Policy in the amount of \$2,653,767 to eliminate any risk to members and, in addition, fully funds the Stop Loss in the annual budget.

Property insurance is subject to a per-occurrence deductible of \$10,000. Members are responsible for the first \$1,000 of the deductible amount each claim, while the pool is responsible for the remaining \$9,000.

Boiler and machinery insurance is subject to a per-occurrence deductible of \$2,500. Members are responsible for the deductible amount of each claim.

Each new member now pays the pool an admittance fee. This amount covers the member's share of unrestricted reserves. Members contract to remain in the pool for a minimum of one year, and must give notice before August 31 before terminating participation the following September 1. The inter-local Governmental Agreement is renewed automatically each year. Even after termination, a member remains responsible for contributions to the pool for any unresolved, unreported, and in-process claims for the period they were a signatory to the Inter-local Governmental Agreement.

The pool is fully funded by its member participants. Claims are filed by members with Canfield & Associates, Inc., which has been contracted to perform pool administration, claims adjustments and administration, and loss prevention for the pool. Fees paid in 2006 under this arrangement were \$285,420.

A governing board is selected by the membership and is responsible for conducting the business affairs of the pool. The Board of Directors has contracted with Canfield & Associates, Inc. to perform day-to-day administration of the pool. This pool has no employees. Copies of the pool's annual report may be obtained by writing to:

Canfield & Associates
451 Diamond Drive
Ephrata, WA. 98823

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 (*L & I*). 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 2006 in any of the major categories of risk. Also, the amount of settlements through December 31, 2006 has not exceeded insurance coverage in any of the past three years.

NOTE 8. PRIOR PERIOD ADJUSTMENTS

The City has recorded prior period adjustments to correct prior years' stated balances of capital assets. It was discovered that amounts for *Construction in Progress* had been capitalized based on estimated future costs. Correct accounting procedures capitalize *Construction in Progress* on actual costs incurred. It was also discovered that various *Infrastructure* capital assets had not been capitalized. The prior period adjustments correct the accounting errors for both categories. The detail of the prior period adjustments are shown below:

	<u>Prior Period Adjustment</u>
Governmental Activities	
Construction in progress	\$ (1,820,940)
Infrastructure	<u>730,511</u>
Subtotal prior period adjustment for governmental activities	<u>(1,090,429)</u>
Business Activities	
Construction in progress	<u>(233,088)</u>
Net prior period adjustments	<u>\$ (1,323,517)</u>

NOTE 9. OTHER DISCLOSURES

9-A. Litigation

The City Attorney reports that, as of December 31, 2006, a number of tort claims have been received by the City directly or indirectly, often dealing with pot holes, 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, 2006, is an amount which should be within the insurance protection the City holds.

9-B. Subsequent Events

In 2007, the City obtained additional Special Assessment debt in the amount of \$880,000 for capital asset construction and/or acquisition. The debt will be repaid in installments ending in year 2025.

CITY OF LAKEWOOD
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Year Ended December 31, 2006

Federal Grantor / Pass-Through Agency/ Program Title	CFDA Number	Other Identification Number	Expenditures			Note
			Direct Awards	Pass-Through Awards	Total	
Counter Drug Technology Assessment Center						
I-01808 Technology Transfer Program	07.15457	Serial #15457	14,000		14,000	5
Total Counter Drug Technology Assessment Center			14,000	-	14,000	
US Dept. of Housing & Urban Development:						
b5203 CDBG-Block Grant 2003-04	14.218	B-03-MC-53-0016	27,898		27,898	
b5204 CDBG-Block Grant 2004-05	14.218	B-04-MC-53-0016	259,688		259,688	
b5205 CDBG-Block Grant 2004-05	14.218	B-05-MC-53-0016	285,177		285,177	
b5206 CDBG-Block Grant 2004-05	14.218	B-05-MC-53-0016	256,129		256,129	
b5299 CDBG-DPA Program Income	14.218	B-04-MC-53-0016	39,449		39,449	4
Total US Dept. of Housing & Urban Development			868,341	-	868,341	2
US Dept. of Justice						
L0805 STOP Violence Against Women Through City of Fife	16.588	F05-31103-058		11,772	11,772	3
P1104 Local Law Enforcement BG	16.592	2004-LB-BX1346	47,552		47,552	
P0705 Weed & Seed Year 5	16.595	2005-WS-Q5-0081	20,604		20,604	
P1008 Bulletproof Vest Partnership	16.607	2005BUBX05027757	6,159		6,159	
P1010 Project Safe Neighborhoods	16.609	166E-SE-88930	6,307		6,307	
P1002 Community Oriented Policing (COPS)	16.710	2004-SH-WX-0023	228,571		228,571	
P1200 Justice Assistance Grant	16.738	2005-DJ-BX-1609	29,699		29,699	
P1201 Justice Assistance Grant	16.738	2006-DJ-BX-0297	35,300		35,300	
P1300 G.R.E.A.T. Grant	16.737	2006-JV-FX-0158	1,899		1,899	
Total US Dept. of Justice			376,091	11,772	387,863	2
US Dept. of Transportation Pass Through						
E1100 Commuter Rail Station Through WA DOT	20.205	AC-STPUL-2977(005)		2,182,132	2,182,132	2
E1111 Bridgeport Way-PE Through WA DOT	20.205	CM-2947(010)LA5538		30,893	30,893	2
E1125 Lockburn MS - 86th St. Sidewalks Through WA Traffic Safety Comm.	20.205	SRTS-0665(001)		2,715	2,715	2
P1009 State & Community Hwy Safety Through WA Traffic Safety Comm.	20.600			352	352	
P1012 Drive Hammered/Get Nailed Through WA Traffic Safety Comm.	20.601			45,651	45,651	
P1005 Speed Emphasis Through WA Traffic Safety Comm.	20.601			41,762	41,762	
P1005 DUI Emphasis Through WA DOT	20.600			1,062	1,062	
P1013 Click It or Ticket Through WA Traffic Safety Comm.	20.600			4,826	4,826	
Total US Dept. of Transportation			-	2,309,393	2,309,393	2
M9906 Federal Disaster Assistance Through State Military Department	97.036			33,288	33,288	
001.11 Federal Disaster Assistance Through State Military Department	97.036			203	203	
001.15 Federal Disaster Assistance Through State Military Department	97.036			840	840	
M9906 Federal Disaster Assistance Through State Military Department	97.036			1,204	1,204	
Total Department of Homeland Security			-	35,535	35,535	2
TOTAL FEDERAL AWARDS EXPENDED			1,258,432	2,356,700	3,615,132	1

NOTE 1 - BASIS OF ACCOUNTING

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

NOTE 2 - PROGRAM COSTS

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

NOTE 3 - CITY OF FIFE IS LEAD AGENCY

NOTE 4 - REVOLVING LOAN FUND - PROGRAM INCOME

The city administers a revolving loan program for CDBG Down-Payment Assistance and Major Home Repairs. Under this federal program, repayments to the city are considered program revenues (incomes) and loans of such funds to eligible recipients are considered expenditures. The amount of loan funds disbursed to program participants for the year was \$26,384 and is presented in this schedule. The amount of principal received in loan repayments for the year was \$27,383. The loans are interest free.

NOTE 5 - NONCASH AWARDS - EQUIPMENT

The City of Lakewood Police Department received federally-funded equipment. The amount reported on the schedule is the value of the property on the date it was received.



ABOUT THE STATE AUDITOR'S OFFICE

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

Our mission is to work in cooperation 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 has 300 employees who are located around the state to deliver our services effectively and efficiently. Approximately 65 percent of our staff are certified public accountants or hold other certifications and advanced degrees.

Our regular 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. We also perform fraud and whistleblower investigations. In addition, we have the authority to conduct performance audits of state agencies and local governments.

The results of our audits are widely distributed through a variety of reports, which are available on our Web site. We continue to refine our reporting efforts to ensure the results of our audits are useful and understandable.

We take our role as partners in accountability seriously. We provide training and technical assistance to governments and have an extensive program to coordinate audit efficiency and to ensure high-quality audits.

State Auditor
Chief of Staff
Chief Policy Advisor
Director of Administration
Director of Audit
Director of Performance Audit
Director of Special Investigations
Director for Legal Affairs
Local Government Liaison
Communications Director
Public Records Officer
Main number
Toll-free hotline for government efficiency

Brian Sonntag, CGFM
Ted Rutt
Jerry Pugnetti
Doug Cochran
Chuck Pfeil, CPA
Linda Long, CPA, CGFM
Jim Brittain, CPA
Jan Jutte
Mike Murphy
Mindy Chambers
Mary Leider
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Web Site

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