

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

City of Lakewood
Pierce County

Audit Period
January 1, 2007 through December 31, 2007

Report No. 1000570

Issue Date
January 30, 2009



WASHINGTON
BRIAN SONNTAG
STATE AUDITOR



**Washington State Auditor
Brian Sonntag**

January 30, 2009

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, 2007 through December 31, 2007**

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Federal Summary

City of Lakewood Pierce County January 1, 2007 through December 31, 2007

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 programs.

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

Identification of Major Programs:

The following were major programs during the period under audit:

<u>CFDA No.</u>	<u>Program Title</u>
14.218	Community Development Block Grants/Entitlement Grants
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 did not qualify as a low-risk auditee under OMB Circular A-133.

Schedule of Audit Findings and Responses

City of Lakewood Pierce County January 1, 2007 through December 31, 2007

1. The City of Lakewood's internal controls over the preparation of its financial statements are inadequate.

Background

The City of Lakewood is the second largest city in Pierce County with a population of approximately 59,000. Budgeted revenues for 2007 were \$91.9 million.

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 ensure the reliability of financial reporting. Our audit identified a material weakness in controls that adversely affect the City's ability to produce accurate financial statements.

The City received a similar finding during the previous audit of their 2006 financial statements and has made improvements to the internal controls and continues to improve and correct many of the issues that occurred in the past.

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 significant deficiencies in internal controls over financial operations and reporting that represent a material weakness.

- The City did not have adequate internal controls to ensure accurate financial statements. A certified public accountant was hired to prepare the City's financial statements, but City personnel did not perform a final review of the statements for accuracy. As a result, multiple material errors were not found.
- In the past, the City did not have appropriate controls to ensure transactions were coded to the proper accounts. Current staff responsible for financial statement oversight were unable to correct these errors in a timely manner, which caused delays in reporting.

Cause of Condition

The City's management did not provide adequate oversight of the financial reporting process. Financial statements are the responsibility of management. As part of this responsibility, management has the obligation to ensure it has knowledgeable staff and internal controls and processes sufficient to accurately and completely present financial information.

Effect of Condition

The deficiencies noted above resulted in the City's inability to produce its annual financial report in a timely manner and without material errors. These deficiencies make it reasonably possible that significant misstatements could occur and not be prevented or detected timely by City management. We found the following errors in the original financial statements received for audit.

- A mathematical formula error in the Statement of Net Assets – Governmental liabilities resulting in a \$2.5 million understatement.
- Failure to reconcile changes made to the Reconciliation of Governmental Fund Balances to Net Assets of Governmental Activities resulted in a difference of \$2.1 million.
- The Statement of Revenues, Expenditures, and Changes in fund balances for Governmental funds misclassified revenue tax totals of \$458,988 and \$756,189.
- Non-current assets were not included in the Surface Water Management fund resulting in an understatement of \$24 million.
- The local improvement district, construction in progress fund should have been reported as a major fund but was erroneously reported as a non-major fund.

These errors were subsequently corrected by the City, which enabled us to issue an unqualified opinion.

The City's lack of internal controls over timely preparation of its financial information also resulted in the late filing of its annual financial report. The deadline specified in state law for filing the annual financial report is 150 days after the close of the fiscal year. However, we did not receive the City's 2007 financial statements until November 2008. This delay caused the City's 2007 audit to extend into January 2009.

Additionally, these delays forced the City to apply for multiple extensions of its federal audit due date, resulting in a "high risk" status for its 2008 and 2009 audits. This status could add significantly to future federal audit costs.

Recommendation

We recommend City management:

- Ensure procedures are in place in order to produce financial statements in a timely manner.
- Initiate review processes that will detect or prevent financial statement errors.
- Ensure finance staff receives sufficient training in the proper processing of accounting transactions and financial reporting requirements.

City's Response

The City of Lakewood appreciates the work the State Auditor's Office does in its service to the citizens of the City and the State. However, the SAS 112 finding that the Auditor's Office has issued as a result of its review of the City of Lakewood's 2007 Annual Financial Report does not accurately reflect the work that the City has done to correct many issues that occurred in the past.

Last year, the City was also cited for a SAS 112 finding, and in the City's response, we stated that we would make the following improvements:

- *Provide 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,*

- *Update its procedures on documentation and communication of prior period corrections,*
- *Increase resources to ensure catch up and continuous currency in its bank statement reconciliations,*
- *Update internal controls in all aspects of transaction monitoring and adjusting journal entry approval, and*
- *Recode and correct transactions for fiscal year 2007 to ensure accuracy and timeliness in the Fiscal Year 2007 financial statements.*

We feel that we have taken the steps to vastly improve all of these areas. The errors being singled out for the SAS 112 finding were arithmetic and formulaic in nature, not due to internal controls and procedures.

We thank the Auditor's office for its unqualified opinion on the 2007 Financial Statements, and the City of Lakewood looks forward to working on additional improvements in the future.

Auditor's Remarks

We thank City management for their cooperation and their efforts in the resolution of this issue. We will review the changes made during our 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, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented detected.

RCW 43.09.230 states in part:

The state auditor shall require from every local government financial reports covering the full period of each fiscal year, in accordance with the forms and methods prescribed by the state auditor, which shall be uniform for all accounts of the same class.

Such reports shall be prepared, certified, and filed with the state auditor within one hundred fifty days after the close of each fiscal year.

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, 2007 through December 31, 2007**

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, 2007, which collectively comprise the City's basic financial statements, and have issued our report thereon dated January 30, 2009.

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 finding identified in our audit is 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

January 30, 2009

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

**City of Lakewood
Pierce County
January 1, 2007 through December 31, 2007**

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 programs for the year ended December 31, 2007. The City's major federal programs are identified in the Federal Summary. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to 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 programs for the year ended December 31, 2007.

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 the first name "Brian" and last name "Sonntag" clearly distinguishable.

BRIAN SONNTAG, CGFM
STATE AUDITOR

January 30, 2009

Independent Auditor's Report on Financial Statements

City of Lakewood Pierce County January 1, 2007 through December 31, 2007

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, 2007, 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, 2007, 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

January 30, 2009

Financial Section

City of Lakewood Pierce County January 1, 2007 through December 31, 2007

REQUIRED SUPPLEMENTAL INFORMATION

Management's Discussion and Analysis – 2007

BASIC FINANCIAL STATEMENTS

Statement of Net Assets – 2007
Statement of Activities – 2007
Balance Sheet – Governmental Funds – 2007
Reconciliation of Governmental Fund Balances to the Statement of Net Assets of Governmental Activities – 2007
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds – 2007
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities – 2007
Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – General Fund – 2007
Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – Arterial Street Fund – 2007
Statement of Net Assets – Proprietary Funds – 2007
Statement of Revenues, Expenses and Changes in Fund Net Assets – Proprietary Funds – 2007
Statement of Cash Flows – Proprietary Funds – 2007
Statement of Net Assets – Fiduciary Funds – 2007
Notes to Financial Statements – 2007

SUPPLEMENTAL INFORMATION

Schedule of Expenditures of Federal Awards – 2007
Notes to the Schedule of Expenditures of Federal Awards – 2007

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, 2007. The information presented here should be read in conjunction with the City's financial statements immediately following this section.

Financial Highlights

- The assets of the City exceeded its liabilities by \$142.4 million.
- The City's Statement of Activities reflects a change in net assets of \$6.2 million.
- The General Fund reported a net increase in fund balances of \$1.3 million.

Using this Annual Report

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

Government-Wide Financial Statements

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

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

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

Fund Financial Statements

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

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

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

Funds are established for various purposes and the Fund Financial Statement allows for the demonstration of sources and uses and/or budgeting compliance associated therewith. These statements begin in the required supplemental information section. The City maintains fourteen individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Arterial Streets Fund, Local Improvement District (LID) Debt Service Fund, CIP General Government Fund, and the LID CIP Fund. All of these funds are considered to be major funds. Data from the other ten non-major governmental funds are combined into a single aggregated presentation.

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

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

intended purposes. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the City of Lakewood's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

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

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

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

Government-wide Financial Analysis

The following table reflects a condensed Summary of Net Assets for the fiscal year 2007 and 2006.

	<u>Governmental Activities</u>		<u>Business Activities</u>		<u>Total</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Current assets	\$ 37,408,383	\$ 31,506,783	\$ 16,795,225	\$ 16,087,042	\$ 54,203,608	\$ 47,593,825
Capital assets (net of accumulated depreciation)	77,512,748	40,060,154	24,224,064	24,748,141	101,736,812	64,808,295
Total assets	<u>114,921,131</u>	<u>71,566,937</u>	<u>41,019,289</u>	<u>40,835,183</u>	<u>155,940,420</u>	<u>112,402,120</u>
Long-term liabilities	5,677,088	8,448,904	26,779	6,494	5,703,867	8,455,398
Current liabilities	7,606,854	2,238,318	246,190	160,941	7,853,044	2,399,259
Total liabilities	<u>13,283,942</u>	<u>10,687,222</u>	<u>272,969</u>	<u>167,435</u>	<u>13,556,911</u>	<u>10,854,657</u>
Net Assets						
Invested in capital assets	73,933,380	39,625,305	24,224,064	24,748,141	98,157,444	64,373,446
Restricted for debt service	1,652,642	46,849	-	-	1,652,642	46,849
Unrestricted	26,051,167	21,207,561	16,522,256	15,919,607	42,573,423	37,127,168
Total net assets	<u>\$ 101,637,189</u>	<u>\$ 60,879,715</u>	<u>\$ 40,746,320</u>	<u>\$ 40,667,748</u>	<u>\$ 142,383,509</u>	<u>\$ 101,547,463</u>

As of December 31, 2007, 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 (68.9%) 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 2007 represent unspent debt proceeds of \$1.7 million.

The unrestricted net assets of \$42.6 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 2007 and 2006.

	Governmental Activities		Business Activities		Total	
	2007	2006	2007	2006	2007	2006
Revenues						
Program revenues:						
Charges for services	\$ 5,483,830	\$ 5,682,450	\$ 2,624,286	\$ 3,188,276	\$ 8,108,116	\$ 8,870,726
Operating grants and contributions	7,403,909	3,688,077	64,990	7,861	7,468,899	3,695,938
Capital grants and contributions	3,419,300	3,764,273	-	-	3,419,300	3,764,273
General revenues:						
Property taxes	5,626,367	5,718,689	-	-	5,626,367	5,718,689
Sales taxes	9,649,028	8,915,709	-	-	9,649,028	8,915,709
B&O taxes	6,277,475	5,891,374	-	-	6,277,475	5,891,374
Excise taxes & other taxes	4,950,468	4,282,686	-	-	4,950,468	4,282,686
Interest earnings on investments	1,520,426	988,469	806,928	732,268	2,327,354	1,720,737
Other general revenues	156,167	290,877	-	1,664	156,167	292,541
Total revenues	44,486,970	39,222,604	3,496,204	3,930,069	47,983,174	43,152,673
Expenses						
General government	7,123,042	7,483,008	-	-	7,123,042	7,483,008
Public safety	17,904,169	17,026,111	-	-	17,904,169	17,026,111
Physical environment	354,952	272,213	-	-	354,952	272,213
Transportation	7,902,151	3,856,536	-	-	7,902,151	3,856,536
Health and human services	467,956	432,365	-	-	467,956	432,365
Economic environment	3,246,822	2,694,729	-	-	3,246,822	2,694,729
Culture and recreation	1,763,147	1,553,022	-	-	1,763,147	1,553,022
Interest on long term debt	159,810	122,635	-	-	159,810	122,635
Surface water management	-	-	2,824,387	2,166,025	2,824,387	2,166,025
Total expenses	38,922,049	33,440,619	2,824,387	2,166,025	41,746,436	35,606,644
Change in net assets before transfers	5,564,921	5,781,985	671,817	1,764,044	6,236,738	7,546,029
Transfers	593,245	570,848	(593,245)	(570,848)	-	-
Change in net assets	6,158,166	6,352,833	78,572	1,193,196	6,236,738	7,546,029
Net assets, beginning	60,879,715	55,617,311	40,667,748	39,707,640	101,547,463	95,324,951
Prior period adjustments	34,599,308	(1,090,429)	-	(233,088)	34,599,308	(1,323,517)
Net assets, ending	\$ 101,637,189	\$ 60,879,715	\$ 40,746,320	\$ 40,667,748	\$ 142,383,509	\$ 101,547,463

The City experienced increases in many revenue categories, resulting in an overall increase in total revenues of \$4.8 million or 11.2% from the previous year. Expenses increased in 2007 as well, rising \$6.1 million or 17.2% from 2006 amounts.

GASB No.34, *Basic Financial Statements – and Management's Discussion and Analysis for State and Local Governments* was issued in June 1999 and made dramatic changes to the financial reporting requirements for governmental entities. One of the changes requires governments to report and depreciate infrastructure assets. Prior to GASB No. 34, governments were not required to report general infrastructure assets. Another element of GASB No. 34 is the requirement to retroactively report infrastructure assets acquired from 1980 and forward. Recorded in the 2007 financial statements are adjustments to implement the retroactive reporting provisions under GASB No. 34.

The effect of the infrastructure reporting requirement is apparent when looking at Transportation expenses. Transportation expenses increased \$4.1 million or 104.9%; \$2.1 million relates to depreciation expense on infrastructure assets.

Other significant increase is in *Economic environment* expenses, which increased by a little over \$552,000 or 20.5%. The increase reflects the City's focus and emphasis on economic development and planning as tools to expand its revenue base.

Business-type Activities represent the City's Surface Water Maintenance enterprise activities. Charges for services were \$2.6 million in 2007, as compared to \$3.2 million in 2006, representing a decrease of \$563,990 or 17.7%.

Total expense for Business-type activities was \$2.8 million in 2007, as compared to \$2.2 million in 2006, representing an increase of approximately \$660,000 or 30.4%.

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

Financial Analysis of the City's Governmental Funds

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

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

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

The *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 that were funded through the formation of Local Improvement Districts (LID).

The *CIP General Fund* and the *Local Improvement District (LID) CIP Fund* account for 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 following table provides a summary of Revenues, Expenditures and Changes in Fund Balances for the General Fund.

<u>General Fund</u>	<u>2007</u>	<u>2006</u>	<u>Variance</u>	<u>% Change</u>
Total revenues	\$ 31,202,751	\$ 27,622,353	\$ 3,580,398	13.0%
Total expenditures	(29,291,317)	(26,651,533)	(2,639,784)	-9.9%
Total other financing sources and uses	(609,320)	(2,863,940)	2,254,620	78.7%
Net Change in fund balances	<u>1,302,114</u>	<u>(1,893,120)</u>	<u>3,195,234</u>	
Fund balances, beginning of year	<u>6,439,462</u>	<u>8,332,582</u>	<u>(1,893,120)</u>	
Fund balances, end of year	<u>\$ 7,741,576</u>	<u>\$ 6,439,462</u>	<u>\$ 1,302,114</u>	20.2%

Total revenues for the General Fund increased by 13 percent, due in large part to increases in tax revenues, charges for services, intergovernmental revenues, and fines and penalties. Increased tax revenues occurred in sales taxes (8% / \$645,046), and B & O taxes (15% / \$729,085). The largest increase in tax revenues occurred in excise taxes, which increased by 36% or \$815,045. The single largest element within excise tax is gambling tax, which increased from 2006 to 2007 by over \$866,000. (The second largest source in excise tax, Punch Boards and Pull Tabs tax, decreased by \$54,462 causing the group as a whole to report an increase less than the increase in gambling tax alone.) Increased development activities within the City resulted in revenues provided through charges for services rising from 2006 to 2007 by 28%. A new inter-governmental program with the Washington State Criminal Justice Training Center provided much of the increase that occurred in the inter-government revenue category, which increase by 32% (\$430,236) over 2006. Significant increases were also seen in the fines and penalties category (46%) as a result of an increase in photo infraction penalties.

Total expenditures for the General Fund increased by 9.9 percent, and were largely due to increases in public safety costs, which increased by over \$780,000 or 5%. General government expenditures increased by approximately \$695,000, a 10 percent increase over 2006. Economic environment also increase significantly over 2006 (24% or \$485,020) as a result of the City placing additional emphasis on planning and development.

Total other financing sources and uses fell dramatically from 2006 to 2007 (-78.7%) as a result of the one time transfer in 2006 from the General Fund to the CIP General Fund, which provided partial funding the of City's new police headquarters building.

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

<u>Arterial Streets Fund</u>	<u>2007</u>	<u>2006</u>	<u>Variance</u>	<u>% Change</u>
Total revenues	\$ 5,854,667	\$ 5,668,820	\$ 185,847	3.3%
Total expenditures	(5,522,398)	(4,330,156)	1,192,242	27.5%
Total other financing sources and uses	185,030	560,002	(374,972)	-67.0%
Net Change in fund balances	<u>517,299</u>	<u>1,898,666</u>	<u>(1,381,367)</u>	
Fund balances, beginning of year	<u>3,890,086</u>	<u>1,991,420</u>	<u>1,898,666</u>	
Fund balances, end of year	<u>\$ 4,407,385</u>	<u>\$ 3,890,086</u>	<u>\$ 517,299</u>	13.3%

The Arterial Street Fund expenditures increased significantly (27.5%) from 2006 to 2007 as a result of the City constructing major roadway improvements to portions of Pacific Highway.

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

<u>CIP General Fund</u>	<u>2007</u>	<u>2006</u>	<u>Variance</u>	<u>% Change</u>
Total revenues	\$ 326,971	\$ 573,339	\$ (246,368)	-43.0%
Total expenditures	(906,039)	(595,160)	310,879	52.2%
Total other financing sources and uses	(1,517,298)	6,567,726	(8,085,024)	-123.1%
Net Change in fund balances	<u>(2,096,366)</u>	<u>6,545,905</u>	<u>(8,642,271)</u>	
Fund balances, beginning of year	<u>9,008,716</u>	<u>2,462,811</u>	<u>6,545,905</u>	
Fund balances, end of year	<u>\$ 6,912,350</u>	<u>\$ 9,008,716</u>	<u>\$ (2,096,366)</u>	-23.3%

In 2006 this fund included a sanitary sewer project that was moved to its own capital project fund in 2007. As a result all of the figures changed dramatically. The revenues for 2006 also had a major, one-time revenue from the sale of a building, and this type of activity was not repeated in 2007. Expenditures increased due to the construction of a parks project and developing the design of the new police building.

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

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

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

Surface Water Management Fund	<u>2007</u>	<u>2006</u>	<u>Variance</u>	<u>% Change</u>
Total revenues	\$ 2,624,286	\$ 3,188,276	\$ (563,990)	-17.7%
Total expenditures	(2,842,643)	(2,175,559)	667,084	30.7%
Total nonoperating revenues (expenses)	815,675	741,787	73,888	10.0%
Contributions and transfers	<u>(528,255)</u>	<u>(570,848)</u>	<u>42,593</u>	-7.5%
Net Change in fund balances	<u>69,063</u>	<u>1,183,656</u>	<u>(1,114,593)</u>	-94.2%
Net asset, beginning of year	40,658,208	39,707,640	950,568	
Prior period adjustment	-	(233,088)	233,088	
Net assets, end of year	<u>\$ 40,727,271</u>	<u>\$ 40,658,208</u>	<u>\$ 69,063</u>	0.2%

The revenues decreased from 2006 to 2007 by 17.7% due to the inclusion in 2006 of a one-time revenue source. The 2006 revenue was received from Pierce County and was in connection with a settled lawsuit.

Expenses increased over 2006 amounts by 30.7% due to a change in the street sweeping and storm drainage infrastructure cleaning. These services had previously been partially undertaken by a contract with Pierce County. In mid-2006 the City began contracting out this maintenance work to private contractors to enhance the level of service received. Additionally, more was spent on design as the utility began additional capital projects.

The combination of lesser revenues (-\$563,990) and increased expenses (\$667,084) impacted the net change in fund balance significantly, decreasing it by 94%.

General Fund Budgetary Highlights

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

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

General Fund	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Total revenues	28,883,960	31,202,751	\$ 2,318,791
Total expenditures	(28,823,750)	(29,291,317)	(467,567)
Other financing sources & uses	(707,440)	(609,320)	98,120
Variance with final budget - positive			<u>\$ 1,949,344</u>

Overall, 2007 operating revenues collected in the General Fund were above the revised budget estimate by \$2.3 million or 8.0%. Overall operating expenditures during 2007 were above the revised budget estimate by \$467,567 or 1.6%. This combination results in an overall positive variance of \$1.9 million.

Capital Assets

The City's investment in capital assets for its governmental activities as of December 31, 2007, amounts to \$77.5 million (net of accumulated depreciation). This investment in capital assets includes land, buildings, machinery and equipment, infrastructure and construction in progress.

The following table summarizes capital assets, net of accumulated depreciation as of December 31, 2007 and 2006.

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Land	\$ 18,917,797	\$ 10,169,575	\$ 811,078	\$ 792,077	\$ 19,728,875	\$ 10,961,652
Construction in progress	9,270,162	426,325	-	-	9,270,162	426,325
Buildings	11,606,582	11,120,792	-	-	11,606,582	11,120,792
Improvements other than buildings	2,366,934	2,321,978	-	-	2,366,934	2,321,978
Machinery and equipment	2,092,059	2,279,198	37,709	47,185	2,129,768	2,326,383
Infrastructure	33,259,214	13,742,286	23,375,277	23,908,879	56,634,491	37,651,165
Total	<u>\$ 77,512,748</u>	<u>\$ 40,060,154</u>	<u>\$ 24,224,064</u>	<u>\$ 24,748,141</u>	<u>\$ 101,736,812</u>	<u>\$ 64,808,295</u>

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

- The City recorded infrastructure assets retrospectively to December 1981, as required by GASB 34 in the amount of \$21.5 million.
- The City recorded land assets retrospectively in the amount of \$8.4 million.
- The City evaluated and corrected amounts in construction in progress in the amount of \$3.9 million.

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

Debt

At the end of the fiscal year, the City had total debt outstanding of \$6.2 million. The City currently has four types of debt outstanding: public works trust fund loans, a privately held promissory note, special assessment debt, and compensated absences.

The following table summarizes outstanding debt as of December 31, 2007 and 2006.

	<u>Governmental Activities</u>		<u>Business Activities</u>		<u>Total</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Public Works Trust Fund	\$ 1,671,052	\$ 1,710,526	\$ -	\$ -	\$ 1,671,052	\$ 1,710,526
Promissory Note (59th Street)	955,958	995,722	-	-	955,958	995,722
Special assessment with governmental commitments	2,605,000	2,824,704	-	-	2,605,000	2,824,704
Compensated absences	947,634	773,404	38,255	6,494	985,889	779,898
Total	<u>\$ 6,179,644</u>	<u>\$ 6,304,356</u>	<u>\$ 38,255</u>	<u>\$ 6,494</u>	<u>\$ 6,217,899</u>	<u>\$ 6,310,850</u>

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

Economic Factors and the Next Year's Budgets and Rates

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

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

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

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

The Economic Development Department is tracking several large scale commercial projects that are projected for 2009. The timing of these projects' completion is difficult to pinpoint, however, due to the volatility in the credit markets.

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, 2007

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 21,321,309	11,987,993	\$ 33,309,302
Investments	6,096,561	3,954,281	10,050,842
Receivables (net)	8,294,536	57,154	8,351,690
Due from other governments	2,465,023	26,751	2,491,774
Internal balances	(769,046)	769,046	-
Capital Assets:			
Land	18,917,797	811,078	19,728,875
Construction in progress	9,270,162	-	9,270,162
Buildings	12,754,486	-	12,754,486
Improvements other than buildings	3,072,242	-	3,072,242
Machinery and equipment	5,029,572	103,769	5,133,341
Infrastructure	55,489,626	30,426,918	85,916,544
Accumulated depreciation	(27,021,137)	(7,117,701)	(34,138,838)
Total assets	114,921,131	41,019,289	155,940,420
LIABILITIES			
Accounts payable and accrued expenses	2,201,487	234,714	2,436,201
Deposits	1,384,699	-	1,384,699
Deferred revenue	3,518,112	-	3,518,112
Noncurrent liabilities:			
Due in one year	502,556	11,476	514,032
Due in more than one year	3,157,088	26,779	3,183,867
Special assessment debt with government commitment, due in more than one year	2,520,000	-	2,520,000
Total liabilities	13,283,942	272,969	13,556,911
NET ASSETS			
Invested in capital assets, net of related debt	73,933,380	24,224,064	98,157,444
Restricted for:			
Debt service	1,652,642	-	1,652,642
Unrestricted	26,051,167	16,522,256	42,573,423
Total net assets	\$ 101,637,189	40,746,320	\$ 142,383,509

The notes are an integral part of the financial statements.

City of Lakewood
Statement of Activities
For the Year Ended December 31, 2007

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	\$ 7,123,042	\$ 3,278,246	\$ 46,061	\$ 1,086,291	\$ (2,712,444)	\$ -	\$ (2,712,444)
Public safety	17,904,169	248,643	1,497,498	2,113,043	(14,044,985)	-	(14,044,985)
Physical environment	354,952	422,318	-	-	67,366	-	67,366
Transportation	7,902,151	3,080	4,630,094	-	(3,268,977)	-	(3,268,977)
Health and human services	467,956	124,450	1,154,469	-	810,963	-	810,963
Economic environment	3,246,822	1,299,212	-	-	(1,947,610)	-	(1,947,610)
Culture and recreation	1,763,147	107,881	75,787	219,966	(1,359,513)	-	(1,359,513)
Interest on long term debt	159,810	-	-	-	(159,810)	-	(159,810)
Total governmental activities	38,922,049	5,483,830	7,403,909	3,419,300	(22,615,010)	-	(22,615,010)
Business-type Activities:							
Surface water management	2,824,387	2,624,286	64,990	-	-	(135,111)	(135,111)
Total business-type activities	2,824,387	2,624,286	64,990	-	-	(135,111)	(135,111)
Total government	\$ 41,746,436	\$ 8,108,116	\$ 7,468,899	\$ 3,419,300	(22,615,010)	(135,111)	(22,750,121)
General Revenues:							
Taxes:							
Property taxes					5,626,367	-	5,626,367
Sales taxes					9,649,028	-	9,649,028
B&O taxes					6,277,475	-	6,277,475
Excise taxes					4,910,938	-	4,910,938
Other taxes					39,530	-	39,530
Investment earnings					1,520,426	806,928	2,327,354
Gain on sale of capital assets					112,401	-	112,401
Judgements and settlements					32,230	-	32,230
Miscellaneous revenues					11,536	-	11,536
Transfers					593,245	(593,245)	-
Total general revenues and transfers					28,773,176	213,683	28,986,859
Change in net assets					6,158,166	78,572	6,236,738
Net assets, beginning of year					60,879,715	40,667,748	101,547,463
Prior period adjustments					34,599,308	-	34,599,308
Net assets, end of year					\$ 101,637,189	\$ 40,746,320	\$ 142,383,509

The notes are an integral part of the financial statements.

City of Lakewood
Balance Sheet
Governmental Funds
December 31, 2007

	GENERAL FUND	ARTERIAL STREET FUND	LID DEBT SERVICE FUND	CIP GENERAL FUND	LID CIP FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
ASSETS							
Cash and cash equivalents	\$ 3,820,003	\$ 2,892,851	\$ -	\$ 5,143,563	\$ 1,362	\$ 6,682,586	\$ 18,540,365
Investments	1,500,751	997,432	-	1,759,966	-	1,113,132	5,371,281
Receivables (net)	3,461,853	259,105	2,655,206	40,037	881,235	1,015,602	8,313,038
Due from other funds	-	-	-	-	-	16,272	16,272
Due from other governmental units	-	2,436,360	-	-	-	-	2,436,360
Total assets	8,782,607	6,585,748	2,655,206	6,943,566	882,597	8,827,592	34,677,316
LIABILITIES AND FUND BALANCES							
Liabilities:							
Accounts payable	734,484	950,699	-	31,217	-	439,011	2,155,411
Due to other funds	-	-	16,272	-	-	-	16,272
Deposits payable	73,801	1,227,664	-	-	-	97,034	1,398,499
Interfund loan payable	-	-	-	-	750,000	-	750,000
Deferred revenues	232,746	-	2,638,106	-	880,000	201,787	3,952,639
Total liabilities	1,041,031	2,178,363	2,654,378	31,217	1,630,000	737,832	8,272,821
Unreserved, undesignated reported in:							
General fund	7,741,576	-	-	-	-	-	7,741,576
Special Revenue funds	-	4,407,385	-	-	-	5,478,738	9,886,123
Debt Service funds	-	-	828	-	-	596,782	597,610
Capital Projects funds	-	-	-	6,912,349	(747,403)	2,014,240	8,179,186
Total fund balances	7,741,576	4,407,385	828	6,912,349	(747,403)	8,089,760	26,404,495
Total liabilities and fund balances	\$ 8,782,607	\$ 6,585,748	\$ 2,655,206	\$ 6,943,566	\$ 882,597	\$ 8,827,592	\$ 34,677,316

The notes are an integral part of the financial statements.

City of Lakewood
 Reconciliation of Governmental Fund Balances
 To Net Assets of Governmental Activities
 December 31, 2007

Total Governmental Fund Balances	\$	26,404,495
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		77,512,748
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Long-term liabilities applicable to the City's activities are not due and payable in the current period and are not reported as fund liabilities:		
Debt and notes payable		(5,232,250)
Compensated Absences		(947,334)

Deferred revenue reported in the funds are not reported in the government-wide financial statements.		434,533
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Internal service funds are used by management to charge the costs of insurance and information services to individual funds.		
Total assets and liabilities of the internal service funds that are reported with governmental activities, net of amounts reported above.		3,464,997

Net assets of governmental activities	\$	101,637,189
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The notes to the financial statements are an integral part of this statement.

City of Lakewood
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended December 31, 2007

	GENERAL FUND	ARTERIAL STREET FUND	LID DEBT SERVICE FUND	CIP GENERAL FUND	LID CIP FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
REVENUES							
Taxes							
Property	\$ 5,559,593	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,559,593
Sales	9,190,041	-	-	-	-	458,988	9,649,029
B&O	5,457,326	64,561	-	-	-	756,189	6,278,076
Excise	3,094,117	1,816,821	-	-	-	-	4,910,938
Special assessments	-	-	186,597	-	-	-	186,597
Licenses and permits	2,637,564	186,700	-	-	-	381,219	3,205,483
Intergovernmental	1,774,627	3,412,517	-	21,645	-	3,734,738	8,943,527
Charges for goods and services	1,168,469	-	-	-	-	390,339	1,558,808
Fines and forfeitures	1,773,420	-	-	-	-	(6,811)	1,766,609
Miscellaneous:							
Interest	418,322	184,739	145,473	305,326	2	323,531	1,377,393
Other	129,272	189,329	-	-	-	348,095	666,696
Total revenues	31,202,751	5,854,667	332,070	326,971	2	6,386,288	44,102,749
EXPENDITURES							
Current:							
General government	7,452,985	-	-	22,467	50,012	581,143	8,106,607
Public safety	16,229,421	962	-	-	-	580,017	16,810,400
Utilities and environment	347,137	-	-	-	-	-	347,137
Transportation	704,220	1,837,481	-	-	-	3,225,312	5,767,013
Health and human services	497,971	-	-	-	-	3,582	501,553
Economic environment	2,496,308	-	-	-	-	647,436	3,143,744
Culture and recreation	1,501,226	-	-	-	-	-	1,501,226
Debt service:							
Principal retirement	-	-	219,704	-	-	79,238	298,942
Interest	-	-	111,538	-	8,750	48,272	168,560
Capital outlay	62,049	3,683,955	-	883,573	660,622	232,457	5,522,656
Total expenditures	29,291,317	5,522,398	331,242	906,040	719,384	5,397,457	42,167,838
Excess (deficiency) of revenues over expenditures	1,911,434	332,269	828	(579,069)	(719,382)	988,831	1,934,911
OTHER FINANCING SOURCES (USES)							
Contributions to other funds	(56,880)	-	-	(17,408)	-	(92,653)	(166,941)
Transfers in	416,350	348,632	-	550,000	108,102	2,455,944	3,879,028
Transfers out	(968,790)	(265,103)	-	(2,049,890)	-	(27,000)	(3,310,783)
Proceeds from sale of assets	-	101,501	-	-	-	-	101,501
Total other financing sources and uses	(609,320)	185,030	-	(1,517,298)	108,102	2,336,291	502,805
Net Change in fund balances	1,302,114	517,299	828	(2,096,367)	(611,280)	3,325,122	2,437,716
Fund balances, beginning of year	6,439,462	3,890,086	-	9,008,716	(136,123)	4,764,638	23,966,779
Fund balances, end of year	\$ 7,741,576	\$ 4,407,385	\$ 828	\$ 6,912,349	\$ (747,403)	\$ 8,089,760	\$ 26,404,495

The notes are an integral part of the financial statements.

City of Lakewood
 Reconciliation of The Statement of Revenue, Expenditures,
 And Changes In Fund Balances of Governmental Funds
 To the Statement of Activities
 For The Year Ended December 31, 2007

Net changes in fund balances - total governmental funds \$ 2,437,716

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

Certain revenues in the statement of activities do not provide current financial resources and are not reported as revenues in the funds. 107,046

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

Capital asset purchases capitalized	5,522,657	
Depreciation expense	(2,656,035)	2,866,622

Expenses for compensated absences reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. (173,930)

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

Bond principal retired		298,942
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Internal service funds are used by management to charge the costs of insurance and information services to individual funds. The net revenue of the internal service funds is reported with the governmental activities.

Change in net assets		631,275
Elimination of internal service fund's interfund transactions		(9,505)

Change in net assets of governmental activities		\$ 6,158,166

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

City of Lakewood
Statement of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual
General Fund

	Original	Final	Actual	Variance with Final Budget
REVENUES				
Taxes				
Property	\$ 5,555,100	\$ 5,555,100	\$ 5,559,593	\$ 4,493
Sales	8,815,000	8,815,000	9,190,041	375,041
B&O	5,088,950	5,088,950	5,457,326	368,376
Excise	2,120,900	2,275,900	3,094,117	818,217
Licenses and permits	2,457,100	2,457,100	2,637,564	180,464
Intergovernmental	1,134,760	1,369,760	1,774,627	404,867
Charges for goods and services	1,006,800	1,006,800	1,168,469	161,669
Fines and forfeitures	1,925,350	1,925,350	1,773,420	(151,930)
Miscellaneous:				
Interest	208,000	208,000	418,322	210,322
Other	182,000	182,000	129,272	(52,728)
Total revenues	<u>28,493,960</u>	<u>28,883,960</u>	<u>31,202,751</u>	<u>2,318,791</u>
EXPENDITURES				
Current:				
General government	7,523,160	7,523,160	7,452,985	70,175
Public safety	15,157,060	15,392,060	16,229,421	(837,361)
Utilities and environment	361,590	361,590	347,137	14,453
Transportation	785,650	785,650	704,220	81,430
Health and human services	12,600	12,600	497,971	(485,371)
Economic environment	2,965,210	2,965,210	2,496,308	468,902
Culture and recreation	1,529,260	1,529,260	1,501,226	28,034
Capital outlay	254,220	254,220	62,049	192,171
Total expenditures	<u>28,588,750</u>	<u>28,823,750</u>	<u>29,291,317</u>	<u>(467,567)</u>
Excess (deficiency) of revenues over expenditures	<u>(94,790)</u>	<u>60,210</u>	<u>1,911,434</u>	<u>1,851,224</u>
OTHER FINANCING SOURCES (USES)				
Contributions from other funds	-	-	(56,880)	(56,880)
Transfers in	416,350	416,350	416,350	-
Transfers out	(968,790)	(1,123,790)	(968,790)	155,000
Total other financing sources and uses	<u>(552,440)</u>	<u>(707,440)</u>	<u>(609,320)</u>	<u>98,120</u>
Net Change in fund balances	(647,230)	(647,230)	1,302,114	1,949,344
Fund balances, beginning of year	6,439,462	6,439,462	6,439,462	-
Fund balances, end of year	<u>\$ 5,792,232</u>	<u>\$ 5,792,232</u>	<u>\$ 7,741,576</u>	<u>\$ 1,949,344</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

	Original	Final	Actual	Variance with Final Budget
REVENUES				
Taxes				
B&O	\$ 50,000	\$ 50,000	\$ 64,561	\$ 14,561
Excise	1,300,000	1,300,000	1,816,821	516,821
Licenses and permits	140,000	140,000	186,700	46,700
Intergovernmental	3,909,000	3,909,000	3,412,517	(496,483)
Miscellaneous:				
Interest	-	-	184,739	184,739
Other	50,000	50,000	189,329	139,329
Total revenues	<u>5,449,000</u>	<u>5,449,000</u>	<u>5,854,667</u>	<u>405,667</u>
EXPENDITURES				
Current:				
Public safety	5,000	5,000	962	4,038
Utilities and environment	5,000	5,000	-	5,000
Transportation	357,140	357,140	1,837,481	(1,480,341)
Capital outlay	6,655,170	6,655,170	3,683,955	2,971,215
Total expenditures	<u>7,022,310</u>	<u>7,022,310</u>	<u>5,522,398</u>	<u>1,499,912</u>
Excess (deficiency) of revenues over expenditures	<u>(1,573,310)</u>	<u>(1,573,310)</u>	<u>332,269</u>	<u>1,905,579</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	805,000	805,000	348,632	(456,368)
Transfers out	(157,000)	(157,000)	(265,103)	(108,103)
Proceeds from sale of assets	-	-	101,501	101,501
Total other financing sources and uses	<u>648,000</u>	<u>648,000</u>	<u>185,030</u>	<u>(462,970)</u>
Net Change in fund balances	(925,310)	(925,310)	517,299	1,442,609
Fund balances, beginning of year	3,890,086	3,890,086	3,890,086	-
Fund balances, end of year	<u>\$ 2,964,776</u>	<u>\$ 2,964,776</u>	<u>\$ 4,407,385</u>	<u>\$ 1,442,609</u>

The notes are an integral part of the financial statements.

**City of Lakewood
Statement of Net Assets
Proprietary Funds
December 31, 2007**

	Business-type Activities - Enterprise Funds		
	Surface Water Management	Total Proprietary Funds	Gov. Activities Internal Service Funds
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 11,987,993	\$ 11,987,993	\$ 2,780,945
Investments	3,954,281	3,954,281	725,280
Receivables (net of allowance for uncollectible accounts)	57,154	57,154	10,161
Due from other governmental units	26,749	26,749	-
Interfund loan receivable - current	750,000	750,000	-
Total current assets:	16,776,177	16,776,177	3,516,386
Noncurrent assets:			
Capital assets:			
Land	811,078	811,078	-
Infrastructure	30,426,918	30,426,918	-
Improvements other than buildings	-	-	114,169
Machinery and equipment	103,769	103,769	3,507,781
Accumulated depreciation	(7,117,701)	(7,117,701)	(1,781,603)
Total noncurrent assets:	24,224,064	24,224,064	1,840,347
Total assets	41,000,241	41,000,241	5,356,733
LIABILITIES AND FUND BALANCES			
Current liabilities:			
Accounts payable and accrued expenses	234,715	234,715	32,281
Current portion of compensated absences	11,476	11,476	-
Total current liabilities:	246,191	246,191	32,281
Non current liabilities:			
Compensated absences	26,779	26,779	-
Total Non current liabilities:	26,779	26,779	-
Total liabilities	272,970	272,970	32,281
NET ASSETS			
Invested in capital assets, net of related debt	24,224,064	24,224,064	1,840,347
Unrestricted	16,503,207	16,503,207	3,484,105
Total net assets	\$ 40,727,271	40,727,271	\$ 5,324,452
Reconciliation to government-wide statement of net assets:			
Adjustment to reflect the consolidation of internal service funds' activities related to enterprise funds		27,799	
Adjustment to eliminate interest on interfund debt		(8,750)	
Net assets of business-type activities		\$ 40,746,320	

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, 2007

	Business-type Activities - Enterprise Funds		
	Surface Water Management	Total Proprietary Funds	Gov. Activities Internal Service Funds
Operating revenues:			
Charges for goods and services	\$ 2,624,286	\$ 2,624,286	\$ 868,108
Total operating revenues	2,624,286	2,624,286	868,108
Operating expenses:			
Cost of sales and services	-	-	124
Maintenance and administration	2,029,931	2,029,931	-
Depreciation	812,712	812,712	591,858
Total operating expenses	2,842,643	2,842,643	591,982
Operating income (loss)	(218,357)	(218,357)	276,126
Nonoperating revenues (expenses):			
Grants	64,990	64,990	-
Gain on sale of assets	-	-	10,900
Investment earnings	815,675	815,675	143,535
Total non operating revenue	880,665	880,665	154,435
Income (loss) before contributions and transfers	662,308	662,308	430,561
Capital contributions	-	-	175,714
Transfers in	-	-	25,000
Transfers out	(593,245)	(593,245)	-
Change in net assets	69,063	69,063	631,275
Net assets at beginning of year	40,658,208	40,658,208	4,693,177
Net assets at end of year	\$ 40,727,271		\$ 5,324,452
Reconciliation to government-wide statement of net assets:			
Adjustment to reflect the consolidation of internal service funds' activities related to enterprise funds		27,799	
Adjustment to eliminate interest on interfund debt		(8,750)	
Net assets of business-type activities		\$ 40,746,320	

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, 2007

	Business-type Activities - Enterprise Funds		Gov. Activities Internal Service Funds
	SURFACE WATER MANAGEMENT	TOTAL	
Cash flows from operating activities:			
Receipts from customers and users	\$ 2,592,524	\$ 2,592,524	\$ 860,532
Payments to employees	(443,302)	(443,302)	-
Payments for goods and services	(1,481,125)	(1,481,125)	(295)
Net cash provided by operating activities	668,097	668,097	860,237
Cash flows from noncapital financing activities:			
Grants	33,119	33,119	-
Interfund loans	(750,000)	(750,000)	-
Transfers from other funds	-	-	25,000
Transfers to other funds	(593,245)	(593,245)	-
Net cash (used) by Noncapital financing	(1,310,126)	(1,310,126)	25,000
Cash flows from capital and related financing activities:			
Proceeds from sales of equipment or vehicles	-	-	10,900
Payment for capital acquisitions	(283,484)	(283,484)	(333,702)
Net cash (used) by capital and related financing activities	(283,484)	(283,484)	(322,802)
Cash flows from investing activities:			
Purchase of investments	(3,922,532)	(3,922,532)	(719,456)
Interest income	783,926	783,926	137,710
Other	-	-	19,511
Net cash provided by investing activities	(3,138,606)	(3,138,606)	(562,235)
Net Increase (decrease) in cash and cash equivalents	(4,064,119)	(4,064,119)	200
Cash and cash equivalents, beginning of year	16,052,112	16,052,112	2,780,745
Cash and cash equivalents, end of the year	\$ 11,987,993	\$ 11,987,993	\$ 2,780,945
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:			
Operating income (loss)	\$ (218,357)	\$ (218,357)	276,126
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation	812,712	812,712	591,858
Changes in assets and liabilities:			
(Increase) decrease in accounts receivable	(31,762)	(31,762)	(7,576)
Increase (decrease) in accounts payable	73,774	73,774	(171)
Increase (decrease) in compensated absences	31,730	31,730	-
Net cash provided by operating activities	\$ 668,097	\$ 668,097	\$ 860,237
Non-cash capital asset additions were:			
Unrealized gain (loss) on investments	\$ 31,749	\$ 31,749	\$ 5,824

The notes are an integral part of the financial statements.

**City of Lakewood
Statement of Net Assets
Fiduciary Funds
December 31, 2007**

	<u>Agency Fund</u>
ASSETS	
Cash and cash equivalents	<u>\$ 66,449</u>
Total assets	<u><u> 66,449</u></u>
LIABILITIES	
Custodial accounts payable	<u> 66,449</u>
Total Liabilities	<u><u>\$ 66,449</u></u>

The notes are an integral part of the financial statements.

City of Lakewood, Washington
2007 Annual Financial Report
For the Fiscal Year Ended December 31, 2007

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, 2007, is the fifth 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 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)* and the *LID CIP Fund (General Government Capital Projects # 351)* account 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)
Hotel/Motel Fund (Special Revenue Fund #104)
Property Abatement Fund (Special Revenue Fund #105)
Police Investigations Fund (Special Revenue Fund #180)
Grant Fund (Special Revenue Fund #190)
Debt Service Fund (General Government #201)
Sewer Project Debt Fund (Debt Service Fund #204)
LID Guaranty Fund (#251)
Sewer Project Debt CIP (Capital Projects #311)

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 (#634)* 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 and evidence property room escrow. As of December 31, 2007, the trust fund accounted for \$66,449.

1-D. Budgetary Information

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

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

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

Amending the Original Budget

Budget adjustments are made periodically throughout the year when changes in a fund's appropriation are necessary. The 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 2007. 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, 2007, the treasurer was holding \$33,309,302 in cash and cash equivalents. Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

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

(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, 2007, 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-E.)

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, including infrastructure assets, are defined by the City as assets with an initial, individual cost of equal to or greater than \$5,000 and an estimated useful life in excess of one year.

The amounts spent for the construction or acquisition of infrastructure assets are capitalized and reported in the government-wide financial statements. 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.

This financial statement includes adjustments to record infrastructure assets retroactively to December 31, 1980, as required by GASB 34.

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

City employees may accumulate a certain amount of earned but unused combination leave and major medical leave that have satisfied certain tests that determine the amount to be paid out. Those individuals who are of retirement age upon separation from the City receive 25% of their major medical leave at their current rate of pay, with a maximum of 80 hours to be paid out. Upon termination or retirement employees with less than three years of service with the City receive 75% of his/her combination leave at their current rate of pay. Employees with three or more years of service receive 100% of their combination leave at their current rate of pay.

See additional information at Note 4-D.

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-F.)

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.

(See additional information at Note 4-D.)

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, 2007 in the amount of \$747,403. The fund is used to account for Local Improvement District construction costs. Construction costs began in 2006 and are expected to continue to 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. Deposits and Investments

At year end, the City's cash and cash equivalents (short-term investments) amounted to \$33,309,302. The book values of deposits do not differ materially from the bank balances of deposits.

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

Deposit custodial credit risk is the risk that in the event of a bank failure, the city's deposits may not be recovered. The Federal Deposit Insurance Commission (FDIC) insures the City's deposits up to \$250,000. The Washington Public Deposit Protection Commission (WPDPC) insures deposits that exceed the FDIC insured amount of \$250,000. Because deposits are insured through these two entities, the City has no custodial credit risk for deposits for the year ended 2007.

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

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Using the specific identification method, the City had the following investments as of December 31, 2007:

<u>Description</u>	<u>Maturity (Days)</u>	<u>Fair Value</u>
Federal Home Loan Bank	808	\$ 1,049,349
Federal Home Loan Mtg. Corp.	998	2,013,940
Federal Home Loan Bank	226	2,008,120
Federal Home Loan Bank	417	1,499,070
Federal Home Loan Mtg. Corp.	351	1,980,114
Federal National Mtg. Assn.	639	1,500,249
		<u>\$ 10,050,842</u>

As of December 31, 2007, the City's investments were rated as follows: Federal Home Loan Bank -- Aaa by Moody's and AAA by Standard and Poor's; Federal Home Loan Mortgage -- Aaa by Moody's and AAA by Standard and Poor's; and, Federal National Mortgage Association – Aaa by Moody's and AAA by Standard and Poor's.

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.

<u>Governmental Activities</u>	
Taxes, current	\$ 3,460,948
Taxes, delinquent	232,746
Special assessments	3,518,106
Special assessments, delinquent	8,874
Accounts	707,667
Grant	92,473
Interest	71,936
Long-term	201,786
Subtotal Governmental Activities	<u>8,294,536</u>
<u>Business-type Activities</u>	
Accounts	<u>57,154</u>
Total Receivables	<u>\$ 8,351,690</u>

The Surface Water Management fees are part of the property tax bill and as such are due and payable the same cycle and process as the property tax. 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. This financial statement includes adjustments to record infrastructure assets retroactively to December 31, 1980, as required by GASB 34.

Capital asset activity for Governmental-type activities for the year ended December 31, 2007 is as follows:

	Beginning Balance	Prior Period Adjustment	Increases	Decreases	Ending Balance
Governmental Activities					
Capital assets, not being depreciated:					
Land and land rights	\$ 10,169,576	\$ 8,404,934	\$ 343,287	\$ -	\$ 18,917,797
Construction in progress	426,325	3,886,434	4,957,403	-	9,270,162
Total capital assets, not being depreciated	10,595,901	12,291,368	5,300,690	-	28,187,959
Capital assets being depreciated:					
Buildings	12,754,486	-	-	-	12,754,486
Improvements other than buildings	2,883,130	-	74,943	-	2,958,073
Machinery and equipment	1,373,666	100,947	47,178	-	1,521,791
Infrastructure	14,573,296	40,816,484	99,846	-	55,489,626
Total capital assets, being depreciated	31,584,578	40,917,431	221,967	-	72,723,976
Less accumulated depreciation for:					
Buildings	(1,633,694)	740,879	(255,089)	-	(1,147,904)
Improvements other than buildings	(561,152)	-	(144,156)	-	(705,308)
Machinery and equipment	(1,004,872)	(16,224)	(134,814)	-	(1,155,910)
Infrastructure	(831,010)	(19,277,427)	(2,121,975)	-	(22,230,412)
Total accumulated depreciation being depreciated	(4,030,728)	(18,552,772)	(2,656,034)	-	(25,239,534)
Total capital assets, being depreciated, net	27,553,850	22,364,659	(2,434,067)	-	47,484,442
Subtotal, net capital assets	\$ 38,149,751	\$ 34,656,027	\$ 2,866,623	\$ -	\$ 75,672,401
Internal Service Funds					
Capital assets being depreciated:					
Improvements other than buildings	\$ -	\$ -	\$ 114,169	\$ -	\$ 114,169
Machinery and equipment	3,200,516	-	418,472	(111,207)	3,507,781
Total capital assets, being depreciated	3,200,516	-	532,641	(111,207)	3,621,950
Less accumulated depreciation for:					
Machinery and equipment	(1,256,360)	-	(591,856)	66,613	(1,781,603)
Total accumulated depreciation being depreciated	(1,256,360)	-	(591,856)	66,613	(1,781,603)
Total capital assets, Internal Service Fund	1,944,156	-	(59,215)	(44,594)	1,840,347
Net capital assets, Governmental Activities	\$ 40,093,907	\$ 34,656,027	\$ 2,807,408	\$ (44,594)	\$ 77,512,748

Capital asset activity for Business-type activities for the year ended December 31, 2007 was as follows:

Business-Type Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 792,077	\$ 19,001	\$ -	\$ 811,078
Construction in progress	-	-	-	-
Total capital assets, not being depreciated	792,077	19,001	-	811,078
Capital assets being depreciated:				
Infrastructure	30,159,740	267,178	-	30,426,918
Machinery and equipment	101,313	2,456	-	103,769
Total capital assets, being depreciated	30,261,053	269,634	-	30,530,687
Less accumulated depreciation for:				
Infrastructure	(6,250,861)	(800,778)	-	(7,051,639)
Machinery and equipment	(54,128)	(11,932)	-	(66,060)
Total accumulated depreciation being depreciated	(6,304,989)	(812,710)	-	(7,117,699)
Total capital assets, being depreciated, net	23,956,064	(543,076)	-	23,412,988
Net capital assets	\$ 24,748,141	\$ (524,075)	\$ -	\$ 24,224,066

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	\$ 364,835
Public safety (police)	513,227
Transportation (highways and streets)	2,123,907
Economic environment	13,873
Physical environment	7,007
Culture and recreation	225,041
Total depreciation expense - governmental activities	<u>3,247,890</u>
Total depreciation expense - business-type activities:	<u>812,712</u>
Total depreciation expense	<u><u>\$ 4,060,602</u></u>

Construction Commitments

The City has active, on-going, construction projects as of December 31, 2007. At year end the City's construction commitments are as follows:

Projects	Remaining Commitment
Pacific Highway Intermodal	\$ 28,889
86th St SW Improvements (KBH)	6,542
Traffic Signal Induction Loops (Totem)	22,975
Bridgeport at Flanagan Retaining Wall	478,512
Pacific Hwy – Phase II (Tucci)	705,152
Vehicle Detection (Amaya)	55,153
S Tacoma/Steilacoom Drainage (S&W)	288,742
Seattle Ave Flood Control (KBH)	66,835
Police Precinct (Woodworth & Co.)	166,999
	<u>\$ 1,819,799</u>

4-D. Debt

Debt activity for the year ended December 31, 2007, is 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	Due in One Year	LT Portion
<u>Special Assessment Bonds (with governmental commitments)</u>										
			3.75% -							
LID debt	12/01/2006	12/01/2026	4.65%	\$ 2,824,704	\$ 2,824,704	\$ -	\$ (219,704)	\$ 2,605,000	\$ 85,000	\$ 2,520,000
Subtotal Special Assessment Bonds				2,824,704	2,824,704	-	(219,704)	2,605,000	85,000	2,520,000
<u>Government Loans</u>										
* 59th Street										
Promissory Note	04/30/2005	04/30/2025	Varies	\$ 1,071,000	\$ 995,722	-	(39,764)	\$ 955,958	\$ 41,250	914,708
PWTF – 04-691- PRE-132	07/07/2005	07/07/2024	1.00%	750,000	710,526	-	(39,474)	671,052	39,474	631,578
PWTF – 06-962- 022	09/18/2006	09/18/2026	0.50%	1,000,000	1,000,000	-	-	1,000,000	52,632	947,368
Subtotal Government Loans				2,821,000	2,706,248	-	(79,238)	2,627,010	133,356	2,493,654
<u>Compensated absences</u>										
Governmental Activities					773,404	406,251	(232,021)	947,634	284,200	663,434
Subtotal Governmental Activities					6,304,356	406,251	(530,963)	6,179,644	502,556	5,677,088
<u>Compensated absences</u>										
Business-type Activities					6,494	38,255	(6,494)	38,255	11,476	26,779
Total					\$ 6,310,850	\$ 444,506	\$ (537,457)	\$ 6,217,899	\$ 514,032	\$ 5,703,867

* Beginning of year balance includes prior period adjustment of \$56,719

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, 2007 the City had \$8,874 of delinquent special assessment receivables.

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

Future payment requirements on debt balances are as follows:

Year(s)	Principal	Interest
2008	\$ 218,356	\$ 162,254
2009	294,898	153,973
2010	296,499	145,475
2011	298,159	136,756
2012	299,881	127,897
2013 - 2017	1,522,580	501,442
2018 - 2022	1,556,391	260,495
2023 - 2027	745,246	33,627
	<u>\$ 5,232,010</u>	<u>\$ 1,521,919</u>

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

2008	\$ 651,922
2009	239,776
2010	88,502
2011	13,828
	<u>\$ 994,028</u>

4-E. Interfund Balances and Transfers

Interfund receivables and payables within the City consist of interfund loans and other monies due to/from other funds. Interfund loans occur when the City Council adopts a resolution allowing one fund to borrow from another. Due to/from other funds occur when goods are issued or services are rendered to or for the benefit of another fund of the same government. Interfund balances are expected to be repaid within one year.

The following table displays interfund balances at December 31, 2007.

Lending Fund	Borrowing Fund	Balance at 01/01/2007	New Loans	Repayments / Adjustments	Balance at 12/31/2007
General CIP	LID CIP Fund	\$ 107,883	\$ -	\$ (107,883)	\$ -
Surface Water Management	LID CIP Fund	-	750,000	-	750,000
		<u>\$ 107,883</u>	<u>\$ 750,000</u>	<u>\$ (107,883)</u>	<u>\$ 750,000</u>

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

The table below displays interfund transfer activity during 2007.

Transfer out	Transfer In				Total	
	General Fund	Arterial Streets Fund	CIP General Fund	Non-major Governmental Funds		
General Fund	\$ (968,790)	\$ -	\$ -	\$ 550,000	\$ 418,790	\$ 968,790
Arterial Streets Fund	(265,103)	157,000			108,103	\$ 265,103
CIP General Fund	(2,049,890)				2,049,890	\$ 2,049,890
Non-major Governmental Funds	(27,000)				27,000	\$ 27,000
Business-Type Activities	(593,245)	232,350	348,632		12,263	\$ 593,245
	<u>\$ (3,904,028)</u>	<u>\$ 389,350</u>	<u>\$ 348,632</u>	<u>\$ 550,000</u>	<u>\$ 2,616,046</u>	<u>\$ 3,904,028</u>

4-F. Deferred Revenue

Deferred revenue, reported on the Statement of Net Assets as \$3,518,112 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.

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.

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

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

The City's regular levy for 2007 was \$1.10182 per \$1,000 on an assessed valuation of \$5,147,340,781 for a total levy of \$5,671,426.

Washington State Constitution and Washington State law, RCW 84.55.010, limit the rate.

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

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

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, 2007 was approximately \$233,000.

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 three retirement plans. Two are administered by International City Manager’s Association (ICMA); one is administered by WA State Department of Retirement Systems (DRS). A description of the 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 12/31/2007 was \$6,981,214.

	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 section 401. The plan was established under the authority of the City Council, which is responsible for amending the provisions and contribution requirements. The benefit package includes the following: 1) Long term disability benefits, 2) Survivor benefits for spouse and children, 3) Lump sum death benefits and, 4) Life benefits. Contributions to the plan are not subject to federal income tax. All full time employees and the City Council members who are under the Omnibus Budget Reconciliation Act of 1990 are required to participate. The balance in the trust as of 12/31/2007 was \$10,019,424. 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

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

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

Temporary employees are not part of the 401(a) plan. Temporary employees contribute to social security insurance.

Plan 3 - Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF)

LEOFF is a cost-sharing multiple-employer retirement system comprised of two separate defined benefit plans. LEOFF participants who joined the system by September 30, 1977 are Plan 1 members. Those who joined on or after October 1, 1977 are Plan 2 members. The City of Lakewood has only Plan 2 members. Membership in the system includes all full-time, fully compensated, local law enforcement officers and firefighters. LEOFF membership is comprised primarily of non-state employees, with Department of Fish and Wildlife enforcement officers, who were first included prospectively effective July 27, 2003, being an exception. In addition, effective July 24, 2005, current members of PERS who are emergency medical technicians can elect to become members of LEOFF Plan 2.

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

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

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

The final average salary is the basic monthly salary received at the time of retirement, provided a member has held the same position or rank for 12 months preceding the date of retirement. Otherwise, it is the average of the highest consecutive 24 months' salary within the last ten years of service. If membership was established in LEOFF after February 18, 1974, the service retirement benefit is capped at 60 percent of final average salary. A cost-of-living allowance is granted (indexed to the Seattle Consumer Price Index).

Plan 2 members are vested after the completion of five years of eligible service. Plan 2 members may retire at the age of 50 with 20 years of service, or at the age of 53 with five years of service, with an allowance of two percent of the final average salary per year of service. The final average salary is based on the highest consecutive 60 months. Plan 2 retirements prior to the age of 53 are actuarially reduced for each year that the benefit commences prior to age 53 and to reflect the choice of a survivor option. If the member has at least 20 years of service and is age 50, the reduction is three percent for each year prior to age 53. There is no cap on years of service credit; and a cost-of-living allowance is granted (indexed to the Seattle Consumer Price Index), capped at three percent annually.

There are 383 participating employers in LEOFF. Membership in LEOFF consisted of the following as of the latest actuarial valuation date for the plans of September 30, 2006:

Retirees and Beneficiaries Receiving Benefits	8,951
Terminated Plan Members Entitled to but not yet Receiving Benefits	602
Active Plan Members Vested	12,711
Active Plan Members Non-vested	3,603
Total	<u>25,867</u>

Funding Policy

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

The required contribution rates expressed as a percentage of current year covered payroll, as of December 31, 2007, were as follows:

	LEOFF Plan 1	LEOFF Plan 2
Employer*	0.16%	5.35%**
Employee	0.00%	8.64%
State	N/A	3.45%

*The employer rates include the employer administrative expense fee currently set at 0.16%.

** The employer rate for ports and universities is 8.80%.

Both the City and the employees made the required contributions. The City's required LEOFF Plan 2 contributions for the years ended December 31 were as follows:

2007	\$422,549
2006	\$357,534
2005	\$258,419

NOTE 7. RISK MANAGEMENT

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 2007 under this arrangement were \$298,110.

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. 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 2007 in any of the major categories of risk. Also, the amount of settlements through December 31, 2007 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 record infrastructure assets retroactively to December 31, 1980, as required by GASB 34. The City retained the services of a professional appraiser to value infrastructure and other assets. Based on this valuation, prior period adjustments were made for land, accumulated depreciation for buildings and the value of vehicles seized by the police department. Adjustments were also made to correctly state construction in progress and correct a debt amortization schedule. The detail of the prior period adjustments are shown below:

	Governmental Activities
Capital asset related:	
Infrastructure assets added	\$ 21,539,057
Land values added	8,404,934
Corrections to construction in progress values	3,886,434
Restate accumulated depreciation balance for buildings	740,879
Record vehicles seized by police department	<u>84,723</u>
Subtotal, capital asset related	<u>34,656,027</u>
Correct amortization of 59th Street debt	(56,719)
Total prior period adjustments	<u><u>\$ 34,599,308</u></u>

NOTE 9. OTHER DISCLOSURES

9-A. Litigation

The City Attorney reports that, as of December 31, 2007, 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, 2007, is an amount which should be within the insurance protection the City holds.

9-B. Subsequent Events

In 2008, 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.

Also in 2008, the City changed insurance coverage from the Cities Insurance Association of WA to the Washington Cities Insurance Authority (WCIA).

CITY OF LAKEWOOD
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Year Ended December 31, 2007

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			-	5
Total Counter Drug Technology Assessment Center			-	-	-	
US Dept. of Housing & Urban Development:						
b5204 CDBG-Block Grant 2004-05	14.218	B-04-MC-53-0016	52,689		52,689	
b5205 CDBG-Block Grant 2005-06	14.218	B-05-MC-53-0016	3,135		3,135	
b5206 CDBG-Block Grant 2006-07	14.218	B-06-MC-53-0016	276,145		276,145	
b5207 CDBG-Block Grant 2007-08	14.218	B-07-MC-53-0016	122,535		122,535	
b5299 CDBG-DPA Program Income	14.218	B-07-MC-53-0016	19,338		19,338	4
Total US Dept. of Housing & Urban Development			473,842	-	473,842	2
US Dept. of Justice						
P1009 State Domestic Preparedness Equip. Pierce Co. Dept. of Emergency Mgmt.	16.007	Serial #F007A029623		6,527	6,527	3/5
L0806 STOP Violence Against Women	16.588	F05-31103-058		13,330	13,330	3
P1008 Bulletproof Vest Partnership	16.607	2005BUBX05027757	6,932		6,932	
P1300 G.R.E.A.T. Grant	16.737	2006-JV-FX-0158	174,334		174,334	
P1201 Justice Assistance Grant	16.738	2006-DJ-BX-0297	8,007		8,007	
Total US Dept. of Justice			189,273	19,857	209,130	2
US Dept. of Transportation Pass Through						
E1100 Commuter Rail Station Through WA DOT	20.205	AC-STPUL-2977(005)		1,813,206	1,813,206	2
E1119 Pacific Highway Overlay Through WA DOT	20.205	STPUL-2977(006)		113,977	113,977	2
E1111 Bridgeport Way-PE Through WA DOT	20.205	CM-2947(010)LA5538		155,293	155,293	2
E1121 Pacific Highway (GLD to Bridgeport) Through WA DOT	20.205	STPE-2977(007)		213,364	213,364	2
E1125 Lockburn MS - 86th St. Sidewalks Through WA Traffic Safety Comm.	20.205	SRTS-0665(001)		168,280	168,280	2
P1012 Drive Hammered/Get Nailed Through WA Traffic Safety Comm.	20.600			2,053	2,053	
P1016 Speed Emphasis Through WA Traffic Safety Comm.	20.600			69,615	69,615	
P1017 Click It or Ticket Through WA Traffic Safety Comm.	20.600			12,270	12,270	
Total US Dept. of Transportation			-	2,548,057	2,548,057	2
Department of Homeland Security						
001.11 Federal Disaster Assistance-001.11 Through State Military Department	97.036	1682-DR-WA		1,239	1,239	6
001.15 Federal Disaster Assistance-001.15 Through State Military Department	97.036	1682-DR-WA		34	34	6
M9906 Federal Disaster Assistance-101 Through State Military Department	97.036	1682-DR-WA		6,200	6,200	6
M9906 Federal Disaster Assistance-401 Through State Military Department	97.036	1682-DR-WA		48	48	6
Total Department of Homeland Security			-	7,520	7,520	2
TOTAL FEDERAL AWARDS EXPENDED			663,116	2,575,434	3,238,550	1

**CITY OF LAKEWOOD
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Year Ended December 31, 2007**

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 - Passed through Pierce County.

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 \$19,338 and is presented in this schedule. The amount of principal received in loan repayments for the year was \$26,979. 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.

NOTE 6 - FEMA ADMINISTRATIVE ALLOWANCE

FEMA distributed 3% allowance for eligible 2006-07 claims on 11/29/07.

Administrative allowance is included with 2007 fiscal period storm expenses.



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 State and Local Audits
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 Puggetti
Doug Cochran
Chuck Pfeil, CPA
Linda Long, CPA, CGFM
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