



**2011**

**Comprehensive Annual Financial Report  
For the Year Ended December 31, 2011  
City of Olympia | Capital of Washington State**

The cover photo is a view of downtown Olympia, taken from the westside, just north of the 4th Avenue Bridge.

**CITY OF OLYMPIA, WASHINGTON  
ANNUAL FINANCIAL REPORT  
FOR FISCAL YEAR ENDED DECEMBER 31, 2011**

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# Introduction



A Message from

*Jane Ragland Kirkemo*  
*Administrative Services Director*

June 28, 2012

The Honorable Mayor and City Council Members  
and to the Citizens of Olympia:

The Comprehensive Annual Financial Report (CAFR) of the City of Olympia, Washington for the fiscal year ended December 31, 2011, is hereby submitted. The responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the City of Olympia. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and fairly presents the financial position and results of the operations of the various funds and account groups of the City.

The Comprehensive Annual Financial Report (CAFR) is presented in three sections: Introductory, Financial and Statistical. The Introductory Section includes this transmittal letter, an organizational chart, and a list of principal officials. The Financial Section includes the independent auditor's report, management's discussion and analysis, the basic financial statements, the combining statements, required supplementary information, and other additional information. The Statistical Section includes selective financial and demographic information covering the last ten years.

This report includes all funds and account groups of the City of Olympia. Olympia provides a full range of municipal services including public safety, sanitation, streets, parks and recreation, public improvements, utilities, planning and zoning, and general administrative services. In the area of utilities, the City provides water, solid waste, sewage treatment, and stormwater drainage for its citizens.

## HISTORY

Olympia, Washington State's Capital City, is a diverse community located within Thurston County at the southern tip of Puget Sound and is located near I-5 between the two major metropolitan areas of Seattle, Washington and Portland, Oregon. While providing residents with ready access to the shores of the Pacific Ocean and the resorts of the Cascade Mountains, the City of Olympia also enjoys a growing economy, low crime rate, excellent schools and a nationally recognized reputation as one of the most livable cities in the United States. Incorporated in 1859, the City recently celebrated its sesquicentennial.

The Salish Indian groups originally settled the Olympia and Thurston County area. These included the Nisqually, Squaxin and Chehalis tribes. In 1792, Captain George Vancouver led a British expedition along with Lt. Peter Puget to explore the area looking for the Northwest Passage. The American exploration of the area began in 1841 with an expedition by Lt. Commander Charles Wilkes. He was followed by Michael T. Simmons who led the first permanent settlers to the area around Tumwater Falls. In 1852 Thurston County was organized with Olympia as the county seat and in 1853 Olympia was named territorial capital of the newly formed Washington Territory. Statehood followed in 1889 with Olympia fighting for 30 years to retain its place as the seat of state government.

## ECONOMIC CONDITION

The economy of Thurston County is rooted in the logging industry, farming and coal mining. The towns of Rainier and Bucoda were created out of the lumber processing and logging business. In Tenino, sandstone cutting flourished in the late 1800s and early 1900s. Rochester and Littlerock were formed in the predominantly agrarian south county area. However, government has been the driving force behind the areas' economy with Olympia as the seat for county and state government.

The City of Olympia has felt the impacts of the slowing economy with a drop in taxable retail sales. Retail sales tax collections were down 1.00% in 2011 over 2010. In addition, taxes from construction fell significantly due to the completion of several major governmental construction projects. The City completed construction on a new LEED gold \$35 million City Hall. The

existing city hall will be renovated and used as the criminal justice complex. The City has built four city halls in its 150 year history and continues to actively use three of the buildings. The City also constructed a \$16 million fourth fire station and training center (with voter approved bonds). The City completed a \$15 million dollar renovation of Percival Landing Boardwalk and renovated three of the City's park play areas (including a childrens' zip line). And finally, the City completed the cold shell on the Hands on Children's Museum (partially funded through a Public Facilities District). In addition, the State completed construction and equipped a \$260 million Department of Information Systems complex.

The major employer in the City continues to be state government. Other major employers in the area include education that accounts for approximately 7,800 employees. Health care facilities provide a significant source of employment in the area as well. St. Peter Hospital is a regional service facility and provides comprehensive health services to a five-county area. The hospital, located within the city limits employs approximately 2,100 people. Another hospital, Capital Medical Center along with Group Health Cooperative and Memorial Clinic employ approximately 1,500 people. Grocery services provide a significant source of employment in the area. Safeway, Fred Meyer, and Haggen employ approximately 1,200 people.

The following table illustrates the City's growth in various areas over the past ten years. Our statistical tables located at the end of this report provide additional detail in employment, population and other miscellaneous data.

Growth Indicator	2002	2011	Change	% of Change
Population	42,530	46,780	4,250	10%
Assessed Valuation	\$ 3,114,550,849	\$ 5,308,051,162	\$ 2,193,500,313	70%
Building Permit Value *	\$ 126,009,626	\$ 73,522,208	\$ (52,487,418)	(42%)
Total Tax Revenues	\$ 34,457,280	\$ 47,842,387	\$ 13,385,107	39%

\*Commercial and Residential permits

## FINANCIAL INFORMATION

The City's financial statements for governmental funds (General, Special Revenue, Debt Service, Capital Project and Expendable Trust) have been prepared on the modified accrual basis of accounting in conformity with generally accepted accounting principles. Revenues on this basis are recognized when measurable and available to finance current expenditures; expenditures are recognized when goods and services are received and liabilities are due and payable at year-end. The City's proprietary funds (Enterprise and Internal Service) and its Firemen's Pension Fund are accounted for on the accrual basis. Revenues on the accrual basis are recognized when earned and expenses are recognized when incurred.

Cities and counties of the State of Washington must comply with the Budgeting, Accounting and Reporting System (BARS) prescribed by the Office of the State Auditor as authorized under RCW 43.09.200 and 43.09.230. State laws also provide for annual independent audits by the Office of the State Auditor and require timely submission of annual financial reports to the State for review. The financial system of the City of Olympia incorporates financial and administrative controls that ensure the safeguarding of assets and the reliability of financial reports. These controls are designed to provide reasonable assurance that transactions are executed in accordance with management authorization and are recorded in conformity with generally accepted accounting principles (GAAP), that accountability of and control over assets and obligations exist, and that sufficient reporting and review exist to provide adequate information for analysis and comparability of data. Internal control is an area addressed by the State Auditor, and City management receives and takes action upon recommendations made by the State. It is noteworthy that the City has always received unqualified audit opinions.

Additionally, the City of Olympia maintains budgetary controls in order to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the Council. Activities of the General Fund, selected Special Revenue Funds, active General Obligation Debt Service Funds, and Enterprise and Internal Service Funds are included in the annual operating budget. Project length financial plans are adopted for the Capital Improvement Funds. Trust and Agency Funds, however, are not required to be budgeted. A budget increase within a fund must be authorized by the City Council. The City Manager has the authority to transfer budget amounts between departments within a fund, but the City Council must approve any budget transfers between funds.



## GENERAL GOVERNMENT FUNCTIONS

The governmental functions are made up of the General Fund, Special Revenue Funds, Debt Service Funds and Capital Projects Funds. These funds account for the major portion of the City's operating revenues and expenditures. The following tables illustrate revenues and expenditures from the various sources for Governmental and Fiduciary Funds as well as increases or decreases from the previous year.

Revenues and Other Operating Sources				Variance	%
	2010	2011	Increase/(Decrease)		Variance
Property Tax	\$ 11,788,009	\$ 12,770,070	\$ 982,061		8.3%
Sales and Use	16,301,568	16,165,551	(136,017)		-0.8%
Other Tax	18,050,769	18,906,766	855,997		4.7%
Licenses and Permits	3,644,793	3,800,814	156,021		4.3%
Intergovernmental	6,156,585	8,700,821	2,544,236		41.3%
Charges for Services	11,669,138	11,758,412	89,274		0.8%
Fines and Forfeits	1,017,973	1,283,156	265,183		26.1%
Transfers In	6,061,300	12,212,954	6,151,654		101.5%
Other Sources	9,933,872	5,932,570	(4,001,302)		-40.3%
<b>Total</b>	<b>\$ 84,624,007</b>	<b>\$ 91,531,114</b>	<b>\$ 6,907,107</b>		<b>8.2%</b>

Expenditures and Other Uses				Variance	%
	2010	2011	Increase/(Decrease)		Variance
General Government	\$ 14,628,330	\$ 16,310,800	\$ 1,682,470		11.5%
Security of Persons and Property	26,102,849	27,087,050	984,201		3.8%
Utilities and Environment	6,855,947	6,683,684	(172,263)		-2.5%
Transportation	5,070,867	3,944,327	(1,126,540)		-22.2%
Economic Environment	3,541,105	3,169,004	(372,101)		-10.5%
Mental and Physical Health	16,942	16,848	(94)		-0.6%
Culture & Recreation	7,494,622	7,298,359	(196,263)		-2.6%
Debt Service Principal & Interest	6,256,982	6,542,710	285,728		4.6%
Capital Outlays	49,656,245	24,680,776	(24,975,469)		-50.3%
Transfers Out	10,586,224	11,216,357	630,133		6.0%
<b>Total</b>	<b>\$ 130,210,113</b>	<b>\$ 106,949,915</b>	<b>\$ (23,260,198)</b>		<b>-17.9%</b>

## GENERAL FUND BALANCE

Olympia has a long held policy to maintain 10% of the operating revenue in unreserved fund balance. As summarized in the following table, the fund balance of the General Fund decreased by 0.6% in 2011. This provides Olympia with a fund balance equivalent to 22.4% of current period operating revenue and other financing sources. This reserve ensures we will not have to enter the short term debt market to pay for current operating expenditures. We view funding of the City's General Fund operations as being in a very suitable position.

## ENTERPRISE OPERATIONS

Olympia's enterprise operations are comprised of a water/sewer utility, a solid waste utility, and a stormwater utility. The stormwater utility accounts for planning, maintenance, and education necessary for environmentally appropriate storm and surface water management programs.

The water/sewer utility has two major components: a water distribution system including potable and reclaimed water and a sewer collection system.

The solid waste and recycling collection system operates only within the City of Olympia. Waste is transported to a transfer station that is owned and operated by Thurston County and recyclable material is transported to various private recyclers.

Operating revenues of the combined Enterprise funds were \$41,555,859 in 2011, an increase of 9.1% over fiscal year 2010. Operating expenses of the combined Enterprise funds were \$36,191,057, an increase of 3.6% from fiscal year 2010.

The following table summarizes the total revenues, expenses and net income (loss) for each of the enterprise funds in 2011:

	Total Revenues & Operating Transfers	Expenses/ Transfers Before Depreciation	Depreciation	Net Income (Loss)
Water/Sewer Utility	\$ 27,932,318	\$ 21,476,914	\$ 2,978,612	\$ 3,476,792
Solid Waste Utility	8,592,847	8,393,196	3,694	195,957
Stormwater Utility	5,827,566	3,526,423	591,808	1,709,335
TOTAL	\$ 42,352,731	\$ 33,396,533	\$ 3,574,114	\$ 5,382,084

## RISK MANAGEMENT

The City is a founding member of the Washington Cities Insurance Authority (the "Authority"), now including more than 150 members. The Authority provides coverage for comprehensive general liability including vehicle liability, false arrest and errors or omissions. The Authority is a self-insuring municipal corporation formed by an interlocal agreement. Liability coverage is written on an occurrence basis, without deductibles. Limits are \$4 million per occurrence self insured layer, and \$16 million per occurrence in the re-insured excess layer. The excess layer is insured by the purchase of reinsurance and insurance and is subject to aggregate limits. Total limits are \$20 million per occurrence subject to aggregate sublimits in the excess layers. The Board of Directors determines the limits and terms of coverage annually.

In addition to the liability insurance provided by the Authority, the City has established its own Risk Management Fund that can be used for risk management items not included in the Authority's coverage. Currently, the City is using the Risk Management Fund to pay for deposits with the Authority, property insurance coverage and studies. As of December 31, 2011, the Risk Management Fund had an asset value of \$151,788 and currently there are no major pending commitments or expenditures anticipated.

The City of Olympia purchases property insurance for buildings, contents and other insurable assets through Factory Mutual Global Insurance. The coverage includes \$50 million earth movement subject to a 5% per location or minimum \$100,000 deductible and flood coverage subject to a \$50,000 per location deductible.

## DEBT ADMINISTRATION

The City is authorized to issue debt pursuant to the Acts of the State of Washington. Constitutional and statutory debt limits apply only to debts payable from taxes, which include general obligation bonds, notes, installment purchase contracts, or long-term leases. Without a vote, the City can incur debt up to an amount equal to 1.5 percent of the assessed valuation of taxable property within the City. With voter approval, the City can issue debt (voted and non-voted) up to 2.5 percent of the assessed valuation. Further, voted indebtedness is permitted for water, artificial lights, and sewerage up to 2.5 percent of assessed valuation, with an additional 2.5 percent available for acquiring open space for Parks facilities. Both the utility and parks open space additional levies have a limit of \$132,701,279. Parks currently has outstanding obligations of \$5,210,000. Thus, the maximum total allowable debt is 7.5 percent of the assessed valuation of taxable property within the Olympia city limits.

The City is authorized to issue revenue bonds to finance capital improvements for its various enterprise activities, requiring only a majority approval by the Council.

The ratios of general obligation debt to assessed valuation and the amount of debt per capita are useful to citizens, management and investors as indicators of the City's Debt position. The City's total debt and debt ratios for the last two years are as follows:

	<u>2010</u>	<u>2011</u>
Net G.O. Debt	\$ 75,383,889	\$ 75,072,746
Revenue Bonded Debt	17,515,000	16,610,000
Assessed Valuation	5,552,078,378	5,308,051,162
Net G.O. Debt/Assessed Valuation	1.36%	1.41%
<u>Net Debt Per Capita:</u>		
Population	46,478	46,780
General Obligation	\$ 1,622	\$ 1,605
Revenue	\$ 377	\$ 355

As the demand for public sector investment and infrastructure continues to grow, the issuance of debt has become an increasingly important component of state and local government capital programs. While the issuance of debt is frequently an appropriate method of financing capital projects at the local level, it also entails careful monitoring of such issuances to ensure an erosion of our credit quality does not result. The City of Olympia currently has an "A1" rating from Moody's and an "AA Stable" Standard & Poor's for its general obligation and revenue debt.

## CASH MANAGEMENT

Aggressive efforts to maximize the interest earnings of temporary cash reserves have proven to be very successful. The City aggressively manages cash accounts under a pooled cash concept. The City invests the cash in all City funds and plans maturities to coincide with cash needs. The pool concept provides for investing greater amounts of money at more favorable interest rates. The short-term investment of idle cash continues to be a significant source of revenue for the City. The combined accounts earned \$330,773 during 2011.

## INDEPENDENT AUDIT

State law requires an annual audit of all City books of account, financial records, and transactions by the State Auditor, an independent elected State official. The State Auditor has broad legal authority to inquire into all financial and legal compliance matters and his audit opinion is considered to be at least equal in authority to that made by a certified public accounting firm. The 2011 audit of the City has now been completed and was made in conformance with generally accepted auditing standards. The combined financial statements of all City Funds have been included in this audit. The City has been given an unqualified opinion for 2011, which is the opinion given for a clean audit. Please see the Auditor's Opinion at the beginning of the Financial Section of this Report.

## AWARDS AND ACKNOWLEDGMENTS

The Government Finance Officers Association of the United States and Canada (GFOA) awards a Certificate of Achievement for Excellence in Financial Reporting to a government unit for its Comprehensive Annual Financial Report. In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report whose contents conform to program standards. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A certificate of achievement is valid for a period of one year only. We believe our current comprehensive annual financial report will meet the Certificate of Achievement Program requirements. Therefore, we are submitting it to the GFOA to determine our eligibility for another certificate.

For more narrative information regarding the financial condition of the City, please refer to the Management Discussion and Analysis located in the financial section of this report.

Preparation of this report could not have been accomplished without the professional, efficient, and dedicated services of the entire staff of the Finance Division and the various department directors and employees who assisted and contributed to its preparation. Further appreciation is extended to the Mayor and City Council for their encouragement, interest, and support in conducting the financial operations for the City in a sound and progressive manner. The efficient assistance of examiners from the office of the State Auditor is also appreciated. Staff who had a direct role in preparing Olympia's 2011 Comprehensive Annual Financial Report take great pride in their work, and the entire team who worked on this project is recognized on the inside of the back cover of this report.

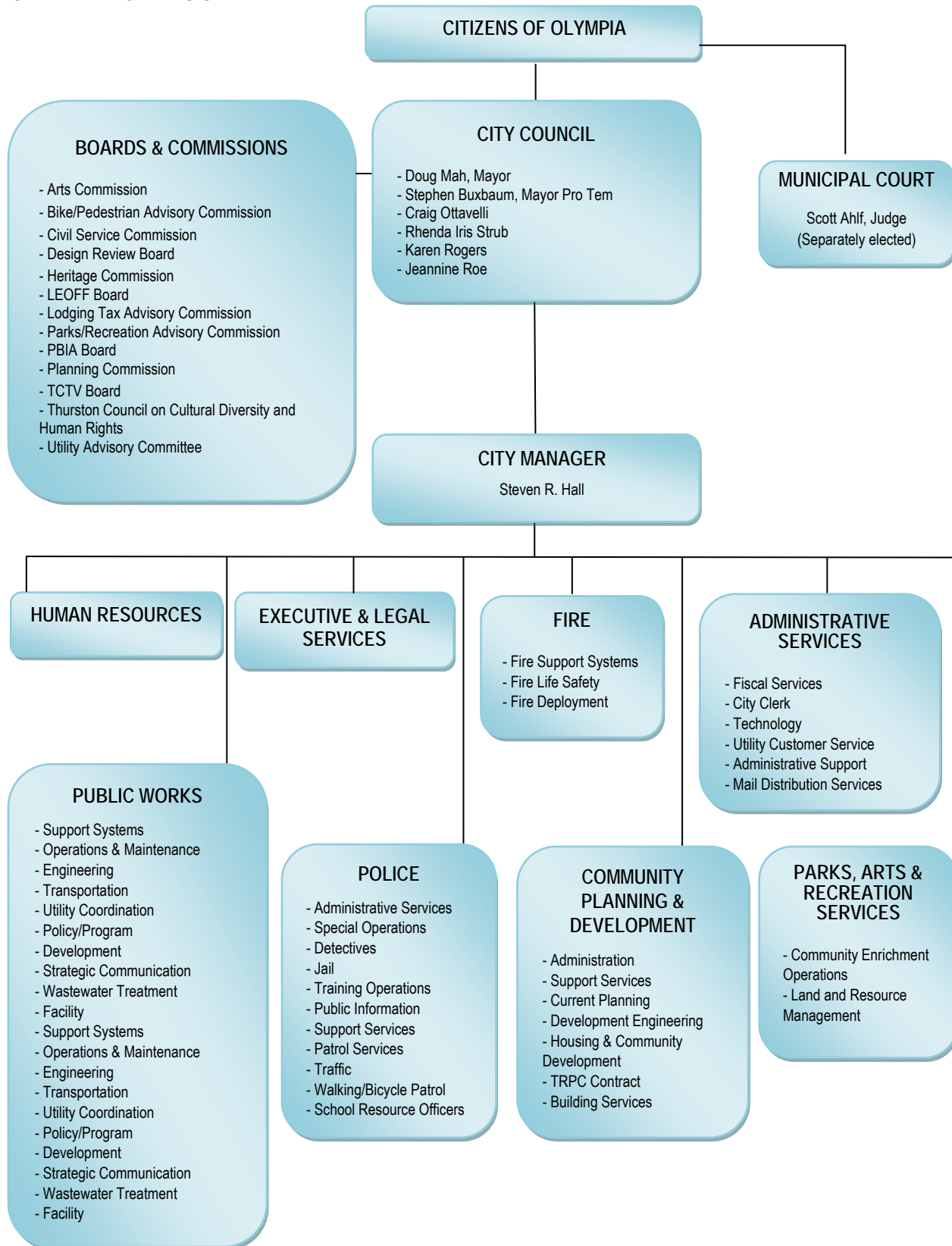
I will be happy to respond to any questions or comments about the information contained in this report. Again, sincere thanks for the support shown to the Finance Division.

Respectfully,



Jane Ragland Kirkemo  
Administrative Services Director

# OLYMPIA CITY GOVERNMENT



## CITY OF OLYMPIA, WASHINGTON

<b>CITY COUNCIL</b>		
Position #1	Douglas Mah, Mayor	Dec. 2011
Position #2	Craig Ottavelli	Dec. 2011
Position #3	Rhenda Iris Strub	Dec. 2011
Position #4	Karen Rogers	Dec. 2013
Position #5	Stephen Buxbaum, Mayor Pro Tem	Dec. 2013
Position #6	Jeannine Roe	Dec. 2013
Position #7	Jim Cooper	Nov. 2013

<b>ADMINISTRATION</b>	
Steven R. Hall	City Manager
Tom Morrill	City Attorney
Jane Ragland Kirkemo	Administrative Services Director
Keith Stahley	Community Planning & Development Director
Larry Dibble	Fire Chief
Ronnie Roberts	Police Chief
Linda Oestrich	Parks, Arts and Recreation Director
Rich Hoey	Acting Public Works Director