Washington State Auditor's Office

Financial Statements and Federal Single Audit Report

City of Lynnwood

Snohomish County

Audit Period

January 1, 2011 through December 31, 2011

Report No. 1009546

Issue Date

April 29, 2013

WASHINGTON

TROY KELLEY

STATE AUDITOR

Washington State Auditor
Troy Kelley

April 29, 2013

Mayor and City Council
City of Lynnwood
Lynnwood, Washington

Report on Financial Statements and Federal Single Audit

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

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

Sincerely,

Troy X. Kelley

TROY KELLEY
STATE AUDITOR

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Federal Summary

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

FINANCIAL STATEMENTS

An unmodified opinion was issued on the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate discretely presented component units and 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 deficiencies that we consider to be material weaknesses.

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

FEDERAL AWARDS

Internal Control Over Major Programs:

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

- ***Material Weaknesses:*** We identified no deficiencies that we consider to be material weaknesses.

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

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

Identification of Major Programs:

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

CFDA No.	Program Title
20.205	Highway Planning and Construction Cluster - Highway Planning and Construction

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by 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 Lynnwood
Snohomish County
January 1, 2011 through December 31, 2011

1. The City's internal controls over accounting and financial reporting are not adequate to ensure the financial statements are accurate, complete and timely.

Background

It is the responsibility of City management to design and follow internal controls that provide reasonable assurance regarding the reliability of financial reporting.

In each of our five previous audits, we have identified and communicated deficiencies in controls that adversely affect the City's ability to produce reliable financial statements.

Description of Condition

We identified the following deficiencies in internal control over accounting and financial reporting that represent material weaknesses:

- Staff responsible for financial statement preparation and oversight lack the level of technical knowledge needed to ensure the City's financial reporting is accurate and complete according to Generally Accepted Accounting Principles (GAAP).

- The City did not have a detailed plan for the method used to allocate General Fund costs to other funds. It did not annually re-evaluate these estimated allocations. The City could not demonstrate all costs allocated to other funds represent costs incurred by those funds.

- Although the City has procedures to perform a final review of the prepared financial statements prior to audit, the review is not detailed enough to detect significant or material errors. For example, the review did not include steps to ensure that the same amounts presented on multiple statements were the same.

- The City's financial statements should be supported by underlying accounting records, including the general ledger. During our audit, the City had difficulty providing documentation, detailing the funds, and accounts that rolled up into each financial statement balance.

We further identified the following deficiencies in internal controls over accounting and financial reporting that, when taken together, represent significant deficiencies:

- Staff responsible for preparation and oversight of the City's Schedule of Expenditures of Federal Awards (SEFA) lacked the knowledge to ensure the SEFA only included expenditures for the appropriate fiscal period.

- The City did not fully implement Governmental Accounting Standards Board (GASB) Statement No. 54 in its 2011 financial statements. The objective of this Statement is to enhance the usefulness of fund balance information by replacing reserved and unreserved fund balance classifications with five new categories (non-spendable, restricted, committed, assigned, and unassigned). The City is responsible for supporting how it has reclassified its fund balances into the new categories in compliance with GASB Statement No. 54. Although City personnel believed they had a clear understanding of GASB Statement No. 54 requirements, they misunderstood the requirements.

- The City does not have adequate procedures to ensure it adds new utility customers to its utility billing system and bills for services in a timely manner. Utility Billing staff received notification of the new customers from the public works department timely, but failed to add them to the system to begin billing.

- The City does not have a procedure to perform a reconciliation of its inventory of capital assets to the general ledger to ensure only assets the City owns are reported and that capital assets are properly depreciated.

Cause of Condition

City management has not dedicated the necessary time and resources to ensure accounting staff understand and are aware of proper accounting procedures. In addition, it has not dedicated the necessary time and resources to make completing the financial statements accurately and timely a priority. Financial statements prepared in accordance with Generally Accepted Accounting Principles (GAAP) are more challenging due to the changing nature of the standards and at times, the complexity of the guidance. Therefore, more resources are required to ensure accurate and complete statements.

Effect of Condition

Inaccurate financial reports limit access to financial information used by City officials, the public, state and federal agencies and other interested parties. It also hinders the audit process and increases audit costs.

The following material errors were not detected by the City but were identified during our audit:

- The City's General Fund improprerly benefited from other City funds. The City's General Fund charged for services totaling $1,489,081 including a total of $1,373,325 and $115,756, respectively, from the Water and Sewer Utility Fund and the Golf Course Fund without adequate supporting documentation.

- The City did not correctly calculate its balances for Invested in Capital Assets, Net of Related Debt by removing all related debt balances. It overstated the balance in the Water and Sewer Utility Fund by $7,005,575. This error did not impact ending net assets for the fund.

The City corrected these errors.

The following significant errors were not detected by the City but were identified during our audit:

- The City did not properly report federal expenditures on its SEFA. The original SEFA submitted for audit reported total expenditures of $1,752,116. It included grant expenditures of $354,983 that were incurred in 2010 and should not have been reported on the 2011 SEFA. The City corrected this error.

- The City installed new water meters at 21 new properties during 2011; however, the City did not bill any of the new properties for service in 2011. One of the new properties was the City's Recreation Center. This resulted in an understatement of at least $26,997 to revenues in the Water and Sewer Utility Fund. The City chose not to correct this error.

- The City incorrectly classified the ending fund balance between non-spendable, restricted, committed, assigned, and unassigned. The City corrected this error.

- The City improperly reported its payroll and claims clearing funds in its financial statements resulting in cash and equivalents being overstated by $1,641,848 and $306,316 being missclassified in the payroll clearing fund. The City chose not to correct this error.

- The City improperly classified its Recreation Center as Construction-In-Progress even though the asset was put in service in April 2011. This resulted in Construction-In-Progress being overstated by $23,271,286, buildings and improvements being understated by $22,022,856 and equipment being understated by $842,210. The remaining $406,220 understatement resulted from a reclassification of expenditures as operating instead of capital. The City corrected this error.

- The City reported capital assets of at least $459,678 that the City no longer owns or could not provide documentation to support ownership of the asset. Further, the City could not provide documentation to show land valued at $391,900 was properly reported in its statements.

Additionally, the City did not complete its financial statements and submit the final version for audit until July 9, 2012. As a result, the City missed its federal audit deadline for a second consecutive year in 2011, which could potentially impact future federal funding for the City, and did not have its statements completed within 150 days past year end, as required by state law (RCW 43.09.230).

Recommendation

We continue to recommend the City:

- Provide staff the necessary resources, training, and oversight to prepare accurate and complete financial statements.

- Ensure costs allocated to other funds of the City are for their fair and true value.

- Ensure a person knowledgeable of GAAP and reporting requirements performs a detailed, technical review of the financial statements to ensure accurate preparation and reporting.

- Have procedures to reconcile general ledger balances to adequate supporting documentation.

- Establish processes to enable it to provide a list of funds, accounts and functions that support each financial statement balance timely.

- Establish processes to ensure net assets are reported in accordance with accounting standards.

- Prepares its financial statements by the required state and federal deadlines.

City's Response

The City of Lynnwood has consistently received opinions from the State Auditor's Office (SAO) that generally indicate that our financial statements fairly present the financial position of the City, in all material respects. We further appreciate recommendations on areas in which the City can improve.

Overview:

Both the Finance Director and Accounting Manager were hired in 2011 and late 2010, respectively, to begin an in-depth and significant review and improvement of the City's past financial operations and reporting, and implement necessary changes, (i.e. upgrading systems and correcting issues). As a result of their efforts, we have replaced the old legacy Excel based financial reporting system, which was the basis of the City's past financial reporting and which was likewise accepted by the SAO in prior audits. While the old systems may have been "efficient" in producing financial reports, it did not reflect the accounting standard we desired to continue regardless of the fact they had been accepted by the SAO for a long time. The SAO is fully aware of the significant effort put forth by the new staffers to transition from the old legacy system to the new interim system. This effort included, among other things, reloading prior City-wide financial data into the new interim system.

SAO Comment 1: Staff responsible for financial statement preparation and oversight lack the level of technical knowledge needed to ensure the City's financial reporting is accurate and complete according to Generally Accepted Accounting Principles (GAAP).

- *While we accept the State Auditor's opinions and comments regarding our technical expertise, we are confident that we do have the proper audit and accounting training, experience, and technical knowledge for the proper preparation, and review of our financial statements and Schedule of Expenditures of Federal Awards.*

- *Moreover, on June 4, 2012, the City filled a long-vacant accountant position to further bolster our efforts in this regard. We covered this point at the July 9, 2012, SAO exit conference with the Lynnwood City Council. We also* *committed to refilling a vacant financial analyst position and procuring a new enterprise-wide accounting system (ERP) to bolster the City's financial accounting and reporting efforts. The new financial position was granted in the 2013-2014 biennial budget. The new ERP has been selected; the vendor contract has been substantially negotiated, and will soon be ready for funding and implementation.*

- *As we have repeatedly discussed with the SAO, a number of measures have been taken to strengthen internal controls and oversight, increase training, and update procedures to ensure the annual financial statements are completed accurately and timely in the future.*

SAO Comment 2: The City did not have a detailed plan for the method used to allocate General Fund costs to other funds. It did not annually re-evaluate these estimated allocations. The City could not demonstrate all costs allocated to other funds represent costs incurred by those funds.

- *The City of Lynnwood has had an overhead cost allocation plan in place for a number of years. Our historical plan was based on an analysis of service levels provided to the Proprietary funds of the City. The plan was developed by impacted department Directors and the Finance Department. The City modified this cost allocation plan biennially to reflect turnover and attrition in staff. The SAO used and approved of our historical allocation plan in the past.*

- *However, in 2012 the SAO decided the level of detail provided with the historical overhead allocation model was not satisfactory. Therefore, the City spent considerable time and resources to revise and update our cost allocation plan to support the amounts charged to the City's Proprietary funds. The new revised plan is currently in place.*

- *We note that the* ***net change*** *between our historical overhead cost allocation plan and the revised overhead cost allocation plan was minor (+1%* ***<u>higher</u>*** *than the original cost allocation plan), insignificant, and immaterial.*

- *In the July 9, 2012 Exit Conference, the SAO assured the Lynnwood City Council it would work with the city to meet the October federal audit deadline. Shortly* ***after*** *that meeting the SAO team decided that they would require a complete review of cost allocation formulas and methodology, but the City was not informed until much later. This action single-handedly made the agreed upon, good-faith joint effort to meet the October federal audit timeline impossible. Given that reality, the City determined that reviewing the cost allocation plan was very important in providing additional clarity regarding our allocation methodology which supports the fairness of our financial statements, notwithstanding the October deadline.*

SAO Comment 3: Although the City has procedures to perform a final review of the prepared financial statements prior to audit, the review is not detailed enough to detect significant or material errors. For example, the review did not include steps to ensure that the same amounts presented on multiple statements were the same.

- *See response to SAO Comment 1.*

SAO Comment 4: The City's financial statements should be supported by underlying accounting records, including the general ledger. During our audit, the City had difficulty providing documentation, detailing the funds, and accounts that rolled up into each financial statement balance.

- *We provided an adequate level of documentation to generally support our account balances and fund activity. The City acknowledges that a need exists for improving its Capital Asset accounting system and this is currently being addressed. Additionally, we fully completed the review and selection of a new City-wide accounting system which will also provide better documentation and user reporting capability to support all departments and staff.*

SAO Comment 5: Staff responsible for preparation and oversight of the City's Schedule of Expenditures of Federal Awards (SEFA) lacked the knowledge to ensure the SEFA only included expenditures for the appropriate fiscal period.

- *See response to SAO Comment 1.*

SAO Comment 6: The City did not fully implement Governmental Accounting Standards Board Statement (GASB) No. 54 in its 2011 financial statements. The objective of this Statement is to enhance the usefulness of fund balance information by replacing reserved and unreserved fund balance classifications with five new categories (non-spendable, restricted, committed, assigned, and unassigned). The City is responsible for supporting how it has reclassified its fund balances into the new categories in compliance with GASB Statement No. 54. Although City personnel believed they had a clear understanding of GASB No. 54 requirements, they misunderstood the requirements.

- *We note that we began implementation of the new requirements, created by GASB 54, for the 2011 financial statements. The SAO simply disagreed with our judgment and approach. Given GASB 54's new implementation there is no history or experience to make definitive interpretations in all respects. Implementation of GASB 54 requires a large amount of policy-level analysis and action that will be addressed as soon as possible.*

SAO Comment 7: The City does not have adequate procedures to ensure it adds new utility customers to its utility billing system and bills for services in a timely manner.

- *This was an existing issue of which the City was aware and brought to the attention of the SAO auditors. Since 2011 had already passed, unbilled utility accounts were back-billed in 2012 and are reflected in the 2012 financial statements. Procedures are now in place to ensure new accounts are established and billed timely. Additionally there was no loss of revenue to the utility because the city has the ability to back-bill the new accounts for at least three (3) years.*

SAO Comment 8: The City does not have a procedure to perform a reconciliation of its inventory of capital assets to the general ledger to ensure only assets the City owns are reported and that capital assets are properly depreciated.

- *We appreciate the SAO's review of capital assets. The capital asset issues brought to light by recent audits go back many years. One example of a challenge that current staff encountered in reconciling our land assets to Snohomish County records was that Snohomish County changed their parcel numbering system without providing a system for cross-referencing with the old numbering system. We are actively working to update our policy, database, and resolve accounting issues in this area.*

SAO Comment 9: The City installed new water meters at 21 new properties during 2011; however, the City did not bill any of the new properties for service in 2011. One of the new properties was the City's Recreation Center. This resulted in an understatement of at least $26,997 to revenues in the Water and Sewer Utility Fund. The City chose not to correct this error.

- *The City chooses not to correct this error at this time because: 1) unbilled utility accounts were back-billed in 2012 and are reflected in the 2012 financial statements, 2) the cost benefit of correcting this error at this time is not in the City's best interest, and 3) it is within our authority to forgo certain immaterial corrections.*

- *See response to SAO Comment 7*

SAO Comment 10: The City improperly reported its payroll and claims clearing funds in its financial statements resulting in cash and equivalents being overstated by $1,641,848 and $306,316 being misclassified in the payroll clearing fund. The City chose not to correct this error

- *The Clearing funds are fiduciary funds that are used for internal control and reconciliation purposes for cash disbursements of both payroll and accounts payable. Neither fund's cash balances were reflected in the entity-wide statements of the City and are immaterial to the opinion of the financial statements. The BARS manual (Pt. 3, Ch. 3, Pg. 11) states, "The cash balance in a clearing fund must equal at all times the total warrants outstanding against the fund plus any amounts withheld from payrolls and temporarily unremitted (such as quarterly L&I payments)." This is how the City has been reporting the Clearing funds for at least twenty years on its Fiduciary statements. Both errors listed above will be corrected in the 2012 statements.*

SAO Comment 11: The City reported capital assets of at least $459,678 that the City no longer owns or could not provide documentation to support ownership of the asset. Further, the City could not provide documentation to show land valued at $391,900 was properly reported in its statements.

- *See response to SAO Comment 8*

SAO Comment 12: Additionally, the City did not complete its financial statements and submit the final version for audit until July 9, 2012. As a result, the City missed its federal audit deadline for a second consecutive year in 2011 which could potentially impact future federal funding for the City and did not have its statements completed within 150 days past year end as required by state law (RCW 43.09.230).

- *See response to SAO Comment 2*

SAO Recommendations:

Provide staff the necessary resources, training, and oversight to prepare accurate and complete financial statements.

- *See response to SAO Comment 1*

Ensure costs allocated to other funds of the City are for their fair and true value.

- *See response to SAO Comment 2*

Ensure a person knowledgeable of GAAP and reporting requirements performs a detailed, technical review of the financial statements to ensure accurate preparation and reporting.

- *See response to SAO Comment 1*

Have procedures to reconcile general ledger balances to adequate supporting documentation.

- *See response to SAO Comment 4*

Establish processes to enable it to provide a list of funds, accounts and functions that support each financial statement balance timely.

- *See response to SAO Comment 4*

Establish processes to ensure net assets are reported in accordance with accounting standards.

- *See response to SAO Comments 1 and 8*

Prepares its financial statements by the required state and federal deadlines.

- *See response to SAO Comments 1 and 2*

Conclusion:

The City corrected all material errors and many of the immaterial errors as they were detected. The time needed to address the remaining immaterial errors would have caused further delays that would have impacted the timely completion of the 2012 statements, thus creating another finding by the SAO. Given that it was within our authority to forgo correcting these errors, we chose to reflect these corrections as part of the 2012 statements.

The City of Lynnwood in the last seven (7) months has taken real action and proven that it is committed to dedicating resources and strengthening internal controls over accounting and financial reporting to ensure the financial statements are accurate, complete, timely, and at the appropriate standard.

Auditor's Remarks

It is the responsibility of City management to design and follow internal controls that provide reasonable assurance regarding the reliability of financial reporting. The current audit included a review of the City's cost allocation plan as it relates to the City's financial statements. We have discussed cost allocation with the City in previous accountability audits and issued recommendations related to improving its plan.

We began our audit in July 2012 and communicated with the City as issues arose to ensure the City was well informed of the progress of the audit. The City chose to miss its federal audit deadline in order to redo its cost allocation plan and avoid a qualified opinion on its financial statements. We reaffirm our finding.

Applicable Laws and Regulations

Statement on Auditing Standards No. 115, issued by the Auditing Standards Board of the American Institute of Certified Public Accountants, defines material weakness and significant deficiency as follows:

> a. Material weakness:
>
> A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.
>
> b. Significant deficiency:
>
> A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Government Auditing Standards, July 2007 Revision – Section 5.11, provides that auditors should report significant deficiencies and material weaknesses in internal control.

RCW 43.09.200, Local government accounting -- Uniform system of accounting**,** 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, or other persons. The accounts shall show the receipt, use, and disposition of all public property, 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. 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.

Budget Accounting and Reporting System (BARS) Manual - Part 3, Accounting, Chapter 1. Accounting Principles and General Procedures, Section B. Internal Control, states:

> 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.

RCW 43.09.230, Local Government Accounting – Annual Reports, 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.

OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, states in part:

Section 200

> (a) Audit required.
>
> Non-Federal entities that expend $300,000 ($500,000 for fiscal years ending after December 31, 2003) or more in a year in Federal awards shall have a single or program-specific audit conducted for that year in accordance with the provisions of this part. Guidance on determining Federal awards expended is provided in §___.205.
>
> (b) Single audit.
>
> Non-Federal entities that expend $300,000 ($500,000 for fiscal years ending after December 31, 2003) or more in a year in Federal awards shall have a single audit conducted in accordance with §___.500 except

when they elect to have a program-specific audit conducted in accordance with paragraph (c) of this section.

Section 300

The auditee shall:

(b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.

(c) Comply with laws, regulations, and the provisions of contracts or grant agreements related to each of its Federal programs.

(d) Prepare appropriate financial statements, including the schedule of expenditures of Federal awards in accordance with §___.310.

(e) Ensure that the audits required by this part are properly performed and submitted when due. When extensions to the report submission due date required by §___.320(a) are granted by the cognizant or oversight agency for audit, promptly notify the Federal clearinghouse designated by OMB and each pass-through entity providing Federal awards of the extension.

Section 320

a) General. The audit shall be completed and the data collection form described in paragraph (b) of this section and reporting package described in paragraph (c) of this section shall be submitted within the earlier of 30 days after receipt of the auditor's report(s), or nine months after the end of the audit period, unless a longer period is agreed to in advance by the cognizant or oversight agency for audit.

Status of Prior Audit Findings

City of Lynnwood
Snohomish County
January 1, 2011 through December 31, 2011

The status of findings contained in the prior years' audit reports of the City of Lynnwood is provided below:

1. The City's internal controls over accounting and financial reporting are not adequate to ensure the financial statements are accurate, complete and timely.

Report No. 1008058, dated July 23, 2012

Background

We identified the following deficiencies in internal control over accounting and financial reporting that, when taken together, represent a material weakness:

- Staff responsible for financial statement preparation and oversight lack the level of technical knowledge needed to ensure the City's financial reporting is accurate and complete according to Generally Accepted Accounting Principles (GAAP).

- Although the City has procedures to perform a final review of the prepared financial statements prior to audit, the review is not detailed enough to detect significant or material errors. For example, the review did not include steps to ensure that the same amounts presented on multiple statements were the same.

- The City does not have a procedure to perform a reconciliation of its inventory of capital assets to the general ledger in accordance with the *Budgeting, Accounting and Reporting Systems* (BARS) manual Part 3, Chapter 7, Page 5, Section c (2)).

Status

The condition reported during the 2010 audit has not been resolved. Our audit identified material weaknesses and significant deficiencies in internal controls over accounting and financial reporting. See Finding 1.

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

City of Lynnwood
Snohomish County
January 1, 2011 through December 31, 2011

Mayor and City Council
City of Lynnwood
Lynnwood, Washington

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate discretely presented component units and remaining fund information of the City of Lynnwood, Snohomish County, Washington, as of and for the year ended December 31, 2011, which collectively comprise the City's basic financial statements, and have issued our report thereon dated February 19, 2013. During the year ended December 31, 2011, the City implemented Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Audit Findings and Responses, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Audit Findings and Responses as Finding 1 to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Audit Findings and Responses as Finding 1 to be significant deficiencies.

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.

Troy X. Kelley

TROY KELLEY
STATE AUDITOR

February 19, 2013

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

City of Lynnwood
Snohomish County
January 1, 2011 through December 31, 2011

Mayor and City Council
City of Lynnwood
Lynnwood, Washington

COMPLIANCE

We have audited the compliance of the City of Lynnwood, Snohomish County, Washington, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on its major federal program for the year ended December 31, 2011. The City's major federal program is identified in the Federal Summary. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

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

In our opinion, the City complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2011.

INTERNAL CONTROL OVER COMPLIANCE

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

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

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

This report is intended for the information of management, the Mayor and City Council, federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Troy X. Kelley

TROY KELLEY
STATE AUDITOR

February 19, 2013

Independent Auditor's Report on Financial Statements

City of Lynnwood
Snohomish County
January 1, 2011 through December 31, 2011

Mayor and City Council
City of Lynnwood
Lynnwood, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate discretely presented component units and remaining fund information of the City of Lynnwood, Snohomish County, Washington, as of and for the year ended December 31, 2011, which collectively comprise the City's basic financial statements as listed on page 22.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate discretely presented component units and remaining fund information of the City of Lynnwood, as of December 31, 2011, and the respective changes in financial position and, where applicable, cash flows thereof, and the budgetary comparison for the General Fund, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Matters of Emphasis

As discussed in Note 1 to the financial statements, in 2011 the City adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. Our opinion is not modified with respect to this matter.

Other Matters

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 23 through 36, pension trust fund information on page 98 and information on postemployment benefits other than pensions on page 99 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements as a whole. 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 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report 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.

Troy X. Kelley

TROY KELLEY
STATE AUDITOR

February 19, 2013

Financial Section

City of Lynnwood
Snohomish County
January 1, 2011 through December 31, 2011

REQUIRED SUPPLEMENTARY INFORMATION

Management’s Discussion and Analysis – 2011

BASIC FINANCIAL STATEMENTS

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Statement of Activities – 2011
Balance Sheet – Governmental Funds – 2011
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets – 2011
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds – 2011
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Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – General Fund – 2011
Statement of Net Assets – Proprietary Funds – 2011
Statement of Revenues, Expenses and Changes in Net Assets – Proprietary Funds – 2011
Statement of Cash Flows – Proprietary Funds – 2011
Statement of Net Assets – Fiduciary Funds – 2011
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REQUIRED SUPPLEMENTARY INFORMATION

Firemen’s Pension Plan – Schedule of Funding Progress – 2011
LEOFF 1 Retiree Medical Benefits – Schedule of Funding Progress – 2011

SUPPLEMENTARY INFORMATION

Schedule of Expenditures of Federal Awards – 2011
Notes to the Schedules of Expenditures of Financial Assistance – 2011

Management's Discussion and Analysis

City of Lynnwood management offers this narrative overview and analysis of the financial activities of the City of Lynnwood for the fiscal year ended December 31, 2011. The information presented herein should be used in conjunction with additional information that is furnished in the letter of transmittal.

Financial Highlights

The poorly performing economy during 2011 is still affecting the city's strategies necessary to meet the city's operational needs.

- The assets of the City of Lynnwood exceeded its liabilities at fiscal year-end by $176,576,747 (net assets), an increase of $3.2 million or 1.8% over 2010. Of this amount, unrestricted net assets total $10,680,865 and may be used to meet the city's ongoing obligations to citizens and creditors. Restricted net assets total $17,756,429 and are earmarked for debt service and capital projects.
- At fiscal year-end, the City of Lynnwood's governmental funds reported combined ending fund balances of -$5,582,563. This figure is the result of the impact of a current liability for a Bond Anticipation Note (BAN) for renovations to the City's Recreation Center. Bonds were issued in early 2012 to fund this liability long term.
- At the end of the 2011 fiscal year, unassigned fund balance for the general fund was $6,780,310 or 15.5% of total general fund revenues (15.9% of expenditures).
- During 2011 the City sold business park property for $3.5 million.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City of Lynnwood's basic financial statements. The City of Lynnwood's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business. The government-wide financial statements consist of two statements: 1) Statement of Net Assets, and 2) Statement of Activities.

- The **Statement of Net Assets** presents information on all the city's 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 the net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in the 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 government-wide financial statements distinguish functions of the City of Lynnwood that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City of Lynnwood include general government, public safety, highways and streets, economic development, physical environment, and culture and recreation. The business-type activities of the City include the water, sewer, and storm drainage utility, and a golf course.

The City of Lynnwood's (primary government) government-wide financial statements currently include a legally separate entity known as the Lynnwood Public Facilities District (PFD). The City has a degree of financial accountability for the PFD and discreetly reports the component unit separately within the City's financial statements.

On July 12, 2010 the City of Lynnwood's City Council chartered the "Lynnwood Transportation Benefit District" (TBD) within the City's jurisdiction for the purpose of acquiring, constructing, improving, providing, and funding transportation improvements within the District. The TBD is a separate legal entity governed by a Board of Directors consisting of the seven members of the Lynnwood City Council. The TBD Board authorized a $20 per vehicle annual license fee within the District. The fee went into effect June 1, 2011. Whereas the PFD is reported as a "discreet" component unit the TBD is reported as a "blended" component unit within the City's special revenue funds.

Fund financial statements

A fund is a grouping of related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. The City of Lynnwood, 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 three categories: *Governmental funds, Proprietary funds*, and *Fiduciary funds*.

- Governmental Funds

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

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

  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, LID 93-1 and Community Center, which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements in the city's full report.

  The City of Lynnwood adopts its budget on a biennial basis. The 2011 fiscal year is the first year of the two year budget 2011-2012. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

- Proprietary Funds

  The City maintains two types of proprietary funds.

  - Enterprise Funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its Water, Sewer, and Storm Drainage Utility and the Golf Course.

- Internal Service Funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for its fleet of vehicles, central stores, and self-insurance program and for its retirement contributions.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Water, Sewer and Storm Drainage Utility and the Golf Course as all are considered, or have been designated to be major funds of the City. The internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data is provided in the form of combining statements elsewhere in this report.

- Fiduciary Funds

  The purpose of fiduciary funds is to report assets held in a trustee or agency capacity for others and, therefore, cannot be used to support the government's own programs. These funds are excluded from the government-wide financial statements. The City of Lynnwood maintains two types of fiduciary funds.
  - The *Firemen's Pension Fund* accounts for the Firemen's Pension System, which is a single-employer closed pension plan. Membership is limited to firefighters employed by the City prior to March 1, 1970.
  - The *Agency/Clearing Funds* are primarily used to function as an internal clearing account for amounts that have yet to be allocated to individual funds.

- Notes to the Financial Statements

  The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

- Other information

  In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information: General Fund Schedule of Departmental Expenditures Compared to Budget and Schedule of Expenditures of Federal, State, and Local Awards (grants).

  The combining statements referred to earlier in connection with non-major governmental funds and internal service funds are presented immediately following the Notes section of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The City's assets exceeded its liabilities (after prior year adjustment) at fiscal year-end by $176,576,747 (net assets), an increase of $3.2 million or 1.8% over 2010. The largest portion of the City's net assets (83.8%) reflects its investment in capital assets (land and facilities such as, buildings, machinery, and equipment); less related debt used to acquire those assets that are still outstanding.

STATEMENT OF NET ASSETS (in $1,000)

	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
ASSETS						
Current Assets:						
Cash & cash equivalents	$ 19,551	$ 12,956	$ 11,597	$ 8,405	$ 31,148	$ 21,361
Investments	-	2,955	-	3	-	2,958
Receivables (net)	9,382	9,540	1,967	1,964	11,349	11,504
Internal Balances	(4,043)	(7,223)	4,043	7,223	-	-
Inventories	-	21	11	14	11	35
Prepaid Items	772	19	67	67	839	86
Restricted cash & investments:						
Customer deposits	311	-	51	658	362	658
Bond covenant accounts	-	-	1,749	1,760	1,749	1,760
Total Current Assets	25,973	18,268	19,485	20,094	45,458	38,362
Noncurrent Assets:						
Deferred charges & other assets:						
Deferred charges	-	-	139	147	139	147
Noncurrent receivables	3,317	3,863	61	61	3,378	3,924
Capital Assets:						
Land	31,382	33,869	6,867	6,867	38,249	40,736
Intangible Assets - Easements	437	437	4,150	4,149	4,587	4,586
Depreciable assets (net)	50,853	31,355	12,124	13,510	62,977	44,865
Infrastructure (net)	28,246	30,279	23,399	22,963	51,645	53,242
Construction in progress	24,207	40,180	5,600	5,100	29,807	45,280
Total Noncurrent Assets	138,442	139,983	52,340	52,797	190,782	192,780
Total Assets	164,415	158,251	71,825	72,891	236,240	231,142
LIABILITIES						
Current Liabilities:						
Accounts payable and accrued exp.	1,458	3,156	522	726	1,980	3,882
Unearned revenue	4,328	4,657	148	32	4,476	4,689
Due within one year	27,406	20,846	1,250	1,559	28,656	22,405
Other Current Liabilities	-	-	54	86	54	86
Current Liabilities Payable from						
Restricted Assets:						
Liabilities payable from restricted assets	-	-	47	27	47	27
Total Current Liabilities	33,192	28,659	2,021	2,430	35,213	31,089
Noncurrent Liabilities:						
Due in more than one year	10,395	11,458	14,055	15,264	24,450	26,722
Total Noncurrent Liabilities	10,395	11,458	14,055	15,264	24,450	26,722
Total Liabilities	43,587	40,117	16,076	17,694	59,663	57,811
NET ASSETS						
Invested in capital assets, net of related debt	103,947	109,761	44,192	36,326	148,139	146,087
Expendable restricted for:						
Debt service	1,907	1,957	1,750	2,058	3,657	4,015
Capital projects	1,591	1,477	7,006	8,144	8,597	9,621
Other	5,298	-	205	117	5,503	117
Unrestricted	8,085	4,939	2,596	8,551	10,681	13,490
Total Net Assets	$ 120,828	$ 118,134	$ 55,749	$ 55,196	$ 176,577	$ 173,330

STATEMENT OF ACTIVITIES (in $1,000)

	Governmental Activities		Business-type Activities		Total	
	2011	2010	2011	2010	2011	2010
Revenues						
Program Revenues						
Charge for Service	$ 11,778	$ 13,288	$ 14,807	$ 13,527	$ 26,585	$ 26,815
Operating Grants & Contributions	1,257	3,884	-	-	1,257	3,884
Capital Grants & Contributions	2,305	2,577	212	247	2,517	2,824
General Revenues						
Property Taxes	11,092	10,387	-	-	11,092	10,387
Sales Taxes	16,828	16,151	-	-	16,828	16,151
Other Taxes	7,996	6,232	-	-	7,996	6,232
Other Revenues	278	2,034	73	96	351	2,130
Total Revenues	51,534	54,553	15,092	13,870	66,626	68,423
Expenses						
General Government	6,661	7,296	-	-	6,661	7,296
Judicial	1,046	1,173	-	-	1,046	1,173
Public Safety	24,493	25,839	-	-	24,493	25,839
Physical Environment	1,785	2,777	-	-	1,785	2,777
Transportation	4,255	5,283	-	-	4,255	5,283
Culture & Recreation	7,289	5,523	-	-	7,289	5,523
Economic Environment	2,834	3,291	-	-	2,834	3,291
Interest on Long-term Debt	1,094	749	-	-	1,094	749
Water	-	-	3,799	3,822	3,799	3,822
Sewer	-	-	7,138	6,765	7,138	6,765
Golf Course	-	-	1,082	1,025	1,082	1,025
Storm Drainage	-	-	1,903	1,449	1,903	1,449
Total Expenses	49,457	51,931	13,922	13,061	63,379	64,992
Increase in Net Assets Before Transfers	2,077	2,622	1,170	809	3,247	3,431
Transfers	617	696	(617)	(696)	-	-
Increase in Net Assets	2,694	3,318	553	113	3,247	3,431
Beginning Net Assets January 1	118,134	118,413	55,196	51,372	173,330	169,785
Prior Period Adjustments	-	(3,597)	-	3,711	-	114
Beginning Net Assets Adjusted	118,134	114,816	55,196	55,083	173,330	169,899
Ending Net Assets December 31	$ 120,828	$ 118,134	$ 55,749	$ 55,196	$ 176,577	$ 173,330

- <u>Capital Assets</u>

  The City uses our capital asset facilities to provide services to citizens. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must generally be provided from other sources, since the capital assets themselves usually are not available to liquidate these liabilities.

- <u>Net Assets</u>

  An additional portion of the City's net assets, 10.1%, represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets, $10,680,865 may be used to meet the city's ongoing obligations to citizens and creditors and to respond to existing or emerging community needs. This reflects a decrease from 2010 by 20.1%.

- <u>Governmental Activities</u>

  Governmental activities increased the City of Lynnwood's net assets by $2,694,168. Significant changes in net assets during 2011 were as follows:

Governmental Revenues

- The largest contributor to the increase was the sale of City business park property for $3.5 million.
- The City's 2011 local sales tax revenues increased by only $676,501 or 4% compared to fiscal 2010. These low sales tax levels are expected to continue into the foreseeable future.
- In 2011, the total property tax revenues collected were $11,092,172 or an increase of 6.8% over collections in 2010.
- The number of permits issued in 2011 was 2,162, an increase of 10.9% compared to fiscal 2010. The associated permit revenues totaled $800,422 or a decrease of 2.6% over the prior year.
- In 2011, the City received $255,299 in mitigation payments, down $8,946 or -3% from 2010. This revenue stream continues to be well below the original estimate prepared by the State Department of Revenue (DOR) in 2007.

  The State of Washington enacted a financial assistance program effective July 1, 2008. The program is designed to mitigate the impact of the new sales tax system. The mitigation payments were intended to offset the loss incurred by local governments from destination-based sales (sale transactions that are delivered outside of point-of-sale jurisdictions).

Governmental Expenses

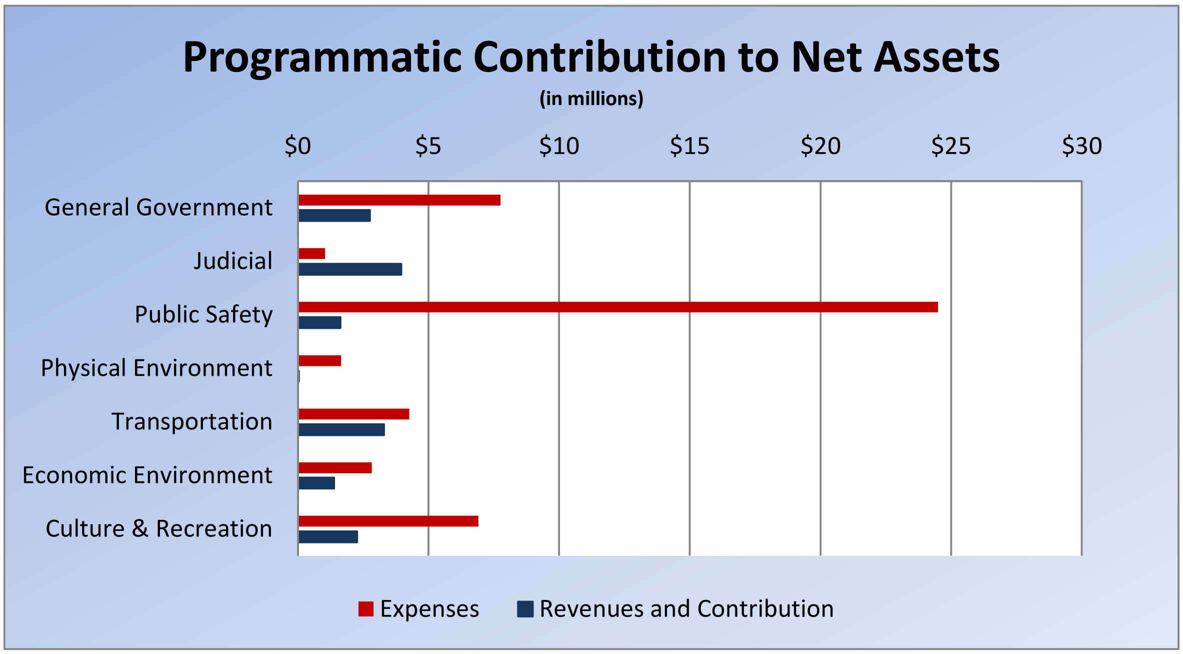
The city has responded to declining revenues by reducing 2011 governmental expenditures $2.5 million or -4.8% from the prior year.

Change in Governmental Expenditures 2010-2011

Function/Programs	2011 Expenditures	2010 Expenditures	$ Increase/ (Decrease)	% Increase/ (Decrease)
General Government	$ 6,660,794	$ 7,295,878	$ (635,084)	-8.7%
Judicial	1,046,440	1,172,975	(126,535)	-10.8%
Public Safety	24,493,023	25,838,973	(1,345,950)	-5.2%
Physical Environment	1,784,719	2,777,582	(992,863)	-35.7%
Transportation	4,254,909	5,282,623	(1,027,714)	-19.5%
Economic Environment	2,833,651	3,291,062	(457,411)	-13.9%
Culture & Rec	7,288,721	5,523,409	1,765,312	32.0%
Interest on Debt	1,094,163	748,881	345,282	46.1%
	$ 49,456,420	$ 51,931,383	$ (2,474,963)	-4.8%

Programmatic Contribution to Assets

The bar chart below illustrates the contribution that various city functions make to net assets from its operations before taxes. If expenses exceed revenues and contributions the function requires a subsidy from tax revenues (not shown) to support its operations. If revenues and contributions exceed expenses then the function adds to city assets. However, it should be noted that if the contribution made to the function is in the form of capital, the function may still require tax support for its operations. The illustration makes it clear that some activities of the city require a significant amount of support through taxes while others are more self-supporting.

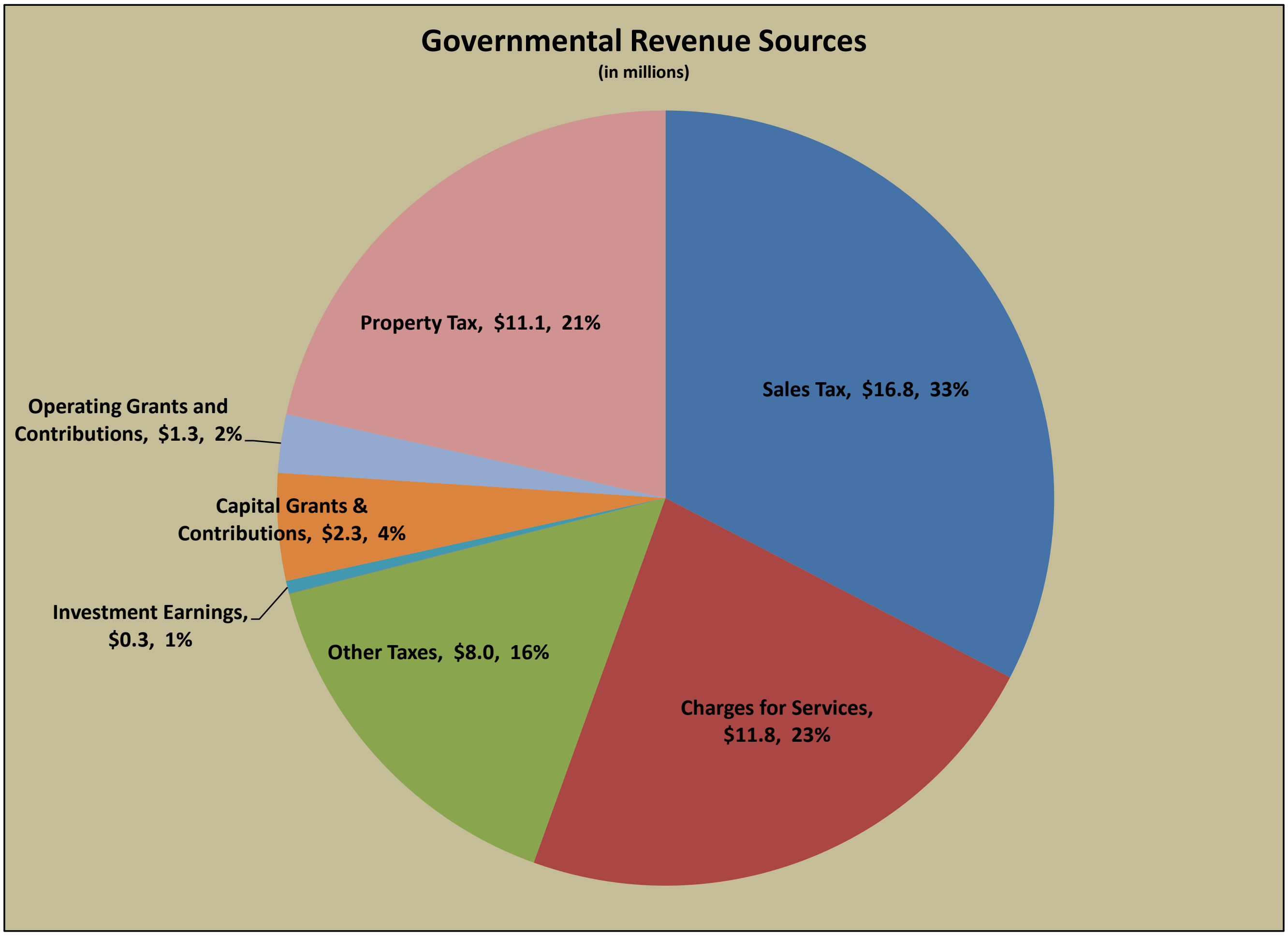


Public safety (which includes the police, fire and municipal court departments) is particularly dependent on tax support. The utilities (water, sewer, and storm drainage) are completely self-supporting through user fees. The golf course is not self-supporting at this time.

The transportation program shows a substantial amount of revenues and contributions. This is due primarily to several capital grants the city has received. These grants add the value of these capital facilities to the City assets in the form of investments in the City's transportation system, including roadways, sidewalks, and traffic signals.

Revenues by Source – Governmental Activities

The next pie chart shows the distribution of income for all governmental activities, including capital grants and debt service. Sales taxes represent 33% of total governmental revenues. Most capital and operating grants are for transportation purposes.



<u>Business-type activities</u>

Business-type activities increased the City of Lynnwood's net assets by $552,595.

Business-type activities Revenues

Charges for Services increased by approximately $1.3 million or 9.6% (from $13.5 million to $14.8 million). Total revenues increased by 8.8%.

In 2010, the city conducted a rate study and adopted an ordinance with a comprehensive utility rate increase which took effect in January of 2011. This rate increase is necessary to keep pace with inflation in the operation of the utility and to finance capital improvement needs of the various components of the utility system (water, sanitary sewer, and storm drainage). The City of Lynnwood still maintains its position as one of the lowest utility cost municipalities in the region.

Business-type activities Expenses

Expenses related to water, sewer, and storm utility increased by approximately $805,200, or 7%, from 2010. The Golf course expenses increased by approximately $56,750, or 5% from 2010.

Financial Analysis of the City's Funds

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

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, unassigned fund balance may serve as a useful measure of the city's net resources available for spending at the end of a fiscal year.

As of the end of 2011, the city's governmental funds reported combined ending fund balances of

- -$5,582,563. This figure is the result of the impact of a current liability for a Bond Anticipation Note (BAN) for renovations of the City's Recreation Center. Bonds were issued in early 2012 to fund this liability long term.

General Fund Budgetary Highlights

On the revenues side the following highlights occurred:

- The City sold its business park property for $3.5 million.
- The City's 2011 local sales tax revenues increased by only $645,992 or 4% compared to fiscal 2010. These low sales tax levels are expected to continue into the foreseeable future.
- In 2011, the total property tax revenues collected were $8,302,800 or an increase of 12.8% over collections in 2010.
- The number of permits issued in 2011 was 2,162, an increase of 10.9% compared to fiscal 2010. The associated permit revenues totaled $800,422 or a decrease of 2.6% over the prior year.
- In 2011, the City received $255,299 in mitigation payments, down $8,946 or -3% from 2010. This revenue stream continues to be well below the original estimate prepared by the State Department of Revenue (DOR) in 2007.

On the expenditure side the following occurred:

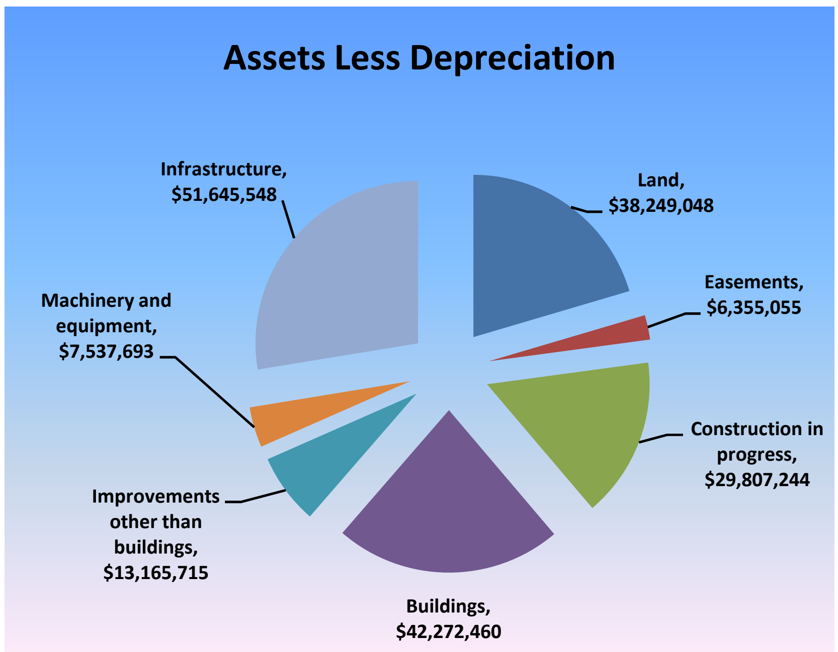
- 2011 Final General Fund budgeted expenditures were $47,952,572, the actual expenditures were $42,487,404 for a difference of $5,465,168. This difference is mainly driven by personnel related costs.

Capital Assets and Debt Administration

Capital Assets

The City of Lynnwood's investment in capital assets for its governmental and business-type activities as of December 31, 2011, amounts to $187.7 million (net of accumulated depreciation). This investment in capital assets includes land and construction in progress, both of which are not subject to depreciation. The other capital assets, buildings and systems, improvements other than buildings and systems, machinery and equipment, and infrastructure are subject to depreciation.

Governmental type capital assets (net of depreciation) totaled $135.1 million in 2011. Business-type assets (net of depreciation) totaled $52.1 million, a decrease of $0.5 million from 2010. More information on the City's Capital Assets can be found in Note 5 in the Notes to Financial Statements.



Long-Term Debt

At the end of 2011, the City of Lynnwood had total bonded debt outstanding of $6,775,147. Of this amount, $3,313,632 is backed by the full faith and credit of the City and $3,430,000 is special assessment debt for which the City is not liable for repayment. Accounting for accumulated absences adds $4,072,950 and bond anticipation notes add $24,706,624 to the general debt. The remainder of the debt ($16,906,423) represents bonds, leases, and loans secured solely by specified revenue sources (i.e., revenue bonds) and pension related commitments.

The City's total debt increased by $4.2 million in 2011, this change is mainly driven by the increased utilization of the BAN in 2010. More information on the City's Debt can be found in Note 7.

GOVERNMENTAL ACTIVITIES:	BALANCE 1/1/2011	ADDITIONS	REDUCTIONS	BALANCE 12/31/2011	CURRENT PORTION
General obligations bonds	$ 4,057,018	$ -	$ 743,386	$ 3,313,632	$ 746,603
Special assessment bonds (1)	3,930,000	-	500,000	3,430,000	500,000
Other post-employment Benefits	1,252,835	576,458	-	1,829,293	-
Compensated absences	4,038,683	2,865,867	2,831,600	4,072,950	1,004,176
TOTAL – GOVERNMENTAL ACTIVITIES	$ 13,278,536	$ 3,442,325	$ 4,074,986	$ 12,645,875	$ 2,250,779
LTGO BANS 2008 (2)	$ 18,341,256	$ 6,365,368	$ -	$ 24,706,624	$ 24,706,624
BUSINESS TYPE ACTIVITIES:					
Revenue bonds	$ 15,825,000	$ -	$ 1,100,000	$ 14,725,000	$ 1,145,000
General obligations bonds - Golf	437,272	-	405,757	31,515	15,757
Compensated absences	351,945	185	-	352,130	89,735
TOTAL – BUSINESS TYPE ACTIVITIES	$ 16,614,217	$ 185	$ 1,505,757	$ 15,108,645	$ 1,250,492

(1) Estimated current portion - many bonds are callable, therefore, exact amounts are not known.
(2) This is a line of credit with a maximum available amount of $25,480,000; $6,365,368 was drawn in 2011.

Economic Factors and the Next Year's Budgets and Rates

The sluggish economy continues to present challenges to the City. At the end of fiscal year 2009, the General Fund borrowed $3.0 million from the Utility Fund to address year end cash flow needs. These funds are being paid back during the 2011-2012 biennium. Additionally, in 2011 the City sold a business park property for $3.5 million (cash) to further fortify its financial footing. The measures were taken to address the structural budgetary and cash flow deficiencies. The City, during 2011, also instituted a 5.5% expenditure reduction over the 2011-2012 biennium, which contributed to under spending in the 2011 General Fund adopted budget by $5.5 million. Lastly, the City continues to discuss and develop long term plans which will address both structural budget deficits and the future needs of the City's citizens.

Historical Perspective

The City saw a rebound in the construction industry in 2003 that continued through 2004 but dropped off in 2005 and 2007 as many large projects were completed.

The increases prior to 2008 were stimulated by a few significant projects. These projects included an expansion of the Alderwood Mall; a $100+ million project which expanded the size of the mall from 1 million square feet to 1.5 million square feet. This project resulted in three significant milestones: The opening of a new, larger Nordstrom's in the fall of 2003, the opening of 40+ shops in "The Village" in the fall of 2004 and the opening of the 16 screen Loews Theater in March of 2005.

Another significant project is the Lynnwood PFD's convention center project. This project started in 2003 and was completed in April 2005 and completed its first successful full year in 2007. The convention center adds a significant new asset to the community's ability to attract visitors. It also represents a significant step forward for the city's "City Center Development."

Unfortunately the impact of the "great recession" in 2008 through 2011 reversed many of these gains. However as the recovery takes hold, the city has the built capacity to take advantage of general economic growth and resume its capture of the market-area's retail trade.

Looking to the future, the City Center Project is a regional land use project which is intended to transform the city's core from a density of about 3 million square feet of development to about 9 million square feet over 20 years. The project, approved by the City Council in March of 2005 essentially changes the density from 35% maximum lot coverage to a mid-rise design with underground parking. The Council and the business community are currently addressing the infrastructure and other investments to support such a change. While the current recession has probably stalled the development of the center, the planning for this major project is completed and ready to proceed as regional economic growth resumes.

Much of this regional economic growth may be centered on the Everett Boeing plant. The decision to develop and assemble the latest model of Boeing commercial airplanes at the Everett facility is a significant boom to the local aerospace industries and will be an additional major stimulus to economic growth in Snohomish County as a whole and facilitate the area's recovery from the recession.

Negative Impacts of State law Changes

Motor Vehicle Excise Tax

Washington has seen a wave of initiatives and anti-tax measures over the past several years. The most significant changes are the elimination of the motor vehicle excise tax, the elimination of a motor vehicle license fee, and the imposition of a one-percent limit to increases in the property tax.

Streamlined Sales Tax

The Streamlined Sales Tax (SST) Legislation with full mitigation was passed in 2007. This legislation changed the incidence of sales tax collection from the point of sale to the point of delivery. This legislation was necessary for the State to participate in an interstate compact that would allow the state to collect sales tax on Internet sales that occur in participating states.

Since Lynnwood has many businesses that, after sale in Lynnwood, deliver their product outside the city limits, this legislation has adversely affected sales tax collection in the City. While the legislation was pending in the legislature, the City of Lynnwood worked with the Association of Washington Cities and other cities that would be adversely affected by this type of legislation to develop legislation that included a program to compensate cities for lost revenues. Although the legislation did provide for mitigation payments to offset the impacts of this legislation on cities such as Lynnwood, these payments have not been as much as was hoped and do not appear to compensate for the losses that have occurred under the legislation. However, any such losses are not identifiable and would be included in the general loss of revenue that has occurred during the recession.

New Revenue Sources

In 2010, the city conducted a rate study and adopted an ordinance with a comprehensive utility rate increase which took effect in January of 2011. This rate increase is necessary to keep pace with inflation in the operation of the utility and to finance capital improvement needs of the various components of the utility system (water, sanitary sewer, and storm drainage). The City of Lynnwood still maintains its position as one of the lowest utility cost municipalities in the region.

Other Post Employment Benefits (OPEB)

GASB Statement No. 45 of the Governmental Accounting Standards Board (“GASB 45”) Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions requires state and local governments to account for and report their costs associated with Other Post Employment (non-pension) Employee Benefits (“OPEB”), primarily for retired employee health care benefits. GASB 45 requires employers to account and report OPEB costs in the same manner as pensions. Under prior rules, OPEB costs were reported as an expense on a pay-as-you-go basis and were not reported as a liability on governmental financial statements. GASB 45 requires that state and local governments adopt actuarial methodologies to determine annual OPEB costs. Annual OPEB costs are actuarially determined amounts that would provide sufficient resources to pay benefits as they come due, if paid on an ongoing basis. GASB 45 requires disclosure of the annual OPEB costs and does not require actual funding of the costs. The actuarial valuation determines the Annual Required Contribution (“ARC”) for the employer.

The ARC is the sum of (a) the normal cost for the year (the present value of future benefits being earned by current employees) and (b) the amortization of the unfunded accrued liability (benefits already earned by current and former employees but not yet provided for). The amortization period is not more than 30 years. If the City contributes an amount less than the ARC, a net incremental OPEB obligation will result, which is required to be recorded as a liability on its financial statements. The City engaged Milliman as its actuary for purposes of estimating its actuarial unfunded OPEB liabilities. The estimate is based on certain assumptions that include: (i) a discount rate of 4%, (ii) 30 year amortization period, (iii) medical inflation of 7.8%, (iv) long term care inflation rate of 4.75%, and (v) various demographic assumptions (mortality, disability, and retirement). The estimated actuarial accrued liability is $21,683,000. The ARC estimated for calendar year 2011 is $1,347,439. The City has a Net OPEB Obligation at the end of the year of $1,710,616 which is included as a noncurrent liability in the Statement of Net Assets.

Requests for Information

This financial report is designed to provide a general overview of the City of Lynnwood's finances for all those with an interest in the city's finances.

Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Director, City of Lynnwood, PO Box 5008, Lynnwood, WA 98046.

Another resource is the City's web site. On the web site you will find:

- This report
- The full budget as published
- Current and past interim financial reports
- Detailed information about the city's sales tax collections
- Detailed information about the city's investments program
- The capital facilities program
- The annual performance report
- Departmental strategic plans
- An overall description of the city's fiscal management system

Our web site address is:

www.ci.lynnwood.wa.us

Select "City Finances"

under "City Hall"

CITY OF LYNNWOOD, WASHINGTON
STATEMENT OF NET ASSETS
DECEMBER 31, 2011

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Public Facilities District
ASSETS				
CURRENT ASSETS				
Cash and Equivalents	$ 19,550,646	$ 4,437,743	$ 23,988,389	$ 2,898,893
Receivables (net)	9,381,742	1,967,251	11,348,993	218,798
Internal balances	(4,042,515)	4,042,515	-	-
Inventories	-	10,832	10,832	10,617
Deferred Lease Commissions	-	-	-	21,510
Prepaid items	772,147	66,598	838,745	65,133
Restricted cash & investments:				
Customer Deposits	311,455	51,501	362,956	-
Restricted Cash	-	7,159,378	7,159,378	1,090,464
Restricted Investments	-	-	-	1,000,000
Bond Covenant Accounts	-	1,749,362	1,749,362	-
Total Current Assets	25,973,475	19,485,180	45,458,655	5,305,415
NONCURRENT ASSETS				
Long-term notes receivable, net of current portion, net of allowance for uncollectibles	3,316,932	61,322	3,378,254	-
Deferred Charges	-	138,692	138,692	570,057
Capital Assets not being depreciated:				
Land	31,382,280	6,866,768	38,249,048	6,788,800
Intangible Assets - Easements	436,742	4,150,120	4,586,862	-
Construction in Progress	24,207,018	5,600,226	29,807,244	-
Capital Assets - Depreciable:				
Buildings and Improvements	68,104,752	38,685,569	106,790,321	17,371,546
Equipment	15,781,278	2,282,566	18,063,844	415,060
Infrastructure	57,681,370	40,084,771	97,766,141	50,271
Accumulated Depreciation	(62,468,406)	(45,530,484)	(107,998,890)	-
Net Capital Assets	135,125,034	52,139,536	187,264,570	24,625,677
Total Noncurrent Assets	138,441,966	52,339,550	190,781,516	25,195,734
Total Assets	**164,415,441**	**71,824,730**	**236,240,171**	**30,501,149**
LIABILITIES				
CURRENT LIABILITIES				
Accounts Payable and Accrued Expenses	1,458,337	522,235	1,980,572	436,305
Unearned Revenue	4,327,973	147,972	4,475,945	340,329
Other Current Liabilities	-	53,453	53,453	-
Due Within One Year	27,405,912	1,250,492	28,656,404	360,000
Current Liabilities Payable from Restricted Assets:				
Liabilities Payable from Restricted Assets	-	47,389	47,389	-
Total Current Liabilities	33,192,222	2,021,541	35,213,763	1,136,634
Noncurrent Liabilities:				
Due in More Than One Year	10,395,095	14,054,566	24,449,661	27,951,621
Total Noncurrent Liabilities	10,395,095	14,054,566	24,449,661	27,951,621
Total Liabilities	**43,587,317**	**16,076,107**	**59,663,424**	**29,088,255**
NET ASSETS				
Invested in Capital Assets, Net of Related Debt	103,947,274	44,192,179	148,139,453	(3,212,048)
Restricted for:				
Prepaid Rent	772,147	-	772,147	-
Debt Service	1,907,158	1,749,362	3,656,520	2,090,464
Capital Projects	1,591,084	7,005,575	8,596,659	-
Special Revenue	3,031,958	-	3,031,958	-
Other	1,493,841	205,304	1,699,145	-
Unrestricted	8,084,662	2,596,203	10,680,865	2,534,477
Total Net Assets	**$ 120,828,124**	**$ 55,748,623**	**$ 176,576,747**	**$ 1,412,893**

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

CITY OF LYNNWOOD, WASHINGTON
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2011

		Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
			Grants and Contributions		Primary Government			
			Grants & Contributions					
	Expenses	**Charges for Services**	**Operating**	**Capital**	**Governmental Activities**	**Business-type Activities**	**Total**	**Component Units**
FUNCTIONS/PROGRAMS								
Governmental Activities:								
General Government	$ 6,660,794	$ 2,759,871	$ -	$ -	$ (3,900,923)		$ (3,900,923)	$ -
Judicial	1,046,440	3,953,530	-	-	2,907,090		2,907,090	-
Public Safety	24,493,023	1,205,579	426,695	2,051	(22,858,698)		(22,858,698)	-
Physical Environment	1,784,719	24,591	18,482	-	(1,741,646)		(1,741,646)	-
Transportation	4,254,909	267,884	752,850	2,281,963	(952,212)		(952,212)	-
Economic Environment	2,833,651	1,381,393	-	-	(1,452,258)		(1,452,258)	-
Culture & Recreation	7,288,721	2,184,727	58,477	21,199	(5,024,318)		(5,024,318)	-
Interest on long-term debt	1,094,163	-	-	-	(1,094,163)		(1,094,163)	
Total Governmental Activities	49,456,420	11,777,575	1,256,504	2,305,213	(34,117,128)		(34,117,128)	-
Business-type Activities:								
Water	3,799,099	3,574,834	-	86,102		(138,163)	(138,163)	-
Sewer	7,138,374	7,923,908	-	6,300		791,834	791,834	-
Golf	1,081,900	1,067,013	-	-		(14,887)	(14,887)	-
Storm Drainage	1,903,459	2,240,811	-	119,983		457,335	457,335	
Total Business-type Activities	13,922,832	14,806,566	-	212,385		1,096,119	1,096,119	-
Total Primary Government	63,379,252 -	26,584,141	1,256,504	2,517,598	(34,117,128)	1,096,119	(33,021,009)	-
Component units:								
Public Facilities District	5,582,955	3,062,662	-	-	-	-	-	(2,520,293)
Total Component Units	5,582,955	3,062,662	-	-	-	-	-	(2,520,293)
	General Revenues:							
	Property Taxes				11,092,172	-	11,092,172	-
	Sales Taxes				16,827,611	-	16,827,611	2,159,681
	B&O Taxes				6,403,886	-	6,403,886	-
	Other Taxes				1,592,679	-	1,592,679	-
	Investment Earnings				271,185	71,596	342,781	23,531
	Disposition of capital assets				6,947	1,696	8,643	-
	Transfers				616,816	(616,816)	-	-
	Total General Revenues and Transfers				36,811,296	(543,524)	36,267,772	2,183,212
	Change in Net Assets				2,694,168	552,595	3,246,763	(337,081)
	Net Assets - Beginning				118,133,956	55,196,028	173,329,984	1,802,725
	Prior Period Adjustments				-	-	-	(52,746)
	Net Assets - Ending				120,828,124	55,748,623	176,576,747	1,412,898

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

CITY OF LYNNWOOD, WASHINGTON
BALANCE SHEET
GOVERNMENTAL FUNDS

For Fiscal Year Ended December 31, 2011

	GENERAL	LID 93-1	COMMUNITY CENTER	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
ASSETS					
Current Assets:					
Cash and Equivalents	$ 9,345,983	$ 45,157	$ 353,643	$ 6,868,043	$ 16,612,826
Cash with Fiscal Agent	-	185,000	-	-	185,000
Receivables (net)	5,703,393	4,022,150	-	578,817	10,304,360
Due From Other Governments	52,765	-	-	583,141	635,906
Prepayments	772,147	-	-	-	772,147
Due From Other Funds	137,485	-	-	-	137,485
Cash - Restricted	88,254	-	-	223,201	311,455
Total Assets	**$ 16,100,027**	**$ 4,252,307**	**$ 353,643**	**$ 8,253,202**	**$ 28,959,179**
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts Payable	620,172	-	81,146	570,691	1,272,009
Due to Other Funds	2,185,136	-	-	2,050,000	4,235,136
Deferred Revenues	647,360	3,316,932	-	-	3,964,292
Unearned Revenue	122,239	-	-	241,442	363,681
BANS payable	-	-	24,706,624	-	24,706,624
Total Liabilities	3,574,907	3,316,932	24,787,770	2,862,133	34,541,742
Fund Balances:					
Nonspendable:					
Prepaid Rent	$ 772,147	$ -	$ -	$ -	$ 772,147
Long-term Interfund Advance	137,485	-	-	-	137,485
Restricted for:					
Capital Projects	-	-	-	357,981	357,981
Cultural	-	-	-	-	-
Debt Service	-	935,375	-	1,040,524	1,975,899
Law Enforcement	-	-	-	1,275,845	1,275,845
Parks & Recreation	65,914	-	-	487,029	552,943
Public Facilities District	-	-	-	535,189	535,189
Public Safety	-	-	-	112,021	112,021
Transportation	-	-	-	521,914	521,914
Other	22,340	-	-	-	22,340
Committed to:					
Capital Projects	-	-	-	1,132,341	1,132,341
Cultural	-	-	-	24,797	24,797
Other	-	-	-	90,313	90,313
Imprest cash	31,280	-	-	-	31,280
Assigned to:					
Sale of property	2,814,864	-	-	-	2,814,864
Purchases on Order	1,612,633	-	-	920,588	2,533,221
Transportation	-	-	-	210,659	210,659
Other	-	-	-	285,687	285,687
Program development	288,147	-	-	-	288,147
Unassigned:	6,780,310	-	(24,434,127)	(1,603,819)	(19,257,636)
Total Fund Balances (deficits)	12,525,120	935,375	(24,434,127)	5,391,069	(5,582,563)
Total Liabilities and Fund Balances	**$ 16,100,027**	**$ 4,252,307**	**$ 353,643**	**$ 8,253,202**	**$ 28,959,179**

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

CITY OF LYNNWOOD, WASHINGTON
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS

December 31, 2011

Amounts reported for governmental activities in the statement of net assets are different because:			
Total fund balances - governmental funds			$ (5,582,563)
Capital assets used in governmental activities are not financial resources and are not reported in the funds			128,289,653
The focus of governmental funds is on short-term financing; long-term assets are deferred in the funds			-
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds			
	Compensated absences	(4,039,432)	
	Firemen's Pension Fund	(118,677)	
	Bonds, notes, loans payable	(6,743,632)	
	Other noncurrent liabilities	(1,710,616)	
	Accrued interest payable	(68,741)	(12,681,098)
Internal service funds are used by management to charge the costs fleet, equipment, and risk management to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.			10,802,132
Net assets of governmental activities			$ 120,828,124

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

CITY OF LYNNWOOD, WASHINGTON
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS

For the Year Ended December 31, 2011

	GENERAL	LID 93-1	COMMMUNITY CENTER	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
REVENUES					
Taxes:					
Property	$ 8,302,800	$ -	$ -	$ 2,789,372	$ 11,092,172
Sales	15,298,365	-	-	1,529,246	16,827,611
B & O	6,403,886	-	-	-	6,403,886
Other	165,328	-	-	510,662	675,990
Licenses and Permits	2,978,554	-	-	98,165	3,076,719
Intergovernmental Revenues	1,712,125	497,593	-	3,222,933	5,432,651
Charges for Services	4,608,366	-	-	335,080	4,943,446
Fines and Forfeitures	3,872,134	-	-	114,521	3,986,655
Other - Interest	20,532	232,138	-	13,844	266,514
Other - Rent	221,914	-	-	-	221,914
Miscellaneous	115,599	-	-	35,547	151,146
TOTAL REVENUE	43,699,603	729,731	-	8,649,370	53,078,704
EXPENDITURES					
Current					
General Government	8,055,919	-	-	-	8,055,919
Public Safety	23,706,754	-	-	150,369	23,857,123
Judicial	1,045,954	-	-	-	1,045,954
Utilities & Environment	1,893,481	-	-	149,007	2,042,488
Economic Environment	2,839,056	-	-	-	2,839,056
Transportation	700	-	-	1,962,404	1,963,104
Culture and Recreation	4,799,277	-	580,843	1,009,627	6,389,747
Capital Outlay	110,922	-	3,367,786	3,405,501	6,884,209
Debt Service - Principal	-	500,000	-	775,886	1,275,886
Debt Service - Interest and Fiscal Charges	35,341	235,715	585,883	160,300	1,017,239
TOTAL EXPENDITURES	42,487,404	735,715	4,534,512	7,613,094	55,370,725
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	1,212,199	(5,984)	(4,534,512)	1,036,276	(2,292,021)
OTHER FINANCING SOURCES (USES)					
Transfers In	3,183,022	-	-	2,900,929	6,083,951
Transfers Out	(713,459)	-	-	(4,958,676)	(5,672,135)
TOTAL OTHER FINANCING SOURCES (USES)	2,469,563	-	-	(2,057,747)	411,816
SPECIAL ITEM					
Proceeds from sale of Business Park	3,531,547	-	-	-	3,531,547
NET CHANGE IN FUND BALANCES	7,213,309	(5,984)	(4,534,512)	(1,021,471)	1,651,342
Fund Balances, January 1	5,311,811	941,359	(19,899,615)	6,412,540	(7,233,905)
FUND BALANCES, DECEMBER 31	**$ 12,525,120**	**$ 935,375**	**$ (24,434,127)**	**$ 5,391,069**	**$ (5,582,563)**

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

CITY OF LYNNWOOD, WASHINGTON
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2011

		TOTAL GOVERNMENTAL FUNDS
Amounts reported for governmental activities in the statement of activities are different because:		
Net changes in fund balances for governmental funds		$ 1,651,342
Governmental funds report capital outlays as expenditures. In the statement of activities, the cost of those assets is depreciated over their estimated useful lives.		
Capital outlays	$ 6,884,209	
Depreciation	(4,081,537)	
Sale of Assets	(3,407,432)	(604,760)
The issuance of long-term debt (e.g., bonds, leases) is a resource and the repayment of bond principal is an expenditure in governmental funds, but those transactions increase or reduce long-term liabilities in the statement of net assets.		
Debt Retired	$ 1,267,703	1,267,703
Adjustment to reconcile to prior year fund balance		68,334
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.		(321,501)
Internal service funds are used by management to charge the costs of certain activities to individual funds. The net revenue of most of these activities is reported with governmental activities.		633,050
Change in net assets of governmental activities		$ 2,694,168

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

CITY OF LYNNWOOD, WASHINGTON
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
For Fiscal Year Ended December 31, 2011

	Original Budget	Final Budget	Actual Amount	Variance with Final Budget Positive (Negative)
REVENUES				
Taxes:				
Property	$ 8,395,403	$ 8,395,403	$ 8,302,800	$ (92,603)
Sales	14,756,873	14,756,873	15,298,365	541,492
B & O	5,989,246	5,989,246	6,403,886	414,640
Other	158,635	158,635	165,328	6,693
Licenses and Permits	3,137,517	3,137,517	2,978,554	(158,963)
Intergovernmental Revenues	1,516,986	2,107,376	1,712,125	(395,251)
Charges for Services	4,848,606	4,848,606	4,608,366	(240,240)
Fines and Forfeitures	5,475,684	5,475,684	3,872,134	(1,603,550)
Other - Interest	257,175	257,175	20,532	(236,643)
Other - Rent	374,343	374,343	221,914	(152,429)
Miscellaneous	257,268	393,052	115,599	(277,453)
TOTAL REVENUE	45,167,736	45,893,910	43,699,603	(2,194,307)
EXPENDITURES				
Current				
General Government	8,873,309	8,948,309	8,055,919	892,390
Public Safety	26,260,847	26,736,702	23,706,754	3,029,948
Judicial	1,223,550	1,223,550	1,045,954	177,596
Transportation	-	-	700	(700)
Utilities & Environment	2,049,779	2,049,779	1,893,481	156,298
Economic Environment	3,116,012	3,424,831	2,839,056	585,775
Culture and Recreation	5,439,561	5,439,561	4,799,277	640,284
Capital Outlay	128,950	128,950	110,922	18,028
Debt Service - Interest and Fiscal Charges	890	890	35,341	(34,451)
TOTAL EXPENDITURES	47,092,898	47,952,572	42,487,404	5,465,168
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(1,925,162)	(2,058,662)	1,212,199	3,270,861
OTHER FINANCING SOURCES (USES)				
Transfers In	3,444,218	3,594,218	3,183,022	(411,196)
Transfers Out	(1,184,488)	(1,184,488)	(713,459)	471,029
Sale of Fixed Assets	-	-	3,531,547	3,531,547
TOTAL OTHER FINANCING SOURCES (USES)	2,259,730	2,409,730	6,001,110	3,591,380
NET CHANGE IN FUND BALANCES	334,568	351,068	7,213,309	6,862,241
Fund Balances, January 1	-	-	5,311,811	5,311,811
FUND BALANCES, DECEMBER 31	**$ 334,568**	**$ 351,068**	**$ 12,525,120**	**$ 12,174,052**

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

CITY OF LYNNWOOD, WASHINGTON
PROPRIETARY FUNDS
STATEMENT OF NET ASSETS

December 31, 2011

	Business Type Activities-Enterprise Funds			GOVERNMENTAL ACTIVITIES
	WATER & SEWER UTILITY	GOLF COURSE	TOTAL	INTERNAL SERVICE FUNDS
ASSETS				
CURRENT ASSETS:				
Cash and Cash Equivalents	$ 4,437,191	$ 552	$ 4,437,743	$ 2,752,820
Receivables (net of allowance for uncollectibles):				
Accounts	1,962,151	-	1,962,151	1,758,408
Accrued interest	5,100	-	5,100	-
Due from other funds	5,480,000	-	5,480,000	203,710
Prepaid Expenses	55,576	11,022	66,598	-
Inventories, at cost	-	10,832	10,832	-
Restricted Assets - Cash & Investments:				
Cash	7,005,575	-	7,005,575	-
Customer Advance Payments	121,516	32,287	153,803	-
Revenue Bond Current Debt Service	1,145,000	15,757	1,160,757	-
Revenue Bond Future Debt Service Bond Reserve	588,605	-	588,605	-
Other	35,960	15,541	51,501	-
TOTAL CURRENT ASSETS	20,836,674	85,991	20,922,665	4,714,938
NONCURRENT ASSETS				
Notes Receivable-Noncurrent	61,322	-	61,322	-
Deferred Charge: Revenue Bond Issuance Costs	138,697	-	138,697	-
PROPERTY, PLANT, AND EQUIPMENT:				
Land	3,203,398	3,663,369	6,866,767	-
Intangible - Easements	4,150,120	-	4,150,120	-
Buildings	35,542,166	199,850	35,742,016	1,862,098
Improvements Other Than Buildings	1,844,471	1,099,081	2,943,552	-
Machinery and Equipment	1,831,917	450,648	2,282,565	9,934,076
Infrastructure	40,084,771	-	40,084,771	-
Construction In Progress	5,597,939	2,285	5,600,224	259,886
(Less) Accumulated Depreciation	(44,753,999)	(776,485)	(45,530,484)	(5,220,680)
NET PROPERTY, PLANT, AND EQUIPMENT	47,500,783	4,638,748	52,139,531	6,835,380
TOTAL NONCURRENT ASSETS	47,700,802	4,638,748	52,339,550	6,835,380
TOTAL ASSETS	**68,537,476**	**4,724,739**	**73,262,215**	**11,550,318**

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

CITY OF LYNNWOOD, WASHINGTON
PROPRIETARY FUNDS
STATEMENT OF NET ASSETS

December 31, 2011

	Business Type Activities-Enterprise Funds			GOVERNMENTAL ACTIVITIES
	WATER & SEWER UTILITY	GOLF COURSE	TOTAL	INTERNAL SERVICE FUNDS
LIABILITIES				
Current Liabilities (Payable from Current Assets):				
Accounts Payable & Accrued Expenses	$ 446,063	$ 7,426	$ 453,489	$ 117,586
Due to Other Governments	-	14,478	14,478	-
Accrued Interest on Contracts	-	54,268	54,268	-
Compensated Absences	66,211	23,524	89,735	9,063
Due To Other Funds	-	1,437,485	1,437,485	148,574
Claims and Judgments	-	-	-	448,509
Matured Bonds Payable	1,145,000	15,757	1,160,757	-
Gift Certificates	-	26,456	26,456	-
Current Liabilities (Payable from Restricted Assets):				
Accrued Revenue Bond Interest	47,389	-	47,389	-
Customer Deposits	157,476	17,493	174,969	-
Total Current Liabilities	1,862,139	1,596,887	3,459,026	723,732
Noncurrent Liabilities:				
Compensated Absences	174,410	87,986	262,396	24,454
Revenue Bonds, Net of Current Portion	13,580,000	-	13,580,000	-
LTGO Bonds, Net of Current Portion	-	15,758	15,758	-
Unamortized Premium	290,863	-	290,863	-
(Less) Unamortized Bond Discount	(94,451)	-	(94,451)	-
Total Noncurrent Liabilities	13,950,822	103,744	14,054,566	24,454
Total Liabilities	15,812,961	1,700,631	17,513,592	748,186
NET ASSETS				
Invested in Capital Assets, net of related debt	39,584,946	4,607,233	44,192,179	6,835,380
Restricted for:				
Capital Projects	7,005,575	-	7,005,575	-
Debt Service	1,733,605	15,757	1,749,362	-
Other	157,476	47,828	205,304	-
Unrestricted	4,242,913	(1,646,710)	2,596,203	3,966,752
Total Net Assets	$ 52,724,515	$ 3,024,108	$ 55,748,623	$ 10,802,132

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

CITY OF LYNNWOOD, WASHINGTON
PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

For the Year Ended December 31, 2011

	Business-Type Activities-Enterprise Funds			GOVERNMENTAL ACTIVITIES
	WATER & SEWER UTILITY	GOLF COURSE	TOTAL	INTERNAL SERVICE FUNDS
Operating Revenues				
Charges for Services/Fees-Water	$ 3,574,834	$ -	$ 3,574,834	$ -
Charges for Services/Fees-Sewer	7,914,806	-	7,914,806	-
Charges for Services/Fees-Storm	2,240,811	-	2,240,811	-
Charges for Sales & Services	-	936,099	936,099	2,444,117
Rentals	-	95,925	95,925	-
Other	9,102	2,489	11,591	36,619
Total Operating Revenues	13,739,553	1,034,513	14,774,066	2,480,736
Operating Expenses				
Administrative and General-Water	1,048,583	-	1,048,583	-
Administrative and General-Sewer	990,071	-	990,071	-
Administrative and General-Storm	898,872	-	898,872	-
Administrative and General	-	389,221	389,221	319,237
Maintenance and Operations-Water	2,288,899	-	2,288,899	-
Maintenance and Operations-Sewer	3,780,167	-	3,780,167	-
Maintenance and Operations-Storm	825,764	-	825,764	-
Maintenance and Operations	-	640,688	640,688	2,936,998
Depreciation-Water	461,617	-	461,617	-
Depreciation-Sewer	1,722,180	-	1,722,180	-
Depreciation-Storm	178,823	-	178,823	-
Depreciation	-	41,620	41,620	677,659
Total Operating Expenses	12,194,976	1,071,529	13,266,505	3,933,894
Operating Income (Loss)	1,544,577	(37,016)	1,507,561	(1,453,158)
Non Operating Revenues (Expenses)				
Miscellaneous Interest Revenue	71,596	-	71,596	4,671
Debt Issuance Costs	(13,779)	-	(13,779)	-
Interest expense	(632,178)	(10,370)	(642,548)	-
Gain (Loss) on Property Dispositions	1,696	-	1,696	(117,168)
Other	35,128	32,500	67,628	1,993,705
Net non-operating revenues (expenses)	(537,537)	22,130	(515,407)	1,881,208
Income (loss) before contributions and transfers	1,007,040	(14,886)	992,154	428,050
Capital Contributions and Transfers				
Water	86,102	-	86,102	-
Sewer	6,300	-	6,300	-
Storm	84,855	-	84,855	-
Transfers in	-	-	-	205,000
Transfers out	(616,816)	-	(616,816)	-
Change in Net Assets	567,481	(14,886)	552,595	633,050
Total Net Assets-Beginning	52,157,034	3,038,994	55,196,028	10,169,082
Total Net Assets--Ending	**$ 52,724,515**	**$ 3,024,108**	**$ 55,748,623**	**$ 10,802,132**

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

CITY OF LYNNWOOD, WASHINGTON
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS

For the Year Ended December 31, 2011

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS			
	WATER AND SEWER UTILITY	GOLF COURSE FUNDS	TOTAL	GOVERNMENTAL ACTIVITIES INTERNAL SERVICE FUNDS
Cash flows from operating activities:				
Cash received from customers	$ 13,814,274	$ 1,028,145	$ 14,842,419	$ 2,527,935
Other Operating Revenues	9,102	2,489	11,591	2,272
Cash payments to suppliers	(1,815,457)	(207,452)	(2,022,909)	0
Cash payments for operating expenses	(4,356,356)	(222,782)	(4,579,138)	(2,868,943)
Cash payments to employees for services	(3,270,883)	(543,626)	(3,814,509)	0
Taxes-Employer/State Excise	(597,755)	(48,359)	(646,114)	0
Net cash provided by operating activities	3,782,925	8,415	3,791,340	(338,736)
				0
Cash flows from noncapital financing activities:				
Misc. Non-Capital Financing	3,467,187	0	3,467,187	37,166
Net borrowing (repayment) loan agreement	(206,370)	(60,655)	(267,025)	0
Interest paid on interfund loan	0	(2,187)	(2,187)	0
Other Non-Operating Revenues	0	0	0	43,283
Operating Grants Received	35,128	0	35,128	0
Insurance Recovery	0	0	0	232,510
Transfers in	0	0	0	205,000
Transfers (out)	(616,816)	0	(616,816)	0
Net cash provided by noncapital financing activities	2,679,129	(62,842)	2,616,287	517,959
Cash flows from capital and related financing activities:				
Acquisition and construction of capital assets	(1,963,674)	0	(1,963,674)	(533,752)
Proceeds from sale of equipment	9,693	0	9,693	129,490
Principal paid on revenue bonds	(1,100,000)	(373,257)	(1,473,257)	0
Interest paid on revenue bonds and contracts	(645,957)	(8,183)	(654,140)	0
Capital contributed	177,257	0	177,257	0
Net cash used for capital and related financing activities	(3,522,681)	(381,440)	(3,904,121)	(404,262)
Cash flows from investing activities:				
Proceeds from sale of investments	0	0	0	2,851,315
Interest and dividends on investments	71,596	0	71,596	4,669
Net cash used in investing activities	71,596	0	71,596	2,855,984
Net increase (decrease) in cash and cash equivalents	3,010,969	(435,867)	2,575,102	2,630,945
Cash and cash equivalents at beginning of year	10,322,878	500,004	10,822,882	121,875
Cash and cash equivalents at end of year	$ 13,333,847	$ 64,137	$ 13,397,984	$ 2,752,820

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

CITY OF LYNNWOOD, WASHINGTON
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS

For the Year Ended December 31, 2011

	BUSINESS - TYPE ACTIVITIES - ENTERPRISE FUNDS			GOVERNMENTAL ACTIVITIES INTERNAL SERVICE FUNDS
	WATER AND SEWER UTILITY	GOLF COURSE FUNDS	TOTAL	
Reconciliation of operating income to net cash provided by operating activities				
Operating income (loss)	$ 1,544,582	$ (37,017)	$ 1,507,565	$ (1,453,157)
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation expense	2,362,620	41,620	2,404,240	677,659
Change in assets and liabilities:				
(Increase) Decrease in accounts receivable	(3,120)	0	(3,120)	49,468
(Increase) Decrease in inventory	0	3,157	3,157	21,544
(Increase) Decrease in prepaid expenses	0	0	0	18,975
Increase (Decrease) in accounts payable/wages	(121,157)	655	(120,502)	346,775
Total adjustments	2,238,343	45,432	2,283,775	1,114,421
Net cash provided by operating activities	$ 3,782,925	$ 8,415	$ 3,791,340	$ (338,736)
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES				
Gain or loss on property disposition			$ 1,696	$ (117,168)
Capital asset contributions from developers			177,257	0
			178,953	(117,168)
DISCLOSURE OF CASH AND CASH EQUIVALENTS				
Cash and Equivalents			$ 4,437,743	$ 2,752,820
Customer Deposits			153,803	0
Restricted Cash			7,005,575	0
Revenue Bond Current Debt Service			1,160,757	0
Restricted Cash Other			51,501	0
Revenue Bond Future Debt Service			588,605	0
Cash and cash equivalents at end of year			$ 13,397,984	$ 2,752,820

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

CITY OF LYNNWOOD, WASHINGTON
FIDUCIARY FUNDS
STATEMENT OF NET ASSETS

December 31, 2011

	FIREMEN'S PENSION FUNDS	AGENCY/ CLEARING FUNDS
ASSETS		
Cash and Equivalents	$ 764,904	$ 2,140,238
Accounts Receivable	-	-
Prepaid Insurance	37,189	-
Total Assets	802,093	2,140,238
LIABILITIES		
Accounts Payable	-	1,948,163
Deposits Payable	-	192,075
Total Liabilities	-	2,140,238
NET ASSETS		
Held in Trust for Pension Benefits and Other Purposes	$ 802,093	$ -

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

CITY OF LYNNWOOD, WASHINGTON
FIDUCIARY FUNDS
STATEMENT OF CHANGES IN PLAN NET ASSETS

For the year ended December 31, 2011

	FIREMEN'S PENSION FUNDS
ADDITIONS	
Fire Insurance Premiums	$ 46,024
Transportation Fees	-
Investment Income	
Interest	1,805
TOTAL ADDITIONS	47,829
DEDUCTIONS	
Benefits	59,096
Health Care Payments	44,707
Insurance	-
Other	12,725
TOTAL DEDUCTIONS	116,528
CHANGE IN NET ASSETS	(68,699)
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	
Beginning of Year	870,792
End of Year	$ 802,093

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Lynnwood have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. Our accounting policies are regulated by the Washington State Auditor's Office in accordance with state law. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

In June 1999, GASB unanimously approved Statement #34 “Basic Financial Statements and Management Discussion and Analysis for State and Local Governments.” Significant changes in the Statement include the following:

- A Management Discussion and Analysis (MD&A) section presenting an analysis of the City’s overall position and results of operation.
- A change in the fund financial statements focusing on the major funds.
- Prepared financial statements using full accrual accounting for all of the City’s activities, including infrastructure (streets, roads, etc.).

This statement, as well as, Statement #37 “Basic Financial Statements and Management’s Discussion and Analysis – for State and Local Governments”, and Statement #38 “Certain Financial Statement Note Disclosures” are reflected in the accompanying financial statements (including notes to financial statements). The City is required by GASB to report additions to infrastructure in the year GASB 34 is implemented. The GASB allows a phase 2 city, such as Lynnwood, to retroactively report all major general infrastructure assets for fiscal years beginning after June 15, 2006. The City has reported its infrastructure assets in Note 5 of this report.

For the fiscal year ended December 31, 2011, the City adopted GASB Statement No. 54 – Fund Balance Reporting and Governmental Fund Type Definitions. The objective of this Statement is to improve the usefulness, including the understandability, of governmental fund balance information. This Statement provides more clearly defined categories to make the nature and extent of the constraints placed on a government‘s fund balance more transparent. It also clarifies the existing governmental fund type definitions to improve the comparability of governmental fund financial statements and help financial statement users to better understand the purposes for which governments have chosen to use particular funds for financial reporting. Fund balance classifications are discussed in detail in section P.

The following is a summary of the more significant accounting policies utilized by the City in preparation of the accompanying financial statements.

A. REPORTING ENTITY

The City of Lynnwood was incorporated April 23, 1959, under the provisions of the Washington State Legislation and operates under an optional municipal code with a Mayor/Council form of government. The Mayor is the full-time Chief Executive Officer with seven part-time Council Members. The City's combined balance sheets include the accounts of all City operations. The City's major services include economic development services, parks and recreation, public works (streets and water/sewer utilities), planning and zoning, police and fire protection, and general administration services. The City's financial statements include all funds and activities that are controlled by or dependent on the City.

B. COMPONENT UNITS

1) DISCRETELY PRESENTED COMPONENT UNIT

Under Governmental Accounting Standards Board (GASB) Statement 14, the primary basis of determining whether outside agencies and organizations should be considered component units of the City and included in the City's financial statements is fiscal accountability. Fiscal accountability is defined as follows: A primary government has substantive authority to appoint a voting majority of a component unit's board; the primary government is either able to impose its will on a component unit or there is a potential for the component unit to provide specific financial benefits to, or impose specific financial burdens on, the primary government; and the component unit is fiscally dependent on the primary government.

The Lynnwood City Council formed the South Snohomish County Public Facilities District (PFD) on August 24, 1999 by adoption of its Ordinance No 2266. The PFD was created under the authority provided by the legislature during the 1999 legislative session and since codified as RCW 35.57. The purpose of the PFD is to construct and operate a "regional center" in the City of Lynnwood. RCW 35.57 defines a regional center as a conference, convention or special events center along with related parking.

A five-member board governs the PFD and is appointed to four-year terms by the City Council. The City provides funding for the PFD through hotel/motel taxes, making the PFD dependent upon the City of Lynnwood for its revenue source.

The PFD has authority under state law to issue debt, levy certain taxes, and enter into contracts. The legislation provided that the PFD commence construction of its regional center by January 1, 2003. The PFD incurred a short-term bank loan in the amount of $1,036,080 and sold short-term commercial paper in the amount of $8,600,000. The Convention Center was completed and had its grand opening on April 29, 2004.

In December 2004 the Lynnwood Public Facilities District issued $1,930,000 Convention Center Sales Tax Bonds, 2004 Series A (Taxable), $10,000,000 Convention Center Sales Tax Bonds, 2004 Series B and $17,265,000 Convention Center Revenue Bonds, 2005. The purpose for the issuance of these Bonds was to pay a portion of the cost of acquiring, constructing and equipping the Convention Center, to pay a portion of the cost of acquiring Auxiliary Facilities, to redeem and retire the Notes, to fund interest on the Series B Bonds and the Revenue Bonds through October 1, 2005 and to pay costs of issuance of the Bonds.

The PFD is presented as a discrete component of the City, and more information about the PFD, including complete financial statements, can be obtained at the Lynnwood City Hall.

2) BLENDED COMPONENT UNITS

The City of Lynnwood Council formed the Transportation Benefit District (TBD) on June 3, 2010 by its adoption of Ordinance No. 2837 pursuant to RCW 35.21.225 and RCW 36.73 for the purpose of levying of additional revenue sources for the purpose of acquiring, constructing, improving, providing and funding transportation improvements within the District that are consistent with the existing state, regional, and local transportation plans. The Transportation Benefit District is governed by the 7-member Lynnwood City Council acting in an ex officio and independent capacity. Although it is legally separated from the City of Lynnwood the Transportation Benefit District is reported as if it were part of the primary government because its sole purpose is for the construction, preservation, maintenance and operation of City streets.

The TBD received its first receipt of funds collected by the Department of Licensing on June 30, 2011.

C. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements (the Statement of Net Assets and the Statement of Activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely on fees and charges for support. The discrete component unit is reported separately from the City.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Our policy is to allocate indirect costs to a specific function or segment, and to directly charge programs as well.

Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements or a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate fund financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financials statements.

D. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

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

Property taxes, licenses, and interest associated within the current 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 assessment 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 accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. Each fund is accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures or expenses, as appropriate. The City's resources are allocated to and accounted for in individual funds, depending on what they are to be spent for and how they are controlled.

GOVERNMENTAL FUND TYPES:

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The City considers property taxes as available if they are collected within 60 days after year end. 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 payment is due. The Agency Funds, however, have no measurement focus.

This means that only current assets and current liabilities are generally included on their balance sheets. Their reported fund balances (net current assets) are considered a measure of "available expendable resources." Governmental fund operating statements focus on measuring changes in financial position, rather than net income; furthermore, they present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets.

The City reports the following major governmental funds:

General Fund

The General Fund is the City's operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. Beginning in 2011, the General Fund includes the following managerial fund which was reported as a special revenue fund in prior years:

> Program Development Fund was established to accumulate special appropriations and money from the General Fund that may be used for program development, enhancement or expansion projects, and for matching funds for grants and interlocal agreements.

LID 93-1

A Debt Service Fund used to pay LID Bonds from collected assessments.

Community Center

This fund was set up for the construction of a new recreation center. It also was for the study of a City community and senior center facility.

Water, Sewer and Storm Drainage Utility Fund

This fund serves as the main operating fund for providing water service, sewage treatment plant, pumping station and collection systems, as well as, storm water runoff drains and catch basins for the citizens of the City. It also acts to perform debt service duties for payment of a revenue bond used to construct the City's sewer treatment plant. This revenue bond has been refunded to provide better interest rates and provide funding for several utility projects around the City. See Note 7 to obtain more information on this refunded revenue bond issue.

Golf Course Fund

This fund accounts for all of the City's operation of an 18-hole municipal golf course and Pro shop.

The City reports the following fund groups as non-major funds:

Special Revenue Funds

These funds are used to account for the proceeds of specific revenue sources or to finance specified activities as required by law or administrative regulation.

Debt Service Funds

These funds are used to account for the accumulation of resources to pay interest and principal on general long-term debt.

Capital Projects Funds

These funds are used to account for financial resources to be used for the acquisition of capital facilities other than those financed by the proprietary funds.

PROPRIETARY FUND TYPES:

Proprietary funds are accounted for on a cost of services or economic resources measurement focus. This means that all assets and all liabilities (whether current or non-current) associated with their activity are included on their balance sheets. Proprietary fund operating statements present increases (revenues and gains) and decreases (expenses and losses) in net total assets. Proprietary funds disclose cash flows by a separate statement that presents their investing and financing activities.
Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City of Lynnwood has elected not to follow subsequent private-sector guidance.

The City eliminates the effect of interfund activity from the government-wide financial statements. There are some exceptions to this rule such as charges between the utility function and other functions within the City, and any payments-in-lieu of taxes. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connections with a proprietary fund's principal ongoing operations. The Enterprise funds operating revenue includes charges for services rendered for water, sewer, drainage, golf green fees and pro shop while the operating expenditures include administrative, maintenance expenses and depreciation on capital assets. All revenues and expenses not falling into the above broad categories are reported as nonoperating revenues and expenses.

Enterprise Funds

These funds are used to account for services to the general public where all or most of the costs including depreciation are to be financed or recovered from users of such services. The City maintains separate funds for water-sewer-storm utility operations, and a golf course. These funds are each reported as major funds in the enterprise funds.

Internal Service Funds

These funds are used to account for the financing of goods and services provided to other funds, departments, or governments on a cost-reimbursement basis. The City maintains funds in this category for stores, equipment rental, self-insurance and a reserve retirement fund.

FIDUCIARY FUND TYPES:

Fiduciary fund revenues and expenses should be recognized on the basis consistent with the fund's accounting measurement objective. Pension trust funds are accounted for on the full accrual basis. Agency fund assets and liabilities are also accounted for on the full accrual basis.

Trust Funds

These funds are used to account for cash and other assets received and held by the City acting in the capacity of trustee or custodian. Pension Trust Funds are accounted for in essentially the same manner as proprietary funds (capital maintenance), but with an important expanded emphasis on required fund balance reserves. The City uses one trust fund; the Firemen’s Pension Trust Fund.

Agency Funds

Agency funds are used to account for assets held by the City in a custodial capacity (assets equal liabilities) and do not involve measurement of results of operations. The City uses these funds to account for its investment activities, payroll and claims payables, arbitrage liabilities, and various deposits payable to State and local agencies and private contractors.

E. BASIS OF ACCOUNTING

Accounting records for the City are maintained in accordance with methods prescribed by the State Auditor under the authority of RCW 43.09, which is consistent with GAAP. The City uses the Budgeting, Accounting and Reporting System (BARS) manual put out by the Washington State Auditor.

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

Modified Accrual Basis of Accounting

The City utilizes the modified accrual basis of accounting for all governmental funds.

Revenues - Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual (i.e., both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to pay current liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period.

Property Tax - Property taxes levied, and the first 1/4% and the second 1/4% Real Estate Excise Tax due for the current year, are considered available and are recognized as revenues even though a portion of the taxes may be collected in the subsequent year. Snohomish County acts as the City's collection agent for these taxes.
Special Assessments - Recognized as revenue in the accounting period in which they become susceptible to accrual.

Grant Revenues - When expenditure is the prime factor for determining eligibility, the grant revenue is considered measurable and available. Therefore, grant revenues to be received as reimbursement for expenditure incurred in the current year are recognized as revenue in that year.

Interfund and Intergovernmental Services - When goods and services have been provided they are then considered both measurable and available.

Transfers - These are classified as "Other Financing Sources" and are considered measurable and available.

Interest - When investment interest has been earned and when material, it is considered measurable and available.

Revenue sources that are not considered to meet the measurable (and available) criteria include sales tax, licenses and permits, state shared revenues, fines/forfeitures, and other miscellaneous revenues. Their values are not known until received.

Expenditures - Under the modified accrual basis, expenditures are recorded when the fund liability is incurred, except for principal and interest on general long-term debt and vacation and sick pay, which are recorded when paid. Purchases of capital assets out of governmental funds are expensed during the year incurred and the asset is reported in the governmental column of the government-wide financial statement. Long-term liabilities, including vacation pay not currently due and payable, are also reported in the Government-wide financial statement.

Accrual Basis of Accounting

The City utilizes the accrual basis of accounting for all proprietary and fiduciary funds.

Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when incurred. Unbilled utility services are accrued through December 31. Capital assets and debt liability are also recorded. Lastly, fixed asset purchases are capitalized and long-term debt liability is recorded.

F. BUDGETARY DATA

1. Scope of Budget

The City budgets its funds in accordance with the Optional Municipal Code 35A.34 of the Revised Code of Washington. In compliance with this Code, all funds with the exception of custodial agency funds and LID debt service funds are budgeted. In June of 2002, the City passed an ordinance (in accordance with RCW 35A.34) to change from an annual budget to a biennial budget.

Budgets established for Proprietary Funds are "Management Budgets" and as such are not required to be reported in the financial statements. Budgets for all Capital Projects Funds are excluded from the biennial budget and are adopted on a project-length basis. These budgets primarily serve a management control function and related appropriations are continuing in nature, therefore, no comparison between budgeted and actual amounts for funds budgeted on this basis is provided in this document. In the year the biennial budget is prepared the following are the steps in the budget process:
January to March – The Council establishes a budget process calendar by resolution in January. The Council approves items to be carried over from the previous biennial budget because they did not get done and the money to complete them was unspent as well. This usually occurs in February. The Finance Director provides a "first look" at the prior year's financial results in late February.

March to May – The City Council begins to discuss their goals and objectives or any other issues that could have an impact on the budget. Ordinance 2299 calls for the Council to adopt citywide goals and objectives by May of each year. A public hearing is held in late May or early June to assure an opportunity for public input prior to the development of the budget.

June to July – In June the Finance Director delivers to the department heads the Operating Budget Instructional Manual. This manual encompasses the Mayor's message, which depicts the guidelines for departmental budget projections. Also, included are the City's goals as defined by Council. This manual also provides instructions and samples of the actual working documents that are required of the departments for the development of their budgets. The working documents are due back to the Budget Analyst by the end of July. A second public hearing is held as the Council reviews revenues (including property tax) that are projected for the upcoming budget year.

August to October – The Budget Analyst compiles the department's requests for the Mayor's review. The Mayor holds meetings with individual departments to review their budgets and budget issues. The individual Department Heads present their budgets to the Council at a Council Work Session. The budget as presented by the departments and prior to being balanced by the Mayor is known as the Proposed Preliminary Budget (RCW 35A.33.050). A third Public Hearing is held in October to allow the public to comment on the Proposed Preliminary Budget and to discuss any budget issues with the Council. The Mayor prepares recommendations for balancing the budget and presents them to the Council in late October (RCW 35A.33.052).

November and December – The final Public Hearing is held and the Council conducts work sessions to discuss and understand the budget material presented. The Council adopts the biennial budget. The Administrative Services Department makes the final budget adjustments and provides each department with a 'working copy' of the adopted budget along with the Budget Ordinance. The formal adopted budget is distributed to the Mayor, City Council and to the public upon request.
A mid-biennial review shall commence no sooner than eight months after the start nor later than twelve months after the start of the biennium. Public hearings on the proposed budget modification shall be conducted at least two weeks prior to the adoption of the ordinance modifying the biennial budget. In November and December of each year the Capital Facilities plan and other related policy actions are adopted by the Council.

2. Amending the Budget

The Mayor is authorized to transfer budgeted amounts between departments within any fund with the exception of the General Fund. Any revisions that alter the total expenditures of a fund, or of a department in the General Fund, must be approved by the City Council. When the Council determines that it is in the best interest of the City to increase or decrease the appropriation for a particular fund, they may do so by adopting an ordinance with a simple majority vote.

A detailed analysis of the City's finances is reviewed no later than quarterly with the Mayor and Council. A copy of this analysis is always posted to the City's web site.

The budget, as adopted, constitutes the legal authority for expenditures. The budget is amended periodically throughout the year. The amendments include changes in interfund transfers, Capital Project funds, Public Safety and Enterprise funds. The financial statements present both the original and amended budgetary information as approved. All appropriations lapse at the end of the biennium.

The budget presented in the Schedule of Revenues, Expenditures, and Changes in Fund Balances Budget to Actual represents the 2011-2012 biennial period.

G. CASH, DEPOSITS AND INVESTMENTS

The City maintains a cash and investment pool that is available for use by all funds. Cash and investments are presented on the balance sheet at fair value or amortized cost, which approximates fair value, in accordance with GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools."

Pool investments are reported on the statement of net assets as Cash and Cash Equivalents. At year-end, for reporting purposes only, investments in this pool are apportioned to individual funds based on monthly participation. Interest income earned as a result of pooling is distributed to the appropriate funds utilizing a formula based on the average monthly cash balance of the fund and the average monthly interest rate earned on pooled investments. Investments are also held separately by funds with interest earned directly for each funds benefit. The City holds most investments to maturity.

DEPOSITS

At year-end, money market was $103,546, and bank balance was$8,165,727, which includes Lynnwood Municipal Court funds in the amount of$16,750. These Court funds are held in a special Agency Fund bank account and are returned upon closure of each related case. These funds do not belong to the City, but are held and accounted for by the City.

The Federal Deposit Insurance Corporation (FDIC) insures the City's deposit and investments up to $250,000. All bank deposits not covered by FDIC are covered under the State of Washington Public Deposit Protection Commission Act (PDPCA) of 1969. Cash held in the Local Government Investment Pool is managed by the Washington State Treasurer's Office. This pool represents an interest in a group of securities and has no specific security subject to custodial risk.

INVESTMENTS

All surplus cash is invested in accordance with an investment policy approved by Lynnwood City Council. The investment policy is in compliance with state law. State law defines eligible investments to only those securities and deposits authorized by statute (RCW 39.58, 39.59, 43.250 and 43.84.080). Eligible investments include obligations of the United States government, Treasury and Agency securities, bankers' acceptances, certificates of deposit and repurchase agreements. Additionally, the investment policy sets forth maximum concentration guidelines whereby the City will diversify its investments by security type and issuer.

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The City's investment policy applies the prudent person standard: Investments will be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment purposes. All Agency securities in our portfolio are rated AAA and the Certificates of Deposit are covered by the FDIC and PDPCA. The Washington State Local Government Investment Pool is a Rule 2a7-like pool and is unrated.

Custodial credit risk: Custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Union Bank, as the City's agent, in the City's name, holds all City securities for safekeeping.

Concentration of credit risk: Concentration risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The City limits its exposure to concentration risk by requiring diversification by type and institution as follows:

Security Type	Portfolio Maximum by Issuer	Portfolio Maximum
US Treasury	100%	100%
Federal Home Loan	50%	50%
Federal National Mortgage Association	50%	50%
Federal Home Loan Mortgage Corp	50%	50%
Federal Farm Credit	50%	50%
Local Government Investment Pool	100%	100%
Certificates of Deposits	25%	50%
General Obligation Bonds of State & Local Governments	20%	20%

Interest Rate Risk: In accordance with its investment policy, the City manages its exposure to declines in fair values by limiting the maturity of its investments to not more than five years. The average maturity will be consistent with the City's liquidity objective.

Investments	Fair Value (in Thousands)	Maturity Date
Washington State Investment Pool	$27,679,675	--
Total Fair Value	$27,679,675	

A reconciliation of cash, cash equivalents (including pooled investments and investments) as shown in the government-wide and fund financial statements is as follows:

Total Cash, Cash Equivalents & Investments	Amount
US Bank Checking	8,165,727
Money Market	103,546
Petty Cash, Change Funds & Advance Travel	31,280
Deposit with Fiscal Agent	185,000
Local Government Investment Pool*	27,679,675
Total	$36,165,228

*This includes $190,879 of funds for the Transportation Benefit District

As Reflected in the Financial Statements: (1)

	Governmental Activities	Business-type Activities	Total Primary Government	Fiduciary Unit	Total
Cash & Cash Equivalents	$ 19,670,509	$ 13,400,897	$ 33,071,406	$ 3,093,822	$ 36,165,228

H. RECEIVABLES

The City of Lynnwood uses the modified accrual basis of accounting for its governmental funds and the full accrual basis of accounting for its proprietary funds as described in Note 1D. At year-end the City makes the appropriate accruals for receivables and unbilled customer accounts described as follows:

Property Taxes

Uncollected property taxes through December 31 are recorded as receivables at year-end. The City accrued $457,652 for property taxes, related interest and penalties.

Accounts Receivable

Customer accounts receivable consist of amounts owed from private individuals or organizations for goods and services provided. When an allowance for uncollectible receivable accounts exists, they are subtracted from Accounts Receivable, which are shown as “net”. The City accrued accounts receivable consisting primarily of billed water/sewer accounts, court ordered fines, utility taxes, and other various receivables.

Unbilled Accounts

At year-end the City accrued $1,391,495 for unbilled utility customer accounts. Due to a two month billing cycle in water/sewer, this amount is the part of each utility customer's receivable earned in 2011, but not billed until 2012.

Special Assessments

Special assessments are recorded when levied. Special assessments receivable consist of current, delinquent and deferred assessments. Deferred assessments consist of unbilled special assessments that are liens against the property benefited. As of December 31, there is an ongoing receivable of $4,022,150 in Local Improvement District billings.

I. INTERFUND LOANS AND RECEIVABLES

These accounts include all interfund receivables and payables. A separate schedule of interfund loans receivable and payable is furnished in Note 4 below. A provision is made as "Reserve for Loans from Other Funds" that includes the entire amount of such outstanding loans.

J. INTERFUND TRANSACTIONS AND TRANSFERS

Because governmental units operate with a number of funds, with each individual fund performing its specific functions, there are instances where funds are required to do business with each other. This business can be categorized as either an interfund transaction or an interfund transfer.

Interfund transactions are divided into two categories: interfund services provided and used and reimbursement transactions. Interfund services provided and used are those transactions that would be treated as revenues, expenditures or expenses 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 of this type of transaction is when the Parks Department buys water from the Water Department. This transaction is treated as expenditure to the Parks Department and as revenue to the Water Department.

Reimbursement transactions occur when 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. An example of this type of transaction occurs when the Public Works or Finance Department allocates a certain amount of its time to provide services for the Utility Divisions. The expense is transferred to the Utility Divisions with a corresponding reduction of expense in the Public Works or Finance Department.

Interfund transfers involve transfers between funds. These are required where revenue is generated in one fund and expenditures are paid for in other funds. The majority of the transfers occur with respect to capital projects where excess General and Special Revenue Fund proceeds are transferred to finance various capital projects.

Transfers of a recurring nature are required to fund the debt service or to subsidize proprietary fund operations until appropriate rate structures are established. Transfers of a non-recurring and non-routine nature between funds are accounted for in both the paying and receiving funds. The City of Lynnwood uses this type of transfer to transfer the equity balance of discontinued funds or to record contributions to or return of contributions from the Capital Projects, Enterprise, or Internal Service Funds.

K. INVENTORIES

Inventories are defined as assets that may be held for internal consumption or for resale. Inventory items may be recorded as expenditures when purchased or when consumed. The City of Lynnwood uses the following policies in valuing and recording inventory items:

Governmental Funds - The purchase method is used. Here the item upon purchase is recorded as expenditure at cost. Inventory items remaining at year-end are considered immaterial and are therefore not included in the balance sheets of these funds.

Enterprise Funds - A perpetual inventory is maintained whereby expenses are recorded when the item is consumed. The market cost valuation method is used to cost the inventory. A physical inventory is also taken at year-end.

Internal Service Funds - A perpetual inventory is maintained whereby expenses are recorded when the item is consumed. The weighted average method of valuation has been used to cost the inventory. A physical inventory is taken at year-end.

L. CAPITAL ASSETS

Capital assets, which include property, plant, equipment, and infrastructure assets (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 defined by the government as assets with an initial, individual cost of $5,000 or more and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are valued at fair market value on the date of the donation.

Costs for additions or improvements to capital assets are capitalized when they increase the effectiveness or efficiency of the asset. The costs for normal maintenance and repairs are not capitalized.

Effective January 1, 2010, the City implemented GASB Statement No. 51 - Accounting and Financial Reporting for Intangible Assets, which required the capitalization of intangible assets. Intangible assets for the City include easements and are being treated as a non-depreciable asset similar to Land.

To account for financing leases, lease-purchases, and installment purchase contracts in Governmental Funds, the City charges payments made or due during the fiscal period as expenditures. Leases that qualify as capital leases are recorded at the present value of their future minimum lease payments as of the inception date.

Property, plant, and equipment in the Proprietary Funds are valued at historical cost, estimated historical cost when original cost is not available, or appraised market value at the time received in the case of contributions. Maintenance and repairs are expensed as incurred.

Property, plant, and equipment of the primary government, as well as the component units, is depreciated using the straight-line method over the following estimated useful lives:

ASSET CLASS	USEFUL LIFE (YRS)
Buildings	25-50
Improvements Other Than Buildings	20-50
Equipment	3-20
Infrastructure	15-100

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest costs incurred during capital construction performed by proprietary funds are capitalized within the fund. However, interest expense incurred during construction of capital facilities is not capitalized when the assets will be reported as a governmental capital asset in the entity-wide statement of net assets.

M. COMPENSATED ABSENCES

Compensated absences are absences for which employees will be paid, such as vacation and sick leave.

The City limits the accumulation of unpaid vacation benefits to two years accrual; any excess accrual would require executive approval. Accumulated unpaid vacation is accrued when earned and reported in the government-wide and proprietary fund financial statements.

Sick leave accumulation is limited to a maximum of 720 hours. Upon termination or retirement of employment, unused sick leave may be converted to pay at the current rate on the following basis:

1. Termination - Voluntary or discharge
   Five hours of up to 720 hours unused sick leave = 1 hour pay.

2. Termination by layoff
   Three hours of up to 720 hours unused sick leave = 1 hour pay.

3. Retirement
   Two years accumulation (192) hours
   One hour unused sick leave = 1 hour pay.
   Balance of unused sick leave (up to 528 hours).
   Three hours unused sick leave = 1 hour pay.

N. DEFERRED REVENUES

Deferred revenues are receivables that are measurable but not yet available, under the modified accrual basis of accounting. Accordingly, they are not recorded as revenue. The balance sheet records the receivable but includes deferred revenue as its offset. The City has recognized three deferred revenue items in 2011:

1. Uncollected property taxes levied. At year-end, all property taxes not yet collected by the County (on behalf of the City) are reported on the balance sheet as taxes receivable and deferred revenues.

2. Unbilled special assessments levied against benefited property for the cost of local improvements. An allowance for uncollectibles is not necessary since the assessments are liens against the property benefited.

3. Recreation Center programs reserved by customers that will occur in future time periods.

O. GRANTS AND OTHER INTERGOVERNMENTAL REVENUES

Grants and entitlements from the Federal and State governments are recorded as intergovernmental revenues and receivables when received or when entitlements occur. State shared revenues are recorded when they meet accrual criteria. Grants are accounted for in specific grant control funds as projects and capitalized upon completion.

P. FUND BALANCE CLASSIFICATION

Fund balances are classified as appropriate in the financial statements as follows:

Nonspendable Fund Balance - includes amounts that cannot be spent because they are either:
a. Not in spendable form; or
b. Legally or contractually required to be maintained intact.

Restricted Fund Balance - includes amounts restricted to specific purposes when constraints placed on the use of resources are either:
a. Externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or
b. Imposed by law through constitutional provisions or enabling legislation.

Committed Fund Balance - includes amounts that can only be used for specific purposes pursuant to constraints imposed by Council ordinance or resolution prior to the end of the reporting period. Council action is required to commit resources or to rescind the commitment.

Assigned Fund Balance - includes amounts that are constrained by the City's intent that the funds be used for specific purposes, but are neither restricted nor committed. This includes outstanding encumbrances at year-end.

Unassigned Fund Balance - is the residual classification for the general fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund.

When both restricted and unrestricted resources are available for specified expenditures, restricted resources are considered spent before unrestricted resources. Within unrestricted resources, the city considers that committed funds are reduced first, followed by assigned amounts, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

Q. STABILIZATION ARRANGEMENTS AND MINIMUM FUND BALANCE POLICIES

Resolution No. 2011-06 which was adopted by the City Council on May 9, 2011 revised existing financial management policies and adopted a Long Term Comprehensive Financial Plan for the City. Included in these financial management policies are the following stabilization arrangements and minimum fund balance policies:

It is the policy of the City to maintain general governmental reserves and cash balances for general government at two levels and shall be made up of two components; the Revenue Stabilization Fund #198 and the General Fund Unencumbered Fund Balance (Cash Flow Balance):

General Fund Unencumbered Fund Balance to provide for adequate operating cash and cover substantial receivables until they are collected:

a. The City's General Fund shall maintain an unencumbered fund balance of at least $4,000,000, or the amount of net receivables posted in the annual financial report, whichever is greater.

b. Achieving and maintaining this balance is the highest priority over developing and maintaining other general fund reserves.

c. The restricted reserves are intended to protect the city from major economic downturns and similar adverse financial conditions.

   i. It will be the goal of the City to maintain a Revenue Stabilization Fund at a level to cover at least two months operations in the General Fund which is equivalent to $9,000,000 in 2011.

   ii. Since these reserves are not currently available, the city will seek to build gradually to this goal reaching an interim target level of $5,000,000 by 2016.

   iii. Any general fund unencumbered ending balance by the end of the biennium in excess of $4,000,000 shall be transferred by the City Council to the Revenue Stabilization fund #198 until the target in policy in (c)(ii) above is achieved.

d. The City will review the unrestricted General Fund balance and Revenue Stabilization Fund #198 balance each July. To the extent that the City's audited financial statements identify a General Fund balance in excess of the target, the excess shall be allocated by the City Council, pursuant to these policies.

R. REVENUES, EXPENDITURES AND EXPENSES

Under the modified-accrual basis of accounting:

- Charges for services, interest on investments, and rents are generally considered measurable and available when earned in governmental funds.
- Taxes that have been collected but not remitted to the City by an intermediary collection agency are considered measurable and available.
- Special assessments are considered measurable and available when they become current.
- Grants are considered measurable and available to the extent that expenditures have been made. Other intergovernmental revenues are considered measurable and available when earned.
- Interfund revenues for goods and services are considered measurable and available when earned.
- Proceeds from refunded debt are recognized as another financing source and the amount remitted to the refunding trustee is recognized as expenditure.
- Proceeds from the sale or loss of fixed assets are recognized as another financing source.
- All other revenues are either not measurable or considered not available until collected.
- Expenditures are generally recognized when incurred.

Under the accrual basis of accounting:

- Revenues are recognized when earned, if measurable, and expenses are recognized when incurred, if measurable.

S. RISK MANAGEMENT

The city is a member of the Cities Insurance Association of Washington. Chapter 48.62 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 RCW, the lnterlocal Cooperation Act. The pool was formed on September 1, 1988 when 34 cities in the State of Washington joined together by signing an lnterlocal Governmental Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. As of September 1, 2011, there are 254 members in the pool.
The pool provides the following forms of joint self-insurance and excess coverage for its members: Property, including automobile comprehensive and collision, equipment breakdown and crime protection, and liability, including general, automobile and wrongful acts, are included to fit members' various needs.

The pool acquires liability insurance through their Administrator, Canfield, that is subject to a per-occurrence self-insured retention of $100,000. Members are responsible for the first $1,000 of the deductible portion of each claim, while the pool is responsible for the remaining $99,000. Insurance carrier 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 self-insured retention. The pool also purchases a Stop Loss Policy with a limit of $2,545,000 to cap the total claims paid by the pool in any one year.

Property insurance is subject to a per-occurrence self-insured retention of $25,000. Members are responsible for a $1,000 deductible for each claim. The pool bears the $25,000 self-insured retention in addition to the deductible.

Equipment breakdown insurance is subject to a per-occurrence deductible of $2,500. Members are responsible for the deductible amount of each claim. There is no pool self-insured retention on this coverage.

Members contract to remain in the pool for a minimum of one year, and must give notice before August 31 terminating participation the following September 1. The lnterlocal Agreement is renewed automatically each year. In the event of termination, a member is still responsible for contributions to the pool for any unresolved, unreported, and in-process claims for the period they were a signatory to the lnterlocal Agreement.

A board of ten members is selected by the membership from three geographic areas of the state on a staggered term basis and is responsible for conducting the business affairs of the pool. The pool has no employees, but has contracted with a third-party administrator, Canfield, to perform the daily administration of the pool, including underwriting, brokerage, account education, risk management and loss control, and claims administration.

The City of Lynnwood 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 years. The City and its employees contribute to the State of Washington's Department of Labor and Industries for workers' compensation.

A review committee periodically reviews the prior year's claims, changes within the City, and the current legal requirements to determine the kind and extent of coverage that will be maintained for the next year for both current and past events. A safety committee is also appointed and a comprehensive, pro-active risk reduction program is maintained for cost containment and the benefit of the City's citizens and employees.

The City's responsibility for insured damage to property other than automobiles owned by the City is $25,000. However, for an earthquake loss, the City is responsible for 5% of the value of damaged property. For physical damage loss to automobiles, the City is responsible for the first $100,000 in any one occurrence.

The City's responsibility for liability claims including general liability, wrongful acts, and automobile liability is limited to the self-insured retention amounts that generally are $75,000 each occurrence. An Internal service fund was established in February 1981 to accumulate payments from other funds to cover the deductible requirements and support its automobile self-insurance. Charges to the funds are based on historical cost information. Net Assets of approximately $1,106,979 are available in order to have a reserve for deductibles and to cover policy exclusions. The unpaid claims amount represents claims that do not exceed the amounts covered by policy deductible limits. The events have occurred and the settlements can be reasonably estimated. Estimated amounts are based on the advice of the City's Claim Management Organization.

INSURANCE IN FORCE
December 31, 2011

INSURANCE COMPANY/COVERAGE	POLICY NUMBER	AMOUNT OF COVERAGE
ClAW/Brit Insurance & Torus Specialty	PK1013711 & 29087B110AL1	
Policy Effective Dates: 10/1/11 - 9/1/12		
Commercial General Liability		
General Liability, Law Enforcement Liability,		$10,000,000
Vehicle Liability		
Liability Deductible: $75,000		
Auto Physical Damage Deductible: $100,000.		
Wrongful Acts Liability		
Public Official's Liability,		$10,000,000
Employment Practices Liability,		
Sexual Harassment		
Deductible: $75,000		
Crime		
Employee Theft		$ 400,000
Forgery or Alteration		$ 400,000
Forgery or Alteration		$ 400,000
Deductible: $100,000		
Affiliated FM Insurance Company	SE277	
Policy Effective Dates: 4/23/11 - 4/23/12		
Primary Property Insurance Limit other than Flood and Quake		$107,800,000
Deductible		$25,000
Flood Limit		$ 50,000,000
Flood Deductible		$100,000
Earthquake Limit		$ 50,000,000
Earthquake Deductible 5% of the value of the property damaged/$100,000 Minimum		
National Union Fire Insurance Company	GTP9121822	
Policy Effective Dates: 8/8/11 – 1/1/12		
Accidental Death or Dismemberment		$150,000
for 7 Council Members & Mayor		
National Union Fire Insurance Company	SRG 9118452	
Police Effective Dates: 4/20/11 - 4/20/12		
Volunteer Accidental Death or Dismemberment		$25,000
Volunteer Medical Benefits		$2,500

Deductible: $250

Colony Insurance WA6297299
Policy Effective Dates: 2/11/11 - 2/11/12 $500,000 each claim/$1,000,000 aggregate
Underground Storage Tank Pollution Liability –
Scheduled Storage Tanks
Deductible: $5,000

Steadfast Insurance PLC902891006
Police Effective Dates: 2/25/11 - 2/25/12
Environmental Impairment Liability - $1,000,000 each claim/$5,000,000 aggregate
Treatment Plant
Deductible: $25,000

*The City's insurance policies renew annually or biannually and do not necessarily run on a fiscal year.

NOTE 2 - PROPERTY TAXES

The county treasurer acts as an agent for property taxes levied in the county for all taxing authorities. Taxes are levied annually on January 1 on property value listed as of the prior May 31. These taxes become an enforceable lien against properties as of January 1. Assessed values are established by the county assessor at 100 percent of fair market value.

Taxes are due in two equal installments on April 30 and October 31. Collections are remitted monthly to the appropriate district by the county treasurer.

The City is permitted by RCW 84.52.043 to levy up to $3.60 per $1,000 of assessed valuation for general governmental services. This amount may be reduced for any of the following three reasons:

A. The Washington State Constitution limits the total regular property taxes to 1 percent of assessed valuation or $10 per $1,000 of assessed value. If the taxes of all districts exceed this amount, each is proportionately reduced until the total is below the 1 percent limit.

B. RCW 84.55.010 limits the growth of regular property taxes to 6 percent per year, after adjustments for new construction. This percent was lowered by sections 201 through 207 but will allow taxing districts to raise revenues in excess of the limit if approved by a majority of the voters.

For 2011 the City's regular tax levy was $2.37 (includes a special $.50 for Emergency Medical Services) per $1,000 on a total assessed valuation of $4,726,403,303 for total taxes of $11,199,322.

Property taxes are recorded as receivables and offset by a deferred revenue account when levied. Since State law allows for sale of property for failure to pay taxes, no estimation of uncollectible taxes is made.

NOTE 3 - INTERFUND TRANSFERS

The following interfund transfers occurred in 2011:

Summarized by Fund Type

	Transfer From:				
	General	Special Revenue	Capital Projects	Enterprise	Total
Transfer To:					
General	$ -	$ 2,977,604	$ 205,418	$ -	$ 3,183,022
Debt Service	713,459	163,849	22,805	-	900,113
Capital Projects	-	775,000	754,000	471,816	2,000,816
Internal Service	-	60,000	-	145,000	205,000
Total	$ 713,459	$ 3,976,453	$ 982,223	$ 616,816	$ 6,288,951

The purpose of the interfund transfers is for operating cash flow and capital contributions to the Capital Project Funds.

NOTE 4 - INTERFUND LOANS

The following table depicts Interfund loans and advances to other funds during 2011.

DUE TO FUND	DUE FROM FUND	BEGINNING BALANCE 1/1/11	2011 NEW LOANS	2011 REPAYMENTS	BALANCE AT 12/31/11
Utility (411)					
	General Fund (011) Temporary Cash Flow	$ 3,000,000	$ -	$ 1,000,000	$ 2,000,000
	Olympic View Drive (307) Temporary Cash Flow	1,019,090	935,000	1,019,090	935,000
	Traffic Signals (309) Temporary Cash Flow	168,830	170,000	168,830	170,000
	Sidewalks/Ped Improvements (312) Temporary Cash Flow	-	350,000	-	350,000
	36th/35th Ave. West (317) Temporary Cash Flow	11,295	-	11,295	-
	204th LID 2009-1 / SR 99 - 6th Ave. W. (318) Temporary Cash Flow	149,445	155,000	149,445	155,000
	Interurban Overpass / 44th (319) Temporary Cash Flow	2,397,860	-	2,397,860	-
	Poplar Way Bridge Extension (324) Temporary Cash Flow	-	40,000	-	40,000
	Community Center (323) Temporary Cash Flow	8,365	-	8,365	-
	ITS Program (326) Temporary Cash Flow	605,720	400,000	605,720	400,000
	Golf Course (460) Temporary Cash Flow	1,360,655	1,300,000	1,360,655	1,300,000
	Interfund Insurance (515) Temporary Cash Flow	-	130,000	-	130,000
	Utility (411) Totals	$ 8,721,260	$ 3,480,000	$ 6,721,260	$ 5,480,000
General (011)					
	Golf Course (460) LT Rent Payable	137,485	-	-	137,485
	General (011) Totals	$ 137,485	$ -	$ -	$ 137,485
	TOTAL	$ 8,858,745	$ 3,480,000	$ 6,721,260	$ 5,617,485

Some of the above listed interfund loans are for temporary cash flow purposes in Capital Project funds, While others are for loss of revenue from a slow economy that has produced a substantial loss in retail sales taxes (especially in the General Fund).

The Utility Fund consists of numerous management funds combined to report as a single fund.

NOTE 5 - PROPERTY, PLANT AND EQUIPMENT

A summary of changes in general governmental capital assets is as follows:

	Balance 1/1/2011	Beginning Bal Adjustments	Plus Additions	Less Deletions	Balance 12/31/2011
Capital assets, not being depreciated:					
Land	$ 33,868,535	$ -	$ 18,800	$ 2,505,055	$ 31,382,280
Easements	436,742	-	-	-	436,742
Construction in progress	40,180,342	-	3,930,975	19,904,299	24,207,018
Total capital assets, not being depreciated	$ 74,485,619	$ -	$ 3,949,775	$ 22,409,354	$ 56,026,040
Capital assets being depreciated:					
Buildings	$ 26,465,014	$ -	$ 21,339,236	$ 4,061,954	$ 43,742,296
Improvements other than buildings	23,790,749	-	683,620	111,913	24,362,456
Machinery and Equipment	15,639,562	-	1,349,629	1,207,913	15,781,278
Infrastructure	57,681,370	-	-	-	57,681,370
Total Capital assets being Depreciated	$123,576,695	$ -	$ 23,372,485	$ 5,381,780	$141,567,400
Less accumulated depreciation for:					
Buildings	$(13,013,528)	$ -	$ (1,186,943)	$ 3,179,784	$(11,020,687)
Improvements other than buildings	(12,707,308)	-	(651,759)	108,992	(13,250,075)
Machinery and equipment	(8,819,040)	-	(887,553)	943,969	(8,762,624)
Infrastructure	(27,402,079)	-	(2,032,941)	-	(29,435,020)
Total accumulated depreciation	$(61,941,955)	$ -	$ (4,759,196)	$ 4,232,745	$(62,468,406)
Total capital assets, being depreciated, net	$ 61,634,740		$ 18,613,289	$ 1,149,035	$ 79,098,994
TOTALS, NET	$136,120,359	$ -	$ 22,563,064	$ 23,558,389	$135,125,034

A summary of business type property, plant, and equipment is as follows:

	Balance 1/1/2011	Beginning Bal Adjustments	Plus Additions	Less Deletions	Balance 12/31/2011
Capital assets, not being depreciated:					
Land	$ 6,866,768	$ -	$ -	$ -	$ 6,866,768
Easements **(intangible-GASB 51 new in 2010)**	4,148,620	-	1,500	-	4,150,120
Construction in progress	5,097,274	2,285	1,901,399	1,400,732	5,600,226
Total capital assets, not being depreciated	$ 16,112,662	$ 2,285	$ 1,902,899	$ 1,400,732	$ 16,617,114
Capital assets being depreciated:					
Buildings	$ 35,742,017	$ -	$ -	$ -	$ 35,742,017
Improvements other than buildings	2,943,552	-	-	-	2,943,552
Machinery and equipment	2,206,804	-	95,148	19,386	2,282,566
Infrastructure	38,718,412	-	1,366,359	-	40,084,771
Total Capital assets being Depreciated	$ 79,610,786	$ -	$ 1,461,507	$ 19,386	$ 81,052,906
Less accumulated depreciation for:					
Buildings	$ (24,825,883)	$ -	$ (1,365,283)	$ -	$ (26,191,166)
Improvements other than buildings	(863,543)	-	(26,675)	-	(890,218)
Machinery and Equipment	(1,693,050)	-	(81,866)	11,389	(1,763,527)
Infrastructure	(15,755,157)	-	(930,416)	-	(16,685,573)
Total accumulated depreciation	$ (43,137,633)	$ -	$ (2,404,240)	$ 11,389	$ (45,530,484)
Total capital assets, being depreciated, net	$ 36,473,153	$ -	$ (942,733)	$ 7,997	$ 35,522,422
TOTALS, NET	$ 52,585,816	$ 2,285	$ 960,166	$ 1,408,729	$ 52,139,536

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:	
General Government	$ 311,882
Public Safety	303,928
Transportation	3,219,629
Culture & Recreation	923,757
Total Governmental Activities	$ 4,759,196
Business-type activities:	
Water	$ 462,164
Sewer	1,722,181
Golf	41,620
Storm Drainage	178,275
Total Business-type Activities	$ 2,404,240

NOTE 6 - LEASE COMMITMENTS

Capitalized Leases

To account for financing leases, lease purchases and installment purchase contracts in governmental funds, the City accounts for payments made or due during the fiscal period as debt service. In the year that the asset is received, the City records the present value of future lease payments as a capital outlay expenditure. The present value of payments due in future periods is shown as a liability in the government-wide financial statements along with the cost of the asset.

In proprietary funds, capital leases are recorded as assets and as long-term liabilities at the present value of the future lease payments when the asset is received. The fund records lease payments as reductions of the long-term liability and as interest expense over the life of the lease. The fund also records depreciation expense to amortize the asset over the lease term or over the life of the asset.

Operating Leases

The City of Lynnwood receives revenue in the General Fund from renting and leasing space in several buildings that have been purchased as future expansion sites.

The City received $317,839 of revenue in 2011 from leases and rental income.

NOTE 7 - LONG-TERM DEBT

General Obligation Bonds are direct obligations of the City for which its full faith and credit are pledged. Debt service is paid from the Debt Service Funds. Debt service for voter-approved issues is funded with special property tax levies. Debt service for City Council authorized (councilmanic) issues is funded from the Real Estate Excise Tax Fund and the General Fund.

Revenue Bonds are payable from revenues generated by the Water and Sewer Utility Fund.

Special Assessment operations are financed by bonds and notes issued after construction has been completed. Interfund loans are utilized for short-term financing and are subsequently repaid when bond proceeds have been received. Bond debt service is paid from assessment collections. LID bonds are callable at par each year without penalty. Although the bonds are secured by liens against assessed properties, the City is also required under State law to establish a guaranty fund to provide a means of paying LID bond debt service obligations in the event there are insufficient resources in the LID Control Fund to do so. Due to the City's legal obligation to maintain the guaranty fund, special assessment bonds are considered a general government obligation.

A. CHANGES IN LONG-TERM DEBT

The following is a summary of long-term debt transactions of the City for the year ended December 31, 2011:

GOVERNMENTAL ACTIVITIES:	BALANCE 1/1/2011	ADDITIONS	REDUCTIONS	BALANCE 12/31/2011	CURRENT PORTION
General obligations bonds	$ 4,057,018	$ -	$ 743,386	$ 3,313,632	$ 746,603
Special assessment bonds (1)	3,930,000	-	500,000	3,430,000	500,000
Other post-employment Benefits	1,252,835	576,458	-	1,829,293	-
Compensated absences	4,038,683	2,865,867	2,831,600	4,072,950	1,004,176
TOTAL – GOVERNMENTAL ACTIVITIES	$ 13,278,536	$ 3,442,325	$ 4,074,986	$ 12,645,875	$ 2,250,779
LTGO BANS 2008 (2)	$ 18,341,256	$ 6,365,368	$ -	$ 24,706,624	$ 24,706,624
BUSINESS TYPE ACTIVITIES:					
Revenue bonds	$ 15,825,000	$ -	$ 1,100,000	$ 14,725,000	$ 1,145,000
General obligations bonds - Golf	437,272	-	405,757	31,515	15,757
Compensated absences	351,945	185	-	352,130	89,735
TOTAL – BUSINESS TYPE ACTIVITIES	$ 16,614,217	$ 185	$ 1,505,757	$ 15,108,645	$ 1,250,492

(1) Estimated current portion - many bonds are callable, therefore, exact amounts are not known.
(2) This is a line of credit with a maximum available amount of $25,480,000; $6,365,368 has been drawn in 2011.

Payments on the bonds and notes payable that pertain to the City's governmental activities are made by the debt service funds. The compensated absences liability attributable to the governmental activities will be liquidated by a couple governmental funds. In the past, approximately 97% has been paid by the General Fund and the remaining 3% by the Street Fund.

Long-term debt at December 31, 2011, consisted of the following:

GENERAL OBLIGATIONS BONDS

ISSUE NAME	% INT. RATES	ISSUE DATE	MATURITY DATE	AUTHORIZED	OUTSTANDING 1/1/2011	CHANGES	12/31/2011
2005 GO. Bonds	4.75-6.0	1999	2019	$ 1,795,107	$ 1,019,823	$ (93,581)	$ 926,242
2001 GO. Bonds	4.00-4.375	2001	2012	1,365,000	310,000	(150,000)	160,000
State Capital Loan *	4.07851	2002	2012	377,666	88,089	(43,155)	44,934
State Capital Loan *	4.03673	2004	2014	534,295	211,378	(57,407)	153,971
2009 GO. Refund Bonds	3.0-4.0	2009	2017	4,640,000	2,865,000	(805,000)	2,060,000
Total General Obligation Bonds				$ 8,712,068	$ 4,494,290	$ (1,149,143)	$ 3,345,147
LTGO Bond Anticipation Notes 2008	**	2008	2011	$ 25,480,000	$ 18,341,256	$ 6,365,368	$24,706,624

*State Capital Asset Loan pledging non-voted GO Debt Capacity.
**Interest at 82% of Banks prime rate at time of draw.

REVENUE BONDS

ISSUE NAME	% INT. RATES	ISSUE DATE	MATURITY DATE	AUTHORIZED	OUTSTANDING 1/1/2011	CHANGES	12/31/2011
2008 Utility Improvement Refunding Bonds	4.0-5.0	2008	2027	$10,000,000	$8,105,000	$ (1,100,000)	$7,005,000
2010 Utility System Revenue Bonds	2.0-4.0	2010	2030	7,720,000	7,720,000		$7,720,000
Total Revenue Bonds				$ 17,720,000	$ 15,825,000	$ (1,100,000)	$14,725,000

SPECIAL ASSESSMENT BONDS

ISSUE NAME	% INT. RATES	ISSUE DATE	MATURITY DATE	AUTHORIZED	OUTSTANDING 1/1/2011	CHANGES	12/31/2011
1999 LID Bonds	4.10-6.40	1999	2021	$11,898,787	$3,930,000	$ (500,000)	$3,430,000
Total Special Assessment Bonds				$ 11,898,787	$ 3,930,000	$ (500,000)	$ 3,430,000

REQUIREMENTS TO AMORTIZE THE DEBT OUTSTANDING

The annual total requirements to amortize the debt outstanding for general obligation, revenue bonds, special assessment and installment notes payable as of December 31, 2011, including interest, are as follows:

YEAR ENDING 12/31	GOVERNMENTAL ACTIVITIES PRINCIPAL	GOVERNMENTAL ACTIVITIES INTEREST	BUSINESS-TYPE ACTIVITIES PRINCIPAL	BUSINESS-TYPE ACTIVITIES INTEREST	GRAND TOTAL
2012	$ 25,953,227	$ 331,618	$ 1,160,757	$ 569,608	$ 28,015,210
2013	1,033,887	273,891	1,185,757	523,335	3,016,870
2014	869,961	225,115	540,000	476,063	2,111,139
2015	842,706	181,422	555,000	460,163	2,039,291
2016	833,171	138,477	570,000	443,763	1,985,411
2017-2021	1,727,301	168,738	3,195,000	1,880,263	6,971,302
2022-2026	0	0	3,860,000	1,213,200	5,073,200
2027-2031	0	0	3,690,000	376,000	4,066,000
2032-2037	0	0	0	0	0
	$ 31,260,253	$ 1,319,261	$ 14,756,514	$ 5,942,395	$ 53,278,423

At December 31, 2011, the City has $484,023 available in debt service funds to service the general obligation bonds. Additionally, there is $1,733,605 in restricted assets of the Water and Sewer Utility Fund. These represent sinking funds and reserve requirements as contained in the various bond indentures.

General Obligation Bonds

The City has two Local Capital Asset Lending Program (LOCAL) loans. These loans were received from the Washington State Treasurer's Office. The first of the two loans, dated December 1, 2002, in the amount of $377,666, is being utilized to change all of the City of Lynnwood's traffic lights to LEDs. The interest rate is 4.07851% over a ten-year period. The City pledged its non-voted debt capacity for this loan.

The second LOCAL loan, dated June 15, 2004, in the amount of $534,295, is being used to finance the second phase of the City's Energy Conservation Project that included lighting retrofit, HAVAC control upgrade and water conservation enhancements. The interest rate is 4.03673% over a period of ten years. The City pledged its non-voted debt capacity for this loan.

The Limited Tax General Obligation Refunding Bonds were issued August 1, 2001. Proceeds were used to advance refund $1,270,000 of the City's outstanding limited Tax General Obligation Bonds, 1992, as well as to pay for administrative and issuance costs. The refunding realized a cash flow savings of $94,292 and a net present value savings (gain) of $78,717. Annual principal payments range from $20,000 to $160,000 with interest varying from 4.0% to 4.375% payable semi-annually.

The Limited Tax General Obligation Bonds were issued June 1, 1998, to provide funds with which to pay the cost of expanding the existing library and acquiring park land. These bonds were refunded in 2009 by a Limited Tax General Obligation Bonds Series 2009A and 2009B.

The Limited Tax General Obligation Refunding Bonds were issued December 1, 1996, to provide part of the funds required to advance refund the City's outstanding Limited Tax General Obligation Bonds, 1980, most of the Limited Tax General Obligation Bonds, 1989, Golf and Recreation Facilities Revenue and Refunding Bonds, 1991, as well as to repay an interfund loan from the City's General fund and pay for the issuance and administrative costs associated with the refunding. These bonds were refunded in 2009 by a Limited Tax General Obligation Bonds Series 2009A and 2009B.

The Limited Tax General Obligation Refunding Bonds Series 2009A and 2009B were issued in April 2009 for the purchase of software, equipment for police vehicles and golf course equipment. Proceeds were also used to refund the City's outstanding Limited Tax General Obligation Refunding Bonds, 1996 and Limited Tax General Obligation Bonds, 1998. Annual principal payments range from $290,000 to $995,000 with interest varying from 3% to 4% payable semi-annually. Prior to 2010, the Golf Course portion of this debt was not recorded as a liability of the Golf fund but rather expensed annually with a transfer to the debt service fund. The change is reflected in 2010's statements and notes.

Snohomish County issued bonds on October 20, 1999 to fund an 800 Megahertz Emergency Radio System for South Snohomish County. The issue was for $27,125,000 of limited tax general obligation bonds for multiple purposes, including funding participation by the City of Lynnwood. The bonds are amortized over 20 years with interest payable semi-annually.

Snohomish County refunded these bonds in 2005. The City of Lynnwood is reporting their obligation to pay on these bonds as general obligation bonds.

Bond Anticipation Notes

The City issued Limited Tax General Obligation Bond Anticipation Notes in 2008 for the principal amount of not to exceed $25,480,000. The purpose is to provide temporary funding for renovating, improving and expanding the City's Recreation Center. The City may make periodic draws under the line of credit, and the Bank must honor those draws by advancing money to the City. The Note and the line of credit mature on December 1, 2011. The interest rate is variable at 82% of the Bank's prime rate. As of December 31, 2011, $24,706,624 has been drawn by the City.

Revenue Bonds

The 2010 Utility System Revenue Bonds were issued on November 9, 2010. The proceeds from the sale of the bonds are to be utilized to carry out the Plan of Additions, which is a portion of the capital improvement plan. Some of the projects included in the Plan of Additions are general System improvements consisting of the installation of a computerized monitoring and control system; water improvements including meter, fire hydrant and water main replacements; sewer improvements consisting of upgrades to the main plant drain station and the treatment plant; and storm water improvements including storm basin studies and transportation and storm pipe replacement. A portion of the proceeds also funds issuance and reserve costs associated with the sale. Annual principal payments range from $150,000 to $4,855,000 with interest varying from 2% to 4%. Revenue is provided by the City's Utility Fund by adjusting rates for water, sewer, and storm water services. These bonds carry a Standard and Poor's rating of AA.

The 2008 Utility System Improvement and Refunding Bonds were issued on March 24, 2008. Proceeds were used to advance refund all of the City's outstanding Water and Sewer Revenue and Refunding Bonds, 1996, part of the cost of carrying out a portion of the plan of additions as well as to pay for administrative and issuance costs. Annual principal payments range from $255,000 to $1,170,000 with interest varying from 2.52% to 5.0% payable semi-annually. Revenue is provided by the City's

Waterworks Utility Fund by adjusting rates for water and sewer services. These bonds carry a Standard and Poor's rating of AA.

B. DEBT LIMIT CAPABILITIES

RCW 39.36.020 provides cities with three segments of debt capacity, each equal to two and one-half percent of the city's assessed valuation, for a total of seven and one-half percent (7.5%). Allowable uses of these segments are as follows:

Segment 1 – General Governmental Purposes

The City can incur debt up to one and one-half percent (1.5%) of its assessed valuation solely with a vote of the legislative body (often referred to as "councilmanic" debt). To use the remaining one percent (1%), a 60 percent vote in favor of the issue by at least 40 percent of the voters voting in the last general election is required.

Segment 2 – City-Owned Water and Sewer Purposes

The City can incur debt up to an additional two and one-half percent (2.5%) for water and sewer purposes with a 60 percent vote in favor of the issue by at least 40 percent of the voters voting in the last general election.

Segment 3 – Acquiring and Developing Open Space, Parks Facilities, and Capital Facilities Associated with Economic Development

The City can incur debt up to an additional two and one-half percent (2.5%) for acquiring and developing open space, parks facilities, and capital facilities associated with economic development purposes with a 60 percent vote in favor of the issue by at least 40 percent of the voters voting in the last general election.

	Governmental Purposes		Water & Sewer Purposes	Park & Capital Facilities
	Without Vote (Councilmanic) 1.5%	With Vote 1.0%	With Vote 2.5%	With Vote 2.5%
Legal Limits	$70,896,050	$47,264,033	$118,160,083	$118,160,083
Net Outstanding Indebtedness	($28,051,771)			
Margin Available	$42,844,279	$47,264,033	$118,160,083	$118,160,083

Tax year 2011assessed value of $4,726,403,303 was used for this calculation.

Bond Ratings

At December 31, 2011, the City held the following bond ratings:

Bond Type	Standard & Poor's
General Obligation	A+
Revenue - Utility	AA

NOTE 8 - PENSION PLANS

Substantially all full-time and qualifying part-time City employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit retirement plans.

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

Department of Retirement Systems
Communications Unit
PO Box 48380
Olympia, WA. 98504-8380
or it may be downloaded from the DRS website at www.drs.wa.gov

The following disclosures are made pursuant to GASB Statements *No. 27, Accounting for Pensions by State and Local Government Employers* and *No. 50, Pension Disclosures, an Amendment of GASB Statements No. 25 and No. 27.*

A. PUBLIC EMPLOYEES' RETIREMENT SYSTEM (PERS) PLANS 1, 2, AND 3

The Legislature established PERS in 1947. Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior courts (other than judges currently in the Judicial Retirement System); employees of legislative committees; community and technical colleges, college and university employees not participating in higher education retirement programs; judges of district and municipal courts; and employees of local governments. PERS retirement benefit provisions are established in Chapters 41.34 and 41.40 RCW and may be amended only by the State Legislature.

PERS is a cost-sharing multiple-employer retirement system comprised of three separate plans for membership purposes: Plans 1 and 2 are defined benefit plans and Plan 3 is a defined benefit plan with a defined contribution component.

PERS members who joined the system by September 30, 1977 are Plan 1 members. Those who joined on or after October 1, 1977 and by either, February 28, 2002 for state and higher education employees, or August 31, 2002 for local government employees, are Plan 2 members unless they exercised an option to transfer their membership to Plan 3. PERS members joining the system on or after March 1, 2002 for state and higher education employees, or September 1, 2002 for local government employees have the irrevocable option of choosing membership in either PERS Plan 2 or PERS Plan 3. The option must be exercised within 90 days of employment. An employee is reported in Plan 2 until a choice is made. Employees who fail to choose within 90 days default to PERS Plan 3. Notwithstanding, PERS Plan 2 and Plan 3 members may opt out of plan membership if terminally ill, with less than five years to live.

PERS Plan 1 and Plan 2 defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions.

PERS Plan 1 members are vested after the completion of five years of eligible service. Plan 1 members are eligible for retirement after 30 years of service, or at the age of 60 with five years of service, or at the age of 55 with 25 years of service. The monthly benefit is 2 percent of the average final compensation (AFC) per year of service. (AFC is the monthly average of the 24 consecutive highest-paid service credit months.) The retirement benefit may not exceed 60 percent of AFC. The monthly benefit is subject to a minimum for PERS Plan 1 retirees who have 25 years of service and have been retired 20 years, or who have 20 years of service and have been retired 25 years. Plan 1 members retiring from inactive status prior to the age of 65 may receive actuarially reduced benefits. If a survivor option is chosen, the benefit is further reduced. A cost-of-living allowance (COLA) was granted at age 66 based upon years of service times the COLA amount. This benefit was eliminated by the Legislature, effective July 1, 2011. Plan 1 members may elect to receive an optional COLA that provides an automatic annual adjustment based on the Consumer Price Index. The adjustment is capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 1 provides duty and non-duty disability benefits. Duty disability retirement benefits for disablement prior to the age of 60 consist of a temporary life annuity payable to the age of 60. The allowance amount is $350 a month, or two-thirds of the monthly AFC, whichever is less. The benefit is reduced by any workers' compensation benefit and is payable as long as the member remains disabled or until the member attains the age of 60. A member with five years of covered employment is eligible for non-duty disability retirement. Prior to the age of 55, the allowance amount is 2 percent of the AFC for each year of service reduced by 2 percent for each year that the member's age is less than 55. The total benefit is limited to 60 percent of the AFC and is actuarially reduced to reflect the choice of a survivor option. A cost-of-living allowance was granted at age 66 based upon years of service times the COLA amount. This benefit was eliminated by the Legislature, effective July 1, 2011. Plan 1 members may elect to receive an optional COLA that provides an automatic annual adjustment based on the Consumer Price Index. The adjustment is capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 1 members can receive credit for military service. Members can also purchase up to 24 months of service credit lost because of an on-the-job injury.

PERS Plan 2 members are vested after the completion of five years of eligible service. Plan 2 members are eligible for normal retirement at the age of 65 with five years of service. The monthly benefit is 2 percent of the AFC per year of service. (AFC is the monthly average of the 60 consecutive highest-paid service months.)

PERS Plan 2 members who have at least 20 years of service credit and are 55 years of age or older are eligible for early retirement with a reduced benefit. The benefit is reduced by an early retirement factor (ERF) that varies according to age, for each year before age 65.

PERS Plan 2 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions:

- With a benefit that is reduced by 3 percent for each year before age 65.
- With a benefit that has a smaller (or no) reduction (depending on age) that imposes stricter return-to-work rules.

PERS Plan 2 retirement benefits are also actuarially reduced to reflect the choice, if made, of a survivor option. There is no cap on years of service credit; and a cost-of-living allowance is granted (based on the Consumer Price Index), capped at 3 percent annually.

The surviving spouse or eligible child or children of a PERS Plan 2 member who dies after leaving eligible employment having earned ten years of service credit may request a refund of the member's accumulated contributions.

PERS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component and member contributions finance a defined contribution component. The defined benefit portion provides a monthly benefit that is 1 percent of the AFC per year of service. (AFC is the monthly average of the 60 consecutive highest-paid service months.)

Effective June 7, 2006, PERS Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years of service, if twelve months of that service are earned after age 44; or after five service credit years earned in PERS Plan 2 prior to June 1, 2003. Plan 3 members are immediately vested in the defined contribution portion of their plan.

Vested Plan 3 members are eligible for normal retirement at age 65, or they may retire early with the following conditions and benefits:

- If they have at least ten service credit years and are 55 years old, the benefit is reduced by an ERF that varies with age, for each year before age 65.
- If they have 30 service credit years and are at least 55 years old, they have the choice of a benefit that is reduced by 3 percent for each year before age 65; or a benefit with a smaller (or no) reduction factor (depending on age) that imposes stricter return-to-work rules.

PERS Plan 3 defined benefit retirement benefits are also actuarially reduced to reflect the choice, if made, of a survivor option. There is no cap on years of service credit and Plan 3 provides the same cost-of-living allowance as Plan 2.

PERS Plan 3 defined contribution retirement benefits are solely dependent upon contributions and the results of investment activities.

The defined contribution portion can be distributed in accordance with an option selected by the member, either as a lump sum or pursuant to other options authorized by the Director of the Department of Retirement Systems.

PERS Plan 2 and Plan 3 provide disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 monthly benefit amount is 2 percent of the AFC per year of service. For Plan 3, the monthly benefit amount is 1 percent of the AFC per year of service.

These disability benefit amounts are actuarially reduced for each year that the member’s age is less than 65, and to reflect the choice of a survivor option. There is no cap on years of service credit, and a cost-of-living allowance is granted (based on the Consumer Price Index) capped at 3 percent annually.

PERS Plan 2 and Plan 3 members may have up to ten years of interruptive military service credit; five years at no cost and five years that may be purchased by paying the required contributions. Effective July 24, 2005, a member who becomes totally incapacitated for continued employment while serving the uniformed services, or a surviving spouse or eligible children, may apply for interruptive military service credit. Additionally, PERS Plan 2 and Plan 3 members can also purchase up to 24 months of service credit lost because of an on-the-job injury.

PERS members may also purchase up to five years of additional service credit once eligible for retirement. This credit can only be purchased at the time of retirement and can be used only to provide the member with a monthly annuity that is paid in addition to the member’s retirement benefit.

Beneficiaries of a PERS Plan 2 or Plan 3 member with ten years of service who is killed in the course of employment receive retirement benefits without actuarial reduction, if the member was not at normal retirement age at death. This provision applies to any member killed in the course of employment, on or after June 10, 2004, if found eligible by the Department of Labor and Industries.

A one-time duty-related death benefit is provided to the estate (or duly designated nominee) of a PERS member who dies in the line of service as a result of injuries sustained in the course of employment, or if the death resulted from an occupational disease or infection that arose naturally and proximately out of said member's covered employment, if found eligible by the Department of Labor and Industries.

There are 1,197 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2010:

Retirees and Beneficiaries Receiving Benefits		76,899
Terminated Plan Members Entitled to but not Yet Receiving Benefits		28,860
Active Plan Members Vested		105,521
Active Plan Members Nonvested		51,005
	Total	262,285

Each biennium, the state Pension Funding Council adopts PERS Plan 1 employer contribution rates, PERS Plan 2 employer and employee contribution rates, and PERS Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statute at 6 percent for state agencies and local government unit employees, and at 7.5 percent for state government elected officials. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. All employers are required to contribute at the level established by the Legislature. Under PERS Plan 3, employer contributions finance the defined benefit portion of the plan and member contributions finance the defined contribution portion. The Plan 3 employee contribution rates range from 5 percent to 15 percent, based on member choice. Two of the options are graduated rates dependent on the employee's age. The methods used to determine the contribution requirements are established under state statute in accordance with Chapters 41.40 and 41.45 RCW.

The City's contribution rates expressed as a percentage of covered payroll, for the year ending December 31, 2011 were:

	PERS Plan 1	**PERS Plan 2**	**PERS Plan 3**
Employer*	7.25%**	7.25%**	7.25%***
Employee	6.00%****	4.64%****	*****

* The employer rates include the employer administrative expense fee currently set at 0.16%.
** The employer rate for state elected officials is 10.80% for Plan 1 and 7.25% for Plan 2 and Plan 3.
*** Plan 3 defined benefit portion only.
**** The employee rate for state elected officials is 7.50% for Plan 1 and 4.64% for Plan 2.
***** Variable from 5.0% minimum to 15.0% maximum based on rate selected by the PERS 3 member.

Both the City and the employees made the required contributions. The City's required contributions for the years ended December 31, were:

	PERS Plan I	PERS Plan 2	PERS Plan 3
2011	$28,514	$813,994	$79,330
2010	$34,176	$743,512	$80,470
2009	$45,931	$973,442	$126,167

B. LAW ENFORCEMENT OFFICERS' AND FIRE FIGHTERS' RETIREMENT SYSTEM (LEOFF) PLANS 1 AND 2

The Legislature established LEOFF in 1970. Membership in the system includes all full-time, fully compensated, local law enforcement commissioned officers, firefighters and, as of July 24, 2005, emergency medical technicians. 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. LEOFF retirement benefit provisions are established in Chapter 41.26 RCW and may be amended only by the State Legislature.

LEOFF is a cost-sharing multiple-employer retirement system comprised of two separate defined benefit plans. LEOFF members who joined the system by September 30, 1977 are Plan 1 members. Those who joined on or after October 1, 1977 are Plan 2 members.

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.

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

LEOFF 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 (FAS) is as follows:

Term of Service	Percent of Final Average Salary
20 or more years	2.0%
10 to 20 years	1.5%
5 to 10 years	1.0%

The FAS is the basic monthly salary received at the time of retirement, provided a member has held the same position or rank for 12 months preceding the date of retirement. Otherwise, it is the average of the highest consecutive 24 months' salary within the last 10 years of service. A cost-of-living allowance is granted (based on the Consumer Price Index).

LEOFF Plan 1 provides death and disability benefits. Death benefits for survivors of Plan 1 members on active duty consist of the following: (1) If eligible spouse, 50 percent of the FAS, plus 5 percent of FAS for each eligible surviving child, with a limitation on the combined allowances of 60 percent of the FAS; or (2) If no eligible spouse, eligible children receive 30 percent of FAS for the first child plus 10 percent for each additional child, subject to a 60 percent limitation of FAS, divided equally.

A one-time duty-related death benefit is provided to the estate (or duly designated nominee) of a LEOFF Plan 1 member who dies as a result of injuries or illness sustained in the course of employment, if found eligible by the Department of Labor and Industries.

The LEOFF Plan 1 disability allowance is 50 percent of the FAS plus 5 percent for each child up to a maximum of 60 percent. Upon recovery from disability before the age of 50, a member is restored to service with full credit for service while disabled. Upon recovery after the age of 50, the benefit continues as the greater of the member's disability allowance or service retirement allowance.
LEOFF Plan 1 members may purchase up to five years of additional service credit once eligible for retirement. This credit can only be purchased at the time of retirement and can be used only to provide the member with a monthly annuity that is paid in addition to the member's allowance.

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

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

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

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

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

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

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

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

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

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

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

There are 374 participating employers in LEOFF. Membership in LEOFF consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2010:

Retirees and Beneficiaries Receiving Benefits		9,647
Terminated Plan Members Entitled to But Not Yet Receiving Benefits		782
Active Plan Members Vested		13,420
Active Plan Members Nonvested		3,656
	Total	27,505

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

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2011, are as follows:

	LEOFF Plan 1	LEOFF Plan 2
Employer*	0.16%	5.24%**
Employee	0.00%	8.46%
State	N/A	3.38%

*The employer rates include the employer administrative expense fee currently set at 0.16%.
** The employer rate for ports and universities is 8.62%.

Both the City and the employees made the required contributions. The City's required contributions for the years ended December 31, were:

Year	LEOFF Plan I	LEOFF Plan II
2011	$153	$611,873
2010	$156	$651,832
2009	$174	$650,013

C. PUBLIC SAFETY EMPLOYEES' RETIREMENT SYSTEM (PSERS) PLAN 2

The Legislature created PSERS in 2004 and the system became effective July 1, 2006. PSERS Plan 2 membership includes full-time employees of a covered employer on or before July 1, 2006, who met at least one of the PSERS eligibility criteria, and elected membership during the election period of July 1, 2006 to September 30, 2006; and those full-time employees, hired on or after July 1, 2006 by a covered employer, that meet at least one of the PSERS eligibility criteria. PSERS retirement benefit provisions are established in Chapter 41.37 RCW and may be amended only by the State Legislature.

PSERS is a cost-sharing multiple-employer retirement system comprised of a single defined benefit plan, PSERS Plan 2.

PSERS defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions.

A "covered employer" is one that participates in PSERS. Covered employers include the following:

- State of Washington agencies: Department of Corrections, Department of Natural Resources, Gambling Commission, Liquor Control Board, Parks and Recreation Commission, and Washington State Patrol;
- Corrections departments of Washington State counties;
- Corrections departments of Washington State cities except for Seattle, Tacoma and Spokane; and
- Interlocal corrections agencies.

To be eligible for PSERS, an employee must work on a full-time basis and:

- Have completed a certified criminal justice training course with authority to arrest, conduct criminal investigations, enforce the criminal laws of Washington and carry a firearm as part of the job; or
- Have primary responsibility to ensure the custody and security of incarcerated or probationary individuals; or
- Function as a Washington peace officer, as defined in RCW 10.93.020; or
- Have primary responsibility to supervise eligible members who meet the above criteria.

PSERS Plan 2 members are vested after completing five years of eligible service. PSERS Plan 2 members may retire at the age of 65 with five years of service, or at the age of 60 with at least 10 years of PSERS service credit, with an allowance of 2 percent of the average final compensation (AFC) per year of service. The AFC is the monthly average of the member's 60 consecutive highest-paid service credit months, excluding any severance pay such as lump-sum payments for deferred sick leave, vacation or annual leave. Plan 2 members who retire prior to the age of 60 receive reduced benefits. If retirement is at age 53 or older with at least 20 years of service, a 3 percent per year reduction for each year between the age at retirement and age 60 applies. There is no cap on years of service credit; and a cost-of-living allowance is granted (based on the Consumer Price Index), capped at 3 percent annually.

PSERS Plan 2 provides disability benefits. There is no minimum amount of service credit required for eligibility. Eligibility is based on the member being totally incapacitated for continued employment with a PSERS employer and leaving that employment as a result of the disability. The disability allowance is 2 percent of the average final compensation (AFC) for each year of service. AFC is based on the member's 60 consecutive highest creditable months of service. Service credit is the total years and months of service credit at the time the member separates from employment. Benefits are actuarially reduced for each year that the member's age is less than 60 (with ten or more service credit years in PSERS), or less than 65 (with fewer than ten service credit years).

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

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

Beneficiaries of a PSERS Plan 2 member with ten years of service who is killed in the course of employment receive retirement benefits without actuarial reduction, if the member was not at normal retirement age at death. This provision applies to any member killed in the course of employment, if found eligible by the Director of the Department of Labor and Industries.

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

There are 76 participating employers in PSERS. Membership in PSERS consisted of the following as of the latest actuarial valuation date for the plan of June 30, 2010:

Retirees and Beneficiaries Receiving Benefits		7
Terminated Plan Members Entitled to But Not Yet Receiving Benefits		0
Active Plan Members Vested		0
Active Plan Members Nonvested		4,210
	Total	4,217

Each biennium, the state Pension Funding Council adopts PSERS Plan 2 employer and employee contribution rates. The employer and employee contribution rates for Plan 2 are developed by the Office of the State Actuary to fully fund Plan 2. All employers are required to contribute at the level established by the Legislature. The methods used to determine the contribution requirements are established under state statute in accordance with Chapters 41.37 and 41.45 RCW.

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2011, were as follows:

Employer*	8.86%
Employee	6.36%

* The employer rate includes an employer administrative expense fee of 0.16%.

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

2011	$39,844
2010	$37,299
2009	$35,845

D. FIREMEN'S PENSION FUND (FPF)

The City is the administrator of the Firemen's Pension System, which is shown as a pension trust fund in the City's financial statements. The Firemen's Pension System is a single-employer closed pension system that was established in conformance with Revised Code of Washington (RCW) Chapter 41.18 Membership is limited to fire fighters employed prior to March 1, 1970 when the LEOFF retirement system was established. The City's liability under the Firemen's Pension System consists of all benefits, including payments to beneficiaries, for firemen retired prior to March 1, 1970, and excess benefits over amounts provided by LEOFF for covered fire fighters retired after March 1, 1970. Under the Firemen's Pension System, eligible fire fighters may retire at age 50 with 25 years of service. Death and disability benefits are also provided, as established under the governing State law. Individuals who terminate employment prior to retirement may withdraw their contributions to the plan plus accumulated interest, but by doing so, forfeit their rights to future pension benefits. No separate financial report is issued for the plan. Accordingly, the required supplemental information is included in this note.

As of December 31, 2011, there were a total of 5 individuals covered by this system.

The City reports under GASB Statement 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans. The Firemen’s Pension Fund is presented in the Statement of Fiduciary Net Plan Assets, and The Statement of Changes in Fiduciary Net Plan Assets. The required supplementary information has been prepared using the best available information.

The most recent actuarial study of the Firemen's Pension System was done by Milliman USA to determine future funding requirements as of January 1, 2012. This cost was funded out of the Firemen’s Pension Fund.

Significant actuarial assumptions used in making these projections include: a) projected annual salary increases of 3.5% including inflation; b) projected investment earnings of 4.0%; c) no growth in membership; d) projected post-retirement benefit increases related to salaries of 3.5% and benefit increases related to annual increases in the Consumer Price Index of 2.5%; e) a 2.5% projected annual growth in fire insurance premium tax revenues received by the fund; f) amortization period of 30 years, and g) the mortality and turnover assumptions were based on the 1995-2000 Experience Study for the Law Enforcement Officers’ and Firefighters’ Retirement System prepared by the Office of the State Actuary.

The financial statements are prepared using the accrual basis of accounting. Employer contributions to the plan are recognized when due and the City has made a formal commitment to provide the contributions. Benefits are recognized when due and payable in accordance with the terms of the plan. Investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Investments that do not have an established market are reported at estimated fair value.

The annual pension cost was computed using the Entry Age Cost Normal Method. Under this method the projected benefits are allocated on a level basis as a percentage of salary over the earnings of each individual between entry age and assumed exit age. The amount allocated to each year is called the Normal Cost and the portion of the Actuarial Present Value of all benefits not provided for by future Normal Cost payments is called the Actuarial Liability. Since all members have already retired, the amount of the annual Normal Cost is small. The Unfunded Actuarial Liability (UAL) is the Actuarial Liability minus the actuarial value of the Fund’s assets. The Unfunded Actuarial Accrued Liabilities (UAAL) is amortized as a level dollar amount over a closed 30-year period beginning January 1, 1999.

The City's obligations under the Firemen's Pension Fund are limited to the benefits provided to firefighters retired prior to March 1, 1970, plus payments of excess retirement benefits to active members as of that date. In order to meet these obligations, the City may contribute annually to the Fund the amount raised by levying all or part of a tax of up to $0.45 per $1,000 of true and fair market value of assessed property, the maximum provided by law for maintaining the Fund.

On the basis of the actuarial assumptions used in this valuation, it was estimated that the current assets of the Fund, along with future revenues from state fire insurance premiums and investment earnings, will be sufficient to pay all future FPF pension benefits. The State fire insurance premiums, and the interest earned on investments are received into the General Fund and allocated into the Firemen's Pensions Fund. Accordingly, the Actuary recommended that the City make no additional contributions to the Fund until the next actuarial valuation is performed.

ANNUAL PENSION COST AND NET PENSION OBLIGATION

	2009	2010	2011
Annual required contribution (ARC)			
Annual Normal Cost – Beginning of Year	$0	$0	$0
Amortization of UAAL – Beginning of Year	38,216	47,574	47,574
Interest to End of Year	1,911	1,903	1,903
ARC at End of Year (not less than 0)	40,127	49,477	49,477
Interest on Net Pension Obligation (NPO)	(1,092)	483	2,398
Adjustment to ARC	(1,669)	884	4,553
Annual Pension Cost (APC)	40,704	49,076	47,322
Employer Contributions*	6,787	1,202	(11,407)
Change in NPO	33,917	47,874	58,729
NPO at Beginning of Year	(21,843)	12,074	59,948
NPO at End of Year	$12,074	$59,948	$118,677

*Employer contributions for pensions are total contributions to the Fund net of disbursements from Fund for medical expenses under RCW 41.26.150 and administrative expenses.

The following historical trend information shows the system's progress in accumulating sufficient assets to pay benefits when due:

The Schedule of Funding Progress is included in the Required Supplementary Information section at the end of the Notes to the Financial Statements.

EMPLOYER CONTRIBUTIONS
Annual Required Contributions

Fiscal Year	Employer Contributions	Fire Insurance Premiums	Employer Contributions	Required Contributions	Percentage Contributed
2005	(29,094)	36,202	7,108	(4,426)	N/A
2006	(35,219)	40,763	5,544	16,267	34
2007	(37,730)	41,728	3,998	16,267	25
2008	(56,172)	44,227	(11,945)	40,127	(30)
2009	(37,772)	44,559	6,787	40,127	17
2010	(45,397)	46,599	1,202	49,477	2
2011	(57,431)	46,024	(11,407)	49,477	(23)

SCHEDULE OF FUNDING PROGRESS

Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liabilities	Unfunded Actuarial Accrued Liabilities	Funded Ratio	Covered Payroll	UAAL As A Percentage of Covered Payroll
1/1/98	$785	$883	$98	89%	113	87%
1/1/00	888	888	0	100	0	N/A
1/1/02	998	671	(327)	149	0	N/A
1/1/04	1,008	954	(54)	106	0	N/A
1/1/06	983	1,193	210	82	0	N/A
1/1/08	985	1,500	515	66	0	N/A
1/1/10	922	1,572	650	59	0	N/A
1/1/12	802	1,434	632	56	0	N/A

THREE-YEAR TREND INFORMATION

Fiscal Year Ending	Annual Pension Cost (APC)	Contribution as Percentage of APC	Net Pension Obligation
12/31/2009	40,704	17%	12,074
12/31/2010	49,076	2	59,948
12/31/2011	47,322	(24)	118,677

E. DEFERRED COMPENSATION PLAN

The City offers its employees a voluntary deferred compensation plan created in accordance with Internal Revenue Code (IRC) Section 457. The plan, available to all eligible employees, permits them to defer a portion of their salary until future years. The deferred compensation is payable to employees upon termination, retirement, death, or unforeseen emergency.

As noted in Statement No. 32, GASB "does not regard Section 457 plans as pension plans because there are no required *employer* contributions to the plans; they are more in the nature of tax-deferred employee savings plans."

The City has placed the deferred compensation plan assets into trust for the exclusive benefit of plan participants and beneficiaries in accordance with GASB Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*. The plan is administered by the ICMA Retirement Corporation. The City has little administrative involvement, does not hold the assets in a trustee capacity, and does not perform fiduciary accountability for the plan. Therefore, the City employee's deferred compensation plan created in accordance with IRC 457 is not reported in the financial statements of the City.

F. FIREFIGHTER'S SUPPLEMENTAL RETIREMENT PLAN

The City offers an additional supplemental retirement plan for firefighters, per negotiated labor contract. The City contributes up to 6.2% of an employee's base salary to their existing deferred compensation plan provided the employee matches at least 67% of the employer's contribution; such that, for example for every dollar contributed to the plan, a minimum of forty cents ($.40) shall be contributed by the employee.

G. RETIREE HEALTH SAVINGS PLAN

The City offers a Retiree Health Savings (RHS) Plan for certain employees, per negotiated contracts. The plan is administered by the ICMA Retirement Corporation. The RHS plan provides tax-free savings for payment of medical expenses eligible under Internal Revenue Code (IRC) Section 213, other than direct long-term care expenses. Participants contribute 1% of their earnings to this account, and are eligible to receive benefits upon reaching age 55. In addition, upon termination of employment any accumulated sick leave payout for these employees is deposited to their RHS plan, in accordance with the limits disclosed in Note 1. M. Compensated Absences.

NOTE 9 - EXCESS OF EXPENDITURES OVER APPROPRIATIONS

Though specific line items of expenditures within a fund's appropriations may be exceeded, that fund's total appropriation cannot be legally exceeded. It should be noted, however, that the Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual – General Fund, and the Schedules of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – Nonmajor Governmental Funds due to format, could be misinterpreted and lead one to believe that budgeted expenditures have been exceeded. The City budgets not only expenditures but also "Other Financing Uses" and the "Ending Fund Balance" so as to maintain a budget balance between receipts and disbursements. By increasing expenditure appropriations by the budget values for these items, a City fund would not exceed its appropriations.

NOTE 10 - DEFICITS IN FUND EQUITY

The following funds experienced equity deficits at year end:

Olympic View Drive (307)	$ (857,323)
Traffic Signals (309)	(168,831)
Roadway Surfacing (311)	(35,651)
Sidewalks/Ped Improvements (312)	(353,659)
204th LID 2009-1 (318)	(152,623)
Community Center (323)	(24,434,127)
Poplar Way Bridge Extension (324)	(35,732)

The deficits in all funds listed arose due to complexities in fund cash management. The deficits for the Roadway Surfacing (311) and Sidewalks/Ped Improvements (312) also arose due to complexities in fund cash management. The balances for Olympic View Drive (307), Traffic Signals (309), 204th LID 2009-1 (318), Poplar Way Bridge Extension (324) were addressed with interfund loans from other funds

The Community Center fund is being financed by a Bond Anticipation Note and will show a deficit until Limited Tax General Obligation bonds are sold to refinance the note.

NOTE 11 - SUBSEQUENT EVENTS

In anticipation of the February LTGO bond issuance, on February 14, 2012 Standard & Poor's Rating Services notified the City of Lynnwood that they had upgraded the City's General Obligation bond rating to "AA-" from "A+" for the anticipated February LTGO issue only.

On February 27, 2012, the City issued $24,955,000 par value of Limited Tax General Obligation Bonds 2012 to redeem the City's Limited Tax General Obligation Bond Anticipation Note 2008 that funded the remodel of the Recreation Center.

NOTE 12 – LITIGATION

The City of Lynnwood has a number of existing claims pending that the City attorney has reviewed and analyzed. It is estimated that the potential claims against the City not covered by insurance resulting from such litigation would not materially affect the financial statements of the City.

NOTE 13 - JOINT FACILITY OPERATIONS

Joint Recreation Facilities

The City of Lynnwood, the City of Edmonds, Snohomish County and Edmonds School District No. 15 entered into an agreement to develop Meadowdale Playfields and Recreation Complex. The Edmonds School District provided a 25-acre site adjacent to Meadowdale Elementary, Meadowdale Middle School and Meadowdale High School.

The City of Lynnwood was responsible for the construction and maintenance of the complex and bills 50% of the associated costs to the City of Edmonds on a quarterly basis. The ownership, based on total costs is as follows:

Edmonds School District No. 15 - land	$1,000,000	33%
Snohomish County - construction contribution	150,000	5%
City of Lynnwood - construction cost	940,000	31%
City of Edmonds - construction cost	940,000	31%

800 MHZ Emergency Radio System

The City of Lynnwood, City of Edmonds, City of Marysville, City of Mill Creek, City of Mountlake Terrace, City of Woodway, Fire District 1, SNOCOM, and Snohomish County entered into an agreement to provide an 800 MHZ emergency radio system that will provide a significantly improved level of communications capability when compared to existing radio systems. The County is the lead agency and construction manager, while the responsibility of the other agencies is that of a contributor. The City of Lynnwood's share of this project is 13.66%.

NOTE 14 - CASH FLOW STATEMENTS

Noncash investing, capital, and financing activities: In 2011, the City had the following:

Capital asset contributions	$177,257
Gain or (loss) on property disposition	1,696

Disclosure of accounting policy: For purposes of the Statement of Cash Flows, the City considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents. Cash equivalents include the following balance sheet items for the Utility Fund:

Cash and Equivalents	$4,437,191
Customer Deposits	121,516
Restricted Cash	7,005,575
Revenue Bond Current Debt Service	1,145,000
Restricted Cash Other	35,960
Revenue Bond Future Debt Service	588,605
Total	$13,333,847

For the Golf Fund:

Cash and Equivalents	$ 552
Customer Deposits	32,287
Revenue Bond Current Debt Service	15,757
Restricted Cash Other	15,541
Total	$64,137

For the Internal Service Funds:

Cash and Equivalents	$2,752,820

NOTE 15 - OTHER POST EMPLOYMENT BENEFITS

In addition to the pension benefits described in Note 8, the City provides post-retirement health care benefits, in accordance with State statutes, to all LEOFF I retirees. Currently, 49 members meet those eligibility requirements (48 retired & 1 active). The City provides medical and vision insurance and reimburses for all Board approved claims for medical, vision, and hospitalization costs incurred by retirees. The City has chosen to adopt the reporting standards for GASB 45 for Postemployment Benefit Plans Other than Pension Plans, or OPEB. The last actuarial valuation was completed January 1, 2011.

For GASB purposes, the Entry Age Normal Cost Method, one of the acceptable actuarial funding methods, was used for disclosure purposes. Under this method the projected benefits are allocated on a level basis as a percentage of salary over the earnings of each individual between entry age and assumed exit age. The amount allocated to each year is called the Normal Cost and the portion of the Actuarial Present Value of all benefits not provided for by future Normal Cost payments is called the Actuarial Accrued Liability (AAL). Since nearly all members have already retired, the amount of the annual Normal Cost is relatively small. The Unfunded Actuarial Liability (UAL) is the Actuarial Liability minus the actuarial value of the Fund's assets. In the case of a plan with no assets, the UAAL is simply equal to the AAL.

The actuarial assumptions used included a 4.0% discount rate, which is based upon the long-term investment yield on the investments that are expected to be used to finance payment of benefits. A medical inflation rate of 7.8% and a long term care inflation rate of 4.75% were used. The Unfunded Actuarial Accrued Liabilities (UAAL) is amortized as a level dollar amount over a closed 30-year period beginning January 1, 2008. The net OPEB obligation of $1,710,616 (FY 2011) is included as a noncurrent liability on the Statement of Net Assets.

ANNUAL OPEB COST AND NET OPEB OBLIGATION
LEOFF 1 EMPLOYEES

	Fiscal Year Ending			
	12/31/2009	12/31/2010	12/31/2011	
Annual required contribution (ARC)				
Annual Normal Cost – Beginning of Year	$33,083	33,083	22,894	
Amortization of UAAL – Beginning of Year	1,117,271	1,117,271	1,272,720	
Interest to End of Year	57,518	57,518	51,825	
ARC at End of Year (not less than 0)*	1,207,872	1,207,872	1,347,439	
Interest on Net OPEB Obligation (NPO)	21,194	42,101	50,113	
Adjustment to ARC	(26,662)	(53,827)	(73,771)	
Annual OPEB Cost (APC)	1,202,404	1,196,146	1,323,781	
Employer Contributions**	784,259	785,327	866,000	**
Change in Net OPEB Obligation	418,145	410,819	457,781	**
NPO at Beginning of Year	423,871	842,016	1,252,835	
NPO at End of Year	842,016	1,252,835	1,710,616	**

* 'i' is the assumed interest rate that year: 5.0% in 2009, 5.0% in 2010, 4.0% in 2011.

** Estimated employer contributions are based on expected benefit payments. Estimated amounts will be replaced at year end with actual amounts.

ANNUAL OPEB COSTS

Fiscal Year Ending	Annual OPEB Cost	Contribution as a Percentage of Annual OPEB Cost	Net OPEB Obligation
12/31/2009	$ 1,202,404	65%	$ 842,016
12/31/2010	1,196,146	66%	1,252,835
12/31/2011	1,323,781	65% *	1,710,616 *

* *Estimated employer contributions are based on expected benefit payments.*
Estimated amounts will be replaced at year end with actual amounts.

RETIREE MEDICAL AND LONG-TERM CARE VALUATION

Valuation Date	January 1, 2008	January 1, 2011
Total present value of expected retiree medical and retiree dental benefits (excluding long-term care)	$15,120,000	$17,584,000
Total present value of expected long-term care benefits	3,007,000	4,099,000
Total Benefits	$18,127,000	$21,683,000

For comparison purposes, the above table contains the liabilities from 2010 valuation.

PROJECTION OF FUTURE EXCESS PENSION, MEDICAL AND LONG-TERM CARE BENEFITS

The following table illustrates the projected excess annual pension payments for currently active and retired members eligible for retirement benefits under FPF. Also shown are the projected annual benefit payments for those active and retired members eligible for medical and long-term care coverage.

Year	Pension	Medical	Long-term Care	Grand Total
2012	75,000	795,000	96,000	966,000
2013	79,000	821,000	103,000	1,003,000
2014	83,000	862,000	108,000	1,053,000
2015	87,000	880,000	113,000	1,080,000
2016	91,000	901,000	118,000	1,110,000
2017	95,000	927,000	124,000	1,146,000
2018	98,000	952,000	130,000	1,180,000
2019	102,000	979,000	136,000	1,217,000
2020	105,000	1,004,000	144,000	1,253,000
2021	108,000	1,035,000	152,000	1,295,000
2022	110,000	1,063,000	163,000	1,336,000
2023	112,000	1,089,000	174,000	1,375,000
2024	114,000	1,111,000	187,000	1,412,000
2025	115,000	1,128,000	201,000	1,444,000
2026	115,000	1,141,000	216,000	1,472,000
2027	115,000	1,148,000	232,000	1,495,000

NOTE 16 - PRIOR PERIOD ADJUSTMENT

An adjustment was made by the Component Unit – Public Facilities District to recognize business and occupation taxes payable as of December 31, 2010. The effect of the restatement was to increase accounts payable and accrued expenses and increase the beginning accumulated deficit by $52,746, including interest of $4,905.

REQUIRED SUPPLEMENTARY INFORMATION
FIREMEN'S PENSION PLAN
SCHEDULE OF FUNDING PROGRESS
(rounded to thousands)

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Funded Ratio	Unfunded AAL	Annual Covered Payroll	UAAL as a Percentage of Covered Payroll
1/1/98	$785	$883	89%	98	113	87%
1/1/00	888	888	100	0	0	N/A
1/1/02	998	671	149	(327)	0	N/A
1/1/04	1,008	954	106	(54)	0	N/A
1/1/06	983	1,193	82	210	0	N/A
1/1/08	985	1,500	66	515	0	N/A
1/1/10	922	1,572	59	650	0	N/A
1/1/12	802	1,434	56	632	0	N/A

GASB Statements No. 25 and 27 now require only biennial valuations with no updates between valuations

REQUIRED SUPPLEMENTARY INFORMATION
LEOFF 1 RETIREE MEDICAL BENEFITS
SCHEDULE OF FUNDING PROGRESS
(rounded to thousands)

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Funded Ratio	Unfunded AAL
1/1/08	0	$18,127	0 %	$18,127
1/1/11	0	21,614	0 %	21,614

CITY OF LYNNWOOD, WASHINGTON
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended December 31, 2011

GRANTOR/PASS-THROUGH GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	OTHER IDENTIFICATION NUMBER	EXPENDITURES Pass-Through Awards	Direct Awards	Footnote Reference
Department of Housing and Urban Development					
Office of Community Planning and Development through Snohomish County/Community Development Block Grant Program for Entitlement Communities	14.218	HCD-09-21-0902-167A	190,000		4
Total Department of Housing and Urban Development			**$ 190,000**	**$ -**	
Department of Justice					
Bureau of Justice Assistance Bulletproof Vest Partnership Program	16.607	2009BUBX09048788		1,308	
Bureau of Justice Assistance Bulletproof Vest Partnership Program	16.607	2010BUBX10052183		10,805	
Bureau of Justice Assistance/ Edward Byrne Memorial Justice Assistance Grant Program	16.738	2011-DJ-BX-2103		2,978	
ARRA - Recovery Act - Edward Byrne Memorial Justice Assistance Grant (JAG) Program / Grants To Units Of Local Governments	16.804	2009-SB-B9-2906		983	5
Total Department of Justice			**$ -**	**$ 16,074**	
National Endowment for the Arts					
Promotion of the Arts_Partnership Agreements through WA State Arts Commission	45.025	MAO #2011138	$ 1,000		
Total National Endowment for the Arts			**$ 1,000**	**$ -**	
Department of Homeland Security					
Federal Emergency Management Agency - Grant Programs Directorate - Assistance to Firefighters Grant	97.044	EMW-2010-FH-01138	201,827		
Total Department of Homeland Security			**$ 201,827**	**$ -**	
SUBTOTAL FEDERAL AWARDS EXPENDED			**$ 392,827**	**$ 16,074**	

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

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CITY OF LYNNWOOD, WASHINGTON
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended December 31, 2011

GRANTOR/PASS-THROUGH GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	OTHER IDENTIFICATION NUMBER	EXPENDITURES Pass-Through Awards	Direct Awards	Footnote Reference
Department of Transportation					
Federal Highway Administration					
Highway Planning and Construction through Washington State Department of Transportation					
36th/35th Ave W Road Improvements	20.205	STPUL-9931(009)	329,423		
Regional Traffic Operations Improvements	20.205	CM-9999(365)	130,315		
2003 ITS/Intelligent Transportation System Deployment	20.205	ITS-2003(050)	12,792		
Lynnwood Traffic Management Center	20.205	ITS-2005(043)	43,491		
SR99 Safety Improvements (188th St SW to 176th St SW)	20.205	HSIP-0099(107)	24,894		
Poplar Way Extension Bridge	20.205	IMD-2004(037)	13,312		6
Poplar Way Extension Bridge	20.205	STPUL-2004(037)	207,334		6
Regional Transit Pedestrian Bridge	20.205	STPE-STPUL-CM-2523(001)	194,633		
Subtotal Highway Planning and Construction			956,194	-	
National Highway Traffic Safety Administration					
State and Community Highway Safety through Washington Association of Sheriffs and Police Chiefs	20.600	N/A	799		
State and Community Highway Safety through Washington Traffic Safety Commission	20.600	N/A	2,224		
State and Community Highway Safety through Washington Traffic Safety Commission	20.600	N/A	1,322		
State and Community Highway Safety through Washington Traffic Safety Commission	20.600	N/A	2,492		
State and Community Highway Safety through Washington Traffic Safety Commission	20.600	N/A	753		
Alcohol Impaired Driving Countermeasures Incentive Grants I/Washington Traffic Safety Commission through Washington Traffic Safety Commission	20.601	N/A	3,576		
Occupant Protection Incentive Grants through Washington Traffic Safety Commission	20.602	N/A	2,479		
Safety Belt Performance Grants through Washington Traffic Safety Commission	20.609	N/A	18,394		
Subtotal National Highway Traffic Safety Commission			32,039	-	
Total Department of Transportation			**$ 988,233**	$ -	
TOTAL FEDERAL DIRECT AND INDIRECT EXPENDITURES			**$ 1,381,060**	**$ 16,074**	

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

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CITY OF LYNNWOOD, WASHINGTON
NOTES TO THE SCHEDULES OF EXPENDITURES OF FINANCIAL ASSISTANCE

For the Year Ended December 31, 2011

NOTE 1 - BASIS OF ACCOUNTING

The Schedules of Expenditures of Federal Awards and of State and Local Financial Assistance are prepared on the same basis of accounting as the City's financial statements. The City uses the accrual basis of accounting.

NOTE 2 - PROGRAM COSTS

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

NOTE 3 - NOT APPLICABLE (N/A)

The City was unable to obtain other identification numbers.

NOTE 4 - REDUCED CONSTRUCTION COSTS ALSO REDUCED FUNDING

HUD grant #HCD-09-21-0902-167A was received for $250,000 for construction of the 40th Avenue W Sidewalk Project and was listed as "no match" required, but the actual costs came in less than estimates submitted on the application. HUD is reducing the total amount they will reimburse, but have not settled on a final amount. Original invoice submitted for $250,000 was reduced to $190,000 to match the payment we received.

NOTE 5 - AMERICAN RECOVERY AND REINVESTMENT ACT (ARRA) of 2009

Expenditures for this program were funded by ARRA.

ARRA - Edward Byrne Memorial Justice Assistance Grant (JAG) Program

NOTE 6 - REALLOCATION AND RE-NAMING OF GRANT FUNDING

Remaining IMD Funds, #IMD-2004(037), awarded to a project labeled City Center Access Study, (IMD 2004 (037), have been re-allocated under the new project name of Poplar Way Extension Bridge as authorized by FHWA. The City Center Access Study was a planning phase and has been completed. The same new project description has been applied to STP Grant #STPUL-2004(037).

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 with our audit clients and citizens as an advocate for government accountability. As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

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

Our audits look at financial information and compliance with state, federal and local laws on the part of all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits of state agencies and local governments and fraud, whistleblower and citizen hotline investigations.

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