Washington State Auditor's Office

Financial Statements and Federal Single Audit Report

City of Lynnwood
Snohomish County

Audit Period
January 1, 2012 through December 31, 2012

Report No. 1010588

Issue Date
September 30, 2013

WASHINGTON
TROY KELLEY
STATE AUDITOR

Washington State Auditor
Troy Kelley

September 30, 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
Snohomish County
January 1, 2012 through December 31, 2012

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, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information.

Internal Control Over Financial Reporting:

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

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

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

FEDERAL AWARDS

Internal Control Over Major Programs:

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

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

We issued an 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, 2012 through December 31, 2012

1. The City should continue to improve internal controls over accounting and financial reporting to ensure the financial statements are accurate and complete.

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 six previous audits, we have identified and communicated deficiencies in controls that adversely affect the City's ability to produce reliable financial statements**.**

Although the City as a whole has made some improvements to its internal control structure, we continue to note internal control weaknesses that impact the City's ability to produce financial statements that are free from error.

Description of Condition

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

- Although the City has procedures to perform a final review of the prepared financial statements prior to audit, the review was not effective in detecting material errors.
- Staff responsible for recording accounting transactions, including complex transactions, did not adequately research how to appropriately record some transactions.
- The City knows its capital asset system contains errors, however, it chose to continue to use the system to account for capital assets without performing a full review of the system's data and correcting the identified errors.

Cause of Condition

The City hired an outside CPA to perform a final review of its statements; however, the City did not provide sufficient time for the CPA to perform a detailed review of the statements or for the City to correct errors identified by the CPA prior to audit.

City management has not dedicated the necessary time and resources to:

- Ensure accounting staff understand and are trained in proper accounting procedures.

- Review its capital assets to ensure depreciation is being properly calculated and depreciable values for the assets are appropriate.

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 did not include the full amount of principal paid on its 1999 Local Improvement District (LID) bonds. It understated the principal expenditures by $300,000 in its LID 93-1 Fund.

- The City reported $485,000 in cash paid for principal payments on its 1999 LID bond as cash with fiscal agent in its LID 93-1 Fund even though the City no longer has ownership of the funds.

- The City originally recorded a prior period adjustment in its Aggregate Remaining Funds for $1,275,995 that decreased beginning Net Position. However, the prior period adjustment should have been a $323,445 increase to Net Position. This resulted in an understatement of $1,599,439 in the Aggregate Remaining Funds.

- The City received $1,848,731 in insurance recovery cash in 2012 related to its data center meltdown. The funds should have been transferred to the General Fund from the Aggregate Remaining Funds to replace the damaged assets. However, this transfer did not occur.

- The City has not depreciated a parking lot owned by the Golf Course Fund since it was acquired in 1991. The City understated accumulated depreciation by $551,689.

These errors were subsequently corrected by the City.

Recommendation

We continue to recommend the City:

- Provide staff the necessary training and time to prepare accurate and complete financial statements.

- Ensure individuals responsible for reviewing the financial statements have sufficient time to ensure accurate preparation and reporting.

- Ensure accounting entries are researched thoroughly to ensure proper accounting. The City should be extra diligent with infrequent or unusual accounting transactions.

- Ensure capital assets and the associated accumulated depreciation and depreciation expense are correctly reported.

City's Response

As a result of the SAO's audit of the City of Lynnwood's 2012 annual financial statements three primary areas of deficiency were identified:

1. *Accounting for LID's:*

   LID 93-1 was formed in the late 1990's to make improvements to the I-5/196th Street interchange/overpass. Special Assessment Bonds were issued in October 1999 on behalf of the benefitting property owners. The City, up until this time, had been acting as fiscal agent for all of its bond payments. Beginning in 1999, the City began contracting with Bank of New York to act as its fiscal agent to disburse the payments on special assessment bonds to its bondholders. When this changeover occurred the City no longer had any fiscal responsibility to the bondholders or to the states through escheatment. The City however did not modify its method of accounting for this change and continued to report the cash held by Bank of New York as cash with fiscal agent. City staff investigated this matter in June, 2013 in response to a request for unclaimed property when it was determined that the cash held by Bank of New York was no longer City cash. City staff has implemented the policy changes as recommended by the SAO.

2. *The Data Center impairment and associated insurance claim:*

   This was a rare event. Management sought to maintain the insurance proceeds and expenses in a separate fund to ensure accountability and ease of tracking costs. The repair claim and project were deemed to be a multi-year project and City management wanted to avoid comingling the insurance funds with General Fund resources until completion of the project. This project should be completed in 2013. The City moved the funds to the General Fund as recommended by the SAO.

3. *Capital assets/golf parking lot:*

   The City acknowledges that its capital asset system has shortcomings. As a result, the City has begun the process of investing in new financial accounting software for the entire City. This system includes a Capital Assets accounting module. The City will be converting to this system over the next 24 months. This project will require reconciling the City's capital assets for the past fifty four (54) years. For the 2012 financial statements, the City chose to focus on reconciling its Land component with values greater than $100,000. The City hired temporary help to assist with this land project. In 2013, the City is revamping its capital assets policy, beginning the process of conversion to the new financial system, and continuing to clean up known issues.

The Golf Course Parking lot is located on property that is owned by Edmonds Community College; it is not owned by the City of Lynnwood, however the City of Lynnwood paved the parking lot. In 1991, it was recorded as a non-depreciable land improvement (in error), but should have been recorded as an "improvement other than buildings" and should have been depreciated. This correction has been made and the change has been reflected in the restated financial reports for 2012.

Auditor's Remarks

We appreciate the steps the City is taking to resolve this issue. We will review the condition during our next audit.

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.

Status of Prior Audit Findings

City of Lynnwood
Snohomish County
January 1, 2012 through December 31, 2012

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. 1009546, dated April 29, 2013

Background

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.

Status

The City addressed and corrected a number of weaknesses that existed in the prior audit. The City developed a detailed cost allocation plan that is supported, the SEFA contained expenditures related to the audit period only, the City properly classified ending fund balance in accordance with GASB Statement No. 54, and the City now has procedures to ensure it adds and bills new utility customers.

Although the City addressed and corrected a number of weaknesses from the prior audit; significant deficiencies in internal controls still exist as reported in finding no. 1.

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

City of Lynnwood
Snohomish County
January 1, 2012 through December 31, 2012

Mayor and City Council
City of Lynnwood
Lynnwood, Washington

We have audited, 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, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City of Lynnwood, Snohomish County, Washington, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated September 16, 2013. During the year ended December 31, 2012, the City implemented Governmental Accounting Standards Board Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

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 City's financial statements will not be prevented, or detected and corrected on a timely basis. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Audit Findings and Responses as Finding 1 that we consider to be significant deficiencies.

COMPLIANCE AND OTHER MATTERS

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

City's REPONSE TO FINDINGS

The City's response to the findings identified in our audit is described in the accompanying Schedule of Audit Findings and Responses. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. 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

September 16, 2013

Independent Auditor's Report on Compliance For Each Major Federal Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133

City of Lynnwood
Snohomish County
January 1, 2012 through December 31, 2012

Mayor and City Council
City of Lynnwood
Lynnwood, Washington

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

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 each of its major federal programs for the year ended December 31, 2012. The City's major federal programs are identified in the accompanying Federal Summary.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. 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 on compliance for each major federal program. Our audit does not provide a legal determination on the City's compliance.

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2012.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program in order to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

PURPOSE OF THIS REPORT

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose. 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

September 16, 2013

Independent Auditor's Report on Financial Statements

City of Lynnwood
Snohomish County
January 1, 2012 through December 31, 2012

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, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City of Lynnwood, Snohomish County, Washington, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed on page 18.

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, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City of Lynnwood, as of December 31, 2012, 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 14 to the financial statements, in 2012, the City adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 19 through 29, pension trust fund information on page 94 and information on postemployment benefits other than pensions on page 95 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.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. This schedule is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic 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 basic financial statements or to the basic 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 dated September 16, 2013 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

TROY KELLEY
STATE AUDITOR

September 16, 2013

Financial Section

City of Lynnwood
Snohomish County
January 1, 2012 through December 31, 2012

REQUIRED SUPPLEMENTARY INFORMATION

BASIC FINANCIAL STATEMENTS

REQUIRED SUPPLEMENTARY INFORMATION

SUPPLEMENTARY AND OTHER INFORMATION

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, 2012.

Financial Highlights

- The assets of the City of Lynnwood exceeded its liabilities at fiscal year-end by $178,210,636 (net position), an increase of $1.6 million or .92% over 2011. Of this amount, unrestricted net assets total $21,244,831 and may be used to meet the city's ongoing obligations to citizens and creditors. Restricted net assets total $12,902,722 and are earmarked for debt service, capital projects and special revenue funds.
- At December 31, 2012, the City's governmental funds reported combined ending fund balances of $25,252,360, an increase of $30.8 million over 2011.
- At the end of the 2012 fiscal year, unassigned fund balance for the general fund was $12,579,637 or 27% of total general fund revenues (27.8% of expenditures).

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 intended to furnish additional detail to support 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 of Lynnwood's finances, in a manner similar to a private-sector business.

The *Statement of Net Position* presents financial information on all the City of Lynnwood's assets, liabilities, and deferred inflows/outflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City of Lynnwood is improving or deteriorating.

The *Statement of Activities* presents information showing how the City of Lynnwood's net position changed during the most recent fiscal year. All changes in the net position 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 for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both 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 of Lynnwood 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, 2012 Recreation Center LTGO Bond Fund, LID 93-1 Fund and the Community Center Construction Fund, 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 combining and individual fund statements and schedules section of this report.

The City of Lynnwood adopts its budget on a biennial basis. The 2012 fiscal year is the last 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 of Lynnwood 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 of Lynnwood 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, 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 of which are considered to be major funds of the City of Lynnwood. Conversely, the internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds are provided in the form of combining statements in the combining and individual fund statements and schedules section of this report.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside of the government. Fiduciary funds are *not* reported in the government-wide financial statements because the resources of those funds are not available to support the City of Lynnwood's own programs.

The City of Lynnwood maintains two types of fiduciary funds. The *Firefighters' Pension Fund* accounts for the Firefighters' 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 Funds* report resources held by the City of Lynnwood in a custodial capacity for individuals, private organizations and other governments.

Notes to the Financial Statements

The notes provide additional information that is essential to acquire 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 *required supplementary information* concerning the City of Lynnwood's progress in funding its obligation to provide pension and OPEB benefits to its employees.

The combining statements referred to earlier in connection with nonmajor governmental funds and internal service funds are presented immediately following the required supplementary information on pensions and OPEB.

Government-wide Overall Financial Analysis

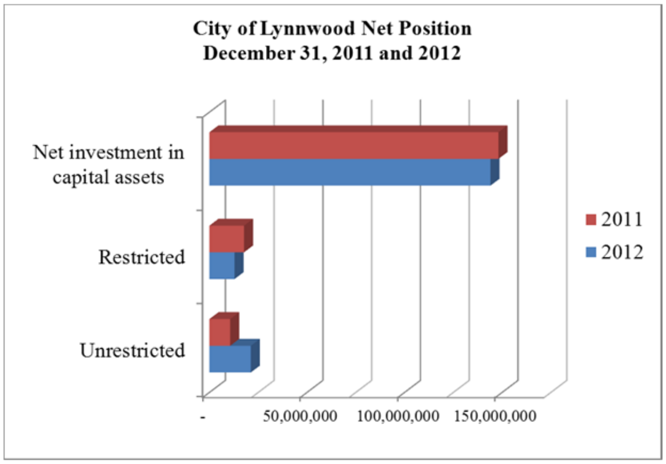
As noted earlier, net position over time, may serve as a useful indicator of a government's financial position. In the case of the City of Lynnwood, assets exceeded liabilities by $178,210,636 at the close of the most recent fiscal year.

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Current and other assets	$ 35,126,216	$ 29,290,407	$ 19,061,920	$ 19,685,194	$ 54,188,136	$ 48,975,601
Capital assets	132,271,248	135,125,034	50,901,016	52,139,536	183,172,264	187,264,570
Total Assets	167,397,464	164,415,441	69,962,936	71,824,730	237,360,400	236,240,171
Non-current liabilities outstanding	37,026,386	10,395,095	14,161,428	14,054,566	51,187,814	24,449,661
Other liabilities	6,327,505	33,192,222	1,082,754	2,021,541	7,410,259	35,213,763
Total Liabilities	43,353,891	43,587,317	15,244,182	16,076,107	58,598,073	59,663,424
Net position:						
Net investment in capital assets	102,877,782	103,947,274	41,185,301	44,192,179	144,063,083	148,139,453
Restricted	6,906,005	8,796,188	5,996,416	8,960,241	12,902,421	17,756,429
Unrestricted	14,259,786	8,084,662	6,985,346	2,596,203	21,245,132	10,680,865
Total Net Position	$ 124,043,573	$ 120,828,124	$ 54,167,063	$ 55,748,623	$ 178,210,636	$ 176,576,747

City of Lynnwood's Net Position

By far, the largest portion of the City's net position ($144,063,083; 80.8%) reflects investment in capital assets (e.g., land, buildings, machinery, equipment, vehicles, and infrastructure), less any related outstanding debt that was used to acquire those assets. The City uses these capital assets to provide a variety of services to citizens. Accordingly, these assets are not available for future spending. Although the City of Lynnwood's investment in capital assets is reported net of related debt, it should be noted that the resources used to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

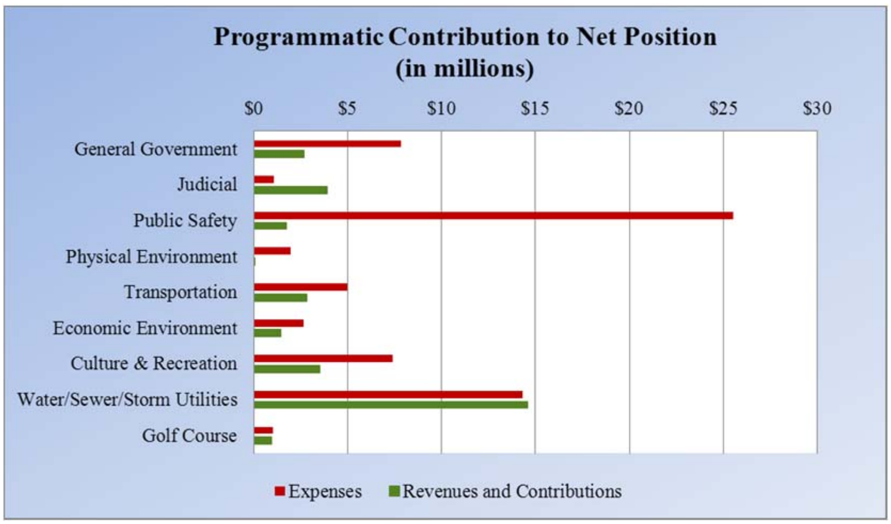
An additional portion of the City's net position ($12,902,722; 7.2%) represents resources that are subject to external restrictions on how they may be used. The remaining balance ($21,244,831; 11.9%) is unrestricted and may be used to meet the City's ongoing obligations to its citizens and creditors.



The City's overall net position increased $1.6 million (.92%) from the prior fiscal year. The reasons for this overall increase are discussed in the following sections for governmental activities and business-type activities.

Programmatic Contribution to Net Position

The bar chart below illustrates the contribution that various city functions make to net position 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.

Governmental Activities

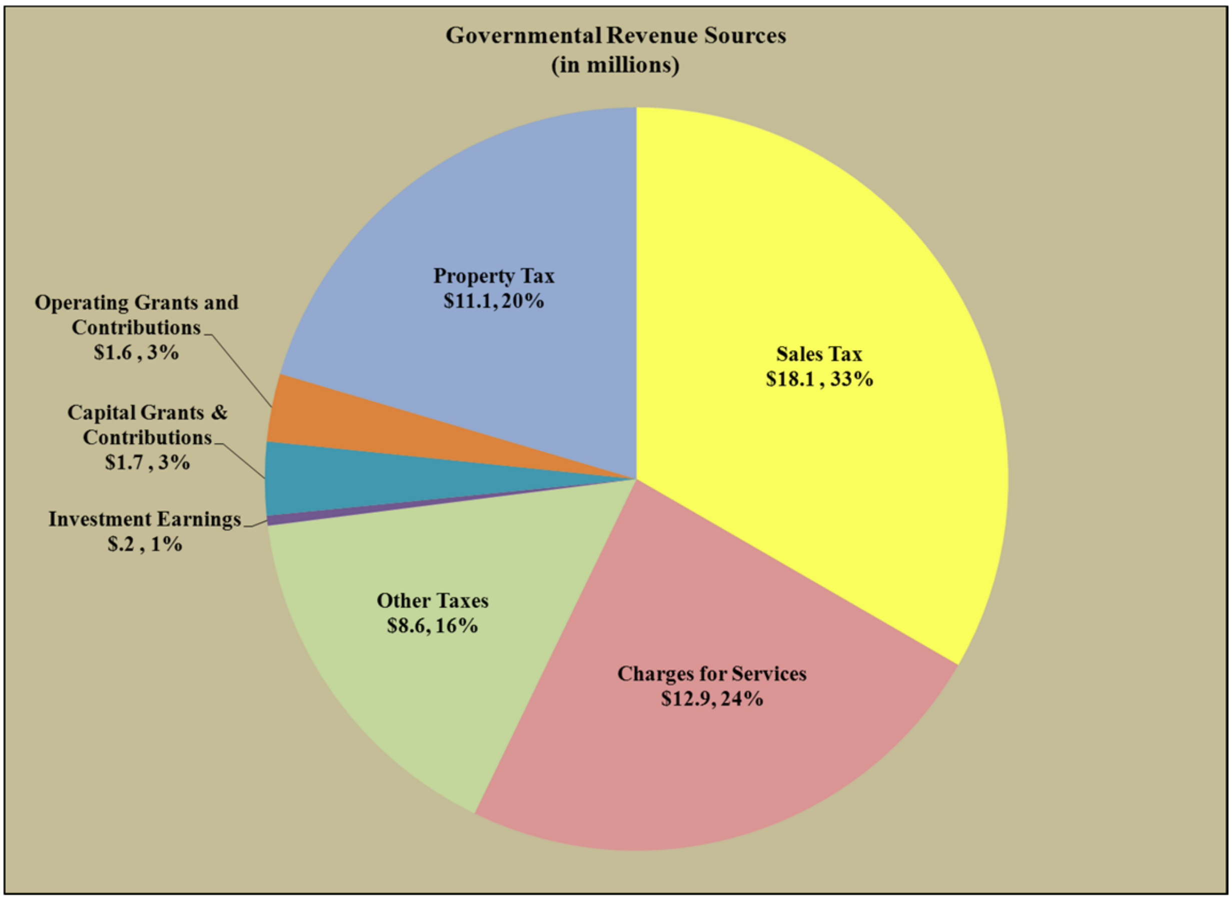
During the current fiscal year, net position for governmental activities increased $3.2 million (2.7%).

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Revenues						
Program Revenues						
Charge for Service	$ 12,920,908	$ 11,777,575	$ 15,296,741	$ 14,806,566	$ 28,217,649	$ 26,584,141
Operating Grants & Contributions	1,602,585	1,256,504	106,158	-	1,708,743	1,256,504
Capital Grants & Contributions	1,729,022	2,305,213	123,736	212,385	1,852,758	2,517,598
General Revenues						
Property Taxes	11,071,727	11,092,172	-	-	11,071,727	11,092,172
Sales Taxes	18,076,002	16,827,611	-	-	18,076,002	16,827,611
Other Taxes	8,572,801	7,996,565	-	-	8,572,801	7,996,565
Other Revenues	237,028	278,132	50,082	73,292	287,110	351,424
Total Revenues	54,210,073	51,533,772	15,576,717	15,092,243	69,786,790	66,626,015
Expenses						
General Government	7,863,955	6,660,794	-	-	7,863,955	6,660,794
Judicial	1,060,371	1,046,440	-	-	1,060,371	1,046,440
Public Safety	25,551,751	24,493,023	-	-	25,551,751	24,493,023
Physical Environment	1,984,451	1,784,719	-	-	1,984,451	1,784,719
Transportation	4,982,635	4,254,909	-	-	4,982,635	4,254,909
Culture & Recreation	7,406,725	7,288,721	-	-	7,406,725	7,288,721
Economic Environment	2,668,346	2,833,651	-	-	2,668,346	2,833,651
Interest on Long-term Debt	1,208,975	1,094,163	-	-	1,208,975	1,094,163
Disposition of Capital Assets	66,001	-	-	-	66,001	-
Water	-	-	4,045,975	3,799,099	4,045,975	3,799,099
Sewer	-	-	7,631,520	7,138,374	7,631,520	7,138,374
Golf Course	-	-	1,067,535	1,081,900	1,067,535	1,081,900
Storm Drainage	-	-	2,636,787	1,903,459	2,636,787	1,903,459
Total Expenses	52,793,210	49,456,420	15,381,817	13,922,832	68,175,027	63,379,252
Increase (Decrease) in Net Position Before Transfers	1,416,863	2,077,352	194,900	1,169,411	1,611,763	3,246,763
Transfers	1,387,075	616,816	(1,387,075)	(616,816)	-	-
Increase (Decrease) in Net Position	2,803,938	2,694,168	(1,192,175)	552,595	1,611,763	3,246,763
Net Position - beginning	120,828,124	118,133,956	55,748,623	55,196,028	176,576,747	173,329,984
Prior Period Adjustments	411,511	-	(389,384)	-	22,127	-
Net Position - beginning - *Adjusted*	121,239,635	118,133,956	55,359,239	55,196,028	176,598,874	173,329,984
Net Position - ending	$ 124,043,573	$ 120,828,124	$ 54,167,064	$ 55,748,623	$ 178,210,637	$ 176,576,747

- Local sales tax revenues increased by nearly $1.2 million, or 7.4% compared to fiscal 2011.
- Property tax revenues collected were $11,071,727 a decrease of $20,445 over collections in 2011.
- Permit revenues totaled $949,449 an increase of 18.6% over the prior year.
- In 2012, the City received $251,544 in mitigation payments, a decrease of $3,755 (1.5%) from 2011. 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).

Revenues by Source – Governmental Activities

The following pie chart shows revenues by source 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.



Governmental expenditures increased $3.3 million or 6.6% from the prior year.

Function/Programs	2012 Expenditures	2011 Expenditures	$ Increase/ (Decrease)	% Increase/ (Decrease)
General Government	$ 7,863,955	$ 6,660,794	$ 1,203,161	18.1%
Judicial	1,060,371	1,046,440	13,931	1.3%
Public Safety	25,551,751	24,493,023	1,058,728	4.3%
Physical Environment	1,984,451	1,784,719	199,732	11.2%
Transportation	4,982,635	4,254,909	727,726	17.1%
Economic Environment	2,668,346	2,833,651	(165,305)	-5.8%
Culture & Rec	7,406,725	7,288,721	118,004	1.6%
Interest on Debt	1,208,975	1,094,163	114,812	10.5%
	$52,727,209	$49,456,420	$ 3,270,789	6.6%

Business-type activities

Business-type activities decreased the City of Lynnwood's net position by $1,581,559.

- Charges for Services revenue increased by $490,175 (3.3%) from $14.8 million to $15.3 million.
- Total revenues increased $484,474 (3.2%).
- Total expenses increased from $13.9 million to $15.4 million (10.6 %).
- Expenses related to water, sewer, and storm utility increased by approximately $1.47 million (10.6%).
- Expenses related to the City's golf course decreased by $14,365 (-1.3%).

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 discretionary spending at the end of a fiscal year.

At December 31, 2012, the City's governmental funds reported combined ending fund balances of $25,252,360, an increase of $30.8 million over 2011. This change 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

Original budget compared to final budget. During the year there was no need for any significant amendments to either the original estimated revenues or original budgeted appropriations.

Final budget compared to actual results. The City of Lynnwood budgets on a biennial basis. The most significant differences between estimated revenues and actual revenues were as follows:

- Sales tax revenues exceeded budget by $1.8 million (12.6%).
- Fines and forfeitures revenues came in $3.1 million under budget due to changes in accounting estimates for photo red enforcement fines as discussed in Note 13 - Prior Period Adjustments and Note 14 - Accounting and Reporting Changes.
- Total expenditures were $2.8 million (3%) under budget.
- Public safety expenditures were $2.5 million (5.2%) under budget.

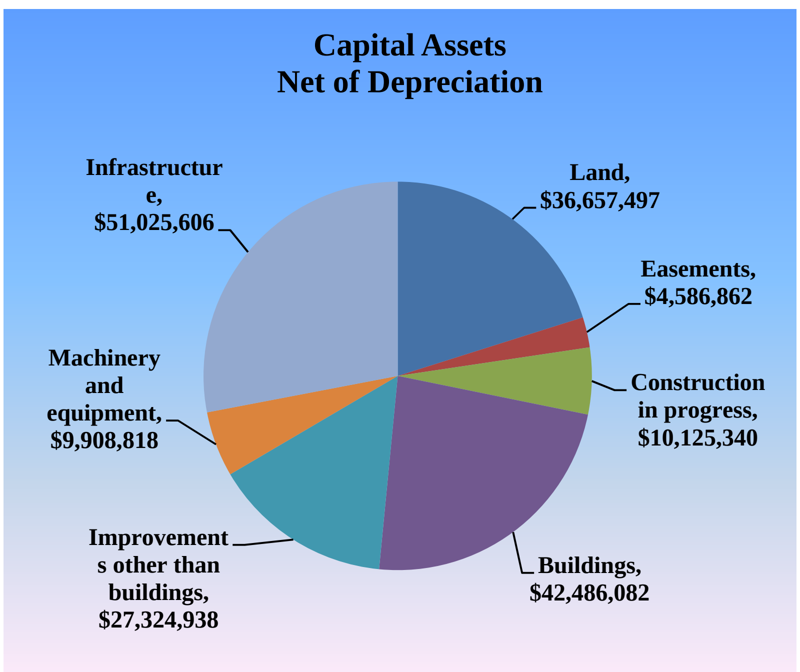
Additional information is provided in the General Fund Statement of Revenues, Expenditures, and Changes in Fund Balance, Budget and Actual.

Capital Assets and Debt Administration

Capital Assets

The City of Lynnwood's investment in capital assets for its governmental and business-type activities (not including investment in joint venture) as of December 31, 2012, amounts to $182.6 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 $132.2 million in 2012, a decrease of $3.9 million from 2011. Business-type assets (net of depreciation) totaled $50.3 million, a decrease of $1.8 million from 2011. In addition to the effects of depreciation, these decreases are the result of adjustments made through the City's ongoing efforts to audit capital assets. More information on the City's Capital Assets can be found in Note 5 – Capital Assets, in the Notes to the Financial Statements.



Long-Term Debt

At the end of 2012, the City of Lynnwood had total bonded debt outstanding of $44.3 million. Of this amount, $27.5 million is backed by the full faith and credit of the City and $3.2 million is special assessment debt. The remainder ($13.6 million) represents bonds secured solely by specified revenue sources (i.e., revenue bonds).

Total long-term debt includes compensated absences ($4.5 million) and pension related commitments ($2.3 million) for total long-term debt of $51.1 million. The City's total long-term debt decreased by $1.4 million in 2012. More information on the City's Long-Term Debt can be found in Note 7.

Economic Factors and the Next Year's Budgets and Rates

Our state and local economies have continued to show signs of real recovery. But, the uncertainty caused by national decision-making on the federal budget and the federal debt limit, together with state budget problems, directly affect our local economy. The City, however continues to successfully adjust to these uncertain times actually increasing our unrestricted General Fund balance from the 2009-2010 biennium to the 2011-2012 biennium.

Historical Perspective

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 were 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 expenditure reductions which contributed to under spending in the 2011 General Fund by $7.9M. Lastly, on May 9, 2011, the Lynnwood City Council City's passed the City's Financial Policies and Long Term Financial Plan, which requires the continued reestablishment and maintenance of reserves in the City's Revenue Stabilization Fund (RSF). The City transferred $1.0M at the end of 2012 to begin the process of reestablishing the RSF. This will address both structural budget deficits and the future needs of the City's citizens.

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.

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 $21,614,000. The ARC estimated for calendar year 2012 is $1,347,439. The City has a Net OPEB Obligation at the end of the year of $2,112,347 which is included as a noncurrent liability in the Statement of Net Position.

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 POSITION
DECEMBER 31, 2012

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Public Facilities District
ASSETS				
CURRENT ASSETS:				
Cash and equivalents	$ 20,220,649	$ 11,524,927	$ 31,745,576	$ 3,585,021
Receivables (net)	8,991,035	2,658,865	11,649,900	331,964
Internal balances	1,437,485	(1,437,485)	-	-
Inventories	-	17,500	17,500	19,548
Prepaid items	606,119	110,031	716,150	68,615
Restricted cash & investments:				
Customer deposits	432,618	143,243	575,861	-
Restricted cash	-	-	-	731,524
Restricted investments	-	-	-	1,000,000
Bond covenant accounts	-	5,801,689	5,801,689	-
Other	-	51,485	51,485	52,141
Total Current Assets	31,687,906	18,870,255	50,558,161	5,788,813
NONCURRENT ASSETS				
Long-term notes receivable, net of current portion, net of allowance for uncollectibles	2,827,939	61,322	2,889,261	-
Debt issuance costs	-	130,343	130,343	461,854
Investment in joint venture - SERS	610,371	-	610,371	-
Capital assets not being depreciated:				
Land	30,227,471	12,177,208	42,404,679	6,788,800
Construction in progress	8,530,764	2,651,697	11,182,461	-
Capital assets - net of accumulated depreciation:				
Buildings and improvements	58,499,561	9,599,448	68,099,009	16,778,024
Machinery, equipment, and vehicles	8,800,043	1,108,775	9,908,818	506,925
Infrastructure	26,213,409	24,812,197	51,025,606	46,302
Total noncurrent assets	135,709,558	50,540,990	186,250,548	24,581,905
Total Assets	**167,397,464**	**69,411,245**	**236,808,709**	**30,370,718**
LIABILITIES				
CURRENT LIABILITIES				
Accounts payable and accrued expenses	2,449,970	888,026	3,337,996	335,138
Unearned revenue	3,697,669	13,101	3,710,770	373,922
Other current liabilities	179,866	-	179,866	-
Current liabilities payable from restricted assets:				
Liabilities payable from restricted assets	-	225,199	225,199	-
Total Current Liabilities	6,327,505	1,126,326	7,453,831	709,060
NONCURRENT LIABILITIES				
Due within one year	2,728,314	1,278,818	4,007,132	751,136
Due in more than one year	34,298,072	12,839,038	47,137,110	27,173,511
Total Noncurrent Liabilities	37,026,386	14,117,856	51,144,242	27,924,647
Total Liabilities	**43,353,891**	**15,244,182**	**58,598,073**	**28,633,707**
NET POSITION				
Net investment in capital assets	102,877,782	41,185,301	144,063,083	(3,699,974)
Restricted for:				
Prepaid items	606,119	-	606,119	-
Debt service	1,806,693	1,774,362	3,581,055	1,700,000
Capital projects	1,393,134	4,027,327	5,420,461	-
Special revenue	2,782,957	-	2,782,957	-
Other	317,402	194,728	512,130	-
Unrestricted	14,259,486	6,985,345	21,244,831	3,736,985
Total Net Position	**$ 124,043,573**	**$ 54,167,063**	**$ 178,210,636**	**$ 1,737,011**

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, 2012

		Program Revenues	Program Revenues	Program Revenues	Net (Expense) Revenue and Changes in Net Position			
			Operating	Capital	Primary Government			Component Unit
FUNCTIONS/PROGRAMS	Expenses	Charges for Services	Grants and Contributions	Grants and Contributions	Governmental Activities	Business-type Activities	Total	Public Facilities District
Governmental Activities:								
General Government	$ 7,863,955	$ 2,682,522	$ -	$ -	$ (5,181,433)		$ (5,181,433)	$ -
Judicial	1,060,371	3,937,154	-	-	2,876,783		2,876,783	-
Public Safety	25,551,751	1,223,275	542,163	988	(23,785,325)		(23,785,325)	-
Physical Environment	1,984,451	33,684	20,088	-	(1,930,679)		(1,930,679)	-
Transportation	4,982,635	719,453	784,521	1,337,133	(2,141,528)		(2,141,528)	-
Economic Environment	2,668,346	1,464,666	-	-	(1,203,680)		(1,203,680)	-
Culture & Recreation	7,406,725	2,860,154	255,813	390,901	(3,899,857)		(3,899,857)	-
Interest on long-term debt	1,208,975	-	-	-	(1,208,975)		(1,208,975)	
Total Governmental Activities	52,727,209	12,920,908	1,602,585	1,729,022	(36,474,694)		(36,474,694)	-
Business-type Activities:								
Water	4,045,975	4,192,396	-	52,196		198,617	198,617	-
Sewer	7,631,522	7,774,687	-	48,425		191,590	191,590	-
Golf	1,067,535	948,404	-	-		(119,131)	(119,131)	-
Storm Drainage	2,636,787	2,381,254	106,158	23,115		(126,260)	(126,260)	
Total Business-type Activities	15,381,819	15,296,741	106,158	123,736		144,816	144,816	-
Total Primary Government	$ 68,109,028	$ 28,217,649	$ 1,708,743	$ 1,852,758	(36,474,694)	144,816	(36,329,878)	-
Component units:								
Public Facilities District	$ 5,325,128	$ 3,319,159	$ -	$ -				(2,005,969)
Total Component Units	$ 5,325,128	$ 3,319,159	$ -	$ -				(2,005,969)
General Revenues:								
Property Taxes					11,071,727	-	11,071,727	-
Sales Taxes					18,076,002	-	18,076,002	2,307,089
B&O Taxes					6,813,243	-	6,813,243	-
Other Taxes					1,759,558	-	1,759,558	-
Investment Earnings					237,028	50,082	287,110	22,992
Disposition of capital assets					(66,001)	-	(66,001)	-
Transfers					1,387,075	(1,387,075)	-	-
Total General Revenues and Transfers					39,278,632	(1,336,993)	37,941,639	2,330,081
Change in Net Position					2,803,938	(1,192,177)	1,611,761	324,112
Net Position - Beginning					120,828,124	55,748,623	176,576,747	1,412,898
Prior Period Adjustments					411,511	(389,384)	22,127	-
Net Position - Ending					$ 124,043,573	$ 54,167,062	$ 178,210,635	$ 1,737,010

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

CITY OF LYNNWOOD, WASHINGTON
BALANCE SHEET
GOVERNMENTAL FUNDS

December 31, 2012

	General	LTGO 2012 Rec Center	LID 93-1	Community Center	Other Governmental Funds	Total Governmental Funds
ASSETS						
Cash and cash equivalents	$ 9,976,908	$ 94,568	$ 13,706	$ 7,733	$ 7,008,851	$ 17,101,766
Receivables, net	7,306,679	-	3,503,834	-	719,634	11,530,147
Receivables, interfund loans	2,485,000	-	-	-	-	2,485,000
Due from other governments	36,319	-	-	-	200,289	236,608
Prepayments	606,119	-	-	-	-	606,119
Due from other funds	137,485	-	-	-	-	137,485
Cash - restricted	88,254	-	-	-	344,364	432,618
Total assets	**$ 20,636,764**	**$ 94,568**	**$ 3,517,540**	**$ 7,733**	**$ 8,273,138**	**$ 32,529,743**
LIABILITIES						
Accounts payable	1,121,541	1	1	7,733	585,093	1,714,369
Wages payable	483,682	-	-	-	16,797	500,479
Due to other funds	-	-	-	-	1,185,000	1,185,000
Unearned revenue - special assessment	-	-	2,827,939	-	-	2,827,939
Other current liabilities	801,449	-	-	-	241,812	1,043,261
Custodial accounts	6,335	-	-	-	-	6,335
Total liabilities	2,413,007	1	2,827,940	7,733	2,028,702	7,277,383
FUND BALANCES (DEFICITS):						
Nonspendable:						
Prepaid Rent	$ 583,469	$ -	$ -	$ -	$ -	$ 583,469
Interfund Advance - Golf	137,485	-	-	-	-	137,485
Restricted for:						
Capital Projects	-	-	-	-	1,393,134	1,393,134
Cultural	-	-	-	-	-	-
Debt Service	-	94,567	689,600	-	1,022,526	1,806,693
Law Enforcement	-	-	-	-	1,255,875	1,255,875
Parks & Recreation	65,914	-	-	-	264,370	330,284
Public Facilities District	-	-	-	-	645,869	645,869
Public Safety	-	-	-	-	120,307	120,307
Transportation	-	-	-	-	496,536	496,536
Insurance proceeds (data center)	91,663	-	-	-	-	91,663
Other	22,340	-	-	-	-	22,340
Committed to:						
Capital Projects	-	-	-	-	1,602,188	1,602,188
Cultural	-	-	-	-	26,468	26,468
Other	-	-	-	-	86,819	86,819
Revenue stabilization	1,000,000	-	-	-	-	1,000,000
Imprest cash	33,000	-	-	-	-	33,000
Assigned to:						
Sale of property	2,814,864	-	-	-	-	2,814,864
Purchases on Order	754,015	-	-	-	-	754,015
Transportation	-	-	-	-	390,401	390,401
Other	-	-	-	-	96,331	96,331
Program development	141,370	-	-	-	-	141,370
Unassigned:	12,579,637	-	-	-	(1,156,388)	11,423,249
Total Fund Balances (deficits)	18,223,757	94,567	689,600	-	6,244,436	25,252,360
Total liabilities, deferred inflows of resources, and fund balances (deficits)	**$ 20,636,764**	**$ 94,568**	**$ 3,517,540**	**$ 7,733**	**$ 8,273,138**	**$ 32,529,743**

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 POSITION

December 31, 2012

Total governmental fund balances	$ 25,252,360
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not current period financial resources and therefore are not reported in the funds.	
Land	30,227,471
Construction in progress	8,530,764
Buildings	43,865,368
Improvements other than buildings	38,708,302
Machinery and Equipment - General Government	7,078,840
Infastructure	57,681,370
Less: Accumulated Depreciation	(60,435,528)
Other long term assets used in governmental activities are not current period financial resources and therefore are not reported in the funds.	
Investment in Joint Venture	610,371
Long term liabilities, including bonds payable are not due and payable in the current period and therefore are not reported in the funds.	
These long-term liabilities consist of:	
Bonds Payable (net)	(30,222,030)
Other post-employment benefits	(2,276,801)
Compensated absences	(4,080,728)
Internal service funds are used by management to charge the costs of equipment rental, self-insurance and reserve retirement to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position.	9,103,815
Net position of governmental activities	**$ 124,043,573**

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

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, 2012

	General	LTGO Recreation Ctr 2012	LID 93-1	Community Center	Other Governmental Funds	Total Governmental Funds
REVENUES						
Taxes:						
Property	$ 8,526,798	$ -	$ -	$ -	$ 2,544,929	$ 11,071,727
Sales	16,501,715	-	-	-	1,574,287	18,076,002
B & O	6,813,243	-	-	-	-	6,813,243
Other	151,779	-	-	-	668,680	820,459
Licenses and permits	3,196,285	-	-	-	135,883	3,332,168
Intergovernmental revenues	1,922,167	-	-	-	2,775,604	4,697,771
Charges for services	5,228,653	-	-	-	667,842	5,896,495
Fines and forfeitures	3,924,562	-	-	-	38,142	3,962,704
Other - interest	23,664	-	199,173	-	8,852	231,689
Other - rent	261,409	-	-	-	-	261,409
Special assessments	-	-	488,992	-	-	488,992
Miscellaneous	57,448	-	-	88,055	31,300	176,803
Total revenues	46,607,723	-	688,165	88,055	8,445,519	55,829,462
EXPENDITURES						
Current						
General government	8,259,347	-	-	-	47,521	8,306,868
Public safety	24,459,030	-	-	-	165,317	24,624,347
Judicial	1,059,661	-	-	-	-	1,059,661
Utilities & environment	2,112,245	-	-	-	(91,811)	2,020,434
Economic environment	2,664,564	-	-	-	-	2,664,564
Transportation	-	-	-	-	2,541,284	2,541,284
Culture and recreation	5,041,586	161,044	-	2,592	1,084,498	6,289,720
Capital outlay	1,616,842	-	-	158,558	2,605,929	4,381,329
Debt service - principal	-	-	545,000	-	746,603	1,291,603
Debt service - interest and fiscal charges	35,916	684,477	203,940	156,181	128,432	1,208,946
Bond issuance costs	-	217,458	-	-	-	217,458
Total expenditures	45,249,191	1,062,979	748,940	317,331	7,227,773	54,606,214
Excess (deficiency) of revenues over expenditures	1,358,532	(1,062,979)	(60,775)	(229,276)	1,217,746	1,223,248
OTHER FINANCING SOURCES (USES)						
Transfers in	4,867,321	1,128,015	-	25,008,249	2,994,099	33,997,684
Transfers out	(1,514,807)	(25,353,095)	-	(344,846)	(3,744,885)	(30,957,633)
General obligation bonds issued	-	24,955,000	-	-	-	24,955,000
Premium on general obligation bonds issued	-	427,626	-	-	-	427,626
Insurance recoveries	1,337	-	-	-	-	1,337
Sale of assets	-	-	-	-	1,125	1,125
Total other financiing sources (uses)	3,353,851	1,157,546	-	24,663,403	(749,661)	28,425,139
Net change in fund balances	4,712,383	94,567	(60,775)	24,434,127	468,085	29,648,387
Fund balances, January 1	12,525,148	-	935,375	(24,434,127)	5,391,070	(5,582,534)
Prior period adjustment	986,226	-	(185,000)	-	385,281	1,186,507
Fund balances, January 1 - *Adjusted*	13,511,374	-	750,375	(24,434,127)	5,776,351	(4,396,027)
Fund balances (deficit), December 31	**$ 18,223,757**	**$ 94,567**	**$ 689,600**	**$ -**	**$ 6,244,436**	**$ 25,252,360**

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 - GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

For the year ended December 31, 2012

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

Net change in fund balances - total governmental funds		29,648,387
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense exceeded capital outlays in the current period.		(460,319)
Capital outlays	4,381,329	
Current year depreciation	(4,802,153)	
Disposition of capital assets	(66,001)	
Decrease in expense to reconcile	26,506	
The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these difference in the treatment of long-term debt and related items.		(23,873,565)
Issuance of general obligation bonds	(24,955,000)	
Bond issuance costs	217,458	
Bond premium	(427,626)	
Principal payments	1,291,603	
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.		(488,805)
Increase in other post-employment benefits payable	(447,508)	
Increase in compensated absences payable	(41,297)	
The internal service funds are used by management to charge the costs of fleet management and risk management to individual funds. The net revenue of certain activities of internal service funds is reported with governmental activities.		(2,021,761)
Change in net position of governmental activities		**2,803,937**

Prior period adjustment reconciliation

The amount reported for governmental activities prior period adjustments in the statement of activities is different because:

Prior period adjustment - total governmental funds	$ 1,186,507
Land, buildings & Improvements disposals	(1,893,813)
Insurance recovery re: 2011 data center	323,445
LID Prior Period Adjustment	185,000
Addition of investment in joint venture - SERS	610,371
Prior period adjustment - governmental activities	**$ 411,510**

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 the Biennium Ended December 31, 2012

	Budgeted Amounts			
	Original 2011/2012	**Final 2011/2012**	**Actual 2011/2012**	**Variance with Final Budget Positive (Negative)**
REVENUES				
Taxes:				
Property	$ 16,871,937	$ 16,871,937	$ 16,829,598	$ (42,339)
Sales	29,956,452	29,956,452	31,800,080	1,843,628
B & O	12,441,065	12,441,065	13,217,129	776,064
Other	318,322	318,322	317,107	(1,215)
Licenses and Permits	6,294,478	6,294,478	6,174,839	(119,639)
Intergovernmental Revenues	2,921,993	3,512,383	3,634,292	121,909
Charges for Services	9,994,960	9,994,960	9,837,019	(157,941)
Fines and Forfeitures	10,856,224	10,856,224	7,796,696	(3,059,528)
Other - Interest	519,950	519,950	44,196	(475,754)
Other - Rent	752,170	752,170	483,323	(268,847)
Miscellaneous	178,390	178,390	173,047	(5,343)
TOTAL REVENUE	91,105,941	91,696,331	90,307,326	(1,389,005)
EXPENDITURES				
Current				
General Government	19,021,584	18,916,024	18,421,581	(494,443)
Public Safety	50,179,677	50,660,146	48,165,784	(2,494,362)
Utilities & Environment	4,026,105	4,067,786	4,005,726	(62,060)
Economic Environment	5,939,449	6,330,576	5,503,620	(826,956)
Culture and Recreation	10,325,113	10,377,070	9,840,863	(536,207)
Capital Outlay	200,550	200,550	1,727,764	1,527,214
Debt Service - Interest & Fiscal Charges	1,940	1,940	71,257	69,317
TOTAL EXPENDITURES	89,694,418	90,554,092	87,736,595	(2,817,497)
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	1,411,523	1,142,239	2,570,731	(4,206,502)
OTHER FINANCING SOURCES (USES)				
Transfers In	6,648,779	6,798,779	8,050,343	1,251,564
Transfers Out	(6,099,401)	(6,099,401)	(2,228,266)	3,871,135
Sale of Fixed Assets	-	-	3,531,547	3,531,547
Insurance recoveries	-	-	1,337	1,337
TOTAL OTHER FINANCING SOURCES (USES)	549,378	699,378	9,354,961	8,655,583
NET CHANGE IN FUND BALANCES	1,960,901	1,841,617	11,925,692	10,084,075
Fund Balances, January 1	5,311,811	5,311,811	5,311,811	
Prior period adjustment	-	-	986,226	986,226
FUND BALANCES, DECEMBER 31	**$ 7,272,712**	**$ 7,153,428**	**$ 18,223,729**	**$ 11,070,301**

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

CITY OF LYNNWOOD, WASHINGTON
PROPRIETARY FUNDS
STATEMENT OF NET POSITION

December 31, 2012

	Business Type Activities-Enterprise Funds			GOVERNMENTAL ACTIVITIES
	WATER & SEWER UTILITY	GOLF COURSE	TOTAL	INTERNAL SERVICE FUNDS
ASSETS				
Current assets:				
Cash and cash equivalents	$ 11,527,410	$ (2,481)	$ 11,524,929	$ 3,118,883
Receivables (net of allowance for uncollectibles):				
Accounts	2,653,765	-	2,653,765	52,219
Accrued interest	5,100	-	5,100	-
Prepaid expenses	93,619	16,412	110,031	-
Inventories, at cost	-	17,500	17,500	-
Restricted assets - cash & investments:				
Cash	4,027,327	-	4,027,327	-
Customer advance payments	130,142	13,101	143,243	-
Revenue bond current debt service	1,170,000	15,757	1,185,757	-
Revenue bond future debt service Bond reserve	588,605	-	588,605	-
Other	37,540	13,945	51,485	-
Total current assets	20,233,508	74,234	20,307,742	3,171,102
Noncurrent Assets				
Notes receivable-noncurrent	61,322	-	61,322	-
Deferred charge: revenue bond issuance costs	130,343	-	130,343	-
Capital Assets:				
Land	4,363,719	3,663,369	8,027,088	-
Intangible - easements	4,150,120	-	4,150,120	-
Buildings	36,188,307	199,850	36,388,157	1,862,098
Improvements other than buildings	922,341	1,098,062	2,020,403	15,727
Machinery and equipment	2,462,021	450,648	2,912,669	10,333,426
Infrastructure	41,003,712	-	41,003,712	-
Construction In progress	2,651,697	-	2,651,697	-
(Less) accumulated depreciation	(45,439,996)	(1,364,526)	(46,804,522)	(5,596,589)
Net capital assets	46,301,921	4,047,403	50,349,324	6,614,662
Total noncurrent assets	46,493,586	4,047,403	50,540,989	6,614,662
Total assets	**66,727,094**	**4,121,637**	**70,848,731**	**9,785,764**

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

CITY OF LYNNWOOD, WASHINGTON
PROPRIETARY FUNDS
STATEMENT OF NET POSITION

December 31, 2012

	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	$ 820,547	$ 13,211	$ 833,758	$ 235,123
Accrued interest on contracts	-	54,268	54,268	-
Compensated absences	75,695	17,365	93,060	9,845
Due to other funds	-	137,485	137,485	-
Interfund loan	-	1,300,000	1,300,000	-
Claims and judgments	-	-	-	410,118
Matured bonds payable	1,170,000	15,758	1,185,758	-
Gift certificates	-	13,101	13,101	-
Current liabilities (payable from restricted assets):				
Accrued revenue bond interest	43,572	-	43,572	-
Customer deposits	167,682	13,945	181,627	-
Total current liabilities	2,277,496	1,565,133	3,842,629	655,086
Noncurrent liabilities:				
Compensated absences	186,097	58,744	244,841	26,864
Revenue bonds, net of current portion	12,410,000	-	12,410,000	-
Unamortized premium	273,223	-	273,223	-
(Less) Unamortized bond discount	(89,026)	-	(89,026)	-
Total noncurrent liabilities	12,780,294	58,744	12,839,038	26,864
Total Liabilities	15,057,790	1,623,877	16,681,667	681,950
NET POSITION				
Net investment in capital assets	37,153,656	4,031,645	41,185,301	6,614,662
Restricted for:				
Capital projects	4,027,327	-	4,027,327	-
Debt service	1,758,605	15,757	1,774,362	-
Other	167,682	27,046	194,728	-
Unrestricted	8,562,034	(1,576,688)	6,985,346	2,489,152
Total net position	$ 51,669,304	$ 2,497,760	$ 54,167,064	$ 9,103,814

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 POSITION

For the Year Ended December 31, 2012

	Business-Type Activities-Enterprise Funds			GOVERNMENTAL ACTIVITIES INTERNAL SERVICE FUNDS
	WATER & SEWER UTILITY	GOLF COURSE	TOTAL	
Operating Revenues				
Charges for Services/Fees-Water	$ 4,192,396	$ -	$ 4,192,396	$ -
Charges for Services/Fees-Sewer	8,542,231	-	8,542,231	-
Charges for Services/Fees-Storm	2,381,254	-	2,381,254	-
Charges for Sales & Services	-	933,959	933,959	2,401,124
Rentals	-	100,874	100,874	-
Other	5,540	17,736	23,276	263
Total Operating Revenues	15,121,421	1,052,569	16,173,990	2,401,387
Operating Expenses				
Administrative and General-Water	1,102,426	-	1,102,426	-
Administrative and General-Sewer	948,979	-	948,979	-
Administrative and General-Storm	899,198	-	899,198	-
Administrative and General	-	397,429	397,429	185,892
Maintenance and Operations-Water	2,521,010	-	2,521,010	-
Maintenance and Operations-Sewer	4,341,638	-	4,341,638	-
Maintenance and Operations-Storm	1,533,286	-	1,533,286	-
Maintenance and Operations	-	604,033	604,033	1,139,755
Insurance and claims	-	-	-	979,694
Depreciation-Water	422,539	-	422,539	-
Depreciation-Sewer	1,820,133	-	1,820,133	-
Depreciation-Storm	204,303	-	204,303	-
Depreciation	-	63,196	63,196	631,749
Total Operating Expenses	13,793,512	1,064,658	14,858,170	2,937,090
Operating Income (Loss)	1,327,909	(12,089)	1,315,820	(535,703)
Non Operating Revenues (Expenses)				
Miscellaneous Interest Revenue	50,082	-	50,082	5,339
Debt Issuance Costs	(13,779)	-	(13,779)	-
Interest expense	(506,991)	(2,877)	(509,868)	(29)
Gain (Loss) on Property Dispositions	(891,694)	(33)	(891,727)	4,090
Other	106,156	14,479	120,635	157,517
Net non-operating revenues (expenses)	(1,256,226)	11,569	(1,244,657)	166,917
Income (loss) before contributions and transfers	71,683	(520)	71,163	(368,786)
Capital Contributions and Transfers				
Water	52,196	-	52,196	-
Sewer	48,425	-	48,425	-
Storm	23,115	-	23,115	-
Transfers in	38,213	-	38,213	233,969
Transfers out	(1,425,288)	-	(1,425,288)	(1,886,944)
Change in Net Position	(1,191,656)	(520)	(1,192,176)	(2,021,761)
Total Net Position-Beginning	52,724,514	3,024,110	55,748,624	10,802,129
Prior Period Adjustments	136,446	(525,830)	(389,384)	323,446
Total Net Position--Ending	**$ 51,669,304**	**$ 2,497,760**	**$ 54,167,064**	**$ 9,103,814**

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, 2012

	Business-Type Activities			Governmental Activities
	Water and Sewer Utility	Golf Course	Totals	Internal Service Funds
Cash flows from operating activities:				
Receipts from customers	$ 14,434,908	$ 1,035,666	$ 15,470,574	$ 2,397,545
Payments to suppliers	(5,479,125)	(284,304)	(5,763,429)	(1,904,563)
Payments to employees	(3,673,128)	(610,407)	(4,283,535)	(376,051)
Payments to other funds for services	(1,836,673)	(148,422)	(1,985,095)	-
Net cash provided by (used for) operating activities	3,445,982	(7,467)	3,438,515	116,931
Cash flows from noncapital financing activities:				
Operating subsidies and transfers to other funds	-		-	353,459
Interfund loans (paid)/received	5,485,100	-	5,485,100	-
Interfund loan interest (paid)/received	18,100	(1,932)	16,168	-
Other Non-Operating Revenues	106,158	-	106,158	7,768
Transfers in	38,213	-	38,213	(1,652,975)
Transfers (out)	(1,425,288)	-	(1,425,288)	-
Net cash provided by (used for) noncapital financing activities	4,222,283	(1,932)	4,220,351	(1,291,748)
Cash flows from capital and related financing activities:				
Acquisition and construction of capital assets	(2,016,071)	528,116	(1,487,955)	(662,034)
Principal paid on revenue bonds	(1,145,000)	(15,757)	(1,160,757)	-
Interest paid on revenue bonds and contracts	(528,447)	(945)	(529,392)	-
Net cash provided by (used for) capital and related financing activities	(3,689,518)	511,414	(3,178,104)	(654,156)
Cash flows from investing activities:				
Interest and dividends on investments	31,982	-	31,982	5,310
Net cash provided by (used for) investing activities	31,982	-	31,982	5,310
Net increase (decrease) in cash and cash equivalents	4,010,729	502,015	4,512,744	(1,823,663)
Cash and cash equivalents at beginning of year	13,333,847	64,137	13,397,984	4,619,100
Prior period adjustment	136,446	(525,830)	(389,384)	323,446
Cash and cash equivalents at end of year	$ 17,481,022	$ 40,322	$ 17,521,344	$ 3,118,883
Reconciliation to Proprietary Funds Statement of Net Position:				
Current assets:				
Cash and cash equivalents	11,527,408	(2,481)	11,524,927	3,118,883
Restricted assets:				
Cash	4,064,867	13,945	4,078,812	-
Customer advance payments	130,142	13,101	143,243	-
Bond current debt service	1,170,000	15,757	1,185,757	-
Bond future debt service	588,605	-	588,605	-
Cash and cash equivalents at end of year	17,481,022	40,322	17,521,344	3,118,883

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, 2012

	Business-Type Activities			Governmental Activities
	Water and Sewer Utility	Golf Course	Totals	Internal Service Funds
Reconciliation of operating income to net cash provided by operating activities				
Operating income (loss)	$ 1,327,909	$ (12,089)	$ 1,315,820	$ (535,703)
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation expense	2,446,975	63,196	2,510,171	631,749
Change in assets and liabilities:				
Receivables, net	(696,714)	-	(696,714)	(3,842)
Inventories	-	(6,668)	(6,668)	-
Prepaid expenses	(38,043)	(5,390)	(43,433)	-
Customer deposits	10,206	(16,903)	(6,697)	-
Compensated absences	21,171	(35,401)	(14,230)	-
Accounts and other payables	374,478	5,788	380,266	(66,239)
Total adjustments	2,118,073	4,622	2,122,695	561,668
Net cash provided by operating activities	$ 3,445,982	$ (7,467)	$ 3,438,515	$ 25,965
Noncash investing, capital and financing activities:				
Gain/(loss) on property dispositions			* $ (891,727)	$ 4,090
Contributions of capital assets			73,700	-
			$ (818,027)	$ 4,090

* Water meters, fire hydrants and other capital assets that did not meet the $5,000 capitalization threshold were expensed in 2012 to remove them from the capital assets inventory.

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

CITY OF LYNNWOOD, WASHINGTON
STATEMENT OF NET POSITION
FIDUCIARY FUNDS

December 31, 2012

	Firefighters' Pension Fund	Agency Funds
ASSETS		
Cash and Equivalents	$ 706,059	$ 181,084
Prepaid Insurance	45,326	-
Total Assets	751,385	181,084
LIABILITIES		
Deposits Payable	-	181,084
Total Liabilities	-	181,084
NET POSITION		
Net Position Held in Trust for Pension Benefits and Other Purposes	$ 751,385	$ -

The accompanying notes are an integral part of these statements.

CITY OF LYNNWOOD, WASHINGTON
STATEMENT OF CHANGES IN NET POSITION
FIDUCIARY FUNDS

For the year ended December 31, 2012

		Firefighters' Pension Fund
ADDITIONS		
Fire Insurance Premiums	$	46,968
Interest earnings		1,259
Total additions		48,227
DEDUCTIONS		
Benefits		98,829
Health Care Payments		7,625
Total deductions		106,454
Change in net position		(58,227)
Net position - beginning		802,093
Prior period adjustment		7,519
Net position - ending	$	751,385

The accompanying notes are an integral part of these statements.

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. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The significant accounting policies are described below.

A. Reporting Entity

The City of Lynnwood was incorporated on April 23, 1959, and operates under the laws of the state of Washington applicable to an optional code city with a Mayor/Council form of government. The City is governed by an elected mayor and seven-member governing council. As required by the generally accepted accounting principles the financial statements present the City of Lynnwood, the primary government, and its component units. The component units discussed below are included in the City of Lynnwood reporting entity because of the significance of their operational or financial relationships with the City. Blended component units are, in substance, part of the primary government's operations, even though they are legally separate entities. Thus, blended component units are appropriately presented as funds of the primary government. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the government.

Blended Component Unit. 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.

Discretely Presented Component Unit. 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, 2004. 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, 2005.

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.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position 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 to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Our policy is to allocate indirect costs to a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements 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 financial statements.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the 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.

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.

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 City reports the following major governmental funds:

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

The *Revenue Stabilization Fund* was established to accumulate money to cover periods of revenue shortages in the General Fund, and for expenditures deemed necessary by the City Council.

The *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.

The *Recreation Center LTGO fund* is a debt service fund used to service the bond issuance, and payment of principal and interest on the 2012 LTGO bonds. These bonds paid for the remodel of the City's Recreation Center.

The *LID 93-1Fund* is a debt service fund used to pay LID Bonds from collected assessments.

The *Community Center* fund was established to account for the construction of a new Recreation Center.

The City reports the following major proprietary funds:

The *Water, Sewer and Storm Drainage Utility 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.

The *Golf Course Fund* accounts for all of the City's operation of an 18-hole municipal golf course and pro shop.

Additionally, the City reports the following fund types:

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

Capital Projects Funds are used to account for financial resources to be used for the acquisition and construction of capital facilities other than those financed by the proprietary funds.

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

Trust 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 Firefighters' Pension Trust Fund.

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 arbitrage liabilities, and various deposits payable to State and local agencies and private contractors.

As a general rule, the effect of the interfund activity has been eliminated for the government-wide financial statements. Exceptions to this rule are 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.

Amounts reported as program revenues include 1) charges to customers, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than program revenues. General revenues include all taxes.

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 connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Water, Sewer and Storm Drainage Utility Fund, and the Golf Course Fund, are charges for services provided. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

D. Budgetary Information

1. <u>Scope of Budget</u>

Biennial appropriated budgets are adopted for all funds, with the exception of the LID debt service funds, capital project funds, and custodial agency funds. Budgets for LID debt service and capital project funds are adopted at the level of the individual debt issue or project and for fiscal periods that correspond to the lives of debt issues or projects. These budgets are prepared in accordance with generally accepted accounting principles.

Other budgets are adopted at the level of the fund, except in the general (current expense) fund, where expenditures may not exceed appropriations at the department level and the budgets constitute the legal authority for expenditures at that level.

Appropriations for general and special revenue funds lapse at the end of the biennium (except for appropriations for capital projects, which are carried forward from year to year until fully expended or the purpose of the appropriation has been accomplished or abandoned).

Encumbrances accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservation of fund balances and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year.

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.

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 second 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 last two Public Hearings are 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. In addition, any revisions that affect the number of authorized employee positions, salary ranges, hours, or other conditions of employment must be approved by the City Council.

The budget amounts shown in the financial statements are the final authorized amounts as revised during the year.

The financial statements contain the original and final budget information. The original budget is the first complete appropriated budget. The final budget is the original budget adjusted by all reserves, transfers, allocations, supplemental appropriations, and other legally authorized changes applicable for the fiscal year.

3. Deficit Fund Net Position

The following funds experienced equity deficits at year end:

Olympic View Drive (307)	$	(628,049)
Traffic Signals (309)		(194,738)
Sidewalks/Ped Improvements (312)		(163,675)
204th LID 2009-1 (318)		(211,371)
Interurban Trail (350)		(483)
Self Insurance (515)		(380,276)

The deficits in all funds listed arose due to timing of cash flows and complexities in fund cash management. The deficits were addressed with interfund loans from the general fund.

E. Assets, Liabilities, Fund Balance, Net Position

1. Cash and Cash Equivalents

It is the City's policy to invest all temporary cash surpluses. At December 31, 2012, the treasurer was holding $32,748,571 in short-term residual investments of surplus cash. This amount is classified on the balance sheet as cash and cash equivalents in various funds. The interest on these investments is prorated to the various funds.

The amounts reported as cash and cash equivalents also include compensating balances maintained with certain banks in lieu of payments for services rendered. The average compensating balances maintained during 2012 were approximately $610,060.

For purposes of the statement of cash flows, the City considers short-term investments (including restricted assets) in the State Treasurer's Investment Pool and any other investment with a maturity of three months or less at acquisition date to be cash equivalents.

2. <u>Investments</u> See Note 3, *Deposits and Investments.*

3. <u>Receivables</u>

Taxes receivable consists of property taxes and related interest and penalties (See Property Taxes Note No. 2). Accrued interest receivable consists of amounts earned on investments, notes, and contracts at the end of the year.

Special assessments are recorded when levied. Special assessments receivable consist of current and delinquent assessments and related interest and penalties. Deferred assessments on the fund financial statements consist of unbilled special assessments that are liens against the property benefited. As of December 31, 2012, $723 of special assessments receivable were delinquent.

Customer accounts receivable consist of amounts owed from private individuals or organizations for goods and services provided including amounts owed for which billings have not been prepared. When an allowance for uncollectible receivable accounts exists, they are subtracted from Accounts Receivable, which are shown as "net". The City accrues accounts receivable consisting primarily of billed water/sewer accounts, court ordered fines, utility taxes, and other various receivables.

4. <u>Amounts Due to and from Other Funds and Governments, Interfund Loans and Advances Receivable</u>

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either interfund loans receivable/payable or advances to/from other funds. All other outstanding balances between funds are reported as due to/from other funds. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as internal balances. A separate schedule of interfund loans receivable and payable is furnished in Note 4, Interfund Balances and Transfers.

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

5. <u>Inventories</u>

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.

6. Restricted Assets and Liabilities

These accounts contain resources for construction and debt service in enterprise funds. The current portion of related liabilities is shown as Payables from Current Restricted Assets. Specific debt service reserve requirements are described in Note 7, Long-Term Debt.

The restricted assets of the enterprise funds are composed of the following:

Cash and equivalents - debt service	$ 1,774,362
Cash and equivalents - capital projects	$ 4,027,327
Cash and equivalents - customer deposits	$ 194,728

7. Capital assets See Note 5, *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, are 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.

8. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to future periods and so will not be recognized as an inflow of resources (revenue) until that time.

9. 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. All vacation and sick pay is accrued when incurred 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.

10. Other Accrued Liabilities

These accounts consist of accrued wages and accrued employee benefits.

11. Long-Term Debt See Note 7, *Long-Term Debt.*

12. Unearned Revenues

This account includes amounts recognized as receivables but not revenues in governmental funds because the revenue recognition criteria have not been met.

13. Fund balance classification

In February 2009, the GASB issued 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 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.

14. Fund balance flow assumptions

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.

F. Other

1. 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. 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. 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.

NOTE 2 - PROPERTY TAXES

The county treasurer acts as an agent for property taxes levied in the county for all taxing authorities. Collections are remitted monthly to the appropriate district by the county treasurer.

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

Property taxes are recorded as receivables and offset by a deferred revenue account when levied. No allowance for uncollectible tax is established because delinquent taxes are considered fully collectible.

The City may levy up to $3.60 per $1,000 of assessed valuation for general governmental services.

The City's regular tax levy was approximately $2.65 (includes a special $.50 for Emergency Medical Services) per $1,000 on a total assessed valuation of $4,207,375,958 for total taxes of $11,147,913.

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

NOTE 3 – DEPOSITS AND INVESTMENTS

A. Deposits

The City's deposits and certificates of deposit are entirely covered by federal depository insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (WPDPC). The FDIC insures the first $250,000 of the City's deposits. The deposit balances over $250,000 are insured by the WPDPC. State statute permits additional amounts to be assessed on a pro rata basis to members of the WPDPC pool in the event the pool's collateral should be insufficient to cover a loss.

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	6,176,634
Money Market	103,546
Petty Cash, Change Funds & Advance Travel	33,000
Local Government Investment Pool*	32,748,571
Total	$39,061,751

*This includes $687,755 of funds for the Transportation Benefit District

As Reflected in the Financial Statements:

	Governmental Activities	Business-type Activities	Total Primary Government	Fiduciary Unit	Total
Cash & Cash Equivalents	$20,653,266	$17,521,343	$38,174,609	$887,142	$39,061,751

B. Investments

The Local Government Investment Pool (LGIP) is an unrated 2a-7 like pool, as defined by GASB 31. Accordingly, participants' balances in the LGIP are not subject to interest rate risk, as the weighted average maturity of the portfolio will not exceed 60 days. Per GASB 40 guidelines the balances are also not subject to custodial credit risk. The credit risk of the LGIP is limited as most investments are either obligations of the US government, government sponsored enterprises, or insured demand deposit accounts and certificates of deposit. Investments or deposits held by the LGIP are either insured or held by a third-party custody provider in the LGIP's name. The fair value of the City's pool investments is determined by the pool's share price. The City has no regulatory oversight responsibility for the LGIP which is governed by the Washington State Finance Committee and is administered by the State Treasurer. The LGIP is audited annually by the Office of the State Auditor, an independently elected public official. The City includes the LGIP as an investment for internal tracking, but it is disclosed on the financial statements as a cash equivalent.

As of December 31, 2012, the City had the following investments:

Investments	Fair Value (in Thousands)	Maturity Date
Local Government Investment Pool	$32,748,571	--
Total Fair Value	$32,748,571	

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.

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.

NOTE 4 – INTERFUND BALANCES AND TRANSFERS

A. Interfund Balances

Interfund balances at December 31, 2012 were as follows:

		Due From			
		Capital Projects Funds	Golf Course - Interfund Loan	Golf Course - LT Rent Payable	Total
Due To	General Fund	$ 1,185,000	$ 1,300,000	$ 191,753	$ 2,676,753
	Total	$ 1,185,000	$ 1,300,000	$ 191,753	$ 2,676,753

Interfund loans to the capital projects funds are for temporary cash flow purposes. An interfund loan of $1,300,000 was made to the Golf Course fund as authorized by resolution 2013-06, in order to maintain sufficient cash flow in the fund. The repayment date is January 31, 2014, a term of thirteen months.
In addition, the Golf Course fund owes the General Fund $191,753 for rent payable (including interest), which has been outstanding since 1998. A resolution to address this will be presented for Council approval in 2013.

B. Interfund Transfers

Interfund transfers at December 31, 2012 were as follows:

		Transfer From:						
		General Fund	Rec Ctr 2012 LTGO Bonds	Community Center Project Fund	Other Governmental Funds	Utility Fund	Internal Service Funds	Total
Transfer To	General Fund	$ -	$ 344,846	$ -	$ 2,673,744	$ -	$ -	$ 3,018,590
	Rec Ctr 2012 LTGO Bonds	783,169	$ -	344,846	-	-	-	1,128,015
	Community Ctr Project Fund	-	25,008,249	-	-	-	-	25,008,249
	Other Governmental Funds	702,669	-	-	1,011,141	1,280,288	-	2,994,098
	Utility Fund	-	-	-	-	-	38,213	38,213
	Internal Service Funds	28,969	-	-	60,000	145,000	-	233,969
	Total	$ 1,514,807	$ 25,353,095	$ 344,846	$ 3,744,885	$ 1,425,288	$ 38,213	$ 32,421,134

Transfers are used to 1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, 2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and 3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

NOTE 5 - CAPITAL ASSETS

Capital assets activity for the year ended December 31, 2012, was as follows:

Governmental Activities:	Balance 1/1/2012	Prior Period Adjustments	Increases	Decreases	Balance 12/31/2012
Capital assets, not being depreciated:					
Land	$ 31,382,280	$ (1,803,746)	$ 218,644	$ (6,449)	$ 29,790,729
Easements	436,742	-	-	-	436,742
Construction in progress	24,207,018	-	3,850,589	(20,583,965)	7,473,642 (a)
Total capital assets, not being depreciated	56,026,040	(1,803,746)	4,069,233	(20,590,414)	37,701,113
Capital assets, being depreciated:					
Buildings	43,742,296	(233,159)	2,233,572	(15,243)	45,727,466
Improvements other than buildings	24,362,456	(621,062)	15,014,373	(31,738)	38,724,029
Machinery and Equipment	15,781,278	-	2,828,202	(1,197,215)	17,412,265
Infrastructure	57,681,370	-	-	-	57,681,370
Total capital assets, being depreciated	141,567,400	(854,221)	20,076,147	(1,244,196)	159,545,130
Less accumulated depreciation for:					
Buildings	(11,020,687)	146,959	(1,434,940)	14,360	(12,294,308)
Improvements other than buildings	(13,250,075)	617,195	(1,052,998)	28,252	(13,657,626)
Machinery and equipment	(8,762,624)	-	(913,023)	1,063,425	(8,612,222)
Infrastructure	(29,435,020)	-	(2,032,941)	-	(31,467,961)
Total accumulated depreciation	(62,468,406)	764,154	(5,433,902)	1,106,037	(66,032,117)
Total capital assets, being depreciated, net	79,098,994	(90,067)	14,642,245	(138,159)	93,513,013
Governmental activities capital assets, net	$ 135,125,034	$ (1,893,813)	$ 18,711,478	$ (20,728,573)	$ 131,214,126

(a) The City acknowledges a discrepancy of $1,057,122 in our Construction in Progress accounts related to the Data Center overheating event outlined in Note 13. We are striving to resolve this issue for the 2013 financial statements.

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

General Government	$1,018,369
Public Safety	302,896
Transportation	2,386,061
Culture & Recreation	1,094,824
Capital assets held by the City's internal service funds are charged to the various functions based on their usage of the assets	631,752
Total depreciation expense - general governmental activities	$5,433,902

Business-type activities:	Balance 1/1/2012	Prior Period Adjustments	Increases	Decreases	Balance 12/31/2012
Capital assets, not being depreciated:					
Land	$ 6,866,768	$ 1,160,321	$ -	$ -	$ 8,027,089
Easements	4,150,120	-	-	-	4,150,120
Construction in progress	5,600,226	-	2,342,348	(5,290,876)	2,651,698
Total capital assets, not being depreciated	16,617,114	1,160,321	2,342,348	(5,290,876)	14,828,907
Capital assets, being depreciated:					
Buildings	35,742,017	-	941,045	(294,903)	36,388,159
Improvements other than buildings	2,943,552	(1,160,321)	238,190	(1,019)	2,020,402
Machinery and equipment	2,282,566	-	689,232	(59,131)	2,912,667
Infrastructure	40,084,771	-	3,218,073	(2,299,131)	41,003,713
Total capital assets, being depreciated	81,052,906	(1,160,321)	5,086,540	(2,654,184)	82,324,941
Less accumulated depreciation for:					
Buildings	(26,191,166)	-	(1,395,475)	251,406	(27,335,235)
Improvements other than buildings	(890,218)	(525,830)	(58,817)	986	(1,473,879)
Machinery and Equipment	(1,763,527)	-	(94,192)	53,826	(1,803,893)
Infrastructure	(16,685,573)	-	(961,687)	1,455,744	(16,191,516)
Total accumulated depreciation	(45,530,484)	(525,830)	(2,510,171)	1,761,962	(46,804,523)
Total capital assets being depreciated, net	35,522,422	(1,686,151)	2,576,369	(892,222)	35,520,418
Business-type activities capital assets, net	$52,139,536	($525,830)	$4,918,717	($6,183,098)	$50,349,325

Depreciation expense was charged to functions/programs of business-type activities as follows:

Water	$422,539
Sewer	1,820,133
Storm Drainage	204,303
Golf Course	63,196
Total depreciation expense - business-type activities	$2,510,171

NOTE 6 – OPERATING LEASES

Office, Warehouse and Storage Space

The City leases office, warehouse and storage space under non-cancellable operating leases. Total costs for these leases for the year ending December 31, 2012 was $248,090 in governmental activities and $65,205 in business-type activities. The future minimum lease payments for these leases are as follows:

Year Ending December 31	Governmental Activities	Business-Type Activities
2013	$ 247,789	$ 65,205
2014	250,965	65,205
2015	254,047	65,205
2016	179,111	19,562
2017	148,903	-
	$ 1,080,813	$ 215,176

Printers and Copiers

The City leases many office printers and copiers under non-cancellable operating leases. Total costs for these leases for the year ending December 31, 2012 was $90,262 in governmental activities and $1,651 in business-type activities. The future minimum lease payments for these leases are as follows:

Year Ending December 31	Governmental Activities	Business-Type Activities
2013	$ 88,202	$ 1,651
2014	58,053	1,238
2015	280	-
	$ 146,536	$ 2,890

Golf Carts

The City leases 22 Yamaha golf carts under non-cancellable operating leases. Total costs for these leases for the year ending December 31, 2012 was $17,995 in business-type activities. The future minimum lease payments for these leases are as follows:

Year Ending December 31	Business-Type Activities
2013	$ 17,248
2014	17,248
2015	17,248
2016	17,248
2017	4,312
	$ 73,304

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, 2012:

GOVERNMENTAL ACTIVITIES:	BALANCE 1/1/2012	ADDITIONS	REDUCTIONS	BALANCE 12/31/2012	CURRENT PORTION
General obligations bonds	$ 3,313,632	$ 24,955,000	$ 746,603	$27,522,029	$ 848,887
Special assessment bonds	3,430,000	-	245,000	3,185,000	955,000
OPEB & Firefighter Pension Fund	1,829,293	447,508	-	2,276,801	-
Compensated absences	4,072,950	2,617,125	2,572,638	4,117,437	999,308
TOTAL GOVERNMENTAL ACTIVITIES	$ 12,645,875	$ 28,019,633	$ 3,564,241	$ 37,101,267	$ 2,803,195
LTGO BANS 2008	$ 24,706,624	$ -	$ 24,706,624	$ -	$ -
BUSINESS TYPE ACTIVITIES:					
Revenue bonds	$ 14,725,000		$ 1,145,000	$ 13,580,000	$ 1,170,000
General obligations bonds - Golf	31,515		15,757	15,758	15,758
Compensated absences	352,130	251,182	265,411	337,901	93,060
TOTAL BUSINESS TYPE ACTIVITIES	$ 15,108,645	$ 251,182	$ 1,426,168	$ 13,933,659	$ 1,278,818

[1] Estimated current portion (many bonds are callable, therefore, exact amounts are not known) and prior years non-redeemed amounts held by fiscal agent.

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, 2012 consisted of the following:

GENERAL OBLIGATIONS BONDS

ISSUE NAME	% INT. RATES	ISSUE DATE	MATURITY DATE	AUTHORIZED	OUTSTANDING 1/1/2012	CHANGES	12/31/2012
2005 GO. Bonds	3.0-5.0	2005	2019	$ 1,519,147	$ 926,242	$ (97,679)	$ 828,563
2001 GO. Bonds	4.00-4.375	2001	2012	1,365,000	160,000	(160,000)	-
State Capital Loan *	4.07851	2002	2012	377,666	44,934	(44,934)	-
State Capital Loan *	4.03673	2004	2014	534,295	153,971	(59,748)	94,223
2009 GO. Refund Bonds	3.0-4.0	2009	2017	4,640,000	2,060,000	(400,000)	1,660,000
2012 GO. Bonds	2.0-4.0	2012	2037	24,955,000	-	24,955,000	24,955,000
Total General Obligation Bonds				$ 33,391,108	$ 3,345,147	$ 24,192,639	$ 27,537,786

*State Capital Asset Loan pledging non-voted GO Debt Capacity.

REVENUE BONDS

ISSUE NAME	% INT. RATES	ISSUE DATE	MATURITY DATE	AUTHORIZED	OUTSTANDING 1/1/2012	CHANGES	12/31/2012
2008 Utility Improvement Refunding Bonds	4.0-5.0	2008	2027	$ 10,000,000	$ 7,005,000	$ (1,145,000)	$ 5,860,000
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	$ 14,725,000	$ (1,145,000)	$ 13,580,000

SPECIAL ASSESSMENT BONDS

ISSUE NAME	% INT. RATES	ISSUE DATE	MATURITY DATE	AUTHORIZED	OUTSTANDING 1/1/2012	CHANGES	12/31/2012
1999 LID Bonds	4.10-6.40	1999	2021	$ 11,898,787	$ 3,430,000	$ (245,000)	$ 3,185,000
Total Special Assessment Bonds				$ 11,898,787	$ 3,430,000	$ (245,000)	$ 3,185,000

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, 2012, including interest, are as follows:

YEAR ENDING 12/31	GOVERNMENTAL ACTIVITIES		BUSINESS-TYPE ACTIVITIES		
	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST	TOTAL
2013	1,803,887	1,173,203	1,185,757	523,335	4,686,182
2014	1,294,962	1,118,728	540,000	476,063	3,429,753
2015	1,267,706	1,066,535	555,000	460,163	3,349,404
2016	1,278,171	1,010,839	570,000	443,763	3,302,773
2017	1,288,636	953,581	590,000	423,913	3,256,130
2018-2022	5,183,667	4,024,033	3,320,000	1,770,950	14,298,650
2023-2027	5,125,000	3,161,026	4,015,000	1,058,800	13,359,826
2028-2032	6,090,000	2,192,752	2,820,000	228,400	11,331,152
2033-2037	7,375,000	908,400	0	0	8,283,400
	$ 30,707,029	$ 15,609,097	$ 13,595,757	$ 5,385,387	$ 65,297,270

At December 31, 2012, the City has $559,756 available in debt service funds to service the general obligation bonds. Additionally, there is $1,758,605 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 final principal and interest payment for this loan was paid in 2012.

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 final principal and interest payment for this loan will be paid in 2014.

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. The final principal and interest payment for Series 2009A will be paid in 2013, and for Series 2009B will be in 2017.

The Snohomish County Emergency Radio System (SERS) was formed in 1999 to provide enhanced emergency communication services to Snohomish County. SERS was created via an interlocal agreement among the cities of Brier, Edmonds, Everett, Lynnwood, Marysville, Mill Creek, Mountlake Terrace, Mukilteo, Woodway, and Snohomish County. Snohomish County Fire District No. 1 joined after the original formation. SERS is a joint venture with each entity's equity interest reported on its financial statements. See Note 12-Joint Ventures for additional information. Snohomish County issued $27,125,000 of limited tax general obligation bonds on October 20, 1999 for multiple purposes, including funding participation in SERS. The City of Lynnwood's original participation was in the amount of $1,795,107. Snohomish County refunded these bonds in 2005, including the City's participation amount of $1,519,147. The City reports these bonds as 2005 general obligation bonds. The bonds are amortized over 15 years with interest payable semi-annually.

The City obtained Bond Anticipation Notes in 2008 for up to $25,480,000 to provide temporary funding for renovating, improving and expanding the City's Recreation Center. In February 2012, the City issued 25-year Limited Tax General Obligation Bonds for $24,955,000 to provide long-term funding for this project. Annual principal payments range from $285,000 to $1,595,000, with interest varying from 2.0% to 4.0%, paid semi-annually.

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.

Contingent Liability

The Lynnwood Public Facilities District (discrete component unit of the City of Lynnwood) issued bonds December 15, 2004 in the amounts of $1,930,000, $10,000,000, and $17,265,000. These bonds were used to purchase the property and construct the Lynnwood Convention Center. The City is contingently liable for these bonds. Final principal and interest payments of these bonds will be made in 2034.

B. DEBT LIMIT CAPACITY

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	$63,110,639	$42,073,760	$105,184,399	$105,184,399
Net Outstanding Indebtedness	($35,231,030)			
Margin Available	$27,879,609	$42,073,760	$105,184,399	$105,184,399

Tax year 2012 assessed value of $4,207,375,958 was used for this calculation.

Bond Ratings

At December 31, 2012, the City held the following bond ratings:

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

NOTE 8 - PENSION PLANS

Substantially all City of Lynnwood full-time and qualifying part-time 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
P.O. 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 the GASB Statement 27, *Accounting for Pensions by State and Local Government Employers* and the GASB Statement 50, *Pension Disclosures, an Amendment of GASB Statements No. 25 and No. 27*.

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

Plan Description

The Legislature established PERS in 1947. Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior courts; employees of legislative committees; community and technical colleges, college and university employees not participating in higher education retirement programs; employees of district and municipal courts; and employees of local governments. Approximately 50 percent of PERS salaries are accounted for by state employment. 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 Plan 3. The option must be exercised within 90 days of employment. Employees who fail to choose within 90 days default to 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 is comprised of and reported as three separate plans for accounting purposes: Plan 1, Plan 2/3, and Plan 3. Plan 1 accounts for the defined benefits of Plan 1 members. Plan 2/3 accounts for the defined benefits of Plan 2 members and the defined benefit portion of benefits for Plan 3 members. Plan 3 accounts for the defined contribution portion of benefits for Plan 3 members. Although members can only be a member of either Plan 2 or Plan 3, the defined benefit portions of Plan 2 and Plan 3 are accounted for in the same pension trust fund. All assets of this Plan 2/3 defined benefit plan may legally be used to pay the defined benefits of any of the Plan 2 or Plan 3 members or beneficiaries, as defined by the terms of the plan. Therefore, Plan 2/3 is considered to be a single plan for accounting purposes.

PERS Plan 1 and Plan 2 retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to the PERS Plan 1 and Plan 2 defined benefit plans accrue interest at a rate specified by the Director of DRS. During DRS' Fiscal Year 2012, the rate was five and one-half percent compounded quarterly. Members in PERS Plan 1 and Plan 2 can elect to withdraw total employee contributions and interest thereon upon separation from PERS-covered employment.

PERS Plan 1 members are vested after the completion of five years of eligible service.

PERS 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, but the benefit may not exceed 60 percent of the AFC. The AFC is the monthly average of the 24 consecutive highest-paid service credit months.

The monthly benefit is subject to a minimum for 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. If a survivor option is chosen, the benefit is reduced. Plan 1 members retiring from inactive status prior to the age of 65 may also receive actuarially reduced benefits. 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. The benefit 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, at which time the benefit is converted to the member's service retirement amount. A member with five years of covered employment is eligible for non-duty disability retirement. Prior to the age of 55, the benefit 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. Plan 1 members may elect to receive an optional COLA amount (based on the Consumer Price Index), 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 while actively serving in the military if such credit makes them eligible to retire. Members can also purchase up to 24 months of service credit lost because of an on-the-job injury.

The survivor of a PERS Plan 1 member who dies after having earned ten years of service credit has the option, upon the member's death, of either a monthly survivor benefit or the lump sum of contributions plus interest.

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. The AFC is the monthly average of the 60 consecutive highest-paid service months. 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 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; or.
- 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. The surviving spouse or eligible child(ren) of a PERS Plan 2 member who dies after having earned ten years of service credit has the option of either a monthly benefit or a lump sum payment of the member's contributions plus interest.

PERS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component and member contributions finance a defined contribution component. As established by Chapter 41.34 RCW, employee contribution rates to the defined contribution component range from 5 percent to 15 percent of salaries, based on member choice. There are currently no requirements for employer contributions to the defined contribution component of PERS Plan 3.

PERS Plan 3 defined contribution retirement benefits are dependent upon the results of investment activities. Members may elect to self-direct the investment of their contributions. Any expenses incurred in conjunction with self-directed investments are paid by members. Absent a member's self-direction, PERS Plan 3 investments are made in the same portfolio as that of the PERS 2/3 defined benefit plan.

For DRS' fiscal year 2012, PERS Plan 3 employee contributions were $95.2 million, and plan refunds paid out were $66.2 million.

The defined benefit portion of PERS Plan 3 provides members a monthly benefit that is 1 percent of the AFC per year of service. The AFC is the monthly average of the 60 consecutive highest-paid service months. There is no cap on years of service credit, and Plan 3 provides the same cost-of-living allowance as Plan 2.

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 by 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 benefit retirement benefits are also actuarially reduced to reflect the choice, if made, of a survivor option.

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.

PERS Plan 2 and Plan 3 members who become totally incapacitated for continued employment while serving the uniformed services, or a surviving spouse or eligible child(ren), may request interruptive military service credit.

PERS Plan 2 and Plan 3 members can 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. This provision applies to any member killed in the course of employment, on or after June 10, 2004, 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 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 the member’s covered employment, if found eligible by the Department of Labor and Industries.

From January 1, 2007 through December 31, 2007, judicial members of PERS were given the choice to elect participation in the Judicial Benefit Multiplier (JBM) Program enacted in 2006. Justices and judges in PERS Plan 1 and Plan 2 were able to make an irrevocable election to pay increased contributions that would fund a retirement benefit with a 3.5 percent multiplier. The benefit would be capped at 75 percent of AFC. Judges in PERS Plan 3 could elect a 1.6 percent of pay per year of service benefit, capped at 37.5 percent of AFC.

Members who chose to participate would: accrue service credit at the higher multiplier beginning with the date of their election; be subject to the benefit cap of 75 percent of AFC; stop contributing to the Judicial Retirement Account (JRA); pay higher contributions; and be given the option to increase the multiplier on past judicial service. Members who did not choose to participate would: continue to accrue service credit at the regular multiplier; not be subject to a benefit cap; continue to participate in JRA, if applicable; continue to pay contributions at the regular PERS rate; and never be a participant in the JBM Program.

Newly elected or appointed justices and judges who chose to become PERS members on or after January 1, 2007, or who had not previously opted into PERS membership, were required to participate in the JBM Program. Members required into the JBM program would: return to prior PERS Plan if membership had previously been established; be mandated into Plan 2 and not have a Plan 3 transfer choice, if a new PERS member; accrue the higher multiplier for all judicial service; not contribute to JRA; and not have the option to increase the multiplier for past judicial service.

There are 1,184 participating employers in PERS. [1] Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2011:

Retirees and Beneficiaries Receiving Benefits	79,363
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	29,925
Active Plan Members Vested	105,578
Active Plan Members Non-vested	46,839
Total	261,705

Funding Policy

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. 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.

As a result of the implementation of the Judicial Benefit Multiplier Program in January 2007, a second tier of employer and employee rates was developed to fund, along with investment earnings, the increased retirement benefits of those justices and judges that participate in the program.

The methods used to determine the contribution requirements are established under state statute in accordance with Chapters 41.40 and 41.45 RCW.

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2012, are as follows:

Members Not Participating in JBM:

	PERS Plan 1	**PERS Plan 2**	**PERS Plan 3**
Employer*	7.21%**	7.21%**	7.21%***
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 10.74% for Plan 1 and 7.21% 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.

Members Participating in JBM:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer-State Agency*	9.71%	9.71%	9.71%**
Employer-Local Government*	7.21%	7.21%	7.21%**
Employee-State Agency	9.76%	9.10%	7.50%***
Employee-Local Government	12.26%	11.60%	7.50%***

* The employer rates include the employer administrative expense fee currently set at 0.16%.
** Plan 3 defined benefit portion only.
***Minimum rate.

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

	PERS Plan 1	PERS Plan 2	PERS Plan 3
2012	$ 29,308	$ 927,106	$ 87,117
2011	$ 28,514	$ 813,994	$ 79,330
2010	$ 34,176	$ 743,512	$ 80,470

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

Plan Description

LEOFF was established in 1970 by the Legislature. Membership 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.

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.

LEOFF 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. Employee contributions to the LEOFF Plan 1 and Plan 2 defined benefit plans accrue interest at a rate specified by the Director of DRS. During DRS' fiscal year 2012, the rate was five and one-half percent compounded quarterly. Members in LEOFF Plan 1 and Plan 2 can elect to withdraw total employee contributions and interest earnings upon separation from LEOFF-covered employment.

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 but less than 20 years	1.5%
5 but less than 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 benefit 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, or if the death resulted from an occupational disease or infection that arose naturally and proximately out of the member's covered 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 benefit or service retirement benefit.

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 benefit.

LEOFF Plan 2 members are vested after the completion of five years of eligible service.

Plan 2 members are eligible for retirement at the age of 53 with five years of service, or at age 50 with 20 years of service. Plan 2 members receive a benefit of 2 percent of the FAS per year of service (the FAS is based on the highest consecutive 60 months), actuarially reduced to reflect the choice of a survivor option. Members who retire prior to the age of 53 receive reduced benefits. 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. Otherwise, the benefits are actuarially reduced 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 benefit amount is 2 percent of the FAS for each year of service. Benefits are reduced to reflect the choice of survivor option and for each year that the member's age is less than 53, unless the disability is duty-related. 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 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 catastrophically 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 benefit 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 serving in the uniformed services, or a surviving spouse or eligible child(ren), may request interruptive military service credit.

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, or if the death resulted from an occupational disease or infection that arose naturally and proximately out of the member's covered employment, if found eligible by the Department of Labor and Industries.

Legislation passed in 2009 provides to the Washington-state-registered domestic partners of LEOFF Plan 2 members the same treatment as married spouses, to the extent that the treatment is not in conflict with federal laws.

There are 373 participating employers in LEOFF. Membership in LEOFF consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2011:

Retirees and Beneficiaries Receiving Benefits	9,947
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	656
Active Plan Members Vested	13,942
Active Plan Members Nonvested	3113
Total	27,658

Funding Policy

Employer and employee contribution rates are developed by the Office of the State Actuary to fully fund the plans. Starting on July 1, 2000, Plan 1 employers and employees contribute zero percent as long as the plan remains fully funded. 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, appropriates money from the state General Fund to supplement the current service liability and fund the prior service costs of Plan 2 in accordance with the recommendations 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. For DRS' fiscal year 2012, the state contributed $52.8 million to LEOFF Plan 2.

The methods used to determine the contribution requirements are established under state statute in accordance with Chapters 41.26 and 41.45 RCW.

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2012, are as follows:

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

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

	LEOFF Plan 1	LEOFF Plan 2
2012	$ 322	$ 612,960
2011	$ 153	$ 611,873
2010	$ 156	$ 651,832

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

Plan Description

PSERS was created by the 2004 Legislature and became effective July 1, 2006. PSERS retirement benefit provisions have been established by 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 membership includes:

- Full-time employees hired by a covered employer before July 1, 2006, who met at least one of the PSERS eligibility criteria and elected membership during the period of July 1, 2006 to September 30, 2006; and
- Full-time employees, hired on or after July 1, 2006 by a covered employer, that meet at least one of the PSERS eligibility criteria.

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;
- Washington State counties;
- Washington State cities except for Seattle, Tacoma and Spokane; and
- Correctional entities formed by PSERS employers under the Interlocal Cooperation Act.

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 limited authority Washington peace officer, as defined in RCW 10.93.020; or
- Have primary responsibility to supervise eligible members who meet the above criteria.

PSERS retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to the plan accrue interest at a rate specified by the Director of DRS. During DRS' fiscal year 2012, the rate was five and one-half percent compounded quarterly. Members in PSERS Plan 2 can elect to withdraw total employee contributions and interest thereon upon separation from PSERS-covered employment.

PSERS Plan 2 members are vested after completing five years of eligible service.

PSERS members may retire with a monthly benefit of 2 percent of the average final compensation (AFC) 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, or at age 53 with 20 years of service. The AFC is the monthly average of the member's 60 consecutive highest-paid service credit months. 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 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.

PSERS Plan 2 provides disability benefits. There is no minimum amount of service credit required for eligibility. The monthly benefit is 2 percent of the AFC for each year of service. The AFC is based on the member's 60 consecutive highest creditable months of service. 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). 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 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, or a surviving spouse or eligible child(ren), may request interruptive military service credit.

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. 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, or if the death resulted from an occupational disease or infection that arose naturally and proximately out of the member's covered 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, 2011:

Retirees and Beneficiaries Receiving Benefits	15
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	1
Active Plan Members Vested	167
Active Plan Members Nonvested	4,020
Total	**4,203**

Funding Policy

Each biennium, the state Pension Funding Council adopts 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. 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, 2012, are as follows:

	PSERS Plan 2
Employer*	8.87%
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 years ended December 31 were as follows:

	PSERS Plan 2
2012	$ 43,137
2011	$ 39,844
2010	$ 37,299

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, 2012, 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

	2010	2011	2012
Annual required contribution (ARC)			
Annual Normal Cost – Beginning of Year	$0	$0	$0
Amortization of UAAL – Beginning of Year	47,574	47,574	49,948
Interest to End of Year	1,903	1,903	1,998
ARC at End of Year (not less than 0)	49,477	49,477	51,946
Interest on Net Pension Obligation (NPO)	483	2,398	4,747
Adjustment to ARC	884	4,553	9,380
Annual Pension Cost (APC)	49,076	47,322	47,313
Employer Contributions*	1,202	(11,407)	1,536
Change in NPO	47,874	58,729	45,777
NPO at Beginning of Year	12,074	59,948	118,677
NPO at End of Year	$59,948	$118,677	$164,454

*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
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)
2012	(44,814)	46,350	1,536	51,946	3

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
12/31/2010	49,076	2%	59,948
12/31/2011	47,322	(24)	118,677
12/31/2012	47,313	3	164,454

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. The City's fiscal year 2012 contributions to the plan totaled $282,974.

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 - OTHER POST EMPLOYMENT BENEFITS

In accordance with the Revised Code of Washington (RCW) 41.26, the City provides post-retirement health care benefits for members of the Law Enforcement Officers and Firefighters (LEOFF) retirement system hired prior to October 1, 1977. The plan is a closed, single-employer defined benefit healthcare plan administered by the City. The City provides medical, vision, and long-term care insurance, and reimburses for all Board approved claims for medical, dental, vision, and hospitalization costs not covered by standard benefit plan provisions. As of December 31, 2012, there were 48 retirees and 1 active employee.

Financial reporting for the LEOFF retiree healthcare plan is included in the City's Comprehensive Annual Financial Report. The plan does not issue stand-alone financial statements. The date of the last actuarial valuation financial report prepared by Milliman was January 1, 2011.

Funding Policy

Funding for LEOFF retiree healthcare costs is provided entirely by the City as required by RCW. The City's funding policy is based upon pay-as-you-go financing requirements. The plan member is not required to contribute to the cost of the plan.

Annual OPEB Cost and Net OPEB Obligation

The City's annual other postemployment benefit (OPEB) cost is calculated based on the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45.

For GASB purposes, the Annual Required Contribution (ARC) was calculated using the Entry Age Normal Cost Method, one of the acceptable actuarial funding methods. 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.

	Fiscal Year Ending		
	12/31/2010	12/31/2011	12/31/2012
Annual required contribution (ARC)			
1. Annual Normal Cost (BOY)	$ 33,083	$ 22,894	$ 22,894
2. Amortization of UAAL (BOY)	1,117,271	1,272,720	1,272,720
3. Interest to EOY [(1)+(2)]x(i)*	57,518	51,825	51,825
4. ARC at EOY [(1)+(2)+(3)]	$ 1,207,872	$ 1,347,439	$ 1,347,439
5. Interest on Net OPEB Obligation	$ 42,101	$ 50,113	$ 67,847
6. Adjustment to ARC	53,827	73,771	102,043
7. Annual OPEB Cost [(4)+(5)-(6)]	$ 1,196,146	$ 1,323,781	$ 1,313,243
8. Employer Contributions	785,327	880,449	897,063
9. Change in Net OPEB Obligation [(7)-(8)]	410,819	443,332	416,180
10. Net OPEB Obligation at BOY [(11) prior year]	$ 842,016	$ 1,252,835	$ 1,696,167
11. Net OPEB Obligation at EOY [(9)+(10)]	$ 1,252,835	$ 1,696,167	$ 2,112,347

* 'i' is the assumed interest rate that year: 5.0% in 2010, 4.0% in 2011, 4.0% in 2012.

The net OPEB obligation of $2,112,347 (FY 2012) is included as a noncurrent liability on the City's Statement of Net Assets.

The City's OPEB cost, the percentage of OPEB cost contributed to the plan, and the net OPEB obligation for 2010, 2011 and 2012 were as follows:

Fiscal Year Ending	Annual OPEB Cost	Contribution as a Percentage of Annual OPEB Cost	Net OPEB Obligation
12/31/2010	$ 1,196,146	66%	$ 1,252,835
12/31/2011	1,323,781	67%	1,696,167
12/31/2012	1,313,243	68%	2,112,347

Funded Status and Funding Progress

As of January 1, 2011, the most recent actuarial valuation date, the plan was 0% funded. The accrued liability for benefits was $21,614,000 and the actuarial value of the assets was $0 resulting in an unfunded actuarial accrued liability (UAAL) of $21,614,000. Funding for LEOFF 1 retiree healthcare costs is provided entirely by the City on a pay-as-you-go basis.

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial liabilities for benefits.

Actuarial Assumptions

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities, consistent with the long-term perspective of the calculations.

The assumptions used by Milliman for the January 1, 2011 actuarial valuation include the following:

Valuation Date	January 1, 2011	
Actuarial Cost Method	Entry Age Normal	
Amortization Method	30-year, closed as of January 1, 2008	
Remaining Amortization Period	27 years	
Investment Rate of Return	4.0%	
Medical Trend	<u>Year</u>	<u>Medical Cost Rate</u>
	2011	7.8%
	2012	7.1%
	2013	6.5%
	2014-2019	5.9%
	2020-2030	5.8%
	2031-2036	5.7%
Long-Term Care Inflation Rate	4.75%	
Dental Trend	5.0%	

Association of Washington Cities Employee Benefit Trust

Trust Description. The City is a participating Employer in the Association of Washington Cities Employee Benefit Trust ("Trust"), a cost-sharing multiple employer welfare benefit plan administered by the Association of Washington Cities. The Trust provides medical benefits to certain eligible retired employees of Participating Employers and their eligible family members. Under Article VII of the Trust document, the Trustees have the authority and power to amend the amount and nature of the medical and other benefit provided by the Trust. The Trust issues a publicly available financial report that includes financial statements and required supplementary information for the Trust. That report, along with a copy of the Trust document, may be obtained by writing to the Trust at 1076 Franklin Street SE, Olympia, WA 98501-1346 or by calling 1-800-562-8981.

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

AWC HealthFirst® 1000

$789.14 for non-Medicare enrolled retiree coverage

$795.57 for non-Medicare enrolled spouse coverage

$421.75 for Medicare enrolled retiree coverage

$433.48 for Medicare enrolled spouse coverage

AWC HealthFirst® 2500

$689.11 for non-Medicare enrolled retiree coverage

$693.66 for non-Medicare enrolled spouse coverage

$369.29 for Medicare enrolled retiree coverage

$378.30 for Medicare enrolled spouse coverage

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

The City's contributions to the Trust for the year ended December 31, 2012 was $702,362.

NOTE 10 – RISK MANAGEMENT

The City of Lynnwood 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 program 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 Interlocal Cooperation Act. The program was formed on September 1, 1988, when 34 cities in the state of Washington joined together by signing an Interlocal Governmental Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. As of September 1, 2012, there are 240 members in the program.

The program 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 program acquires liability insurance through their Administrator, Canfield, that is subject to a per-occurrence self-insured retention of $100,000. Lynnwood is responsible for a $75,000 deductible for each claim, while the program is responsible for the next $25,000 of the self-insured retention. Insurance carriers cover insured losses over $100,000 to the limits of each policy. Since the program is a cooperative program, there is a joint liability among the participating members towards the sharing of the $25,000 of the self-insured retention. For Lynnwood, the program also purchases a Stop Loss Policy with an attachment point of $280,000 to cap the total claims paid by the program in any one year.

Lynnwood purchased property insurance outside of the CIAW pool. Property insurance is subject to a per-occurrence deductible of $25,000.

Equipment Breakdown coverage is purchased with a per occurrence deductible of $25,000. Earthquake coverage is purchased with a limit of $50,000,000 each occurrence and a deductible of 5% of the combined value of all property at the location where damage occurs, subject to a minimum deductible of $100,000. Flood coverage is purchased with a limit of $50,000,000 and a deductible of $100,000.

Members contract to remain in the program for a minimum of one year, and must give notice before August 31 terminating participation the following September 1. The Interlocal Agreement is renewed automatically each year. In the event of termination, a member is still responsible for contributions to the program for any unresolved, unreported, and in-process claims for the period they were a signatory to the Interlocal 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 program. The program has no employees. Claims for liability insurance are filed by members with Canfield, which has been contracted to perform program administration, claims adjustment and administration, and loss prevention for the program.

The City and its employees contribute to the State of Washington's Department of Labor and Industries for workers' compensation.
There were no settlements in excess of coverage in any of the prior three years.

CITY OF LYNNWOOD INSURANCE IN FORCE AS OF DECEMBER 31, 2012

INSURANCE COMPANY/COVERAGE	POLICY NUMBER	AMOUNT OF COVERAGE
ClAW/Brit Insurance & Torus Specialty Policy Effective Dates: 9/1/12 – 9/1/13	CIAW121334510	
Commercial General Liability General Liability, Law Enforcement Liability, Vehicle Liability Liability Deductible: $75,000		$10,000,000
Auto Physical Damage Deductible: $100,000.		
Wrongful Acts Liability Public Official's Liability, Employment Practices Liability, Sexual Harassment Deductible: $75,000		$10,000,000
Crime		
Employee Theft		$ 400,000
Forgery or Alteration		$ 400,000
Forgery or Alteration		$ 400,000
Deductible: $100,000		
Affiliated FM Insurance Company Policy Effective Dates: 4/23/12 – 4/23/13	SE277	
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 Policy Effective Dates: 1/1/12 – 1/1/13	GTP9121822	
Accidental Death or Dismemberment for Council Members & Mayor		$150,000

CITY OF LYNNWOOD INSURANCE IN FORCE AS OF DECEMBER 31, 2012

INSURANCE COMPANY/COVERAGE	POLICY NUMBER	AMOUNT OF COVERAGE
National Union Fire Insurance Company	SRG 9118452N	
Police Effective Dates: 4/20/12 – 4/20/13		
Volunteer Accidental Death or Dismemberment		$25,000
Volunteer Medical Benefits		$2,500
Deductible: $250		
Colony Insurance Company	WA629729-10	
Policy Effective Dates: 2/11/12- 2/11/13	$500,000 each claim/$1,000,000 aggregate	
Storage Tank Pollution Liability –		
Scheduled Storage Tanks		
Deductible: $5,000		
Steadfast Insurance	EPC902891007	
Police Effective Dates: 2/25/12 - 2/25/13		
Environmental Impairment Liability -	$1,000,000 each claim/$5,000,000 aggregate	
Treatment Plant		
Deductible: $25,000		

NOTE 11 – CONTINGENCIES AND LITIGATIONS

The City has recorded in its financial statements all material liabilities, including an estimate for situations which are not yet resolved but where, based on available information, management believes it is probable that City will have to make payment. In the opinion of management, the City's insurance policies and insurance reserves are adequate to pay all known or pending claims.

As discussed in Note 7, *Long-Term Debt*, as of December 31, 2012, the City is contingently liable for $27,820,026 of 2004 variable rate Revenue and Sales Tax bonds issued by the Public Facilities District.

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

NOTE 12 - JOINT VENTURES

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%

Snohomish County Emergency Radio System

The Snohomish County Emergency Radio System (SERS) was formed in 1999 via an interlocal agreement among the cities of Brier, Edmonds, Everett, Lynnwood, Marysville, Mill Creek, Mountlake Terrace, Mukilteo, Woodway, and Snohomish County to provide enhanced emergency communication services to Snohomish County. Snohomish County Fire District No. 1 joined after the original formation. SERS is responsible for design, development, financing, acquisition, operation, maintenance, and repair of the 800-megahertz emergency radio system. A 10-member Board of Directors is appointed by the cities and County to govern SERS. Each of the cities and the County are represented in the Board.

Snohomish County issued limited tax general obligation bonds in 1999 for funding participation in SERS. The City of Lynnwood's original funding participation was in the amount of $1,795,107. In 2005 Snohomish County refunded these bonds, with the City's refunded participation amount being $1,519,147. See Note 7 Long-Term Debt for additional information.

The City of Lynnwood's net equity interest in SERS as of December 31, 2012 is $610,371.

SERS Members	Beginning 2012 Net Equity Interest	Change in Equity Phase 1	Change in Equity Phase 2	Change in Equity O&M	Change in Equity Replacement Reserve	12/31/2012 Net Equity Interest
Edmonds	511,074	(55,590)		36,387	2,466	494,337
Fire Dist 1	471,821	(52,702)		33,179	2,248	454,546
Lynnwood	**625,953**	**(67,229)**		**48,369**	**3,278**	**610,371**
Marysville	406,766	(44,895)		63,127	4,278	429,276
Mill Creek	149,693	(16,979)		16,605	1,125	150,444
Mountlake Terrace	311,000	(33,777)		20,820	1,411	299,454
Snohomish County	7,106,327	(167,798)	(361,518)	490,756	33,258	7,101,025
Woodway	20,133	(2,292)		1,124	76	19,041
Brier	94,363	(10,201)		5,316	360	89,838
Everett	1,921,629	(202,241)		147,837	10,019	1,877,244
Mukilteo	279,259	(29,552)		16,906	1,146	267,759
Total	**11,898,018**	**(683,256)**	**(361,518)**	**880,426**	**59,665**	**11,793,335**

NOTE 13 - PRIOR PERIOD ADJUSTMENTS

Governmental Activities

Photo Red Enforcement
The rate used to calculate the allowance for uncollectable for Photo Red Enforcement Fines was re-evaluated at the end of 2012 and the allowance from prior years was determined to be too low. The correction results in a $1,702,836 increase in allowance for uncollectable, and a $1,702,836 decrease in revenues in the General Fund.

Tax Revenue
In prior years the city has not fully implemented the modified accrual of certain governmental fund revenues. The city corrected this error in the 2012 financial statements. Therefore, the adjustment for 2011 revenues received in 2012 has been reported as a prior period adjustment in the following funds:

General Fund (011)	$ 3,259,723
Stadium Convention Center (101)	72,409
Criminal Justice Reserve (105)	87,210
Street (111)	182,912
EMS Property Tax (120)	9,413
Solid Waste Management (144)	8,811
Real Estate Excise Tax 2 (330)	12,263
Real Estate Excise Tax (331)	12,263
	$ 3,645,004

Investment in Joint Venture
An adjustment of $610,371 was made for the City's share of investment in joint venture in the Snohomish County Emergency Radio System which had not previously been reported in the financial statements. Additional information is provided in Note 12 – Joint Ventures.

Capital Assets
Adjustments were made to decrease capital assets by $1,893,813 for land, buildings and improvements that were transferred to the Snohomish County PUD or disposed of in prior years.

Data Center Insurance Recovery
During the weekend of July 4, 2011 the City's Data Center experienced severe overheating due to an air conditioning failure. The heat event caused a significant impairment of the server and network infrastructure. As of 12/31/12 the City has received insurance payments totaling $2,098,731 in the self-insurance fund, and has spent $2,007,067 on replacement equipment. Data center restoration activity continues in 2013. In 2011, $1,948,982 was recognized as revenue in the City's Self-Insurance fund, and an additional $149,749 was recognized in 2012.

In 2011, expenditures for replacement equipment and supplies were recorded in the self-insurance fund in error. Because the impaired assets were included in the City's general fixed assets, the insurance recovery should have been transferred to the general fund and the related expenditures recorded in the general fund. Prior period adjustments were made in 2012 to correct these entries. All cash from the insurance settlement and all expenditures related to the replacement equipment were transferred from the self-insurance fund to the general fund. This resulted in an increase of $323,446 in self-insurance fund assets, and an decrease of $570,661 in general fund assets.

No asset impairment entry was made at the end of 2011. A prior period adjustment of $70,181 was made in 2012 to correct this oversight.

Business-type Activities

Bond Interest Capitalization
Generally Accepted Accounting Principles require that interest costs incurred during capital construction performed by proprietary funds be capitalized within the fund. In 2012 the City capitalized several Utility Fund projects financed through 2008 and 2010 Revenue Bonds. It was determined that a prior period adjustment of $136,446 was needed to capitalize interest costs related to the years 2008–2011.

Fiduciary Funds

Prepaid Insurance
An adjustment of $7,519 was made in the Firefighter’s Pension Fund to adjust prepaid insurance to current year totals.

NOTE 14 – ACCOUNTING AND REPORTING CHANGES

The rate used to calculate the estimated collectable portion of Photo Red Enforcement Fines sent to collections was re-evaluated at the end of 2012, and it was determined that an incorrect rate of 79% was being applied. This rate is representative of the net collected for *all* Photo Red Enforcement Fines, not just the portion that has been assigned to collections. The current experience rate for the accounts assigned to collections is 16%.

In prior years the city has not fully implemented the modified accrual of certain governmental fund revenues. The city corrected this error in the 2012 financial statements. See Note 13 Prior Period Adjustments for further detail.

The 2012 financial statements are presented in accordance with the following new GASB Statements:

- 60 – Service Concession Arrangements – not applicable at this time
- 62 – Codification of AICPA and FASB Pronouncements
- 63 – Deferrals Presentation
- 64 – Hedge Accounting Termination Provisions – not applicable at this time

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

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CITY OF LYNNWOOD, WASHINGTON

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2012

1	2	3	4	5			6
				EXPENDITURES			
Federal Agency Name/Pass-Through Agency Name	Federal Program Name	CFDA Number	Other I.D. Number	From Pass-Through Awards	From Direct Awards	Total	Foot-note Ref.
U.S. Department of Housing and Urban Development Office of Community Planning and Development / Pass-Through from Snohomish County Human Services Dept.	Community Development Block Grants/Entitlement Grants	14.218	HCD-09-21-0902-167A	$ 37,989		$ 37,989	4
U.S. Department of Justice Bureau of Justice Assistance	Bulletproof Vest Partnership Program	16.607	2010BUBX10052183		$ 1,137		
			2011BUBX11057200		$ 6,357		
			Subtotal		$ 7,494	$ 7,494	
U.S. Department of Justice Bureau of Justice Assistance	Edward Byrne Memorial Justice Assistance Grant Program	16.738	2011-DJ-BX-2103		$ 13,268		
			2012-DJ-BX-0066		$ 8,740		
			Subtotal		$ 22,008	$ 22,008	
U.S. Department of Justice	ARRA - Recovery Act - Edward Byrne Memorial Justice Assistance Grant (JAG) Program / Grants To Units Of Local Government	16.804	2009-SB-B9-2906		$ 40,834	$ 40,834	5
U.S. Department of Homeland Security	Assistance to Firefighters Grant	97.044	EMW-2010-FH-01138		$ 298,367	$ 298,367	
U.S. Department of Homeland Security/Pass-Through from City of Seattle	Homeland Security Grant Program - Urban Areas Security Initiative	97.067		$ 547		$ 547	
U.S. Department of Transportation Federal Highway Administration (FHWA)/Pass-Through from WSDOT	Highway Planning and Construction	20.205	STPUL-9931(009) LA-7167 35th/36th Ave W Roadway Improvements	$ 397,163			6
			HSIP-0099(107) LA-7093 SR99 Safety Improvements	$ 15,568			
			IMD-STPUL-2004(037) LA-5787 Lynnwood Poplar Way Overcrossing	$ 250,208			
			CM-STPE-9999(640) LA-7613 Interurban Regional Trail Missing Links	$ 120,048			
			Subtotal	$ 782,987		$ 782,987	
National Highway Traffic Safety Administration/Pass-Through from Washington Association of Sheriffs and Police Chiefs	State and Community Highway Safety	20.600		$ 1,799		$ 1,799	
U.S. Department of Transportation National Highway Traffic Safety Administration (NHTSA) /Pass-Through from Washington Traffic Safety Commission	State and Community Highway Safety	20.600		$ 21,370		$ 21,370	
U.S. Department of Transportation National Highway Traffic Safety Administration (NHTSA) /Pass-Through from Washington Traffic Safety Commission	Alcohol Impaired Driving Countermeasures Incentive Grants I	20.601		$ 2,468		$ 2,468	
U.S. Department of Transportation National Highway Traffic Safety Administration (NHTSA) /Pass-Through from Washington Traffic Safety Commission	Occupant Protection Incentive Grants	20.602		$ 1,549		$ 1,549	
	Total Federal Awards Expended			$ 848,709	$ 368,703	$ 1,217,412	

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

CITY OF LYNNWOOD, WASHINGTON

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2012

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 reduced the total award amount to $227,989.23. $190,000 was expended in 2011, and the remaining $37,989.23 was expended in 2012.

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.

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

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

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Chief of Staff	**Doug Cochran**
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Deputy Director of State and Local Audit	**Kelly Collins, CPA**
Deputy Director of State and Local Audit	**Jan M. Jutte, CPA, CGFM**
Deputy Director of State and Local Audit	**Sadie Armijo**
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