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

City of Lynnwood

Snohomish County

For the period January 1, 2013 through December 31, 2013

Published September 18, 2014

Report No. 1012570

Washington State Auditor
Troy Kelley

September 18, 2014

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

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

FINANCIAL STATEMENTS

An unmodified opinion was issued on the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate discretely presented component units and remaining fund information.

Internal Control Over Financial Reporting:

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

- ***Material Weaknesses:*** We identified 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, 2013 through December 31, 2013

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 seven 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:

- The City has known 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.
- Staff responsible for recording accounting transactions, including complex and unusual transactions, did not adequately research how to appropriately record some transactions.
- Although the City has procedures to perform a final review of the prepared financial statements, the review was not adequate to ensure errors were detected and corrected prior to audit.

Cause of Condition

The City did not dedicate sufficient resources to the financial reporting function and experienced turnover in a key accounting position responsible for monitoring a portion of the City's accounting and financial reporting functions.

In addition, the City assigned sections of the financial statements to be prepared or reviewed by the departments responsible for the daily accounting operations. However, personnel in each department did not dedicate the necessary time and resources to ensure balances are accurately valued, researched and supported by appropriate documentation.

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

- The City improperly included assets totaling $19,308,700 as buildings and improvements that should have been classified as infrastructure (sidewalks, streets, pedestrian bridge) based on the City's description. The City did not correct this error.

- The City included $3,842,920 of assets as construction in progress that were no longer in progress and should have been reclassified as infrastructure. Further, the City understated construction in progress by $1,659,674. The City did not correct this error.

- The Water and Sewer Utility Fund understated depreciation by $1,573,301 due to the City including salvage values on building and infrastructure assets when it is unlikely the City would realize a revenue at the end of the assets useful life. The City did not correct this error.

- The City did not remove a parcel of land, valued at $340,682 that was sold by the City in 2009. The City did not correct this error.

- Five of 57 randomly selected machinery and equipment assets and 11 individually significant assets, totaling $34,974 were not owned by the City at year end. The City did not correct this error.

- The City reports an asset "Signal 196th ST SW" that it cannot verify existed at year-end. This resulted in buildings and improvements being overstated by $277,852. The City did not correct this error.

- The City received $730,000 from a private developer for storm water mitigation fees in three installments during 2013. Once the final payment was received by the City in November 2013, City staff did not recognize the revenue and continued to report a liability even though the City had fulfilled its obligations. The City did not correct this error.

- The City misclassified restricted cash and restricted fund balance totaling $20,263 as unrestricted cash and unassigned fund balance. The City corrected this error.

We identified additional, less significant errors in the financial statements and notes to the financial statements. Despite these internal control issues and noted errors, the City ultimately provided financial statements upon which we are issuing an unmodified opinion.

Recommendation

We continue to recommend City management take action to establish ongoing, consistent internal controls over its financial accounting and reporting, including:

- Performing a full inventory of capital assets to ensure capital assets and the associated accumulated depreciation and depreciation expense are correctly reported.

- Ensuring accounting entries are researched thoroughly for proper accounting. The City should be extra diligent with infrequent or unusual accounting transactions.

- Providing staff the necessary training, resources, and time to prepare accurate and complete financial statements.

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

City's Response

The City is converting its financial accounting system from GEMS to Munis. Phase 1 of 5 went live on July 1, 2014. Munis is a modern enterprise-wide financial system that incorporates sound internal controls over accounting processes and accounting entries.

The City is developing a work-plan to perform a full capital asset inventory that will ensure capital assets and their associated accumulated depreciation expenses are properly reported. This plan incorporates our transition to the Munis Fixed Asset module as part of our Phase 2 financial system conversion which is currently ongoing.

The City will build adequate time for training, research, and review into the next financial statement preparation process.

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

Government Auditing Standards, December 2011 Revision, paragraph 4.23 states:

> 4.23 – When performing GAGAS financial audits, auditors should communicate in the report on internal control over financial reporting and compliance, based upon the work performed, (1) significant deficiencies and material weaknesses in internal control; (2) instances of fraud and noncompliance with provisions of laws or regulations that have a material effect on the audit and any other instances that warrant the attention of those charged with governance; (3) noncompliance with provisions of contracts or grant agreements that has a material effect on the audit; and (4) abuse that has a material effect on the audit.

The American Institute of Certified Public Accountants defines significant deficiencies and material weaknesses in its *Codification of Statements on Auditing Standards*, section 265, as follows:

> .07 – For purposes of generally accepted auditing standards, the following terms have the meanings attributed as follows:
>
>> Material weakness – A deficiency, or a 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.
>>
>> Significant deficiency – 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.

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 therefrom; all sources of public income, and the amounts due and received from each source; all receipts, vouchers, and other documents kept, or required to be kept, necessary to

> isolate and prove the validity of every transaction; all statements and reports made or required to be made, for the internal administration of the office to which they pertain; and all reports published or required to be published, for the information of the people regarding any and all details of the financial administration of public affairs.

Budget Accounting and Reporting System (BARS) Manual - Part 3, Accounting, Chapter 1. Accounting Principles and Internal Control, Internal Control, Section 3.1.3 states, in part:

> Internal control is defined by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), in standards adopted by the American Institute of Certified Public Accountants and by the Federal Office of Management and Budget as follows:
>
> Internal control is a process – affected by those charged with governance, management and other personnel designed to provide reasonable assurance regarding the achievement of objectives in the following categories:
>
> - Effectiveness and efficiency of operations
> - Compliance with applicable laws and regulations
> - Reliability of financial reporting
>
> Management and the governing body are responsible for the government's performance, compliance and financial reporting. Therefore, the adequacy of internal control to provide reasonable assurance of achieving these objectives is also the responsibility of management and the governing body. The governing body has ultimate responsibility for ensuring adequate controls to achieve objectives, even though primary responsibility has been delegated to management.

Status of Prior Audit Findings

City of Lynnwood
Snohomish County
January 1, 2013 through December 31, 2013

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

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

Report No. 1010588, dated 9/30/2013

Background

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 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.

Status

The City has partially corrected the internal control weaknesses noted in this finding. The City has purchased accounting software that will enable it to account for its property and equipment, but the system is not yet in place. We will review the City's progress during our next audit. The finding is repeated in the current audit period in Finding 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, 2013 through December 31, 2013

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, each major fund and the aggregate discretely presented component units and remaining fund information of the City of Lynnwood, Snohomish County, Washington, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated August 29, 2014. As discussed in Note 14 to the financial statements, during the year ended December 31, 2013, the City implemented Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*.

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

August 29, 2014

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, 2013 through December 31, 2013

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, 2013. 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, 2013.

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

August 29, 2014

Independent Auditor's Report on Financial Statements

City of Lynnwood
Snohomish County
January 1, 2013 through December 31, 2013

Mayor and City Council
City of Lynnwood
Lynnwood, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate discretely presented component units and remaining fund information of the City of Lynnwood, Snohomish County, Washington, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed on page 21.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate discretely presented component units and remaining fund information of the City of Lynnwood, as of December 31, 2013, 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 2013, the City adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*. 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 22 through 31, information on firemen's pension plan on page 98 and LEOFF 1 retiree medical benefits on page 99 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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 August 29, 2014 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 X. Kelley

TROY KELLEY
STATE AUDITOR

August 29, 2014

Financial Section

City of Lynnwood
Snohomish County
January 1, 2013 through December 31, 2013

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Management's Discussion and Analysis – 2013

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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, 2013.

Financial Highlights

- The assets of the City of Lynnwood exceeded its liabilities and deferred inflows at fiscal year-end by $188,938,137 (net position), an increase of $10.7 million or 6.02% over 2012. Of this amount, unrestricted net assets total $32,071,767 and may be used to meet the city's ongoing obligations to citizens and creditors. Restricted net assets total $12,116,870 and are earmarked for debt service, capital projects and special revenue funds.
- At December 31, 2013, the City's governmental funds reported combined ending fund balances of $30,846,615, an increase of $5.6 million over 2012. Taxes received exceeded expectations, Transportation Benefit District funds were carried over to the next biennium, the City's newly remodeled Recreation Center continues to outperform budget, and expenditure levels grew minimally.
- At the end of the 2013 fiscal year, unassigned fund balance for the general fund was $15,683,386 or 32% of total general fund revenues (34% 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 discretely 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 "discrete" 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 and LID 93-1 Fund 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 2013 fiscal year is the first year of the two year budget 2013-2014. 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 and Trust 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

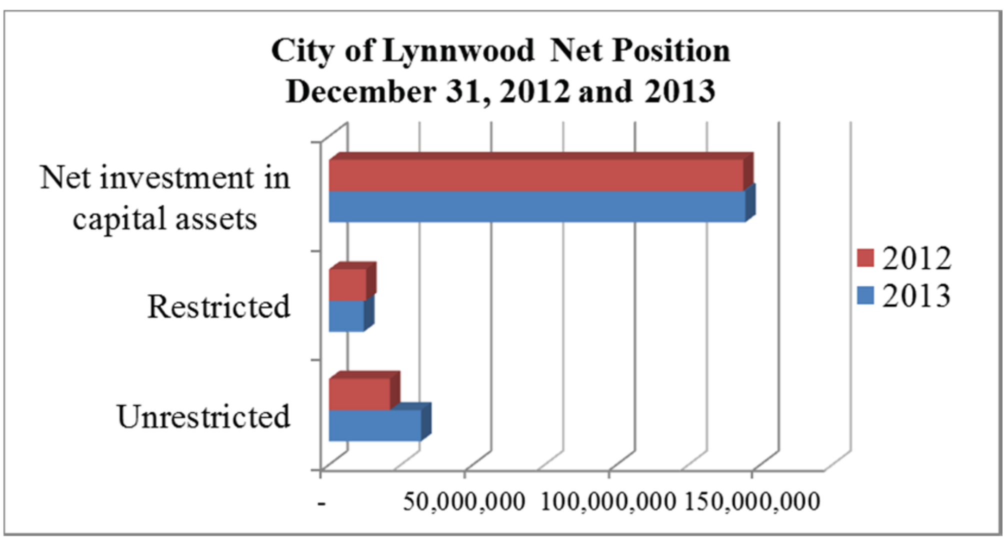
As noted earlier, net position over time, may serve as a useful indicator of a government's financial position. In the case of the City of Lynnwood, assets exceeded liabilities by $188,976,716 at the close of the most recent fiscal year.

	Governmental Activities		Business-Type Activities		Total	
	2013	2012	2013	2012	2013	2012
Current and other assets	$ 41,916,900	$ 35,126,216	$ 18,401,376	$ 19,061,920	$ 60,318,276	$ 54,188,136
Capital assets	132,479,636	132,271,248	52,058,876	50,901,016	184,538,512	183,172,264
Total Assets	174,396,536	167,397,464	70,460,252	69,962,936	244,856,788	237,360,400
Non-current liabilities outstanding	36,123,058	37,026,386	12,930,461	14,161,428	49,053,519	51,187,814
Other liabilities	3,921,176	6,327,505	2,905,377	1,082,754	6,826,553	7,410,259
Total Liabilities	40,044,234	43,353,891	15,835,838	15,244,182	55,880,072	58,598,073
Total deferred inflows of resources	38,579	-	-	-	38,579	-
Net position:						
Net investment in capital assets	105,272,605	102,877,782	39,476,895	41,185,301	144,749,500	144,063,083
Restricted	9,355,099	6,906,005	2,759,634	5,996,416	12,114,733	12,902,421
Unrestricted	19,686,019	14,259,786	12,387,885	6,985,346	32,073,904	21,245,132
Total Net Position	$ 134,313,723	$ 124,043,573	$ 54,624,414	$ 54,167,063	$ 188,938,137	$ 178,210,636

City of Lynnwood's Net Position

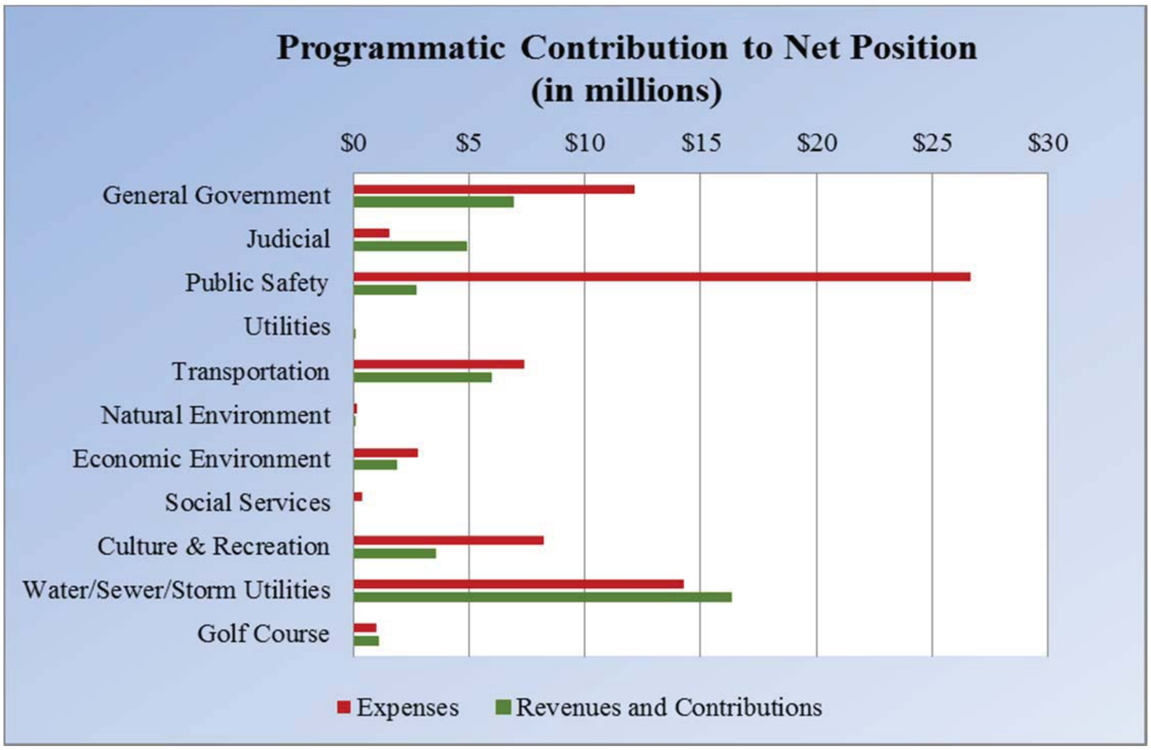
The City's overall net position increased $10.7 million (6.02%) from the prior fiscal year. By far, the largest portion of the City's net position ($144,749,500; 76.6%) reflects investment in capital assets (e.g., land, buildings, machinery, equipment, vehicles, and infrastructure), less any related 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 ($12,116,870; 6.4%) represents resources that are subject to external restrictions on how they may be used. The remaining balance ($32,071,767; 17%) is unrestricted and may be used to meet the City's ongoing obligations to its citizens and creditors.



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 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.

Changes in Net Position

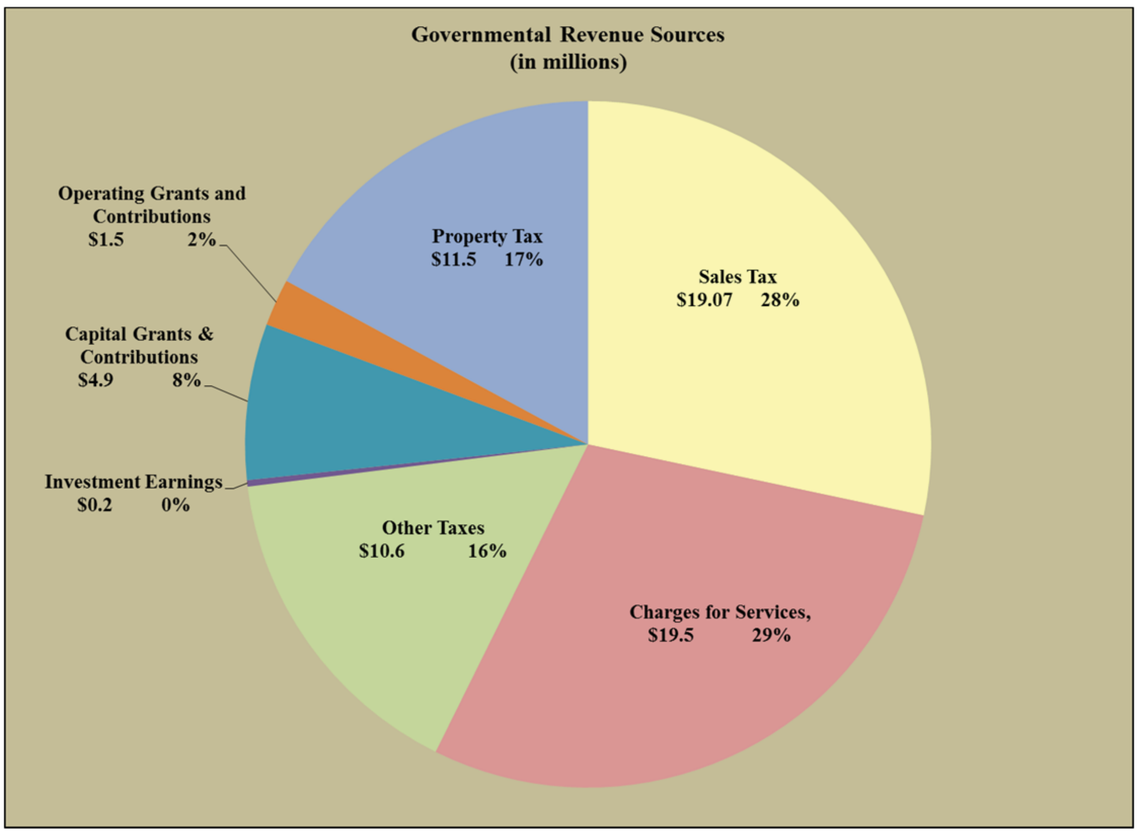
During the current fiscal year, net position for governmental activities increased $10.2 million (8.3%).

	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
Revenues						
Program Revenues						
Charge for Service	$ 19,538,627	$ 12,920,908	$ 17,207,794	$ 15,296,741	$ 36,746,421	$ 28,217,649
Operating Grants & Contributions	1,495,360	1,602,585	-	106,158	1,495,360	1,708,743
Capital Grants & Contributions	4,947,471	1,729,022	225,094	123,736	5,172,565	1,852,758
General Revenues						
Property Taxes	11,515,054	11,071,727	-	-	11,515,054	11,071,727
Sales Taxes	19,070,344	18,076,002	-	-	19,070,344	18,076,002
Other Taxes	10,574,669	8,572,801	-	-	10,574,669	8,572,801
Other Revenues	208,560	237,028	260,696	50,082	469,256	287,110
Total Revenues	67,350,085	54,210,073	17,693,584	15,576,717	85,043,669	69,786,790
Expenses						
General Government	12,126,355	7,863,955	-	-	12,126,355	7,863,955
Judicial	1,567,467	1,060,371	-	-	1,567,467	1,060,371
Public Safety	26,683,617	25,551,751	-	-	26,683,617	25,551,751
Physical Environment	-	1,984,451	-	-	-	1,984,451
Utilities	32,753	-	-	-	32,753	-
Transportation	7,361,539	4,982,635	-	-	7,361,539	4,982,635
Natural Environment	153,292	-	-	-	153,292	-
Economic Environment	2,779,605	2,668,346	-	-	2,779,605	2,668,346
Social Services	408,259	-			408,259	-
Culture & Recreation	8,249,955	7,406,725	-	-	8,249,955	7,406,725
Interest on Long-term Debt	1,118,728	1,208,975	-	-	1,118,728	1,208,975
Disposition of Capital Assets	23,122	66,001	3,668	-	26,790	66,001
Water	-	-	4,301,933	4,045,975	4,301,933	4,045,975
Sewer	-	-	7,752,344	7,631,520	7,752,344	7,631,520
Golf Course	-	-	977,155	1,067,535	977,155	1,067,535
Storm Drainage	-	-	2,243,250	2,636,787	2,243,250	2,636,787
Total Expenses	60,504,692	52,793,210	15,278,350	15,381,817	75,783,042	68,175,027
Increase (Decrease) in Net Position Before Transfers	6,845,393	1,416,863	2,415,234	194,900	9,260,627	1,611,763
Transfers	1,827,548	1,387,075	(1,827,548)	(1,387,075)	-	-
Increase (Decrease) in Net Position	8,672,941	2,803,938	587,686	(1,192,175)	9,260,627	1,611,763
Net Position - beginning	124,043,573	120,828,124	54,167,071	55,748,623	178,210,644	176,576,747
Prior Period Adjustments	1,597,209	411,511	(130,343)	(389,384)	1,466,866	22,127
Net Position - beginning - *Adjusted*	125,640,782	121,239,635	54,036,728	55,359,239	179,677,510	176,598,874
Net Position - ending	$ 134,313,723	$ 124,043,573	$ 54,624,414	$ 54,167,064	$ 188,938,137	$ 178,210,637

- Local sales tax revenues increased by nearly $994 thousand, or 5.5% compared to fiscal 2012.
- Property tax revenues collected were $11.5 million, or 4%; an increase of $443 thousand over collections in 2012.
- In 2013, the City received $259,924 in mitigation payments, a decrease of $8,380 (3.3%) from 2012. 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 28.3% of total governmental revenues. Most capital and operating grants are for transportation purposes.



Governmental expenditures increased $7.7 million or 14.7% from the prior year.

Function/Programs	2013 Expenditures	2012 Expenditures	$ Increase/ (Decrease)	% Increase/ (Decrease)
General Government	$ 12,126,355	$ 7,863,955	$ 4,262,400	54.2%
Judicial	1,567,467	1,060,371	507,096	47.8%
Public Safety	26,683,617	25,551,751	1,131,866	4.4%
Physical Environment	-	1,984,451	(1,984,451)	-100.0%
Utilities	32,753	-	32,753	0.0%
Transportation	7,361,539	4,982,635	2,378,904	47.7%
Natural Environment	153,292	-	153,292	0.0%
Economic Environment	2,779,605	2,668,346	111,259	4.2%
Social Services	408,259	-	408,259	0.0%
Culture & Rec	8,249,955	7,406,725	843,230	11.4%
Interest on Debt	1,118,728	1,208,975	(90,247)	-7.5%
	$ 60,481,570	$ 52,727,209	$ 7,754,361	14.7%

Business-type activities

Business-type activities increased the City of Lynnwood's net position by $587,686.

- Charges for Services revenue increased by $1.9 million (12.5%) from $15.3 million to $17.2 million.
- Total revenues increased $2.1 million (13.6%).
- Total expenses decreased from $15.4 million to $15.3 million (-0.7%).
- Expenses related to water, sewer, and storm utility decreased by approximately $107,135 (-0.1%).
- Expenses related to the City's golf course decreased by $90,380 (-8.5%).

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, 2013, the City's governmental funds reported combined ending fund balances of $30,846,615, an increase of $5.59 million over 2012.

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 City's "Statement of Revenues, Expenditures, and Changes in Fund Balances Budget and Actual" is presented as a one year budget for comparison purposes to make it more meaningful to the reader. The most significant differences between estimated revenues and actual revenues were as follows:

- Sales tax revenues exceeded budget by $1.2 million (7.3%).
- Fines and forfeitures revenues came in $543 thousand over budget.
- Total expenditures were $4.05 million under budget.
- Public safety expenditures were $1.7 million under budget.

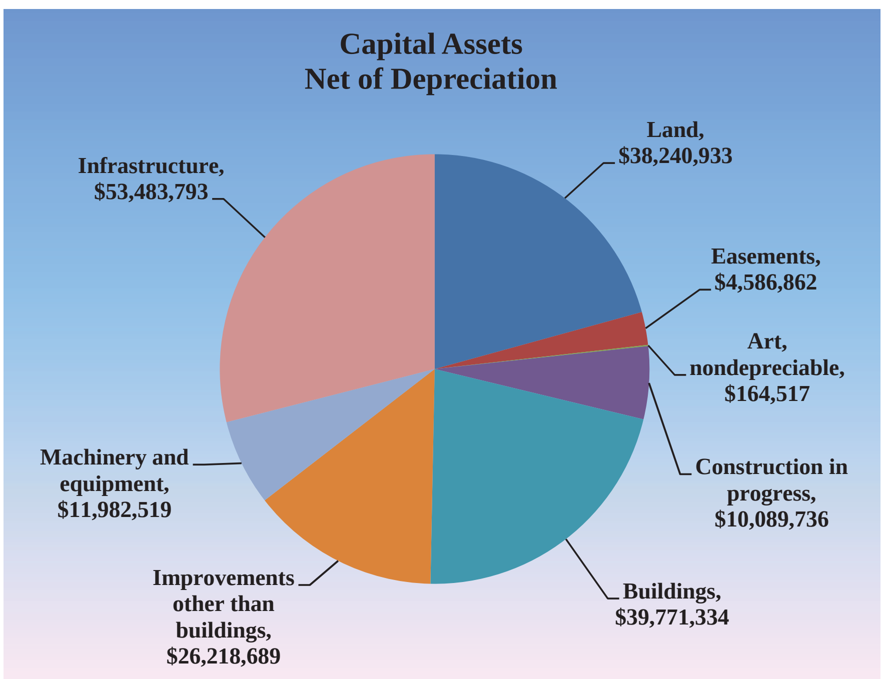
Additional information is provided in the General Fund Statement of Revenues, Expenditures, and Changes in Fund Balance, Budget and Actual.

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, 2013, amounts to $184.5 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 $132.5 million in 2013, an increase of $208 thousand from 2012. Business-type assets (net of depreciation) totaled $52.1 million, an increase of $1.7 million from 2012. More information on the City's Capital Assets can be found in Note 5 – Capital Assets, in the Notes to the Financial Statements.



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

- 76th Sewer line / Sewer main was placed in service at a total cost of $3,174,857;
- Recreation Center Heating Ventilation, & Air Conditioning upgrade at a total cost of $1,365,699.

- Various wastewater treatment plant equipment were placed in service at a total cost of $1,256,138;
- 48th Ave W Sidewalk project was completed at a cost of $990,342;
- Stadler Ridge Park was completed and opened in March 2013 at a cost of $727,575;
- Purchase of various vehicles and equipment at a total cost of $490,318.

Long-Term Debt

At the end of 2013, the City of Lynnwood had total bonded debt outstanding of $41.2 million. Of this amount, $26.7 million is backed by the full faith and credit of the City and $2.1 million is special assessment debt. The remainder ($12.4 million) represents bonds secured solely by specified revenue sources (i.e., revenue bonds).

Total long-term debt includes compensated absences ($4.7 million) and pension related commitments ($2.8 million) for total long-term debt of $48.7 million. The City's total long-term debt decreased by $2.4 million in 2013 and no new long-term debt was issued. 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 slight 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 2011-2012 biennium to the 2013-2014 biennium.

Other economic factors considered when preparing the City's 2015-2016 budget include:

- In March 2014, the county in which our City is located (Snohomish County) has a not seasonally-adjusted unemployment rate of 6%, up from 5.7% in March 2013.
- The City increased its water rates beginning January 1, 2014. The increase was offset somewhat by a reduction in the General Fund tax on utility services.
- The City's assessed value increased by 8% for tax year 2014.
- The City increased its fee schedule effective June 1, 2014.
- Interest rates are expected to remain low.
- On the expenditure side, increases are expected for health insurance premiums, labor and other benefit costs.
- The City of Lynnwood continues to purchase catastrophic property and liability insurance policies to protect itself from unforeseen circumstances.

Requests for Information

This financial report is designed to provide our citizens, creditors, investors, and other interested parties with a general overview of the City's finances and to show the City accountability for the financial resources it receives. 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.

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, 2013

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Public Facilities District
ASSETS				
CURRENT ASSETS				
Cash and equivalents	$ 26,316,986	$ 14,058,159	$ 40,375,145	$ 4,006,930
Investments	-	-	-	-
Receivables (net of allowance for uncollectibles)	9,399,168	2,699,520	12,098,688	402,354
Intergovernmental Receivable	188,906	20,783	209,689	-
Internal balances	1,331,991	(1,331,991)	-	-
Inventories	-	23,918	23,918	17,617
Prepaid items	417,743	110,031	527,774	66,700
Restricted cash & investments:				
Customer deposits	-	117,879	117,879	-
Restricted cash & equivalents	378,361	783,568	1,161,929	1,731,524
Bond covenant accounts	-	1,858,187	1,858,187	-
Total Current Assets	38,033,155	18,340,054	56,373,209	6,225,125
NONCURRENT ASSETS				
Long-term notes receivable, net of current portion, net of allowance for uncollectibles	2,292,634	61,322	2,353,956	-
Investment in joint ventures	1,591,111	-	1,591,111	-
Capital assets not being depreciated:				
Land	30,596,230	12,231,563	42,827,793	6,788,800
Other nondepreciable	164,517	-	164,517	-
Construction in progress	7,695,984	2,393,750	10,089,734	-
Capital assets - net of accumulated depreciation:				
Buildings and improvements	57,883,935	8,106,091	65,990,026	16,965,326
Equipment	9,751,106	2,231,541	11,982,647	-
Infrastructure	26,387,864	27,095,931	53,483,795	-
Net Capital Assets	132,479,636	52,058,876	184,538,512	23,754,126
Total Noncurrent Assets	136,363,381	52,120,198	188,483,579	23,754,126
Total Assets	**174,396,536**	**70,460,252**	**244,856,788**	**29,979,251**
LIABILITIES				
CURRENT LIABILITIES				
Accounts Payable and Accrued Expenses	3,393,418	1,963,058	5,356,476	377,294
Unearned Revenue	411,225	-	411,225	-
Other current liabilities	6,321	-	6,321	403,873
Current Liabilities Payable from Restricted Assets:				
Liabilities Payable from Restricted Assets	110,212	942,319	1,052,531	-
Total Current Liabilities	3,921,176	2,905,377	6,826,553	781,167
Noncurrent Liabilities:				
Due Within One Year	2,586,055	637,389	3,223,444	841,135
Due in More Than One Year	33,537,003	12,293,072	45,830,075	26,372,809
Total Noncurrent Liabilities	36,123,058	12,930,461	49,053,519	27,213,944
Total Liabilities	**40,044,234**	**15,835,838**	**55,880,072**	**27,995,111**
DEFERRED INFLOWS OF RESOURCES				
Grants received in advance	38,579	-	38,579	-
Total Deferred Inflows of Resources	38,579	-	38,579	-
NET POSITION				
Net Investment in Capital Assets	105,272,605	39,476,895	144,749,500	(3,314,765)
Restricted for:				
Prepaid items	417,743	110,031	527,774	-
Debt Service	1,386,712	1,128,605	2,515,317	1,700,000
Capital Projects	3,537,859	1,459,582	4,997,441	-
Special revenue	3,789,865	-	3,789,865	-
Other	222,920	61,416	284,336	-
Unrestricted	19,686,019	12,387,885	32,073,904	3,598,905
Total Net Position	**$ 134,313,723**	**$ 54,624,414**	**$ 188,938,137**	**$ 1,984,140**

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, 2013

		Program Revenues			Net (Expense) Revenue and Changes in Net Position			
					Primary Government			Component Unit
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	Public Facilities District
Functions/Programs								
Primary Government								
Governmental Activities:								
General Government	$ 12,126,355	$ 6,880,253	$ -	$ 4,100	$ (5,242,002)	$ -	$ (5,242,002)	$ -
Judicial	1,567,467	4,916,381	-	-	3,348,914	-	3,348,914	-
Public Safety	26,683,617	2,052,923	633,045	515	(23,997,134)	-	(23,997,134)	-
Utilities	32,753	9,285	23,967	-	499	-	499	-
Transportation	7,361,539	1,022,896	-	4,939,554	(1,399,089)	-	(1,399,089)	-
Natural Environment	153,292	44,587	-	-	(108,705)	-	(108,705)	-
Economic Environment	2,779,605	1,897,143	-	-	(882,462)	-	(882,462)	-
Social Services	408,259	-	-	-	(408,259)	-	(408,259)	-
Culture & Recreation	8,249,955	2,715,159	838,348	3,302	(4,693,146)	-	(4,693,146)	-
Interest on Long-Term Debt	1,118,728	-	-	-	(1,118,728)	-	(1,118,728)	-
Total Governmental Activities	60,481,570	19,538,627	1,495,360	4,947,471	(34,500,112)	-	(34,500,112)	-
Business-type activities:								
Water Services	4,301,933	4,850,642	-	75,101	-	623,810	623,810	-
Sewer Services	7,752,344	8,710,168	-	-	-	957,824	957,824	-
Storm Drainage	2,243,250	2,563,749	-	149,993	-	470,492	470,492	-
Golf Course	977,155	1,083,235	-	-	-	106,080	106,080	-
Total Business-type Activities	15,274,682	17,207,794	-	225,094	-	2,158,206	2,158,206	-
Total Primary Government	$ 75,756,252	$ 36,746,421	$ 1,495,360	$ 5,172,565	(34,500,112)	2,158,206	(32,341,906)	-
Component unit:								
Public Facilities District	$ 5,647,275	$ 3,899,154	$ -	$ -				(1,748,121)
Total Component Unit	$ 5,647,275	$ 3,899,154	$ -	$ -				(1,748,121)
General Revenues:								
Property Taxes					11,515,054	-	11,515,054	-
Sales Taxes					19,070,344	-	19,070,344	2,430,442
B&O Taxes					7,123,961	-	7,123,961	-
Other Taxes					3,450,708	-	3,450,708	-
Investment Earnings					203,705	27,019	230,724	24,468
Miscellaneous					4,855	233,677	238,532	-
Disposition of capital assets					(23,122)	(3,668)	(26,790)	-
Transfers					1,827,548	(1,827,548)	-	-
Total General Revenues and Transfers					43,173,053	(1,570,520)	41,602,533	2,454,910
Change in Net Position					8,672,941	587,686	9,260,627	706,789
Net Position - Beginning					124,043,573	54,167,071	178,210,644	1,737,011
Prior Period Items / change in accounting principle (GASB 65)					1,597,209	(130,343)	1,466,866	(459,660)
Net Position - Ending					$ 134,313,723	$ 54,624,414	$ 188,938,137	$ 1,984,140

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

CITY OF LYNNWOOD, WASHINGTON

BALANCE SHEET

GOVERNMENTAL FUNDS

December 31, 2013

	General	LID 93-1	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	$ 12,724,035	$ 18,646	$ 10,195,360	$ 22,938,041
Cash with fiscal agent	-	-	-	-
Receivables, net	7,564,699	2,919,983	1,197,767	11,682,449
Receivables, interfund loans	2,714,000	-	-	2,714,000
Due from other governments	50,736	-	97,671	148,407
Prepayments	417,743	-	-	417,743
Due from other funds	16,112	-	-	16,112
Cash - restricted	88,254	-	290,107	378,361
Total assets	**$ 23,575,579**	**$ 2,938,629**	**$ 11,780,905**	**$ 38,295,113**
LIABILITIES				
Accounts payable	1,129,822	-	1,372,361	2,502,183
Wages payable	626,962	-	17,643	644,605
Due to other funds	-	-	1,139,000	1,139,000
Other current liabilities	370,222	-	203,981	574,203
Custodial accounts	6,321	-	-	6,321
Total liabilities	2,133,327	-	2,732,985	4,866,312
DEFERRED INFLOWS OF RESOURCES				
Deferred property tax	250,973	-	-	250,973
Unavailable revenue-special assessments	-	2,292,634	-	2,292,634
Grants received in advance	38,579	-	-	38,579
Total deferred inflows of resources	289,552	2,292,634	-	2,582,186
FUND BALANCES (DEFICITS):				
Nonspendable:				
Prepaid Rent	417,743	-	-	417,743
Interfund Advance - Golf	16,112	-	-	16,112
Restricted for:				
Capital Projects	-	-	3,537,859	3,537,859
Debt Service	-	645,995	740,717	1,386,712
Law Enforcement	-	-	1,547,762	1,547,762
Parks & Recreation	86,117	-	241,621	327,738
Public Facilities District	-	-	693,928	693,928
Public Safety	-	-	204,941	204,941
Transportation	-	-	1,222,304	1,222,304
Committed to:				
Capital Projects	-	-	1,412,792	1,412,792
Cultural	-	-	26,505	26,505
Other	-	-	118,297	118,297
Revenue stabilization	2,000,000	-	-	2,000,000
Impress cash	30,260	-	-	30,260
Assigned to:				
Sale of property	2,814,864	-	-	2,814,864
Purchases on Order	21,492	-	-	21,492
Transportation	-	-	282,731	282,731
Other	-	-	87,545	87,545
Program development	82,726	-	-	82,726
Unassigned	15,683,386	-	(1,069,082)	14,614,304
Total fund balances (deficits)	21,152,700	645,995	9,047,920	30,846,615
Total liabilities, deferred inflows of resources, and fund balances (deficits)	**$ 23,575,579**	**$ 2,938,629**	**$ 11,780,905**	**$ 38,295,113**

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, 2013

Total governmental fund balances	$ 30,846,614
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	
Land & art (nondepreciable)	30,760,748
Construction in progress	7,695,984
Buildings and improvements (net of depreciation)	56,330,488
Machinery and Equipment (net of depreciation)	4,898,027
Infrastructure (net of depreciation)	26,387,864
Other long term assets are not available to pay for current period expenditures and therefore reported as unavailable revenue in the funds.	2,543,607
Investment in Joint Venture	1,591,111
Long term liabilities, including bonds payable are not due and payable in the current period and therefore are not reported in the funds.	(35,772,503)
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.	9,031,783
Net position of governmental activities	**$ 134,313,723**

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, 2013

	General	LID 93-1	Other Governmental Funds	Total Governmental Funds
REVENUES				
Taxes:				
Property	$ 8,897,973	$ -	$ 2,366,108	$ 11,264,081
Sales	17,680,052	-	1,390,292	19,070,344
Business	7,123,961	-	-	7,123,961
Other	5,135	-	1,821,776	1,826,911
Licenses and permits	3,201,444	-	158,796	3,360,240
Intergovernmental revenues	1,591,871	535,307	3,612,844	5,740,022
Charges for services	5,465,893	-	601,672	6,067,565
Fines and forfeitures	4,373,440	-	63,400	4,436,840
Other - interest	22,582	166,748	10,284	199,614
Other - rent	302,296	-	-	302,296
Miscellaneous	92,553	-	10,767	103,320
Total revenues	48,757,200	702,055	10,035,939	59,495,194
EXPENDITURES				
Current				
General government	8,326,570	-	3,225	8,329,795
Public safety	25,117,755	-	191,173	25,308,928
Judicial	1,054,756	-	-	1,054,756
Utilities & environment	1,247,585	-	32,753	1,280,338
Economic environment	2,786,299	-	-	2,786,299
Transportation	682,138	-	2,126,051	2,808,189
Culture and recreation	5,472,049	-	1,135,644	6,607,693
Capital outlay	1,475,665	-	3,168,757	4,644,422
Debt service - principal	-	575,000	848,887	1,423,887
Debt service - interest and fiscal charges	1,008	170,660	999,973	1,171,641
Total expenditures	46,163,825	745,660	8,506,463	55,415,948
Excess (deficiency) of revenues over expenditures	2,593,375	(43,605)	1,529,476	4,079,246
OTHER FINANCING SOURCES (USES)				
Transfers in	2,439,762	-	5,128,463	7,568,225
Transfers out	(2,105,736)	-	(3,329,406)	(5,435,142)
Insurance recoveries	1,540	-	-	1,540
Total other financing sources (uses)	335,566	-	1,799,057	2,134,623
Net change in fund balances	2,928,941	(43,605)	3,328,533	6,213,869
Fund balances, January 1	18,223,757	689,600	6,339,003	25,252,360
Prior period adjustment	-	-	(619,615)	(619,615)
Fund balances (deficit), December 31	**$ 21,152,698**	**$ 645,995**	**$ 9,047,921**	**$ 30,846,614**

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, 2013

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

Net change in fund balances - total governmental funds		$ 6,213,869
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.		(1,248,406)
Capital outlays	4,644,422	
Current year depreciation	(5,869,706)	
Disposition of capital assets	(23,122)	
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.		1,423,887
The net effect of various miscellaneous transactions involving capital assets (i.e. sales and donations) is to increase net assets.		505,477
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		2,543,607
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.		(693,464)
Increase in other post-employment benefits payable	(485,479)	
Increase in compensated absences payable	(207,985)	
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.		(72,029)
Change in net position of governmental activities		**$ 8,672,941**

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	$ (619,615)
Depreciation - Infrastructure	2,461,646
2012 C.I.P. correction	(1,265,261)
Addition of investment in joint venture - SnoCom	1,020,439
Prior period adjustment - governmental activities	**$ 1,597,209**

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 Year Ended December 31, 2013

	Original Budget	Final Budget	Actual Amount	Variance with Final Budget Positive (Negative)
REVENUES				
Taxes:				
Property	$ 8,519,074	$ 8,519,074	$ 8,897,973	$ 378,899
Sales	16,477,801	16,477,801	17,680,052	1,202,251
Business	6,957,980	6,957,980	7,123,961	165,981
Other	1,699	1,699	5,135	3,436
Licenses and Permits	3,027,506	3,027,506	3,201,444	173,938
Intergovernmental Revenues	1,414,082	1,403,082	1,591,871	188,789
Charges for Services	5,140,897	5,151,897	5,465,893	313,996
Fines and Forfeitures	3,830,000	3,830,000	4,373,440	543,440
Other - Interest	42,685	42,685	22,582	(20,103)
Other - Rent	240,550	240,550	302,296	61,746
Miscellaneous	3,180,618	6,625,205	92,553	(6,532,652)
TOTAL REVENUE	48,832,892	52,277,479	48,757,200	(3,520,279)
EXPENDITURES				
Current				
General Government	8,646,513	9,152,135	8,326,570	825,565
Public Safety	26,204,257	26,800,300	25,117,755	1,682,545
Judicial	1,241,048	1,241,048	1,054,756	186,292
Transportation	577,507	577,507	682,138	(104,631)
Utilities & Environment	1,386,339	1,386,339	1,247,585	138,754
Economic Environment	3,351,654	3,361,904	2,786,299	575,605
Culture and Recreation	5,598,239	5,598,239	5,472,049	126,190
Capital Outlay	412,500	2,094,858	1,475,665	619,193
Debt Service - Interest and Fiscal Charges	-	-	1,008	(1,008)
TOTAL EXPENDITURES	47,418,057	50,212,330	46,163,825	4,048,505
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	1,414,835	2,065,149	2,593,375	528,226
OTHER FINANCING SOURCES (USES)				
Transfers In	3,851,425	3,931,783	2,439,762	(1,492,021)
Transfers Out	(4,164,660)	(4,895,332)	(2,105,736)	2,789,596
Insurance recoveries	-	-	1,540	1,540
TOTAL OTHER FINANCING SOURCES (USES)	(313,235)	(963,549)	335,566	1,299,115
NET CHANGE IN FUND BALANCES	1,101,600	1,101,600	2,928,941	1,827,341
Fund Balances, January 1	-	68,399	18,223,759	18,155,360
FUND BALANCES, DECEMBER 31	**$ 1,101,600**	**$ 1,169,999**	**$ 21,152,700**	**$ 19,982,701**

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, 2013

	Business Type Activities-Enterprise Funds			GOVERNMENTAL
	WATER & SEWER UTILITY	GOLF COURSE	TOTAL	ACTIVITIES INTERNAL SERVICE FUNDS
ASSETS				
Current assets:				
Cash and cash equivalents	$ 13,869,929	$ 188,230	$ 14,058,159	$ 3,378,945
Receivables (net of allowance for uncollectibles):				
Accounts	2,715,203	-	2,715,203	49,852
Accrued interest	5,100	-	5,100	-
Prepaid expenses	93,619	16,412	110,031	-
Inventories, at cost	-	23,918	23,918	-
Restricted assets - cash & investments:				
Cash	1,459,582	-	1,459,582	-
Customer advance payments	107,479	10,400	117,879	-
Revenue bond current debt service	540,000	-	540,000	-
Revenue bond future debt service				
Bond reserve	588,605	-	588,605	-
Other	39,520	14,048	53,568	-
Total current assets	19,419,037	253,008	19,672,045	3,428,797
Noncurrent Assets				
Notes receivable-noncurrent	61,322	-	61,322	-
Capital Assets:				
Land	4,418,074	3,663,369	8,081,443	-
Intangible - easements	4,150,120	-	4,150,120	-
Buildings	36,188,308	199,850	36,388,158	1,862,098
Improvements other than buildings	867,985	1,098,062	1,966,047	15,727
Machinery and equipment	3,638,389	450,648	4,089,037	10,429,405
Infrastructure	44,322,476	-	44,322,476	-
Construction In progress	2,393,750	-	2,393,750	-
(Less) accumulated depreciation	(47,910,737)	(1,421,418)	(49,332,155)	(5,900,708)
Net capital assets	48,068,365	3,990,511	52,058,876	6,406,522
Total noncurrent assets	48,129,687	3,990,511	52,120,198	6,406,522
Total assets	**67,548,724**	**4,243,519**	**71,792,243**	**9,835,319**

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, 2013

	Business Type Activities-Enterprise Funds			GOVERNMENTAL
	WATER & SEWER UTILITY	GOLF COURSE	TOTAL	ACTIVITIES INTERNAL SERVICE FUNDS
LIABILITIES				
Current liabilities (payable from current assets):				
Accounts payable & accrued expenses	$ 1,932,961	$ 30,100	$ 1,963,061	$ 246,627
Compensated absences	74,326	23,063	97,389	11,097
Due to other funds	-	1,316,112	1,316,112	275,000
Claims and judgments	-	-	-	237,216
Matured bonds payable	540,000	-	540,000	-
Gift certificates	-	10,400	10,400	-
Current liabilities (payable from restricted assets):				
Accrued revenue bond interest	39,672	-	39,672	-
Customer deposits	878,199	14,048	892,247	-
Total current liabilities	3,465,158	1,393,723	4,858,881	769,940
Noncurrent liabilities:				
Compensated absences	184,251	66,840	251,091	33,596
Revenue bonds, net of current portion	11,870,000	-	11,870,000	-
Unamortized premium	255,582	-	255,582	-
(Less) Unamortized bond discount	(83,601)	-	(83,601)	-
Total noncurrent liabilities	12,226,232	66,840	12,293,072	33,596
Total Liabilities	15,691,390	1,460,563	17,151,953	803,536
NET POSITION				
Net investment in capital assets	35,486,384	3,990,511	39,476,895	6,406,522
Restricted for:				
Capital projects	1,459,582	-	1,459,582	-
Debt service	1,128,605	-	1,128,605	-
Other	146,999	24,448	171,447	-
Unrestricted	13,635,764	(1,232,003)	12,403,761	2,625,261
Total net position	$ 51,857,334	$ 2,782,956	$ 54,640,290	$ 9,031,783

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, 2013

	Business-Type Activities-Enterprise Funds			GOVERNMENTAL ACTIVITIES INTERNAL SERVICE FUNDS
	WATER & SEWER UTILITY	GOLF COURSE	TOTAL	
Operating Revenues				
Charges for Services/Fees-Water	$ 4,850,642	$ -	$ 4,850,642	$ -
Charges for Services/Fees-Sewer	8,710,168	-	8,710,168	-
Charges for Services/Fees-Storm	2,563,749	-	2,563,749	-
Charges for Sales & Services	-	971,182	971,182	2,991,825
Rentals	-	112,053	112,053	-
Other	230,745	2,932	233,677	4,588
Total Operating Revenues	16,355,304	1,086,167	17,441,471	2,996,413
Operating Expenses				
Administrative and General-Water	1,178,532	-	1,178,532	-
Administrative and General-Sewer	1,220,194	-	1,220,194	-
Administrative and General-Storm	778,623	-	778,623	-
Administrative and General	-	259,334	259,334	223,964
Maintenance and Operations-Water	2,557,510	-	2,557,510	-
Maintenance and Operations-Sewer	4,590,518	-	4,590,518	-
Maintenance and Operations-Storm	1,279,982	-	1,279,982	-
Maintenance and Operations	-	658,138	658,138	1,180,065
Insurance and claims	-	-	-	716,631
Depreciation-Water	555,672	-	555,672	-
Depreciation-Sewer	1,811,247	-	1,811,247	-
Depreciation-Storm	179,826	-	179,826	-
Depreciation	-	56,891	56,891	610,336
Total Operating Expenses	14,152,104	974,363	15,126,467	2,730,996
Operating Income (Loss)	2,203,200	111,804	2,315,004	265,417
Non Operating Revenues (Expenses)				
Miscellaneous Interest Revenue	26,777	242	27,019	4,091
Debt Issuance Costs	(5,724)	-	(5,724)	-
Interest expense	(124,322)	(2,290)	(126,612)	-
Gain (Loss) on Dispositions	(3,668)	-	(3,668)	(23,122)
Other	75,913	-	75,913	267
Net non-operating revenues (expenses)	(31,024)	(2,048)	(33,072)	(18,764)
Income (loss) before contributions and transfers	2,172,176	109,756	2,281,932	246,653
Capital Contributions and Transfers				
Water	75,101	-	75,101	-
Sewer	-	-	-	-
Storm	74,080	-	74,080	-
Other	-	-	-	4,100
Transfers in	228,130	175,437	403,567	128,838
Transfers out	(2,231,115)	-	(2,231,115)	(451,620)
Change in Net Position	318,372	285,193	603,565	(72,029)
Total Net Position-Beginning	51,669,308	2,497,763	54,167,071	9,103,812
Prior Period Adjustments	(130,343)	-	(130,343)	-
Total Net Position--Ending	**$ 51,857,337**	**$ 2,782,956**	**$ 54,640,293**	**$ 9,031,783**

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, 2013

	Business-Type Activities			Governmental Activities
	Water and Sewer Utility	Golf Course	Totals	Internal Service Funds
Cash flows from operating activities:				
Receipts from customers	$ 17,025,166	$ 1,083,569	$ 18,108,735	$ 2,998,780
Payments to suppliers	(4,682,407)	(246,448)	(4,928,855)	(1,513,289)
Payments to employees	(3,852,911)	(497,227)	(4,350,138)	(485,913)
Payments to other funds for services	(1,960,844)	(325,169)	(2,286,013)	-
Net cash provided by (used for) operating activities	6,529,004	14,725	6,543,729	999,578
Cash flows from noncapital financing activities:				
Operating subsidies and transfers to other funds	-		-	-
Interfund loans (paid)/received	(20,783)	-	(20,783)	-
Interfund loan interest (paid)/received	-	(1,817)	(1,817)	-
Other Non-Operating Revenues	75,913		75,913	267
Transfers in	228,130	175,437	403,567	(322,782)
Transfers (out)	(2,231,115)	-	(2,231,115)	-
Net cash provided by (used for) noncapital financing activities	(1,947,855)	173,620	(1,774,235)	(322,515)
Cash flows from capital and related financing activities:				
Acquisition and construction of capital assets	(4,167,671)	-	(4,167,671)	(402,070)
Proceeds from disposal of capital assets	-	-	-	(19,022)
Principal paid on revenue bonds	(1,170,000)	(15,758)	(1,185,758)	-
Interest paid on revenue bonds and contracts	(146,162)	(473)	(146,635)	-
Net cash provided by (used for) capital and related financing activities	(5,483,833)	(16,231)	(5,500,064)	(421,092)
Cash flows from investing activities:				
Interest and dividends on investments	26,777	242	27,019	4,091
Net cash provided by (used for) investing activities	26,777	242	27,019	4,091
Net increase (decrease) in cash and cash equivalents	(875,907)	172,356	(703,551)	260,062
Cash and cash equivalents at beginning of year	17,481,022	40,322	17,521,344	3,118,883
Prior period adjustment	-	-	-	-
Cash and cash equivalents at end of year	$ 16,605,115	$ 212,678	$ 16,817,793	$ 3,378,945
Reconciliation to Proprietary Funds Statement of Net Position:				
Current assets:				
Cash and cash equivalents	13,869,929	188,230	14,058,159	3,378,945
Restricted assets:				
Cash	1,499,102	14,048	1,513,150	-
Customer advance payments	107,479	10,400	117,879	-
Bond current debt service	540,000	-	540,000	-
Bond future debt service	588,605	-	588,605	-
Cash and cash equivalents at end of year	16,605,115	212,678	16,817,793	3,378,945

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, 2013

	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)	$ 2,203,200	$ 111,804	$ 2,315,004	$ 265,417
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation expense	2,546,745	56,891	2,603,636	610,336
Change in assets and liabilities:				
Receivables, net	(40,655)	-	(40,655)	2,367
Inventories	-	(6,418)	(6,418)	-
Prepaid expenses	-	-	-	-
Customer deposits	710,517	(2,598)	707,919	-
Compensated absences	(3,215)	13,794	10,579	-
Accounts and other payables	1,112,412	(158,748)	953,664	121,458
Total adjustments	4,325,804	(97,079)	4,228,725	734,161
Net cash provided by operating activities	$ 6,529,004	$ 14,725	$ 6,543,729	$ 999,578
Noncash investing, capital and financing activities:				
Gain/(loss) on property dispositions			* $ (3,668)	$ (23,122)
Contributions of capital assets			149,181	4,100
			$ 145,513	$ (19,022)

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, 2013

	Firefighters' Pension Fund	Randy Terlicker Memorial Scholarship Fund	Agency Funds
ASSETS			
Cash and Equivalents	$ 652,810	$ -	$ 265,975
Restricted Cash & Cash Equivalents	-	17,274	-
Prepaid Insurance	45,326	-	-
Total Assets	698,136	17,274	265,975
LIABILITIES			
Due to Other Governments	-	-	2,553
Custodial Accounts	-	-	69,435
Deposits Payable	-	-	193,987
Total Liabilities	-	-	265,975
NET POSITION			
Net Position Held in Trust for Pension Benefits and Other Purposes	$ 698,136	$ 17,274	$ -

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, 2013

	Firefighters' Pension Fund	Randy Terlicker Memorial Scholarship Fund
ADDITIONS		
Intergovernmental Revenue	$ 51,360	$ -
Contribution from Fund 114	-	17,247
Interest earnings	987	27
Total additions	52,346	17,274
DEDUCTIONS		
Benefits	104,751	-
Administrative Expenses	844	-
Total deductions	105,595	-
Change in net position	(53,249)	17,274
Net position - beginning	751,385	-
Net position - ending	$ 698,136	$ 17,274

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

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 in a trustee capacity or custodian for outside individuals or private organizations. Pension Trust and Private-Purpose Trust Funds are accounted for in essentially the same manner as proprietary funds, but with an important expanded emphasis on required fund balance reserves. The City maintains the Firefighters' Pension Trust Fund and the Randy Terlicker Memorial Scholarship Fund, a private purpose trust fund. The scholarship fund receives contributions, private donations, and interest payments on the reserve, and in turn, awards scholarships to selected and qualified individual recipients from this reserve.

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. Scope of Budget

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. The City's "Statement of Revenues, Expenditures, and Changes in Fund Balances Budget and Actual" is presented as a one year budget for comparison purposes to make it more meaningful to the reader.

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).

An encumbrance system is used for budgetary control purposes to record commitments resulting from approved purchase orders. During the year, encumbrances are recorded in the accounting system at the time purchase orders are issued for goods and services. Upon payment, the encumbrance is reversed and the actual cost of the related item is recorded as a fund expenditure. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as assigned 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)	$	(639,970)
Traffic Signals (309)		(137,043)
Roadway surfaces (311)		(47,025)
Sidewalks/Ped Improvements (312)		(190,995)
Hardware Software Upgrade (332)		(53,671)
City-Wide Safety Project (356)		(428)
Self-Insurance (515)		(503,286)

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 31,2013, the treasurer was holding $40,207,788.06 in short-term residual investments (LGIP) 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.

Beginning in 2013 compensating balances at US Bank no longer exists. 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. Investments See Note 3, *Deposits and Investments.*

3. Receivables

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, 2013, $2,557.75 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. Amounts Due to and from Other Funds and Governments, Interfund Loans and Advances Receivable

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. Inventories

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

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

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

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

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	$ 1,128,605
Cash and equivalents - capital projects	$ 729,582
Cash and equivalents - customer deposits	$ 901,447

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

iii. Any general fund unencumbered ending balance by the end of the biennium in excess of $4,000,000 shall be transferred by the City

Council to the Revenue Stabilization fund #198 until the target in policy in (c)(ii) above is achieved.

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

NOTE 2 - PROPERTY TAXES AND RECEIVABLES

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

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

The City's regular tax levy was approximately $2.74 (includes a special $.50 for Emergency Medical Services) per $1,000 on a total assessed valuation of $4,077,655,634 for total taxes of $11,162,474.

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

B. Receivables

Amounts are aggregated into single accounts receivable (net of allowance for uncollectibles) line for certain funds and aggregated columns. Below is the detail of receivables for the general and debt service funds and the nonmajor governmental funds in the aggregate, including the applicable allowance for uncollectible accounts:

Receivables	General Fund	Debt Service fund	Nonmajor Governmental	Internal Service fund	Total
Accounts	$ 18,480,947	$ 462,761	$ 1,202,828	$ 49,852	$ 20,196,388
Property taxes	289,623	-	2,154	-	291,777
Utility Taxes	890,658	-	-	-	890,658
Sales taxes	3,455,832	-	-	-	3,455,832
Special assessments	-	2,292,634	-	-	2,292,634
Interest	9,969	164,588	-	-	174,557
Gross receivables	23,127,029	2,919,983	1,204,982	49,852	27,301,846
Less: Allowance for uncollectibles	(15,562,330)		(7,215)		(15,569,545)
Net receivables	$ 7,564,699	$ 2,919,983	$ 1,197,767	$ 49,852	$ 11,732,301

Based on the payment schedule for special assessment receivables, $1,685,000 of the amount reported in the debt service fund is not expected to be collected within the next year.

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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	$4,107,608
Money Market	103,546
Petty Cash, Change Funds & Advance Travel	30,259
Local Government Investment Pool*	40,207,788
Total	$44,449,201

*This includes $754,617of 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	$ 26,695,348	$16,817,793	$ 43,513,141	$ 936,060	$ 44,449,201

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, 2013, the City had the following investments:

Investments	Fair Value	Maturity Date
Local Government Investment Pool	$40,207,788	--
Total Fair Value	$40,207,788	

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, 2013 were as follows:

		Due From				
Due To		Capital Projects Funds	Golf Course - Interfund Loan	Golf Course - LT Rent Payable	Self Insurance	Total
	General Fund	$ 1,139,000	$ 1,300,000	$ 16,112	$ 275,000	$ 2,730,112
	Total	$ 1,139,000	$ 1,300,000	$ 16,112	$ 275,000	$ 2,730,112

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.
The Council is working on the resolution for the Golf Course fund in 2014.

B. Interfund Transfers

Interfund transfers at December 31, 2013 were as follows:

		Transfer From:						
Transfer To		General Fund	Special Revenue Funds	Debt Service Funds	Capital Project Funds	Utility Fund	Internal Service Funds	Total
	General Fund		$ 2,304,491	$ 118,873			$ 16,398	$ 2,439,762
	Rec Ctr 2012 LTGO Bonds	1,196,436						$ 1,196,436
	Special Revenue Funds						204,582	$ 204,582
	Debt Service Funds	654,520						$ 654,520
	Capital Projects Funds	200,512	163,222	139,488	254,024	2,182,448		$ 2,939,694
	Utility Fund	54,268		120,965			228,334	$ 403,567
	Internal Service Funds		13,333		64,532	48,667	2,306	$ 128,838
	Agency Fund		17,247					$ 17,247
	Total	$ 2,105,736	$ 2,498,293	$ 379,326	$ 318,556	$ 2,231,115	$ 451,620	$ 7,984,646

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, 2013, was as follows:

Governmental Activities:	Balance 1/1/2013	Prior Period Adjustments	Increases	Decreases	Balance 12/31/2013
Capital assets, not being depreciated:					
Land	$ 29,790,729	$ -	$ 368,760	$ -	$ 30,159,489
Easements	436,742	-	-	-	436,742
Art, nondepreciable	-	164,517	-	-	164,517
Construction in progress	7,473,642	-	2,023,122	(1,800,780)	7,695,984
Total capital assets, not being depreciated	37,701,113	164,517	2,391,882	(1,800,780)	38,456,732
Capital assets, being depreciated:					
Buildings	45,727,466	-	121,336	(50,175)	45,798,627
Improvements other than buildings	38,724,029	-	1,850,580	(53,320)	40,521,289
Machinery and Equipment	17,412,265	(164,643)	2,283,114	(912,260)	18,618,476
Infrastructure	57,681,370	-	-	-	57,681,370
Total capital assets, being depreciated	159,545,130	(164,643)	4,255,031	(1,015,755)	162,619,763
Less accumulated depreciation for:					
Buildings	(12,294,308)	-	(1,444,143)	38,212	(13,700,239)
Improvements other than buildings	(13,657,626)	-	(1,131,440)	53,320	(14,735,746)
Machinery and equipment	(8,612,222)	-	(1,006,932)	751,655	(8,867,499)
Infrastructure	(31,467,961)	2,461,646	(2,287,191)	-	(31,293,506)
Total accumulated depreciation	(66,032,117)	2,461,646	(5,869,706)	843,187	(68,596,989)
Total capital assets, being depreciated, net	93,513,013	2,297,003	(1,614,675)	(172,568)	94,022,773
Governmental activities capital assets, net	$ 131,214,126	$ 2,461,520	$ 777,207	$ (1,973,348)	$ 132,479,506

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

General Government	$1,210,386
Public Safety	299,344
Transportation	2,641,948
Culture & Recreation	1,107,693
Capital assets held by the City's internal service funds are charged to the various functions based on their usage of the assets	610,337
Total depreciation expense - general governmental activities	$5,869,706

Business-type activities:	Balance 1/1/2013	Increases	Decreases	Balance 12/31/2013
Capital assets, not being depreciated:				
Land	$ 8,027,089	$ 54,355	$ -	$ 8,081,444
Easements	4,150,120	-	-	4,150,120
Construction in progress	2,651,698	2,970,563	(3,228,509)	2,393,752
Total capital assets, not being depreciated	14,828,907	3,024,918	(3,228,509)	14,625,316
Capital assets, being depreciated:				
Buildings	36,388,159	-	-	36,388,159
Improvements other than buildings	2,020,402	-	(54,355)	1,966,047
Machinery and equipment	2,912,667	1,256,138	(79,769)	4,089,036
Infrastructure	41,003,713	3,318,890	(128)	44,322,475
Total capital assets, being depreciated	82,324,941	4,575,028	(134,252)	86,765,717
Less accumulated depreciation for:				
Buildings	(27,335,235)	(1,379,978)	-	(28,715,213)
Improvements other than buildings	(1,473,879)	(59,023)	-	(1,532,902)
Machinery and Equipment	(1,803,894)	(129,562)	75,961	(1,857,495)
Infrastructure	(16,191,516)	(1,035,073)	43	(17,226,546)
Total accumulated depreciation	(46,804,524)	(2,603,636)	76,004	(49,332,156)
Total capital assets being depreciated, net	35,520,417	1,971,392	(58,248)	37,433,561
Business-type activities capital assets, net	$ 50,349,324	$ 4,996,310	$ (3,286,757)	$ 52,058,877

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

Water	$389,408
Sewer	1,867,624
Storm Drainage	213,709
Golf Course	56,892
Total depreciation expense - business-type activities	$2,527,633

Interest costs capitalized in 2013 for business-type activities:

Interest Expense Capitalized with project(s) in 2013:	$ 93,577
Interest Expense recorded as CWIP in 2013:	10,259
Total 2008 Bond Interest Capitalized in 2013:	$ 103,836
Interest Expense Capitalized with project(s) in 2013:	$ 265,073
Interest Expense recorded as CWIP in 2013:	8,091
Total 2010 Bond Interest Capitalized in 2013:	$ 273,164
Total Interest Expense Capitalized - business-type activities	$ 377,000

Discretely Presented Component Unit Lynnwood Public Facilities District:	Balance 1/1/2013	Increases	Decreases	Balance 12/31/2013
Capital assets, not being depreciated:				
Land	$ 6,788,800	$ -	$ -	$ 6,788,800
Construction in progress	-	-	-	-
Total capital assets, not being depreciated	6,788,800	-	-	6,788,800
Capital assets, being depreciated:				
Buildings	20,551,710	-	-	20,551,710
Intangible Assets	27,500	-	-	27,500
Improvements other than buildings	717,942	272,484	-	990,426
Machinery and equipment	787,079	-	-	787,079
Infrastructure	79,375	-	-	79,375
Total capital assets, being depreciated	22,163,606	272,484	-	22,436,090
Less accumulated depreciation for:				
Buildings	(3,871,478)	(500,130)	-	(4,371,608)
Intangible Assets	(16,068)	(9,145)	-	(25,213)
Improvements other than buildings	(217,894)	(111,857)	-	(329,751)
Machinery and Equipment	(653,140)	(54,010)	-	(707,150)
Infrastructure	(33,073)	(3,969)	-	(37,042)
Total accumulated depreciation	(4,791,653)	(679,111)	-	(5,470,764)
Total capital assets being depreciated, net	17,371,953	(406,627)	-	16,965,326
Component Unit capital assets, net	$ 24,160,753	$ (406,627)	$ -	$ 23,754,126

- Capital assets are recorded at cost on the date of acquisition (historical value).
- The capitalization threshold is $5,000 for personal property, buildings/building improvements, infrastructure, facilities and other improvements, software developed for internal use and leasehold improvements.
- As required in GASB No. 34 and No. 35, the PFD is required to depreciate capital assets.
- Depreciation is computed using the straight-line method over the estimated useful lives of the assets (see table below).

NOTE 6 – OPERATING LEASES

Office, Warehouse, Storage Space, and Access Lease

The City leases office, warehouse, storage space, and property/land access are under non-cancellable operating leases. Total costs for these leases for the year ending December 31, 2013 was $250,170 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
2014	$ 255,980	$ 65,205
2015	259,212	65,205
2016	184,431	19,562
2017	154,383	-
2018	30,553	-
2019-2023	30,866	-
	$ 915,425	$ 149,972

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, 2013 was $87,521 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
2014	$ 58,053	$ 1,238
2015	280	-
2016	-	-
2017	-	-
2018	-	-
	$ 58,333	$ 1,238

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, 2013 was $15,314 in business-type activities. The future minimum lease payments for these leases are as follows: The total lease payment due in 2013 was reduced from $17,248 to $15,314 due to changes in the lease during FY 2012.

Year Ending December 31	Business-Type Activities
2014	$ 17,248
2015	17,248
2016	17,248
2017	4,312
2018	-
	$ 56,056

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, 2013:

GOVERNMENTAL ACTIVITIES:	BALANCE 1/1/2013	PLUS ADDITIONS	LESS REDUCTIONS	BALANCE 12/31/2013	CURRENT PORTION
General obligations bonds	$ 27,522,029	$ -	$ 848,887	$26,673,142	$ 854,962
Special assessment bonds	3,185,000	-	1,060,000	2,125,000	440,000
OPEB & Firefighter Pension Fund	2,276,801	485,479	-	2,762,280	-
Compensated absences *	4,154,146	171,276	-	4,325,422	1,053,877
TOTAL GOVERNMENTAL ACTIVITIES	$ 37,137,976	$ 656,755	$ 1,908,887	$ 35,885,844	$ 2,348,839

* This was reported incorrectly at 12/31/12.

BUSINESS TYPE ACTIVITIES:	BALANCE 1/1/2013	PLUS ADDITIONS	LESS REDUCTIONS	BALANCE 12/31/2013	CURRENT PORTION
Revenue bonds	$ 13,580,000	$ -	$ 1,170,000	$ 12,410,000	$ 540,000
General obligations bonds - Golf	15,758	-	15,758	-	-
Compensated absences	337,901	10,580	-	348,481	97,390
TOTAL BUSINESS TYPE ACTIVITIES	$ 13,933,659	$ 10,580	$ 1,185,758	$ 12,758,481	$ 637,390

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, 2013 consisted of the following:

GENERAL OBLIGATIONS BONDS

ISSUE NAME	% INT. RATES	ISSUE DATE	MATURITY DATE	AUTHORIZED	OUTSTANDING 1/1/2013	CHANGES	12/31/2013
2005 GO. Bonds (800 Mhz)	3.0-5.0	2005	2019	$ 1,519,147	$ 828,563	$ (102,460)	$ 726,103
State Capital Loan *	4.03673	2004	2014	534,295	94,222	(62,185)	32,037
2009 GO. Refund Bonds	3.0-4.0	2009	2017	4,640,000	1,660,000	(415,000)	1,245,000
2012 GO. Bonds (Rec Ctr)	2.0-4.0	2012	2037	24,955,000	24,955,000	(285,000)	24,670,000
Total General Obligation Bonds				$ 31,648,442	$ 27,537,785	$ (864,645)	$ 26,673,140

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

REVENUE BONDS

ISSUE NAME	% INT. RATES	ISSUE DATE	MATURITY DATE	AUTHORIZED	OUTSTANDING 1/1/2013	CHANGES	12/31/2013
2008 Utility Improvement Refunding Bonds	4.0-5.0	2008	2027	$ 10,000,000	$ 5,860,000	$ (1,170,000)	$ 4,690,000
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	$ 13,580,000	$ (1,170,000)	$ 12,410,000

SPECIAL ASSESSMENT BONDS

ISSUE NAME	% INT. RATES	ISSUE DATE	MATURITY DATE	AUTHORIZED	OUTSTANDING 1/1/2013	CHANGES	12/31/2013
1999 LID Bonds	4.10-6.40	1999	2021	$ 11,544,287	$ 3,185,000	$ (1,060,000)	$ 2,125,000
Total Special Assessment Bonds				$ 11,544,287	$ 3,185,000	$ (1,060,000)	$ 2,125,000

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, 2013, including interest, are as follows:

YEAR ENDING 12/31	GOVERNMENTAL ACTIVITIES PRINCIPAL	GOVERNMENTAL ACTIVITIES INTEREST	BUSINESS-TYPE ACTIVITIES PRINCIPAL	BUSINESS-TYPE ACTIVITIES INTEREST	TOTAL
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	1,289,100	896,229	615,000	399,400	3,199,729
2019-2023	4,854,565	3,824,290	3,445,000	1,644,950	13,768,805
2024-2028	5,295,000	2,993,100	4,180,000	898,200	13,366,300
2029-2033	6,320,000	1,959,188	1,915,000	115,600	10,309,788
2034-2037	6,015,000	613,400	0	0	6,628,400
	$28,903,140	$14,435,890	$12,410,000	$4,862,052	$60,611,082

At December 31, 2013, the City has $304,528 available in debt service funds to service the general obligation bonds. Additionally, there is $1,128,605 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 one LOCAL loan, dated June 15, 2004, in the amount of $534,295, which 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 was paid in 2013, and for Series 2009B will be in 2017. The City expensed bond premiums in the year of issuance instead of amortizing them over the life of the bonds.

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.

On February 27, 2012 the City issued 25-year Limited Tax General Obligation Bonds for renovating, improving and expanding the City's Recreation Center in the amount of $24,955,000. Annual principal payments range from $285,000 to $1,595,000, with interest varying from 2.0% to 4.0%, paid semi-annually. The final principal and interest payment is scheduled for 2037. The City expensed bond premiums in the year of issuance instead of amortizing them over the life of the bonds.

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	$61,164,835	$40,776,556	$101,941,391	$101,941,391
Net Outstanding Indebtedness	($37,198,213)			
Margin Available	$23,966,622	$40,776,556	$101,941,391	$101,941,391

Tax year 2013 assessed value of $4,077,655,634 was used for this calculation.

Bond Ratings

At December 31, 2013, the City held the following bond ratings:

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

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; employees of district and municipal courts; and employees of local governments. Approximately 49 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.

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 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 2013, 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, in lieu of any retirement benefit, 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 from active status at any age with at least 30 years of service, at age 55 with 25 years of service, or at age 60 with at least 5 years of service. Plan 1 members retiring from inactive status prior to the age of 65 may receive actuarially reduced benefits.

The monthly benefit is 2% of the average final compensation (AFC) per year of service, but the benefit may not exceed 60% of the AFC. The AFC is the monthly average of the 24 consecutive highest-paid service credit months.

PERS Plan 1 retirement benefits are actuarially reduced to reflect the choice, if made, of a survivor option.

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% 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% of the AFC for each year of service reduced by 2% for each year that the member's age is less than 55. The total benefit is limited to 60% 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% annually. To offset the cost of this annual adjustment, the benefit is reduced.

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% 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% 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, if hired prior to May 1, 2013:

- With a benefit that is reduced by 3% 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 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of 5% for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service.

PERS Plan 2 retirement benefits are actuarially reduced to reflect the choice, if made, of a survivor option.

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% to 15% of salaries, based on member choice. Members who do not choose a contribution rate default to a 5% rate. 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 contributions are invested in the Retirement Strategy Fund that assumes the member will retire at age 65.

For DRS' Fiscal Year 2013, PERS Plan 3 employee contributions were $99.0 million, and plan refunds paid out were $69.4 million.

The defined benefit portion of PERS Plan 3 provides members a monthly benefit that is 1% 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, and were hired before May 1, 2013, they have the choice of a benefit that is reduced by 3% 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.
- If they have 30 service credit years, are at least 55 years old, and were hired after May 1, 2013, they have the option to retire early by accepting a reduction of 5% for each year before age 65.

PERS Plan 3 benefits are 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% of the AFC per year of service. For Plan 3, the monthly benefit amount is 1% 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% annually.

PERS members meeting specific eligibility requirements have options available to enhance their retirement benefits. Some of these options are available to their survivors.

A one-time duty-related death benefit is provided to the beneficiary or the estate of a PERS member who dies 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% multiplier. The benefit would be capped at 75% of AFC. Judges in PERS Plan 3 could elect a 1.6% of pay per year of service benefit, capped at 37.5% of AFC.

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.

There are 1,176 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2012:

Retirees and Beneficiaries Receiving Benefits	82,242
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	30,515
Active Plan Members Vested	106,317
Active Plan Members Non-vested	44,273
Total	**263,347**

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% for state agencies and local government unit employees, and at 7.5 % 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% to 15%.

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, 2013, are as follows:

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*	9.21%**	9.21%**	9.21%***
Employee	6.00%****	4.92%****	*****

* The employer rates include the employer administrative expense fee currently set at 0.18%.
** The employer rate for state elected officials is 13.73% for Plan 1 and 9.21% 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 4.92% 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*	11.71%	11.71%	11.71%**
Employer-Local Gov't Units*	9.21%	9.21%	9.21%**
Employee-State Agency	9.76%	9.80%	7.50%***
Employee-Local Gov't Units	12.26%	12.30%	7.50%***

* The employer rates include the employer administrative expense fee currently set at 0.18%.
** Plan 3 defined benefit portion only.
***Minimum rate.

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

	PERS Plan 1*	PERS Plan 2	PERS Plan 3
2013	$ 23,982	$ 1,075,419	$ 113,042
2012	$ 29,308	$ 927,106	$ 87,117
2011	$ 28,514	$ 813,994	$ 79,330

*****PERS Plan 1 trend is lower as employees retired from this program.

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 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 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 2013, 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, in lieu of any retirement benefit, 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 there is an eligible spouse, 50 % of the FAS, plus 5% of the FAS for each eligible surviving child, with a limitation on the combined benefit of 60% of the FAS; or (2) If there is no eligible spouse, eligible children receive 30% of the FAS for the first child plus 10% for each additional child, subject to a 60% limitation of the FAS, divided equally.

A one-time duty-related death benefit is provided to the beneficiary or the estate 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 benefit is 50% of the FAS plus 5% for each child up to a maximum of 60%. 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 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% 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% 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% 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% 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% for each year prior to age 53.

A disability benefit equal to 70% 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% 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% of FAS and 2% per year of service beyond five years. The first 10% 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.

A one-time duty-related death benefit is provided to the beneficiary or the estate 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.

Benefits to eligible surviving spouses and dependent children of LEOFF Plan 2 members killed in the course of employment include the payment of eligible health care insurance premiums.

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.

LEOFF members meeting specific eligibility requirements have options available to enhance their retirement benefits. Some of these options are available to their survivors.

There are 374 participating employers in LEOFF. Membership in LEOFF consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2012:

Retirees and Beneficiaries Receiving Benefits	10,189
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	689
Active Plan Members Vested	14,273
Active Plan Members Non-Vested	2,633
Total	**27,784**

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. This special funding situation is not mandated by the state constitution and could be changed by statute. For DRS' Fiscal Year 2013, the state contributed $54.2 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, 2013, are as follows:

	LEOFF Plan 1	**LEOFF Plan 2**
Employer*	0.18%	5.23%**
Employee	0.00%	8.41%
State	N/A	3.36%

*The employer rates include the employer administrative expense fee currently set at 0.18%.
** The employer rate for ports and universities is 8.59%.

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
2013	$ 187	$ 627,743
2012	$ 322	$ 612,960
2011	$ 153	$ 611,873

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.

Covered employers include:

- 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 2013, 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 members meeting specific eligibility requirements have options available to enhance their retirement benefits. Some of these options are available to their survivors.

A one-time duty-related death benefit is provided to the beneficiary or the estate 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 75 participating employers in PSERS. Membership in PSERS consisted of the following as of the latest actuarial valuation date for the plan of June 30, 2012:

Retirees and Beneficiaries Receiving Benefits	27
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	60
Active Plan Members Vested	2,083
Active Plan Members Nonvested	2,167
Total	**4,337**

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, 2013, are as follows:

	PSERS Plan 2
Employer*	10.54%
Employee	6.36%

- The employer rate includes an employer administrative expense fee of 0.18%.

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
2013	$ 53,864
2012	$ 43,137
2011	$ 39,844

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, 2013, 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, GASB Statement 27 Accounting for Pensions by State and Local Government Employers, and GASB Statement 50 Pension Disclosures' Amendments for financial accounting requirements. The Firemen's Pension Fund is presented in the Statement of Fiduciary Net Position, and The Statement of Changes in Fiduciary Net Position. The required supplementary information has been prepared using the best available information.

The most recent actuarial study of the Firemen's Pension System was conducted by Milliman USA to determine future funding requirements as of January 1, 2012 and updated annually thereafter. The report is prepared in accordance with generally accepted actuarial principles consistent with the Actuarial Standards Board (ASB) and the Code of Professional Conduct and Qualification Standards for Public Statements of Actuarial Opinion of the American Academy of Actuaries. 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 3.75%; 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 2001-2006 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

	2011	2012	2013
Annual required contribution (ARC)			
Annual Normal Cost – Beginning of Year	$0	$0	$0
Amortization of UAAL – Beginning of Year	47,574	49,948	49,948
Interest to End of Year	1,903	1,998	1,998
ARC at End of Year (not less than 0)	49,477	51,946	51,946
Interest on Net Pension Obligation (NPO)	2,398	4,747	6,578
Adjustment to ARC	4,553	9,380	13,571
Annual Pension Cost (APC)	47,322	47,313	44,953
Employer Contributions*	(11,407)	1,536	(3,753)
Change in NPO	58,729	45,777	48,706
NPO at Beginning of Year	59,948	118,677	164,454
NPO at End of Year	$118,677	$164,454	$213,160

*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
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
2013	(55,112)	51,359	(3,753)	51946	(7)

SCHEDULE OF FUNDING PROGRESS (rounded to thousands)

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
12/31/2011	47,322	(24)%	118,677
12/31/2012	47,313	3 %	164,454
12/31/2013	44,953	(8)%	213,160

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 2013 contributions to the plan totaled $297,910.

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, 2013, 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.

GASB Statement No. 45 Annual OPEB Cost and Net OPEB Obligation

	Fiscal Year Ending		
	12/31/2011	12/31/2012	12/31/2013
Annual required contribution (ARC)			
1. Annual Normal Cost (BOY)	$ 22,894	$ 22,894	$ 22,894
2. Amortization of UAAL (BOY)	1,272,720	1,272,720	1,272,720
3. Interest to EOY [(1)+(2)]x(*i*)*	51,825	51,825	51,825
4. ARC at EOY [(1)+(2)+(3)]	$ 1,347,439	$ 1,347,439	$ 1,347,439
5. Interest on Net OPEB Obligation	$ 50,113	$ 67,847	$ 84,494
6. Adjustment to ARC	73,771	102,043	130,015
7. Annual OPEB Cost [(4)+(5)-(6)]	$ 1,323,781	$ 1,313,243	$ 1,301,918
8. Employer Contributions	880,449	897,063	865,145
9. Change in Net OPEB Obligation [(7)-(8)]	443,332	416,180	436,773
10. Net OPEB Obligation at BOY [(11) prior year]	$ 1,252,835	$ 1,696,167	$ 2,112,347
11. Net OPEB Obligation at EOY [(9)+(10)]	$ 1,696,167	$ 2,112,347	$ 2,549,120

* 'i' is the assumed interest rate that year: 4.0% in 2011, 4.0% in 2012, 4.0% in 2013.

The net OPEB obligation of $2,549,120 (FY 2013) is included as a noncurrent liability on the City's Statement of Net Position.

The City's OPEB cost, the percentage of OPEB cost contributed to the plan, and the net OPEB obligation for 2011, 2012 and 2013 were, as follows:

Fiscal Year Ending	Annual OPEB Cost	Contribution as a Percentage of Annual OPEB Cost	Net OPEB Obligation
December 31, 2011	$ 1,323,781	67 %	$ 1,696,167
December 31, 2012	1,313,243	68	2,112,347
December 31, 2013	1,301,918	66	2,549,120

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	3.75%	
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

Health First – 1000

$830.01 for non-Medicare enrolled retiree coverage

$837.26 for non-Medicare enrolled spouse coverage

$443.30 for Medicare enrolled retiree coverage

$456.13 for Medicare enrolled spouse coverage

AWC HealthFirst® 2500

$724.72 for non-Medicare enrolled retiree coverage

$729.99 for non-Medicare enrolled spouse coverage

$388.08 for Medicare enrolled retiree coverage

$398.04 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, 2013 was $682,733. The City covers also medical benefits for LEOFF retirees beyond allowable medical charges by the Trust. As such, the City's additional contributions aggregate to $88,326 in 2013.

NOTE 10 – RISK MANAGEMENT

The City of Lynnwood is a member of 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 lnterlocal Cooperation Act. The program was formed on September 1, 1988, when 34 cities in the state of Washington joined together by signing an lnterlocal Governmental Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. **As of September 1, 2013, there are 236 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. The standard member deductible is $1,000 for each claim (deductible may vary per member), while the program is responsible for the $100,000 self-insured retention. Insurance carriers cover insured losses over $101,000 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 $100,000 of the self-insured retention. The program also purchases a Stop Loss Policy, **with an attachment point of $3,247,000**, 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.

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

Equipment Breakdown insurance is subject to a per-occurrence deductible of $2,500 **($10,000 for Pumps & Motors)**. Members are responsible for the deductible amount of each claim. There is no program self-insured retention on this coverage.

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 lnterlocal 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 lnterlocal Agreement.

A board of ten members is selected by the membership from three geographic areas of the state on a staggered term basis and is responsible for conducting the business affairs of the program. The program has no employees. Claims are filed by members with Canfield, which has been contracted to perform program administration, claims adjustment and administration, and loss_prevention for the program. **Fees paid to the third party administrator under this arrangement for the year ending August 31, 2013, were $1,423,059.12**.

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, 2013

INSURANCE COMPANY/COVERAGE	POLICY NUMBER	AMOUNT OF COVERAGE
ClAW/Brit Insurance & Torus Specialty	CIAW131434510	
Policy Effective Dates: 9/1/13 – 9/1/14		
Commercial General Liability		
General Liability, Law Enforcement Liability,		$10,000,000
Vehicle Liability		
Liability Deductible: $75,000		
Auto Physical Damage Deductible: $100,000.		
Wrongful Acts Liability		
Public Official's Liability,		$10,000,000
Employment Practices Liability,		
Sexual Harassment		
Deductible: $75,000		
Crime		
Employee Theft		$900,000
Forgery or Alteration		$900,000
Theft of Money & Securities/Inside		$900,000
Theft of Money & Securities/Outside		$900,000
Deductible: $100,000		
Affiliated FM Insurance Company	KTKCMB9C897	
Policy Effective Dates: 4/23/13 – 4/23/14		
Primary Property Insurance Limit other than Flood and Quake		$100,000,000
Deductible		$25,000
Flood Limit		$5,000,000
Flood Deductible		$100,000
Earthquake Limit		$5,000,000
Earthquake Deductible	5% of the value of the property damaged/$100,000 Minimum	
National Union Fire Insurance Company	GTP9121822	
Policy Effective Dates: 1/1/13 – 1/1/14		
Accidental Death or Dismemberment for Council Members & Mayor		$150,000

CITY OF LYNNWOOD INSURANCE IN FORCE AS OF DECEMBER 31, 2013

INSURANCE COMPANY/COVERAGE	POLICY NUMBER	AMOUNT OF COVERAGE
National Union Fire Insurance Company	SRG 9118452A	
Police Effective Dates: 4/20/13 – 4/20/14		
Volunteer Accidental Death or Dismemberment		$25,000
Volunteer Medical Benefits		$2,500
Deductible: $250		
Great American Insurance Company	BTA9989008-00	
Policy Effective Dates: 2/11/13- 2/11/14	$500,000 each claim/$1,000,000 aggregate	
Storage Tank Pollution Liability –		
Scheduled Storage Tanks		
Deductible: $5,000		
Navigators Specialty Insurance Company	SF13ESP0A4C2QNC	
Police Effective Dates: 2/25/13 - 2/25/14		
Environmental Impairment Liability -	$1,000,000 each claim/$5,000,000 aggregate	
Treatment Plant		
Deductible: $25,000		

NOTE 11 – CONTINGENCIES AND LITIGATIONS

In the normal course of its various operations, the City is involved in lawsuits and is the recipient of claims for damages alleging that the City is responsible for damages incurred by third parties. Claims and/or litigation arise in areas such as building, zoning, sewer construction and other land-use regulations, as well as other areas. These claims or lawsuits are relatively natural consequences of conducting the City's business. Please refer to Risk Management on Note 10.

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, 2013, the City is contingently liable for $27,068,891 of 2004 variable rate Revenue and Sales Tax bonds issued by the Public Facilities District. Please see the Reporting Entity section of Note 1 for more details.

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, 2013 is $570,672.

2013 Equity Interest As of 12/31/13 Members	Beg Bal Net Equity Interest	Change in Equity Phase 1	Change in Equity Phase 2	Change in Equity O&M	Change in Equity R&R	End Bal Net Equity Interest
Edmonds	$ 494,337	$ (54,096)		$ 16,355	$ 4,511	$ 461,107
Fire District 1	454,547	(51,286)		14,810	4,085	422,156
Lynnwood	**610,371**	**(65,422)**		**20,162**	**5,561**	**570,672**
Marysville	429,276	(43,689)		29,890	8,245	423,722
Mill Creek	150,445	(16,523)		7,058	1,947	142,927
Mountlake Terrace	299,454	(32,869)		9,296	2,564	278,445
Snohomish County	7,101,025	(163,289)	(342,669)	220,707	60,877	6,876,651
Woodw ay	19,041	(2,231)		554	153	17,517
Brier	89,839	(9,926)		2,572	709	83,194
Everett	1,877,244	(196,807)		66,088	18,229	1,764,754
Mukilteo	267,759	(28,758)		8,348	2,303	249,652
Total	**$ 11,793,337**	**$ (664,895)**	**$ (342,669)**	**$ 395,840**	**$ 109,184**	**$ 11,290,796**

Note: amounts are rounded to nearest dollar

Southwest Snohomish County Public Safety Communications Agency

The City of Lynnwood participates in a single joint venture with other local governments in the "*Southwest Snohomish County Public Safety Communications Agency*," (SNOCOM) a public non-profit corporation formed in 1971 and incorporated in 2014. The purpose of SNOCOM is to provide public safety communications, records retention and usage and other board approved functions.

SNOCOM was established via an interlocal agreement between the City of Lynnwood, six other cities and Snohomish County Fire District 1 all located within the county. Each member city and the Fire District provide voting members to the SNOCOM board of directors. The purpose of SNOCOM is to provide communications and dispatching for public health and safety services in Southwest Snohomish County.

The Cities of Brier, Edmonds, Lynnwood, Mill Creek, Mountlake Terrace, Mukilteo, Woodway and Fire District 1 are jointly responsible for the financing of SNOCOM. The interlocal agreement details clearly an allocation formula that determines each member's share in the joint venture and its reported equity interest in their respective financial statements. It incorporates each agency's population, assessed value and usage of 911 calls for service. Each member provides a voting representative to SNOCOM governing board of directors. The SNOCOM board has the authority to approve project expenditures and adopt SNOCOM budget.

At December 31, 2013, the City of Lynnwood owned an equity interest in the SNOCOM joint venture of $1,020,439. This value has been recorded in the government wide statements as an asset for the year ended December 31, 2013. The equity interest is adjusted to the extent of revenues and expenditure transactions occurring between the City of Mountlake Terrace and SNOCOM as recorded in the City of Mountlake Terrace's financial system. The City of Mountlake Terrace, who acts as the entity's fiscal agent under the Interlocal Agreement for Financial Services signed on November 25, 2009, prepares the unaudited financial information. Separate financial statements for the Snohomish County Public Safety Communication Agency can be obtained from the City of Mountlake Terrace, Finance Department, 6100 219th St SW, Suite 200, Mountlake Terrace, WA 98043.

2013 Equity Interest As of 12/31/2013 Member Agencies	Beginning Balance Net Equity Interest	Change in Equity O&M for the Year Ended 12-31-2013	Ending Balance Net Equity Interest @ 12-31-2013	Percentage Share*
Brier	$ 114,054	$ (672)	$ 113,382	3%
Edmonds	912,432	(5,376)	907,057	24%
Fire District 1	532,252	(3,136)	529,117	14%
Lynnwood	1,026,487	(6,047)	1,020,439	27%
Mill Creek	304,144	(1,792)	302,352	8%
Mountlake Terrace	418,198	(2,464)	415,734	11%
Mukilteo	456,216	(2,688)	453,528	12%
Woodway	38,018	(224)	37,794	1%
Total	**$ 3,801,802**	**$ (22,398)**	**$ 3,779,404**	**100%**

*Percentage Share is the Agency Contribution to SNOCOM's Operating Budget

AHA – Alliance for Housing Affordability:

In September, 2013, the City of Lynnwood joined the cities of Everett, Granite Falls, Lake Stevens, Marysville, Mill Greek, Mountlake Terrace, Mukilteo, and Snohomish, the Town of Woodway, and Snohomish County to establish the Alliance for Housing Affordability (AHA). The agreement was amended in May, 2014 to add the City of Arlington and in June, 2014 to add the City of Stanwood.

The purpose of AHA is to cooperatively formulate affordable housing goals and policies and to foster efforts to provide affordable housing by providing expertise and information to member jurisdictions. Operating funding is provided by the member cities.

AHA is governed by a Joint Board composed of an elected official from each member. The Joint Board is responsible for review and approval of all budgetary, financial, policy, and contractual matters. The Board is assisted by an administrative staff housed at the Housing Authority for Snohomish County. Fiscal agent duties are performed by the City of Mountlake Terrace.

Each member city is responsible for contributing operating revenues as determined from the AHA annual budget. Contributions from the member cities are based on each member's population. A grant from the Gates Foundation provided $50,000 to assist with the first two years of organizational start-up. The City of Lynnwood's equity share to date is:

Year	AHA Budget	Lynnwood's Share	Lynnwood Share as % of AHA Budget
2013	$89,850	$2,151	2.4%
2014	$92,543	$2,221	2.4%

Members withdrawing from the agreement relinquish all rights to any reserve funds, equipment, or material purchased. Upon dissolution, the agreement provides for distribution of net assets among the members based on the percentage of the total annual contributions during the period of the Agreement paid by each member.

Budget monitoring information can be obtained from Sonja Springer, Finance Director, City of Mountlake Terrace, 6100 219th Street SW, Mountlake Terrace WA 98043 (or email: sspringer@ci.mlt.wa.us) or from Kristina Gallant, Housing Analyst, Alliance for Housing Affordability, 12625 4th Ave W, Suite 200, Everett, WA 98204.

NOTE 13 - PRIOR PERIOD ADJUSTMENTS

Governmental Activities

Investment in Joint Venture

An adjustment of **$1,020,439** was made for the City's share of investment in joint venture in the Southwest Snohomish County Public Safety Communication Agency (SnoCom) which had not previously been reported in the financial statements. Additional information is provided in Note 12 – Joint Ventures.

Capital Assets

Infrastructure depreciation: in the process of implementing GASB 34, the City grouped assets together by a range of years. The depreciation was calculated by using an average of the years included in the group. During the 2012 audit a different calculation method was recommended and the City concurred. As a result, the depreciation for infrastructure assets, roadways, sidewalks, curbs and gutters was found to be overstated by $2,467,020 for some assets and understated by $79,639 for other assets. An adjustment was made to reduce depreciation by $2,387,381.

Infrastructure assets in the pavement (roadways) group 1980 - 1986 had an initial value of $1,782,410. Depreciation as of December 31, 2012 was $1,856,675. The depreciation exceeded the value of the asset group by one year, or $74,265. An adjustment was made in 2013 to reduce the pavement depreciation by $74,265.

Prior period adjustment:	$2,387,381
Prior period adjustment	74,265
Total	**$2,461,646**

36th /37th Avenue Improvement Project: is divided into two project numbers; WO0524 and WO0531. WO0524, the City of Lynnwood portion, is from Maple Road to 164th St SW and WO0531 is unincorporated Snohomish County from 164th St SW to Highway 99. Since the City of Lynnwood is managing the project and billing Snohomish County for their portion of the cost, an adjustment was made in 2013 to reduce the City's capital investment by the amount of the Snohomish County segment.

Prior period adjustment: **($619,615)**

2012 Construction in Progress correction: In 2012's statements $1,057,122 was added to construction in progress due to the 2012 data center overheating event restatement that moved assets from an Internal Service fund (Self Insurance) to the General fund and thus were not eliminated properly. An additional $209,388 was overstated in 2012.

Prior period adjustment: **($1,265,261)**

Business-type Activities

Debt issuance costs

Implementation of GASB 65 resulted in a restatement of Beginning Net Position for Business Type Activities Debt Issuance Costs in the amount of **$130,343**.

NOTE 14 – ACCOUNTING AND REPORTING CHANGES

The 2013 financial statements are presented in accordance with the following new GASB Statements:

- 61 – Financial Reporting Entity
- 65 – Items Previously Reported as Assets and Liabilities
- 66 – Technical Corrections

Implementation of GASB 65 resulted in a restatement of Beginning Net Position for Business Type Activities Debt Issuance Costs in the amount of $130,343.

The Randy Terlicker Memorial Scholarship fund was established as a Private Purpose Trust Fund during 2013. These funds had previously been reported as part of a Special Revenue fund (Cumulative Park Reserve and Development).

Fund additions/deletions in the current year:
Capital Project funds 33rd Ave W Extension (355) and City-Wide Safety Project (356) were established during 2013. The Community Center / Recreation Center construction fund (323) and 36th Ave West fund (317) both have a zero fund balance and are no longer in use.

Major/Minor fund changes in the current year:
As a result of the activities of 2013, two funds which were formerly major funds are no longer reported as major funds. The Debt Service fund for the Recreation Center 2012 LTGO bonds (223) is now reported as part of Other Governmental Funds and the Capital Project fund for the renovation and remodel of the Recreation Center (323 listed above) has a zero fund balance and is not reported.

NOTE 15 - SUBSEQUENT EVENTS

On March 7, 2014 the City of Lynnwood was notified by Standard & Poor's Ratings Services that they had raised the City's LTGO underlying bond rating from A+ Stable to AA+ Stable. Concurrently, the same rating (AA+) was applied to the City's Public Facilities District's (discrete component unit) outstanding sales tax bonds.

On April 23, 2014, the City signed a settlement agreement related to the 76th Ave W Sewer and Water Improvement Project. As the books for 2013 were not entirely closed the City chose to account for this settlement in 2013. The $300,000 cash portion of the settlement was not deemed "significant" and was expensed rather than listed as a Special Item.

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, 2013

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-10-21-1005-167A	$ 250,000		$ 250,000	
U.S. Department of Justice Criminal Division /Pass-Through from Washington Drug Enforcement Administration	Joint Law Enforcement Operations (JLEO)	16.111	PA-WAW-0261 - Operation Bad Apples	$ 4,338			
			PA-WAW-0271 -Takeout	$ 22,359			
			Subtotal	$ 26,697		$ 26,697	
U.S. Department of Justice Bureau of Justice Assistance	Bulletproof Vest Partnership Program	16.607	2012BUBX12061746		$ 3,251		
			2013BUBX13067271		$ 263		
			Subtotal		$ 3,514	$ 3,514	
U.S. Department of Justice Bureau of Justice Assistance	Edward Byrne Memorial Justice Assistance Grant Program	16.738	2012-DJ-BX-0066		$ 2,814		
			Subtotal		$ 2,814	$ 2,814	
U.S. Department of TransportationFederal Highway Administration (FHWA)/Pass- Through from WSDOT	Highway Planning and Construction	20.205	CM-0524(011) LA-7931 196th Street SW (SR524) Improvements	$ 193,813			4
			STPUL-9931(009) LA-7167 35th/36th Ave W Roadway Improvements	$ 256,115			
			IMD-STPUL-2004(037) LA-5787 Lynnwood Poplar Way Overcrossing	$ 770,614			
			CM-STPE-9999(640) LA-7613 Interurban Regional Trail Missing Links	$ 119,329			
			HSIP-000S(310) LA-7807 SR 99 and SR 524 Safety Improvements	$ 34,221			
			HSIP-000S(311) LA-7808 SR 99 and SR 524 Real-time Adaptive Signal Control Implementation	$ 35,612			
			HSIP-000S(309) LA-7806 Citywide Safety Improvements	$ 42,122			
			HSIP-0099(121) LA-7800 SR 99 176th St SW Channelization and Road Diet	$ 8,695			
			Subtotal	$ 1,460,521		$ 1,460,521	
U.S. Department of Transportation National Highway Traffic Safety Administration (NHTSA) /Pass-Through from Washington Association of Sheriffs and Police Chiefs	State and Community Highway Safety	20.600		$ 1,598		$ 1,598	
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	Target Zero	$ 14,519			
			Impared Driving	$ 1,516			
			High Visibility	$ 3,335			
			Subtotal	$ 19,370		$ 19,370	
			Subtotal - CFDA 20.600	$ 20,968		$ 20,968	
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		$ 2,076		$ 2,076	
U.S. Department of Transportation National Highway Traffic Safety Administration (NHTSA) /Pass-Through from Washington Traffic Safety Commission	Occupant Protection Incentive Grants	20.602		$ 1,584		$ 1,584	
			Subtotal USDOT-Hwy Safety Cluster	$ 24,628		$ 24,628	
U.S. Department of Transportation National Highway Traffic Safety Administration (NHTSA) /Pass-Through from Washington Traffic Safety Commission	National Priority Safety Programs	20.616	Washington Traffic Safety Commission Drug Recognition Experts	$ 1,231			
			Target Zero Team DUI Patrol	$ 6,600			
			Subtotal	$ 7,831		$ 7,831	
U.S. Department of Homeland Security	Assistance to Firefighters Grant	97.044	EMW-2010-FH-01138		$ 134,274	$ 134,274	
	Total Federal Awards Expended			$ 1,769,677	$ 140,602	$ 1,910,279	

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, 2013

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 - 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).

Corrective Action Plan for Findings Reported Under OMB Circular A-133

City of Lynnwood
Snohomish County
January 1, 2013 through December 31, 2013

This schedule presents the corrective action planned by the auditee for findings reported in this report in accordance with OMB Circular A-133. The information in this schedule is the representation of the City of Lynnwood. The State Auditor's Office has reviewed the information as presented by the City.

Finding ref number: 1	**Finding caption:** The City should continue to improve internal controls over accounting and financial reporting to ensure the financial statements are accurate and complete.
Name, address, and telephone of auditee contact person: Dean Rohla, Accounting Manager 19100 44th Avenue W. Lynnwood, WA 98046-5008 (425) 670-5144	
Corrective action the auditee plans to take in response to the finding: *The City is developing a work-plan to perform a full capital asset inventory that will ensure capital assets and their associated accumulated depreciation expenses are properly reported. This plan incorporates our transition to the Munis Fixed Asset module as part of our Phase 1 financial system conversion which is currently ongoing.* *The City will build adequate time for training, research and review into the next financial statement preparation process.*	
Anticipated date to complete the corrective action: June 6, 2015	

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.

We work with our audit clients and citizens to achieve our vision of government that works for citizens, by helping governments work better, cost less, deliver higher value, and earn greater public trust.

In fulfilling our mission to hold state and local governments accountable for the use of public resources, we also hold ourselves accountable by continually improving our audit quality and operational efficiency and developing highly engaged and committed employees.

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.

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 as well as fraud, state whistleblower and citizen hotline investigations.

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

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

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