Washington State Auditor's Office

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Financial Statements Audit Report

Lynnwood Public Facilities District

Snohomish County

For the period January 1, 2014 through December 31, 2014

Published September 28, 2015

Report No. 1015116

Washington State Auditor's Office

September 28, 2015

Board of Directors
Lynnwood Public Facilities District
Lynnwood, Washington

Report on Financial Statements

Please find attached our report on the Lynnwood Public Facilities District's financial statements.

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

Sincerely,

JAN M. JUTTE, CPA, CGFM

ACTING STATE AUDITOR

OLYMPIA, WA

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Lynnwood Public Facilities District
Snohomish County
January 1, 2014 through December 31, 2014

Board of Directors
Lynnwood Public Facilities District
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 Lynnwood Public Facilities District, Snohomish County, Washington, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated September 4, 2015.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered the District'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District'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 the District'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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of the District'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*.

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 District'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 District'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.

JAN M. JUTTE, CPA, CGFM

ACTING STATE AUDITOR

OLYMPIA, WA

September 4, 2015

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Lynnwood Public Facilities District
Snohomish County
January 1, 2014 through December 31, 2014

Board of Directors
Lynnwood Public Facilities District
Lynnwood, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Lynnwood Public Facilities District, Snohomish County, Washington, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed on page 9.

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 an opinion 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 District'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 District'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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Lynnwood Public Facilities District, as of December 31, 2014, and the changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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 10 through 15 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.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated September 4, 2015 on our consideration of the District'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 District's internal control over financial reporting and compliance.

Jan M Jutte

JAN M. JUTTE, CPA, CGFM

ACTING STATE AUDITOR

OLYMPIA, WA

September 4, 2015

FINANCIAL SECTION

Lynnwood Public Facilities District
Snohomish County
January 1, 2014 through December 31, 2014

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2014

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2014
Statement of Revenues, Expenses and Changes in Net Position – 2014
Statement of Cash Flows – 2014
Notes to Financial Statements – 2014

INTRODUCTION

The Lynnwood City Council formed the South Snohomish County Public Facilities District on August 24, 1999 by adoption of Ordinance No. 2266. The name of the District was changed to the Lynnwood Public Facilities District (PFD) on May 6, 2003. The PFD was created under the authority provided by the Washington State 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 Lynnwood City Council.

The PFD has authority under State law to issue debt, levy certain taxes, and enter into contracts. State legislation required that the PFD commence construction of its regional center by January 1, 2004. The PFD did in fact begin construction of the Lynnwood Convention Center on October 21, 2003. Construction was completed in March, 2005, and the facility opened on April 30, 2005.

The PFD completed its long-term financing in January 2005 and used it to pay off remaining short-term debt. The Lynnwood Public Facilities District was one of the first PFDs in the state to replace its interim financing with long-term fixed-rate debt.

As management of the PFD, we offer readers this narrative overview and analysis of the financial activities of the PFD for the fiscal year ended December 31, 2014. We also encourage readers to supplement this report with information contained in the City of Lynnwood's Annual Financial Report.

This discussion and analysis of the Lynnwood Public Facilities District's financial performance provides an overview of the PFD's financial activities for the fiscal year ended December 31, 2014. Please review it in conjunction with the PFD's financial statements. These discussions will focus on current year data. Three primary financial statements are presented: the Statement of Net Position; the Statement of Revenues, Expenses and Changes in Net Position; and the Statement of Cash Flows.

FINANCIAL HIGHLIGHTS

- The PFD's total assets exceeded its liabilities at December 31, 2014 by approximately $2.87 million.
- In its ninth full year of operation, the Lynnwood Convention Center had a record year. Record highs for gross income and adjusted gross income combined to produce the best bottom line in the history of the facility.
- Convention Plaza lease revenue was up 1.3%, due to rental rate increases.
- Sales tax revenue increased 3.7% from 2013 to 2014.
- In 2014, the Lynnwood Convention Center events generated an estimated $24.8 million in direct and indirect economic impact and 15,339 hotel room nights.

FINANCIAL ANALYSIS - REVENUES, EXPENSES AND CHANGES IN NET POSITION				
Summary of Revenues, Expenses and Changes in Net Position				
	2014	**2013**	**Increase (Decrease)**	**Change**
Operating Revenues	3,985,442	3,899,154	86,288	2.2%
Non-Operating Revenues	2,540,180	2,454,910	85,270	3.5%
Total Revenues	6,525,622	6,354,064	171,558	2.7%
Operating Expenses	4,359,178	4,329,318	29,860	0.7%
Non-Operating Expenses	1,283,513	1,317,958	(34,445)	-2.6%
Total Expenses	5,642,691	5,647,275	(4,584)	-0.1%
Increase (Decrease) in Net Position	**882,931**	**706,789**		

While the Statement of Net Position shows the change in net position, the Statement of Revenues, Expenses and Changes in Net Position provides answers as to the nature and source of these changes.

Operating Revenues grew by $86,288 (or 2.2%), primarily due to another successful year of Convention Center operations. Operating Expenses increased by $29,860 (or 0.7%), primarily due to volume of business done by the Lynnwood Convention Center.

Non-operating Revenue increased by $85,270 (or 3.5%). Non-operating expenses of $1,283,513 are entirely due to the payment of financing costs and the subsequent payment of scheduled interest expense.

OVERVIEW OF THE FINANCIAL STATEMENTS

Basic Financial Statements: Included are the Statement of Net Position; the Statement of Revenues, Expenses, and Changes in Net Position; the Statement of Cash Flows; and, the Notes to the Financial Statements.

- The Statement of Net Position focuses on resources available for future operations. In simple terms, this statement presents a snap-shot view of the assets of the PFD, the liabilities it owes and the net difference.

- The Statement of Revenues, Expenses and Changes in Net Position presents both operating and non-operating revenues, expenses, and other revenues and expenses for the PFD. Changes in total net position as presented on the Statement of Net Position are based on the activity presented on the Statement of Revenues, Expenses and Changes in Net Position.

  Operating revenues are received for providing goods and services to the various customers of the PFD. Operating expenses are those expenses paid to acquire goods and services. Non-operating revenues are revenues received for which no goods or services have been provided. For example, PFD Sales Tax Revenue is non-operating because it is provided without a corresponding receipt of goods and services.

- The final statement presented by the PFD is the Statement of Cash Flows. The Statement of Cash Flows presents detailed information about the cash activity of the PFD during the year. There are five sections to the statement. The first section reflects the cash flows from operating activities and reflects the net cash used by operating activities. The second section details the cash flows from non-capital and related financing activities which reflect the PFD sales tax and H/M tax received. The third section details the cash flows from capital and related financing activities. This represents the cash used for the acquisition of capital and related items. The fourth section reflects the cash flows from investing activities. The fifth section reconciles Net Cash Used to the Operating Income or Loss reflected on the Statement of Revenues, Expenses, and Changes in Net Position.

FIINANCIAL ANALYSIS

The PFD has presented its financial statements under the reporting model as required by the Governmental Accounting Standard Board Statement No. 34 (GASB 34), Basic Financial Statements – and Management's Discussion and Analysis for State and Local Governments. The PFDs overall financial position increased by $882,931 or 44.5%.

Statement of Net Position

The Statement of Net Position can serve as a useful indicator of the PFD's financial position. The PFD's net position at December 31, 2014 totaled approximately $2.87 million. The PFD has no deferred inflows or outflows. Following is a condensed version of the Statement of Net Position.

Condensed Statement of Net Position				
	2014	**2013**	**Increase (Decrease)**	**Change**
Assets				
Current and other assets	6,884,867	6,225,125	659,742	10.6%
Non-current assets	23,147,774	23,754,127	(606,353)	-2.6%
Total Assets	**30,032,640**	**29,979,252**	**53,388**	**0.2%**
Liabilities				
Current and other liabilities	1,847,166	1,622,301	224,865	13.9%
Long-term obligation	25,318,404	26,372,809	(1,054,405)	-4.0%
Total Liabilities	**27,165,569**	**27,995,110**	**(829,541)**	**-3.0%**
Net Position				
Invested in capital assets (net of related debt)	(3,104,981)	(3,314,765)	209,784	-6.3%
Restricted	1,700,000	1,700,000	-	0.0%
Unrestricted	4,272,052	3,598,905	673,147	18.7%
Total Net Position	**2,867,071**	**1,984,140**	**882,931**	**44.5%**

Change in Net Position

The change in net position table illustrates the increase or decrease in net position of the PFD resulting from its current year operating activities. In 2014, the PFD's net position increased by $882,931. This change includes the non-cash Depreciation Expense of $669,865. Following is a condensed version of the PFD's Statement of Revenues, Expenses and Changes in Fund Net Position.

Condensed Statement of Revenue, Expenses and Changes in Fund Net Position				
	2014	**2013**	**Increase (Decrease)**	**Change**
Revenues				
Operating revenues				
Rental income and other operating income	3,985,442	3,899,154	86,288	2.2%
Non-operating revenues				
Intergovernmental revenue	2,519,697	2,430,442	89,255	3.7%
Interest revenue	20,483	24,468	(3,985)	-16.3%
Total Revenues	**6,525,623**	**6,354,064**	**171,559**	**2.7%**
Expenses				
Operating Expenses				
Supplies and contractual services	3,689,313	3,650,206	39,107	1.1%
Depreciation	669,865	679,111	(9,246)	-1.4%
Non-operating expenses				
Interest expense	1,283,513	1,317,958	(34,445)	-2.6%
Total Expenses	**5,642,692**	**5,647,275**	**(4,583)**	**-0.1%**
Increase (Decrease) in Net Position	**882,931**	**706,789**	**176,142**	**24.9%**
Net Position Beginning	1,984,140	1,737,011	247,129	14.2%
Restatement (GASB 65)	-	(459,660)	459,660	-100.0%
Net Position Ending	**2,867,071**	**1,984,140**	**882,931**	**44.5%**

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2014, the PFD owned land, buildings and capital projects valued at $23.15 million. The PFD spent $63,514 for additional capital assets in 2014, principally for additional equipment for the Lynnwood Convention Center and for land and other improvements for the Lynnwood Convention Plaza. For additional information refer to Note 6.

Debt

The original amount of Long Term Debt includes $1.93 million Series A Sales Tax Bonds (Taxable), $10 million Series B (tax-exempt) Sales Tax Bonds and $17.265 million Revenue Bonds**.** In 2014, the PFD paid principal payments on its debt in the amount of $805,000. The total debt balance at December 31, 2014 is $26.1 million.

Bond covenants require contingency and debt service reserves; for additional information see Note 7 – Restricted Assets. For additional information regarding long-term debt activity refer to Note 9 - Long Term Debt.

ECONOMIC OUTLOOK

The PFD continues to be well positioned to participate in the region's slow recovery. Continued uncertainty about growth will cause the PFD to carefully control expenses.

The PFD derives approximately 57% of its tax revenue from sales taxes. Of this total, 47% is guaranteed by interlocal agreement with Snohomish County, while the remaining 53% varies with the growth and decline of sales tax revenue within the City of Lynnwood. Overall, Lynnwood PFD sales tax revenue increased 3.8% in 2010, 6.2% in 2011, 10.3% in 2012, 7.9% in 2013 and 1.3% in 2014. Sales tax revenue is expected to grow by 1% in 2015.

Hotel/Motel tax is guaranteed through interlocal agreements with both the City of Lynnwood and Snohomish County. The PFD receives this revenue at approximately a 3% increase per year.

The following table compares Non-Operating PFD hotel/motel and sales tax revenues in 2014.

Governmental Tax Revenue			
	2014	**2013**	**% Change**
Lynnwood Sales Tax	777,155	766,854	1.3%
Lynnwood Hotel Tax[1]	440,560	427,728	3.0%
Snohomish County Sales Tax[1]	649,880	620,088	4.8%
Snohomish County Sales Tax 2nd Tier	11,690	-	100.0%
Snohomish County Hotel Tax[1]	640,412	615,772	4.0%
Total	**2,519,697**	**2,430,442**	**3.7%**

[1] Amount guaranteed by contract

The following table compares budgeted and actual PFD hotel/motel and sales tax revenues in 2014.

Governmental Tax Revenue			
	2014 Budget	**2014 Actual**	**% Variance**
Lynnwood Sales Tax	793,376	777,155	-2.1%
Lynnwood Hotel Tax[1]	440,560	440,560	0.0%
Snohomish County Sales Tax[1]	649,880	649,880	0.0%
Snohomish County Sales Tax 2nd Tier	-	11,690	100.0%
Snohomish County Hotel Tax[1]	640,413	640,412	0.0%
Total	**2,524,229**	**2,519,697**	**-0.2%**

[1] Amount guaranteed by contract

On January 1, 2010, Washington State implemented the Streamlined Sales and Use Tax Agreement (SSTA) – a national tax simplification effort – whereby the State changed its method of allocating sales tax such that sales tax is allocated to the point of delivery rather than to point of sale. This change has affected sales tax revenues by shifting revenues among local taxing jurisdictions with some jurisdictions losing revenues and other jurisdictions gaining revenues. The Washington State Legislature identified a process to mitigate the impact of SSTA on Public Facilities Districts, giving PFDs the ability to raise their sales tax rate from .033%, in increments of .001%, up to .037%, in order to recover the loss in revenue. As a result, the Lynnwood PFD was able to raise its rate to .034% effective January 1, 2010; to .035% effective January 1, 2011; and subsequently, to .036% effective January 1, 2012.

In 2014, the PFD decided to refinance their outstanding debt in order to take advantage of better interest rates. The 2015 Refunding Bonds were structured such that the interest savings are available over the next several years. This structure allows interest savings to be dedicated to capital projects, including changes to the Convention Plaza.

On April 1, 2015 the PFD Board approved the sale of the 2015 Convention Center Revenue Refunding Bonds and is currently working to sell the 2015 Convention Center Sales Tax Refunding Bonds. The savings to the PFD from the sale of the 2015 Convention Center Revenue Refunding Bonds totaled approximately $2,059,000, with most of the savings occurring in the period 2015 through 2018.

In addition to debt service savings, a second goal of the refunding was to reduce the par amount of bonds outstanding. Under current State law, the amount of limited tax general obligation bonds that the City of Lynnwood can issue is reduced by the PFD bonds covered by Lynnwood's Contingent Loan Agreement. This relatively new interpretation of State law resulted in a significant decrease in the City's legal debt capacity. With this refunding, the par amount of revenue bonds was reduced by $785,000 since a portion of the 2015 Revenue Refunding Bonds were sold at a premium.

The PFD is not aware of any other known facts, decisions, or conditions that are expected to have a significant effect on the financial position or results of operations during the 2015 fiscal year beyond the unknown variations having a global effect on all types of business operations.

CONTACTING THE PFD

This financial report is designed to provide the citizens, taxpayers, customers, investors and creditors with a general overview of the PFD's finances and to demonstrate the PFD's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Lynnwood PFD Administrative Offices at 3815 196th Street SW, Suite 136, Lynnwood, WA 98036.

LYNNWOOD PUBLIC FACILITIES DISTRICT	
STATEMENT OF NET POSITION	
December 31, 2014	
ASSETS	
Current Assets:	
Cash and Cash Equivalents	$ 4,831,686
Restricted-Cash and Cash Equivalents	731,695
Restricted-Contingency Reserves	1,000,000
Receivables, net	229,958
Prepaid Expenses	76,488
Inventory	15,039
TOTAL CURRENT ASSETS	6,884,867
Noncurrent Assets:	
Capital Assets not being Depreciated:	
Land	6,788,800
Capital Assets, net of accumulated depreciation:	
Furniture Fixtures & Equipment - LCC	27,158
Parking Lot Improvements	11,212
Infrastructure	38,365
Tenant Improvements	210,427
Land Improvements	97,088
Capital Improvements - Convention Plaza	41,853
Other Improvements	59,831
Capital - LCC	208,582
RRR - LCC	183,523
Building - LCC	15,480,936
TOTAL NONCURRENT ASSETS	23,147,774
TOTAL ASSETS	30,032,640
LIABILITIES	
Current Liabilities:	
Accounts Payable	279,964
Accrued Expenses	78,791
Advance Deposits - LCC	444,815
B&O Tax Deposit	42,462
Operating Deposit	20,000
Current Portion of Long-Term Obligations	970,000
Current Portion of Net Premium/Interest	11,135
TOTAL CURRENT LIABILITIES	1,847,166
Noncurrent Liabilities:	
Compensated Absences	15,089
Series B Sales Tax Bonds (Non-Taxable)	9,125,000
Revenue Bonds	16,020,000
Security Deposits	31,695
Net Premium/Interest	126,620
TOTAL NON-CURRENT LIABILITIES	25,318,404
TOTAL LIABILITIES	27,165,569
NET POSITION	
Net Investment in Capital Assets	(3,104,981)
Restricted for Debt Service & Other Reserves	1,700,000
Unrestricted	4,272,052
TOTAL NET POSITION	2,867,071
The accompanying Notes to Financial Statements are an integral part of this statement.	

LYNNWOOD PUBLIC FACILITIES DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
YEAR ENDED DECEMBER 31, 2014

OPERATING REVENUES	
Revenue - Convention Plaza	819,523
Revenue - Lynnwood Convention Center	3,141,077
Other Operating - PFD	24,843
TOTAL OPERATING REVENUES	3,985,442
OPERATING EXPENSES	
Costs of Sales and Services - Convention Plaza	281,464
Administration and General	362,976
Lynnwood Convention Center Operations	3,044,873
Depreciation Expense	669,865
TOTAL OPERATING EXPENSES	4,359,178
OPERATING INCOME (LOSS)	(373,736)
NON-OPERATING REVENUES (EXPENSES)	
PFD Sales Tax	777,155
City Of Lynnwood Hotel/Motel Tax	440,560
Snohomish County Hotel/Motel Tax	640,412
Snohomish County Sales Tax	649,880
Snohomish County Second Tier Sales Tax	11,690
Interest Income	20,483
Interest Expense/Financing Costs	(1,283,513)
TOTAL NON-OPERATING REVENUES	1,256,667
Net Income (Loss)	882,931
Total Net Position - Beginning	1,984,140
Total Net Position - Ending	2,867,071

The accompanying Notes to Financial Statements are an integral part of this statement.

Lynnwood Public Facilities District
Statement of Cash Flows
Year Ended December 31, 2014

Cash Flows from Operating Activities:	
Cash Receipts from Customers/Tenants	4,148,050
Cash Paid to Suppliers and Employees	(3,670,333)
Deposits Received from Customers/Tenants	(40,942)
Net Cash Provided (Used) by Operating Activities	436,775
Cash Flows from Non-Capital and Related Financing Activities:	
PFD Sales Tax	777,155
Snohomish County Sales Tax	649,880
Hotel/Motel Tax - City of Lynnwood	440,560
Hotel/Motel Tax - Snohomish County	640,412
Snohomish County Second Tier Sales Tax	11,690
Net Cash Provided (Used) by Non-Capital Financing Activities	2,519,697
Cash Flows from Capital and Related Financing Activities:	
Purchase of Capital Assets	(63,514)
Principal Paid on General Obligation Bonds	(805,000)
Interest Paid on Debt	(1,283,513)
Net Cash Provided (Used) by Capital and Related Financing Activities	(2,152,027)
Cash Flows from Investing Activities:	
Proceeds from Interest and Investment Income	20,483
Net Cash Provided (Used) by Investing Activities	20,483
Increase (Decrease) in Cash and Cash Equivalents	824,927
Cash and Cash Equivalents, January 1, 2014	4,738,454
Cash and Cash Equivalents, December 31, 2014	5,563,381
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:	
Operating Income (Loss)	(373,736)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:	
Depreciation	669,865
Change in Assets & Liabilities:	
(Increase) Decrease in Accounts Receivable	172,396
(Increase) Decrease in Prepaid Assets	(9,788)
(Increase) Decrease in Inventory	2,578
Increase (Decrease) in Accounts Payable	18,951
Increase (Decrease) in Accrued Expenses	(37,490)
Increase (Decrease) in Advanced Deposits	40,942
Increase (Decrease) in B&O Tax Deposit	(15,803)
Increase (Decrease) in Operating Deposit	(19,988)
Increase (Decrease) in Compensated Absenses	(187)
Increase (Decrease) in Security Deposits	171
Increase (Decrease) in Net Premium/Interest	(11,136)
Total Adjustments	810,511
Net Cash Provided (Used) by Operating Activities	436,775

The accompanying Notes to Financial Statements are an integral part of this statement.

The accompanying notes are an integral part of the enclosed financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Lynnwood Public Facilities District 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. Organization and Purpose

The Lynnwood Public Facilities District was created by the City of Lynnwood through Ordinance No. 2266 pursuant to Chapter 165, Laws of 1999, State of Washington, including the authority to acquire, construct, own, finance, and operate a regional center, on August 24, 1999.

The PFD is governed by a five-member Board of Directors, appointed by the Lynnwood City Council pursuant to Lynnwood Resolution No. 99-08. The PFD is a component unit of the City of Lynnwood and is included in the consolidated financial statements of the City.

B. Reporting Entity

The financial statements and the accompanying notes of the PFD include all funds for which the Board of Directors has oversight responsibility. There is currently one fund created and operated in support of the interests of the PFD.

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

The accounting and reporting policies of the PFD conform to generally accepted accounting principles, and are regulated by the Washington State Auditor's Office in accordance with State law. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The PFD has elected not to follow subsequent private-sector guidance.

For financial reporting purposes, the PFD is considered a proprietary fund engaged only in business-type activities. Accordingly, the PFD's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recorded when earned, and expenses are recorded when a liability has incurred, regardless of the timing of related cash flows. In this fund, capital asset purchases are capitalized and long-term liability is recorded. The PFD distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses result from providing services and producing and delivering goods in connection with the PFD's principal ongoing operations. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The PFD uses the Budgeting, Accounting and Reporting System (BARS) – State Auditor.

D. Fund Accounting

In order to ensure observance of limitations and restrictions placed on the use of resources, the accounts of the PFD are maintained in accordance with the principles of fund accounting. The accounts relating to specified activities or objectives have been classified as one fund, a proprietary fund.

E. Cash and Cash Equivalents

In the Statement of Net Position, Cash and Equivalents includes cash in the bank, petty cash, security deposits, and short-term investments with maturity dates of three months or less which includes the funds held in the State Treasurer's Investment Pool and a Public Money Market Account.

F. Deposits and Investments

In accordance with GASB 31, the PFD reports monetary investments at fair value in the Statement of Net Position. Fair value is defined as the amount at which an investment could be exchanged in a current transaction between parties, other than in a forced or liquidation sale.

G. Capital Assets

See Note 6.

H. Receivables

Taxes receivable consists of Sales tax and Hotel/Motel tax. Customer accounts receivable consist of amounts owed from private individuals or organizations for goods and services.

I. 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. Inventory is stated at the lower of cost or market value, using the first-in, first-out method.

K. Compensated Absences

The PFD complies with the current City of Lynnwood policies pertaining to accumulated unpaid vacation and sick leave. The PFD limits the accumulation of unpaid vacation benefits to two years accrual; any excess accrual would require executive approval.

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 employee's current pay rate on the following basis:

Termination – Voluntary or discharge
Five hours of unused sick leave (up to 720 hours) = 1 hour pay.
Termination by layoff
Three hours of unused sick leave (up to 720 hours) = 1 hour pay.
Retirement
One hour of unused sick leave (up to 192 hours) = 1 hour pay.
Three hours of unused sick leave (up to 528 hours) = 1 hour pay.

Sick leave is accrued based on unused sick-leave hours as of December 31, 2014. The liability for accumulated vacation and sick leave at December 31, 2014, is $15,089, and is included in Compensated Absences on the Statement of Net Position.

NOTE 2 – ACCOUNTING AND REPORTING CHANGES

The 2014 financial statements are presented in accordance with GASB statement No. 49 – Accounting and Financial Reporting for Pollution Remediation Obligations. The land affected by the pollution is being cleaned up and prepared in anticipation of a sale. The clean-up is being capitalized as Land Improvements. The capitalization is limited to the estimated fair value that the capital asset will have at the completion of the pollution. See Note 14.

NOTE 3 – COMPONENT UNIT INFORMATION

The PFD is included in the consolidated financial statements of the City of Lynnwood as a discrete component unit.

NOTE 4 – DEPOSITS AND INVESTMENTS

A. Deposits

The District'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 (PDPC).

B. Investments

As of December 31, 2014, the District had the following investments:

Investment Type	Fair Value
Local Government Investment Pool	4,382,005
Public Money Market Account	1,354,730
Certificates of Deposit	253,181
Total Investments	**5,989,916**

Credit risk. The Washington State Local Government Investment Pool is operated in a manner consistent with the SEC's Rule 2a-7 of the Investment Act of 1940, is unrated.

Custodial Credit Risk – Deposits. The PFD policy is to invest in only insured deposits or investments. Insurance coverage up to $250,000 is through the Federal Deposit Insurance Corporation (FDIC); insurance coverage for amounts over $250,000 is through the Washington Public Deposit Protection Commission (WPDPC). Deposits covered by the WPDPC are considered insured for risk categorization purposes.

The PFD does not have any contractual provisions for cash deposits and investments.

NOTE 5 – DISCLOSURE OF SEGMENT INFORMATION

The PFD accounts for PFD Operations, Shopping Center Operations, and Lynnwood Convention Center (LCC) Operations. Financial Highlights are as follows:

	PFD	Shopping Center	LCC
Operating Revenues	$ 24,843	$ 819,523	$ 3,141,077
Operating Expenses	$ (362,976)	$ (281,464)	$ (3,044,873)
Non-Operating Revenues	$ 2,540,180	$ -	$ -
Totals	**$ 2,202,047**	**$ 538,059**	**$ 96,204**

NOTE 6 - CAPITAL ASSETS

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).

Asset Class	Useful Life (years)
Lynnwood Convention Center Building	45
Infrastructure (Sewer Upgrade)	20
Improvements	2 - 20
Furniture, Fixtures and Equipment	4 - 10
Website	3

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

Business-Type Activities:	Beginning Balance 1/1/2014	Increases	Decreases	Ending Balance 12/31/2014
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:				
Lynnwood Convention Center - Building	19,716,285	-	-	19,716,285
Infrastructure	79,375	-	-	79,375
Land Improvements	89,612	18,843	4,340	104,115
Capital Improvements-Convention Plaza	78,593	-	-	78,593
Other Improvements	57,925	15,446	-	73,371
Building/Tenant Improvements	835,425	-	-	835,425
Parking Lot Improvements	38,441	-	-	38,441
Furniture Fixtures & Equipment-PFD	84,248	-	-	84,248
Furniture Fixtures & Equipment-LCC	702,831	-	-	702,831
Capital Improvements-LCC	399,642	28,130	-	427,772
RRR-LCC	326,213	5,435	-	331,649
Website	27,500	-	-	27,500
Total Capital Assets, being depreciated	**22,436,090**	**67,854**	**4,340**	**22,499,603**
Less accumulated depreciation for:				
Lynnwood Convention Center - Building	3,797,210	438,140	-	4,235,349
Infrastructure	37,042	3,969	-	41,011
Land Improvements	2,389	4,637	-	7,027
Capital Improvements - Convention Plaza	18,767	17,973	-	36,741
Other Improvements	10,413	3,127	-	13,539
Building Improvements	574,397	50,601	-	624,998
Parking Lot Improvements	23,385	3,844	-	27,229
Furniture Fixtures & Equipment-PFD	79,812	4,436	-	84,248
Furniture Fixtures & Equipment-LCC	627,339	48,334	-	675,674
Capital Improvements-LCC	177,888	41,302	-	219,190
RRR-LCC	96,910	51,216	-	148,125
Website	25,213	2,287	-	27,500
Total accumulated depreciation	**5,470,764**	**669,865**	**-**	**6,140,630**
Total Capital Assets, being depreciated, net	**16,965,326**	**(602,012)**	**4,340**	**16,358,974**
Business-type activities capital assets, net	**23,754,125**	**(602,012)**	**4,340**	**23,147,774**

NOTE 7 - RESTRICTED ASSETS

A summary of the PFD restricted assets are as follows:

Restricted Assets	
Security Deposits	31,695
Convention Plaza Reserve	200,000
Contingency Reserve	1,000,000
RRR	500,000
Total	**1,731,695**

NOTE 8 – OPERATING LEASES

The District owns the Convention Plaza Shopping Center and leases the space to various tenants. The Convention Plaza Shopping Center has been fully depreciated as of April 30, 2012. The following is a summary of the non-cancelable operating lease revenues for Convention Plaza:

Leased Assets	
Year Ending December 31	Convention Plaza Rent Revenue
2015	689,443
2016	558,230
2017	525,593
2018	513,284
Total	**$ 2,286,550**

NOTE 9 - LONG TERM DEBT

The PFD issued general obligation and revenue bonds to finance the purchase of land and the construction of the Lynnwood Convention Center. General obligation bonds have been issued for business type activities and are being repaid from applicable resources. The revenue bonds are being repaid by proprietary fund revenues.

The table below summarizes the PFD long-term debt to maturity for the year ended December 31, 2014.

Description	Original Amount Issued	Date of Original Issue	Date of Final Maturity	Interest Rates	Amount of Installments	Balance 12/31/2014
Series A Sales Tax Bonds (taxable)	1,930,000	12/14/2004	12/1/2014	4.2%-5.18%	$90,000-$392,500	0
Series B Sales Tax Bonds (tax-exempt)	10,000,000	12/14/2004	12/1/2025	4%-5%	$442,500-$1,297,000	9,725,000
Convention Center Revenue Bonds	17,265,000	1/4/2005	12/1/2034	3.5%-5%	$756,500-$2,180,000	16,390,000
Total	**29,195,000**					**26,115,000**

The original amount of Long Term Debt includes $1.93 million Series A Sales Tax Bonds (Taxable), $10 million Series B (tax-exempt) Sales Tax Bonds and $17.265 million Revenue Bonds which replaced all short term commercial paper**.** The City of Lynnwood guarantees the District's Long Term Debt through a Contingent Loan Agreement for the total amount of the debt that terminates only upon the repayment or defeasance of all the Long Term Obligations and the repayment of any obligations owed by the District to the City under this agreement.

Changes in Long-Term Liabilities

During the year ended December 31, 2014, the following changes occurred in long-term liabilities:

Business-Type Activities	**Beginning Balance 1/1/2014**	**Additions**	**Reductions**	**Ending Balance 12/31/2014**	**Due Within One Year**
Bonds payable:					
General Obligation Bonds	10,235,000	-	510,000	9,725,000	600,000
Revenue Bonds	16,685,000	-	295,000	16,390,000	370,000
Total Bonds payable:	**26,920,000**	**-**	**805,000**	**26,115,000**	**970,000**
Compensated absences	15,276	-	187	15,089	-
Business-type Activities Long Term Liabilities	**26,935,276**	**-**	**805,187**	**26,130,089**	**970,000**

The annual debt service requirements to maturity for general obligation bonds are as follows:

	Business-Type Activities		
Year Ending	**Series B & Revenue Bonds**		
December 31,	**Principal**	**Interest**	**Total**
2015	970,000	1,246,840	2,216,840
2016	1,075,000	1,208,040	2,283,040
2017	1,195,000	1,165,040	2,360,040
2018	1,325,000	1,115,375	2,440,375
2019	1,450,000	1,055,288	2,505,288
2020 - 2024	9,790,000	4,085,250	13,875,250
2025 - 2029	5,855,000	1,781,250	7,636,250
2030 - 2034	4,455,000	703,250	5,158,250
Total	**$ 26,115,000**	**$ 12,360,333**	**$ 38,475,333**

In proprietary funds, unamortized debt issue costs for insurance are recorded as deferred inflow and bonds are displayed net of premium or discount; annual interest expense is decreased by amortization of debt premium and increased by the amortization of debt issue costs and discount.

Restricted assets in proprietary funds contain $1,000,000 in reserves as required by bond indentures. In 2014, the District did not draw on these funds as pursuant to the Contingent Loan Agreement.

Debt Service Coverage Ratios for 2014:

General Obligation Bonds	Net Auxilliary Facility Revenues	District Sales Tax	Balance Available	Sales Tax Bonds Debt Service	Debt Service Coveratge for Sales Tax Bonds
Convention Center Sales Tax Bonds	538,059	777,155	1,315,214	982,941	1.34

Revenue Bonds	County PFD Sales Tax Revenues	County H/M Taxes	City H/M Taxes	Convention Center/District Revenue	Balance Available	Revenue Bond Debt Service	Debt Service Coverage for Revenue Bonds
Convention Center Revenue Bonds	661,570	640,412	440,560	(262,412)	1,480,130	1,105,465	1.34

The Lynnwood Public Facilities District received an underlying rating of A+ for the Revenue Bonds and a rating on AA- for the Series A and B General Obligation Bonds from Standard and Poor's in December 2004.

State statutes limit the amount of general obligation debt the PFD can issue to a percentage of the total assessed value of the taxable property within the PFD. The PFD is allowed up to 1/2 of one percent of the total assessed value without voter approval. The PFD has $10.235 million of general obligation debt which is 1/4 of one percent of the total assessed value.

Arbitrage: The Federal Tax Reform Act of 1986 requires issuers of tax-exempt debt to make payments to the U.S. Treasury of investments income received at yields that exceed the issuer's tax-exempt borrowing rates. The PFD's yields did not exceed its borrowing rate; therefore, federal arbitrage is not applicable.

NOTE 10 – MAJOR AGREEMENTS

A. Facility Management Contract

Effective November 19, 2003 the PFD entered into a Contract with SMG, a facility management company headquartered in Pennsylvania, to manage the Lynnwood Convention Center. The contract encompassed both pre-opening and operating services. The operating term of the agreement extended from the Opening Date (April 30, 2005) through December 31, 2010. Management responsibilities include the operation, maintenance and repair of the facility and the surrounding landscaping. In June of 2010, due to the pending contract management expiration date, the PFD issued a RFP for Convention Center Management Services, and in September 2010, SMG was awarded the contract through December 31, 2015 with one additional five year option.

B. Interlocal Agreements

The PFD, the City of Lynnwood, Snohomish County and the Snohomish County Public Facilities District have entered into various interlocal agreements since the Lynnwood PFD was formed in 1999. The "Supplemental Interlocal Agreement Regarding Financing For Multijurisdictional Convention Center Facility By and Between The City of Lynnwood and Lynnwood Public Facilities District," approved in August 2004, contains sections that are designed to ensure the long-term financial health of the PFD:

Section 4.1. District shall not issue the Long-Term Obligations in a total principle amount greater than a total of $33 million (including completion bonds) without prior written approval of the City.

Section 4.2. District shall establish and maintain a contingency reserve fund (CRF).

- The CRF shall be initially funded in the amount of not less than $700,000, from District revenues other than proceeds of the Long-Term Obligations.
- The amount in the CRF shall be increased by not less than $100,000 per year until the balance in that fund is $1,000,000, from funds available after the District's Operation and Maintenance Expenses and debt service on the Long-Term Obligations.
- CRF shall be held separate and apart from other District funds.
- The CRF may be drawn upon with prior written consent of the City for any draws that would reduce the fund balance to less than $1,000,000, solely for the following purposes:
  - Repair or replacement of District property damaged or destroyed by an event beyond the District's reasonable control;
  - Extraordinary operating costs beyond the District's budget;
  - Necessary repair, replacement and rehabilitation costs that are not fully provided for by amounts set aside under the District's 3R Plan;
  - Debt service on, and retirement and redemption of, the Long-Term Obligations;
  - Such other District purposes as may be approved by the City.
- The District shall notify the City of any draw on the CRF for the purpose of depositing money into the debt service fund for the Long-Term Obligations.

Section 4.3.

- Each month, the District shall irrevocably deposit into each of its debt service funds for the Long-Term Obligations, an amount equal to approximately 1/12 of the next payment of principal coming due, and approximately 1/6 of the next payment of interest coming due.

- The District shall inform the City immediately if the District fails to make any such deposit in full, and the District shall also inform the City at any time that the District determines that there is a reasonable possibility that the District may not be able to timely and fully provide for a debt service payment on the Long-Term Obligations when due.
- The District shall also transfer a sufficient amount to provide for each debt service payment on the Long-Term Obligations to its fiscal agency, at least five business days prior to the applicable payment date.

Section 4.7. The District shall not: issue any bonds with a parity of lien on the revenues pledged to the Revenue Bonds, without the City's written approval; and incur any general obligations in excess of $500,000 principal amount without the City's written approval.

Section 4.8. The District shall develop and maintain a Repair, Replacement and Rehabilitation Plan (a "3R Plan").

- The 3R Plan shall be funded after applying available revenue to Operation and Maintenance Expenses and to debt service.
- The District shall make periodic deposits in special fund or account dedicated to carrying out the elements of the 3R plan.
- After funding the 3R Plan, funds may be used for:
    - Additional costs of advertising, marketing and business promotion;
    - Additional improvements and upgrades of the Convention Center;
    - Retirement or defeasance of the Long-Term Obligations; and,
    - Other purposes consistent with the Four Party Agreement and state law.

NOTE 11 – PENSION PLANS

Substantially all District 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.

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. Membership also includes higher education employees not participating in higher education retirement programs. 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 percent of the average final compensation (AFC) per year of service, but the benefit may not exceed 60 percent of the AFC. The AFC is the monthly average of the 24 consecutive highest-paid service credit months.

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 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 1 provides duty and non-duty disability benefits. Duty disability retirement benefits for disablement prior to the age of 60 consist of a temporary life annuity. The benefit amount is $350 a month, or two-thirds of the monthly AFC, whichever is less. The benefit is reduced by any workers' compensation benefit and is payable as long as the member remains disabled or until the member attains the age of 60, at which time the benefit is converted to the member's service retirement amount.

A member with five years of covered employment is eligible for non-duty disability retirement. Prior to the age of 55, the benefit amount is 2 percent of the AFC for each year of service reduced by 2 percent for each year that the member's age is less than 55. The total benefit is limited to 60 percent of the AFC and is actuarially reduced to reflect the choice of a survivor option. Plan 1 members may elect to receive an optional COLA amount (based on the Consumer Price Index), capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 2 members are vested after the completion of five years of eligible service. Plan 2 members are eligible for normal retirement at the age of 65 with five years of service. The monthly benefit is 2 percent of the AFC per year of service. The AFC is the monthly average of the 60 consecutive highest-paid service months. There is no cap on years of service credit; and a cost-of-living allowance is granted (based on the Consumer Price Index), capped at 3 percent annually.

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

PERS Plan 2 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions, if hired prior to May 1, 2013:

- With a benefit that is reduced by 3 percent for each year before age 65; or

- With a benefit that has a smaller (or no) reduction (depending on age) that imposes stricter return-to-work rules.

PERS Plan 2 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of 5 percent 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 percent to 15 percent of salaries, based on member choice. Members who do not choose a contribution rate default to a 5 percent 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 percent of the AFC per year of service. The AFC is the monthly average of the 60 consecutive highest-paid service months. There is no cap on years of service credit, and Plan 3 provides the same cost-of-living allowance as Plan 2.

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

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

- If they have at least ten service credit years and are 55 years old, the benefit is reduced by an ERF that varies with age, for each year before age 65.

- If they have 30 service credit years and are at least 55 years old, and were hired before May 1, 2013, they have the choice of a benefit that is reduced by 3 percent for each year before age 65; or a benefit with a smaller (or no) reduction factor (depending on age) that imposes stricter return-to-work rules.

- 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 percent 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 percent of the AFC per year of service. For Plan 3, the monthly benefit amount is 1 percent of the AFC per year of service. These disability benefit amounts are actuarially reduced for each year that the member's age is less than 65, and to reflect the choice of a survivor option. There is no cap on years of service credit, and a cost-of-living allowance is granted (based on the Consumer Price Index) capped at 3 percent annually.

PERS 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 percent multiplier. The benefit would be capped at 75 percent of AFC. Judges in PERS Plan 3 could elect a 1.6 percent of pay per year of service benefit, capped at 37.5 percent of AFC.

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, 2013:

Retirees and Beneficiaries Receiving Benefits	85,328
Terminated Plan Members Entitled to But Not Yet	31,047
Active Plan Members Vested	150,706
Terminated Plan Members Nonvested	101,191
Total	**368,272**

<u>Funding Policy</u>
Each biennium, the state Pension Funding Council adopts PERS Plan 1 employer contribution rates, PERS Plan 2 employer and employee contribution rates, and PERS Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statute at 6 percent for state agencies and local government unit employees, and at 7.5 percent for state government elected officials. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. Under PERS Plan 3, employer contributions finance the defined benefit portion of the plan and member contributions finance the defined contribution portion. The Plan 3 employee contribution rates range from 5 percent to 15 percent.

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, 2014, 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 District and the employees made the required contributions. The District's required contributions for the years ended December 31 were as follows:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
2014	n/a	$19,459	n/a
2013	n/a	$17,017	n/a
2012	n/a	$14,621	n/a

NOTE 12 – DEFERRED COMPENSATION PLAN

A. Deferred Compensation Plan (DCP)

The PFD offers its employees a deferred compensation plan. This plan is administered by the State of Washington Department of Retirement and consists of employee contributions except where the employee's contract requires a PFD contribution. Membership in DCP consisted of one (1) Active Plan Members as of December 31, 2014. The total PFD contributions for 2014 were $7,340 for 1 employee.

Plan assets are not the property of the PFD and are not subject to the claims of the PFD's creditors.

NOTE 13 – INSURANCE POOL

A. Enduris (formerly Washington Governmental Entity Pool)

Lynnwood Public Facilities District is a member of Enduris. Chapter 48.62 RCW provides the exclusive source of local government entity authority to individually or jointly self-insure risks, jointly purchase insurance or reinsurance, and to contract for risk management, claims, and administrative services. Enduris was formed July 10, 1987 pursuant to the provisions of Chapter 48.62 RCW, Chapter 200-100 WAC, and Chapter 39.34 RCW. Two (2) counties and two (2) cities in the State of Washington joined together by signing an Interlocal Governmental Agreement to fund their self-insured losses and jointly purchase insurance and administrative services. As of August 31, 2014, there are 491 Enduris members representing a broad array of special purpose districts throughout the state.

Enduris members share in the self-insured retention, jointly purchase excess and/or reinsurance coverage and provide risk management services and other related administrative services. Enduris provides "per occurrence" based policies for all lines of liability coverage including Public Official's Liability. The Property coverage is written on an "all risk", blanket basis using current Statement of Values. The Property coverage includes but is not limited to mobile equipment, electronic data processing equipment, business interruption, course of construction and additions, property in transit, fine arts, and automobile physical damage to insured vehicles. Boiler and machinery coverage is included on a blanket limit of $100 million for all members. Enduris offers crime coverage up to a liability limit of $1,000,000 per occurrence.

Members make an annual contribution to fund Enduris. Enduris acquires reinsurance from unrelated insurance companies on a "per occurrence" basis:

- $1,000,000 deductible on liability loss - the member is responsible for the first $1,000 of the deductible amount of each claim, while Enduris is responsible for the remaining $999,000 on liability loss;
- $250,000 deductible on property loss - the member is responsible for the first $1,000 of the deductible amount of each claim, while Enduris is responsible for the remaining $249,000 on property loss. Enduris is responsible for $4,000 deductible on boiler and machinery loss.*
- **Exception: Lynnwood Convention Center (located at 3711 - 196th St SW, Lynnwood, WA 98036) - the member is responsible for the first $5,000 on property loss and boiler and machinery loss.*

Insurance carriers cover all losses over the deductibles as shown on the policy maximum limits. Since Enduris is a cooperative program, there is a joint liability among the participating members.

The contract requires members to continue membership for a period of not less than one (1) year and must give notice 60 days before terminating participation. The Master Agreement (Intergovernmental Contract) is automatically renewed after the initial one (1) full fiscal year commitment. Even after termination, a member is still responsible for contribution to Enduris for any unresolved, unreported and in-process claims for the period they were a signatory to the Master Agreement.

Enduris is fully funded by its member participants. Claims are filed by members with Enduris and are administered in house.

A Board of Directors consisting of seven (7) board members governs Enduris. Its members elect the Board and the positions are filled on a rotating basis. The Board meets quarterly and is responsible for conducting the business affairs of Enduris.

No settlements occurred that exceeded insurance coverage for each of the past three fiscal years.

NOTE 14 – POLLUTION REMEDIATION OBLIGATIONS

In November 2006, the Governmental Accounting Standards Board issued Statement No. 49 (GASB 49), Accounting and Financial Reporting for Pollution Remediation Obligations. GASB 49 requires disclosure of "obligations to address current or potential detrimental effects of existing pollution by participating in pollution remediation activities." GASB 49 identifies five distinct "obligating events" that require the District to disclose the potential future outlays that are reasonably estimable. At this time, the District has determined that future investigation and clean-up costs associated with a former Dry Cleaner constitutes the District's pollution remediation obligation. GASB also states that pollution remediation outlays should be capitalized in proprietary fund financial statements if the District plans to prepare the property for sale.

The PFD's Environmental Consultants prepared a cleanup cost estimate to remove soil contaminated by releases of dry cleaning solvents associated with the former dry cleaner that operated in the southern portion of the existing strip mall building. The cost estimates were prepared in general accordance with the guidelines of GASB 49. Clean-up related costs were estimated for the following primary task activities identified in the guidelines: supplemental site assessment, remediation design, cleanup, oversight and post-remediation monitoring. We made several assumptions in order to prepare the cost estimate: the assumptions are based on our Environmental Consultants best professional judgement, their experience, their understanding and interpretation of site conditions as documented in prior reports, and information provided by the PFD regarding the condition of the site at the time the activities begin.

In 2013 and 2014, the PFD capitalized $104,115 in Land Improvements all directly related to the dry cleaner contamination. See the following table for details of future estimated costs:

Stage of Remediation Project/Year Anticipated to Occur	2015	2016	2017	2018	2019	Total
Supplemental Remedial Investigation	110,325					110,325
Feasibility Study and Cleanup Action Plan (CAP)		28,000				28,000
Cleanup Action Remedial Excavation and Backfill (total cost estimated by Expected Cash Flow Technique)		624,589				624,589
Confirmation Groundwater Monitoring			24,950	24,950		49,900
Site Closure (Voluntary Cleanup Program and No Further Action)					35,500	35,500
Total	**110,325**	**652,589**	**24,950**	**24,950**	**35,500**	**848,314**

Part of the PFD's long term goal is to prepare a portion of its property in anticipation of a sale to a hotel developer. This portion of the land contains the Dry Cleaning contamination. The capitalization is limited to the estimated fair value that the land will have at the completion of the pollution remediation.

Receivables have not been realized as of December 31, 2014. The District is actively in pursuit of insurance recoveries. Not enough information is known to recognize the recoveries as a receivable.

NOTE 15 – CONTINGENCIES AND LITIGATION

There are no pending lawsuits in which the PFD is named as a defendant that would affect the financial position or the operation of the District.

NOTE 16 – SUBSEQUENT EVENTS

In 2014, the PFD decided to refinance their long term debt in order to take advantage of interest savings. On April 1, 2015, the PFD Board approved the issuance of Convention Center Revenue Refunding Bonds. The total bond proceeds refunded was $16,566,705. Subsequently, on June 2, 2015, the Board approved the refunding of the District's outstanding Sales Tax Bonds Series B in the amount of $9,877,100.

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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