



Washington State Auditor's Office

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Financial Statements and Federal Single Audit Report

City of Lynnwood

Snohomish County

For the period January 1, 2015 through December 31, 2015

Published December 29, 2016

Report No. 1018215





Washington State Auditor's Office

December 29, 2016

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,

A handwritten signature in cursive script that reads "Troy X. Kelley".

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**City of Lynnwood
Snohomish County
January 1, 2015 through December 31, 2015**

SECTION I – SUMMARY OF AUDITOR’S RESULTS

The results of our audit of the City of Lynnwood are summarized below in accordance with Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

Financial Statements

We issued an unmodified opinion on the fair presentation of 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 in accordance with accounting principles generally accepted in the United States of America (GAAP).

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 in accordance with 2 CFR 200.516(a).

Identification of Major Federal Programs:

The following program was selected as a major program in our audit of compliance in accordance with the Uniform Guidance.

<u>CFDA No.</u>	<u>Program or Cluster Title</u>
20.205	Highway Planning and Construction

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by the Uniform Guidance, was \$750,000.

The City did not qualify as a low-risk auditee under the Uniform Guidance.

SECTION II – FINANCIAL STATEMENT FINDINGS

See finding 2015-001.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported.

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

City of Lynnwood Snohomish County January 1, 2015 through December 31, 2015

2015-001 The City's internal controls over accounting and financial reporting continue to be inadequate to ensure 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. Controls must ensure that financial data is reliably authorized, processed and reported. In each of our nine previous audits, we identified and communicated deficiencies in controls that adversely affected the City's ability to produce reliable financial statements.

In 2015, the City experienced turnover in key accounting positions including the finance director and accounting manager. The City filled the finance director position in June 2015 and the accounting manager position in December 2015. The City also had turnover in its new capital asset/grant Accountant position which was first filled from January 2016 through March 2016. Current staff is knowledgeable of accounting practices and have improved the financial reporting of the City.

The City contracted with a Comprehensive Annual Financial Report (CAFR) consultant to prepare its 2015 financial statements. The City worked with the consultant in the preparation and review of the financial statements in order to ensure they were correct.

Government Auditing Standards prescribed by the Comptroller General of the United States, require the auditor to communicate significant deficiencies as defined below in the Applicable Laws and Regulations section, as a finding.

Description of Condition

We identified the following deficiencies in internal controls over accounting and financial reporting that represent a significant deficiency:

- The City has known its capital asset system contains errors, which led to it converting to a new capital asset software system during 2015. In the prior audit, we identified that the City did not complete a full inventory of its assets when converting to the new system during 2015 to ensure all City

assets were correctly transferred over, assets no longer owned were removed and resulting depreciation calculations were correct. Although the City took steps to perform an inventory and check depreciation calculations in early 2016, this process was not adequate to ensure all assets were verified and reconciled to the system. Further, accumulated depreciation was not recalculated to ensure it was accurate and that all resulting errors were followed-up on.

- The City did not establish adequate controls to ensure all expenditures reported on the Schedule of Expenditures of Federal awards (SEFA) were actually federal expenditures or reported under the correct grant name and number.
- The City did not obtain and keep adequate documentation to support prior period adjustments made in the current year financial statements.
- The City did not properly apply Governmental Accounting Standards Board (GASB) No. 54 to its ending fund balances when classifying them as restricted. The City personnel misunderstood the purpose of some of the funds as they related to GASB 54.
- 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.
- The City relied on the CAFR consultant to prepare financial statements in a timely manner, however the City did not establish specific deadlines for the contractor as part of the contract to ensure it was able to submit financial statements before the statutory deadline. The City provided deadlines to the consultant subsequent to establishing a contract and continued to follow up when deadlines were not met.

Cause of Condition

The City experienced turnover in key accounting positions, and therefore did not have adequate time to follow-up and fully address all errors identified in the prior audit. In addition, the City did not establish submission deadlines or availability expectations in the contract with the consultant hired to prepare the financial statements.

Effect of Condition

Untimely and 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 financial statements contained the following errors:

- The City continued to report an asset owned by another government, along with other traffic signal upgrades that we were unable to verify existed during prior audits. This resulted in other improvements for Governmental Activities being overstated by \$283,668. The City attempted to remove the asset in 2015, however it removed a different asset that does belong to the City, resulting in an understatement of other improvements for Governmental Activities of \$277,852.
- The City overstated depreciation expense for the Business-type Activities by \$1,149,638. This includes \$1,131,835 in the Water and Sewer Utility Fund and \$17,803 in the Golf Courses Fund.
- The City incorrectly reported two awards on SEFA, causing a misstatement of \$2,442,227. The correction of this misstatement caused a change in scope for our single audit as we were required to select a different major federal program. The City corrected this error.
- The City reported a prior period adjustment of \$916,858. The City could not provide support for \$587,544 of this amount as it believes this amount is related to unidentified errors from prior years.
- The City did not include the cash balances from all funds in the general ledger in the financial statements, resulting in an understatement of cash by \$781,908. The City corrected this error.
- The City misclassified \$339,686 of Committed Fund Balance as Restricted Fund Balance. These Funds did not have an external restriction on them to classify them as Restricted in accordance with GASB Statement No. 54. The City corrected this error.
- Although the City submitted its annual report by the filing deadline as prescribed by state law (RCW 43.09.230), final financial statements were not ready for audit until nearly three months after the statutory deadline. The City provided the consultant with the necessary information on April 2, 2016, and the consultant completed his work on the CAFR statements in October 2016.

None of the errors listed above are material to the financial statements. We identified additional, less significant errors in the financial statements and notes to the financial statements. Despite these internal control issues and accounting errors, the City ultimately provided corrected 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.
- Establishing thorough review procedures for the prepared SEFA to ensure only expenditures of federal funds are presented with the correct grant name and number.
- Ensuring that presentation of immaterial prior period adjustments are in compliance with the *Budgeting, Accounting and Reporting Systems* manual and are properly supported.
- Ensuring reconciled cash balances in the general ledger tie to balances reported on the financial statements.
- Ensuring accounting standards are fully researched and properly implemented in accordance with Governmental Accounting Standards Board Statements.
- 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.
- Ensuring contracts specify deadlines for completion when contracting for financial statement preparation services.
- Filing final financial reports with the State Auditor's Office within one hundred fifty days after the close of each fiscal year to ensure compliance with state law (RCW 43.09.230).

City's Response

Lynnwood appreciates the State Auditors Office's attention to our financial records and accounting practices. While the City has, in past years, been unable to achieve audits without substantial issues, we are working diligently and continuously to implement each recommendation of the SAO. The City's dedication to continuous improvement is evidenced by the non-material issues raised during this 2015 Audit.

As part of our ongoing effort to improve the City's asset reporting capability and practices, the City converted to a new capital asset system in 2015. The City also hired a Grant/Capital Asset Accountant in January 2016, who worked to address prior-audit errors, and to establish new procedures to ensure capital system asset data and the corresponding financial statements are accurate. Once these corrective measures were instituted, the Grant/Capital Asset Accountant was able to successfully reconcile the capital asset system records to the General Ledger and 2015 financial statements.

While depreciation expense errors were identified by this audit, the SAO has concluded that the errors are not material to our financial statements. The \$1,149,638 overstatement of depreciation expense is just slightly above the level at which auditing standards require that a finding be issued. Throughout 2016, the City has made significant improvements to controls, and procedures to resolve and correct conditions that caused the deficiencies in prior years--as evidenced by the fact that 2015 financial statements for capital assets contain no material misstatements. During 2016 and early 2017, the City will focus its efforts to resolve all remaining capital asset inventory and reporting issues.

Some deficiencies identified in this audit stem from changes in staffing, accounting practices, and financial reporting. For example, lacking full detail behind certain entries, we needed to make the prior period adjustment to fund balances of \$918,658. The SAO noted correctly that the City was not able to document fully the need for this corrective measure—but going forward, Lynnwood's financial statements will be more precise.

The City received two grants for the 204th Street SW Improvement Project. Based on the documentation initially received from the granting agencies the City classified these awards as pass through Federal awards and reported them on the SEFA schedules as Federal pass through grants. During the 2015 audit, the City learned these grants should have been reported as State grants. The City corrected the 2015 SEFA schedule to move these grants from the Federal schedule to the State schedule.

One of the City's main objectives is to provide accurate and reliable financial statements to citizens and the public. As noted by SAO, and as acknowledged by

the City, this community has a history of receiving auditor findings due to imperfect financial statements and/or accounting practices. City Administration is committed to forging a legacy of professional excellence. Thank you for helping the City of Lynnwood identify areas where the 2015 financial statements lack perfection.

Auditor's Remarks

We appreciate the City's commitment to resolve this finding and thank the City for its cooperation and assistance during the audit. We will review the corrective action taken during our next regular 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:

Deficiency in 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 deficiency in design exists when (a) a control necessary to meet the control objective is missing, or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met. A deficiency in operation exists when a properly designed control does not operate as designed or when the person performing the control does not

possess the necessary authority or competence to perform the control effectively.

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.

.A11 Indicators of material weaknesses in internal control include:

- Identification of fraud, whether or not material, on the part of senior management;
- Restatement of previously issued financial statements to reflect the correction of a material misstatement due to fraud or error;
- Identification by the auditor of a material misstatement of the financial statements under audit in circumstances that indicate that the misstatement would not have been detected by the entity's internal control; and
- Ineffective oversight of the entity's financial reporting and internal control by those charged with governance.

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

Internal control is a management process for keeping an entity on course in achieving its business objectives, as adopted by the governing body. This management control system should ensure that resources are guarded against waste, loss and misuse; that reliable data is obtained, maintained, and fairly disclosed in financial statement and other reports; and resource use is consistent with laws, regulations and policies.

Each entity is responsible for establishing and maintaining an effective system of internal control throughout their government.

RCW 43.09.200 – Local government accounting – Uniform system of accounting, states in part:

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.

RCW 43.09.230 – Local Government Accounting – Accounting Reports – Comparative Statistics, states:

The state auditor shall require from every local government financial reports covering the full period of each fiscal year, in accordance with the forms and methods prescribed by the state auditor, which shall be uniform for all accounts of the same class.

Such reports shall be prepared, certified, and filed with the state auditor within one hundred fifty days after the close of each fiscal year.

2 CFR 200 Section 200.510 Financial statements, states in part:

(b) *Schedule of expenditures of Federal awards.* The auditee must also prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements which must include the total Federal awards expended as determined in accordance with § 200.502 Basis for determining Federal awards expended. While not required, the auditee may choose to provide information requested by Federal awarding agencies and pass-through entities to make the schedule easier to use. For example, when a Federal program has multiple Federal award years, the auditee may list the amount of Federal awards expended for each Federal award year separately. At a minimum, the schedule must:

(1) List individual Federal programs by Federal agency. For a cluster of programs, provide the cluster name, list individual Federal programs within the cluster of programs, and provide the applicable Federal agency name. For R&D, total Federal awards expended must be shown either by individual Federal award or by Federal agency and major subdivision within the Federal agency. For example, the National Institutes of Health is a major subdivision in the Department of Health and Human Services.

(2) For Federal awards received as a subrecipient, the name of the pass-through entity and identifying number assigned by the pass-through entity must be included.

(3) Provide total Federal awards expended for each individual Federal program and the CFDA number or other identifying number when the CFDA information is not available. For a cluster of programs also provide the total for the cluster.

(4) Include the total amount provided to subrecipients from each Federal program.

(5) For loan or loan guarantee programs described in § 200.502 Basis for determining Federal awards expended, paragraph (b), identify in the notes to the schedule the balances outstanding at the end of the audit period. This is in addition to including the total Federal awards expended for loan or loan guarantee programs in the schedule.

(6) Include notes that describe that significant accounting policies used in preparing the schedule, and note whether or not the non-Federal entity elected to use the 10% de minimis cost rate as covered in § 200.414 Indirect (F&A) costs.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

City of Lynnwood Snohomish County January 1, 2015 through December 31, 2015

This schedule presents the status of federal findings reported in prior audit periods. The status listed below is the representation of the City of Lynnwood. The State Auditor's Office has reviewed the status as presented by the City.

Audit Period: January 1, 2014 – December 31, 2016	Report Ref. No.: 1015238	Finding Ref. No.: 2014-001
Finding Caption: The City's internal controls over accounting and financial reporting are not adequate to ensure the financial statements are accurate and complete.		
Background: We identified the following deficiencies in internal controls over accounting and financial reporting that, when taken together, represent material weaknesses: <ul style="list-style-type: none">• The City has known its capital asset system contains errors, which is one of the reasons it converted the data from the Asset Management System to the new system; however, the City did not perform a full inventory of the data being converted to ensure it was accurate and free from errors.• Staff responsible for maintaining accounting records and preparing the financial statements did not reconcile the accounting records on a regular basis to ensure the accounting records and financial statements were accurate.• The City hired an external certified public accounting (CPA) firm to review its financial statements and proposed corrections; however, staff did not fully research the proposed entries to ensure the transactions were accurate and valid.• Staff responsible for recording transactions, including complex transactions, in accordance with the modified accrual basis of accounting did not always ensure that transactions met the modified accrual basis revenue recognition criteria.• 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. Additionally, we identified the following deficiencies in internal controls over accounting and financial reporting that represent a significant deficiency: <ul style="list-style-type: none">• Staff responsible for implementing new accounting standards and changes in presentation of previous accounting standards did not ensure the standards were fully implemented.		

Status of Corrective Action:☐ Fully
Corrected☒ Partially
Corrected☐ No Corrective
Action Taken☐ Finding is considered no
longer valid**Corrective Action Taken:**

- *After the 2015 Audit was completed we realized that better accounting and internal controls for capital asset tracking were needed. We created a new "Capital Asset and Grant Accountant" position to assign these responsibilities to. We filled this position in January, 2016 and for three solid months the new highly skilled Accountant got the Capital Assets corrected in the Munis Capital Assets module and was able to reconcile and correctly report the City's Capital Assets as of December 31, 2015 in the 2015 CAFR. This new position is critical to the future reporting requirements and accurate accounting for capital assets and grants. Issues identified by the auditors in 2014 were resolved and issues identified during the 2015 audit are related to the conversion to the new Munis capital asset system. The new Capital Asset Accountant will be receiving specialized training on this new system in 2016.*
- *In 2014 the City was in the middle of implementing major accounting modules and as a result the regular reconciliation of accounts did not occur due to time constraints. The City permanently filled the open Accounting Manager position in December, 2015 with a highly skilled and experienced Manager to lead and manage the Accounting staff to reconcile accounting records on a regular basis. The new Accounting Manager prepared the 2015 financial statements and reconciled them to our Munis Accounting system.*
- *For the 2015 Financial Statements, the City hired a different CAFR Consultant that worked closely with the Accounting Manager to assist with the preparation of the CAFR. This consultant reviewed the City's work and advised us of any changes that needed to be made to conform to GAAP. Both the Accounting Manager and the Finance Director reviewed the Consultant's work in detail before the statements were released to the auditors.*
- *Revenues were reported in 2015 based upon the modified accrual basis of accounting. For example, revenues from court fines and photo enforcement tickets were recorded to include only the first two months of receipts in 2016 for 2015 infractions. The remaining receivables from these revenues were reduced by including them in an allowance for uncollectible accounts.*
- *There were three levels of review of the financial statements for 2015. 1) The CAFR Consultant reviewed the work of the Accounting Manager and the Finance Director, 2) The Accounting Manager reviewed the work of the CAFR Consultant after he prepared the Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Fund to the Statement of Activities and the Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position. 3) The Finance Director reviewed all of the financial statements before they*

were sent to the State Auditors for audit. Errors were found and corrected during these various levels of review.

- *The newly hired Accounting Manager is responsible for implementing new accounting standards and ensured that new standards were fully implemented. For example, the new Accounting Manager had spent months researching the new GASB 68 requirements before starting at the City; her experience and knowledge of new accounting requirements is invaluable. Staff continues to be trained in new accounting requirements by their attendance at WFOA sponsored training and other training opportunities.*

**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, 2015 through December 31, 2015**

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, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 12, 2016. As discussed in Note 1 to the financial statements, during the year ended December 31, 2015, the City implemented Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*.

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 2015-001 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*.

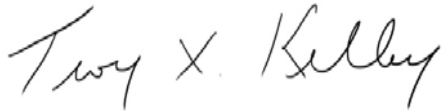
CITY'S RESPONSE TO FINDINGS

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.

A handwritten signature in cursive script that reads "Troy X. Kelley".

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

December 12, 2016

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR
EACH MAJOR FEDERAL PROGRAM AND REPORT ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH THE UNIFORM GUIDANCE**

**City of Lynnwood
Snohomish County
January 1, 2015 through December 31, 2015**

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) Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended December 31, 2015. The City's major federal programs are identified in the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards 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 the audit requirements of Title 2 *U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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, 2015.

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 the Uniform Guidance, 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.

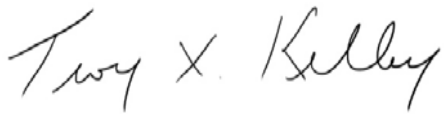
A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement 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 the Uniform Guidance. 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.

A handwritten signature in black ink that reads "Troy X. Kelley". The signature is written in a cursive, flowing style.

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

December 12, 2016

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

City of Lynnwood Snohomish County January 1, 2015 through December 31, 2015

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, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed on page 28.

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, 2015, and the respective 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.

Matters of Emphasis

As discussed in Note 1 to the financial statements, in 2015, the City adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. 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 30 through 42, budgetary comparison information on pages 98 through 99, pension plan information on pages 100 through 106 and information on postemployment benefits other than pensions on page 107 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.

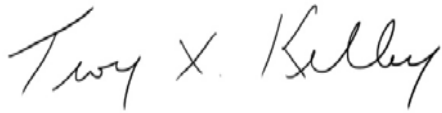
Supplementary and Other Information

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 Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). 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 December 12, 2016 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.

A handwritten signature in cursive script that reads "Troy X. Kelley".

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

December 12, 2016

FINANCIAL SECTION

**City of Lynnwood
Snohomish County
January 1, 2015 through December 31, 2015**

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2015

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2015

Statement of Activities – 2015

Balance Sheet – Governmental Funds – 2015

Reconciliation of the Balance Sheet Governmental Funds to the Statement of Net
Position – 2015

Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental
Funds – 2015

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund
Balances of Governmental Funds to the Statement of Activities – 2015

Statement of Net Position – Proprietary Funds – 2015

Statement of Revenues, Expenses and Changes in Fund Net Position – Proprietary Funds
– 2015

Statement of Cash Flows – Proprietary Funds – 2015

Statement of Fiduciary Net Position – Fiduciary Funds – 2015

Statement of Changes in Fiduciary Net Position – Fiduciary Funds – 2015

Notes to Financial Statements – 2015

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Revenues – Budget and Actual – General Fund – 2015

Schedule of Expenditures – Budget and Actual – General Fund – 2015

Schedule of Proportionate Share of the Net Pension Liability/Asset – 2015

Schedule of Employer Contributions – 2015

Schedule of Proportionate Share of the Net Pension Liability/Asset – Law Enforcement
Officers' and Fire Fighters' Retirement Plan 2 – 2015

Schedule of Employer Contributions – Law Enforcement Officers' and Fire Fighters'
Retirement Plan 2 – 2015

Schedule of Changes in Net Pension Liability and Related Ratios – Firemen’s Pension –
2015

Schedule of Employer’s Contribution – Firemen’s Pension – 2015

Schedule of Investment Returns – Firemen’s Pension – 2015

Schedule of Funding Progress – LEOFF 1 Retiree Medical and Long-Term Care Benefits
– 2015

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Expenditures of Federal Awards – 2015

Notes to the Schedule of Expenditures of Federal Awards – 2015

Within this section of the City of Lynnwood, Washington (“the City”) comprehensive annual financial report (CAFR), the City’s management is pleased to provide this narrative discussion and analysis of the financial activities of the City for the calendar year ended December 31, 2015. We discuss and analyze the City’s financial performance within the context of the accompanying financial statements, schedules, and note disclosures following this section.

Financial Highlights

- The City’s assets exceeded its liabilities by \$201,353,709 (net position) for the calendar year reported.
- Total net position is comprised of the following:
 - (1) Net investment in capital assets, of \$157,921,923 include property and equipment, net of accumulated depreciation, and reduced for outstanding debt related to the purchase or construction of capital assets.
 - (2) Net position of \$14,717,508 is restricted by constraints imposed from outside the City such as debt covenants, grantors, laws, or regulations.
 - (3) Unrestricted net position of \$28,714,278 represents the portion available to maintain the City’s continuing obligations to citizens and creditors.
- In this fiscal year, the City implemented new pension accounting and financial reporting standards. As a result, the City now reports a net pension liability to all of its employees of over \$14 million. This liability causes the total unrestricted net position to be reported as \$28 million, rather than \$42 million.
- The City’s governmental funds reported a total ending fund balance of \$32,908,782 this year. This compares to the prior year restated ending fund balance of \$29,183,591, showing an increase of \$3,725,191 or 12.8% during the current year.
- At the end of the current calendar year, unassigned fund balance for the General Fund was \$11,493,349, or 23.4% of total General Fund expenditures.
- Overall, the City continues to maintain a strong financial position.

The above financial highlights are explained in more detail in the “financial analysis” section of this document.

Overview of the Financial Statements

This Management Discussion and Analysis (MD&A) document introduces the City’s basic financial statements. The basic financial statements include: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the basic financial statements. The City also includes in this report additional information to supplement the basic financial statements.

Government-wide Financial Statements

The City’s annual financial report includes two government-wide financial statements. These statements provide both long-term and short-term information about the City’s overall financial status. Financial reporting at this level uses a perspective similar to that found in the private sector with its basis in accrual accounting and the elimination or reclassification of activities between funds.

The first of these government-wide statements is the *Statement of Net Position*. This is the government-wide statement of position presenting information that includes all of the City’s assets and liabilities, 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 as a whole is improving or deteriorating.

Evaluation of the overall health of the City would extend to other nonfinancial factors such as diversification of the taxpayer base or the condition of City infrastructure, in addition to the financial information provided in this report.

The second government-wide statement is the *Statement of Activities*. This statement reports how the City's net position changed during the current calendar year. All current year revenues and expenses are included regardless of when the City receives or pays cash.

An important purpose of the *Statement of Activities* is to show the financial reliance of the City's distinct activities or functions on revenues provided by the City's taxpayers.

Governmental activities included in this statement are general government, judicial, public safety, physical environment, transportation, economic environment and culture and recreation. Business-type activities include water, sewer and storm water. Both government-wide financial statements distinguish governmental activities of the City that are principally supported by taxes from business-type activities that are intended to recover all or a significant portion of their costs through user fees and charges.

The government-wide financial statements are presented on pages 30 and 31 of this report.

Fund Financial Statements

A fund is an accountability unit used to maintain control over resources segregated for specific activities or objectives. For example, the Street Fund accounts for dollars associated with street maintenance. The City uses funds to ensure and demonstrate compliance with finance-related laws and regulations. Within the basic financial statements, fund financial statements focus on the City's most significant funds rather than the City as a whole. Major funds are separately reported while all others are combined into a single, aggregated presentation. Individual fund data for nonmajor funds is provided in the form of combining statements in a later section of this report.

The City has three kinds of funds: Governmental, Proprietary and Fiduciary

- *Governmental funds* are reported in the fund financial statements and encompass the same functions reported as governmental activities in the government-wide financial statements such as police, fire and administration. However, the focus is very different with fund statements providing a distinctive view of the City's governmental funds. These statements report short-term calendar accountability focusing on the use of spendable resources and balances of spendable resources available at the end of the year. They are useful in evaluating annual financing requirements of governmental programs and the commitment of spendable resources for the near-term.

Since the government-wide focus includes the long-term view, comparisons between these two perspectives may provide insight into the long-term impact of short-term financing decisions. Both the governmental fund balance sheet and the governmental fund operating statement provide a reconciliation to assist in understanding the differences between these two perspectives.

The basic governmental fund financial statements are presented on pages 32 - 35 of this report.

Individual fund information for nonmajor governmental funds is found in combining statements in a later section of this report.

- *Proprietary funds* are reported in the fund financial statements and generally report services for which the City charges customers a fee such as water, sewer and storm water. The City's proprietary funds are classified as enterprise funds and an internal service fund. These enterprise funds essentially encompass the same functions reported as business-type activities in the government-wide statements. The internal service fund is an equipment rental fund.

The basic enterprise fund financial statements are presented on pages 36 - 39 of this report.

- *Fiduciary fund* type represents funds held in trust, and includes the firemen's pension trust fund and five agency funds. The statements for these funds are presented on pages 40 and 41.

Notes to the Basic Financial Statements

The accompanying notes to the financial statements provide information essential to a full understanding of the government-wide and fund financial statements. The notes to the basic financial statements begin on page 44 of this report.

Required Supplementary Information

This section includes the budgetary schedules for the general fund and the street construction fund. We present other budgetary schedules in the supplementary information section on pages 90 - 101.

Supplementary Information

Combining and comparative individual statements and schedules for some major and nonmajor funds are presented as supplementary information in this report beginning on page 104.

Financial Analysis of the City as a Whole

The City's net position at calendar year-end was \$201,353,709. The following table provides a summary of the City's net position:

Summary of Net Position at December 31,

	Governmental Activities		Business-type Activities		Total	
	2015	Restated 2014	2015	Restated 2014	2015	Restated 2014
Assets:						
Current	\$ 44,248,422	\$ 45,744,279	\$ 14,670,054	\$ 17,561,675	\$ 58,918,476	\$ 63,305,954
Capital assets	148,477,473	135,717,634	55,099,504	51,140,427	203,576,977	186,858,061
Other	9,872,668	-	24,448,443	-	34,321,111	-
Total assets	202,598,563	181,461,913	94,218,001	68,702,102	296,816,564	250,164,015
Deferred outflows of resources	2,049,947	-	254,109	-	2,304,056	-
Liabilities:						
Current	6,997,641	3,606,612	4,321,172	1,677,085	11,318,813	5,283,697
Non-current	44,404,631	34,963,244	38,400,340	12,298,350	82,804,971	47,261,594
Total liabilities	51,402,272	38,569,856	42,721,512	13,975,435	94,123,784	52,545,291
Deferred inflows of resources	3,288,278	-	354,849	-	-	-
Net position:						
Net investment in capital assets	122,437,252	108,229,455	35,484,671	39,110,662	157,921,923	147,340,117
Restricted	13,138,440	12,090,347	1,579,068	3,143,597	14,717,508	15,233,944
Unrestricted	14,382,268	22,572,255	14,332,010	12,472,406	28,714,278	35,044,661
Total net position	149,957,960	142,892,057	51,395,749	54,726,665	201,353,709	197,618,722
Correction to 2014 reporting errors	-	1,984,675	-	70,293	-	2,054,968
Restatement of beginning net position - pension reporting	-	(8,178,468)	-	(2,610,301)	-	(10,788,769)
Restated net position	\$ 149,957,960	\$ 136,698,264	\$ 51,395,749	\$ 52,186,657	\$ 201,353,709	\$ 188,884,921

The City continues to maintain a high current ratio. The current ratio compares current assets to current liabilities and is an indication of the ability to pay current obligations. The current ratio for governmental activities is 6.3 to 1 as compared to 12.7 to 1 at December 31, 2014. The current ratio for the business-type activities at December 31, 2015 is 3.4 to 1 as compared to 10.5 to 1 at December 31, 2014. For the City overall, the current ratio is 5.2 to 1 as compared to 12 to 1 at December 31, 2014. These ratios are strong.

The City reported positive balances in net position for both governmental and business-type activities. Net position increased \$13,259,696 for governmental activities and decreased by \$790,908 for business-type activities. The City's overall financial position increased during calendar year 2015 by \$12,468,788.

Note that 81.6% of the governmental activities' net position is committed to in capital, such as building, infrastructure, vehicles and equipment. The City uses these capital assets to provide services to its citizens. However, with business-type activities, the City has spent 69% of its net position. Capital assets in the business-type activities also provide water, sewer and storm water services and the golf course, but they also generate revenues for these funds. Overall, 78.4% of the City's total net position is included in capital assets.

The following table provides a summary of the City's changes in net position:

Summary of Changes in Net Position						
	Governmental Activities		Business-type Activities		Total	
	2015	Restated 2014	2015	Restated 2014	2015	Restated 2014
Revenues:						
Program:						
Charges for services	\$ 14,160,228	\$ 18,637,738	\$ 19,504,877	\$ 18,354,807	\$ 33,665,105	\$ 36,992,545
Operating grants and contributions	1,219,077	2,587,992	-	170,000	1,219,077	2,757,992
Capital grants and contributions	11,921,777	6,495,186	111,009	822,722	12,032,786	7,317,908
General:						
Property taxes	11,514,783	11,510,488	-	-	11,514,783	11,510,488
Sales taxes	21,129,570	19,856,302	-	-	21,129,570	19,856,302
Other taxes	10,030,887	9,878,436	-	-	10,030,887	9,878,436
Other revenues	923,589	181,488	18,088	62,593	941,677	244,081
Total revenues	70,899,911	69,147,630	19,633,974	19,410,122	90,533,885	88,557,752
Program Expenses:						
General government	11,731,113	13,937,566	-	-	11,731,113	13,937,566
Economic environment	2,873,825	4,230,397	-	-	2,873,825	4,230,397
Judicial	1,080,402	997,957	-	-	1,080,402	997,957
Natural environment	282,648	110,007	-	-	282,648	110,007
Culture and recreation	6,793,092	6,832,934	-	-	6,793,092	6,832,934
Public safety	29,037,752	26,272,183	-	-	29,037,752	26,272,183
Social services	460,061	417,515	-	-	460,061	417,515
Transportation	6,109,663	8,843,355	-	-	6,109,663	8,843,355
Utilities	82,566	294,984	-	-	82,566	294,984
Interest on long-term debt	1,057,627	1,110,496	-	500,194	1,057,627	1,610,690
Disposition of capital assets	-	(246,692)	-	(475)	-	(247,167)
Water/sewer/storm utility	-	-	17,441,554	14,416,735	17,441,554	14,416,735
Golf Course	-	-	1,114,794	1,018,535	1,114,794	1,018,535
Total expenses	59,508,749	62,800,702	18,556,348	15,934,989	78,065,097	78,735,691
Revenues over (under) expenses	11,391,162	6,346,928	1,077,626	3,475,133	12,468,788	9,822,061
Transfers	1,868,534	1,737,442	(1,868,534)	(1,737,442)	-	-
Changes in net position	13,259,696	8,084,370	(790,908)	1,737,691	12,468,788	9,822,061
Beginning net position, as restated	136,698,264	134,807,687	52,186,657	52,988,974	188,884,921	187,796,661
Ending net position	149,957,960	142,892,057	51,395,749	54,726,665	201,353,709	197,618,722
Correction to 2014 reporting errors	-	1,984,675	-	70,293	-	2,054,968
Restatement of beginning net position - pension reporting	-	(8,178,468)	-	(2,610,301)	-	(10,788,769)
Restated net position	\$ 149,957,960	\$ 136,698,264	\$ 51,395,749	\$ 52,186,657	\$ 201,353,709	\$ 188,884,921

GOVERNMENTAL ACTIVITIES-REVENUES

The total 2015 tax revenues were \$1,430,014 or 3.5% more than those reported in 2014. Sales taxes increased \$1,273,268 or 6.4%. The economy is improving in the City; not only have we seen an increase in retail sales, but there has also been an increase in sales tax generated by new construction activities in the City.

In total, taxes make up 60.2% of the total revenues stream as compared to 59.6% in 2014. Property taxes make up 15.6% of revenues, as compared to 16.6% in 2014 and sales taxes make up 28.9% of total revenues as compared to 28.7% in 2014.

The operating grants and contributions for general government of \$269,429 included the following:

- Public Hospital District No 2 agreements for Move 60 and Bicycle Improvement Programs - \$123,500
- Snohomish County Housing share of operating Lynnwood Senior Center - \$11,000
- Lynnwood's share of ESCA closing - \$74,500

The operating grants for public safety of \$633,568 included the following:

- State shared revenues and entitlements - \$258,493
- State Department of Transportation Grant SR99 and SR 524 safety improvement project - \$177,830
- Snohomish County Housing Authority – Police Services - \$110,445
- Homeland Security Disaster Grants, August 2015 wind storm - \$57,925
- Washington Traffic Safety Commission safe roads program - \$10,121
- Department of Justice Bullet Proof Vest Program - \$8,220

The operating grants and contributions for transportation of \$285,716 included the Public Utility District Privilege Tax for \$262,475.

The capital grants and contributions for general government of \$501,181 included the LID 93-1 I-5 and 196th Project funded by special assessment.

The capital grant and contributions for culture and recreation of \$6,019,946 to purchase land which included \$5 million funded by Snohomish County.

The capital grants for transportation included the following:

- Washington State Department of Transportation for 33rd Avenue Extension: (\$1,251,000)
- Washington State Department of Transportation for 204th Street Extension and Improvements: (\$1,551,000)
- United States Department of Transportation Federal Highway Administration indirect grants through Washington State DOT for:
 - 204th Street Extension (\$890,000)
 - Poplar Way Bridge Extension (\$762,000)
 - 35th and 36th Avenue West Roadway (\$250,000)
 - 99 and SR 524 Safety Project (\$121,000)

Note that program revenues cover 45.9% of governmental operating expenses. This means that the taxpayers and the City's other general governmental revenues cover the remaining 54.1% of the governmental expenses. As a result, the general economy and the success of City businesses have a major impact on the City's revenue streams.

GOVERNMENTAL FUNCTIONAL EXPENSES

Of the City's governmental activities functions, 48.8% of the total costs relates to public safety in 2015 as compared to 41.7% in 2014. General government expenses make up 19.7% as compared to 22.1% in 2014.

This table presents the cost of each of the City's programs, including the net costs (i.e., total cost less revenues generated by the activities). The net costs illustrate the financial burden that was placed on the City's taxpayers by each of these functions.

	Governmental Activities			
	Total Cost of Services		Net Cost of Services	
	2015	2014	2015	2014
General government	\$ 11,731,113	\$ 13,937,566	\$ 5,698,794	\$ 7,519,667
Judicial	1,080,402	997,957	(364,442)	(4,334,663)
Public safety	29,037,752	26,272,183	24,217,817	23,608,220
Utilities	82,566	294,984	82,566	272,293
Transportation	6,109,663	8,843,355	423,082	596,345
Natural environment	282,648	110,007	282,648	106,182
Economic environment	2,873,825	4,230,397	2,220,754	2,795,555
Social services	460,061	417,515	222,122	384,142
Culture and recreation	6,793,092	6,832,934	(1,633,301)	3,268,241
Interest on debt	1,057,627	1,110,496	1,057,627	1,110,496
Total	<u>\$ 59,508,749</u>	<u>\$ 63,047,394</u>	<u>\$ 32,207,667</u>	<u>\$ 35,326,478</u>

BUSINESS-TYPE ACTIVITIES ANALYSIS

The City maintains two enterprise funds, each of these funds reported the following operating income or (loss) for the last two calendar years:

Fund	Operating Income		%
	2015	2014	Change
Water/sewer/storm utility	\$ 1,727,122	\$ 3,469,679	-50%
Golf course	101,457	120,581	16%
Total	<u>\$ 1,828,579</u>	<u>\$ 3,590,260</u>	<u>-49%</u>

The following analysis is provided for the major enterprise funds.

Sewer/Water/Storm Utility Fund – Operating revenues increased \$1,057,551 or 6.1% in 2015 over that of 2014. Water charges for services increased \$501,309 or 9.6% because of a 6% water rate increase and higher water use and warmer and dryer Spring and Summer in 2015. Sewer charges for services increased \$469,249 or 5.2% because of a 6% rate increase.

Total operating expenses increased \$2,800,108 or 20.3% above the 2014 amount. Depreciation expense increased \$884,076 or 43.4% in 2015. At December 31, 2015, net position totals \$48,504,991. Of this amount, \$31,610,925 or 65.2% is tied up in capital assets.

The various expenses changed from 2014 as follows:

- Administration and general – water - \$272,361 or 22.6%.
- Administration and general – sewer - \$739,992 or 100.7%
- Maintenance and operations – water - \$630,463 or 24.2%
- Maintenance and operations – sewer (reduction) – (\$506,796) or 8.7%
- Maintenance and operations – storm - \$736,566 or 99.4%

Much of the changes in all categories between years are due to reallocation of costs between functions in 2015 to accommodate specific utility projects completed during the year.

Net transfers out of this fund are related to capital projects currently in progress with utility components: 196th Street Improvements, 204th and SR 99-68 Ave West, Poplar Way Bridge Extension, 33rd Avenue West Extension.

In this fiscal year, contributions were reduced from \$822,721 to \$111,009. The 2014 contributions were higher primarily due to an agreement made with developer in 2014 to pay the City \$730,000 in lieu of constructing storm water detention facility required by the City and install an alternative storm water facility consistent with Department of Ecology requirements.

Golf Course Fund – Revenues from charges for services increased \$80,558 or 8.1%. During 2014, the City began contracting with private company (Premier Golf Company) to manage its golf course. This company made significant efforts to promote and market the course which resulted in an increase in number of rounds sold in 2015 from 2014, or an increase of 45,973 over 42,034.

Total operating expenses increased just \$119,570 or 12%, over the 2014 amount. The operating income decreased from a gain of \$120,581 in 2014 to a \$101,457 operating gain in 2015.

At December 31, 2015, the net position totaled \$2,977,530.

Financial Analysis of the City's Funds

Governmental Funds

As discussed, governmental funds are reported in the fund statements with a focus on short-term inflow and outflow of spendable resources. This information is useful in assessing resources available at the end of the year in comparison with upcoming financing requirements. Governmental funds reported ending fund balances of \$32,908,782 as compared to the restated amount of \$29,183,591 at December 31, 2014.

The restricted amount at December 31, 2015 was \$13,478,126, relating primarily to debt services (\$1,347,771), capital improvements (\$7,423,963), and \$4,706,387, for a variety of other restrictions.

Over \$5.8 million is committed, primarily for revenue fluctuations. The general fund reports approximately \$2 million assigned to economic development.

The General Fund reports an unassigned amount of fund balance of \$11,493,349. This amount will be used for future one-time operating costs. The total ending fund balances of governmental funds show an increase of approximately \$3.7 compared to a decrease of \$3.2 million at December 31, 2014.

Major Governmental Funds

General Fund - The General Fund is the City's primary operating fund and the largest source of day-to-day service delivery. The General Fund's fund balance increased by \$1,528,339 or 8.5% in 2015, after interfund transfers to other funds. The difference between revenues and expenditures was \$4,902,257 before interfund transfers. There was a \$1,664,469 transfer to the capital projects funds and \$1,797,844 to service debt. In calendar year 2014, the fund balance decreased \$3,250,381 or 15.4%. The amount of fund balance is determined by the amount of transfers to other funds.

Total revenues increased \$7,579,124 or 16.4% in 2015. Total taxes increased just \$3,701,077 or 11.1%. Property taxes were up \$2,131,033 or 24% above the 2014 amount. In 2014, property taxes from the City's EMS Property Tax Levy (\$2,082,000) were reported in the City's EMS Property Tax Reserve Fund, which is a Special Revenue Fund. In 2015, all property tax revenues were reported in the General Fund, including \$2,270,000 from the City's EMS Property Tax Levy. The City's EMS Property Tax Reserve Fund was closed at the end of 2015.

Business taxes increased \$610,657 or 9.7%. Effective January, 2015 the City Council authorized an increase to the Utility Tax Rate from 2% in 2014 to 6% in 2015.

Business licenses increased \$413,388 or 21.3% over 2014. Approximately \$134,000 of this increase relates to the receipt of business license fees for 2016 business licenses. The receipting procedure in place before 2015 was that business license renewal payments for the following year were not accepted. Beginning in December 2015, businesses that wanted to pay their 2016 business license renewals could pay them in December 2015 and the City recorded it as 2015 revenue. The remaining increase of \$279,388 relates to new businesses locating in the City, and a change in the structure of the employee based fee from a fee per FTE to a fee for each employee based on the number of hours they work (14 hours or less and 15 hours or more).

Permits and fees increased \$634,681 or 56.2% over 2014. The city experienced a significant increase in new development in 2015. A new Costco was built and opened in October, and a large senior housing complex is under construction as well as many other major new projects. All of these new developments required building permits. The value of new construction in Lynnwood for 2015 was \$201.5 million. This is roughly four times the annual rate of previous years. Permit fees also hit a record high in 2015.

In this year the City did not report any interfund revenues. Prior to 2015, employee costs that were paid from the General Fund but charged to other Funds were reimbursed by "interfund revenue". Beginning in 2015, the employee costs were charged directly to the Fund that received the service.

In 2015, total expenditures increased \$274,323 or 6/10th of 1% above the 2014 amount. The general government expenditures decreased \$346,159 or 3.8%. Within the general government function, administrative services were reduced \$822,333 or 17.1% from 2014. This reduction relates to the reclassification of interfund services; prior to 2015 employee costs that performed work for the Enterprise Funds were charged to both the General Fund and the Enterprise Fund and recorded as an interfund service in the General Fund. Beginning in 2015, the Administrative Services personnel costs that related to the Enterprise funds were charged to the Enterprise Fund, to eliminate any duplicate expenditures being reported.

Police costs increased \$771,026 or 4.7%. Personnel costs accounted for \$581,000 of this increase and \$190,000 of this increase is due to an increase in the contracted rates for jail paid to Snohomish County.

Transportation expenses decreased \$192,851 or 13.6% from 2014. In 2015, more transportation expenditures were budgeted and paid for out of the Streets Fund, a Special Revenue Fund. Transportation expenses recorded in 2014 to the Streets Fund totaled \$1.7 million; in 2015 the total transportation expenditures charged to the Streets Fund was \$2.1 million.

No utility costs were charged in 2015. The utility costs charged in 2014 were the costs of the services provided by the Utility Billing personnel included in the Administrative Services Department in the General Fund. In 2015, these costs were charged directly to the Utility Fund, and not double counted in the Utility and General Funds.

Budgetary Highlights – General Fund

The City adopts a biennial budget and combines both years together. The adopted budget is not allotted between 2015 and 2016. After the second year of the biennium (2016) the budget vs. actual reporting will become more meaningful.

Capital Assets and Debt Administration

Capital Assets

The City's net investment in capital assets for governmental and business-type activities as of December 31, 2015 was a 6.6% increase for governmental activities and a 9.1% increase for business-type activities. The overall increase was 4.8% for the City as a whole. See Note 3-D for additional information about changes in capital assets during the calendar year and outstanding at the end of the year.

The following table provides a summary of capital asset activity:

	Governmental Activities		Business Activities		Total	
	2015	Restated 2014	2015	Restated 2014	2015	Restated 2014
Nondepreciable assets:						
Land	\$ 38,471,546	\$ 32,203,279	\$ 8,081,424	\$ 8,081,424	\$ 46,552,970	\$ 40,284,703
Easements	439,018	436,742	4,150,120	4,150,120	4,589,138	4,586,862
Art, non-depreciable	164,517	164,517	-	-	164,517	164,517
Construction in progress	5,623,459	7,982,877	9,953,779	2,958,589	15,577,238	10,941,466
Total nondepreciable assets	44,698,540	40,787,415	22,185,323	15,190,133	66,883,863	55,977,548
Depreciable assets:						
Buildings	46,145,408	45,935,945	36,388,159	36,388,159	82,533,567	82,324,104
Improvements other than buildings	23,965,955	23,714,739	2,340,634	1,966,068	26,306,589	25,680,807
Machinery and equipment	20,210,723	19,407,067	4,900,847	4,731,924	25,111,570	24,138,991
Infrastructure	93,334,867	83,915,930	44,877,691	44,877,691	138,212,558	128,793,621
Total depreciable assets	183,656,953	172,973,681	88,507,331	87,963,842	272,164,284	260,937,523
Total accumulated depreciation	79,898,020	74,535,627	55,593,150	52,628,290	135,491,170	127,163,917
Book value - depreciable assets	103,758,933	98,438,054	32,914,181	35,335,552	136,673,114	133,773,606
Percentage depreciated	44%	43%	63%	60%	50%	49%
Book value - all assets	\$ 148,457,473	\$ 139,225,469	\$ 55,099,504	\$ 50,525,685	\$ 203,556,977	\$ 189,751,154

At December 31, 2015, the depreciable capital assets for governmental activities were 44% depreciated. This compares favorably with the December 31, 2014 percentage of 43%.

During 2015, the City purchase vacant land for \$6,019,946 and Snohomish County paid \$5,000,000 of cost using funds from Conservation Futures portion of Property Tax Fund.

At December 31, 2015, the major projects included in the governmental activities construction in progress include

- 36th Avenue West Improvements - \$1.5 million
- Poplar Way Bridge Extension - \$2.7 million
- 196th Street SW Improvements - \$525,000
- Interurban Trail North Segment - \$595,000

The major additions to governmental activities machinery and equipment account includes:

- 12 law enforcement vehicles - \$460,000
- 2 trucks, 6 fleet and supervisor vehicles, 1 backhoe for Operations and Maintenance Center - \$375,000
- 15 pool vehicles for City Hall, Permit Center, and Recreation Center - \$655,000

Governmental activities infrastructure increased approximately \$9.5 million consisting primarily of:

- 204th Street SE improvements - \$4.7 million
- 33rd Avenue Extension project - \$4.4 million

With the City's business-type activities, 63% of the asset values were depreciated at December 31, 2015, as compared to the 60% at December 31, 2014.

At December 31, 2015, the major projects included in the business-type activities construction in progress include:

- WWTP improvements and upgrades, biosolids incinerator controls/chlorination facility construction - \$8.8 million
- Water line replacement program - \$250,000
- SCADA system modifications - \$217,000
- Lift stations 4, 8 and 16 construction projects - \$633,000

Long-Term Liabilities

The following table reports outstanding long-term liabilities at both December 31, 2015 and 2014.

	Governmental Activities		Business-type Activities		Totals	
	2015	2014	2015	2014	2015	2014
General obligation bonds	\$ 24,935,221	\$ 25,818,178	\$ -	\$ -	\$ 24,935,221	\$ 25,818,178
Special assessment bonds	1,105,000	1,670,000	-	-	1,105,000	1,670,000
Revenue bonds	-	-	37,107,602	12,029,766	37,107,602	12,029,766
Subtotal	26,040,221	27,488,178	37,107,602	12,029,766	63,147,823	39,517,944
Net pension liability	11,721,472	257,272	2,340,634	-	14,062,106	257,272
OPEB Firefighter pension	4,461,071	3,093,333	-	-	4,461,071	3,093,333
Claims and judgements	34,750	39,381	-	-	34,750	39,381
Compensated absences	4,473,698	4,539,117	306,250	268,585	4,779,948	4,807,702
Total	<u>\$46,731,212</u>	<u>\$ 35,417,281</u>	<u>\$ 39,754,486</u>	<u>\$ 12,298,351</u>	<u>\$ 86,485,698</u>	<u>\$ 47,715,632</u>

In a report issued on October 6, 2015, Standard & Poor's (S&P) assigned its 'AA' Rating to the city's 2015 utility system revenue bonds that Council authorized on June 22nd, 2015. The only ratings higher are "AAA" and "AA+", which few municipalities have achieved. S & P also affirmed its 'AA' long-term rating on the City utility system's 2008 and 2010 revenue bonds.

S & P assigned the city an 'AA' rating with a stable outlook. It also notes the city has strong financial management practices. Additional key statements from the report:

- Service area economy with good income levels that participates in the broad and diverse Seattle metropolitan area economy;
- Stable, primarily residential, and very diverse customer base;
- Ample water supply and sewage treatment capacity, with a long-term wholesale contract in place for water service; and
- Affordable service rates, coupled with a demonstrated willingness and ability to adjust rates to match operating needs.

The 'AA' Bond Rating, which is an extraordinary achievement for our City, will translate into lower financing costs by attracting a broader range of investors. This rating is also a positive reflection of the City's effectiveness in managing its financial resources during one of the most difficult economic times in several generations.

In October 2015, the city issued \$24 million in Utility System Revenue Bonds. The proceeds from the sale of the bonds were utilized to redeem the City's Utility System Revenue Bond Anticipation Note and to finance a portion of the carrying out of a Plan of additions, betterments, and extensions of the City utility system. Further explanation of liabilities in Note 3-G of the financial statements.

Economic Conditions Affecting the City

Financial Stability - Throughout the recession, the City Council was diligent about ensuring that the City maintains its financial health. This continues to be a focus of the Council because strong, healthy finances help ensure the City is able to provide high quality services both now and into the future.

Although the economy is rebounding we must continue providing general government services with the revenue that is available today, rather than overspending with the assumption that the economy will continue to improve.

To expand available revenues, the City continues to proactively pursue and obtain state and federal funding to upgrade our aging infrastructure. This includes streets, parks, sidewalks, facilities, utilities and open space areas.

Economic Development – The City’s Community Vision adopted by City Council in 2009 and reaffirmed in 2015 calls for a vibrant community. Strategic plans subsequently prepared by the City identify programs and projects that implement this Vision Statement, and accommodate population employment growth projected for the next 20 years. Updates in 2015 to the City’s Comprehensive Plan and Economic Development Action Plan incorporate implementation activities to achieve economic development goals. The City’s attributes of geographic location, ease of access, and economic prominence supports sustained economic vitality.

Growth within the City reflects progress towards implementing the community’s vision for economic development. Retail sales have rebounded since the recession. The opening of the new Costco Warehouse and the sustained success of Alderwood mall reflect on-going private investment that supports the community’s economic base. Property tax revenues have also rebounded, and the City experienced \$200 million in new permitted development in 2015, a 400% increase over 2014. The City lodging industry remains strong, reflected by \$835,605 in lodging tax revenues, the highest annual amount ever collected by the city.

Economic vitality is also evident in the diversity of the economy in the City area. Private sector employment includes aerospace, biosciences, information technologies, electronics, finance/insurance/real estate, and professional services. Public sector employment includes the administrative offices of the Edmonds School District, Edmonds Community College, and the City.

Development of the Lynnwood City Center is significant component of Lynnwood’s future economic development. Located within the Lynnwood Regional Growth Center, the City Center has experienced initial development with construction beginning in 2015 of 308 units of senior housing and 347 units of affordable workforce housing. A 150 room Hilton Garden Inn received building permits in 2015 with construction anticipated in 2016. The nature of this development implements the land use and design guidelines for the City Center.

To support this private investment, street projects have moved forward in the City Center with 196th St. SW (SR 524) receiving funding for widening and streetscape improvements; and 42nd Ave. W. received funding for conceptual design. Design of the Sound Transit Lynnwood Link Light Rail continues with construction schedule to begin in 2018. These projects address the community vision for a multi-modal transportation network.

Highway 99 shares contributes to Lynnwood’s economic development with a diverse number of businesses, and a strong and growing automobile businesses. Permit applications for two new dealerships were submitted to the City in 2015.

Contacting the City’s Financial Management

We designed this financial report to provide a general overview of the City’s finances, comply with finance-related laws and regulations, and demonstrate the City’s commitment to public accountability. If you have questions about this report or would like to request additional information, contact the Finance Director, City of Lynnwood, PO Box 5008, Lynnwood, WA 98046.

City of Lynnwood, Washington
Statement of Net Position
December 31, 2015

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Assets				
Current Assets				
Cash and cash equivalents (Note 3-A)	\$ 29,003,161	\$ 6,373,640	\$ 35,376,801	\$ 6,663,083
Investments (Note 3-A)	2,807,440	6,227,995	9,035,435	-
Receivables:				
Accounts	5,428,486	3,242,345	8,670,831	289,223
Taxes	5,338,053	-	5,338,053	-
Intergovernmental	867,737	-	867,737	-
Interest	-	5,100	5,100	-
Internal	236,772	(236,772)	-	-
Prepaid items	566,773	85,464	652,237	75,189
Inventory	-	22,282	22,282	18,612
Total Current Assets	44,248,422	15,720,054	59,968,476	7,046,107
Noncurrent Assets				
Investment in joint venture	1,557,766	-	1,557,766	-
Net pension assets	5,847,477	-	5,847,477	-
Restricted assets: cash and cash equivalents	103,545	24,387,121	24,490,666	1,734,797
Note receivable	-	61,322	61,322	-
Internal receivable	1,050,000	(1,050,000)	-	-
Other receivables	1,313,880	-	1,313,880	-
Capital assets (Note 3-D)				
Nondepreciable	44,698,541	22,185,321	66,883,862	6,869,605
Depreciable, net	103,778,932	32,914,183	136,693,115	15,862,053
Total Noncurrent Assets	158,350,141	78,497,947	236,848,088	24,466,455
Total Assets	202,598,563	94,218,001	296,816,564	31,512,562
Deferred Outflows of Resources-Pensions	2,049,947	254,109	2,304,056	52,056
Liabilities and Deferred Outflows				
Current Liabilities				
Accounts payable	1,735,884	2,553,460	4,289,344	319,545
Accrued expenses	1,420,462	141,311	1,561,773	76,276
Retainage payable	-	52,044	52,044	-
Other payables	447,224	-	447,224	-
Deposits payable	-	19,573	19,573	463,681
Custodial accounts payable	2,810	99,520	102,330	-
Compensated absences payable	1,062,405	89,146	1,151,551	-
Unearned revenue	1,064,710	17,093	1,081,803	-
Accrued interest	-	84,025	84,025	-
Special assessment bonds payable	400,000	-	400,000	-
General obligation refunding bonds payable	864,146	-	864,146	475,000
Revenue bonds payable	-	1,265,000	1,265,000	52,117
Total Current Liabilities	6,997,641	4,321,172	11,318,813	1,386,619
Long-Term Liabilities (net of current portion): (Note 3-F)				
Deposits payable	-	-	-	134,797
Compensated absences payable	3,411,263	217,104	3,628,367	18,336
Claims and judgments payable	34,750	-	34,750	-
Other postemployment benefits	4,461,071	-	4,461,071	-
Net pension liability	11,721,472	2,340,634	14,062,106	186,330
Special assessment bonds payable	705,000	-	705,000	-
General obligation refunding bonds payable	24,071,075	-	24,071,075	9,402,100
Revenue bonds payable, net of premiums/discounts	-	35,842,602	35,842,602	16,560,483
Total Long-term Liabilities	44,404,631	38,400,340	82,804,971	26,302,046
Total Liabilities	51,402,272	42,721,512	94,123,784	27,688,665
Deferred Inflows of Resources-Pensions	3,288,278	354,849	3,643,127	88,094
Net Position				
Net investment in capital assets (Note 3-J)	122,437,252	35,484,671	157,921,923	(3,785,678)
Restricted for:				
Debt service	1,347,771	1,265,000	2,612,771	1,000,000
Capital outlay	7,177,361	314,068	7,491,429	-
Criminal justice	2,277,556	-	2,277,556	-
Tourism	922,645	-	922,645	-
Drug enforcement	532,278	-	532,278	-
Other purposes	140,903	-	140,903	-
Streets	739,926	-	739,926	-
Unrestricted	14,382,268	14,332,010	28,714,278	6,573,537
Total Net Position	\$ 149,957,960	\$ 51,395,749	\$ 201,353,709	\$ 3,787,859

See accompanying notes to the basic financial statements

City of Lynnwood, Washington
Statement of Activities
For the Year Ended December 31, 2015

Function/Program	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position			
		Charges for Services and Sales	Operating Grants, Contributions and Interest	Capital Grants and Contributions	Primary Government			Component Unit
					Governmental Activities	Business-Type Activities	Total	
Primary Government								
Governmental Activities								
General government	\$ 11,731,113	\$ 5,261,709	\$ 269,429	\$ 501,181	\$ (5,698,794)	\$ -	\$ (5,698,794)	\$ -
Economic environment	2,873,825	653,071	-	-	(2,220,754)	-	(2,220,754)	-
Judicial	1,080,402	1,444,844	-	-	364,442	-	364,442	-
Natural Environment	282,648	-	-	-	(282,648)	-	(282,648)	-
Culture and recreation	6,793,092	2,406,662	-	6,019,731	1,633,301	-	1,633,301	-
Public safety	29,037,752	4,186,367	633,568	-	(24,217,817)	-	(24,217,817)	-
Social services	460,061	207,575	30,364	-	(222,122)	-	(222,122)	-
Transportation	6,109,663	-	285,716	5,400,865	(423,082)	-	(423,082)	-
Utilities	82,566	-	-	-	(82,566)	-	(82,566)	-
Interest	1,057,627	-	-	-	(1,057,627)	-	(1,057,627)	-
Total Governmental Activities	59,508,749	14,160,228	1,219,077	11,921,777	(32,207,667)	-	(32,207,667)	-
Business-Type Activities:								
Water and Sewer Utility	17,441,554	18,292,097	-	111,009	-	961,552	961,552	-
Golf Course	1,114,794	1,212,780	-	-	-	97,986	97,986	-
Total Business-Type Activities	18,556,348	19,504,877	-	111,009	-	1,059,538	1,059,538	-
Total - Primary Government	\$ 78,065,097	\$ 33,665,105	\$ 1,219,077	\$ 12,032,786	(32,207,667)	1,059,538	(31,148,129)	-
Component Units								
Lynnwood Public Facilities District	\$ 5,979,840	\$ 4,392,853	\$ -	\$ -				\$ (1,586,987)
General Revenues								
Property taxes					11,514,783	-	11,514,783	-
Sales taxes					21,129,570	-	21,129,570	2,694,389
Utility Taxes					6,188,713	-	6,188,713	-
Excise taxes					695,976	-	695,976	-
Real estate transfer tax					1,859,891	-	1,859,891	-
Other taxes					1,286,307	-	1,286,307	-
Special assessments					263,722	1,037	264,759	-
Investment earnings					(294)	15,639	15,345	17,778
Gain on disposition of capital assets					176,631	-	176,631	-
Miscellaneous					483,530	1,412	484,942	-
Transfers					1,868,534	(1,868,534)	-	
Total General Revenues and Transfers					45,467,363	(1,850,446)	43,616,917	2,712,167
Change in Net Position					13,259,696	(790,908)	12,468,788	1,125,180
Net Position Beginning of Year, Restated (see Note 4-E)					136,698,264	52,186,657	188,884,921	2,662,679
Net Position End of Year					\$ 149,957,960	\$ 51,395,749	\$ 201,353,709	\$ 3,787,859

See accompanying notes to the basic financial statements

City of Lynnwood, Washington
Balance Sheet
Governmental Funds
December 31, 2015

	General	Other Governmental Funds	Total Governmental Funds
Assets			
Cash and cash equivalents	\$ 13,212,742	\$ 12,069,461	\$ 25,282,203
Investments	1,155,959	1,198,847	2,354,806
Receivables:			
Accounts	4,281,764	2,440,457	6,722,221
Taxes	5,080,924	257,129	5,338,053
Intergovernmental	346,265	425,738	772,003
Interfund	1,645,000	-	1,645,000
Prepaid	103,119	-	103,119
Restricted assets	-	103,545	103,545
Total Assets	\$ 25,825,773	\$ 16,495,177	\$ 42,320,950
Liabilities			
Accounts payable	\$ 1,223,350	\$ 437,539	\$ 1,660,889
Accrued salaries and wages payable	1,354,883	41,413	1,396,296
Intergovernmental payable	-	-	-
Custodial accounts payable	2,810	-	2,810
Other current liabilities payable	287,715	159,509	447,224
Unearned revenue	-	1,064,710	1,064,710
Total Liabilities	2,868,758	1,703,171	4,571,929
Deferred Inflows of Resources	3,526,359	1,313,880	4,840,239
Total Liabilities and Deferred Inflows of Resources	6,395,117	3,017,051	9,412,168
Fund Balances			
Nonspendable	103,119	-	103,119
Restricted	-	13,138,440	13,138,440
Committed	5,814,864	339,686	6,154,550
Assigned	2,019,324	-	2,019,324
Unassigned	11,493,349	-	11,493,349
Total Fund Balances	19,430,656	13,478,126	32,908,782
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 25,825,773	\$ 16,495,177	\$ 42,320,950

See accompanying notes to the basic financial statements

City of Lynnwood, Washington
Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Position
December 31, 2015

Total Governmental Fund Balances		\$ 32,908,782
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds (exclusive of internal service funds' capital assets).		
Cost of capital assets	\$ 214,714,341	
Less accumulated depreciation	<u>(72,823,566)</u>	141,890,775
The investment in joint ventures is not reported at the fund financial reporting level but is reported on the government-wide statement of net position.		1,557,766
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds - property taxes, fines and special assessments.		4,840,238
Deferred inflows and outflows for pensions reported on the government-wide statement of position but not reported on the governmental fund balance sheet.		(1,223,376)
The net pension assets are not available to retire current year expenditures, therefore they are not reported in the funds but are reported in the government-wide statement of net position.		5,847,477
The internal service fund is used by management to charge the costs of the equipment rental to individual funds. The assets and liabilities of the internal service funds are included in governmental activities column on the government-wide statement of net position.		10,342,011
The internal service fund chargeback to enterprise funds is not reported in the governmental funds, but is reported on the government-wide financial statements.		86,772
Liabilities not due and payable in the current period and therefore are not reported in the governmental fund balance sheets but are reported on the government-wide statement of net position (excludes internal service funds).		
General obligation refunding bonds payable	\$ (24,935,221)	
Special assessment bonds payable	(1,105,000)	
Other postemployment benefits payable	(4,461,071)	
Net pension liability payable	(11,374,000)	
Compensated absences payable	<u>(4,417,193)</u>	\$ (46,292,485)
Interfund receivables and payables between governmental funds are reported on the		
Interfund receivables	\$ (445,000)	
Interfund payables	<u>445,000</u>	\$ -
Net Position Of Governmental Activities		<u><u>\$ 149,957,960</u></u>

See accompanying notes to the basic financial statements

City of Lynnwood, Washington
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2015

	General	Other Governmental Funds	Total Governmental Funds
Revenues			
Taxes	\$ 37,176,649	\$ 4,802,615	\$ 41,979,264
Intergovernmental	1,435,298	7,164,160	8,599,458
Special assessments	-	501,181	501,181
Licenses and permits	4,626,104	140,525	4,766,629
Charges for services	4,741,636	243,503	4,985,139
Fines and forfeitures	4,875,564	25,443	4,901,007
Investment earnings	(922)	628	(294)
Other interest	-	108,449	108,449
Rent and leases	298,638	-	298,638
Miscellaneous	316,723	26,464	343,187
Total Revenues	53,469,690	13,012,968	66,482,658
Expenditures			
Current:			
General government	8,767,275	192,328	8,959,603
Economic Environment	2,931,068	-	2,931,068
Judicial	1,082,539	-	1,082,539
Natural Environment	114,567	-	114,567
Culture and recreation	5,764,728	119,680	5,884,408
Public safety	28,095,742	171,045	28,266,787
Social services	460,061	-	460,061
Transportation	1,223,777	4,290,083	5,513,860
Utilities	-	86,427	86,427
Capital Outlay	126,585	8,739,361	8,865,946
Debt Service:			
Principal retirement	-	1,401,410	1,401,410
Interest and fiscal charges	1,091	1,056,536	1,057,627
Total Expenditures	48,567,433	16,056,870	64,624,303
Excess (Deficiency) of Revenues Over (Under) Expenditures	4,902,257	(3,043,902)	1,858,355
Other Financing Sources (Uses)			
Insurance and claims	-	(1,698)	(1,698)
Transfers in	88,395	7,598,253	7,686,648
Transfers out	(3,462,313)	(2,355,801)	(5,818,114)
Total Other Financing Sources (Uses)	(3,373,918)	5,240,754	1,866,836
Net Change in Fund Balances	1,528,339	2,196,852	3,725,191
Fund Balances Beginning of Year, as Restated	17,902,317	11,281,274	29,183,591
Fund Balances End of Year	\$ 19,430,656	\$ 13,478,126	\$ 32,908,782

See accompanying notes to the basic financial statements

City of Lynnwood, Washington
Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended December 31, 2015

Net Changes In Fund Balances - Total Governmental Funds		\$ 3,725,191
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures on the governmental fund type operating statement. However, in the government-wide statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capitalized capital outlay exceeded depreciation expense in the current period.		
	Depreciation expense	\$ (5,228,315)
	Capital outlay	8,865,946
	Less amount of capital outlay not capitalized	<u>-</u>
		3,637,631
The book value of capital assets sold are reported on the government-wide statement of activities but not reported in the governmental fund's operating statement.		(13,318)
Revenues in the government-wide statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
	Property taxes, fines and special assessments:	
	Deferred @ 12/31/15	\$ 4,840,238
	Deferred @ 12/31/14	<u>(5,687,593)</u>
		(847,355)
Contributions		4,999,913
Governmental funds do not report the change in the investment in the joint venture, but the change is reported on the government-wide statement of activity.		(74,808)
Elimination of transfers between governmental funds:		
	Transfers in	\$ (4,803,068)
	Transfers out	<u>4,803,068</u>
		-
The internal service fund is used by management to charge the costs of maintenance services to individual funds are not reported in the government-wide statement of activities. Governmental fund expenditures and related internal service fund revenues are eliminated.		729,245
The internal service fund chargeback to enterprise funds is not reported in the governmental funds, but is reported on the government-wide financial statements.		(86,772)
Reduction of outstanding general obligation Mhz debt in SERS reported in the government-wide statement of net position but not reported in the governmental funds.		46,546
Repayment of long-term debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the government-wide statement of net position.		1,401,411
Other postemployment expenses are reported in the government-wide statement of activities, but do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		(1,367,738)
Net pension debits reported on the government-wide statement of position but not reported on the governmental fund balance sheet.		1,041,065
Compensated absences are reported in the government-wide statement of activities, but do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
	Liability @ 12/31/15	\$ (4,417,193)
	Liability @ 12/31/14	<u>4,485,878</u>
		68,685
Change In Net Position of Governmental Activities		<u><u>\$ 13,259,696</u></u>
See accompanying notes to the basic financial statements		

City of Lynnwood, Washington
Statement of Net Position
Proprietary Funds
December 31, 2015

	Business-type Activities - Enterprise Funds			Governmental Activities - Internal Service Fund
	Water and Sewer Utility	Golf Course	Total	
Assets				
Current Assets:				
Cash and cash equivalents	\$ 6,142,141	\$ 231,499	\$ 6,373,640	\$ 3,720,958
Investments	6,170,702	57,293	6,227,995	452,634
Receivables:				
Accounts	3,239,953	2,392	3,242,345	20,145
Intergovernmental	-	-	-	95,734
Interest	5,100	-	5,100	-
Inventories		22,282	22,282	-
Prepaid items	82,109	3,355	85,464	463,654
Total Current Assets	15,640,005	316,821	15,956,826	4,753,125
Noncurrent Assets:				
Restricted assets: cash and cash equivalents	24,350,456	36,665	24,387,121	-
Notes receivable	61,322	-	61,322	-
Capital assets:				
Nondepreciable	18,521,952	3,663,369	22,185,321	43,294
Depreciable, net	32,703,806	210,377	32,914,183	6,543,404
Total Noncurrent Assets	75,637,536	3,910,411	79,547,947	6,586,698
Deferred Outflows of Resources-Pensions	254,109	-	254,109	37,723
Total Assets and Deferred Outflows of Resources	91,531,650	4,227,232	95,758,882	11,377,546
Liabilities				
Current Liabilities:				
Accounts payable	2,540,475	12,985	2,553,460	74,995
Accrued payroll	141,311	-	141,311	24,166
Retainage payable	52,044	-	52,044	-
Interfund payable	-	150,000	150,000	445,000
Custodial accounts payable	99,469	51	99,520	-
Compensated absences payable	89,146	-	89,146	12,846
Claims and judgments payable	-	-	-	34,750
Deposits payable	-	19,573	19,573	-
Unearned revenue	-	17,093	17,093	-
Revenue bonds payable	1,265,000	-	1,265,000	-
Accrued interest payable	84,025	-	84,025	-
Total Current Liabilities	4,271,470	199,702	4,471,172	591,757
Long-Term Liabilities: (net of current portion)				
Compensated absences payable	217,104	-	217,104	43,629
Interfund payable	-	1,050,000	1,050,000	-
Net pension liability	2,340,634	-	2,340,634	347,472
Revenue bonds payable	35,842,602	-	35,842,602	-
Total Long-term Liabilities	38,400,340	1,050,000	39,450,340	391,101
Deferred Inflows of Resources	354,849	-	354,849	52,677
Total Liabilities and Deferred Inflows of Resources	43,026,659	1,249,702	44,276,361	1,035,535
Net Position				
Net investment in capital assets	31,610,925	3,873,746	35,484,671	6,586,698
Restricted for:				
Debt service	1,265,000	-	1,265,000	-
Capital outlay	314,068	-	314,068	-
Unrestricted	15,314,998	(896,216)	14,418,782	3,755,313
Total Net Position	\$ 48,504,991	\$ 2,977,530	51,482,521	\$ 10,342,011
Reconciliation of the fund level statement of net position to the government-wide statement of net position:				
Record internal service fund charge-back to enterprise funds resulting in an interfund receivable to governmental activities.			(86,772)	
Adjusted Total Net Position			\$ 51,395,749	

See accompanying notes to the basic financial statements.

City of Lynnwood, Washington
Statement of Revenues,
Expenses and Changes in Fund Net Position
Proprietary Funds
For the Year Ended December 31, 2015

	Business-type Activities - Enterprise Funds			Governmental Activities - Internal Service Fund
	Water and Sewer Utility	Golf Course	Total	
Operating Revenues				
Charges for services	\$ 18,292,097	\$ 1,077,916	\$ 19,370,013	\$ 3,536,399
Rentals	-	134,864	134,864	-
Miscellaneous	-	1,412	1,412	65,947
Total Operating Revenues	18,292,097	1,214,192	19,506,289	3,602,346
Operating Expenses				
Administration and general	3,598,038	-	3,598,038	86,485
Operations and maintenance	10,048,139	1,061,591	11,109,730	1,391,953
Insurance and claims	-	-	-	850,749
Depreciation	2,918,798	51,144	2,969,942	777,079
Total Operating Expenses	16,564,975	1,112,735	17,677,710	3,106,266
Operating Income	1,727,122	101,457	1,828,579	496,080
Non-Operating Revenues (Expenses)				
Interest and fiscal charges	(512,298)	(2,059)	(514,357)	-
Other nonoperating revenue	-	-	-	43,215
Gain on disposition of capital assets	1,037	-	1,037	189,949
Debt issuance costs	(277,509)	-	(277,509)	-
Investment earnings	15,639	-	15,639	-
Total Non-Operating Revenues (Expenses)	(773,131)	(2,059)	(775,190)	233,164
Income (Loss) Before Contributions and Transfers	953,991	99,398	1,053,389	729,244
Contributions	111,009	-	111,009	-
Transfers In	1,015,045	-	1,015,045	-
Transfers Out	(2,883,579)	-	(2,883,579)	-
Change in Net Position	(803,534)	99,398	(704,136)	729,244
Net Position Beginning of Year, As Restated	49,308,525	2,878,132	52,186,657	9,612,767
Net Position End of Year	\$ 48,504,991	\$ 2,977,530	\$ 51,482,521	\$ 10,342,011
Reconciliation of the fund level operating statement to the government-wide statement of activities:				
Change in net position	\$ (803,534)	\$ 99,398	\$ (704,136)	
Internal service fund charges (credits) to enterprise funds, resulting in changes to operating expenses.	(86,772)	-	(86,772)	
Adjusted Change in Net Position	\$ (890,306)	\$ 99,398	\$ (790,908)	

See accompanying notes to the basic financial statements

City of Lynnwood, Washington
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2015

	Business-type Activities - Enterprise Funds			Governmental Activities - Internal Service Fund
	Water and Sewer Utility	Golf Course	Total	
Increase (Decrease) in Cash and Cash Equivalents				
Cash Flows from Operating Activities				
Cash received from customers	\$ 18,156,028	\$ 1,214,769	\$ 19,370,797	\$ 65,947
Cash received from interfund services provided	-	-	-	3,612,277
Cash payments to suppliers	(5,737,617)	-	(5,737,617)	-
Cash payments to employees for services	(4,097,201)	-	(4,097,201)	(546,444)
Cash payments for goods and services	-	(1,076,892)	(1,076,892)	(2,428,601)
Cash received (paid) from/to other funds	(1,868,535)	(102,821)	(1,971,356)	-
Net Cash Provided by (Used in) Operating Activities	6,452,675	35,056	6,487,731	703,179
Cash Flows from Non-Capital financing activities				
Interfund loan received	-	(2,059)	(2,059)	445,000
Insurance Recoveries	-	-	-	43,215
Net Cash Flows from non-Capital and related financing activities	-	(2,059)	(2,059)	488,215
Cash Flows from Capital and Related Financing Activities				
Proceeds from disposition of capital assets	1,037	-	1,037	189,949
Proceeds from revenue bonds	24,075,000	-	24,075,000	-
Principal paid on revenue bonds	(1,002,836)	-	(1,002,836)	-
Interest paid on revenue bonds	(835,484)	-	(835,484)	-
Bond issue costs paid on revenue bonds	-	-	-	-
Principal paid on public works trust fund loan	-	-	-	-
Capital Contributions	111,009	-	111,009	-
Payments for capital acquisitions	(8,122,211)	-	(8,122,211)	(1,541,158)
Net Cash Provided by (Used in) Capital and Related Financing Activities	14,226,515	-	14,226,515	(1,351,209)
Cash Flows from Investing Activities				
Purchase of investment securities	(6,246,217)	(57,293)	(6,303,510)	(458,046)
Proceeds from sale and maturities of investment securities	-	-	-	(5,411)
Investment earnings	(59,876)	-	(59,876)	-
Net Cash Provided by (Used in) Investing Activities	(6,306,093)	(57,293)	(6,363,386)	(463,457)
Net Increase (Decrease) in Cash and Cash Equivalents	14,373,097	(24,296)	14,348,801	(623,272)
Cash and Cash Equivalents Beginning of Year	16,119,500	292,460	16,411,960	4,392,615
Cash and Cash Equivalents End of Year	\$ 30,492,597	\$ 268,164	\$ 30,760,761	\$ 3,769,343

(Continued)

See accompanying notes to financial statements

City of Lynnwood, Washington
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2015

(Continued)

	Business-type Activities - Enterprise Funds			Governmental Activities - Internal Service Fund
	Water and Sewer Utility	Golf Course	Total	
Reconciliation of Operating (Loss) to Net Cash Provided by (Used in) Operating Activities				
Operating Income (Loss)	\$ 1,727,122	\$ 101,457	\$ 1,828,579	\$ 496,080
Adjustments:				
Depreciation	2,918,798	51,144	2,969,942	777,079
(Increase) Decrease in Assets:				
Accounts receivable	(228,534)	1,989	(226,545)	9,931
Inventories, deposits, and prepaid items	(52,807)	(2,412)	(55,219)	(570,007)
Increase (Decrease) in Liabilities:				
Accounts payable	1,214,653	(14,301)	1,200,352	(9,508)
Intergovernmental payable	-	-	-	-
Compensated absences payable	37,664	-	37,664	(396)
Other Current Liabilities	835,779	(102,821)	732,958	-
Net Cash Provided by (Used in) Operating Activities	<u>\$ 6,452,675</u>	<u>\$ 35,056</u>	<u>\$ 6,487,731</u>	<u>\$ 703,179</u>
Schedule of Non-Cash Capital and Related Financing Activities				
Capital assets written off or retirement	\$ 5,054	\$ -	\$ 5,054	\$ -
Contribution of capital assets from developers	111,009	-	111,009	-
Total Non-Cash Activities	<u>\$ 116,063</u>	<u>\$ -</u>	<u>\$ 116,063</u>	<u>\$ -</u>

See accompanying notes to the basic financial statements

City of Lynnwood, Washington
Statement of Fiduciary Net Position
Fiduciary Funds
December 31, 2015

	Pension Trust	Private Purpose Trust	Agency
Assets			
Cash and cash equivalents	\$ 419,955	\$ 15,310	\$ 1,448,765
Investments	89,715	3,275	-
Total Assets	509,670	18,585	\$ 1,448,765
Liabilities			
Deposits payable	-	-	31,884
Wages and Vouchers Payable	-	-	1,416,881
Total Liabilities	-	-	\$ 1,448,765
Net Position			
Restricted for pensions	509,670		
Restricted for other purpose	-	18,585	-
Total Net Position	\$ 509,670	\$ 18,585	\$ -

See accompanying notes to the basic financial statements

City of Lynnwood, Washington
Statement of Changes in Fiduciary Net Position
Fiduciary Funds
For the Year Ended December 31, 2015

	Pension Trust	Private-purpose Trust
Additions:		
Contributions:		
Intergovernmental	\$ 55,514	\$ -
Other	-	1,294
Investment earnings	-	-
Total Additions	55,514	1,294
Deductions:		
Benefits	161,236	-
Total Deductions	161,236	-
Change in Net Position	(105,722)	1,294
Net Position Beginning of Year	615,392	17,291
Net Position End of Year	\$ 509,670	\$ 18,585

See accompanying notes to the basic financial statements

The City of Lynnwood, Washington (the City) 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 and provides the following services: public safety (police and fire protection), public works (streets, sanitation, and utilities), culture, recreation, and library services, planning and zoning, and general administrative services.

Note 1 - Summary of Significant Accounting Policies

The financial statements of the City have been prepared in conformity with accounting principles generally accepted in the United States (GAAP) as applied to governments. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for governmental accounting and financial reporting.

The most significant of the City's accounting policies are described below.

1-A. Reporting Entity

The reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that the financial statements are not misleading. The primary government of the City consists of all funds, departments, boards and agencies that are not legally separate from the City. For the City of Lynnwood, this entity includes component units as described below.

Component units are legally separate organizations for which the City is financially accountable. The City is financially accountable for an organization if the City appoints a voting majority of the organization's governing board and (1) the City is able to significantly influence the programs or services performed or provided by the organizations; or (2) the City is legally entitled to or can otherwise access the organization's resources; the City is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to the organization; or the City is obligated for the debt of the organization. Component units also may include organizations that are fiscally dependent on the City in that the City approves the budget, levies their taxes or issues their debt.

The City's component units are presented either as "blended" or "discretely presented." If blended, it is reported as if it were a fund of the City throughout the year. It is included at both the government-wide and fund financial reporting levels.

Discretely presented component units are reported only at the government-wide financial reporting level. The component unit columns included on the government-wide financial statements identify the financial data of the City's discretely presented component units. They are reported separately to emphasize that they are legally separate from the City.

A brief description of the blended component unit follows:

Transportation Benefit District (TBD) – The City of Lynnwood Council formed the 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 TBD that are consistent with the existing state, regional, and local transportation plans. The TBD 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, the TBD 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 following component unit is discretely presented in the reporting entity:

South Snohomish County Public Facilities District (PFD) - The PFD was established by City Ordinance No 2266 on August 24, 1999, to finance, design, construct, operate and maintain a regional center as a conference, convention or special events center. A five-member board governs the PFD and is appointed to four-year terms by the City Council. In 2003 the name was changed to Lynnwood PFD. The City provides funding for the PFD through hotel/motel taxes, making the PFD dependent upon the City for its revenue source. The PFD issued \$1.93 million Series A Sales Tax Bonds, \$10 million Series B tax exempt Sales Tax Bonds in 2004 and \$17.265 million in Revenue Bonds in 2005. The PFD refunded the Revenue Bonds and Series B Sales Tax Bonds in 2015. As of December 31, 2015 the outstanding sales tax and revenue bonds were \$9,877,100 and \$16,612,600, respectively. S&P also raised the bond rating for the City's PFD's bonds, issued on behalf of the City, from "A" to "AA+." The City is contingently liable to the PFD bonds. Separate financial statements for the PFD can be obtained from the Lynnwood PFD Administrative Offices at 3815 196th Street SW, Suite 136, Lynnwood, WA 98036.

Note 1 - Summary of Significant Accounting Policies (Continued)

1-B. Basis of Presentation

The City's basic financial statements consist of government-wide statements, including a statement of net position and a statement of activities and fund financial statements, which provide a more detailed level of financial information.

Government-wide Financial Statements - The government-wide financial statements include the statement of net position and the statement of activities. These statements report financial information for the City as a whole. Fiduciary activities are not included at the government-wide financial reporting level. Individual funds are not displayed but the statements distinguish governmental activities, generally supported by taxes and grants and City's general revenues, from business-type activities, generally financed in whole or in part with user fees charged to external customers.

The statement of net position presents the financial position of the governmental and business-type activities of the City.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the City's governmental activities and for each identifiable activity of the business-type activities of the City. Direct expenses are those that are specifically associated with a function and therefore clearly identifiable to that particular function. The City does not allocate indirect expenses to functions in the statement of activities.

The statement of activities reports the expenses of a given function offset by program revenues directly connected with the functional program. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with a distinct functional activity. Program revenues include: (1) charges for services which report fees and other charges to users of the City's services; (2) operating grants and contributions which finance annual operating activities including restricted investment income; and (3) capital grants and contributions which fund the acquisition, construction, or rehabilitation of capital assets. These revenues are subject to externally imposed restrictions to these program uses. For identifying to which function program revenue pertains, the determining factor for *charges for services* is which function *generates* the revenue. For *grants and contributions*, the determining factor is to which function the revenues are *restricted*.

Other revenue sources not properly included with program revenues are reported as general revenues of the City. The comparison of direct expenses with program revenues identifies the extent to which each governmental function and each identifiable business activity is self-financing or draws from the general revenues of the City.

Fund Financial Statements - During the year, the City segregates transactions related to certain City functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the City at this more detailed level. Fund financial statements are provided for governmental, proprietary and fiduciary funds.

Note 1 - Summary of Significant Accounting Policies (Continued)

Major individual governmental and enterprise funds are reported in separate columns.

Fund Accounting - The City uses funds to maintain its financial records during the year. A fund is a fiscal and accounting entity with a self-balancing set of accounts. The City uses three categories of funds: governmental, proprietary and fiduciary.

Governmental Funds - Government funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Fund liabilities are assigned to the fund from which they will be liquidated. The City reports the difference between governmental fund assets and liabilities as fund balance. The following are the City's major governmental funds that are included in the City's major fund, the General Fund:

The General Fund – The general fund accounts for all financial resources except those required to be accounted for in another fund. The general fund's fund balance is available to the City for any purpose provided it is expended or transferred according to the general laws of the State of Washington. The General Fund includes the following managerial funds:

The Revenue Stabilization Fund was established to accumulate resources 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 Economic Development Infrastructure Fund is used to support and promote the Economic Development Policy outlined in Resolution 2012-06. Resources are used to fund the City's participation in public infrastructure and public facilities.

Proprietary Funds - Proprietary fund reporting focuses on the determination of operating income, changes in net position, financial position and cash flows. The proprietary funds are classified as enterprise funds and an internal service fund. The following are the City's major enterprise funds:

The Water, Sewer and Storm Drainage Utility Fund serves as the main operating fund for providing water, sewer, and storm water utility services for the citizens of the City. It also acts to perform debt service duties for payment of outstanding revenue bonds.

The Golf Course Fund accounts for the City's 18-hole municipal golf course and pro shop which is managed and operated by Premier Golf Centers, LLC.

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.

Additionally, the City reports the following fund types:

Special Revenue Funds are used to account for the proceeds for 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.

Note 1 - Summary of Significant Accounting Policies (Continued)

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 various deposits payable to State and local agencies and private contractors.

1-C. Measurement Focus

Government-wide Financial Statements – The government-wide financial statements are prepared using the economic resources measurement focus. All assets and deferred outflows, and all liabilities and deferred inflows associated with the operation of the City are included on the statement of net position. The statement of activities reports revenues and expenses. The government-wide financial statements do not include the fiduciary fund types.

Fund Financial Statements - All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the governmental fund statements.

Like the government-wide statements, all proprietary fund types and the pension trust fund are accounted for on a flow of economic resources measurement focus on both financial reporting levels. All assets and all liabilities associated with the operation of these funds are included on the statements of net position. The statements of changes in fund net position present increases (i.e., revenues) and decreases (i.e., expenses) in net total position. The statement of cash flows provides information about how the City finances and meets the cash flow needs of its proprietary activities. The agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

1-D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. At the fund reporting level, the governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds use the accrual basis of accounting at both reporting levels. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred inflows and outflows, and in the presentation of expenses versus expenditures.

Revenues – Exchange Transactions - Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On the modified accrual basis, revenue is recorded when the exchange takes place and in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the City, the phrase “available for exchange transactions” means expected to be received within 60 days of year-end.

Note 1 - Summary of Significant Accounting Policies (Continued)

Revenues - Non-Exchange Transactions - Non-exchange transactions in which the City receives value without directly giving equal value in return, include sales taxes, property taxes, grants and donations. On an accrual basis, revenue from sales taxes is recognized in the period in which the taxable sale takes place. Revenue from property taxes is recognized in the fiscal year for which the taxes are levied. (Note 3-C) Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions also must be available (i.e., collected within 60 days) before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be susceptible to accrual: property taxes, and federal and state grants.

Unearned Revenues – Unearned revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

On both the government-fund financial statements and the government-wide financial statements, revenues are deferred for:

- Grants and entitlements received before the eligibility requirements are met (e.g. cash advances.)

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred. On the modified accrual basis, expenditures generally are recognized in the accounting period in which the related fund liability is incurred and due, if measurable.

1-E. New Accounting and Reporting Standards

In June 2012, the Governmental Accounting Standards Board (GASB) issued Statement No. 68, *Accounting and Financial Reporting for Pensions*. This statement amends GASB Statement No. 27 and is effective for fiscal periods beginning after June 15, 2014. It requires governments providing defined benefit pensions to their employees to recognize the net pension liability for pension benefits on their statements of net position. Net position liability is measured as total pension liability, less the amount of a plan's fiduciary net position. Currently, the City participates in three different multiple-employer plans and one single employer plan and has implemented this Statement for the year ended December 31, 2015.

In November 2013, GASB also issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, an amendment of GASB Statement No. 68. The purpose of this statement is to address an issue regarding application of the transition provisions of GASB Statement No. 68, *Accounting and financial Reporting for Pensions*. The statement relates to amounts associated with contributions, if any, made by a state or local government employer, or non-employer contributing entity, to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. Currently, the City makes contributions to the multiple-employer plan after the measurement date and has implemented this Statement for the year ended December 31, 2015.

GASB Statement No. 68 identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. In addition, prior to implementing GASB Statement No. 68, employers participating in a cost-sharing plan recognized annual pension expense essentially equal their contractually required contribution to the plan. Upon the adoption of GASB Statement No. 68, employers participating in cost-sharing plans recognize their proportionate share of the collective pension amounts for all benefits provided through the plan based on an allocation methodology. Employers participating in single employer plans recognize a liability equal to the net pension liability.

The collective financial impact resulting from the implementation of GASB Statements No. 68 and 71 is the restatement of 2015 beginning balances by \$10.8 million for the City of Lynnwood's portion of the net pension liability incurred in prior years, which is then allocated across government and business units. See financial statement Note 3-H and financial statement Note 4-E for further details on the impact to the City of Lynnwood.

Note 1 - Summary of Significant Accounting Policies (Continued)

1-F. Assets, Liabilities and Net Position/Fund Balances

1-F-1 Cash, Cash Equivalents, and Investments

Cash and cash equivalents include amounts in demand deposits as well as short-term investments with a maturity date within three months of the date acquired by the City.

Investments are stated at fair value based on quoted market prices.

The City is empowered to invest in the following types of securities identified as eligible investments as defined by RCW 35A.40.050 and RCW 43.84.080. In general, these consist of:

- Investment deposits (certificates of deposits) with qualified public depositories as defined in Chapter 39.58 RCW.
- Certificates, notes or bonds of the United States, or other obligations of the United States or its agencies, or of any corporation wholly owned by the government of the United States whose securities carry full faith and credit guarantees.
- Obligations of government sponsored corporations, which are eligible as collateral for advances to member banks as determined by the Board of Governors of the Federal Reserve System. (These include but are not limited to, Federal Home Loan Bank notes and bonds, Federal Farm Credit Bank consolidated notes and bonds, and Federal National Mortgage Associates notes.)
- Prime bankers acceptances purchased on the secondary market.
- Repurchase agreements for securities listed above, provided that the transaction is structured so that the City obtains ownership and control over the underlying securities. A Master repurchase agreement between the City and the bank or dealer must be on file prior to any repurchase agreement transaction.
- The Washington Local Government Investment Pool

Interest earnings are allocated to each fund monthly, based on average pooled equity balances.

1-F-2 Receivables

All trade and tax receivables are reported net of an allowance for uncollectibles, where applicable. Taxes receivable consists of property taxes, sales tax, utility taxes, gambling taxes, liquor excise tax and state shared program revenues.

1-F-3 Interfund Balances

On the fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "intergovernmental receivable/interfund payable." These amounts are eliminated in the governmental and business-type activities columns of the statement of net position, except for any net residual amounts due between governmental and business-type activities, which are reclassified and presented as internal balances.

1-F-4 Inventories

On the government-wide financial statements and at the fund financial reporting level, inventories are presented at cost using the weighted average cost method and are expensed when used (i.e., the consumption method).

1-F-5 Capital Assets (see Note 3-D)

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in governmental funds. The City reports these assets in the governmental activities column of the government-wide statement of net position but does not report these assets in the Government fund financial statements. Capital assets utilized by enterprise funds are reported both in the business-type activities column of the government-wide statement of net position and in the enterprise funds' statement of net position.

Note 1 - Summary of Significant Accounting Policies (Continued)

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The City maintains a capitalization threshold of five thousand dollars and an estimated three year life. Improvements to capital assets are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are expensed. Interest incurred during the construction of capital assets utilized by enterprise funds is capitalized.

All reported capital assets are depreciated except for land and construction in progress. Improvements are depreciated over the remaining useful lives of the related capital assets. Useful lives for infrastructure were estimated based on the City's historical records of necessary improvements and replacement.

Depreciation is computed using the straight-line method over the following useful lives:

Asset Class	Estimated Useful Lives (YRS)
Buildings	10 - 50
Improvements other than Buildings	10 - 50
Machinery and equipment	3 - 20
Infrastructure	15 - 100

At the inception of capital leases at the governmental fund reporting level, expenditures and an "other financing source" of an equal amount are reported at the net present value of future minimum lease payments.

1-F-6 Compensated Absences

Vacation and sick benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the employer will compensate the employees for the benefits through paid time off or some other means.

The city limits the accumulation of unpaid vacation benefits to two year's 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 of retirement of employment, unused sick leave may be converted to pay at the current rate on the following basis:

- Termination – Voluntary or discharge
1. Five hours of up to 720 hours unused sick leave = 1 hour pay.
- Termination by layoff
2. Three hours of up to 720 hours unused sick leave = 1 hour pay.
- Retirement
3. Two year's 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.

The total compensated absence liability is reported on the government-wide financial statements. Proprietary funds report the total compensated liability in each individual fund at the fund reporting level. Governmental funds report the compensated absence liability at the fund reporting level only "*when matured (i.e., due).*"

1-F-7 Pensions and Other Post-Employment Benefits

Pensions - The purpose measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of all state sponsored pension plans and additions to/deductions from those plans' fiduciary net position have been determined on the same basis as they are reported by the Washington State Department of Retirement Systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value.

Note 1 - Summary of Significant Accounting Policies (Continued)

OPEB - Lifetime full medical coverage is provided to uniformed Police and Fire personnel who became members of the Law Enforcement Officers and Fire Fighters (LEOFF) retirement system prior to October 1, 1977. A liability for the accumulated unfunded actuarially required contributions is reported in the Statement of Net Position. Actual medical costs are reported as expenditures in the general fund in the year they are incurred.

1-F-8 Accrued Liabilities and Long-term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, compensated absences that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are “due for payment” during the current year. Bonds and local loans are recognized as a liability in the governmental fund financial statements when due.

1-F-9 Bond Premiums and Discounts and Issuance Costs

On the government-wide statement of net position and the proprietary fund type statement of net position, debt premiums and discounts are netted against the debt payable for reporting purposes. On the government-wide and proprietary fund type statement of activities, debt premiums and discounts, are deferred and amortized over the life of the using the effective interest method.

Bond issuance costs are recognized as an outflow of resources in the reporting period in which they are incurred.

1-F-10 Net Position/Fund Balances (Fund Equity)

Fund equity at the governmental fund financial reporting level is classified as “fund balance.” Fund equity for all other reporting is classified as “net position.”

Fund Balance – Generally, fund balance represents the difference between the current assets and current liabilities. In the fund financial statements, governmental funds report fund classifications that comprise a hierarchy based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. Fund balances are classified as follows:

- ***Nonspendable*** – Fund balances are reported as nonspendable when amounts cannot be spent because they are either (a) not in spendable form (i.e., items that are not expected to be converted to cash) or (b) legally or contractually required to be maintained intact.
- ***Restricted*** – Fund balances are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.
- ***Committed*** – Fund balances are reported as committed when they can be used only for specific purposes pursuant to constraints imposed by formal action of the City Council through the approval of a motion. Only, the City Council also may modify or rescind the commitment.
- ***Assigned*** – Fund balances are reported as assigned when amounts are constrained by the City’s intent to be used for specific purposes, but are neither restricted nor committed. Through resolution, the City Council has authorized the City manager or designee to assign fund balances.
- ***Unassigned*** - Fund balances are reported as unassigned as the residual amount when the balances do not meet any of the above criterion. The City reports positive unassigned fund balance only in the general fund. Negative unassigned fund balances may be reported in all funds.

Note 1 - Summary of Significant Accounting Policies (Continued)

Net Position Flow Assumptions – In order to report net position as a restricted – net position and an unrestricted – net position in the government-wide and proprietary fund financial statements, the City has established a flow assumption policy. It is the City's policy to use restricted – net position first before using unrestricted – net position.

Fund Balance Flow Assumptions – It is the City's policy to consider restricted fund balance to have been used before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, it is the City's policy to use fund balance in the following order:

- Committed
- Assigned
- Unassigned

Fund Balance Policy – Resolution No. 2014-20 which was adopted by the City Council on November 10, 2014 amending attachment A to Resolution No. 2011-06 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:

1. The City's General Fund shall maintain an *unassigned* fund balance of at least the amount equivalent to the average of two month's expenses in the prior fiscal year.
2. Achieving and maintaining this balance is the highest priority over developing and maintaining other general fund reserves.
3. The restricted reserves are intended to protect the City from major economic downturns and similar adverse financial conditions.
 - a. It will be the goal of the City to maintain a Revenue Stabilization Fund at a level to cover at least two month's operations in the General Fund which is equivalent to \$9,000,000 in 2011.
 - b. 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.
 - c. 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 until the target in policy 3.b. is achieved.
4. The City will review the unrestricted General Fund balance and Revenue Stabilization Fund 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.
5. Expenditures drawn from reserve accounts require prior Council approval unless previously specifically authorized by the City Council for expenditure in the budget.

As of December 31, 2015, the City has met the policy's 2016 target and continues to monitor the adequacy of the unencumbered General Fund balance for future transfers to the Stabilization Fund. On November 28, 2016 the City Council adopted Resolution 2016-19 amending attachment A to the revised Resolution No 2014-20 revising the General Fund and Rate Stabilization Fund reserve requirements. The new policy also establishes reserve requirements for the City's Utility Funds. The new policy will go into effect November 30, 2016.

Net Position – The net position represents the difference between assets and liabilities. The net position component, "net investment in capital assets, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used (i.e., the amount that the City has not spent) for the acquisition, construction or improvement of those assets. The net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The balance of the net position is reported as unrestricted.

1-F-11 Operating Revenues and Expenses

Operating revenues and expenses generally result from providing services and producing and delivering goods in consistent with a proprietary fund's principal ongoing operations. The principal operating revenues of the city's utility funds and internal service funds are charges to customers for sales and services and vehicle replacement. The City also recognizes as operating revenue the portion of utility connection fees intended to recover the cost of connecting new customers to the water and sewer system.

Note 1 - Summary of Significant Accounting Policies (Continued)

Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, taxes, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues (i.e., investment earnings, operating grants and the gain on the disposition of capital assets) and non-operating expenses (i.e., interest expense, loss on the disposition of capital assets).

1-F-12 Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and the after non-operating revenues/expenses section in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements (i.e., they are netted).

Transfers between governmental and business-type activities on the government-wide statement of activities are reported as general revenues. Transfers between funds reported in the governmental activities column are eliminated. Transfers between funds reported in the business type activities column are eliminated.

1-F-13 Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

1-F-14 Comparative Data

Comparative total data for the prior year have been presented only for individual funds in the fund financial statements in order to provide an understanding of the changes in the financial position and operations of these funds. Also, certain amounts presented in the prior year data have been reclassified to be consistent with the current year's presentation.

1-F-15 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.

Note 2 – Stewardship, Compliance and Accountability

2-A. Budgetary Information – The City adopts biennial budgets for all governmental funds.

The legal level of control (the level at which expenditures may not legally exceed appropriations) for each adopted annual operating budget generally is the individual fund level. Any change in total to a fund requires approval of the City Council.

All budgets are adopted on a GAAP basis (i.e., modified accrual basis) All unexpended annual appropriations lapse at the end of the budget 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.

The Mayor is authorized to transfer budgeted amounts between departments within any fund with the exception of the General Fund. Any revisions that alter total expenditures of a fund or department in the General Fund 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 budget has been amended eight (8) times during the 2015-2016 biennium.

Note 3 - Detailed Notes on All Funds

3-A. Deposits and Investments

Custodial Credit Risk – Deposits – In the case of deposits, this is the risk that in the event of a bank failure, the City’s deposits may not be returned to it. The City’s bank balances of deposits as of December 31, 2015, are entirely insured by Federal Depository Insurance (FDIC) up to \$250,000 and all deposits not covered by FDIC insurance are covered by Washington Public Deposit Protection Commission (WPDPC) of the State of Washington for amounts over \$250,000.

The WPDPC is a statutory authority established under RCW Chapter 39.58. It constitutes a multiple financial institution collateral arrangement that provides for additional assessments against members of the pool on a pro rata basis up to a maximum of 10 percent of each institution’s public deposits. Provisions of RCW chapter 39.58, section 60 authorize the WPDPC to make pro rata assessments in proportion to the maximum liability of each such depository as it existed on the date of loss.

Investments

Interest Rate Risk – Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. In accordance with its investment policy, the City manages its exposure to declines in fair values by limiting the weighted average of maturity of its investments to less than eight years.

At December 31, 2015, the City held the following investments:

Investment Type	Fair Value	Maturity Date
Federal Farm Credit Bank	\$ 990,981	11/6/2018
FICO Strip Prin13	1,981,512	12/27/2018
Federal Farm Credit Bank	1,967,276	10/21/2019
Federal Farm Credit Bank	1,984,448	11/18/2019
Federal National Mortgage Association	2,204,208	1/10/2020
Total Fair Value	<u>\$ 9,128,425</u>	

Credit Quality Risk –Credit quality risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The ratings of debt securities as of December 31, 2015 are:

Debt Security	S & P Rating
Federal Farm Credit Bank	AA+
Federal Home Loan Mortgage Corporation	AA+

Custodial Credit Risk - Investments – For investments, custodial credit risk is the risk that, in the event of a bank failure, the City’s investments may not be recovered. All City securities are held for safekeeping by US Bank, as the City’s agent, in the City’s name.

Concentration of Credit Risk –Concentration of credit risk is the risk of loss attributed to the magnitude of the City’s investment in a single issuer. Currently, the City does not have an investment policy relating to concentration of credit risk.

The City’s investments in the Federal Farm Credit Bank and the Federal National Mortgage Association (Fannie Mae), government-sponsored enterprises, which are not explicitly backed by the federal government, are 10% and 3% of the City’s total investment portfolio market value, respectively.

Note 3 – Detailed Notes on All Funds (Continued)

Cash & Investment Reconciliation:

	Cash and Cash Equivalents	Investments	Total
Fund Reporting Level:			
Governmental Funds - Balance Sheet	\$ 25,385,748	\$ 2,354,806	\$ 27,740,554
Proprietary Funds - Statement of Net Position:			
Enterprise Funds	30,760,761	6,227,995	36,988,756
Internal Service Funds	3,720,958	452,634	4,173,592
Total	<u>\$ 59,867,467</u>	<u>9,035,435</u>	<u>\$ 68,902,902</u>
Cash			\$ 59,867,467
Investments			<u>9,035,435</u>
Total			<u>\$ 68,902,902</u>

Cash and Investments in this table contain restricted amounts, such as for customer deposits and unspent bond proceeds, and total \$103,545 and \$24,387,121 for Governmental Activities funds and Business Type Activities funds, respectively.

3-B. Receivables

Receivables and payables are recorded on the City's financial statements to the extent that the amounts are determined to be material and substantiated not only by supporting documentation, but also by a reasonable, systematic method of determining their existence, completeness, valuation, and in the case of receivables, collectibility.

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 fund, including the applicable allowance for uncollectible accounts:

	General Fund
Receivables	
Accounts	\$ 20,948,681
Property Taxes	101,616
Utility Taxes	1,017,825
Sales Tax	<u>3,961,483</u>
Gross Receivables	\$ 26,029,605
Less: Allowance for Uncollectibles	<u>(14,675,652)</u>
Total	<u>\$ 11,353,953</u>

Note 3 – Detailed Notes on All Funds (Continued)

3-C. Property Taxes

The County Treasurer acts as an agent to collect property taxes levied in the county for all taxing authorities. Collections are distributed to the City monthly. The following is the property tax calendar:

January 1	Property taxes are levied and become 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% of market value.
October 31	Second installment is due.

Property tax revenues are recognized in the year levied. At year-end, property tax revenues are recognized for collections to be distributed by the County Treasurer within sixty days and an adjustment to taxes receivable and deferred revenue is made to account for delinquent taxes. No allowance for uncollectible taxes is established because delinquent taxes are considered fully collectible.

The City may levy up to \$3.60 per \$1,000 of assessed valuation for general governmental services, subject to two limitations:

- a) Washington State law in RCW 84.55.010 limits the growth of regular property taxes to 1 percent per year, after adjustments for new construction.
- b) The Washington State Constitution limits the total regular property taxes to 1 percent of all assessed valuation of \$10 per \$1,000 of value. If the taxes of all districts exceed this amount, each is proportionately reduced until the total is at or below the 1 percent limit.

The City's regular levy for 2015 was \$2.45 per \$1,000 on an assessed valuation of \$4,771,220,851. The special levies identified in the table were approved by the voters and are not subject to the limitations listed above.

<u>Purpose of Levy</u>	<u>Levy Rate per \$1,000</u>	<u>Total Levy Amount</u>
General Government	\$1.98473628	\$9,469,615
Emergency Medical Service (EMS)	\$0.46565378	\$2,221,737
Total City Levy	\$2.45039006	\$11,691,352

Note 3 - Detailed Notes on All Funds (Continued)

3-D. Capital Assets

Capital asset activity for the year ended December 31, 2015, was as follows:

Governmental Activities: (including Internal Service fund):	Restated Beginning Balance 1/1/2015	Increases	Decreases	Ending Balance 12/31/2015
Nondepreciable capital assets:				
Land	\$ 32,203,279	\$ 6,268,267	\$ -	\$ 38,471,546
Easements	436,742	2,276	-	439,018
Art, non-depreciable	164,517	-	-	164,517
Construction in progress	7,982,877	7,520,198	(9,879,616)	5,623,459
Total nondepreciable capital assets	40,787,415	13,790,741	(9,879,616)	44,698,540
Depreciable capital assets				
Buildings	45,935,945	209,463	-	46,145,408
Improvements other than buildings	23,714,739	251,216	-	23,965,955
Machinery and equipment	19,407,067	1,490,346	(686,690)	20,210,723
Infrastructure	83,915,930	9,418,937	-	93,334,867
Total depreciable capital assets	172,973,681	11,369,962	(686,690)	183,656,953
Total capital assets	213,761,096	25,160,703	(10,566,306)	228,355,493
Less accumulated depreciation for:				
Buildings	(15,029,499)	(1,307,939)	-	(16,337,438)
Improvements other than buildings	(13,105,608)	(754,861)	-	(13,860,469)
Machinery and equipment	(10,147,569)	(1,315,243)	662,703	(10,800,109)
Infrastructure	(36,252,951)	(2,627,053)	-	(38,880,004)
Total accumulated depreciation	(74,535,627)	(6,005,096)	662,703	(79,878,020)
Governmental activities capital assets, net	\$ 139,225,469	\$ 19,155,607	\$ (9,903,603)	\$ 148,477,473

Note 3 - Detailed Notes on All Funds (Continued)

Business-Type Activities:	Restated Beginning Balance 1/1/2015	Increases	Decreases	Ending Balance 12/31/2015
Nondepreciable capital assets:				
Land	\$ 8,081,424	\$ -	\$ -	\$ 8,081,424
Easements	4,150,120	-	-	4,150,120
Construction in progress	2,958,589	7,369,756	(374,566)	9,953,779
Total nondepreciable capital assets	15,190,133	7,369,756	(374,566)	22,185,323
Depreciable capital assets				
Buildings	36,388,159	-	-	36,388,159
Improvements other than buildings	1,966,068	374,566	-	2,340,634
Machinery and equipment	4,731,924	173,977	(5,054)	4,900,847
Infrastructure	44,877,691	-	-	44,877,691
Total depreciable capital assets	87,963,842	548,543	(5,054)	88,507,331
Total capital assets	103,153,975	7,918,299	(379,620)	110,692,654
Less accumulated depreciation for:				
Buildings	(30,526,979)	(797,832)	-	(31,324,811)
Improvements other than buildings	(1,250,978)	(401,856)	-	(1,652,834)
Machinery and equipment	(2,150,470)	(297,645)	5,054	(2,443,061)
Infrastructure	(18,699,863)	(1,472,581)	-	(20,172,444)
Total accumulated depreciation	(52,628,290)	(2,969,914)	5,054	(55,593,150)
Business-type activities capital assets, net	\$ 50,525,685	\$ 4,948,385	\$ (374,566)	\$ 55,099,504

Note 3 - Detailed Notes on All Funds (Continued)

Depreciation Expense by Function:

Governmental Activities	
General Government	\$ 3,479,782
Public Safety	504,318
Natural Environment	168,081
Transportation	700,684
Economic Environment	46,098
Culture and Recreation	<u>1,106,133</u>
Total Depreciation Expense - Governmental Activities	<u><u>\$ 6,005,096</u></u>
Business-type Activities	
Water/Sewer/Storm Utility	\$ 2,918,770
Golf Course	<u>51,144</u>
Total Depreciation Expense - Business-Type Activities	<u><u>\$ 2,969,914</u></u>

The City implemented a capital asset accounting module in 2014. In the process of implementation and subsequent 2014 financial statement audit a number of prior year asset reporting errors were discovered. The City corrected the asset accounts and has restated beginning capital asset balances to reflect those corrections which are as follows (see also Note 4-E):

Transportation Infrastructure, net of depreciation	\$1,388,158
Reclassification of Buildings and Improvements, net of depreciation	\$1,411,396
Reclassification of Land and Construction in Progress	<u>\$ 571,978</u>
Sub-Total	\$3,371,533
Business Type Activity	
Water and Sewer Utility Infrastructure and Construction in Progress	<u><u>\$(614,742)</u></u>
Grand Total	<u><u>\$2,756,791</u></u>

Note 3 – Detailed Notes on All Funds (Continued)

Discretely Presented Component Unit Lynnwood Public Facilities District	Balance 1/1/2015	Increases	Decreases	Balance 12/31/2015
Nondepreciable capital assets:				
Land	\$ 6,788,800	\$ -	\$ -	\$ 6,788,800
Construction in progress	-	80,805	-	80,805
Total nondepreciable capital assets	6,788,800	80,805	-	6,869,605
Depreciable capital assets:				
Buildings	20,551,710	-	-	20,551,710
Intangible assets	27,500	(27,500)	-	-
Improvements other than buildings	1,053,940	111,151	(10,446)	1,154,645
Machinery and equipment	787,079			787,079
Infrastructure	79,375	-	-	79,375
Total depreciable capital assets	22,499,604	83,651	(10,446)	22,572,809
Total capital assets	29,288,404	164,456	(10,446)	29,442,414
Less accumulated depreciation for:				
Buildings	(4,860,349)	(438,140)		(5,298,489)
Intangible assets	(27,500)	27,500		-
Improvements other than buildings	(451,850)	(128,358)		(580,208)
Machinery and equipment	(759,920)	(27,158)		(787,078)
Infrastructure	(41,011)	(3,970)		(44,981)
Total accumulated depreciation	(6,140,630)	(570,126)	-	(6,710,756)
Business-type activities capital assets, net	\$ 23,147,774	\$ (405,670)	\$ (10,446)	\$ 22,731,658

3-E. - Interfund Transfers and Loans

Loans between funds are classified as either Interfund loans receivable and payable or advances to and from other funds, depending on the time period for which the loan was made. The City uses interfund loans primarily to meet short term and temporary cash flow requirements while waiting for mitigation and grant reimbursements. Advances to and from other funds are typically loans that are not expected to be repaid within one year from the date of the financial statements.

Note 3 – Detailed Notes on All Funds (Continued)

Interfund transfers for the year ended December 31, 2015, consisted of the following:

TRANSFER FROM	TRANSFER TO						
	General Fund	Special Revenue Fund	Debt Service Fund	Capital Projects Funds	Utility	Total	
	General Fund	\$ -	\$ -	\$ 1,797,844	\$ 1,664,469	\$ -	\$ 3,462,313
	Debt Service Funds	12,312	-	-	-	-	12,312
	Special Revenue Funds	76,083	150,000	-	740,000	-	966,083
	Capital Project Funds	-	175,001	-	1,202,406	-	1,377,407
	Utility Funds	-	-	-	1,868,533	1,015,046	2,883,579
	\$ 88,395	\$ 325,001	\$ 1,797,844	\$ 5,475,408	\$ 1,015,046	\$ 8,701,694	

Transfers are used to report revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations; to segregate money for anticipated capital projects; to provide additional resources for current operations or debt services; and to return money to the fund from which it was originally provided once a project is completed.

Generally, all City transfers either occur on a regular basis or are consistent with the purpose of the fund making the transfer.

Interfund Loans for the year ended December 31, 2015 consisted of the following:

		DUE FROM		
DUE TO		Internal		
		Golf Course	Service Funds	Total
	General Fund	\$ 1,200,000	\$ 445,000	\$ 1,645,000
	Total	<u>\$ 1,200,000</u>	<u>\$ 445,000</u>	<u>\$ 1,645,000</u>

Interfund loans provide one time, short term funding for equipment purchases and improvements from available and unassigned funds.

The General Fund loaned funds to Internal Service Funds for temporary cash flow needs. The loans were repaid in January 2016.

In July 2014, the City Council passed resolution 2014-07 approving a \$1.3 million loan from the General Fund to the Golf Fund for the Golf Fund's temporary cash flow needs. In July 2016 resolution 2014-07 was rescinded and replaced with resolution 2016-12 for a new loan amount of \$1,850,000 and a fifteen year loan payment schedule.

Note 3 – Detailed Notes on All Funds (Continued)

3-F – 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, 2015 was \$255,444 in governmental activities and \$130,067 in business-type activities. The future minimum lease payments for these leases are as follows:

Year Ending December 31	Governmental Activities	Business Type Activities
2016	\$ 298,742	\$ 53,585
2017	304,491	45,843
2018	182,695	46,814
2019	159,577	47,469
2020	160,950	48,002
2021-2024	46,387	31,173
	<u>\$ 1,152,842</u>	<u>\$ 272,886</u>

Printers and Copiers

The City leases many office printers and copiers under non-cancellable operating leases. These leases have changed to cancelable leases after 2015. Total costs for these leases for the year ending December 31, 2015 was \$12,247 in governmental activities and no equipment lease costs in business-type activities. The future minimum lease payments for the non-cancellable lease is, as follows:

Year Ending December 31	Governmental Activities	Business Type Activities
2016	\$ 8,751	\$ 673
2017	52,758	673
2018	52,758	673
2019	52,758	673
2020	52,758	673
	<u>\$ 219,783</u>	<u>\$ 3,365</u>

3-G. 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

Note 3 – Detailed Notes on All Funds (Continued)

Changes in Long-term liabilities - Changes in the City's long-term obligations consisted of the following for the year ended December 31, 2015 (includes internal service fund):

	Outstanding 1/1/2015	Additions	Reductions	Outstanding 12/31/2015	Amounts Due in One Year
Governmental Activities					
2005 general obligation bonds (800 Mhz)	\$ 618,178	\$ 571,631	\$ 719,588	\$ 470,221	\$ 104,146
2009 general obligation refunding bonds	955,000	-	310,000	645,000	315,000
2012 general obligation bonds	24,245,000	-	425,000	23,820,000	445,000
Special assessment bonds	1,670,000	-	565,000	1,105,000	400,000
Claims and judgements payable	39,381	34,750	39,381	34,750	-
Compensated absences	4,539,117	-	65,419	4,473,698	1,062,405
Net pension liability	257,272	11,721,472	257,272	11,721,472	-
Other post-employment benefits	3,093,333	1,367,738	-	4,461,071	-
Total Governmental Activities	\$ 35,417,281	\$ 13,695,591	\$ 2,381,660	\$ 46,731,212	\$ 2,326,551
Business-Type Activities					
2008 utility improvement refunding bonds	\$ 4,435,000	\$ -	\$ 265,000	\$ 4,170,000	\$ 275,000
2010 utility system revenue bonds	7,435,000	-	290,000	7,145,000	295,000
2015 utility system revenue bonds	-	24,075,000	-	24,075,000	695,000
Unamortized (Premiums)/Discounts	159,766	1,533,070	(24,766)	1,717,602	-
Net pension liability	-	2,340,634	-	2,340,634	-
Compensated absences	268,585	37,665	-	306,250	89,146
Total Business-Type Activities	\$ 12,298,351	\$ 27,986,369	\$ 530,234	\$ 39,754,486	\$ 1,354,146

The annual total requirements to amortize the debt outstanding for general obligation, revenue bonds, special assessment and installment notes payable as of December 31, 2015, including interest, are as follows:

Year	Governmental Activities		Business Type Activities		Total
	Principal	Interest	Principal	Interest	
2016	\$ 1,264,146	\$ 955,826	\$ 1,265,000	\$ 1,452,067	\$ 4,937,039
2017	1,273,951	902,989	1,405,000	1,312,801	4,894,741
2018	1,260,537	851,942	1,470,000	1,247,537	4,830,016
2019	966,587	821,063	1,535,000	1,180,338	4,502,988
2020	860,000	796,013	1,605,000	1,125,837	4,386,850
2021-2025	4,795,000	3,488,352	9,180,000	4,409,538	21,872,890
2026-2030	5,670,000	2,614,051	11,190,000	2,400,511	21,874,562
2031-2035	6,825,000	1,458,401	7,740,000	772,982	16,796,383
2036-2037	3,125,000	188,800	-	-	3,313,800
Total	\$ 26,040,221	\$ 12,077,437	\$ 35,390,000	\$ 13,901,611	\$ 87,409,269

Note 3 – Detailed Notes on All Funds (Continued)

Governmental Activities General Obligation Bonds

2005 General Obligation Bonds (800 Mhz) Loan – 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 4-D 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 and again in 2015, including the City's participation amount of \$1,519,147 in 2005 and \$470,221 in 2015. The City reports these bonds as 2005 general obligation bonds. The bonds are amortized over 15 years with interest payable semi-annually. The loan will be paid off in 2019.

Series 2009A and 2009B Limited Tax General Obligation Refunding Bonds - In April 2009 the City issued Limited Tax General Obligation Refunding Bonds for the purchase of software, equipment for police vehicles and golf course equipment and 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.

Series 2012 General Obligation Bonds - 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.

Business-type Activities – Revenue Bonds – The City has two outstanding revenue bond issues that were issued to fund the design and construction of various utility improvement projects.

2008 Utility System Revenue Bond - 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.

2010 Utility Improvement Refunding 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.

Note 3 – Detailed Notes on All Funds (Continued)

2015 Utility Improvement Refunding Bonds - The 2015 Utility System Revenue Bonds were issued on October 28, 2015. The proceeds from the sale of the bonds are to be utilized to redeem the City's Utility System Revenue Bond Anticipation Note and finance a portion of the carrying out of a Plan of additions, betterments, and extensions of the utility system. Some of the projects included in the Plan of Additions are general system improvements including water meter reading system upgrade and replacement, sewer facility replacements, installations and upgrades, wastewater treatment plant system upgrades, and storm water utility improvements. A portion of the proceeds also funds issuance and reserve costs associated with the sale. Annual principal payments range from \$695,000 to \$1,645,000 with interest varying from 2.375% to 5.0%. 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.

Contingent Liability for Public Facilities District (PFD) non-exchange transaction. (Please see Note 4-C – *Contingent Liabilities*.)

In reference to GASB Statement No. 70, it is not required for the City of Lynnwood to include the PFD's debt in its own financial statements as a liability unless the PFD gets into a position that it may not be able to make its debt service payments. (Please see Note 1 Discretely Presented Component Unit about its capacity of paying these bonds).

3-H. Pension Plans

The following table represents the aggregate pension amounts for all plans subject to the requirements of GASB 68 for the year 2015:

Aggregate Pension Amounts – All Plans	
Pension liabilities	\$14,062,106
Pension assets	\$5,847,477
Deferred outflows of resources	\$2,304,056
Deferred inflows of resources	\$3,643,126
Pension expense/expenditures	\$976,158

State Sponsored Pension Plans

Substantially all City 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 and defined contribution retirement plans. The state Legislature establishes, and amends, laws pertaining to the creation and administration of all public retirement systems.

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 98540-8380

Or the DRS CAFR may be downloaded from the DRS website at www.drs.wa.gov.

Note 3 – Detailed Notes on All Funds (Continued)

Public Employees' Retirement System (PERS)

PERS members include elected officials; state employees; employees of the Supreme, Appeals and Superior Courts; employees of the legislature; employees of City and municipal courts; employees of local governments; and higher education employees not participating in higher education retirement programs. PERS is comprised of three separate pension plans for membership purposes. PERS plans 1 and 2 are defined benefit plans, and PERS plan 3 is a defined benefit plan with a defined contribution component.

PERS Plan 1 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the member's average final compensation (AFC) times the member's years of service. The AFC is the average of the member's 24 highest consecutive service months. Members are eligible for retirement from active status at any age with at least 30 years of service, at age 55 with at least 25 years of service, or at age 60 with at least five years of service. Members retiring from active status prior to the age of 65 may receive actuarially reduced benefits. Retirement benefits are actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and non-duty disability payments, an optional cost-of-living adjustment (COLA), and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. PERS 1 members were vested after the completion of five years of eligible service. The plan was closed to new entrants on September 30, 1977.

Contributions - The **PERS Plan 1** member contribution rate is established by State statute at 6 percent. The employer contribution rate is developed by the Office of the State Actuary and includes an administrative expense component that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates. The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for 2015 were as follows:

PERS Plan 1		
Actual Contribution Rates:	Employer	Employee
January through June 2015	9.21%	6.00%
July through December 2015	11.18%	6.00%

The City's actual contributions to the plan were \$666,898 for the year ended December 31, 2015.

PERS Plan 2/3 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the member's average final compensation (AFC) times the member's years of service for Plan 2 and 1 percent of AFC for Plan 3. The AFC is the average of the member's 60 highest-paid consecutive service months. There is no cap on years of service credit. Members are eligible for retirement with a full benefit at 65 with at least five years of service credit. Retirement before age 65 is considered an early retirement. PERS Plan 2/3 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 benefit that is reduced by a factor that varies according to age for each year before age 65. PERS Plan 2/3 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions:

- With a benefit that is reduced by three 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 2/3 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of five 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 credit. PERS Plan 2/3 retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit. Other PERS Plan 2/3 benefits include duty and non-duty disability payments, a cost-of-living allowance (based on the CPI), capped at three percent annually and a one-time duty related death benefit, if found eligible by the Department of Labor and Industries. PERS 2 members are vested after completing five years of eligible service. 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 12 months of that service are earned after age 44.

Note 3 – Detailed Notes on All Funds (Continued)

PERS Plan 3 defined contribution benefits are totally dependent on employee contributions and investment earnings on those contributions. PERS Plan 3 members choose their contribution rate upon joining membership and have a chance to change rates upon changing employers. As established by statute, Plan 3 required defined contribution rates are set at a minimum of 5 percent and escalate to 15 percent with a choice of six options. Employers do not contribute to the defined contribution benefits. PERS Plan 3 members are immediately vested in the defined contribution portion of their plan.

Contributions - The **PERS Plan 2/3** employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 UAAL and an administrative expense that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates. The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2015 were as follows:

PERS Plan 2/3		
Actual Contribution Rates:	Employer 2/3	Employee 2
January through June 2015	9.21%	4.92%
July through December 2015	11.18%	6.12%
Employee PERS Plan 3		varies

The City's actual contributions to the plan were \$836,400 for the year ended December 31, 2015.

Public Safety Employees' Retirement System (PSERS)

PSERS Plan 2 was created by the 2004 Legislature and became effective July 1, 2006. To be eligible for membership, 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 membership includes:

- PERS 2 or 3 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
- Employees hired on or after July 1, 2006 by a covered employer, that meet at least one of the PSERS eligibility criteria.

PSERS covered employers include:

- Certain 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, Spokane, and Tacoma)
- Correctional entities formed by PSERS employers under the Interlocal Cooperation Act.

Note 3 – Detailed Notes on All Funds (Continued)

PSERS Plan 2 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the average final compensation (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. Members are eligible for retirement at the age of 65 with five years of service; or at the age of 60 with at least ten years of PSERS service credit; or at age 53 with 20 years of service. Retirement before age 60 is considered an early retirement. 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 three percent per year reduction for each year between the age at retirement and age 60 applies. PSERS Plan 2 retirement benefits are actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and non-duty disability payments, an optional cost-of living adjustment (COLA), and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. PSERS Plan 2 members are vested after completing five years of eligible service.

Contributions - The **PSERS Plan 2** employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2. The Plan 2 employer rates include components to address the PERS Plan 1 unfunded actuarial accrued liability and administrative expense currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates. The PSERS Plan 2 required contribution rates (expressed as a percentage of current-year covered payroll) for 2015 were as follows:

PSERS Plan 2		
Actual Contribution Rates:	Employer	Employee
January through June 2015	10.54%	6.36%
July through December 2015	11.54%	6.59%

The City's actual contributions to the plan were \$43,851 for the year ended December 31, 2015.

Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF)

LEOFF membership includes all full-time, fully compensated, local law enforcement commissioned officers, firefighters, and as of July 24, 2005, emergency medical technicians. LEOFF is comprised of two separate defined benefit plans.

LEOFF Plan 1 provides retirement, disability and death benefits. Retirement benefits are determined per year of service calculated as a percent of final average salary (FAS) as follows:

- 20+ years of service – 2.0% of FAS
- 10-19 years of service – 1.5% of FAS
- 5-9 years of service – 1% of FAS

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 ten years of service. Members are eligible for retirement with five years of service at the age of 50. Other benefits include duty and non-duty disability payments, a cost-of living adjustment (COLA), and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. LEOFF 1 members were vested after the completion of five years of eligible service. The plan was closed to new entrants on September 30, 1977.

Contributions - Starting on July 1, 2000, **LEOFF Plan 1** employers and employees contribute zero percent, as long as the plan remains fully funded. The LEOFF Plan I had no required employer or employee contributions for fiscal year 2015. Employers paid only the administrative expense of 0.18 percent of covered payroll.

Note 3 – Detailed Notes on All Funds (Continued)

LEOFF Plan 2 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the final average salary (FAS) per year of service (the FAS is based on the highest consecutive 60 months). Members are eligible for retirement with a full benefit at 53 with at least five years of service credit. 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 three percent for each year prior to age 53. Otherwise, the benefits are actuarially reduced for each year prior to age 53. LEOFF 2 retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and non-duty disability payments, a cost-of-living allowance (based on the CPI), capped at three percent annually and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. LEOFF 2 members are vested after the completion of five years of eligible service.

Contributions - The **LEOFF Plan 2** employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2. The employer rate included an administrative expense component set at 0.18 percent. Plan 2 employers and employees are required to pay at the level adopted by the LEOFF Plan 2 Retirement Board. The LEOFF Plan 2 required contribution rates (expressed as a percentage of covered payroll) for 2015 were as follows:

LEOFF Plan 2		
Actual Contribution Rates:	Employer	Employee
State and local governments	5.23%	8.41%
Ports and Universities	8.59%	8.41%

The City's actual contributions to the plan were \$664,078 for the year ended December 31, 2015.

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 the state fiscal year ending June 30, 2015, the state contributed \$424,256 to LEOFF Plan 2.

Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2014 with a valuation date of June 30, 2013. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's (OSA) *2007-2012 Experience Study*.

Additional assumptions for subsequent events and law changes are current as of the 2013 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2014. Plan liabilities were rolled forward from June 30, 2013, to June 20, 2014, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

- **Inflation:** 3% total economic inflation; 3.75% salary inflation
- **Salary increases:** In addition to the base 3.75% salary inflation assumption, salaries are also expected to grow by promotions and longevity.
- **Investment rate of return:** 7.5%

Mortality rates were based on the RP-2000 report's Combined Healthy Table and Combined Disabled Table, published by the Society of Actuaries. OSA applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100% Scale BB. Mortality rates are applied on a generational basis; meaning, each member is assumed to receive additional mortality improvements in each future year throughout his or her lifetime.

Note 3 – Detailed Notes on All Funds (Continued)

Discount Rate

The discount rate used to measure the total pension liability for all DRS plans was 7.5%.

To determine that rate, an asset sufficiency test included an assumed 7.7% long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. (All plans use 7.7% except LEOFF 2, which has assumed 7.5%). Consistent with the long-term expected rate of return, a 7.5% future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue being made at contractually required rates (including PERS 2/3). Based on these assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.5% was used to determine the total liability.

Long-Term Expected Rate of Return

The long-term expected rate of return on DRS pension plan investments of 7.5% was determined using a building-block-method. The *Washington State Investment Board (WSIB)* used a best estimate of expected future rates of return (expected returns, net of pension plan investment expense, including inflation) to develop each major asset class. Those expected returns make up one component of WSIB's capital market assumptions. WSIB uses the capital market assumptions and their target asset allocation to simulate future investment returns at various future times. The long-term expected rate of return of 7.5% approximately equals the median of the simulated investment returns over a 50-year time horizon.

Estimated Rates of Return by Asset Class

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2015, are summarized in the table below. The inflation component used to create the table is 2.2% and represents WSIB's most recent long-term estimate of broad economic inflation.

Asset Class	Target Allocation	% Long-term Expected Real Rate of Return Arithmetic
Fixed Income	20%	1.70%
Tangible Assets	5%	4.40%
Real Estate	15%	5.80%
Global Equity	37%	6.60%
Private Equity	23%	9.60%
	100%	

Note 3 – Detailed Notes on All Funds (Continued)

Sensitivity of NPL

The table below presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.5%, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.5%) or 1-percentage point higher (8.5%) than the current rate.

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
PERS 1	\$8,701,069	\$7,146,653	\$5,809,998
PERS 2/3	\$17,444,280	\$5,965,790	(\$2,822,859)
PSERS 2	\$321,085	\$42,256	(\$156,088)
LEOFF 1	(\$736,794)	(\$1,151,685)	(\$1,505,302)
LEOFF 2	\$4,702,531	(\$4,695,792)	(\$11,768,387)

Pension Plan Fiduciary Net Position

Detailed information about the State's pension plans' fiduciary net position is available in the separately issued DRS financial report.

Pension Liabilities (Assets), Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions.

At June 30, 2015, the City reported a total pension liability of \$7,307,222 for its proportionate share of the net pension liabilities as follows:

	Liability (or Asset)
PERS 1	\$7,146,653
PERS 2/3	\$5,965,790
PSERS 2	\$42,256
LEOFF 1	(\$1,151,685)
LEOFF 2	(\$4,695,792)

The amount of the liability/(asset) reported above for LEOFF Plan 2 reflects a reduction for State pension support provided to the City. The amount recognized by the City as its proportionate share of the net pension liability/(asset), the related State support, and the total portion of the net pension liability/(asset) that was associated with the City were as follows:

	Liability (or Asset)
LEOFF 2 – employer's proportionate share	\$(4,695,792)
LEOFF 2 – State's proportionate share of the net pension liability/(asset) associated with the employer	\$(3,104,893)
TOTAL	\$(7,800,685)

Note 3 – Detailed Notes on All Funds (Continued)

At June 30, the City's proportionate share of the collective net pension liabilities was as follows:

	Proportionate Share 6/30/14	Proportionate Share 6/30/15	Change in Proportion
PERS 1	.144019%	.136623%	(.007396%)
PERS 2/3	.171560%	.166966%	(.004594%)
PSERS 2	.218320%	.231513%	.013193%
LEOFF 1	.095132%	.095558%	.000426%
LEOFF 2	.441504%	.456878%	.015374%

Employer contribution transmittals received and processed by DRS for the fiscal year ended June 30 are used as the basis for determining each employer's proportionate share of the collective pension amounts reported by DRS in the *Schedules of Employer and Nonemployer Allocations* for all plans except LEOFF 1.

LEOFF Plan 1 allocation percentages are based on the total historical employer contributions to LEOFF 1 from 1971 through 2000 and the retirement benefit payments in fiscal year 2015. Historical data was obtained from a 2011 study by the Office of the State Actuary (OSA). In fiscal year 2015, the state of Washington contributed 87.12 percent of LEOFF 1 employer contributions and all other employers contributed the remaining 12.88 percent of employer contributions. LEOFF 1 is fully funded and no further employer contributions have been required since June 2000. If the plan becomes underfunded, funding of the remaining liability will require new legislation. The allocation method the plan chose reflects the projected long-term contribution effort based on historical data.

In fiscal year 2015, the state of Washington contributed 39.52 percent of LEOFF 2 employer contributions pursuant to RCW 41.26.725 and all other employers contributed the remaining 60.48 percent of employer contributions. The collective net pension liability (asset) was measured as of June 30, 2015, and the actuarial valuation date on which the total pension liability (asset) is based was as of June 30, 2014, with update procedures used to roll forward the total pension liability to the measurement date.

Pension Expense

For the year ended December 31, 2015, the City recognized pension expense as follows:

	Pension Expense
PERS 1	\$6,488
PERS 2/3	\$550,468
PSERS 2	\$52,654
LEOFF 1	\$(231,002)
LEOFF 2	\$98,157
TOTAL	\$476,765

Note 3 – Detailed Notes on All Funds (Continued)

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2015, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

PERS 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual investment earnings on pension plan investments	\$-	\$391,000
Contributions subsequent to the measurement date	\$349,435	\$-
TOTAL	\$349,435	\$391,000

PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$634,165	\$-
Net difference between projected and actual investment earnings on pension plan investments	\$-	\$1,592,583
Changes of assumptions	\$9,612	\$-
Changes in proportion and differences between contributions and proportionate share of contributions	\$-	\$4,307
Contributions subsequent to the measurement date	\$430,325	\$-
TOTAL	\$1,074,102	\$1,596,890

PSERS 2	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$39,589	\$-
Net difference between projected and actual investment earnings on pension plan investments	\$-	\$20,959
Changes of assumptions	\$261	\$-
Changes in proportion and differences between contributions and proportionate share of contributions	\$-	\$806
Contributions subsequent to the measurement date	\$21,893	\$-
TOTAL	\$61,473	\$21,765

Note 3 – Detailed Notes on All Funds (Continued)

LEOFF 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual investment earnings on pension plan investments	\$-	\$194,429
TOTAL	\$-	\$194,429

LEOFF 2	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$411,195	\$-
Net difference between projected and actual investment earnings on pension plan investments	\$-	\$1,422,800
Changes of assumptions	\$12,386	\$-
Changes in proportion and differences between contributions and proportionate share of contributions	\$80,849	\$-
Contributions subsequent to the measurement date	\$314,616	\$-
TOTAL	\$819,046	\$1,422,800

Deferred outflows of resources related to pensions resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	<i>Total</i>	<i>PERS 1</i>	<i>PERS 2/3</i>	<i>PSERS</i>	<i>LEOFF 1</i>	<i>LEOFF2</i>
2016	\$(1,194,674)	\$(151,538)	\$(475,870)	\$(1,588)	\$(75,445)	\$(490,233)
2017	\$(1,194,674)	\$(151,538)	\$(475,870)	\$(1,588)	\$(75,445)	\$(490,233)
2018	\$(1,194,681)	\$(151,538)	\$(475,871)	\$(1,590)	\$(75,445)	\$(490,237)
2019	\$749,169	\$63,614	\$330,986	\$10,913	\$31,908	\$311,748
2020	\$72,742	\$-	\$-	\$6,776	\$-	\$65,966
Thereafter	\$19,967	\$-	\$-	\$6,774	\$-	\$13,193

Note 3 – Detailed Notes on All Funds (Continued)

City Sponsored Pension Plan - Firemen's Pension Plan

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 defined benefit 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.

Management of the Firemen's Pension System is vested in the Pension Board which consists of the Mayor (Chair), Finance Director, Treasurer, two firefighters (active or retired) to be elected by the firefighters subject to the jurisdiction of the board, and one alternate. Board members serve two-year terms.

Plan membership

At December 31, 2015, pension plan membership consisted of four (4) inactive plan members and one (1) surviving spouse for a total of five (5) members currently receiving benefits. The pension plan is closed to new entrants.

Benefits provided

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.

Key Elements of Pension Formulas

The City is responsible for the portion of member monthly pension benefits due to members per RCW 41.16 but not paid directly by the State. The funding formula is based on years of service, type of retirement plan for each member, current employment or union contract agreements for firefighter union plus adjustments for cost of living and longevity.

Funding

The Authority under which benefit terms were established, may be amended, and the types of benefits provided through the Firefighters' Pension Fund lies with the Revised Code of Washington (RCW) 41.16 and 41.18, the statutes establishing FPF, and RCW 41.26, the statute establishing the Washington Law Enforcement Officers' and Firefighters' Retirement System (LEOFF).

Contributions to the fund currently include the following sources, as described in RCW.41.16.050:

1. Bequests, fees, gifts, emoluments or donations.
2. Forty-five percent of all monies received by the State from taxes on fire insurance premiums, prior to January 1, 2000. Twenty-five percent after January 1, 2000.
3. Taxes paid pursuant to the provisions of RCW.41.16.060 require that each municipality levy up to \$0.45 (only \$0.225 of which can be in excess of the property tax limit pursuant to RCW 84.52.043) per \$1,000 of assessed valuation, based on reports by a qualified actuary, to maintain the Fund.
4. Interest on the investments of the Fund.
5. Contributions by firefighters as provided herein.

Note 3 – Detailed Notes on All Funds (Continued)

Assumptions and Other Inputs

As of December 31, 2015 the FPF had \$509,670 in cash and cash equivalents invested in the City's internal investment pool and short term investments. Investments in the City's internal investment pool are invested in the Washington State Treasurer Local Government Investment Pool (LGIP), a Rule 2a-7 money market type fund with an average portfolio maturity of less than 91 days. All investments are valued at fair market value. Investment activities of the FPF are co-mingled with the City of Lynnwood treasury and therefore are included in the City's investment policy addressed in Note 3-A.

As of December 31, 2015 the annual money-weighted rate of return on pension plan investments, net of investment expenses, was 0.08 percent. The money-weighted rate of return considers the changing amounts actually invested during a period and weights the amount of pension plan investments by the proportion of time they are available to earn a return during that period.

The total pension liability for the plan was determined using the most recent actuarial valuation completed in 2016 with a valuation date of December 31, 2015.

- **Discount rate:** 3.50% - Rate applied in the measurement of the total pension liability
- **Inflation:** 2.00% - total economic inflation, 2.50% wage inflation.
- **Investment rate of return:** 3.50% - Composite rate is based on the expected return on long-term municipal bonds and is used for both the funded and unfunded liability.
- **Actuarial Cost Method:** Entry Age Normal
- The mortality table used, RP-2000, is projected to the year 2025 using Scale BB to include an allowance for future improvements in longevity.
- The table below presents the City's net pension liability calculated using the discount rate of 3.5% as well as what the pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (2.50%) or 1-percentage point higher (4.50%) than the current rate:

	1% decrease 2.5%	Current Disc. Rate 3.5%	1% Increase 4.5%
Net Pension Liability	\$1,077,654	\$907,406	\$763,647

Note 3 – Detailed Notes on All Funds (Continued)

Changes in the Net Pension Liability

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) – (b)
Balances at 12/31/2014	\$1,219,074	\$615,392	\$603,682
Changes for the year:			
Service Cost	0	0	0
Interest	41,432	0	41,432
Changes in assumptions	194,582	0	194,582
Differences between expected and actual experience	32,573	0	32,573
Contributions – employer	0	55,515	(55,515)
Contributions – employees	0	0	0
Net investment income	0	0	0
Benefit payments and withdraws	(70,585)	(70,585)	0
Administrative expense	0	0	0
Other changes	0	(90,652)	90,652
Net changes	198,002	(105,722)	303,724
Balance at 12/31/2015	\$1,417,076	\$509,670	\$907,406

At December 31, 2015, the City reported deferred outflows of resources and deferred inflows of resources related to FPF pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$-	\$-
Net difference between projected and actual investment earnings on pension plan investments	\$-	\$16,242
Changes of assumptions	\$-	\$-
Contributions subsequent to the measurement date	\$-	\$-
TOTAL	\$-	\$16,242

Amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	Amount
2015	\$4,061
2016	\$4,061
2017	\$4,061
2018	\$4,061
2019	\$4,061
Thereafter	\$-

Note 3 – Detailed Notes on All Funds (Continued)

3-I. 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) Plan 1 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, 2015, there were 48 retirees and no active LEOFF 1 employees.

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 was prepared using the Office of the State Actuary OPEB reporting tool at January 1, 2016.

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.

Actuarial Methods and Assumptions

The City used the alternative measurement method permitted under GASB Statement No. 45.

A single retirement age of 55.3 was assumed for all active members for the purpose of determining the actuary accrued liability (AAL) and normal cost. Retirement, disablement, termination, and mortality rates were assumed to follow the LEOFF 1 rates used in the June 30, 2014, actuarial valuation report issued by the Office of the State Actuary (OSA).

Healthcare costs and trends were determined by Milliman and used by OSA in the state-wide LEOFF 1 medical study performed in 2013. The results were based on grouped data with four active groupings and four inactive groupings. The actuarial cost method used to determine the AAL was the Projected Unit Credit. The AAL and Net OPEB Obligation are amortized on an open basis as a level dollar over 15 years. These assumptions are individually and collectively reasonable for the purposes of this valuation. The medical inflation trend is the percentage that medical costs are expected to increase in future years.

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

Note 3 – Detailed Notes on All Funds (Continued)

Annual OPEB Cost and Net OPEB Obligation

The following table illustrates the components of the January 1, 2016 calculation:

		PVFB	AAL
Inactive:	Medical Expenses	\$17,187,011	\$17,187,011
	Long-Term Care	8,893,494	8,893,494
	Total Inactive	\$26,080,505	\$26,080,505
ARC			
	Normal Cost	\$ -	
	UAAL Amortization	2,345,709	
ARC		\$2,345,709	
Annual OPEB Cost			
	ARC	\$2,345,709	
	NOO Interest	123,733	
	NOO Amortization	(278,217)	
Annual OPEB Cost		\$2,191,225	
NOO			
	Starting NOO	\$3,093,333	
	Annual OPEB Cost	2,191,225	
	Contributions	823,487	
NOO		\$4,461,071	

The net OPEB obligation of \$4,461,071 (FY 2015) is included as a noncurrent liability on the City's Statement of Net Position. The City's actuarial accrued liability (AAL) of \$26,080,505 was unfunded as of December 31, 2015. The City's OPEB cost, the percentage of OPEB cost contributed to the plan, and the net OPEB obligation for 2013, 2014 and 2015 were, as follows:

<u>Fiscal Year Ending</u>	<u>Annual OPEB Cost</u>	<u>Contribution as a Percentage of Annual OPEB Cost</u>	<u>Net OPEB Obligation</u>
December 31, 2013	\$1,301,918	66%	\$2,549,120
December 31, 2014	\$1,413,184	61%	\$3,093,333
December 31, 2015	\$2,191,225	38%	\$4,461,071

Note 3 – Detailed Notes on All Funds (Continued)

Funded Status and Schedule of Funding Progress

As of January 1, 2016, the most recent actuarial valuation date, the plan was zero percent funded. The actuarial accrued liability for benefits was \$26.1 million and the actuarial value of the assets was zero percent resulting in an Unfunded Actuarial Accrued Liability (UAAL) of \$26.1 million.

3-J. Fund Equity

Fund Balances – Fund balances are classified as follows:

- ***Nonspendable*** – The following fund balances are nonspendable because they are not in spendable form:

General Fund:

Prepaid Postage	\$ 50,075
Prepaid Rent	53,044
	<u>\$ 103,119</u>

- ***Restricted*** – The following fund balances are legally restricted to specified purposes:

Nonmajor Governmental Funds:

Capital Projects	\$ 7,275,019
Drug Enforcement/Criminal Justice	2,809,834
Debt Service	1,347,771
Tourism promotion	922,645
Street improvements	739,926
Solid Waste Management	43,245

<i>Total Nonmajor Governmental Funds:</i>	<u><u>\$ 13,138,440</u></u>
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Note 3 – Detailed Notes on All Funds (Continued)

- ***Committed*** – The following fund balances are committed to specific purposes:

General Fund:

Revenue Stabilization	\$ 5,814,864
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<i>Total General Fund</i>	<u><u>\$ 5,814,864</u></u>
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Other Governmental Funds:

Capital Projects	\$ 246,607
Tree Reserve	56,940
Art Reserve	20,416
Aid Car Reserve	15,723

<i>Total Other Governmental Funds</i>	<u><u>\$ 339,686</u></u>
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Note 3 – Detailed Notes on All Funds (Continued)

- **Assigned** – The following fund balances are assigned to specific purposes:

General Fund:

Economic Development	\$ 2,019,325
<i>Total General Fund</i>	<u><u>\$ 2,019,325</u></u>

- **Net Investment in Capital Assets** – The net investment in capital assets, reported on the government-wide statement of net position as of December 31, 2015 are as follows:

	Governmental Activities	Business- type Activities
Net investment in capital assets:		
Total capital assets	\$ 228,355,493	\$ 110,692,654
Less accumulated depreciation	<u>79,878,020</u>	<u>55,593,148</u>
Net capital assets	148,477,473	55,099,506
Less: retainage payable	-	(52,044)
Less: capital related debt	(26,040,221)	(35,390,000)
Add: unspent bond proceeds	-	17,544,811
Less: unamortized bond premium	<u>-</u>	<u>(1,717,602)</u>
Net investment in capital assets	<u><u>\$ 122,437,252</u></u>	<u><u>\$ 35,484,671</u></u>

Note 4 - Other Notes

4-A. Risk Management

The City of Lynnwood is exposed to various risks of loss from torts; theft of damage, destruction of assets; business interruption; errors and omissions; injuries to employees; and natural disasters.

The City combines the reporting of risk management activities into one internal service fund – the Self Insurance Fund No. 515 – to account for and finance uninsured risks. All departments of the City make payments through Interfund assessments to the self-insurance fund based on estimates of the amounts needed to pay prior and current year claims and to establish a reserve for catastrophic losses.

The City of Lynnwood is a member of Cities Insurance Association of Washington (CIAW). Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together into or join a program or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self-insure, or hire or contract for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The program was formed on September 1, 1988, when 34 cities in the state of Washington joined together by signing an Interlocal Governmental Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. As of December 1, 2015, there are 227 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.

Note 4 – Other Notes (Continued)

The program acquires liability insurance through their Administrator, Canfield that is subject to a per-occurrence self-insured retention of \$100,000. The City's deductible is \$25,000 for each claim (deductible may vary per member), while the program is responsible for the remaining \$25,000 of the \$100,000 self-insured retention. Insurance carriers cover insured losses over \$100,000 to the limits of each policy. Since the program is a cooperative program, there is a joint liability among the participating members towards the sharing of the pool self-insured retention. The program also purchases a Stop Loss Policy, with an attachment point of \$3,259,396, to cap the total claims paid by the program in any one year.

Lynnwood purchased property insurance outside of the CIAW pool. Property coverage is purchased from Travelers Insurance Company. Property insurance is subject to a per-occurrence deductible of \$25,000 except a deductible of \$100,000 applies to covered Flood losses and a deductible of 5% of the value of damaged property, subject to a \$100,000 minimum deductible applies to covered Earthquake losses. Two additional insurers provide additional limits in excess of the limit provided by Travelers.

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

A board of ten members is selected by the membership from three geographic areas of the state on a staggered term basis and is responsible for conducting the business affairs of the program. On July 21, 2014, the Board passed a resolution changing the CIAW's renewal date from September 1st to December 1st beginning with the 2014-15 policy term. Premiums were pro-rated for the extension period. Invoices and certificates were issued accordingly. The program has no employees. Claims are filed by members with Canfield, which has been contracted to perform program administration, claims adjustment, administration, and loss, prevention for the program. Fees paid to the third party administrator under this arrangement for the year ending December 1, 2015, were \$1,096,145.04.

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.

4-B. Health and Welfare

The City of Lynnwood is a member of the Association of Washington Cities Employee Benefit Trust Health Care Program (AWC Trust HCP). Chapter 48.62 RCW provides that two or more local government entities may, by Interlocal agreement under Chapter 39.34 RCW, form together or join a pool or organization for the joint purchasing of insurance, and/or joint self-insurance, to the same extent that they may individually purchase insurance, or self-insure.

An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The AWC Trust HCP was formed on January 1, 2014 when participating cities, towns, and non-city entities of the AWC Employee Benefit Trust in the State of Washington joined together by signing an Interlocal Governmental Agreement to jointly self-insure certain health benefit plans and programs for participating employees, their covered dependents and other beneficiaries through a designated account within the Trust.

As of December 31, 2015, 261 cities/towns/non-city entities participate in the AWC Trust HCP.

Note 4 – Other Notes (Continued)

The AWC Trust HCP allows members to establish a program of joint insurance and provides health and welfare services to all participating members. The AWC Trust HCP pools claims without regard to individual member experience. The pool is actuarially rated each year with the assumption of projected claims run-out for all current members. The AWC Trust HCP includes medical insurance through Group Health, Regence BlueShield and Asuris Northwest Health, dental insurance through Delta Dental of Washington, and vision insurance through Vision Service Plan. Eligible members are cities and towns within the state of Washington. Non-City Entities (public agency, public corporation, intergovernmental agency, or political subdivision within the state of Washington) are eligible to apply for coverage into the AWC Trust HCP, submitting application to the Board of Trustees for review as required in the Trust Agreement.

Participating employers pay monthly premiums to the AWC Trust HCP. The AWC Trust HCP is responsible for payment of all covered claims. The AWC Trust HCP purchases stop loss insurance for Regence/Asuris plans at an Individual Stop Loss (ISL) of \$1.5 million through Life Map, and Group Health ISL at \$750,000 through Sun Life. The aggregate policy is for 200% of expected medical claims.

Participating employers contract to remain in the AWC HCP for a minimum of three years. Participating employers with over 250 employees must provide written notice of termination of all coverage a minimum of 12 months in advance of the termination date, and participating employers with under 250 employees must provide written notice of termination of all coverage a minimum of 6 months in advance of termination date. When all coverage is being terminated, termination will only occur on December 31. Participating employers terminating a group or line of coverage must notify the HCP a minimum of 60 days prior to termination. A participating employer's termination will not obligate that member to past debts, or further contributions to the HCP. Similarly, the terminating member forfeits all rights and interest to the HCP Account.

The operations of the Health Care Program are managed by the Board of Trustees or its delegates. The Board of Trustees is comprised of four regionally elected officials from Trust member cities or towns, the Employee Benefit Advisory Committee Chair and Vice Chair, and two appointed individuals from the AWC Board of Directors, who are from Trust member cities or towns. The Trustees or its appointed delegates review and analyze Health Care Program related matters and make operational decisions regarding premium contributions, reserves, plan options and benefits in compliance with Chapter 48.62 RCW.

The Board of Trustees has decision authority consistent with the Trust Agreement, Health Care Program policies, Chapter 48.62 RCW and Chapter 200-110-WAC.

The accounting records of the Trust HCP are maintained in accordance with methods prescribed by the State Auditor's office under the authority of Chapter 43.09 RCW. The Trust HCP also follows applicable accounting standards established by the Governmental Accounting Standards Board ("GASB"). Year-end financial reporting is done on an accrual basis and submitted to the Office of the State Auditor as required by Chapter 200-110 WAC. The audit report for the AWC Trust HCP is available from the Washington State Auditor's office.

4-C. Contingent Liabilities

The City has received federal and state grants for specific purposes that are subject to review and audit by the grantor agencies or their designee. These audits could result in a request for reimbursement to the grantor agency for costs disallowed under terms of the grant. Based on prior experience, the City believes such disallowances, if any, will be immaterial.

The City was a defendant in several lawsuits at December 31, 2015. In the opinion of City management, the outcome of these contingencies will not have a material effect on the financial position of the City.

The Lynnwood Public Facilities District issued \$25,482,100 Convention Center revenue and sales tax refunding bonds to defease the District's 2004 and 2005 bonds and to finance the capital construction needed at the Convention Center. On April 15, 2015, the District issued \$15.605 million refunded revenue bonds maturing on December 1, 2034 with an average interest rate of 3.57% with a net present value savings of \$2.059 million. On June 15, 2015, the District issued \$9.877 million sales tax bonds with an interest rate of 2.48% with a net present value savings of \$1.069 million. On behalf of the District, the City contingently liable to these bonds, and to date, the District is capable of paying these bonds from hotel/motel tax revenue and revenue generated from the convention center.

Note 4 – Other Notes (Continued)

4-D. Joint Ventures

Snohomish County Emergency Radio System - The City participates in a single joint venture with Snohomish County and other local governments in the “*Snohomish County Emergency Radio System*,” (SERS) a public non-profit corporation formed in 1999. The purpose of SERS is to design, develop, finance, acquire, install, operate, maintain and repair and replace the county's public safety communications service.

SERS was established via an interlocal agreement between the County, eight cities, and a fire district located within the county. Each member city and the County provide a voting member to the SERS board of directors. The purpose of SERS is to develop a countywide public safety communications system. The County financed its investment in SERS with general obligations bond proceeds.

The Cities of Brier, Edmonds, Everett, Lynnwood, Marysville, Mill Creek, Mountlake Terrace, Mukilteo and Woodway, and Snohomish County are jointly responsible for the financing of SERS. 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 population, geographic service area and usage of emergency service via service calls to dispatch centers. Each member provides a voting representative to SERS governing board of directors. The SERS board has the authority to approve system design, project expenditures and adopt SERS budget.

At December 31, 2015, the City owned an equity interest in the SERS joint venture of \$469,507. This value has been recorded in the government wide statements as an asset for the year ended December 31, 2015. The County financed its capital contribution to SERS via the issuance of bonded debt. The equity interest is adjusted to the extent of revenues and expenditure transactions occurring between the County and SERS as recorded in the County's financial system. The County, who acts as the entity's fiscal agent under the Administrative Services Agreement signed on January 19, 2000, prepares the unaudited financial information. Separate financial statements for the Snohomish County Emergency Radio System can be obtained from Snohomish County, Finance Department, 3000 Rockefeller Avenue, Everett, WA 98201.

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, 2015, the City of Lynnwood owned an equity interest in the SNOCOM joint venture of \$1,088,259. This value has been recorded in the government wide statements as an asset for the year ended December 31, 2015. 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 Lynnwood'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.

Note 4 – Other Notes (Continued)

Alliance for Housing Affordability (AHA) - In September, 2013, the City joined the cities of Everett, Granite Falls, Lake Stevens, Lynnwood, Marysville, Mill Creek, 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, 2015 to add the City of Arlington and in June, 2015 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.

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's equity share to date is:

Calendar Year	AHA Budget	City's Share of AHA's Budget	
		Amount	Percentage
2014	\$ 89,850	\$ 2,151	2.39%
2014	\$ 92,543	\$ 2,516	2.39%
2015	\$ 123,464	\$ 2,753	2.29%
2016	\$ 145,590	\$ 2,143	1.47%

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 Crystil Woolridge, Finance Director, City of Mountlake Terrace, 6100 219th Street SW, Mountlake Terrace WA 98043 or Kristina Gallant, Housing Analyst, Alliance for Housing Affordability, 12625 4th Ave W, Suite 200, Everett, WA 98204.

Emergency Services Coordinating Agency (ESCA) - In accordance with generally accepted accounting principles, ESCA is a joint venture with each entity's equity interest reported on its member entities' financial statements.

Ten member agencies provide the majority of operating revenue to ESCA. The method of allocating this revenue source is defined in the *Interlocal Agreement for the Emergency Services Coordinating Agency Section 4 Budgeting and Financial Participation* 4.1 "Annual budget participation shall be based upon the population of each party compared to the total population of the parties. Operating payments shall be made by January 31 of each year". Section *7 Term and Dissolution* states, "The value of the assets shall be then apportioned between the parties to the agreement in the same proportion as their financial participation in the budget year of dissolution".

On June 25, 2015 the Agency members passed resolution (2015-3) to dissolve ESCA during the 2015 fiscal year. The City received \$68,298 in March 2016 for its share of the equity interest.

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 is 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. There was no construction activity during 2015 and maintenance costs totaled \$37,628.

Note 4 – Other Notes (Continued)

4-E. Prior Period Adjustments and Restatements

The City is reporting the following adjustments related to prior periods and restatement of beginning net position:

	Net Position		
	Governmental Activities	Business-type Activities	Total
Net Position previously reported at December 31, 2014	\$ 142,892,057	\$ 54,726,665	\$ 197,618,722
Correction to Capital Assets reported in 2014	3,371,533	(614,742)	2,756,791
Correction to Parks Fund Deferred Revenue reported in 2014	(470,000)	-	(470,000)
Reporting Errors from Prior Year	(916,858)	685,035	(231,823)
Adjusted Net Position previously reported at December 31, 2014	<u>\$ 144,876,732</u>	<u>\$ 54,796,958</u>	<u>\$ 199,673,690</u>
Beginning Net Position Restatement - GASB 68 Change in Accounting Principle	\$ (8,178,468)	\$ (2,610,301)	\$ (10,788,769)
Beginning Net Position as Restated, December 31, 2014	<u>\$ 136,698,264</u>	<u>\$ 52,186,657</u>	<u>\$ 188,884,921</u>

Capital Assets - The City converted to a new capital asset accounting system in October 2014. During the 2014 financial statement audit, Auditors raised concerns about the City's controls over ensuring the accuracy of the data contained in the new asset accounting system. Subsequent to the 2014 financial statement audit the City conducted a review of the accounting system data and calculations. After asset system records were compared to underlying asset inventory and asset amounts reported in the financial statements the City discovered errors in asset amounts reported in the 2014 financial statements. The City corrected the financial statement amounts and reported the net change as a prior period adjustment.

Parks Fund - The City received \$470,000 from the Hospital District via a nonprofit, Verdant, in late 2014 to fund a multi-city bike path project, "BikeLink". These funds were received prior to any work being done on the project. The City incorrectly classified this as earned revenue in 2014. This error was discovered in 2015 and the \$470,000 was reclassified as "unearned revenue" as the local grant was received prior to any expenses incurred on the project. The entry to correct the error was reported as a prior period adjustment to 2014.

Prior Year Reporting Errors – The City implemented a new financial system in 2014 which included a CAFR Builder reporting module. 2014 was the first year financial statements were generated from the new system using the CAFR Builder program. The City encountered difficulties with the program so chose not to use it for the 2015 financial statements. While preparing 2015 financial statements, City staff discovered immaterial errors in 2014 Ending Net Position balances reported on the 2014 financial statements and it was concluded the cause was due to an incorrect setup of the CAFR Builder program. The City is not able to re-create or trace these amounts to transactions and has concluded these prior year errors were caused by incorrect setup of the CAFR Builder program.

GASB 68 - Under the requirements of GASB 68, the City is allowed to restate beginning net position to report the collective impact of recording initial pension entries. Methods and assumptions used for determining the City's share of pension plan amounts are obtained from the State Department of Revenue and Office of the State Actuary.

4-F. Fund Changes - Fund additions/deletions in the current year are, as follows:

- The following funds have been closed a 1/1/2015:
 - ✓ Special Revenue - EMS Property Tax Reserve Fund 120
 - ✓ Debt Service – 2001 Refunding Bond Fund 201
 - ✓ Debt Service – 65th Avenue Sewers LID Fund 265
 - ✓ Enterprise – 2008 Utility Bond Construction Fund 440

City of Lynnwood, Washington
Schedule of Revenues - Budget and Actual
General Fund
For the Year Ended December 31, 2015
(With Comparative Actual Amounts for the Year Ended December 31, 2014)

	2015			2014	
	Original Budget	Final Budget	Actual	Variance With Final Budget	Actual
Revenues					
Taxes:					
Property tax	\$ 17,705,385	\$ 18,217,345	\$ 11,026,808	\$ (7,190,537)	\$ 8,895,775
Sales tax	36,477,257	36,527,257	19,223,331	(17,303,926)	18,263,866
Business taxes	13,117,072	13,117,072	6,922,723	(6,194,349)	6,312,066
Other taxes	2,739	2,739	3,787	1,048	3,865
Total Taxes	67,302,453	67,864,413	37,176,649	(30,687,764)	33,475,572
Licenses and Permits:					
Business licenses	5,630,851	5,630,851	2,349,937	(3,280,914)	1,936,549
Franchise taxes	913,198	913,198	512,228	(400,970)	498,249
Permits and fees	2,130,448	2,255,448	1,763,939	(491,509)	1,129,258
Total Licenses and Permits	8,674,497	8,799,497	4,626,104	(4,173,393)	3,564,056
Intergovernmental:					
Liquor Board taxes	727,836	727,836	434,467	(293,369)	381,178
Streamlined sales tax	452,333	452,333	261,509	(190,824)	262,724
Other	994,273	994,273	739,322	(254,951)	716,244
Total Intergovernmental	2,174,442	2,174,442	1,435,298	(739,144)	1,360,146
Charges for Services:					
Aid car fees	1,088,647	1,488,647	1,041,493	(447,154)	722,418
Planning fees	842,108	917,108	640,410	(276,698)	389,320
Interfund	3,425,868	3,425,868	-	(3,425,868)	1,387,706
Recreation	5,095,207	5,138,007	2,406,662	(2,731,345)	2,308,508
Other	1,297,343	1,447,504	653,071	(794,433)	604,009
Total Charges for Services	11,749,173	12,417,134	4,741,636	(7,675,498)	5,411,961
Fines and Forfeitures:	7,851,300	7,851,300	4,875,564	(2,975,736)	1,629,010
Miscellaneous					
Investment earnings	54,270	54,270	(922)	(55,192)	15,428
Rents and concessions	640,980	640,980	298,638	(342,342)	288,783
Other	121,342	121,342	316,723	195,381	145,610
Total Miscellaneous	816,592	816,592	614,439	(202,153)	449,821
Total Revenues	\$ 98,568,457	\$ 99,923,378	\$ 53,469,690	\$ (46,453,688)	\$ 45,890,566

City of Lynnwood, Washington
Schedule of Expenditures - Budget and Actual
General Fund
For the Year Ended December 31, 2015
(With Comparative Actual Amounts for the Year Ended December 31, 2014)

	2015			2014	
	Original Budget	Final Budget	Actual	Variance With Final Budget	Actual
Expenditures					
General Government					
Legislative/executive	\$ 2,857,196	\$ 2,723,706	\$ 1,087,548	\$ 1,636,158	\$ 861,768
Administrative services	9,630,090	10,522,215	3,997,053	6,525,162	4,819,386
Legal	2,550,000	2,550,000	1,561,085	988,915	1,336,789
Human Resources	1,250,054	1,269,277	601,579	667,698	632,142
Property management	2,879,103	2,905,219	1,520,010	1,385,209	1,463,349
Total General Government	<u>19,166,443</u>	<u>19,970,417</u>	<u>8,767,275</u>	<u>11,203,142</u>	<u>9,113,434</u>
Economic Environment	<u>6,434,537</u>	<u>7,359,555</u>	<u>2,931,068</u>	<u>4,428,487</u>	<u>3,005,198</u>
Judicial	<u>2,238,981</u>	<u>2,313,143</u>	<u>1,082,539</u>	<u>1,230,604</u>	<u>997,407</u>
Natural Environment	<u>287,527</u>	<u>287,527</u>	<u>114,567</u>	<u>172,960</u>	<u>110,007</u>
Culture & Recreation	<u>11,642,745</u>	<u>12,260,461</u>	<u>5,764,728</u>	<u>6,495,733</u>	<u>5,689,644</u>
Public Safety					
Police	34,619,405	34,694,405	17,305,181	17,389,224	16,534,155
Fire	21,378,517	22,221,391	10,790,561	11,430,830	10,418,602
Total Public Safety	<u>55,997,922</u>	<u>56,915,796</u>	<u>28,095,742</u>	<u>28,820,054</u>	<u>26,952,757</u>
Social Services	<u>929,401</u>	<u>939,401</u>	<u>460,061</u>	<u>479,340</u>	<u>417,515</u>
Transportation	<u>2,867,258</u>	<u>2,983,604</u>	<u>1,223,777</u>	<u>1,759,827</u>	<u>1,416,628</u>
Utilities	<u>524,761</u>	<u>524,761</u>	<u>-</u>	<u>524,761</u>	<u>251,333</u>
Debt Service	<u>350</u>	<u>350</u>	<u>1,091</u>	<u>(741)</u>	<u>633</u>
Capital Outlay	<u>101,733</u>	<u>291,998</u>	<u>126,585</u>	<u>165,413</u>	<u>338,554</u>
Total Expenditures	<u>\$ 100,191,658</u>	<u>\$ 103,847,013</u>	<u>\$ 48,567,433</u>	<u>\$ 55,279,580</u>	<u>\$ 48,293,110</u>

City of Lynnwood, Washington
Schedule of Proportionate Share of the Net Pension Liability/Asset
As of June 30, 2015 (in thousands)

PERS 1

	<u>2015</u>
Employer's proportion of the net pension liability (asset)	0.136623%
Employer's proportionate share of the net pension liability	\$ 7,147
Employer's covered employee payroll	\$ 71
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	10066.20%
Plan fiduciary net position as a percentage of the total pension liability	59.10%

PERS 2/3

	<u>2015</u>
Employer's proportion of the net pension liability (asset)	0.166966%
Employer's proportionate share of the net pension liability	\$ 5,966
Employer's covered employee payroll	\$ 14,819
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	40.26%
Plan fiduciary net position as a percentage of the total pension liability	89.20%

PSERS 2

Employer's proportion of the net pension liability (asset)	0.231513%
Employer's proportionate share of the net pension liability	\$ 43
Employer's covered employee payroll	\$ 678
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	6.34%
Plan fiduciary net position as a percentage of the total pension liability	95.08%

Notes to Schedule:

Factors that significantly affect trends in the amounts reported in the schedule include changes in benefit terms, changes in the size or composition of the population covered by the benefit terms, or the use of different assumptions such as the discount rate.

LEOFF 1

Employer's proportion of the net pension asset	0.095558%
Employer's proportionate share of the net pension asset	\$ 1,152
Employer's covered employee payroll	\$ 0
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	0.00%
Plan fiduciary net position as a percentage of the total pension liability	127.36%

City of Lynnwood, Washington
Schedule of Employer Contributions
As of December 31 (in thousands)

PERS 1

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Contractually required contributions	\$ 7	\$ 14	\$ 24	\$ 29	\$ 28	\$ 34	\$ 46	\$ 47	\$ 35	\$ 23
Contributions in relation to the contractually required contributions	(7)	(14)	(24)	(29)	(28)	(34)	(46)	(47)	(35)	(23)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u># \$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered Employer Payroll	\$ 71	\$ 156	\$ 293	\$ 421	\$ 492	\$ 707	\$ 694	\$ 653	\$ 682	\$ 744
Contributions as a percentage of covered employee payroll	9.86%	8.97%	8.19%	6.89%	5.69%	4.81%	6.63%	7.20%	5.13%	3.09%

PERS 2/3

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Contractually required contributions	\$ 1,365	\$ 1,345	\$ 1,188	\$ 1,014	\$ 893	\$ 824	\$ 1,099	\$ 1,036	\$ 750	\$ 375
Contributions in relation to the contractually required contributions	(1,365)	(1,345)	(1,188)	(1,014)	(893)	(824)	(1,099)	(1,036)	(750)	(375)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u># \$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered Employer Payroll	\$14,819	\$14,550	\$14,496	\$14,138	\$14,409	\$15,544	\$16,077	\$14,413	\$13,489	\$12,352
Contributions as a percentage of covered employee payroll	9.21%	9.24%	8.20%	7.17%	6.20%	5.30%	6.84%	7.19%	5.56%	3.04%

PSERS 2

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Contractually required contributions	\$ 71	\$ 67	\$ 54	\$ 43	\$ 40	\$ 37	\$ 36	\$ 25	\$ 16	\$ 3
Contributions in relation to the contractually required contributions	(71)	(67)	(54)	(43)	(40)	(37)	(36)	(25)	(16)	(3)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u># \$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered Employer Payroll	\$ 678	\$ 637	\$ 555	\$ 488	\$ 479	\$ 475	\$ 416	\$ 276	\$ 187	\$ 37
Contributions as a percentage of covered employee payroll	10.47%	10.52%	9.73%	8.81%	8.35%	7.79%	8.65%	9.06%	8.56%	8.11%

LEOFF 1

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Contractually required contributions	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Contributions in relation to the contractually required contributions	-	-	-	-	-	-	-	-	-	-
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u># \$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered Employer Payroll	\$ -	\$ -	\$ 23	\$ 88	\$ 96	\$ 83	\$ 109	\$ 181	\$ 160	\$ 372
Contributions as a percentage of covered employee payroll	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

City of Lynnwood, Washington
Schedule of Proportionate Share of the Net Pension Liability/Asset
Law Enforcement Officers' and Fire Fighters' Retirement Plan 2
State Sponsored Plans
As of June 30, 2015 (in thousands)

	<u>2015</u>
<u>Employer's proportion of the net pension liability (asset)</u>	(0.456878%)
<u>Employer's proportionate share of the net pension Asset</u>	\$ (4,696)
<u>State's proportionate share of the net pension liability (asset) associated with the employer</u>	\$ (3,105)
TOTAL	\$ (7,801)
<u>Employer's covered employee payroll</u>	\$ 13,260
<u>Employer's proportionate share of the net pension liability (asset) as a percentage of covered employee payroll</u>	35.41%
<u>Plan fiduciary net position as a percentage of the total pension liability</u>	111.67%

City of Lynnwood, Washington
Schedule of Employer Contributions
Law Enforcement Officers' and Fire Fighters' Retirement Plan 2
State Sponsored Plans
As of December 31, 2015 (in thousands)

	<u>2015</u>
<u>Statutorily or contractually required contributions</u>	\$ 670
<u>Contributions in relation to the statutorily or contractually required contributions</u>	<u>\$ (670)</u>
<u>Contribution deficiency (excess)</u>	<u>\$ -</u>
<u>Covered employer payroll</u>	\$ 13,260
<u>Contributions as a percentage of covered employee payroll</u>	5.05%

City of Lynnwood, Washington
Schedule of Changes in Net Pension Liability and Related Ratios
Firemen's Pension

	2015	2014
Total pension liability		
Service cost	\$ -	\$ -
Interest	41,432	41,801
Changes in benefit terms	-	54,392
Differences between expected and actual experience	32,573	-
Changes of assumptions	194,582	-
Benefit payments	(70,585)	(73,119)
Net change in total pension liability	198,002	23,074
Total pension liability - beginning	<u>1,219,074</u>	<u>1,196,000</u>
Total pension liability - ending (a)	<u><u>1,417,076</u></u>	<u><u>1,219,074</u></u>
Plan fiduciary net position		
Contributions - employer	55,515	56,875
Contributions - nonemployer contributing entities	-	-
Contributions - employee	-	-
Net investment income	-	651
Benefit payments, including refunds of contributions	(70,585)	(73,119)
Administrative expense	-	(21,825)
Other	(90,652)	(45,326)
Net change in plan fiduciary net position	(105,722)	(82,744)
Plan fiduciary net position - beginning	<u>615,392</u>	<u>698,136</u>
Plan fiduciary net position - ending (b)	<u><u>\$ 509,670</u></u>	<u><u>\$ 615,392</u></u>
Net pension liability ending (a) - (b)	<u><u>\$ 907,406</u></u>	<u><u>\$ 603,682</u></u>
Plan fiduciary net position as a % of total pension liability (b)/(a)	36.0%	50.5%
Covered-employee payroll	0	0
Net pension liability as a % of covered employee payroll	0.00%	0.00%

Notes to Schedule:

Factors that significantly effect trends include changes in the size of the population covered by the benefit terms or the use of different assumptions.

City of Lynnwood, Washington
Schedule of Employer Contributions
Firemen's Pension
Last 10 Fiscal Years

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Actuarially/statutorily/contractually determined contribution	\$43,999	\$43,999	\$51,946	\$51,946	\$49,477	\$49,477	\$40,127	\$40,127	\$16,267	\$16,267
Actual contribution in relation to the above *	(35,137)	(10,276)	(3,753)	1,536	(11,407)	1,202	6,787	(11,945)	3,998	5,544
Contribution deficiency (excess)	<u>\$79,136</u>	<u>\$54,275</u>	<u>\$55,699</u>	<u>\$50,410</u>	<u>\$60,884</u>	<u>\$48,275</u>	<u>\$33,340</u>	<u>\$52,072</u>	<u>\$12,269</u>	<u>\$10,723</u>
Covered employee payroll	-	-	-	-	-	-	-	-	-	-
Contributions as a % of covered-employee payroll	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

Notes to Schedule:

Valuation date: December 31, 2015

Methods and assumptions used to determine contribution rates:

Actuarial cost method - entry age normal

Amortization method - 30-year, closed as of January 1, 1999

Remaining amortization period - 15 Years

Asset valuation method - Fair Market Value

Inflation - 2.00%

Salary increases - 2.50%

Investment rate of return - 3.50%

Mortality - RP-2000 using scale BB

* Employer contributions for pensions are total contributions to the Fund net of disbursements from the Fund for medical expenses under RCW 41.26.150. It includes revenues from fire insurance premium taxes. Prior to 2014, administrative expenses were also subtracted from employer contributions.

City of Lynnwood, Washington
Schedule of Investment Returns
Firemen's Pension
Last 10 Fiscal Years

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Annual money-weighted rate of return, net of investment expense	0.00%	0.09%	0.14%	0.16%	0.22%	0.76%	1.69%	3.57%	5.03%	4.24%

City of Lynnwood, Washington
Schedule of Funding Progress
LEOFF 1 Retiree Medical and Long-Term Care Benefits
As of December 31, 2015 (in thousands)

Actuarial Valuation Date	Actuarial Valuation of Assets	Actuarial Accrued Liability (AAL)	Funded Ratio	Unfunded AAL
12/31/2015	-	26,080	0%	26,080
12/31/2013	-	23,070	0%	23,070
12/31/2010	-	21,614	0%	21,614
12/31/2007	-	18,127	0%	18,127

City of Lynnwood, Washington
Scheduled of Expenditures of Federal Awards
For the Year Ended December 31, 2015

Federal Agency Name	Federal Program Name	CFDA Number	Pass-Thru Agency	Other I.D. Number	EXPENDITURES			Foot-note Ref.
					From Pass-Through Awards	From Direct Awards	Total	
U.S. Department of Justice Bureau of Justice Assistance	STOP Violence Against Women Formula Grant Program	16.588	WSDOC	STOP VAWA - Violence Against Women	\$ 1,334		\$ 1,334	1, 2, 7
U.S. Department of Justice Bureau of Justice Assistance	Ballistic Vest Grant Program - Bulletproof Vest Partnership	16.607	N/A	OMB#1121-0235	-	4,762	\$ 4,762	
		16.607	N/A	OMB#1121-0235	-	8,220	\$ 8,220	
				Subtotal	-	\$ 12,982	\$ 12,982	1, 2, 7
U.S. Department of Transportation Federal Highway Administration (FHWA)	Highway Planning and Construction	20.205	DOT	CM-0524(011) LA-7931 196th Street SW (SR524) Improvements	\$ 81,911		\$ 81,911	
				STPUL-9931(009) LA-7167 35th/36th Ave W Roadway Improvements	250,512		\$ 250,512	
				STPUL-9917(023) LA-8401	890,586		\$ 890,586	
				STPUL-0524(013) LA-8304 SR 524	7,091		\$ 7,091	
				Improvements - SR 99 to Scriber Lake Rd				
				IMD-STPUL-2004(037) LA-5787 Lynnwood Poplar Way Overcrossing	762,385		\$ 762,385	
				CM-STPE-9999(640) LA-7613 Interurban Regional Trail Missing Links	89,373		\$ 89,373	
				STPUL-2543(001) LA-8095 2013 Road Overlay & Rebuild-44th Ave W	396		\$ 396	
				HSIP-000S(310) LA-7807 SR 99 and SR 524 Safety Improvements	121,019		\$ 121,019	
				HSIP-000S(311) LA-7808 SR 99 and SR 524 Real-time Adaptive Signal Control Implementation	33,951		\$ 33,951	
				HSIP-000S(309) LA-7806 Citywide Safety Improvements	20,208		\$ 20,208	
				HSIP-0099(121) LA-7800 SR 99 176th St SW Channelization and Road Diet	(13,982)		\$ (13,982)	
				Subtotal	\$ 2,243,451		\$ 2,243,451	1, 2, 7
U.S. Department of Transportation National	State and Community			Traffic Safety Equipment Grant - Stalker Lidar XLR Radar	\$ 8,521		\$ 8,521	
Highway Traffic Safety Administration (NHTSA)	Highway Safety	20.600	WASPC	Traffic Safety Equipment Grant - Rain pants school zone	1,600		\$ 1,600	
				Subtotal	\$ 10,121		\$ 10,121	
U.S. Department of Transportation National Highway Traffic Safety Administration (NHTSA)	State and Community Highway Safety	20.600	WTSC	Distracted Driving	4,911		\$ 4,911	
				Motorcycle Safety	5,993		\$ 5,993	
				Target Zero DUI & Traffic Safety	9,982		\$ 9,982	
				LEL to promote Target Zero	6,265		\$ 6,265	
				Subtotal	27,150		\$ 27,150	
				Total - CFDA 20.600	\$ 37,271		\$ 37,271	1, 2, 7
U.S. Department of Transportation National Highway Traffic Safety Administration (NHTSA)	National Priority Safety			Target Zero: Seatbelts	\$ 983		\$ 983	
	Programs	20.616	WTSC	Target Zero: Seatbelts	3,334		\$ 3,334	
				Subtotal	\$ 4,317		\$ 4,317	
				Total - CFDA 20.6XX	41,589		\$ 41,589	1, 2, 7
U.S. Department of Justice, Drug Enforcement Administration	High Intensity Drug Trafficking Area Program	95.001	DOJ	HIDTA Task Force - D-21	10,502		\$ 10,502	
Department of Homeland Security	Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036		4242-DR-WA August 29, 2015 Wind Storm		\$ 57,925	\$ 57,925	
				Subtotal	-	57,925	57,925	1, 2, 7
				Subtotal	-	\$ -	\$ -	
	Total Federal Awards Expended				\$ 2,296,876	\$ 70,907	\$ 2,367,783	

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 Federal Awards

For the Year Ended December 31, 2015

NOTE 1 - BASIS OF ACCOUNTING

This schedule is 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 federal grant portion of the program costs. Entire program costs, including the city portion, may be more than shown.

NOTE 7 – INDIRECT COST RATE

The amount expended includes \$0.00 claimed as an indirect cost recovery using an approved indirect cost rate of percent. The City has not elected to use the 10-percent de minimis indirect cost rate allowed under Uniform Guidance.

CORRECTIVE ACTION PLAN FOR FINDINGS REPORTED UNDER UNIFORM GUIDANCE

**City of Lynnwood
Snohomish County
January 1, 2015 through December 31, 2015**

This schedule presents the corrective action planned by the auditee for findings reported in this report in accordance with Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). The information in this schedule is the representation of the City of Lynnwood.

Finding ref number: 2015-001	Finding caption: The City's internal controls over accounting and financial reporting continue to be inadequate to ensure financial statements are accurate and complete.
Name, address, and telephone of auditee contact person: Sonja Springer 19100 44th Avenue West Lynnwood, WA 98036 (425) 670-5141	
Corrective action the auditee plans to take in response to the finding: <i>The City plans to correct the financial reporting deficiencies noted in the finding as follows:</i> <ul style="list-style-type: none">• <i>Provide specialized Munis Fixed Asset Module training to Capital Asset Accountant.</i>• <i>Implement new Capital Asset inventory and depreciation reconciliation procedures.</i>• <i>Conduct search for new CAFR Consultant and include in future contract terms specific deadlines and deliverables to ensure timely reporting.</i>• <i>Perform additional reviews of grant documents and take additional steps to confirm proper Federal/State classifications.</i>	
Anticipated date to complete the corrective action: Prior to completing and submitting 2016 financial statements.	

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.

Contact information for the State Auditor's Office	
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Toll-free Citizen Hotline	(866) 902-3900
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