

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

City of Lynnwood
Snohomish County

Audit Period
January 1, 2010 through December 31, 2010

Report No. 1008058

Issue Date
July 23, 2012



WASHINGTON
BRIAN SONNTAG
STATE AUDITOR



**Washington State Auditor
Brian Sonntag**

July 23, 2012

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,

BRIAN SONNTAG, CGFM
STATE AUDITOR

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Snohomish County
January 1, 2010 through December 31, 2010**

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Federal Summary

City of Lynnwood Snohomish County January 1, 2010 through December 31, 2010

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

FINANCIAL STATEMENTS

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

Internal Control Over Financial Reporting:

- **Significant Deficiencies:** We reported no deficiencies in the design or operation of internal control over financial reporting that we consider to be significant deficiencies.
- **Material Weaknesses:** We identified deficiencies that we consider to be material weaknesses.

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

FEDERAL AWARDS

Internal Control Over Major Programs:

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

We issued an unqualified opinion on the City's compliance with requirements applicable to each of its major federal programs.

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

Identification of Major Programs:

The following were major programs during the period under audit:

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

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by OMB Circular A-133, was \$300,000.

The City qualified as a low-risk auditee under OMB Circular A-133.

Schedule of Audit Findings and Responses

City of Lynnwood Snohomish County January 1, 2010 through December 31, 2010

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

Background

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

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

Description of Condition

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

- Staff responsible for financial statement preparation and oversight lack the level of technical knowledge needed to ensure the City's financial reporting is accurate and complete according to Generally Accepted Accounting Principles (GAAP).
- Although the City has procedures to perform a final review of the prepared financial statements prior to audit, the review is not detailed enough to detect significant or material errors. For example, the review did not include steps to ensure that the same amounts presented on multiple statements were the same.
- The City does not have a procedure to perform a reconciliation of its inventory of capital assets to the general ledger in accordance with the *Budgeting, Accounting and Reporting Systems Manual* (BARS Part 3, Chapter 7, Page 5, Section c (2)).

Cause of Condition

City management has not dedicated the necessary time and resources to make completing the financial statements accurately and timely a priority. Further, the City chose to begin using new reporting software prior to preparing the financial statements. Financial statements prepared in accordance with Generally Accepted Accounting Principles (GAAP) are more challenging due to the changing nature of the standards and at times, the complexity of the guidance. Therefore, more resources are required to ensure accurate and complete statements.

Additionally, the City experienced turnover in key financial positions including the Finance Director, Assistant Finance Director and the Accounting Manager at the end of the fiscal year.

Effect of Condition

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

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

- The City overstated the value of its land by at least \$4,322,991 by reporting assets that it no longer owns.
- The City chose to record several transactions using the invoice date and deposit date rather than accruing the transactions to the year they were incurred or earned, as required by GAAP. We identified at least \$1,489,421 in expenditures coded to the wrong fiscal year.
- The City did not correctly calculate its balances for Invested in Capital Assets, Net of Related Debt by removing all related debt balances. It overstated the balance in the Water and Sewer Utility Fund by \$15,825,000. This error did not impact ending net assets for the fund.
- The City did not eliminate \$2,295,213 in inter-fund activity when it combined funds to represent the Water and Sewer Utility fund on the financial statements. This error did not impact ending net assets for the fund.
- The City did not ensure several note disclosures, the government-wide reconciliations and the Schedule of Expenditures of Federal Awards (SEFA) were accurate and complete.

Additionally, the City did not complete its financial statements and submit the final version for audit until December 9, 2011. As a result, the City missed its federal audit deadline for 2010 and did not have its statements completed within 150 days past year end as required by state law (RCW 43.09.230).

Recommendation

We recommend the City:

- Provide staff the necessary resources, training, and oversight to prepare accurate and complete financial statements.
- Ensure a person knowledgeable of GAAP and reporting requirements performs a detailed, technical review of the financial statements to ensure accurate preparation and reporting.
- Have procedures to reconcile general ledger balances to adequate supporting documentation.

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

City's Response

The City of Lynnwood generally agrees with the audit finding, and we have taken steps to remedy the comments therein. We would like to summarize our action plan thus far:

- *From 2010-2011, the City lost five significant employees, the Accounting Manager, Fiscal Systems Accountant, Assistant Finance Director, and two Finance Directors. During this same time period the city hired a new Accounting Manager and a new Finance Director. It is our position that the two new incumbents will provide continuity and consistency to the City's financial reporting processes.*
- *The City's Administrative Services Department will approach City leadership during the next budget cycle regarding additional resources for the Accounting Department to: 1) ensure the adequacy of staffing and resources necessary for financial statement preparation, and 2) ensure resources and procedures are available to foster proper reconciliation between the capital asset inventory and the general ledger.*
- *For the 2011 statements and onward, the Finance Director and the City Budget coordinator (both Certified Public Accountants) will primarily review the financial statements developed by the Accounting staff. This will ensure that adequate staffing with technical knowledge is available to review statements and document procedures.*
- *The City's accounting staff will be sent to financial statement preparation training annually to ensure that staff remains current on GASB financial reporting requirements. This will ensure that staffing with technical knowledge is available to prepare the financial statements.*
- *In 2012, the City hired a Fiscal Systems Accountant who is formerly the Accounting Manager with another City here in Snohomish County. She also brings a wealth of financial reporting experience. Her tenure at her former position includes producing five years of City financial statements in which no Washington State Auditor findings were noted. This action provides additional staffing with technical knowledge to assist in the preparation of the financial statements.*
- *Most of the 2010 statements were produced utilizing a stand-alone financial reporting software package, previously purchased, but not utilized by the City until 2011. This new software allows City staff to produce consistent statements and the auditors to easily verify the validity of any requested line in the statements. The City's current accounting staff, recognizing the importance of utilizing the financial software, has spent the past year configuring and implementing the new software.*

It is our contention that the points mentioned above will allow us to continue to pursue the standard of accurate and timely financial statements from the City of Lynnwood.

Auditor's Remarks

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

Applicable Laws and Regulations

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

a. Material weakness:

A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

b. Significant deficiency:

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

RCW 43.09.200, Local government accounting -- Uniform system of accounting, states:

The state auditor shall formulate, prescribe, and install a system of accounting and reporting for all local governments, which shall be uniform for every public institution, and every public office, and every public account of the same class.

The system shall exhibit true accounts and detailed statements of funds collected, received, and expended for account of the public for any purpose whatever, and by all public officers, employees, or other persons. The accounts shall show the receipt, use, and disposition of all public property, and the income, if any, derived there from; all sources of public income, and the amounts due and received from each source; all receipts, vouchers, and other documents kept, or required to be kept, necessary to isolate and prove the validity of every transaction; all statements and reports made or required to be made, for the internal administration of the office to which they pertain; and all reports published or required to be published, for the information of the people regarding any and all details of the financial administration of public affairs. The state auditor shall formulate, prescribe, and install a system of accounting and reporting for all local governments, which shall be uniform for every public institution, and every public office, and every public account of the same class.

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

Controls over Financial Reporting

This objective refers to fair presentation of financial statements and required schedules in all material respects in accordance with the stated basis of accounting.

In meeting this objective, the government should have controls that accomplish the following key functions:

- Identification of financial events – Controls should ensure financial events and transactions are properly identified and recorded.
- Properly applying accounting standards – Controls should ensure correct criteria and methodology is applied when accounting for financial events. When the correct method of accounting for or reporting a transaction is unclear, the government should seek clarification by performing research, contracting for accounting assistance, or communicating with the State Auditor's Office or standard setting bodies.
- Correctly accounting for all financial events – Controls should ensure that:
 - Only valid transactions are recorded and reported.
 - All transactions occurred during the period are recorded and reported.
 - Transactions are recorded and reported at properly valued and calculated amounts.
 - Recorded and reported transactions accurately reflect legal rights and obligations.
 - Transactions are recorded and reported in the account and fund to which they apply.
- Preparation of the annual report – Controls should ensure that financial statements and required schedules are properly compiled and prepared from source accounting records. Controls should also ensure correct presentation of statements and schedules.

Controls and processes should generate adequate documentation to demonstrate achievement of objectives. This is not only important for audit, oversight and public records purposes, but also to enable effective monitoring of controls over financial reporting by management.

2010 *Budget Accounting and Reporting System* (BARS) Manual Part 3, Chapter 7, Page 5, Section c (2), states:

A physical inventory of the property must be taken and the results reconciled with the property records at least once every two years.

RCW 43.09.230, Local Government Accounting – Annual Reports, states in part:

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

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

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

Section 200:

(a) Audit required.

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

(b) Single audit.

Non-Federal entities that expend \$300,000 (\$500,000 for fiscal years ending after December 31, 2003) or more in a year in Federal awards shall have a single audit conducted in accordance with §____.500 except when they elect to have a program-specific audit conducted in accordance with paragraph (c) of this section.

Section 300:

The auditee shall:

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

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

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

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

Section 320:

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

Status of Prior Audit Findings

City of Lynnwood Snohomish County January 1, 2009 through December 31, 2009

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

- 1. The City needs to improve its internal controls over financial statement preparation to ensure accurate financial reporting.**

Report No. 1004322, dated September 30, 2010

Background

During 2009, the City experienced turnover in key accounting positions which delayed the completion of its annual report. As a result, the financial statements were not submitted for audit in a timely manner and delayed the audit process.

Additionally, the City's financial statement process is complex involving multiple people and departments. These conditions led to multiple errors going undetected in the financial statements submitted for audit, including errors involving the reporting of capital assets. The City's review process was not detailed enough to catch the errors prior to the start of the audit.

Status

The condition reported during the 2009 audit remains unresolved. The City continued to experience turnover through early 2011 in key accounting positions such as Finance Director, Accounting Manager and Treasurer. Additionally, current staff responsible for preparing the financial statements does not possess adequate knowledge of Generally Accepted Accounting Principles (GAAP) or have instituted a detailed review process of the completed financial statements. Although efforts have been made to increase communication between departments, the ongoing deficiencies in the City's internal control process continue to make it reasonably possible that a misstatement would remain undetected until the audit. Lastly, material errors were identified during the current audit.

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

**City of Lynnwood
Snohomish County
January 1, 2010 through December 31, 2010**

Mayor and City Council
City of Lynnwood
Lynnwood, Washington

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate discretely presented component units and remaining fund information of the City of Lynnwood, Snohomish County, Washington, as of and for the year ended December 31, 2010, which collectively comprise the City's basic financial statements, and have issued our report thereon dated May 23, 2012. During the year ended December 31, 2010, the City implemented Governmental Accounting Standards Board Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*.

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

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable

possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Audit Findings and Responses as Finding 1 to be material weaknesses.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of the City's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The City's response to the finding identified in our audit is described in the accompanying Schedule of Audit Findings and Responses. We did not audit the City's response and, accordingly, we express no opinion on it.

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

A handwritten signature in black ink, appearing to read "Brian Sonntag", with a stylized, cursive script.

BRIAN SONNTAG, CGFM
STATE AUDITOR

May 23, 2012

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

**City of Lynnwood
Snohomish County
January 1, 2010 through December 31, 2010**

Mayor and City Council
City of Lynnwood
Lynnwood, Washington

COMPLIANCE

We have audited the compliance of the City of Lynnwood, Snohomish County, Washington, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2010. The City's major federal programs are identified in the Federal Summary. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

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

In our opinion, the City complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2010.

INTERNAL CONTROL OVER COMPLIANCE

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

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

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

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

A handwritten signature in black ink, appearing to read "Brian Sonntag", is positioned above the printed name and title.

BRIAN SONNTAG, CGFM
STATE AUDITOR

May 23, 2012

Independent Auditor's Report on Financial Statements

City of Lynnwood Snohomish County January 1, 2010 through December 31, 2010

Mayor and City Council
City of Lynnwood
Lynnwood, Washington

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, 2010, which collectively comprise the City's basic financial statements as listed on page 17. These financial statements are the responsibility of the City's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

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, 2010, and the respective changes in financial position and, where applicable, cash flows thereof, and the budgetary comparison for the General Fund fund, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, during the year ended December 31, 2010, the City implemented Governmental Accounting Standards Board Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*.

In accordance with *Government Auditing Standards*, we have also issued our report on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide

an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 18 through 32, pension trust fund on page 91 and information on postemployment benefits other than pensions on page 92 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 the audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. This schedule is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, appearing to read "Brian Sonntag", written in a cursive style.

BRIAN SONNTAG, CGFM
STATE AUDITOR

May 23, 2012

Financial Section

City of Lynnwood Snohomish County January 1, 2010 through December 31, 2010

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2010

BASIC FINANCIAL STATEMENTS

Statement of Net Assets – 2010
Statement of Activities – 2010
Balance Sheet – Governmental Funds – 2010
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds – 2010
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds – 2010
Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – General Fund – 2010
Statement of Net Assets – Proprietary Funds – 2010
Statement of Revenues, Expenses and Changes in Net Assets – Proprietary Funds – 2010
Statement of Cash Flows – Proprietary Funds – 2010
Statement of Net Assets – Fiduciary Funds – 2010
Statement of Changes in Plan Net Assets – Fiduciary Funds – 2010
Notes to Financial Statements – 2010

REQUIRED SUPPLEMENTARY INFORMATION

Fireman's Pension Plan – Schedule of Funding Progress – 2010
LEOFF 1 Retiree Medical Benefits – Schedule of Funding Progress - 2010

SUPPLEMENTARY INFORMATION

Schedule of Expenditures of Federal Awards – 2010
Notes to the Schedule of Expenditures of Federal Awards – 2010

Management's Discussion and Analysis

City of Lynnwood management offers this narrative overview and analysis of the financial activities of the City of Lynnwood for the fiscal year ended December 31, 2010. The information presented herein should be used in conjunction with additional information that is furnished in the letter of transmittal.

Financial Highlights

The poorly performing economy during 2010 is still affecting the city's strategies necessary to meet the city's operational needs; however the City's overall financial position has improved.

- The assets of the City of Lynnwood exceeded its liabilities at fiscal year-end by \$173,329,985 (net assets), an increase of \$3.5 million or 2.1% over 2009. Of this amount, unrestricted net assets total \$13,490,604, and may be used to meet the city's ongoing obligations to citizens and creditors. Restricted net assets total \$13,752,988 and are earmarked for debt service and capital projects.
- At fiscal year-end, the City of Lynnwood's governmental funds reported combined ending fund balances of -\$7,239,783. This figure is the result of the impact of a current liability for a Bond Anticipation Note (BAN) for renovations to the City's Recreation Center. Bonds were issued in February 2012 to fund this liability long term.
- At the end of the 2010 fiscal year, unreserved fund balance for the general fund was \$4,884,960 or 11.6% of total general fund revenues (11.1% of expenditures).
- The City sold its joint shop facilities for \$3.0 million and ceased operations of its Central Stores program. This has been treated as a "special item" in the government wide statements.
- The City increased existing utility taxes and added new utility taxes to fortify its financial position by \$1.9 million.
- For the fiscal year ended December 31, 2010, the City adopted GASB Statement No. 51 – Accounting and Financial Reporting for Intangible Assets. The City determined that its only intangible assets consisted of easements with indefinite useful lives. The easements have been added to the schedule of capital assets and clearly detailed on the Statements of Net Assets as "Intangible Assets – Easements" immediately following Land. Governmental-type easements added totaled \$436,742 and business-type easements totaled \$4,148,620.
- The City corrected an error in reporting revenues which resulted in five quarters of revenues for certain revenues. This resulted in an additional \$333,426 in General Fund revenue for FY 2010.
- The City discovered three parcels of Land with book values totaling \$4,322,991 that had been sold in 2006 were still reported as assets in the Governmental Activities portion of the Statement of Net Assets. The land has been removed from Net Assets in FY 2010.

Overview of the Financial Statements

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

Government-wide Financial Statements

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

- The **Statement of Net Assets** presents information on all the city's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the city is improving or deteriorating.
- The **Statement of Activities** presents information showing how the city's net assets changed during the most recent fiscal year. All changes in the net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in the statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

The government-wide financial statements distinguish functions of the City of Lynnwood that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City of Lynnwood include general government, public safety, highways and streets, economic development, physical environment, and culture and recreation. The business-type activities of the City include the water, sewer, and storm drainage utility, and a golf course.

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

On July 12, 2010 the City of Lynnwood's City Council chartered the "Lynnwood Transportation Benefit District" (TBD) within the City's jurisdiction for the purpose of acquiring, constructing, improving, providing, and funding transportation improvements within the District. The TBD is a separate legal entity governed by a Board of Directors consisting of the seven members of the Lynnwood City Council. The TBD Board authorized a \$20 per vehicle annual license fee within the District. The fee did not go into effect until June 1, 2011 and the TBD did not incur any costs until 2011 so it is not included within the 2010 financial statements. Whereas the PFD is reported as a "discreet" component unit the TBD will be reported as a "blended" component unit beginning in 2011.

Fund financial statements

A fund is a grouping of related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. The City of Lynnwood, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: *Governmental funds*, *Proprietary funds*, and *Fiduciary funds*.

- Governmental Funds

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

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

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

The City of Lynnwood adopts its budget on a biennial basis. The 2010 fiscal year is the second year of the two year budget 2009-2010. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

- Proprietary Funds

The City maintains two types of proprietary funds.

- Enterprise Funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its Water, Sewer, and Storm Drainage Utility and the Golf Course.
- Internal Service Funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for its fleet of vehicles, central stores, and self-insurance program and for its retirement contributions.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Water, Sewer and Storm Drainage Utility and the Golf Course as all are considered, or have been designated to be major funds of the City. The internal service funds are

combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data is provided in the form of combining statements elsewhere in this report.

- Fiduciary Funds

The purpose of fiduciary funds is to report assets held in a trustee or agency capacity for others and, therefore, cannot be used to support the government's own programs. These funds are excluded from the government-wide financial statements. The City of Lynnwood maintains two types of fiduciary funds.

- The *Firemen's Pension Fund* accounts for the Firemen's Pension System, which is a single-employer closed pension plan. Membership is limited to firefighters employed by the City prior to March 1, 1970.
- The *Agency/Clearing Funds* are primarily used to function as an internal clearing account for amounts that have yet to be allocated to individual funds.

- Notes to the Financial Statements

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

- Other information

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

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

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The City's assets exceeded its liabilities (after prior year adjustment) at fiscal year-end by \$173,329,985 (net assets), an increase of \$3.5 million or 2.1% over 2009. The largest portion of the City's net assets (88%) reflects its investment in capital assets (land and facilities such as, buildings, machinery, and equipment); less related debt used to acquire those assets that are still outstanding.

STATEMENT OF NET ASSETS (in \$1,000)						
	Governmental Activities		Business-Type Activities		Total	
	2010	2009	2010	2009	2010	2009
ASSETS						
<i>Current Assets:</i>						
Cash & cash equivalents	\$12,956	\$1,261	\$8,405	\$1,168	\$21,361	\$2,429
Investments	2,955	16,442	3	1,203	2,958	17,645
Receivables (net)	9,540	4,972	1,964	1,681	11,504	6,653
Due from Firemen's Pension Fund	0	0	0	0	0	0
Internal Balances	(7,223)	(4,613)	7,223	4,613	0	0
Inventories	21	144	14	15	35	159
Prepaid Items	19	0	67	67	86	67
Restricted cash & investments:						
Customer deposits	0	0	658	59	658	59
Bond covenant accounts	0	0	1,760	3,800	1,760	3,800
<i>Total Current Assets</i>	18,268	18,206	20,094	12,606	38,362	30,812
<i>Noncurrent Assets:</i>						
Deferred charges & other assets						
Deferred charges	0	0	147	120	147	120
Noncurrent receivables	3,863	4,521	61	0	3,924	4,521
<i>Capital Assets:</i>						
Land	33,869	38,946	6,867	6,867	40,736	45,813
Intangible Assets - Easements	437	0	4,149	0	4,586	0
Depreciable assets (net)	31,355	33,066	13,510	14,969	44,865	48,035
Infrastructure (net)	30,279	32,140	22,963	23,759	53,242	55,899
Construction in progress	40,180	14,927	5,100	3,096	45,280	18,023
<i>Total Noncurrent Assets</i>	139,983	123,600	52,797	48,811	192,780	172,411
Total Assets	158,251	141,806	72,891	61,417	231,142	203,223
LIABILITIES						
<i>Current Liabilities:</i>						
Accounts payable and accrued exp.	3,156	1,023	726	227	3,882	1,250
Unearned revenue	4,657	5,047	32	122	4,689	5,169
Due within one year	20,846	2,818	1,559	1,144	22,405	3,962
Other Current Liabilities			86		86	0
<i>Current Liabilities Payable from Restricted Assets:</i>						
Liabilities payable from restricted assets	0	0	27	0	27	0
<i>Total Current Liabilities</i>	28,659	8,888	2,430	1,493	31,089	10,381
<i>Noncurrent Liabilities:</i>						
Due in more than one year	11,458	14,504	15,264	8,551	26,722	23,055
<i>Total Noncurrent Liabilities</i>	11,458	14,504	15,264	8,551	26,722	23,055
Total Liabilities	40,117	23,392	17,694	10,044	57,811	33,436
NET ASSETS						
Invested in capital assets, net of related debt	109,761	112,038	36,326	37,485	146,087	149,523
<i>Expendable restricted for:</i>						
Debt service	1,957	2,144	2,058	5,841	4,015	7,985
Capital projects	1,477	3,173	8,144	0	9,621	3,173
Other	0	0	117	0	117	0
Unrestricted	4,939	1,058	8,551	8,046	13,490	9,104
Total Net Assets	\$118,134	\$118,413	\$55,196	\$51,372	\$173,330	\$169,785

STATEMENT OF ACTIVITIES (in \$1,000)

	Governmental		Business-type		Total	
	2010	2009	2010	2009	2010	2009
Revenues						
Program Revenues						
Charge for Service	\$ 13,288	\$ 11,081	\$ 13,527	\$ 12,820	\$ 26,815	\$ 23,901
Operating Grants & Contributions	3,884	1,270	-	-	3,884	1,270
Capital Grants & Contributions	2,577	4,810	247	96	2,824	4,906
General Revenues					-	-
Property Taxes	10,387	10,008			10,387	10,008
Sales Taxes	16,151	15,844			16,151	15,844
Other Taxes	6,232	3,287			6,232	3,287
Other Revenues	2,034	1,795	96	205	2,130	2,000
Total Revenues	54,553	48,095	13,870	13,121	68,423	61,216
Expenses						
General Government	7,296	8,953			7,296	8,953
Judicial	1,173	-			1,173	-
Public Safety	25,839	27,527			25,839	27,527
Physical Environment	2,777	5,027			2,777	5,027
Transportation	5,283	5,272			5,283	5,272
Human Services	-	718			-	718
Culture & Recreation	5,523	7,039			5,523	7,039
Economic Environment	3,291	-			3,291	-
Interest on Long-term Debt	749	660			749	660
Water			3,822	4,131	3,822	4,131
Sewer			6,765	6,556	6,765	6,556
Golf Course			1,025	1,101	1,025	1,101
Storm Drainage			1,449	1,330	1,449	1,330
Total Expenses	51,931	55,196	13,061	13,118	64,992	68,314
Increase in Net Assets Before Transfers	2,622	(7,101)	809	3	3,431	(7,098)
Transfers	696	2,701	(696)	(2,701)	-	-
Increase in Net Assets	3,318	(4,400)	113	(2,698)	3,431	(7,098)
Beginning Net Assets January 1	118,413	123,120	51,372	54,070	169,785	177,190
Prior Period Adjustments	(3,597)	(307)	3,711		114	(307)
Beginning Net Assets Adjusted	114,816	122,813	55,083	54,070	169,899	176,883
Ending Net Assets December 31	\$ 118,134	\$ 118,413	\$ 55,196	\$ 51,372	\$ 173,330	\$ 169,785

- Capital Assets

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

- Net Assets

An additional portion of the City's net assets, 7.9%, represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets, \$13,490,604 may be used to meet the city's ongoing obligations to citizens and creditors and to respond to existing or emerging community needs. This reflects an increase from 2009 of 48%. The vast majority of this increase was the result of selling capital assets.

- Governmental Activities

Governmental activities decreased the City of Lynnwood's net assets (after prior year adjustment) by -\$279,441. Significant changes in net assets during 2010 were as follows:

Governmental Revenues

- The largest contributors to the change were: 1) the sale of the City's joint shop facilities for \$3.0 million, and 2) the City increased and added new utility taxes, \$1.9 million.
- The City's 2010 local sales tax revenues increased by only \$165,139 or 1 percent compared to fiscal 2009. These low sales tax levels are expected to continue into the foreseeable future.
- In 2010, the total property tax revenues collected were \$10,387,275 or an increase of 3.8% over collections in 2009.
- The number of permits issued in 2010 was 1,950, an increase of 12.8% compared to fiscal 2009. The associated permit revenues totaled \$822,006 or a decrease of 0.7 percent over the prior year.
- In 2010, the City received \$264,245 in mitigation payments, down \$155,112 or -37% from 2009. This revenue stream continues to be well below the original estimate prepared by the State Department of Revenue (DOR) in 2007.

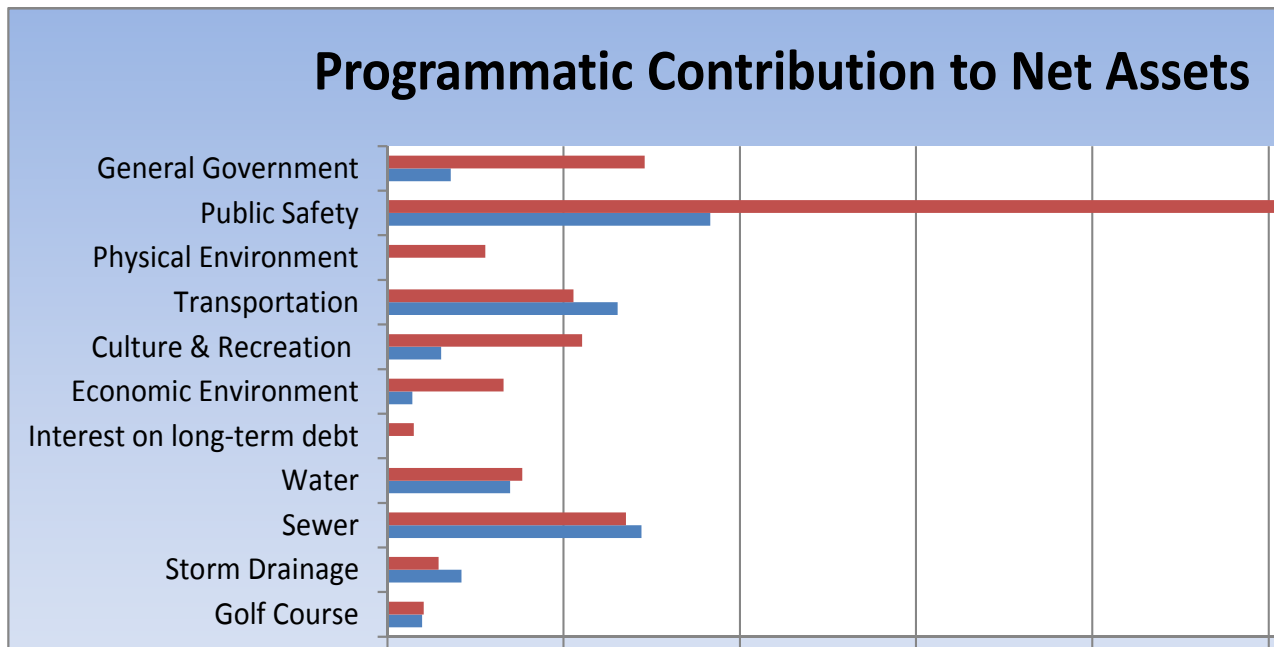
The State of Washington enacted a financial assistance program effective July 1, 2008. The program is designed to mitigate the impact of the new sales tax system. The mitigation payments were intended to offset the loss incurred by local governments from destination-based sales (sale transactions that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

Governmental Expenses

The city has responded to declining revenues by reducing 2010 expenditures \$2.9 million or -6.2% from 2009. General government expenditures declined by \$1.5 million, or -15%, Physical Environment declined by \$2.25 million or -45%, and Public Safety declined by \$573,721 or -2.2%.

Programmatic Contribution to Assets

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

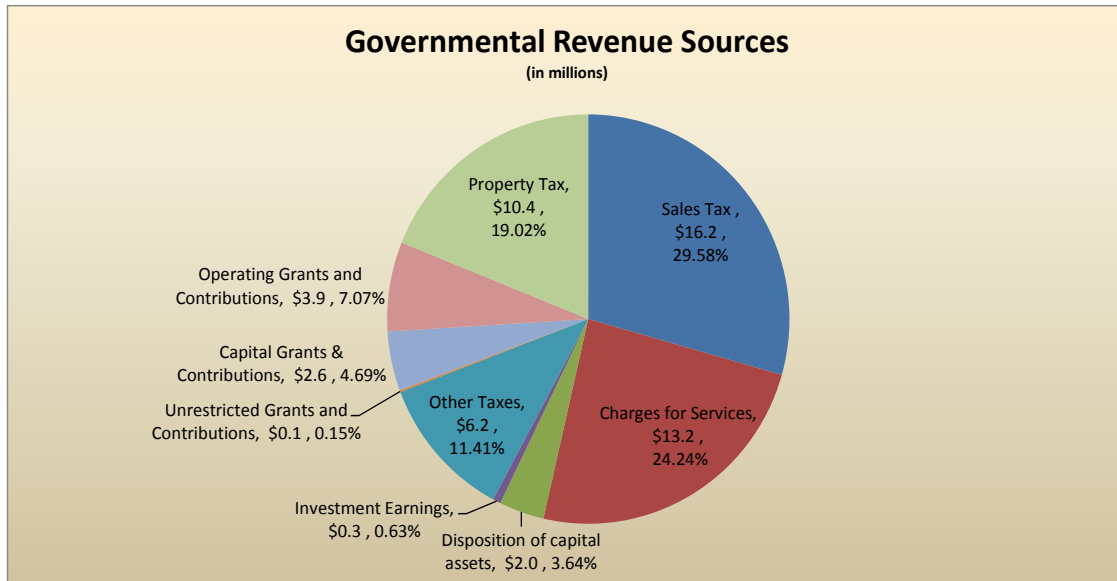


Public safety (which includes the police, fire and municipal court departments) is particularly dependent on tax support. The utilities (water, sewer, and storm drainage) are completely self-supporting through user fees. The golf course is not self-supporting at this time.

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

Revenues by Source – Governmental Activities

The next pie chart shows the distribution of income for all governmental activities, including capital grants and debt service. Sales taxes represent 30% of total governmental revenues. Most capital and operating grants are for transportation purposes.



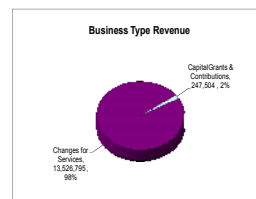
Business-type activities

Business-type activities increased the City of Lynnwood's net assets by \$3,824,541.

Business-type activities Revenues

Charges for Services increased by approximately \$0.7 million or 5.5% (from \$12.820 million to \$13.527 million). Total revenues decreased by 6.6%.

In 2010, the city conducted a rate study and adopted an ordinance with a comprehensive utility rate increase which took effect in January of 2011. This rate increase is necessary to keep pace with inflation in the operation of the utility and to finance capital improvement needs of the various components of the utility system (water, sanitary



sewer, and storm drainage). The City of Lynnwood still maintains its position as one of the lowest utility cost municipalities in the region.

Business-type activities Expenses

Expense related to water, sewer, and storm utility increased by approximately \$18,306 from 2009. The Golf course expenses went down by approximately \$75,833, or 7% from 2009.

Financial Analysis of the City's Funds

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

Governmental Funds

The focus of the city's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the city's financing requirements. In particular, unreserved fund balance may serve as a useful measure of the city's net resources available for spending at the end of a fiscal year.

- As of the end of 2010, the city's governmental funds reported combined ending fund balances of a -\$7,239,783. This figure is the result of the impact of a current liability for a Bond Anticipation Note (BAN) for renovations of the City's Recreation Center. Bonds were issued in February 2012 to fund this liability long term.

General Fund Budgetary Highlights

On the revenues side the following highlights occurred:

- The City sold its joint shop facilities for \$3.0 million, General Fund share was \$2.8 million
- The City's 2010 local sales tax revenues increased by only \$258,570 or 2 percent compared to fiscal 2009. These low sales tax levels are expected to continue into the foreseeable future.
- In 2010, the total property tax revenues collected were \$7,361,796 or an increase of 2.1% over collections in 2009.
- The number of permits issued in 2010 was 1,950, an increase of 12.8% compared to fiscal 2009. The associated permit revenues totaled \$822,006 or a decrease of 0.7 percent over the prior year.
- In 2010, the City received \$264,245 in mitigation payments, down \$155,112 or -37% from 2009. This revenue stream continues to be well below the original estimate prepared by the State Department of Revenue (DOR) in 2007.

On the expenditure side the following occurred:

- 2010 Final General Fund budgeted expenditures were \$41,840,265, the actual expenditures were \$43,981,758 for a difference of (\$2,141,493). This difference is mainly driven by personnel related costs.

Capital Assets and Debt Administration

Capital Assets

The City of Lynnwood's investment in capital assets for its governmental and business-type activities as of December 31, 2010, amounts to \$188.7 million (net of accumulated depreciation). This investment in capital assets includes land and construction in progress, both of which are not subject to depreciation. The other capital assets, buildings and systems, improvements other than buildings and systems, machinery and equipment, and infrastructure are subject to depreciation.

Governmental type capital assets (net of depreciation) totaled \$136.1 million in 2010, an increase of \$17.0 million from 2009. This increase is mainly driven by the construction in progress costs related renovation of the Lynnwood Recreation Center. Business-type assets (net of depreciation) totaled \$52.6 million, an increase of \$3.8 million from 2009. More information on the City's Capital Assets can be found in Note 5 in the Notes to Financial Statements.

Long-Term Debt

At the end of 2010, the City of Lynnwood had total bonded debt outstanding of \$8,424,290. Of this amount, \$4,494,290 is backed by the full faith and credit of the City and \$3,930,000 is special assessment debt for which the City is not liable for repayment. Accounting for accumulated absences adds \$4,390,628 and bond anticipation notes add \$18,341,256 to the general debt. The remainder of the debt (\$17,077,835) represents bonds, leases, and loans secured solely by specified revenue sources (i.e., revenue bonds) and pension related commitments.

The City's total debt increased by \$21.8 million in 2010, this change is mainly driven by the increased utilization of the BAN in 2010. More information on the City's Debt can be found in Note 7.

GOVERNMENTAL ACTIVITIES:	BALANCE 1/1/2010	ADDITIONS	REDUCTIONS	BALANCE 12/31/2010	CURRENT PORTION
General obligations bonds	\$ 5,604,694	\$ -	\$ 1,110,404	\$ 4,494,290	\$ 1,149,143
Special assessment bonds	4,565,000	-	635,000	\$3,930,000	510,000 ⁽¹⁾
Other post-employment Benefits	1,223,108	29,727	-	1,252,835	-
Compensated absences	3,623,445	415,238	-	4,038,683	950,729
ACTIVITIES	\$ 15,016,247	\$ 444,965	\$ 1,745,404	\$ 13,715,808	\$ 2,609,872
LTGO BANS 2008 ⁽²⁾	\$ 1,913,257	\$ 16,427,999	\$ -	\$ 18,341,256	\$ 18,341,256
BUSINESS TYPE ACTIVITIES:					
Revenue bonds	\$ 9,165,000	\$ 7,720,000	\$ 1,060,000	\$ 15,825,000	\$ 1,063,333
Compensated absences	373,743	-	21,798	\$351,945	89,544
TOTAL – BUSINESS TYPE ACTIVITIES	\$ 9,538,743	\$ 7,720,000	\$ 1,081,798	\$ 16,176,945	\$ 1,152,877

⁽¹⁾ Estimated current portion - many bonds are callable, therefore, exact amounts are not known.

⁽²⁾ This is a line of credit with a maximum available amount of \$25,480,000; \$18,341,256 has been drawn in 2009.

Economic Factors and the Next Year's Budgets and Rates

The sluggish economy continues to present challenges to the City. At the end of fiscal year 2009, the General Fund borrowed \$3.0 million from the Utility Fund to address year end cash flow needs. These funds will be paid back during the 2011-2012 biennium. Additionally, in 2011 the City sold a property for \$2.5 million (cash) to further fortify its financial footing. The measures were taken to address the structural budgetary and cash flow deficiencies. The City, during 2011, also instituted a 5.5% expenditure reduction over the 2011-2012 biennium. Lastly, the City continues to discuss and develop long term plans which will address both structural budget deficits and the future needs of the City's citizens.

Historical Perspective

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

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

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

Unfortunately the impact of the "great recession" in 2008 through 2010 reversed many of these gains. However as the recovery takes hold, the city has the built capacity to take advantage of general economic growth and resume its capture of the market-area's retail trade.

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

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

Negative Impacts of State law Changes

Motor Vehicle Excise Tax

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

Streamlined Sales Tax

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

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

New Revenue Sources

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

Other Post Employment Benefits (OPEB)

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

The ARC is the sum of (a) the normal cost for the year (the present value of future benefits being earned by current employees) and (b) the amortization of the unfunded accrued liability (benefits already earned by current and former employees but not yet provided for). The amortization period is not more than 30 years. If the City contributes an amount less than the ARC, a net incremental OPEB obligation will result, which is required to be recorded as a liability on its financial statements. The City engaged Milliman as its actuary for purposes of estimating its actuarial unfunded OPEB liabilities. The estimate is based on certain assumptions that include: (i) a discount rate of 4%, (ii) 30 year amortization period, (iii) medical inflation of 7.8%, (iv) long term care inflation rate of 4.75%, and (v) various demographic assumptions (mortality, disability, and retirement). The estimated actuarial accrued liability is \$21,683,000. The ARC estimated for calendar year 2010 is \$1,207,872. The City has a Net OPEB Obligation at the end of the year of \$1,252,835 which is included as a noncurrent liability in the Statement of Net Assets.

Requests for Information

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

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

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

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

Our web site address is:

www.ci.lynnwood.wa.us

Select "City Finances"
under "City Hall"

CITY OF LYNNWOOD, WASHINGTON
STATEMENT OF NET ASSETS
DECEMBER 31, 2010

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Public Facilities District
ASSETS				
CURRENT ASSETS				
Cash and Equivalents	\$ 12,956,017	\$ 504,358	\$ 13,460,375	\$ 3,021,671
Investments	2,954,861	-	2,954,861	-
Receivables (net)	9,539,969	1,964,131	11,504,100	291,958
Internal balances	(7,223,120)	7,223,120	-	-
Inventories	21,544	13,989	35,533	10,218
Deferred Lease Commissions	-	-	-	17,334
Prepaid items	18,975	66,598	85,573	71,203
Restricted cash & investments:				
Customer Deposits	-	39,092	39,092	-
Restricted Cash	-	8,221,737	8,221,737	437,937
Restricted Investments	-	3,535	3,535	1,000,000
Bond Covenant Accounts	-	2,057,695	2,057,695	-
Total Current Assets	18,268,246	20,094,255	38,362,501	4,850,321
NONCURRENT ASSETS				
Long-term notes receivable, net of current portion, net of allowance for uncollectibles	3,863,260	61,322	3,924,582	-
Deferred Charges	-	147,051	147,051	664,707
Capital Assets not being depreciated:				
Land	33,868,535	6,866,767	40,735,302	6,788,800
Intangible Assets - Easements	436,742	4,148,620	4,585,362	-
Construction in Progress	40,180,342	5,099,558	45,279,900	-
Capital Assets - Depreciable:				
Buildings and Improvements	50,255,763	38,685,568	88,941,331	18,719,315
Equipment	15,639,562	2,206,804	17,846,366	-
Infrastructure	57,681,370	38,718,412	96,399,782	-
Accumulated Depreciation	(61,941,955)	(43,137,633)	(105,079,588)	-
Net Capital Assets	136,120,359	52,588,096	188,708,455	25,508,115
Total Noncurrent Assets	139,983,619	52,796,469	192,780,088	26,172,822
Total Assets	158,251,865	72,890,724	231,142,589	31,023,143
LIABILITIES				
CURRENT LIABILITIES				
Accounts Payable and Accrued Expenses	3,156,123	725,987	3,882,110	340,991
Unearned Revenue	4,657,619	32,287	4,689,906	280,345
Other Current Liabilities	-	86,074	86,074	-
Due Within One Year	20,846,226	1,558,634	22,404,860	371,136
Current Liabilities Payable from Restricted Assets:				
Liabilities Payable from Restricted Assets	-	27,504	27,504	-
Total Current Liabilities	28,659,968	2,430,486	31,090,454	992,472
Noncurrent Liabilities:				
Due in More Than One Year	11,457,941	15,264,209	26,722,150	28,227,949
Total Noncurrent Liabilities	11,457,941	15,264,209	26,722,150	28,227,949
Total Liabilities	40,117,909	17,694,695	57,812,604	29,220,421
NET ASSETS				
Invested in Capital Assets, Net of Related Debt	109,760,570	36,325,823	146,086,393	(2,594,528)
Expendable Restricted for:				
Debt Service	1,957,365	2,057,695	4,015,060	1,437,937
Capital Projects	1,477,099	8,144,008	9,621,107	-
Other	-	116,821	116,821	-
Unrestricted	4,938,922	8,551,682	13,490,604	2,959,315
Total Net Assets	\$ 118,133,956	\$ 55,196,029	\$ 173,329,985	\$ 1,802,724

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

CITY OF LYNNWOOD, WASHINGTON
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2010

	Net (Expense) Revenue and Changes in Net Assets						
	Program Revenues			Primary Government			Component Units
	Expenses	Charges for Services	Grants and Contributions	Governmental Activities	Business-type Activities	Total	
			Operating	Capital			
FUNCTIONS/PROGRAMS							
Governmental Activities:							
General Government	\$ 7,295,878	\$ 1,795,199	\$ -	\$ -	\$ (5,500,679)	\$ (5,500,679)	-
Judicial	1,172,975	7,661,936	-	14,250	6,503,211	6,503,211	-
Public Safety	25,838,973	1,309,151	163,198	7,073	(24,359,551)	(24,359,551)	-
Physical Environment	2,777,582	18,117	18,558	-	(2,740,908)	(2,740,908)	-
Transportation	5,282,623	335,096	3,702,065	2,493,576	1,248,114	1,248,114	-
Economic Environment	3,291,062	704,406	-	-	(2,586,655)	(2,586,655)	-
Culture & Recreation	5,523,409	1,464,233	-	61,965	(3,997,211)	(3,997,211)	-
Interest on long-term debt	748,881	-	-	-	(748,881)	(748,881)	-
Total Governmental Activities	51,931,383	13,288,138	3,883,821	2,576,864	(32,182,560)	(32,182,560)	-
Business-type Activities:							
Water	3,822,228	3,248,043	-	230,684	(343,501)	(343,501)	-
Sewer	6,764,877	7,189,951	-	16,820	441,894	441,894	-
Golf	1,025,152	983,854	-	-	(41,298)	(41,298)	-
Storm Drainage	1,448,631	2,104,947	-	-	656,316	656,316	-
Total Business-type Activities	13,060,888	13,526,795	-	247,504	713,411	713,411	-
Total Primary Government	64,992,271	26,814,933	3,883,821	2,824,368	-	(31,469,149)	-
Component units:							
Public Facilities District	5,420,427	2,875,781	-	-	-	-	(2,544,646)
Total Component Units	5,420,427	2,875,781	-	-	-	-	(2,544,646)
General Revenues:							
Property Taxes					10,387,275	10,387,275	-
Sales Taxes					16,151,110	16,151,110	2,064,694
B&O Taxes					4,478,193	4,478,193	-
Other Taxes					1,753,893	1,753,893	-
Unrestricted Grants & Contributions					84,696	84,696	-
Investment Earnings					345,168	345,168	30,623
Disposition of capital assets					60,758	60,758	-
Special Item - Sale of Joint Shop					1,542,786	1,542,786	-
Transfers					696,269	(696,269)	-
Total General Revenues, Special Items, and Transfers					35,500,148	34,899,930	2,095,317
Change in Net Assets					3,317,588	113,193	(449,329)
Net Assets - Beginning					118,413,397	51,372,330	2,252,054
Prior Period Adjustments					(3,597,029)	3,710,505	-
Net Assets - Ending					118,133,956	55,196,028	1,802,725

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

CITY OF LYNNWOOD, WASHINGTON
BALANCE SHEET
GOVERNMENTAL FUNDS

For Fiscal Year Ended December 31, 2010

	GENERAL	LID 93-1	COMMUNITY CENTER	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
ASSETS					
Current Assets:					
Cash and Equivalents	\$ 3,822,457	\$ 159,657	\$ 1	\$ 8,852,027	\$ 12,834,142
Investments	-	-	-	103,546	103,546
Receivables (net)	5,686,491	4,596,227	-	3,060,931	13,343,649
Due From Other Funds	137,485	-	-	1,144	138,629
Total Assets	<u>\$ 9,646,433</u>	<u>\$ 4,755,884</u>	<u>\$ 1</u>	<u>\$ 12,017,648</u>	<u>\$ 26,419,966</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts Payable	\$ 897,806	\$ -	\$ 1,549,994	\$ 484,798	\$ 2,932,598
Due to Other Funds	3,261,529	-	8,365	4,354,982	7,624,876
Deferred Revenues	538,902	3,814,525	-	-	4,353,427
Unearned Revenue	63,236	-	-	240,956	304,192
Due to Other Governments	-	-	-	103,400	103,400
BANS payable	-	-	18,341,256	-	18,341,256
Total Liabilities	<u>4,761,473</u>	<u>3,814,525</u>	<u>19,899,615</u>	<u>5,184,136</u>	<u>33,659,749</u>
Fund Balances:					
Reserved for Debt Service	-	941,359	-	1,054,483	1,995,842
Unreserved for Special Revenue Funds	-	-	-	4,280,958	4,280,958
Unreserved for Capital Project Funds	-	-	(19,899,614)	1,477,099	(18,422,515)
Unreserved	4,884,960	-	-	20,972	4,905,932
Total Fund Balances	<u>4,884,960</u>	<u>941,359</u>	<u>(19,899,614)</u>	<u>6,833,512</u>	<u>(7,239,783)</u>
Total Liabilities and Fund Balances	<u>\$ 9,646,433</u>	<u>\$ 4,755,884</u>	<u>\$ 1</u>	<u>\$ 12,017,648</u>	<u>\$ 26,419,966</u>

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

Capital assets used in governmental activities are not financial resources and are not reported in the funds 128,894,413

The focus of governmental funds is on short-term financing; long-term assets are deferred in the funds -

Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds

Compensated absences	(4,011,125)	
Firemen's Pension Fund	(51,150)	
Claims and judgments	(300,855)	
Bonds, notes, loans payable	(8,018,533)	
Other noncurrent liabilities	(1,252,835)	
Accrued Interest Payable	(55,261)	
		(13,689,759)

Internal service funds are used by management to charge the costs of certain activities to individual funds.

These assets and liabilities are included in governmental activities in the statement of net assets. 10,169,085

Net assets of governmental activities \$ 118,133,956

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

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

For the Year Ended December 31, 2010

	<u>GENERAL</u>	<u>LID 93-1</u>	<u>COMMUNITY CENTER</u>	<u>OTHER GOVERNMENTAL FUNDS</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
REVENUES					
Taxes:					
Property	\$ 7,361,796	\$ -	\$ -	\$ 3,025,479	\$ 10,387,275
Sales	14,652,373	-	-	1,026,933	15,679,306
B & O	4,478,193	-	-	471,804	4,949,997
Other	161,892	-	-	622,768	784,660
Licenses and Permits	1,785,786	-	-	132,816	1,918,602
Intergovernmental Revenues	1,625,085	489,378	-	6,573,123	8,687,586
Charges for Services	3,888,376	-	-	32,803	3,921,179
Fines and Forfeitures	7,486,598	-	-	208,470	7,695,068
Miscellaneous - Interest	34,682	263,943	-	57,882	356,507
Miscellaneous - Rent	248,439	-	-	-	248,439
Miscellaneous - Other	87,790	-	-	41,883	129,673
TOTAL REVENUE	41,811,010	753,321	-	12,193,961	54,758,292
EXPENDITURES					
Current					
General Government	8,722,772	-	-	131,242	8,854,014
Public Safety	24,191,356	-	-	416,693	24,608,049
Judicial	1,166,313	-	-	-	1,166,313
Utilities & Environment	2,584,086	-	-	55,339	2,639,425
Economic Environment	3,112,034	-	-	162,776	3,274,810
Transportation	-	-	-	2,508,167	2,508,167
Culture and Recreation	3,981,279	-	44,900	1,034,243	5,060,422
Capital Outlay	187,193	-	17,585,091	7,663,448	25,435,732
Debt Service - Principal	-	635,000	-	1,110,404	1,745,404
Debt Service - Interest and Fiscal Charges	36,725	267,175	182,930	206,790	693,620
TOTAL EXPENDITURES	43,981,758	902,175	17,812,921	13,289,102	75,985,956
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(2,170,748)	(148,854)	(17,812,921)	(1,095,141)	(21,227,664)
OTHER FINANCING SOURCES (USES)					
Transfers In	5,379,719	-	-	3,126,407	8,506,126
Transfers Out	(1,023,143)	-	(160,000)	(6,677,098)	(7,860,241)
Sale of Assets	-	-	-	4,440	4,440
TOTAL OTHER FINANCING SOURCES (USES)	4,356,576	-	(160,000)	(3,546,251)	650,325
SPECIAL ITEM					
Proceeds from sale of Joint Shop	2,814,864	-	-	-	2,814,864
NET CHANGE IN FUND BALANCES	5,000,692	(148,854)	(17,972,921)	(4,641,392)	(17,762,475)
Fund Balances, January 1	(115,732)	1,090,213	(1,926,693)	11,474,904	10,522,692
FUND BALANCES, DECEMBER 31	\$ 4,884,960	\$ 941,359	\$ (19,899,614)	\$ 6,833,512	\$ (7,239,783)

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

CITY OF LYNNWOOD, WASHINGTON
GOVERNMENTAL FUNDS

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

For the Year Ended December 31, 2010

			TOTAL GOVERNMENTAL FUNDS
Net changes in fund balances for governmental funds	\$		(17,762,475)
Amounts reported for governmental activities in the statement of activities are different because:			
Governmental funds report capital outlays as expenditures. In the statement of activities, the cost of those assets is depreciated over their estimated useful lives.			
Capital outlays	\$	25,435,732	
Depreciation		(2,677,715)	
Cost of Land Sold		(395,883)	
Cost of Assets Sold		(1,062,786)	21,299,348
The issuance of long-term debt (e.g., bonds, leases) is a resource and the repayment of bond principal is an expenditure in governmental funds, but those transactions increase or reduce long-term liabilities in the statement of net assets.			
Debt Proceeds	\$	-	
Debt Retired		1,745,404	1,745,404
Some revenues reported in the statement of activities are not yet available and, therefore, are not reported as revenues in the governmental funds.			
			-
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.			
			(628,560)
Correct rounding errors			3
Internal service funds are used by management to charge the costs of certain activities to individual funds. The net revenue of most of these activities is reported with governmental activities.			
			(1,336,132)
Change in net assets of governmental activities	\$		3,317,588

CITY OF LYNNWOOD, WASHINGTON

GENERAL FUND

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

BUDGET AND ACTUAL

For Fiscal Year Ended December 31, 2010

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUES				
Taxes:				
Property	\$ 7,372,929	\$ 7,372,929	\$ 7,361,796	\$ (11,133)
Sales	15,240,356	15,240,356	14,652,373	(587,983)
B & O	3,657,087	5,052,087	4,478,193	(573,894)
Other	150,309	150,309	161,892	11,583
Licenses and Permits	1,827,254	1,827,254	1,785,786	(41,468)
Intergovernmental Revenues	1,113,934	1,113,934	1,625,085	511,151
Charges for Services	4,309,014	4,309,014	3,888,376	(420,638)
Fines and Forfeitures	7,843,062	7,843,062	7,486,598	(356,464)
Miscellaneous - Interest	838,705	838,705	34,682	(804,023)
Miscellaneous - Rent	(29,153)	(29,153)	248,439	277,592
Miscellaneous - Other	45,208	101,208	87,790	(13,418)
TOTAL REVENUE	<u>42,368,705</u>	<u>43,819,705</u>	<u>41,811,010</u>	<u>(2,008,695)</u>
EXPENDITURES				
Current				
General Government	7,068,119	7,757,368	8,722,772	(965,404)
Public Safety	22,130,396	23,238,136	24,191,356	(953,220)
Judicial	1,093,910	1,093,910	1,166,313	(72,403)
Transportation	2,608	-	-	-
Utilities & Environment	2,156,969	2,382,867	2,584,086	(201,219)
Economic Environment	2,947,346	2,874,919	3,112,034	(237,115)
Culture and Recreation	3,929,684	3,794,988	3,981,279	(186,291)
Capital Outlay	573,873	697,134	187,193	509,941
Debt Service - Interest and Fiscal Charges	943	943	36,725	(35,782)
TOTAL EXPENDITURES	<u>39,903,848</u>	<u>41,840,265</u>	<u>43,981,758</u>	<u>(2,141,493)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>2,464,857</u>	<u>1,979,440</u>	<u>(2,170,748)</u>	<u>(4,150,188)</u>
OTHER FINANCING SOURCES (USES)				
Transfers In	1,607,126	6,111,138	5,379,719	(731,419)
Transfers Out	(1,126,948)	(1,126,948)	(1,023,143)	103,805
Sale of Fixed Assets	(4,400)	(4,400)	2,814,864	2,819,264
TOTAL OTHER FINANCING SOURCES (USES)	<u>475,778</u>	<u>4,979,790</u>	<u>7,171,440</u>	<u>2,191,650</u>
NET CHANGE IN FUND BALANCES	2,940,635	6,959,230	5,000,692	(1,958,538)
Fund Balances, January 1	<u>-</u>	<u>-</u>	<u>(115,732)</u>	<u>(115,732)</u>
FUND BALANCES, DECEMBER 31	<u>\$ 2,940,635</u>	<u>\$ 6,959,230</u>	<u>\$ 4,884,960</u>	<u>\$ (2,074,270)</u>

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

CITY OF LYNNWOOD, WASHINGTON
PROPRIETARY FUNDS
STATEMENT OF NET ASSETS

December 31, 2010

	Business Type Activities-Enterprise Funds			GOVERNMENTAL
	WATER & SEWER UTILITY	GOLF COURSE	TOTAL	ACTIVITIES INTERNAL SERVICE FUNDS
ASSETS				
CURRENT ASSETS:				
Cash and Cash Equivalents	\$ 457,939	\$ 46,419	\$ 504,358	\$ 121,875
Investments	-	-	-	2,851,315
Receivables (net of allowance for uncollectibles):				
Accounts	1,959,031	-	1,959,031	44,115
Accrued interest	5,100	-	5,100	15,465
Due from other funds	8,927,630	-	8,927,630	271,263
Prepaid Expenses	55,576	11,022	66,598	18,975
Inventories, at cost	-	13,989	13,989	21,544
Restricted Assets - Cash & Investments:				
Cash	8,144,008	-	8,144,008	-
Customer Advance Payments	45,442	32,287	77,729	-
Investments	3,535	-	3,535	-
Revenue Bond Current Debt Service	1,063,333	405,757	1,469,090	-
Revenue Bond Future Debt Service				
Bond Reserve	588,605	-	588,605	-
Other	23,551	15,541	39,092	-
TOTAL CURRENT ASSETS	21,273,750	525,015	21,798,765	3,344,552
NONCURRENT ASSETS				
Notes Receivable-Noncurrent	61,322	-	61,322	-
Deferred Charge: Revenue Bond Issuance Costs	147,051	-	147,051	-
PROPERTY, PLANT, AND EQUIPMENT:				
Land	3,203,398	3,663,369	6,866,767	-
Intangible - Easements	4,148,620	-	4,148,620	-
Buildings	35,542,166	199,850	35,742,016	1,862,098
Improvements Other Than Buildings	1,844,471	1,099,081	2,943,552	2,112
Machinery and Equipment	1,756,156	450,648	2,206,804	10,583,649
Infrastructure	38,718,411	-	38,718,411	-
Construction In Progress	5,097,273	2,285	5,099,558	-
(Less) Accumulated Depreciation	(42,402,767)	(734,866)	(43,137,633)	(5,221,913)
NET PROPERTY, PLANT, AND EQUIPMENT	47,907,728	4,680,367	52,588,095	7,225,946
TOTAL NONCURRENT ASSETS	48,116,101	4,680,367	52,796,468	7,225,946
TOTAL ASSETS	\$ 69,389,851	\$ 5,205,382	\$ 74,595,233	\$ 10,570,498

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

CITY OF LYNNWOOD, WASHINGTON
PROPRIETARY FUNDS
STATEMENT OF NET ASSETS

December 31, 2010

	Business Type Activities-Enterprise Funds			GOVERNMENTAL
	WATER & SEWER UTILITY	GOLF COURSE	TOTAL	ACTIVITIES INTERNAL SERVICE FUNDS
LIABILITIES				
Current Liabilities (Payable from Current Assets):				
Accounts Payable & Accrued Expenses	\$ 647,178	\$ 10,063	\$ 657,241	\$ 64,864
Due to Other Governments	-	14,478	14,478	-
Accrued Interest on Contracts	-	54,268	54,268	-
Compensated Absences	67,849	21,695	89,544	6,911
Due To Other Funds	206,370	1,498,140	1,704,510	8,136
Claims and Judgments	-	-	-	300,855
Matured Bonds Payable	1,063,333	405,757	1,469,090	-
Gift Certificates	-	32,287	32,287	-
Current Liabilities (Payable from Restricted Assets):				
Accrued Revenue Bond Interest	27,504	-	27,504	-
Customer Deposits	70,533	15,541	86,074	-
Total Current Liabilities	<u>2,082,767</u>	<u>2,052,229</u>	<u>4,134,996</u>	<u>380,766</u>
Noncurrent Liabilities:				
Compensated Absences	179,757	82,644	262,401	20,647
Revenue Bonds, Net of Current Portion	14,761,667	-	14,761,667	-
LTGO Bonds, Net of Current Portion	-	31,515	31,515	-
Unamortized Premium	308,503	-	308,503	-
(Less) Unamortized Bond Discount	(99,877)	-	(99,877)	-
Total Noncurrent Liabilities	<u>15,150,050</u>	<u>114,159</u>	<u>15,264,209</u>	<u>20,647</u>
Total Liabilities	<u>17,232,817</u>	<u>2,166,388</u>	<u>19,399,205</u>	<u>401,413</u>
NET ASSETS				
Invested in Capital Assets, net of related debt	32,082,728	4,243,095	36,325,823	7,225,946
Restricted for:				
Capital Projects	8,144,008	-	8,144,008	-
Debt Service	1,651,938	405,757	2,057,695	-
Other	68,993	47,828	116,821	-
Unrestricted	<u>10,209,367</u>	<u>(1,657,686)</u>	<u>8,551,681</u>	<u>2,943,139</u>
Total Net Assets	<u>52,157,034</u>	<u>3,038,994</u>	<u>55,196,028</u>	<u>10,169,085</u>
Total Liabilities and Net Assets	<u><u>\$ 69,389,851</u></u>	<u><u>\$ 5,205,382</u></u>	<u><u>\$ 74,595,233</u></u>	<u><u>\$ 10,570,498</u></u>

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

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

For the Year Ended December 31, 2010

	Business-Type Activities-Enterprise Funds			GOVERNMENTAL
	WATER & SEWER UTILITY	GOLF COURSE	TOTAL	ACTIVITIES INTERNAL SERVICE FUNDS
Operating Revenues				
Charges for Services/Fees-Water	\$ 3,195,826	\$ -	\$ 3,195,826	\$ -
Charges for Services/Fees-Sewer	7,092,498	-	7,092,498	-
Charges for Services/Fees-Storm	2,104,947	-	2,104,947	-
Charges for Sales & Services	-	984,579	984,579	1,346,803
Rentals	-	92,931	92,931	-
Other	1,981	2,541	4,522	81,170
Total Operating Revenues	<u>12,395,252</u>	<u>1,080,051</u>	<u>13,475,303</u>	<u>1,427,973</u>
Operating Expenses				
Administrative and General-Water	1,035,361	-	1,035,361	-
Administrative and General-Sewer	924,438	-	924,438	-
Administrative and General-Storm	757,664	-	757,664	-
Administrative and General	-	369,352	369,352	215,978
Maintenance and Operations-Water	2,323,163	-	2,323,163	-
Maintenance and Operations-Sewer	3,753,077	-	3,753,077	-
Maintenance and Operations-Storm	514,495	-	514,495	-
Maintenance and Operations	-	612,825	612,825	2,128,069
Depreciation-Water	463,704	-	463,704	-
Depreciation-Sewer	1,723,684	-	1,723,684	-
Depreciation-Storm	176,472	-	176,472	-
Depreciation	-	42,826	42,826	722,158
Total Operating Expenses	<u>11,672,058</u>	<u>1,025,003</u>	<u>12,697,061</u>	<u>3,066,205</u>
Operating Income (Loss)	<u>723,194</u>	<u>55,048</u>	<u>778,242</u>	<u>(1,638,232)</u>
Non Operating Revenues (Expenses)				
Miscellaneous Interest Revenue	96,051	-	96,051	(11,339)
Debt Issuance Costs	(9,529)	-	(9,529)	-
Interest expense	(354,149)	(149)	(354,298)	-
Gain (Loss) on Property Dispositions	(4,876)	(725)	(5,601)	242,909
Other	57,093	-	57,093	13,072
Net non-operating revenues (expenses)	<u>(215,410)</u>	<u>(874)</u>	<u>(216,284)</u>	<u>244,642</u>
Income (loss) before contributions and transfers	<u>507,784</u>	<u>54,174</u>	<u>561,958</u>	<u>(1,393,590)</u>
Capital Contributions and Transfers				
Water	230,684	-	230,684	-
Sewer	16,820	-	16,820	-
Other	-	-	-	7,073
Transfers in	-	-	-	205,385
Transfers out	(290,496)	(405,773)	(696,269)	(155,000)
Change in Net Assets	<u>464,792</u>	<u>(351,599)</u>	<u>113,193</u>	<u>(1,336,132)</u>
Total Net Assets-Beginning	<u>47,544,463</u>	<u>3,827,865</u>	<u>51,372,328</u>	<u>11,874,601</u>
Prior Period Adjustments	<u>4,147,779</u>	<u>(437,272)</u>	<u>3,710,507</u>	<u>(369,384)</u>
Total Net Assets--Ending	<u>\$ 52,157,034</u>	<u>\$ 3,038,994</u>	<u>\$ 55,196,028</u>	<u>\$ 10,169,085</u>

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

CITY OF LYNNWOOD, WASHINGTON
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS

For the Year Ended December 31, 2010

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS			GOVERNMENTAL ACTIVITIES INTERNAL SERVICE FUNDS
	WATER AND SEWER UTILITY	GOLF COURSE FUNDS	TOTAL 2010	
Cash flows from operating activities:				
Cash received from customers	\$ 12,119,809	\$ 1,080,051	\$ 13,199,860	\$ 1,342,193
Other Operating Revenues	1,981	113,826	115,807	81,170
Cash payments to suppliers	(977,085)	(183,444)	(1,160,529)	0
Cash payments for operating expenses	(4,083,546)	(17,603)	(4,101,149)	(2,111,566)
Cash payments to employees for services	(3,212,357)	(581,941)	(3,794,298)	0
Taxes-Employer/State Excise	(494,087)	(107,394)	(601,481)	0
Due to Other Funds	0	(209,306)	(209,306)	0
Net cash provided by operating activities	3,354,715	94,188	3,448,903	(688,203)
Cash flows from noncapital financing activities:				
Repayment of proceeds from P.W. Trust Loan/ State Revolving	0	0	0	0
Misc. Non-Capital Financing	(3,627,180)	0	(3,627,180)	(41,591)
Net borrowing (repayment) loan agreement	0	810,655	810,655	0
Interest paid on interfund loan	0	(149)	(149)	0
Other Non-Operating Revenues	0	0	0	88,481
Operating Grants Received	57,093	0	57,093	0
Insurance Recovery	0	0	0	0
Transfers in	0	0	0	205,385
Transfers (out)	(290,496)	(405,773)	(696,269)	(155,000)
Net cash provided by noncapital financing activities	(3,860,583)	404,733	(3,455,850)	97,275
Cash flows from capital and related financing activities:				
Proceeds from capital debt	7,726,452	0	7,726,452	
Acquisition and construction of capital assets	(2,091,946)	0	(2,091,946)	(612,633)
Proceeds from sale of equipment	0	0	0	144,703
Principal paid on revenue bonds	(1,060,000)	0	(1,060,000)	0
Interest paid on revenue bonds and contracts	(363,678)	0	(363,678)	0
Capital contributed	247,504	0	247,504	0
Payments on bond issuance	0	0	0	0
Net cash used for capital and related financing activities	4,458,332	0	4,458,332	(467,930)
Cash flows from investing activities:				
Purchase of investment securities	(3,535)	0	(3,535)	(1,522,461)
Proceeds from sale of investments	1,203,112	0	1,203,112	2,563,000
Interest and dividends on investments	96,051	0	96,051	(11,339)
Net cash used in investing activities	1,295,628	0	1,295,628	1,029,200
Net increase (decrease) in cash and cash equivalents	5,248,092	498,921	5,747,013	(29,658)
Cash and cash equivalents at beginning of year	5,026,739	1,083	5,027,822	151,533
Cash and cash equivalents at end of year	\$ 10,322,878	\$ 500,004	\$ 10,774,835	\$ 121,875

See Accompanying Notes to Financial Statements

CITY OF LYNNWOOD, WASHINGTON
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS

For the Year Ended December 31, 2010

	BUSINESS - TYPE ACTIVITIES - ENTERPRISE FUNDS			GOVERNMENTAL ACTIVITIES INTERNAL SERVICE FUNDS
	WATER AND SEWER UTILITY	GOLF COURSE FUNDS	TOTAL 2010	
Reconciliation of operating income to net cash provided by operating activities				
Operating income (loss)	\$723,194	\$55,048	\$778,242	(\$1,638,232)
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation expense	2,363,860	42,826	2,406,686	722,158
Non-operating receipts	0	0	0	0
Change in assets and liabilities:				
(Increase) Decrease in other assets	0			
(Increase) Decrease in accounts receivable	(273,462)	0	(273,462)	(4,610)
(Increase) Decrease in inventory	0	865	865	122,487
(Increase) Decrease in prepaid expenses	0	0	0	(18,975)
Increase (Decrease) in accounts payable/wages	541,123	(4,551)	536,572	128,969
Total adjustments	<u>2,631,521</u>	<u>39,140</u>	<u>2,670,661</u>	<u>950,029</u>
Net cash provided by operating activities	<u>\$3,354,715</u>	<u>\$94,188</u>	<u>\$3,448,903</u>	<u>(\$688,203)</u>
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES				
Vehicle trade-ins			\$ -	\$ -
Other Donations			-	7,073
Gain or loss on property disposition			(5,601)	243,719
Capital asset contributions from developers			<u>247,504</u>	<u>0</u>
			<u>241,903</u>	<u>250,792</u>
DISCLOSURE OF CASH AND CASH EQUIVALENTS				
Cash and Equivalents			457,939	\$121,875
Customer Deposits			45,442	0
Restricted Cash			8,144,008	0
Revenue Bond Current Debt Service			1,063,333	
Restricted Cash Other			23,551	
Revenue Bond Future Debt Service			<u>588,605</u>	
Cash and cash equivalents at end of year			<u>10,322,878</u>	<u>\$121,875</u>

See Accompanying Notes to Financial Statements

CITY OF LYNNWOOD, WASHINGTON
FIDUCIARY FUNDS
STATEMENT OF NET ASSETS

December 31, 2010

	<u>FIREMEN'S PENSION FUNDS</u>	<u>AGENCY/CLEARING FUNDS</u>
ASSETS		
Cash and Cash Equivalents	\$ 18,595	\$ 425,412
Investments at fair value	815,008	1,175,000
Prepaid Insurance	<u>37,189</u>	<u>-</u>
Total Assets	<u>\$ 870,792</u>	<u>\$ 1,600,412</u>
LIABILITIES		
Accounts Payable	\$ 1	\$ 1,451,176
Deposits Payable	<u>-</u>	<u>149,236</u>
Total Liabilities	<u>\$ 1</u>	<u>\$ 1,600,412</u>
NET ASSETS		
Held in Trust for Pension Benefits	<u><u>\$ 870,791</u></u>	<u><u>\$ -</u></u>

The accompanying notes are an integral part of these statements.

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

For the year ended December 31, 2010

	<u>FIREMEN'S PENSION FUNDS</u>
ADDITIONS	
Fire Insurance Premiums	46,599
Investment Income	
Interest	<u>6,829</u>
TOTAL ADDITIONS	<u>53,429</u>
DEDUCTIONS	
Benefits	60,595
Health Care Payments	37,772
Other	<u>7,625</u>
TOTAL DEDUCTIONS	<u>105,992</u>
CHANGE IN NET ASSETS	(52,563)
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	
Beginning of Year	<u>923,355</u>
End of Year	<u><u>\$870,792</u></u>

The accompanying notes are an integral part of these statements

NOTES TO FINANCIAL STATEMENTS

JANUARY 1, 2010 THROUGH DECEMBER 31, 2010

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

For the fiscal year ended December 30, 2010, the City adopted GASB Statement No. 51 – Accounting and Financial Reporting for Intangible Assets. This statement requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. Accordingly, existing authoritative guidance related to the accounting and financial reporting for capital assets should be applied to these intangible assets, as applicable. This Statement also provides authoritative guidance that specifically addresses the nature of these intangible assets. Such guidance should be applied in addition to the existing authoritative guidance for capital assets. In implementing the requirements of GASB Statement No. 51 during the fiscal year ended December 31, 2010, the City has determined which assets meet the provisions to be classified as intangible and added them to the schedule of capital assets.

A. REPORTING ENTITY

The City of Lynnwood was incorporated April 23, 1959, under the provisions of the Washington State Legislation and operates under an optional municipal code with a Mayor/Council form of government. The Mayor is the full-time Chief Executive Officer with seven part-time Council Members. The City's combined balance sheets include the accounts of all City operations. The City's major services include

economic development services, parks and recreation, public works (streets and water/sewer utilities), planning and zoning, police and fire protection, and general administration services. The City's financial statements include all funds and activities that are controlled by or dependent on the City.

B. DISCRETELY PRESENTED COMPONENT UNIT

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

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

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

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

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

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

C. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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

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

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

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

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

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

Property taxes, licenses, and interest associated within the current period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessment receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the City.

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

GOVERNMENTAL FUND TYPES:

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The City considers property taxes as available if they are collected within 60 days after year end. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. The Agency Funds, however, have no measurement focus.

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

The City reports the following major governmental funds:

General Fund

The general fund is the City's operating fund. It accounts for all financial resources of the general government, except those required or elected to be accounted for in another fund.

LID 93-1

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

Community Center

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

Water, Sewer and Storm Drainage Utility Fund

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

Golf Course Fund

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

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

Special Revenue Funds

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

Debt Service Funds

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

Capital Projects Funds

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

PROPRIETARY FUND TYPES:

Proprietary funds are accounted for on a cost of services or economic resources measurement focus. This means that all assets and all liabilities (whether current or non-current) associated with their activity are included on their balance sheets. Proprietary fund operating statements present increases (revenues and gains) and decreases (expenses and losses) in net total assets. Proprietary funds disclose cash flows by a separate statement that presents their investing and financing activities.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City of Lynnwood has elected not to follow subsequent private-sector guidance.

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

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

Enterprise Funds

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

Internal Service Funds

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

FIDUCIARY FUND TYPES:

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

Trust Funds

These funds are used to account for cash and other assets received and held by the City acting in the capacity of trustee or custodian. Pension Trust Funds are accounted for in essentially the same manner as

proprietary funds (capital maintenance), but with an important expanded emphasis on required fund balance reserves. The City uses one trust fund; the Firemen's Pension Trust Fund.

Agency Funds

Agency funds are used to account for assets held by the City in a custodial capacity (assets equal liabilities) and do not involve measurement of results of operations. The City uses these funds to account for its investment activities, payroll and claims payables, arbitrage liabilities, and various deposits payable to State and local agencies and private contractors. A new agency fund was established in 2006 to account for bail money received by the Court. This is not the City's money, but is being held and accounted for by the City.

E. BASIS OF ACCOUNTING

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

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

Modified Accrual Basis of Accounting

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

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

Property Tax - Property taxes levied, and the first 1/4% and the second 1/4% Real Estate Excise Tax due for the current year, are considered available and are recognized as revenues even though a portion of the taxes may be collected in the subsequent year. Snohomish County acts as the City's collection agent for these taxes.

Special Assessments - Recognized as revenue in the accounting period in which they become susceptible to accrual.

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

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

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

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

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

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

Accrual Basis of Accounting

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

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

F. BUDGETARY DATA

1. Scope of Budget

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

Budgets established for Proprietary Funds are "Management Budgets" and as such are not required to be reported in the financial statements. Budgets for all Capital Projects Funds are excluded from the biennial budget and are adopted on a project-length basis. These budgets primarily serve a management control function and related appropriations are continuing in nature, therefore, no comparison between budgeted and actual amounts for funds budgeted on this basis is provided in this document. In the year the biennial budget is prepared the following are the steps in the budget process:

January to March – The Council establishes a budget process calendar by resolution in January. The Council approves items to be carried over from the previous biennial budget because they did not get done and the money to complete them was unspent as well. This usually occurs in February. The Finance Director provides a "first look" at the prior year's financial results in late February.

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

June to July – In June the Finance Director delivers to the department heads the Operating Budget Instructional Manual. This manual encompasses the Mayor's message, which depicts the guidelines for

departmental budget projections. Also, included are the City's goals as defined by Council. This manual also provides instructions and samples of the actual working documents that are required of the departments for the development of their budgets. The working documents are due back to the Budget Analyst by the end of July. A second public hearing is held as the Council reviews revenues (including property tax) that are projected for the upcoming budget year.

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

November and December – The final Public Hearing is held and the Council conducts work sessions to discuss and understand the budget material presented. The Council adopts the biennial budget. The Administrative Services Department makes the final budget adjustments and provides each department with a 'working copy' of the adopted budget along with the Budget Ordinance. The formal adopted budget is distributed to the Mayor, City Council and to the public upon request.

A mid-biennial review shall commence no sooner than eight months after the start nor later than twelve months after the start of the biennium. Public hearings on the proposed budget modification shall be conducted at least two weeks prior to the adoption of the ordinance modifying the biennial budget. In November and December of each year the Capital Facilities plan and other related policy actions are adopted by the Council.

2. Amending the Budget

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

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

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

The budget presented in the Schedule of Revenues, Expenditures, and Changes in Fund Balances Budget to Actual represents the 2009-2010 biennial period.

G. CASH, DEPOSITS AND INVESTMENTS

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

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

DEPOSITS

At year-end, the carrying amount for the City's certificates of deposits was \$1,912,468, money market was \$103,546, and bank balance was \$5,328,554, which includes Lynnwood Municipal Court funds in the amount of \$28,693. These Court funds are held in a special Agency Fund bank account and are returned upon closure of each related case. These funds do not belong to the City, but are held and accounted for by the City.

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

INVESTMENTS

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

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

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

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

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

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

Investments	Fair Value (in Thousands)	Maturity Date
Federal Farm Credit Bank	\$508,465	1/18/2011
Federal Farm Credit Bank Global	\$753,128	7/13/2011
Federal Home Loan Mortgage	\$1,003,610	7/12/2013*
Federal Natl Mortgage Assoc.	\$752,033	3/30/2011
Washington State Investment Pool	\$18,723,817	--
Total Fair Value	\$21,741,053	

*Investment was called on 07/12/11

As of December 31, 2010 the fair value of the City's investment portfolio was \$21,741,053, of which, \$3,017,236 was invested in US Treasuries and Agencies and \$18,723,817 was invested with the Washington State Treasurer's Investment Pool.

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

Total Cash, Cash Equivalents & Investments	Amount
Investments (at market)	\$3,017,236
Certificates of Deposits	1,912,468
US Bank Checking	5,328,554
Money Market	103,546
Petty Cash, Change Funds & Advance Travel	30,650
Deposit with Fiscal Agent	155,000
Local Government Investment Pool	18,723,817
Total ⁽¹⁾	\$29,271,271

	Governmental Activities	Business-type Activities	Total Primary Government	Fiduciary Unit	Total
Cash & Cash Equivalents	\$ 12,956,017	\$ 8,765,187	\$ 21,721,204	\$ 444,007	\$ 22,165,211
Investments	2,954,861	2,061,230	5,016,091	1,990,008	7,006,099

- (1) There is a reconciling difference between cash as reflected in the chart above and as reflected in the financial statements. The amount totals \$99,961. We are working to address the difference in anticipation that it will be resolved during FY 2011.

H. RECEIVABLES

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

Property Taxes

Uncollected property taxes through December 31 are recorded as receivables at year-end. The City accrued \$424,351 for property taxes, related interest and penalties.

Accounts Receivable

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

Prior to 2010 the City of Lynnwood imposed utility taxes on telecommunications and franchise fees on cable television. Historically these revenues were recorded on a cash basis. During 2010 new utility taxes were added on electricity, natural gas, water, sewer, storm, and solid waste. In utilizing the current financial resources measurement focus the City determined that all of these revenues are measurable and available soon enough (i.e. within 60 days) after the end of the fiscal year to pay liabilities of the current period. As such, all of the fourth quarter 2010 utility taxes were accrued against fiscal year 2010. To correct this error for fiscal year 2010 only, the City has reported up to 5 quarters of revenue for the pre-existing utility taxes and franchise fees on telecommunications and cable television. The impact of this correction is to increase the general fund revenue in 2010 by \$333,426. For fiscal year 2010 and beyond the city will continue to utilize the current financial resources measurement focus for consistency in accordance with GAAP.

Unbilled Accounts

At year-end the City accrued \$1,188,829 for unbilled utility customer accounts. Due to a two month billing cycle in water/sewer, this amount is the part of each utility customer's receivable earned in 2010, but not billed until 2011.

Special Assessments

Special assessments are recorded when levied. Special assessments receivable consist of current, delinquent and deferred assessments. Deferred assessments consist of unbilled special assessments that are liens against the property benefited. As of December 31, there is an ongoing receivable of \$4,598,028 in Local Improvement District billings.

Accrued Interest Receivable

Accrued interest receivable consists of interest earned on investments at the end of the year as well as interest and penalties on special assessment receivables.

I. INTERFUND LOANS AND RECEIVABLES

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

J. INTERFUND TRANSACTIONS AND TRANSFERS

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

Interfund transactions are divided into two categories: interfund services provided and used and reimbursement transactions. Interfund services provided and used are those transactions that would be treated as revenues, expenditures or expenses if they involved parties external to the City. These types of transactions are accounted for as ordinary revenues, expenditures or expenses of the funds involved. An example of this type of transaction is when the Parks Department buys water from the Water Department. This transaction is treated as expenditure to the Parks Department and as revenue to the Water Department.

Reimbursement transactions occur when expenditure is initially made in a fund that is more appropriate for another fund. These items are recorded as expenditures or expenses of the reimbursing fund and as a reduction of expenditures or expenses in the fund initially charged. An example of this type of transaction occurs when the Public Works or Finance Department allocates a certain amount of its time to provide services for the Utility Divisions. The expense is transferred to the Utility Divisions with a corresponding reduction of expense in the Public Works or Finance Department.

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

Transfers of a recurring nature are required to fund the debt service or to subsidize proprietary fund operations until appropriate rate structures are established.

Transfers of a non-recurring and non-routine nature between funds are accounted for in both the paying and receiving funds. The City of Lynnwood uses this type of transfer to transfer the equity balance of discontinued funds or to record contributions to or return of contributions from the Capital Projects, Enterprise, or Internal Service Funds.

K. INVENTORIES

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

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

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

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

L. CAPITAL ASSETS

Capital assets, which include property, plant, equipment, and infrastructure assets (roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of \$5,000 or more and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are valued at fair market value on the date of the donation.

Costs for additions or improvements to capital assets are capitalized when they increase the effectiveness or efficiency of the asset.

The costs for normal maintenance and repairs are not capitalized.

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

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

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

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

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

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

M. ACCUMULATED UNPAID VACATION AND SICK LEAVE

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

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

1. Termination - Voluntary or discharge
Five hours of up to 720 hours unused sick leave = 1 hour pay.
2. Termination by layoff
Three hours of up to 720 hours unused sick leave = 1 hour pay.
3. Retirement
Two years accumulation (192) hours
One hour unused sick leave = 1 hour pay.
Balance of unused sick leave (up to 528 hours).
Three hours unused sick leave = 1 hour pay.

Sick leave is accrued in the government-wide and proprietary fund statements based on historical experience as applied to the above payoff schedule. Sick leave is limited due to the employee's ability to accrue more than one year on the books. With this capability, it is difficult to determine with any accuracy the amount of current liability. The Governmental Funds reported \$4,038,683 accrued in 2010 compared to \$3,623,445 in 2009. This represents an overall increase of approximately 11.5%.

The liability for accumulated vacation and sick leave at December 31, 2010, is \$4,390,628 as reported in Note 7 for proprietary and governmental funds.

N. DEFERRED REVENUES

Deferred revenues are receivables that are measurable but not yet available, under the modified accrual basis of accounting. Accordingly, they are not recorded as revenue. The balance sheet records the receivable but includes deferred revenue as its offset. The City has recognized four deferred revenue items in 2010:

1. Uncollected property taxes levied. At year-end, all property taxes not yet collected by the County (on behalf of the City) are reported on the balance sheet as taxes receivable and deferred revenues.
2. Unbilled special assessments levied against benefited property for the cost of local improvements. An allowance for uncollectibles is not necessary since the assessments are liens against the property benefited.
3. Deferred rent from the enterprise fund (golf course) to the general fund.
4. Recreation Center programs reserved by customers that will occur in future time periods.

O. GRANTS AND OTHER INTERGOVERNMENTAL REVENUES

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

P. RESERVATION OF FUND EQUITY

Fund balance and Net Assets have been classified as appropriate in the financial statements as follows:

1. Reserved - This portion has been segregated to indicate amounts that are legally restricted and are not available, spendable resources. The City has the following reserves:
 - (a) Reserved for Interfund Loans Receivable: segregation of a portion of fund balance to indicate that interfund loans receivable do not represent available spendable resources.
 - (b) Reserved for Employees Retirement Systems: Pension Trust Fund reserve for amounts set aside for the payment of annuities to retired members.
 - (c) Reserved for Prepaid Expense/Cost: segregation of a portion of fund balance to indicate that prepaid expenses do not represent available spendable resources.
 - (d) Reserved for LID Default: segregation of a portion of fund balance to cover default in LID payments.
2. Unreserved/Undesignated Fund Balance or Net Assets - Unreserved fund balance is the excess of current assets over current liabilities, net of reserves. The Net Assets are the accumulation of earnings of the proprietary funds, net of reserves or designations.

Q. REVENUES, EXPENDITURES AND EXPENSES

Under the modified-accrual basis of accounting:

- Charges for services, interest on investments, and rents are generally considered measurable and available when earned in governmental funds.

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

Under the accrual basis of accounting:

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

R. RISK MANAGEMENT

The city is a member of the Cities Insurance Association of Washington. Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together into or join a pool or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self-insure, or hire or contract for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The pool 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 August 31, 2010, the CIAW had 88 regular members and 180 associate members. Effective September 1, 2010, all members of the CIAW are full members.

The pool provides the following forms of joint self-insurance and excess coverage for its members: Property, including automobile comprehensive and collision, equipment breakdown and crime protection, and liability, including general, automobile and wrongful acts, are included to fit members' various needs.

The pool acquires liability insurance through Munich Reinsurance America that is subject to a per-occurrence deductible of \$100,000. Members are responsible for the first \$1,000 of the deductible portion of each claim, while the pool is responsible for the remaining \$99,000. The insurance carrier covers insured losses over \$100,000 to the limits of each policy. Since the pool is a cooperative program, there is a joint liability among the participating members towards the sharing of the \$99,000 portion of the deductible. The pool also purchases a Stop Loss Policy in the amount of \$3,200,000 to cap the total claims paid by the pool in any one year.

Property insurance is subject to a per-occurrence deductible of \$10,000. Members are responsible for the first \$1,000 of the deductible amount of each claim, while the pool is responsible for the remaining \$9,000.

Boiler and machinery insurance is subject to a per-occurrence deductible of \$2,500. Members are responsible for the deductible amount of each claim.

Members contract to remain in the pool for a minimum of one year, and must give notice before August 31 terminating participation the following September 1. The Interlocal Agreement is renewed automatically each year. In the event of termination, a member is still responsible for contributions to the pool for any unresolved, unreported, and in-process claims for the period they were a signatory to the 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 pool. The pool has no employees, but has contracted with a third-party administrator, Canfield, to perform the daily administration of the pool, including account education, risk management and loss control, and claims administration.

The City of Lynnwood has transferred the risk of loss from torts, errors and omissions of City employees, damage to City property, and natural disasters including earthquakes to commercial insurers. There were no settlements in excess of coverage in any of the prior three years. The City and its employees contribute to the State of Washington's Department of Labor and Industries for workers' compensation.

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

The City's responsibility is limited to the deductible amounts that generally are \$25,000. While insurance is purchased through the insurance pool for automobile liability, the City self-insures its own vehicles for other exposures. An Internal service fund was established in February 1981 to accumulate payments from other funds to cover the deductible requirements and support its automobile self-insurance. Charges to the funds are based on historical cost information. Net Assets of approximately \$355,718 are available in order to have a reserve for deductibles and to cover policy exclusions. The unpaid claims amount represents claims that do not exceed the amounts covered by policy deductible limits. The events have occurred and the settlements can be reasonably estimated. Estimated amounts are based on the advice of the City's Claim Management Organization.

INSURANCE IN FORCE

December 31, 2010

<u>INSURANCE COMPANY/COVERAGE</u>	<u>POLICY NUMBER</u>	<u>AMOUNT OF COVERAGE</u>
CIAW/Munich Reinsurance America, Inc. Policy Effective Dates: 9/1/10 - 9/1/11	CIAW101134510	
Commercial General Liability General Liability, Law Enforcement Liability,		\$10,000,000

Vehicle Liability, UIM Deductible: \$25,000		
Wrongful Acts Liability Public Official's Liability, Employment Practices Liability, Sexual Harassment Deductible: \$25,000		\$10,000,000
Crime Employee Theft, Forgery Computer Fraud Theft of Money by other than employees Deductible: \$1,000		\$1,000,000 \$1,000,000 \$50,000
Affiliated FM Insurance Company Policy Effective Dates: 4/23/10 - 4/23/11	TT459	
Primary property insurance limit other than Flood and Quake Deductible Flood Limit Flood Deductible Earthquake Limit Earthquake Deductible - 5% of the value of the property damaged/\$100,000 minimum Deductible: \$25,000		\$116,500,000 \$25,000 \$ 50,000,000 \$ 100,000 \$ 50,000,000
National Union Fire Insurance Company Policy Effective Dates: 1/1/10 – 1/1/11 Accidental death or dismemberment for 7 Council Members & Mayor	GTP9121822	\$150,000
National Union Fire Insurance Company Police Effective Dates: 4/20/10 - 4/20/11 Volunteer accidental death or dismemberment Volunteer medical benefits Deductible: \$250	SRG 9118452	\$25,000 \$2,500
Colony Insurance Policy Effective Dates: 2/11/10 - 2/11/11 Underground Storage Tank Pollution Liability – Scheduled Storage Tanks Deductible: \$5,000	WA629729-7	\$500,000/claim \$1,000,000 aggregate
Steadfast Insurance Police Effective Dates: 2/25/10 - 2/25/11 Environmental Impairment Liability - Treatment Plant Deductible: \$25,000	PLC902891004	\$1,000,000/claim \$5,000,000 aggregate

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

NOTE 2 - PROPERTY TAXES

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

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

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

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

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

For 2010 the City's regular tax levy was \$2.00 (includes a special \$.50 for Emergency Medical Services) per \$1,000 on a total assessed valuation of \$5,237,466,464 for total taxes of \$10,497,809.

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

NOTE 3 - INTERFUND TRANSFERS

The following interfund transactions occurred in 2010:

	<u>TRANSFERS OUT</u>						
	GENERAL	SPECIAL REVENUE	DEBT SERVICE	CAPITAL PROJECTS	ENTERPRISE	INTERNAL SERVICE	TOTAL
TRANSFERS IN:							
General	\$ -	\$ 3,791,407		\$ 1,448,312		\$ 140,000	\$ 5,379,719
Special Revenue	286,000	24,372		160,000			470,372
Debt Service	719,799	164,652		26,500	405,773		1,316,725
Capital Projects		123,000		701,310	150,000		974,310
Enterprise							-
Internal Service	17,344	32,545		-	140,496	15,000	205,385
TOTAL	\$ 1,023,143	\$ 4,135,976	\$ -	\$ 2,336,122	\$ 696,269	\$ 155,000	\$ 8,346,511

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

NOTE 4 - INTERFUND LOANS

The following table depicts Interfund loans and advances to other funds during 2010.

DUE TO FUND	DUE FROM FUND	BEGINNING BALANCE 1/1/10	LOAN ACTIVITY DURING 2010		BALANCE AT 12/31/10
			NEW LOANS	REPAYMENTS	
Utility (411)					
	General Fund (011)				
	Temporary Cash Flow	\$ 3,000,000	\$ -	\$ -	\$ 3,000,000
	Olympic View Drive (307)				
	Temporary Cash Flow	499,000	1,019,090	499,000	1,019,090
	Traffic Signals (309)				
	Temporary Cash Flow	169,000	168,830	169,000	168,830
	36th/35th Ave. West (317)				
	Temporary Cash Flow	-	11,295	-	11,295
	204th LID 2009-1 / SR 99 - 6th Ave. W. (318)				
	Temporary Cash Flow	267,600	149,445	267,600	149,445
	Interurban Overpass / 44th (319)				
	Temporary Cash Flow	-	2,397,860	-	2,397,860
	Community Center (323)				
	Temporary Cash Flow	12,100	8,365	12,100	8,365
	ITS Program (326)				
	Temporary Cash Flow	616,850	605,720	616,850	605,720
	Golf Course (460)				
	Temporary Cash Flow	550,000	1,498,140	550,000	1,498,140
TOTALS		\$ 5,114,550.00	\$ 5,858,745.00	\$ 2,114,550.00	\$ 8,858,745.00

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

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

NOTE 5 - PROPERTY, PLANT AND EQUIPMENT

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

	Balance 1/1/2010	Beginning Bal Adjustments	Plus Additions	Less Deletions	Balance 12/31/2010
Capital assets, not being depreciated:					
Land	\$38,946,381	(\$4,681,963)	\$0	(\$395,883)	\$33,868,535
Easements (intangible-GASB 51 new in 2010)	-	-	436,742	-	436,742
Construction in progress	14,926,798	-	25,597,202	(343,658)	40,180,342
Total capital assets, not being depreciated	\$ 53,873,179	\$ (4,681,963)	\$ 26,033,944	\$ (739,541)	\$ 74,485,619
Capital assets being depreciated:					
Buildings	\$27,199,424	\$0	\$129,111	(\$863,521)	\$26,465,014
Improvements other than buildings	23,429,665	361,084	-	-	23,790,749
Machinery and Equipment	16,015,401	(2,112)	1,067,034	(1,440,761)	15,639,562
Infrastructure	57,383,972	-	297,398	-	57,681,370
Total Capital assets being Depreciated	\$ 124,028,462	\$ 358,972	\$ 1,493,543	\$ (2,304,282)	\$ 123,576,695
Less accumulated depreciation for:					
Buildings	(\$12,720,356)	\$0	(\$738,908)	\$445,736	(\$13,013,528)
Improvements other than buildings	(12,060,477)	1,950	(648,781)	-	(12,707,308)
Machinery and equipment	(8,798,003)	(369,384)	(956,418)	1,304,765	(8,819,040)
Infrastructure	(25,244,461)	(80,064)	(2,077,554)	-	(27,402,079)
Total accumulated depreciation	\$ (58,823,297)	\$ (447,498)	\$ (4,421,661)	\$ 1,750,501	\$ (61,941,955)
Total capital assets, being depreciated, net	\$ 65,205,165	\$ (88,526)	\$ (2,928,118)	\$ (553,781)	\$ 61,634,740
TOTALS, NET	\$ 119,078,344	\$ (4,770,489)	\$ 23,105,826	\$ (1,293,322)	\$ 136,120,359

CITY OF LYNNWOOD, WA

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

	Balance 01/01/2010	Beginning Bal Adjustments	Plus Additions	Less Deletions	Balance 12/31/2010
Capital assets, not being depreciated:					
Land	\$6,866,768	\$0	\$0	\$0	\$6,866,768
Easements (intangible-GASB 51 new in 2010)	0	0	4,148,620	0	4,148,620
Construction in progress	3,093,391	2,284	2,076,531	72,647	5,097,274
Total capital assets, not being depreciated	\$9,960,159	\$2,284	\$6,225,151	\$72,647	\$16,112,662
Capital assets being depreciated:					
Buildings	\$35,759,200	\$0	\$0	\$17,183	\$35,742,017
Improvements other than buildings	2,943,552	-	-	-	2,943,552
Machinery and equipment	2,299,911	-	15,522	108,628	2,206,804
Infrastructure	38,576,639	-	141,773	-	38,718,412
Total Capital assets being Depreciated	79,579,302	-	157,295	125,811	79,610,786
Less accumulated depreciation for:					
Buildings	(\$23,476,923)	\$0	(\$1,365,283)	\$16,324	(\$24,825,883)
Improvements other than buildings	(836,868)	-	(26,675)	-	(863,543)
Machinery and Equipment	(1,720,772)	-	(76,160)	103,883	(1,693,050)
Infrastructure	(14,820,716)	-	(934,441)	-	(15,755,157)
Total accumulated depreciation	(40,855,280)	-	(2,402,559)	120,206	(43,137,632)
Total capital assets, being depreciated, net	38,724,022	0	(2,245,264)	5,605	36,473,153
TOTALS, NET	\$48,684,181	\$2,284	\$3,979,887	\$78,252	\$52,585,816

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

Governmental activities:	
General Government	\$527,831
Public Safety	301,164
Transportation	3,165,480
Culture & Recreation	427,187
Total Governmental Activities	\$4,421,662
Business-type activities:	
Water	\$462,035
Sewer	1,724,184
Golf	42,826
Storm Drainage	173,514
Total Business-type Activities	\$2,402,559

NOTE 6 - LEASE COMMITMENTS

Capitalized Leases

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

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

Operating Leases

The City of Lynnwood receives revenue in the General Fund from renting and leasing space in several buildings that have been purchased as future expansion sites. The City received \$341,372 of revenue in 2010 from leases and rental income.

NOTE 7 - LONG-TERM DEBT

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

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

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

A. CHANGES IN LONG-TERM DEBT

The following is a summary of long-term debt transactions of the City for the year ended December 31, 2010:

	BALANCE			BALANCE		CURRENT
GOVERNMENTAL ACTIVITIES:	1/1/2010	ADDITIONS	REDUCTIONS	12/31/2010		PORTION
General obligations bonds	\$ 5,604,694	\$ -	\$ 1,141,919	\$ 4,462,775	\$	743,386
Special assessment bonds	4,565,000	-	635,000	\$3,930,000		510,000 ⁽¹⁾
Other post-employment Benefits	1,223,108	29,727	-	1,252,835		-
Compensated absences	3,623,445	415,238	-	4,038,683		950,729
ACTIVITIES	\$ 15,016,247	\$ 444,965	\$ 1,776,919	\$ 13,684,293	\$	2,204,115
LTGO BANS 2008 ⁽²⁾	\$ 1,913,257	\$ 16,427,999	\$ -	\$ 18,341,256	\$	18,341,256
BUSINESS TYPE ACTIVITIES:						
Revenue bonds	\$ 9,165,000	\$ 7,720,000	\$ 1,060,000	\$ 15,825,000	\$	1,063,333
General obligations bonds - Golf	-	31,515	-	31,515		405,757
Compensated absences	373,743	-	21,798	\$351,945		89,544
TOTAL - BUSINESS TYPE						
ACTIVITIES	\$ 9,538,743	\$ 7,751,515	\$ 1,081,798	\$ 16,208,460	\$	1,558,634

⁽¹⁾ Estimated current portion - many bonds are callable, therefore, exact amounts are not known.

⁽²⁾ This is a line of credit with a maximum available amount of \$25,480,000; \$18,341,256 has been drawn in 2009.

CITY OF LYNNWOOD, WA

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

Long-term debt at December 31, 2010, consisted of the following:

GENERAL OBLIGATIONS BONDS

ISSUE NAME	% INT. RATES	ISSUE DATE	MATURITY DATE	AUTHORIZED	OUTSTANDING		
					1/1/2010	CHANGES	12/31/2010
2005 GO. Bonds	4.75-6.0	1999	2019	\$ 1,795,107	\$1,108,622	\$ (88,799)	\$ 1,019,823
2001 GO. Bonds	4.00-4.375	2001	2012	1,365,000	455,000	(145,000)	310,000
State Capital Loan *	4.07851	2002	2012	377,666	129,536	(41,447)	88,089
State Capital Loan *	4.03673	2004	2014	534,295	266,536	(55,158)	211,378
2009 GO. Refund Bonds	3.0-4.0	2009	2017	4,640,000	3,645,000	(780,000)	2,865,000
Total General Obligation Bonds				\$ 8,712,068	\$5,604,694	\$ (1,110,404)	\$ 4,494,290
LTGO Bond Anticipation Notes 2008	**	2008	2011	\$ 25,480,000	\$1,913,257	\$16,427,999	\$18,341,256

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

**Interest at 82% of Banks prime rate at time of draw.

REVENUE BONDS

ISSUE NAME	% INT. RATES	ISSUE DATE	MATURITY DATE	AUTHORIZED	OUTSTANDING		
					1/1/2010	CHANGES	12/31/2010
2008 Utility Improvement Refunding Bonds	4.0-5.0	2008	2027	\$10,000,000	\$9,165,000	\$ (1,060,000)	\$8,105,000
2010 Utility System Revenue Bonds	<u>2.0-4.0</u>	<u>2010</u>	<u>2030</u>	7,720,000	-	7,720,000	7,720,000
Total Revenue Bonds				\$ 17,720,000	\$9,165,000	\$ 6,660,000	\$15,825,000

SPECIAL ASSESSMENT BONDS

ISSUE NAME	% INT. RATES	ISSUE DATE	MATURITY DATE	AUTHORIZED	OUTSTANDING		
					1/1/2010	CHANGES	12/31/2010
1999 LID Bonds	4.10-6.40	1999	2021	\$11,898,787	\$4,565,000	\$ (635,000)	\$3,930,000
Total Special Assessment Bonds				\$ 11,898,787	\$4,565,000	\$ (635,000)	\$ 3,930,000

REQUIREMENTS TO AMORTIZE THE DEBT OUTSTANDING

The annual total requirements to amortize the debt outstanding for general obligation, revenue bonds, special assessment and installment notes payable as of December 31, 2009, including interest, are as follows:

YEAR ENDING 12/31	GOVERNMENTAL ACTIVITIES		BUSINESS-TYPE		GRAND TOTAL
	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST	
2011	\$ 1,659,143	\$ 402,673	\$ 1,100,000	\$ 629,933	\$ 3,791,750
2012	1,262,360	332,563	1,145,000	568,663	3,308,586
2013	1,049,645	274,364	1,170,000	522,863	3,016,871
2014	869,962	225,115	540,000	476,063	2,111,139
2015	1,877,706	1,168,832	555,000	460,163	4,061,701
2016-2019	7,075,472	4,107,734	2,415,000	1,641,625	15,239,831
2020-2030	18,975,000	6,348,781	10,190,000	2,322,800	37,836,581
	<u>\$ 32,769,288</u>	<u>\$ 12,860,063</u>	<u>\$ 17,115,000</u>	<u>\$ 6,622,108</u>	<u>\$ 69,366,459</u>

At December 31, 2010, the City has \$520,045 available in debt service funds to service the general obligation bonds. Additionally, there is \$2,417,732 in restricted assets of the Water and Sewer Utility Fund. These represent sinking funds and reserve requirements as contained in the various bond indentures.

General Obligation Bonds

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

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

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

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

The Limited Tax General Obligation Refunding Bonds were issued December 1, 1996, to provide part of the funds required to advance refund the City's outstanding Limited Tax General Obligation Bonds, 1980,

most of the Limited Tax General Obligation Bonds, 1989, Golf and Recreation Facilities Revenue and Refunding Bonds, 1991, as well as to repay an interfund loan from the City's General fund and pay for the issuance and administrative costs associated with the refunding. These bonds were refunded in 2009 by a Limited Tax General Obligation Bonds Series 2009A and 2009B.

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

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

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

Bond Anticipation Notes

The City issued Limited Tax General Obligation Bond Anticipation Notes in 2008 for the principal amount of not to exceed \$25,480,000. The purpose is to provide temporary funding for renovating, improving and expanding the City's Recreation Center. The City may make periodic draws under the line of credit, and the Bank must honor those draws by advancing money to the City. The Note and the line of credit mature on December 1, 2011. The interest rate is variable at 82% of the Bank's prime rate. As of December 31, 2010, \$18,341,256 has been drawn by the City.

Revenue Bonds

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

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

B. ADVANCE REFUNDED BONDS

In prior years, the City has defeased various general obligation and revenue bond issues through the sale of refunding bonds. When refunding bonds are issued, proceeds are placed in an irrevocable trust account to provide assured cash flow sufficient to pay all principal and interest on the refunded issue as these amounts come due. Accordingly, related assets, liabilities, and debt service payments are not reflected on the City's financial statements. As of December 31, 2009, all refunded bonds outstanding have been removed from the City's books.

C. DEBT LIMIT CAPABILITIES

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

Segment 1 – General Governmental Purposes

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

Segment 2 – City-Owned Water and Sewer Purposes

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

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

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

	Governmental Purposes		Water & Sewer Purposes	Park & Capital Facilities
	Without Vote (Councilmanic) 1.5%	With Vote 2.5%	With Vote 2.5%	With Vote 2.5%
Legal Limits	\$ 70,896,050	\$ 47,264,033	\$ 118,160,083	\$ 118,160,083
Net Outstanding Indebtedness	(23,355,593)		-	-
Margin Available	\$ 47,540,457	\$ 47,264,033	\$ 118,160,083	\$ 118,160,083

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

Bond Ratings

At December 31, 2010, the City held the following bond ratings:

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

NOTE 8 - PENSION PLANS

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

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

Department of Retirement Systems
Communications Unit
PO Box 48380
Olympia, WA. 98504-8380

or it may be downloaded from the DRS website at www.drs.wa.gov

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

A. PUBLIC EMPLOYEES' RETIREMENT SYSTEM (PERS)

The state legislature established PERS under Chapters 41.34 and 41.40 RCW. PERS is a cost-sharing multiple-employer defined benefit pension system. Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior courts (other than judges); employees of legislative committees; college and university employees not in national higher education retirement programs; judges of district and municipal courts; noncertified employees of school districts; and employees of local governments.

PERS contains 3 plans. Plans 1 and 2 are defined benefit plans and Plan 3 is a combination defined benefit/defined contribution plan. Participants who joined the system by September 30, 1977, are Plan I members. Those joining on or after October 1, 1977 and by August 31, 2002 are enrolled in Plan 2 unless they exercise an option to transfer their membership to Plan 3. Those joining the system on or after September 1, 2002 have the option of choosing membership in either PERS Plan 2 or PERS Plan 3. The option must be exercised within 90 days of employment. An employee is reported in Plan 2 until a choice is made. Employees who fail to choose within 90 days default to PERS Plan 3. Retirement benefits are financed from employee and employer contributions and investment earnings. Retirement benefits in both Plan I and Plan 2 are vested after completion of 5 years of eligible service.

PERS Plan 1 members are vested after the completion of five years of eligible service. Plan 1 members are eligible for retirement after 30 years of service, or at the age of 60 with five years of service, or at the

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

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

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

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

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

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

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

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

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

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

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

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

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

There are 1,189 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2009:

Retirees and Beneficiaries Receiving Benefits	74,857
Terminated Plan Members Entitled to but not Yet Receiving Benefits	28,074
Active Plan Members Vested	105,339
Active Plan Members Nonvested	<u>53,896</u>
Total	262,166

Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates, Plan 2 employer and employee contribution rates, and Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statute at 6% for state agencies and local government unit employees, and at 7.5 % for state government elected officials. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. All employers are required to contribute at the level established by the Legislature. Under PERS Plan 3, employer contributions finance the defined benefit portion of the plan and member contributions finance the defined contribution portion. The Director of the Department of Retirement Systems sets Plan 3 employee contribution rates. Six rate options are available ranging from 5% to 15%; two of the options are graduated rates dependent on the employee's age. As a result of the implementation of the Judicial Benefit Multiplier Program in January 2007, a second tier of employer and employee rates was developed to fund, along with investment earnings, the increased retirement benefits of those justices and judges that participate in the program. The methods used to determine the contribution requirements are established under state statute in accordance with chapters 41.40 and 41.45 RCW.

The City's contribution rates expressed as a percentage of covered payroll, for the year ending December 31, 2010 were:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer*	5.31% **	5.31% **	5.31% ***
Employee	6.00% ****	3.90% ****	*****

* The employer rates include the employer administrative expense fee currently set at 0.16%.

** The employer rate for state elected officials is 7.89% for Plan 1 and 5.31% for Plan 2 and Plan 3.

*** Plan 3 defined benefit portion only.

**** The employee rate for state elected officials is 7.50% for Plan 1 and 3.90% for Plan 2.

***** Variable from 5.0% minimum to 15.0% maximum based on rate selected by the PERS 3 member.

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

	<u>PERS Plan 1</u>	<u>PERS Plan 2</u>	<u>PERS Plan 3</u>
2010	\$34,176	\$743,512	\$80,470
2009	\$45,931	\$973,442	\$126,167
2008	\$46,642	\$915,284	\$121,254

B. LAW ENFORCEMENT OFFICERS AND FIRE FIGHTERS (LEOFF)

LEOFF is a cost-sharing multiple-employer defined benefit pension plan. Membership includes all full-time, fully compensated, local law enforcement officers and fire fighters. Retirement benefits are financed by employee and employer contributions, investment earnings and state contributions. LEOFF is comprised primarily of non-state employees.

LEOFF system contains 2 plans. Participants who joined the system by September 30, 1977, are Plan I members. Those who joined thereafter are enrolled in Plan 2. Retirement benefits for both plans are vested after completion of 5 years of eligible service.

Plan I participants are eligible to retire with 5 years of service at age 50. The benefit per year of service is as follows, with a cost-of-living allowance granted, capped at 3 percent annually:

<u>Term of Service</u>	<u>Percent of Final Average</u>
20 or more	2.0%
10 to 20	1.5%
5 to 10	1.0%

The final average salary is the basic monthly salary received at the time of retirement, provided a member has held the same position or rank for 12 months preceding the date of retirement. Otherwise, it is the average of the highest consecutive 24 months' salary within the last 10 years of service. If membership was established in LEOFF after February 18, 1974, the service retirement benefit is capped at 60 percent of final average salary. A cost-of-living allowance is granted.

Plan 2 participants are eligible to retire at the age of 50 with 20 years of service or at 55 with 5 years of service. Retirement benefits prior to age 55 are actuarially reduced. The benefit is 2 percent of average salary per year of service. The average salary is based on the highest consecutive 5-year period. There is no cap on years of service credit and a cost-of-living allowance is granted, with a cap of 3 percent annually.

There are 372 participating employers in LEOFF. Membership in LEOFF consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2009:

Retirees and Beneficiaries Receiving Benefits	9,454
Terminated Plan Members Entitled to but not yet Receiving Benefits	674
Active Plan Members Vested	13,363
Active Plan Members Nonvested	<u>3,944</u>
Total	27,435

Starting on July 1, 2000, Plan 1 employers and employees will contribute zero percent as long as the plan remains fully funded. Employer and employee contribution rates for Plan 1 are set by the Office of the State Actuary to fully fund the plan. Plan 2 employers and employees are required to pay at the level adopted by the director of the Department of Retirement systems. All employers are required to contribute at the level required by state law. The Legislature, by means of a special funding arrangement, appropriated money from the state General Fund to supplement the current service liability and fund the prior service costs of Plan 1 in accordance with the requirements of the Pension Funding Council. However, this special funding situation is not mandated by the state constitution and this funding requirement could be returned to the employers by a change of statute. The methods used to determine the contribution rates are established under state statute in accordance with Chapters 41.26 and 41.45 RCW.

The City's contribution rates expressed as a percentage of covered payroll, as of December 31, 2009 were:

	<u>LEOFF Plan I</u>	<u>LEOFF Plan II</u>
Employer	16%*	5.24%*
Employee	0.00%	8.46%
State	N/A	3.38%

* The employer rates include the employer administrative expense fee currently set at 0.16%.

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

<u>Year</u>	<u>LEOFF Plan I</u>	<u>LEOFF Plan II</u>
2010	\$156	\$651,832
2009	\$174	\$650,013
2008	\$290	\$590,844

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

PSERS was created by the 2004 legislature and became effective July 1, 2006. PSERS is a cost-sharing multiple-employer retirement system comprised of a single defined benefit plan, PSERS Plan 2. PSERS Plan 2 membership includes full-time employees of a covered employer on or before July 1, 2006, who met at least one of the PSERS eligibility criteria, and elected membership during the election period of July 1, 2006 to September 30, 2006; and those full-time employees, hired on or after July 1, 2006 by a covered employer, that meet at least one of the PSERS eligibility criteria.

A covered employer is one that participates in PSERS. Covered employers include: State of Washington agencies; Department of Corrections; Parks and Recreation.

It also includes Commission, Gambling Commission, Washington State Patrol, Liquor Control Board, Washington state counties, and Washington state cities except for Seattle, Tacoma and Spokane.

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

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

- Have primary responsibility to supervise eligible members who meet the above criteria.

PSERS defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions. PSERS retirement benefit provisions are established in state statute and may be amended only by the State Legislature.

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

There are 73 participating employers in PSERS. Membership in PSERS consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2009:

Retirees and Beneficiaries Receiving Benefits	2
Terminated Plan Members Entitled to but not yet Receiving Benefits	0
Active Plan Members Vested	0
Active Plan Members Nonvested	<u>4,340</u>
Total	4,342

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

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2010, were as follows:

Employer*	7.85%
Employee	6.55%

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

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

2010	\$37,299
2009	\$35,845
2008	\$24,741

D. FIREMEN'S PENSION FUND (FPF)

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

As of December 31, 2010, there were a total of 5 individuals covered by this system.

The City reports under GASB Statement 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans. The Firemen's Pension Fund is presented in the Statement of Fiduciary Net Plan Assets, and The Statement of Changes in Fiduciary Net Plan Assets. The Statement of Cash Flows is no longer required under GASB 25 and is not presented. The required supplementary information has been prepared using the best available information.

The most recent actuarial study of the Firemen's Pension System was done by Milliman USA. to determine future funding requirements as of January 1, 2010. This cost was funded out of the Firemen's Pension Fund.

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

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

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

CONTRIBUTIONS

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

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

ANNUAL PENSION COST AND NET PENSION OBLIGATION

	<u>2008</u>	<u>2009</u>	<u>2010</u>
Annual required contribution (ARC)			
Annual Normal Cost – Beginning of Year	\$0	\$0	\$0
Amortization of UAAL – Beginning of Year	38,216	38,216	47,574
Interest to End of Year	<u>1,911</u>	<u>1,911</u>	<u>1,903</u>
ARC at End of Year (not less than 0)	40,127	40,127	49,477
Interest on Net Pension Obligation (NPO)	(3,788)	(1,092)	483
Adjustment to ARC	<u>(5,627)</u>	<u>(1,669)</u>	<u>884</u>
Annual Pension Cost (APC)	41,966	40,704	49,076
Employer Contributions**	11,945	6,787	10,000
Change in NPO	<u>53,911</u>	<u>33,917</u>	<u>39,076</u>
NPO at Beginning of Year	<u>(75,754)</u>	<u>(21,843)</u>	<u>12,074</u>
NPO at End of Year	\$(21,843)	\$12,074	\$51,150

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

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

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

EMPLOYER CONTRIBUTIONS
Annual Required Contributions

<u>Fiscal Year</u>	<u>Employer Contributions</u>	<u>Fire Insurance Premiums</u>	<u>Employer Contributions</u>	<u>Required Contributions</u>	<u>Percentage Contributed</u>
2005	(29,094)	36,202	7,108	(4,426)	N/A
2006	(35,219)	40,763	5,544	16,267	34
2007	(37,730)	41,728	3,998	16,267	25
2008	(56,172)	44,227	(11,945)	40,127	(30)
2009	(37,772)	44,559	6,787	40,127	17
2010	(35,000)	45,000	10,000	49,477	20

SCHEDULE OF FUNDING PROGRESS

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

THREE-YEAR TREND INFORMATION

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Contribution as Percentage of APC</u>	<u>Net Pension Obligation</u>
12/31/2008	41,966	(28)%	(21,843)
12/31/2009	40,704	17	12,074
12/31/2010	49,076	20	51,150

E. DEFERRED COMPENSATION PLAN

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. This plan is with an independent plan administrator. The plan, available to eligible employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. This plan is administered by the ICMA Retirement Corporation.

GASB Statement No.2, Financial Reporting of Deferred Compensation Plans Adopted under the Provisions of Internal Revenue Code Section 457, established reporting requirements for IRC Section 457 plans. Based on the laws in effect at the time of its passage the Statement required that all amounts deferred by the plan participants be reported as assets of the employer until made available to the

participants or their beneficiaries. The laws governing these plans were changed to state that, as of August 20, 1996, new plans will not be considered eligible plans "unless all assets and income of the plan described in subsection (b)(6) are held in trust for the exclusive benefit of the participants and their beneficiaries." Existing plans also are required to comply with this requirement by January 1, 1999. The City elected to follow GASB Statement No. 32, Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans, starting in the reporting year 1997. The City does not report the 457 plan in its financial statements since it no longer has any vested interest, and the fund is administered by a third party.

The plan is valued at the fair market value of the deferred account for each participant. The fair market value of plan assets applicable to the City's employees at December 31, 2009, was \$20,539,446 and \$17,847,458 for the year 2009.

NOTE 9 - PRIOR YEAR RESTATEMENTS AND CHANGES IN ACCOUNTING ESTIMATES

There were no prior restatements or changes in accounting estimates in 2010.

NOTE 10 - EXCESS OF EXPENDITURES OVER APPROPRIATIONS

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

NOTE 11 - DEFICITS IN FUND EQUITY

The following funds experienced equity deficits at year end:

Transit Support Projects (305)	\$ (5,076)
Olympic View Drive (307)	(568,950)
Traffic Signals (309)	(168,829)
Roadway Surfacing (311)	(15,651)
Sidewalks/Ped Improvements (312)	(10,066)
204th LID 2009-1 (318)	(149,443)
Interurban Overpass/44th (319)	(507,068)
Community Center (323)	(18,412,482)
Traffic Operations Center (326)	(682,911)

The deficits in all funds listed arose due to complexities in fund cash management. The deficits for the Traffic Operations Center (326), Roadway Surfacing (311), and Sidewalks/Ped Improvements (312) also arose due to complexities in fund cash management. The balances for Olympic View Drive (307), Traffic Signals (309), 204th LID 2009-1 (318), Interurban Overpass/44th (319), Traffic Operations Center (326) were addressed with interfund loans from other funds. Transit Support Projects had a deficit of \$5,076 due to final retainage payable on the project.

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

NOTE 12 - PRIOR PERIOD ADJUSTMENTS

The following adjustments were made to the prior year beginning fund balance in the 2010 reporting year:

- For the fiscal year ended December 31, 2010, the City adopted GASB Statement No. 51 – Accounting and Financial Reporting for Intangible Assets. The City determined that it's only intangible assets consisted of easements with indefinite useful lives. The easements have been added to the schedule of capital assets and clearly detailed on the Statements of Net Assets as "Intangible Assets – Easements" immediately following Land. Governmental-type easements added totaled \$436,742 and business-type easements totaled \$4,148,620.
- An adjustment in the amount of \$369,384 corrects an Equipment Rental fund depreciation error double-counting vehicle retirements for 2009. The adjustment properly records accumulated depreciation for 2009 and corrects reporting of actual expenses in 2010. This adjustment is reflected in the accumulated line items and in Note 5 above.
- Prior to 2010, the Golf Course portion of the 2009 General Obligation debt was not recorded as a liability of the Golf fund but rather expensed annually with a transfer to the debt service fund. A prior period adjustment in the amount of \$437,272 is reflected in 2010's statements and notes reducing the debt of the governmental funds and increasing the debt of the Golf Course. 2011 was the final year of the majority of the long-term portion so the adjustment is primarily to short-term liabilities.
- Three parcels of land that were sold in 2006 were discovered to still be on the City's books in 2010. The book value of these governmental-type assets totaled \$4,322,991. The assets were retired in 2010 and treated as a beginning balance adjustment in Note 5. Despite the fact the land value was considered immaterial for reporting purposes we have chosen to display them as a Prior Period Adjustment for transparency.
- We are currently migrating our financial reporting systems from a modest excel spreadsheet based application to a multi-faceted financial database. This presentation is the result of utilization of the new financial database and the spreadsheet based application. Because we used the spreadsheet based application, an adjustment of \$148,051 was necessary to reconcile the entity-wide statements. We believe this adjustment reflects a reconciliation issue within the fixed asset group. We intend to review and correct the issue by the release of the 2011 financial statements.

NOTE 13 - SUBSEQUENT EVENTS

The sluggish economy continues to present challenges to the City. At the end of fiscal year 2009, the General Fund borrowed \$3.0 million from the Utility Fund to address year end cash flow needs. These funds will be paid back during the 2011-2012 biennium. Additionally, in 2011 the City sold a property for \$2.5 million (cash) to further fortify its financial footing. The measures were taken to address the structural budgetary and cash flow deficiencies. The City, during 2011, also instituted a 5.5% expenditure reduction over the 2011-2012 biennium. Lastly, the City continues to discuss and develop long term plans which will address both structural budget deficits and the future needs of the City's citizens.

In completing the restated financial statements it was discovered that the Golf Course fund required an additional cash loan of \$500,000 from the Utility fund. This loan primarily covers Restricted Cash balances related to the restatement of Long-term General Obligation debt service liabilities.

During the weekend of July 4, 2011 the City's Data Center, located at Lynnwood City Hall experienced severe overheating due to an air conditioning failure. The heat event caused a significant loss of the server and network infrastructure. We estimate the loss is \$2.0 to \$2.5 million dollars. The City is working with our insurance agency on a replacement plan and is prepared to move forward upon receipt of settlement proceeds.

NOTE 14 – LITIGATION

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

NOTE 15 - JOINT FACILITY OPERATIONS

Joint Public Works Shop

The City of Lynnwood and the neighboring City of Mountlake Terrace entered into an agreement for the construction and maintenance of a joint Public Works shop complex in 1983. Also included is the Southwest Snohomish County Public Safety Communications Agency (SNOCOM) as part of the agreement. The complex was completed and became operational in August, 1985.

The property and the building are located in the City of Mountlake Terrace. The Southwest Snohomish County Public Safety Communications Agency is the 911 emergency dispatch operations for five incorporated cities and the unincorporated area serviced by the fire district. After the completion of the joint Public Works shop complex, a cost evaluation and allocation was made and the ownership is as follows: the City of Lynnwood - 52%, City of Mountlake Terrace - 38%, and the SNOCOM operation - 10%. Also, since the complex is located in the City of Mountlake Terrace, they are responsible for the building maintenance and operation program and submit invoices to the other two agencies on a monthly basis for their share of the activity.

The City of Lynnwood sold its interest in the joint Public Works shop complex during 2010, and received \$3,048,000. The City has also ceased operations of its Central Stores program which was operated out of this facility. Nearly all assets have been liquidated and the fund will be officially closed in 2011.

Joint Recreation Facilities

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

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

Edmonds School District No. 15 - land	\$1,000,000	33%
Snohomish County - construction contribution	150,000	5%

City of Lynnwood - construction cost	940,000	31%
City of Edmonds - construction cost	940,000	31%

800 MHZ Emergency Radio System

The City of Lynnwood, City of Edmonds, City of Marysville, City of Mill Creek, City of Mountlake Terrace, City of Woodway, Fire District 111, SNOCOM, and Snohomish County entered into an agreement to provide an 800 MHZ emergency radio system that will provide a significantly improved level of communications capability when compared to existing radio systems. The County is the lead agency and construction manager, while the responsibility of the other agencies is that of a contributor. The City of Lynnwood's share of this project is 13.66%.

NOTE 16 - CASH FLOW STATEMENTS

Noncash investing, capital, and financing activities: In 2010, the City had the following:

Non-Cash Donation	\$ 7,073
Gain or loss on property disposition	238,118
Capital asset contributions	247,504

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

Cash and Equivalents	\$457,939
Customer Deposits	45,442
Restricted Cash	8,144,008
Revenue Bond Current Debt Service	1,063,333
Restricted Cash Other	23,551
Revenue Bond Future Debt Service	588,605
Total	<u>\$10,322,878*</u>

For the Golf Fund:

Cash and Equivalents	\$ 46,419
Customer Deposits	32,287
Revenue Bond Current Debt Service	405,757
Restricted Cash Other	15,541
Total	<u>\$500,004</u>

For the Internal Service Funds:

Cash and Equivalents	\$121,875*
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*An adjustment was made to the proprietary cash flow statements totaling \$48,047 for the Utility Fund and \$4,263 for the Internal Service Funds to allow for proper reconciliation with the proprietary cash balance.

NOTE 17 - OTHER POST EMPLOYMENT BENEFITS

In addition to the pension benefits described in Note 8, the City provides post-retirement health care benefits, in accordance with State statutes, to all LEOFF I retirees. Currently, 49 members meet those

eligibility requirements (48 retired & 1 active). The City provides medical and vision insurance and reimburses for all Board approved claims for medical, vision, and hospitalization costs incurred by retirees. The City has chosen to adopt the reporting standards for GASB 45 for Postemployment Benefit Plans Other than Pension Plans, or OPEB. The last actuarial valuation was completed January 1, 2011.

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

The actuarial assumptions used included a 4.0% discount rate, which is based upon the long-term investment yield on the investments that are expected to be used to finance payment of benefits. A medical inflation rate of 7.8% and a long term care inflation rate of 4.75% were used. The Unfunded Actuarial Accrued Liabilities (UAAL) is amortized as a level dollar amount over a closed 30-year period beginning January 1, 2008. The net OPEB obligation of \$1,252,835 (FY 2010) is included as a noncurrent liability on the Statement of Net Assets.

ANNUAL OPEB COST AND NET OPEB OBLIGATION LEOFF 1 EMPLOYEES

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

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

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

ANNUAL OPEB COSTS

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

* Estimated employer contributions are based on expected benefit payments.

Estimated amounts will be replaced at year end with actual amounts.

RETIREE MEDICAL AND LONG-TERM CARE VALUATION

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

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

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

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

Year	Pension	Medical	Long-term Care	Grand Total
2011	\$ 71,000	\$ 779,000	\$ 87,000	\$ 937,000
2012	75,000	795,000	96,000	966,000
2013	79,000	821,000	103,000	1,003,000
2014	83,000	862,000	108,000	1,053,000
2015	87,000	880,000	113,000	1,080,000
2016	91,000	901,000	118,000	1,110,000
2017	95,000	927,000	124,000	1,146,000
2018	98,000	952,000	130,000	1,180,000
2019	102,000	979,000	136,000	1,217,000
2020	105,000	1,004,000	144,000	1,253,000
2021	108,000	1,035,000	152,000	1,295,000
2022	110,000	1,063,000	163,000	1,336,000
2023	112,000	1,089,000	174,000	1,375,000
2024	114,000	1,111,000	187,000	1,412,000
2025	115,000	1,128,000	201,000	1,444,000
2026	115,000	1,141,000	216,000	1,472,000
2027	115,000	1,148,000	232,000	1,495,000

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

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

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

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

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Funded Ratio</u>	<u>Unfunded AAL</u>
1/1/08	0	\$18,034	0 %	\$18,034
1/1/11	0	21,614	0 %	21,614

CITY OF LYNNWOOD, WASHINGTON
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended December 31, 2010

GRANTOR/PASS-THROUGH GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	OTHER IDENTIFICATION NUMBER	EXPENDITURES	
			Pass-Through Awards	Direct Awards
Department of Justice				
Office of Juvenile Justice and Delinquency Prevention through the Federal Bureau of Investigation/ Missing Children's Assistance	16.543	N/A	\$ 3,494	\$ -
Bureau of Justice Assistance Bulletproof Vest Partnership Program	16.607	2009BUBX08044645		4,812
Bureau of Justice Assistance Bulletproof Vest Partnership Program	16.607	2009BUBX09048788		4,039
Bureau of Justice Assistance/ Edward Byrne Memorial Justice Assistance Grant Program	16.738	2010-DJ-BX-0206		17,669
ARRA - Recovery Act - Edward Byrne Memorial Justice Assistance Grant (JAG) Program / Grants To Units Of Local Governments	16.804	2009-SB-B9-2906		5,814
Total Department of Justice			\$ 3,494	\$ 32,334
Department of Health and Human Services				
Centers for Disease Control and Prevention through National Recreation and Park Association / Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283	2009 NRPA ACHIEVE	10,000	
Centers for Disease Control and Prevention through YMCA/ National Recreation and Park Association / Centers for Disease Control and Prevention Investigations and Technical Assistance	93.283	2009 NRPA ACHIEVE	500	
Total Department of Health and Human Services			\$ 10,500	\$ -
Department of Homeland Security				
Non-Profit Security Program/Emergency Services Coordinating Agency (ESCA) / Urban Area Security Initiative (UASI)	97.008	Res 2010-1	30,800	
Disaster Grants through State of Washington Military Department/ - Public Assistance (Presidentially Declared Disasters)	97.036	N/A	100	
Total Department of Homeland Security			\$ 30,900	\$ -
SUBTOTAL FEDERAL AWARDS EXPENDED			\$ 44,894	\$ 32,334

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

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CITY OF LYNNWOOD, WASHINGTON
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended December 31, 2010

GRANTOR/PASS-THROUGH GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	OTHER IDENTIFICATION NUMBER	EXPENDITURES	
			Pass-Through Awards	Direct Awards
Department of Transportation				
Federal Highway Administration				
Highway Planning and Construction				
through Washington State Department of Transportation				
36th/35th Ave W Road Improvements	20.205	STPUL-9931(009)	184,154	
Lynnwood Traffic Management Center	20.205	ITS-2005(043)	112,106	
Interurban Trail Pedestrian Bridge	20.205	CM-9999(273)	1,920,000	
Regional Transit Pedestrian Bridge	20.205	STPE-STPUL-CM-2523(001)	786,483	
ARRA - Regional Transit Pedestrian Bridge	20.205	ARRA-STPE-CM-STPUL-2523(001)	1,160,066	
Subtotal Highway Planning and Construction			4,162,809	-
National Highway Traffic Safety Administration				
State and Community Highway Safety through Washington Association of Sheriffs and Police Chiefs	20.600	N/A	475	
State and Community Highway Safety through Washington Traffic Safety Commission	20.600	N/A	1,259	
State and Community Highway Safety through Washington Traffic Safety Commission	20.600	N/A	1,977	
State and Community Highway Safety/Washington Traffic Safety Commission through Snohomish County Sheriff's Office	20.600	N/A	12,732	
Alcohol Impaired Driving Countermeasures Incentive Grants I/Washington Traffic Safety Commission through Snohomish County Sheriff's Office	20.601	N/A	3,690	
Alcohol Impaired Driving Countermeasures Incentive Grants I/Washington Traffic Safety Commission through Snohomish County Sheriff's Office	20.601	N/A	6,119	
Alcohol Impaired Driving Countermeasures Incentive Grants I/Washington Traffic Safety Commission through Snohomish County Sheriff's Office	20.601	N/A	3,570	
Occupant Protection Incentive Grants through Washington Traffic Safety Commission	20.602	N/A	1,297	
Safety Belt Performance Grants through Washington Traffic Safety Commission	20.609	N/A	5,222	
Subtotal National Highway Traffic Safety Commission			36,341	-
Total Department of Transportation			\$ 4,199,150	\$ -
TOTAL FEDERAL DIRECT AND INDIRECT EXPENDITURES			\$ 4,244,044	\$ 32,334

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

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

For the Year Ended December 31, 2010

NOTE 1 - BASIS OF ACCOUNTING

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

NOTE 2 - PROGRAM COSTS

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

NOTE 3 - NOT APPLICABLE (N/A)

The City was unable to obtain other identification numbers.

NOTE 4 - AMOUNTS AWARDED FOR MEETING SPECIFIC GOALS

The amount shown was awarded through the 2009 NRPA ACHIEVE program for meeting certain goals, not for reimbursement of direct costs.

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

Expenditures for these programs were funded by ARRA.

ARRA - Regional Transit Pedestrian Bridge

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

NOTE 6 - Reduction in Final Award Amount

The original award amount from WA State Transportation Improvement Board on agreement #8-1-140(018)-1 was for \$1,500,000, but upon final closeout they reduced our final award by \$41,782. The final amount expended up to the original \$1,500,000 was reported in 2009 as it was billed to the Transportation Improvement Board, but the final settlement payment from them was not received until May 2010, reducing the final award down to \$1,458,218.

NOTE 7 - REFERENCE TO AGEEMENT NUMBER

There was \$6,717 reported on the 2009 SEFA for the Snohomish County Human Services Senior Projects Grant referencing agreement #A-09-75-06-167, but it should have referenced the 2008 agreement #A-08-75-06-167. The correct amount of \$7,500 for #A-09-75-06-167 is being reported for 2010 on this report.



ABOUT THE STATE AUDITOR'S OFFICE

The State Auditor's Office is established in the state's Constitution and is part of the executive branch of state government. The State Auditor is elected by the citizens of Washington and serves four-year terms.

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

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

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

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

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

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