OFFICIAL STATEMENT DATED OCTOBER 14, 2015

NEW ISSUE **Standard & Poor's Rating: AA**
BOOK ENTRY ONLY **See "RATING" herein**

In the opinion of Bond Counsel, under existing federal law and assuming compliance with applicable requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied subsequent to the issue date of the Bonds, interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the alternative minimum tax applicable to individuals. However, while interest on the Bonds also is not an item of tax preference for purposes of the alternative minimum tax applicable to corporations, interest on the Bonds received by corporations is taken into account in the computation of adjusted current earnings for purposes of the alternative minimum tax applicable to corporations, interest on the Bonds received by certain S corporations may be subject to tax, and interest on the Bonds received by foreign corporations with United States branches may be subject to a foreign branch profits tax. Receipt of interest on the Bonds may have other federal tax consequences for certain taxpayers. See "TAX MATTERS."

$24,075,000
City of Lynnwood, Washington
Utility System Revenue Bonds, 2015

Dated: As of the Delivery Date **Due:** December 1, as shown on inside cover

The City of Lynnwood, Washington (the "City") Utility System Revenue Bonds, 2015 (the "Bonds"), will be issued in fully registered form only and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the Bonds (the "Securities Depository"). Individual purchases of interests in the Bonds will be made in book-entry form only, in the principal amount of $5,000 or any integral multiple thereof within a maturity. Purchasers of such interests ("Beneficial Owners") will not receive certificates representing their interests in the Bonds. Principal and interest are payable directly to DTC by the fiscal agent of the state of Washington (the "State"), currently, U.S. Bank National Association, as transfer agent, authenticating agent, paying agent and registrar (the "Bond Registrar").

Interest on the Bonds is payable semiannually on each June 1 and December 1, commencing June 1, 2016 to the maturity or earlier redemption of the Bonds. The Bonds will mature on the dates and in the amounts and bear interest at the rates set forth on the inside cover. For so long as the Bonds are held in book-entry form, the principal of and interest on the Bonds will be paid by the Bond Registrar to the Securities Depository, which in turn is obligated to remit such payments to its broker-dealer participants for subsequent disbursement to the Beneficial Owners. See "DESCRIPTION OF THE BONDS – Registration and Payment" herein and Appendix D – DTC AND ITS BOOK-ENTRY SYSTEM herein.

Maturity Schedule on Inside Cover

Proceeds of the Bonds will be used to (i) pay the costs of redeeming the City's Utility System Revenue Bond Anticipation Note, 2015; (ii) pay the costs of certain planned additions to and betterments and extensions of the City's combined utility system; (iii) fund a deposit to the Reserve Account or purchase a Reserve Security to meet the Reserve Requirement; and (iv) pay the costs of issuance of the Bonds. See "PURPOSE AND APPLICATION OF BOND PROCEEDS – Sources and Uses of Funds."

The Bonds are subject to redemption prior to maturity as described herein. See "DESCRIPTION OF THE BONDS – Redemption Provisions" herein.

Net Revenue of the Utility System and all ULID Assessments are pledged for the payment of the Outstanding Parity Bonds, the Bonds and any Future Parity Bonds (together, the "Parity Bonds"), and the Parity Bonds constitute a lien and charge upon such Net Revenue and ULID Assessments prior and superior to any other liens and charges whatsoever. The Bonds are not general obligations of the City, and neither the full faith and credit nor the taxing power of the City, Snohomish County, the State or any political subdivision thereof is pledged for the payment of the principal of or interest on the Bonds. No revenues of the City derived from any source other than the Net Revenue and ULID Assessments are pledged to the payment thereof. See "SECURITY FOR THE BONDS," herein.

This cover page contains certain information for quick reference only. It is not a summary of this issue. Investors must read the entire Official Statement to obtain information essential to making an informed investment decision.

The Bonds are offered when, as and if issued, and are subject to receipt of the approving legal opinion of Foster Pepper PLLC, Seattle, Washington, Bond Counsel to the City, and certain other conditions. It is expected that the Bonds will be available for delivery in New York, New York to the Bond Registrar on behalf of DTC by Fast Automated Securities Transfer, on or about October 28, 2015 (the "Delivery Date").

$24,075,000
City of Lynnwood, Washington
Utility System Revenue Bonds, 2015

Maturity Date (December 1)	Principal Amount	Interest Rate	Yield	CUSIP No. [1]
2016	$ 695,000	5.000%	0.42%	551702BJ1
2017	815,000	5.000	0.69	551702BK8
2018	855,000	5.000	0.92	551702BL6
2019	895,000	5.000	1.14	551702BM4
2020	940,000	5.000	1.38	551702BN2
2021	990,000	5.000	1.60	551702BP7
2022	1,040,000	5.000	1.81	551702BQ5
2023	1,090,000	5.000	2.03	551702BR3
2024	1,145,000	5.000	2.15	551702BS1
2025	1,205,000	5.000	2.26 [2]	551702BT9
2026	1,265,000	2.375	2.52	551702BU6
2027	1,290,000	3.000	2.72 [2]	551702BV4
2028	1,330,000	3.000	2.87 [2]	551702BW2
2029	1,370,000	3.000	3.03	551702BX0
2030	1,410,000	3.000	3.12	551702BY8
2031	1,455,000	3.000	3.20	551702BZ5
2032	1,500,000	3.125	3.30	551702CA9
2033	1,545,000	3.250	3.38	551702CB7
2034	1,595,000	3.250	3.42	551702CC5
2035	1,645,000	3.375	3.50	551702CD3

(1) *The CUSIP data herein is provided by CUSIP Global Services, managed on behalf of the American Bankers Association by Standard and Poor's. The CUSIP numbers are not intended to create a database and do not serve in any way as a substitute for CUSIP Global Services. CUSIP numbers have been assigned by an independent company not affiliated with the City and are provided solely for convenience and reference. The CUSIP numbers for a specific maturity are subject to change after the issuance of the Bonds. The City takes no responsibility for the accuracy of the CUSIP numbers.*

(2) *Priced to the first optional call date of December 1, 2024.*

The order and placement of materials in this Official Statement, including the Appendices, are not to be deemed to be a determination of relevance, materiality or importance, and this Official Statement, including the appendices, must be considered in its entirety. The offering of the Bonds is made only by means of this entire Official Statement.

The information within this Official Statement has been compiled from sources considered reliable and, while not guaranteed as to accuracy, is believed to be correct as of its date. The City makes no representation regarding the accuracy or completeness of the information in Appendix D – "DTC AND ITS BOOK-ENTRY SYSTEM," which has been obtained from DTC's website, or regarding the Underwriter or Financial Advisor. The information and expressions of opinions herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder will, under any circumstances, create any implication that there has been no change in the information set forth herein since the date hereof.

No dealer, broker, sales representative, or other person has been authorized by the City or the Underwriter to give any information or to make any representations other than as contained in this Official Statement in connection with the offering made hereby and, if given or made, such information or representations must not be relied upon as having been authorized by the City or the Underwriter. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Bonds by any person, in any jurisdiction in which it is unlawful for such persons to make such offer, solicitation or sale.

Certain statements contained in this Official Statement reflect not historical facts but forecasts and "forward-looking statements." No assurance can be given that the future results discussed herein will be achieved, and actual results may differ materially from the forecasts described herein. In this respect, the words "estimate," "project," "anticipate," "expect," "intend," "believe" and similar expressions are intended to identify forward-looking statements. The achievement of certain results or other expectations contained in forward-looking statements involves known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. All estimates, projections, forecasts, assumptions and other forward-looking statements are expressly qualified in their entirety by the cautionary statements set forth in this Official Statement. These forward-looking statements speak only as of the date they were prepared. The City specifically disclaims any obligation to update any forward-looking statements to reflect occurrences or unanticipated events or circumstances after the date of this Official Statement, except as otherwise expressly provided in "CONTINUING DISCLOSURE UNDERTAKING."

In connection with the offering of the Bonds, the Underwriter may overallot or effect transactions which stabilize or maintain the market price of the Bonds at levels above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued or recommenced at any time.

The presentation of certain information, including tables of receipts from revenues, is intended to show recent historic information and is not intended to indicate future or continuing trends in the financial position or other affairs of the City. No representation is made that past experience, as it might be shown by such financial and other information, will necessarily continue to be repeated in the future. Information relating to statutory and constitutional limitations is based on existing statutes and constitutional provisions. Changes in state law could alter these provisions.

The Bonds have not been registered under the securities act of 1933, as amended, and the Bond Ordinance has not been qualified under the trust indenture act of 1939, as amended, in reliance upon exemptions contained in such acts. The registration or qualification of the Bonds in accordance with applicable provisions of securities laws of the states in which the Bonds have been registered or qualified and the exemption from registration or qualification in other states cannot be regarded as a recommendation thereof. Neither these states nor any of their agencies have passed upon the merits of the Bonds or the accuracy or completeness of this Official Statement. Any representation to the contrary may be a criminal offense.

Information on websites referenced in this Official Statement, including the City's, is not incorporated into this Official Statement and cannot be relied upon to be accurate as of the date of this Official Statement, nor should any such information be relied upon in making investment decisions regarding the Bonds.

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CITY OF LYNNWOOD, WASHINGTON

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MAYOR

Nicola Smith	Mayor

CITY COUNCIL

Loren Simmonds	Council President
Ian Cotton	Council Member
Van AuBuchon	Council Member
M. Christopher Boyer	Council Member
Benjamin Goodwin	Council Member
Sid Roberts	Council Member
Ruth Ross	Council Member

CERTAIN APPOINTED OFFICIALS

Art Ceniza, CPFIM, CIB	Assistant City Administrator
Sonja Springer, CPA	Finance Director
William Franz, P.E.	Public Works Director
Jeff Elekes	Deputy Director/City Engineer
Les Rubstello	Deputy Director, Operations and Maintenance

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OFFICIAL STATEMENT

$24,075,000
City of Lynnwood, Washington
Utility System Revenue Bonds, 2015

This Official Statement of the City of Lynnwood, Washington (the “City”), which includes the cover page, inside cover page and appendices, is provided for the purpose of setting forth information in connection with the issuance by the City of its Utility System Revenue Bonds, 2015 (the “Bonds”). Capitalized terms not defined herein shall have the meanings assigned to them in the Bond Ordinance, as defined below.

INTRODUCTION

The City is located approximately 15 miles north of Seattle in Snohomish County (the “County”), and has a population of 36,420. The City operates separate sewer, water, and surface water systems, which are combined within a Utility System (the “System”) for financing purposes. The City serves approximately 8,000 sewer accounts in its service area, which includes a majority of the area within the City and a small area outside of the City. The City supplies water to approximately 8,500 accounts in its service area, which includes a majority of the area within the City. The City provides surface water management services to approximately 8,100 accounts which represents all properties within the City limits. See “THE UTILITY SYSTEM,” “THE SEWER SYSTEM,” “THE WATER SYSTEM,” and “THE SURFACE WATER SYSTEM,” herein.

DESCRIPTION OF THE BONDS

General

The Bonds will be dated as of their Delivery Date and will bear interest from their Delivery Date (or the most recent date to which interest has been paid thereon). Interest on the Bonds will be payable semiannually on each June 1 and December 1, commencing June 1, 2016. The Bonds will bear interest at the rates and will mature on the dates and in the amounts set forth on the inside cover of this Official Statement. Interest will be calculated on the basis of a 360-day year consisting of twelve 30-day months.

Authorization

The Bonds are issued pursuant to the provisions of the Constitution of the State, chapters 35.41, 35.67, 35.92, 39.46 and 39.53 of the Revised Code of Washington (“RCW”) and other applicable laws of the State, and Ordinance No. 3141 passed by the City Council (the “Council”) at a regular meeting on June 22, 2015 providing for the issuance and sale of the Bonds (the “Bond Ordinance”).

Registration and Payment

Book-Entry System. The Bonds will be issued as fully registered bonds and, when issued, will be registered in the name of Cede & Co., as nominee for The Depository Trust Company (“DTC”), which is acting as initial Securities Depository for the Bonds. Individual purchases of the Bonds will be made in book entry form only in minimum denominations of $5,000 or integral multiples thereof within a maturity (“Authorized Denominations”). Purchasers of the Bonds (“Beneficial Owners”) will not receive certificates representing their interest in the Bonds. For information about DTC and its book-entry system, see Appendix D - “DTC AND ITS BOOK-ENTRY SYSTEM.” The City makes no representation as to the accuracy or completeness of the information in Appendix D provided by DTC. Purchasers of the Bonds should confirm this information with DTC or its Participants.

Bond Registrar. The principal of and interest on the Bonds will be payable by the fiscal agent of the State, currently U.S. Bank National Association (the “Bond Registrar”) or such fiscal agent or agents as the State may from time to time designate. So long as Cede & Co. is the Registered Owner of the Bonds, principal of and interest on the Bonds will be payable by wire transfer by the Bond Registrar to DTC, which, in turn, is obligated to remit such principal and interest to its participants for subsequent disbursement to the Beneficial Owners of the Bonds, as further described in Appendix D – “DTC AND ITS BOOK-ENTRY SYSTEM.”

Termination of Book-Entry System. If the Bonds are no longer held in book-entry form by a Securities Depository, the City will execute, authenticate and deliver at no cost to the Beneficial Owners, Bonds in fully registered form, in Authorized Denominations. The principal of the Bonds will then be payable upon due presentment and surrender to the Bond Registrar, and interest on the Bonds will be payable by check or draft mailed to the Registered Owners, at the address appearing upon the registration books on the 15th day of the month preceding the interest payment date (the "Record Date"). The City is not required to make electronic transfers except pursuant to a request by a Registered Owner in writing received on or prior to the Record Date and at the sole expense of the Registered Owner. The Bonds will be transferable as provided in the Bond Ordinance.

Redemption Provisions

Optional Redemption. The Bonds maturing on December 1 in the years 2016 through 2024, inclusive, are not subject to redemption prior to their stated maturity. The Bonds maturing on and after December 1, 2025 are subject to optional redemption, as a whole or in part (and if in part, with maturities to be selected by the City), on any date on or after December 1, 2024 at a price of par plus accrued interest to the date fixed for redemption.

Selection of Bonds for Redemption. If fewer than all of the outstanding Bonds are to be redeemed at the option of the City, the City will select the maturities to be redeemed. If fewer than all of the outstanding Bonds of a maturity are to be redeemed, so long as the Bonds are held by a Securities Depository in book-entry only form, selection of Bonds for redemption will be made in accordance with the operational arrangements between the City and the Securities Depository (the "Letter of Representations"), and the Bond Registrar will select all other Bonds to be redeemed randomly in such manner as the Bond Registrar determines. All or a portion of the principal amount of any Bond that is to be redeemed may be redeemed in Authorized Denominations. If less than all of the outstanding principal amount of any Bond is redeemed, upon surrender of that Bond to the Bond Registrar, there will be issued to the Registered Owner, without charge therefor, a new bond (or bonds, at the option of the Registered Owner) of the same maturity and interest rate in any Authorized Denomination in the aggregate principal amount remaining outstanding.

Notice of Redemption. While the Bonds are held by a Securities Depository in book-entry only form, any notice of redemption will be given at the time, to the Securities Depository, and in the manner required by the Letter of Representations, and the Bond Registrar will not be required to give any other notice of redemption. If the Bonds cease to be in book-entry only form, unless waived by any Registered Owner of the Bond to be redeemed, official notice of any redemption of Bonds will be given by the Bond Registrar on behalf of the City by mailing a copy of an official redemption notice by first-class mail, postage prepaid, not less than 20 nor more than 60 days prior to the date fixed for redemption, to the Registered Owners of the Bonds to be redeemed at the addresses appearing on the Bond Register at the time the Bond Registrar prepares the notice.

Conditional Notice of Redemption. In the case of an optional redemption, the notice may state that the City retains the right to rescind the redemption notice and the related optional redemption of Bonds by giving a notice of rescission to the affected Registered Owners at any time on or prior to the date fixed for redemption. Any notice of optional redemption that is so rescinded will be of no effect, and the Bonds for which the notice of optional redemption has been rescinded will remain outstanding.

Effect of Call for Redemption. Interest on each Bond called for redemption will cease to accrue on the date fixed for redemption unless either the notice of redemption is rescinded as described above or money sufficient to effect such redemption is not on deposit in the Bond Fund, or in a trust account established to refund or defease the Bonds.

Purchase

The City has reserved the right to purchase any or all of the Bonds offered to the City at any time at any price acceptable to the City plus accrued interest to the date of purchase.

Failure to Pay Bonds

If the principal of any Bond is not paid when properly presented at its maturity or date fixed for redemption, as applicable, the City will be obligated to pay interest on that Bond at the same rate provided in that Bond from and after its maturity or date fixed for redemption until that Bond, both principal and interest, is paid in full or until sufficient money for its payment in full is on deposit in the Bond Fund, or in a trust fund or escrow account established to refund or defease that Bond, and that Bond has been called for payment by giving notice of that call to the Registered Owner thereof.

Defeasance

The City may issue refunding bonds pursuant to the laws of the State or use money available from any other lawful source to carry out a refunding or defeasance plan, which may include (a) paying when due the principal of and interest on any or all of the Bonds (the "defeased Bonds"); (b) redeeming the defeased Bonds prior to their maturity; and (c) paying the costs of the refunding or defeasance. If the City sets aside in a special trust fund or escrow account irrevocably pledged to that redemption or defeasance (the "Trust Account"), money and/or "Government Obligations" maturing at a time or times and bearing interest in amounts sufficient to redeem, refund or defease the defeased Bonds in accordance with their terms, then all right and interest of the Owners of the defeased Bonds in the covenants of the Bond Ordinance and in the funds and accounts obligated to the payment of the defeased Bonds will cease and become void. Thereafter, the Owners of defeased Bonds will have the right to receive payment of the principal of and interest on the defeased Bonds solely from the Trust Account and the defeased Bonds will be deemed no longer outstanding.

The term "Government Obligations" has the meaning given in chapter 39.53 RCW, as amended, currently: (1) direct obligations of, or obligations the principal of and interest on which are unconditionally guaranteed by the United States of America and bank certificates of deposit secured by such obligations; (2) bonds, debentures, notes, participation certificates, or other obligations issued by the Banks for Cooperatives, the Federal Intermediate Credit Bank, the Federal Home Loan Bank system, the Export-Import Bank of the United States, Federal Land Banks, or the Federal National Mortgage Association; (3) public housing bonds and project notes fully secured by contracts with the United States; and (4) obligations of financial institutions insured by the Federal Deposit Insurance Corporation or the Federal Savings and Loan Insurance Corporation, to the extent insured or to the extent guaranteed as permitted under any other provision of State law.

PURPOSE AND APPLICATION OF BOND PROCEEDS

Proceeds of the Bonds will be used to (i) pay the costs of redeeming the City's Utility System Revenue Bond Anticipation Note, 2015 (the "2015 BAN"); (ii) pay the costs of certain planned additions to and betterments and extensions of the System; (iii) fund a deposit to the Reserve Account to meet the Reserve Requirement; and (iv) pay the costs of issuance of the Bonds.

Sources and Uses of Funds

The following table shows the estimated sources and uses of the Bond proceeds:

Sources of Fund	Amounts
Par Amount of Bonds	$24,075,000
Net Original Issue Premium	1,545,953
Total Sources of Funds	$25,620,953
Uses of Funds	
Redemption of the 2015 BAN	$ 8,020,964
Payment of Costs of Plan of Additions	16,000,000
Deposit to Reserve Account	1,276,937
Estimated Costs of Issuance (1)	323,052
Total Uses of Funds	$25,620,953

(1) *Costs of issuance include legal fees, financial advisor's fees, underwriting fee, rating agency fees, and other costs incurred in connection with the issuance of the Bonds.*

Projects. Approximately $20.3 million of Bond proceeds are expected to be used for sewer system (the "Sewer System") projects which include upgrades and improvements to lift stations, wastewater treatment plant upgrades and other improvements to the Sewer System. Approximately $3.7 million of Bond proceeds are expected to be used for surface water system (the "Surface Water System") projects which include drainage improvements, a flood reduction program and other improvements to the Surface Water System. See "THE UTILITY SYSTEM – Utility Capital Facilities Plan."

SECURITY FOR THE BONDS

The Bonds are special limited obligations of the City payable from and secured solely by the Net Revenue of the System and by money in the Bond Fund, including the Reserve Account. The Net Revenue of the System and all ULID Assessments are pledged irrevocably by the City to be paid into the Bond Fund at the times and in the manner required by the Bond Ordinance for the payment of the Outstanding Parity Bonds, the Bonds and any Future Parity Bonds (together, the "Parity Bonds"). This pledge in respect of the Parity Bonds constitutes a lien and charge upon such Net Revenue and ULID Assessments prior to and superior to any other liens and charges whatsoever. The City does not currently collect ULID Assessments. See "Utility Local Improvement Districts" below.

The Bonds are not a general obligation of the City, the County, the State or any political subdivision of the State, or a charge upon any general fund or upon any money or other property of the City, the County, the State or any political subdivision of the State, not specifically pledged thereto by the Bond Ordinance. Neither the full faith and credit nor the taxing power of the City, nor any revenues of the City derived from sources other than the System, is pledged for the payment of the principal of or interest on the Bonds.

Outstanding Parity Bonds

Upon the issuance of the Bonds, the City will have the following Parity Bonds outstanding with a lien and charge on the Net Revenue of the System and ULID Assessments on parity with the Bonds. The outstanding principal amounts shown below are as of September 1, 2015, include the Bonds, and exclude the 2015 BAN to be redeemed from proceeds of the Bonds. Other than the 2015 BAN, the City currently has no subordinate lien obligations.

Summary of Outstanding Parity Bonds
(as of September 1, 2015)

Bond Issue	Original Principal Amount	Amount Outstanding	Final Maturity Date
Utility System Improvement and Refunding Revenue Bonds, 2008	$10,000,000	$ 4,435,000	12/1/2027
Utility System Revenue Bonds, 2010	7,720,000	7,435,000	12/1/2030
The Bonds	24,075,000	24,075,000	12/1/2035
Total		$35,945,000	

Bond Fund

The Bond Fund has been previously created and established in the office of the City Finance Director as a special fund of the City, which fund has been divided into two accounts: a Principal and Interest Account and a Reserve Account. So long as any Parity Bonds are outstanding against the Bond Fund, the City obligates and binds itself to set aside and pay into the Bond Fund all ULID Assessments and, out of the Net Revenue, certain fixed amounts without regard to any fixed proportion, namely:

A) Into the Principal and Interest Account on or before each debt service payment date an amount which, together with ULID Assessments and other money on deposit therein, will be sufficient to pay the debt service coming due and payable on that next debt service payment date, including mandatory redemption payments due on that date with respect to any Term Bonds; and

B) Into the Reserve Account, either:
   1) on the date of issue, and thereafter annually in regular installments an amount which, together with other money and Reserve Securities on deposit therein, will equal the Reserve Requirement for the outstanding Parity Bonds, which additional amount will be accumulated by no later than five years from the date of issue; or
   2) one or more Reserve Securities the value of which, together with any amount deposited under subsection (1), above, are equal to the Reserve Requirement for the outstanding Parity Bonds.

Reserve Account and Reserve Requirement

The Bond Ordinance obligates the City to fund the Reserve Account. The Reserve Requirement, as of any date of calculation, is the lesser of Maximum Annual Debt Service on the outstanding Parity Bonds secured by the Reserve Account or 125 percent of Average Annual Debt Service on the outstanding Parity Bonds secured by the Reserve Account, but at no time will the Reserve Requirement exceed 10 percent of the original proceeds of the Parity Bonds secured by the Reserve Account.

The City has covenanted and agreed that it will at all times maintain in the Reserve Account an amount (including the value of all Reserve Securities deposited therein) equal to the Reserve Requirement, except for withdrawals as authorized in the Bond Ordinance, until there is a sufficient amount in the Principal and Interest Account and Reserve Account to pay the principal of and interest on all outstanding Parity Bonds, at which time the money in the Reserve Account may be used to pay any such principal and interest so long as the money remaining on deposit in the Reserve Account is not less than the Reserve Requirement calculated based on the remaining outstanding Parity Bonds. If there are sufficient funds in the Bond Fund to pay all outstanding Parity Bonds and the Reserve Requirement as to those outstanding Parity Bonds is met, excess money in the Bond Fund may be used for any System purpose.

In the event that the amounts in the Bond Fund are insufficient to make any debt service payment on any outstanding Parity Bonds, amounts will be withdrawn from the Reserve Account to make up the deficiency. Any deficiency created in the Reserve Account by reason of such a withdrawal will then be made up from Net Revenue and from ULID Assessment payments but only after necessary provision has been made for Operations and Maintenance Costs and for the required payments into the Principal and Interest Account.

The Reserve Account currently consists of a surety policy provided by Assured Guaranty Municipal Corp. (formerly Financial Security Assurance Inc., the insurer of the Utility System Improvement and Refunding Revenue Bonds, 2008) with a face value of $855,595.12 and a cash balance of $588,605. As of the delivery date of the Bonds, the Reserve Requirement will be $2,721,137. The City plans to satisfy the balance of the Reserve Requirement from proceeds of the Bonds.

Rate Stabilization Fund

The Rate Stabilization Fund has previously been created and established in the office of the Finance Director. The City may at any time, as determined by the Finance Director and consistent with the Bond Ordinance, deposit into the Rate Stabilization Fund amounts from Gross Revenue and any other money received by the System and available to be used for that purpose, excluding principal proceeds of any Future Parity Bonds. The Finance Director may at any time withdraw money from the Rate Stabilization Fund for inclusion in the Net Revenue for the current fiscal year of the System, except that the total amount withdrawn from the Rate Stabilization Fund in any calendar year may not exceed the total debt service of the System in that year. Such deposits or withdrawals may be made up to and including the date 90 days after the end of the calendar year for which the deposit or withdrawal will be included as Net Revenue.

Earnings from investments in the Rate Stabilization Fund are to be deposited in that fund and are not to be included as Net Revenue unless and until withdrawn from that fund as provided in the Bond Ordinance. The Finance Director may also deposit earnings from investments in the Rate Stabilization Fund into any System fund as authorized by ordinance, and such deposits are to be included as Net Revenue in the year of deposit.

No deposit may be made into the Rate Stabilization Fund to the extent that such deposit would prevent the City from meeting the Coverage Requirement in the relevant calendar year. The Rate Stabilization Fund is not currently funded.

Flow of Funds

Net Revenue of the System is to be used for the following purposes only and is to be applied in the following order of priority:

A) To make when due the required payments into the Principal and Interest Account in respect of interest on the Parity Bonds.

B) To make when due the required payments into the Principal and Interest Account in respect of principal of and premium, if any, on the Parity Bonds, whether at maturity or pursuant to redemption prior to maturity, and to make payments due under any reimbursement agreement with an Insurer that requires those payments to be made on a parity with the Parity Bonds.

C) To make when due all payments required to be made into the Reserve Account, all payments required to be made under any agreement relating to the provision of Reserve Security, and all payments required to be made under any reimbursement agreement with a Reserve Security provider that requires those payments to be made on a parity with the payments required to be made into the Reserve Account.

D) To make when due all payments required to be made under any reimbursement agreement with an Insurer other than payments to be made on a parity with the Parity Bonds, and all payments required to be made under any reimbursement agreement with a Reserve Security provider other than payments to be made on a parity with the payments to be made into the Reserve Account, in any priority not inconsistent with the Bond Ordinance that the City may establish by ordinance.

E) To make when due the required payments to be made into any revenue bond, note warrant or other revenue obligation redemption fund, debt service account or reserve account created to pay and secure the payment of any revenue bonds, warrants, notes or other obligations of the System having a charge upon the Net Revenue junior and inferior to the charge thereon for the payment of the principal of and premium (if any), and interest on the Parity Bonds, and all payments required to be made into the Reserve Account under any ordinance authorizing an issue of Parity Bonds, in any priority not inconsistent with the Bond Ordinance, that the City may establish by ordinance.

F) For any other lawful System purposes, in any priority not inconsistent with the Bond Ordinance that the City may establish by ordinance.

Rate Covenant

The City has covenanted in the Bond Ordinance to establish, maintain, revise as necessary, and collect rates and charges for the services provided by the System (including those furnished under contract with wholesale customers) as will at least equal the Coverage Requirement.

Coverage Requirement. The Coverage Requirement is defined in the Bond Ordinance as, for any calendar year, Net Revenue in that calendar year, plus all ULID Assessments collected in that year, plus all amounts on deposit in the Principal and Interest Account on the last business day prior to the commencement of that calendar year, equal to at least 1.25 times the Average Annual Debt Service on all outstanding Parity Bonds. Average Annual Debt Service is defined in the Bond Ordinance as the sum of Annual Debt Service with respect to all Parity Bonds outstanding (including all Parity Bonds maturing in the calendar year of calculation) for all calendar years during which those Parity Bonds are scheduled to remain outstanding, divided by the number of those calendar years (without regard to bond years).

Other Covenants

The City has covenanted in the Bond Ordinance as follows:

A) It will at all times maintain and keep the System in good repair, working order and condition, and also will at all times operate such utility and the business in connection therewith in an efficient manner and at a reasonable cost.

B) It will collect promptly all ULID Assessments. Such assessments may be used to pay the principal or interest on any Parity Bonds without those assessments being particularly allocated to the payment of principal of or interest on any particular series of Parity Bonds.

C) It will not sell, lease, mortgage or in any manner encumber or dispose of all the property of the System unless provision is made for payment into the Bond Fund of a sum sufficient to pay the principal of and interest on all outstanding Parity Bonds. Furthermore, it will not sell, lease, mortgage, or in any manner encumber or dispose of any part of the property of the System that is used, useful and material to its operation, unless provision is made (i) for the replacement of that portion of the System, or (ii) for the payment into the Bond Fund of an amount bearing the same ratio to the par amount of outstanding Parity Bonds as the amount of Net Revenue available for debt service derived during the preceding 12 month period from that portion of the System bears to the total Net Revenue available for debt service for such bonds for the same period. Any such money so paid into the Bond Fund is to be used to retire outstanding Parity Bonds at the earliest possible date and may be invested to the same extent and in the same manner as provided for the investment of money in the Reserve Account until so used.

D) While any of the Parity Bonds remain outstanding it will keep proper and separate accounts and records in which complete and separate entries is to be made of all transactions relating to the System, and it will furnish the owner or owners of the Parity Bonds or any subsequent owner or owners thereof, at the written request of such owner or owners, complete operating and income statements of the System in reasonable detail covering any calendar year not more than ninety days after the close of such calendar year. It will grant any owner or owners of at least 25 percent of the outstanding Parity Bonds the right at all reasonable times to inspect the entire System and all records, accounts and data relating thereto, and upon request of any owner of any of the Parity Bonds a copy of the most recently completed audit of the System accounts by the State Auditor of Washington.

E) It will not furnish any service of the System free of charge to any customer.

F) It will at all times carry fire and such other forms of insurance on such of the buildings, equipment, facilities and properties of the System as are ordinarily carried on such buildings, equipment, facilities, and properties by utilities engaged in the operation of similar utility systems to the full insurable value thereof, and also will carry adequate public liability insurance (and war risk insurance if available at reasonable rates) at all times. The premiums on such insurance policies are a normal part of Operations and Maintenance Costs.

G) It will pay all Operations and Maintenance Costs and otherwise meet the obligations of the City as set forth in the Bond Ordinance.

H) It will not change any rate or charge for services of the System as is now established by the existing rate resolution or resolutions of the City, or any contract with a Significant Wholesale Customer, as defined in the Bond Ordinance, if such change would substantially reduce the annual Net Revenue below that which would have been obtained before such change unless the City has on file a certificate from an Independent Utility Consultant, stating that after such change, the Net Revenue will remain sufficient to comply with all the covenants and requirements of the Bond Ordinance, including the Coverage Requirement.

I) Except as provided in the Bond Ordinance, the City will not create any special fund or funds for the payment of the principal of and interest on any other revenue obligations which will have any priority over or which will rank on a parity with the payments required by the Bond Ordinance to be made out of the Net Revenue and ULID Assessments.

Additional Covenants Relating to Tax Exemption of the Bonds

The City has additionally covenanted in the Bond Ordinance, as follows:

A) It will take all actions necessary to prevent interest on the Bonds from being included in gross income for federal income tax purposes, and it will neither take any action nor make or permit any use of proceeds of the Bonds or other funds of the City treated as proceeds of the Bonds that will cause interest on the Bonds to be included in gross income for federal income tax purposes. The City has covenanted that it will, to the extent the arbitrage rebate requirements of the Code are applicable to the Bonds, take all actions necessary to comply (or to be treated as having complied) with those requirements in connection with the Bonds.

B) The Finance Director is authorized and directed to review and update the City's written procedures to facilitate compliance by the City with the covenants in the Bond Ordinance and the applicable requirements of the Code that must be satisfied after the Issue Date to prevent interest on the Bonds from being included in gross income for federal tax purposes.

Future Parity Bonds

In the Bond Ordinance, the City has reserved the right to issue Future Parity Bonds if the following conditions are met and complied with at the time of the issuance of those Future Parity Bonds:

A) There must be no deficiency in the Bond Fund;

B) The ordinance providing for the issuance of such Future Parity Bonds must provide that all ULID Assessments (including interest on those assessments) imposed in any ULID created for the purpose of paying in whole or in part the principal of and interest on such Future Parity Bonds is to be paid directly into the Bond Fund;

C) The ordinance authorizing those Future Parity Bonds must provide for the payment of the principal of and interest thereon out of the Bond Fund;

D) Except in the case of Future Parity Bonds being issued for the sole purpose of providing for the refunding of Parity Bonds (for which no coverage certification under the Bond Ordinance is required), no event of default, nor any event or condition that with notice and the passage of time would constitute an event of default will have occurred and be continuing, nor will the issuance of those Future Parity Bonds in and of itself cause an event of default or an event or condition which with notice and the passage of time would constitute an event of default;

E) The applicable ordinance authorizing those Future Parity Bonds must provide for the deposit into the Reserve Account of any combination of Future Parity Bond proceeds, Reserve Security or other money legally available, in the amount necessary (if any) to make the amount on deposit in the Reserve Account equal to the Reserve Requirement upon the issuance of those Future Parity Bonds; and

F) There is to be on file with the City a certificate (which may take into account the adjustments described in this Bond Ordinance) of the City Finance Director, demonstrating that the Coverage Requirement was satisfied during any twelve consecutive calendar months out of the immediately preceding 24 calendar months (assuming that (i) those Future Parity Bonds were outstanding and that the debt service payable on those Future Parity Bonds in that 12 month period was equal to the Average Annual Debt Service on those Future Parity Bonds, and (ii) any Parity Bonds to be refunded by those Future Parity Bonds are not outstanding).

In determining whether the City is able to comply with the terms of the parity conditions, the certificate may take into account the following adjustments to the historical Net Revenue for the relevant 12 month period:

A) Any rate change that has taken place or been adopted by ordinance or contract may be reflected, including any changes in the rates charged to any Significant Wholesale Customer in effect and being charged, or expected to be charged in accordance with a program of specific levels or increase (or decreases) in overall revenue.

B) Revenue from customers added or projected to be added to the System after the relevant 12-month period, including revenue from new Significant Wholesale Customers, may be adjusted to reflect one year's Net Revenue allocable to those new customers.

C) A full year's revenue may be included on a pro forma basis from any customer being served but who has not been receiving service for the full period of operation used as a basis for the certificate.

D) Actual or reasonably anticipated changes in the Operations and Maintenance Costs subsequent to the relevant 12-month period will be added or deducted, as is applicable.

E) Net Revenue allocable to any person, firm, corporation or municipal corporation under any executed contract for water or other utility service, which revenue was not included in the historical Net Revenue, may be included in Net Revenue.

F) Transfers into or out of the Rate Stabilization Fund under the Bond Ordinance may be taken into account, and those amounts may be added to or deducted from Net Revenues, as applicable.

If Future Parity Bonds are being issued for the sole purpose of refunding Parity Bonds (including costs of issuance and providing for the Reserve Requirement), no coverage certification is required under the Bond Ordinance if, as result of the issuance of those Future Parity Bonds, (a) the Annual Debt Service on the Future Parity Bonds to be issued is not increased by more than $5,000 over the Annual Debt Service for that year of the bonds being refunded, and (b) the various annual maturities of the refunding Future Parity Bonds will not extend more than one year longer than the Parity Bonds being refunded.

Subordinate Lien Obligations

Nothing contained in the Bond Ordinance will prevent the City from issuing revenue bonds having a junior lien on the Net Revenue or from pledging the payment of assessments in any ULID into a bond redemption fund or account created to pay and secure the payment of the principal of and interest on such junior lien bonds as long as such assessments are levied to pay part or all of the cost of improvements being constructed out of the proceeds of the sale of such junior lien bonds.

Amendatory and Supplemental Ordinances

The City may, without the consent of or notice to the registered owners of the Parity Bonds, pass supplemental or amendatory ordinances for the following purposes:

A) To cure any formal defect, omission, inconsistency or ambiguity in the Bond Ordinance;

B) To impose upon the Bond Registrar (with its consent) for the benefit of the Registered Owners of the Bonds any additional rights, remedies, powers, authority, security, liabilities or duties which may lawfully be granted, conferred or imposed and which are not contrary to or inconsistent with the Bond Ordinance;

C) To add other covenants, agreements, limitations and restrictions to be observed by the City which are not contrary or inconsistent with the Bond Ordinance as theretofore in effect;

D) To confirm any pledge under, and the subjection to any claim, lien or pledge created or to be created by the Bond Ordinance of any other money, securities or funds;

E) To authorize different denominations of the Bonds and to make correlative amendments and modifications to the Bond Ordinance regarding exchangeability of Bonds of different authorized denominations, redemptions of portions of Bonds of particular authorized denominations and similar amendments and modifications of a technical nature; and

F) To modify, alter, amend or supplement the Bond Ordinance in any other respect which is not materially adverse to the registered owners of the Bonds and which does not involve a change described below.

Except for any supplemental ordinance, as described above, subject to the terms and provisions contained in the Bond Ordinance and not otherwise, registered owners of not less than a majority of the aggregate principal amount of the Parity Bonds then outstanding have the right to consent to and approve the passage by the City Council of any supplemental ordinance deemed necessary or desirable by the City for the purposes of modifying, altering, amending, supplementing or rescinding, any of the terms or provisions contained in the Bond Ordinance; except that, unless approved in writing by the registered owners of all the Parity Bonds then outstanding, nothing contained in the Bond Ordinance permits: (i) a change in the times, amounts or currency of payment of the principal of or interest on any outstanding Bond, or a reduction in the principal amount or redemption price of any outstanding Bond or a change in the method or redemption price of any outstanding Bond or a change in the method of determining the rate of interest thereon; (ii) a preference of priority of any Bond or Bonds or any other bond or bonds; or (iii) a reduction in the aggregate principal amount of Bonds.

No Acceleration of the Bonds

The Bonds are not subject to acceleration upon the occurrence of a default. The City is liable for principal and interest payments only as they become due. In the event of multiple defaults in payment of principal of or interest on the Parity Bonds, the registered owners would be required to bring a separate action for each such payment not made. If the City encounters difficulties in making timely payment of debt service on the Parity Bonds, this could give rise to a difference in interests between registered owners of earlier and later maturing Parity Bonds.

Separate Utility Systems

The City may create, acquire, construct, finance, own and operate one or more additional systems for water supply, sewer service, water, sewage or surface water transmission, treatment or other commodity or utility service. The revenue of that Separate System, as defined in the Bond Ordinance, and any ULID Assessments payable solely with respect to improvements to a Separate System, will not be included in Gross Revenue and may be pledged to the payment of revenue obligations issued to purchase, construct, condemn or otherwise acquire or expand the Separate System. Neither the Gross Revenue nor the Net Revenue may be pledged to the payment of any obligations of a Separate System except that the Net Revenue may be pledged on a basis subordinate to the lien of the Parity Bonds. The City has no separate utility systems and has no current plans to create any separate utility systems.

Utility Local Improvement Districts

The City has no utility local improvement districts ("ULIDs") with assessments currently outstanding and has no current plans to create any ULIDs. However, the City has reserved the right to create ULIDs in the future and to issue Future Parity Bonds to finance improvements within a ULID, consistent with the Parity Conditions. The term "ULID assessments" (not capitalized) is used in this document to refer generically to any assessments in a ULID, whether or not such assessments are pledged to the Bond Fund. If capitalized ("ULID Assessments"), the term refers specifically to assessments that have been pledged to the Bond Fund for payment of Parity Bonds.

In General. Under state law, the City may establish ULIDs to pay in whole or in part the costs of certain improvements and may levy special assessments on all property specially benefited by any such improvement, with the amount of the assessment based on the special benefit to each parcel within the district. The City must permit each property owner to pay its assessment in full within a 30 day prepayment period and to pay the remaining outstanding balance in annual installments of principal and interest.

Lien of Assessments. ULID assessments constitute a lien on the property assessed from the time the City finalizes an assessment roll. Interest and penalties are included in and become a part of the assessment lien. State law provides that an assessment lien is paramount to all other liens, except the lien for general property taxes and the homestead exemption. Under State law, the homestead exemption permits any head of a family to protect a certain portion of the homestead (residence) from forced sale. In 1982, the Washington State Court of Appeals held, in *City of Algona v. Sharp,* 30 Wn. App. 837, 638, P.2d 627 (1982), that the filing for a homestead exemption before a scheduled foreclosure sale of residential property valued at less than the statutory homestead exemption (currently $125,000) effectively exempted the subject property from a forced sale to enforce collection of delinquent local improvement district assessments.

Foreclosure of Assessments. The manner in which delinquent ULID assessments may be foreclosed is set forth in detail in state law. Foreclosure proceedings may be initiated if on the first day of January two installments of any assessment are delinquent, or if the final installment has been delinquent for more than one year. Property foreclosed upon is sold by the county, and the laws governing appeals from general tax foreclosure judgments apply similarly to appeals from judgments obtained in a local improvement assessment lien foreclosure action. Proceeds of the sale of any property foreclosed upon in the manner required by law, up to the amount of the unpaid assessment and interest and penalties thereon, are deposited into and become a part of the Bond Fund.

DEBT SERVICE REQUIREMENTS

Parity Bond Debt Service Requirements
(The System)

	Outstanding Parity Bonds		The Bonds		Total Parity Bond
Year	Principal	Interest	Principal	Interest	Debt Service
2015	$ 555,000	$ 460,163	$ -	$ -	$ 1,015,163
2016	570,000	443,763	695,000	1,008,304	2,717,067
2017	590,000	423,913	815,000	888,888	2,717,801
2018	615,000	399,400	855,000	848,137	2,717,537
2019	640,000	374,950	895,000	805,388	2,715,338
2020	665,000	352,600	940,000	760,637	2,718,237
2021	685,000	329,400	990,000	713,638	2,718,038
2022	715,000	302,000	1,040,000	664,137	2,721,137
2023	740,000	273,400	1,090,000	612,138	2,715,538
2024	770,000	243,800	1,145,000	557,637	2,716,437
2025	800,000	213,000	1,205,000	500,387	2,718,387
2026	835,000	181,000	1,265,000	440,137	2,721,137
2027	870,000	147,600	1,290,000	410,094	2,717,694
2028	905,000	112,800	1,330,000	371,394	2,719,194
2029	940,000	76,600	1,370,000	331,494	2,718,094
2030	975,000	39,000	1,410,000	290,394	2,714,394
2031	-	-	1,455,000	248,094	1,703,094
2032	-	-	1,500,000	204,444	1,704,444
2033	-	-	1,545,000	157,569	1,702,569
2034	-	-	1,595,000	107,356	1,702,356
2035	-	-	1,645,000	55,519	1,700,519
Total	$11,870,000	$4,373,388	$24,075,000	$9,975,786	$50,294,175

Additional Borrowing

The City anticipates issuing approximately $18 million of Parity Bonds in 2016. Additionally, the City periodically reviews its outstanding bonds for refunding opportunities and may issue bonds for refunding purposes if market conditions warrant.

Debt Payment Record

The City has always promptly met principal and interest payments on outstanding bonds, and other obligations when due. No debt has been incurred for the purpose of avoiding an impending default.

THE UTILITY SYSTEM

The City operates its Sewer System, Water System, and Surface Water System as separate utilities which are combined for purposes of accounting and financing. The System provides sewer, water, and surface water services within the City, which in 2015 has a population of 36,420, and an area of 7.87 square miles. Each separate utility supports approximately 8,000 accounts. The Sewer System serves residential, commercial and industrial customers within the City limits, and a small area outside of the City. The Water System serves the majority of the residential, commercial and industrial customers within the City limits. The Surface Water System provides service to all properties located inside City limits.

Administration of the System

The System is managed by a Public Works Director, appointed by the Mayor of the City, who oversees the Public Works Department. Resumes for key personnel of the System are provided below.

William Franz P.E., Public Works Director. Mr. Franz has been Public Works Director since January 1, 2004, and has worked for the City for 24 years. Positions he has held at the City include plans reviewer, project manager, environmental engineer, and engineering services manager. Prior to his experience at the City, he worked for several years as an engineer with Washington State Department of Transportation and King County in its Building and Land Development Division. Mr. Franz has a Bachelor of Science Degree in Civil Engineering from the University of Washington and is a licensed Professional Engineer in the State.

Jeff Elekes, Deputy Director/City Engineer. Mr. Elekes has been the Deputy Public Works Director/City Engineer since the fall of 2004. He was previously a Project Manager at the City between 1990 and 1998. In addition, Mr. Elekes has worked in the private sector for consulting civil engineer firms totaling more than 12 years, with experience in surface water management, flood control studies, and transportation projects. He currently supervises the City's Engineering Division, Construction Division, Private Development & Permit Division, Environmental & Surface Water Division, and Building & Property Services Division of Public Works. Mr. Elekes has a Bachelor of Science Degree in Civil Engineering from Gonzaga University and is a licensed Professional Engineer in the State.

Les Rubstello, Deputy Director Maintenance and Operations. Mr. Rubstello joined the City in 2003, managing traffic engineering, signal maintenance, street maintenance, and surface water maintenance. In 2008, he was also assigned the water and sewer utility maintenance crews. He worked 20 years with the Washington State Department of Transportation doing construction, design, and traffic operations, having worked on several major bridge and highway projects. Mr. Rubstello has an undergraduate degree from Oregon State University and a master's degree from the University of Washington. Mr. Rubstello is a licensed Professional Engineer in the State and a State Water District Manager 4.

Utility Capital Facilities Plan

The City's current capital facilities plan ("CFP") addresses a combination of elements including growth related capital projects, maintenance and system improvement projects and sustainability projects. The CFP is updated yearly in November. The projects identified for completion in 2015 and 2016 represent primarily modifications to the Sewer System to meet regulatory or known deficiencies as outlined in the CFP, and upgrades associated with population growth.

System Capital Facilities Plan

	2015	2016	2017	2018	2019
Sewer Capital Projects	$13,360,934	$2,712,000	$5,392,000	$4,000,000	$2,539,000
Water Capital Projects	1,369,247	1,387,000	1,422,000	1,754,000	1,494,000
Surface Water Capital Projects	116,872	3,180,000	722,000	696,000	4,281,000
Total	$14,847,053	$7,279,000	$7,536,000	$6,450,000	$8,314,000

Source: The City of Lynnwood Capital Facilities Plan, 2015-2019

Utility Billing and Collections

The City provides customers a bi-monthly combined billing statement for sewer, water, and surface water services. All payments on utility bills are applied in the following order: penalties, interest, surface water charges, sewer charges and water charges. In the event that any fees or charges assessed for such services are not paid within the date set forth on the billing for such services (four months which constitutes two full billing cycles), they are considered delinquent and which starts a process to file a lien against the property to which the services were rendered. Such a lien, for up to four months of charges, will encumber the property, and will be the obligation of the owner of the property, its heirs, successors and assigns, until the same is paid in full. The City may enforce any utility lien by shutting off water service until all delinquent and unpaid charges are paid in full.

Utility Rate Setting

The City's most recent rate study was performed by a consulting firm in 2013. Based on the 2013 rate study the Council approved a six-year schedule of rate increases to meet the expected costs of operation and maintenance and to provide a portion of the funding for its CFP. Ordinances Nos. 3024, 3025, and 3026, passed by the Council on October 14, 2013, established schedules of rate increases for the Water System, Sewer System, and Surface Water System, respectively. The established rates become effective each January 1 for the years 2014 through 2019. It is the City's practice to review rates for a six-year period every three years, in order to ensure long-term stability, and that revenues are consistent with expectations.

Comparative Utility Bills

As part of its rate study process, the City evaluates its utility rates relative to peers every three years, most recently in 2013. Generally, the City's utility rates fall within the lowest third of its peer cohort.

Environmental Regulations

A National Pollutant Discharge Elimination System Permit (the "NPDES Permit") is a federal permit that regulates storm water and sewer discharges to waters of the State. While it is a federal permit, the regulatory authority has been passed to the State Department of Ecology (the "DOE"). The City's first NPDES Permit was issued by the DOE in February of 2007. The current NPDES Permit term is five years, beginning August 1, 2013 and ending July 31, 2018. The City is in compliance with all NPDES Permit requirements. The City is in compliance with the Endangered Species Act and the State Environmental Policy Act.

THE SEWER SYSTEM

Sewer System and Facilities

General Description. The City owns and operates a sanitary sewer collection, conveyance and treatment system. The Sewer System serves residential, commercial and industrial customers within the City limits, and a small area outside of the City. More than 96 percent of the City's sewer customers are within the City limits. The flows are conveyed to a wastewater treatment plant owned and operated by the City for secondary treatment, disinfection, incineration of solids and liquid disposal into Puget Sound. Additionally, the City has entered into an Agreement for Joint Use of Sanitary Sewerage Facilities (the "Joint Agreement") with the city of Edmonds ("Edmonds"), located adjacent to the City, under which wastewater from Edmonds is conveyed to the City's plant for treatment and disposal, and certain wastewater from the City is conveyed to the Edmonds treatment plant. See "Agreement with Edmonds for Joint Use of Facilities," below.

Sanitary Sewers. The City has approximately 109 miles of gravity sewer water pipelines with sizes ranging from 6 inches to 36 inches. The estimated amount of pipe is summarized in the table below with respect to pipe size. Several types of pipe material have been used in the construction of the system including concrete, poly vinyl chloride, high density polyethylene, and ductile iron. Much of the main trunk system was constructed in the 1960's and 1970's. The minor collection systems have been extended in recent years.

Pipe Size	Length in Feet
6"	8,011
8"	467,240
10"	26,400
12"	19,143
15"	6,980
18"	15,430
21"	8,602
24"	21,242
36"	3,904
Total	576,952

Pump Stations. The City owns and operates six sanitary sewer pump stations within the sewer collection system. The capacities of the stations are summarized below:

Pump Station	Capacity (gpm)
No. 4	600
No. 7	250
No. 8	1,200
No. 10	7,200
No. 12	4,200
No. 14	600

Wastewater Treatment Plant. The City's wastewater treatment plant provides secondary treatment using the activated sludge process. The plant was originally designed to provide primary treatment, and secondary treatment units were constructed and placed into service in 1991. Major treatment processes include: shredding, grit removal, primary clarification, aeration, secondary clarification, and chlorine disinfection. Primary and secondary biosolids generated in the treatment processes are thickened, dewatered and then incinerated.

Capacity and Permitting. The capacity of the plant is 14.2 million of gallons per day ("MGD"). Maximum flow at the wastewater treatment plant is 5.9 MGD; peak day flow is 13 MGD. The City estimates that the plant will provide for flow requirements through 2032. The wastewater treatment plants meets or exceeds the effluent pollutant removal criteria as required by the City's NPDES Permit.

Agreement with Edmonds for Joint Use of Facilities. The City, in 1982, entered into the Joint Agreement with Edmonds, which was amended in 1989 and 1990, and provides for joint treatment and disposal of sewage collected by the cities. Pursuant to the Joint Agreement, Edmonds provides maximum treatment capacity for 200 connections for the City, and the City provides treatment for 620,000 gallons per day ("GPD") for Edmonds. The Joint Agreement sets forth a mechanism for allocation of operation and maintenance charges, and capital reimbursement charges to be paid by the City and Edmonds, based on actual use, which has historically resulted in a net payment to the City. Additionally, the City has agreed to divert up to 300,000 gallons per day ("GPD") to the Edmonds plant for treatment in order to accommodate treatment of up to 300,000 GPD of Edmonds sewage at the Lynnwood treatment plant. No compensation is paid by either party relative to the agreement for treatment of up to 300,000 GPD. The collection sewers in Edmonds are owned and maintained by Edmonds, and Edmonds pays the City for wastewater treatment based on the Joint Agreement.

Facilities Maintenance. The City routinely inspects, cleans, maintains and repairs the sewers in the collection system. The condition of the sewers is monitored by the City's internal pipe inspection camera and video recorder and any significant defects or damage observed are repaired. The City performs routine cleaning to remove accumulated solids, grease, tree roots, and other obstructions in the pipes.

Customer Statistics and Volume

The following table shows the number of residential accounts and the volume and revenue for 2010 through 2014. Residential data includes multi-family and mobile home customers. Sewer volume and revenue do not always move in tandem. This is due in part to the lag time associated with reading individual customer accounts (approximately every two weeks), which can skew revenues at the beginning and end of the calendar year. Additionally, sewer rates are based on each customer's winter volume; as a result, a warm summer may see a rise in volume (due to increased watering) without a corresponding increase in revenue.

Historical Sewer System Number of Residential Accounts, Volume and Revenue

Year	Number of Accounts	Residential Volume (1)	Residential Revenue
2014	7,068	943,482	$5,961,943
2013	7,055	958,581	5,554,347
2012	7,037	931,777	5,741,605
2011	7,036	935,654	5,575,099
2010	7,039	924,566	4,698,105

(1) *Amounts shown are in 100 cubic feet.*

Source: The City of Lynnwood

The following table shows the number of commercial accounts and the volume and revenue for 2010 through 2014. Commercial data includes commercial and industrial customers.

Historical Sewer System Number of Commercial Accounts, Volume and Revenue

Year	Number of Accounts	Commercial Volume (1)	Commercial Revenue
2014	1,003	392,379	$2,860,373
2013	998	384,099	2,457,126
2012	1,001	378,960	2,391,983
2011	1,007	393,880	2,268,715
2010	1,009	388,200	1,891,933

(1) *Amounts shown are in 100 cubic feet.*

Source: The City of Lynnwood

Largest Customers. The following table lists the City's ten largest sewer customers, which account for 8.09 percent of the Sewer System revenue of $8,995,429, for the calendar year 2014.

Largest Sewer Customers by 2014 Revenue

Customer	Sewer Revenue	% of Total Revenue
Edmonds Community College	$ 96,983	1.08%
Edmonds School District #15	93,983	1.04
Whispering Pines Apartment	90,600	1.01
Whispering Cedars Apartment	86,976	0.97
City of Lynnwood – Municipal	68,067	0.76
Lynnwood Property Sub-Embassy	66,234	0.74
Pinewood Square Apartment	65,232	0.73
Cambridge Apartment	62,820	0.70
Buca Di Beppo Restaurant	48,455	0.54
Stonebridge Condominiums	47,947	0.53
Total	$ 727,297	8.10%
All others	$8,268,132	91.90%

Source: The City of Lynnwood

Sewer Rates and Charges

The City charges a bi-monthly service fee to all users of the Sewer System, with a base rate and volume charge calculated on water use during winter months. Certain customers of the Sewer System who are not also water customers are charged a flat fee for sewer service.

The following shows water rates approved by the Council by Ordinance No. 3025 on October 14, 2013, for the years 2015 through 2019. The rates shown for 2015 reflect the current rates.

Approved Bi-Monthly Sewer Rates, 2015 through 2019

Customer Class	2015	2016	2017	2018	2019
Residential Single Family					
Base Rate (up to 20 ccf)	$ 80.60	$ 83.74	$ 86.25	$ 88.84	$ 91.51
Volume Charge (> 20 ccf)	3.29	3.42	3.52	3.63	3.74
Residential Multi-Family/Mobile					
Base Rate per unit (up to 20 ccf/unit)	$ 61.85	$ 63.33	$ 64.85	$ 66.41	$ 68.00
Volume Charge (> 20 ccf/unit)	2.89	2.96	3.03	3.11	3.18
Commercial/Industrial Rates					
Base rate per meter (up to 10 ccf/meter)					
5/8 – 3/4-inch	$ 119.36	$ 127.72	$ 135.06	$ 142.83	$ 147.12
1-inch Meter	153.03	163.74	173.16	183.12	188.61
1.5-inch Meter	183.64	196.49	207.79	219.74	226.33
2-inch Meter	275.46	294.74	311.69	329.61	339.50
3-inch Meter	925.84	990.65	1,047.61	1,107.85	1,141.08
4-inch Meter	1,170.69	1,252.64	1,324.67	1,400.83	1,442.86
6-inch Meter	1,736.91	1,858.49	1,965.35	2,078.36	2,140.71
Volume Charge (based on meter size/strength)					
A – volume rate per ccf over first 20 ccf	3.85	4.12	4.35	4.60	4.74
B – volume rate per ccf over first 20 ccf	5.31	5.73	6.18	6.67	6.95
C – volume rate per ccf over first 20 ccf	8.62	9.28	9.95	10.67	11.15
D – volume rate per ccf over first 20 ccf	9.70	10.47	11.31	12.23	13.24
Flat Rate for Sewer Only Accounts					
Residential Single Unit	$ 84.07	$ 87.35	$ 89.97	$ 92.67	$ 95.45
Residential Multiple-Unit (per unit)	64.97	66.53	68.13	69.76	71.44
Commercial/Industrial (per account)	244.37	261.47	276.51	292.41	301.18

Special residential sewer rates are available for persons 61 years or older and meeting certain income qualifications. The bi-monthly senior citizen sewer rate based on income level is 40 percent, 45 percent or 50 percent of the corresponding residential single-unit or multiple-unit rate.

Source: The City of Lynnwood

Historical Bi-Monthly Sewer Rates, 2010 through 2014

	2014	2013	2012	2011	2010
Residential Single Family					
Base Rate (up to 20 ccf)	$ 77.57	$ 74.66	$ 70.76	$ 67.78	$ 60.00
Volume Charge (> 20 ccf)	3.17	3.05	2.89	2.77	2.45
Residential Multi-Family/Mobile					
Base Rate per unit (up to 20 ccf/unit)	$ 60.40	$ 58.98	$ 58.98	$ 58.12	$ 53.50
Volume Charge (> 20 ccf/unit)	2.83	2.76	2.76	2.72	2.45
Commercial/Industrial					
Base rate per meter (up to 10 ccf/meter)					
5/8 – 3/4-inch	$ 109.51	$ 96.30	$ 91.72	$ 87.36	$ 78.00
1-inch Meter	140.40	129.48	117.60	112.00	100.00
1.5-inch Meter	168.48	148.18	141.12	134.40	120.00
2-inch Meter	252.71	222.26	211.69	201.60	180.00
3-inch Meter	849.70	747.06	711.48	777.60	605.00
4-inch Meter	1,074.03	944.62	899.64	856.80	765.00
6-inch Meter	1,593.49	1,401.50	1,334.76	1,271.20	1,135.00
Volume Charge (based on strength)					
A – volume rate per ccf over first 20 ccf	$ 3.53	$ 3.38	$ 3.22	$ 3.07	$ 2.74
B – volume rate per ccf over first 20 ccf	4.87	4.91	3.72	3.32	2.96
C – volume rate per ccf over first 20 ccf	7.91	7.16	6.47	5.85	5.22
D – volume rate per ccf over first 20 ccf	8.90	7.91	7.19	6.54	5.84
Flat Rate for Sewer Only Accounts					
Residential Single Unit	$ 80.92	$ 77.88	$ 73.82	$ 70.70	$ 62.60
Residential Multiple-Unit (per unit)	63.45	61.96	61.96	61.06	54.50
Commercial/Industrial (per account)	224.19	205.68	190.40	176.40	157.50

THE WATER SYSTEM

Water System and Facilities

General Description. The City owns and operates a municipal water system which serves the majority of the residential, commercial and industrial customers within the City limits. The service area population is approximately 36,160. The City estimates that the build-out population is 38,100, which is estimated by the City to be reached by the year 2023, and was calculated based on total holding capacity of the land within the service area. The Water System currently serves 8,531 connections, including residential, commercial, schools, municipal, and municipal irrigation. Average demand is 5.0 MGD; peak demand is 9.7 MGD. Water is supplied to the City by the Alderwood Water and Wastewater District (“AWWD”), as described under “Water Supply” below. Certain City residents are served directly by AWWD, which provides service to approximately 500 customers in the City.

Water Storage. The City stores water for fire flow, equalizing water pressure and emergency use. The City has two reservoirs with overflow elevations of 573 feet, and total available storage of 5.7 million gallons (“MG”). The City contracts with AWWD for additional storage capacity of 20 MG in one reservoir and 28 MG in two reservoirs.

Pipelines and Pump Station. The Water System has a total of 731,886 feet of pipeline, of which 2,730 feet is made up of asbestos cement, 110,649 feet is made up of cast iron, 603,338 feet is made up of ductile iron, and 15,166 feet is steel. A pump station, containing pumps which provide 1,500 gallons per minute (“gpm”) (6.5 MGD), pumps to two standpipes with an overflow elevation of 724 feet.

Water Supply. Water is supplied to the City by AWWD pursuant to a Wholesale Water Supply Agreement (the "Agreement") between the City and AWWD, signed in October 2010 and extending through January 1, 2055 unless renewed by mutual agreement. AWWD serves as the City's primary water source. The water supply agreement was initially established in 1978. The Agreement states that AWWD will supply water to the City up to a daily quantity set forth in the Agreement, based on a wholesale water rate. If the City terminates the Agreement without the consent from AWWD the City will remain liable for its proportionate share of the then existing wholesale bonded indebtedness issued before January 1, 2055. This liability would continue until such time as all or part of the water supply no longer taken by the City from AWWD is sold by AWWD to another party. If AWWD terminates the Agreement without the consent of the City, the City will no longer be liable for its proportionate share of the then existing wholesale bonded indebtedness issued before January 1, 2055.

AWWD purchases its water from the city of Everett ("Everett"), provides wholesale water to seven cities and provides retail water service in unincorporated areas of the County. The water supply to the City is continuous, except in event of a general emergency or water shortage. Everett's source of supply is the watershed around the headwaters of the Sultan River. The AWWD contract was originally executed September 6, 1960, for a term of 50 years. A new 50-year contract was executed in 2004. The charges under the contract are adjusted on an annual basis each April. Current charges are $1,007.17 per million gallons and includes a demand charge of $30.65 per million gallons, a commodity charge of $339.22 per million gallons, and $637.30 per million gallons for filtration. In addition, a 20 percent rate multiplier is added to the commodity charge. The City will receive written notice of negotiation with Everett for a rate change or additional water.

AWWD owns and operates two 28-million gallon storage reservoirs and one 20-million gallon reservoir. These reservoirs, located approximately one mile north of the City limits, are the immediate water supply for the City's distribution system. All three reservoirs have overflow elevations of 635 feet. AWWD also owns and operates one 2 million gallon standpipe and one 3 million gallon standpipe at the same location with overflow elevations of 724 feet. They are served by a pump station which uses the three large reservoirs as its source.

Facilities Maintenance. The City routinely inspects, maintains, and repairs the water distribution system. Fire hydrants are routinely inspected and exercised. The water tanks are routinely monitored and inspected.

Customer Statistics and Volume

The following table shows the number of residential accounts and the volume and revenue for 2010 through 2014. More than 98 percent of the City's water customers are within the City limits.

Historical Water System Number of Residential Accounts, Volume and Revenue (1)

Year	Number of Accounts	Residential Volume (MGD)	Residential Revenue
2014	7,254	960,101	$3,137,537
2013	7,241	956,475	2,636,709
2012	7,227	947,796	2,589,343
2011	7,228	952,165	2,304,670
2010	7,228	943,090	1,949,343

(1) Residential includes multi-family.

Source: City of Lynnwood

The following table shows the number of commercial accounts and the volume and revenue for 2010 through 2014.

Historical Water System Number of Commercial Accounts, Volume and Revenue

Year	Number of Accounts	Commercial Volume (MGD)	Commercial Revenue
2014	1,284	485,852	$2,116,162
2013	1,273	486,205	1,982,832
2012	1,270	457,319	1,585,845
2011	1,273	465,065	1,335,872
2010	1,282	461,405	1,058,733

Source: City of Lynnwood

Largest Customers. The following table lists the City's largest water customers, which account for 7.83 percent of the Water System revenue of $5,210,836 for the calendar year 2014.

Largest Water Customers by 2014 Revenue

Customer	Water Revenue	% of Total Revenue
Edmonds School District #15	$ 88,393	1.70%
City of Lynnwood - Municipal	51,616	0.99
Edmonds Community College	49,274	0.95
Lynnwood Property Sub-Embassy	39,609	0.76
Whispering Pines Apartment	37,087	0.71
Whispering Cedars Apartment	34,036	0.65
HCR Manor Care – Nursing Home	31,757	0.61
Pine Wood Square Apartment	31,397	0.60
Cambridge Apartment	26,746	0.51
Somerset Village Apartment	18,201	0.35
Total	$ 408,116	7.83%
All others	$4,802,720	92.17%

Source: City of Lynnwood

Water Rates and Charges

Bi-Monthly Usage Rates. Customers are billed bi-monthly, on the basis of a meter base rate plus a volume charge.

The following shows water rates approved by the Council by Ordinance No. 3024 on October 14, 2013, for the years 2015 through 2019. Rates shown for 2015 reflect the current rates.

Approved Bi-Monthly Water Rates, 2015 through 2019

Customer Class	2015	2016	2017	2018	2019
Residential Single Family					
Base Rate (up to 10 ccf)	$ 38.75	$ 41.66	$ 44.37	$ 47.25	$ 49.61
Volume Charge (10 ccf to 40 ccf)	2.22	2.39	2.54	2.71	2.84
Volume Charge (> 40 ccf)	3.35	3.60	3.83	4.08	4.29
Residential Multi-Family/Mobile					
Base Rate per unit (up to 10 ccf/meter)	$ 14.88	$ 15.99	$ 17.03	$ 18.14	$ 19.05
Volume Charge (> 10 ccf/meter)	1.63	1.75	1.87	1.99	2.09
Commercial/Industrial					
Base rate per meter (up to 10 ccf/meter)					
5/8 – 3/4-inch	$ 45.02	$ 48.40	$ 51.55	$ 54.90	$ 57.64
1-inch Meter	97.49	104.80	111.61	118.86	124.81
1.5-inch Meter	183.74	197.52	210.36	224.03	235.24
2-inch Meter	284.95	306.32	326.23	347.43	364.81
3-inch Meter	532.43	572.36	609.57	649.19	681.65
4-inch Meter	873.61	939.13	1,000.17	1,065.18	1,118.44
6-inch Meter	1,735.99	1,866.19	1,987.49	2,116.67	2,222.51
Volume Charge (> 10 ccf/meter)	2.74	2.94	3.13	3.34	3.50

Special residential water rates are available for persons 61 years or older and meeting certain income qualifications. The bi-monthly senior citizen water rate based on income level is 40 percent, 45 percent or 50 percent of the corresponding residential single-unit or multiple-unit rate.

Source: The City of Lynnwood

Historical Bi-Monthly Water Rates, 2010 through 2014

	2014	2013	2012	2011	2010
Single Family Residential					
Bi-Monthly Flat Rate	$ 35.72	$ 32.28	$ 28.58	$ 25.26	$ 22.26
Volume Charge (10 ccf to 40 ccf)	2.05	1.85	1.64	1.45	1.28
Volume Charge (> 40 ccf)	3.09	2.79	2.47	2.18	1.92
Residential Multi-Family					
Bi-Monthly Flat Rate	$ 13.71	$ 12.94	$ 11.60	$ 10.40	$ 9.40
Volume Charge (>10 ccf)	1.50	1.42	1.27	1.14	1.00
Commercial/Industrial					
Base rate per meter (up to 10 ccf/meter)					
5/8 – 3/4-inch	$ 41.50	$ 37.52	$ 31.52	$ 26.50	$ 22.26
1-inch Meter	89.85	81.24	68.26	57.36	48.20
1.5-inch Meter	169.35	153.12	128.66	108.12	90.86
2-inch Meter	262.62	237.46	199.56	167.70	140.92
3-inch Meter	490.72	443.70	372.86	313.34	263.30
4-inch Meter	805.17	728.02	611.78	514.10	432.02
6-inch Meter	1,599.99	1,446.68	1,215.70	1,021.60	858.48
Volume Charge (> 10 ccf/meter)	2.52	2.28	1.92	1.61	1.35

Source: The City of Lynnwood

Water Meter and Facilities Charges. The City charges a facilities charge for new service, which includes the cost of a meter, which is to be installed at the cost of the developer or property owner, at the time a property is connected to the Water System. The current facilities charges, based on meter size, are shown below.

Water Meter and Facilities Charges, 2015 through 2016

Full Meter Size	Rate
¾” Meter	$3,086
1” Meter	3,821
1 ½” Meter (less than 25 ft)	4,801
1 ½” Meter (over than 25 ft)	6,517
2” Meter (less than 25 ft)	5,191
2” Meter (over than 25 ft)	6,890
Over 2” Meter	2,043 (1)

(1) Fees for meters over 2” are calculated as the cost of the meter and appurtenances, plus an additional $2,043.

Source: The City of Lynnwood

THE SURFACE WATER SYSTEM

Surface Water Facilities

General Description. The City owns and operates a surface water system. The Surface Water System provides service to all properties located inside City limits. The Surface Water System was originally formed in 1991 and is operated by the Public Works Department. The City began collection of surface water charges in 1992 with the utility services billing; prior to that the County collected these charges in connection with its collection of property taxes.

The City’s Surface Water System consists of approximately 527,000 linear feet of pipes and ditches, 4,700 catch basins and outfalls to Swamp Creek, Scriber Creek, Hall Creek and the Puget Sound. The Surface Water System includes 6,530 linear feet of open streams and 35 detention ponds.

Facilities Maintenance. The City routinely inspects catch basins, drainage ditches, and storm water detention facilities. Repairs are made as needed.

Customer Statistics

The following table shows the breakdown of the number of residential and commercial accounts for 2010 through 2014. Approximately 89.5 percent of Surface Water System customers are residential, and the remaining 10.5 percent are commercial/industrial.

Current and Historical Surface Water System Account Statistics
(as of December 31)

Customer Class	2014	2013	2012	2011	2010
Residential	7,203	7,264	7,217	7,224	7,226
Commercial/Nonresidential	922	846	871	875	875
Total	8,125	8,110	8,088	8,099	8,101

Source: The City of Lynnwood

Largest Customers. The following table lists the City's ten largest surface water customers, which account for 18.01 percent of the Surface Water System revenue ($2,984,121) for calendar year 2014.

Largest Surface Water System Customers by 2014 Revenue

Customer	Surface water Revenue	% of Total Revenue
Edmonds School Dist. #15	$ 163,900	5.49%
General Growth Property Mgmt.	105,973	3.55
Edmonds Community College	65,223	2.19
City of Lynnwood	57,702	1.93
Northview Owners Assoc.	28,290	0.95
Fred Meyer	25,034	0.84
Alderwood Plaza	24,024	0.81
Federated Dept. Stores Inc.	23,350	0.78
Lynnwood Center LLC	22,452	0.75
MGP XI Lynnwood	21,441	0.72
Total	$ 537,389	18.01%
All others	$2,446,732	81.99%

Source: The City of Lynnwood

Surface Water Rates

The City's surface water rates are based on the amount of impervious surface contained within a site. The City charges a bi-monthly service fee per ERU (Equivalent Residential Unit, which is defined as 2,900 square feet of impervious surface). All single-family residential homes, as well as duplexes are billed for 1 ERU per month. Multifamily, commercial, and industrial sites are billed based on the total amount of impervious surface on site with a minimum charge of 1 ERU per month. The surface water charges are included in the City's bi-monthly combined utility bills.

The following shows surface water rates approved by the Council by Ordinance No. 3026 on October 14, 2013, for the years 2015 through 2019.

Approved Bi-Monthly Surface Water Rates, 2015 through 2019

	2015	2016	2017	2018	2019
Bi-Monthly Flat Rate per ERU	$20.20	$21.82	$23.46	$25.22	$25.97

Special residential surface water rates are available for persons 61 years or older and meeting certain income qualifications. The bi-monthly senior citizen sewer rate based on income level is 40 percent, 45 percent or 50 percent of the corresponding residential single-unit or multiple-unit rate.

Source: The City of Lynnwood

Historical Surface Water Rates, 2010 through 2014

	2014	2013	2012	2011	2010
Bi-Monthly Flat Rate per ERU	$18.71	$15.72	$15.04	$14.40	$13.40

SYSTEM FINANCIAL INFORMATION

Historical Revenue and Expenses – The System

The following table shows historical revenues, expenses and changes in fund net position for the System for the past five years.

The System
Statement of Revenues, Expenses and Changes in Fund Net Position (1)

	2014	2013	2012	2011	2010
Revenue					
Charges for Services/Fees - Water	$ 5,210,836	$ 4,850,642	$ 4,192,396	$ 3,574,834	$ 3,195,826
Charges for Services/Fees - Sewer	8,995,429	8,710,168	8,542,231	7,914,806	7,092,498
Charges for Services/Fees - Surface Water	2,984,121	2,563,749	2,381,254	2,240,811	2,104,947
Other Operating Revenues	44,160	230,745	5,540	9,102	1,981
Total Revenues	$17,234,546	$16,355,304	$15,121,421	$13,739,553	$12,395,252
Expenses					
Administrative and General - Water	$ 1,204,968	$ 1,178,532	$ 1,102,426	$ 1,048,583	$ 1,035,361
Administrative and General - Sewer	734,992	1,220,194	948,979	990,071	924,438
Administrative and General - Surface	602,278	778,623	899,198	898,872	757,664
Maintenance and Operation - Water	2,600,835	2,557,510	2,521,010	2,288,899	2,323,163
Maintenance and Operation - Sewer	5,845,871	4,590,518	4,341,638	3,780,167	3,753,077
Maintenance and Operation - Surface Water (2)	741,202	1,279,982	1,533,286	825,764	514,495
Depreciation - Water (7)	506,893	555,672	422,539	461,617	463,704
Depreciation - Sewer (7)	1,302,827	1,811,247	1,820,133	1,722,180	1,723,684
Depreciation - Surface Water (7)	225,002	179,826	204,303	178,823	176,472
Total Expenses	$13,764,868	$14,152,104	$13,793,512	$12,194,976	$11,672,058
Net Income from Operations	$ 3,469,678	$ 2,203,200	$ 1,327,909	$ 1,544,577	$ 723,194
Non-Operating Revenues					
Miscellaneous Interest Revenue	$ 17,469	$ 26,777	$ 50,082	$ 71,596	$ 96,051
Debt Issuance Cost	(6,936)	(5,724)	(13,779)	(13,779)	(9,529)
Interest Expense (3)	(500,194)	(124,322)	(506,991)	(632,178)	(354,149)
Gain (Loss) on Dispositions (4)	475	(3,668)	(891,694)	1,696	(4,876)
Other Non-Operating Revenue	221,678	75,913	106,156	35,128	57,093
Total Non-Operating Income	$ (267,508)	$ (31,024)	$ (1,256,226)	$ (537,537)	$ (215,410)
Income before contributions and transfers	$ 3,202,170	$ 2,172,176	$ 71,683	$ 1,007,040	$ 507,784
Capital Contributions and Transfers					
Capital Contributions - Water	$ 80,969	$ 75,101	$ 52,196	$ 86,102	$ 230,684
Capital Contributions - Sewer	11,752	-	48,425	6,300	16,820
Capital Contributions - Surface Water (5)	730,000	74,080	23,115	84,855	-
Transfers in (6)	-	228,130	38,213	-	-
Transfers out (6)	(1,737,442)	(2,231,115)	(1,425,288)	(616,816)	(290,496)
Change in Net Position	$ 2,287,449	$ 318,372	$ (1,191,656)	$ 567,481	$ 464,792
Total Net Position-Beginning	$51,857,336	$51,669,308	$52,724,514	$52,157,034	$47,544,463
Prior Period Adjustments (7)	(1,611,217)	(130,343)	136,446	-	4,147,779
Total Net Position-Ending	$52,533,568	$51,857,337	$51,669,304	$52,724,515	$52,157,034

(1) *Information shown is based on the audited financial statements of the City.*

(2) *Increased expenses in 2012 and 2013 were due to additional costs for NPDES compliance.*

(3) *In 2013, a portion of interest was capitalized pursuant to GASB 34 and GASB 65, due to use of bond proceeds for construction in progress. The project was completed in 2014, and therefore interest was not capitalized in 2014.*

(4) *Loss on Disposition in 2012 was due to retirement of certain assets of the System.*

(5) *Increased Capital Contributions – Surface Water was due to $730,000 received by the Surface Water System in connection with a developer mitigation fee.*

(6) *Transfers In and Transfers Out are due to transfers between funds. Transfers Out are primarily due to expenditures for services received from other funds, generally internal service funds.*

(7) *The prior period adjustment in 2010 is related primarily to adoption of GASB 51, which requires certain intangible assets be classified as capital assets. For 2014, it related primarily to adjustment in salvage value of capital assets.*

Source: The City of Lynnwood

Historical Net Position – The System

The following table shows historical statement of net position for the System for the past five years.

The System - Statement of Net Position (1)

	2014	2013	2012	2011	2010
ASSETS					
Current Assets:					
Cash and cash equivalents	$14,169,684	$13,869,929	$11,527,410	$ 4,437,191	$ 457,939
Receivables: Accounts	3,011,419	2,715,203	2,653,765	1,962,151	1,959,031
Receivables: Accrued Interest	5,100	5,100	5,100	5,100	5,100
Receivables: Due From Other Funds (2)	-	-	-	5,480,000	8,927,630
Prepaid Expenses	29,302	93,619	93,619	55,576	55,576
Restricted Assets:					
Cash	706,151	1,459,582	4,027,327	7,005,575	8,144,008
Customer Advance Payments	100,060	107,479	130,142	121,516	45,442
Investments	-	-	-	-	3,535
Revenue Bond Current Debt Service	555,000	540,000	1,170,000	1,145,000	1,063,333
Revenue Bond Future Debt Service reserve	588,605	588,605	588,605	588,605	588,605
Other	-	39,520	37,540	35,960	23,551
Total Current Assets	$19,165,321	$19,419,037	$20,233,508	$20,836,674	$21,273,750
Noncurrent Assets:					
Notes Receivable	$ 61,322	$ 61,322	$ 61,322	$ 61,322	$ 61,322
Deferred Charge: Rev. Bond Issuance Cost	-	-	130,343	138,697	147,051
Capital Assets:					
Land	4,418,054	4,418,074	4,363,719	3,203,398	3,203,398
Intangible - easements	4,150,120	4,150,120	4,150,120	4,150,120	4,148,620
Buildings	36,188,308	36,188,308	36,188,307	35,542,166	35,542,166
Improvements	868,005	867,985	922,341	1,844,471	1,844,471
Machinery and Equipment	4,396,716	3,638,389	2,462,021	1,831,917	1,756,156
Infrastructure	44,824,785	44,322,476	41,003,712	40,084,771	38,718,411
Construction in Progress	3,902,804	2,393,750	2,651,697	5,597,939	5,097,273
(Less) Accumulated Depreciation	(51,533,255)	(47,910,737)	(45,439,996)	(44,753,999)	(42,402,767)
Net Capital Assets	$47,215,537	$48,068,365	$46,301,921	$47,500,783	$47,907,728
Total Noncurrent Assets	$47,276,859	$48,129,687	$46,493,586	$47,700,802	$48,116,101
Total Assets	$66,442,180	$67,548,724	$66,727,094	$68,537,476	$69,389,851
LIABILITIES					
Current Liabilities (Payable from Current Assets):					
Accounts payable and accrued expenses	$ 1,325,820	$ 1,932,961	$ 820,547	$ 446,063	$ 647,178
Wages Payable	104,110	-	-	-	-
Compensated Absences	76,031	74,326	75,695	66,211	67,849
Due to Other Funds	-	-	-	-	206,370
Matured Bonds Payable	555,000	540,000	1,170,000	1,145,000	1,063,333
Current Liabilities (Payable from Restricted Assets):					
Accrued Revenue Bond Interest	38,347	39,672	43,572	47,389	27,504
Customer Deposits	141,981	878,199	167,682	157,476	70,533
Total Current Liabilities	$ 2,241,289	$ 3,465,158	$ 2,277,496	$ 1,862,139	$ 2,082,767
Noncurrent Liabilities:					
Compensated Absences	192,555	184,251	186,097	174,410	179,757
Revenue Bonds, Net of Current Position	11,315,000	11,870,000	12,410,000	13,580,000	14,761,667
Unamortized Premium	237,942	255,582	273,223	290,863	308,503
(Less) Unamortized Bond Discount	(78,176)	(83,601)	(89,026)	(94,451)	(99,877)
Total Noncurrent Liabilities	$11,667,321	$12,226,232	$12,780,294	$13,950,822	$15,150,050
Total Liabilities	$13,908,610	$15,691,390	$15,057,790	$15,812,961	$17,232,817
NET POSITION					
Net Investment in Capital Assets	$35,185,771	$35,486,384	$37,153,656	$39,584,946	$32,082,728
Restricted for Capital Projects	1,999,992	1,459,582	4,027,327	7,005,575	8,144,008
Restricted for Debt Service	1,143,605	1,128,605	1,758,605	1,733,605	1,651,938
Restricted for Other	100,060	146,999	167,682	157,476	68,993
Unrestricted	14,104,140	13,635,764	8,562,034	4,242,913	10,209,367
Total Net Position	$52,533,568	$51,857,334	$51,669,304	$52,724,515	$52,157,034

Footnotes to this table are on the following page.

(1) *Information shown is based on the audited financial statements of the City.*
(2) *Receivables Due From Other Funds was used to finance temporarily the cash shortfall needs of the other funds, such as the General Fund, various Capital Project and Golf Funds. In 2012, all outstanding receivables were paid in full.*

Source: The City of Lynnwood

HISTORICAL DEBT SERVICE COVERAGE

The following table shows the calculation of net revenue available for debt service and debt service coverage for the System for the past five years, derived from the audited financial statements of the City.

Historical Net Revenue and Debt Service Coverage for the System

	2014	2013	2012	2011	2010
Operating Revenue					
Charges for Services/Fees	$17,190,386	$16,124,559	$15,115,881	$13,730,451	$12,393,271
Other Operating Revenues	44,160	230,745	5,540	9,102	1,981
Total Operating Revenue	$17,234,546	$16,355,304	$15,121,421	$13,739,553	$12,395,252
Operating Expenses					
Administrative & General	$ 2,542,238	$ 3,177,349	$ 2,950,603	$ 2,937,526	$ 2,717,463
Maintenance & Operation	9,187,908	8,428,010	8,395,934	6,894,830	6,590,735
Transfer to Joint Shop (1)	140,496	145,000	145,000	48,667	-
Total Operating Expenses	$11,870,642	$11,750,359	$11,491,537	$ 9,881,023	$ 9,308,198
Net Revenue from Operations	$ 5,363,904	$ 4,604,945	$ 3,629,884	$ 3,858,530	$ 3,087,054
Non-Operating Revenues					
Miscellaneous Interest Revenue	$ 17,469	$ 26,777	$ 50,082	$ 71,596	$ 96,051
Capital Contributions (2)	822,721	149,181	123,736	177,257	247,504
Other Non-Operating Revenue (3)	101,681	75,913	106,156	1,543	57,093
Total Non-Operating Revenue	$ 941,871	$ 251,871	$ 279,974	$ 250,396	$ 400,648
Net Revenue Available for Debt Coverage (4)	$ 6,305,775	$ 4,856,816	$ 3,909,858	$ 4,108,926	$ 3,487,702
Average Annual Remaining Debt Service (5)	$ 1,015,212	$ 1,015,262	$ 1,052,906	$ 1,087,683	$ 1,119,795
Debt Service Coverage	6.21x	4.78x	3.71x	3.78x	3.11x

(1) *Represents Utility Fund share of expenses associated with Joint Shop (i.e. vehicle maintenance).*
(2) *2014 capital contributions included $730,000 received by the Surface Water System in connection with developer mitigation fee.*
(3) *Excludes capital grants.*
(4) *Excludes amount on deposit in the Principal and Interest Account, which the City may include as Net Revenue for purposes of calculating debt service coverage.*
(5) *Under the Bond Ordinance, the City's Coverage Requirement is based on Average Annual Debt Service remaining on all outstanding Parity Bonds.*

Source: The City of Lynnwood

THE CITY

Governance

The City was incorporated in 1959 and operates under the Mayor-Council form of government. City elected officials consist of the Mayor and seven Council members, all of which are elected to four-year terms. Council members serve staggered terms. The Council is responsible for, among other things, passing ordinances and resolutions, adopting the budget, appointing committees, and adopting general policies and goals for the City. The Mayor, who serves full time, presides over all meetings of the Council and has the power to supervise the City's executive and administrative officers in the performance of their official duties, although these duties may be managed by the Assistant City Administrator and other department heads.

The City Council confirms the Assistant City Administrator after recommendation by the Mayor, who assists the Mayor with the day-to-day operation of all City services as set forth by the Council. The Assistant City Administrator assists the Mayor with leadership and coordination between the policy and operational aspects of governing the City.

The City is a general purpose government and provides the following major types of services: police, water, sewage collection/treatment, storm water collection, solid waste collection and recycling, street improvements and maintenance, planning and zoning, parks, golf course, judicial and general administration.

The City Council holds regular business meetings two times a month, work sessions three times a month and special meetings as needed. All meetings are open to the public as provided by law and agenda items are prepared in advance.

The following are the Mayor and members of the City Council.

Elected Official	Position	Current Term Expires
Nicola Smith	Mayor	December 31, 2017
Loren Simmonds	Council President	December 31, 2015
Ian Cotton	Council Member	December 31, 2017
Van AuBuchon	Council Member	December 31, 2015
M. Christopher Boyer	Council Member	December 31, 2017
Benjamin Goodwin	Council Member	December 31, 2015
Sid Roberts	Council Member	December 31, 2015
Ruth Ross	Council Member	December 31, 2017

Brief resumes of the Mayor, the Assistant City Administrator, and the City's Finance Director follow:

Nicola Smith, Mayor. Nicola Smith was elected Mayor of the City effective January 2014. Prior to becoming the City's Mayor, she had a management career at Edmonds Community College with her last position serving as Dean of Student Life Services. She also served as an Executive Director for the International Exchange Network of Washington State. Mayor Smith has over 30 years of public service relating to college professional development, developing a collaborative work environment, team building and continuous improvement of services and programs. Her civic and community involvement includes being a past President of Lynnwood Rotary. Mayor Smith holds a Bachelor's of Arts degree in Danish Language and Literature from the University of Washington and Master of Education in Administration and Leadership from Western Washington University.

Art Ceniza, Assistant City Administrator. Mr. Ceniza has been the Assistant City Administrator since January 2010. His work experience in local government includes being a department head for the King County Assessor's Office, Chief of Staff to the President of the Seattle City Council, and Assistant Deputy Superintendent for Seattle City Light. Mr. Ceniza has over 20 years of public service relating to government finance, economic development, long-range financial planning, capital planning and financing, community consensus building and managing municipal departments. His civic and community board experience includes current service as Co-Chair for the South Snohomish County Cities Manager and Administrator Group, and past leadership service as a planning commissioner, board commissioner of adjustments in development appeals, commissioner in electrical utility rates and other municipalities' board positions. Mr. Ceniza holds a Bachelor's of Arts in Political Science from the University of Washington and Master in Public Administration from Seattle University. He is a Certified Public Fund Investment Manager and a licensed investment broker.

Sonja Springer, Finance Director. Ms. Springer was hired as the Finance Director in June 2015. Previous to her employment with the City, she was the Finance Director for the City of Mountlake Terrace for the past 15 years. Prior to working for the City of Mountlake Terrace, she was the Budget Manager for Seattle City Light. Ms. Springer holds a Bachelor of Arts degree in Business Administration with an Accounting Concentration from the University of Washington. She is also a licensed Certified Public Accountant and a Professional Finance Officer as recognized by the Washington Finance Officer's Association.

Employees and Bargaining Groups

The numbers of City employees for the years 2011 through 2015 are listed below:

Year	Full-Time	Part-Time	Total
2015	334	183	517
2014	320	178	498
2013	316	140	456
2012	306	157	463
2011	312	162	474

Source: The City of Lynnwood

Certain City employees are represented by one of seven bargaining groups, and the City enters into written bargaining agreements with each bargaining organization. The City negotiates labor contracts through a management team with support from a consultant. The following provides information on unions and bargaining groups representing City employees as of May 20, 2015. The City considers its relations with all employees and bargaining units to be good. For all bargaining groups with contracts expiring December 31, 2015, the City is currently either engaged in negotiations or in process of determining schedules for upcoming negotiations.

Union or Bargaining Group	Employees Represented	Number of Employees	Contract Expires
AFSCME	Support Personnel	75	December 31, 2016
Teamsters	Public Works and Parks Maintenance	38	December 31, 2015
Fire	Fire and EMS	51	December 31, 2015
Police Guild	Police Officers	48	December 31, 2015
Police Guild – Support	Clerks, Jailers, Crime Prevention	24	December 31, 2015
Police Guild – Management	Commanders/Deputy Chief	6	December 31, 2015
Police Guild – Sergeant	Sergeants	13	December 31, 2015
	Total	255	

Source: The City of Lynnwood

CITY FUNDS AND ACCOUNTING

The City prepares government-wide financial statements in which governmental activities are segregated from business type activities, as well as major fund financial statements. Governmental activities are principally supported by taxes and intergovernmental revenues whereas business-type activities are principally supported by user fees and charges. Fund financial statements prepared by the City report balances and activities for the City's larger and more significant funds, which are a grouping of related accounts used to maintain control over resources segregated for specific activities or objectives. City operations are segregated into governmental and proprietary funds.

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. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

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

The General Fund is the primary operating fund of the City. It accounts for all financial resources of the general government, except those required or elected to be accounted for in another fund. The General Fund includes the following managerial funds which were reported as special revenue funds prior to 2011:

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

The *Program Development Fund* was established to accumulate special appropriations and money from the General Fund that may be used for program development, enhancement, or expansion projects, and for matching funds for grants and interlocal agreements.

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

The City has two major proprietary funds, the Water, Sewer and Storm Drainage Utility Fund and the Golf Course Fund. The City additionally reports on the special revenue funds, debt service funds, capital project funds, internal service funds, trust funds, and agency funds.

Auditing

Accounting systems and budgetary controls are prescribed by the Office of the State Auditor in accordance with RCW 43.09.200 and RCW 43.09.230. The City complies with the systems and controls prescribed by the Office of the State Auditor and establishes procedures and records which reasonably assure safeguarding of assets and the reliability of financial reporting.

The State Auditor is required to examine the affairs of cities regularly and on a schedule determined by risk factors and financial activity. The City has been subject to financial statement and accountability audits. Financial statement audits are performed for the purpose of forming an opinion on the financial statements taken as a whole. Also considered are the City's internal controls over financial reporting and tests of compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. Accountability audits include, among other things, review of the financial condition and resources of the City, whether the laws and constitution of the State are being complied with, the methods and accuracy of the accounts and reports as wells as other matters (potential areas of risk related to citizen concerns, payroll, inter-fund transactions, etc.). Reports of the auditor's examinations are filed in the office of the State Auditor and in the Finance Department of the City.

The State Auditor is required to examine the affairs of the City annually. By statute the audit must include, among other things, an examination of the City's financial condition and resources, the City's compliance with State law and the accuracy of the City's accounts and reports. Reports of the State Auditor's examination are required to be filed in the State Auditor's office.

The City's 2014 audited financial statements are included as Appendix C herein. The audited 2014 financial statements have been filed with the Municipal Securities Rulemaking Board (the "MSRB"). See "CONTINUING DISCLOSURE UNDERTAKING," below.

Legal Investments

State law limits the investment by a city or town of its inactive funds or other funds in excess of current needs to the following authorized investments: United States bonds; United States certificates of indebtedness; bonds or warrants of the State and any local government in the State; its own bonds or warrants of a local improvement district which are within the protection of the local improvement guaranty fund law; and any other investment authorized by law for any other taxing district or the State Treasurer. Under State law, the State Treasurer may invest in non-negotiable certificates of deposit in designated qualified public depositories; in obligations of the U.S. government, its agencies, and wholly owned corporations; in bankers' acceptances; in commercial paper; in the obligations of the federal home loan bank, federal national mortgage association, and other government corporations subject to statutory provisions; and may enter into repurchase agreements. Utility revenue bonds and warrants of any city and bonds or warrants of a local improvement district are also eligible investments (RCW 35.39.030).

Money available for investment may be invested on an individual fund basis or may, unless otherwise restricted by law, be commingled within one common investment portfolio. All income derived from such investment may be either apportioned to and used by the various participating funds or for the benefit of the general government in accordance with city ordinances or resolutions. Funds derived from the sale of bonds or other instruments of indebtedness will be reinvested or used in such manner as the authorizing ordinances, resolutions, or bond covenants may lawfully prescribe.

Local Government Investment Pool (LGIP)

The State Treasurer's Office administers the Washington State Local Government Investment Pool (the "LGIP"), a $9.2 billion dollar fund that invests money on behalf of more than 450 participants (as of August 2015). In its management of LGIP, the State Treasurer is required to adhere, at all times, to the principles appropriate for the prudent investment of public finds. These are, in priority order, (1) the safety of principal; (2) the assurance of sufficient liquidity to meet cash flow demands; and (3) to attain the highest possible yield within the constraints of the first two goals. Historically, the LGIP has had sufficient liquidity to meet all cash flow demands.

The LGIP, authorized by chapter 43.250 RCW, is a voluntary pool which provides its participants the opportunity to benefit from the economies of scale inherent in pooling. It is also intended to offer participants increased safety of principal and the ability to achieve a higher investment yield than would otherwise be available to them. The pool is restricted to investments with maturities of one year or less, and the average life typically is less than 90 days. Investments permitted under the pool's guidelines include U.S. government and agency securities, bankers' acceptances, high quality commercial paper, repurchase and reverse repurchase agreements, motor vehicle fund warrants, and certificates of deposit issued by qualified State depositories. The City may withdraw funds in their entirety on less than 24-hours' notice.

Authorized Investments for Bond Proceeds

In addition to the eligible investments discussed above, bond proceeds may also be invested in mutual funds with portfolios consisting of U.S. government and guaranteed agency securities with average maturities of less than four years, municipal securities rated in one of the four highest categories; and money market funds consisting of the same, so long as municipal securities held in the fund(s) are in one of the two highest rating categories of a nationally recognized rating agency. Bond proceeds may also be invested in shares of money market funds with portfolios of securities otherwise authorized by law for investment by local governments (RCW 39.59.030).

City Investments and Investment Policy

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. LGIP 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 pool investments. Investments are also held separately by funds with interest earned directly for each fund's benefit. The City holds most investments to maturity.

All surplus cash is invested in accordance with an investment policy approved by the Council. The investment policy is in compliance with State law. Qualifying 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. With the exception of U.S. Treasury and the LGIP, no more that 50 percent will be invested with a single security type and no more that 25 percent will be invested with a single financial institution.

The following table shows cash and investments as of December 31, 2014 and August 31, 2015.

Cash and Investments

	Amount as of August 31, 2015	Amount as of December 31, 2014
Banks and Savings and Loans Institutions	$ 3,912,130	$ 2,882,213
LGIP Investments	45,247,469	42,381,395
Non-Pool Investments	5,250,000	86,546
Total Cash and Investments	$54,409,599	$45,350,154

Risk Management

The City is a member of Cities Insurance Association of Washington ("CIAW"). Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together into or join a program or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self-insure, or hire or contract for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The program was formed on September 1, 1988, when 34 cities in the State joined together by signing an Interlocal Governmental Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. As of December 1, 2014, there are 223 members in the program. The program provides the following forms of joint self-insurance and excess coverage for its members: Property, including Automobile Comprehensive, and Collision; Equipment Breakdown, and Crime Protection; and Liability, including General, Automobile, and Wrongful Acts, are included to fit members' various needs.

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

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

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

A board of ten members is selected by the membership from three geographic areas of the State on a staggered term basis and is responsible for conducting the business affairs of the program. On July 21, 2014, the Board passed a resolution changing the CIAW's renewal date from September 1st to December 1st beginning with the 2014-15 policy term. Premiums were pro-rated for the extension period. Invoices and certificates were issued accordingly. The program has no employees. Claims are filed by members with Canfield, which has been contracted to perform program administration, claims adjustment, administration, and loss-prevention for the program. Fees paid to the third party administrator under this arrangement for the year ending December 1, 2014, were $1,817,654.59.

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

Pension Plans

The City provides all of its public employee pensions through the following statewide cost-sharing multiple-employer plans administered by the State's Department of Retirement Systems ("DRS"): Public Employees Retirement System ("PERS"), the Law Enforcement Officers and Fire Fighters Retirement System ("LEOFF"), or the Public Safety Employees Retirement System ("PSERS"). PERS Plans 1 and 2, PSERS and LEOFF are defined benefit plans and PERS Plan 3 contains a hybrid defined benefit/defined contribution option. Contributions by both employees and employers are based on gross wages. PERS and LEOFF participants who joined the system by September 30, 1977 are Plan 1 members. Those PERS participants who joined on or after October 1, 1977, are Plan 2 members, unless they exercise an option to transfer to Plan 3. PERS participants joining on or after September 1, 2002, have the irrevocable option of choosing membership in PERS Plan 2 or PERS Plan 3. LEOFF participants who joined on or after October 1, 1977, are Plan 2 members. PSERS has only one benefit plan, Plan 2.

State law requires systematic actuarial based funding to finance the retirement plans. Actuarial calculations to determine employer and employee contributions are prepared by the Office of the State Actuary ("OSA"), a nonpartisan legislative agency charged with advising the Legislature and Governor on pension benefits and funding policy. To calculate employer and employee contribution rates necessary to pre-fund the plans' benefits, OSA uses actuarial cost and asset valuation methods selected by the Legislature as well as economic and demographic assumptions. The Legislature adopted the following economic assumptions for contribution rates beginning July 1, 2013: (1) 7.9 percent (7.8 percent as of July 1, 2014) rate of investment return; (7.5 percent for LEOFF Plan 2); (2) general salary increases of 3.75 percent; (3) 3.0 percent rate of Consumer Price Index increase; and (4) 0.95 percent growth in membership (1.25 percent for LEOFF). The long-term investment return assumption is used as the discount rate for determining the liabilities for a plan. The 10-year (2005-2014) average annual return on the investment of the retirement funds was 8.35 percent.

Plan Funding; Contribution Rates and Amounts. All DRS administered retirement plans are funded by a combination of funding sources: (1) contributions from the State for certain plans; (2) contributions from employers (including the State as employer and the City and other governmental employers); (3) contributions from employees; and (4) investment returns. Retirement funds are invested by the Washington State Investment Board, a 15-member board created by the Legislature in 1981.

The City's total contribution for the year ended December 31, 2014, was $2,097,611, which was made up of $1,359,102 to PERS, $671,320 to LEOFF and $67,189 to PSERS. See APPENDIX C – "2014 Audited Financial Statements – Note 8-Pension Plans" for a description of the State pension system and the plans.

Under State statute, contribution rates are adopted by the Pension Funding Council ("PFC") (and, for LEOFF 2, by the LEOFF 2 Board) in even-numbered years for the next ensuing State biennium. The rate-setting process begins with an actuarial valuation by the OSA, which makes non-binding recommendations to the Select Committee on Pension Policy, which then recommends contribution rates to the PFC and the LEOFF 2 Board. No later than the end of July in even-numbered years, the PFC and the LEOFF 2 Board adopt contribution rates, which are subject to revision by the Legislature. The following table outlines the current contribution rates of employees and employers under PERS and LEOFF.

The required contribution rates effective July 1, 2015 expressed as a percentage of covered payroll are as follows:

	Employee	**City** [1]
PERS		
Plan 1	6.00%	11.00%
Plan 2	6.12	11.00
Plan 3	5.00 to 15.00	11.00
LEOFF		
Plan 1	0.00	0.00
Plan 2	8.41 [2]	8.41
PSERS		
Plan 2	6.59	11.36

(1) *Includes 0.18 percent DRS administrative expense rate.*
(2) *The State also contributes 3.36 percent to this plan.*

Plan Funding Status and Unfunded Actuarial Liability. While the City's prior contributions represent its full current liability under the retirement systems, any unfunded pension benefit obligations could be reflected in future years as higher contribution rates. It is expected that the contribution rates for employees and employers in the PERS Plans 2 and 3 will increase in the coming years. The OSA website (which is not incorporated into this Official Statement by reference) includes information regarding the values, funding levels and investments of these retirement plans.

During the years 2001 through 2010 the rates adopted by the Legislature were lower than those that would have been required to produce actuarially required contributions to PERS Plan 1, a closed plan with a large proportion of the retirees. The State Actuary's actuarial valuation for PERS Plan 1 as of June 30, 2014 showed a 61 percent funded ratio (unfunded liability of $4.96 billion) while PERS Plans 2 and 3 and LEOFF Plans 1 and 2 had valuation assets that exceed their accrued liability by $214 million (a 101 percent funded ratio), $1.17 billion (a 127 percent funded ratio) and $1.02 billion (a 113 percent funded ratio), respectively. OSA uses the Projected Unit Credit ("PUC") cost method and the Actuarial Value of Assets ("AVA") to report a plan's funded status. PUC is one of several acceptable measures of a plan's funded status under current GASB rules. The PUC cost method projects future benefits under the plan, using salary growth and other assumptions and applies the service that has been earned as of the valuation date to determine accrued liabilities. The AVA is calculated using a methodology which smoothes the effect of short-term volatility in the Market Value of Assets by deferring a portion of annual investment gains or losses over a period of up to eight years.

PERS Plans 2 and 3 are accounted for in the same pension trust fund and may legally be used to pay the defined benefits of any PERS Plan 2 or 3 members. Assets for one plan may not be used to fund benefits for another plan: however, all employers in PERS are required to make contributions at a rate (percentage of payroll) determined by the OSA every two years for the sole purpose of amortizing the PERS Plan 1 unfunded actuarial accrued liability within a rolling 10-year period. The Legislature has established certain maximum contribution rates that began in 2009 and will continue until 2015 and certain minimum contribution rates that are to become effective in 2015 and remain in effect until the actuarial value of assets in PERS Plan 1 equals 100 percent of the actuarial accrued liability of PERS Plan 1. These rates are subject to change by future legislation enacted by the State Legislature to address future changes in actuarial and economic assumptions and investment performance.

In 2011, the Legislature ended the future automatic annual increase, which is a fixed dollar amount multiplied by the member's total years of service, for most retirees in the PERS Plan 1 plan, which is forecast to reduce the unfunded accrued actuarial liability in PERS Plan 1.

The information in this section has been obtained from the City's financial statements and information on the State Actuary's and State Department of Retirement System's websites.

Firemen's Pension Fund

The City is the administrator of the Firemen's Pension System ("FPS"), which is shown as a pension trust fund (the Firemen's Pension Fund, or "FPF") in the City's financial statements. The FPS is a single-employer closed pension system that was established in conformance with 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 FPS consists of all benefits, including payments to beneficiaries, for fire fighters retired prior to March 1, 1970, and excess benefits over amounts provided by LEOFF for covered fire fighters who retired after March 1, 1970. Under the FPS, 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.

As of December 31, 2014, there were a total of 5 individuals covered by this system.

The most recent actuarial study of the FPS was conducted by Milliman USA to determine future funding requirements as of January 1, 2014 and updated annually thereafter. The report is prepared in accordance with generally accepted actuarial principles consistent with the Actuarial Standards Board ("ASB") and the Code of Professional Conduct and Qualification Standards for Public Statements of Actuarial Opinion of the American Academy of Actuaries. This cost was funded out of the FPS.

Significant actuarial assumptions used in making these projections include: (1) projected annual salary increases of 3.5% including inflation; (2) projected investment earnings of 3.50%; (3) no growth in membership; (4) 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%; (5) a 2.5% projected annual growth in fire insurance premium tax revenues received by the fund; (6) amortization period of 30 years, and (7) the mortality and turnover assumptions were based on the 2001-2006 Experience Study for the Law Enforcement Officers' and Firefighters' Retirement System prepared by the Office of the State Actuary.

The financial statements are prepared using the accrual basis of accounting. Employer contributions to the plan are recognized when due and the City has made a formal commitment to provide the contributions. Benefits are recognized when due and payable in accordance with the terms of the plan.

Investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Investments that do not have an established market are reported at estimated fair value. The annual pension cost was computed using the Entry Age Cost Normal Method. Under this method the projected benefits are allocated on a level basis as a percentage of salary over the earnings of each individual between entry age and assumed exit age. The amount allocated to each year is called the Normal Cost and the portion of the Actuarial Present Value of all benefits not provided for by future Normal Cost payments is called the Actuarial Liability. Since all members have already retired, the amount of the annual Normal Cost is small. The Unfunded Actuarial Liability ("UAL") is the Actuarial Liability minus the actuarial value of the Fund's assets. The Unfunded

Actuarial Accrued Liabilities ("UAAL") is amortized as a level dollar amount over a closed 30-year period beginning January 1, 1999.

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

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

Other Post-Employment Benefits

LEOFF 1 Plan Description. As required by Chapter 41.26 RCW, the City provides lifetime medical care for eleven LEOFF 1 retirees ("LEOFF 1 Retirees"). The City provides medical insurance and reimbursements for all necessary hospital, medical, and nursing care expenses not payable by worker's compensation, social security, insurance provided by another employer, other pension plan, or any other similar source. Medical insurance for the LEOFF 1 Retirees is provided by the City's employee medical insurance program. Under the authorization of the LEOFF Disability Board, direct payment is made for other retiree medical expenses not covered by standard medical plan benefit provisions.

The City provides health coverage for LEOFF 1 Retirees through a medical plan purchased through the Association of Washington Cities (AWC) Employees Benefit Trust. In addition, the City pays or reimburses eligible retired LEOFF 1 police officers the necessary usual and customary medical expenses in excess of those covered by the applicable insurance plan. The City also purchases a long-term care insurance plan for eligible LEOFF 1 members. Dental costs and dependents are not covered.

Funding Policy. Medical benefits are funded on a pay-as-you-go basis through the general fund and paid out of the police department budget. Health insurance premiums are paid monthly and long-term care insurance is paid annually. Other medical services are paid as billings are presented for reimbursement. The City reimbursed 100 percent of the amount of validated claims for medical costs incurred by these individuals.

Annual OPEB Cost and Net OPEB Obligation. The City's annual other postemployment benefit ("OPEB") cost is calculated based upon the annual required contribution ("ARC"), an amount calculated using the alternative measurement method in accordance with the parameters of GASB Statement 45 for employers in plans with fewer than one hundred total plan members utilizing the interactive tool developed by the Office of the State Actuary ("OSA") for use by local government. The ARC represents a level of funding that, if paid on an ongoing basis is projected to cover the normal cost each year and amortize any unfunded accrued actuarial liabilities ("UAAL") over a period of twenty years as of December 31, 2014.

The following table shows the components of the City's annual OPEB cost for the year, and the amount actually contributed. The net OPEB obligation of $3,093,333 is included as a noncurrent liability on the Statement of Net Assets.

	12/31/2014
Annual Normal Cost – Beginning of Year	$ -
Amortization of UAAL	1,421,340
Interest to End of Year	53,300
ARC at End of Year	$1,474,640
Interest on Net OPEB Obligation	95,592
Adjustment to ARC	157,048
Annual OPEB Cost	$1,413,184
Employer Contributions	868,971
Change in Net OPEB Obligations	544,213
Net OPEB Obligation – Beginning of Year	$2,549,120
Net OPEB Obligation – End of Year	$3,093,333

The City's annual OPEB cost, the percentage of annual OPEB cost contributed and the net OPEB obligation for 2014 and the preceding years were as follows:

Fiscal Year Ended	Annual OPEB Cost	% of Annual OPEB Cost Contributed	Net OPEB Obligation
12/31/2012	$1,313,243	68%	$2,112,347
12/31/2013	1,301,918	66	2,549,120
12/31/2014	1,413,184	61	3,093,333

Actuarial Methods and Assumptions. The City has used the alternative measurement method permitted under GASB Statement No. 45. A single retirement age of 56.24 was assumed for all active members for the purpose of determining the AAL and normal cost. Retirement, disablement, termination and mortality rates were assumed to follow the LEOFF 1 rates in the June 30, 2007 actuarial valuation report issued by the Office of the State Actuary (OSA). Healthcare costs and trends were determined by Milliman and used by OSA in the state-wide LEOFF 1 medical study performed in 2007. The results were based on grouped data with 4 active groupings and 4 inactive groupings. The actuarial cost method used to determine the AAL was Projected Unit Credit. The AAL and net OPEB obligation are amortized on an open basis as a level dollar over 15 years.

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

Funding Policy. The Trust provides that contribution requirements of Participating Employer and of participating employees, retirees and other beneficiaries, if any, are established and may be amended by the Board of Trustees of the Trust.

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

The City's contributions to the Trust for the year ended December 31, 2014 was $670,529. The City also covers medical benefits for LEOFF retirees beyond allowable medical charges by the Trust. The City's additional contributions totaled to $119,524 in 2014.

GENERAL AND ECONOMIC INFORMATION

General

The City is the fourth largest city in the County, located approximately 16 miles north of the city of Seattle and 13 miles south of Everett. The central portions of the City are primarily suburban and rural residential with supporting retail and commercial enterprises. The City has a high concentration of retail and service employment and serves as a regional retail destination.

Population

The County's population ranks third in overall population in the State after King County and Pierce County. Historical and current population figures for the City and the County are provided below.

Population

Year	City of Lynnwood	Snohomish County
2015	36,420	757,600
2014	36,030	741,000
2013	35,960	730,500
2012	35,900	722,900
2011	35,860	717,000

Source: Washington State Office of Financial Management

Economic Development

The City's retail activity is led by the Alderwood Mall, located on 77 acres along the City's eastern border, next to Interstate 5. Alderwood Mall has four anchor department stores and 194 specialty shops. Totaling over 1.386 million square feet, Alderwood Mall is one of the largest retail malls in the Pacific Northwest.

Several smaller malls and retail complexes are located in the City, many of them adjacent to or near Alderwood Mall. The City also has a strong concentration of new automobile dealerships featuring a wide array of domestic and import manufacturers, many located along Highway 99. Retail in the City serves a vast trade area that includes both South Snohomish County and North King County.

Lynnwood Place is a new mixed-use development, located across from the Alderwood Mall. It is comprised of two phases; a Costco wholesale warehouse (Phase 1) and mixed-used project with retail, entertainment and multi-family housing (Phase 2). Construction of the $250 million Phase 1 is projected to be completed by September 2015. Lynnwood Place Phase 2 is anticipated to be under design in late 2015.

The region has a growing and diverse employment base featuring private sector companies in aerospace, biosciences, information technologies/electronics, fire, insurance, and real estate, and professional and business services.

Sound Transit's Lynnwood Link Extension, a light rail extension from Seattle with an anticipated terminus in the City, is currently in preliminary design. The City's planned station, located in the City center, is anticipated to open in 2023 and have 20,000 riders per day.

The City is also working with the Edmonds School District and Sound Transit with respect to the $102 million Link Light Rail Operations Maintenance Satellite Facility in the City, which is anticipated to be completed in 2017.

The Lynnwood Convention Center opened in 2005. In the past ten years, a wide range of events have taken place including conventions, consumer shows, corporate meetings, fundraising auctions, weddings, community gatherings, religious services, and memorial services. According to the Lynnwood Convention Center, to date, it has hosted 3,900 events and more than 753,096 guests, generating an estimated $152 million in economic impact for the local economy.

City's Major Employers, as of September 2015

Employer	Type of Business	Employees
Edmonds School District No. 15	Public Education	2,717
Edmonds Community College	Higher Education	962
Comcast	Utility Company	705
The City	Government	482
Nordstrom Inc.	Retail	449
Macy's	Retail	345
Fred Meyer	Retail	306
J.C. Penney	Retail	241
ADP Inc.	Payroll Services	211
Zumiez Inc.	Retail	197
Receivables Performance Management	Accounts Receivable Management	196
PEMCO	Insurance	146

Source: City of Lynnwood

Civilian Labor Force and Employment

City of Lynnwood	July 2015	July 2014	Annual Average 2014	2013	2012	2011	2010
Civilian Labor Force	19,759	19,478	19,290	18,990	19,054	19,129	19,235
Employment	18,870	18,390	18,261	17,858	17,586	17,271	17,254
Unemployment	889	1,088	1,029	1,131	1,131	1,858	1,981
Unemployment Rate	4.5%	5.6%	5.3%	6.0%	6.0%	9.7%	10.3%
Snohomish County							
Civilian Labor Force	405,166	399,302	395,317	388,741	385,698	384,171	386,511
Employment	387,484	377,619	374,985	366,711	356,770	347,654	345,267
Unemployment	17,682	21,683	20,332	22,030	28,928	36,517	41,244
Unemployment Rate	4.4%	5.4%	5.1%	5.7%	7.5%	9.5%	10.7%
Washington State							
Civilian Labor Force	3,560,075	3,516,818	3,488,183	3,460,038	3,471,158	3,459,200	3,511,326
Employment	3,369,506	3,304,901	3,270,362	3,216,966	3,190,015	3,139,999	3,160,544
Unemployment	190,569	211,917	217,821	243,072	281,143	319,201	350,782
Unemployment Rate	5.4%	6.0%	6.2%	7.0%	8.1%	9.2%	10.0%

Source: Bureau of Labor Statistics, not seasonally adjusted

Economic Indexes for the City and the County

Year	Snohomish County Taxable Retail Sales	City Taxable Retail Sales	Snohomish County Median Family Income
2015 (1)	$ 2,908,349,516	$ 503,924,719	N/A
2014	12,322,982,211	2,187,701,213	$65,454 (2)
2013	11,631,734,802	2,104,246,517	64,740
2012	10,733,012,702	2,001,168,039	64,033
2011	10,080,229,603	1,855,296,676	62,687
2010	10,118,060,081	1,799,378,521	62,034

(1) *Taxable retail sales are through the first quarter of 2015. Taxable retail sales through first quarter of 2014 were $2,722,666,523 and $483,802,504 for the County and City, respectively.*

(2) *Median Family Income for 2014 is the most recent information available and is projected.*

Sources: Taxable Retail Sales - Washington State Department of Revenue
Median Family Income - Office of Financial Management

Residential Building Permit Statistics – Snohomish County and the City

Year	Snohomish County Building Permits: Number of Permits	Snohomish County Building Permits: Value of Permits	City Building Permits: Number of Permits	City Building Permits: Value of Permits
2014	2,194	$761,945,957	34	$11,459,800
2013	2,112	790,529,150	9	6,203,501
2012	2,284	717,874,325	7	2,207,852
2011	1,871	514,747,872	10	2,627,993
2010	1,916	447,750,026	8	2,334,896

Source: U.S. Census Bureau

TAX MATTERS

Tax Exemption

Exclusion from Gross Income. In the opinion of Bond Counsel, under existing federal law and assuming compliance with applicable requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied subsequent to the issue date of the Bonds, interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the alternative minimum tax applicable to individuals.

Continuing Requirements. The City is required to comply with certain requirements of the Code after the date of issuance of the Bonds in order to maintain the exclusion of the interest on the Bonds from gross income for federal income tax purposes, including, without limitation, requirements concerning the qualified use of proceeds of the Bonds and the facilities financed or refinanced with proceeds of the Bonds, limitations on investing gross proceeds of the Bonds in higher yielding investments in certain circumstances, and the requirement to comply with the arbitrage rebate requirement to the extent applicable to the Bonds. The City has covenanted in the Bond Ordinance to comply with those requirements, but if the City fails to comply with those requirements, interest on the Bonds could become taxable retroactive to the date of issuance of the Bonds. Bond Counsel has not undertaken and does not undertake to monitor the City's compliance with such requirements.

Corporate Alternative Minimum Tax. While interest on the Bonds also is not an item of tax preference for purposes of the alternative minimum tax applicable to corporations, under Section 55 of the Code, tax-exempt interest, including interest on the Bonds, received by corporations is taken into account in the computation of adjusted current earnings for purposes of the alternative minimum tax applicable to corporations (as defined for federal income tax purposes). Under the Code, alternative minimum taxable income of a corporation will be increased by 75 percent of the excess of the corporation's adjusted current earnings (including any tax-exempt interest) over the corporation's alternative minimum taxable income determined without regard to such increase. A corporation's alternative minimum taxable income, so computed, that is in excess of an exemption of $40,000, which exemption will be reduced (but not below zero) by 25 percent of the amount by which the corporation's alternative minimum taxable income exceeds $150,000, is then subject to a 20 percent minimum tax.

A small business corporation is exempt from the corporate alternative minimum tax for any taxable year beginning after December 31, 1997, if its average annual gross receipts during the three-taxable-year period beginning after December 31, 1993, did not exceed $5,000,000, and its average annual gross receipts during each successive three-taxable-year period thereafter ending before the relevant taxable year did not exceed $7,500,000.

Tax on Certain Passive Investment Income of S Corporations. Under Section 1375 of the Code, certain excess net passive investment income, including interest on the Bonds, received by an S corporation (a corporation treated as a partnership for most federal tax purposes) that has Subchapter C earnings and profits at the close of the taxable year may be subject to federal income taxation at the highest rate applicable to corporations if more than 25 percent of the gross receipts of such S corporation is passive investment income.

Foreign Branch Profits Tax. Interest on the Bonds may be subject to the foreign branch profits tax imposed by Section 884 of the Code when the Bonds are owned by, and effectively connected with a trade or business of, a United States branch of a foreign corporation.

Possible Consequences of Tax Compliance Audit. The Internal Revenue Service (the "IRS") has established a general audit program to determine whether issuers of tax-exempt obligations, such as the Bonds, are in compliance with requirements of the Code that must be satisfied in order for interest on those obligations to be, and continue to be, excluded from gross income for federal income tax purposes. Bond Counsel cannot predict whether the IRS would commence an audit of the Bonds. Depending on all the facts and circumstances and the type of audit involved, it is possible that commencement of an audit of the Bonds could adversely affect the market value and liquidity of the Bonds until the audit is concluded, regardless of its ultimate outcome.

Certain Other Federal Tax Consequences of Ownership of the Bonds

Bonds Not "Qualified Tax-Exempt Obligations" for Financial Institutions. Section 265 of the Code provides that 100 percent of any interest expense incurred by banks and other financial institutions for interest allocable to tax-exempt obligations acquired after August 7, 1986, will be disallowed as a tax deduction. However, if the tax-exempt obligations are obligations other than private activity bonds, are issued by a governmental unit that, together with all entities subordinate to it, does not reasonably anticipate issuing more than $10,000,000 of tax-exempt obligations (other than private activity bonds and other obligations not required to be included in such calculation) in the current calendar year, and are designated by the governmental unit as "qualified tax-exempt obligations," only 20 percent of any interest expense deduction allocable to those obligations will be disallowed.

The City is a governmental unit that, together with all subordinate entities, reasonably anticipates issuing more than $10,000,000 of tax-exempt obligations (other than private activity bonds and other obligations not required to be included in such calculation) during the current calendar year, and has not designated the Bonds as "qualified tax exempt obligations" for purposes of the 80 percent financial institution interest expense deduction. Therefore, no interest expense of a financial institution allocable to the Bonds is deductible for federal income tax purposes.

Reduction of Loss Reserve Deductions for Property and Casualty Insurance Companies. Under Section 832 of the Code, interest on the Bonds received by property and casualty insurance companies will reduce tax deductions for loss reserves otherwise available to such companies by an amount equal to 15 percent of tax-exempt interest received during the taxable year.

Effect on Certain Social Security and Retirement Benefits. Section 86 of the Code requires recipients of certain Social Security and certain Railroad Retirement benefits to take receipts or accruals of interest on the Bonds into account in determining gross income.

Other Possible Federal Tax Consequences. Receipt of interest on the Bonds may have other federal tax consequences as to which prospective purchasers of the Bonds may wish to consult their own tax advisors.

Potential Future Federal Tax Law Changes. From time to time there are legislative proposals in Congress which, if enacted into law, could adversely affect the tax treatment, market value or the marketability of the Bonds. It cannot be predicted whether future legislation may be proposed or enacted that would affect the federal tax treatment of interest received on the Bonds. Prospective purchasers of the Bonds should consult with their own tax advisors regarding the potential impact of any pending or proposed legislation that would change the federal tax treatment of interest on the Bonds.

Original Issue Discount. The Bonds maturing in 2026, and 2029 through 2035, inclusive, have been sold at prices reflecting original issue discount ("Discount Bonds"). Under existing law, the original issue discount in the selling price of each Discount Bond, to the extent properly allocable to each owner of such Discount Bond, is excluded from gross income for federal income tax purposes with respect to such owner. The original issue discount is the excess of the stated redemption price at maturity of such Discount Bond over the initial offering price to the public, excluding underwriters and other intermediaries, at which price a substantial amount of the Discount Bonds of such maturity were sold.

Under Section 1288 of the Code, original issue discount on tax-exempt Bonds accrues on a compound basis. The amount of original issue discount that accrues to an owner of a Discount Bond during any accrual period generally equals (i) the issue price of such Discount Bond plus the amount of original issue discount accrued in all prior accrual periods, multiplied by (ii) the yield to maturity of such Discount Bond (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period), less (iii) any interest payable on such Discount Bond during such accrual period. The amount of original issue discount so accrued in a particular accrual period will be considered to be received ratably on each day of the accrual period, will be excluded from gross income for federal income tax purposes, and will increase the owner's tax basis in such Discount Bond. Any gain realized by an owner from a sale, exchange, payment or redemption of a Discount Bond will be treated as gain from the sale or exchange of such Discount Bond.

Owners who purchase Discount Bonds in the initial public offering but at a price different from the first offering price at which a substantial amount of those Discount Bonds were sold to the public, or who do not purchase Discount Bonds in the initial public offering, should consult their own tax advisors with respect to the tax consequences of the ownership of such Discount Bonds. Owners of Discount Bonds who sell or otherwise dispose of such Discount Bonds prior to maturity should consult their own tax advisors with respect to the amount of original issue discount accrued over the period such Discount Bonds have been held and the amount of taxable gain or loss to be recognized upon that sale or other disposition of Discount Bonds. Owners of Discount Bonds also should consult their own tax advisors with respect to state and local tax consequences of owning such Discount Bonds.

Original Issue Premium. The Bonds maturing in 2016 through 2025, inclusive, and 2027 through 2028, inclusive, have been sold at prices reflecting original issue premium ("Premium Bonds"). An amount equal to the excess of the purchase price of a Premium Bond over its stated redemption price at maturity constitutes premium on such Premium Bond. A purchaser of a Premium Bond must amortize any premium over such Premium Bond's term using constant yield principles, based on the purchaser's yield to maturity. As premium is amortized, the purchaser's basis in such Premium Bond is reduced by a corresponding amount, resulting in an increase in the gain (or decrease in the loss) to be recognized for federal income tax purposes upon a sale or disposition of such Premium Bond prior to its maturity. Even though the purchaser's basis is reduced, no federal income tax deduction is allowed. Purchasers of Premium Bonds, whether at the time of initial issuance or subsequent thereto, should consult with their own tax advisors with respect to the determination and treatment of premium for federal income tax purposes and with respect to state and local tax consequences of owning such Premium Bonds.

CONTINUING DISCLOSURE UNDERTAKING

To meet the requirements of paragraph (b)(5) of United States Securities and Exchange Commission ("SEC") Rule 15c2-12 ("Rule 15c2-12"), as applicable to a participating underwriter for the Bonds, the City will undertake (the "Undertaking") for the benefit of holders of the Bonds to provide or cause to be provided, either directly or through a designated agent, to the Municipal Securities Rulemaking Board ("MSRB"), in an electronic format as prescribed by the MSRB, accompanied by identifying information as prescribed by the MSRB: (a) annual financial information and operating data of the type include in this Official Statement as general described below ("annual financial information"); and (b) timely notice (not in excess of ten business days after the occurrence of the event) of the occurrence of any of the following events with respect to the Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notice of Proposed Issue (IRS Form 5701 – TEB) or other material notices or determinations with respect to the tax status of the Bonds; (7) modifications to rights of holders of the Bonds, if material; (8) Bond calls (other than scheduled mandatory redemptions of Term Bonds), if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership or similar event of the City, as such "Bankruptcy Events" are defined in Rule 15c2-12; (13) the consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of the assets of the City, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and (14) appointment of a successor or additional trustee or the change of name of a trustee, if material.

The City also will provide to the MSRB timely notice of a failure by the City to provide required annual financial information on or before the date specified below.

Type of Annual Financial Information Undertaken to be Provided. The annual financial information that the City undertakes to provide will consist of (i) annual financial statements prepared (except as noted in the financial statements) in accordance with generally accepted accounting principles applicable to local governmental units of the State such as the City, as such principles may be changed from time to time, which statements may be unaudited, provided, that if and when audited financial statements are prepared and available they will be provided; (ii) a statement of authorized, issued and outstanding bonded debt secured by the Net Revenue; (iii) debt service coverage ratios; (iv) general utility customer statistics of the type included in the Official Statement under the heading "The Utility System; and will be provided to the MSRB not later than the last day of the ninth month after the end of each fiscal year of the City (currently, a fiscal year ending December 31), as such fiscal year may be changed as required or permitted by State law, commencing with the City's fiscal year ending December 31, 2015.

The annual financial information may be provided in a single or multiple documents, and may be incorporated by specific reference to documents available to the public on the Internet website of the MSRB or filed with the SEC.

Amendment of Undertaking. The Undertaking is subject to amendment after the primary offering of the Bonds without the consent of any holder of any Bond, or of any broker, dealer, municipal securities dealer, participating underwriter, rating agency or the MSRB, under the circumstances and in the manner permitted by Rule 15c2-12.

The City will give notice to the MSRB of the substance (or provide a copy) of any amendment to the Undertaking and a brief statement of the reasons for the amendment. If the amendment changes the type of annual financial information to be provided, the annual financial information containing the amended financial information will include a narrative explanation of the effect of that change on the type of information to be provided.

Termination of Undertaking. The City's obligations under the Undertaking will terminate upon the legal defeasance of all of the Bonds. In addition, the City's obligations under the Undertaking will terminate if those provisions of Rule 15c2-12 which require the City to comply with the Undertaking become legally inapplicable in respect of the Bonds for any reason, as confirmed by an opinion of nationally recognized bond counsel or other counsel familiar with federal securities laws delivered to the City, and the City provides timely notice of such termination to the MSRB.

Remedy for Failure to Comply with Undertaking. If the City or any other obligated person fails to comply with the Undertaking, the City will proceed with due diligence to cause such noncompliance to be corrected as soon as practicable after the City learns of that failure. No failure by the City or other obligated person to comply with the Undertaking will constitute a default in respect of the Bonds. The sole remedy of any holder of a Bond will be to take such actions as that holder deems necessary, including seeking an order of specific performance from an appropriate court, to compel the City or other obligated person to comply with the Undertaking.

Compliance with Continuing Disclosure Obligations. The City has entered into prior undertakings under Rule 15c2-12 with respect to its obligations (the "Prior Undertakings"). In the past five years the City failed to: (1) timely file annual financial statements for fiscal years 2010 and 2011; (2) timely file certain operating data for fiscal years 2010 through 2013, inclusive, in accordance with certain of the City's Prior Undertakings; and (3) timely file notice of certain rating changes. The City filed event notices with respect to these items in March 2015.

CERTAIN INVESTMENT CONSIDERATIONS

Limitations on Remedies; Bankruptcy

Any remedies available to the owners of the Bonds upon the occurrence of an event of default under the Bond Ordinance are in many respects dependent upon judicial actions, which are in turn often subject to discretion and delay and could be both expensive and time consuming to obtain. If the City fails to comply with its covenants under the Bond Ordinance or to pay principal of or interest on the Bonds, there can be no assurance that available remedies will be adequate to fully protect the interests of the owners of the Bonds.

In addition to the limitations on remedies contained in State law, the rights and obligations under the Bonds and the Bond Ordinance may be limited by and are subject to bankruptcy, insolvency, reorganization, fraudulent conveyance, moratorium, and other laws relating to or affecting creditors' rights, to the application of equitable principles, and to the exercise of judicial discretion in appropriate cases.

The legal opinion of Bond Counsel regarding the validity of the Bonds will be qualified by reference to bankruptcy, reorganization, insolvency, fraudulent conveyance, moratorium and other similar laws affecting the rights of creditors generally, and by general principles of equity.

A municipality such as the City must be specifically authorized under state law in order to seek relief under Chapter 9 of the U.S. Bankruptcy Code (the "Bankruptcy Code"). Chapter 39.64 RCW, entitled the "Taxing District Relief Act," permits any "taxing district" (defined to include any municipality or political subdivision, including cities) to voluntarily petition for relief under the Bankruptcy Code. A creditor cannot bring an involuntarily bankruptcy proceeding against a municipality, including the City. Under chapter 9, a federal bankruptcy court may not appoint a receiver for a municipality or order the dissolution or liquidation of the municipality. The federal bankruptcy courts have some discretionary powers under the Bankruptcy Code.

Initiatives and Referenda

Under the State Constitution, the voters of the State have the ability to initiate legislation and require the State Legislature to refer legislation to the voters through the power of initiative and referendum, respectively. The initiative power in the State may not be used to amend the State Constitution. Initiatives and referenda are submitted to the voters upon receipt of petitions signed by at least 8 percent (initiatives) and 4 percent (referenda) of the number of voters registered and voting for the office of Governor at the preceding regular gubernatorial election. Any law approved in this manner by a majority of voters may not be amended or repealed by the State Legislature within a period of two years following enactment, except by a vote of two–thirds of all the members elected to each house of the State Legislature. After two years, the law is subject to amendment or repeal by the Legislature in the same manner as other laws.

In recent years there has been an increase in the number of initiatives and referenda filed in the State, including initiatives affecting the powers of local jurisdictions. The City cannot predict whether this trend will continue, whether any filed initiatives will receive the requisite signatures to be certified to the ballot, and whether such initiatives will be approved by the voters and, if challenged, upheld by the courts.

RATING

As noted on the cover page of this Official Statement, the Bonds have been rated "AA" by Standard & Poor's Ratings Services ("S&P"). The rating was applied for by the City and certain information was supplied by the City to S&P to be considered in evaluating the Bonds. The rating reflects only the view of the rating agency and an explanation of the significance of the rating may be obtained from S&P. There is no assurance that the rating will be retained for any given period of time or that it will not be revised downward, suspended or withdrawn entirely by the rating agency if, in the judgment of the agency, circumstances so warrant. Any such downward revision or withdrawal of the rating would likely have an adverse effect on the market price of the Bonds.

LITIGATION

There is no litigation pending or threatened questioning the validity of the Bonds nor the power and authority of the City to issue the Bonds. There is no litigation pending or threatened which would materially affect the City's ability to meet debt service requirements on the Bonds. Because of the nature of its activities, the City is subject to certain pending legal actions which arise in the ordinary course of business. Based on the information presently known, the City believes that the ultimate liability for any of such legal actions will not be material to the financial position of the City or the System.

APPROVAL OF COUNSEL

Legal matters incident to the authorization, issuance, and sale of the Bonds by the City are subject to the approving legal opinion of Foster Pepper PLLC, Seattle, Washington, Bond Counsel. The form of the opinion of Bond Counsel with respect to the Bonds is attached as Appendix B. The opinion of Bond Counsel is given based on factual representations made to Bond Counsel, and under existing law, as of the date of initial delivery of the Bonds, and Bond Counsel assumes no obligation to revise or supplement its opinion to reflect any facts or circumstances that may thereafter come to its attention, or any changes in law that may thereafter occur. The opinion of Bond Counsel is an expression of its professional judgment on the matters expressly addressed in its opinion and does not constitute a guarantee of result.

CONFLICTS OF INTEREST

Some or all of the fees of the Financial Advisor and Bond Counsel are contingent upon the issuance and sale of the Bonds.

FINANCIAL ADVISOR

Public Financial Management, Inc. has served as financial advisor to the City relative to the preparation of the Bonds for sale, timing of the sale and other factors relating to the Bonds. The financial advisor has not audited, authenticated or otherwise verified the information set forth in this Official Statement or other information provided relative to the Bonds. Public Financial Management makes no guaranty, warranty or other representation on any matter related to the information contained in the Official Statement. The financial advisor is an independent financial advisory firm and is not engaged in the business of underwriting, marketing, trading or distributing municipal securities.

UNDERWRITING

The Bonds are being purchased by Fidelity Capital Markets (the "Underwriter"), at a price of $25,384,084.43. The Bonds will be re-offered at a price of $25,620,953.20. The Underwriter may offer and sell the Bonds to certain dealers (including dealers depositing Bonds into investment trusts) and others at prices lower than the initial offering prices set forth on cover hereof, and such initial offering prices may be changed from time to time by the Underwriter. After the initial public offering, the public offering prices may be varied from time to time.

OFFICIAL STATEMENT

At the time of delivery of the Bonds, one or more officials of the City will furnish a certificate stating that to the best of his, her or their knowledge this Official Statement, as of its date and as of the date of delivery of the Bonds, does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements contained herein, in light of the circumstances under which they were made, not misleading.

The execution and distribution of this Official Statement has been authorized by the City.

CITY OF LYNNWOOD, WASHINGTON

By: /s/Nicola Smith

Nicola Smith, Mayor

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APPENDIX A
CERTAIN DEFINITIONS FROM THE BOND ORDINANCE

Certain terms used in this Official Statement that are not specifically defined herein have the meanings as set forth in the Bond Ordinance. The following terms shall have the following meanings in this Official Statement as defined in the Bond Ordinance:

"Annual Debt Service" means, for any calendar year, with respect to all Parity Bonds outstanding or maturing in that year, all amounts required to be paid in that year in respect of principal of and interest on those Parity Bonds.

"Average Annual Debt Service" means, as of its date of calculation, the sum of Annual Debt Service with respect to all Parity Bonds outstanding (including all Parity Bonds maturing in the calendar year of calculation) for all calendar years during which those Parity Bonds are scheduled to remain outstanding, divided by the number of those calendar years (without regard to bond years).

"Authorized Denomination" means $5,000 or any integral multiple thereof within a maturity.

"Beneficial Owner" means the owner of any beneficial interest in the Bonds.

"2008 Bonds" means the Utility System Improvement and Refunding Revenue Bonds, 2008, of the City authorized by and issued pursuant to Ordinance No. 2718.

"2010 Bonds" means the Utility System Revenue Bonds, 2010, of the City authorized by and issued pursuant to Ordinance No. 2856.

"Bond Counsel" means the firm of Foster Pepper PLLC, its successor, or any other attorney or firm of attorneys selected by the City with a nationally recognized standing as bond counsel in the field of municipal finance.

"Bond Fund" means the special fund, known as the "Utility System Bond Fund," created and established in the office of the Finance Director for the purpose of paying and securing principal of and interest on the Parity Bonds.

"Bond Register" means the books or records maintained by the Bond Registrar for the purpose of identifying ownership of each Parity Bond.

"Bond Registrar" means the Fiscal Agent, or any successor bond registrar selected by the City.

"City" means the City of Lynnwood, Washington, a municipal corporation duly organized and existing under the laws of the State.

"City Council" means the legislative authority of the City, as duly and regularly constituted from time to time.

"Code" means the United States Internal Revenue Code of 1986, as amended, and applicable rules and regulations promulgated thereunder.

"Coverage Requirement" means that, for any calendar year, Net Revenue in that calendar year, plus all ULID Assessments collected in that year, plus all amounts on deposit in the Principal and Interest Account on the last business day prior to the commencement of that calendar year, shall be equal to at least 1.25 times the Average Annual Debt Service on all outstanding Parity Bonds.

"DTC" means The Depository Trust Company, New York, New York, or its nominee.

"Designated Representative" means the officer of the City appointed in the Bond Ordinance to serve as the City's designated representative in accordance with RCW 39.46.040(2).

"Finance Officer" means the Finance Director or such other officer of the City who succeeds to substantially all of the responsibilities of that office.

"Fiscal Agent" means the fiscal agent of the State, as the same may be designated by the State from time to time.

"Future Parity Bonds" means all revenue bonds and other obligations of the City for borrowed money (including, without limitation, financing leases) issued or incurred after the date of the issuance of the Bonds, the payment of which constitutes a lien and charge on the Net Revenue and ULID Assessments equal in rank with the lien and charge upon such revenue and assessments required to be paid into the Bond Fund to pay and secure the payment of the principal of and interest on the Bonds and the Outstanding Parity Bonds.

"Government Obligations" has the meaning given in RCW 39.53.010, as now in effect or as may hereafter be amended.

"Gross Revenue" means all of the earnings and revenues received by the City from the maintenance and operation of the System from any source whatsoever, including but not limited to: revenues from the sale, lease or furnishing of commodities, services, properties or facilities; all earnings from the investment of money in the Bond Fund, which earnings are deposited into the Principal and Interest Account; earnings from the investment of money in any maintenance fund or similar fund; all connection and capital improvement charges collected for the purpose of defraying the cost of capital facilities of the System; and withdrawals from the Rate Stabilization Fund. However, the Gross Revenue shall not include: (a) revenues from general ad valorem taxes; (b) principal proceeds of Parity Bonds or any other borrowings, or earnings or proceeds from any investments in a trust, defeasance or escrow fund created to defease or refund obligations relating to the System (until commingled with other earnings and revenues included in the Gross Revenue) or held in a special account for the purpose of paying a rebate to the United States Government under the Code; (c) income and revenue which may not legally be pledged for revenue bond debt service; (d) improvement district assessments; (e) federal or state grants, and gifts from any source, allocated to capital projects; (f) payments under bond insurance or other credit enhancement policy or device; (g) insurance or condemnation proceeds used for the replacement of capital projects or equipment; (h) proceeds from the sale of System property; (i) earnings in any construction fund or bond redemption fund; (j) deposits to the Rate Stabilization Fund; or (k) revenue from any Separate System.

"Independent Utility Consultant" means a professional consultant experienced with municipal utilities of comparable size and character to the System.

"Insurer" means, for the 2008 Bonds, Assured Guaranty Municipal Corp. (formerly known as Financial Security Assurance Inc.), a New York stock insurance company, or any successor thereto or assignee thereof, and for any Future Parity Bonds any provider of bond insurance approved by the City Council by ordinance.

"Issue Date" means, with respect to a Bond, the date of initial issuance and delivery of that Bond to the Purchaser in exchange for the purchase price of that Bond.

"Letter of Representations" means the Blanket Issuer Letter of Representations between the City and DTC, dated November 25, 1996, as it may be amended from time to time, and any successor or substitute letter relating to the operational procedures of the Securities Depository.

"Maximum Annual Debt Service" means, as of the date of calculation, the maximum amount of Annual Debt Service that will mature or come due in the current calendar year or any future calendar year with respect to all outstanding Parity Bonds.

"MSRB" means the Municipal Securities Rulemaking Board.

"Net Revenue" for any calendar year means the Gross Revenue for that calendar year less Operations and Maintenance Costs for that calendar year. In calculating Net Revenue, the City shall not take into account any non-cash gains or losses with respect to any real or personal property, investment or agreement that it may be required to recognize under generally accepted accounting principles, such as unrealized mark-to-market gains and losses.

"Note" means the City's Utility System Revenue Bond Anticipation Note, 2015, issued to provide interim financing for part of the cost of the Plan of Additions.

"Operations and Maintenance Costs" means all reasonable expenses incurred by the City in causing the System to be operated and maintained in good repair, working order and condition, including without limitation payments of premiums for insurance on the System; costs incurred in connection with the acquisition of water or the securing of water rights; payments to any public or private entity for water service, sewage treatment and disposal service or other utility service in the event that the City combines such service into the combined utility system and enters into a contract for such service, including pro rata budget allocations or charges for the City's administration expenses where those represent a reasonable distribution and share of actual costs; and any State-imposed taxes. Operations and Maintenance Costs shall exclude depreciation, taxes levied or imposed by the City, payments-in-lieu-of-taxes paid to the City, capital additions and capital replacements to the System.

"Outstanding Parity Bonds" means the 2008 Bonds and the 2010 Bonds.

"Owner" means, without distinction, the Registered Owner and the Beneficial Owner.

“Parity Bonds” means the Outstanding Parity Bonds, the Bonds and any Future Parity Bonds.

“Parity Conditions” means the conditions for the issuance of Future Parity Bonds set forth in the Bond Ordinance.

“Permitted Investments” means investments that are legal investments for the City at the time of such investment.

“Plan of Additions” means the system or plan of additions and improvements to and betterments and extensions of the System specified in Exhibit A to the Bond Ordinance and incorporated by reference.

“Principal and Interest Account” means the account of that name created in the Bond Fund for the purpose of securing the payment of the principal of and interest on the Parity Bonds.

“Rating Agency” means any nationally recognized rating agency then maintaining a rating on any of the Parity Bonds at the request of the City.

“Record Date” means the Bond Registrar’s close of business on the 15th day of the month preceding an interest payment date. With respect to redemption of a Bond prior to its maturity, the Record Date shall mean the Bond Registrar’s close of business on the date on which the Bond Registrar sends the notice of redemption in accordance with the Bond Ordinance.

“Registered Owner” means, with respect to a Parity Bond, the person in whose name that Parity Bond is registered on the Bond Register. For so long as the City utilizes the book-entry only system for the Parity Bonds under the Letter of Representations, Registered Owner shall mean the Securities Depository.

“Reserve Account” means the account of that name created in the Bond Fund for the purpose of securing the payment of the principal of and interest on the Parity Bonds.

“Reserve Requirement” means, as of any date of calculation, the lesser of Maximum Annual Debt Service on the outstanding Parity Bonds secured by the Reserve Account or 125% of Average Annual Debt Service on the outstanding Parity Bonds secured by the Reserve Account, but at no time shall the Reserve Requirement exceed 10% of the original proceeds of the Parity Bonds secured by the Reserve Account.

“Reserve Security” means any bond insurance, security, letter of credit, guaranty, surety bond or similar credit enhancement device providing for or securing the payment of all or part of the principal of and interest on the Parity Bonds, issued by an institution which has been assigned a credit rating at the time of issuance of the device in one of the two highest rating categories of each of at least two Rating Agencies (without regard to any gradations within a rating category).

“Rule 15c2-12” means Rule 15c2-12 promulgated by the SEC under the Securities Exchange Act of 1934, as amended.

“SEC” means the United States Securities and Exchange Commission.

“Securities Depository” means DTC, any successor thereto, any substitute securities depository selected by the City that is qualified under applicable laws and regulations to provide the services proposed to be provided by it, or the nominee of any of the foregoing.

“Separate System” means any water supply, sewage collection or treatment, stormwater or other utility service or facilities that may be created, acquired or constructed by the City as provided in the Bond Ordinance.

“Significant Wholesale Customer” means any person, firm, corporation or municipal corporation under any executed contract for water or other utility service, the revenue from which contract comprises 10% or more of the overall Gross Revenue of the System.

“State” means the State of Washington.

“System” means, for so long as any of the Parity Bonds are outstanding: (a) the combined waterworks system, system of sewerage and surface water system and all additions thereto and betterments and extensions thereof at any time made; and (b) any other system or utility that may lawfully be combined with the foregoing. The System shall not include any Separate System of the City.

“System of Registration” means the system of registration for the City’s bonds and other obligations set forth in Ordinance No. 810 of the City.

“Term Bond” means each Bond designated as a Term Bond and subject to mandatory redemption prior to their scheduled maturity date or dates.

"ULID" means utility local improvement district.

"ULID Assessments" means all ULID assessments and installments thereof, plus interest and penalties thereon, in any ULID created to finance improvements to the System and to secure the payment of any Parity Bonds.

"Undertaking" means the undertaking to provide continuing disclosure entered into pursuant to the Bond Ordinance.

"Utility Construction Fund" means the fund or account of that name created and established in the Water Fund.

APPENDIX B
FORM OF OPINION OF BOND COUNSEL

[FORM OF BOND COUNSEL OPINION]

City of Lynnwood, Washington

Re: City of Lynnwood, Washington, $24,075,000
Utility System Revenue Bonds, 2015

We have served as bond counsel to the City of Lynnwood, Washington (the “City”), in connection with the issuance of the above-referenced bonds (the “Bonds”), and in that capacity have examined such law and such certified proceedings and other documents as we have deemed necessary to render this opinion. As to matters of fact material to this opinion, we have relied upon representations contained in the certified proceedings and other certifications of public officials furnished to us, without undertaking to verify the same by independent investigation.

The Bonds are issued by the City pursuant to Ordinance No. 3141 (the “Bond Ordinance”) to provide funds to (i) redeem the City’s Utility System Bond Anticipation Revenue Note, 2015, (ii) carry out a portion of the Plan of Additions, (iii) fund a portion of the reserve, and (iv) pay the costs of issuance and sale of the Bonds, all as set forth in the Bond Ordinance.

Reference is made to the Bonds and the Bond Ordinance for the definitions of capitalized terms used and not otherwise defined herein.

We express no opinion herein concerning the completeness or accuracy of any official statement, offering circular or other sales or disclosure material relating to the issuance of the Bonds or otherwise used in connection with the Bonds.

Under the Internal Revenue Code of 1986, as amended (the “Code”), the City is required to comply with certain requirements after the date of issuance of the Bonds in order to maintain the exclusion of the interest on the Bonds from gross income for federal income tax purposes, including, without limitation, requirements concerning the qualified use of Bond proceeds and the facilities financed or refinanced with Bond proceeds, limitations on investing gross proceeds of the Bonds in higher yielding investments in certain circumstances and the arbitrage rebate requirement to the extent applicable to the Bonds. The City has covenanted in the Bond Ordinance to comply with those requirements, but if the City fails to comply with those requirements, interest on the Bonds could become taxable retroactive to the date of issuance of the Bonds. We have not undertaken and do not undertake to monitor the City’s compliance with such requirements.

Based upon the foregoing, as of the date of initial delivery of the Bonds to the purchaser thereof and full payment therefor, it is our opinion that under existing law:

1. The City is a duly organized and legally existing code city under the laws of the State of Washington;

2. The Bonds have been duly authorized and executed by the City and are issued in full compliance with the provisions of the Constitution and laws of the State of Washington and the ordinances of the City relating thereto;

3. The Bonds constitute valid and binding obligations of the City payable solely out of ULID Assessments and Net Revenue to be paid into the Bond Fund, except only to the extent that enforcement of payment may be limited by bankruptcy, insolvency or other laws affecting creditors’ rights and by the application of equitable principles and the exercise of judicial discretion in appropriate cases;

4. The Bonds are not general obligations of the City; and

5. Assuming compliance by the City after the date of issuance of the Bonds with applicable requirements of the Code, the interest on the Bonds is excluded from gross income for federal income tax

purposes and is not an item of tax preference for purposes of the alternative minimum tax applicable to individuals; however, while interest on the Bonds also is not an item of tax preference for purposes of the alternative minimum tax applicable to corporations, interest on the Bonds received by corporations is to be taken into account in the computation of adjusted current earnings for purposes of the alternative minimum tax applicable to corporations, interest on the Bonds received by certain S corporations may be subject to tax, and interest on the Bonds received by foreign corporations with United States branches may be subject to a foreign branch profits tax. We express no opinion regarding any other federal tax consequences of receipt of interest on the Bonds.

This opinion is given as of the date hereof, and we assume no obligation to revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention, or any changes in law that may hereafter occur.

We bring to your attention the fact that the foregoing opinions are expressions of our professional judgment on the matters expressly addressed and do not constitute guarantees of result.

Respectfully submitted,
FOSTER PEPPER PLLC

Washington State Auditor's Office

Independence • Respect • Integrity

Financial Statements and Federal Single Audit Report

City of Lynnwood

Snohomish County

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

Published September 30, 2015

Report No. 1015238

Washington State Auditor's Office

September 30, 2015

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,

JAN M. JUTTE, CPA, CGFM

ACTING STATE AUDITOR

OLYMPIA, WA

TABLE OF CONTENTS

FEDERAL SUMMARY

City of Lynnwood
Snohomish County
January 1, 2014 through December 31, 2014

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

Financial Statements

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

Internal Control Over Financial Reporting:

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

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

Federal Awards

Internal Control Over Major Programs:

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

We issued an unmodified opinion on the City's compliance with requirements applicable to its major federal program.

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

Identification of Major Programs:

The following was a major program during the period under audit:

CFDA No.	Program Title
20.205	Highway Planning and Construction Cluster - Highway Planning and Construction

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

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

City of Lynnwood
Snohomish County
January 1, 2014 through December 31, 2014

2014-001 The City's internal controls over accounting and financial reporting are not adequate to ensure the financial statements are accurate and complete.

Background

It is the responsibility of City management to design and follow internal controls that provide reasonable assurance regarding the reliability of financial reporting. In each of our eight previous audits, we have identified and communicated deficiencies in controls that adversely affect the City's ability to produce reliable financial statements.

In 2014, the City started to implement a new Enterprise Resource Planning (ERP) system. This process required the City to devote significant staff time and resources to implement the new system. The transition involves converting and transferring financial data from the City's old system financial system to the new financial system. For 2014 financial reporting, the City converted its general ledger, accounts payable system, fixed (capital) assets - fixed assets were not previously in the financial system, but rather were in excel spreadsheets or an Asset Management System, (budget, and implemented a new Comprehensive Annual Financial Report (CAFR) program.

The conversion process will continue through 2015 and into 2016 as the City converts payroll, accounts receivable, and utility billing from the old to new system.

Description of Condition

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

- The City has known its capital asset system contains errors, which is one of the reasons it converted the data from the Asset Management System to the new system; however, the City did not perform a full inventory of the data being converted to ensure it was accurate and free from errors.

- Staff responsible for maintaining accounting records and preparing the financial statements did not reconcile the accounting records on a regular basis to ensure the accounting records and financial statements were accurate.

- The City hired an external certified public accounting (CPA) firm to review its financial statements and proposed corrections; however, staff did not fully research the proposed entries to ensure the transactions were accurate and valid.

- Staff responsible for recording transactions, including complex transactions, in accordance with the modified accrual basis of accounting did not always ensure that transactions met the modified accrual basis revenue recognition criteria.

- Although the City has procedures to perform a final review of the prepared financial statements, the review was not adequate to ensure errors were detected and corrected prior to audit.

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

- Staff responsible for implementing new accounting standards and changes in presentation of previous accounting standards did not ensure the standards were fully implemented.

Cause of Condition

In 2014 the City started the process of converting its accounting systems. The City chose to focus staff time and resources on the conversion process which did not leave sufficient resources available to focus on accounting and financial reporting. In addition, the City continues to not dedicate sufficient time and resources overall to ensuring its accounting records are accurate, properly researched and appropriate.

Further, the City experienced turnover in key accounting positions including its finance director and accounting manager positions. The finance director position was vacated in November 2014 and not permanently filled until June 2015. The accounting manager position was vacated in July 2015 as the City was preparing its Comprehensive Annual Financial Report (CAFR).

Effect of Condition

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

The following material and significant errors were not detected by the City, but were identified during the audit:

- The City improperly reported the donation of a right-of-way totaling \$2,530,400 as a revenue and expenditure in its 33rd Avenue West Extension Capital Projects Fund. This fund is reported using the modified accrual basis which does not report donations of capital asset as revenues. Since the City also reported a corresponding expenditure even though no City funds were expended, there was no net effect on fund balance. The City corrected this error.

- The City recognized revenues in its General Fund for its accounts receivable balance related to its court and red light cameras in the current period even though the majority of the revenues, which we estimated to be \$3,602,805, were not expected to be collected within 60 days of year end. As these revenues were not expected to be collected within 60 days of year end, the revenues are not considered to be available and should not be recognized in the current period in accordance with the City's revenue recognition policy for the modified accrual basis of accounting. Instead the City should have reported a deferred inflow of resources in this amount to delay recognition of the revenues to the appropriate accounting period. The City corrected this error.

- The City continued to report an asset "Signal 196th ST SW" which is owned by another government along with other associated traffic signal upgrades that we communicated in the prior audit that we were unable to verify existed at year-end. This resulted in other improvements for Governmental Activities being overstated by \$353,362.

- The City did not ensure its general ledger and financial statements agreed with its fixed asset system resulting in errors for several accounts including understating depreciation expense for the Water and Sewer Utility Fund by \$650,082, understating Machinery and Equipment for Governmental Activities by \$456,879, overstating Construction in Progress for Governmental Activities by \$2,473,497, and understating Other Improvements for Governmental Activities by \$1,572,150. The City corrected this error.

- The City included $2,281,476 of assets as construction in progress in Governmental Activities that were no longer in progress and should have been reclassified into a depreciable asset balance. The City corrected this error.

- The City double reported revenues and receivables related to its special assessment debt totaling $1,815,060 in Governmental Activities even though the revenues had been previously recognized when special assessment was originally created in 1999 as a result of a proposal from the City's external CPA reviewer. The City corrected this error.

- The City overstated its prior period adjustment totaling $2,560,510 in Governmental Activities by not ensuring the amount recorded in general ledger agreed to supporting documentation. The City corrected this error.

- The City did not ensure that its government-wide statement of activities change in net position for Business-Type Activities agreed with the change in net position reported in its Proprietary Funds Statement of Revenues, Expenses, and Change in Net Position total column. This resulted in a difference of $669,159. Further, the City did not ensure the prior period adjustment totaling $1,635,400 reported in the Proprietary Funds Statement of Revenues, Expenses, and Change in Net Position was reported on the government-wide statement of activities. The City corrected this error.

- The City did not present the details of its fund balance in its Notes to the Financial Statements in accordance with Governmental Accounting Standards Board (GASB) Statement No. 54. In previous years, the City had presented this detail on the face of its statements; however, in the current year this information was presented in the aggregate requiring a note disclosure of the details. The City corrected this error.

- The City did not fully implement Governmental Accounting Standards Board Statement (GASB) Statement No. 67 which required additional schedules in the required supplementary information that were not presented. The City corrected this error.

We identified numerous additional, less significant errors in the financial statements and the notes to the financial statements.

Recommendation

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

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

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

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

- Ensuring that accounting records are reconciled on a regular basis to ensure accuracy.

- Ensuring accounting standards are fully researched and properly implemented in accordance with Governmental Accounting Standards Board Statements.

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

City's Response

As described in the "Cause of Condition" the City converted to a new financial management system in July 2014. This required not only an extreme amount of work for the staff, but it also required converting data and reporting from two different systems. Unfortunately the time and resources involved with the system conversion did not leave the staff with enough time to incorporate the proper procedures necessary to reconcile and review the financial statement for errors and GASB compliance.

One of the key modules of the new system was a CAFR program that generated a CAFR report. This is a very complex system and the reports contained material errors when originally submitted to the Auditors. After the errors were found, they were corrected in the final financial statements. Corrections have been made in the Munis CAFR program to eliminate future reporting errors.

The City plans to devote more staffing and training to the new Munis Capital Asset system to prevent capital assets reporting errors in the future.

The accounts receivable balance for red light cameras and other violations had been substantially reduced by a large allowance for uncollectible accounts in 2014 and in prior years' financial reports. Staff was not aware that GASB 65 requires that entities only recognize court receivables that are expected to be received within 60 days of year end. This material $3.6 million correction was made in the final statements. All accounting staff will be taking additional training on the latest GASB requirements.

Finally, a new Finance Director was hired in June, 2015 after three different directors from 2014 through the audit. Improved procedures, deadlines and policies will be in place for the preparation of future financial statements.

Auditor's Remarks

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

Applicable Laws and Regulations

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

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

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

> .07 For purposes of generally accepted auditing standards, the following terms have the meanings attributed as follows:
>
> Material weakness. A deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.
>
> Significant deficiency. A deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness yet important enough to merit attention by those charged with governance.

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

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

Budgeting, Accounting and Reporting System (BARS) Manual – Accounting Principles and General Procedures, Internal Control, states, in part:

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

Governmental Accounting Standards Board (GASB) Statement No. 67 - *Financial Reporting for Pension Plans—an amendment of GASB Statement No. 25*, states, in part:

> 32. Schedules of required supplementary information that include the information indicated in subparagraphs (a)−(d), below, should be presented. The information in subparagraphs (a) and (b) may be presented in a single schedule. Information for each year should be measured as of the pension plan's most recent fiscal year-end. Information about cost-sharing pension plans should be presented for the pension plan as a whole.

a. A 10-year schedule of changes in the net pension liability, presenting for each year (1) the beginning and ending balances of the total pension liability, the pension plan's fiduciary net position, and the net pension liability, calculated in conformity with paragraphs 35−46, and (2) the effects on those items during the year of the following, as applicable:

(1) Service cost

(2) Interest on the total pension liability

(3) Changes of benefit terms

(4) Differences between expected and actual experience with regard to economic or demographic factors in the measurement of the total pension liability

(5) Changes of assumptions about future economic or demographic factors or of other inputs

(6) Contributions from employers

(7) Contributions from nonemployer contributing entities

(8) Contributions from plan members

(9) Pension plan net investment income

(10) Benefit payments, including refunds of plan member contributions

(11) Pension plan administrative expense

(12) Other changes, separately identified if individually significant.

b. A 10-year schedule presenting the following for each year:

(1) The total pension liability

(2) The pension plan's fiduciary net position

(3) The net pension liability

(4) The pension plan's fiduciary net position as a percentage of the total pension liability

(5) The covered-employee payroll

(6) The net pension liability as a percentage of covered-employee payroll.

c. A 10-year schedule presenting for each year the information indicated in subparagraphs (1)–(6), below, if an actuarially determined contribution is calculated for employers or nonemployer contributing entities. The schedule should identify whether the information relates to the employers, nonemployer contributing entities, or both.

(1) The actuarially determined contributions of employers or nonemployer contributing entities. For purposes of this schedule, actuarially determined contributions should exclude amounts, if any, to separately finance specific liabilities of an individual employer or nonemployer contributing entity to the pension plan.

(2) For cost-sharing pension plans, the contractually required contribution of employers or nonemployer contributing entities, if different from (1). For purposes of this schedule, contractually required contributions should exclude amounts, if any, to separately finance specific liabilities of an individual employer or nonemployer contributing entity to the pension plan.

(3) The amount of contributions recognized during the fiscal year by the pension plan in relation to the actuarially determined contribution in (1). For purposes of this schedule, contributions should include only amounts recognized as additions to the pension plan's fiduciary net position resulting from cash contributions and from contributions recognized by the pension plan as current receivables.

(4) The difference between the actuarially determined contribution in (1) and the amount of contributions recognized by the pension plan in relation to the actuarially determined contribution in (3).

(5) The covered-employee payroll.

(6) The amounts of contributions recognized by the pension plan in relation to the actuarially determined contribution in (3) as a percentage of covered-employee payroll in (5).

> d. A 10-year schedule presenting for each fiscal year the annual moneyweighted rate of return on pension plan investments calculated as required by paragraph 30b(4).
>
> 34. Significant methods and assumptions used in calculating the actuarially determined contributions, if any, should be presented as notes to the schedule required by paragraph 32c. In addition, for each of the schedules required by paragraphs 32 or 33, information should be presented about factors that significantly affect trends in the amounts reported (for example, changes of benefit terms, changes in the size or composition of the population covered by the benefit terms, or the use of different assumptions). (The amounts presented for prior years should not be restated for the effects of changes—for example, changes of benefit terms or changes of assumptions—that occurred subsequent to the end of the fiscal year for which the information is reported.)

Governmental Accounting Standards Board (GASB) Statement No. 54 – *Fund Balance Reporting and Governmental Fund Type Definitions*, states, in part:

> 22. Amounts for the two components of nonspendable fund balance—(a) not in spendable form and (b) legally or contractually required to be maintained intact—as described in paragraph 6, may be presented separately, or nonspendable fund balance may be presented in the aggregate. Restricted fund balance may be displayed in a manner that distinguishes between the major restricted purposes, or it may be displayed in the aggregate. Similarly, specific purposes information for committed and assigned fund balances may be displayed in sufficient detail so that the major commitments and assignments are evident to the financial statement user, or each classification may be displayed in the aggregate.
>
> 25. If nonspendable fund balance is displayed in the aggregate on the face of the balance sheet, amounts for the two nonspendable components should be disclosed in the notes to the financial statements. If restricted, committed, or assigned fund balances are displayed in the aggregate, specific purposes information, as required in paragraph 22, should be disclosed in the notes to the financial statements. Governments may display the specific purpose details for some classifications on the face of the balance sheet, as discussed in paragraph 22, and disclose the details for other classifications in the notes to the financial statements.

STATUS OF PRIOR AUDIT FINDINGS

City of Lynnwood
Snohomish County
January 1, 2014 through December 31, 2014

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

<table>
<tr><td>Audit Period:
January 1, 2013 through
December 31, 2013</td><td>Report Ref. No.:
1012570</td><td colspan="2">Finding Ref. No.:
1</td></tr>
<tr><td colspan="4">Finding Caption
The City should continue to improve internal controls over accounting and financial reporting to ensure the financial statements are accurate and complete.</td></tr>
<tr><td colspan="4">Background:
We identified the following deficiencies in internal controls over accounting and financial reporting that, when taken together, represent significant deficiencies:
The City has known its capital asset system contains errors; however, it chose to continue to use the system to account for capital assets without performing a full review of the system's data and correcting the identified errors.
Staff responsible for recording accounting transactions, including complex and unusual transactions, did not adequately research how to appropriately record some transactions.
Although the City has procedures to perform a final review of the prepared financial statements, the review was not adequate to ensure errors were detected and corrected prior to audit.</td></tr>
<tr><td colspan="4">Status of Corrective Action: (check one)</td></tr>
<tr><td>☐ Fully Corrected</td><td>X Partially Corrected</td><td>☐ No Corrective Action Taken</td><td>☐ Finding is considered no longer valid</td></tr>
<tr><td colspan="4">Corrective Action Taken:
The City replaced its previous capital asset system with the Munis capital asset system in July, 2014. The conversion to the new Munis system was completed in time to be able to accurately track and depreciate capital assets in preparation for the 2014 audit. The new capital asset system was used to prepare the 2014 financial statements.
More training, research and review time was incorporated into the staff's recording of complex accounting transactions. All of the items listed under "Effect of Condition" as</td></tr>
</table>

included in the Schedule of Audit Findings for 2013 Audit were corrected in 2014.

- *The City hired an outside CPA Firm to review the City's draft CAFR before it was submitted to the State Auditor's Office for the 2014 audit. The outside CPA firm used the GFOA checklist for its review. Most of the CPA firm's comments and recommended changes were incorporated into the City's 2014 final CAFR.*

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

City of Lynnwood
Snohomish County
January 1, 2014 through December 31, 2014

Mayor and City Council
City of Lynnwood
Lynnwood, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City of Lynnwood, Snohomish County, Washington, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated September 28, 2015. As discussed in Note 13 to the financial statements, the 2013 financial statements have been restated to correct a misstatement. As discussed in Note 14 to the financial statements, during the year ended December 31, 2014, the City implemented Governmental Accounting Standards Board Statement No. 67, *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25*.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Audit Findings and Responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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 2014-001 to be material weaknesses.

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. We consider the deficiencies described in the accompanying Schedule of Audit Findings and Responses as Finding 2014-001 to be significant deficiencies.

COMPLIANCE AND OTHER MATTERS

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

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

CITY'S REPONSE TO FINDINGS

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

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

JAN M. JUTTE, CPA, CGFM

ACTING STATE AUDITOR

OLYMPIA, WA

September 28, 2015

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

City of Lynnwood
Snohomish County
January 1, 2014 through December 31, 2014

Mayor and City Council
City of Lynnwood
Lynnwood, Washington

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

We have audited the compliance of the City of Lynnwood, Snohomish County, Washington, with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2014. The City's major federal programs are identified in the accompanying Federal Summary.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination on the City's compliance.

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2014.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program in order to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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

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

PURPOSE OF THIS REPORT

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Jan M Jutte

JAN M. JUTTE, CPA, CGFM

ACTING STATE AUDITOR

OLYMPIA, WA

September 28, 2015

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

City of Lynnwood
Snohomish County
January 1, 2014 through December 31, 2014

Mayor and City Council
City of Lynnwood
Lynnwood, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City of Lynnwood, Snohomish County, Washington, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed on page 28.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City of Lynnwood, as of December 31, 2014, and the respective changes in financial position and, where applicable, cash flows thereof, and the budgetary comparison for the General Fund, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Matter of Emphasis – Correction of Prior Year Misstatement

As discussed in Note 13 to the financial statements, the 2013 financial statements have been restated to correct a misstatement. Our opinion is not modified with respect to this matter.

Matters of Emphasis

As discussed in Note 14 to the financial statements, in 2014, the City adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 67, *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 30 through 39, information on postemployment benefits other than pensions on page 108 and pension trust fund information on pages 109 through 111 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

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

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated September 28, 2015 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

JAN M. JUTTE, CPA, CGFM

ACTING STATE AUDITOR

OLYMPIA, WA

September 28, 2015

FINANCIAL SECTION

City of Lynnwood
Snohomish County
January 1, 2014 through December 31, 2014

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2014

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2014
Statement of Activities – 2014
Balance Sheet – Governmental Funds – 2014
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Position – 2014
Statement of Revenues, Expenditures, and Changes in Fund Balance – Governmental Funds – 2014
Reconciliation of Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balance to the Statement of Activities – 2014
Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund – 2014
Statement of Net Position – Proprietary Funds – 2014
Statement of Revenues, Expenses, and Changes in Net Position – Proprietary Funds – 2014
Statement of Cash Flows – Proprietary Funds – 2014
Statement of Fiduciary Net Position – Fiduciary Funds – 2014
Statement of Changes in Fiduciary Net Position – Fiduciary Funds – 2014
Notes to Financial Statements – 2014

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Funding Progress – LEOFF 1 Retiree Medical and Long-Term Care Benefits – 2014
Schedule of Changes in the City's Net Position Liability and Related Ratios – Firefighters' Pension Fund – 2014
Schedule of City's Contributions – Firefighters' Pension Fund – 2014
Schedule of Investment Returns – Firefighters' Pension Fund - 2014

SUPPLEMENTARY AND OTHER INFORMATION

Management's Discussion and Analysis

City of Lynnwood management offers this narrative overview and analysis of the financial activities of the City of Lynnwood for the fiscal year ended December 31, 2014.

Financial Highlights

- The assets of the City of Lynnwood exceeded its liabilities and deferred inflows at fiscal year-end by $197,618,722 (net position); an increase of $8.7 million or 4.6% over 2013. Of this amount, unrestricted net assets total $35,044,661 and may be used to meet the city's ongoing obligations to citizens and creditors. Restricted net assets total $15,233,944 and are earmarked for debt service, capital projects and special revenue funds.
- At December 31, 2014, the City's governmental funds reported combined ending fund balances of $29,653,589, a decrease of $1.2 million over 2013. Taxes received exceeded the final budget, fines and forfeitures were below budget due to a one time reduction adjustment for Municipal Court receivables. The City's Recreation Center continues to outperform budget, and expenditure levels grew minimally.
- At the end of the 2014 fiscal year, unassigned fund balance for the general fund was $8,011,813 or 17.5% of total general fund revenues and 16.6% of expenditures.

Overview of the Financial Statements

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

Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the City of Lynnwood's finances, in a manner similar to a private-sector business.

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

The *Statement of Activities* presents information showing how the City of Lynnwood's net position changed during the most recent fiscal year. All changes in the net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of the related cash flows*. Thus, revenues and expenses are reported for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

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

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

On July 12, 2010 the City of Lynnwood's City Council chartered the "Lynnwood Transportation Benefit District" (TBD) within the City's jurisdiction for the purpose of acquiring, constructing, improving, providing, and funding transportation improvements within the District. The TBD is a separate legal entity governed by a Board of Directors consisting of the seven members of the Lynnwood City Council. The TBD Board authorized a $20 per vehicle annual license fee within the District. The fee went into effect June 1, 2011. Whereas the PFD is reported as a "discrete" component unit the TBD is reported as a "blended" component unit within the City's special revenue funds.

Fund Financial Statements

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

Governmental Funds

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

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

Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, LID 93-1 Fund and capital projects fund for 33rd Ave West Extension are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements in the combining and individual fund statements and schedules section of this report.

The City of Lynnwood adopts its budget on a biennial basis. The 2014 fiscal year is the second year of the two year budget 2013-2014. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

Proprietary Funds

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

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Water, Sewer and Storm Drainage Utility and the Golf Course as all of which are considered to be major funds of the City of Lynnwood. Conversely, the internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds are provided in the form of combining statements in the combining and individual fund statements and schedules section of this report.

Fiduciary Funds

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

The City of Lynnwood maintains two types of fiduciary funds. The *Firefighters' Pension Fund* accounts for the Firefighters' Pension System, which is a single-employer closed pension plan. Membership is limited to firefighters employed by the City prior to March 1, 1970. The *Agency and Trust Funds* report resources held by the City of Lynnwood in a custodial capacity for individuals, private organizations and other governments.

Notes to the Financial Statements

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

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents *required supplementary information* concerning the City of Lynnwood's progress in funding its obligation to provide pension and OPEB benefits to its employees.

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

Government-wide Overall Financial Analysis

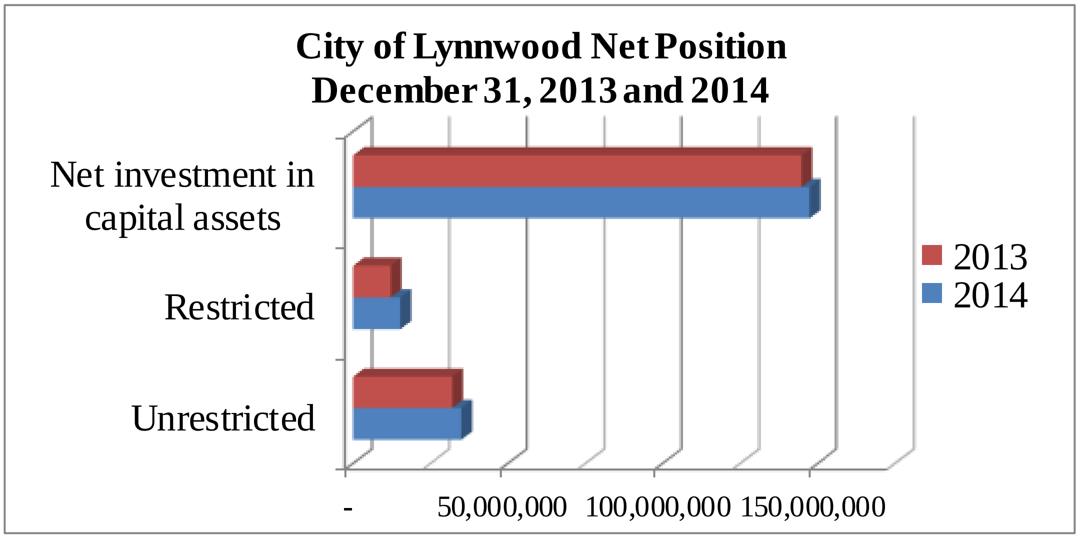
As noted earlier, net position over time, may serve as a useful indicator of a government's financial position. In the case of the City of Lynnwood, assets exceeded liabilities by $197,618,722 at the close of the most recent fiscal year.

	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
Current and other assets	$ 45,744,279	$ 41,916,900	$ 17,561,675	$ 18,401,376	$ 63,305,954	$ 60,318,276
Capital assets	135,717,634	132,479,636	51,140,426	52,058,876	186,858,060	184,538,512
Total Assets	181,461,913	174,396,536	68,702,101	70,460,252	250,164,014	244,856,788
Non-current liabilities outstanding	34,963,244	36,123,058	12,298,351	12,930,461	47,261,595	49,053,519
Other liabilities	3,606,612	3,921,176	1,677,085	2,905,377	5,283,697	6,826,553
Total Liabilities	38,569,856	40,044,234	13,975,436	15,835,838	52,545,292	55,880,072
Total deferred inflows of resources	-	38,579	-	-	-	38,579
Net position:						
Net investment in capital assets	108,229,455	105,272,605	39,110,662	39,476,895	147,340,117	144,749,500
Restricted	12,090,347	9,355,099	3,143,597	2,759,634	15,233,944	12,114,733
Unrestricted	22,572,255	19,686,019	12,472,406	12,387,885	35,044,661	32,073,904
Total Net Position	$ 142,892,057	$ 134,313,723	$ 54,726,665	$ 54,624,414	$ 197,618,722	$ 188,938,137

City of Lynnwood's Net Position

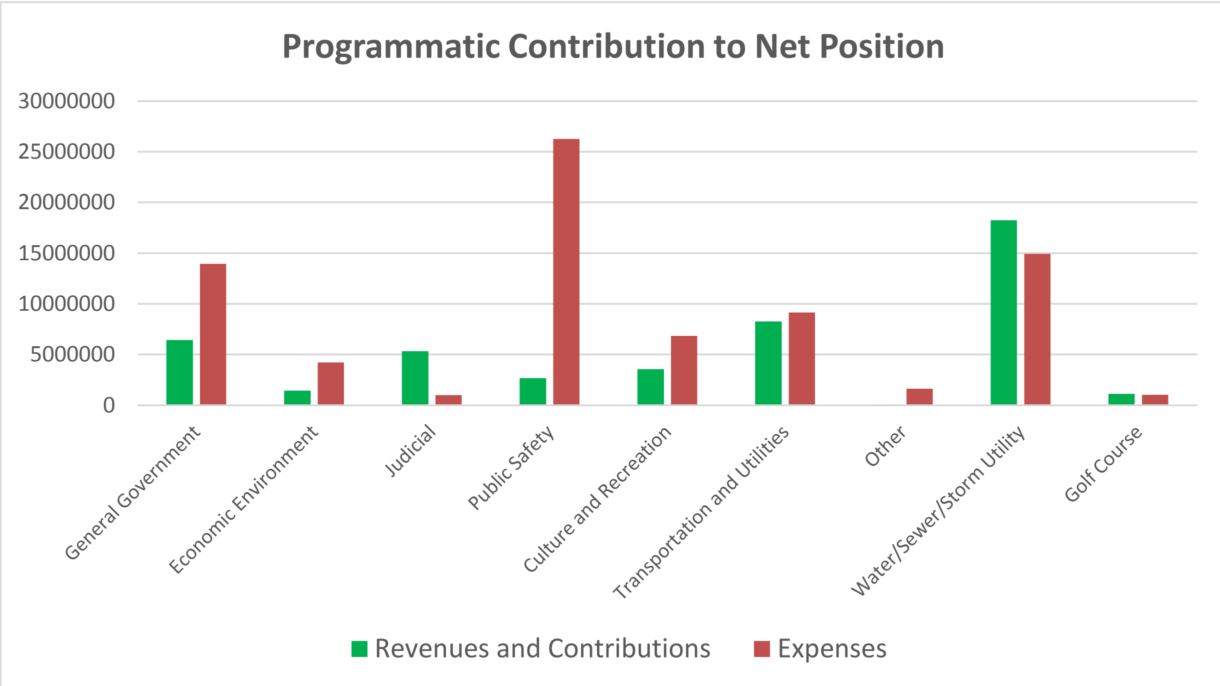
The City's overall net position increased $8.7 million (4.6%) from the prior fiscal year. By far, the largest portion of the City's net position ($147,340,117; 74.6%) reflects investment in capital assets (e.g., land, buildings, machinery, equipment, vehicles, and infrastructure), less any related outstanding debt that was used to acquire those assets. The City uses these capital assets to provide a variety of services to citizens. Accordingly, these assets are not available for future spending. Although the City of Lynnwood's investment in capital assets is reported net of related debt, it should be noted that the resources used to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net position ($15,233,944 or 7.7%) represents resources that are subject to external restrictions on how they may be used. The remaining balance ($35,044,661 or 17.7%) is unrestricted and may be used to meet the City's ongoing obligations to its citizens and creditors.



Programmatic Contribution to Net Position

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



Public safety (which includes the police and fire) is particularly dependent on tax support. The utilities (water, sewer, and storm drainage) are completely self-supporting through user fees.

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

Changes in Net Position

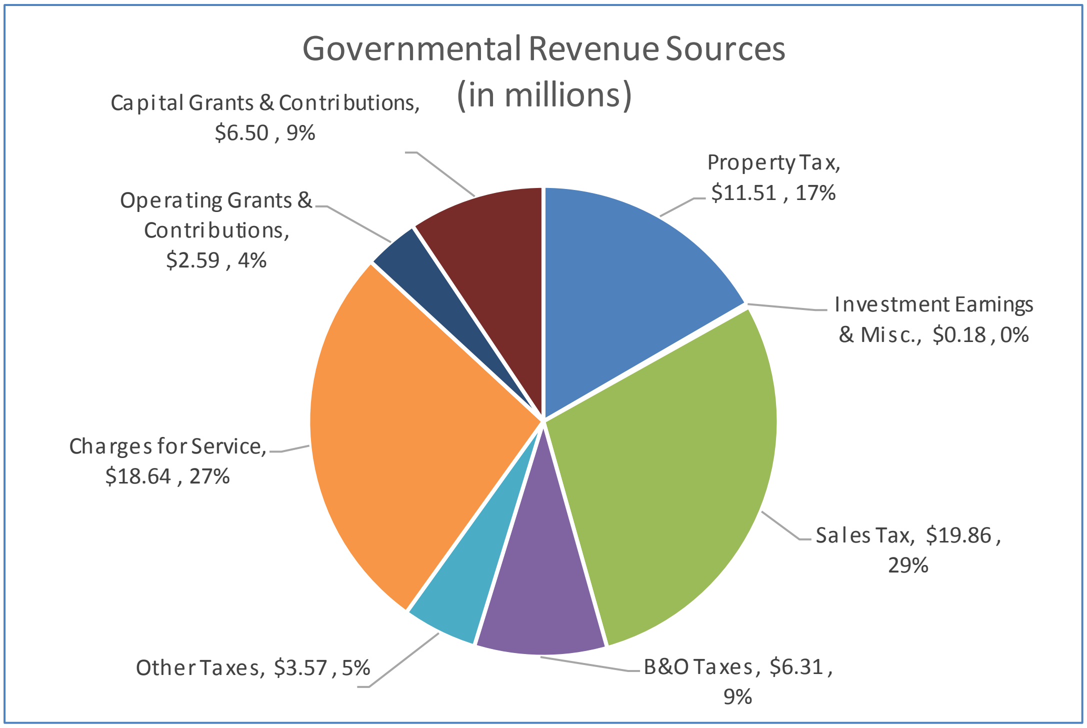
During the current fiscal year, net position for governmental activities increased $8.1 million (6.0%).

	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
Revenues						
Program Revenues						
Charge for Service	$ 18,637,738	$ 19,538,627	$ 18,354,807	$ 17,207,794	$ 36,992,545	$ 36,746,421
Operating Grants & Contributions	2,587,992	1,495,360	170,000	-	2,757,992	1,495,360
Capital Grants & Contributions	6,495,186	4,947,471	822,722	225,094	7,317,908	5,172,565
General Revenues						
Property Taxes	11,510,488	11,515,054	-	-	11,510,488	11,515,054
Sales Taxes	19,856,302	19,070,344	-	-	19,856,302	19,070,344
Other Taxes	9,878,436	10,574,669	-	-	9,878,436	10,574,669
Other Revenues	181,488	208,560	62,593	260,696	244,081	469,256
Total Revenues	69,147,630	67,350,085	19,410,122	17,693,584	88,557,752	85,043,669
Expenses						
General Government	13,937,566	12,126,355	-	-	13,937,566	12,126,355
Economic Environment	4,230,397	2,779,605	-	-	4,230,397	2,779,605
Judicial	997,957	1,567,467	-	-	997,957	1,567,467
Natural Environment	110,007	153,292	-	-	110,007	153,292
Culture & Recreation	6,832,934	8,249,955	-	-	6,832,934	8,249,955
Public Safety	26,272,183	26,683,617	-	-	26,272,183	26,683,617
Social Services	417,515	408,259			417,515	408,259
Transportation	8,843,355	7,361,539	-	-	8,843,355	7,361,539
Utilities	294,984	32,753	-	-	294,984	32,753
Physical Environment	-	-	-	-	-	-
Interest on Long-term Debt	1,110,496	1,118,728	500,194	-	1,610,690	1,118,728
Disposition of Capital Assets	(246,692)	23,122	(475)	3,668	(247,167)	26,790
Water/Sewer/Storm Utility	-	-	14,416,735	14,297,527	14,416,735	14,297,527
Golf Course	-	-	1,018,535	977,155	1,018,535	977,155
Total Expenses	62,800,702	60,504,692	15,934,989	15,278,350	78,735,691	75,783,042
Increase (Decrease) in Net Position Before Transfers	6,346,928	6,845,393	3,475,133	2,415,234	9,822,061	9,260,627
Transfers	1,737,442	1,827,548	(1,737,442)	(1,827,548)	-	-
Increase (Decrease) in Net Position	8,084,370	8,672,941	1,737,691	587,686	9,822,061	9,260,627
Net Position - beginning	134,313,723	124,043,573	54,624,414	54,167,071	188,938,137	178,210,644
Prior Period Adjustments	493,964	1,597,209	(1,635,440)	(130,343)	(1,141,476)	1,466,866
Net Position - beginning - *Adjusted*	134,807,687	125,640,782	52,988,974	54,036,728	187,796,661	179,677,510
Net Position - ending	$ 142,892,057	$ 134,313,723	$ 54,726,665	$ 54,624,414	$ 197,618,722	$ 188,938,137

- Local sales tax revenues increased by nearly $786 thousand, or 4.1% compared to fiscal 2013.
- Property tax revenues collected were $11.5 million; a decrease of $5 thousand over collections in 2013.
- In 2014, the City received $262,724 in mitigation payments, a increase of $2,800 (1.1%) from 2013. This revenue stream continues to be well below the original estimate prepared by the State Department of Revenue (DOR) in 2007. The State of Washington enacted a financial assistance program effective July 1, 2008. The program is designed to mitigate the impact of the new sales tax system. The mitigation payments were intended to offset the loss incurred by local governments from destination-based sales (sale transactions that are delivered outside of point-of-sale jurisdictions).

Revenues by Source – Governmental Activities

The following pie chart shows revenues by source for all governmental activities, including capital grants and debt service. Sales taxes represent 27% of total governmental revenues. Most capital and operating grants are for transportation purposes.



Governmental expenditures increased $2.6 million or 4.2% from the prior year.

Function/Programs	2014 Expenditures	2013 Expenditures	$ Increase/ (Decrease)	% Increase/ (Decrease)
General Government	$13,937,566	$12,126,355	$ 1,811,211	14.9%
Judicial	997,957	1,567,467	(569,510)	-36.3%
Public Safety	26,272,183	26,683,617	(411,434)	-1.5%
Utilities	294,984	32,753	262,231	0.0%
Transportation	8,843,355	7,361,539	1,481,816	20.1%
Natural Environment	110,007	153,292	(43,285)	0.0%
Economic Environment	4,230,397	2,779,605	1,450,792	52.2%
Social Services	417,515	408,259	9,256	0.0%
Culture & Recreation	6,832,934	8,249,955	(1,417,021)	-17.2%
Interest on Debt	1,110,496	1,118,728	(8,232)	-0.7%
	$63,047,394	$60,481,570	$ 2,565,824	4.2%

Business-type activities

The Water/Sewer/Storm Utility increased the City of Lynnwood's net position by $676,234.

- Charges for Services revenue increased by $1.1 million (6.9%) from $16.1 million to $17.2 million.
- Total operating expenses increased from $14.3 million to $14.9 million (4.3%).

The Golf Course increased the City of Lynnwood's net position by $95,176. In 2014 the City contracted with Premier Golf to operate the Golf Course. As a result, operating income increased by $8,777.

- Total operating revenue for the Golf Course increased by $27,579 (2.5%).
- Total operating expenses related to the City's golf course increased by $18,802 (1.9%).

Financial Analysis of the City's Funds

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

Governmental Funds

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

At December 31, 2014, the City's General Fund reported an ending fund balance of $17,902,317, a decrease of $3,250,383 over 2013. This decrease is attributable to the reclassification of Municipal Court receivables that are over 60 days overdue totaling $3,602,805 from a current receivable to a deferred inflow of resources, as required by GASB 65. The 33rd Ave West Extension is a new Major Fund for the City in 2014; it ended the year with a $227,596 ending fund balance.

General Fund Budgetary Highlights

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

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

- Sales tax revenues exceeded budget by $2.5 million.
- Fines and forfeitures revenues came in $1.7 million under budget due to the reclassification of court receivables over 60 days overdue from a current receivable to a deferred inflow of resources. The reclassification totaled $3,602,805 and will be adjusted each year. In 2014 this was a large one time reduction of revenue to recognize a long term receivable.
- Total expenditures were $4.5 million under budget.
- Public safety expenditures were $1.7 million under budget.

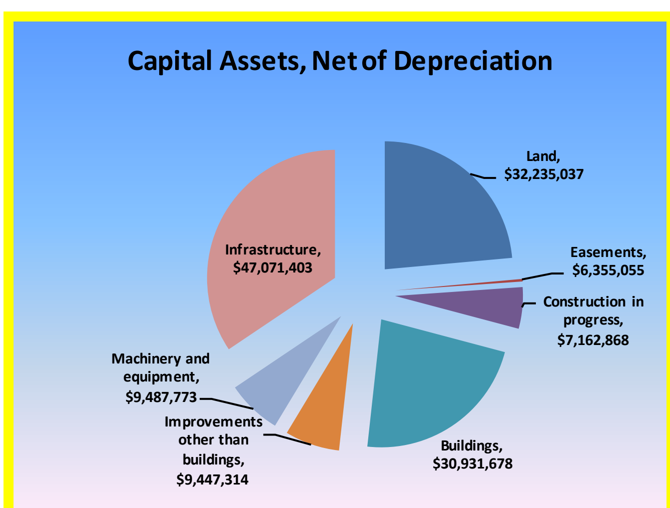
Additional information is provided in the General Fund Statement of Revenues, Expenditures, and Changes in Fund Balance, Budget and Actual.

Capital Assets and Debt Administration

Capital Assets

The City of Lynnwood's investment in capital assets for its governmental and business-type activities (not including investment in joint venture) as of December 31, 2014, amounts to $186.9 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 $135.7 million in 2014, an increase of $3.2 million from 2013. Business-type assets (net of depreciation) totaled $51.1 million, a decrease of $918 thousand from 2013. More information on the City's Capital Assets can be found in Note 5 – Capital Assets, in the Notes to the Financial Statements.



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

- 33rd Ave Street donation of land total of $2.5 million;
- Various wastewater treatment plant equipment were placed in service at a total cost of $780 thousand;
- Purchase of various vehicles and equipment at a total cost of $715 thousand.
- Completion of the North Segment of the Interurban Trail at a total cost of $1,770,544
- Completion of Traffic Signal at 196th Street SW and Scriber Lake at a total cost of $491,494

Long-Term Debt

At the end of 2014, the City of Lynnwood had total bonded debt outstanding of $39.4 million. Of this amount, $25.8 million is backed by the full faith and credit of the City and $1.67 million is special assessment debt. The remainder ($11.9 million) represents bonds secured solely by specified revenue sources (i.e., revenue bonds).

Total long-term debt includes compensated absences ($4.54 million) and pension related commitments ($3.35 million) for total long-term debt of $35.4 million. The City's total long-term debt decreased by $1.18 million in 2014 and no new long-term debt was issued. More information on the City's Long-Term Debt can be found in Note 7.

Economic Factors and the Next Year's Budgets and Rates

Our state and local economies have continued to show signs of recovery. But, the uncertainty caused by national decision-making on the federal budget and the federal debt limit, together with state budget problems, directly affect our local economy. The City however continues to successfully adjust to these uncertain times, and was able to increase its total net position by $8,680,585 from 2013.

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

- In July 2014, the City of Lynnwood has a not seasonal-adjusted unemployment rate of 5.6%. Thru 2014 the annual not seasonally-adjusted rate was 5.3%. March 2015, the rate had dropped to 4.5%.
- The City increased its water, sewer, and storm water rates beginning January 2015.
- The City Council authorized the increase back to 6% from 2% for the General Fund tax on the City's utility services.
- The City's assessed value increased by 8.3% for the tax year 2015.
- The City changed their business license fees to eliminate the fee per full time equivalent (FTE) employee to a fee for each employee based on the number of hours they work (14 hours or less and 15 hours or more).
- Interest rates are expected to remain low.
- On the expenditure side, increases are expected for health insurance and labor and other benefit costs.
- The City of Lynnwood continues to purchase catastrophic property and liability insurance policies to protect itself from unforeseen circumstances.

Requests for Information

This financial report is designed to provide our citizens, creditors, investors, and other interested parties with a general overview of the City's finances and to show the City accountability for the financial resources it receives. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Director, City of Lynnwood, PO Box 5008, Lynnwood, WA 98046.

Our web site address is:

www.ci.lynnwood.wa.us

Select "City Finances" under "City Hall"

City of Lynnwood, Washington
Statement of Net Position
December 31, 2014

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Public Facilites District
ASSETS				
Current assets:				
Cash and cash equivalents	$ 27,517,356	$ 14,424,718	$ 41,942,074	$ 4,831,686
Prepaid items	253,024	31,580	284,604	76,488
Receivables (net of allowance for uncollectibles)	7,960,452	3,020,901	10,981,353	229,958
Intergovernmental receivable	430,214	-	430,214	-
Customer deposits	-	117,401	117,401	-
Restricted cash & equivalents	278,031	61,205	339,236	1,731,695
Bond covenant accounts	-	1,808,635	1,808,635	-
Inventories	-	20,948	20,948	15,039
Internal balances	1,985,035	(1,985,035)	-	-
Total current assets	38,424,112	17,500,353	55,924,465	6,884,866
Noncurrent assets:				
Intergovernmental receivable	269,728	-	269,728	-
Long-term notes receivable, net of current portion, net of allowance for uncollectibles	1,815,060	61,322	1,876,382	-
Long-term court receivable, net of allowance for uncollectibles	3,602,805	-	3,602,805	-
Investment in joint ventures	1,632,574	-	1,632,574	-
Capital assets not being depreciated:				
Land	32,671,799	8,081,423	40,753,222	6,788,800
Other nondepreciable asset	164,517	4,150,120	4,314,637	-
Construction in progress	7,379,120	3,902,804	11,281,924	-
Capital assets, net of accumulated depreciation:				
Buildings and building improvements, net	30,931,678	5,861,180	36,792,858	16,293,450
Other improvements, net	9,071,574	341,120	9,412,694	-
Machinery & equipment, net	9,224,125	2,661,884	11,886,009	27,159
Infrastructure, net	46,274,821	26,141,895	72,416,716	38,365
Total noncurrent assets	143,037,801	51,201,748	194,239,549	23,147,774
Total assets	181,461,913	68,702,101	250,164,014	30,032,640
DEFERRED OUTFLOWS OF RESOURCES				
Total deferred outflows of resources	-	-	-	-
Total assets and deferred outflows of resources	181,461,913	68,702,101	250,164,014	30,032,640
LIABILITIES				
Current liabilities:				
Accounts payable and accrued expenses	3,188,672	1,459,332	4,648,004	369,888
Unearned revenue	225,462	-	225,462	-
Other current liabilities	33,734	-	33,734	507,277
Liabilities payable from restricted assets	158,744	217,753	376,497	-
Total current liabilities	3,606,612	1,677,085	5,283,697	877,165
Noncurrent liabilities:				
Due within one year	2,405,283	631,031	3,036,314	970,000
Due in more than one year	32,557,961	11,667,320	44,225,281	25,318,404
Total noncurrent liabilities	34,963,244	12,298,351	47,261,595	26,288,404
Total liabilities	38,569,856	13,975,436	52,545,292	27,165,569
DEFERRED INFLOWS OF RESOURCES				
Total deferred inflows of resources	-	-	-	-
Total liabilites and deferred inflows of resources	38,569,856	13,975,436	52,545,292	27,165,569
NET POSITION				
Net investment in capital assets (see note 1E13)	108,229,455	39,110,662	147,340,117	(3,104,981)
Restricted for: (see note 1E14)				
Capital projects	5,761,398	1,999,992	7,761,390	-
Debt Service	1,404,172	1,143,605	2,547,777	1,700,000
Other	86,051	-	86,051	-
Prepaid items	253,024	-	253,024	-
Special revenue	4,585,702	-	4,585,702	-
Unrestricted	22,572,255	12,472,406	35,044,661	4,272,052
Total net position	$ 142,892,057	$ 54,726,665	$ 197,618,722	$ 2,867,071

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

City of Lynnwood, Washington
Statement of Activities
For the Year Ended December 31, 2014

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Position – Primary Government: Governmental Activities	Primary Government: Business-type Activities	Primary Government: Total	Component Unit: Public Facilites District
Primary government:								
Governmental activities:								
General government	$ 13,937,566	$ 4,907,452	$ 1,032,873	$ 477,574	$ (7,519,667)	$ -	$ (7,519,667)	$ -
Economic Environment	4,230,397	1,434,842	-	-	(2,795,555)	-	(2,795,555)	-
Judicial	997,957	5,205,857	120,721	6,042	4,334,663	-	4,334,663	-
Natural Environment	110,007	3,825	-	-	(106,182)	-	(106,182)	-
Culture and recreation	6,832,934	2,694,717	791,868	78,108	(3,268,241)	-	(3,268,241)	-
Public safety	26,272,183	2,351,588	284,680	27,695	(23,608,220)	-	(23,608,220)	-
Social services	417,515	-	31,900	1,473	(384,142)	-	(384,142)	-
Transportation	8,843,355	2,039,457	303,259	5,904,294	(596,345)	-	(596,345)	-
Utilities	294,984	-	22,691	-	(272,293)	-	(272,293)	-
Interest on Long-Term Debt	1,110,496	-	-	-	(1,110,496)	-	(1,110,496)	-
Total governmental activities	63,047,394	18,637,738	2,587,992	6,495,186	(35,326,478)	-	(35,326,478)	-
Business-type activities:								
WATER/SEWER/STORM UTILITY	14,916,929	17,242,064	170,000	822,722	-	3,317,857	3,317,857	-
GOLF COURSE	1,018,535	1,112,743	-	-	-	94,208	94,208	-
Total business-type activities	15,935,464	18,354,807	170,000	822,722	-	3,412,065	3,412,065	-
Total primary government	$ 78,982,858	$ 36,992,545	$ 2,757,992	$ 7,317,908	$ (35,326,478)	$ 3,412,065	$ (31,914,413)	$ -
Component units:								
Public Facilities District	$ 5,642,691	$ 3,985,442	$ -	$ -	$ -	$ -	$ -	$ (1,657,249)
Total component units	$ 5,642,691	$ 3,985,442	$ -	$ -	-	-	-	(1,657,249)
General revenues:								
Property taxes					11,510,488	-	11,510,488	-
Sales taxes					19,856,302	-	19,856,302	2,519,697
B&O taxes					6,312,066	-	6,312,066	-
Other taxes					3,566,370	-	3,566,370	-
Investment earnings					167,961	17,469	185,430	20,483
Miscellaneous					13,527	45,124	58,651	-
Gain on sale of assets					246,692	475	247,167	-
Transfers					1,737,442	(1,737,442)	-	-
Total general revenues, special items, and transfers					43,410,848	(1,674,374)	41,736,474	2,540,180
Change in net position					8,084,370	1,737,691	9,822,061	882,931
Net position - beginning					134,313,723	54,624,414	188,938,137	1,984,140
PRIOR PERIOD(S) ADJUSTMENTS					493,964	(1,635,440)	(1,141,476)	-
Net position - ending					$ 142,892,057	$ 54,726,665	$ 197,618,722	$ 2,867,071

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

City of Lynnwood, Washington
Balance Sheet
Governmental Funds
December 31, 2014

	011 General Fund	263 LID 93-1 I-5 & 196TH Project	355 33RD Ave W Extension	Total Nonmajor Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents	$ 12,148,308	$ -	$ 784,266	$ 10,192,166	$ 23,124,740
Receivables, net	9,233,700	2,414,633	895,378	1,074,260	13,617,971
Receivables, interfund loans	2,500,000	-	-	-	2,500,000
Due from other governments	311,494	-	-	118,720	430,214
Prepaid expenses	253,024	-	-	-	253,024
Restricted cash and investments	86,051	80,949	24,485	86,546	278,031
Total assets	$ 24,532,577	$ 2,495,582	$ 1,704,129	$ 11,471,692	$ 40,203,980
DEFERRED OUTFLOWS OF RESOURCES					
Total deferred outflows of resources	-	-	-	-	-
Total assets and deferred outflows of resources	24,532,577	2,495,582	1,704,129	11,471,692	40,203,980
LIABILITIES					
Accounts payable	$ 1,526,362	$ -	$ 394,435	$ 351,590	$ 2,272,387
Due to other funds	-	-	1,000,000	200,000	1,200,000
Due to other governments	86,051	-	-	-	86,051
Wages payable	754,479	-	-	19,912	774,391
Other current liabilities	442,783	-	57,613	4,336	504,732
Custodial accounts	752	-	-	-	752
Deposits payable	-	-	24,485	-	24,485
Total liabilities	2,810,427	-	1,476,533	575,838	4,862,798
DEFERRED INFLOWS OF RESOURCES					
Deferred property tax	217,028	-	-	52,700	269,728
Municipal Court	3,602,805	-	-	-	3,602,805
Unavailable revenue - special assessments	-	1,815,060	-	-	1,815,060
Total deferred inflow of resources	3,819,833	1,815,060	-	52,700	5,687,593
Total liabilities and deferred inflows of resources	6,630,260	1,815,060	1,476,533	628,538	10,550,391
FUND BALANCES (DEFICITS) (see note 1E15)					
Nonspendable	2,453,024	-	-	-	2,453,024
Restricted	86,803	680,522	227,596	9,710,850	10,705,771
Committed	5,847,864	-	-	1,098,944	6,946,808
Assigned	1,502,813	-	-	175,637	1,678,450
Unassigned	8,011,813	-	-	(142,277)	7,869,536
Total fund balances (deficits)	17,902,317	680,522	227,596	10,843,154	29,653,589
Total liabilities and fund balances (deficits)	$ 24,532,577	$ 2,495,582	$ 1,704,129	$ 11,471,692	$ 40,203,980

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

City of Lynnwood, Washington
Reconciliation of Balance Sheet
To the Statement of Net Position
December 31, 2014

Fund balances of governmental funds		$33,256,395
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activiites are not financial resources and, therefore, are not reported in the funds.		
Land and art (nondepreciable)	32,836,316	
Construction in progress	9,597,864	
Building and building improvement (net of depreciation)	29,445,103	
Other improvements (net of depreciation)	6,809,536	
Machinery and equipment (net of depreciation)	4,942,511	
Infrastructure (net of depreciation)	46,263,681	
		129,895,011
Other long term assets are not available to pay for current period expenditures and therefore reported as unavailable revenue in the funds.		
Deferred property tax	269,728	
Deferred court revenues	3,602,805	
Unavailable revenue-special assessments	1,815,060	
		5,687,593
Long term liability, including bonds payable are not due and payable in the current period and therefore are not reported in the funds.		(38,473,431)
Investment in Joint Venture		1,632,574
Internal service funds are used by management to charge the cost of equipment rental, self-insurance and reserve retirement to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position.		669,157
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the fund.		224,487
Assets and liabilities of internal service funds are included in governmental activities in the statement of net position.		10,000,271
Net position of governmental activities		$142,892,057

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

City of Lynnwood, Washington
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2014

	General Fund	LID 93-1 I-5 & 196TH Project	33RD Ave W Extension	Total Nonmajor Funds	Total Governmental Funds
REVENUES					
Property taxes	$ 8,895,775	$ -	$ -	$ -	$ 8,895,775
Sales taxes	18,263,866	-	-	-	18,263,866
Business taxes	6,312,066	-	-	-	6,312,066
Other taxes	3,865	-	-	-	3,865
Taxes	-	-	-	5,856,089	5,856,089
Licenses and permits	3,564,056	-	-	169,915	3,733,971
Intergovernmental revenues	1,360,146	-	1,675,976	5,227,732	8,263,854
Charges for services	5,411,961	7,093	212,076	723,706	6,354,836
Fines and forfeitures	1,629,010	-	-	41,187	1,670,197
Other interest	15,428	139,798	-	8,424	163,650
Other rents	288,783	-	-	-	288,783
Miscellaneous	145,610	-	-	20,126	165,736
Capital grants and contributions	-	477,574	-	192,100	669,674
Total revenues	45,890,566	624,465	1,888,052	12,239,279	60,642,362
EXPENDITURES					
Current:					
General government	9,902,578	-	-	10,261	9,912,839
Economic Environment	2,996,776	-	-	1,234,412	4,231,188
Judicial	997,407	-	-	-	997,407
Natural Environment	110,007	-	-	-	110,007
Culture and recreation	5,689,644	-	-	4,279	5,693,923
Public safety	26,172,035	-	-	116,771	26,288,806
Social services	417,515	-	-	-	417,515
Transportation	1,416,628	-	-	4,905,286	6,321,914
Utilities	251,333	-	-	43,652	294,985
Debt service:					
Interest	633	134,938	-	974,924	1,110,495
Principal retirement	-	455,000	-	854,962	1,309,962
Capital outlay:					
Capital outlay	338,554	-	2,107,316	3,504,251	5,950,121
Total expenditures	48,293,110	589,938	2,107,316	11,648,798	62,639,162
Excess (deficiency) of revenues over expenditures	(2,402,544)	34,527	(219,264)	590,481	(1,996,800)
OTHER FINANCING SOURCES (USES)					
Transfers in	2,310,802	-	393,679	6,810,045	9,514,526
Transfers out	(3,526,654)	-	-	(5,556,963)	(9,083,617)
Insurance and claims	15	-	-	2,244	2,259
Gain (loss) on Disposition of capital assets	368,000	-	-	2,608	370,608
Total other financing source (uses)	(847,837)	-	393,679	1,257,934	803,776
Net change in fund balances	(3,250,381)	34,527	174,415	1,848,415	(1,193,024)
Fund balances - beginning	21,152,698	645,995	53,181	8,994,739	30,846,613
Fund balances - ending	$ 17,902,317	$ 680,522	$ 227,596	$ 10,843,154	$ 29,653,589

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

City of Lynnwood, Washington
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities
For the Year Ended December 31, 2014

Net change in fund balances - total governmental funds		$2,409,778
Amounts reported for governmental activities in the statement of net position are different because:		
Capital outlays	5,950,122	
Current year depreciation	(6,121,504)	
Disposal of capital assets	(219,288)	
		(390,670)
The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.		
		1,309,963
The net effect of various miscellaneous transactions involving capital assets (i.e., sales and donations) is to increase net assets.		2,801,912
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the fund.		(1,496,688)
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.		1,352,358
Increase in other post-employment benefits payable	(588,325)	
Increase in compensated absences payable	(160,475)	
		(748,800)
Internal service funds are used by management to charge the cost of equipment rental, self-insurance and reserve retirement to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position.		
		1,841,114
Net revenue (loss) of internal service funds		1,499,367
Change in net position of governmental activities		$8,578,334
Prior period adjustment reconciliation		
The amount reported for governmental activities prior period adjustment in the statement of activities is different because:		
Prior period adjustment - total governmental funds		(493,964)
Salvage value correction	1,689,282	
2013 CIP correction	(2,183,246)	
Prior period adjustment - governmental activities		
Change in net position of governmental activities		$ 8,084,370

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

City of Lynnwood, Washington
011 GENERAL FUND
Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual
For the Year Ended December 31, 2014

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget
REVENUES				
Taxes				
Property taxes	$ 8,604,265	$ 7,974,393	$ 8,895,775	$ 921,382
Sales taxes	16,972,135	15,769,884	18,263,866	2,493,982
Business taxes	6,562,436	6,421,452	6,312,066	(109,386)
Other taxes	1,733	1,733	3,865	2,132
Licenses and permits	3,503,037	3,318,337	3,564,056	245,719
Intergovernmental revenues	1,086,700	772,513	1,360,146	587,633
Charges for services	5,643,528	5,400,684	5,411,961	11,277
Fines and forfeitures	3,830,000	3,286,560	1,629,010	(1,657,550)
Other interest	42,685	64,752	15,428	(49,324)
Other rents	240,550	176,841	288,783	111,942
Miscellaneous	28,600	28,600	145,610	117,010
Total revenues	46,515,669	43,215,749	45,890,566	2,674,817
EXPENDITURES				
Current:				
General government	8,530,738	10,330,632	9,902,578	428,054
Economic Environment	3,328,515	3,817,738	2,996,776	820,962
Judicial	1,238,815	1,425,108	997,407	427,701
Natural Environment	144,375	138,200	110,007	28,193
Culture and recreation	5,555,688	5,957,596	5,689,644	267,952
Public safety	27,104,320	27,890,855	26,172,035	1,718,820
Social services	367,200	429,166	417,515	11,651
Transportation	1,534,042	1,677,572	1,416,628	260,944
Utilities	273,850	411,816	251,333	160,483
Total current	48,077,543	52,078,683	47,953,923	4,124,760
Debt service:				
Interest	-	-	633	(633)
Total debt service	-	-	633	(633)
Capital outlay:				
Capital outlay	74,300	675,448	338,554	336,894
Total capital outlay	74,300	675,448	338,554	336,894
Total expenditures	48,151,843	52,754,131	48,293,110	4,461,021
Excess (deficiency) of revenues over expenditures	(1,636,174)	(9,538,382)	(2,402,544)	7,135,838
OTHER FINANCING SOURCES (USES)				
Transfers in	2,787,891	2,397,793	2,310,802	(86,991)
Transfers out	(3,082,542)	(7,839,883)	(3,526,654)	4,313,229
Insurance and claims	-	-	15	15
Gain (loss) on Disposition of capital assets	-	-	368,000	368,000
Total other financing source (uses)	(294,651)	(5,442,090)	(847,837)	4,594,253
Net change in fund balances	(1,930,825)	(14,980,472)	(3,250,381)	11,730,091
Fund balances - beginning	21,152,700	21,152,700	21,152,698	(2)
Fund balances - ending	$ 19,221,875	$ 6,172,228	$ 17,902,317	$ 11,730,089

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

City of Lynnwood, Washington
Statement of Net Position
Proprietary Funds
December 31, 2014

	Business-type Activities			Governmental Activities
	Water/Sewer/ Storm Utility	Golf Course	Total Enterprise Funds	Internal Service Funds
ASSETS				
Current assets:				
Cash and cash equivalents	$ 14,169,684	$ 255,034	$ 14,424,718	$ 4,392,615
Receivables, net	3,011,419	4,381	3,015,800	30,076
Receivables accrued interest	5,100	-	5,100	-
Prepaid expenses	29,302	2,278	31,580	-
Inventories, at cost	-	20,948	20,948	-
Restricted cash and investments	706,151	20,085	726,236	-
Customer advance payments	100,060	17,341	117,401	-
Revenue bond current debt service	555,000	-	555,000	-
Revenue bond future debt service - Bond reserve	588,605	-	588,605	-
Total current assets	19,165,321	320,067	19,485,388	4,422,691
Noncurrent assets:				
Notes receivable - noncurrent	61,322	-	61,322	-
Land	4,418,054	3,663,369	8,081,423	-
Other nondepreciable assets	4,150,120	-	4,150,120	-
Construction in progress	3,902,804	-	3,902,804	43,294
Buildings and building improvements, net of accumulated depreciation	5,747,733	113,447	5,861,180	1,497,715
Machinery and equipment, net of accumulated depreciation	2,658,084	3,800	2,661,884	4,281,613
Improvements other than buildings, net of accumulated depreciation	222,594	118,526	341,120	-
Infrastructure, net of accumulated depreciation	26,116,148	25,747	26,141,895	-
Total noncurrent assets	47,276,859	3,924,889	51,201,748	5,822,622
Total assets	66,442,180	4,244,956	70,687,136	10,245,313
LIABILITIES				
Current liabilities:				
Accounts payable	1,325,822	27,286	1,353,108	137,584
Due to other funds	-	1,300,000	1,300,000	-
Wages payable	104,110	-	104,110	14,839
Gift certificates	-	17,341	17,341	-
Custodial accounts	141,981	2,112	144,093	-
Deposits Payable	-	20,085	20,085	-
Revenue bonds, net of current portion	38,347	-	38,347	-
Total current liabilities	1,610,260	1,366,824	2,977,084	152,423
Noncurrent liabilities:				
Claims and judgments	-	-	-	39,381
Matured bonds payable	555,000	-	555,000	-
Compensated absences - current	76,031	-	76,031	13,242
Compensated absences - noncurrent	192,555	-	192,555	39,996
Revenue bonds, net of current portion	11,315,000	-	11,315,000	-
Unamortized premium	237,942	-	237,942	-
(Less) Unamorized bond discount	(78,176)	-	(78,176)	-
Total noncurrent liabilities	12,298,352	-	12,298,352	92,619
Total liabilities	13,908,612	1,366,824	15,275,436	245,042
NET POSITION				
Net investment in capital assets	35,185,773	3,924,889	39,110,662	5,822,623
Restricted for:				
Capital projects	1,999,992	-	1,999,992	-
Debt Service	1,143,605	-	1,143,605	-
Unrestricted	14,204,198	(1,046,757)	13,157,441	4,177,648
Total net position	$ 52,533,568	$ 2,878,132		$ 10,000,271
Difference between business-type adjustments to assets and liabilities.			(685,035)	-
Net position of business-type activities			$ 54,726,665	

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

City of Lynnwood, Washington
Statement of Revenues, Expenses, and Changes in Net Position
Proprietary Funds
For the Year Ended December 31, 2014

	Business-type Activities			Governmental Activities
	Water/Sewer/ Storm Utility	Golf Course	Total Enterprise Funds	Internal Service Funds
OPERATING REVENUES				
Charges for services/fees-Water	$ 5,210,836	$ -	$ 5,210,836	$ -
Charges for services/fees-Sewer	8,995,429	-	8,995,429	-
Charges for services/fees-Storm	2,984,121	-	2,984,121	-
Charges for services	-	997,358	997,358	2,964,457
Other operating revenues	44,160	1,003	45,163	1,088
Other rents	-	115,385	115,385	-
Total operating revenues	17,234,546	1,113,746	18,348,292	2,965,545
OPERATING EXPENSES				
Administrative and general-Water services	1,204,968	-	1,204,968	-
Administrative and general-Sewer services	734,992	-	734,992	-
Administrative and general-Storm drainage	602,278	-	602,278	-
Administrative and general	-	853,332	853,332	280,204
Maintenance and operations-Water	2,600,835	-	2,600,835	-
Maintenance and operations-Sewer	5,845,871	-	5,845,871	-
Maintenance and operations-Storm	741,201	-	741,201	-
Maintenance and operations	-	98,431	98,431	1,286,191
Insurance and claims	-	-	-	493,145
Depreciation	2,034,722	41,402	2,076,124	724,313
Total operating expenses	13,764,867	993,165	14,758,032	2,783,853
Operating income (loss)	3,469,679	120,581	3,590,260	181,692
NONOPERATING REVENUES (EXPENSES)				
Miscellaneous	51,678	(40)	51,638	(40,496)
Miscellaneous interest revenue	17,469	-	17,469	3,448
Insurance and claims	-	-	-	6,242
Debt issuance costs	(6,936)	-	(6,936)	-
Interest expense	(500,194)	(1,142)	(501,336)	(345)
Gain (loss) on Disposition of capital assets	475	-	475	95,372
Other	170,000	-	170,000	158
Total nonoperating revenues (expenses)	(267,508)	(1,182)	(268,690)	64,379
Income (loss) before contributions and transfers	3,202,171	119,399	3,321,570	246,071
Capital contributions and transfers				
Water	80,969	-	80,969	-
Sewer	11,752	-	11,752	-
Storm	730,000	-	730,000	-
Transfers in	-	-	-	1,306,533
Transfers out	(1,737,443)	-	(1,737,443)	-
Change in net position	2,287,449	119,399	2,406,848	1,552,604
Total net position - beginning	51,857,336	2,782,956	54,640,292	9,031,783
Prior Period Adjustment	(1,611,217)	(24,223)	(1,635,440)	(584,116)
Total net position - ending	$ 52,533,568	$ 2,878,132	$ 55,411,700	$ 10,000,271

Adjustment for the net effect of the current year activity between the internal service funds and the enterprise funds and prior periods	(966,283)
Changes in net position of business-type activities	$ 1,737,691

The notes to 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, 2014

	Business-Type Activities			Governmental Activities
	Water and Sewer Utility	Golf Course	Totals	Internal Service Funds
Cash flows from operating activities:				
Receipts from customers	$ 16,344,093	$ 1,126,724	$ 17,470,817	$ 2,971,261
Payments to suppliers	(6,922,938)	(829,968)	(7,752,906)	(1,791,851)
Payments to employees	(3,988,980)	(141,844)	(4,130,824)	(536,963)
Other receipts (payments)	-	(4,421)	(4,421)	-
Payments/Receipts To Other Funds	(1,388,911)	(53,457)	(1,442,368)	(315,499)
Net cash provided by (used for) operating activities	4,043,264	97,034	4,140,298	326,948
Cash flows from noncapital financing activities:				
Operating subsidies and transfers to other funds	-	-	-	-
Interfund loans (paid)/received	-	-	-	-
Interfund loan Principal & interest (paid)/received	-	(17,252)	(17,252)	(345)
Other Non-Operating Revenues	51,681	-	51,681	-
Transfers in	-	-	-	-
Transfers (out)	324,800	-	324,800	1,306,533
Net cash provided by (used for) noncapital financing activities	376,481	(17,252)	359,229	1,306,188
Cash flows from capital and related financing activities:				
Acquisition and construction of capital assets	(4,855,354)	-	(4,855,354)	(724,529)
Capital contributions	883,459	-	883,459	-
Receipts of capital grant	170,000	-	170,000	-
Proceeds/Retirement from disposal of capital assets	475	-	475	101,615
Principal paid on revenue bonds	(552,215)	-	(552,215)	-
Interest paid on revenue bonds and contracts	(569,194)	-	(569,194)	-
Net cash provided by (used for) capital and related financing activities	(4,922,829)	-	(4,922,829)	(622,914)
Cash flows from investing activities:				
Interest and dividends on investments	17,469	-	17,469	3,448
Net cash provided by (used for) investing activities	17,469	-	17,469	3,448
Net increase (decrease) in cash and cash equivalents	(485,615)	79,782	(405,833)	1,013,670
Cash and cash equivalents at beginning of year	16,605,115	212,678	16,817,793	3,378,945
Cash and cash equivalents at end of year	$ 16,119,500	$ 292,460	$ 16,411,960	$ 4,392,615
Reconciliation to Proprietary Funds Statement of Net Position:				
Current assets:				
Cash and cash equivalents	14,169,684	255,034	14,424,718	4,392,615
Restricted assets:				
Cash	706,151	20,085	726,236	-
Customer advance payments	100,060	17,341	117,401	-
Bond current debt service	555,000	-	555,000	-
Bond future debt service	588,605	-	588,605	-
Cash and cash equivalents at end of year	16,119,500	292,460	16,411,960	4,392,615

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, 2014

	Business-Type Activities			Governmental Activities
	Water, Sewer and Storm Utility	Golf Course	Totals	Internal Service Funds
Reconciliation of operating income to net cash provided by operating activities				
Operating income (loss)	$ 4,119,760	$ 120,576	$ 4,240,336	$ 181,693
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation expense	1,384,640	41,402	1,426,042	724,313
Other non-operating disbursements	-	(40)	(40)	(40,341)
Change in assets and liabilities:				
Receivables, net	(296,216)	(4,381)	(300,597)	19,776
Inventories, deposits & prepayments	64,317	17,104	81,421	-
Accounts and other payables	(1,381,227)	(702)	(1,381,929)	(94,203)
Compensated absences	10,009	(89,903)	(79,894)	8,545
Other Current Liabilities	141,981	12,978	154,959	(472,835)
Total adjustments	(76,496)	(23,542)	(100,038)	145,255
Net cash provided by operating activities	$ 4,043,264	$ 97,034	$ 4,140,298	$ 326,948
Noncash investing, capital and financing activities:				
Retirement & write off of captial assets	1,635,439	24,223	1,659,662	(584,116)
Gain/(loss) on property dispositions	475	-	475	101,614
Contributions of capital assets	883,459	-	883,459	-

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

City of Lynnwood, Washington
Statement of Fiduciary Net Position
December 31, 2014

	Pension trust funds	Private-purpose trust funds	Agency funds
ASSETS			
Cash and cash equivalents	$ 570,066	$ -	$ 481,829
Due from other governments	-	-	1,517
Prepaid expenses	45,326	-	-
Restricted cash and investments	-	17,291	-
Total assets	615,392	17,291	$ 483,346
LIABILITIES			
Accounts payable	$ -	$ -	$ 182,254
Due to other governments	-	-	2,933
Custodial accounts	-	-	131,151
Deposits Payable	-	-	167,009
Total liabilities	-	-	$ 483,347
NET POSITION			
Held in trust for pension benefits and other purposes	$ 615,392	$ 17,291	

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

City of Lynnwood, Washington
Statement of Changes in Fiduciary Net Position
For the Year Ended December 31, 2014

	Pension trust funds	Private-purpose trust funds
ADDITIONS		
Contributions:		
Intergovernmental revenues	$ 56,876	$ -
Other interest	651	17
Total contributions	57,527	17
Investment earnings:		
Total investment earnings	-	-
Net investment earnings	-	-
Total additions	57,527	17
DEDUCTIONS		
Benefits	118,446	-
Administrative expenses	21,825	-
Total deductions	140,271	-
Change in net position	(82,744)	17
Net Position -- beginning of the year	698,136	17,274
Net Position -- end of the year	$ 615,392	$ 17,291

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Lynnwood have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The significant accounting policies are described below.

A. Reporting Entity

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

Blended Component Unit. The City of Lynnwood Council formed the Transportation Benefit District (TBD) on June 3, 2010 by its adoption of Ordinance No. 2837 pursuant to RCW 35.21.225 and RCW 36.73 for the purpose of levying of additional revenue sources for the purpose of acquiring, constructing, improving, providing and funding transportation improvements within the District that are consistent with the existing state, regional, and local transportation plans. The Transportation Benefit District is governed by the 7-member Lynnwood City Council acting in an ex officio and independent capacity. Although it is legally separated from the City of Lynnwood the Transportation Benefit District is reported as if it were part of the primary government because its sole purpose is for the construction, preservation, maintenance and operation of City streets. The TBD received its first receipt of funds collected by the Department of Licensing on June 30, 2011.

Discretely Presented Component Unit. The South Snohomish County Public Facilities District (PFD) was established by City Ordinance No 2266 on August 24, 1999, to finance, design, construct, operate and maintain a regional center as a conference, convention or special events center. A five-member board governs the PFD and is appointed to four-year terms by the City Council. 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 City is contingently liable to the 2004 and 2005 bonds. As of December 31, 2014, the outstanding 2014 sales tax bonds and the 2015 revenue bonds were $9,725,000 and $16,390,000. S&P also raised the bond rating for Lynnwood PDF's bonds, issued on behalf of the City, from "A" to "AA+."

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

Complete financial statements can be obtained at the Lynnwood City Hall.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Our policy is to allocate indirect costs to a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are -restricted to meeting the operational or capital requirements or a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

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

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

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The City considers property taxes as available if they are collected within 60 days after year end. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

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

The City reports the following major governmental funds:

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

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

The *Program Development Fund* was established to accumulate special appropriations and money from the General Fund that may be used for program development, enhancement or expansion projects, and for matching funds for grants and interlocal agreements.

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

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

The 33rd Avenue West Extension fund is for a capital construction project for extending 33rd Ave West further north adding much needed additional access to Alderwood Mall.

The City reports the following major proprietary funds:

The *Water, Sewer and Storm Drainage Utility Fund* serves as the main operating fund for providing water, sewer, and storm water utility services for the citizens of the City. It also acts to perform debt service duties for payment of outstanding revenue bonds. See Note 7 for more information on outstanding revenue bonds.

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

Additionally, the City reports the following fund types:

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

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

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

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

Trust Funds are used to account for cash and other assets received and held by the City in a trustee capacity or custodian for outside individuals or private organizations. Pension Trust and Private-

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

Agency funds are used to account for assets held by the City in a custodial capacity (assets equal liabilities) and do not involve measurement of results of operations. The City uses these funds to account for its arbitrage liabilities, and various deposits payable to State and local agencies and private contractors.

As a general rule, the effect of the interfund activity has been eliminated for the government-wide financial statements. Exceptions to this rule are charges between the utility function and other functions within the City, and any payments-in-lieu of taxes. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

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

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Water, Sewer and Storm Drainage Utility Fund, and the Golf Course Fund, are charges for services provided. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

D. Budgetary Information

1. Scope of Budget

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

Other budgets are adopted at the level of the fund, except in the general (current expense) fund, where expenditures may not exceed appropriations at the department level and the budgets constitute the legal authority for expenditures at that level. The City's "Statement of Revenues, Expenditures, and Changes in Fund Balances Budget and Actual" is presented as a one year budget for comparison purposes to make it more meaningful to the reader.

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

An encumbrance system is used for budgetary control purposes to record commitments resulting from approved purchase orders. During the year, encumbrances are recorded in the accounting system at the time purchase orders are issued for goods and services. Upon payment, the encumbrance is relieved and the actual cost of the related item is recorded as a fund expenditure. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as assigned fund balances and do not constitute expenditures or liabilities on the financial statements because the commitments will be honored during the subsequent year based on that year's budget.

In the year the biennial budget is prepared, the following are the steps in the budget process:

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

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

June to July – In June the Finance Director delivers to the department heads the Operating Budget Instructional Manual. This manual encompasses the Mayor's message, which depicts the guidelines for departmental budget projections. Also, included are the City's goals as defined by Council. This manual also provides instructions and samples of the actual working documents that are required of the departments for the development of their budgets. The working documents are due back to the Budget Analyst by the end of July.

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

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

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

2. Amending the Budget

The Mayor is authorized to transfer budgeted amounts between departments within any fund with the exception of the General Fund. Any revisions that alter the total expenditures of a fund, or of a department in the General Fund, must be approved by the City Council. In addition, any revisions that affect the number of authorized employee positions, salary ranges, hours, or other conditions of employment must be approved by the City Council.

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

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

3. Excess of Expenditures over Appropriations

The following funds experienced expenditures in excess of appropriations:

Paths and Trails Fund (128) ($619)

Ordinance #3123 which created this capital project was adopted by the City Council on 4/13/15.

The conversion to the new Enterprise Resource Planning (ERP) System required us to change our account numbers. We are bringing different modules on at different times so all items are not included. When the entire project is completed, we will have the ability to tie the amounts.

4. Deficit Fund Net Position

The following fund experienced an equity deficit at year end:

Sidewalks/Pedestrian Improvements (312) ($142,277)

The deficit in the Sidewalks/Pedestrian Improvements fund listed above arose due to timing of cash flows and complexities in fund cash management. The deficit was addressed with an interfund loan from the general fund.

E. Assets, Liabilities, Fund Balance, Net Position

1. Cash and Cash Equivalents

It is the City's policy to invest all temporary cash surpluses. At December 31, 2014, the treasurer was holding $42,381,395 in short-term residual investments (LGIP) of surplus cash. This amount is classified on the balance sheet as cash and cash equivalents in various funds. The interest on these investments is prorated to the various funds.

Beginning in 2013 compensating balances at US Bank no longer exists. For purposes of the statement of cash flows, the City considers short-term investments (including restricted assets) in the State Treasurer's Investment Pool and any other investment with a maturity of three months or less at acquisition date to be cash equivalents.

2. Investments See Note 3, *Deposits and Investments.*

3. Receivables

Taxes receivable consists of property taxes and related interest and penalties (See Property Taxes Note 2). Accrued interest receivable consists of amounts earned on investments, notes, and contracts at the end of the year.

Special assessments are recorded when levied. Special assessments receivable consist of current and delinquent assessments and related interest and penalties. Deferred assessments on the fund financial statements consist of unbilled special assessments that are liens against the property benefited. As of December 31, 2014, $2,134 of special assessments receivable were delinquent.

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

4. Amounts Due to and from Other Funds and Governments, Interfund Loans and Advances Receivable

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

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

5. Inventories

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

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

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

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

6. Restricted Assets and Liabilities

Constraints imposed by debt covenants, laws and regulations of other governments require that the City maintain cash accounts, investments, receivables for certain purposes. These accounts contain resources for construction and debt service. The current portion of related liabilities is shown as Payables from Current Restricted Assets. Specific debt service reserve requirements are described in Note 7, Long-Term Debt.

Restricted assets of the governmental activities include the following:

Cash and equivalents	$ 278,031

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

Bond covenant accounts	$ 1,808,635
Restricted cash and equivalents	61,205
Customer deposits	117,401
Total	$ 1,987,241

7. Capital assets - See Note 5, *Capital Assets*.

Capital assets, which include property, plant, equipment, and infrastructure assets (roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City of Lynnwood 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 recorded at estimated fair market value at the date of 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.

Intangible assets for the City include easements and are being treated as a non-depreciable asset similar to Land.

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

ASSET CLASS	USEFUL LIFE (YRS)
Buildings	10-50
Improvements Other Than Buildings	10-50

Equipment	3-20
Infrastructure	15-100

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

8. Deferred Outflows/Inflows of Resources

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

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

9. Compensated absences

Compensated absences are absences for which employees will be paid, such as vacation and sick leave.

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

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

1. Termination - Voluntary or discharge
   Five hours of up to 720 hours unused sick leave = 1 hour pay.

2. Termination by layoff
   Three hours of up to 720 hours unused sick leave = 1 hour pay.

3. Retirement
   Two years accumulation (192) hours = One hour unused sick leave = 1 hour pay.
   Balance of unused sick leave (up to 528 hours) = Three hours unused sick leave = 1 hour pay.

10. Other Accrued Liabilities

These accounts consist of accrued wages and accrued employee benefits.

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

12. Unearned Revenues

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

13. Net investment in capital assets

    The net investment in capital assets, reported on the governmental-wide statement of new position as of December 31, 2014, are as follows:

	Governmental Activities	Business-Type Activities	Public Facilities District
Cost of capital assets	$210,200,610	$ 104,160,723	$ 29,288,404
Less: accumulated depreciation	(74,482,976)	(53,020,296)	(6,140,630)
Book value	135,717,634	51,140,427	23,147,774
Less: capital related debt	(27,488,178)	(11,870,000)	(26,115,000)
Add: unspent bond proceeds	-	-	
Less: unamortized bond premiums/(discounts)		(159,765)	(137,755)
Net investment in capital assets	$108,229,456	$ 39,110,662	$ (3,104,981)

14. Fund Equity

    Fund balances are classified in the financial statements into five components: as nonspendable, restricted, committed, assigned and unassigned.

    Fun balances by classification for the year ended December 31, 2014 were as follows:

	General Fund	LID 93-1 I-5 & 196TH Project	33RD Ave W Extension	Total Nonmajor Funds	Total Governmental Funds
Nonspendable					
Prepaid items	$ 253,024	-	-	-	$ 253,024
Long-term interfund advances	1,000,000	-	-	-	1,000,000
Long-term Golf interfund advance	1,200,000	-	-	-	1,200,000
Restricted					
Customer depsoit	86,051	-	-	-	86,051
Custodial accounts - accrued taxes	752	-	-	-	752
Debt service	-	680,523	-	723,650	1,404,173
Capital projects	-	-	227,596	2,397,811	2,625,407
Convention center	-	-	-	751,831	751,831
Real Estate excise tax	-	-	-	1,484,288	1,484,288
Public safety	-	-	-	2,231,853	2,231,853
Park and recreation	-	-	-	1,417,445	1,417,445
Transportation	-	-	-	595,818	595,818
Transportation Benefit District	-	-	-	108,155	108,155
Committed					
Revenue stabilization	5,814,864	-	-	-	5,814,864
Petty cash	18,000	-	-	-	18,000
Advance travel	15,000	-	-	-	15,000
Art reserve	-	-	-	22,537	22,537
Capital projects	-	-	-	985,785	985,785
Tree reserve	-	-	-	90,622	90,622
Assigned					
Purchases on order	1,113,608	-	-		1,113,608
EDIF Fund	323,578	-	-		323,578
Program Development	65,627	-	-		65,627
Solid Waste Management	-	-	-	66,586	66,586
Streets	-	-	-	109,050	109,050
Unassigned	8,011,813	-	-	(142,277)	7,869,536
Total fund balances (deficits)	$17,902,317	$ 680,523	$ 227,596	$10,843,154	$ 29,653,590

FUND BALANCES (DEFICITS)					
Nonspendable	$ 2,453,024	-	-	-	$ 2,453,024
Restricted	86,803	680,522	227,596	9,710,850	10,705,771
Committed	5,847,864	-	-	1,098,944	6,946,808
Assigned	1,502,813	-	-	175,637	1,678,450
Unassigned	8,011,813	-	-	(142,277)	7,869,536
Total fund balances (deficits)	$17,902,317	$ 680,522	$ 227,596	$10,843,154	$ 29,653,589

Classifications were, as follows:

***Nonspendable Fund Balance* -** includes amounts that cannot be spent because they are either:

a. Not in spendable form; or

b. Legally or contractually required to be maintained intact.

***Restricted Fund Balance* -** includes amounts restricted to specific purposes when constraints placed on the use of resources are either:

a. Externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or

b. Imposed by law through constitutional provisions or enabling legislation.

***Committed Fund Balance* -** includes amounts that can only be used for specific purposes pursuant to constraints imposed by Council ordinance prior to the end of the reporting period. Council action is required to commit resources via ordinance or to rescind the commitment.

***Assigned Fund Balance* -** includes amounts that are constrained by the City's intent that the funds be used for specific purposes, but are neither restricted nor committed. This includes outstanding encumbrances at year-end.

***Unassigned Fund Balance* -** is the residual classification for the general fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund.

15. <u>Fund balance flow assumptions</u>

When both restricted and unrestricted resources are available for specified expenditures, restricted resources are considered spent before unrestricted resources. Within unrestricted resources, the city considers that committed funds are reduced first, followed by assigned amounts, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

F. Other

1. <u>Stabilization arrangements and minimum fund balance policies</u>

Resolution No. 2014-20 which was adopted by the City Council on November 10, 2014 amending attachment A to Resolution No. 2011-06 revised existing financial management policies and adopted a Long Term Comprehensive Financial Plan for the City. Included in these financial management policies are the following stabilization arrangements and minimum fund balance policies:

It is the policy of the City to maintain general governmental reserves and cash balances for general government at two levels and shall be made up of two components; the Revenue Stabilization Fund #098 and the General Fund Unencumbered Fund Balance (Cash Flow Balance):

General Fund Unencumbered Fund Balance to provide for adequate operating cash and cover substantial receivables until they are collected:

a. The City's General Fund shall maintain an *unassigned* fund balance of at least *the amount equivalent to the average of two month's expenses in the prior fiscal year*.

b. Achieving and maintaining this balance is the highest priority over developing and maintaining other general fund reserves.

c. The restricted reserves are intended to protect the city from major economic downturns and similar adverse financial conditions.

   i. It will be the goal of the City to maintain a Revenue Stabilization Fund at a level to cover at least two months operations in the General Fund which is equivalent to $9,000,000 in 2011.

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

   iii. Any general fund unencumbered ending balance by the end of the biennium in excess of $4,000,000 shall be transferred by the City Council to the Revenue Stabilization fund #198 until the target in policy in (c)(ii) above is achieved.

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

2. Encumbrance Commitments

As of December 31, 2014, the City has encumbered amounts that they intend to honor in the subsequent fiscal year for the following governmental funds in the aggregate:

Governmental Funds	
General Fund	$ 7,394,233
Street Construction Fund	1,435,093
Capital Improvement Fund	8,241,530
Other Governmental Funds	$ 24,766
Total Governmental Funds	$ 17,095,623

NOTE 2 - PROPERTY TAXES AND RECEIVABLES

A. Property Taxes

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

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

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

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

The City's regular tax levy was approximately $2. 57 (includes a special $.50 for Emergency Medical Services) per $1,000 on a total assessed valuation of $4,404,126,247 for total taxes of $11,325,709.

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

B. Receivables

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

Receivables	General Fund	LID 93-1 I-5 & 196th Project	33rd Ave W Extension	Nonmajor Governmental	Internal Service Fund	Total
Accounts	$ 19,977,198	$ 460,918	895,378	722,594	30,076	22,086,164
Property Taxes	14,747	-	-	-	-	14,747
Utility Taxes	919,506	-	-	-	-	919,506
Sales Taxes	3,788,289	-	-	-	-	3,788,289
Other Taxes	-	-	-	358,881	-	358,881
Special Assessments	-	1,815,060	-	-	-	1,815,060
						-
Interest	9,969	138,655	-	-	-	148,624
Gross Receivables	$ 24,709,709	$ 2,414,633	$ 895,378	$ 1,081,475	$ 30,076	$ 29,131,271
Less: Allowance for Uncollectible	(15,476,009)	-	-	(7,215)	-	(15,483,224)
Net Receivables	$ 9,233,700	$ 2,414,633	$ 895,378	$ 1,074,260	$ 30,076	$ 13,648,047

Based on the payment schedule for special assessment receivables, $1,250,000 of the amount reported in the debt service fund is not expected to be collected within the next year.

NOTE 3 – DEPOSITS AND INVESTMENTS

A. Deposits

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

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

Total Cash, Cash Equivalents & Investments	**Amount**
US Bank Checking	$2,766,962
Money Market	86,546
Petty Cash, Change Funds & Advance Travel	29,770
Custodial Accounts	11,860
Local Government Investment Pool*	42,381,395
Total	$45,276,533

*This includes $107,566 of funds for the Transportation Benefit District

As Reflected in the Financial Statements:

	Governmental Activities	Business-type Activities	Total Primary Government	Fiduciary Unit	Total
Cash & Cash Equivalents	$ 27,795,387	$16,411,960	$ 44,207,347	$1,069,186	$45,276,533

B. Investments

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

LGIP as an investment for internal tracking, but it is disclosed on the financial statements as a cash equivalent.

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

Investments	Fair Value	Maturity Date
Local Government Investment Pool	$42,381,395	--
Total Fair Value	$42,381,395	

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 for cash deposits: In accordance with state law and the city's Investment Policy, all cash deposits are held in banks that are authorized by the PDPC to accept public deposits. In order to receive and maintain and maintain PDPC approval, banks must collateralize all uninsured public deposits at 100%.

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

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

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

NOTE 4 – INTERFUND BALANCES AND TRANSFERS

C. Interfund Balances

Loans between funds are classified as either Interfund loans receivable and payable or advances to and from other funds, depending on the time period for which the loan was made. The City uses interfund loans primarily to meet short term and temporary cash flow requirements while waiting for mitigation and grant reimbursements. Advances to and from other funds are typically loans that are not expected to be repaid within one year from the date of the financial statements. An advance or loan agreement of $1,300,000 was instituted by the Golf Course and the General Fund as authorized by Resolution 2014-17, in order, to maintain sufficient cash flow in the Golf Fund. A five-year repayment was established with the first payment due August 11, 2015. All long term advances have planned repayment schedules.

Interfund balances at December 31, 2014 were, as follows:

		Due From			
Due To		Special Revenue Fund	Capital Projects Funds	Golf Course - Interfund Loan	Total
	General Fund	$ 10,000	$ 1,190,000	$ 1,300,000	$ 2,500,000
	Total	$ 10,000	$ 1,190,000	$ 1,300,000	$ 2,500,000

D. Interfund Transfers

Interfund transfers at December 31, 2014 were, as follows:

		Transfer To:					
		General Fund	Debt Service Funds	Fund 355 33rd Ave W Extention	Capital Projects Funds	Internal Service Funds	Total
Transfer From	General Fund	$ -	$1,812,121	$ -	$ 408,000	$1,306,533	$ 3,526,654
	Debt Service Funds	-	-	-	-	-	-
	Special Revenue Funds	2,310,802	-	173,726	405,608	-	2,890,136
	Capital Projects Funds	-	-	-	2,666,826	-	2,666,826
	Utility Fund	-	-	219,953	1,517,489	-	1,737,442
	Internal Service Funds	-	-	-	-	-	-
	Agency Funds	-	-	-	-	-	-
	Total	$2,310,802	$1,812,121	$ 393,679	$4,997,924	$1,306,533	$10,821,060

Interfund transfers are the flow of assets without a reciprocal return of assets, goods, or services in return. The City uses transfers to 1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, 2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and 3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

NOTE 5 - CAPITAL ASSETS

Capital assets consist of land, buildings, improvements, machinery and equipment, infrastructure (e.g., roads, bridges, traffic controls, library collections, and similar items), and intangibles (e.g., computer software and other intellectual property) with an estimated useful life of more than one year. Land is capitalized at cost with no minimum threshold. Buildings, improvements, machinery and equipment and intangibles are capitalized when the cost of an individual item exceeds $5,000. Assets are valued at actual historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets and infrastructure are valued at their estimated fair value on the date received. Capital assets financed by capital leases are recorded at the present value of lease payments. Renewals and betterments are capitalized and depreciated over the remaining useful lives of the related properties. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized cost of the assets constructed. The total amount of interest cost incurred by business-type activities during 2014 was $580,425 of which $18,350 was capitalized. The cost of normal maintenance and repair of both governmental and business-type assets is charged to operations as incurred. Capital assets are reported in the applicable governmental or business-type columns in the government-wide financial statements. Capital assets of the internal service funds are reported with governmental assets in the statement of net position.

Capital assets activity for the year ended December 31, 2014, was as follows:

City of Lynnwood, Washington
Governmental-Type Activity Capital Assets
As of December 31, 2014

Governmental Activities:	Balance 1/1/2014	Prior Period Adjustments	Increases	Decreases	Balance 12/31/2014
Capital assets, not being depreciated:					
Land	$ 30,159,489	(340,682)	$ 2,789,875	$ (373,625)	$ 32,235,057
Easements	436,742	-	-	-	436,742
Art, non-depreciable	164,517	-	-	-	164,517
Construction in progress	7,695,984	(2,183,246)	4,128,420	(2,262,038)	7,379,120
Total capital assets, not being depreciated	38,456,732	(2,523,928)	6,918,295	(2,635,663)	40,215,436
Capital assets, being depreciated:					
Buildings	45,798,627	-	162,550	-	45,961,177
Improvements other than buildings	40,521,289	(19,586,552)	2,351,691	(5,450)	23,280,979
Machinery and Equipment	18,618,475	(16,586)	1,286,163	(569,010)	19,319,042
Infrastructure	57,681,370	23,151,620	590,987	-	81,423,976
Total capital assets, being depreciated	162,619,761	3,548,482	4,391,391	(574,460)	169,985,174
Less accumulated depreciation for:					
Buildings	(13,700,239)	(16,914)	(1,312,346)	-	(15,029,499)
Improvements other than buildings	(14,735,746)	1,702,564	(1,181,673)	5,450	(14,209,405)
Machinery and equipment	(8,867,499)	(513,676)	(1,282,883)	569,141	(10,094,917)
Infrastructure	(31,293,506)	(1,702,564)	(2,153,085)	-	(35,149,155)
Total accumulated depreciation	(68,596,990)	(530,590)	(5,929,987)	574,591	(74,482,976)
Total capital assets, being depreciated, net	94,022,771	3,017,892	(1,538,596)	-	95,502,198
Governmental activities capital assets, net	$ 132,479,503	$ 493,964	$ 5,379,699	$ (2,635,663)	$ 135,717,634

City of Lynnwood, Washington
Business-Type Activity Capital Assets
As of December 31, 2014

Business-type activities:	Balance 1/1/2014	Prior Period Adjustments	Increases	Decreases	Balance 12/31/2014
Capital assets, not being depreciated:					
Land	$ 8,081,444	$ -	$ -	$ (20)	$ 8,081,424
Easements	4,150,120	-	-	-	4,150,120
Construction in progress	2,393,752	-	1,725,304	(216,252)	3,902,804
Total capital assets, not being depreciated	14,625,316	-	1,725,304	(216,272)	16,134,348
Capital assets, being depreciated:					
Buildings	36,388,159	-	-	-	36,388,159
Improvements other than buildings	1,966,047	(373,969)	20	-	1,592,098
Machinery and equipment	4,089,036	-	780,316	(21,989)	4,847,363
Infrastructure	44,322,475	373,970	502,310	-	45,198,755
Total capital assets, being depreciated	86,765,717	1	1,282,646	(21,989)	88,026,375
Less accumulated depreciation for:					
Buildings	(28,715,213)	(1,238,663)	(573,102)	-	(30,526,979)
Improvements other than buildings	(1,532,902)	(6,532)	(87,284)	375,740	(1,250,978)
Machinery and Equipment	(1,857,495)	(52,957)	(560,664)	285,637	(2,185,479)
Infrastructure	(17,226,546)	(337,287)	(2,289,609)	796,582	(19,056,860)
Total accumulated depreciation	(49,332,156)	(1,635,440)	(3,510,659)	1,457,959	(53,020,296)
Total capital assets being depreciated, net	37,433,561	(1,635,439)	(2,228,013)	1,435,970	35,006,079
Business-type activities capital assets, net	$52,058,877	($1,635,439)	($502,710)	$1,219,698	$51,140,427

Interest costs capitalized in 2014 for business-type activities:

Interest Expense Capitalization with project(s) in 2014:	$ 10,259
Interest Expense recorded as CWIP in 2014:	-
Total 2008 Bond Interest Capitalized in 2014:	$ 10,259
Interest Expense Capitalization with project(s) in 2014:	$ 324
Interest Expense recorded as CWIP in 2014:	7,768
Total 2010 Bond Interest Capitalized in 2014:	$ 8,091
Total Interest Expense Capitalized - business-type activities:	$ 18,350

Discretely Presented Component Unit

Lynnwood Public Facilities District:	Balance 1/1/2014	Increases	Decreases	Balance 12/31/2014
Capital assets, not being depreciated:				
Land	$ 6,788,800	$ -	$ -	$ 6,788,800
Total capital assets, not being depreciated	6,788,800	-	-	6,788,800
Capital assets, being depreciated:				
Buildings	20,551,710	-	-	20,551,710
Intangible Assets	27,500	-	-	27,500
Improvements other than buildings	990,426	67,854	(4,340)	1,053,940
Machinery and equipment	787,079	-	-	787,079
Infrastructure	79,375	-	-	79,375
Total capital assets, being depreciated	22,436,090	67,854	(4,340)	22,499,604
Less accumulated depreciation for:				
Buildings	(4,371,608)	(488,741)	-	(4,860,349)
Intangible Assets	(25,213)	(2,287)	-	(27,500)
Improvements other than buildings	(329,751)	(122,099)	-	(451,850)
Machinery and Equipment	(707,150)	(52,770)	-	(759,920)
Infrastructure	(37,042)	(3,969)	-	(41,011)
Total accumulated depreciation	(5,470,764)	(669,866)	-	(6,140,630)
Total capital assets being depreciated, net	16,965,326	(602,012)	(4,340)	16,358,974
Component Unit capital assets, net	$ 23,754,126	$ (602,012)	$ (4,340)	$ 23,147,774

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

The City of Lynnwood implemented a change in accounting estimates by eliminating its salvage values in its capital assets. The City assigned salvage values to its capital assets, such as, to buildings, infrastructures and vehicles. As such, the cost to dispose the vehicles at the end of their useful lives would likely exceed the scrap value. The costs to demolish the capital assets would likely be more than the recoveries from the scrap. In accordance to GAAFR on Capital Assets and its salvage value, the amounts recovered from its salvage values are minimal. The City positioned itself to assume a $0 salvage value in its capital assets. With this change in accounting estimates, it impacted the accumulated depreciation and net book values of the capital assets.

Details are, as follows:	
General Governmental	1,041,140
Aggregate Remaining Funds	($547,176)
Sub-Total	$ 493,964
Business Activity-Type – Capital Assets	
Water & Sewer Utility	(1,611,217)
Golf Course	(24,223)
Grand Total	($1,141,476)

These prior period adjustments reduced the net position of invested capital assets totaling to $1,141,476.

NOTE 6 – OPERATING LEASES

Office, Warehouse, Storage Space, and Access Lease

The City leases office, warehouse, storage space, and property/land access are under non-cancellable operating leases. Total costs for these leases for the year ending December 31, 2014 was $251,751 in governmental activities and $70,220 in business-type activities. The future minimum lease payments for these leases are as follows:

Year Ending December 31	Governmental Activities	Business-Type Activities
2015	$ 254,047	$ 70,370
2016	179,111	24,882
2017	148,903	5,480
2018	24,908	5,644
2019	-	5,814
2020-2023	-	25,052
	$ 606,968	$ 137,242

Printers and Copiers

The City leases many office printers and copiers under non-cancellable operating leases. These leases have changed to cancelable leases after 2015. Total costs for these leases for the year ending December 31, 2014 was $16,468 in governmental activities and $42,543 in business-type activities. The future minimum lease payments for the non-cancellable lease is, as follows:

Year Ending December 31	Governmental Activities	Business-Type Activities
2015	$ 280	$ -
2016	-	-
2017	-	-
2018	-	-
	$ 280	$ -

Golf Carts

The City leases 22 Yamaha golf carts under non-cancellable operating leases. Premier Golf Centers, LLC. assumed responsibility for the operations of our Golf Course January 1, 2014, this lease was transferred to them.

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. At December 31, 2014 delinquent special assessments totaled $2,893 including penalties.

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, 2014:

GOVERNMENTAL ACTIVITIES:	BALANCE 1/1/2014	PLUS ADDITIONS	LESS REDUCTIONS	BALANCE 12/31/2014	CURRENT PORTION
General obligations bonds	$ 26,673,142	$ -	$ 854,964	$25,818,178	$ 847,706
Special assessment bonds	2,125,000	-	455,000	1,670,000	420,000
Subtotal	$ 28,798,142	$ -	$ 1,309,964	$ 27,488,178	$ 1,267,706
OPEB & Firefighter Pension Fund	2,762,280	588,325	-	3,350,605	-
Compensated absences *	4,325,422	213,695	-	4,539,117	1,098,196
TOTAL GOVERNMENTAL ACTIVITIES	$ 35,885,844	$ 802,020	$ 1,309,964	$ 35,377,900	$ 2,365,902

BUSINESS TYPE ACTIVITIES:					
Revenue bonds	$ 12,410,000	$ -	$ 540,000	$ 11,870,000	$ 555,000
Compensated absences	348,481	-	79,896	268,585	76,031
TOTAL BUSINESS TYPE ACTIVITIES	$ 12,758,481	$ -	$ 619,896	$ 12,138,585	$ 631,031

Payments on the bonds and notes payable that pertain to the City's governmental activities are made by the debt service funds. The General Fund has been used in prior years to liquidate the OPEB and Firefighter's Pension fund obligations.

Internal Service funds predominantly serve the governmental funds. Accordingly, long term liabilities related to internal service funds are included as part of the above totals for governmental activities. At year end, $53,238 of internal service funds compensated absences are included in the above amounts. Also, for governmental activities, claims, judgments and compensated absences are generally liquidated by the general fund. Compensated absences are also supplemented by a small percentage of the Street Fund.

Long-term debt at December 31, 2014 consisted of the following:

GENERAL OBLIGATIONS BONDS

ISSUE NAME	% INT. RATES	ISSUE DATE	MATURITY DATE	AUTHORIZED	OUTSTANDING 1/1/2014	CHANGES	12/31/2014
2005 GO. Bonds (800 Mhz)	3.0-5.0	2005	2019	$ 1,519,147	$ 726,103	$ (107,925)	$ 618,178
State Capital Loan *	4.03673	2004	2014	534,295	32,037	(32,037)	-
2009 GO. Refund Bonds	3.0-4.0	2009	2017	4,640,000	1,245,000	(290,000)	955,000
2012 GO. Bonds (Rec Ctr)	2.0-4.0	2012	2037	24,955,000	24,670,000	(425,000)	24,245,000
Total General Obligation Bonds				$ 31,648,442	$ 26,673,140	$ (854,962)	$ 25,818,178

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

REVENUE BONDS

ISSUE NAME	% INT. RATES	ISSUE DATE	MATURITY DATE	AUTHORIZED	OUTSTANDING 1/1/2014	CHANGES	12/31/2014
2008 Utility Improvement Refunding Bonds	4.0-5.0	2008	2027	$ 10,000,000	$ 4,690,000	$ (255,000)	$ 4,435,000
2010 Utility System Revenue Bonds	2.0-4.0	2010	2030	7,720,000	7,720,000	(285,000)	$7,435,000
Total Revenue Bonds				$ 17,720,000	$ 12,410,000	$ (540,000)	$ 11,870,000

SPECIAL ASSESSMENT BONDS

ISSUE NAME	% INT. RATES	ISSUE DATE	MATURITY DATE	AUTHORIZED	OUTSTANDING 1/1/2014	CHANGES	12/31/2014
1999 LID Bonds	4.10-6.40	1999	2021	$ 11,544,287	$ 2,125,000	$ (455,000)	$ 1,670,000
Total Special Assessment Bonds				$ 11,544,287	$ 2,125,000	$ (455,000)	$ 1,670,000

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, 2014, including interest, are as follows:

YEAR ENDING 12/31	GOVERNMENTAL ACTIVITIES PRINCIPAL	GOVERNMENTAL ACTIVITIES INTEREST	BUSINESS-TYPE ACTIVITIES PRINCIPAL	BUSINESS-TYPE ACTIVITIES INTEREST	TOTAL
2015	1,267,706	1,066,535	555,000	460,163	3,349,404
2016	1,278,171	1,010,839	570,000	443,763	3,302,773
2017	1,288,636	953,581	590,000	423,913	3,256,130
2018	1,289,100	896,229	615,000	399,400	3,199,729
2019	1,089,565	834,125	625,000	374,950	2,923,640
2020-2024	4,635,000	3,647,613	3,590,000	1,513,800	13,386,413
2025-2029	5,475,000	2,810,563	4,350,000	731,000	13,366,563
2030-2034	6,565,000	1,714,638	975,000	39,000	9,293,638
2035-2037	4,600,000	372,800	0	0	4,972,800
	$27,488,178	$13,306,923	$11,870,000	$4,385,989	$57,051,090

At December 31, 2014, the City has $165,104 available in debt service funds to service the general obligation bonds. Additionally, there is $1,143,605 in restricted assets of the Water and Sewer Utility Fund. These represent sinking funds and reserve requirements as contained in the various bond indentures.

General Obligation Bonds

The City has one LOCAL loan, dated June 15, 2004, in the amount of $534,295, which is being used to finance the second phase of the City's Energy Conservation Project that included lighting retrofit, HAVAC control upgrade and water conservation enhancements. The interest rate is 4.03673% over a period of ten years. The City pledged its non-voted debt capacity for this loan. The final principal and interest payment for this loan will be paid in 2014.

The Limited Tax General Obligation Refunding Bonds Series 2009A and 2009B were issued in April 2009 for the purchase of software, equipment for police vehicles and golf course equipment. Proceeds were also used to refund the City's outstanding Limited Tax General Obligation Refunding Bonds, 1996 and Limited Tax General Obligation Bonds, 1998. Annual principal payments range from $290,000 to $995,000 with interest varying from 3% to 4% payable semi-annually. The final principal and interest payment for Series 2009A was paid in 2013, and for Series 2009B will be in 2017. The City expensed bond premiums in the year of issuance instead of amortizing them over the life of the bonds.

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

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

Revenue Bonds

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

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

Contingent Liability for Public Facilities District (PFD) non-exchange transaction.

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

In reference to GASB 70, it is not required for the City of Lynnwood to include the PFD's debt in its own financial statements as a liability unless the PFD gets into a position that it may not be able to make its debt service payments. (Please see Note 1 Discretely Presented Component Unit about its capacity of paying these bonds).

B. DEBT LIMIT CAPACITY

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

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

Segment 2 – City-Owned Water and Sewer Purposes
The City can incur debt up to an additional two and one-half percent (2.5%) for water and sewer purposes with a 60 percent vote in favor of the issue by at least 40 percent of the voters voting in the last general election.

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

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

	Governmental Purposes		Water & Sewer Purposes	Park & Capital Facilities
	Without Vote (Councilmanic) 1.5%	With Vote 1.0%	With Vote 2.5%	With Vote 2.5%
Legal Limits	$66,061894	$44,041,262	$110,103,156	$110,103,156
Net Outstanding Indebtedness	($37,325,836)			
Margin Available	$28,736058	$44,041,262	$110,103,156	$110,103,156

Tax year 2014 assessed value of $4,404,126,247 was used for this calculation.

Bond Ratings

At December 31, 2014, the City held the following bond ratings:

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

Standard and Poor's (S&P) raised the City's existing limited general obligation from "A+" to "AA+" in 2014. They noted Lynnwood's strong local retail and small business based economy, overall budgetary flexibility and performance, liquidity (cash) position, favorable debt profile, and management conditions with good financial management practices.

NOTE 8 - PENSION PLANS

Substantially all City of Lynnwood full-time and qualifying part-time employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit retirement plans.

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

Department of Retirement Systems
Communications Unit
P.O. Box 48380
Olympia, WA 98504-8380
or it may be downloaded from the DRS website at www.drs.wa.gov

The following disclosures are made pursuant to the GASB Statement 27, *Accounting for Pensions by State and Local Government Employers,* the GASB Statement 50, *Pension Disclosures, an Amendment of GASB Statements No. 25 and No. 27 and GASB Statement 67.*

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

Plan Description

The Legislature established PERS in 1947. Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior courts; employees of legislative committees; employees of district and municipal courts; and employees of local governments. Membership also includes higher education employees not participating in higher education retirement programs. Approximately 49 percent of PERS salaries are accounted for by state employment. PERS retirement benefit provisions are established in Chapters 41.34 and 41.40 RCW and may be amended only by the State Legislature.

PERS is a cost-sharing multiple-employer retirement system comprised of three separate plans for membership purposes: Plans 1 and 2 are defined benefit plans and Plan 3 is a defined benefit plan with a defined contribution component.

PERS members who joined the system by September 30, 1977 are Plan 1 members. Those who joined on or after October 1, 1977 and by either, February 28, 2002 for state and higher education employees, or August 31, 2002 for local government employees, are Plan 2 members unless they exercised an option to transfer their membership to Plan 3. PERS members joining the system on or after March 1, 2002 for state and higher education employees, or September 1, 2002 for local government employees have the irrevocable option of choosing membership in either PERS Plan 2 or Plan 3. The option must be exercised within 90 days of employment. Employees who fail to choose within 90 days default to Plan 3.

PERS is comprised of and reported as three separate plans for accounting purposes: Plan 1, Plan 2/3, and Plan 3. Plan 1 accounts for the defined benefits of Plan 1 members. Plan 2/3 accounts for the defined benefits of Plan 2 members, and the defined benefit portion of benefits for Plan 3 members. Plan 3 accounts for the defined contribution portion of benefits for Plan 3 members. Although members can only be a member of either Plan 2 or Plan 3, the defined benefit portions of Plan 2 and Plan 3 are accounted for in the same pension trust fund. All assets of this Plan 2/3 may legally be used to pay the defined benefits of any of the Plan 2 or Plan 3 members or beneficiaries, as defined by the terms of the plan. Therefore, Plan 2/3 is considered to be a single plan for accounting purposes.

PERS Plan 1 and Plan 2 retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to the PERS Plan 1 and Plan 2 defined benefit plans accrue interest at a rate specified by the Director of DRS. During DRS' Fiscal Year 2013, the rate was five and one-half percent compounded quarterly. Members in PERS Plan 1 and Plan 2 can elect to withdraw total employee contributions and interest thereon, in lieu of any retirement benefit, upon separation from PERS-covered employment.

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

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

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

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

Plan 1 members may elect to receive an optional COLA that provides an automatic annual adjustment based on the Consumer Price Index. The adjustment is capped at 3% annually. To offset the cost of this annual adjustment, the benefit is reduced.

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

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

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

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

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

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

PERS Plan 2 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of 5% for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service.

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

PERS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component and member contributions finance a defined contribution component. As established by chapter 41.34 RCW, employee contribution rates to the defined contribution component range from 5% to 15% of salaries, based on member choice. Members who do not choose a contribution rate default to a 5% rate. There are currently no requirements for employer contributions to the defined contribution component of PERS Plan 3.

PERS Plan 3 defined contribution retirement benefits are dependent upon the results of investment activities. Members may elect to self-direct the investment of their contributions. Any expenses incurred in conjunction with self-directed investments are paid by members. Absent a member's self-direction, PERS Plan 3 contributions are invested in the Retirement Strategy Fund that assumes the member will retire at age 65.

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

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

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

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

- If they have at least ten service credit years and are 55 years old, the benefit is reduced by an ERF that varies with age, for each year before age 65.
- If they have 30 service credit years and are at least 55 years old, and were hired before May 1, 2013, they have the choice of a benefit that is reduced by 3% for each year before age 65; or a benefit with a smaller (or no) reduction factor (depending on age) that imposes stricter return-to-work rules.
- If they have 30 service credit years, are at least 55 years old, and were hired after May 1, 2013, they have the option to retire early by accepting a reduction of 5% for each year before age 65.

PERS Plan 3 benefits are actuarially reduced to reflect the choice, if made, of a survivor option.

PERS Plan 2 and Plan 3 provide disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 monthly benefit amount is 2% of the AFC per year of service. For Plan 3, the monthly benefit amount is 1% of the AFC per year of service. These disability benefit amounts are actuarially reduced for each year that the member's age is less than 65, and to reflect the choice of a survivor option. There is no cap on years of service credit, and a cost-of-living allowance is granted (based on the Consumer Price Index) capped at 3% annually.

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

A one-time duty-related death benefit is provided to the beneficiary or the estate of a PERS member who dies as a result of injuries sustained in the course of employment, or if the death resulted from an occupational disease or infection that arose naturally and proximately out of the member's covered employment, if found eligible by the Department of Labor and Industries.

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

Newly elected or appointed justices and judges who chose to become PERS members on or after January 1, 2007, or who had not previously opted into PERS membership, were required to participate in the JBM Program.

There are 1,176 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2013:

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

Funding Policy

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

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

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

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2013, are as follows:

Members Not Participating in JBM:

	PERS Plan 1	**PERS Plan 2**	**PERS Plan 3**
Employer*	9.21%**	9.21%**	9.21%***
Employee	6.00%****	4.92%****	0.0%****

* The employer rates include the employer administrative expense fee currently set at 0.18%.
** The employer rate for state elected officials is 13.73% for Plan 1 and 9.21% for Plan 2 and Plan 3.
*** Plan 3 defined benefit portion only.
**** The employee rate for state elected officials is 7.50% for Plan 1 and 4.92% for Plan 2.
***** Variable from 5.0% minimum to 15.0% maximum based on rate selected by the PERS 3 member.

Members Participating in JBM:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer-State Agency*	11.71%	11.71%	11.71%**
Employer-Local Gov't Units*	9.21%	9.21%	9.21%**
Employee-State Agency	9.76%	9.80%	7.50%***
Employee-Local Gov't Units	12.26%	12.30%	7.50%***

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

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

	PERS Plan 1*	PERS Plan 2	PERS Plan 3
2014	$ 14,412	$ 1,199,741	$ 144,949
2013	$ 23,982	$ 1,075,419	$ 113,042
2012	$ 29,308	$ 927,106	$ 87,117

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

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

Plan Description

LEOFF was established in 1970 by the Legislature. Membership includes all full-time, fully compensated, local law enforcement commissioned officers, firefighters and, as of July 24, 2005, emergency medical technicians. LEOFF membership is comprised primarily of non-state employees, with Department of Fish and Wildlife enforcement officers, who were first included effective July 27, 2003, being an exception. LEOFF retirement benefit provisions are established in chapter 41.26 RCW and may be amended only by the State Legislature.

LEOFF is a cost-sharing multiple-employer retirement system comprised of two separate defined benefit plans. LEOFF members who joined the system by September 30, 1977 are Plan 1 members. Those who joined on or after October 1, 1977 are Plan 2 members.

Effective July 1, 2003, the LEOFF Plan 2 Retirement Board was established by Initiative 790 to provide governance of LEOFF Plan 2. The Board's duties include adopting contribution rates and recommending policy changes to the Legislature.

LEOFF retirement benefits are financed from a combination of investment earnings, employer and employee contributions, and a special funding situation in which the state pays through legislative appropriations. Employee contributions to the LEOFF Plan 1 and Plan 2 defined benefit plans accrue interest at a rate specified by the Director of DRS. During DRS' Fiscal Year 2013, the rate was five and one-half percent compounded quarterly. Members in LEOFF Plan 1 and Plan 2 can elect to withdraw total employee contributions and interest earnings, in lieu of any retirement benefit, upon separation from LEOFF-covered employment.

LEOFF Plan 1 members are vested after the completion of five years of eligible service. Plan 1 members are eligible for retirement with five years of service at the age of 50.
The benefit per year of service calculated as a percent of final average salary (FAS) is as follows:

Term of Service	Percent of Final Average Salary
20 or more years	2.0%
10 but less than 20 years	1.5%
5 but less than 10 years	1.0%

The FAS is the basic monthly salary received at the time of retirement, provided a member has held the same position or rank for 12 months preceding the date of retirement. Otherwise, it is the average of the highest consecutive 24 months' salary within the last 10 years of service. A cost-of-living allowance is granted (based on the Consumer Price Index).

LEOFF Plan 1 provides death and disability benefits. Death benefits for survivors of Plan 1 members on active duty consist of the following: (1) If there is an eligible spouse, 50 % of the FAS, plus 5% of the FAS for each eligible surviving child, with a limitation on the combined benefit of 60% of the FAS; or (2) If there is no eligible spouse, eligible children receive 30% of the FAS for the first child plus 10% for each additional child, subject to a 60% limitation of the FAS, divided equally.

A one-time duty-related death benefit is provided to the beneficiary or the estate of a LEOFF Plan 1 member who dies as a result of injuries or illness sustained in the course of employment, or if the death resulted from an occupational disease or infection that arose naturally and proximately out of the member's covered employment, if found eligible by the Department of Labor and Industries.

The LEOFF Plan 1 disability benefit is 50% of the FAS plus 5% for each child up to a maximum of 60%. Upon recovery from disability before the age of 50, a member is restored to service with full credit for service while disabled. Upon recovery after the age of 50, the benefit continues as the greater of the member's disability benefit or service retirement benefit.

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

Plan 2 members are eligible for retirement at the age of 53 with five years of service, or at age 50 with 20 years of service. Plan 2 members receive a benefit of 2% of the FAS per year of service (the FAS is based on the highest consecutive 60 months), actuarially reduced to reflect the choice of a survivor option. Members who retire prior to the age of 53 receive reduced benefits. If the member has at least 20 years of service and is age 50, the reduction is 3% for each year prior to age 53. Otherwise, the benefits are actuarially reduced for each year prior to age 53. A cost-of-living allowance is granted (based on the Consumer Price Index), capped at 3% annually.

LEOFF Plan 2 provides disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 benefit amount is 2% of the FAS for each year of service. Benefits are reduced to reflect the choice of survivor option and for each year that the member's age is less than 53, unless the disability is duty-related. If the member has at least 20 years of service and is age 50, the reduction is 3% for each year prior to age 53.

A disability benefit equal to 70% of their FAS, subject to offsets for workers' compensation and Social Security disability benefits received, is also available to those LEOFF Plan 2 members who are catastrophically disabled in the line of duty and incapable of future substantial gainful employment in any capacity. Effective June 2010, benefits to LEOFF Plan 2 members who are catastrophically disabled include payment of eligible health care insurance premiums.

Members of LEOFF Plan 2 who leave service because of a line of duty disability are allowed to withdraw 150% of accumulated member contributions. This withdrawal benefit is not subject to federal income tax. Alternatively, members of LEOFF Plan 2 who leave service because of a line of duty disability may be eligible to receive a retirement benefit of at least 10% of FAS and 2% per year of service beyond five years. The first 10% of the FAS is not subject to federal income tax.

LEOFF Plan 2 retirees may return to work in an eligible position covered by another retirement system, choose membership in that system and suspend their pension benefits, or not choose membership and continue receiving pension benefits without interruption.

A one-time duty-related death benefit is provided to the beneficiary or the estate of a LEOFF Plan 2 member who dies as a result of injuries or illness sustained in the course of employment, or if the death resulted from an occupational disease or infection that arose naturally and proximately out of the member's covered employment, if found eligible by the Department of Labor and Industries.

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

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

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

There are 374 participating employers in LEOFF. Membership in LEOFF consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2013:

Retirees and Beneficiaries Receiving Benefits	10,511
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	699
Active Plan Members Vested	16,830
Active Plan Members Non-Vested	1,600
Total	**29,640**

Funding Policy

Employer and employee contribution rates are developed by the Office of the State Actuary to fully fund the plans. Starting on July 1, 2000, Plan 1 employers and employees contribute zero percent, as long as the plan remains fully funded. Plan 2 employers and employees are required to pay at the level adopted by the LEOFF Plan 2 Retirement Board.

The Legislature, by means of a special funding arrangement, appropriates money from the state General Fund to supplement the current service liability and fund the prior service costs of Plan 2 in accordance with the recommendations of the Pension Funding Council and the LEOFF Plan 2 Retirement Board. This special funding situation is not mandated by the state constitution and could be changed by statute. For DRS' Fiscal Year 2014, the state contributed $54.2 million to LEOFF Plan 2.

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

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2014, are as follows:

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

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

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

	LEOFF Plan 1	LEOFF Plan 2
2014	$ 187	$ 671,133
2013	$ 187	$ 627,743
2012	$ 322	$ 612,960

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

Plan Description

PSERS was created by the 2004 Legislature and became effective July 1, 2006. PSERS retirement benefit provisions have been established by Chapter 41.37 RCW and may be amended only by the State Legislature.

PSERS is a cost-sharing multiple-employer retirement system comprised of a single defined benefit plan, PSERS Plan 2.

PSERS membership includes:

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

Covered employers include:

- State of Washington agencies: Department of Corrections, Department of Natural Resources, Gambling Commission, Liquor Control Board, Parks and Recreation Commission, and Washington State Patrol;
- Washington State counties;
- Washington State cities except for Seattle, Tacoma and Spokane; and
- Correctional entities formed by PSERS employers under the Interlocal Cooperation Act.

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

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

PSERS retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to the plan accrue interest at a rate specified by the Director of DRS. During DRS' fiscal year 2013, the rate was five and one-half percent compounded quarterly. Members in PSERS Plan 2 can elect to withdraw total employee contributions and interest thereon upon separation from PSERS-covered employment.

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

PSERS members may retire with a monthly benefit of 2 percent of the average final compensation (AFC) at the age of 65 with five years of service, or at the age of 60 with at least 10 years of PSERS service credit, or at age 53 with 20 years of service. The AFC is the monthly average of the member's 60 consecutive highest-paid service credit months. There is no cap on years of service credit; and a cost-of-living allowance is granted (based on the Consumer Price Index), capped at 3 percent annually.

PSERS members who retire prior to the age of 60 receive reduced benefits. If retirement is at age 53 or older with at least 20 years of service, a 3 percent per year reduction for each year between the age at retirement and age 60 applies.

PSERS Plan 2 provides disability benefits. There is no minimum amount of service credit required for eligibility. The monthly benefit is 2 percent of the AFC for each year of service. The AFC is based on the member's 60 consecutive highest creditable months of service. Benefits are actuarially reduced for each year that the member's age is less than 60 (with ten or more service credit years in PSERS), or less than 65 (with fewer than ten service credit years). There is no cap on years of service credit, and a cost-of-living allowance is granted (based on the Consumer Price Index), capped at 3 percent annually.

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

A one-time duty-related death benefit is provided to the beneficiary or the estate of a PSERS member who dies as a result of injuries or illness sustained in the course of employment, or if the death resulted from an occupational disease or infection that arose naturally and proximately out of the member's covered employment, if found eligible by the Department of Labor and Industries.

There are 75 participating employers in PSERS. Membership in PSERS consisted of the following as of the latest actuarial valuation date for the plan of June 30, 2013:

Retirees and Beneficiaries Receiving Benefits	43
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	119
Active Plan Members Vested	4,513
Active Plan Members Non-vested	1,383
Total	**6,058**

Funding Policy

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

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2014, are as follows:

	PSERS Plan 2
Employer*	10.54%
Employee	6.36%

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

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

	PSERS Plan 2
2014	$ 67,189
2013	$ 53,864
2012	$ 43,137

D. FIREMEN'S PENSION FUND (FPF) – Single Employer Plan

Summary of Significant Accounting Policies

The financial statements for the Firemen's Pension Fund (FPF) are prepared in conformity with the standards set by the Governmental Accounting Standards Board (GASB) using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. Interest income is recognized when earned. 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.

Separate financial statements are not issued for the FPF. The statement of fiduciary net position and the statement of changes in fiduciary net position for the fire pension plan can be found in the Trust and Agency Section of the Basic Financial Statements. The notes to the FPF provide detailed disclosures related to GASB Statements 27, 50, and 67. During the reporting year of 2014, the City of Lynwood's Statement of Net Position reported the required Net Pension Obligation asset as a result of GASB 27 and 50 standards. GASB Standard 67, as noted in Note 14 – Accounting and Reporting Changes, requires the reporting of updated standards and the recognition of a net pension liability.

Plan Description

Plan administration. The City is the administrator of the Firemen's Pension System, which is shown as a pension trust fund in the City's financial statements. The Firemen's Pension System is a single-employer, closed defined benefit pension system that was established in conformance with Revised Code of Washington (RCW) Chapter 41.18. Membership is limited to fire fighters employed prior to March 1, 1970 when the LEOFF retirement system was established.

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

Plan membership. At December 31, 2014, pension plan membership consisted of four (4) inactive plan members and one (1) surviving spouse for a total of five (5) members currently receiving benefits. The pension plan is closed to new entrants.

Benefits provided. The City's liability under the Firemen's Pension System consists of all benefits, including payments to beneficiaries, for firemen retired prior to March 1, 1970, and excess benefits over amounts provided by LEOFF for covered fire fighters retired after March 1, 1970. Under the Firemen's Pension System, eligible fire fighters may retire at age 50 with 25 years of service. Death and disability benefits are also provided, as established under the governing State law. Individuals who terminate employment prior to retirement may withdraw their contributions to the plan plus accumulated interest, but by doing so, forfeit their rights to future pension benefits.

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

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

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

Investments

As of December 31, 2014 the FPF had $570,066 in cash and cash equivalents invested in the City's internal investment pool. Investments in the City's internal investment pool are invested in the Washington State Treasurer Local Government Investment Pool (LGIP), a Rule 2a-7 money market type fund with an average portfolio maturity of less than 91 days. All investments are valued at fair market value. Investment activities of the FPF are comingled with the City of Lynnwood treasury and therefore are included in the City's investment policy addressed in Note 3 B.

As of December 31, 2014 the annual money-weighted rate of return on pension plan investments, net of investment expenses, was 0.09 percent. The money-weighted rate of return considers the changing amounts actually invested during a period and weights the amount of pension plan investments by the proportion of time they are available to earn a return during that period.

Net Pension Liability of the City

The components of the net pension liability of the City at December 31st were as follows:

Total pension liability	$ 1,219,074
Plan fiduciary net position	615,392
City's net pension liability	$ 603,682
Plan fiduciary net position as a percentage of the total pension liability	50.48%

Actuarial assumptions. The total pension liability was determined by an actuarial valuation as of January 1, 2014, calculated based on the discount rate and actuarial assumptions below, and was then projected forward to the measurement date.

	December 31, 2013	December 31, 2014
Discount Rate	3.75%	3.50%
Long-Term expected rate of return, net of investment expense	3.75%	3.50%
Municipal bond rate	N/A	3.50%
Valuation Date	January 1, 2014	January 1, 2014
Measurement Date	December 31, 2013	December 31, 2013
Inflation	2.50%	2.50%
Salary increases including inflation	3.50%	3.50%
Mortality	RP-2000 Mortality Table (combined healthy) projected to 2019 using 50% of Projection Scale AA, with ages set back one year for males and forward one year for females (set forward two years for disabled members)	RP-2000 Mortality Table (combined healthy) projected to 2019 using 50% of Projection Scale AA, with ages set back one year for males and forward one year for females (set forward two years for disabled members)
Actuarial cost method	Entry Age Normal	Entry Age Normal

The long-term expected rate of return on pension plan investments was determined by combining expected inflation to expected long-term real returns and reflecting expected volatility and correlation. The capital market assumptions are as of December 31, 2014 are as follows:

Asset Class	Index	Long-Term Expected Real Rate of Return
Cash	Citigroup 90-Day T-Bills	0.54%
Short-Term Bonds	Citigroup 1-3 Year Gov/Cred	1.52%
Long-Term Bonds	Barclays Long Gov/Cred	2.99%
Assumed Inflation - Mean		2.25%
Long-Term Expected Rate of Return		**3.50%**

The discount rate used to measure the total pension liability was 3.50 percent. The long-term expected return on plan investments may be used to discount liabilities to the extent that the plan's Fiduciary Net Position is projected to cover benefit payments and administrative expenses. The Bond Buyer General Obligation 20-year municipal bond index as of December 31, 2014 is 3.56 percent. Rounding this to the nearest 1/4 percent results in the discount rate of 3.50 percent.

Sensitivity Analysis. The following presents the net pension liability of the City, calculated using the discount rate of 3.50%, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.50%) or 1 percentage point higher (4.50%) than the current rate.

	1% Decrease 2.50%	Current Discount Rate 3.50%	1% Increase 4.50%
Total pension liability	$1,365,534	$1,219,074	$1,095,402
Fiduciary net position	615,392	615,392	615,392
Net pension liability	750,142	603,682	480,010

E. DEFERRED COMPENSATION PLAN

The City offers its employees a voluntary deferred compensation plan created in accordance with Internal Revenue Code (IRC) Section 457. The plan, available to all eligible employees, permits them to defer a portion of their salary until future years. The deferred compensation is payable to employees upon termination, retirement, death, or unforeseen emergency.

As noted in Statement No. 32, GASB "does not regard Section 457 plans as pension plans because there are no required *employer* contributions to the plans; they are more in the nature of tax-deferred employee savings plans."

The City has placed the deferred compensation plan assets into trust for the exclusive benefit of plan participants and beneficiaries in accordance with GASB Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*. The plan is administered by the ICMA Retirement Corporation. The City has little administrative involvement, does not hold the assets in a trustee capacity, and does not perform fiduciary accountability for the plan. Therefore, the City employee's deferred compensation plan created in accordance with IRC 457 is not reported in the financial statements of the City.

F. FIREFIGHTER'S SUPPLEMENTAL RETIREMENT PLAN

The City offers an additional supplemental retirement plan for firefighters, per negotiated labor contract. The City contributes up to 6.2% of an employee's base salary to their existing deferred compensation plan provided the employee matches at least 67% of the employer's contribution; such that, for example for every dollar contributed to the plan, a minimum of forty cents ($.40) shall be contributed by the employee. The City's fiscal year 2013 contributions to the plan totaled $323,802.

G. RETIREE HEALTH SAVINGS PLAN

The City offers a Retiree Health Savings (RHS) Plan for certain employees, per negotiated contracts. The plan is administered by the ICMA Retirement Corporation. The RHS plan provides tax-free savings for payment of medical expenses eligible under Internal Revenue Code (IRC) Section 213, other than direct long-term care expenses. Participants contribute 1% of their earnings to this account, and are eligible to receive benefits upon reaching age 55. In addition, upon termination of employment any accumulated sick leave payout for these employees is deposited to their RHS plan, in accordance with the limits disclosed in Note 1. M. Compensated Absences.

NOTE 9 - OTHER POST EMPLOYMENT BENEFITS

In accordance with the Revised Code of Washington (RCW) 41.26, the City provides post-retirement health care benefits for members of the Law Enforcement Officers and Firefighters (LEOFF) retirement system hired prior to October 1, 1977. The plan is a closed, single-employer defined benefit healthcare plan administered by the City. The City provides medical, vision, and long-term care insurance, and reimburses for all Board approved claims for medical, dental, vision, and hospitalization costs not covered by standard benefit plan provisions. As of December 31, 2013, there were 48 retirees and no active LEOFF 1 employees. Financial reporting for the LEOFF retiree healthcare plan is included in the City's Comprehensive Annual Financial Report. The plan does not issue stand-alone financial statements. The date of the last actuarial valuation financial report prepared by Milliman was January 1, 2014.

Funding Policy

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

Annual OPEB Cost and Net OPEB Obligation

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

For GASB purposes, the Annual Required Contribution (ARC) was calculated using the Entry Age Normal Cost Method, one of the acceptable actuarial funding methods. Under this method the projected benefits are allocated on a level basis as a percentage of salary over the earnings of each individual between entry age and assumed exit age.

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

	12/31/2012	12/31/2013	12/31/2014
Annual required contribution (ARC)			
1. Annual Normal Cost (BOY)	$ 22,894	$ 22,894	$ 0
2. Amortization of UAAL (BOY)	1,272,720	1,272,720	1,421,340
3. Interest to EOY [(1) + (2)] x*(i)**	51,825	51,825	53,300
4. ARC at EOY [(1)+(2)+(3)]	$ 1,347,439	$ 1,347,439	$ 1,474,640
5. Interest on Net OPEB Obligation	$ 67,847	$ 84,494	95,592
6. Adjustment to ARC	102,043	130,015	157,048
7. Annual OPEB Cost [(4)+(5)-(6)]	$ 1,313,243	$ 1,301,918	$ 1,413,184
8. Employer Contributions	897,063	865,145	868,971
9. Change in Net OPEB Obligation [(7)-(8)]	416,180	436,773	544,213

10. Net OPEB Obligation at BOY [(11) prior year]	$	1,696,167	$	2,112,347	$	2,549,120
11. Net OPEB Obligation at EOY [(9)+(10)]	$	2,112,347	$	2,549,120	$	3,093,333

* *'i' is the assumed interest rate that year: 4.00% in 2012, 4.00% in 2013, and 3.75% in 2014.*

The net OPEB obligation of $3,093,333 (FY 2014) is included as a noncurrent liability on the City's Statement of Net Position.

The City's OPEB cost, the percentage of OPEB cost contributed to the plan, and the net OPEB obligation for 2012, 2013 and 2014 were, as follows:

Fiscal Year Ending	Annual OPEB Cost	Contribution as a Percentage of Annual OPEB Cost	Net OPEB Obligation
December 31, 2012	$ 1,313,243	68%	$2,112,347
December 31, 2013	1,301,918	66%	2,549,120
December 31, 2014	1,413,184	61%	3,093,333

Funded Status and Funding Progress

As of January 1, 2014, the most recent actuarial valuation date, the plan was 0% funded. The accrued liability for benefits was $23,071,000 and the actuarial value of the assets was $0 resulting in an unfunded actuarial accrued liability (UAAL) of $23,071,000. Funding for LEOFF 1 retiree healthcare costs is provided entirely by the City on a pay-as-you-go basis.

As of January 1, 2011 (the date of the previous valuation), the present value of retiree medical benefits was determined to be $21.683 million. The total present value of $23.071 million was 7% higher than expected. The primary reason for the liability increase was the new excise tax for "Cadillac" health plans in 2018 and beyond.

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

Actuarial Assumptions

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

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

The assumptions used by Milliman for the January 1, 2014 actuarial valuation include the following:

Valuation Date	January 1, 2014	
Actuarial Cost Method	Entry Age Normal	
Amortization Method	30-year, closed as of January 1, 2008	
Remaining Amortization Period	24 years	
Investment Rate of Return	3.75%	
Medical Trend	Year	Medical Cost Rate
	2014-2015	6.9% - 7.0%
	2015-2016	6.0%
	2016-2017	6.1% - 6.2%
	2017-2018	5.8%
Medical Trend	Year	Medical Cost Rate
	2018-2019	5.9%
	2019-2025	5.8%
	2025-2031	5.7%
	2031-2036	5.6%
Long-Term Care Inflation Rate	4.75%	
Dental Trend	5.0	

Association of Washington Cities Employee Benefit Trust

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

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

AWC HealthFirst® 1000

Health First – 1000

$830.01 for non-Medicare enrolled retiree coverage

$837.26 for non-Medicare enrolled spouse coverage

$443.30 for Medicare enrolled retiree coverage

$456.13 for Medicare enrolled spouse coverage

$234.71 for Medicare enrolled first child coverage

$185.62 for Medicare enrolled second child coverage

AWC HealthFirst® 2500

$724.72 for non-Medicare enrolled retiree coverage

$729.99 for non-Medicare enrolled spouse coverage

$388.08 for Medicare enrolled retiree coverage

$398.04 for Medicare enrolled spouse coverage

$205.19 for Medicare enrolled first child coverage

$162.43 for Medicare enrolled second child coverage

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

The City's contributions to the Trust for the year ended December 31, 2014 was $670,529. The City covers also medical benefits for LEOFF retirees beyond allowable medical charges by the Trust. As such, the City's additional contributions aggregate to $119,524 in 2014.

NOTE 10 – RISK MANAGEMENT

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

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

The City of Lynnwood is a member of Cities Insurance Association of Washington (CIAW). Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together into or join a program or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self-insure, or hire or contract for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the lnterlocal Cooperation Act. The program was formed on September 1, 1988, when 34 cities in the state of Washington joined together by signing an lnterlocal Governmental Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. As of December 1, 2014, there are 223 members in the program.

The program provides the following forms of joint self-insurance and excess coverage for its members: Property, including Automobile Comprehensive, and Collision; Equipment Breakdown, and Crime Protection; and Liability, including General, Automobile, and Wrongful Acts, are included to fit members' various needs.

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

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

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

A board of ten members is selected by the membership from three geographic areas of the state on a staggered term basis and is responsible for conducting the business affairs of the program. On July 21, 2014, the Board passed a resolution changing the CIAW’s renewal date from September 1st to December 1st beginning with the 2014-15 policy term. Premiums were pro-rated for the extension period. Invoices and certificates were issued accordingly. The program has no employees. Claims are filed by members with Canfield, which has been contracted to perform program administration, claims adjustment, administration, and loss, prevention for the program. Fees paid to the third party administrator under this arrangement for the year ending December 1, 2014, were $1,817,654.59.

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

CITY OF LYNNWOOD INSURANCE IN FORCE AS OF DECEMBER 31, 2014

INSURANCE COMPANY/COVERAGE	POLICY NUMBER	AMOUNT OF COVERAGE
ClAW/Brit Insurance & Torus Specialty	CIAW131434510	
Policy Effective Dates: 9/1/13 – 12/1/1		
with 3 month extension endorsement		
Commercial General Liability		
General Liability, Law Enforcement Liability,		$10,000,000
Vehicle Liability		
Liability Deductible: $75,000		
Auto Physical Damage Deductible: $100,000.		
Wrongful Acts Liability		
Public Official's Liability,		$10,000,000
Employment Practices Liability,		
Sexual Harassment		
Deductible: $75,000		
Crime		
Employee Theft		$900,000
Forgery or Alteration		$900,000
Theft of Money & Securities/Inside		$900,000
Theft of Money & Securities/Outside		$900,000
Deductible: $100,000		
Traveler's Insurance Company	KTKCMB9C897 08-2-14	
Policy Effective Dates: 4/23/14 – 4/23/15		
Hudson Specialty Insurance Co.	Policy # HCS100805 & H-14-D2854	
Excess Earthquake Policies		
Primary Property Insurance Limit other than Flood and Quake		$100,000,000
Deductible		$25,000
Flood Limit		$5,000,000
Flood Deductible		$100,000
Earthquake Limit		$5,000,000
Earthquake Deductible 5% of the value of the property damaged/$100,000 Minimum		
National Union Fire Insurance Company	GTP9121822	
Policy Effective Dates: 1/1/14 – 1/1/15		
Accidental Death or Dismemberment		$150,000
For the Council Members & the Mayor		

CITY OF LYNNWOOD INSURANCE IN FORCE AS OF DECEMBER 31, 2014

INSURANCE COMPANY/COVERAGE	POLICY NUMBER	AMOUNT OF COVERAGE
National Union Fire Insurance Company	SRG 9118452A	
Police Effective Dates: 4/20/13 – 4/20/14		
Volunteer Accidental Death or Dismemberment		$25,000
Volunteer Medical Benefits		$2,500
Deductible: $250		
Great American Insurance Company	BTA9989008-00	
Policy Effective Dates: 2/11/14- 2/11/15	Each claim/$1,000,000 aggregate	
Storage Tank Pollution Liability –		
Scheduled Storage Tanks		
Deductible: $5,000		
Navigators Specialty Insurance Company	SF14ESP0A4C2QNC	
Police Effective Dates: 2/25/14 - 2/25/15		
Environmental Impairment Liability -	$1,000,000 each claim/$5,000,000 aggregate	
Treatment Plant		
Deductible: $25,000		

NOTE 11 – CONTINGENCIES AND LITIGATIONS

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

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

As discussed in Note 7, *Long-Term Debt*, as of December 31, 2014, the City is contingently liable for $26,308,404 of 2004 variable rate Revenue and Sales Tax bonds issued by the Public Facilities District. Please see the Reporting Entity section of Note 1 for more details.

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

NOTE 12 - JOINT VENTURES

Joint Recreation Facilities

The City of Lynnwood, the City of Edmonds, Snohomish County and Edmonds School District No. 15 entered into an agreement to develop Meadowdale Playfields and Recreation Complex. The Edmonds School District provided a 25-acre site adjacent to Meadowdale Elementary, Meadowdale Middle School and Meadowdale High School. The City of Lynnwood was responsible for the construction and maintenance of the complex and bills 50% of the associated costs to the City of Edmonds on a quarterly basis. The ownership, based on total costs, is as follows:

Edmonds School District No. 15 - land	$1,000,000	33%
Snohomish County - construction contribution	150,000	5%
City of Lynnwood - construction cost	940,000	31%
City of Edmonds - construction cost	940,000	31%

This joint venture is not a separate entity therefore there are not financial statements available for 2014.

Snohomish County Emergency Radio System

The Snohomish County Emergency Radio System (SERS) was formed in 1999 via an interlocal agreement among the cities of Brier, Edmonds, Everett, Lynnwood, Marysville, Mill Creek, Mountlake Terrace, Mukilteo, Woodway, and Snohomish County to provide enhanced emergency communication services to Snohomish County. Snohomish County Fire District No. 1 joined after the original formation. SERS is responsible for design, development, financing, acquisition, operation, maintenance, and repair of the 800-megahertz emergency radio system. A 10-member Board of Directors is appointed by the cities and County to govern SERS. Each of the cities and the County are represented in the Board. Separate financial statements for the joint venture may be obtained from Snohomish County, Finance Department, 3000 Rockerfellar Avenue, Everett, WA 98201.

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

The City of Lynnwood's net equity interest in SERS as of December 31, 2014 is $559,292.

2014 Equity As of 12/31/14 Members	Beg Bal Net Equity Interest	Change in Equity Phase 1	Change in Equity Phase 2	Change in Equity O&M	Change in Equity RR	Change in Equity ER&R	End Bal Net Equity Interest
Edmonds	$ 461,108	$ (54,096)	$ -	$ 35,085	$ (989)	$ 11,477	$ 452,585
Fire District 1	422,157	(51,286)		32,545	(917)	10,646	413,146
Lynnwood	570,672	(65,422)		41,605	(1,172)	13,610	559,292
Marysville	423,721	(43,689)		58,960	(1,661)	19,287	456,618
Mill Creek	142,926	(16,523)		15,647	(441)	5,118	146,727
Mountlake Terrace	278,445	(32,869)		20,770	(585)	6,794	272,555
Snohomish County	6,876,651	(163,289)	(342,741)	487,609	(13,739)	159,506	7,003,996
Woodway	17,517	(2,231)		1,207	(34)	395	16,854
Brier	83,194	(9,926)		5,190	(146)	1,698	80,009
Everett	1,764,755	(196,807)		140,616	(3,962)	45,998	1,750,600
Mukilteo	249,652	(28,758)		16,824	(474)	5,503	242,747
Total	$ 11,290,798	$ (664,896)	$ (342,741)	$ 856,058	$ (24,120)	$ 280,032	$ 11,395,129

Notes:

- Amounts are rounded to nearest dollar
- Any change to these amounts that may arise as a result of SERS' audit cannot be reasonably determined at this time, although it is believed the would not be material.

-Source: Snohomish County Finance

Southwest Snohomish County Public Safety Communications Agency

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

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

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

At December 31, 2014, the City of Lynnwood owned an equity interest in the SNOCOM joint venture of $1,033,754. This value has been recorded in the government wide statements as an asset for the year ended December 31, 2014. The equity interest is adjusted to the extent of revenues and expenditure transactions occurring between the City of Mountlake Terrace and SNOCOM as recorded in the City of Mountlake Terrace's financial system. The City of Mountlake Terrace, who acts as the entity's fiscal agent under the Interlocal Agreement for Financial Services signed on November 25, 2009, prepares the unaudited financial information. Separate financial statements for the Snohomish County Public Safety Communication Agency can be obtained from the City of Mountlake Terrace, Finance Department, 6100 219th St SW, Suite 200, Mountlake Terrace, WA 98043.

2014 Equity Interest As of 12/31/2014 Member Agencies	Beginning Balance Net Equity Interest	Change in Equity O&M for the Year Ended 12-31-2014	Ending Balance Net Equity Interest @ 12-31-2014	Percentage Share*
Brier	$ 113,382	$ 5,897	$ 119,279	3%
Edmonds	907,057	47,178	954,235	24%
Fire District 1	529,117	27,520	556,637	14%
Lynnwood	**1,020,439**	**13,315**	**1,033,754**	**26%**
Mill Creek	302,352	95,246	397,598	10%
Mountlake Terrace	415,734	21,623	437,357	11%
Mukilteo	453,529	(16,171)	437,358	11%
Woodway	37,794	1,966	39,760	1%
Total	**$ 3,779,404**	**$ 196,574**	**$ 3,975,978**	**100%**

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

AHA – Alliance for Housing Affordability:

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

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

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

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

Fiscal Year 7/1/XX-6/30/XX	AHA's Total FY Budget	Lynnwood's Share of Budget	Lynnwood Share as % of Total AHA Budget
2014	$92,543	$2,216	5.44%
2015	$123,464	$2,753	5.44%

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

Budget monitoring information can be obtained from Finance Director, City of Mountlake Terrace, 6100 219th Street SW, Mountlake Terrace WA 98043 or from Kristina Gallant, Housing Analyst, and Alliance for Housing Affordability, 12625 4th Ave W, Suite 200, Everett, WA 98204.

<u>ESCA – Emergency Services Coordinating Agency:</u>

In accordance with generally accepted accounting principles, ESCA is a joint venture with each entity's equity interest reported on its member entities' financial statements.

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

As of 12/31/14, each member agency's cash equity interest is estimated to be the following:

City of Brier	3.36%	=$6,961
City of Edmonds	21.15%	=$43,817
Kenmore	11.32%	=$23,452
Lake Forest Park	6.75%	=$13,984
Lynnwood	9.94%	=$39,528
Mill Creek	9.94%	=$20,593
Mountlake Terrace	10.87%	=$22,520
Mukilteo	10.88%	=$22,540
Woodinville	5.95%	=$12,327
Woodway	0.69%	=$1,429

Plus physical assets (inventory available upon request)

On June 25, 2015 the Agency members passed resolution (2015-3) to dissolve ESCA during the 2015 fiscal year. The Agency is currently working to determine the full equity interest to be allocated to each member upon dissolution.

<u>AWC Employee Benefit Trust:</u>

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

An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The AWC Trust HCP was formed on January 1, 2014 when participating cities, towns, and non-city entities of the AWC Employee Benefit Trust in the State of Washington joined together by signing an Interlocal Governmental Agreement to jointly self-insure certain health benefit plans and programs for participating employees, their covered dependents and other beneficiaries through a designated account within the Trust. As of December 31, 2014, 263 cities/towns/non-city entities participate in the AWC Trust HCP.

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

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

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

The operations of the Health Care Program are managed by the Board of Trustees or its delegates. The Board of Trustees is comprised of four regionally elected officials from Trust member cities or towns, the Employee Benefit Advisory Committee Chair and Vice Chair, and the AWC Board of Directors President and Vice President. The Trustees or its appointed delegates review and analyze Health Care Program related matters and make operational decisions regarding premium contributions, reserves, plan options and benefits in compliance with Chapter 48.62 RCW. The Board of Trustees has decision authority consistent with the Trust Agreement, Health Care Program policies, Chapter 48.62 RCW and Chapter 200-110-WAC.

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

NOTE 13 - PRIOR PERIOD ADJUSTMENTS

Changes in Accounting Estimates

The City of Lynnwood implemented a change in accounting estimates by eliminating its salvage values in its capital assets. The City assigned salvage values to its capital assets, such as, to buildings, infrastructures and vehicles. As such, the cost to dispose the vehicles at the end of their useful lives would likely exceed the scrap value. The costs to demolish the capital assets would likely be more than the recoveries from the scrap. In accordance to GAAFR on Capital Assets and its salvage value, the amounts recovered from its salvage values are minimal. The City positioned itself to assume a $0 salvage value in its capital assets. With this change in accounting estimates, it impacted the accumulated depreciation and net book values of the capital assets.

Details are, as follows:

Internal Service Fund	($ 547,176)
General Governmental	1,041,140
Sub-Total	$ 493,964
Business Activity-Type – Capital Assets	
Water & Sewer Utility	(1,611,217)
Golf Course	(24,223)
Grand Total	($1,141,476)

These prior period adjustments reduced the net position of invested capital assets totaling to $1,141,476.

Correction of Accounting Errors

The City removed the capital assets in Governmental Activities for Land amounting to $340,682 and Other Improvements for $277,852. The City no longer owns the land, and the other improvements could not be account for. These prior period adjustments reduced the net position of invested capital assets totaling to $618,534.

The City recorded an additional Construction Work in Progress of $1,659,674 in 2014. This was an oversight and it should be accounted for in the other Governmental Funds. This prior period adjustment increased the net position of invested capital assets totaling to $1,659,674.

A detailed analysis of capital assets by components and categories is shown in Note 5 for Accounting for Capital Assets.

The City adjusted the Beginning Net Position of Equipment Rental Reserve Funds 510/511/513 from $9,414,056 to $9,414,185 by $129 for January 1, 2014 to reconcile the Ending Net Position of the said funds as reported in December 31, 2013.

NOTE 14 – ACCOUNTING AND REPORTING CHANGES

Changes in Accounting Estimates

The City of Lynnwood implemented a change in accounting estimates by eliminating its salvage values in its capital assets. As such, it impacted the accumulated depreciation and net book values of the capital assets for other governmental funds and business-activity type capital assets. These changes were accounted as prior period adjustments which reduced the net position of invested capital assets totaling to $2,219,556. A detailed analysis of capital assets by components and categories is shown in Note No. 5 for Accounting for Capital Assets and in Note No. 13 for Prior Period Adjustments.

Implementation of New Accounting Principles

In compliance with the following new GASB Statements, the City of Lynnwood presented the 2014 financial statements in accordance:

- 67 – Financial Reporting for Pension Plans
- 69 – Government Combinations and Disposals of Government Operations

GASB 67 establishes standards of financial reporting for pension plans that issue their own financial reports, as well as for plans that are reported as a fiduciary fund by a government. It replaces Statement No. 25. The

City of Lynnwood's fiduciary fund financial statements remain unchanged from the prior standards for 2014, but there are numerous changes to Note 8 for Pension Plan and Required Supplemental Information (RSI). In 2015, the City will adopt GASB 68 and record its net pension liability from Note 8 to the financial statements.

Other Reporting Disclosures

Fund additions/deletions in the current year are, as follows:

- Economic Development Infrastructure Fund No. 020 was added as a managerial fund within the General Fund to promote and encourage economic development by accumulating funds that could help pay for infrastructure, such as, roads and signals.

- The following funds are no longer use and have no balance in the account:
  - ✓ Capital Project Fund No. 317 - 36th Ave West
  - ✓ Capital Project Fund No. 323 - Community Center/Recreation Center
  - ✓ Internal Service Fund No. 512 – Central Stores

The Capital Project Fund - Extension of 33rd Ave West is classified as a major fund in 2014 for financial reporting purposes. In addition to the governmental and proprietary funds, a major fund is distinguished to represent the activities as one of the important funds in government and of particular interest to the users. The City took into consideration the impact of this fund on other programs and services, significance on financing activities which are of high interest to the public, and the relative size of activities of this capital project fund.

NOTE 15 - SUBSEQUENT EVENTS

BOND ISSUANCES

On March 23, 2015, the Lynnwood City Council approved Ordinance 3118 providing for the issuance of a bond anticipation note in the principal amount of not to exceed $9 million to interim financing to pay for the cost of the additions, betterments, and extensions of the City of Lynnwood Utility system.

In April 2015, the Lynnwood City Council approved the sale of $34 million in Utility Revenue Bonds which will pay-off the aforementioned bond anticipation notes. Lynnwood's Utility system capital projects were also financed by a combination of capital grants, capital contributions, government loans, and revenues from operations.

The Lynnwood Public Facilities District (PFD) issued $25,482,100 Convention Center revenue and sales tax refunding bonds to defease District's 2004 and 2005 bonds and to finance the capital construction needed at the Convention Center. On April 15, 2015, the District issued $15.605 million refunded revenue bonds maturing on December 1, 2034 with an average interest rate of 3.57% resulting to a net present value savings of $2.059 million. On June 15, 2015, the District issued $9.877 million sales tax bonds with an interest rate of 2.48% resulting to a net present value savings of $1.07 million. S&P raised their bond rating from "A" to "AA+" in 2014. Lynnwood's favorable debt profile, strong local retail and small business based economy, overall budgetary flexibility and performance, liquidity profile and management conditions with good financial management practices. On behalf of the District, the City of Lynnwood is contingently liable to these bonds as disclosed in Note 1. To date, the District is capable of paying these bonds from hotel/motel tax revenue and revenue generated from the convention center.

PURCHASES OF PROPERTIES

On March 9, 2015, the City Council approved the purchase of over 13 acres of land known as Seabrook Heights in the Lund's Gulch sensitive area for $6.1 million, of which Snohomish County Conservation Futures granted $5 million for this acquisition. This will assist the City to protect the land, the sensitive ravine, and immediate downslope of the property. Currently, the City's land holdings exceed more than 90 acres.

On March 9, 2015, the City Council approved also the purchase of half an acre known as McCallister Property on Hall Lake for $0.2 million. This will provide public access point to Hall Lake including on-going water quality monitoring and data collection, emergency response and public education.

REQUIRED SUPPLEMENTARY INFORMATION
LEOFF 1 RETIREE MEDICAL AND LONG-TERM CARE BENEFITS
SCHEDULE OF FUNDING PROGRESS
(rounded to thousands)

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Funded Ratio	Unfunded AAL
1/1/08	0	$18,127	0 %	$18,127
1/1/11	0	21,614	0 %	21,614
1/1/14	0	23,070	0%	23,070

Latest valuation date for the plan was January 1, 2014.

REQUIRED SUPPLEMENTARY INFORMATION
FIREFIGHTERS' PENSION FUND
SCHEDULE OF CHANGES IN THE CITY'S NET PENSION LIABILITY AND RELATED RATIOS
($ Thousands)

Fiscal Year Ending December 31

	2014	2013
Total Pension Liability		N/A
Service Cost	$0	N/A
Interest on total pension liability	42	N/A
Effect of plan changes	0	N/A
Effect of economic/demographic gains or (losses)	0	N/A
Effect of assumption changes or inputs	54	N/A
Benefit payments	(73)	N/A
Net change in total pension liability	23	N/A
Total pension liability, beginning	1,196	N/A
Total pension liability, ending (a)	1,219	N/A
Fiduciary Net Position		N/A
Employer contributions	$0	N/A
Contributions from state fire insurance premium tax	57	N/A
Investment income net of investment expenses	1	N/A
Benefit payments	(73)	N/A
Medical payments from fund	(45)	N/A
Administrative expenses	(22)	N/A
Net change in plan fiduciary net position	(83)	N/A
Fiduciary net position, beginning	698	N/A
Fiduciary net position, ending (b)	615	N/A
Net pension liability, ending = (a) – (b)	$604	
Fiduciary net position as a % of total pension liability	50.48%	N/A
Covered payroll	$0	N/A
Net pension liability as a % of covered payroll	N/A	N/A

This schedule will be 10 years as information is available.

REQUIRED SUPPLEMENTARY INFORMATION
FIREFIGHTERS' PENSION FUND
SCHEDULE OF CITY'S CONTRIBUTIONS

Fiscal Year Ending December 31	Actuarially Determined Contribution	Actual Employer Contribution*	Contribution Deficiency (Excess)	Covered Payroll	Contribution as a % of Covered Payroll
2005	($4,426)	$7,108	($11,534)	$0	N/A
2006	16,267	5,544	10,723	$0	N/A
2007	16,267	3,998	12,269	$0	N/A
2008	40,127	(11,945)	52,072	$0	N/A
2009	40,127	6,787	33,340	$0	N/A
2010	49,477	1,202	48,275	$0	N/A
2011	49,477	(11,407)	60,884	$0	N/A
2012	51,946	1,536	50,410	$0	N/A
2013	51,946	(3,753)	55,699	$0	N/A
2014	43,999	11,549	32,450	$0	N/A

Actuarial Procedures and Assumptions

Valuation Date January 1, 2014
Actuarial Cost Method Entry Age Normal
Amortization Method 30-Year, Closed as of January 1, 1999
Remaining Amortization Period 15 Years
Asset Valuation Method Fair Market Value
Actuarial assumptions:

Investment Rate of Return (Discount Rate): 3.75%
Projected Salary Increases: 3.50%
Inflation: 2.50%
Cost of living Adjustments: Based upon salary increase assumption when appropriate, for FPF benefits. Based upon inflation assumption for some FPF benefits

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

REQUIRED SUPPLEMENTARY INFORMATION
FIREFIGHTERS' PENSION FUND
SCHEDULE OF INVESTMENT RETURNS

Fiscal Year Ending December 31	Net Money-Weighted Rate of Return
2005	N/A
2006	N/A
2007	N/A
2008	N/A
2009	N/A
2010	N/A
2011	N/A
2012	N/A
2013	N/A
2014	0.09%

Calculation of Money-Weighted Rate of Return

The money-weighted rate of return considers the changing amounts actually invested during a period and weights the amount of pension plan investments by the proportion of time they are available to earn a return during that period. External cash flows are determined on a monthly basis and are assumed to occur at the beginning of each month. External cash inflows are netted with external cash outflows, resulting in a net external cash flow in each month. The money-weighted rate of return is calculated net of investment expenses.

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, pension plans should present information for those years for which information is available.

City of Lynnwood
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2014

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures: From Pass-Through Awards	Expenditures: From Direct Awards	Expenditures: Total	Note
CDBG - Entitlement Grants Cluster							
Office Of Community Planning And Development, Department Of Housing And Urban Development (via Washington State Department of Transportation)	Community Development Block Grants/Entitlement Grants	14.218	STPUL-9917(023)	22,914	-	22,914	
Office Of Community Planning And Development, Department Of Housing And Urban Development (via Snohomish County Human Services Dept.)	Community Development Block Grants/Entitlement Grants	14.218	HCD-12-21-1201-167	29,503	-	29,503	
Office Of Community Planning And Development, Department Of Housing And Urban Development (via Transportation Improvement Board)	Community Development Block Grants/Entitlement Grants	14.218	9-P-140(005)-1	45,934	-	45,934	
			Total CDBG - Entitlement Grants Cluster:	**98,351**	**-**	**98,351**	
Highway Planning and Construction Cluster							
Federal Highway Administration (fhwa), Department Of Transportation (via Washington State Department of Transportation)	Highway Planning and Construction	20.205	CM-0524 (011) LA-7931	32,150	-	32,150	
Federal Highway Administration (fhwa), Department Of Transportation (via Washington State Department of Transportation)	Highway Planning and Construction	20.205	STPUL-9931 (009) LA-7167	38,252	-	38,252	

The accompanying notes are an integral part of this statement.

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures: From Pass-Through Awards	Expenditures: From Direct Awards	Expenditures: Total	Note
Federal Highway Administration (fhwa), Department Of Transportation (via Washington State Department of Transportation)	Highway Planning and Construction	20.205	STPUL-0524 (013) LA-8304	290,000	-	290,000	
Federal Highway Administration (fhwa), Department Of Transportation (via Washington State Department of Transportation)	Highway Planning and Construction	20.205	IMD-STPUL-2004(037) LA-5787	534,775	-	534,775	
Federal Highway Administration (fhwa), Department Of Transportation (via Washington State Department of Transportation)	Highway Planning and Construction	20.205	CM-STPE-9999(640) LA-7613	387,562	-	387,562	
Federal Highway Administration (fhwa), Department Of Transportation (via Washington State Department of Transportation)	Highway Planning and Construction	20.205	STPUL-2543(001) LA-8095	675,135	-	675,135	
Federal Highway Administration (fhwa), Department Of Transportation (via Washington State Department of Transportation)	Highway Planning and Construction	20.205	HSIP-000S(310) LA-7807	113,517	-	113,517	
Federal Highway Administration (fhwa), Department Of Transportation (via Washington State Department of Transportation)	Highway Planning and Construction	20.205	HSIP-000S(311) LA-7808	13,660	-	13,660	
Federal Highway Administration (fhwa), Department Of Transportation (via Washington State Department of Transportation)	Highway Planning and Construction	20.205	HSIP-000S(309) LA-7806	24,670	-	24,670	

The accompanying notes are an integral part of this statement.

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures: From Pass-Through Awards	Expenditures: From Direct Awards	Expenditures: Total	Note
Federal Highway Administration (fhwa), Department Of Transportation (via Washington State Department of Transportation)	Highway Planning and Construction	20.205	HSIP-0099(121) LA-7800	5,287	-	5,287	
Total Highway Planning and Construction Cluster:				**2,115,007**	**-**	**2,115,007**	
Highway Safety Cluster							
National Highway Traffic Safety Administration (nhtsa), Department Of Transportation (via Washington Association of Sheriffs and Police Chiefs)	State and Community Highway Safety	20.600	Traffic Safety Equipment Grants	2,840	-	2,840	
National Highway Traffic Safety Administration (nhtsa), Department Of Transportation (via Washington Association of Sheriffs and Police Chiefs)	State and Community Highway Safety	20.600	Traffic Safety Equipment Grants	799	-	799	
National Highway Traffic Safety Administration (nhtsa), Department Of Transportation (via Washington Traffic Safety Commission)	State and Community Highway Safety	20.600	High Visibility Enforcement (HVE) Patrols: Impaired Driving (DUI) Traffic Safety Emphasis	510	-	510	
National Highway Traffic Safety Administration (nhtsa), Department Of Transportation (via Washington Traffic Safety Commission)	State and Community Highway Safety	20.600	High Visibility Enforcement (HVE) Patrols: Distracted Driving	2,471	-	2,471	
National Highway Traffic Safety Administration (nhtsa), Department Of Transportation (via Washington Traffic Safety Commission)	State and Community Highway Safety	20.600	Target Zero Teams - Snohomish County DUI & Target Zero Traffic Safety Task Force	6,685	-	6,685	

The accompanying notes are an integral part of this statement.

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures: From Pass-Through Awards	Expenditures: From Direct Awards	Expenditures: Total	Note
National Highway Traffic Safety Administration (nhtsa), Department Of Transportation (via Washington Traffic Safety Commission)	State and Community Highway Safety	20.600	Law Enforcement Liason - Target Zero Teams - High Visibility Enforcement (HVE) Traffic Safety Emphasis	1,953	-	1,953	
			Total CFDA 20.600:	**15,258**	**-**	**15,258**	
National Highway Traffic Safety Administration (nhtsa), Department Of Transportation (via Washington Traffic Safety Commission)	Occupant Protection Incentive Grants	20.602	High Visibililty Enforcement (HVE) Patrols - Seatbelt; Click it or Ticket / Traffic Safety Emphasis	1,575	-	1,575	
		Total Highway Safety Cluster:		**16,833**	**-**	**16,833**	
Other Programs							
U.S. Department of Justice Criminal Division	Joint Law Enforcement Operations (JLEO)	16.111	PA-WAW-0271 Operation Takeout (DEA/OCDETF)	-	14,877	14,877	
Violence Against Women Office, Department Of Justice (via Washingto State Department of Commerce)	Violence Against Women Formula Grants	16.588	F13-31103-060	2,244	-	2,244	
National Highway Traffic Safety Administration (nhtsa), Department Of Transportation (via Washington Traffic Safety Commission)	National Priority Safety Programs	20.616	Target Zero Team DUI Patrol	14,501	-	14,501	

The accompanying notes are an integral part of this statement.

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures: From Pass-Through Awards	Expenditures: From Direct Awards	Expenditures: Total	Note
Department Of Homeland Security (via Snohomish County)	Federal Disaster Assistance to Individuals and Households in Presidential Declared Disaster Areas	97.048	Department of Homeland Security/FEMA - Interlocal Agreement	73,272	-	73,272	
Department Of Homeland Security (via US Secret Service)	Homeland Security Grant Program	97.067	Secret Service Electronic Crimes Task Force	1,554	-	1,554	
Department Of Homeland Security (via City of Seattle)	Homeland Security Grant Program	97.067	Urban Areas Security Initiative - Homeland Security Grant Program	1,618	-	1,618	
			Total CFDA 97.067:	**3,173**	**-**	**3,173**	
			Total Federal Awards Expended:	**2,323,381**	**14,877**	**2,338,257**	

The accompanying notes are an integral part of this statement.

CITY OF LYNNWOOD, WASHINGTON

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2014

NOTE 1 - BASIS OF ACCOUNTING

This schedule is prepared on the same basis of accounting as the City's financial statements. The city uses the accrual basis of accounting.

NOTE 2 - PROGRAM COSTS

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

CORRECTIVE ACTION PLAN FOR FINDINGS REPORTED UNDER OMB CIRCULAR A-133

City of Lynnwood
Snohomish County
January 1, 2014 through December 31, 2014

This schedule presents the corrective action planned by the auditee for findings reported in this report in accordance with OMB Circular A-133. The information in this schedule is the representation of the City of Lynnwood.

Finding ref number: 2014-001	**Finding caption:** The City's internal controls over accounting and financial reporting are not adequate to ensure the financial statements are accurate and complete.
Name, address, and telephone of auditee contact person: Sonja Springer, Finance Director P.O. Box 5008 Lynnwood, WA 98046-5008 (425) 670-5141	
Corrective action the auditee plans to take in response to the finding: (If the auditee does not concur with the finding, the auditee must list the reasons for non-concurrence). The City will be devoting more staffing resources and training on the newly implemented Munis Capital Assets module to reduce the accounting errors for Capital Assets. The City will close the accounts payable cutoff earlier to allow more time to reconcile accounts before the year is closed. The City will implement a strict Year End and CAFR preparation schedule that incorporates more time for reviewing the financial statements prior to audit. City staff will continue training and receive more experience using the new Munis Financial system that will reduce errors in the future. The City will fill the vacant Accounting Manager position with a person experienced with CAFR preparation and GASB and SAO requirements. The City will hire an experienced CAFR consultant to assist with the preparation and final review of the City's financial statements to ensure all GASB requirements are implemented.	
Anticipated date to complete the corrective action: December 2015	

ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

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

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

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

Contact information for the State Auditor's Office	
Deputy Director for Communications	Thomas Shapley Thomas.Shapley@sao.wa.gov (360) 902-0367
Public Records requests	(360) 725-5617
Main telephone	(360) 902-0370
Toll-free Citizen Hotline	(866) 902-3900
Website	www.sao.wa.gov

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APPENDIX D
DTC AND ITS BOOK-ENTRY SYSTEM

DTC AND ITS BOOK-ENTRY SYSTEM

The information in this section concerning the Depository Trust Company, New York, New York ("DTC") and DTC's book-entry system has been obtained from DTC's website at www.dtcc.com and the City takes no responsibility for the accuracy thereof. Beneficial Owners (as hereinafter defined) should therefore confirm the following with DTC or the Participants (as hereinafter defined). For purposes of this section, references to the Issuer mean the City, and references to Agent mean the Bond Registrar. For the purposes of this Official Statement, the term "Beneficial Owner" includes the person for whom the Participant acquires an interest in the Bonds.

1. DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for each maturity of the Bonds in the principal amount of such maturity and will be deposited with DTC.

2. DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing services. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, and trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's rating of: AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com (which is not incorporated herein by this reference).

3. Purchases of the Bonds under the DTC system, in denominations of $5,000 or any integral multiple thereof, must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

4. To facilitate subsequent transfers, all Bonds deposited by Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

5. When notices are given, they will be sent by the Bond Registrar to DTC only. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

6. Redemption notices will be sent to DTC. If less than all of the Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

7. Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

8. Redemption proceeds, distributions, and dividend payments on the Bonds will be made to Cede & Co. or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City or the Bond Registrar, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Bond Registrar, or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or any other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City or the Bond Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

9. DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the City and the Bond Registrar. Under such circumstances, in the event that a successor securities depository is not obtained, Bond certificates are required to be printed and delivered.

10. Issuer may decide to discontinue use of the system of the book-entry transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered to DTC.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that Issuer believes to be reliable, but Issuer takes no responsibility for the accuracy thereof.