DUE: December 1, as shown on the inside cover

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, 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."

CITY OF LYNNWOOD, WASHINGTON \$49,315,000 LIMITED TAX GENERAL OBLIGATION BONDS, 2021

DATED: Date of Delivery

The City of Lynnwood, Washington (the "City") Limited Tax General Obligation Bonds, 2021 (the "Bonds") will be issued as fully registered bonds under a book-entry system, registered in the name of Cede and Co. as registered owner and nominee for The Depository Trust Company ("DTC"), in New York, New York. DTC will act as initial securities depository for the Bonds. Individual purchases of the Bonds will be made in book-entry form, in the denomination of \$5,000 or any integral multiple thereof. Purchasers will not receive certificates representing their interests in the Bonds. Interest on the Bonds will be paid semiannually on each June 1 and December 1, commencing December 1, 2021, until maturity or prior redemption. The principal of and interest on the Bonds are payable by the fiscal agent of the State of Washington as Bond Registrar (currently, U.S. Bank National Association) to DTC, which in turn is obligated to remit such payments to its participants for subsequent disbursement to beneficial owners of the Bonds, as described in Appendix D—"DTC AND ITS BOOK-ENTRY SYSTEM."

MATURITY SCHEDULE — See Inside Cover

The proceeds of the Bonds will be used to finance the City's community justice center project and other capital improvements, as described herein. See "PURPOSE AND APPLICATION OF BOND PROCEEDS."

The Bonds constitute a general obligation of the City and are payable from property tax revenues of the City and such other money of the City as is lawfully available. For as long as any of the Bonds are outstanding, the City irrevocably has pledged that it will, in the manner provided by law within the constitutional and statutory limitations provided by law without voter approval, include in its annual property tax levy amounts sufficient, together with other money of the City that is lawfully available, including the City's criminal justice sales taxes, to pay when due the principal of and interest on the Bonds. The full faith, credit and resources of the City have been pledged irrevocably for the prompt payment of the principal of and interest on the Bonds and such pledge is enforceable in mandamus against the City. The City's authority to collect taxes, including its property tax levy, is subject to various limitations. See "SECURITY FOR THE BONDS" and "TAXING AUTHORITY—Property Taxes and Limitations." The Bonds do not constitute a debt or indebtedness of the State or any political subdivision thereof other than the City.

The Bonds are subject to redemption prior to their stated maturities as described under "DESCRIPTION OF THE BONDS—Redemption Provisions and Purchase of Bonds."

The Bonds are offered by Piper Sandler & Co. (the "Underwriter") when, as and if issued by the City, subject to the final approving legal opinion of Foster Garvey P.C., Seattle, Washington, Bond Counsel. It is expected that the Bonds will be available for delivery to the Bond Registrar on behalf of DTC by Fast Automated Securities Transfer on or about June 24, 2021.

This cover page contains certain information for quick reference only. Investors must read the entire Official Statement to obtain information essential to making an informed investment decision.

PIPER | SANDLER

Dated: June 2, 2021

MATURITY SCHEDULE, INTEREST RATES, YIELDS, PRICES AND CUSIP NUMBERS

CITY OF LYNNWOOD, WASHINGTON

\$49,315,000 LIMITED TAX GENERAL OBLIGATION BONDS, 2021

Due		Interest			CUSIP
December 1	Amount	Rate	Yield	Price	No.*
2023	\$ 965,000	4.00%	0.19%	109.255%	551681KA6
2024	1,005,000	4.00	0.35	112.455	551681KB4
2025	1,045,000	4.00	0.54	115.146	551681KC2
2026	1,085,000	4.00	0.63	117.981	551681KD0
2027	1,130,000	4.00	0.84	119.757	551681KE8
2028	1,175,000	4.00	0.95	121.847	551681KF5
2029	1,225,000	4.00	1.06	123.665	551681KG3
2030	1,270,000	4.00	1.14	125.516	551681KH1
2031	1,325,000	4.00	1.19	126.258**	551681KJ7
2032	1,375,000	5.00	1.23	135.158**	551681KK4
2033	1,445,000	5.00	1.26	134.825**	551681KL2
2034	1,515,000	5.00	1.30	134.382**	551681KM0
2035	1,595,000	4.00	1.40	124.038**	551681KN8
2036	1,655,000	4.00	1.43	123.724**	551681KP3
2037	1,725,000	4.00	1.47	123.308**	551681KQ1
2038	1,790,000	4.00	1.52	122.790**	551681KR9
2039	1,865,000	4.00	1.56	122.377**	551681KS7
2040	1,940,000	4.00	1.58	122.171**	551681KT5
2041	2,015,000	4.00	1.62	121.760^{**}	551681KU2

\$11,345,000 4.00% Term Bond due December 1, 2046, yield of 1.72%; price of 120.741**; CUSIP No. 551681KZ1* \$10,825,000 4.00% Term Bond due December 1, 2050, yield of 1.78%; price of 120.134**; CUSIP No. 551681LD9*

^{*} The CUSIP data herein is provided by CUSIP Global Services, managed on behalf of the America Bankers Association by S&P Global Market Intelligence. The CUSIP numbers are not intended to create a database and do not serve in any way as a substitute for CUSIP service. 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. Neither the City nor the Underwriter takes any responsibility for the accuracy of the CUSIP numbers.

^{**} Priced to the June 1, 2031 par call date.

CITY OF LYNNWOOD, WASHINGTON

19100 44th Avenue West Lynnwood, Washington 98036 (425) 670-5000 www.lynnwoodwa.gov*

Mayor and City Council

Nicola Smith Mayor

George Hurst

Jim Smith

Council President

Council Vice President

Council Member

Certain Appointed Officials

Art Ceniza, CPFIM, CIB Assistant City Administrator

Michelle Meyer Finance Director

Corbitt Loch Senior Manager, Strategic Planning

James Nelson Police Chief

David Kleitsch Development and Business Services Director

Rosemary Larson City Attorney

Bond Registrar

Washington State Fiscal Agent currently, U.S. Bank National Association

Bond Counsel and Disclosure Counsel

Foster Garvey P.C. Seattle, Washington

Municipal Advisor

PFM Financial Advisors LLC Seattle, Washington

^{*} The City's website is not part of this Official Statement and investors should not rely on information presented in the City's website in determining whether to purchase the Bonds. This inactive textual reference to the City's website is not a hyperlink and does not incorporate the City's website by reference.

^{**} Patrick Decker was sworn into the City Council on June 1, 2021 to fill the seat vacated in mid-April 2021 by former Councilmember Ian Cotton. Mr. Decker was selected from applicants and will serve until the November 2021 election is certified. The position will be filled for a four-year term in the November 2021 general election.

The information in this Official Statement has been compiled from official and other sources that the City considers reliable and, while not guaranteed as to accuracy, the City believes 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. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made by use of this Official Statement shall, under any circumstances, create any implication that there has been no change in the affairs of the City since the date hereof.

Information on website addresses set forth 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.

No dealer, broker, salesperson, or other person has been authorized by the City or the Underwriter to give any information or to make any representations with respect to the Bonds other than those contained in this Official Statement 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 a 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 person to make such offer, solicitation or sale.

The Underwriter has provided the following sentence for inclusion in this Official Statement. The Underwriter has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information. In connection with this offering, the Underwriter may over allot 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 without prior notice to any person.

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 Bonds have not been recommended by any federal or state securities commission or regulatory authority. Furthermore, the foregoing authorities have not confirmed the accuracy or determined the adequacy of this Official Statement. Any representation to the contrary may be a criminal offense.

The presentation of certain information, including tables of receipts from taxes and other 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 or be repeated in the future. Information relating to debt and tax limitations is based on existing statutes and constitutional provisions. Changes in State law could also alter these provisions.

Certain statements contained in this Official Statement do not reflect historical facts, but rather are forecasts and "forward-looking statements." No assurance can be given that the future results shown herein will be achieved, and actual results may differ materially from the forecasts shown. In this respect, the words "estimate," "forecast," "project," "anticipate," "expect," "intend," "believe" and other similar expressions are intended to identify forward-looking statements. The forward-looking statements in this Official Statement are subject to risks and uncertainties that could cause actual results to differ materially from those expressed in or implied by such 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.

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.

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CITY OF LYNNWOOD, WASHINGTON

\$49,315,000 LIMITED TAX GENERAL OBLIGATION BONDS, 2021

INTRODUCTION

The City of Lynnwood, Washington (the "City"), a municipal corporation duly organized and existing under and by virtue of the laws of the State of Washington (the "State"), furnishes this Official Statement in connection with the offering of \$49,315,000 aggregate principal amount of its Limited Tax General Obligation Bonds, 2021 (the "Bonds"). This Official Statement, which includes the cover page, the inside cover page, the table of contents and appendices, provides information concerning the City and the Bonds.

All of the summaries of provisions of the Constitution and laws of the State, of ordinances and resolutions of the City, and of other documents contained herein are subject to the complete provisions thereof and do not purport to be complete statements of such laws or documents, copies of which may be obtained from the City upon request. A full review should be made of the entire Official Statement. The offering of the Bonds to prospective investors is made only by means of the entire Official Statement.

Unless otherwise defined in this Official Statement, capitalized terms used herein have the meanings set forth in the Bond Ordinance described below.

For information relating to the City's response to COVID-19, see "THE CITY—Impact of COVID-19."

DESCRIPTION OF THE BONDS

Authorization

The Bonds are issued under provisions of the Constitution of the State, chapters 39.36 and 39.46 of the Revised Code of Washington ("RCW") and pursuant to Ordinance No. 3387 (the "Bond Ordinance") passed on March 22, 2021.

Principal Amount, Date, Interest Rates and Maturities

The Bonds will be issued in the aggregate principal amount of \$49,315,000 and will be dated and bear interest from the date of their initial delivery. The Bonds will mature on the dates and in the principal amounts, and will bear interest (payable semiannually on each June 1 and December 1, commencing December 1, 2021) until maturity or earlier redemption, if applicable, at the rates set forth on the inside cover page of this Official Statement. Interest on the Bonds will be computed on the basis of a 360-day year consisting of twelve 30-day months.

Registration and Bond Registrar

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"). DTC will act as the initial Securities Depository for the Bonds (the "Securities Depository"). Individual purchases and sales 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 ("Beneficial Owners") will not receive certificates representing their interests in the Bonds. So long as Cede & Co. is the Registered Owner of the Bonds, as nominee of DTC, references herein to the Registered Owners will mean Cede & Co. or its successor and will not mean the Beneficial Owners of 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 obtained from DTC. Purchasers of the Bonds should confirm this information with DTC or its broker-dealer participants.

Bond Registrar. The principal of and interest on the Bonds will be payable by the fiscal agent of the State (the "Bond Registrar"), currently U.S. Bank National Association (or such other 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."

Transfer and Exchange; Record Date. The Bond Registrar is not obligated to exchange any Bond or transfer registered ownership during the period between the applicable Record Date and the next interest payment or redemption date. For purposes hereof, Record Date means in the case of each interest payment date, the Bond Registrar's close of business on the 15th day of the month immediately preceding such interest payment date, and, with respect to redemption of a Bond prior to its maturity, 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 ownership of any Bond registered in the name of the Securities Depository may not be transferred except (1) to any successor Securities Depository; (2) to any substitute Securities Depository appointed by the City; or (3) to any person if the Bond is no longer to be held in book-entry only form.

Termination of Book-Entry System. If the Bonds are no longer held in book-entry only form by the 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 then be payable by electronic transfer on the interest payment date, or by check or draft of the Bond Registrar mailed on the interest payment date, to the Registered Owners, at the address appearing upon the registration books on 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.

Redemption Provisions and Purchase of Bonds

Optional Redemption. The Bonds maturing in the years 2023 through 2030, inclusive, are not subject to redemption prior to their stated maturity dates. The Bonds maturing on and after December 1, 2031, are subject to redemption at the option of the City prior to their stated maturity dates at any time on or after June 1, 2031, as a whole or in part, at a price equal to the principal amount to be redeemed plus accrued interest, if any, to the date fixed for redemption.

Mandatory Redemption. The Bonds maturing on December 1, 2046 and December 1, 2050 (which are Term Bonds) shall be redeemed prior to maturity (or paid at maturity), no later than December 1 in the years and in the sinking fund installment amounts set forth below (to the extent such Bonds have not been previously redeemed or purchased), by payment of the principal amount thereof, together with the interest accrued thereon to the date fixed for redemption.

2046 Term Bonds

Year	Sinking Fund Installment
2042	\$2,095,000
2043	2,180,000
2044	2,265,000
2045	2,355,000
2046*	2,450,000

2050 Term Bonds

Year	Sinking Fund Installment
2047	\$2,550,000
2048	2,650,000
2049	2,755,000
2050*	2,870,000

^{*} Maturity.

Selection of Bonds for Redemption; Partial 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 the Securities Depository in book-entry 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 shall determine. 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 the Securities Depository in book-entry only form, any notice of redemption will be given at the time, to the entity 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 Bonds to be redeemed, notice of any redemption of Bonds will be given by the Bond Registrar on behalf of the City by mailing a copy of a 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 registration books at the time the Bond Registrar prepares the notice.

Conditional Notice of Redemption. In the case of an optional redemption, the City has reserved the right to rescind any 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 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 a conditional notice of optional redemption is rescinded as described above or money sufficient to effect such redemption is not on deposit in the City's Limited Tax General Obligation Bond Fund, 2021 (the "Bond Fund") or in a trust account established to refund or defease the Bond.

Purchase of Bonds. 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 the 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 account established to refund or defease the Bond, and the Bond has been called for payment by giving notice of that call to the Registered Owner thereof.

Refunding or Defeasance

The City may issue refunding bonds or use money available from any other lawful source to carry out a refunding or defeasance plan, which may include (1) paying when due the principal of and interest on any or all of the Bonds (the "defeased Bonds"); (2) redeeming the defeased Bonds prior to their maturity; and (3) 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 noncallable, nonprepayable "government obligations" (as defined in RCW 39.53.010, as now in effect or hereafter amended) 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 Registered 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. In that event, the City may apply money remaining in any fund or account (other than the trust account) established for the payment and redemption of the defeased bonds to any lawful purpose.

As currently defined in RCW 39.53.010, "government obligations" means (1) direct obligations of or obligations the principal 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

Purpose of the Bonds

The proceeds from the sale of the Bonds will be used to provide funds to finance the City's community justice center project and other capital improvements, and to pay costs of issuing the Bonds. See "THE COMMUNITY JUSTICE CENTER" for more information on the project.

Sources and Uses of Funds

The proceeds from the Bonds are to be applied as follows:

Sources of Funds	
Par Amount of the Bonds	\$ 49,315,000
Original Issue Premium	10,921,735
Total	\$ 60,236,735
Uses of Funds	
Deposit to Project Fund	\$ 60,003,588
Issuance Expenses ⁽¹⁾	233,147
Total	\$ 60,236,735

⁽¹⁾ Includes Underwriter's discount, bond and disclosure counsel fees, fees of the Municipal Advisor, rating agency fees, and other expenses.

THE COMMUNITY JUSTICE CENTER

The City's Community Justice Center Project (the "Project") will be a purpose-built police department, a reimagined misdemeanor jail, and a remodeled and expanded court. The City's goal with the Project is to create the necessary space and function to bring enhanced justice service to its community. The City will collaborate with Community Health Center of Snohomish County ("CHC") in providing specific and enhanced jail services. The Project is expected to bring rehabilitative services and options to address and reduce the underlying causes of recidivism. By providing this additional support, the goal is to provide a path out of the criminal justice system. This Project is specifically programmed around increased community access and involvement, and alternatives to the traditional criminal justice system, while maintaining effective levels of community safety in the City. The City currently owns the existing criminal justice building and additional undeveloped acreage between that building and the neighboring CHC building to its east. The undeveloped property will be used for this Project.

Over the last 24 years, the City's police department conducted three space needs examinations (in 1999, 2004 and 2009). All three of these studies concluded that the City's current justice facility lacked appropriate space and functionality. The Project will assist the City in creating the infrastructure to meet the demands and expectations of

law enforcement and adjudication. The Project will include space for the City's Emergency Operations Center, which was assigned to the police department in 2018 and has been located in temporary space at a fire station building owned by South Snohomish County Fire and Rescue. The Project will also include space for evidence management, which is currently located in off-site, leased space.

The City is committed to providing compassionate care and housing for every individual in the current detention facility. The City believes it is ethically obligated to improve the current cycle of incarceration of many of its justice-involved community members and to provide opportunities for individuals to successfully leave the criminal justice system. The City's current facility has no space to provide for the programming and continuity of care options that its justice-involved community members need to transition away from criminal behaviors. The partnership with CHC will allow the City to be able to provide enhanced care and rehabilitative services to provide continuity of care when a person leaves the facility. The Project will significantly increase the capacity of the jail, more than a doubling of the current size. This additional space includes new programming spaces, a medical wing and increased inmate housing. The increased housing capacity is expected to provide a significant financial benefit as the additional bedspace will allow virtually all City misdemeanor inmates to be housed in this location rather than paying to house inmates elsewhere. Additionally, there will be excess capacity that can be contracted to other municipal police departments where demand is high.

The City expects construction on the Project to begin in June 2021 and be completed by the end of 2022. The expected budget of the Project is \$64,000,000, which will be provided by proceeds of the Bonds and funds from the City's existing criminal justice sales tax account. The City expects to use the criminal justice sales tax, the reallocation of existing contract jail housing expenses, the reallocation of lease expenses for the current evidence facility, and contract housing revenue from the jail to repay the Bonds. See "TAXING AUTHORITY—Other Major Taxes."

SECURITY FOR THE BONDS

The Bonds constitute a general obligation of the City and are payable from property tax revenues of the City and such other money as is lawfully available. For as long as any of the Bonds are outstanding, the City irrevocably has pledged that it will, in the manner provided by law within the constitutional and statutory limitations provided by law without the assent of the voters, include in its annual property tax levy amounts sufficient, together with other money that is lawfully available, including the City's criminal justice sales taxes, to pay principal of and interest on the Bonds as the same become due. Any such tax levy is subject to certain limitations, as more fully described under the caption "TAXING AUTHORITY—Property Taxes and Limitations" and "—Other Major Taxes." The full faith, credit, and resources of the City have been pledged irrevocably for the prompt payment of the principal of and interest on the Bonds.

The Bonds do not constitute a debt or indebtedness of the State or any political subdivision thereof other than the City and are not payable from any proprietary or enterprise fund of the City (including the City's utilities). The Bonds are not secured by any lien or any other security interest in City property.

The Bonds are not subject to acceleration upon the occurrence of a default. The City therefore would be liable only for principal and interest payments as they become due. In the event of multiple defaults in payment of principal of or interest on the Bonds, the Registered Owner of each Bond would be required to bring a separate action for each such payment not made. This could give rise to a difference in interests between Registered Owners of earlier and later maturing Bonds.

State law provides that the payment of general obligation bonds shall be enforceable in mandamus against the issuer. There is no express provision in the State Constitution or statutes on the priority of payment of debt service on or granting a security interest in property taxes securing general obligations incurred by a Washington municipality. Additionally, certain taxes and other money deposited in the City's governmental funds are restricted by State law to specific purposes and may not be available to pay debt service on the Bonds. Under the State laws and Constitution, excess levies approved by the voters for the purpose of retiring any outstanding voter-approved indebtedness may not be used for any other purpose. The rights and remedies of anyone seeking enforcement of the Bonds are subject to laws of bankruptcy and insolvency and to other laws affecting the rights and remedies of creditors and to the

exercise of judicial discretion. See "CERTAIN INVESTMENT CONSIDERATIONS—Limitations on Remedies; Bankruptcy."

DEBT AND DEBT LIMITATIONS

Authorization of Debt

The power of the City to incur debt of any kind is controlled and limited by State law. All debt must be incurred in accordance with detailed budget procedures and paid for out of identifiable receipts and revenues. The budget must be balanced for each fiscal year. It is unlawful for an officer or employee of the City to incur liabilities in excess of budgetary appropriations.

In an emergency, the City Council may put a plan into effect and authorize indebtedness outside the current budget. All expenditures for emergency purposes must be paid by checks from any available money in the fund properly chargeable with such expenditures.

Limitations on Indebtedness

The State Constitution and statutes limit the City's ability to incur general obligation indebtedness based on a percentage of the assessed value of the taxable property within the City at the time the indebtedness is incurred. See "PROPERTY TAX ASSESSMENT AND COLLECTION PROCEDURES—Assessed Value."

Non-Voted Debt. The Bonds are issued as non-voted debt. State law provides that the City may, without voter approval, incur general obligation debt in an amount not to exceed 1.5% of the assessed value of all taxable property within the City. The amount of non-voted debt plus the outstanding voter-approved debt for general municipal purposes also is subject to the aggregate debt limitation described below. Non-voted general obligation debt may be issued as follows: (1) pursuant to an ordinance specifying the amount and object of the expenditure of the proceeds, the City may borrow money for corporate purposes and issue bonds or notes within the constitutional and statutory limitations on indebtedness; (2) the City may execute conditional sales contracts for the purchase of real or personal property; and (3) the City may execute financing leases with or without an option to purchase.

Voter-Approved Debt. Subject to 60% voter approval meeting minimum voter turnout requirements, the City may incur general obligation debt in an amount not to exceed 2.5% of assessed value for general municipal purposes (when combined with any outstanding non-voted debt), 2.5% for certain utility purposes, and 2.5% for certain parks, open space, and economic development purposes. The minimum turnout must be at least 40% of City voters who voted at the last preceding State general election. If the ballot proposition approving the issuance of voter-approved debt also approved the levy of taxes without limitation in amounts sufficient to repay those voter-approved bonds, then the bonds will be payable from a special excess tax levy. See "TAXING AUTHORITY—Property Taxes and Limitations."

Aggregate Debt Limitations. The combination of voter-approved and non-voted general obligation debt for "general" municipal purposes may not exceed 2.5% of assessed value. The total of all general obligation debt for all purposes may not exceed 7.5% of the City's assessed value.

Short-Term Obligations. Within the limitations described above, State law permits municipal corporations to borrow money and issue short-term obligations for any lawful purpose and in anticipation of the receipt of revenues, taxes, grants or the sale of bonds, if the bonds have been authorized by the governing body or the voters, as applicable. Short-term obligations issued in anticipation of taxes must be repaid within six months after the end of the fiscal year in which they are issued. The City does not have an outstanding short-term general obligation debt.

Contingent Liabilities. The City and the Lynnwood Public Facilities District (the "PFD") entered into the Supplemental Interlocal Agreement Regarding Financing for Multijurisdictional Convention Center Facility (the "Contingent Loan Agreement") dated September 14, 2004, relating to the issuance of bonds by the PFD (the "PFD Bonds"). Under the Contingent Loan Agreement, in the event that the PFD is unable to timely provide for the payment of principal of or interest on the PFD Bonds, the City has agreed to loan the PFD the amount necessary to make such timely payment. The PFD agrees to borrow the amounts described above from the City and apply those amounts immediately for the purpose of paying debt service on the PFD Bonds. The PFD currently has its

Convention Center Revenue Refunding Bonds, 2015, outstanding in the principal amount of \$13,770,000 with a final maturity of December 1, 2034, and its Convention Center Sales Tax Revenue Bond, 2015, outstanding in the principal amount of \$5,485,400 with a final maturity of December 1, 2025. The City has not had to provide any money to the PFD under the Contingent Loan Agreement, and has no current expectations of being asked to provide money to the PFD. The City's Finance Director is an ex-officio member of the PFD Board of Directors and Treasurer of the PFD.

In 2012, the Washington State Supreme Court issued an opinion (the "Greater Wenatchee Opinion"), relating to an agreement between the city of Wenatchee and the Wenatchee Public Facilities District for the guarantee of certain debt proposed to be issued by the Wenatchee Public Facilities District. The Greater Wenatchee Opinion concluded that the outstanding principal amount of bonds guaranteed under Wenatchee's proposed contingent loan agreement should be treated as a debt of the city of Wenatchee, within the meaning of the debt limitations set forth in State statute and the State Constitution. The Court also held that the amount of accrued but unpaid interest on the guaranteed bonds would count as a "debt" of the guarantor, but declined to provide guidance as to how and when interest would accrue for purposes of this test. Under the reasoning of its Greater Wenatchee Opinion, the City's Contingent Loan Agreement with the PFD could result in the PFD's Bonds being treated as "debt" of the City within the meaning of applicable State constitutional and statutory limitations. The City has reviewed its debt capacity calculation and, treating the outstanding principal amount of the PFD's Bonds and the amount of interest due as of January 1, 2021, as a "debt" of the City, has determined that it has sufficient capacity to issue the Bonds. See table titled "Computation of Debt Capacity" below. Therefore, the City does not expect the Court's ruling in Greater Wenatchee to have any effect on the City's ability to issue or to repay the Bonds.

Outstanding General Obligation Debt

The City's general obligation debt outstanding as of January 1, 2021, and the Bonds are listed below:

Outstanding General Obligation Debt

	Date of Issue	Final Maturity	Amount Issued	Amount Outstanding
Non-Voted General Obligation Debt				
Limited Tax General Obligation Bonds, 2012	02/27/2012	12/01/2037	\$ 24,955,000	\$ 20,415,000
The Bonds	06/24/2021	12/01/2050	49,315,000	49,315,000
Total Non-Voted General Obligation Debt				\$ 69,730,000
Voted General Obligation Bonds				
None	N/A	N/A		
Total Outstanding General Obligation Debt				\$ 69,730,000

Source: The City.

Debt Capacity Computation

The City may incur general obligation debt only if, at the time debt is incurred, the City has sufficient debt capacity. Once the debt has been incurred, changes in assessed value have no effect on the validity of outstanding debt or the City's ability to refund outstanding debt. Declines in assessed value can limit the ability to incur additional general obligation debt. The following information shows the assessed value of property within the City and the outstanding general obligation debt of the City, with adjustments for the Bonds.

Computation of Debt Capacity

(as of January 1, 2021)

2021 Collection Year Assessed Value ⁽¹⁾	\$ 7,953,751,038
General Purposes	
Non-Voted Debt Capacity (1.5%)	\$ 119,306,265
Less: Outstanding Non-Voted Debt	(20,415,000)
Less: Contingent Liability relating to PFD Bonds ⁽²⁾	(19,255,400)
Less: The Bonds	(49,315,000)
Remaining Non-Voted Debt Capacity	\$ 30,320,865
Percentage of Non-Voted Debt Capacity Used	74.59%
Total (Voter-Approved and Non-Voted) Debt Capacity (2.5%)	\$ 198,843,775
Less: Outstanding Voter-Approved Debt	
Less: Outstanding Non-Voted Debt	(20,415,000)
Less: Contingent Liability relating to PFD Bonds ⁽²⁾	(19,255,400)
Less: The Bonds	(49,315,000)
Total Remaining (Voter-Approved and Non-Voted) Debt Capacity	\$ 109,858,375
Percentage of Total Debt Capacity Used	44.75%
Utility Purposes	
Voter-Approved Debt Capacity (2.5%)	\$ 198,843,775
Less: Outstanding Voter-Approved Debt	· · · ·
Remaining Voter-Approved Debt Capacity	\$ 198,843,775
Percentage of Voter-Approved Debt Capacity Used	0.00%
Parks, Open Space and Economic Development Purposes	
Voter-Approved Debt Capacity (2.5%)	\$ 198,843,775
Less: Outstanding Voter-Approved Debt	
Remaining Voter-Approved Debt Capacity	\$ 198,843,775
Percentage of Voter-Approved Debt Capacity Used	0.00%

⁽¹⁾ See "PROPERTY TAX ASSESSMENT AND COLLECTION PROCEDURES—Assessed Value."

Source: The City.

Direct and Estimated Overlapping Debt

The following tables show the outstanding principal amount of general obligation debt incurred by the City ("Direct Debt") and the estimated allocable share of the outstanding principal amount of general obligation bonds of other taxing districts whose boundaries overlap a part or all of the City ("Overlapping Debt"). The estimated allocable share of Overlapping Debt is calculated based on a percentage of the overlapping taxing district's assessed value that lies within the boundaries of the City. The following tables are adjusted to reflect the issuance of the Bonds where indicated.

The City has obtained the information regarding the Overlapping Debt from the overlapping taxing districts and Snohomish County (the "County") and other sources the City believes to be reliable, but has not independently verified the accuracy or completeness of such information. The amounts described below show general obligation bonds issued by the various taxing districts and may not reflect certain leases or other contracts that may constitute indebtedness under State law. The tables below do not reflect any special revenue obligations (e.g., utility revenue

⁽²⁾ This contingent liability is included to demonstrate the sufficiency of the City's debt capacity, assuming for the purposes of this demonstration that the liability may be considered debt under the reasoning of the Greater Wenatchee Opinion. The amount included in the table above reflects the outstanding principal amount plus accrued interest to January 1, 2021, with respect to the PFD Bonds. See "Limitations on Liabilities—Contingent Liabilities"

bonds) issued by any taxing district. The taxing districts listed below may have issued additional general obligation debt since the dates indicated below and may have plans to issue future general obligation debt.

Direct Debt

(as of January 1, 2021)

Voter-Approved General Obligation Debt -Non-Voted General Obligation Debt (including the Bonds) \$69,730,000

Total Direct Debt⁽¹⁾ \$69,730,000

Source: The City.

Estimated Overlapping Debt

(as of February 28, 2021)

Overlapping Taxing District	2021 Assessed Value	Percentage of Overlap ⁽¹⁾	Outstanding General Obligation Debt ⁽²⁾	Estimated Overlapping Debt
Snohomish County ⁽³⁾ Edmonds School District No. 15	\$154,392,389,464 36,803,392,447	5.15% 21.61	\$ 337,508,356 207,470,000	\$17,387,239 44,837,299
Total Overlapping Debt Total Direct Debt Total Direct and Overlapping Debt				\$62,224,539 \$69,730,000 ⁽⁴⁾ \$131,954,539 ⁽⁴⁾

⁽¹⁾ Represents the approximate percentage of each taxing district's assessed value that lies within the City.

Source: Snohomish County Assessor's and Treasurer's offices.

Debt Ratios

2021 Collection Year Assessed Value City Population (2020) ⁽¹⁾	\$7,953,751,038 40,690
Ratio of: Direct Debt to Assessed Value Direct and Estimated Overlapping Debt to Assessed Value ⁽²⁾	0.88% 1.66%
Per Capita: Assessed Value	\$195,472
Direct Debt Direct and Estimated Overlapping Debt ⁽²⁾	\$1,714 \$3.243

⁽¹⁾ Source: State Office of Financial Management.

⁽²⁾ Includes only general obligation bonds outstanding and financing agreements entered into with the State with respect to its Local Option Capital Asset Lending Program, financed through the issuance of State Certificates of Participation. Does not include other types of general obligation indebtedness or utility revenue debt.

⁽³⁾ Excludes proprietary-type debt, component unit debt, public facilities district debt financed from special taxes and hotel/motel tax financed debt.

⁽⁴⁾ Includes the Bonds.

⁽²⁾ Outstanding overlapping debt as of February 28, 2021, as shown in the table entitled "Estimated Overlapping Debt."

Debt Service Requirements

The following table provides the debt service schedule for the City's outstanding non-voted general obligation debt and the Bonds.

Debt Service Requirements - Non-Voted General Obligation Debt

The Bonds Outstanding **Total Debt** Debt⁽¹⁾ Year **Principal Interest Total** Service⁽²⁾ 2021 \$ 1,656,612⁽³⁾ 879,178 879,178 2,535,790 2022 1,655,813 2,015,950 2,015,950 3,671,763 2023 1,656,487 965,000 2,015,950 2,980,950 4,637,437 2024 1,657,688 1,005,000 1,977,350 2,982,350 4,640,038 2025 1,656,750 1,045,000 1,937,150 2,982,150 4,638,900 2026 1,655,950 1,085,000 1,895,350 2,980,350 4,636,300 2027 4,641,100 1,659,150 1,130,000 1,851,950 2,981,950 2028 1,658,562 1,175,000 1,806,750 2,981,750 4,640,312 2029 1,655,150 1,225,000 1,759,750 2,984,750 4,639,900 2030 1,655,238 1,270,000 1,710,750 2,980,750 4,635,988 2031 1,658,637 1,325,000 1,659,950 2,984,950 4,643,587 2032 1,655,163 1,375,000 1,606,950 2,981,950 4,637,113 2033 1,655,000 1,445,000 1,538,200 2,983,200 4,638,200 2034 1,655,600 1,515,000 1,465,950 2,980,950 4,636,550 2035 1.659.000 1,595,000 1.390,200 2.985,200 4,644,200 2036 1,655,000 1,655,000 1,326,400 2,981,400 4,636,400 2037 1,658,800 1,725,000 1,260,200 2,985,200 4,644,000 2038 1,790,000 2.981,200 1,191,200 2,981,200 2039 1,865,000 1,119,600 2,984,600 2,984,600 2040 1,940,000 1,045,000 2,985,000 2,985,000 2041 2,015,000 967,400 2,982,400 2,982,400 2042 886,800 2,981,800 2,981,800 2,095,000 2043 2,180,000 803,000 2,983,000 2,983,000 2044 2,265,000 715,800 2,980,800 2,980,800 2045 625,200 2,980,200 2,355,000 2,980,200 2046 2,450,000 531,000 2,981,000 2,981,000 2,983,000 2047 2,550,000 433,000 2,983,000 2048 2,650,000 331,000 2,981,000 2,981,000 2049 2,755,000 225,000 2,980,000 2,980,000 2050 2,870,000 114,800 2,984,800 2,984,800 TOTALS(3) \$49,315,000 \$ 37,086,778 \$86,401,778 \$28,164,600 \$ 114,566,378

Debt Payment Record

The City has always met principal and interest payments on all of its general obligation bonds when due. The City has never issued refunding bonds for the purpose of preventing an impending default.

⁽¹⁾ Includes principal and interest. Does not include debt of the PFD. See "DEBT AND DEBT LIMITATIONS—Limitations on Indebtedness—Contingent Liabilities."

⁽²⁾ Totals may not foot due to rounding.

⁽³⁾ As of June 1, 2021, there is \$1,275,806 of principal of and interest on outstanding general obligation debt of the City.

Future General Obligation Debt

The City does not anticipate incurring additional long term general obligation debt within the next 12 months. When and if market conditions allow for the refunding of higher rate bonds of the City, such refundings will be considered.

TAXING AUTHORITY

Below are general descriptions of the City's property taxing authority and relevant statutory and constitutional limitations and descriptions of tax revenues other than property taxes. The City is authorized to levy regular property tax levies and excess property tax levies, and to impose various other taxes described below. See "DEBT AND DEBT LIMITATIONS." Because of the Regional Fire Authority, the City has "banked" levy capacity of \$5,930,958, which significantly exceeds its actual levy, as further described in "Property Taxes and Limitations— Limitations on Regular Property Taxes—Maximum Amount Increase Limitation." In some cases, State law specifies the purposes for which various taxes can be used. The City's major sources of governmental fund tax revenue are its regular property tax levy, sales and use taxes (which includes criminal justice taxes) and utility taxes. Neither the State nor any municipal corporation collects a tax on net income.

The General Fund is the City's primary operating fund and is used to track the revenues and expenses associated with basic City services that are not required to be accounted for in other funds, including services such as police and general administration. The City's Governmental Funds are funds that account for the activities of the City that are of a governmental nature, including the General Fund, special revenue funds, capital projects funds and internal service funds. See "FINANCIAL INFORMATION."

The following table lists the collection of certain taxes received by the City in the years 2016 through 2020. COVID-19 has and is expected to continue to impact the amount of taxes collected by many of these sources. See "THE CITY—Impact of COVID-19." The criminal justice sales tax is a component of the Sales Tax. See "Property Taxes and Limitations—Other Major Taxes."

In 2018, the City's fire department was transferred to South County Fire District No. 1. This resulted in a decrease of \$6.2 million in the City's regular property tax levy. In 2019, the collection of the EMS property tax was transferred to South County Fire District No. 1, resulting in a decrease of \$2.4 million in the City's regular property tax levy. Both of these changes resulted in a corresponding decrease in public safety operating expenditures due to elimination of the City's fire department.

Governmental Funds Tax Revenues by Source

	2016	2017	2018	2019	$2020^{(1)}$
Property Taxes ⁽²⁾	\$11,861,021	\$11,916,807	\$ 6,100,350	\$ 3,951,052	\$ 4,268,943
Sales Taxes	22,470,871	24,344,659	26,893,450	27,191,036	24,349,634
Utility Taxes	5,928,269	6,184,216	5,961,186	5,869,786	5,653,730
Real Estate Transfer Taxes	2,172,992	2,245,512	3,553,552	2,492,804	1,794,326
Excise Taxes	1,286,790	1,301,534	1,269,714	1,384,054	921,686
Transportation Benefit					
District Vehicle Fees ⁽³⁾	571,070	994,604	1,241,953	1,152,211	1,306,113
Admissions Taxes	662,112	677,888	921,418	702,034	129,583
Gambling Taxes	138,413	135,152	211,832	154,215	95,674
Total Taxes	\$45,091,538	\$47,800,372	\$46,153,455	\$ 42,897,192	\$38,519,689

⁽¹⁾ Preliminary/estimated, unaudited.

Totals may not add due to rounding.

Source: The City.

⁽²⁾ In 2018, reduction due to transfer of fire service to Regional Fire Authority. Additional reduction in 2019 from transfer of Emergency Medical Services levy. See "PROPERTY TAX ASSESSMENT AND COLLECTION PROCEDURES" and Property Taxes and Limitations—City Regular Levy Rates and Limitations."

⁽³⁾ The Transportation Benefit District was dissolved in March 2020 as a separate entity and thereafter continues as part of the general City government.

Property Taxes and Limitations

The following section provides a general description of the City's authority to levy *ad valorem* property taxes and applicable limitations.

In General. Under the State's laws and Constitution, property taxes are classified as either "regular" property taxes or "excess" property taxes. The City is authorized to levy both types of taxes. The City adopts a levy ordinance each November, in conjunction with its biennial budget (even-numbered years) process or mid-biennium budget review process (odd-numbered years). It submits a levy amount request to the County Assessor, who calculates the levy rate by spreading the levy amount on the tax rolls, following procedures established by the State Department of Revenue ("DOR"). The County Assessor confirms that the levy is within applicable statutory and constitutional limitations and makes any necessary reductions before the County Treasurer may begin to collect the levy on behalf of the City. See "PROPERTY TAX ASSESSMENT AND COLLECTION PROCEDURES" below.

Regular Property Taxes. Regular property taxes are subject to constitutional and statutory limitations as to rate and amount. See "—Limitations on Regular Property Taxes" below. They are usually levied for any general municipal purposes, although certain statutes authorize additional levies for limited purposes. General purpose levies may be used for the payment of debt service on limited tax general obligation indebtedness, such as the Bonds, but State law does not provide any priority of use. In general, regular property taxes for general purposes do not require voter approval, although certain statutes authorizing limited purpose levies may require voter approval. Certain tax limitations may be exceeded upon voter approval.

Excess Property Taxes. Excess property taxes are not subject to constitutional or statutory limitation as to rate or amount, but must be authorized by a 60% approving vote meeting minimum voter turnout requirements (except for certain levies by school districts, which require only a simple majority approval). Excess property tax levies may be made (1) by any taxing district for the repayment of voter-approved general obligation bonds issued for capital purposes, excluding replacement of equipment; (2) by any taxing district for one year for any governmental purpose; or (3) without a vote when necessary to prevent impairment of an obligation of contract, if ordered by a court of last resort. Excess levies for the repayment of voter-approved general obligation bonds must meet a minimum voter turnout of 40% of the number who voted at the last November general election.

Uniformity Requirement. The State Constitution requires that property taxes be levied at a uniform rate upon the same class of property within the territorial limits of a taxing district levying the tax. The Constitution also provides that all real estate constitutes a single class, except for certain agricultural properties eligible for special use classification, which may be valued based on current use. It is possible, because of overlapping taxing district boundaries, the maximum permissible levy might vary within the boundaries of a particular taxing district. In that event, to comply with the constitutional requirement for uniformity of taxation, the lowest permissible rate for any part of the taxing district would be applied to the entire taxing district.

Limitations on Regular Property Taxes. The authority of a taxing district to levy taxes without a vote for general municipal purposes, including the payment of debt service on limited tax general obligation indebtedness, such as the Bonds, is subject to the limitations described below. The following list of tax limitations is not intended to be a comprehensive list of all possible overlapping levies or limitations. Information relating to regular property tax limitations is based on existing statutes and constitutional provisions. Changes in State law could alter the impact of other interrelated tax limitations on the City.

City Regular Levy Rates and Limitations. For general city purposes, a city may levy regular property taxes up to \$3.375/\$1,000 of assessed value. The maximum levy rate for a city that is annexed into a library district or a fire protection district is \$3.60/\$1,000, less the levy rates imposed by those districts (up to a maximum of \$1.50/\$1,000 for a fire protection district and \$0.50/\$1,000 for a library district). In 2006, City voters approved the City's annexation in the Sno-Isle Library District. In 2017, voters within the City and Snohomish County Fire District 1 approved the formation of a Regional Fire Authority ("RFA," South Snohomish County Fire and Rescue). Following that, voters repealed the City's existing special EMS levy and approved a \$1.50/\$1,000 EMS levy within the RFA. As a result, the City's regular property tax levy does not fund library, fire suppression, or emergency medical services. Cities are also permitted to impose certain additional levies for specific purposes, each of which is subject to its own statutory limitations. Examples of these include a levy for a firefighter pension fund (which may be used for general municipal purposes if not needed for the pension fund), for the maintenance of a local

improvement guaranty fund and a voter-approved levy for emergency medical services. The City does not have any such levies.

For the purpose of maintaining a local improvement guaranty fund (the "guaranty fund"), a city or town is required to provide for the levy of a sum sufficient to pay warrants or obligations issued against the guaranty fund during the prior fiscal year and not paid by other revenue sources of the guaranty fund. The levy must not exceed the greater of (1) 12% of the outstanding obligations guaranteed by the guaranty fund, or (2) the total amount of delinquent assessments and interest accumulated on the delinquent assessments. The taxes levied for the maintenance of the guaranty fund will be in addition to and, if need be, in excess of all statutory and charter limitations applicable to tax levies in any city or town. The City does not have any local improvement districts.

The City has a firefighters' pension fund and, therefore, has authority to levy an additional \$0.225 per \$1,000 of assessed value for pension fund purposes, or if not actuarially required for the pension fund, which may be applied to any other general municipal purposes. The City does not have a levy specific to pension fund purposes. See "THE CITY—Pensions" below.

In 2021, the City's regular levy rate is \$0.5406/\$1,000 on all taxable property within the City. The City's position as a regional retail hub allows the City to have the lowest levy rate in the County. See "PROPERTY TAX ASSESSMENT AND COLLECTION PROCEDURES—Current and Historical Assessed Value and Property Tax Levy Rates and Amounts for the City."

Aggregate Levy Rate Limitations. The State Constitution and statutes limit the aggregate of all regular property tax levies imposed on any tax parcel by the State and all overlapping taxing districts, except port districts and public utility districts, to 1% of the true and fair value of property. Within the 1% limitation, the levy by the State may not exceed \$3.60/\$1,000 and the aggregate of all regular levies by all taxing districts (other than the State and other than certain specified levies) may not exceed \$5.90/\$1,000 of assessed value. Those specified levies excluded from the \$5.90/\$1,000 limitation include port or public utility district levies; excess property tax levies; levies for acquiring conservation futures; levies for emergency medical care or emergency medical services; levies to finance affordable housing for very low-income housing; certain portions of levies by metropolitan park districts; certain levies imposed by ferry districts; levies for criminal justice purposes; certain portions of levies by fire protection districts; levies by counties for transit-related purposes; and portions of certain levies by certain flood control zone districts.

Because various taxing districts may overlap, the aggregate levy rate applied to any two tax parcels within a single taxing district may not be identical. If the aggregate levy rate exceeds the aggregate rate limitation on any single parcel within a taxing district, the regular levy rates of each taxing district that includes that parcel may be reduced. Because of the constitutional requirement for uniformity of taxation within a taxing district (described above), any reduction affects the entire taxing district. If reductions are required, they are made by the County Assessor, in accordance with State statutes and guidance from the DOR setting forth a prioritization of regular levies. The regular levies of the State, counties, road districts, cities, towns, port districts, and public utility districts are considered "senior" levies; the regular levies of all other taxing districts are considered "junior" levies. State statute prescribes the order in which the levies of the various junior levies are reduced or eliminated in order to comply with the aggregate rate limitations. Senior levies, such as the City's, are not subject to reduction or elimination based on aggregate rate limitations. See table titled "Overlapping and Aggregate Levy Rates Levied for Collection in 2021 below.

Maximum Amount Increase Limitation. State law also limits the amount of a regular levy for any particular year to the highest amount that could have been levied in any prior year, multiplied by a specified percentage (the "limit factor") plus an adjustment for new construction, annexations, certain improvements to property, and state assessed property. The limit factor is defined as the greater of (1) the least of 101% or 100% plus inflation or (2) if approved by a majority plus one vote of the governing body upon a finding of substantial need, any percentage up to 101%. If a taxing district levies less than its highest allowable levy, the amount not levied is nonetheless included in the base for determining the maximum amount increase limitation for succeeding years. This difference between the highest allowable levy amount and the amount actually levied is sometimes referred to as "banked" levy capacity.

In 2017, when voters established the RFA, the City's regular property tax levy was \$9,768,189 with a resulting rate of \$1.73/\$1,000. With the transfer of fire suppression costs from the City's General Fund to the RFA, the City Council was able to reduce the levy for 2018 to \$3,600,000 (\$0.57/\$1,000). Because the 101% annual cap is based

upon the City's highest levy, which occurred in 2017, the City is now uniquely positioned regarding banked capacity. The RFA allowed the City to reduce its regular levy while continuing to "grow" its banked capacity. At this time, the City's banked capacity of \$5,930,958 significantly exceeds its actual levy. This means that the City Council has the authority to increase the regular levy to up to \$10,230,958. It is not common for a Washington municipality to have both a low property tax levy and a high level of banked capacity. See table titled "Overlapping and Aggregate Levy Rates Levied for Collection in 2021" below.

The maximum amount increase limitation may be exceeded upon approval of a simple majority of voters. This is known as a "levy lid lift." A levy lid lift permits a levy amount increase greater than would otherwise be allowed, which increase may be effective indefinitely or for a limited period of time. Tax receipts from the incremental increase may be (but are not required to be) restricted in the ballot proposition to satisfy a limited purpose. A levy lid lift will not increase the levy if it would cause the taxing district's levy to exceed the applicable maximum rate limitations or the aggregate rate limitations described above. The City does not have a levy lid lift.

Relationship Between Rate and Amount Limitations. Regular levies are limited by both the rate limitation and the amount limitations described above and, therefore, may need to be reduced below one threshold to avoid exceeding the other. Because the regular property tax increase limitation applies to the total dollar amount levied rather than to the levy rate, increases in the assessed value of all property in the taxing district (excluding new construction, improvements and State-assessed property), which exceed the rate of growth in taxes allowed by the limit factor, may result in decreased regular tax levy rates, unless voters authorize a higher levy or the taxing district uses banked levy capacity. Decreases in the assessed value of all property in the taxing district (including new construction, improvements and State-assessed property) or increases in such assessed value that are less than the rate of growth in taxes imposed, among other events, may result in increased regular tax levy rates. As assessed values rise, the levy amount increase limitation may restrict levy growth. As assessed values fall, the levy rate limitation may restrict levy growth. See "PROPERTY TAX ASSESSMENT AND COLLECTION PROCEDURES—Current and Historical Assessed Value and Property Tax Levy Rates and Amounts for the City" herein for a table showing the City's historical assessed value, and regular property tax levy rates and amounts.

Comparative 2021 City Property Tax Levy Rates. The chart below outlines the 2021 property tax levy rates for various cities in the County.



Source: The City.

Overlapping Levy Rates

The following table shows the *ad valorem* property tax rates of all of the overlapping taxing districts that levied *ad valorem* taxes within the City for collection in 2021. The taxing districts listed below may have additional authority to levy taxes not listed below. Other overlapping taxing districts may exist or may in the future be created with authority to impose taxes within the City.

Overlapping and Aggregate Levy Rates Levied for Collection in 2021 (\$ per \$1,000)

Regular Levies by Taxing District	2021 Levy Rates	Maximum Statutory Levy Rate
State of Washington	\$2.8253	\$3.600
Regular Levies Subject to \$5.90 Limitation and 1% Limitation		
Senior Taxing Districts:		
The City	\$0.5406	3.375
County	0.6362	1.800
Junior Taxing Districts:		
Public Hospital District No. 2	0.0618	
Sno-Isle Intercounty Rural Library District	0.4244	
South County Regional Fire	1.0000	
Central Puget Sound Regional Transit Authority	0.1971	
Total Levies Subject to \$5.90 and 1% Limitations	\$2.8601	
Regular Levies Subject to 1% Limitation		
EMS Levy	\$0.4474	0.500
Total Levies Subject to 1% Limitation	\$0.4474	
Summary of Aggregate Levies Subject to 1% (\$10) Limitation:		
State Levy	\$2.8253	
Total Levies Subject to \$5.90 and 1% Limitations	2.8601	
Total Levies Subject to 1% Limitation	0.4474	
Total of All Levies Subject to 1% Limitation	\$6.1328	
		Maximum
	2021	Statutory
Excess Levies	Levy Rates	Levy Rate
Excess Levies & Other Levies Not Subject to Aggregate Limitation	¥	v
School District Levies	\$2.7988	None
Total Excess Levies	\$2.7988	
Combined Total of All Overlapping Levies within the City	\$8.9316	

Source: Snohomish County Assessor; Washington State Department of Revenue.

Other Major Taxes

In addition to regular property taxes, the City also collects various other taxes, including a retail sales tax, a utility tax, a gambling tax, a real estate excise tax, and a hotel/motel tax, among others. The City is entitled to, but does not have a business and occupation tax. For purpose of generation of General Fund revenue, the City imposes a peremployee business fee which generates more than \$2,000,000 per year. See the introduction of this section for a table with the amounts collected from the various taxes. COVID-19 has impacted the amount of various taxes collected. See "THE CITY—Impact of COVID-19."

Retail Sales and Use Tax. Under State law, the State imposes a statewide sales and use tax of 6.5%. Local governments (cities, counties and certain other municipal corporations) are authorized to levy additional "local option" sales and use taxes for general governmental purposes. In general, sales taxes are imposed on the purchase by consumers of a broad base of tangible personal property and selected services, including construction (labor and materials), machinery and supplies, services and repair of real and personal property and many other transactions not typically taxed in other states. The use tax supplements the sales tax by taxing the use of certain services and by taxing personal property on which a sales tax has not been paid (such as items purchased in a state that imposes no sales tax). Sales taxes upon applicable retail sales are collected by the seller from the consumer. Use taxes are payable by the consumer upon applicable rendering of services or uses of personal property. Each seller is required to hold taxes collected in trust until remitted to DOR, which usually occurs on a monthly basis. DOR collects and distributes all sales and use tax revenue in the State and retains 1% of all taxes collected to offset administration costs. Distribution to the local governments occurs on a monthly basis and lags approximately two months behind collection.

Among the items currently exempt from sales and use taxes are most personal services, motor vehicle fuel, most food sold for consumption off premises, trade-ins and purchases for resale. The State Legislature, and the voters through the initiative process, have changed the base of the sales and use tax on occasion. State law does not provide a general exemption for businesses, nonprofits or governmental entities from payment of sales and use taxes. Following the 2018 U.S. Supreme Court decision in *South Dakota v. Wayfair, Inc.*, the State requires that remote sellers collect and remit sales tax.

Local option sales and use taxes are imposed on the same goods and services as the State retail sales and use tax. Receipts from certain local option retail sales and use taxes are restricted to a specific purpose. Some are required to be shared with other local governments. For example, the City receives a portion of the 0.1% sales tax for criminal justice purposes imposed by the County. This tax is distributed with 10% going to the County and the remaining 90% distributed to cities and the County based on population within each city and within the unincorporated areas of the County.

The City is authorized to impose a local sales and use tax of 1.0%, of which 0.15% is required to be remitted to the County. Included in the 1.0% is a sales tax for criminal justice, 0.9% of the 1.0% tax goes to the County and 0.1% of the 1.0% goes to the City. An aggregate sales and use tax of 10.5% is currently imposed in the City. The resulting tax revenues are allocated 0.85% to the City (including the City's Transportation Benefit District), 0.15% to the County for general purposes, 6.5% to the State, 0.1% to the County for chemical dependency, mental health treatment services and therapeutic court programs, 0.1% to the County for criminal justice purposes, 0.1% to the County for juvenile detention facilities, 0.1% to the County for emergency communications systems and facilities, 1.2% for public community transit, and 1.4% for the regional public transportation benefit area.

The following table shows the amount of criminal justice sales tax revenue collected by the City in the years 2016 through 2020.

Criminal Justice Sales Tax Revenues

	Criminal Justice
Year	Sales Tax Revenue
$2020^{(1)}$	\$771,350
2019	754,107
2018	690,116
2017	642,839
2016	614,564

(1) Preliminary, estimated unaudited.

Source: The City.

Utility Taxes. The City is authorized to impose a utility tax on the gross receipts of utilities providing service in the City, including investor-owned utilities and utilities owned by the City. Legal authority to impose the tax on public utilities owned by other municipal corporations is not settled. Except for storm and surface water, the utility tax on gross receipts of City-owned utilities applies to all customers, even those outside the City limits. The following

table displays the maximum utility tax rate permitted under State law without voter approval and the City's current utility tax rate. Utility tax revenue is unrestricted General Fund revenue.

Maximum Utility Tax Rates and City's Current Utility Taxes (Non-Voter Approved)

Utility	Maximum Statutory Limit	Current Rate
Investor-owned		
Electric	6.0%	6.0%
Telephone	6.0	6.0
Natural Gas	6.0	6.0
Cable Television	$6.0^{(1)}$	6.0
City-owned		
Water	None	6.0%
Sewer	None	6.0
Stormwater	None	6.0
Solid Waste	None	6.0

⁽¹⁾ The rate must not be unduly discriminatory against cable operators and subscribers and therefore should be consistent with the other utility rates charge.

Real Estate Excise Tax. An excise tax is levied on all sales of real estate, measured by the full selling price, including the amount of any liens, mortgages, and other debts given to secure the purchase ("REET"). The State levies this tax at the rate of 1.3%. Cities are authorized to impose a local option tax on the sale of real property of up to 0.50% of the selling price, which has been imposed by the City. The first 0.25% of the City's tax ("REET 1") is required to be used solely for financing certain "capital projects" identified in a capital facilities plan element of the City's comprehensive plan. Eligible "capital projects" for REET 1 include: streets, roads, highways, sidewalks, street and road lighting systems, traffic signals, bridges, domestic water systems, storm and sanitary sewer systems, parks, recreational facilities, law enforcement facilities, fire protection facilities, trails, libraries, administrative and judicial facilities. The second 0.25% of the City's tax ("REET 2") is required to be used to fund certain "capital projects" identified in a capital facilities plan element of the City's comprehensive plan. Eligible "capital projects" for REET 2 include: streets, roads, highways, sidewalks, street and road lighting systems, traffic signals, bridges, domestic water systems, storm and sanitary sewer systems, and planning, construction, reconstruction, repair, rehabilitation, or improvement of parks. REET 2 excludes the use of funds to acquire land for parks. The City must deposit and account for real estate excise tax proceeds in a separate capital projects fund or account. REET 1 and REET 2 revenues must be tracked separately because the uses to which they may be put are different.

Real estate excise taxes are collected by the County Treasurer and distributed to the City periodically. Distributions may be suspended if the City is in noncompliance with certain growth management requirements under RCW 36.70A.340.

Gambling Tax. The City imposes a gambling tax on the gross receipts derived by operators of gambling activities, including punchboards, pull-tabs, bingo, raffles, amusement games, and social card games. Taxable receipts from bingo, raffles, and amusement games are net of the amount paid as prizes and when conducted by bona fide charitable or nonprofit organizations have additional exclusions that reduce the amount of tax imposed. The rates imposed by the City range from 0% to 10%, depending on the classification of the gambling operation subject to the tax. Gambling tax revenue is unrestricted General Fund revenue.

Admission Tax. Admission tax (admission charge) is imposed at a rate of five percent of the amount paid for admission. Events sponsored by nonprofit organizations organized for the betterment of the arts and school events are exempt from the admission tax. Admission tax revenue is unrestricted General Fund revenue.

Transportation Benefit District Vehicle Tax. The City imposes a vehicle tax (tab fee) of \$40 per licensed vehicle. In March 2020, the City dissolved the City's Transportation Benefit District (the "TBD") as a separate entity and the

activities of the TBD will continue as part of the general City government and be reported as a special revenue fund of the City. The cash assets of the TBD were transferred to the City.

PROPERTY TAX ASSESSMENT AND COLLECTION PROCEDURES

Assessed Value

The County Assessor (the "Assessor") determines the value of all real property and personal property throughout the County that is subject to *ad valorem* taxation, except certain utility properties that are valued by DOR. The Assessor is an elected official whose duties and methods of determining value are prescribed and controlled by statute and by detailed regulations promulgated by DOR.

The assessed value is equal to 100% of fair market value, as determined by the Assessor using procedures prescribed by DOR. State law provides for "current use" valuation for certain properties designated as farm and agricultural lands or as timber lands, in accordance with DOR regulations. Three approaches may be used to determine the fair market value of real property: market data, replacement cost and income generating capacity. In the County, all property is subject to a revaluation every year based on market statistics and an on-site appraisal every six years. Though the intent is that the assessed value reflect 100% of market value, the infrequency of on-site appraisals can lead to assessed values that lag market and other adjustments. Personal property is valued each year based on affidavits filed by the property owner. The property is listed by the Assessor on a roll at its current assessed value and the roll is filed in the Assessor's office. The Assessor's determinations are subject to revisions by the County Board of Equalization and, for certain property, subject to further revisions by the State Board of Tax Appeals.

Current and Historical Assessed Value and Property Tax Levy Rates and Amounts for the City

The following table shows the current and historical assessed value and property tax levy rates and levy amounts for the City from 2017 to 2021.

Current and Historical Assessed Value and Property Tax Levy Rates and Amounts

		Regular Levy		EMS Levy	
Collection Year (ending December 31)	Assessed Value ⁽¹⁾	Rate (per \$1,000)	Regular Levy Amount	Rate (per \$1,000)	EMS Levy Amount
2021	\$7,953,751,038	\$0.54063	\$4,300,000	N/A	N/A
2020	7,503,860,299	0.57304	4,300,000	N/A	N/A
2019	7,015,500,457	0.57017	4,000,000	N/A	N/A
2018	6,272,081,312	0.57397	3,600,000	\$0.37478	\$2,350,633
2017	5,654,422,666	1.72753	9,768,189	0.40530	2,291,730

⁽¹⁾ Total assessed value used for computation of debt capacity. Equal to regular assessed value.

Source: Snohomish County Assessor's Office.

Largest Property Taxpayers

The following table lists the ten largest property taxpayers within the City for tax collection year 2021 listed in declining order of assessed value.

Largest Property Taxpayers

Taxpayer	Nature of Business	Assessed Value (AV) ⁽¹⁾	Percentage of Total AV ⁽²⁾
Alderwood Mall	Retail Sales	\$164,677,436	2.07%
Merlone Geier Partners	Commercial	84,689,900	1.06
HPP Hudson Northview LLC	Office Building	62,090,600	0.78
Alderwood Heights Associates II LLC	Multi-Family Housing	57,312,700	0.72
Macy's ⁽³⁾	Retail Sales	47,119,400	0.59
Redstone WA Property LLC	Office Building	46,506,900	0.58
Alaska Electrical Pension Fund	Office Building	44,405,559	0.56
CEP III Collins 18 LLC	Commercial	39,105,000	0.49
Whispering Cedars Associates	Multi-Family Housing	38,685,000	0.49
B9 MR Alderwood Park LLC	Multi-Family Housing	37,338,491	0.47
Total		\$621,930,986	7.82%

⁽¹⁾ Based on assessed value for taxes payable in 2021.

Source: Snohomish County Assessor's Office.

Property Tax Collection Procedure

Property taxes are levied in specific amounts by the taxing districts. The levy rate is calculated and fixed by the Assessor based upon the assessed value of the taxable property within the taxing district and adjusted, in accordance with detailed guidelines from DOR, to comply with statutory and constitutional rate and amount limitations. See "TAXING AUTHORITY—Property Taxes and Limitations" above.

The method of giving notice of payment of taxes due, the accounting for the money collected, the division of the taxes among the various taxing districts, notices of delinquency, and collection procedures are all covered by statute and regulation. The Assessor extends the taxes to be levied within each taxing district upon a tax roll which contains the total amount of taxes to be so levied and collected. The tax roll is delivered to the County Treasurer (the "Treasurer") (an elected official) by January 15 of each year, who creates a tax account for each taxpayer and is responsible for the collection of taxes due for each account. All such taxes are due and payable on April 30 of each year, but if the amount due from a taxpayer exceeds \$50, half may be paid by April 30 and the balance no later than October 31. Delinquent taxes are subject to interest at the rate of 12% per year computed on a monthly basis from the date of delinquency until paid. In addition, a penalty of 3% is imposed on June 1 of the year in which the tax is due and 8% on December 1 of that year. Penalties are credited to the account of the taxing district; interest on delinquent taxes is credited to the County's current expense fund.

Pursuant to State law, the Governor, after proclaiming a state of emergency, may issue an order or orders concerning a waiver or suspension of the application of tax due dates and penalties related to the collection of taxes. Further, during a state of emergency declared by the Governor, a county treasurer may grant extensions of the due date of any property taxes as the treasurer deems proper.

On February 29, 2020, the Governor proclaimed a state of emergency for all counties throughout the State as a result of COVID-19. See "THE CITY—Impact of COVID-19." As of the date of this Official Statement, neither the Governor or the Treasurer has issued an order waiving or suspending the application of tax due dates and penalties related to the collection of taxes. The City cannot predict what additional actions the Governor or the Treasurer may take, if any, regarding the collection of property taxes or what effect, if any, such action or subsequent events may

⁽²⁾ Totals may not foot due to rounding.

⁽³⁾ Macy's announced it was closing roughly 125 stores by 2023, although the specific stores have not been listed. The Macy's store in the City has not been listed for closure in 2021.

have on the financial condition or operations of the City, or on the repayment of the Bonds or the City other outstanding limited tax general obligation bonds.

The lien on property taxes is prior to all other liens or encumbrances of any kind on real or personal property subject to taxation except for federal civil judgment liens and the possible application of the State "homestead exemption" described below. A federal lien on personal property that is filed before the personal property tax is levied is senior to the local personal property tax lien. In addition, a federal civil judgment lien (but not a federal tax lien) is senior to real property taxes that are levied after the judgment lien has been recorded. By law the Treasurer may not commence foreclosure of a tax lien on real property until three years have passed since the first delinquency. The State's courts have not decided whether the Homestead Law (chapter 6.13 RCW) gives to the owner of real or personal property used as a residence by the owner or a dependent of the owner the right to retain certain proceeds of the forced sale of such property for delinquent general property taxes. The United States Bankruptcy Court for the Western District of Washington has held that the homestead exemption applies to the lien securing property taxes, while the State Attorney General has taken the position that it does not. See also *Algona v. Sharp*, 30 Wn. App. 837, 638 P.2d 627 (1982) (holding that liens securing improvement district assessments are subject to the homestead exemption). The amount of proceeds that may be retained by the owner of such property has been increased from time to time and is currently the greater of \$125,000 or the median sale price of a single-family home in the preceding calendar year in the county the property is located.

Collection Record

The following table shows the City's property tax collection record for 2017 through 2021.

Property Tax Collection Record

Collection Year Ending	Total Levy	Tax Collected In Year of Levy				Tax Colle as of April 30	
December 31	Amount	Amount	%	Amount	%		
2021	\$4,300,000	\$ 1,894,912	44.07%	\$ 1,894,912	44.07%		
2020	4,300,000	4,225,980	98.28	4,259,818	99.07		
2019	4,000,000	3,922,053	98.05	3,992,126	99.80		
2018	5,950,633 ⁽²⁾	5,796,456	97.41	5,944,858	99.90		
2017	$12,059,919^{(2)}$	11,840,572	98.18	12,052,501	99.94		

⁽¹⁾ Taxes collected may be in excess of the original levy amount due to a change in property value causing the amount of taxes owed to either increase or decrease.

Source: Snohomish County Assessor's and Treasurer's Offices

FINANCIAL INFORMATION

Accounting and Financial Reporting

The accounting and reporting policies of the City conform to those methods prescribed by the State Auditor under State law. The City's Financial Policies, routinely reviewed since adoption in 2017, are consistent with Government Financial Officer's Association ("GFOA") guidelines, Generally Accepted Accounting Practices ("GAAP"), Government Accounting Standards Board ("GASB") guidelines, and the methods prescribed by the State Auditor. The Finance Director of the City maintains general supervision over financial transactions for all City funds. The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. Each fund is accounted for with a separate set of revenues and expenditures, as appropriate. The City's resources are allocated to and accounted for in individual funds depending on their intended purpose. The finance department of the City monitors actual performance of all key funds and provides a complete analysis quarterly to the City Council, with monthly updates to the City Council Finance Committee.

City operations are segregated into governmental, proprietary and fiduciary funds. Governmental funds include functions reported as governmental activities such as police, parks and administration, and include the General Fund, the Revenue Stabilization Fund, and the Economic Development Infrastructure Fund. Proprietary funds

⁽²⁾ Includes EMS levies of \$2,350,633 in 2018 and \$2,291,730 in 2017.

generally report services for which the City charges customers a fee such as water, sewer and storm water, and include the Water, Sewer and Storm Drainage Fund and the Golf Course Fund. Fiduciary funds represent funds held in trust, and includes the firemen's pension trust fund and five agency funds.

Basis of Accounting. The City's government-wide financial statements are prepared using the accrual basis of accounting. At the fund reporting level, the governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds use the accrual basis of accounting at both reporting levels.

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

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

Unearned revenue arises when assets are recognized before revenue recognition criteria have been satisfied. On both the government-fund financial statements and the government-wide financial statements, revenues are deferred for grants and entitlements received before the eligibility requirements are met (e.g. cash advances).

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

Audit of City Finances. Accounting systems and budgetary controls are prescribed by the Office of the State Auditor in accordance with State law. State statutes require audits for cities to be conducted by the Office of the State Auditor. 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 at least once every two years. The City is audited annually. The examination must include, among other things, the financial condition and resources of the City, whether the laws and constitution of the State are being complied with, and the methods and accuracy of the accounts and reports of the City. Reports of the auditor's examinations are required to be filed in the office of the State Auditor and in the finance department of the City. During 2020, the City received a clean audit of financial practices and reporting for calendar year 2019.

The most recent financial audit of the City covers the year ended December 31, 2019, and is attached as Appendix B. The City's unaudited financial report for the year ended December 31, 2020 is attached as Appendix C.

Budgetary Process

The City adopts biennial budgets for all governmental funds. The legal level of control (the level at which expenditures may not legally exceed appropriations) for each adopted annual operating budget generally is the individual fund level. Appropriation of operating funds are reviewed and amended as needed by the City Council.

All budgets are adopted on a basis consistent with generally accepted accounting principles (*i.e.*, the modified accrual basis). Any unexpended appropriation balances for annually budgeted funds lapse at the end of the biennium except for appropriations for capital projects that are carried forward from year to year until fully expended or the purpose of the appropriation has been accomplished or abandoned.

The Government Financial Officer's Association ("GFOA") honored the City with the Distinguished Budget Presentation Award for the biennial budgets beginning January 1, 2017 and January 1, 2019. The City has submitted the biennial budget beginning January 1, 2021 for award consideration.

The Mayor is authorized to transfer budgeted amounts between departments within any fund with the exception of the General Fund. See Note 1 in APPENDIX B—"AUDITED 2019 FINANCIAL STATEMENTS" and APPENDIX C—"UNAUDITED 2020 FINANCIAL STATEMENTS" for more information on the City's budgetary process.

Authorized Investments

Authorized Investments. Chapter 39.59 RCW limits the investment of public funds by local governments to the following authorized instruments: (i) bonds of the State or any local government in the State, (ii) general obligation bonds of any other state or local government thereof which have at the time of investment one of the three highest credit ratings of a nationally recognized rating agency, (iii) registered warrants of a local government in the same county as the local government making the investment, (iv) obligations of the U.S. government, its agencies and wholly owned corporations, or obligations issued or guaranteed by supranational institutions, provided, that at the time of investment, the United States government must be the largest shareholder of such institution, (v) obligations of the Federal Home Loan Bank, Fannie Mae and other government-sponsored corporations, (vi) bankers' acceptances purchased on the secondary market, (vii) commercial paper purchased on the secondary market, subject to state investment board policies, and (viii) corporate notes purchased on the secondary market, subject to state investment board policies.

Moneys 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 investments is apportioned and used as prescribed by State law. Funds derived for the sale of bonds or other instruments of indebtedness will be invested or used in such manner as the authorizing ordinances, resolutions or bond covenants may lawfully prescribe.

Local Government Investment Pool. The State Treasurer's Office administers the Washington State Local Government Investment Pool (the "LGIP"), a \$20.701 billion dollar (as of January 31, 2021) fund that invests money on behalf of more than 600 participants. 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, (i) the safety of principal; (ii) the assurance of sufficient liquidity to meet cash flow demands; and (iii) 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. Although not regulated by the U.S. Securities and Exchange Commission (the "SEC"), the LGIP is invested in a manner generally consistent with the SEC guidelines for Rule 2a-7 money market funds; for example, currently it has a maximum weighted average maturity of 60 days and a maximum weighted average life of 120 days. The maximum final maturity is 397 days except for floating- and variable-rate securities and securities that are used for repurchase agreements. The weighted average maturity of the LGIP generally ranges from 30 to 60 days. Investments permitted under the LGIP'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 Washington State depositories.

Authorized Investments for Bond Proceeds. In addition to the eligible investments discussed above, bond proceeds also may be invested in certain 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 certain 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 certain shares of money market funds with portfolios of securities otherwise authorized by law for investment by local governments.

City Investments

The City maintains a cash and investment pool that is available for use by all funds. Cash and investments are presented on the balance sheet at fair value or amortized cost, which approximates fair value, in accordance with GASB. 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 City Council. The investment policy is in compliance with State law and is based upon safety, liquidity and investment return, while meeting daily cash flow demands. 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% will be invested with a single security type and no more that 25% will be invested with a single financial institution.

As of December 31, 2020, the City had total cash and investments in the amount of \$150,656,874. The City's cash and investments are comprised of the following:

Cash and Investments (as of December 31, 2020)

	Amount as of
	December 31, 2020
Cash and Cash Equivalents	\$ 75,953,306
Local Government Investment Pool	50,686,975
U.S. Government Securities	24,016,593
Total Cash and Investments	\$150,656,874

See also Note 3 in Appendices B and C for further information on the investments of the City.

Historical Operating Results

The following shows the City's statement of revenues and expenditures for the City's General Fund and the balance sheet for the City's General Fund for the fiscal years ended December 31, 2016 through 2020. The City's General Fund, along with the special revenue, debt service and capital projects funds comprise the City's general governmental funds. The City's budget also contains non-operating funds for debt service, capital, enterprise purposes, and internal services. For fiscal year 2020, the General Fund comprised approximately 75% of the total revenues of the general governmental funds, and approximately 72% of the total expenses of the general governmental funds. Additional information that may interpret, clarify or modify the data presented below is contained in the complete financial statements, including the accompanying footnotes. See Appendix B—"AUDITED 2019 FINANCIAL STATEMENTS" and Appendix C—"UNAUDITED 2020 FINANCIAL STATEMENTS."

Statement of Revenues and Expenditures for the City's General Fund

(For Years Ended December 31)

	2016	2017	2018	2019	$2020^{(1)}$
REVENUES					
Taxes ⁽²⁾	\$ 39,259,326	\$ 40,869,623	\$ 36,214,811	\$ 34,383,205	\$ 31,189,525
License and Permits	4,501,946	5,194,120	5,574,046	3,657,910	5,456,588
Intergovernmental Revenues	1,548,392	1,932,548	1,589,699	2,985,269	3,209,297
Charges for Services	4,524,402	5,000,160	3,979,661	3,407,284	1,995,107
Fines and Forfeitures	4,705,795	4,570,830	4,292,162	4,774,184	3,112,338
Investment Earnings	237,386	170,430	347,267	291,274	214,224
Rents and Concessions	299,801	287,233	428,253	412,286	157,398
Miscellaneous	159,257	296,379	231,207	206,130	124,249
TOTAL REVENUES	\$ 55,236,305	\$ 58,321,323	\$ 52,657,106	\$ 50,117,542	\$ 45,458,726
EXPENDITURES					
General Government	\$ 8,701,501	\$ 8,887,959	\$ 8,606,022	\$ 8,440,744	\$ 10,165,323
Economic Environment	3,659,433	3,936,638	4,410,255	4,249,562	4,241,544
Judicial	1,057,603	1,104,882	1,054,363	1,024,232	1,014,419
Natural Environment	118,567				
Culture and Recreation	6,160,770	6,607,801	7,529,452	7,415,174	5,857,382
Public Safety ⁽²⁾	30,445,416	32,074,289	24,457,707	22,728,095	20,810,597
Social Services	499,366	520,115	548,383	553,170	447,230
Transportation	1,326,659	1,398,484	1,408,880	1,165,626	1,481,523
Debt Service – Interest	600	427	300		
Capital Outlay	147,980	242,990	223,327	115,283	181,853
TOTAL EXPENDITURES	\$ 52,117,895	\$ 54,773,585	\$ 48,238,689	\$ 45,691,886	\$ 44,199,871
Excess (Deficiency) of Revenues					
over (Under) Expenditures	\$ 3,118,410	\$ 3,547,738	\$ 4,418,417	\$ 4,425,656	\$ 1,125,855
OTHER FINANCING SOURCES (USES)					
Transfers In	\$ 183,293	\$ 192,000	\$ 565,000	\$ 380,805	\$ 886,965
Transfers Out	(2,046,411)	(4,573,291)	(3,945,250)	(4,996,788)	(2,806,588)
TOTAL OTHER FINANCING					
SOURCES (USES)	\$ (1,863,118)	\$ (4,381,291)	\$ (3,380,250)	\$ (4,615,983)	\$ (1,919,623)
Net Change in Fund Balance	\$ 1,255,292	\$ (833,553)	\$ 1,038,167	\$ (190,327)	\$ (660,768)
Fund Balances – Beginning	\$ 19,430,656	\$ 20,685,948	\$ 19,852,395	\$ 20,890,562	\$ 20,700,235
Fund Balances – Ending	\$ 20,685,948	\$ 19,852,395	\$ 20,890,562	\$ 20,700,235	\$ 20,039,467

⁽¹⁾ Preliminary, subject to change.

⁽²⁾ There has been a general downward trend in tax collections and public safety expenses since 2017 due to the transfer of the City's fire department to South County Fire District No. 1. See "TAXING AUTHORITY."

Source: City financial records.

General Fund Budget

The following is the City's combined adopted 2021-2022 biennial budget for the general, revenue stabilization and economic development infrastructure funds adopted in November 2020. These funds are budgeted separately but reported together for financial reporting purposes. The combined General Fund balance is budgeted to decrease by approximately \$8.2 million over the biennium. This planned decrease is due to spending of previously collected and saved, one-time economic development infrastructure revenues, on large capital projects totaling \$9.5 million. Funding of these projects is included in the "transfers out" line in the table below.

The original 2021-2022 biennial budget does not include American Rescue Plan Act revenues, currently estimated to be \$8.5 million.

General Fund Biennial Budget⁽¹⁾

	2021 Budget	2022 Budget
Beginning Fund Balance	\$ 19,274,290	\$ 16,104,434
Revenues		
Taxes	\$ 33,549,425	\$ 35,477,134
Licenses	3,290,478	3,317,870
Development Services	4,197,867	4,323,803
Recreation	2,812,450	2,812,450
Fines and Forfeitures	4,763,375	4,858,643
Franchise Fees	460,565	469,777
Intergovernmental	4,675,122	4,685,750
Miscellaneous Revenue	267,508	269,035
Total Operating Revenues	\$ 54,016,790	\$ 54,514,462
Other Non-Operating Revenues	160,876	162,055
Total Revenues	\$ 54,177,666	\$ 56,376,517
Expenditures		
General Government	\$ 9,652,956	\$ 10,449,234
Economic Environment	5,086,264	5,510,119
Judicial	1,361,075	1,474,498
Culture & Recreation	8,027,036	8,695,956
Public Safety	21,164,889	22,928,629
Transportation/Public Works	4,030,189	4,280,994
Capital	1,600,000	1,600,000
Total Expenditures	\$ 50,922,409	\$ 54,939,430
Transfers Out	6,425,113	6,424,913
Total Expenditures & Transfers	\$ 57,347,522	\$ 61,364,343
Total Ending Fund Balance	\$ 16,104,434	\$ 11,116,608

⁽¹⁾ Budget was adopted before allocation of American Rescue Plan Act funds to be allocated to the City. See "THE CITY—Impact of COVID-19.

Source: The City.

Discussion of 2020 Operating Results. The City prepares its budget using a conservative approach to revenue and expenditure estimates. Swift action was taken to update estimates at the beginning of COVID-19 and monitoring continued throughout 2020. Even with significant, temporary, declines in revenue, the City's General Fund ended 2020 with a slight decrease in fund balance. Revenue and expenditures in 2020 were impacted by COVID-19; the length of the impact is yet to be determined. See "THE CITY—Impact of COVID-19."

The City began 2020 in good economic shape with strong development, increasing property values, low unemployment and sales tax revenues trending higher than 2019.

In February 2020, the Governor of the State of Washington declared a state of emergency in response to the spread of a deadly new virus. In the weeks following the declaration, precautionary measures to slow the spread of the virus were ordered. These measures included closing schools, colleges and universities, cancelling public events, prohibiting public and private gatherings, and requiring people to stay home unless leaving for an essential function.

The Mayor issued an Emergency Proclamation in response to the COVID-19 public health crisis in March 2020. The situation evolved rapidly and resulted in closures of City facilities and parks. Non-essential staff were transitioned to telework, while additional protective measures were put in place for essential workers who could not telework. Preliminary estimates indicated a \$7.8 million revenue loss to the General Fund, primarily from reduced sales tax and recreation revenues. The Mayor called for all departments to immediately reduce spending to balance the budget. Measures totaling \$5.6 million included a voluntary separation incentive program, holding positions vacant, reduced hours for part-time/seasonal recreation employees, eliminating travel, and foregoing the purchase of non-essential equipment, goods, and services.

In November 2020, the City Council passed a resolution authorizing the use of up to \$2.2 million in reserves to balance the General Fund and confirming that the 2021-2022 budget could have General Fund reserves under the 2.5 month minimum required in the City's internal policy. At the time of 2021-2022 budget adoption, it was estimated that the draw-down on reserves would be less than \$2 million. The actual amount of transfer needed was only \$1.13 million. The General Fund had 2.2 months of operating reserves as of the end of 2020.

Despite a reduction in taxable sales in April 2020 (revenues received by the City in June), sales tax revenues recovered relatively quickly and development activity remained strong throughout the City. The City's recreation center reopened on a limited basis in accordance with the Centers for Disease Control and Prevention and State guidelines. The City received \$2 million in federal aid in 2020 to reimburse necessary expenditures related to pandemic response and will receive another \$8.5 million over the next two years to continue to respond to the impacts and replace lost revenues. See "THE CITY—Impact of COVID-19."

THE CITY

The City is located in southwest Snohomish County, approximately 13 miles south of the City of Everett and 16 miles north of the City of Seattle. The City, incorporated in 1959, covers an area of approximately eight square miles, with an estimated 2020 population of 40,690. It operates under the laws of the State applicable to a non-charter code city. The City is a general-purpose government and provides public safety, street improvement, parks and recreation, water, sewer, surface water and general administrative services.

The City is designated a "Core City" and a "Regional Growth Center" in the Vision 2050 regional plan adopted by the General Assembly of the Puget Sound Regional Council in 2020. The plan provides a long-range growth management, environmental, economic and transportation strategy for the four-county central Puget Sound region, which includes Snohomish County. A "Core City" is a major city with regionally designated growth centers, which are intended to accommodate a significant share of future growth, and are major civic, cultural and employment centers within their counties. As a "Core City," the City is expected to contain key hubs for the region's long-range multimodal transportation system.

City Governance

City Council. The City was incorporated in 1959 and operates under a strong Mayor/Council form of government, and as a non-charter, optional code city. City-elected officials consist of the Mayor and seven Councilmembers, all of which are elected at large to four-year terms. Councilmembers 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, fire prevention, 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 current Mayor and Council members and their terms of office are listed in the following table.

Elected Official	Position	Term Expires
Nicola Smith	Mayor	December 31, 2021
George Hurst	Council President	December 31, 2023
Jim Smith	Council Vice President	December 31, 2023
Julieta Altamirano-Crosby	Councilmember	December 31, 2023
Christine Frizzell	Councilmember	December 31, 2021
Ruth Ross	Councilmember	December 31, 2021
Shannon Sessions	Councilmember	December 31, 2023
Patrick Decker ⁽¹⁾	Councilmember	November 2021

⁽¹⁾ Patrick Decker was sworn into the City Council on June 1, 2021 to fill the seat vacated in mid-April 2021 by former Councilmember Ian Cotton. Mr. Decker was selected from applicants and will serve until the November 2021 election is certified. The position will be filled for a four-year term in the November 2021 general election.

Key City Administration. Brief resumes of the Mayor, the Assistant City Administrator, and other officers of the City follow.

Nicola Smith, Mayor. Ms. Smith took office as the Mayor of the City of Lynnwood in January of 2014. Mayor Smith coordinates and directs the overall management and administration of all City departments, implements council policies and directives and provides intergovernmental coordination between the City Council, city staff and other governmental entities. Mayor Smith is currently a member of the following boards and organizations: Community Transit Board of Directors; Sound Transit Board of Directors; Snohomish County Cities Past President; Economic Alliance of Snohomish County Board of Trustees; Partner Lynnwood; Housing Affordability Task Force Co-Chair; South Snohomish County CEO Round Table; Central Washington University Advisory Board; and Rotary Club of Lynnwood. Before being elected, Mayor Smith enjoyed a long career with Edmonds Community College as the Dean of Student Life where she oversaw student athletics, the Equity and Diversity Center, student government and programs, the Center for Families and Residential campus housing. Mayor Smith has a Bachelor of Arts from the University of Washington and a Master of Education 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 past 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 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.

Michelle Meyer, Finance Director. Ms. Meyer was appointed as the City's Finance Director in February 2021 and started at the end of March 2021. Ms. Meyer spent her career in public service with over 20 years of progressively responsible experience in local government agencies including the last 10 in municipal Finance Director roles. She has extensive experience in debt management, economic development and operational and capital budgeting for full-

service cities. Ms. Meyer holds a Master of Public Administration and a Graduate Certificate in City/County Management from Wichita State University.

Corbitt Loch, Senior Manager, Strategic Planning. Mr. Loch has been the City's Senior Manager, Strategic Planning for over five years, serving as second-in-command in the City's finance department, and has guided the City's budget processes, efficiency studies, and aligned City resources to best achieve the City's strategic priorities. He recently served as Acting Finance Director for the City. Mr. Loch has dedicated his career to public service; having 35 years of diverse experience serving large and small cities and has held the following positions: fiscal analyst, urban designer, human resource manager, capital projects manager, policy analyst, department director, and assistant city manager. He has a Master's Degree in Public Administration from Seattle University and a Bachelor's of Arts Degree in Design/Urban Planning from Arizona State University.

James Nelson, Chief of Police. Mr. Nelson was appointed as the Lynnwood Police Department Chief of Police effective August 1, 2020. Prior to be being appointed as the City's Police Chief, he spent the past 27 years serving as a member of the Lynnwood Police Department in a variety of roles of increasing responsibility to include: patrol officer, detective, detective sergeant, narcotics task force sergeant, investigations commander, jail commander, bureau of field operations deputy chief and bureau of support services deputy chief. He is the City's sixth police chief and the first internally appointed chief since the 1970's. His service to the Lynnwood community was preceded by his service to the country as member of the United States Marine Corps Reserve from 1990 to 1997, from which he was honorably discharged. He holds a Bachelor's of Arts degree in Social Sciences from Washington State University, a Master of Public Administration degree from the University of Nebraska and is a graduate of the FBI National Academy.

Impact of COVID-19

The COVID-19 pandemic currently is affecting many parts of the world, including the State, the County and the City. As of the date of this Official Statement, (i) the City is continuing to proactively implement measures to mitigate operational and financial impacts to the City and its taxpayers and ratepayers, including closing lobbies, requiring employees not required to be on site for essential services to work from home, implementing "social distancing" measures for the City's on-site essential staff and ensuring projects can be completed with minimal contact between employees, and with all other services by appointment only in compliance with the Governor's phased "re-opening" of the State's economy; and (ii) the City Council is conducting meetings and work sessions online only with teleconference options.

The State and Snohomish County allocated \$2 million in federal Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") funds to the City in 2020, which the City used to reimburse itself for necessary expenditures incurred due to the public health emergency with respect to the COVID-19. Expenditures include addressing medical or public health needs, as well as expenditures incurred to respond to second-order effects of the emergency, such as by providing economic support to those suffering from employment or business interruptions. Funds were distributed on a reimbursement basis through December 31, 2020.

The City expects to receive \$8.52 million in federal funds from the recently passed coronavirus relief bill, the American Rescue Plan Act. Half of the funding will be received in 2021 with the other half expected 12 months later in 2022. Program guidelines provide substantial flexibility for each jurisdiction to meet local needs—including support for households, small businesses, impacted industries, essential workers, and the communities hardest-hit by the crisis. Within the categories of eligible uses listed, recipients have broad flexibility to decide how best to use this funding to meet the needs of their communities. Program rules include a methodology for using funds to recover lost revenues. As of the time of publication, the City has not yet determined a comprehensive plan for how the funding will be allocated.

The City currently anticipates that existing fund reserves and the continuing review and management of expenses will be adequate to manage the impacts of the COVID-19 pandemic. See "FINANCIAL INFORMATION—General Fund Budget" and "—Historical Operating Results."

Labor Relations

As of January 1, 2021, the City had approximately 270 budgeted full-time equivalent employees, not including regular part-time and seasonal positions. Numerous positions are being held as unfilled in order to align operating expenses with COVID-19 operating revenue.

Certain City employees are represented by one of five 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 January 1, 2021. The City strives to be fair with all employees, consistent with all applicable State laws, to ensure equity and promote labor relation policies mutually beneficial to management and employees. The City considers its relations with all employees and bargaining units to be good.

Bargaining Units

Bargaining Unit	Employees Represented	Employees Covered (Approx.)	Effective Through
AFSCME	Support Personnel	75	12/31/2022
Teamsters	Public Works and Parks Maintenance	38	12/31/2021
Police Guild	Police Officers and Sergeants	64	12/31/2021
	Clerks, Jailers, Crime Prevention, AC,		
Police Guild – Support	Evidence	32	12/31/2021
Police Guild – Management	Commanders	4	12/31/2021
Total		213	

Pensions

The City provides all of its public employee pensions through the following statewide cost-sharing multiple-employer plans administered by the Washington State's Department of Retirement Systems ("DRS"): Public Employees Retirement System ("PERS") or the Law Enforcement Officers and Fire Fighters Retirement System ("LEOFF"). PERS Plans 1 and 2 and LEOFF are defined benefit plans and PERS Plan 3 contains a hybrid defined benefit/defined contribution option. All systems are administered by the Washington State Department of Retirement Systems. 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.

Public Safety Employees' Retirement System ("PSERS") is a cost-sharing multiple-employer retirement system comprised of a single defined benefit plan, PSERS Plan 2. PSERS was created by the 2004 legislature and became effective July 1, 2006. Membership includes all full-time public safety officers. PSERS Plan 2 membership includes: full-time public safety employees on or before July 1, 2006, who met at least one of the PSERS eligibility criteria, and elected membership during the election period of July 1, 2006 to September 30, 2006; and full-time public safety employees, hired on or after July 1, 2006, that meet at least one of the PSERS eligibility criteria. Retirement benefits are financed by employee and employer contributions, and investment earnings. Members are vested after completing five years of eligible service. PSERS Plan 2 provides disability benefits. There is no minimum amount of service credit required for eligibility. Eligibility is based on the member being totally incapacitated for continued employment, and leaving that employment as a result of the disability.

State law requires systematic actuarial 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, 2018: (1) 7.5% rate of investment return (7.5% for LEOFF Plan 2); (2) general salary increases of 3.75%; (3) 3.0% rate of Consumer Price Index increase; and (4) 0.95% growth in membership (1.25% for LEOFF). The long-term

investment return assumption is used as the discount rate for determining the liabilities for a plan. The 10-year annualized return on the investment returns as of June 30, 2017 on the retirement funds was 5.47%.

The information under this heading has been obtained from the City's financial statements and information on the State Actuary's and DRS websites, which are not incorporated herein by reference.

Plan Funding; Contribution Rates and Amounts. All DRS-administered retirement plans are funded by a combination of funding sources: (1) contributions from the State; (2) contributions from employers (including the State as employer 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 to PERS, LEOFF and PSERS for the year ended December 31, 2020, was \$3,032,508, representing 10.38% of covered payroll. The City's total contribution to PERS, LEOFF and PSERS for the year ended December 31, 2019, was \$2,964,343, representing 9.86% of covered payroll.

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, who makes non-binding recommendations to the Select Committee on Pension Policy who 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 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, and the contribution rates for the next biennium.

Contribution Rates for the 2019-20 and 2021-23 Bienniums Expressed as a Percentage of Covered Payroll

	Contribution Rates 2019-20 Biennium Employer ⁽¹⁾ Employee		Contribution Rates 2021-23 Biennium	
-			Employer ⁽¹⁾	Employee
PERS Plan 1	12.97%	6.00%	10.25%	6.00%
PERS Plan 2	12.97	7.90	10.25	6.36
PERS Plan 3	12.97	Variable ⁽²⁾	10.25	Variable ⁽²⁾
LEOFF Plan 1	0.18	0.00	0.18	0.00
LEOFF Plan 2	$5.33^{(3)}$	8.59	$5.30^{(3)}$	8.53
PSERS Plan 2	12.25	7.20	10.39	6.50

⁽¹⁾ Includes a 0.18% DRS administration fee.

Plan Funding Status and Unfunded Actuarial Liability. While the City's 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 includes information regarding the values, funding levels and investments of these retirement plans.

Historically, OSA used the Projected Unit Credit ("PUC") cost method and the Actuarial Value of Assets ("AVA") to report a plan's funded status. PUC was one of several acceptable measures of a plan's funded status under current GASB rules. In September 2015, OSA adopted the Entry Age Normal ("EAN") cost method to estimate accrued pension liabilities for the purposes of reporting funded status. The EAN method represents each plan member's benefits as a constant share of payroll throughout the member's career. This liability estimate incorporates the statutorily set discount rate and fully reflects the demographic assumptions revised in the June 30, 2013 valuation, which included projected improvements in mortality rates.

⁽²⁾ Rates vary from 5.0% minimum to 15.0% maximum based on the rate selected by the PERS 3 member.

⁽³⁾ In addition, the State contributes 3.44% for the 2019-20 Biennium and 3.41% for the 2021-23 Biennium. *Source: Department of Retirement Systems.*

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. Using the EAN cost method, the State Actuary's actuarial valuation for PERS Plan 1 and PERS Plans 2 and 3 as of June 30, 2019, showed a 65% funded ratio (unfunded liability of \$4.074 billion) and a 96% funded ratio (unfunded liability of \$1.833 billion), respectively, while LEOFF Plans 1 and 2 had valuation assets that exceed their accrued liability by \$1.657 billion (a 141% funded ratio) and \$1,302 million (a 111% funded ratio), respectively. Using the EAN cost method, the State Actuary's actuarial valuation for PERS Plan 1 and PERS Plans 2 and 3 as of June 30, 2018, showed a 60% and 91% funded ratio, respectively, while LEOFF Plans 1 and 2 had a 135% and 108% funded ratio, respectively. In comparing the preliminary funded status as of June 30, 2018 to June 30, 2019, there was an increase from 89% to 92%.

In April 2019, the State Legislature passed House Bill 2144, which includes a pension fund transfer of \$300 million out of the LEOFF 2 account and into a subaccount to pay for unidentified new pension benefits. This transfer is expected to reduce the funded ratio of the plan, the assets of which are held to provide current member benefits.

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 Plans 2 and 3 member. 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 1 unfunded actuarial accrued liability within a rolling 10-year period. The Legislature established certain maximum contribution rates from 2009 to 2015 and certain minimum contribution rates became effective in 2015 and remain in effect until the actuarial value of assets in PERS Plan 1 equals 100% 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.

The information in this section has been obtained from the City's financial statements and information on the OSA and DRS websites.

GASB Liabilities. The Government Accounting Standard Board ("GASB") has implemented pension standards that require employers, including the City, to report their pension liabilities on an actuarial basis rather than a funding basis. Beginning with its 2015 financial statements, the City reported its proportionate share of the net plan asset or liability for each pension plan in which City employees participate. The liability is based on the actuarial present value of projected benefit payments to periods of employee service, a discount rate that considers the availability of plan assets and recognition of projected investment earnings. The DRS determines each participating employers' proportionate share of the plan liability and OSA determines each plan's accounting valuation. The GASB rules impact accounting for pensions and not the funding status of the plans calculated by OSA or pension contribution rates that are set based on statutory assumptions.

DRS has calculated the collective net pension liability for the various retirement plans based on the new GASB reporting requirements as well as the City's share of such liability. Net pension liability equals the total pension liability (a measure of the total cost of future pension benefit payments already earned, stated in current dollars) minus the value of the assets in the pension trust that can be used to make benefit payments. Contributions from plan members and employers are assumed to continue to be made at contractually required rates, the assumed long-term rate of investment return is 7.40%, the assumed economic inflation is 2.75%, and the assumed salary inflation is 3.50%. The following table shows the City's share of the net pension liability for the plans it participates in for the State fiscal year ended June 30, 2020, based on its share of contributions for the year.

City's Share of Pension Liabilities/(Assets) For Year Ended June 30, 2020

	Net Liability/(Assets)	City Percent	City's Share of Net Liability/(Assets)
PERS 1	\$ 3,530,540,000	0.131507% (1)	\$4,642,907
PERS 2/3	1,278,943,000	0.158922	2,032,522
LEOFF 1	(1,888,509,000)	0.099087	(1,871,227)
LEOFF 2	$(2,039,854,000)^{(2)}$	0.229167	(4,674,672)
PSERS 2	(13,760,000)	0.192976	(26,553)

⁽¹⁾ Includes 0.130308% of unfunded actuarial accrued liability.

Source: DRS Participating Employer Financial Information Report for Fiscal Year Ended June 30, 2020.

Firemen's Pension Fund. The City is the administrator of a single employer defined benefit pension plan, the Firemen's Pension Fund (the "Firemen's Pension Fund Plan"). The Firemen's Pension Fund Plan is limited to firefighters and beneficiaries employed before March 1, 1970, and as of March 1, 1970, was closed to new entrants. Firefighters hired before March 1, 1970 at retirement receive the greater of the pension benefit provided under the Firemen's Pension Fund Plan or under LEOFF. Any excess benefit over the LEOFF benefit is provided by the Firemen's Pension Fund Plan. As of December 31, 2020, there were a total of five individuals covered by this fund (four inactive plan members and one surviving spouse).

The most recent actuarial study, using the entry age normal cost method, of the Firemen's Pension Fund Plan 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) discount rate of 2.5%; (2) 2.00% rate of inflation; (3) projected annual salary increases of 2.5% including inflation; (4) projected investment earnings of 4.00%; and (5) the mortality and turnover assumptions were based on the RP-2000 table projected to the year 2025 using Scale BB to include an allowance for improvements in longevity.

⁽²⁾ The State Legislature passed HB 2144, which includes a pension fund transfer of \$300 million out of the LEOFF 2 account and into a subaccount to pay for unidentified new pension benefits. This transfer will reduce the funded status of the plan, which are held to provide current member benefits.

The following table describes the City's net pension liability regarding the Firemen's Pension Fund Plan as of the actuarial valuation date of December 31, 2020.

Schedule of Changes in Net Pension Liability Firemen's Pension Fund Plan

	December 31, 2020
Total Pension Liability	
Interest	\$ 40,740
Changes in Assumptions	(130,094)
Differences between expected and actual experience	146,585
Benefit Payments and withdraws	(76,327)
Net Change in Total Pension Liability	(19,096)
Beginning Total Pension Liability	1,519,629
Ending Total Pension Liability	\$1,500,533
Plan Fiduciary Net Position	
Contributions – Employer	\$ 66,367
Net Investment Income	6,393
Benefit Payments and withdraws	(76,327)
Net Change in Plan Fiduciary Net Position	(3,567)
Beginning Plan Fiduciary Net Position	310,027
Ending Plan Fiduciary Net Position	\$ 306,460
Ending Net Pension Liability	\$1,194,073

Other Post-Employment Benefits

In addition to the pension benefits described above, the City also provides other post-employment benefits ("OPEB") to all retired law enforcement officers hired prior to October 1, 1977 through participation in the LEOFF 1. Currently, the City provides lifetime medical care for 20 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 are covered. Medical insurance for the 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 following table describes the City's net healthcare obligation regarding the City's LEOFF I retirees.

Schedule of Changes in Total OPEB Liability LEOFF I Retiree Medical and Long-Term Care Benefits

	June 30, 2020
Total OPEB Liability – Beginning of Year	\$ 9,854,835
Interest	337,538
Changes of Assumptions	901,628
Benefit Payments	(425,433)
Net Change in Total OPEB Liability	\$ 813,733
Net OPEB Liability – End of year	\$ 10,668,568

See also Note 3-I in Appendices B and C for further information on OPEB of the City.

Health and Welfare

The City is a member of the Association of Washington Cities Employee Benefit Trust Health Care Program ("AWC Trust HCP"). The AWC Trust HCP was formed in January 2014 when participating cities, towns and noncity entities joined together by signing an interlocal agreement to jointly self-insure certain health benefit plans and programs for participating employees, their covered dependents and other beneficiaries through a designated account. As of December 31, 2020, the AWC Trust HCP had 262 participants.

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. Participating employers pay monthly premiums to the AWC Trust HCP. The AWC Trust HCP is responsible for payment of all covered claims. AWC's stop loss coverage and premiums benefit from the pool size and the ability to withstand self-insuring claims. Members contract to remain in the AWC Trust HCP pool a minimum of three years and participating employers with over 250 employees must provide written notice of termination of all coverage a minimum of one-year in advance of the termination date, and participating employers with under 250 employees must provide written notice of termination a minimum of six months in advance. A participating employer's termination will not obligate that member to past debts, or further contributions to the AWC Trust HCP, and forfeits all rights and interest to the AWC Trust HCP account.

Risk Management

Effective December 1, 2019, the City became a member of the Washington Cities Insurance Authority ("WCIA"). In 1981, nine cities formed WCIA for the purpose of providing a pooling mechanism for jointly purchasing insurance, jointly self-insuring, and/or jointly contracting for risk management services. WCIA currently has 163 members. 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.

New members initially contract for a three-year term, and thereafter automatically renew on an annual basis. A one-year withdrawal notice is required before membership can be terminated. Termination does not relieve a former member from its unresolved loss history incurred during membership.

Liability coverage is written on an occurrence basis, with a \$50,000 deductible. Coverage includes general, automobile, police, errors or omissions, stop gap, employment practices and employee benefits liability. Limits are \$4,000,000 per occurrence in the self-insured layer, and \$21,000,000 in limits above the self-insured layer. The excess layer is insured by the purchase of reinsurance. Total limits are \$25,000,000 per occurrence, subject to aggregates and sublimits. The WCIA Board of Directors determines the limits and terms of coverage annually.

Insurance coverage for property, automobile physical damage, equipment breakdown (boiler and machinery), pollution liability, crime/fidelity and information security/cyber are purchased on a group basis. Various deductibles apply by type of coverage. Property coverage is self-funded from the members' deductible to \$750,000, for all perils other than flood and earthquake, and insured above that to \$400 million per occurrence subject to aggregates and sublimits, including a limit of \$150,000,000 for earthquake coverage per occurrence. Coverage for flooding is \$250,000 in most cases, with a \$25,000 deductible.

Automobile physical damage coverage is self-funded from the members' deductible to the actual cash value for scheduled vehicles. Equipment breakdown (boiler and machinery) is insured up to \$100,000,000, with certain sublimits. Pollution liability has a \$2,000,000 limit per condition for pollution condition or indoor environmental condition, and a \$10,000,000 total policy and program aggregate limit of liability. The City has a limit of \$2,500,000 on coverage for employee theft. The City's information security/cyber insurance is covered up to a limit of \$10,000,000 aggregate pool policy limit and a \$1,000,000 per member limit subject to aggregates and sublimits.

WCIA's in-house services include risk management consultation, loss control field services, and claims and litigation administration. WCIA contracts for certain claims investigations, consultants for personnel and land use issues, insurance brokerage, actuarial and lobbyist services.

WCIA is fully funded by its members, who make annual assessments on a prospectively rated basis, as determined by an outside, independent actuary. The assessment covers loss, loss adjustment, reinsurance and other administrative expenses. WCIA retains the right to additionally assess the membership for any funding shortfall.

An investment committee, using investment brokers, produces additional revenue by investment of WCIA's assets in financial instruments which comply with all State guidelines.

A Board of Directors governs WCIA, which is comprised of one designated representative from each member. The Board of Directors elects an Executive Committee and appoints a treasurer to provide general policy direction for the organization. The WCIA Executive Director reports to the Executive Committee and is responsible for conducting the day to day operations of WCIA.

Prior to joining WCIA, the City was a member of the Cities Insurance Association of Washington ("CIAW") for liability insurance (through December 1, 2019), and property insurance coverage (through July 1, 2020). 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 32 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 January 2021, there were more than 200 member agencies in the CIAW.

The City has not had any settlements exceeding the City's coverage with CIAW or WCIA during the prior five years.

The City and its employees contribute to the State of Washington's Department of Labor and Industries for workers' compensation. During the prior three years, there were no payments or settlements other than the City's regular premiums.

The City self-insures for unemployment through the Washington State Employment Security Department ("ESD"). When a former City employee files for unemployment with the State, the City is direct-billed its portion of unemployment benefit costs. To date, the City paid \$39,124, \$67,763 and \$38,914 to ESD for unemployment benefits during 2018, 2019 and 2020, respectively.

Technology Reliability and Cyber Security

The City's Information Technology Department is responsible for providing endpoint control, monitoring, and overall network security. The City maintains cyber liability insurance through WCIA. This insurance was offered to the City, with no additional underwriting mandates, after careful review of the City's network design and controls. The Information Technology Department also uses a proactive approach to monitoring the network. The staff is aware of current security trends, mandates, and best practices. The City has not experienced any major security incidents to date.

Seismic Activity, Other Natural Disasters and Climate Change

The State is in an area of seismic activity, with frequent small earthquakes and occasionally moderate and larger earthquakes. Certain soil types and property in certain areas of the State could become subject to liquefaction (the transformation of soil from a solid state to a liquid state) following a major earthquake, to landslides caused by an earthquake and to ongoing shaking that could follow a major earthquake. The State contains identified geologic faults. In addition to various faults beneath the State, the State is within the Cascadia subduction zone, a fault beneath the Pacific Ocean, which produced a giant earthquake several hundred years ago and is thought to be capable of causing extensive damage if another such earthquake occurs. The most recent notable earthquake in the State, which measured 6.8 on the Richter Scale, occurred in 2001. Areas of the State also could experience the effects of a tsunami following a major earthquake on the West Coast or in areas outside the United States. The Cascade Range in Western Washington also has volcanoes. Mount St. Helens erupted in 1980. Other natural disasters, including mudslides, wildfires, floods, wind storms, drought, and avalanches are possible. Much of the State experienced drought conditions in 2015 and 2018. The State has experienced a number of large wildfire seasons during the past decade.

The City can give no assurance regarding the effect of an earthquake, seismic activity in Washington or in other areas, volcano, wind storms, wild fires, mudslides or other natural disaster or that proceeds of insurance carried by the City would be sufficient, if available, to rebuild and reopen facilities of the City or that surrounding facilities and infrastructure could or would be rebuilt and reopened in a timely manner following a major earthquake or other natural disaster.

Climate change may intensify and increase the frequency of extreme weather events, such as drought, wildfires, wind storms, floods and heat waves, and raise sea levels along the coast. The loss of life and property damage that could result from a major earthquake or other major natural disasters could have a material and adverse impact on the City and the local community and economy. Under Washington law, any person, firm or corporation may be liable if it creates or allows extreme fire hazards to exist and which hazards contribute to the spread of the fires.

GENERAL AND ECONOMIC INFORMATION

The City is the fourth largest city in the County (in 2020), located approximately 16 miles north of the city of Seattle and 13 miles south of the city 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.

The City cannot fully predict how the ongoing COVID-19 pandemic will impact the local economy, but its impact is expected to be significant. As of January 11, 2021, the State began following a regional recovery approach known as "Healthy Washington – Roadmap to Recovery," with every region beginning in Phase 1. This recovery system aimed to safely ease some restrictions while also maintaining crucial hospital capacity, ensuring care for all State residents that need it and to pave the way for economic recovery. Under this approach, each of the State's counties were grouped into eight regions, and a region's phase was to be determined by the Department of Health ("DOH") in response to four metric requirements. All counties in the State were in Phase 2 as of February 14, 2021, and Governor Inslee paused all movement in the "Roadmap to Recovery" on February 24, 2021.

On March 11, 2021, Governor Inslee announced that the State would transition from a regional approach to a county-by-county evaluation process and announced a new third phase of the "Roadmap to Recovery." Effective March 22, 2021, the entire State entered Phase 3. Under this updated plan, counties are evaluated every three weeks. The first evaluation was conducted April 12, 2021; Snohomish County (and all directly neighboring counties) remained in Phase 3 while three counties in other areas were moved back to Phase 2. On May 13, 2021, Governor Inslee announced that all counties would move back to Phase 3, and that the State is moving toward a Statewide June 30, 2021 reopening date. The full reopening could happen earlier than June 30, 2021, if 70% or more of the people living in Washington over the age of 16 initiate vaccination. As of May 13, 2021, the State has administered over 6,000,000 doses of the vaccine and 56% of the State's eligible population has initiated vaccination. The announcement does not mean that the State will lift the state of emergency or that there will be a guarantee of a full reopening by June 30th if the State's COVID-19 data changes. If the State-wide intensive care unit ("ICU") capacity reaches greater than 90%, activities may be rolled back again. Additional pronouncements from Governor Inslee may be expected in the future.

In Phase 1 of the "Roadmap to Recovery," social, at-home gatherings and eating and drinking establishments are prohibited indoors, but may be allowed outside; worship services, retail stores, professional and personal services, weddings and funerals are allowed with capacity limitations; there are also restrictions for indoor and outdoor recreation, sports and fitness establishments and indoor and outdoor entertainment establishments. In Phase 2, some of the same restrictions from Phase 1 are continued; some are allowed with higher capacity limits; and indoor social, at-home gatherings and eating and drinking establishments are allowed with maximum capacity and household limits. In Phase 3, people are allowed at sporting events; spectators are allowed to attend outdoor venues (for professional and high school sports, motorsports, rodeos, and other outdoor spectator events) with permanent seating with capacity capped at 25%. Phase 3 also allows for up to 400 people maximum to attend outdoor activities, as well as events in indoor facilities (so long as 400 people does not exceed 50% capacity for the location), and physical distancing and masking protocols are enforced. Larger venue events are capped at 25% occupancy, or up to 9,000 people, whichever is less, and must follow spectator guidelines. Additionally, Phase 3 will allow up to 50%

occupancy or 400 people maximum, whichever is lower, for all indoor spaces. This applies to all industries and indoor activities currently allowed; restaurants, gyms and fitness centers and movie theaters, among others, may all increase their capacity.

Population

Historical population of the City and the County are shown below.

Historical Population

	City of	Snohomish County			
Year	Lynnwood	Incorporated	Unincorporated	Total	
2020	40,690	461,100	369,400	830,500	
2019	39,600	453,220	365,480	818,700	
2018	38,260	447,565	357,555	805,120	
2017	36,950	439,600	349,800	789,400	
2016	36,590	433,865	338,995	772,860	

Source: Washington State Office of Financial Management.

Economic Indicators

The following tables show economic indicators for the City and the County.

City's Major Employers (2020)

Employer	Product/Service	Approximate Number of Employees
Edmonds School District No. 15 ⁽¹⁾	Public Education	1,800
Edmonds Community College ⁽²⁾	Higher Education	1,000
Macy's West Stores Inc. (3)	Retail	461
Nordstrom Inc.	Retail	372
Fred Meyer Stores	Retail	352
Zumiez Inc.	Retail (corporate headquarters)	330
Costco	Wholesale Warehouse	283
The City ⁽⁴⁾	Government	270
Costco Business Center	Wholesale Warehouse	227
Cheesecake Factory	Restaurant	172
Total Major Employers		5,267

Total employees as reported to the Washington State Business License (full-time/part-time)⁽⁵⁾

34,618/14,251

Source: The City.

⁽¹⁾ Per the Edmonds School District, they do not have a full time equivalent ("FTE") number that includes substitutes, hourly employees or coaches. Approximate number of employees working within the city limits of the City includes substitutes, hourly employees, and coaches, which do not have a designated location other than the district office.

⁽²⁾ FTE.

⁽³⁾ Macy's announced it was closing roughly 125 stores by 2023, although the specific stores have not been listed. The Macy's store in the City has not been listed for closure in 2021.

⁽⁴⁾ Number of employees for 2021 based on the City's adopted 2021-2022 budget. Includes regular part-time positions reported on an full-time equivalent basis. The number of part-time and seasonal employees varies based upon operational and fiscal conditions. For example, due to COVID-19 impacts, the City required fewer staff for the partially-closed recreation center including aquatic center.

⁽⁵⁾ Businesses within the City. Full time per business license data are employees reported as working 15 hours or more. Part-time employees are those working less than 15 hours.

Taxable Retail Sales

Year	Snohomish County	City of Lynnwood
2020 ⁽¹⁾	\$12,255,101,757	\$1,723,322,923
2019	16,861,829,385	2,747,723,640
2018	15,673,374,445	2,651,586,552
2017	14,509,899,633	2,555,376,900
2016	13,618,314,632	2,513,898,808

⁽¹⁾ Through the first three quarters of 2020. The taxable retail sales for the first three quarters of 2019 for the County was \$12,307,843,682 and was \$1,997,272,454 for the City.

Source: Washington State Department of Revenue.

Snohomish County and State of Washington Personal and Per Capita Income

Snohomish County		State of Washington		
	Total Personal	Per Capita	Total Personal	Per Capita
Year	Income (000s)	Income	Income (000s)	Income
2019 ⁽¹⁾	\$48,279,831	\$58,729	\$493,127,859	\$64,758
2018	45,516,824	55,982	468,055,125	62,026
2017	41,988,388	52,349	433,795,843	58,437
2016	39,550,221	50,247	407,060,366	55,802
2015	37,382,596	48,568	385,904,752	53,870

⁽¹⁾ Latest available data.

Source: U.S. Department of Commerce, Bureau of Economic Analysis.

Snohomish County and State of Washington Median Household Income

	Snohomish	Washington
Year	County	State
2020(1)	90,497	81,668
$2019^{(2)}$	88,442	76,840
2018	86,435	72,297
2017	81,779	69,288
2016	77,985	65,500

Source: Washington State Office of Financial Management.

$\begin{array}{c} \textbf{New Privately-Owned Residential Building Permits}^{(1)} \\ \textbf{(Snohomish County)} \end{array}$

Single Family		M	lulti-Family	Total	
Year	Number	Construction Cost	Units	Construction Cost	Construction Cost
2019	2,409	\$746,892,396	1,999	\$260,684,240	\$1,007,576,636
2018	2,201	726,125,381	2,076	267,149,398	993,274,779
2017	2,627	793,077,338	1,098	154,109,641	947,186,979
2016	2,702	825,589,969	1,223	165,312,621	990,902,590
2015	2,375	700,876,406	1,191	146,890,200	847,766,606

Source: U.S. Census Bureau.

⁽¹⁾ Projection.

⁽²⁾ Estimate.

Snohomish County Labor Force, Unemployment and Nonagricultural Wage and Salary Workers

2017

 $2021^{\overline{(1)}}$ 2018 2019 2020

Annual Averages

	-01/	2010	-01/	_0_0	
Civilian Labor Force	423,819	430,814	438,741	441,156	448,213
Employment	407,363	415,930	426,319	403,863	418,570
Unemployment	16,456	14,884	12,422	37,293	29,643
Percent of Labor Force	3.9%	3.5%	2.8%	8.5%	6.6%
Total Nonfarm	287,100	290,100	295,500	277,900	275,000
Mining, Logging and Construction	22,700	24,200	24,400	23,400	25,000
Manufacturing	58,700	58,500	60,600	56,800	51,800
Trade, Transportation and Utilities	48,200	48,400	49,000	47,000	47,700
Information	5,700	5,200	4,600	3,800	4,000
Financial Activities	12,800	13,000	13,100	13,600	13,300
Professional and Business Services	27,900	28,500	29,300	28,300	29,800
Education and Health Services	34,700	35,600	36,500	34,900	35,900
Leisure and Hospitality	26,100	26,500	27,000	22,000	20,400
Other Services	10,300	10,300	10,800	10,400	10,500
Government	40,000	40,000	40,400	37,800	36,700

⁽¹⁾ Average through March 2021.

Source: Washington State Employment Security Department.

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 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 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.

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% 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

Bonds Not "Qualified Tax-Exempt Obligations" for Financial Institutions. Section 265 of the Code provides that 100% 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% 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 <u>not</u> designated the Bonds as "qualified tax-exempt obligations" for purposes of the 80% financial institution interest expense deduction. Therefore, no interest expense of a financial institution allocable to the Bonds is deductible for federal income tax purposes.

Original Issue Premium. The Bonds 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. The amount of amortizable premium allocable to an interest accrual period for a Premium Bond will offset a like amount of qualified stated interest on such Premium Bond allocable to that accrual period. 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 Bonds.

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% 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 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 any proposed or pending legislation that would change the federal tax treatment of interest on the Bonds.

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 the Bond Ordinance, 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 the exercise of judicial discretion in appropriate cases. The opinion to be delivered by Foster Garvey P.C., as Bond Counsel, concurrently with the issuance of the Bonds, will be subject to limitations regarding bankruptcy, insolvency, and other laws relating to or affecting creditors' rights. The various other legal opinions to be delivered concurrently with the issuance of the Bonds will be similarly qualified. A copy of the proposed form of opinion of Bond Counsel is set forth in Appendix A.

A municipality such as the City must be specifically authorized under State law in order to seek relief under Chapter 9 of the United States Bankruptcy Code (the "Bankruptcy Code"). Washington state law permits any "taxing district" (defined to include any municipality or other political subdivision, such as the City) to voluntarily petition for relief under the predecessor statute to the Bankruptcy Code. A creditor cannot bring an involuntary 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. Unless a municipality in a Chapter 9 proceeding consents or the plan approved by the bankruptcy court so provides, the court may not interfere with (i) any of the political or governmental powers of the municipality, (ii) any of the property or revenues of the municipality, or (iii) the municipality's use or enjoyment of any income-producing property.

The federal bankruptcy courts have certain discretionary powers under the Bankruptcy Code. Taxing districts in the State, including the City, are expressly authorized to carry out a plan of readjustment if approved by the appropriate court.

Initiatives and Referendum

State Initiative and Referendum. 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 powers 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 a petition signed by at least 8% (initiatives) and 4% (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 the 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 State 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.

Local Initiative and Referendum. The City has adopted the powers of initiative and referendum for the qualified electors of the City as provided under State law. Referendum powers are not applicable to: ordinances initiated by petition; ordinances necessary for immediate preservation of public peace, health, and safety or for the support of City government and its existing public institutions which contain a statement of urgency and are passed by unanimous vote of the City Council; ordinances providing for local improvement districts; ordinances appropriating money; ordinances providing for or approving collective bargaining; ordinances providing for the compensation of or working conditions of City employees; and ordinances authorizing or repealing the levy of taxes. From time to

time voters may submit petitions for initiatives and referenda within the City. The City cannot predict when or if any such measures would be filed, or what the subject or effect of any such potential measure may be.

CONTINUING DISCLOSURE

Basic Undertaking to Provide Annual Financial Information and Notice of Listed Events. 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 generally 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; (14) appointment of a successor or additional trustee or the change of name of a trustee, if material; (15) incurrence of a financial obligation of the City or obligated person, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the City or obligated person, any of which affect security holders, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of the financial obligation of the City or obligated person, any of which reflect financial difficulties. The term "financial obligation" means a (i) debt obligation; (ii) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (iii) guarantee of (i) or (ii). The term "financial obligation" shall not include municipal securities as to which a final official statement has been provided to the MSRB consistent with Rule 15c2-12.

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: (1) annual financial statements prepared (except as noted in the financial statements) in accordance with applicable 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; (2) principal amount of general obligation bonds outstanding at the end of the applicable fiscal year; (3) assessed valuation for that fiscal year; and (4) regular property tax levy rate for the fiscal year. The annual financial information 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, 2020.

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.

If not submitted as part of the annual financial information described above, the City will provide or cause to be provided to the MSRB audited financial statements, when and if available.

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 shall terminate upon the legal defeasance of all of the Bonds. In addition, the City's obligations under the Undertaking shall 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 or Beneficial Owner 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.

Prior Compliance with Continuing Disclosure Undertakings

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 and certain operating data for the fiscal year ended December 31, 2015, which information was filed in December 2016 and January 2017; (2) timely file the debt service coverage ratio for the Utility System for the fiscal years ended December 31, 2015 and December 31, 2016, which information was filed on September 17, 2018 and for the fiscal year ended December 31, 2018, which information was filed on October 1, 2019 (one day late); (3) timely file general utility statistics for the Utility System for the fiscal year ended December 31, 2018, which information was filed on May 25, 2021; (4) timely file annual financial statements and certain operating data for the fiscal year ended December 31, 2017 to certain of the PFD Bonds, which information was filed on May 25, 2021; and (5) timely file notice of certain of the late filings listed. The City filed notice with respect to certain of these items on September 17, 2018 and May 25, 2021.

UNDERWRITING AND LEGAL

Underwriting

The Bonds are being purchased by Piper Sandler & Co. (the "Underwriter") at a price of \$60,131,255.30 (representing the par amount of the Bonds plus an original issue premium of \$10,921,735.10 less an underwriter's discount of \$105,479.80). 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 the inside cover page of this Official Statement, and such initial offering prices may be changed from time to time by the Underwriter.

The Underwriter has entered into a distribution agreement ("Distribution Agreement") with Charles Schwab & Co., Inc. ("CS&Co") for the retail distribution of certain securities offerings at the original issue prices. Pursuant to the Distribution Agreement, CS&Co. will purchase Bonds from the Underwriter at the original issue price less a negotiated portion of the selling concession applicable to any Bonds that CS&Co. sells.

Rating

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

Litigation

There is a recent lawsuit filed against the City for the actions of a former employee that occurred while using a City-owned vehicle without permission and outside of City responsibilities. The victim received serious injuries. This lawsuit is in the early stages, and is too early to tell what, if any, financial effect it may have on the City. See "THE CITY—Risk Management."

There is no litigation pending or threatened questioning the validity of the Bonds or 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.

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 Garvey P.C., Bond Counsel, Seattle, Washington. The form of the opinion of Bond Counsel is attached as Appendix A. 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. Bond Counsel will be compensated only upon the issuance and sale of the Bonds.

Municipal Advisor

PFM Financial Advisors LLC has served as municipal 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 municipal advisor has not audited, authenticated, or otherwise verified the information set forth in this Official Statement or other information provided relative to the Bonds. PFM Financial Advisors LLC makes no guaranty, warranty or other representation on any matter related to the information contained in the Official Statement. The municipal advisor is an independent financial advisory firm and is not engaged in the business of underwriting, marketing, trading, or distributing municipal securities. All or a portion of the municipal advisor's compensation is contingent on the sale and delivery of the Bonds.

Conflicts of Interest

All or a portion of the fees of Bond Counsel and the Municipal Advisor are contingent upon the issuance and sale of the Bonds. Bond Counsel from time to time serves as counsel to the Underwriter with respect to issuers other than the City and transactions other than the issuance of the Bonds. None of the members of the City Council or other officers of the City have any conflict of interest relating to the issuance of the Bonds that is prohibited by applicable law.

Approval of 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 in order to make the statements herein, in light of the circumstances under which they were made, not misleading.

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



APPENDIX A

FORM OF BOND COUNSEL OPINION

City of Lynnwood, Washington

Re: City of Lynnwood, Washington Limited Tax General Obligation Bonds, 2021 – \$49,315,000

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. 3387 (the "Bond Ordinance") to finance the City's community justice center project and other capital improvements and to 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 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 general obligations of the City payable from tax revenue of the City, criminal justice taxes, and such other money as is lawfully available and pledged by the City to be levied within the constitutional and statutory limitations provided by law without the assent of the voters, 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. 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, 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,

APPENDIX B

AUDITED 2019 FINANCIAL STATEMENTS





Financial Statements and Federal Single Audit Report

City of Lynnwood

For the period January 1, 2019 through December 31, 2019

Published August 13, 2020 Report No. 1026782





Office of the Washington State Auditor Pat McCarthy

August 13, 2020

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,

Pat McCarthy

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State Auditor

Olympia, WA

Americans with Disabilities

In accordance with the Americans with Disabilities Act, we will make this document available in alternative formats. For more information, please contact our Office at (564) 999-0950, TDD Relay at (800) 833-6388, or email our webmaster at webmaster@sao.wa.gov.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

City of Lynnwood January 1, 2019 through December 31, 2019

SECTION I – SUMMARY OF AUDITOR'S RESULTS

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

Financial Statements

We issued an unmodified opinion on the fair presentation of the financial statements of the governmental activities, the business-type activities, each major fund, the aggregate remaining fund information and the aggregate discretely presented component units in accordance with accounting principles generally accepted in the United States of America (GAAP).

Internal Control over Financial Reporting:

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

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

Federal Awards

Internal Control over Major Programs:

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

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

We reported no findings that are required to be disclosed in accordance with 2 CFR 200.516(a).

Identification of Major Federal Programs

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

<u>CFDA No.</u> Program or Cluster 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 the Uniform Guidance, was \$750,000.

The City qualified as a low-risk auditee under the Uniform Guidance.

SECTION II – FINANCIAL STATEMENT FINDINGS

None reported.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported.



SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

City of Lynnwood January 1, 2019 through December 31, 2019

Report Ref. No.:

Finding Ref. No.:

This schedule presents the status of federal findings reported in prior audit periods.

January 1, 2018	through December 31	1, 2018	1024630	1	2018-001	
Finding Captio	n:					
•			•		ty of Lynnwood, had ure accurate reporting.	
Background:	1 1		-		1 0	
District management is responsible for designing, implementing and maintaining internal controls to ensure financial statements are fairly presented and provided reasonable assurance regarding the reliability of financial reporting. Our audit identified deficiencies in controls that are a material weakness. These deficiencies hinder the Lynnwood Public Facilities District's ability to accurately present their financial						
			•	• •	mmunicate a material	
weakness in inte	ernal controls as a find	ling.				
Status of Corre	ective Action: (check	one)				
☑ FullyCorrected	☐ Partially Corrected	□ Not	Corrected	☐ Findin	ng is considered no alid	
Corrective Acti	ion Taken:					
The Lynnwood Public Facilities District (PFD)'s financial statements were corrected prior to issuance of the PFD's 2018 Audit Report and the corrections were also included in the City's 2018 CAFR and Audit Report. The PFD corrected the understatement of Net Investment in Capital Assets and overstated						
Unrestricted Net Position, each by \$5,581,190. This classification error was material to the financial statements.						
statements, and	the City also received	v				

Audit Period:

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 January 1, 2019 through December 31, 2019

Mayor and City Council City of Lynnwood Lynnwood, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, the aggregate remaining fund information and the aggregate discretely presented component units of the City of Lynnwood, as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated July 31, 2020.

As discussed in Note 4-H to the 2019 financial statements, in February 2020, a state of emergency was declared that could have a negative financial effect on the City. Management's plans in response to this matter are also described in Note 4-H.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the 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*.

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.

Pat McCarthy

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State Auditor

Olympia, WA

July 31, 2020

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

City of Lynnwood January 1, 2019 through December 31, 2019

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, with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended December 31, 2019. The City's major federal programs are identified in the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 *U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements

referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2019.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

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

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

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

Purpose of this Report

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

Pat McCarthy

State Auditor

Olympia, WA

July 31, 2020

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

City of Lynnwood January 1, 2019 through December 31, 2019

Mayor and City Council City of Lynnwood Lynnwood, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, the aggregate remaining fund information and the aggregate discretely presented component units of the City of Lynnwood, as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed on page 17.

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.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, the aggregate remaining fund information and the aggregate discretely presented component units of the City of Lynnwood, as of December 31, 2019, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Matters of Emphasis

As discussed in Note 4-H to the 2019 financial statements, in February 2020, a state of emergency was declared that could have a negative financial effect on the City. Management's plans in response to this matter are also described in Note 4-H. 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 and required supplementary information listed on page 17 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 as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). This schedule is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated July 31, 2020 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.

Pat McCarthy

Tat Muchy

State Auditor

Olympia, WA

July 31, 2020

FINANCIAL SECTION

City of Lynnwood January 1, 2019 through December 31, 2019

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2019

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2019

Statement of Activities – 2019

Balance Sheet – Governmental Funds–2019

Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position – 2019

Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental Funds – 2019

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities – 2019

Statement of Net Position – Proprietary Funds – 2019

Statement of Revenues, Expenses and Changes in Fund Net Position – Proprietary Funds – 2019

Statement of Cash Flows – Proprietary Funds – 2019

Statement of Fiduciary Net Position – Fiduciary Funds – 2019

Statement of Changes in Fiduciary Net Position – Fiduciary Funds – 2019

Notes to Financial Statements – 2019

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Revenues – Budget and Actual – General Fund – 2019

Schedule of Expenditures – Budget and Actual – General Fund – 2019

Schedule of Proportionate Share of the Net Pension Liability/Asset – PERS 1, PERS 2/3, PSERS 2, LEOFF 1 – 2019

Schedule of Employer Contributions – PERS 1, PERS 2/3, PSERS 2 – 2019

Schedule of Proportionate Share of the Net Pension Liability/Asset – Law Enforcement Officers' and Fire Fighters' Retirement Plan 2 – State Sponsored Plans – 2019

Schedule of Employer Contributions – Law Enforcement Officers' and Fire Fighters' Retirement Plan 2 – State Sponsored Plans – 2019

Schedule of Changes in Net Pension Liability and Related Ratios – Firemen's Pension – 2019

Schedule of Employer Contributions – Firemen's Pension – 2019

Schedule of Investment Returns – Firemen's Pension – 2019

Schedule of Changes in Total OPEB Liability and Related Ratios LEOFF 1 Retiree Medical and Long-Term Care Benefits – 2019

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Expenditures of Federal Awards – 2019 Notes to the Schedule of Expenditures of Federal Awards – 2019 Within this section of the City of Lynnwood, Washington ("the City") comprehensive annual financial report (CAFR), the City's management is pleased to provide this narrative discussion and analysis of the financial activities of the City for the calendar year ended December 31, 2019. We discuss and analyze the City's financial performance within the context of the accompanying financial statements, schedules, and note disclosures following this section.

Financial Highlights

- The City's assets and deferred outflows exceeded its liabilities and deferred inflows by \$238,432,226 (net position) at the end of the calendar year.
- Total net position is comprised of the following:
 - (1) Net investment in capital assets of \$172,659,058 includes property and equipment, net of accumulated depreciation, and is reduced for outstanding debt related to the acquisition or construction of capital assets.
 - (2) Net position of \$33,708,599 is restricted by constraints imposed from outside the City such as debt covenants, grantors, laws, or regulations, and City restricted reserve policies.
 - (3) Unrestricted net position of \$32,064,569 represents the portion available to maintain the City's continuing obligations to citizens and creditors.
- The City's governmental funds reported a total ending fund balance of \$48,124,485 this year. This compares to the adjusted prior year ending fund balance of \$44,666,585, showing an increase of \$3,457,900 or 7.7% during the current year.
- At the end of the current calendar year, unassigned fund balance for the General Fund was \$4,108,301, or 9.0% of total General Fund expenditures.
- Overall, the City continues to maintain a strong financial position.

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

Overview of the Financial Statements

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

Government-wide Financial Statements

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

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

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

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

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

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

The government-wide financial statements are presented on pages 32 and 33 of this report.

Fund Financial Statements

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

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

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

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

The basic governmental fund financial statements are presented on pages 34-37 of this report.

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

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

The basic enterprise fund financial statements are presented on pages 38-41 of this report.

• Fiduciary fund type represents funds held in trust and includes the firemen's pension trust fund and two fiduciary funds. The statements for these funds are presented on pages 42 and 43.

Notes to the Basic Financial Statements

The accompanying notes to the financial statements provide information essential to a full understanding of the government-wide and fund financial statements. The notes to the basic financial statements begin on page 47 of this report.

Required Supplementary Information

This section includes the budgetary schedules for the general fund and disclosure related to pensions and other-postemployment benefits. These are presented in the on pages 84-102.

Supplementary Information

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

Financial Analysis of the City as a Whole

The City's net position at calendar year-end was \$238,432,226. The following table provides a summary of the City's net position:

		Government	tal Ac	etivities		Business-ty	pe A	ctivities	To	tal	
		2019		2018 (restated)		2019		2018	2019		2018 (restated)
Assets:											
Current	\$	61,257,580	\$	55,678,336	\$	24,545,498	\$	19,486,467	\$ 85,803,078	\$	75,164,803
Capital assets	1-	48,564,149		144,844,245		82,018,722		79,257,739	230,582,871		224,101,984
Other		10,134,344	_	10,831,026	_	12,646,641	_	17,234,846	 22,780,985	_	28,065,872
Total assets	2	19,956,073		211,353,607		119,210,861	_	115,979,052	 339,166,934		327,332,659
Deferred outflows											
of resources		5,089,490		4,564,117	_	446,815		419,942	 5,536,305	_	4,984,059
Liabilities:											
Current		6,531,175		6,411,223		3,556,471		3,834,917	10,087,646		10,246,140
Non-current		39,620,957		43,705,335	_	49,517,055		52,178,283	 89,138,012	_	95,883,618
Total liabilities		46,152,132		50,116,558		53,073,526	_	56,013,200	 99,225,658		106,129,758
Deferred inflows											
of resources		6,183,247		5,705,437		862,108	_	778,798	 7,045,355		6,484,235
Net position: Net investment in											
capital assets	1:	27,289,148		122,602,658		45,369,910		45,194,736	172,659,058		167,797,394
Restricted		33,132,088		29,450,366		576,511		575,698	33,708,599		30,026,064
Unrestricted		12,288,948	_	8,042,705		19,775,621	_	13,836,562	 32,064,569	_	21,879,267
Net position	\$ 1	72,710,184	\$	160,095,729	\$	65,722,042	\$	59,606,996	\$ 238,432,226	\$	219,702,725

The City continues to maintain a high current ratio. The current ratio compares current assets to current liabilities and is an indication of the ability to pay current obligations. The current ratio for governmental activities is 9.4 to 1 as compared to 8.7 to 1 at December 31, 2018. The current ratio for the business-type activities at December 31, 2019 is 6.9 to 1 as compared to 5.1 to 1 at December 31, 2018. For the City overall, the current ratio is 8.5 to 1 as compared to 7.3 to 1 at December 31, 2018. These ratios are strong.

The City reported positive balances in net position for both governmental and business-type activities. Net position increased \$12,614,455 for governmental activities and increased by \$6,115,046 for business-type activities. The City's overall financial position increased during calendar year 2019 by \$18,729,501. Although the city has established reserve polices the Governmental Accounting Standards Board (GASB) limits the term "Restricted" to restrictions placed by outside parties such as bondholders.

73.7% of the governmental activities' net position is committed to capital, such as building, infrastructure, vehicles and equipment. The City uses these capital assets to provide services to its citizens. With business-type activities, the City has 69.0% of its net position invested in capital assets. Capital assets in the business-type activities also provide water, sewer and storm water services and the golf course, but they also generate revenues for these funds. Overall, 72.4% of the City's total net position is invested in capital assets.

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

			Summary of Cha	nges in Net Positio	n	
	Governme	ntal Activities	Business-ty	pe Activities	To	tal
	2019	2018	2019	2018	2019	2018
Revenues:						
Program:						
Charges for services Operating grants	\$ 13,027,006	\$ 15,068,765	\$ 24,485,840	\$ 22,915,405	\$ 37,512,846	\$ 37,984,170
and contributions Capital grants	4,910,376	3,347,017	-	-	4,910,376	3,347,017
and contributions General:	5,588,050	10,529,047	844,044	280,465	6,432,094	10,809,512
Property taxes	3,951,052	6,100,350	-	-	3,951,052	6,100,350
Sales taxes	27,191,036	26,893,450	-	-	27,191,036	26,893,450
Business and other taxes	11,755,104	13,159,655	-	-	11,755,104	13,159,655
Investment earnings	847,047	579,102	1,130,750	475,214	1,977,797	1,054,316
Other revenues	333,147	104,486	16,670	5,338	349,817	109,824
Total revenues	67,602,818	75,781,872	26,477,304	23,676,422	94,080,122	99,458,294
Program Expenses:						
General government	8,686,443	9,144,034	-	-	8,686,443	9,144,034
Economic environment	5,850,956	5,740,132	-	_	5,850,956	5,740,132
Judicial	959,925	1,032,081	-	-	959,925	1,032,081
Culture and recreation	8,130,499	8,940,249	-	-	8,130,499	8,940,249
Public safety	21,382,395	23,297,502	-	-	21,382,395	23,297,502
Social services	553,170	548,383	-	_	553,170	548,383
Transportation	8,564,785	9,873,081	-	_	8,564,785	9,873,081
Utilities	30,870	36,155	-	-	30,870	36,155
Interest on long-term debt	829,320	937,523	_	_	829,320	937,523
Water/sewer/storm utility	-	-	19,052,059	19,417,664	19,052,059	19,417,664
Golf course			1,310,199	1,240,738	1,310,199	1,240,738
Total expenses	54,988,363	59,549,140	20,362,258	20,658,402	75,350,621	80,207,542
Revenues over (under) expenses	12,614,455	16,232,732	6,115,046	3,018,020	18,729,501	19,250,752
Transfers		(442,100)		442,100		
Changes in net position	12,614,455	15,790,632	6,115,046	3,460,120	18,729,501	19,250,752
Beginning net position:	160.059.337	140.042.772	50 606 006	56 146 976	210 665 222	206.080.640
as originally reported	160,058,237	149,942,773	59,606,996	56,146,876	219,665,233	206,089,649
Prior period adjustments	37,492	(5,675,168)	-	-	37,492	(5,675,168)
Beg net positon-restated	160,095,729	144,267,605	59,606,996	56,146,876	219,702,725	200,414,481
Ending net position	\$ 172,710,184	\$ 160,058,237	\$ 65,722,042	\$ 59,606,996	\$ 238,432,226	\$ 219,665,233

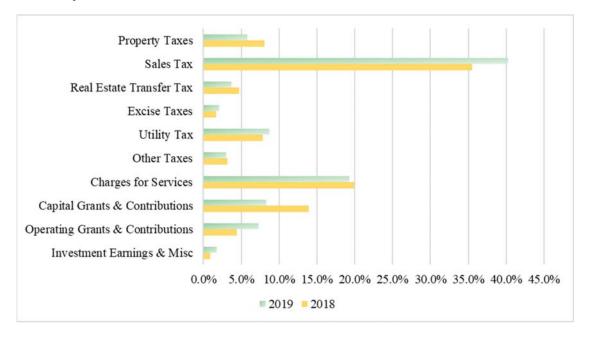
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GOVERNMENTAL ACTIVITIES-REVENUES

Although total tax revenues decreased by \$3,256,263 or 7.06% less than those reported in 2018, the decrease was the result of the elimination of the EMS property tax levy of \$2,350,633 that was collected in 2018. Beginning in 2019, the collection of EMS property tax was transferred to the South County Fire District No. 1 as the City transferred fire services to South County Fire in October 2017. Sales taxes increased by \$297,586 or 1.1%. Retail sales, the largest sector comprising 37.8% of the overall sales tax base increased by 5.9% from 2018. Construction taxes, which are one-time revenues in nature, decreased by 6.8% from 2018.

Business and other taxes decreased by \$1,404,551, or 10.7% from 2018. The decrease was primarily due to a decrease of \$1,060,748 or 29.9% in real estate excise taxes and a \$219,384 or 23.8% decrease in admission taxes. Real excise taxes, which are assessed on all real property sales, was unusually high in 2018 as a major shopping center as well as three large apartment complexes were sold in 2018. The decrease in admission taxes was a result of fewer sales of movie tickets at the theaters in 2019 and could be related to the unusual increase in movie tickets purchased in 2018 due to the "Movie Pass" discount program in 2018 that was no longer in business in 2019.

As the chart below depicts, in total, in 2019 taxes make up 63.5% of the total revenues stream as compared to 60.9% in 2018. 2019 property taxes make up 5.8% of revenues, as compared to 8.0% in 2018, and 2019 sales taxes make up 40.2% of total revenues as compared to 35.5% in 2018.



The operating grants and contributions for general government of \$444,478 included the following:

- Public Utility District Privilege Tax \$264,503
- Other Miscellaneous Revenues and Donations \$179,975

The operating grants for culture and recreation of \$1,010,113 included the following:

- Donations, Parks and Senior Services \$28,287
- Public Hospital District No 2 agreements for:
 - o Move 60 Teen Program \$104,620
 - o Parks and Recreation staff support services \$17,366
 - o Swim Voucher Programs \$40,680
- National Recreation & Park Association grant \$40,000
- Lodging Tax \$779,160

The operating grants for public safety of \$2,019,232 included the following:

- LEOFF Pension Plan Special Funding \$293,440
- GEMT Ground Emergency Medical Transportation (WA Health Care Authority) \$1,164,794
- City of Edmonds Police Services \$55,582
- Edmonds School District Police Services \$62,575
- City of Edmonds Share of Narcotics Sergeant \$81,278
- Investigative Work for SERS/Snohomish 911 \$35,852
- Snohomish County Regional Drug and Gang Task Force \$15,100
- Department of Justice Equitable Sharing \$124,117
- Washington Traffic Safety Commission \$19,851
- Washington State Criminal Justice distributions \$58,890

The operating grants and contributions for transportation of \$926,375 included the following:

Motor Vehicle Fuel Tax and Other Street Operating Funds - \$926,375

The operating grants and contributions for utilities of \$12,821 included the following:

• Department of Ecology Grant - \$12,821

The operating grants and contributions for judicial of \$31,716 included the following:

• Administrative Office of the Courts - \$31,716

The capital grants and contributions for transportation of \$5,159,041 included the following:

- Federal indirect grants through Washington State DOT for:
 - o 35th and 36th Avenue West Roadway \$400,979
 - o 42nd Ave W Improvements \$5,724
 - o 44th Ave W I-5 Underpass Improvements \$1,317
 - o Interurban Trail Missing Link South Segment \$448
 - o Poplar Way Bridge Extension \$295,713
 - o SR 99 & SR 524 Real-Time Adaptive Signal Control \$391
- Washington State Transportation Improvement Board for 36th Ave W Rd Improvements \$3,567,047
- Washington State DOT for 196th St SW & SR 524 Improvements \$487,242
- Alderwood Water & Waste District \$36,897
- Contributed Capital Assets Streets \$332,671

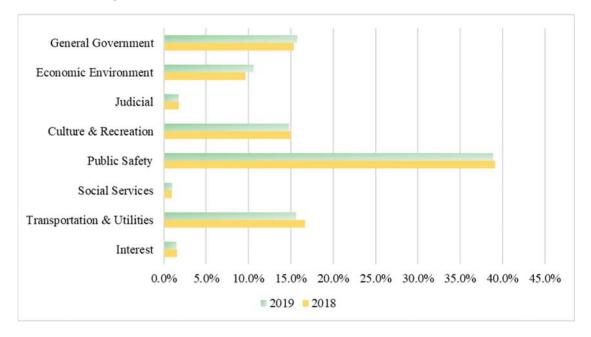
The capital grants and contributions for culture and recreation of \$429,009 included the following:

- US Department of Interior (South Lynnwood Park Renewal) \$24,878
- WA Recreation and Conservation Office (South Lynnwood Park Renewal) \$24,878
- WA Recreation and Conservation Office (South Lynnwood Park Athletic Field) \$20,146
- Washington State Grant DOT for Scriber Creek \$232,761
- Snohomish County Grant for Heritage Park Water Tower Improvements \$13,972
- Verdant Bike2Health Project (PHD 2) \$73,878

It is noteworthy that program revenues cover 42.8% of governmental operating expenses, down from 48.7% a year ago. The taxpayers and the City's other general governmental revenues cover the remaining 57.2% of the governmental expenses. As a result, the general economy and the success of City businesses have a major impact on the City's revenue streams.

GOVERNMENTAL ACTIVITIES - FUNCTIONAL EXPENSES

The chart below illustrates the cost of each of the City's major governmental activities by function and related percentages of the total functional expenditures for 2019 and 2018:



Of the City's governmental activities functions, 38.9% of the total costs relates to public safety in 2019 as compared to 39.1% in 2018. Public safety expenses decreased by \$1,915,107. The decrease is due to the elimination of the transfer of EMS property tax revenue collection and remittance to South County Fire in 2019. In 2018, \$2,350,633 was paid to South County Fire for the EMS property tax collected in 2018. Transportation & utilities expenses make up 15.6% of total costs in 2019 as compared to 16.6% in 2018. The decrease of \$1,308,296 is due to decreased engineering operating expenditures associated with street maintenance and road improvement projects like chip sealing in 2019 as compared to 2018 as more engineering work was on capitalized street construction projects in 2019. General government expenses make up 15.8% of total expenses as compared to 15.4% in 2018. General government expenses decreased \$457,951. Culture & recreation expenses make up 14.8% of total costs in 2019 as compared with 15.0% in 2018. Culture and recreation expenses decreased by \$809,750 due to reduced operational expenditures including utility costs, bank credit card fees, small equipment and technology equipment and other operating supplies. Economic environment expenses make up 10.6% of total expenses as compared to 9.6% in 2018. Economic environment expenses increased \$110,824 due to increased professional services on the Lynnwood Light Rail project that is fully reimbursable by Sound Transit.

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

(continued on following page)

Governmental Activities

		Total Cost	of S	Services		Net Cost o	of Se	rvices
		2019		2018	_	2019	_	2018
General government	\$	8,686,443	\$	9,144,034	\$	4,439,903	\$	3,515,458
Judicial		959,925		1,032,081		(598,345)		(760,031)
Public safety		21,382,395		23,297,502		16,221,480		20,387,271
Utilities		30,870		36,155		(537,090)		(506,138)
Transportation		8,564,785		9,873,081		2,031,048		(3,056,695)
Economic environment		5,850,956		5,740,132		4,775,579		4,806,424
Social services		553,170		548,383		553,170		548,383
Culture and recreation		8,130,499		8,940,249		3,747,866		4,732,116
Interest on debt	_	829,320	_	937,523		829,320	_	937,523
Total	\$	54,988,363	\$	59,549,140	\$	31,462,931	\$	30,604,311

BUSINESS-TYPE ACTIVITIES ANALYSIS

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

_	Operatin	g In	come	%
	2019		2018	Change
\$	5,617,213	\$	3,930,329	42.92%
	63,863		80,053	-20.22%
\$	5,681,076	\$	4,010,382	41.66%
	\$	2019 \$ 5,617,213 63,863	2019 \$ 5,617,213 \$ 63,863	\$ 5,617,213 \$ 3,930,329 63,863 80,053

The following analysis is provided for the major enterprise funds.

Sewer/Water/Storm Utility Fund — Operating revenues increased \$1,516,924 or 7.0% in 2019 over 2018. Water charges for services increased \$543,170 or 8.0%. Sewer charges for services increased \$742,927 or 6.9%. Storm charges for services increased \$298,503 or 7.4%. Increases are primarily due to rate increases in 2019 of 5% for water, 5% for sewer and 7% for storm.

Total operating expenses decreased \$169,960 or 1.0% from the 2018 amount. At December 31, 2019, net position totals \$62,509,100. Of this amount, \$41,175,308 or 65.9% is invested in capital assets.

The various expenses changed from 2018 to 2019 as follows:

- Administration and general water increase of \$399,593 or 22.0%.
- Administration and general sewer increase of \$604,677 or 39.5%
- Administration and general stormwater reduction of \$70,086 or 9.9%
- Maintenance and operations water reduction of \$504,495 or 13.8%
- Maintenance and operations sewer reduction of \$771,534 or 14.0%
- Maintenance and operations stormwater increase of \$193,137 or 11.2%

Although there was significant fluctuation between these six categories, it is primarily due to the staff transfers between divisions and changes in allocated expenses. Overall, operating expenses decreased incrementally by \$169,960 or 1.0%.

Golf Course Fund – Operating revenues increased \$53,511 or 4.1%. Despite being closed for 16 days due to inclement weather, the golf course finished the year with a 4% increase in rounds and record breaking revenue in cart rentals, pro-shop, food and beverage, and overall revenues.

Total operating expenses increased by \$69,701 or 5.8% over the 2018 amount, mainly due to pro-shop costs. Operating income decreased from \$80.053 in 2018 to \$63,863 in 2019.

As of December 31, 2019, the net position totaled \$3,065,463 compared with \$3,026,625 as of December 31, 2018.

Financial Analysis of the City's Funds

Governmental Funds

As previously stated, governmental funds are reported in the fund statements with a focus on short-term inflow and outflow of spendable resources. This information is useful in assessing resources available at the end of the year in comparison with upcoming financing requirements. Governmental funds reported ending fund balances of \$48,124,485 as compared to \$45,205,280 at December 31, 2018.

The restricted amount at December 31, 2019 was \$24,865,883, which includes \$117,281 for debt service, \$3,591,505 for criminal justice, \$13,674,293 for capital improvements, \$5,373,532 for transportation, \$1,266,951 for tourism, and \$842,321 for a variety of other restrictions.

\$7,878,466 is committed, primarily for revenue fluctuations. The general fund reports approximately \$10.6 million assigned to future economic development infrastructure.

The City Council passed Resolution number 2014-20 in 2014 to reserve (commit) \$6 million in the Revenue Stabilization Fund, a managerial fund that is included in the General Fund to protect the City from major economic downturns or similar adverse conditions. The resolution also limits the use of these funds to those approved by Council.

Also, included in the General Fund is approximately \$10.6 million intended (assigned) to be spent on future economic development. These funds are included in the Economic Infrastructure Development fund, another managerial fund that is included in the General Fund.

The General Fund reports an unassigned amount of fund balance of \$4,108,301. This amount will be used for future one-time operating costs. The total ending fund balances of governmental funds show an increase of \$2.9 million net of a negative prior period adjustment of \$538,697 compared to an increase of \$5.4 million at December 31, 2018.

Major Governmental Funds

General Fund - The General Fund is the City's primary operating fund and the largest source of day-to-day service delivery. The General Fund's fund balance decreased by \$190,327 or .9% in 2019, after interfund transfers to other funds. The difference between revenues and expenditures was \$4,425,656 before interfund transfers. Of the total \$4,996,788 transferred from the General Fund, \$1,794,838 was transferred to service debt, \$2,130,000 was transferred to fund capital projects, \$1,045,450 was transferred to the Street Operating Fund (Non Major Special Revenue Fund) and \$26,500 was transferred to the Solid Waste Management fund (Non Major Special Revenue Fund). Total transfers out were \$1,051,538 (26.7%) more than total transfers in 2018 due to an increase in transfers of \$1,012,500 to capital project funds.

Total revenues decreased by \$2,539,564 or 4.8% in 2019. The primary cause of this decrease was the reduction in property taxes of \$2,218,066 due to the transfer of collection of the EMS property tax to South County Fire, a separate special purpose district. Sales tax revenues increased by 3.3% or \$753.059 over the 2018 amount.

Business license revenues decreased by \$968,788 or 35.7% from 2018 as a result of the transfer of billing and collection of business license fees from the City to the State Department of Revenue in November 2019. The due dates and collection of a significant portion of business license fees was spread into 2020 when the State took over collection.

Permits and fees decreased \$932,875 or 38.9% from 2018. Planning fees decreased by \$323,972 or 34.7% from 2018. These development revenues were unusually high in 2018 due to the increased development activity in 2018, including several large housing complexes as well as many other major new projects, including a hotel, all requiring building permits and planning fees in 2018.

Intergovernmental revenues increased by \$1,395,570 (87.8%) due to the collection of \$1,164,794 in ground emergency medical transport (GEMT) fees. These fees were coordinated through the Washington State Health Care Authority and represent reimbursement from Medicare of the actual costs of medical transports performed by the fire department in 2017.

In 2019, total expenditures decreased by \$2,546,803 or 5.3% compared to 2018. The decrease is due to a decrease of \$2,386,071 or 67% in fire services expenditures a result of the discontinuation of the EMS property tax payment (\$2,30,648 in 2018) to South County Fire, which resulted in a decrease of \$1,729,612 or 7.1% in total public safety expenditures.

The City Council adopted updated Financial Management Policies in 2017. The new policies include a General Fund Reserve which requires the City to adopt a budget to include reserve balances equaling not less than 2.5 months of operating expenditures of the prior fiscal year. Reserves may consist of the total of the General Fund Unassigned Fund Balance and the Revenue Stabilization Fund balance. As of December 31, 2019, the City has met the policy requirements for reserves in 2019 as follows:

2019 General Fund Expenditures		\$ 4	5,691,886
Reserve Requirement (2.5 months)			9,519,143
Reserves:			
Revenue Stablization Fund	\$ 6,000,000		
Unassigned Fund Balance	4,108,301		
Total Reserve Balance		1	0,108,301
Exceeds Reserve Requirement		\$	589,158

Transportation Capital Fund – the Transportation Capital Fund, while not new, is now classified as a major fund due to the increased dollar amount of activity. As the name indicates, the fund is used to account for transportation related capital projects, which in 2019 included among others, 35th/36th Ave W Roadway Improvements, the Poplar Way Extension Bridge, and 196th Street SW (SR524) Improvements. Revenues decreased by \$5,408,656 from 2018 to 2019 due to a decrease in the amount of grant funding received in 2019. Expenditures decreased by \$4,847,224 from 2018 to 2019. This aligns with the fact that City purchased less Right-of-Way on the 196th Street SW Improvements project than it did in 2018. Also, majority of the construction costs for Interurban Trail South Segment project was paid and substantially completed in 2018 so in 2019, the City only paid for closing invoices. Fund balance decreased by \$495,147, or 7.4%, from 2018 to 2019. Fund balance decreased by \$495,147, or 7.4%, from 2018 to 2019.

Budgetary Highlights - General Fund

The City adopts a biennial budget and combines both years together. The biennial budget is developed to guide the City's financial direction. It outlines how financial resources will be managed during the biennial budget years while allowing for reallocation of resources. Major groups that participate in the budget process are the Mayor, City Council, Chief Administrative Officer, Department directors, Managers, and interested Lynnwood citizens. Appropriation of operating and capital funds are reviewed and amended as needed by the City Council. During 2019, the budget was amended once and modified once during the mid-biennium to account for significant unforeseen situations, including the addition of the ground emergency medical transport fees (GEMT) revenues budget of \$1,117,193.

The final General Fund expenditure budget was \$839,278 higher than the original budget. The largest increase to the expenditure budget included \$531,538 for various contract/encumbrance carryovers from 2018 from incomplete projects in 2018 that required the budget authority in 2019 to complete the projects. Another significant increase to the expenditure budget was \$300,440 for the intergovernmental transfer to the State of Washington Health Care Authority that was required in order to receive the Ground Emergency Medical Transport (GEMT) revenues in 2019.

The final General Fund revenue budget was \$1,276,168 higher than the original budget. This includes a budget amendment of \$218,475 that was added to intergovernmental revenues to reflect the impacts of additional work billed to the Regional Transit Authority to accommodate the construction of the new light station. Also, in 2019 a budget amendment added \$1,117,193 to the intergovernmental revenues budget for the forecasted grounds emergency medical transport (GEMT) fees to be received in 2019.

Actual results compared to final budget

Total General Fund revenues over the first year of the biennium were \$50.1 million or 43.8% of the final biennial budget of \$114.3 million. The final budget includes \$4.4 million for interfund services revenues. In the financial statements, Interfund services were reclassified as a reduction of direct expenditures to the General Fund departments as opposed to revenues to the General Fund, so the actual interfund service revenue was zero. Adjusting for this amount, the General Fund revenues were 45.6% of the final adopted biennial budget. Property tax revenues were 47.8% of the biennial budget.

Sales tax revenues, which represents almost 43% of the total budgeted General Fund revenues, totaled \$23.7 million for the first year of the biennium and accounted for 48.3% of the \$49.0 million budget for sales tax. Sales tax revenues in 2019 increased by \$753,059 from 2018, which is a positive and strong 3.3% increase.

Business license revenues totaled \$1,747,113 or 28% of the final biennial budget and were lower than budgeted due to the lag in time that the State Department of Revenue has allowed businesses to pay their annual license fees. Both permit fees and planning fees, coming in at 38.7% and 23.1% of the biennial budget respectively, were lower than estimated but are expected to increase in the second year of the biennium.

Investment revenues, which totaled \$291,274 for the first the biennium, account for 71.6% of the total budget due to better management of the investment portfolio and increasing interest rates compared to previous years.

Total General Fund expenditures were \$45.7 million or 42.7% of the final biennial budget. The Administrative Services budget includes \$4.4 million of the costs that were actually charged directly to receiving funds for interfund services. While the budget resides in the General Fund where the costs were originally incurred, these interfund service costs were allocated to the Utility, Fleet and Golf funds in the financial statements. Adjusting for the amount charged directly to these funds (\$2,499,477), the General Fund expenditures were 45% of the final budget. All General Fund department's expenditures were within their biennial budget.

Capital Assets and Debt Administration

Capital Assets

The City's net book value of capital assets as of December 31, 2019 increased by 2.5% for governmental activities and increased by 3.4% in business-type activities. The overall increase was 2.8% for the City as a whole. See Note 3-D for additional information about changes in capital assets during the calendar year and outstanding at the end of the year.

At December 31, 2019, the depreciable capital assets for governmental activities were 52% depreciated. This compares with the December 31, 2018 percentage of 50%. For business-type activities, the percentage increased from 43% to 44%.

At December 31, 2019, the major projects included in the governmental activities construction in progress include:

- Poplar Way Bridge Extension \$3,460,071
- 36th Avenue West Improvements \$12,107,699
- 196th Street SW Improvements \$6,176,786
- Beech Road Improvements \$312,236
- Scriber Creek Trail Improvements \$383,267
- Lynnwood Community Justice Center \$301,552

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

- DJI Matrice Drone \$28,949
- 2019 Ford Transit Cargo Van \$37,382
- Diving Board \$26,177
- Trimble Data Collection Equipment/Software \$17,394

Governmental activities land and infrastructure increased approximately \$416,208 consisting primarily of:

- Completion of Interurban Trail South Segment Project- \$83,537
- Roadway and Sidewalk at 189th Place & 40th Ave W- \$332,671

At December 31, 2019, the major projects included in the business-type activities construction in progress include:

- Lift Station 8 \$510,413
- Lift Station 4 & 8 Improvements \$1,367,050
- Lift Station 10 Flood Protection \$56,235
- WWTP Building Replacement \$194,818

At December 31, 2019, major project completed:

• Force Main #8 - \$3,652,056

The following table provides a summary of capital asset activity:

		Governmen	ital A	Activities		Business-type	Acti	vities		Total		
		2019		2018 (restated)		2019		2018		2019		2018 (restated)
Nondepreciable assets:				((
Land	\$	40,880,986	\$	40,690,314	\$	8,259,914	\$	8,259,914	\$	49,140,900	\$	48,950,228
Easements		452,683		439,018		4,340,120		4,340,120		4,792,803		4,779,138
Art, non-depreciable		128,219		128,219		-		-		128,219		128,219
Construction in progress	_	23,154,973	_	15,785,197		2,335,565	_	1,480,896	_	25,490,538	_	17,266,093
Total nondepreciable												
assets	_	64,616,861	_	57,042,748		14,935,599		14,080,930	_	79,552,460		71,123,678
Depreciable assets:												
Buildings		42,922,248		42,300,910		34,447,324		34,447,329		77,369,572		76,748,239
Improvements other												
than buildings		22,847,213		22,662,879		2,774,233		2,774,233		25,621,446		25,437,112
Machinery and												
equipment		17,336,354		16,918,245		4,820,580		4,675,878		22,156,934		21,594,123
Infrastructure	_	93,135,804	_	92,816,490	_	77,214,033	_	72,695,438	_	170,349,837		165,511,928
Total depreciable assets		176,241,619		174,698,524		119,256,170		114,592,878		295,497,789		289,291,402
Total accumulated												
depreciation	_	92,294,331		86,897,027		52,173,047		49,416,069	_	144,467,378		136,313,096
Book value -												
depreciable assets	_	83,947,288	_	87,801,497		67,083,123		65,176,809		151,030,411		152,978,306
Percentage depreciated		52%	_	50%		44%		43%	_	49%		47%
Book value - all assets	\$	148,564,149	\$	144,844,245	\$	82,018,722	\$	79,257,739	\$	230,582,871	\$	224,101,984

Long-Term Liabilities

The following table reports outstanding long-term liabilities at both December 31, 2019 and 2018:

		nmental vities		ess-type vities	То	tals
	2019	2018	2019	2018	2019	2018
General obligation bonds	\$ 21,275,000	\$ 22,241,587	\$ -	\$ -	\$ 21,275,000	\$ 22,241,587
Revenue bonds			50,200,763	52,235,464	50,200,763	52,235,464
Subtotal	21,275,000	22,241,587	50,200,763	52,235,464	71,475,763	74,477,051
Net pension liability	6,838,403	8,469,127	1,370,871	1,746,845	8,209,274	10,215,972
OPEB - LEOFF 1-Police	9,854,835	11,617,646	-	-	9,854,835	11,617,646
Claims and judgements	68,472	85,201	-	-	68,472	85,201
Compensated absences	3,281,075	3,176,284	304,148	332,376	3,585,223	3,508,660
Total	\$ 41,317,785	\$ 45,589,845	\$ 51,875,782	\$ 54,314,685	\$ 93,193,567	\$ 99,904,530

In a report issued on September 18, 2018, Standard & Poor's (S&P) assigned its 'AA' Rating to the city's 2018 utility system revenue bonds that Council authorized on May 14, 2018. The only ratings higher are "AAA" and "AA+", which few municipalities have achieved. S & P also affirmed its 'AA' long-term rating on the City utility system's 2010 and 2015 revenue bonds.

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

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

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

Detailed information on long term debt liabilities at year-end is presented in Note 3-G.to the Financial Statements.

The City's outstanding debt decreased incrementally as the City issued no new debt and paid the scheduled amounts of the outstanding debt.

Economic Conditions Affecting the City

COVID 19 – Although the COVID-19 virus and the resulting economic effects did not affect the fiscal year ended December 31, 2019, its effects will have a severe impact on the City's finances in 2020 and will affect the upcoming 2021-22 budget process. Current estimates show an \$8 million revenue reduction impact to the General Fund, with an estimated \$9 million reduction to citywide revenues. As businesses were closed for several months, the impact to the sales tax is substantial, with the loss of sales tax revenues estimated to be \$6 million. The City's response to date has been for all departments to identify and implement expenditure reductions, elimination of other discretionally expenditures such as travel and training and personnel related savings including a hiring-freeze, voluntary – separation and furlough programs.

Financial Stability – The City's financial condition is strong because: a) The Mayor and City Council are diligent in ensuring that expenditures do not exceed revenues; b) the Puget Sound region is experiencing growth in both population and household income; c) Lynnwood utilizes stringent financial policies and best practices under the guidance of the City Council's Finance Committee; d) during 2017, voters approved the formation of a Regional Fire Authority (RFA) that consolidated the Lynnwood Fire Department with Snohomish County Fire District 1, and thereby removed the City's second-largest department (in dollars) from the City's budget; and e) the planned 2024 arrival of light rail service to Lynnwood, provided by Sound Transit (Puget Sound's regional transit agency) has fueled construction of midrise buildings here.

Following voter approval of the RFA, the Lynnwood City Council approved a lower property tax levy for 2018 that reflected the net savings created by the RFA. The property tax levy for 2019 continued that approach with an incremental increase over the 2018 levy. If the need were to arise, the City Council has the ability to significantly increase property tax revenue without voter approval.

Sound Transit's Lynnwood Link light rail, scheduled to begin service in summer 2024, is also fueling Lynnwood's strong real estate market. To optimize available revenues, the City continues to proactively pursue and obtain state and federal funding to expand the capacity of municipal infrastructure. This includes streets, parks, sidewalks, facilities, utilities and open space. A portion of the City (including the vicinity of the new light rail transit station) has been designated as an Opportunity Zone and this is another incentive for new investment in Lynnwood.

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

Population and employment growth within the City reflect steady progress towards implementing the community's vision as a designated Regional Growth Area (per Puget Sound Regional Council's Vision 2040 Plan). Lynnwood has many auto dealerships and sale activity continues to be strong. Lynnwood's Alderwood Mall is evolving to remain a premier destination in an age of online retail. At the Mall, legacy retail structures are being replaced by a "lifestyle center" of shops, restaurants, and multifamily homes. The 2019 closure of Seattle's Northgate Mall (America's first indoor mall) significantly increased the size of Alderwood Mall's market area. Property tax revenues remain steadfast as assessed property value increases year-over-year. For 2019, the Snohomish County Assessor reports \$29.5 million in new assessed value due to \$51.7 million in construction activity. The local lodging industry remains strong, reflected by more than \$850,000 in lodging tax revenue during 2019.

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

Development of the Lynnwood City Center is a key component of Lynnwood's economic future. Located within the Lynnwood Regional Growth Center, the City Center has experienced initial development with completion of 308 units of senior housing and 347 units of affordable workforce housing, and construction of a 150 room Hilton Garden Inn. With mid-rise buildings over structured parking, this type of development will create a compact, walkable, urban environment as called for by City Center plans.

To support this private investment, street projects have moved forward in the City Center with 196th St. SW (SR 524) and 36th Ave W receiving funding for widening and streetscape improvements; and 42nd Ave W received funding for initial design. Site work for the Sound Transit Lynnwood Link Light Rail has begun (2019) after considerable planning and engineering work throughout 2018. Pedestrian/bicycle trails near the transit center will be upgraded to support non-motorized access to the light rail service. These projects address the community vision for a multi-modal transportation network.

Contacting the City's Financial Management

We designed this financial report to provide a general overview of the City's finances, comply with finance-related laws and regulations, and demonstrate the City's commitment to public accountability. If you have questions about this report or would like to request additional information, contact:

Finance Director City of Lynnwood 19100 44th Ave W Lynnwood, WA 98036-5635

City of Lynnwood, Washington Statement of Net Position December 31, 2019

		Primary Governmen	t	
	Governmental	Business-type		Component
	Activities	Activities	Total	Units
Assets				
Current Assets Cash and cash equivalents (Note 3-A)	\$ 32,535,225	\$ 13,152,587	\$ 45,687,812	\$ 7,374,556
Restricted assets: cash and cash equivalents	\$ 32,333,223	21,173	21,173	1,745,457
Investments (Note 3-A)	13,658,805	7,914,936	21,573,741	2,032,023
Receivables:	13,030,003	7,914,930	21,3/3,/41	2,032,023
Accounts	2 964 001	3,278,787	7,142,788	661,486
	3,864,001	3,2/8,/8/		001,480
Taxes	7,765,191	-	7,765,191	
Intergovernmental	3,280,286	-	3,280,286	
Interest	7,103		7,103	
Internal	(14,479)	14,479	-	
Prepaid items	161,448	142,499	303,947	75,569
Inventory		21,037	21,037	28,447
Fotal Current Assets	61,257,580	24,545,498	85,803,078	11,917,538
Noncurrent Assets	1,376,601		1,376,601	
Investment in joint venture		-		
Net pension assets	7,639,743	12 702 210	7,639,743	
Restricted assets: cash and cash equivalents	-	13,703,319	13,703,319	
Note receivable	-	61,322	61,322	
Internal receivable	1,118,000	(1,118,000)	-	
Capital assets (Note 3-D)				
Nondepreciable	64,616,863	14,935,598	79,552,461	6,966,120
Depreciable, net	83,947,286	67,083,124	151,030,410	16,077,520
Total Noncurrent Assets	158,698,493	94,665,363	253,363,856	23,043,652
Total Assets	219,956,073	119,210,861	339,166,934	34,961,190
	219,930,073	119,210,001	339,100,934	34,901,190
Deferred Outflows of Resources				22.77
Deferred Outflows-loss on refunding		-		23,773
Deferred Outflows - OBEB	127,197	-	127,197	
Deferred Outflows of Resources-Pensions	4,962,293	446,815	5,409,108	24,80
Total Deferred Outflows of Resources	5,089,490	446,815	5,536,305	48,580
Liabilities				
Current Liabilities				
Accounts payable	2,471,333	733,082	3,204,415	333,683
Accrued expenses	1,801,383	262,772	2,064,155	148,75
Other payables	303,782		303,782	
Deposits payable	-	22,443	22,443	645,890
Custodial accounts payable	_	7,939	7,939	
Compensated absences payable	836,828	101,899	938,727	39,282
Current portion of environmental remediation	830,828	101,099	930,727	35,40
	100 427	10.620	200.057	33,40
Unearned revenue	189,427	10,630	200,057	
Accrued interest	68,422	160,878	229,300	
General obligation refunding bonds payable	860,000	-	860,000	1,883,41
Revenue bonds payable		2,256,828	2,256,828	
Total Current Liabilities	6,531,175	3,556,471	10,087,646	3,086,423
Long-Term Liabilities (net of current portion): (Note 3-F)				
Deposits payable	-	-	-	45,45
Compensated absences payable	2,444,247	202,249	2,646,496	7,993
Claims and judgments payable	68,472	-	68,472	
Other postemployment benefits	9,854,835	-	9,854,835	73,412
Net pension liability	6,838,403	1,370,871	8,209,274	95,39
Environmental remediation	-	-	-	5,755,699
General obligation bonds payable	20,415,000	-	20,415,000	5,485,400
Revenue bonds payable, net of premiums/discounts		47,943,935	47,943,935	14,517,014
Total Long-term Liabilities	39,620,957	49,517,055	89,138,012	25,980,370
Total Liabilities	46,152,132	53,073,526	99,225,658	29,066,793
Deferred Inflows of Resources				
Deferred Inflows of Resources-Gain on refunding	-	118,296	118,296	34,649
Deferred Inflows of Resources-Pensions	6,183,247	743,812	6,927,059	56,778
Total Deferred Inflows of Resources	6,183,247	862,108	7,045,355	91,427
Net Position				
Net investment in capital assets (Note 3-J)	127,289,148	45,369,910	172,659,058	1,146,94
Restricted for:				
Debt service	117,281	576,511	693,792	1,000,000
Capital outlay	13,674,293		13,674,293	
Criminal justice	3,591,505	_	3,591,505	
Tourism	1,266,951	-	1,266,951	
Drug enforcement	230,480	-	230,480	
Other purposes		-	352,426	
	352,426 5,632,947			
Streets Page 1992	5,632,947	-	5,632,947	
Pension asset	8,266,205	10.775 (2)	8,266,205	2 504 60
Unrestricted	12,288,948	19,775,621	32,064,569	3,704,603
Total Net Position	\$ 172,710,184	\$ 65,722,042	\$ 238,432,226	\$ 5,851,550

City of Lynnwood, Washington Statement of Activities For the Year Ended December 31, 2019

			Program Revenues Operating Grants.		Net (Ex	xpense) Revenue and	Net (Expense) Revenue and Changes in Net Position Primary Government	ition
Function/Program	Expenses	Charges for Services and Sales		Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total	Component Unit
Primary Government								
Governmental Activities		6		€	(4 470 000)	6	(400,000)	6
General government	0,000,443	e,	0/4,444	-	(4,459,905)			•
Economic environment	0,000,000		1403,041	•	(4,7,7,2,9)		(4,7,5,579)	•
Judicial	676,666		31,/16		598,345		598,345	
Culture and recreation	8,130,499		1,010,113	429,009	(3,747,866)		(3,747,866)	•
Public safety	21,382,395	3,141,683	2,019,232		(16,221,480)		(16,221,480)	
Social services	553,170		•	•	(553,170)		(553,170)	•
Transportation	8,564,785	448.321	926.375	5.159.041	(2.031.048)		(2,031,048)	
Utilities	30.870		12.821		537,090	•	537,090	•
Interest	829,320			1	(829,320)	•	(829,320)	,
Total Governmental Activities	54,988,363	13,027,006	4,910,376	5,588,050	(31,462,931)	•	(31,462,931)	
Business-Type Activities: Water and Sewer Utility Golf Course	19,052,059	23,140,625		844,044		4,932,610 35,016	4,932,610 35,016	1 1
Total Business-Type Activities	20,362,258	24,485,840		844,044		4,967,626	4,967,626	•
Total - Primary Government	75.350.621	37.512.846	4.910.376	6.432.094	(31.462.931)	4.967.626	(26,495,305)	•
•								
Component Units Lynnwood Public Facilities District	\$ 6,853,118	\$ 5,161,784	<i>S</i>	\$ 50,000				\$ (1,641,334)
		General Revenues	200					
		Property taxes			3,951,052	•	3,951,052	- 2 2 1 4 0 10
		Sales taxes Utility taxes			5 869 786		5 869 786	010,+16,6
		Real estate transfer taxes	rfaxes		2,492,804		2,492,804	'
		Excise taxes	COVID-1		1.384.054	•	1.384.054	'
		Transportation ber	Fransportation benefit district vehicle fees	es	1.152.211	•	1.152,211	•
		Admissions taxes			702.034		702,034	620
		Gambling taxes			154,215		154,215	
		Investment earnings (losses)	gs (losses)		847,047	1,130,750	1,977,797	259,825
		Gain on disposition of capital assets	n of capital assets		153,901	12,100	166,001	•
		Miscellaneous			179,246	4,570	183,816	1,656
		Total General Re	Total General Revenues and Transfers	ş	44,077,386	1,147,420	45,224,806	3,576,119
		Change in Net Position	sition		12,614,455	6,115,046	18,729,501	1,934,785
		Net Position Beginning of Year	uning of Year		160,058,237	966,909,65	219,665,233	3,916,765
			ı					

See accompanying notes to the basic financial statements

\$ 5,851,550

\$ 238,432,226

\$ 65,722,042

\$ 172,710,184

37,492

Prior Period Adjustments - Note 4-F

Net Position End of Year

37,492

City of Lynnwood, Washington Balance Sheet Governmental Funds December 31, 2019

		General	Tra	nnsportation Capital	G	Other overnmental Funds	G	Total overnmental Funds
Assets	Ф	0.716.165	Ф	5.004.054	Ф	12 554 500	Φ.	20.455.020
Cash and cash equivalents	\$	9,716,165	\$	5,984,074	\$	13,754,789	\$	29,455,028
Investments		5,022,355		-		6,493,636		11,515,991
Receivables:		2 (10 5(2				252 420		2.064.001
Accounts		3,610,562		-		253,439		3,864,001
Taxes		5,630,177		-		1,839,254		7,469,431
Other taxes		295,760		-		-		295,760
Interest		7,103		-		-		7,103
Intergovernmental		718,653		1,945,251		354,383		3,018,287
Interfund		1,251,000		-		-		1,251,000
Prepaid	_	17,259			_	-	_	17,259
Total Assets	\$	26,269,034	\$	7,929,325	\$	22,695,501	\$	56,893,860
Liabilities								
Accounts payable	\$	706,918	\$	1,056,899	\$	637,755	\$	2,401,572
Accrued salaries and wages payable	Ψ	1,695,670	Ψ	3,539	Ψ	63,127	Ψ	1,762,336
Other current liabilities payable		295,733		-		8,048		303,781
Unearned revenue		-		-		189,427		189,427
Total Liabilities		2,698,321		1,060,438		898,357		4,657,116
Deferred Inflows of Resources Deferred Inflows of Resources - property tax Deferred Inflows of Resources - grants		93,939		- 1,179,297		- 62,484		93,939 1,241,781
Deferred Inflows of Resources - municipal court		2,248,363		-		-		2,248,363
Deferred Inflows of Resources - red-light photo		528,176		-		-		528,176
Total Deferred Inflows of Resources		2,870,478		1,179,297		62,484		4,112,259
Total Liabilities and Deferred Inflows of Resources		5,568,799		2,239,735		960,841		8,769,375
Fund Balances Nonspendable		17,259		-		-		17,259
Restricted		-		5,689,590		19,176,293		24,865,883
Committed		6,000,000		-		1,878,466		7,878,466
Assigned		10,574,675		-		679,901		11,254,576
Unassigned		4,108,301			_	-		4,108,301
Total Fund Balances		20,700,235		5,689,590		21,734,660	_	48,124,485
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$	26,269,034	\$	7,929,325	\$	22,695,501	\$	56,893,860

City of Lynnwood, Washington Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position December 31, 2019

		·	40.451.40-
Total Governmental Fund Balances		\$	48,124,485
Amounts reported for governmental activities in the statement of net position are different because:			
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds (exclusive of internal service funds' capital assets).			
Cost of capital assets Less accumulated depreciation	\$ 228,805,943 (85,393,358)		143,412,585
The investment in joint ventures is not reported at the fund financial reporting level but is reported on the government-wide statement of net position.			1,376,601
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds - property taxes, grants and fines.			
			4,112,259
Deferred inflows and outflows for pensions reported on the government-wide statement of position but not reported on the governmental fund balance sheet.			(1,175,819)
Deferred outflows for OPEB reported on the government-wide statement of net position but not reported on the government balance sheet.			127,197
The net pension assets are not available to retire current year expenditures, therefore they are not reported in the funds but are reported in the government-wide statement of net position.			7,639,743
The internal service fund is used by management to charge the costs of the equipment rental to individual funds. The assets and liabilities of the internal service funds are included in governmental activities column on the government-wide statement of net			
position.			10,372,951
The internal service fund chargeback to enterprise funds is not reported in the governmental funds, but is reported on the government-wide financial statements.			(147,479)
Liabilities not due and payable in the current period and therefore are not reported in the governmental fund balance sheets but are reported on the government-wide statement of net position (excludes internal service funds).			
General obligation refunding bonds payable Accrued interest payable Other postemployment benefits payable Net pension liability payable Compensated absences payable	\$ (21,275,000) (68,422) (9,854,835) (6,703,497) (3,230,585)		
1 ((-,,)		(41,132,339)
Net Position Of Governmental Activities		\$	172,710,184

City of Lynnwood, Washington Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds For the Year Ended December 31, 2019

Dayannas		General	Tr	ansportation Capital	Go	Other overnmental Funds	G	Total overnmental Funds
Revenues Taxes	\$	24 292 205	\$		\$	9 027 676	\$	42 410 991
Intergovernmental	Ф	34,383,205 2,985,269	Ф	4,185,769	Ф	8,027,676 2,318,366	Ф	42,410,881 9,489,404
Licenses and permits		3,657,910		4,165,709		2,318,300		3,932,232
Charges for services		3,407,284		_		614,126		4,021,410
Fines and forfeitures		4,774,184				39,235		4,813,419
Investment earnings		291,274		_		447,484		738,758
Other interest		271,274		_		9,788		9,788
Rent and leases		412,286		_		-		412,286
Miscellaneous		206,130		-		179,247		385,377
Total Revenues		50,117,542		4,185,769		11,910,244		66,213,555
Expenditures								
Current:		0.440.744				22 400		0.452.242
General government		8,440,744		-		32,499		8,473,243
Economic Environment Judicial		4,249,562		-		1,745,381		5,994,943
Culture and recreation		1,024,232		-		145,431		1,024,232
Public safety		7,415,174 22,728,095		-		253,920		7,560,605 22,982,015
Social services		553,170		-		255,920		553,170
Transportation		1,165,626		2,069,371		2,407,943		5,642,940
Utilities		1,103,020		2,007,571		24,793		24,793
Capital Outlay		115,283		7,492,391		945,586		8,553,260
Debt Service:		110,200		,,.,2,5,1		,,		0,000,200
Principal retirement		_		_		966,587		966,587
Interest and fiscal charges		=		-		829,868		829,868
Total Expenditures		45,691,886		9,561,762		7,352,008		62,605,656
Excess (Deficiency) of Revenues Over (Under) Expenditures		4,425,656		(5,375,993)		4,558,236		3,607,899
over (chaer) Expendicures		.,.20,000		(0,070,000)		.,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,		2,007,077
Other Financing Sources (Uses)								
Proceeds from disposition of assets		-				1		1
Transfers in		380,805		4,880,846		7,021,403		12,283,054
Transfers out		(4,996,788)		-		(7,436,266)		(12,433,054)
Total Other Financing Sources (Uses)		(4,615,983)		4,880,846		(414,862)		(149,999)
Net Change in Fund Balances		(190,327)		(495,147)		4,143,374		3,457,900
Fund Balances Beginning of Year		20,890,562		6,723,434		17,591,286		45,205,282
Prior Period Adjustment		-		(538,697)		-		(538,697)
Fund Balances End of Year	\$	20,700,235	\$	5,689,590	\$	21,734,660	\$	48,124,485

City of Lynnwood, Washington Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities For the Year Ended December 31, 2019

Net Changes In Fund Balances - Total Governmental Funds		\$ 3,457,900
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures on the governmental fund type operating statement. However, in the government-wide statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capitalized capital outlay exceeded depreciation expense in the current period. Depreciation expense Capital outlay Capital contributions	\$ (4,867,317) 8,553,260 332,671	4,018,614
The book value of capital assets sold are reported on the government-wide statement of activities but not reported in the governmental fund's operating statement.		(2,761)
Revenues in the government-wide statement of activities that do not provide current financial resources are not reported as revenues in the funds. Property taxes, fines and grants: Deferred as of 12/31/19 Prior period adjustment - grant revenues	\$ 4,112,259 (538,697)	
Deferred as of 12/31/18	(3,062,812)	510,750
Governmental funds do not report the change in the investment in the joint venture, but the change is reported on the government-wide statement of activity.		(416,801)
The internal service fund is used by management to charge the costs of maintenance services to individual funds are not reported in the government-wide statement of activities. Governmental fund expenditures and related internal service fund revenues are eliminated.		1,195,754
The internal service fund chargeback to enterprise funds is not reported in the governmental funds, but is reported on the government-wide financial statements.		(251,325)
Repayment of long-term debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the government-wide statement of net position.		966,587
Other postemployment expenses are reported in the government-wide statement of activities, but do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		1,655,627
Net pension debits reported on the government-wide statement of position but not reported on the governmental fund balance sheet.		1,583,982
A one-month portion of interest on long-term debt is accrued in the governmental-activities but not on the governmental funds statement of revenues expenditures and changes and fund balance.		548
Compensated absences are reported in the government-wide statement of activities, but do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
Liability as of 12/31/19 Liability as of 12/31/18	\$ (3,230,585) 3,126,165	(104,420)
Change In Net Position of Governmental Activities		\$ 12,614,455

City of Lynnwood, Washington Statement of Net Position Proprietary Funds December 31, 2019

	Business-type Activities - Enterprise Funds					Governmental Activities -		
		Water and Sewer		Golf				Activities - ernal Service
		Utility		Course		Total		Fund
Assets	-							
Current Assets: Cash and cash equivalents	\$	13,095,779	\$	56,808	\$	13,152,587	\$	3,080,197
Restricted assets: cash and cash equivalents	Þ	21,173	Þ	50,000	Þ	21,173	٥	3,000,197
Investments		7,841,046		73,890		7,914,936		2,142,814
Receivables:								
Accounts		3,278,787		-		3,278,787		261,000
Intergovernmental Inventories		-		21.037		21,037		261,999
Prepaid items		138,165		4,334		142,499		144,189
Total Current Assets		24,374,950		156,069		24,531,019		5,629,199
Noncurrent Assets:		12 670 247		33,072		12 702 210		
Restricted assets: cash and cash equivalents Notes receivable		13,670,247 61,322		33,072		13,703,319 61,322		-
Capital assets:		01,522				01,322		
Nondepreciable		11,272,229		3,663,369		14,935,598		55,901
Depreciable, net		66,551,891		531,233		67,083,124		5,095,662
Total Noncurrent Assets		91,555,689		4,227,674		95,783,363		5,151,563
TOTAL ASSETS		115,930,639		4,383,743		120,314,382		10,780,762
TOTAL DEFERRED OUTFLOWS OF RESOURCES		446,815		-		446,815		57,869
Liabilities								
Current Liabilities:								
Accounts payable		702,073		31,009		733,082		69,761
Accrued payroll		262,772		-		262,772		39,047
Interfund payable		-		133,000		133,000		-
Custodial accounts payable Compensated absences payable		4,741 101,899		3,198		7,939 101,899		13.094
Claims and judgments payable		101,899		-		101,899		68,472
Deposits payable		-		22,443		22,443		-
Unearned revenue		-		10,630		10,630		-
Revenue bonds payable		2,256,828		-		2,256,828		-
Accrued interest payable		160,878	_			160,878		
Total Current Liabilities		3,489,191		200,280		3,689,471		190,374
Long-Term Liabilities: (net of current portion)								
Compensated absences payable		202,249		-		202,249		37,396
Interfund payable		-		1,118,000		1,118,000		-
Net pension liability Revenue bonds payable		1,370,871 47,943,935		-		1,370,871 47,943,935		134,906
Revenue bonus payable		47,943,933				47,943,933		
Total Long-term Liabilities		49,517,055		1,118,000		50,635,055		172,302
TOTAL LIABILITIES		53,006,246		1,318,280		54,324,526		362,676
Deferred Inflows of Resources								
Deferred Inflows of Resources - gain on refunding		118,296				118,296		-
Deferred Inflows of Resources - pensions		743,812				743,812		103,004
TOTAL DEFERRED INFLOWS OF RESOURCES		862,108		-		862,108		103,004
Net Position								
Net investment in capital assets		41,175,308		4,194,602		45,369,910		5,151,563
Restricted for:		, -,		, ,				, ,
Debt service		576,511		-		576,511		-
Unrestricted		20,757,281		(1,129,139)		19,628,142		5,221,388
TOTAL NET POSITION	\$	62,509,100	\$	3,065,463		65,574,563	\$	10,372,951
Reconciliation of the fund level statement of net position to								
the government-wide statement of net position:								
Record internal service fund charge-back to enterprise funds resulting								
in an interfund receivable to governmental activities.						147,479		
Adjusted Total Net Position					\$	65,722,042		

City of Lynnwood, Washington Statement of Revenues, Expenses and Changes in Fund Net Position Proprietary Funds For the Year Ended December 31, 2019

	Business-type Activities - Enterprise Funds					Governmental		
	Water a Sewer Utility	nd	G	olf urse		Total	A	Activities - ernal Service Fund
Operating Revenues Charges for services Rentals	\$ 23,140	,625		159,873 177,411	\$	24,300,498 177,411	\$	3,446,377
Miscellaneous		<u>-</u>		7,931		7,931		-
Total Operating Revenues	23,140	,625	1,	345,215		24,485,840		3,446,377
Operating Expenses Administration and general Operations and maintenance Insurance and claims	4,986 9,831		1,	218,652 11,789		6,204,709 9,843,076		- 1,890,633 1,542
Depreciation Depreciation	2,706	,068		50,911		2,756,979	_	763,609
Total Operating Expenses	17,523	,412	1,	281,352		18,804,764		2,655,784
Operating Income	5,617	,213		63,863		5,681,076		790,593
Non-Operating Revenues (Expenses) Interest and fiscal charges Gain (Loss) on disposition of capital assets Investment earnings Miscellaneous revenue	1,124	,100		(30,784) - 5,759		(1,808,819) 12,100 1,130,750 4,570		- 156,661 98,501 -
Total Non-Operating Revenues (Expenses)	(636	,374)		(25,025)		(661,399)		255,162
Income (Loss) Before Contributions and Transfers	4,980	,839		38,838		5,019,677		1,045,755
Contributions Transfers In	844	,044		-		844,044		150,000
Change in Net Position	5,824	,883		38,838		5,863,721		1,195,755
Net Position Beginning of Year	56,684	,217	3,	026,625		59,710,842		9,177,196
Net Position End of Year	\$ 62,509	,100	\$ 3,	065,463	\$	65,574,563	\$	10,372,951
Reconciliation of the fund level operating statement to the government-wide statement of activities: Change in net position Internal service fund charges (credits) to enterprise funds, resulting in changes to operating expenses.	\$ 5,824 249	,883	\$	38,838 1,937	\$	5,863,721 251,324		
Adjusted Change in Net Position	\$ 6,074	.270	\$	40,775	\$	6,115,045		

City of Lynnwood, Washington Statement of Cash Flows Proprietary Funds For the Year Ended December 31, 2019

	Business-type Activities - Enterprise Funds					Governmental		
		Water and Sewer Utility		Golf Course		Total		Activities - ernal Service Fund
Increase (Decrease) in Cash and Cash Equivalents								
Cash Flows from Operating Activities								
Cash received from customers	\$	22,860,788	\$	1,345,215	\$	24,206,003	\$	738,974
Cash received from interfund services provided		-		-		-		2,736,831
Cash payments to employees for services		(4,859,330)		-		(4,859,330)		(733,226)
Cash payments for goods and services		(9,922,230)		(1,212,873)		(11,135,103)		(1,197,288)
Cash received (paid) from/(to) other funds				(11,789)		(11,789)		
Net Cash Provided by (Used in) Operating Activities		8,079,228		120,553		8,199,781		1,545,291
Cash Flows from Non-Capital financing activities								
Cash flows from/(to) interfund loans		-		(163,784)		(163,784)		-
Insurance Recoveries								150,000
Net Cash Flows from non-Capital and related financing activities		-		(163,784)		(163,784)		150,000
Cash Flows from Capital and Related								
Financing Activities								
Proceeds from disposition of capital assets		12,100		-		12,100		141,888
Principal paid on revenue bonds		(1,825,000)		-		(1,825,000)		-
Interest paid on revenue bonds		(2,145,422)		-		(2,145,422)		-
Capital contributions		102,041		-		102,041		-
Payments for capital acquisitions		(5,269,435)		-		(5,269,435)		(507,497)
Net Cash Provided by (Used in) Capital and Related								
Financing Activities		(9,125,716)		-		(9,125,716)		(365,609)
Cash Flows from Investing Activities		(1.002.415)		(60.200)		(2.0(1.707)		(2.045.000)
Purchase of investment securities		(1,993,417)		(68,290)		(2,061,707)		(2,845,880)
Proceeds from sale and maturities of investment securities		6,481,923		61,082		6,543,005		1,688,749
Investment earnings		1,137,102		5,825		1,142,927		98,460
Net Cash Provided by (Used in) Investing Activities		5,625,608		(1,383)		5,624,225	-	(1,058,671)
Net Increase (Decrease) in Cash								
and Cash Equivalents		4,579,120		(44,614)		4,534,506		271,011
Cash and Cash Equivalents Beginning of Year		22,208,079		134,494		22,342,573		2,809,186
Cash and Cash Equivalents End of Year	\$	26,787,199	\$	89,880	\$	26,877,079	\$	3,080,197
	_							

(continued)

City of Lynnwood, Washington Statement of Cash Flows Proprietary Funds For the Year Ended December 31, 2019

(continued)

	Business-type Activities - Enterprise Funds						Governmental		
	Water and Sewer Utility		Golf Course		Total			ctivities - rnal Service Fund	
Reconciliation of Operating (Loss) to Net Cash Provided by (Used in) Operating Activities									
Operating Income (Loss)	\$	5,617,213	\$	63,863	\$	5,681,076	\$	790,593	
Adjustments: Depreciation		2,706,068		50,911		2,756,979		763,609	
(Increase) Decrease in Assets: Accounts receivable Inventories, deposits, and prepaid items		(297,513) 243,241		- 8,802		(297,513) 252,043		(91,675) 143,030	
Increase (Decrease) in Liabilities: Accounts payable Compensated absences payable Other Current Liabilities		299,917 (28,228) (461,470)		1,345 - (4,368)		301,262 (28,228) (465,838)		(60,637) 371	
Net Cash Provided by (Used in) Operating Activities	\$	8,079,228	\$	120,553	\$	8,199,781	\$	1,545,291	
Schedule of Non-Cash Capital and Related Financing Activities	\$	742.002	s		\$	742.002	s		
Contribution of capital assets Fair value of investments increased (decreased) by		742,003 74,211		719	.	742,003 74,930	2		
Total Non-Cash Activities	\$	816,214	\$	719	\$	816,933	\$		

City of Lynnwood, Washington Statement of Fiduciary Net Position Fiduciary Funds December 31, 2019

	Pension Trust	Private Purpose Trust		
Assets Cash and cash equivalents Investments at fair value	\$ 164,679 147,780	\$	36,683 10,866	
Total Assets	312,459		47,549	
Net Position Restricted for pensions Restricted for private trust Total Net Position	\$ 312,459 - 312,459	\$	- 47,549 47,549	

City of Lynnwood, Washington Statement of Changes in Fiduciary Net Position Fiduciary Funds For the Year Ended December 31, 2019

	Pension Trust	Private-purpose Trust		
Additions:				
Contributions:				
Intergovernmental	\$ 62,165	\$	-	
Other	 10,344		5,613,982	
Total Additions	 72,509		5,613,982	
Deductions:				
Benefits and disbursements	95,102		5,638,086	
Administrative Expenses	2,000		-	
Total Deductions	97,102		5,638,086	
Change in Net Position	(24,593)		(24,104)	
Net Position Beginning of Year	 337,052		71,653	
Net Position End of Year	\$ 312,459	\$	47,549	

The City of Lynnwood, Washington (the City) was incorporated on April 23, 1959, and operates under the laws of the State of Washington applicable to an optional code city with a Mayor/Council form of government. The City is governed by an elected mayor and seven-member governing council and provides the following services: public safety (police and fire protection), public works (streets, sanitation, and utilities), culture, recreation, and library services, planning and zoning, and general administrative services.

Note 1 - Summary of Significant Accounting Policies

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

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

1-A. Reporting Entity

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

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

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

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

A brief description of the blended component unit follows:

Transportation Benefit District (TBD) – The City of Lynnwood Council formed the TBD on June 3, 2010 by its adoption of Ordinance No. 2837 pursuant to RCW 35.21.225 and RCW 36.73 for the purpose of levying of additional revenue sources for the purpose of acquiring, constructing, improving, providing and funding transportation improvements within the TBD that are consistent with the existing state, regional, and local transportation plans. The TBD is governed by the 7-member Lynnwood City Council acting in an ex officio and independent capacity.

Although it is legally separated from the City, the TBD is reported as if it were part of the primary government because its sole purpose is for the construction, preservation, maintenance and operation of City streets.

The following component unit is discretely presented in the reporting entity:

South Snohomish County Public Facilities District (PFD) - The PFD was established by City Ordinance No 2266 on August 24, 1999, to finance, design, construct, operate and maintain a regional center as a conference, convention or special events center. A five-member board governs the PFD and is appointed to four-year terms by the City Council. In 2003 the name was changed to Lynnwood PFD. The City provides funding for the PFD through hotel/motel taxes, making the PFD dependent upon the City for its revenue source. The PFD issued \$1.93 million Series A Sales Tax Bonds, \$10 million Series B tax exempt Sales Tax Bonds in 2004 and \$17.265 million in Revenue Bonds in 2005. The PFD refunded the Revenue Bonds and Series B Sales Tax Bonds in 2015. As of December 31, 2019, the outstanding sales tax and revenue bonds were \$6.5 million and \$14.6 million, respectively. S&P also raised the bond rating for the City's PDF's bonds, issued on behalf of the City, from "A" to "AA+." The City is contingently liable for the PFD bonds. Separate financial statements for the PFD can be obtained from the Lynnwood PFD Administrative Offices at 3815 196th Street SW, Suite 136, Lynnwood, WA 98036.

1-B. Basis of Presentation

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The *Transportation Capital Fund* had previously been reported as a nonmajor fund but, now meets the criteria to be reported as a major fund and has been reported alongside the General Fund since 2018.

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

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

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

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

Additionally, the City reports the following fund types:

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

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

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

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

1-C. Measurement Focus

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

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

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

1-D. Basis of Accounting

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

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

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

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

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

On both the government-fund financial statements and the government-wide financial statements, unearned revenues consist of:

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

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

1-E. New Accounting and Reporting Standards

Three new Governmental Accounting Standards Board (GASB) pronouncements were expected to become effective during in 2019, GASB Statement 83, which involves the recognition of certain retirement obligations, GASB Statement 84 covering Fiduciary Activities and GASB Statement 88 covering disclosures over private debt issues. On May 8, 2020 the GASB adopted Statement No. 95 effectively delaying implementation of these, and other upcoming standards by one year, or in some cases eighteen months.

GASB Statement No. 84 – Fiduciary Activities. The objective of this statement is to standardize and establish consistent accounting and financial over fiduciary activities. The City has identified one fund, the Terlicker Recreation Scholarship Fund, that will likely be reclassified from its current classification as a Fiduciary Fund to a nonmajor Special Revenue Fund. This reclassification is expected to be implemented in the upcoming fiscal year, 2020.

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

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

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

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

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

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

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

1-F-2 Receivables

All trade and tax receivables are reported net of an allowance for uncollectibles, where applicable. Taxes receivable consists of property taxes, sales tax, utility taxes, gambling taxes, liquor excise tax, state shared program revenues, public transportation and fuel tax. Additional detail on and the composition of receivable balances are presented in Note 3-B.

1-F-3 Interfund Balances

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

1-F-4 Inventories

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

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

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their acquisition value as of the date received. The City maintains a capitalization threshold of five thousand dollars (\$5,000) and an estimated three-year life. Improvements to capital assets are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are expensed. Pursuant to GASB 89, interest incurred during the construction of capital assets utilized by enterprise funds is not capitalized. In 2019 the total amount of interest incurred by the enterprise funds, all of which was, charged to expense was \$1,778,035.

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

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

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

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

1-F-6 Compensated Absences

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 of retirement of employment, unused sick leave may be converted to pay at the current rate on the following basis:

- 1. Termination Voluntary or discharge
 For accrued sick leave hours from one to 720 hours, the accrued sick leave hours shall be paid on a five to one ratio (five hours of sick leave equals one hour of pay). The maximum payout amount shall be 144 hours of paid time.
- Termination by layoff
 For accrued sick leave hours from one to 720 hours, the accrued sick leave hours shall be paid on a three-to-one
 ratio (three hours of accrued sick leave equals one hour of pay). The maximum payout amount shall be 368 hours of
 paid time. (Ord. 3287 § 5, 2018).
- Retirement (Consistent with the Requirements of the Employee's Applicable Washington State Retirement System), or on Death
 - a. An Employee with Less Than 1,000 Hours of Accrued Sick Leave; The first 192 hours of accrued sick leave shall be paid at 100 percent (every hour of sick leave equals one hour of pay). For accrued sick leave from 193 to 999 hours, the accrued sick leave hours shall be paid on a three-to-one ratio (three hours of accrued sick leave equals one hour of pay). The maximum payout amount shall be 368 hours of paid time. As an example only, an employee with 720 accrued hours of sick leave receives 368 hours of paid time as the total accrued sick leave payout amount.
 - b. An Employee with 1,000 or more hours of accrued sick leave: The first 100 hours of accrued sick leave shall be paid at 100 percent (every hour of sick leave equals one hour of pay). For accrued sick leave hours from 101 to 1,600 hours, each hour of accrued sick leave shall be paid at 30 percent (for each hour of accrued sick leave, the employee receives 30 percent of one hour of pay). The maximum payout amount shall be the amount equal to 550 hours of paid time. As an example only, an employee with 1,600 accrued hours of sick leave receives 550 hours of paid time as the total accrued sick leave payout amount.

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

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

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

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

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

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

Note 1 - Summary of Significant Accounting Policies (Continued)

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, compensated absences that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are "due for payment" during the current year. Bonds and local loans are recognized as a liability in the governmental fund financial statements when due. Specific details about long-term debt are reported in Note 3-G.

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

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

Pursuant to GASB Statement No. 65, bond issuance costs, except for insurance which is amortized over the life of the bonds, are recognized as an outflow of resources in the reporting period in which they are incurred.

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

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

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

- Nonspendable Fund balances are reported as nonspendable when amounts cannot be spent because they are either (a) not in spendable form (i.e., items that are not expected to be converted to cash) or (b) legally or contractually required to be maintained intact.
- **Restricted** Fund balances are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.
- Committed Fund balances are reported as committed when they can be used only for specific purposes pursuant to constraints imposed by formal action of the City Council through the approval of a motion. Only the City Council also may modify or rescind the commitment. The City Council passed Resolution number 2014-20 in 2014 to designate \$6 million in the Revenue Stabilization Fund, a managerial fund that is included in the General Fund to protect the City from major economic downturns or similar adverse conditions. \$1,878,466, is also identified as committed in nonmajor governmental funds; \$360,459 in Special Revenue Funds, and \$1,518,007 in nonmajor Capital Projects Funds.
- Assigned Fund balances are reported as assigned when amounts are constrained by the City's intent to be used for specific purposes, but are neither restricted nor committed. Through resolution, the City Council has authorized the City Mayor or designee to assign fund balances. Included in the General Fund is approximately \$10.6 million intended (assigned) to be spent on future economic development.
- *Unassigned* Fund balances are reported as unassigned as the residual amount when the balances do not meet any of the above criterion. The City reports positive unassigned fund balance only in the general fund. Negative unassigned fund balances may be reported in all funds.

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

Note 1 - Summary of Significant Accounting Policies (Continued)

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

- Committed
- Assigned
- Unassigned

Fund Balance Policy – The City Council approved a full rewrite of Lynnwood's Financial Policies with the adoption of Resolution 2017-07 on April 10, 2017 and, on November 12, 2019, approved the change to section 11 of its financial policies, "Contingency Planning and Responding to Revenue Downturns" with Resolution 2019-10. The revised section includes guidelines for addressing a revenue shortfall, including:

- Deficit financing (borrowing) should not be considered as an appropriate fiscal response.
- Prior to increasing taxes and/or fees to achieve a balanced budget, the City should evaluate opportunities to reduce one time and/or ongoing expenses.
- Rather than instituting "across the board" reductions, Budgeting for Outcomes principles and criteria should be utilized to reduce/discontinue certain levels of service, or delay/discontinue certain projects.
- In instances when combined, actual sales and use tax revenue for the previous two quarters is less than the revenue received during the same period of the previous year, the Mayor shall put forth to the Finance Committee a proposed budget amendment that responds to the under-performance of revenues.

General Fund - The adopted budget should include General Fund reserve¹ balances equaling not less than 2.5 months of the operating expenditures of the prior fiscal year. Reserves may consist of aggregate total of the General Fund *Unassigned* Fund balance and the *Committed* Revenue Stabilization Fund balance.

Enterprise Funds Reserve – Operating Fund. The operating reserve balance targets for Water, Sewer, and Storm Utilities are amounts equivalent to 90, 45, and 30 days of operating expenses, respectively.

Enterprise Funds Reserve – Capital Funds. The capital funds reserve balance targets for the Water, Sewer, and Storm Utilities are amounts equivalent to all Original Asset Values of 1%, 2%, and 1%, respectively.

Debt Management Policies include:

- 1. Term of long-term debt will not exceed the life of the projects financed. Current operations will not be financed with long term debt.
- 2. The City shall strive to maintain current credit rates of:

	General Obligation	Revenue Bonds
Rating Agency	Bonds	
Moody's	- A1	A+
Standard and Poor's	AA+	AA

3. The City debt will not exceed an aggregate total of 7.5% of the assessed valuation of the taxable property within the City in compliance with state law. The individual percentages shall not exceed 2.5% of assessed valuation in any specific category.

^{1 1} The term "Reserve" is a title used in the Financial Policies and is not a designation reported in the financial statements outlined under GASB Statement No. 54.

Note 1 - Summary of Significant Accounting Policies (Continued)

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

1-F-11 Operating Revenues and Expenses

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

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

1-F-12 Interfund Activity

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

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

1-F-13 Estimates

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

1-F-14 Comparative Data

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

1-F-15 Deferred Outflows/Inflows of Resources

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

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

Note 2 - Stewardship, Compliance and Accountability

Budgetary Information – The City adopts a biennial budget encompassing all governmental funds except one, the Transportation Benefit District (TBD). The TBD is governed by a legally separate board comprised of the City Councilmembers and adopts a separate annual budget. The discretely presented component unit, the Public Facilities District (PFD) has a separate board and adopts an annual budget which is not reported in the City's financial statements.

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

All budgets are adopted on a GAAP basis (i.e., modified accrual basis) All unexpended annual appropriations lapse at the end of the budget biennium except for appropriations for some capital projects which are carried forward from year to year until fully expended or the purpose of the appropriation has been accomplished or abandoned.

The Mayor is authorized to transfer budgeted amounts between departments within any fund with the exception of the General Fund. Any revisions that alter total expenditures of a fund or department in the General Fund must be approved by the City Council. The budget amounts shown in the financial statements are the final authorized amounts as revised during the year. The budget was amended two (2) times during the 2019-2020 biennium.

Note 3 - Detailed Notes on All Funds

3-A. Deposits and Investments

Cash and Cash Equivalents and Investments

Cash and cash equivalents are generally considered short term, highly liquid investments with a maturity of three months or less from the purchase date.

Investments are recorded at fair value in accordance with GASB Statement No. 72, Fair Value Measurement and Application. Accordingly, the change in fair value of investments is recognized as an increase or decrease to investment assets and investment income.

Deposits

Custodial Credit Risk – In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City's bank balances of deposits as of December 31, 2019, are entirely insured by Federal Depository Insurance (FDIC) up to \$250,000 and all deposits not covered by FDIC insurance are covered by Washington Public Deposit Protection Commission (WPDPC) of the State of Washington for amounts over \$250,000.

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

The City's bank balances as of December 31, 2019, were \$59,613,667 including Fiduciary Funds of \$201,362. The Fiduciary Funds do not include the suspense funds or clearing account balances.

Cash Balances at December 31, 2019		Other Governmental	Se	Internal rvice Funds	Water and Sewer Utility	(Golf Course	Fiduciary Funds	Total
Cash and Cash Equiv.	\$ 9,716,165	\$ 19,738,863	\$	3,080,197	\$ 13,095,779	\$	56,808	\$201,362	\$45,889,174
Restricted Cash	-	-		-	13,691,420		33,073		13,724,493
	\$ 9,716,165	\$ 19,738,863	\$	3,080,197	\$ 26,787,200	\$	89,880	\$201,362	\$ 59,613,667

Restricted Cash in the Water and Sewer Utility Fund includes unspent bond proceeds of \$13,670,247 associated with the 2018 bond issue. The remaining restricted cash of \$21,173 is based on customer deposits and prepayments.

Investments

In accordance with City policy, the City's investments will be in compliance with all statutes governing the investment of public funds and the provisions of all applicable bond ordinances. The investment portfolio will remain sufficiently liquid to enable the City to meet all operating requirements. Investments of the city shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio and shall be designed with the objective of attaining a market rate of return throughout the budgetary and economic cycles, taking into account the City's investment risk constraints and cash flow.

Investments at Amortized Cost

As of December 31, 2019, the City had the following investments at amortized cost:

	Investments held by City as an agent for other local governments,				
Investments	Maturities	investments	private organizations	Total	
Washington Local					
Government					
Investment Pool	n/a	\$ 56,432,467	\$ -	\$ 56,432,467	
Total		\$ 56,432,467	\$ -	\$ 56,432,467	

The City is a participant in the Local Government Investment Pool was authorized by Chapter 294, Laws of 1986, and is managed and operated by the Washington State Treasurer. The State Finance Committee is the administrator of the statute that created the pool and adopts rules. The State Treasurer is responsible for establishing the investment policy for the pool and reviews the policy annually and proposed changes are reviewed by the LGIP advisory Committee.

Investments in the LGIP, a qualified external investment pool, are reported at amortized cost which approximates fair value. The LGIP is an unrated external investment pool. The pool portfolio is invested in a manner that meets the maturity, quality, diversification and liquidity requirements set forth by the GASBS 79 for external investments pools that elect to measure, for financial reporting purposes, investments at amortized cost. The LGIP does not have any legally binding guarantees of share values. The LGIP does not impose liquidity fees or redemption gates on participant withdrawals.

The Office of the State Treasurer prepares a stand-alone LGIP financial report. A copy of the report is available from the Office of the State Treasurer, PO Box 40200, Olympia, Washington 98504-0200, online at http://www.tre.wa.gov.

Investments at Fair Market Value

The City measures and records its investments within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. These guidelines recognize a three-tiered value hierarchy, as follows:

- Level 1: Quoted prices in active markets for identical assets or liabilities;
- Level 2: These are quoted market prices for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, or other than quoted prices that are not observable;
- Level 3: Unobservable inputs for an asset or liability.

At December 31, 2019, the City had the following fair value measurements:

		Quoted Prices				
		in Active	Significant			
		Markets for	Other	Significant		
		Identical	Observable	Unobservable		
		Assets	Inputs	Inputs		
Type of Asset	12/31/2019	(Level 1)	(Level 2)	(Level 3)		
Debt Securities	\$ 21,573,741	\$ -	\$ 21,573,741	\$ -		
Total			\$ 21,573,741			

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

Credit Quality Risk – Credit quality risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Currently, the City does not have an investment policy relating to credit quality risk. The ratings of non-governmental debt securities as of December 31, 2019 are:

Debt	S & P		
Security	Rating		
Federal Farm Credit Bank	AAA		
Federal Home Loan Mortgage Corporation	AAA		
Federal Home Loan Bank	AAA		
Federal National Mortgage Association	AAA		
Farmer Mac Federal	Non-Rated		

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

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

The City's investments in the Federal Farm Credit Bank, the Federal Home Loan Mortgage Corporation and the Federal Home Loan Bank, government-sponsored enterprises, which are not explicitly backed by the federal government, are 24.4%, 14% and 23.7% of the City's total investment portfolio market value, respectively.

3-B. Receivables

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

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

		Transportation	Nonmaj		
	General	Capital	Special	Capital	
	Fund	Projects	Revenue	Projects	Total
Receivables:					
Accounts	\$ 20,105,070	\$ -	\$ 139,592	\$ 113,847	\$20,358,509
Property Taxes	118,177	-	-	-	118,177
Sales Tax	4,546,792	-	978,206	-	5,524,998
Utility Taxes	965,208	-	-	-	965,208
Other Taxes	295,760	-	-	-	295,760
Real Estate Excise Tax	-	-	-	861,048	861,048
Interest	7,103	-	-	-	7,103
Intergovernmental	718,653	1,945,251	25,850	328,533	3,018,287
Gross Receivables	\$ 26,756,763	\$ 1,945,251	\$1,143,648	\$1,303,428	\$31,149,090
Less: Allowance for					
Uncollectibles	(16,494,508)				(16,494,508)
Total	\$ 10,262,255	\$ 1,945,251	\$1,143,648	\$1,303,428	\$14,654,582

3-C. Property Taxes

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

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

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

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

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

The City's regular levy for 2019 was \$0.57 per \$1,000 on an assessed valuation of \$7,015,500,457. The special levies identified in the table were approved by the voters and are not subject to the limitations listed above.

Purpose of Levy	Levy Rate per \$1,000	Total Levy Amount
General Government	\$0.57016602372	\$4,000,000
Total City Levy	\$0.57016602372	\$4,000,000

3-D. Capital Assets

Capital asset activity for the year ended December 31, 2019, was as follows:

Governmental Activities: (including Internal Service fund):		Beginning Balance 1/1/2019 Increases			Decreases			Ending Balance 12/31/2019
(including internal service fund):		1/1/2019		licreases		Decreases		12/31/2019
Nondepreciable capital assets:								
Land	\$	40,690,314	\$	190,672	\$	-	\$	40,880,986
Easements		439,018		13,665		-		452,683
Art, non-depreciable		128,219		-		-		128,219
Construction in progress		15,785,197		7,523,234		(153,456)		23,154,975
Total nondepreciable capital assets		57,042,748		7,727,571		(153,456)		64,616,863
Depreciable capital assets								
Buildings		42,300,910		621,338		-		42,922,248
Improvements other than buildings		22,662,879		200,061		(15,727)		22,847,213
Machinery and equipment		*16,918,245		695,321		(277,214)		17,336,352
Infrastructure		92,816,490		319,314		-		93,135,804
Total depreciable capital assets		174,698,524		1,836,034		(292,941)		176,241,617
Total capital assets		231,741,272		9,563,605		(446,397)		240,858,480
Less accumulated depreciation for:								
Buildings		(17,890,695)		(1,195,692)		-		(19,086,387)
Improvements other than buildings		(15,521,893)		(581,757)		11,533		(16,092,117)
Machinery and equipment		(9,845,369)		(1,233,621)		222,091		(10,856,899)
Infrastructure		(43,639,072)		(2,619,857)				(46,258,929)
Total accumulated depreciation		(86,897,029)		(5,630,927)		233,624		(92,294,332)
Governmental activities capital assets, net	\$	144,844,243	\$	3,932,678	\$	(212,773)	\$	148,564,148

^{*} The beginning balance in Governmental Activities- Machinery and Equipment was restated.

Note 3 - Detailed Notes on All Funds (Continued)

Business-Type Activies:	Beginning Balance 1/1/2019	Increases	Decreases	Ending Balance 12/31/2019
Dusiness Type Petryles.	1/1/201/	Ther eases	Decreases	12/01/2017
Nondepreciable capital assets:				
Land	\$ 8,259,914	\$ -	\$ -	\$ 8,259,914
Easements	4,340,120	-	-	4,340,120
Construction in progress	1,480,896	4,506,725	(3,652,056)	2,335,565
Total nondepreciable capital assets	14,080,930	4,506,725	(3,652,056)	14,935,599
Depreciable capital assets				
Buildings	34,447,324	-	-	34,447,324
Improvements other than buildings	2,774,233	-	-	2,774,233
Machinery and equipment	4,675,878	144,702	-	4,820,580
Infrastructure	72,695,438	4,518,595		77,214,033
Total depreciable capital assets	114,592,873	4,663,297		119,256,170
Total capital assets	128,673,803	9,170,022	(3,652,056)	134,191,769
Less accumulated depreciation for:				
Buildings	(24,098,216)	(442,667)	-	(24,540,883)
Improvements other than buildings	(1,823,777)	(63,921)	-	(1,887,698)
Machinery and equipment	(2,874,459)	(270,419)	-	(3,144,878)
Infrastructure	(20,619,617)	(1,979,971)		(22,599,588)
Total accumulated depreciation	(49,416,069)	(2,756,978)		(52,173,047)
Business-type activities capital assets, net	\$ 79,257,734	\$ 6,413,044	\$ (3,652,056)	\$ 82,018,722

In 2019, the City completed the Force Main 8 and Interurban 40th Trailhead Improvements projects. In addition, the City made significant progress on 36th Ave W Improvements: Maple to Hwy 99 and 196th Street SW (SR 524), which are currently in construction and right-of-way phases, respectively.

Depreciation Expense by Function:

Governmental Activities	
General Government	\$ 1,047,590
Public Safety	378,772
Transportation	3,114,830
Economic Environment	46,411
Culture and Recreation	1,043,324
Total Depreciation Expense - Governmental Activities	\$ 5,630,927
Business-type Activities	
Water/Sewer/Storm Utility	\$ 2,706,068
Golf Course	50,911
Total Depreciation Expense - Business-Type Activities	\$ 2,756,979

Discretely Presented Component Unit Lynnwood Public Facilities District	 Beginning Balance 1/1/2019	Increases	Decreases			Ending Balance 12/31/2019	
Nondepreciable capital assets:							
Land	\$ 6,788,800	\$ -	\$	-	\$	6,788,800	
Construction in progress	 710,448	 16,897		(550,019)		177,326	
Total nondepreciable capital assets	 7,499,248	 16,897		(550,019)		6,966,126	
Depreciable capital assets:							
Buildings	19,916,337	55,759		-		19,972,096	
Building Improvements	815,162	-				815,162	
Land Improvements	-	550,019		(2,000)		548,019	
Improvements other than buildings	2,326,625	392,621		-		2,719,246	
Infrastructure	 79,375	 -		-	_	79,375	
Total depreciable capital assets	 23,137,499	 998,399		(2,000)		24,133,898	
Total capital assets	30,636,747	 1,015,296		(552,019)		31,100,024	
Less accumulated depreciation for:							
Buildings	(6,067,200)	(468,360)				(6,535,560)	
Building Improvements	(27,172)	(20,379)				(47,551)	
Land Improvements	-	(25,118)		-		(25,118)	
Improvements other than buildings	(1,169,167)	(218,122)				(1,387,289)	
Infrastructure	 (56,886)	 (3,969)				(60,855)	
Total accumulated depreciation	 (7,320,425)	 (735,948)			_	(8,056,373)	
Business-type activities capital assets, net	\$ 23,316,322	\$ 279,348	\$	(552,019)	\$	23,043,651	

3-E. - Interfund Transfers and Loans

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

Interfund transfers for the year ended December 31, 2019, consisted of the following:

							ΓRA	NSFER TO			
		(General Fund	nsporation pital Fund]	Special Revenue Fund	De	bt Service Fund	Nonmajor Capital Projects	nternal Service Funs	Total
M	General Fund	\$	-	\$ 1,030,000	\$	1,071,950	\$	1,794,838	\$ 1,100,000	\$ -	\$ 4,996,788
FR	Transportaton Capital Fund		-	-		-		-	-	-	-
FER	Debt Service Funds		380,805	-		-		-	-	150,000	530,805
ANS	Special Revenue Funds		-	2,846,785		300,000		-	1,096,698	-	4,243,483
E	Nonmajor Capital Project Funds		-	 1,004,061		-		-	 1,657,917	 -	2,661,978
		\$	380,805	\$ 4,880,846	\$	1,371,950	\$	1,794,838	\$ 3,854,615	\$ 150,000	\$ 12,433,054

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

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

Interfund Loans for the year ended December 31, 2019 consisted of the following:

		DU	E FROM	
0		Go	lf Course	Total
ΕŢ	General Fund	\$	1,251,000	\$ 1,251,000
DUE	Total	\$	1,251,000	\$ 1,251,000

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

In July 2014, the City Council passed resolution 2014-07 approving a \$1.3 million loan from the General Fund to the Golf Fund for the Golf Fund's temporary cash flow needs. In July 2016 resolution 2014-07 was rescinded and replaced with resolution 2016-12 for a new loan amount of \$1,850,000 and a fifteen-year loan payment schedule. The additional loan of \$550,000 was used to fund construction to add fifty additional parking lot spaces at the Golf Course. The additional loan was made in two installments, \$125,000 in 2016 and \$425,000 in 2017.

3-F - Operating Leases

Office, Warehouse, Storage Space, and Access Lease

The City leases office, warehouse, storage space, and property/land access are under non-cancellable operating leases. Total costs for these leases for the year ending December 31, 2019 was \$343,012 in governmental activities and \$47,502 in business-type activities. The future minimum lease payments are, as follows:

Year Ending December 31,	Governmental Activities	Business-Type Activities
2020	\$ 350,179	\$ 48,122
2021	248,535	20,286
2022	200,278	6,353
2023	34,359	6,543
2024	 =	6,740
	\$ 833,351	\$ 88.044

Printers and Copiers

The City leases many office printers and copiers under non-cancellable operating leases. Total costs for these leases for the year ending December 31, 2019 was \$85,489 in governmental activities and \$5,012 in business-type activities. The future minimum lease payments for the non-cancellable leases are, as follows:

Year Ending	Go	vernmental	Busi	iness-Type
December 31,	A	Activities	Activities	
2020	\$	82,208	\$	5,012
2021		82,208		5,012
2022		42,540		2,506
	\$	206,956	\$	12,530

3-G. Long-Term Debt

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

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

Note 3 – Detailed Notes on All Funds (Continued)

Changes in Long-term liabilities - Changes in the City's long-term obligations consisted of the following for the year ended December 31, 2019 (includes internal service fund):

	Outstanding 1/1/2019	Additions	Reductions	Outstanding 12/31/2019	Amounts Due
Communication Addition	1/1/2019	Additions	Reductions	12/31/2019	in One Year
Governmental Activities					
2005 general oblig. bonds (800 Mhz)	\$ 131,587	\$ -	\$ 131,587	\$ -	\$ -
2012 general obligation bonds	22,110,000	-	835,000	21,275,000	860,000
Claims and judgements payable	85,201	-	16,729	68,472	-
Compensated absences	3,176,284	2,401,710	2,296,919	3,281,075	836,828
Net pension liability	8,469,127	-	1,630,724	6,838,403	-
Other post-employment benefits	11,617,646	441,313	2,204,124	9,854,835	
Total Governmental Activities	\$45,589,845	\$ 2,843,023	\$7,115,083	\$41,317,785	\$1,696,828
Business-Type Activities					
2010 utility system					
revenue bonds	\$ 6,230,000	\$ -	\$ 325,000	\$ 5,905,000	\$ 340,000
2015 utility system					
revenue bonds	21,710,000	-	895,000	20,815,000	940,000
2018 utility system					
revenue bonds	20,380,000	-	605,000	19,775,000	770,000
Unamortized (premiums)/discounts	3,915,464	-	209,701	3,705,763	206,829
Net pension liability	1,746,845	-	375,974	1,370,871	-
Compensated absences	332,376	262,449	290,677	304,148	101,899
Total Business-Type Activities	\$54,314,685	\$ 262,449	\$ 2,701,352	\$51,875,782	\$2,358,728

Since internal service funds predominately serve the governmental funds, their long-term liabilities are included as part of the above totals for governmental activities. At year-end \$50,491 of internal service funds compensated absences are included in the above amounts. For the governmental activities, the General Fund, Special Revenue Funds, Capital Projects Funds, and Internal Service Funds generally liquidate accrued compensated absences, and the net pension liabilities. Nonmajor debt services funds have generally liquidated long-term debt liabilities. The general fund had liquidated other post-employment benefits liabilities.

The bonds associated with the special assessment (LID) are secured by the assessments levied against property owners in the LID boundaries and further secured by the City's Local Improvement Guarantee Fund (LIG). If the property owners fail to make payments the City can pursue foreclosure and sale of the property. The bonds are not general obligation debt of the City, and the City is acting only as an agent and is in no way liable for the debt. Bondholder remedies against the City are confined to mandating City officials perform their statutory duty to enforce assessments and apply proceeds of the LIG to principal and interest payments. There were no delinquent LID accounts at December 31, 2019.

Arbitrage occurs when the City invests funds borrowed at tax-exempt rates of interest in higher yielding taxable securities. These interest earnings in excess of interest expense must be remitted to the federal government. At the fund level, the City recognizes this liability only when it is due and payable. The City had no arbitrage excess earnings liability in 2019.

The annual total requirements to amortize the debt outstanding for general obligation, revenue bonds, and installment notes payable as of December 31, 2019, including interest, are as follows:

Government		al Ac	tivities	 Business Ty				
Year	P	rincipal		Interest	Principal	Interest		Total
2020		860,000		796,013	2,050,000	1,930,537		5,636,550
2021		895,000		761,613	2,140,000	1,842,538		5,639,150
2022		930,000		725,813	2,235,000	1,747,038		5,637,851
2023		960,000		696,488	2,335,000	1,647,238		5,638,726
2024		990,000		667,688	2,435,000	1,542,938		5,635,625
2025-2029		5,475,000		2,810,563	14,345,000	6,083,156		28,713,719
2030-2034		6,565,000		1,714,638	13,910,000	3,237,606		25,427,244
2035-2039		4,600,000		372,800	7,045,000	746,769		12,764,569
Total	\$ 2	21,275,000	\$	8,545,614	\$ 46,495,000	\$ 18,777,818	\$	95,093,432

Governmental Activities General Obligation Bonds

2005 General Obligation Bonds (800 MHz) Loan – The Snohomish County Emergency Radio System (SERS) was formed in 1999 to provide enhanced emergency communication services to Snohomish County. SERS was created via an interlocal agreement among the cities of Brier, Edmonds, Everett, Lynnwood, Marysville, Mill Creek, Mountlake Terrace, Mukilteo, Woodway, and Snohomish County. Snohomish County Fire District No. 1 joined after the original formation. SERS is a joint venture with each entity's equity interest reported on its financial statements. See Note 4-D Joint Ventures for additional information. Snohomish County issued \$27,125,000 of limited tax general obligation bonds on October 20, 1999 for multiple purposes, including funding participation in SERS. The City of Lynnwood's original participation was in the amount of \$1,795,107. Snohomish County refunded these bonds in 2005 and again in 2015, including the City's participation amount of \$1,519,147 in 2005 and \$470,221 in 2015. The City reports these bonds as 2005 general obligation bonds. The bonds are amortized over 15 years at 5% interest payable semi-annually. The loan was paid off in 2019.

Series 2012 General Obligation Bonds - On February 27, 2012 the City issued 25-year Limited Tax General Obligation Bonds for renovating, improving and expanding the City's Recreation Center in the amount of \$24,955,000. Annual principal payments range from \$285,000 to \$1,595,000, with interest varying from 2% to 4%, paid semi-annually. The final principal and interest payment is scheduled for 2037. These bonds carry a Standard and Poor's rating of AA+.

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

2010 Utility Improvement Refunding Bonds - The 2010 Utility System Revenue Bonds were issued on November 9, 2010. The proceeds from the sale of the bonds were 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.

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

Utility System Revenue and Refunding Bonds, 2018 - The Utility System Revenue and Refunding Bonds, 2018 were issued on October 10, 2018. Gross proceeds of \$22,988,959 consisted of bonds with a face value of \$20,380,000 and bond premium of \$2,608,959. Approximately \$18.3 million of the bond proceeds are to be used for the sewer system projects including upgrades and improvements to lift stations, wastewater treatment plant upgrades and other improvements, to the system as outlined in the Utility Capital Facilities Plan. \$1.335 million from the sale of the bonds was utilized to refund the 2008 Utility System Revenue Bonds in a current refunding. A portion of the proceeds also funded issuance costs associated with the sale. In addition to the 2018 bonds the insurance coverage also released the reserve requirements on the 2010 and 2015 bond issues. Annual principal payments range from \$605,000 to \$1,450,000 with interest varying from 4.00% to 5.0%. The final maturity date is December 1, 2038 and the bonds are callable as early as June 1, 2028. Revenue is provided by the City's Utility Fund by adjusting rates for water, sewer, and storm water services. These bonds carry a Standard and Poor's rating of AA.

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

On February 25, 2019, the City Council adopted Ordinance No. 3329 establishing a line of credit with Zions Bancorporation and providing for the issuance and sale of a limited tax general obligation bond not to exceed \$5.1 million to acquire property for a youth homeless shelter. During 2019 the no borrowings took place and the authorization is set to expire in October 2020.

Lynnwood Public Facilities										
District	C	Outstanding					C	Outstanding	Ar	nounts due
Business-type Activities		1/1/2019	A	dditions	R	eductions		12/31/3019	ir	one year
Bonds payable		_				_				_
General Obligation Bonds	\$	7,510,700			\$	994,000	\$	6,516,700	\$	1,031,300
Revenue Bonds		15,295,000				725,000		14,570,000		800,000
Premium on Revenue Bonds		851,249				52,117		799,132		52,117
Total Bonds Payable	\$	23,656,949	\$	-	\$	1,771,117	\$	21,885,832	\$	1,883,417
Compensated Absences		23,214		24,061		-		47,275		39,282
Environmental Remediation		5,581,190		209,909				5,791,099		35,400
Net Pension Liability										-
OPEB Liabilities		80,286		-		6,874		73,412		-
Business-type Activities										
Long Term Liabilities	\$	29,341,639	\$	233,970	\$	1,777,991	\$	27,797,618	\$	1,958,099

For the Lynnwood Public Facility District (PFD) component unit, the debt service requirements to maturity for general obligation bonds are as follows:

Lynnwood PFD	Busi	vities	
Year Ending	Series	B & Revenue	Bonds
December 31,	Principal	Interest	Total
2020	\$ 1,831,300	\$ 776,302	\$ 2,607,602
2021	1,963,900	718,725	2,682,625
2022	2,093,300	656,417	2,749,717
2023	2,243,500	579,681	2,823,181
2024	2,388,200	511,504	2,899,704
2025 -2029	5,971,500	1,518,756	7,490,256
2030 -2034	4,595,000	547,169	5,142,169
Total	\$ 21,086,700	\$ 5,308,554	\$ 26,395,254

3-H. Pension Plans

The following table represents the aggregate pension amounts for all plans for the year 2019:

Aggregate Pension Amount	ts – All Plans
Pension liabilities	\$ (8,209,274)
Pension assets	7,639,743
Deferred outflows of resources	5,409,108
Deferred inflows of resources	(6,927,059)
Pension expense/expenditures	875,656

State Sponsored Pension Plans

Substantially all City full-time and qualifying part-time employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing, multiple-employer public employee defined benefit and defined contribution retirement plans. The state Legislature establishes, and amends, laws pertaining to the creation and administration of all public retirement systems.

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

Department of Retirement Systems Communications Unit P.O. Box 48380 Olympia, WA 98540-8380

Or the DRS CAFR may be downloaded from the DRS website at www.drs.wa.gov. The direct link for the 2019 CAFR is https://www.drs.wa.gov/wp-content/uploads/2019/10/CAFR-2019.pdf.

Public Employees' Retirement System (PERS)

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

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

Contributions

The **PERS Plan 1** member contribution rate is established by State statute at 6 percent. The employer contribution rate is developed by the Office of the State Actuary and includes an administrative expense component that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates. The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for 2019 were as follows:

PERS Plan 1		
Actual Contribution Rates	Employer	Employee
January – June 2019		
PERS Plan 1	7.52%	6.00%
PERS Plan 1 UAAL	5.13%	
Administrative Fee	0.18%	
Total	12.83%	6.00%
July – December 2019		
PERS Plan 1	7.92%	6.00%
PERS Plan 1 UAAL	4.76%	
Administrative Fee	0.18%	
Total	12.86%	6.00%

PERS Plan 2/3 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the member's average final compensation (AFC) times the member's years of service for Plan 2 and 1 percent of AFC for Plan 3. The AFC is the average of the member's 60 highest-paid consecutive service months. There is no cap on years of service credit. Members are eligible for retirement with a full benefit at 65 with at least five years of service credit. Retirement before age 65 is considered an early retirement. PERS Plan 2/3 members who have at least 20 years of service credit and are 55 years of age or older, are eligible for early retirement with a benefit that is reduced by a factor that varies according to age for each year before age 65. PERS Plan 2/3 members who have 30 or more years of service credit and are at least 55 years old are eligible to retire under one of two provisions:

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

PERS Plan 2/3 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of five percent for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service credit. PERS Plan 2/3 retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit. Other PERS Plan 2/3 benefits include duty and non-duty disability payments, a cost-of-living allowance (based on the CPI), capped at three percent annually and a one-time duty related death benefit, if found eligible by the Department of Labor and Industries. PERS 2 members are vested after completing five years of eligible service. Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years of service if 12 months of that service are earned after age 44.

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

Contributions

The PERS Plan 2/3 employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 UAAL and an administrative expense that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates. The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2019 were as follows:

PERS Plan 2/3		
Actual Contribution Rates	Employer 2/3	Employee 2
January – June 2019		
PERS Plan 2/3	7.52%	7. 41%
PERS Plan 1 UAAL	5.13%	
Administrative Fee	0,18%	
Employee PERS Plan 3		Varies
Total	12.83%	7.41%
July – December 2019		
PERS Plan 2/3	7.92%	7.90%
PERS Plan 1 UAAL	4.76%	
Administrative Fee	0.18%	
Employee PERS Plan 3		Varies
Total	12.86%	7.90%

The City's actual PERS plan contributions were \$991,659 for to PERS 1 and \$1,424,123 to PERS 2/3 for the year ended December 31, 2019.

Public Safety Employees' Retirement System (PSERS)

PSERS Plan 2 was created by the 2004 Legislature and became effective July 1, 2006. To be eligible for membership, an employee must work on a full-time basis and:

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

PSERS membership includes:

- PERS 2 or 3 employees hired by a covered employer before July 1, 2006, who met at least one of the PSERS eligibility criteria and elected membership during the period of July 1, 2006 to September 30, 2006; and
- Employees hired on or after July 1, 2006 by a covered employer, that meet at least one of the PSERS eligibility criteria.

PSERS covered employers include:

- Certain State of Washington agencies (Department of Corrections, Department of Natural Resources, Gambling Commission, Liquor and Cannabis Board, Parks and Recreation Commission, and Washington State Patrol)
- Washington State Counties
- Washington State Cities (except for Seattle, Spokane, and Tacoma)
- Correctional entities formed by PSERS employers under the Interlocal Cooperation Act.

PSERS Plan 2 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the average final compensation (AFC) for each year of service. The AFC is based on the member's 60 consecutive highest creditable months of service. Benefits are actuarially reduced for each year that the member's age is less than 60 (with ten or more service credit years in PSERS), or less than 65 (with fewer than ten service credit years). There is no cap on years of service credit. Members are eligible for retirement at the age of 65 with five years of service; or at the age of 60 with at least ten years of PSERS service credit; or at age 53 with 20 years of service. Retirement before age 60 is considered an early retirement. PSERS members who retire prior to the age of 60 receive reduced benefits. If retirement is at age 53 or older with at least 20 years of service, a three percent per year reduction for each year between the age at retirement and age 60 applies. PSERS Plan 2 retirement benefits are actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and non-duty disability payments, an optional cost-of living adjustment (COLA), and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. PSERS Plan 2 members are vested after completing five years of eligible service.

Contributions

The PSERS Plan 2 employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2. The Plan 2 employer rates include components to address the PERS Plan 1 unfunded actuarial accrued liability and administrative expense currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates.

The PSERS Plan 2 required contribution rates (expressed as a percentage of current-year covered payroll) for 2019 were as follows:

PSERS Plan 2		
Actual Contribution Rates:	Employer	Employee
January – June 2019		
PSERS Plan 2	7.07%	7.07%
PERS Plan 1 UAAL	5.13%	
Administrative Fee	0.18%	
Total	12.38%	7.07%

PSERS Plan 2		
Actual Contribution Rates:	Employer	Employee
July – December 2019		
PSERS Plan 2	7.20%	7.20%
PERS Plan 1 UAAL	4.76%	
Administrative Fee	0.18%	
Total	12.14%	7.20%

The City's actual contributions to the plan were \$88,603 for PSERS Plan 2 for the year ended December 31, 2019.

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

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

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

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

The FAS is the basic monthly salary received at the time of retirement, provided a member has held the same position or rank for 12 months preceding the date of retirement. Otherwise, it is the average of the highest consecutive 24 months' salary within the last ten years of service. Members are eligible for retirement with five years of service at the age of 50. Other benefits include duty and non-duty disability payments, a cost-of living adjustment (COLA), and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. LEOFF 1 members were vested after the completion of five years of eligible service. The plan was closed to new entrants on September 30, 1977.

Contributions

Starting on July 1, 2000, **LEOFF Plan 1** employers and employees contribute zero percent, as long as the plan remains fully funded. The LEOFF Plan I had no required employer or employee contributions for fiscal year 2019. Employers paid only the administrative expense of 0.18 percent of covered payroll.

LEOFF Plan 2 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the final average salary (FAS) per year of service (the FAS is based on the highest consecutive 60 months). Members are eligible for retirement with a full benefit at 53 with at least five years of service credit. Members who retire prior to the age of 53 receive reduced benefits. If the member has at least 20 years of service and is age 50, the reduction is three percent for each year prior to age 53. Otherwise, the benefits are actuarially reduced for each year prior to age 53. LEOFF 2 retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and non-duty disability payments, a cost-of-living allowance (based on the CPI), capped at three percent annually and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. LEOFF 2 members are vested after the completion of five years of eligible service.

Contributions

The **LEOFF Plan 2** employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2. The employer rate includes an administrative expense component set at 0.18 percent. Plan 2 employers and employees are required to pay at the level adopted by the LEOFF Plan 2 Retirement Board.

Effective July 1, 2017, when a LEOFF employer charges a fee or recovers costs for services rendered by a LEOFF 2 member to a non-LEOFF employer, the LEOFF employer must cover both the employer and state contributions on the LEOFF 2 basic salary earned for those services.

The LEOFF Plan 2 required contribution rates (expressed as a percentage of covered payroll) for 2019 were as follows:

LEOFF Plan 2		
Actual Contribution Rates	Employer	Employee
January – June 2019		
State and local governments	5.25%	8.75%
Administrative Fee	0.18%	
Total	5.43%	8.75%
Ports and Universities	8.75%	8.75%
Administrative Fee	0.18%	
Total	8.93%	8.75%
July – December 2019		
State and local governments	5.15%	8.59%
Administrative Fee	0.18%	
Total	5.33%	8.59%
Ports and Universities	8.59%	
Administrative Fee	0.18%	•
Total	8.77%	8.59%

The City's actual contributions to the plan were \$459,958 for the year ended December 31, 2019.

The Legislature, by means of a special funding arrangement, appropriates money from the state General Fund to supplement the current service liability and fund the prior service costs of Plan 2 in accordance with the recommendations of the Pension Funding Council and the LEOFF Plan 2 Retirement Board. This special funding situation is not mandated by the state constitution and could be changed by statute. For the state fiscal year ending June 30, 2019, the state contributed \$72,959,897 to LEOFF Plan 2. The amount recognized by the City as its proportionate share of this amount is \$293,440.

Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2019 with a valuation date of June 30, 2018. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's (OSA) 2007-2012 Experience Study and the 2017 Economic Experience Study.

Additional assumptions for subsequent events and law changes are current as of the 2018 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2019. Plan liabilities were rolled forward from June 30, 2018, to June 30, 2019, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

- **Inflation:** 2.75% total economic inflation; 3.50% salary inflation
- Salary increases: In addition to the base 3.50% salary inflation assumption, salaries are also expected to grow by promotions and longevity.
- Investment rate of return: 7.40%

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

There were changes in methods and assumptions since the last valuation.

- OSA updated modeling to reflect providing benefit payments to the date of the initial retirement eligibility for terminated vested members who delay application for retirement benefits.
- OSA updated COLA programming to reflect legislation signed during the 2018 legislative session that provides PERS and TRS Plan 1 annuitants who are not receiving a basic minimum, alternate minimum, or temporary disability benefit with a one-time permanent 1.5% increase to their monthly retirement benefit, not to exceed a maximum of \$62.50 per month.

Discount Rate

The discount rate used to measure the total pension liability for all DRS plans was 7.4 percent.

To determine that rate, an asset sufficiency test included an assumed 7.5 percent long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. (All plans use 7.5 percent except LEOFF 2, which has assumed 7.4 percent). Consistent with the long-term expected rate of return, a 7.4 percent future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue being made at contractually required rates (including PERS 2/3, PSERS 2, SERS 2/3, and TRS 2/3 employers, whose rates include a component for the PERS 1, and TRS 1 plan liabilities). Based on these assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.4 percent was used to determine the total liability.

Long-Term Expected Rate of Return

The long-term expected rate of return on the DRS pension plan investments of 7.4 percent was determined using a building-block-method. In selecting this assumption, the Office of the State Actuary (OSA) reviewed the historical experience data, considered the historical conditions that produced past annual investment returns, and considered capital market assumptions and simulated expected investment returns provided by the Washington State Investment Board (WSIB). The WSIB uses the capital market assumptions and their target asset allocation to simulate future investment returns over various time horizons.

Estimated Rates of Return by Asset Class

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2019, are summarized in the table below. The inflation component used to create the table is 2.2 percent and represents the WSIB's most recent long-term estimate of broad economic inflation.

Asset Class	Target Allocation	% Long-Term Expected Real Rate of Return Arithmetic
Fixed Income	20%	2.20%
Tangible Assets	7%	5.10%
Real Estate	18%	5.80%
Global Equity	32%	6.30%
Private Equity	23%	9.30%
	100%	

Sensitivity of Net Pension Liability/(Asset)

The table below presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.4 percent, as well as what the City's proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage point lower (6.4 percent) or 1-percentage point higher (8.4 percent) than the current rate.

	1% Decrease	Current Discount	1% Increase
	(6.4%)	Rate	(8.4%)
		(7.4%)	
PERS 1	\$ 6,730,054	\$ 5,374,076	\$ 4,197,586
PERS 2/3	12,467,674	1,625,596	(7,271,046)
PSERS 2	358,517	(34,727)	(343,653)
LEOFF 1	(1,615,324)	(1,974,595)	(2,284,791)
LEOFF 2	(1,046,933)	(5,630,421)	(9,371,597)

Pension Plan Fiduciary Net Position

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

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

At June 30, 2019, the City reported a total pension liability of \$8,209,274 of which \$6,999,672 consists of its proportionate share of the net pension liabilities and a total pension asset of \$7,639,743 as follows:

	Liability (or Asset)
PERS 1	\$ 5,374,076
PERS 2/3	1,625,596
PSERS 2	(34, 727)
LEOFF 1	(1,807,205)
LEOFF 2	(5,979,418)

The amount of the liability/(asset) reported above for LEOFF Plan 1 and 2 reflects a reduction for State pension support provided to the City. The amount recognized by the City as its proportionate share of the net pension liability/(asset), the related State support, and the total portion of the net pension liability/(asset) that was associated with the City were as follows:

	LEOFF 1 (Asset)	LEOFF 2 (Asset)
LEOFF 2 – employer's proportionate share	\$ (1,974,595)	\$ (5,630,421)
LEOFF 2 – State's proportionate share of the net		
pension liability/(asset) associated with the employer	\$ (13,356,111)	\$ (3,687,171)
TOTAL	\$ (15,330,706)	\$ (9,317,592)

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

	Proportionate	Proportionate	Change in
	Share 6/30/18	Share 6/30/19	Proportion
PERS 1	.141150%	.139755%	(.001395%)
PERS 2/3	.171192%	. 167356%	(.003836%)
PSERS 2	.227010%	. 267048%	.040038%
LEOFF 1	.099543%	.099898%	.000355%
LEOFF 2	.294521%	. 243037%	(.051484%)

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

LEOFF Plan 1 allocation percentages are based on the total historical employer contributions to LEOFF 1 from 1971 through 2000 and the retirement benefit payments in fiscal year 2019. Historical data was obtained from a 2011 study by the Office of the State Actuary (OSA). In fiscal year 2019, the state of Washington contributed 87.12 percent of LEOFF 1 employer contributions and all other employers contributed the remaining 12.88 percent of employer contributions. LEOFF 1 is fully funded and no further employer contributions have been required since June 2000. If the plan becomes underfunded, funding of the remaining liability will require new legislation. The allocation method the plan chose reflects the projected long-term contribution effort based on historical data.

In fiscal year 2019, the state of Washington contributed 39.57 percent of LEOFF 2 employer contributions pursuant to RCW 41.26.725 and all other employers contributed the remaining 60.43 percent of employer contributions.

The collective net pension liability (asset) was measured as of June 30, 2019, and the actuarial valuation date on which the total pension liability (asset) is based was as of June 30, 2018, with update procedures used to roll forward the total pension liability to the measurement date.

Pension Expense

For the year ended December 31, 2019, the City recognized pension expense in the state sponsored plans as follows:

	Pension Expense
PERS 1	\$ 180,894
PERS 2/3	\$ 304,369
PSERS 2	\$ 57,577
LEOFF 1	\$ (109,402)
LEOFF 2	\$ 343,276
TOTAL	\$ 776,714

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2019, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

PERS 1	Deferred Outflows of	Deferred Inflows of
	Resources	Resources
Net difference between projected and actual investment		\$ (359,033)
earnings on pension plan investments		
Contributions subsequent to the measurement date	\$ 481,687	
TOTAL	\$ 481,687	\$ (359,033)

PERS 2/3	Deferred Outflows of	Deferred Inflows of	
	Resources	Resources	
Differences between expected and actual experience	\$ 465,737	\$ (349,494)	
Net difference between projected and actual investment		(2,366,205)	
earnings on pension plan investments			
Changes of assumptions	41,626	(682,046)	
Changes in proportion and differences between	347,208	(204,949)	
contributions and proportionate share of contributions			
Contributions subsequent to the measurement date	731,610		
TOTAL	\$ 1,586,181	\$ (3,602,694)	

PSERS 2	Deferred Outflows of	Deferred Inflows of
	Resources	Resources
Differences between expected and actual experience	\$ 29,326	\$ (3,071)
Net difference between projected and actual investment		(60,305)
earnings on pension plan investments		
Changes of assumptions	279	(18,663)
Changes in proportion and differences between	9,679	(916)
contributions and proportionate share of contributions		
Contributions subsequent to the measurement date	44,970	
_		
TOTAL	\$ 84,254	\$ (82,955)

Note 3 – Detailed Notes on All Funds (Continued)

LEOFF 1	Deferred Outflows of	Deferred Inflows of
	Resources	Resources
Net difference between projected and actual investment earnings on pension plan investments	\$ 0	\$ (204,706)
TOTAL	\$ 0	\$ (204,706)

LEOFF 2	Deferred Outflows of	Deferred Inflows of
	Resources	Resources
Differences between expected and actual experience	\$ 405,159	\$ (101,250)
Net difference between projected and actual investment earnings on pension plan investments		(1,154,412)
Changes of assumptions	9,276	(633,603)
Changes in proportion and differences between contributions and proportionate share of contributions	2,419,773	(\$345,423)
Contributions subsequent to the measurement date	230,349	
TOTAL	\$ 3,064,557	\$ (2,234,688)

Deferred outflows of resources related to pensions resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2019. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	PERS 1	
2020	\$	(79,258)
2021	\$	(187,741)
2022	\$	(66,997)
2023	\$	(25,037)
2024	\$	0
Thereafter	\$	0

Year ended December 31:	PERS 2/3
2020	\$ (692,297)
2021	\$ (1,167,519)
2022	\$ (491,681)
2023	\$ (241,344)
2024	\$ (143,392)
Thereafter	\$ (11,890)

Note 3 – Detailed Notes on All Funds (Continued)

Year ended December 31:	PSERS	
2020	\$	(9,332)
2021	\$	(18,815)
2022	\$	(11,509)
2023	\$	(5,567)
2024	\$	5
Thereafter	\$	1,547

Year ended December 31:	LEOFF 1
2020	\$ (47,547)
2021	\$ (104,799)
2022	\$ (38,029)
2023	\$ (14,331)
2024	\$ 0
Thereafter	\$ 0

Year ended December 31:	LEOFF2
2020	\$ (61,727)
2021	\$ (326,229)
2022	\$ (36,531)
2023	\$ 85,896
2024	\$ 178,394
Thereafter	\$ 759,717

Historical funding source for liquidating Department of Retirement Systems Pension Obligations

Historically the Pension Obligations have been liquidated with pension contributions paid by the City in proportion to and by each of the Funds that incurred the underlying covered payroll expenses/expenditures.

City Sponsored Pension Plan - Firemen's Pension Plan

The City is the administrator of the Firemen's Pension System, which is shown as a pension trust fund in the City's financial statements. The Firemen's Pension System is a single-employer, closed defined benefit pension system that was established in conformance with Revised Code of Washington (RCW) Chapter 41.18. Membership is limited to fire fighters employed prior to March 1, 1970 when the LEOFF retirement system was established.

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

Plan membership

At December 31, 2019, pension plan membership consisted of four (4) inactive plan members and one (1) surviving spouse for a total of five (5) members currently receiving benefits. The pension plan is closed to new entrants.

Benefits provided

The City's liability under the Firemen's Pension System consists of all benefits, including payments to beneficiaries, for firemen retired prior to March 1, 1970, and excess benefits over amounts provided by LEOFF for covered fire fighters retired after March 1, 1970. Under the Firemen's Pension System, eligible fire fighters may retire at age 50 with 25 years of service. Death and disability benefits are also provided, as established under the governing State law. Individuals who terminate employment prior to retirement may withdraw their contributions to the plan plus accumulated interest, but by doing so, forfeit their rights to future pension benefits.

Key Elements of Pension Formulas

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

Funding

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

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

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

Assumptions and Other Inputs

As of December 31, 2019, the FPF had \$312,459 in cash and cash equivalents invested in the City's internal investment pool and short term investments. Investments in the City's internal investment pool are invested in the Washington State Treasurer Local Government Investment Pool (LGIP), a Rule 2a-7 money market type fund with an average portfolio maturity of less than 91 days. All investments are valued at fair market value. Investment activities of the FPF are co-mingled with the City of Lynnwood treasury and therefore are included in the City's investment policy addressed in Note 3-A.

As of December 31, 2019, the annual money-weighted rate of return on pension plan investments, net of investment expenses, was 3.00 percent. The money-weighted rate of return considers the changing amounts actually invested during a period and weights the amount of pension plan investments by the proportion of time they are available to earn a return during that period.

The net pension liability was measured as of December 31, 2019, and the actuarial valuation date on which the total pension liability is based was as of December 31, 2018, with update procedures used to roll forward the total pension liability to the measurement date.

- **Discount rate:** 2.75% Rate applied in the measurement of the total pension liability
- **Inflation:** 2.00% total economic inflation, 2.50% wage inflation.
- Investment rate of return: 4.00% Composite rate is based on the expected return on long-term municipal bonds and is used for both the funded and unfunded liability.
- Actuarial Cost Method: Entry Age Normal
- The mortality table used, RP-2000, is projected to the year 2025 using Scale BB to include an allowance for future improvements in longevity.
- The table below presents the City's net pension liability calculated using the discount rate of 2.75% as well as what the pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (1.75%) or 1-percentage point higher (3.75%) than the current rate:

	1%	Current	1%
	Decrease	Disc. Rate	Increase
	1.75%	2.75%	3.75%
Net Pension Liability	\$1,357,668	\$1,209,602	\$1,082,032

Changes in the Net Pension Liability

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) – (b)
Balances at 12/31/2018	\$1,321,679	\$335,278	\$ 986,401
Changes for the year:			
Service Cost	-	-	-
Interest	50,965	-	50,965
Changes in assumptions	(114,417)	-	(114,417)
Differences between expected and actual experience	356,504	-	356,504
Contributions – employer	-	62,165	(62,165)
Contributions – employees	-	-	-
Net investment income		9,686	(9,686)
Benefit payments and withdraws (pension expense)	(95,102)	(95,102)	-
Administrative expense		(2,000)	2,000
Other changes	-	-	-
Net changes	197,950	(25,251)	223,201
Balance at 12/31/2019	\$1,519,629	\$310,027	\$1,209,602
Plan fiduciary net position as a percentage of the total pension liability		20.4%	

Pension Expense and Deferred Inflows and Outflows of Resources

	Pension Expense
Pension expense recognized for fiscal year ending 2018	\$61,108
Pension expense recognized for fiscal year ending 2019	\$98,942

At December 31, 2019, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of	Deferred Inflows of	
	Resources	Resources	
Differences between expected and actual experience	\$ 372,402	\$ -	
Net difference between projected and actual investment	10,842	-	
earnings on pension plan investments			
Changes of assumptions	59,739	(192,429)	
Contributions subsequent to the measurement date	-	-	
TOTAL	\$ 442,983	\$ (192,429)	

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

Year ended December 31:	Amount
2020	\$ 53,425
2021	50,191
2022	48,922
2023	47,718
2024	15,715
Thereafter	34,583

3-I. Other Post-Employment Benefits

Financial reporting for the LEOFF 1 retiree healthcare plan is included in the City's Comprehensive Annual Financial Report. The plan does not issue stand-alone financial statements.

The following table represents the OPEB amounts for all plans subject to the requirements of GASB 75 for the year 2019:

OPEB Liabilities	\$ 9,854,835
OPEB Assets	\$ 0
Deferred Outflows of Resources	\$ 127,197
Deferred Inflows of Resources	\$ 0
OPEB Expenses Expenditures	\$ (1,330,301)

Annual OPEB Cost and Net OPEB Obligation

OPEB Plan Description -

- a. The city administers LEOFF 1 Retiree Medical and Long-Term Care Benefits, a single-employer or multiple-employer defined benefit plan.
- b. In accordance with the Revised Code of Washington (RCW) 41.26, the City provides post-retirement health care benefits for members of the Law Enforcement Officers and Firefighters (LEOFF) Plan 1 retirement system hired prior to October 1, 1977. The plan is a closed, single-employer defined benefit healthcare plan administered by the City. The City provides medical, vision, and long-term care insurance, and reimburses for all Board approved claims for medical, dental, vision, and hospitalization costs not covered by standard benefit plan provisions.
- c. Employees covered by benefit terms At December 31, 2019, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	21
Inactive employees entitled to but not yet receiving benefits	0
Active employees	0
Total	21

- d. There are no assets accumulated in a trust that meets the criteria in paragraph 4 of GASB 75. The plan is funded on a pay-as-you-go basis and there are no assets accumulated in a qualifying trust.
- e. Funding for LEOFF retiree healthcare costs is provided entirely by the City as required by RCW. During the City contributed \$341,308 in medical payments and reimbursements.

Assumptions and Other Inputs:

The total OPEB liability in the June 30, 2019, actuarial valuation was determined using the GASB 75 Alternative Measurement Method for LEOFF 1 using the Office of the State Actuary's AMM Online Tool.

A single retirement age of 55.3 was assumed for all active members for the purpose of determining the actuary accrued liability (AAL) and normal cost. Retirement, disablement, termination, and mortality rates were assumed to follow the LEOFF 1 rates used in the June 30, 2018, actuarial valuation report issued by the Office of the State Actuary (OSA).

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

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

A 40 percent excise tax Patient Protection and Affordable Care Act

Actuarial Valuation Date: 06/30/2019

Actuarial Measurement Date: 06/30/2019

Actuarial Cost Method: Entry Age

Discount Rate:

Beginning of Measurement Year 3.87% End of Measurement Year 3.50%

Healthcare Trend Rate: Initial rate is about 6%, trends down to about 5% in the 2020's.

Long-term Care Healthcare Trend Rate: 4.50%

Mortality Rates (assuming 100% male population): Base Mortality Table: RP-2000 Mortality Table

Age Setback: +1 year Healthy / -2 years Disabled Blended 50%/50% Healthy/Disabled

Mortality Improvements: 100% Scale BB

Projection Period: Generational

Medicare Participation Rate: 100.00%

Medical and long-term care costs were projected from June 30, 2018 to the measurement date of June 30, 2019 using the healthcare trend rates detailed in the 2018 LEOFF 1 Medical Benefits Actuarial Valuation Report.

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following presents the total OPEB liability of the City calculated using the current healthcare cost trend rate of 6.0 percent, as well as what the OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (5.0 percent) or one percentage point higher (7.0 percent) that the current rate.

		1% Decrease (5.0%)	Current Healthcare Cost Trend Rate	1% Increase (7.0%)
		(3.070)	(6.0%)	(7.0%)
T	otal OPEB Liability	\$ 8,861,783	\$ 9,854,835	\$11,002,984

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

The following presents the total OPEB liability of the City calculated using the discount rate of 3.50 percent², as well as what the OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (2.50 percent) or one percentage point higher (4.50 percent) that the current rate.

	1% Decrease	Current Discount Rate	1% Increase
	(2.50%)	(3.50%)	(4.50%)
Total OPEB Liability	\$ 8,861,783	\$ 9,854,835	\$ 11,002,984

Changes in Total OPEB Liability

LEOFF 1 Retiree Medical and Long-Term Care Benefits	
Total OPEB Liability at 01/01/2019	\$11,617,646
Service cost	0
Interest	441,313
Changes of benefit terms	0
Changes in experience data and assumptions	(1,771,614)
Benefit payments	(432,510)
Other changes	
Total OPEB Liability at 12/31/2019	\$ 9,854,835

At December 31, 2019, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in experience data and assumptions		\$ 0
Payments subsequent to measurement date	\$ 127,197	

Deferred outflows of resources resulting from payments subsequent to the measurement date will be recognized as a reduction of the total OPEB in the year ended December 31, 2019.

² Source: Bond Buyer General Obligation 20-Bond Municipal Index

3-J. Fund Equity

Fund Balances - Fund balances are classified as follows:

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

0 1	77 1
General	runa:

Prepaid Postage	\$ 17,259
	\$ 17,259

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

Transportation Capital Fund:

Capital Projects	9	5,689,590
	9	5,689,590
Name of the Community of East Inc.		
Nonmajor Governmental Funds:		
Capital Projects	\$	7,984,703
Drug Enforcement/Criminal Justice		3,821,985
Debt Service		117,281
Park Improvements		184,353
Recreation programs for low income		77,239
Tourism promotion		1,266,951
Street and paths improvements		5,641,799
Solid Waste Management		81,982

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

Total Nonmajor Governmental Funds

General Fund:	
Revenue Stablization	\$ 6,000,000
Total General Fund	\$ 6,000,000
Other Governmental Funds:	
Capital Projects	\$ 1,518,007
Tree Reserve	293,816
Art Reserve	49,878
Aid Car Reserve	 16,765
Total Other Governmental Funds	\$ 1,878,466

19,176,293

679,901

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

Debt Service

General Fund:	
Economic Development	\$ 10,574,675
Other Governmental Funds:	

• **Net Investment in Capital Assets** – The net investment in capital assets, reported on the government-wide statement of net position as of December 31, 2019 is as follows:

			Business-
	G	lovernmental	type
Net investment in capital assets:		Activities	 Activities
Total capital assets	\$	240,858,480	\$ 134,191,769
Less accumulated depreciation		92,294,332	 52,173,047
Net capital assets		148,564,148	82,018,722
Less: capital related debt		(21,275,000)	(46,613,096)
Add: unspent bond proceeds		-	13,670,247
Less: unamortized bond premium			 (3,705,963)
Net investment in capital assets	\$	127,289,148	\$ 45,369,910

4-A. Risk Management

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

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

The City of Lynnwood is a member of Cities Insurance Association of Washington (CIAW). Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together into or join a program or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self-insure, or hire or contract for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The program was formed on September 1, 1988, when 34 cities in the state of Washington joined together by signing an Interlocal Governmental Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. As of December 1, 2019, there are 191 members in the program.

The program provides the following forms of joint self-insurance and reinsurance coverage for its members: Property; including Automobile Comprehensive and Collision, Equipment Breakdown, and Crime Protection and Liability; including General, Automobile, and Wrongful Acts, which are included to fit member's various needs.

The program acquires liability insurance through their administrator, Clear Risk Solutions, which is subject to a per occurrence self-insured retention (SIR) of \$100,000. Lynnwood is responsible for the first \$75,000 of each liability claim, while the program is responsible for the next \$25,000. Excess insurance is maintained with a limit of \$10,000,000 each occurrence and \$10,000,000 aggregate. In any one policy year, the City's obligation to pay the \$75,000 per loss retention is capped at \$310,000. Once the City pays \$310,000, the insurer will pay the \$75,000 retention for each loss up to a total amount of \$500,000. If the insurer reaches a total payout of \$500,000 in any one year for the retention, then the City is again responsible for the \$75,000 per loss retention.

Members contract to remain in the program for a minimum of one year and must give notice before December 1 to terminate participation the following December 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.

The program has no employees. Claims are filed by members/brokers with Clear Risk Solutions, who has been contracted to perform program administration, underwriting, claims adjustment, and loss prevention for the program. Fees paid to the third-party administrator under this arrangement for the year ending December 1, 2019, were \$2,687,104.78.

Property insurance is maintained separately from the CIAW program with a limit of \$125,000,000 any one occurrence and with a deductible of \$25,000 per occurrence for covered losses other than from earthquake or flood. Earthquake coverage is maintained with a limit of \$25,000,000 any one quake and a deductible of 5% of the value of the property that is damaged subject to a \$100,000 minimum. Flood coverage for properties not in a Flood Zone A or V is maintained with a limit of \$25,000,000 and a \$100,000 deductible. For any properties in Flood Zones A or V the limit is \$3,000,000 and the deductible is \$250,000. Coverage for damage to City owned automobiles is maintained with a deductible of \$5,000. The property insurance policy period is July 1, 2019 to July 1, 2020.

The City terminated its contract with CIAW effective December 1, 2019 for liability insurance coverage and effective July 1, 2020 for property insurance coverage. The City contracted with the Washington Cities Insurance Authority (WCIA) to provide liability insurance coverage effective December 1, 2019 and to provide property insurance coverage effective July 1, 2020.

The City of Lynnwood is also a member of the Washington Cities Insurance Authority (WCIA). Utilizing Chapter 48.62 RCW (self-insurance regulation) and Chapter 39.34 RCW (Interlocal Cooperation Act), nine cities originally formed WCIA on January 1, 1981. WCIA was created for the purpose of providing a pooling mechanism for jointly purchasing insurance, jointly self-insuring, and / or jointly contracting for risk management services. WCIA has a total of 163 members.

The City became a member of WCIA on December 1, 2019. New members initially contract for a three-year term, and thereafter automatically renew on an annual basis. A one-year withdrawal notice is required before membership can be terminated. Termination does not relieve a former member from its unresolved loss history incurred during membership.

Liability coverage is written on an occurrence basis, with a \$50,000 deductible. Coverage includes general, automobile, police, errors or omissions, stop gap, employment practices and employee benefits liability. Limits are \$4 million per occurrence in the self-insured layer, and \$16 million in limits above the self-insured layer is provided by reinsurance. Total limits are \$20 million per occurrence subject to aggregates and sublimits. The Board of Directors determines the limits and terms of coverage annually.

Insurance for property, automobile physical damage, fidelity, inland marine, and boiler and machinery coverage are purchased on a group basis. Various deductibles apply by type of coverage. Property coverage is self-funded from the members' deductible to \$750,000, for all perils other than flood and earthquake, and insured above that to \$300 million per occurrence subject to aggregates and sublimits. Automobile physical damage coverage is self-funded from the members' deductible to \$250,000 and insured above that to \$100 million per occurrence subject to aggregates and sublimits.

In-house services include risk management consultation, loss control field services, and claims and litigation administration. WCIA contracts for certain claims investigations, consultants for personnel and land use issues, insurance brokerage, actuarial, and lobbyist services.

WCIA is fully funded by its members, who make annual assessments on a prospectively rated basis, as determined by an outside, independent actuary. The assessment covers loss, loss adjustment, reinsurance and other administrative expenses. As outlined in the interlocal, WCIA retains the right to additionally assess the membership for any funding shortfall.

An investment committee, using investment brokers, produces additional revenue by investment of WCIA's assets in financial instruments which comply with all State guidelines.

A Board of Directors governs WCIA, which is comprised of one designated representative from each member. The Board elects an Executive Committee and appoints a Treasurer to provide general policy direction for the organization. The WCIA Executive Director reports to the Executive Committee and is responsible for conducting the day to day operations of WCIA.

The claims and judgment payable reported in the schedule Changes in Long Term Liabilities in Note 3-G represents total deductibles of outstanding claims at the end of the year.

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

4-B. Health and Welfare

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

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

As of December 31, 2019, 261 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, dental and vision insurance through the following carriers: Kaiser Foundation Health Plan of Washington, Kaiser Foundation Health Plan of Washington Options, Inc., Regence BlueShield, Asuris Northwest Health, Delta Dental of Washington, and 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. In 2019, the AWC Trust HCP purchased stop loss insurance for Regence/Asuris plans at an Individual Stop Loss (ISL) of \$1.5 million through Commencement Bay Risk Management, and Kaiser ISL at \$1 million with Companion Life through ASG Risk Management. The aggregate policy is for 200% of expected medical claims.

Participating employers contract to remain in the AWC Trust 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 AWC Trust 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 AWC Trust HCP. Similarly, the terminating member forfeits all rights and interest to the AWC Trust HCP Account.

The operations of the Health Care Program are managed by the Board of Trustees or its delegates. The Board of Trustees is comprised of four regionally elected officials from Trust member cities or towns, the Employee Benefit Advisory Committee Chair and Vice Chair, and two appointed individuals from the AWC Board of Directors, who are from Trust member cities or towns. The Trustees or its appointed delegates review and analyze Health Care Program related matters and make operational decisions regarding premium contributions, reserves, plan options and benefits in compliance with Chapter 48.62 RCW. The Board of Trustees has decision authority consistent with the Trust Agreement, Health Care Program policies, Chapter 48.62 RCW and Chapter 200-110-WAC.

The accounting records of the AWC Trust HCP are maintained in accordance with methods prescribed by the State Auditor's office under the authority of Chapter 43.09 RCW. The AWC Trust HCP also follows applicable accounting standards established by the Governmental Accounting Standards Board ("GASB"). In 2018, the retiree medical plan subsidy was eliminated, and is noted as such in the report for the fiscal year ending December 31, 2018. Year-end financial reporting is done on an accrual basis and submitted to the Office of the State Auditor as required by Chapter 200-110 WAC. The audit report for the AWC Trust HCP is available from the Washington State Auditor's office.

4-C. Contingent Liabilities

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

The City was a defendant in several lawsuits at December 31, 2019. In the opinion of City management, the outcome of these contingencies will not have a material effect on the financial position of the City.

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

4-D. Joint Ventures

SNOHOMISH COUNTY 911 - The City of Lynnwood and other Police and Fire entities jointly operate SNOHOMISH COUNTY 911. SNOHOMISH COUNTY 911, a cash basis, special purpose district, was created under the Interlocal Cooperation Act, as codified in RCW 39.34. This established the statutory authority necessary for Snohomish County, the cities, towns, fire districts, police districts and other service districts to enter into a contract and agreement to jointly establish, maintain and operate a support communications center. Control of SNOHOMISH COUNTY 911 is with a 16-member Board of Directors which is specified in the Interlocal Agreement. SNOHOMISH COUNTY 911 takes 911 calls and performs emergency dispatch services for local governmental agencies including police, fire and medical aid.

In the event of the dissolution of SNOHOMISH COUNTY 911, any money in the possession of SNOHOMISH COUNTY 911 or the Board of Directors after payment of all costs, expenses and charges validly incurred under this Agreement shall be returned to the parties to this Agreement in proportion to their contribution during the fiscal year of dissolution. Before deducting the payment of all costs, expenses and charges validly incurred, the City of Lynnwood's share was \$1,376,601 on December 31, 2019. This value has been recorded in the government-wide statements as an asset for the year ended December 31, 2019.

Snohomish County 911's 2019 operating budget was \$23,457,603, operating revenues received were \$24,057,771 and total operating expenditures were \$23,152,188. Complete financial statements for SNOHOMISH COUNTY 911 can be obtained from SNOHOMISH COUNTY 911's administrative office at 1121 SE Everett Mall Way, Suite 200, Everett, WA 98208.

ALLIANCE FOR HOUSING AFFORDABILITY (AHA) - In September 2013, the City of Lynnwood joined the cities of Edmonds, Everett, Granite Falls, Lake Stevens, Marysville, Mill Creek, Mountlake Terrace, Mukilteo, and Snohomish, the Town of Woodway, and Snohomish County to establish the Alliance for Housing Affordability (AHA). The agreement was amended in May 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	AHA	City's Share of	AHA's Budget
(7/1/xx-6/30/xx)	Budget	Amount	Percentage
2014	\$92,543	\$2,151	2.39%
2015	\$123,464	\$2,216	2.29%
2016	\$145,590	\$2,143	1.47%
2017	\$97,934	\$3,173	5.40%
2018	\$102,586	\$3,455	5.30%
2019	\$107,391	\$3,686	5.20%
2020	\$112,408	\$3,891	5.10%

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 Pam Frost, Director of Finance, HASCO, 12711 4th Ave W, Everett, WA 98204 (or email: pfrost@hasco.org) or from Chris Collier, Program Manager, Alliance for Housing Affordability, 12711 4th Ave W, Everett WA 98204.

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, and Meadowdale Middle School (at 66th Ave W and 168th St SW) The City of Lynnwood is responsible for the maintenance of the complex and bills 50% of the associated costs to the City of Edmonds on a bi-annual basis. Lynnwood's share of maintenance costs totaled \$61,475.

4-E. Tax Abatements

On May 29, 2007, the City Council adopted Ordinance 2681 under the authority granted to it under Chapter 84.14 RCW designating the City Center Sub-Area as a Designated Residential Target Area and establishing the Multiple-Unit Housing Property Tax Exemption program. The Ordinance enacted the program whereby property owners may qualify for a Final Certificate of Tax Exemption which certifies to the Snohomish County Assessor that the owner is eligible to receive a limited property tax exemption. The program is designed to encourage new construction or rehabilitation of multifamily housing Residential Target Areas in order to reduce development pressure on single-family residential neighborhoods, to increase and improve housing opportunities, and to encourage development densities supportive of transit use.

There are various statutory abatements affecting multiple jurisdictions including the City of Lynnwood. Statutory abatements are reported by the Washington Department of Revenue at the following website: https://dor.wa.gov/doing-business/information-local-governments/governmental-accounting-standards-board-gasb-statement-no-77. The Department of Revenue report listed no tax abatements applicable to the City of Lynnwood in 2019.

4-F. Prior Period Adjustments and Restatements

The City is reporting the following adjustments related to prior periods and restatement of beginning net position in the Government Wide Statement of Activities:

Net Position previously reported at December 31, 2018	\$ 160,058,237
Beginning Net Position Restatement - During the 2019 capital asset reconciliation process it was discovered that there were capital assets classified as operating in the amount of \$50,241 and an asset which had previously been recorded in 2018 in the amount of \$12,749. The net adjustment is for \$37,492	37,492
Net Position, as restated, at December 31, 2018	\$ 160,095,729

Note 4 – Detailed Notes on All Funds (Continued)

Transportation Capital fund:

Fund Balance previously reported at December 31, 2018	\$ 6,723,434
Beginning Fund Balance Restatement - Reported revenues in 2018 included \$538,697 of grant revenues which were received after the 60 day revenue recognition period and should have been reported as a Deferred Inflow of Resources.	(538,697)
Fund Balance, as restated, at December 31, 2018	\$ 6,184,737

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

- The following new fund was opened on 01/01/2019:
 - ✓ Internal Service Fund: Technology Reserve Fund 520

4-H. Subsequent Events -

COVID-19 (Corona Virus)

In February 2020, the Governor of the state of Washington declared a state of emergency in response to the spread of a deadly new virus. In the weeks following the declaration, precautionary measures to slow the spread of the virus have been ordered. These measures include closing schools, colleges and universities, cancelling public events, prohibiting public and private gatherings, and requiring people to stay home unless they are leaving for an essential function.

The overall financial effect on the City is unknown. Preliminary estimates indicate a \$5.16 million revenue loss to the General Fund which will be covered through yet to be determined expenditure reductions including a temporary hiring freeze described below:

- No new employee positions will be considered.
- Hiring to fill vacant positions is discouraged. Filling vacant positions will be considered on a case-by-case basis.
- The delay or foregoing of the purchase of non-essential equipment, goods, and services.
- Foregoing of employee non-essential training and travel, while also adherence to all applicable Orders such as social distancing and staying home.

Additional measures being considered include a voluntary separation incentive program, furloughs and reduced hours. The length of time these measures will be in place, and the full extent of the financial impact on the City is unknown at this time.

Transportation Benefit District Dissolution

On March 23, 2020, the Lynnwood City Council adopted Ordinance No. 3356 dissolving the Transportation Benefit District (TBD) as a separate entity, the activities of the TBD will continue as part of the general City government and will continue to be reported as a special revenue fund in a presentation similar when the TBD was a blended component unit. The cash assets of the district were transferred to the City. No other changes to the TBD will result from the dissolution of the separate legal entity for the TBD.

City of Lynnwood, Washington Schedule of Revenues - Budget and Actual General Fund For the Year Ended December 31, 2019

		Original 2019-2020 Biennial Budget	Biennial Budget as dified through ecember 2019	2019 Actual		ariance with ended Biennial Budget
Revenues						
Taxes:						
Property tax	\$	8,455,000	\$ 8,355,000	\$ 3,991,045	\$	(4,363,955)
Sales tax		48,988,457	48,988,457	23,662,407		(25,326,050)
Business taxes		14,522,051	14,522,051	6,726,034		(7,796,017)
Other taxes		8,650	 8,650	 3,719		(4,931)
Total Taxes		71,974,158	 71,874,158	 34,383,205		(37,490,953)
Licenses and Permits:						
Business licenses		6,235,247	6,235,247	1,747,113		(4,488,134)
Franchise fees		999,251	999,251	442,681		(556,570)
Permits and fees	_	3,794,300	 3,794,300	 1,468,116		(2,326,184)
Total Licenses and Permits		11,028,798	 11,028,798	 3,657,910		(7,370,888)
Intergovernmental:						
Liquor Board taxes		1,022,805	1,022,805	526,303		(496,502)
Streamlined sales tax		257,718	257,718	-		(257,718)
Other		3,972,382	 5,348,050	 2,458,966		(2,889,084)
Total Intergovernmental		5,252,905	6,628,573	2,985,269	_	(3,643,304)
Charges for Services:						
Planning fees		2,636,214	2,636,214	609,736		(2,026,478)
Interfund		4,390,041	4,390,041	-		(4,390,041)
Recreation		5,343,350	5,343,350	2,405,748		(2,937,602)
Other		1,148,947	1,148,947	391,800		(757,147)
Total Charges for Services		13,518,552	 13,518,552	 3,407,284		(10,111,268)
Fines and Forfeitures:		9,141,660	9,141,660	4,774,184		(4,367,476)
Miscellaneous						
Investment interest		406,864	406,864	291,274		(115,590)
Rents and concessions		1,045,250	1,045,750	412,286		(633,464)
Other		701,660	 701,660	 206,130		(495,530)
Total Miscellaneous		2,153,774	 2,154,274	 909,690		(1,244,584)
Total Revenues	\$	113,069,847	\$ 114,346,015	\$ 50,117,542	\$	(64,228,473)

City of Lynnwood, Washington Schedule of Expenditures - Budget and Actual General Fund For the Year Ended December 31, 2019

	 Original 2019-2020 Biennial Budget	Am	Biennial Budget as ended through ccember 2019	2019 Actual	nriance with nal Biennial Budget
Expenditures					
General Government					
Legislative/executive	\$ 2,333,599	\$	2,329,484	\$ 1,024,299	\$ 1,305,185
Administrative services	7,541,752		7,532,789	1,547,379	5,985,410
Information Technology	4,982,295		5,229,791	2,058,790	3,171,001
Legal	3,348,654		3,348,654	1,713,925	1,634,729
Human Resources	2,138,387		2,136,267	686,047	1,450,220
Property management	 3,602,606		3,599,600	 1,410,304	 2,189,296
Total General Government	 23,947,293		24,176,585	 8,440,744	15,735,841
Economic Environment	 12,259,706		12,518,493	 4,249,562	 8,268,931
Judicial	 2,287,935		2,285,532	1,024,232	 1,261,300
Culture & Recreation	 15,980,334		16,029,201	 7,415,174	 8,614,027
Public Safety					
Police	44,445,815		44,402,353	21,551,260	22,851,093
Fire	 1,936,442		2,276,882	 1,176,835	 1,100,047
Total Public Safety	 46,382,257		46,679,235	22,728,095	 23,951,140
Social Services	 1,179,517		1,177,988	553,170	 624,818
Transportation	 4,036,032		4,030,817	1,165,626	2,865,191
Debt Service	 1,000		1,000	 	1,000
Capital Outlay	 10,000		24,501	115,283	(90,782)
Total Expenditures	\$ 106,084,074	\$	106,923,352	\$ 45,691,886	\$ 61,231,466

The City's budget is adopted on a GAAP basis.

City of Lynnwood, Washington Schedule of Proportionate Share of the Net Pension Liability/Asset As of June 30

PERS 1

K CANADA					
	2019	2018	2017	2016	2015
Employer's proportion of the net pension liability	0.139755%	0.141150%	0.142394%	0.132475%	0.136623%
Employer's proportionate share of the net pension liability	\$ 5,374,076	\$ 6,303,807	\$ 6,756,706	\$ 7,114,531	\$ 7,146,653
Covered payroll	\$ 19,984,221	\$ 18,716,670	\$ 17,249,159	\$ 15,699,939	\$ 15,566,793
Employer's proportionate share of the net pension liability as a percentage of covered payroll	26.89%	33.68%	39.17%	45.32%	45.91%
Plan fiduciary net position as a percentage of the total pension liability	67.12%	63.22%	61.24%	57.03%	59.10%
PERS 2/3					
	2019	2018	2017	2016	2015
Employer's proportion of the net pension liability	0.167356%	0.171192%	0.173956%	0.160135%	0.166966%
Employer's proportionate share of the net pension liability	\$ 1,625,596	\$ 2,922,951	\$ 6,044,139	\$ 8,062,671	\$ 5,965,790
Covered payroll	\$ 18,607,574	\$ 17,769,774	\$ 16,452,758	\$ 14,924,219	\$ 14,819,525
Employer's proportionate share of the net pension liability as a percentage of covered payroll	8.74%	16.45%	36.74%	54.02%	40.26%
Plan fiduciary net position as a percentage of the total pension liability	%17.77%	95.77%	%16:06	85.82%	89.20%
PSERS 2					
	2019	2018	2017	2016	2015
Employer's proportion of the net pension liability (asset)	(0.267048%)	0.227010%	0.218084%	0.209520%	0.231513%
Employer's proportionate share of the net pension liability (asset)	\$ (34,727)	\$ 2,813	\$ 42,729	\$ 89,042	\$ 42,256
Covered payroll	\$ 1,330,176	\$ 890,458	\$ 742,200	\$ 679,047	\$ 677,061
Employer's proportionate share of the net pension liability as a percentage of covered payroll	-2.61%	0.32%	5.76%	13.11%	6.24%
Plan fiduciary net position as a percentage of the total pension liability	101.85%	%61.66	96.26%	90.41%	%80:56
LEOFF I					
	2019	2018	2017	2016	2015
Employer's proportion of the net pension asset	%868660.0	0.099543%	0.097900%	0.096516%	0.095558%
Employer's proportionate share of the net pension asset	\$ 1,974,595	\$ 1,807,205	\$ 1,485,358	\$ 994,391	\$ 1,151,685
Covered payroll			· •	· · · · · · · · · · · · · · · · · · ·	· •
Employer's proportionate share of the net pension liability as a percentage of covered payroll	0.00%	0.00%	0.00%	0.00%	0.00%
Plan fiduciary net position as a percentage of the total pension asset	148.78%	144.42%	135.96%	123.74%	127.36%

City of Lynnwood, Washington Schedule of Employer Contributions As of December 31

PERS 1

	_	2019	_	2018	_	2017	_	2016		2015
Contractually required contributions	\$	991,659	\$	974,283	\$	875,695	\$	815,773	\$	666,898
Contributions in relation to the contractually required contributions	_	(991,659)	_	(974,283)	_	(875,695)	_	(815,773)		(666,898)
Contribution deficiency (excess)	\$		\$	-	\$		\$	-	\$	-
Covered payroll	\$	19,973,778	\$	19,206,552	\$	17,822,990	\$	16,981,523	\$	15,137,651
Contributions as a percentage of covered payroll		4.96%		5.07%		4.91%		4.80%		4.41%
1	PERS	5 2/3								
	_	2019	_	2018	_	2017	_	2016		2015
Contractually required contributions	\$	1,424,123	\$	1,352,402	\$	1,159,549	\$	1,773,885	\$	1,441,968
Contributions in relation to the contractually required contributions		(1,424,123)	_	(1,352,402)	_	(1,159,549)	_	(1,773,885)	_	(1,441,968)
Contribution deficiency (excess)	\$		\$		\$		\$		\$	
Covered payroll	\$	18,664,837	\$	18,039,335	\$	17,006,678	\$	16,127,212	\$	14,415,414
Contributions as a percentage of covered payroll		7.63%		7.50%		6.82%		11.00%		10.00%
i	PSEK	RS 2								
	_	2019	_	2018	_	2017	_	2016		2015
Contractually required contributions	\$	88,603	\$	73,584	\$	86,976	\$	86,478	\$	71,594
Contributions in relation to the contractually required contributions	_	(88,603)	_	(73,584)	_	(86,976)	_	(86,478)		(71,594)
Contribution deficiency (excess)	\$	-	\$		\$	-	\$	-	\$	-
Covered payroll	\$	1,242,756	\$	1,074,157	\$	760,560	\$	761,251	\$	658,733
Contributions as a percentage of covered payroll		7.13%		6.85%		11.44%		11.36%		10.87%

Note to Schedule:

The City currently does not have 10 years of pension data available. Schedule prepared prospectively from 2015.

City of Lynnwood, Washington

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

As of June 30

		2019		2018		2017		2016		2015
Employer's proportion of the net pension liability (asset)		(0.243037%)		(0.294521%)		(0.486125%)		(0.433881%)		(0.456878%)
Employer's proportionate share of the net pension liability (asset)	€>	(5,630,421)	∻	(5,979,418)	S	(6,745,840)	€9	(2,523,582)	∞	(4,695,792)
State's proportionate share of the net pension liability (asset) associated with the employer	€9	(3,871,561)	↔	(3,871,561)	↔	(4,375,900)	€	(1,645,192)	↔	(3,104,893)
TOTAL	S	(9,501,982)	S	(9,850,979)	€	(11,121,740)	S	(4,168,774)	€9	(7,800,685)
Employer's covered payroll	€	8,826,066	8	8,037,687	8	13,394,830	8	13,144,036	€	13,258,319
Employer's proportionate share of the net pension liability (asset) as a percentage of covered employee payroll		63.79%		74.39%		50.36%		19.20%		35.42%
Plan fiduciary net position as a percentage of the total pension liability (asset)		119.43%		118.50%		113.36%		106.04%		111.67%

Note to Schedule:

The City currently does not have 10 years of pension data available. Schedule prepared prospectively from 2015.

Schedule of Employer Contributions Law Enforcement Officers' and Five Fighters' Retirement Plan 2 State Sponsored Plans As of December 31

		2019		2018		2017		2016		2015
Statutorily or contractually required contributions	€	459,958	S	417,061	S	684,235	S	719,240	S	641,223
Contributions in relation to the statutorily or contractually required contributions	∻	(459,958)	->-	(417,061)	-∞	\$ (684,235)	8	(719,240)	↔	(641,223)
Contribution deficiency (excess)	∻	ı	S		S		S	1	S	
Covered payroll	↔	8,837,932	€9	7,944,020	⇔	13,337,545	S	14,242,374	S	12,697,473
Contributions as a percentage of covered employee payroll		5.20%		5.25%		5.13%		5.05%		5.05%

Note to Schedule:

The City currently does not have 10 years of pension data available. Schedule prepared prospectively from 2015.

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

Firemen's Pension

Total mountain Rabilita.	2019	2018	2017	2016	2015	2014
Total pension hability Service cost Interest Changes in benefit terms	\$ 50,965	43,728	48,141	- 47,947	\$ 41,432	\$ 41,801 54.397
Differences between expected and actual experience Changes of assumptions	356,504 (114,417)	(132,101)	116,948	(38,717)	32,573	10:10
Benefit payments Net change in total pension liability Total pension liability - beginning Total pension liability - ending (a)	(95,102) 197,950 1,321,679 1,519,629	(183,476) (183,476) 1,505,155 1,321,679	(90,408) 173,162 1,331,993 1,505,155	(85,083) (85,083) 1,417,076 1,331,993	198,002 198,002 1,219,074 1,417,076	23,074 23,074 1,196,000 1,219,074
Plan fiduciary net position Contributions - employer	62,165	61,710	54,134	55,130	55,515	56,875
Contributions - nonemployer contributing entities Contributions - employee	1 1			1 1		1 1
Net investment income	9,686	3,639	7,108	- 004 313)	- (20201)	651
Deficil payments, including returnes of contributions Administrative expense	(93,102) $(2,000)$	(93,103) $(4,500)$	(96,468) $(2,000)$	(4,250)	(606,07)	(73,119) $(21,825)$
Other	- (150.50)	- 0.000		(59,479)	(90,652)	(45,326)
Net cnange in pian fiduciary net position Pian fiduciary net position - beginning	(25,231)	(34,234)	(37,226) 406,758	(102,912) 509,670	(103,722)	(82, 744) 698, 136
Plan fiduciary net position - ending (b)	\$ 310,027	\$ 335,278	\$ 369,532	\$ 406,758	\$ 509,670	\$ 615,392
Net pension liability ending (a) - (b)	\$ 1,209,602	\$ 986,401	\$ 1,135,623	\$ 925,235	\$ 907,406	\$ 603,682
Plan fiduciary net position as a $\%$ of total pension liability $(b)/(a)$	20.4%	25.4%	24.6%	30.5%	36.0%	50.5%
Covered payroll	0	0	0	0	0	0
Net pension liability as a % of covered employee payroll	0.00%	%00.0	%00.0	%00.0	0.00%	%00.0

Notes to Schedule:

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

The City currently does not have 10 years of pension data available. Schedule prepared prospectively from 2014.

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

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Actuarially/statutorily/contractually determined contribution	\$ 124,523	\$ 105,216	\$ 77,442	\$ 77,442	\$ 43,999	\$ 43,999	\$ 51,946	\$ 51,946	\$ 49,477 \$ 49,477	\$ 49,477
Actual contribution in relation to the above *	62,165	61,710	54,134	(4,349)	(35,137)	(10,276)	(3,753)	1,536	(11,407)	1,202
Contribution deficiency (excess)	\$ 62,358	\$ 43,506	\$ 23,308	\$ 81,791	\$ 79,136	\$ 54,275	\$ 55,699	\$ 50,410	\$ 60,884	\$ 48,275
Covered payroll	ı	,	1	,	'	'	'	'	'	
Contributions as a % of covered-employee payroll	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

Notes to Schedule:

Valuation Full date: December 31, 2019

Methods and assumptions used to determine contribution rates:

Actuarial cost method - entry age normal

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

Remaining amortization period - 15 Years

Asset valuation method - Fair Market Value

Inflation - 2.00%

Salary increases - 2.50%

Investment rate of return - 4.00% Mortality - RP-2000 using scale BB

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

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

2012 2011 2010	0.16% 0.22% 0.76%
2013	0.14%
2014	%60.0
2015	0.00%
2016	0.00%
2017	1.83%
2018	1.03%
2019	3.00%
	Annual money-weighted rate of return, net of investment expense

City of Lynnwood, Washington

Schedule of Changes in Total OPEB Liability and Related Ratios LEOFF 1 Retiree Medical and Long-Term Care Benefits

Last Two Fiscal Years (1)

	June 3	0, (2)
	2019	2018
Total OPEB liability - beginning	\$ 11,617,646	\$ 12,036,582
Service cost	-	-
Interest	441,313	422,777
Changes in benefit terms	-	-
Differences between expected and actual experience		
Changes of assumptions	(1,771,614)	(383,326)
Benefit payments Other changes	(432,510)	(458,387)
Net change in total OPEB liability	(1,762,811)	(418,936)
Total OPEB liability - ending	\$ 9,854,835	\$ 11,617,646
Covered payroll	-	-
Total OPEB liability as a % of covered payroll	N/A	N/A

Notes to Schedule:

No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB 75.

 $^{^{(1)}}$ Until a full 10-year trend is compiled, only information beginning with 2018 is presented.

 $^{^{(2)}}$ Although the City is reports on a December 31 year end, the valuation dates are as of June 30.

City of Lynnwood Schedule of Expenditures of Federal Awards For the Year Ended December 31, 2019

60,662	OMB#1121 4,669 0235 OMB#1123 60,662 0011/ WA0310400 STPUL-9931 3,872 -	-9931 3,872 - 6
	1123- 10400 -9931 A-7167	OMB#1123- 0011/ WA0310400 STPUL-9931 (009) LA-7167
		STPUL-9931 (009) LA-7167
	STPUL-9931 397,106 (017) LA-8974	
	STPUL-2004 295,713 (037) LA-5787	_

The accompanying notes are an integral part of this schedule.

City of Lynnwood Schedule of Expenditures of Federal Awards For the Year Ended December 31, 2019

E	Expenditures From Pass- CFDA Other Award Through From Direct to Number Number Awards Awards Total Subrecipients Note
State and Community Highway Safety	Highway Planning and Construction 20.205 HSIP-000S (311) LA-7808 391 - 391 Construction 20.205 TAP-2523(003) 1,317 - 1,317 Highway Planning and Construction 20.205 TAP-9999(783) 448 - 448 Construction LA-8998 5,724 - 5,724 Construction (001) LA-9612 5,724 - 5,724 Total Highway Planning and Construction Cluster: 704,571 - 704,571
Total High State and Comr Highway Safety	FEDERAL HIGHWAY ADMINISTRATION, DEPARTMENT OF (via Washington State Department of Transportation) FEDERAL HIGHWAY ADMINISTRATION, DEPARTMENT OF (via Washington State Department of Transportation) FEDERAL HIGHWAY ADMINISTRATION, FEDERAL HIGHWAY ADMINISTRATION, DEPARTMENT OF (via Washington State Department of TRANSPORTATION, DEPARTMENT OF (via Washington State Department of Transportation)

The accompanying notes are an integral part of this schedule.

City of Lynnwood Schedule of Expenditures of Federal Awards For the Year Ended December 31, 2019

	Note						
	Passed through to Subrecipients	1	•	•	•	1	•
	Total	4,338	2,016	1,326	5,892	21,789	10,517
Expenditures	From Direct Awards			•			•
	From Pass- Through Awards	4,338	2,016	1,326	5,892	21,789	10,517
	Other Award Number	2019-HVE- 3325/ Statewide Distracted Driving Patrols	2020-HVE- 3770/ Target Zero Team Patrols	2020-Sub- Grants-3899- LEL	Traffic Safety Grants	Total CFDA 20.600:	Pedestrian Safety Campaign
	CFDA Number	20.600	20.600	20.600	20.600		20.616
	Federal Program	State and Community Highway Safety		National Priority Safety Programs			
	Federal Agency (Pass-Through Agency)	NATIONAL HIGHWAY TRAFFIC SAFETY ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF (via Washington Traffic Safety Commission)	NATIONAL HIGHWAY TRAFFIC SAFETY ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF (via Washington Traffic Safety Commission)	NATIONAL HIGHWAY TRAFFIC SAFETY ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF (via Washington Traffic Safety Commission)	NATIONAL HIGHWAY TRAFFIC SAFETY ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF (via Washington Association of Sheriffs and Police Chiefs)		NATIONAL HIGHWAY TRAFFIC SAFETY ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF (via Snohomish County Sheriff's Office)

The accompanying notes are an integral part of this schedule.

City of Lynnwood Schedule of Expenditures of Federal Awards For the Year Ended December 31, 2019

	Note							
	Passed through to Subrecipients	1	•	•	•	1	•	•
	Total	1,459	3,153	1,863	1,808	18,800	40,589	4,986
Expenditures	From Direct Awards	'	•	•	•		•	
	From Pass- Through Awards	1,459	3,153	1,863	1,808	18,800	40,589	4,986
	Other Award Number	2019-Sub- Grants-3345- LEL	2019-HVE- 3325/ DUI	2019-HVE- 3325/ Statewide Click it or Ticket	2019-HVE- 3325/ Statewide Impaired Driving Patrols	Total CFDA 20.616:	Total Highway Safety Cluster:	2019-HVE- 3325/ Motorcycle Safety
	CFDA Number	20.616	20.616	20.616	20.616		Total High	20.608
	Federal Program	National Priority Safety Programs	National Priority Safety Programs	National Priority Safety Programs	National Priority Safety Programs			Minimum Penalties for Repeat Offenders for Driving While Intoxicated
	Federal Agency (Pass-Through Agency)	NATIONAL HIGHWAY TRAFFIC SAFETY ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF (via Washington Traffic Safety Commission)	NATIONAL HIGHWAY TRAFFIC SAFETY ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF (via Washington Traffic Safety Commission)	NATIONAL HIGHWAY TRAFFIC SAFETY ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF (via Washington Traffic Safety Commission)	NATIONAL HIGHWAY TRAFFIC SAFETY ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF (via Washington Traffic Safety Commission)			NATIONAL HIGHWAY TRAFFIC SAFETY ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF (via Washington Traffic Safety Commission)

The accompanying notes are an integral part of this schedule.

City of Lynnwood Schedule of Expenditures of Federal Awards For the Year Ended December 31, 2019

					Expenditures			
Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	From Pass- Through Awards	From Direct Awards	Total	Passed through to Subrecipients	Note
FEDERAL EMERGENCY MANAGEMENT AGENCY, HOMELAND SECURITY, DEPARTMENT OF (via Washington State Military Department)	Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	FEMA-4242-DR -WA/ DR16-462	250	'	250	1	1, 2, 7, 9
FEDERAL EMERGENCY MANAGEMENT AGENCY, HOMELAND SECURITY, DEPARTMENT OF (via King County Office of Emergency Management)	Preparing for Emerging Threats and Hazards	97.133	EMW-2016-GR- 00145-S01	3,548	•	3,548	1	1, 2, 7
	Ě	otal Federal	Total Federal Awards Expended:	778,822	65,331	844,153	60,662	

The accompanying notes are an integral part of this schedule.

CITY OF LYNNWOOD, WASHINGTON

Notes to the Schedule of Expenditures of Federal Awards For the Year Ended December 31, 2019

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 – <u>Program Costs</u>

The amounts shown as current year expenditures represent only the federal grant portion of the program costs. Entire program costs, including the City's portion, are more than shown. Such expenditures are recognized following, as applicable, either the cost principles in the OMB Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments, or the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Note 7 – <u>Indirect Cost Rate</u>

The City has not elected to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

Note 9 – <u>Prior Year Expenditures</u>

Expenditures for this program include expenditures from prior years. The City received payments in 2019 upon the completion and closure of the grants.

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 <u>fraud</u>, state <u>whistleblower</u> and <u>citizen hotline</u> investigations.

The results of our work are widely distributed through a variety of reports, which are available on our <u>website</u> and through our free, electronic <u>subscription</u> 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 Audi	itor's Office
Public Records requests	PublicRecords@sao.wa.gov
Main telephone	(564) 999-0950
Toll-free Citizen Hotline	(866) 902-3900
Website	www.sao.wa.gov

APPENDIX C

UNAUDITED 2020 FINANCIAL STATEMENTS





CITY OF LYNNWOOD, WASHINGTON

DRAFT UNAUDITED FINANCIAL STATEMENTS

For the Fiscal Year Ended
December 31, 2020

Prepared by the Finance Department

MANAGEMENT'S DISCUSSION AND ANALYSIS

Within this section of the City of Lynnwood, Washington ("the City") comprehensive annual financial report, the City's management is pleased to provide this narrative discussion and analysis of the financial activities of the City for the calendar year ended December 31, 2020. We discuss and analyze the City's financial performance within the context of the accompanying financial statements, schedules, and note disclosures following this section.

Financial Highlights

- The City's assets and deferred outflows exceeded its liabilities and deferred inflows by \$247,461,477 (net position) at the end of the calendar year.
- Total net position is comprised of the following:
 - (1) Net investment in capital assets of \$178,750,058 includes property and equipment, net of accumulated depreciation, and is reduced for outstanding debt related to the acquisition or construction of capital assets.
 - (2) Net position of \$34,495,146 is restricted by constraints imposed from outside the City such as debt covenants, grantors, laws, or regulations, and City restricted reserve policies.
 - (3) Unrestricted net position of \$34,216,273 represents the portion available to maintain the City's continuing obligations to citizens and creditors.
- The City's governmental funds reported a total ending fund balance of \$46,879,626 this year. This compares to the adjusted prior year ending fund balance of \$48,085,804, showing a decrease of \$1,206,178 or 2.5% during the current year.
- At the end of the current calendar year, unassigned fund balance for the General Fund was \$4,027,009, or 9.1% of total General Fund expenditures.
- Overall, the City continues to maintain a strong financial position.

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

Overview of the Financial Statements

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

Government-wide Financial Statements

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

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

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

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

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

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

The government-wide financial statements are presented on pages 17 and 18 of this report.

Fund Financial Statements

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

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

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

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

The basic governmental fund financial statements are presented on pages 20-21 of this report.

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

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

The basic enterprise fund financial statements are presented on pages 22-27 of this report.

• Fiduciary fund type represents funds held in trust and includes the firemen's pension trust fund, the recreation scholarship fund, and the custodial fund. The statements for these funds are presented on pages 28 and 29.

Notes to the Basic Financial Statements

The accompanying notes to the financial statements provide information essential to a full understanding of the government-wide and fund financial statements. The notes to the basic financial statements begin on page 30 of this report.

Required Supplementary Information

This section includes the budgetary schedules for the general fund and disclosure related to pensions and other-postemployment benefits. These are presented in the on pages 77-85.

Supplementary Information

Combining and comparative individual statements and schedules for some major and nonmajor funds are presented as supplementary information in this report beginning on page 86.

Financial Analysis of the City as a Whole

The City's net position at calendar year-end was \$247,461,477. The following table provides a summary of the City's net position:

Summary	of Net	Position	at D	ecember	3]	١,
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	Governmen	tal Activities	Business-ty	pe Activities	T	otal
	2020	2019	2020	2019	2020	2019
Assets:						
Current	\$ 57,807,167	\$ 61,257,580	\$ 31,269,806	\$ 24,545,498	\$ 89,076,973	\$ 85,803,078
Capital assets	151,069,775	148,564,149	92,747,647	82,018,722	243,817,422	230,582,871
Other	8,896,596	10,134,344	2,555,031	12,646,641	11,451,627	22,780,985
Total assets	217,773,538	219,956,073	126,572,484	119,210,861	344,346,022	339,166,934
Deferred outflows						
of resources	5,709,577	5,089,490	507,461	446,815	6,217,038	5,536,305
Liabilities:						
Current	7,305,670	6,531,175	6,654,529	3,556,471	13,960,199	10,087,646
Non-current	38,233,730	39,620,957	47,142,769	49,517,055	85,376,499	89,138,012
Total liabilities	45,539,400	46,152,132	53,797,298	53,073,526	99,336,698	99,225,658
Deferred inflows						
of resources	3,237,264	6,183,247	527,621	862,108	3,764,885	7,045,355
Net position: Net investment in						
capital assets	130,654,775	127,289,148	48,095,283	45,369,910	178,750,058	172,659,058
Restricted	33,940,718	33,132,088	554,428	576,511	34,495,146	33,708,599
Unrestricted	10,110,958	12,288,948	24,105,315	19,775,621	34,216,273	32,064,569
Net position	\$ 174,706,451	\$ 172,710,184	\$ 72,755,026	\$ 65,722,042	\$ 247,461,477	\$ 238,432,226

The City continues to maintain a high current ratio. The current ratio compares current assets to current liabilities and is an indication of the ability to pay current obligations. The current ratio for governmental activities is 7.9 to 1 as compared to 9.4 to 1 at December 31, 2019. The current ratio for the business-type activities at December 31, 2020 is 4.7 to 1 as compared to 6.9 to 1 at December 31, 2019. For the City overall, the current ratio is 6.4 to 1 as compared to 8.5 to 1 at December 31, 2019. These ratios are strong.

The City reported positive balances in net position for both governmental and business-type activities. Net position increased \$2,034,948 for governmental activities and increased by \$7,032,984 for business-type activities. The City's overall financial position increased during calendar year 2020 by \$9,067,932. Although the city has established reserve polices the Governmental Accounting Standards Board (GASB) limits the term "Restricted" to restrictions placed by outside parties such as bondholders.

74.8% of the governmental activities' net position is committed to capital, such as building, infrastructure, vehicles, and equipment. The City uses these capital assets to provide services to its citizens. With business-type activities, the City has 66.1% of its net position invested in capital assets. Capital assets in the business-type activities also provide water, sewer and storm water services and the golf course, but they also generate revenues for these funds. Overall, 72.2% of the City's total net position is invested in capital assets.

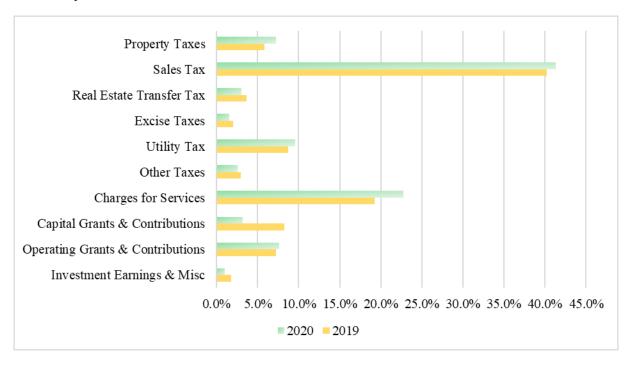
The following table provides a summary of the City's changes in net position:

	_	•	Summary of Cha	nges in Net Positio	on	
	Governmen	ntal Activities	Business-ty	pe Activities	T0	tal
	2020	2019	2020	2019	2020	2019
Revenues:						
Program:						
Charges for services	\$ 13,419,294	\$ 13,027,006	\$ 25,892,658	\$ 24,485,840	\$ 39,311,952	\$ 37,512,846
Operating grants						
and contributions	4,518,072	4,910,376	51,463	=	4,569,535	4,910,376
Capital grants						
and contributions	1,876,992	5,588,050	3,033,937	844,044	4,910,929	6,432,094
General:	1000100	2054052			1200100	2051052
Property taxes	4,268,168	3,951,052	-	-	4,268,168	3,951,052
Sales taxes	24,349,634	27,191,036	-	=	24,349,634	27,191,036
Business and other taxes	9,901,112	11,755,104	-	1 120 750	9,901,112	11,755,104
Investment earnings	521,234	847,047	443,230	1,130,750	964,464	1,977,797
Other revenues	69,346	333,147	· -	16,670	69,346	349,817
Total revenues	58,923,852	67,602,818	29,421,288	26,477,304	88,345,140	94,080,122
Program Expenses:						
General government	12,775,727	8,686,443	_	-	12,775,727	8,686,443
Economic environment	4,738,876	5,850,956	_	-	4,738,876	5,850,956
Judicial	949,133	959,925	_	-	949,133	959,925
Culture and recreation	6,683,452	8,130,499	_	-	6,683,452	8,130,499
Public safety	21,344,811	21,382,395	_	=	21,344,811	21,382,395
Social services	450,612	553,170	-	-	450,612	553,170
Transportation	9,116,844	8,564,785	-	-	9,116,844	8,564,785
Utilities	38,390	30,870	_	-	38,390	30,870
Interest on long-term debt	791,059	829,320	-	-	791,059	829,320
Water/sewer/storm utility	-	-	21,054,285	19,052,059	21,054,285	19,052,059
Golf course			1,334,019	1,310,199	1,334,019	1,310,199
Total expenses	56,888,904	54,988,363	22,388,304	20,362,258	79,277,208	75,350,621
Revenues over (under) expenses	2,034,948	12,614,455	7,032,984	6,115,046	9,067,932	18,729,501
Transfers			· 			
Changes in net position	2,034,948	12,614,455	7,032,984	6,115,046	9,067,932	18,729,501
Beginning net position:						
as originally reported	172,710,184	160,058,237	65,722,042	59,606,996	238,432,226	219,665,233
Prior period adjustments	(38,681)	37,492	-	-	(38,681)	37,492
Beg net positon-restated	172,671,503	160,095,729	65,722,042	59,606,996	238,393,545	219,702,725
Ending net position	\$ 174,706,451	\$ 172,710,184	\$ 72,755,026	\$ 65,722,042	\$ 247,461,477	\$ 238,432,226

GOVERNMENTAL ACTIVITIES-REVENUES

Total tax revenue decreased by \$4,378,278 or 10.2% from 2019 to 2020 due to the impacts of COVID-19 on sales, admissions, utility, and excise taxes.

As the chart below depicts, in total, in 2020 taxes make up 65.4% of the total revenues stream as compared to 63.5% in 2019. 2020 property taxes make up 7.2% of revenues, as compared to 5.8% in 2019, and 2020 sales taxes make up 41.3% of total revenues as compared to 40.2% in 2019.



The operating grants and contributions for general government of \$2,410,865 included the following:

- Public Utility District Privilege Tax \$265,147
- COVID-19 assistance \$2,022,500
- Other Miscellaneous Revenues and Donations \$123,218

The operating grants for culture and recreation of \$37,838 included the following:

- Donations, Parks and Senior Services \$11,031
- PHD 2: Bikelink Project \$6,170
- Public Hospital District No 2 agreements for:
 - o Move 60 Teen Program \$12,817
 - o Parks and Recreation staff support services \$3,759
 - o Swim Voucher Programs \$4,061

The operating grants for public safety of \$757,859 included the following:

- LEOFF Pension Plan Special Funding \$286,652
- Law Enforcement Services \$140,873
- Edmonds School District Police Services \$38,047
- Traffic safety grants \$23,837
- Snohomish County Regional Drug and Gang Task Force \$22,914
- Department of Justice Equitable Sharing \$120,860
- Washington Traffic Safety Commission \$2,646
- Washington State Criminal Justice distributions \$63,875
- Department of Justice grants \$58,155

The operating grants and contributions for transportation of \$769,960 included the following:

- Motor Vehicle Fuel Tax and Other Street Operating Funds \$766,874
- Snohomish County PUD \$3,086

The operating grants and contributions for utilities of \$17,478 included the following:

• Department of Ecology Grant - \$17,478

The operating grants and contributions for judicial of \$2,530 included the following:

• Administrative Office of the Courts - \$2,530

The operating grants and contributions for economic environment included the following:

• Sound Transit Interlocal Agreement - \$521,542

The capital grants and contributions for transportation of \$1,310,815 included the following:

- Washington State Transportation Improvement Board grants \$1,276,005
- Alderwood Water & Waste District \$34,810

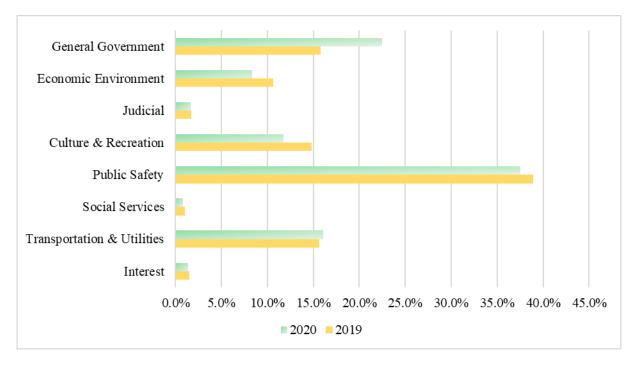
The capital grants and contributions for culture and recreation of \$566,177 included the following:

- US Department of Interior (South Lynnwood Park Renewal) \$22,920
- WA Recreation and Conservation Office \$58,761
- Washington State Grant DOT for Scriber Creek \$361,212
- Snohomish County Grant for Heritage Park Water Tower Improvements \$123,284

It is noteworthy that program revenues cover 34.8% of governmental operating expenses, down from 42.8% a year ago. The taxpayers and the City's other general governmental revenues cover the remaining 65.2% of the governmental expenses. As a result, the general economy and the success of City businesses have a major impact on the City's revenue streams.

GOVERNMENTAL ACTIVITIES - FUNCTIONAL EXPENSES

The chart below illustrates the cost of each of the City's major governmental activities by function and related percentages of the total functional expenditures for 2020 and 2019:



Of the City's governmental activities functions, 37.5% of the total costs relates to public safety in 2020 as compared to 38.9% in 2019. Public safety expenses decreased by \$37,584. The decrease is due to a reduction in various expenditures as a planned response to the COVID-19 budget impacts. Transportation & utilities expenses make up 16.1% of total costs in 2020 as compared to 15.6% in 2019. General government expenses make up 22.5% of total expenses as compared to 15.8% in 2019. General government expenses increased by \$4,089,284. Of this amount, \$2.4 million is due to the loss on disposal of capital assets. Culture & recreation expenses make up 11.7% of total costs in 2020 as compared with 14.8% in 2019. Culture and recreation expenses decreased by \$1,447,047 due to reduced operational expenditures related to the temporary closure of the community center and reduction in recreation programs due to COVID. Economic environment expenses make up 8.3% of total expenses as compared to 10.6% in 2019. Economic environment expenses decreased by \$1,112,080 due to decreased professional services on the Lynnwood Light Rail project that is fully reimbursable by Sound Transit.

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

		Governi	nen	tal Activities				
		Total Cost	of S	Services	-	Net Cost o	of Se	rvices
		2020		2019		2020		2019
General government	\$	12,775,727	\$	8,686,443	\$	5,368,361	\$	4,439,903
Judicial		4,738,876		959,925		3,259,838		(598,345)
Public safety		949,133		21,382,395		182,120		16,221,480
Utilities		6,683,452		30,870		2,785,805		(537,090)
Transportation		21,344,811		8,564,785		18,348,156		2,031,048
Economic environment		450,612		5,850,956		450,612		4,775,579
Social services		9,116,844		553,170		6,655,547		553,170
Culture and recreation		38,390		8,130,499		(766,952)		3,747,866
Interest on debt	_	791,059	_	829,320		791,059	_	829,320
Total	\$	56,888,904	\$	54,988,363	\$	37,074,546	\$	31,462,931

BUSINESS-TYPE ACTIVITIES ANALYSIS

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

	 Operatin	g In	come	<u>%</u>
Fund	2020		2019	Change
Water/sewer/storm utility	\$ 4,887,382	\$	5,617,213	-12.99%
Golf course	321,322		63,863	403.14%
Total	\$ 5,208,704	\$	5,681,076	-8.31%

The following analysis is provided for the major enterprise funds.

Sewer/Water/Storm Utility Fund – Operating revenues increased \$1,103,923 or 4.8% in 2020 over 2019. Water charges for services decreased \$226,356 or 3.1%. Sewer charges for services increased \$1,364,265 or 11.8%. Storm charges for services decreased by \$42,234 or 1.0%. The increase in sewer revenues is due to connection fees from multiple new large multifamily apartment construction projects.

Total operating expenses increased \$1,833,754 or 10.5% from the 2019 amount. At December 31, 2020, net position totals \$69,161,272. Of this amount, \$43,934,352 or 63.5% is invested in capital assets.

The various expenses changed from 2019 to 2020 as follows:

- Administration and general water decrease of \$20,385 or .9%.
- Administration and general sewer decrease of \$130,627 or 6.1%
- Administration and general stormwater increase of \$112,621 or 17.7%
- Maintenance and operations water increase of 36,816 or 1.2%
- Maintenance and operations sewer increase of 1,685,717 or 35.5%
- Maintenance and operations stormwater increase of \$58,396 or 3.0%

Although there was significant fluctuation between these six categories, it is primarily due to the staff transfers between divisions and changes in allocated expenses. Overall, operating expenses increased by \$1,833,754 or 10.5%.

Golf Course Fund – Operating revenues increased \$302,895 or 22.5%, resulting in a record year. While indoor recreational opportunities were limited due to COVID-19 restrictions, the golf course was a popular destination for outdoor recreation.

Total operating expenses increased by \$45,436 or 3.5% over the 2019 amount. Operating income increased from \$63,863 in 2019 to \$321,322 in 2020.

As of December 31, 2020, the net position totaled \$3,382,851 compared with \$3,065,463 as of December 31, 2019.

Financial Analysis of the City's Funds

Governmental Funds

As previously stated, governmental funds are reported in the fund statements with a focus on short-term inflow and outflow of spendable resources. This information is useful in assessing resources available at the end of the year in comparison with upcoming financing requirements. Governmental funds reported ending fund balances of \$46,879,626 as compared to \$48,124,485 at December 31, 2019.

The restricted amount at December 31, 2020 was \$25,269,571, which includes \$111,902 for debt service, \$2,802,495 for criminal justice, \$11,299,458 for capital improvements, \$2,308,893 for transportation, \$894,196 for tourism, \$292,262 for drug enforcement, \$7,166,533 for streets and \$393,832 for a variety of other restrictions.

\$6,441,396 is committed, primarily for revenue fluctuations. The general fund reports approximately \$11.0 million assigned to future economic development infrastructure.

The City Council passed Resolution number 2014-20 in 2014 to reserve (commit) \$6 million in the Revenue Stabilization Fund, a managerial fund that is included in the General Fund to protect the City from major economic downturns or similar adverse conditions. The resolution also limits the use of these funds to those approved by Council.

Also, included in the General Fund is approximately \$11.0 million intended (assigned) to be spent on future economic development. These funds are included in the Economic Infrastructure Development fund, another managerial fund that is included in the General Fund.

The General Fund reports an unassigned amount of fund balance of \$4,027,009. This amount will be used for future one-time operating costs. The total ending fund balances of governmental funds show a decrease of \$1.2 million net of a negative prior period adjustment of \$38,861 compared to an increase of \$2.9 million at December 31, 2019.

Major Governmental Funds

General Fund - The General Fund is the City's primary operating fund and the largest source of day-to-day service delivery. The General Fund's fund balance decreased by \$661,543 or 3.2% in 2020, after interfund transfers to other funds. The difference between revenues and expenditures was \$1,258,080 before interfund transfers. Of the total \$2,806,588 transferred from the General Fund, \$1,656,638 was transferred to service debt, \$28,000 was transferred to fund capital projects,

\$1,095,450 was transferred to the Street Operating Fund (Non Major Special Revenue Fund) and \$26,500 was transferred to the Solid Waste Management fund (Non Major Special Revenue Fund). Total transfers out were \$2,190,200 (43.4%) more than total transfers in 2019 due to a decrease in transfers to capital project funds.

Total revenues decreased by \$4,659,591 or 9.3% in 2020. The primary cause of this decrease was the reduction in sales taxes of \$2,641,480 due to the impact of COVID.

Permits and fees increased \$1,798,678 or 49.2% from 2019 largely due to building permit fees for the Sound Transit station, Kinect @ Lynnwood Apartments and other residential development projects.

Intergovernmental revenues increased by \$224,028 (7.5%) due to COVID non-grant assistance of \$1,606,581 received in 2020, less the decrease in other one-time operating grants received in 2019.

In 2020, total expenditures decreased by \$1,492,015 or 3.3% compared to 2019. The decrease is primarily due to a decrease in culture & recreation expenditures related to the closure of the community center and cancellation of recreation programs due to COVID.

The City Council adopted updated Financial Management Policies in 2017. The new policies include a General Fund Reserve which requires the City to adopt a budget to include reserve balances equaling not less than 2.5 months of operating expenditures of the prior fiscal year. Reserves may consist of the total of the General Fund Unassigned Fund Balance and the Revenue Stabilization Fund balance. In November of 2020, the City Council passed a resolution authorizing the use of up to \$2.2 million in reserves to balance the General Fund and confirming that the 2021-2022 budget could have General Fund reserves under the 2.5 month minimum required in policy. At the time of 2021-2022 budget adoption, it was estimated that the draw-down on reserves would be less than \$2 million. The actual amount of transfer needed was only \$1.13 million. The General Fund had 2.2 months of operating reserves as of the end of 2020. As of December 31, 2020, the City fell short the policy requirements for reserves in 2020 as follows:

2020 General Fund Expenditures			\$ 44,199,871
Reserve Requirement (2.5 months) Reserves:			9,208,306
Revenue Stablization Fund	¢	4 970 022	
Revenue Stabilzation Fund	\$	4,870,033	
Unassigned Fund Balance		4,027,009	
Total Reserve Balance			8,897,042
Reserve Requirement Shortage			\$ (311,264)

Transportation Capital Fund – the Transportation Capital Fund is used to account for transportation related capital projects, which in 2020 included among others, 35th/36th Ave W Roadway Improvements, the Poplar Way Extension Bridge, and 196th Street SW (SR524) Improvements. Revenues decreased by \$1,555,424 from 2019 to 2020 due to a decrease in the amount of grant funding received in 2020. Expenditures decreased by \$1,577,224 from 2019 to 2020. Expenditures on the 196th Street SW Improvements project were moved to utility funds to account for the design costs relating to utility improvements. Also, majority of the construction costs for the 36th Ave W Roadway Improvements project were incurred and paid in 2019 as opposed to 2020, in which the project reached substantial completion in June 2020. Fund balance decreased by \$3,119,548, or 5.5%, from 2019 to 2020.

Budgetary Highlights - General Fund

The City adopts a biennial budget and combines both years together. The biennial budget is developed to guide the City's financial direction. It outlines how financial resources will be managed during the biennial budget years while allowing for reallocation of resources. Major groups that participate in the budget process are the Mayor, City Council, Chief Administrative Officer, Department directors, Managers, and interested Lynnwood citizens. Appropriation of operating and capital funds are reviewed and amended as needed by the City Council. During 2020, the budget was amended seven times to account for significant unforeseen situations, including the COVID-19 pandemic.

The final General Fund expenditure budget was \$2,632,874 higher than the original budget. The largest increase to the budget included just over \$2 million to allow for the expenditure of federal Coronavirus Aid, Relief, and Economic Security Act (CARES) funding received from the State of Washington and Snohomish County.

The final General Fund revenue budget was \$3,069,764 higher than the original budget. Three separate amendments were done to reflect the additional CARES grant revenues received, totaling just over \$2 million.

Actual results compared to final budget

Total General Fund revenues over the biennium were \$100 million or 86% of the amended budget of \$116.1 million. The final budget includes \$4.4 million for interfund services revenues. In the financial statements, Interfund services were reclassified as a reduction of direct expenditures to the General Fund departments as opposed to revenues to the General Fund, so the actual interfund service revenue was zero. Adjusting for this amount, the General Fund revenues were 82.3% of the final adopted biennial budget.

Sales tax revenues, which represents 42.2% of the total budgeted General Fund revenues, totaled \$44.7 million for the biennium, 46.8% of the actual revenues received. Sales tax revenues in 2020 decreased by \$2.6 million from 2019, an 11.2% decrease. This is attributed to the reduction in sales activity that occurred when the COVID-19 pandemic first began in early 2020. Sales tax revenues recovered strongly as the year progressed.

Property tax revenues totaled \$8.3 million or 8.7% of the actual revenues and were less than 1% lower than budget. Permit fee revenues exceeded budget by 3.6% due largely to building permit fees for large projects that were received in 2020. Liquor Board taxes were 8.2% higher than budget due to an increase in alcohol sales after the pandemic began.

Investment revenues, which totaled \$505,498 for the biennium, exceeded the adopted budget of \$406,864 by 24.2% due to conservative forecasting.

Total General Fund expenditures were \$89.9 million or 82.7% of the final biennial budget of \$108.7 million due in part to expenditure reductions across all General Fund departments to offset forecasted revenue reductions related to COVID-19. All General Fund departments' expenditures were within their biennial budget authority.

Capital Assets and Debt Administration

Capital Assets

The City's net book value of capital assets as of December 31, 2020 increased by 1.7% for governmental activities and increased by 13.1% in business-type activities. The overall increase was 5.7% for the City as a whole. See Note 3-D for additional information about changes in capital assets during the calendar year and outstanding at the end of the year.

At December 31, 2020, the depreciable capital assets for governmental activities were 51% depreciated. This compares with the December 31, 2019 percentage of 52%. For business-type activities, the percentage decreased from 44% to 43%.

At December 31, 2020, the major projects included in the governmental activities construction in progress include:

- Poplar Way Bridge Extension \$3,868,784
- 196th Street SW Improvements \$6,105,580
- Beech Road Improvements \$498,771
- Scriber Creek Trail Improvements \$727,197
- Lynnwood Community Justice Center \$2,227,270

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

- 2021 KW T880 Vactor- \$580,696
- Smiths Detection B-Scan Body- \$186,943
- Network Optimization Core Switches- \$121,763
- Disaster Recovery Nutanix Server- \$95,009

Governmental activities land increased \$2,141,623 consisting primarily of:

• Precision Tune Land Purchase for 196th St Project- \$1,430,396

McCrary Land Acquisition for Parks-\$113,256

At December 31, 2020, the major projects included in the business-type activities construction in progress include:

- Lift Station 4 & 8 Improvements \$4,936,424
- WWTP Building Replacement \$780,473
- WWTP Fire Protection System- \$412,505
- 196th St Utility Improvements- \$520,529

At December 31, 2019, major projects completed:

- 48th Ave Sewer & 200th Water Main Improvements- \$1,175,722
- Advanced Metering Infrastructure- \$3,425,406
- 36th Ave Storm Drain Improvements- \$2,210,594
- 36th Ave Water Main Improvements- \$271,573
- LOMC Emergency Generator- \$205,229

The following table provides a summary of capital asset activity:

	Governmental Activities			Business-type Activities				Total				
		2020		2019		2020		2019		2020		2019
Nondepreciable assets:		•		,				•				•
Land	\$	43,022,609	\$	40,880,986	\$	8,259,914	\$	8,259,914	\$	51,282,523	\$	49,140,900
Easements		452,683		452,683		4,340,120		4,340,120		4,792,803		4,792,803
Art, non-depreciable		128,219		128,219		-		-		128,219		128,219
Construction in progress		14,558,402		23,154,973		8,392,475		2,335,565		22,950,877		25,490,538
Total nondepreciable												
assets		58,161,913		64,616,861		20,992,509		14,935,599		79,154,422		79,552,460
Depreciable assets:												
Buildings		42,577,827		42,922,248		34,447,324		34,447,324		77,025,151		77,369,572
Improvements other		, ,		, ,		, ,		, ,				, ,
than buildings		23,168,319		22,847,213		2,774,233		2,774,233		25,942,552		25,621,446
Machinery and												
equipment		19,131,416		17,336,354		4,948,715		4,820,580		24,080,131		22,156,934
Infrastructure		105,483,202		93,135,804		84,491,163		77,214,033		189,974,365		170,349,837
Total depreciable assets		190,360,764		176,241,619		126,661,435		119,256,170		317,022,199		295,497,789
Total accumulated												
depreciation		97,452,902		92,294,331		54,906,295		52,173,047		152,359,197		144,467,378
Book value -												
depreciable assets		92,907,862		83,947,288		71,755,140		67,083,123		164,663,002		151,030,411
Percentage depreciated		51%		52%		43%		44%		48%		49%
Book value - all assets	\$	151,069,775	\$	148,564,149	\$	92,747,649	\$	82,018,722	\$	243,817,424	\$	230,582,871

Long-Term Liabilities

The following table reports outstanding long-term liabilities at both December 31, 2020 and 2019:

	Governmental Activities			ess-type vities	Totals			
	2020	2019	2020	2020 2019 2020		2019		
General obligation bonds	\$ 20,415,000	\$ 21,275,000	\$ -	\$ -	\$ 20,415,000	\$ 21,275,000		
Revenue bonds			47,957,336	50,200,763	47,957,336	50,200,763		
Subtotal	20,415,000	21,275,000	47,957,336	50,200,763	68,372,336	71,475,763		
Net pension liability	6,516,674	6,838,403	1,352,828	1,370,871	7,869,502	8,209,274		
OPEB - LEOFF 1-Police	10,668,568	9,854,835	-	-	10,668,568	9,854,835		
Claims and judgements	157,097	68,472	-	-	157,097	68,472		
Compensated absences	3,567,394	3,281,075	576,050	304,148	4,143,444	3,585,223		
Total	\$ 41,324,733	\$ 41,317,785	\$ 49,886,214	\$ 51,875,782	\$ 91,210,947	\$ 93,193,567		

In a report issued on September 18, 2018, Standard & Poor's (S&P) assigned its 'AA' Rating to the city's 2018 utility system revenue bonds that Council authorized on May 14, 2018. The only ratings higher are "AAA" and "AA+", which few municipalities have achieved. S & P also affirmed its 'AA' long-term rating on the City utility system's 2010 and 2015 revenue bonds.

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

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

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

On October 22, 2020 the City issued 10-year Utility System Revenue Refunding Bonds in the amount of \$5,610,000 to refund the outstanding principal balance of the 2010 Utility Improvement Refunding Bonds resulting in Net Present Value Savings of \$833,467. The final principal and interest payment is scheduled for 2030. These bonds were sold via direct placement and not rated. The City's outstanding debt decreased incrementally over 2020 as scheduled principal payments were made.

The City is planning to undergo a rating update in May of 2021 in preparation for the issuance of up to \$64 million in limited term general obligation bonds for the construction of a new Community Justice Center. See Note 4-H, Subsequent Events, for additional information.

Detailed information on long term debt liabilities at year-end is presented in Note 3-G to the Financial Statements.

Economic Conditions Affecting the City

COVID 19 – The COVID-19 pandemic currently is affecting many parts of the world, including the State, the County and the City. The City is continuing to proactively implement measures to mitigate operational and financial impacts to the City and its taxpayers and ratepayers, including closing lobbies, requiring employees not required to be on site for essential services to work from home, implementing "social distancing" measures for the City's on-site essential staff and ensuring projects can be completed with minimal contact between employees, and with all other services by appointment only in compliance with the Governor's phased "re-opening" of the State's economy; and the City Council is conducting meetings and work sessions online only with teleconference options.

The City declared a State of Emergency in March of 2020 and took immediate action to reduce operating expenditures to counter anticipated revenue shortfalls in sales tax, recreation fees and other impacted revenues. Preliminary estimates indicated a \$7.8 million revenue loss to the General Fund. Cost-saving measures totaling \$5.6 million were identified and the Council authorized the use of up to \$2.2 million in reserve funding to balance the General Fund.

Despite a reduction in taxable sales in April of 2020 (revenues received by the City in June), sales tax revenues recovered relatively quickly and development activity remained strong throughout the City. The Recreation Center reopened on a limited basis in accordance with CDC and state guidelines. The amount of the transfer from the reserve fund for 2020 was \$1.13 million, much less than originally anticipated/authorized. The City received \$2 million in federal aid in 2020 to reimburse necessary expenditures related to pandemic response and will receive another \$8.5 million over the next two years to continue to respond to the impacts and replace lost revenues.

For additional information see Note 5, Other Disclosures and Note 4-H, Subsequent Events.

Financial Stability – The City's financial condition is strong because: a) The Mayor and City Council are diligent in ensuring that expenditures do not exceed revenues; b) the Puget Sound region is experiencing growth in both population and household income; c) Lynnwood utilizes stringent financial policies and best practices under the guidance of the City Council's Finance Committee; d) during 2017, voters approved the formation of a Regional Fire Authority (RFA) that consolidated the Lynnwood Fire Department with Snohomish County Fire District 1, and thereby removed the City's second-largest department (in dollars) from the City's budget; and e) the planned 2024 arrival of light rail service to Lynnwood, provided by Sound Transit (Puget Sound's regional transit agency) has fueled construction of midrise buildings here.

Following voter approval of the RFA, the Lynnwood City Council approved a lower property tax levy for 2018 that reflected the net savings created by the RFA. The property tax levy for 2019 continued that approach with an incremental increase over the 2018 levy. If the need were to arise, the City Council has the ability to significantly increase property tax revenue without voter approval.

Sound Transit's Lynnwood Link light rail, scheduled to begin service in summer 2024, is also fueling Lynnwood's strong real estate market. To optimize available revenues, the City continues to proactively pursue and obtain state and federal funding to expand the capacity of municipal infrastructure. This includes streets, parks, sidewalks, facilities, utilities and open space. A portion of the City (including the vicinity of the new light rail transit station) has been designated as an Opportunity Zone and this is another incentive for new investment in Lynnwood.

Economic Development – The City's Community Vision adopted by City Council in 2009 and reaffirmed in 2015 calls for a vibrant community. Issue-specific plans prepared by the City identify programs and projects that implement this Vision Statement and accommodate population employment growth projected for the next 20 years. Updates in 2015 to the City's Comprehensive Plan and Economic Development Action Plan incorporated implementation activities to achieve economic development goals. The City's attributes of geographic location, ease of access, emerging light rail service, and economic prominence supports sustained economic vitality. These plans are both being updated in 2021.

Population and employment growth within the City reflect steady progress towards implementing the community's vision as a designated Regional Growth Area (per Puget Sound Regional Council's Vision 2040 Plan). Lynnwood has many auto dealerships and sale activity continues to be strong. Lynnwood's Alderwood Mall is evolving to remain a premier destination in an age of online retail. At the Mall, legacy retail structures are being replaced by a "lifestyle center" of shops, restaurants, and multifamily homes. The 2019 closure of Seattle's Northgate Mall (America's first indoor mall) significantly increased the size of Alderwood Mall's market area. Property tax revenues remain steadfast as assessed property value increases year-over-year. For 2020, the Snohomish County Assessor reports \$1.7 billion in construction activity.

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

Development of the Lynnwood City Center is a key component of Lynnwood's economic future. Located within the Lynnwood Regional Growth Center, the City Center has experienced initial development with completion of 308 units of senior housing and 347 units of affordable workforce housing, and construction of a 150 room Hilton Garden Inn. With mid-rise buildings over structured parking, this type of development will create a compact, walkable, urban environment as called for by City Center plans.

To support this private investment, street projects have moved forward in the City Center with 196th St. SW (SR 524) and 36th Ave W receiving funding for widening and streetscape improvements; and 42nd Ave W received funding for initial design. Site work for the Sound Transit Lynnwood Link Light Rail began in 2019 after considerable planning and engineering work throughout 2018. Pedestrian/bicycle trails near the transit center will be upgraded to support non-motorized access to the light rail service. These projects address the community vision for a multi-modal transportation network. The City continues to spend to keep its infrastructure in good shape and is moving forward with capital projects as budgeted.

Contacting the City's Financial Management

We designed this financial report to provide a general overview of the City's finances, comply with finance-related laws and regulations, and demonstrate the City's commitment to public accountability. If you have questions about this report or would like to request additional information, contact:

Finance Director City of Lynnwood 19100 44th Ave W Lynnwood, WA 98036 425-670-5154

BASIC FINANCIAL STATEMENTS

City of Lynnwood, Washington Statement of Net Position December 31, 2020

		D.:		
	Governmental	Primary Governmen Business-type	it	Component
	Activities	Activities	Total	Units
Assets Current Assets				
Cash and cash equivalents (Note 3-A)	\$ 25,717,165	\$ 22,678,249	\$ 48,395,414	\$ 5,272,119
Restricted assets: cash and cash equivalents	· · · · -	23,713	23,713	2,791,888
Investments (Note 3-A)	19,710,418	4,306,175	24,016,593	2,073,215
Receivables: Accounts	3,134,096	4,080,358	7,214,454	881,571
Taxes	7,169,953	-,000,550	7,169,953	-
Intergovernmental	2,030,662	1,102	2,031,764	-
Internal	(77,903)	77,903	202.002	- (1.625
Prepaid items Inventory	122,776	81,127 21,179	203,903 21,179	61,635 15,722
Total Current Assets	57,807,167	31,269,806	89,076,973	11,096,150
N				
Noncurrent Assets Investment in joint venture	1,339,103	_	1,339,103	_
Net pension assets	6,572,493	-	6,572,493	-
Restricted assets: cash and cash equivalents	· · · · -	3,478,709	3,478,709	-
Note receivable	-	61,322	61,322	=
Internal receivable Capital assets (Note 3-D)	985,000	(985,000)	-	-
Nondepreciable	58,161,913	20,992,508	79,154,421	6,966,126
Depreciable, net	92,907,862	71,755,139	164,663,001	15,524,297
Total Noncurrent Assets	159,966,371	95,302,678	255,269,049	22,490,423
Total Assets	217,773,538	126,572,484	344,346,022	33,586,573
	217,773,336	120,572,464	344,340,022	33,360,373
Deferred Outflows of Resources Deferred Outflows-loss on refunding				22,189
Deferred Outflows - OSEB	122,797	-	122,797	22,189
Deferred Outflows of Resources-Pensions	5,586,780	507,461	6,094,241	24,512
Total Deferred Outflows of Resources	5,709,577	507,461	6,217,038	46,701
Liabilities				
Current Liabilities				
Accounts payable	2,942,631	3,513,674	6,456,305	94,355
Accrued expenses	1,208,568	174,486	1,383,054	80,591
Retainage payable	-	25,506	25,506	-
Deposits payable Custodial accounts payable	-	23,443 14,669	23,443 14,669	513,009
Compensated absences payable	2,196,003	351,617	2,547,620	1,806
Current portion of environmental remediation	-	-	-	200,000
Unearned revenue	-	16,798	16,798	-
Accrued interest General obligation bonds payable	63,468 895,000	142,508	205,976 895,000	1,068,900
Revenue bonds payable	-	2,391,828	2,391,828	947,117
Total Current Liabilities	7,305,670	6,654,529	13,960,199	2,905,778
Long Town Lightliting (not of assessment noution), (Nata 2 E)				
Long-Term Liabilities (net of current portion): (Note 3-F) Deposits payable	_	_	_	45,757
Compensated absences payable	1,371,391	224,433	1,595,824	1,806
Claims and judgments payable	157,097	-	157,097	-
Other postemployment benefits	10,668,568	1 252 929	10,668,568	96,519
Net pension liability Environmental remediation	6,516,674	1,352,828	7,869,502	95,397 5,640,013
General obligation bonds payable	19,520,000	-	19,520,000	4,416,500
Revenue bonds payable, net of premiums/discounts		45,565,508	45,565,508	13,569,897
Total Long-term Liabilities	38,233,730	47,142,769	85,376,499	23,865,889
Total Liabilities	45,539,400	53,797,298	99,336,698	26,771,667
Deferred Inflows of Resources				
Deferred Inflows of Resources-Gain on refunding	-	133,496	133,496	28,874
Deferred Inflows of Resources-Pensions	3,237,264	394,125	3,631,389	29,429
Total Deferred Inflows of Resources	3,237,264	527,621	3,764,885	58,303
Net Position	120 (54 775	40.005.202	170 750 050	2 401 224
Net investment in capital assets (Note 3-J) Restricted for:	130,654,775	48,095,283	178,750,058	2,481,324
Debt service	111,902	554,428	666,330	1,000,000
Capital outlay	11,299,458	-	11,299,458	-
Criminal justice	2,802,495	-	2,802,495	-
Tourism Prug enforcement	894,196	-	894,196	-
Drug enforcement Other purposes	292,262 2,702,725	-	292,262 2,702,725	-
Streets	7,166,533	-	7,166,533	-
Pension asset	8,671,147		8,671,147	
Unrestricted	10,110,958	24,105,315	34,216,273	3,321,980
Total Net Position	\$ 174,706,451	\$ 72,755,026	\$ 247,461,477	\$ 6,803,304
	Ψ 1/1,/00,131	÷ ,2,755,020	~ ~ · · · · · · · · · · · · · · · · · ·	J 0,003,30T

City of Lynnwood, Washington Statement of Activities For the Year Ended December 31, 2020

					Progr	ram Revenues			Net (Ex	pense) Revenue and C	Changes in I	Net Posi	tion	
									1	Prima	ry Government				
			C	harges for	Oper	rating Grants	Capital Grants		Governmental	Bu	siness-Type			Co	mponent
Function/Program		Expenses	Serv	ices and Sales	and (Contributions	and Contributions	;	Activities		Activities	Total	l		Unit
Primary Government															
Governmental Activities															
General government	\$	12,775,727	\$	4,996,501	\$	2,410,865	\$ -	\$	(5,368,361)	\$	-	\$ (5,3	68,361)	\$	-
Economic environment		4,738,876		957,496		521,542	-		(3,259,838)		-	(3,2	59,838)		-
Judicial		949,133		764,483		2,530	-		(182,120)		-	(1	82,120)		-
Culture and recreation		6,683,452		3,293,633		37,838	566,177		(2,785,805)		-	(2,7	85,805)		-
Public safety		21,344,811		2,238,796		757,859	-		(18,348,156)		-	(18,3	48,156)		-
Social services		450,612		· · · -		· -	-		(450,612)		-		50,612)		_
Transportation		9,116,844		380,521		769,960	1,310,815		(6,655,547)				55,547)		_
Utilities		38,390		787,864		17,478	-,010,010		766,952		_		66,952		_
Interest		791,059		_		-	_		(791,059)		_		91,059)		_
		7,71,000							(1)1,00)			(,	,1,00,)		
Total Governmental Activities		56,888,904		13,419,294		4,518,072	1,876,992		(37,074,546)			(37,0	74,546)		-
Business-Type Activities:															
Water and Sewer Utility		21,054,285		24,244,548		51,463	3,033,937		_		6,275,663	6.2	75,663		-
Golf Course		1,334,019		1,648,110		· -	-		-		314,091		14,091		-
Total Business-Type Activities		22,388,304		25,892,658		51,463	3,033,937				6,589,754	6.5	89,754		_
Total Business-Type Activities	_	22,366,304		23,692,036		31,403	3,033,931	_			0,369,734	0,5	09,734		
Total - Primary Government	_	79,277,208		39,311,952		4,569,535	4,910,929		(37,074,546)		6,589,754	(30,4	84,792)		-
Component Units															
Lynnwood Public Facilities District	\$	4,392,612	\$	1,781,328	\$	100,000	\$ -							\$ (2,511,284
			Gen	eral Revenues											
				perty taxes					4,268,168		-	4,2	68,168		-
				es taxes					24,349,634		_		49,634		2,012,749
				lity taxes					5,653,730		_		53,730		-
				l estate transfer	taxes				1,794,326		_		94,326		_
				ise taxes					921,686		_		21,686		1,336,380
				nsportation ben	efit dis	trict vehicle fee	s		1,306,113		_		06,113		-
				nissions taxes	orre are				129,583		_		29,583		609
				nbling taxes					95,674				95,674		-
				estment earning	e Anee	e)			521,234		443,230		64,464		113,300
				cellaneous	3 (1033)	23)			69,346		443,230		69,346		113,300
				nsfers					09,340		-	'	09,340		
			114	iisici s											
			Tota	al General Rev	enues	and Transfers			39,109,494		443,230	39,5	52,724		3,463,038
			Cha	nge in Net Pos	ition				2,034,948		7,032,984	9,0	67,932		951,754
			Net	Position Begin	ning o	f Year			172,710,184		65,722,042	238,4	32,226		5,851,550
			Prio	or Period Adjus	stment	s - Note 4-F			(38,681)		<u> </u>	(38,681)		-
			Net	Position End o	f Vear			\$	174,706,451	\$	72,755,026	\$ 247,4	61,477	\$	6,803,304

City of Lynnwood, Washington Balance Sheet Governmental Funds December 31, 2020

	General	Transportation Capital	Other Governmental Funds	Total Governmental Funds
Assets	¢ 0.100.570	e 1717407	e 12.070.192	¢ 22.705.220
Cash and cash equivalents Investments	\$ 8,108,570 5,622,284	\$ 1,617,487 1,150,395	\$ 13,069,182 11,150,904	\$ 22,795,239
Receivables:	3,022,204	1,130,393	11,130,904	17,923,583
Accounts	2,952,765		181,331	3,134,096
Taxes	5,457,802	-	1,578,815	7,036,617
Other taxes	133,336	-	1,576,615	133,336
Intergovernmental	1,335,893	612	423,393	1,759,898
Interfund	1,118,000	012	-25,575	1,118,000
Prepaid	97,776			97,776
Total Assets	\$ 24,826,426	\$ 2,768,494	\$ 26,403,625	\$ 53,998,545
Liabilities				
Accounts payable	\$ 767,131	\$ 235,707	\$ 1,909,200	\$ 2,912,038
Accrued salaries and wages payable	862,819	1,070	42,227	906,116
Other current liabilities payable	255,203	-	16,331	271,534
Unearned revenue		<u> </u>		
Total Liabilities	1,885,153	236,777	1,967,758	4,089,688
Deferred Inflows of Resources				
Deferred Inflows of Resources - property tax	81,628	-	-	81,628
Deferred Inflows of Resources - grants	229,043	356	126,294	355,693
Deferred Inflows of Resources - municipal court	2,041,718	-	-	2,041,718
Deferred Inflows of Resources - red-light photo	550,192			550,192
Total Deferred Inflows of Resources	2,902,581	356	126,294	3,029,231
Total Liabilities and Deferred	4 505 504	225 122	2 004 052	7.11 0.010
Inflows of Resources	4,787,734	237,133	2,094,052	7,118,919
Fund Balances				
Nonspendable	97,776	-	-	97,776
Restricted	-	2,531,361	22,738,210	25,269,571
Committed	4,870,033	-	1,571,363	6,441,396
Assigned	11,043,874	-	-	11,043,874
Unassigned	4,027,009	·		4,027,009
Total Fund Balances	20,038,692	2,531,361	24,309,573	46,879,626
Total Liabilities, Deferred Inflows				
of Resources, and Fund Balances	\$ 24,826,426	\$ 2,768,494	\$ 26,403,625	\$ 53,998,545

City of Lynnwood, Washington Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position December 31, 2020

Total Governmental Fund Balances		\$ 46,879,626
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds (exclusive of internal service funds' capital assets).		
Cost of capital assets Less accumulated depreciation	\$ 234,810,089 (90,035,402)	144,774,687
The investment in joint ventures is not reported at the fund financial reporting level but is reported on the government-wide statement of net position.		1,339,103
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds - property taxes, grants and fines.		
		3,029,231
Deferred inflows and outflows for pensions reported on the government-wide statement of position but not reported on the governmental fund balance sheet.		2,332,264
Deferred outflows for OPEB reported on the government-wide statement of net position but not reported on the government balance sheet.		122,797
The net pension assets are not available to retire current year expenditures, therefore they are not reported in the funds but are reported in the government-wide statement of net position.		6,572,493
The internal service fund is used by management to charge the costs of the equipment rental to individual funds. The assets and liabilities of the internal service funds are included in governmental activities column on the government-wide statement of net		
position.		10,898,619
The internal service fund chargeback to enterprise funds is not reported in the governmental funds, but is reported on the government-wide financial statements.		(210,903)
Liabilities not due and payable in the current period and therefore are not reported in the governmental fund balance sheets but are reported on the government-wide statement of net position (excludes internal service funds).		
General obligation refunding bonds payable Accrued interest payable	\$ (20,415,000) (63,468)	
Other postemployment benefits payable	(10,668,568)	
Net pension liability payable Compensated absences payable	(6,399,538) (3,484,892)	
	(=,:0:,0,2)	 (41,031,466)
Net Position Of Governmental Activities		\$ 174,706,451

City of Lynnwood, Washington Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds For the Year Ended December 31, 2020

		General		nsportation Capital	Go	Other overnmental Funds	G	Total overnmental Funds
Revenues	Φ.	21 100 550	Φ.		ф	(5 (2 2 5)	Ф	27.051.120
Taxes	\$	31,188,750	\$	2 400 756	\$	6,762,370	\$	37,951,120
Intergovernmental		3,209,297		2,489,756		1,564,463		7,263,516
Licenses and permits		5,456,588		-		162,660		5,619,248
Charges for services		1,995,107		-		2,560,961		4,556,068
Fines and forfeitures		3,112,338		-		41,722		3,154,060
Investment earnings		214,224		23,477		246,048		483,749
Other interest		157.200		46.701		1,060		1,060
Rent and leases		157,398		46,791		-		204,189
Miscellaneous		124,249		70,321		69,347		263,917
Total Revenues		45,457,951		2,630,345		11,408,631		59,496,927
Expenditures								
Current:								
General government		10,165,323		-		72,588		10,237,911
Economic Environment		4,241,544		-		764,603		5,006,147
Judicial		1,014,419		-		-		1,014,419
Culture and recreation		5,857,382		-		245,311		6,102,693
Public safety		20,810,597		-		304,009		21,114,606
Social services		447,230		-		-		447,230
Transportation		1,481,523		2,352,855		2,320,849		6,155,227
Utilities		-		-		38,390		38,390
Capital Outlay		181,853		5,631,683		3,116,933		8,930,469
Debt Service:								
Principal retirement		-		-		860,000		860,000
Interest and fiscal charges						796,013		796,013
Total Expenditures		44,199,871		7,984,538		8,518,696		60,703,105
Excess (Deficiency) of Revenues								
Over (Under) Expenditures		1,258,080		(5,354,193)		2,889,935		(1,206,178)
Other Financing Sources (Uses)								
Transfers in		886,965		2,234,645		5,537,385		8,658,995
Transfers out		(2,806,588)		-		(5,852,407)		(8,658,995)
Total Other Financing Sources (Uses)		(1,919,623)		2,234,645		(315,022)		-
Net Change in Fund Balances		(661,543)		(3,119,548)		2,574,913		(1,206,178)
Fund Balances Beginning of Year		20,700,235		5,689,590		21,734,660		48,124,485
		_=,, ,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,						
Prior Period Adjustment		-		(38,681)		-		(38,681)
Fund Balances End of Year	\$	20,038,692	\$	2,531,361	\$	24,309,573	\$	46,879,626

City of Lynnwood, Washington Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities For the Year Ended December 31, 2020

Net Changes In Fund Balances - Total Governmental Funds		\$ (1,206,178)
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures on the governmental fund type operating statement. However, in the government-wide statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capitalized capital outlay exceeded depreciation expense in the current period.		
Depreciation expense	\$ (5,078,711) 8,979,304	
Capital outlay Capital contributions	6,979,304	3,900,593
The book value of capital assets sold are reported on the government-wide statement of activities but not reported in the governmental fund's operating statement.		(2,538,491)
Revenues in the government-wide statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Property taxes, fines and grants: Deferred as of 12/31/20 Deferred as of 12/31/19	\$ 3,029,231 (4,112,259)	(1,083,028)
Governmental funds do not report the change in the investment in the joint venture, but the change is reported on the government-wide statement of activity.		(37,498)
The internal service fund is used by management to charge the costs of maintenance services to individual funds are not reported in the government-wide statement of activities. Governmental fund expenditures and related internal service fund revenues are eliminated.		525,670
The internal service fund chargeback to enterprise funds is not reported in the governmental funds, but is reported on the government-wide financial statements.		(63,426)
Repayment of long-term debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the government-wide statement of net position.		860,000
Other postemployment expenses are reported in the government-wide statement of activities, but do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		(818,133)
Net pension debits reported on the government-wide statement of position but not reported on the governmental fund balance sheet.		2,744,792
A one-month portion of interest on long-term debt is accrued in the governmental-activities but not on the governmental funds statement of revenues expenditures and changes and fund balance.		4,954
Compensated absences are reported in the government-wide statement of activities, but do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
Liability as of 12/31/20 Liability as of 12/31/19	\$ (3,484,892) 3,230,585	 (254,307)
Change In Net Position of Governmental Activities		\$ 2,034,948

City of Lynnwood, Washington Statement of Net Position Proprietary Funds December 31, 2020

	Business-type Activities - Enterprise Funds Water and						Governmental		
	'	Water and Sewer		Golf			-	Activities - ernal Service	
		Utility		Course		Total	III	Fund	
Assets		Ctillej		Course					
Current Assets:									
Cash and cash equivalents	\$	22,480,418	\$	197,831	\$	22,678,249	\$	2,921,926	
Restricted assets: cash and cash equivalents Investments		23,713		204 141		23,713		1 706 925	
Receivables:		4,102,034		204,141		4,306,175		1,786,835	
Accounts		4,080,358		-		4,080,358		-	
Intergovernmental		-		1,102		1,102		270,764	
Inventories				21,179		21,179		-	
Prepaid items		81,127		-		81,127		25,000	
Total Current Assets		30,767,650		424,253		31,191,903		5,004,525	
Noncurrent Assets:									
Restricted assets: cash and cash equivalents		3,438,468		40,241		3,478,709		_	
Notes receivable		61,322		-		61,322		_	
Capital assets:		0-,0				0-,0			
Nondepreciable		17,329,139		3,663,369		20,992,508		54,634	
Depreciable, net		71,257,577		497,562		71,755,139		6,240,454	
Total Noncurrent Assets		92,086,506		4,201,172		96,287,678		6,295,088	
TOTAL ASSETS		122,854,156		4,625,425		127,479,581		11,299,613	
TOTAL DEFERRED OUTFLOWS OF RESOURCES		507,461		-		507,461		62,693	
Liabilities									
Current Liabilities:									
Accounts payable		3,436,729		76,945		3,513,674		30,593	
Accrued payroll		174,486		-		174,486		30,918	
Retainage payable		25,506		-		25,506		-	
Interfund payable		-		133,000		133,000		-	
Custodial accounts payable		7,281		7,388		14,669		-	
Compensated absences payable Claims and judgments payable		351,617		-		351,617		50,359 157,097	
Deposits payable		-		23,443		23,443		137,097	
Unearned revenue		-		16,798		16,798		_	
Revenue bonds payable		2,391,828		-		2,391,828		_	
Accrued interest payable		142,508		-		142,508			
Total Current Liabilities		6,529,955		257,574		6,787,529		268,967	
Long-Term Liabilities: (net of current portion)									
Compensated absences payable		224,433		_		224,433		32,143	
Interfund payable				985,000		985,000		-	
Net pension liability		1,352,828		-		1,352,828		117,136	
Revenue bonds payable		45,565,508		-		45,565,508			
Total Long-term Liabilities		47,142,769		985,000		48,127,769		149,279	
TOTAL LIABILITIES		53,672,724		1,242,574		54,915,298		418,246	
Deferred Inflows of Resources		122 406				122 406			
Deferred Inflows of Resources - gain on refunding Deferred Inflows of Resources - pensions		133,496 394,125				133,496 394,125		45,441	
Deferred limows of resources pensions		371,123				371,123		13,111	
TOTAL DEFERRED INFLOWS OF RESOURCES		527,621				527,621		45,441	
Net Position									
Net investment in capital assets		43,934,352		4,160,931		48,095,283		6,295,088	
Restricted for:		554 400				554 420			
Debt service Unrestricted		554,428 24,672,492		(778,080)		554,428 23,894,412		4,603,531	
Officsureted		24,072,492		(778,080)		23,694,412		4,003,331	
TOTAL NET POSITION	\$	69,161,272	\$	3,382,851		72,544,123	\$	10,898,619	
Reconciliation of the fund level statement of net position to the government-wide statement of net position:									
Record internal service fund charge-back to enterprise funds	S								
resulting in an interfund receivable to governmental activities.						210,903			
Adjusted Total Net Position					\$	72,755,026			
-					_				

City of Lynnwood, Washington Statement of Revenues, Expenses and Changes in Fund Net Position Proprietary Funds For the Year Ended December 31, 2020

		Bus		s-type Activiti erprise Funds	es -		Go	vernmental
		Water and Sewer Utility		Golf Course		Total	A	Activities - ernal Service Fund
Operating Revenues Charges for services	\$	24,244,548	\$	1,437,829	\$	25,682,377	\$	2,888,305
Rentals	•	-	•	209,139	•	209,139	•	-
Miscellaneous				1,142		1,142		7,925
Total Operating Revenues		24,244,548		1,648,110		25,892,658		2,896,230
Operating Expenses								
Administration and general		4,947,666		1,285,248		6,232,914		-
Operations and maintenance		11,612,216		7,869		11,620,085		1,834,335
Insurance and claims		2 707 204		- 22 (71		- 2.920.055		89,159
Depreciation		2,797,284		33,671		2,830,955		776,617
Total Operating Expenses		19,357,166		1,326,788		20,683,954		2,700,111
Operating Income		4,887,382		321,322		5,208,704		196,119
Non-Operating Revenues (Expenses)								
Interest and fiscal charges		(1,688,002)		(7,858)		(1,695,860)		-
Other nonoperating revenue		51,463		-		51,463		186,877
Gain (Loss) on disposition of capital assets Debt issuance costs		(25,127) (46,788)		-		(25,127) (46,788)		106,247
Investment earnings		439,307		3,924		443,231		36,425
Miscellaneous revenue		-		-		-		
Total Non-Operating Revenues (Expenses)		(1,269,147)		(3,934)		(1,273,081)		329,549
Income (Loss) Before Contributions and Transfers		3,618,235		317,388		3,935,623		525,668
Contributions		3,033,937				3,033,937		
Change in Net Position		6,652,172		317,388		6,969,560		525,668
Net Position Beginning of Year		62,509,100		3,065,463		65,574,563		10,372,951
Net Position End of Year	\$	69,161,272	\$	3,382,851	\$	72,544,123	\$	10,898,619
Reconciliation of the fund level operating statement to the government-wide statement of activities: Change in net position	\$	6,652,172	\$	317,388	\$	6,969,560		
Internal service fund charges (credits) to enterprise funds,	ψ	0,032,172	Ψ	517,500	Ψ	0,707,500		
resulting in changes to operating expenses.		62,798		627		63,425		
Adjusted Change in Net Position	\$	6,714,970	\$	318,015	\$	7,032,985		

City of Lynnwood, Washington Statement of Cash Flows Proprietary Funds For the Year Ended December 31, 2020

		es -	Governmental	
	Water and Sewer Utility	Golf Course	Total	Activities - Internal Service Fund
Increase (Decrease) in Cash and Cash Equivalents				
Cash Flows from Operating Activities		4 (47 000	4. 25 000 00 5	
Cash received from customers Cash received from interfund services provided	\$ 23,442,979	\$ 1,647,008	\$ 25,089,987	\$ 796,628 2,210,026
Cash payments to employees for services	(5,417,631)	-	(5,417,631)	(796,500)
Cash payments for goods and services	(10,925,598)	(1,223,762)	(12,149,360)	(1,133,810)
Cash received (paid) from/(to) other funds	(10,723,370)	(7,869)	(7,869)	(1,133,010)
Net Cash Provided by (Used in) Operating Activities	7,099,750	415,377	7,515,127	1,076,343
Cash Flows from Non-Capital financing activities				
Cash flows from/(to) interfund loans	-	(140,858)	(140,858)	-
Receipts from non-capital grants	51,463		51,463	186,877
Net Cash Flows from non-Capital and related financing activities	51,463	(140,858)	(89,395)	186,877
Cash Flows from Capital and Related				
Financing Activities				
Proceeds from disposition of capital assets	-	-	-	119,578
Proceeds from issuance of refunding debt	5,610,000	-	5,610,000	-
Payment to escrow - refunding debt	(5,564,472)	-	(5,564,472)	-
Bond issuance costs	(45,528)	-	(45,528)	-
Principal paid on revenue bonds	(2,050,000)	-	(2,050,000)	-
Interest paid on revenue bonds	(1,931,389)	-	(1,931,389)	-
Capital contributions	357,935	-	357,935	- (1.000.450)
Payments for capital acquisitions	(8,550,678)		(8,550,678)	(1,933,473)
Net Cash Provided by (Used in) Capital and Related				
Financing Activities	(12,174,132)	-	(12,174,132)	(1,813,895)
Cash Flows from Investing Activities Purchase of investment securities	(4.022.062)	(202,600)	(4,225,563)	(1,773,349)
Proceeds from sale and maturities of investment securities	(4,022,963) 7,761,975	72,349	7,834,324	2,129,328
Investment earnings	439,307	3,924	443,231	36,425
Net Cash Provided by (Used in) Investing Activities	4,178,319	(126,327)	4,051,992	392,404
Net Increase (Decrease) in Cash and Cash Equivalents	(844,600)	148,192	(696,408)	(158,271)
Cash and Cash Equivalents Beginning of Year	26,787,199	89,880	26,877,079	3,080,197
Cash and Cash Equivalents End of Year	\$ 25,942,599	\$ 238,072	\$ 26,180,671	\$ 2,921,926

(continued)

City of Lynnwood, Washington Statement of Cash Flows Proprietary Funds For the Year Ended December 31, 2020

(continued)

	Business-type Activities - Enterprise Funds							Governmental		
		Water and Sewer Utility		Golf Course		Total	Activities - Internal Service Fund			
Reconciliation of Operating (Loss) to Net Cash Provided by (Used in) Operating Activities										
Operating Income (Loss)	\$	4,887,382	\$	321,322	\$	5,208,704	\$	196,119		
Adjustments:										
Depreciation		2,797,284		33,671		2,830,955		776,617		
(Increase) Decrease in Assets:										
Accounts receivable		(801,571)		(1,102)		(802,673)		(8,765)		
Inventories, deposits, and prepaid items		57,038		4,192		61,230		119,189		
Increase (Decrease) in Liabilities:										
Accounts payable		316,089		45,936		362,025		41,328		
Compensated absences payable		271,902		-		271,902		32,012		
Other Current Liabilities		(428,376)		11,358		(417,018)		(80,157)		
Net Cash Provided by (Used in) Operating Activities	\$	7,099,748	\$	415,377	\$	7,515,125	\$	1,076,343		
Schedule of Non-Cash Capital and Related Financing Activities										
Contribution of capital assets	\$	2,676,002	\$	_	\$	2,676,002	\$	-		
Fair value of investments increased (decreased) by		(48,111)	_	796		(47,315)		(5,953)		
Total Non-Cash Activities	\$	2,627,891	\$	796	\$	2,628,687	\$	(5,953)		

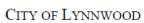
City of Lynnwood, Washington Statement of Fiduciary Net Position Fiduciary Funds December 31, 2020

		Scholarship Trust			
Assets	ø	205 242	¢.	21 214	
Cash and cash equivalents	\$	305,342	\$	21,214	
Total Assets		305,342		21,214	
Liabilities					
Accounts payable and other accrued expenses		4,750		-	
Total Liabilities		4,750		-	
Net Position					
Restricted for specific program use		300,592		21,214	
Total Net Position	\$	300,592	\$	21,214	

City of Lynnwood, Washington Statement of Changes in Fiduciary Net Position Fiduciary Funds For the Year Ended December 31, 2020

	 Pension Trust	Scholarship Trust		
Additions:				
Contributions	\$ 66,367	\$	269	
Court collections	-		-	
Pass thru collections - PFD	-			
Building code surcharges collected	-		-	
Sales taxes collected	-		-	
Drug seizures	-		-	
Weapons permitting fees collected for other agencies	-		-	
Fingerprinting fees collected for other agencies Interest revenue	2 944		-	
Interest revenue	 2,844			
Total Additions	69,211		269	
Deductions:				
Benefits and disbursements	76,328		-	
Administrative expenses	4,750		-	
Court remittances	-		-	
Pass thru collections - PFD	-		-	
Building code surcharges remitted	-		-	
Sales taxes remitted	-		-	
Drug seizures distributed	-		-	
Weapons permitting fees remitted to other agencies	-		-	
Fingerprinting fees remitted to other agencies	 			
Total Deductions	81,078		-	
Change in Net Position	(11,867)		269	
Net Position Beginning of Year	312,459		20,945	
Prior Period Adjustment - Change in Accounting Principle	 			
Net Position End of Year	\$ 300,592	\$	21,214	

NOTES TO THE BASIC FINANCIAL STATEMENTS





Summary of Significant Accounting Policies	
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The City of Lynnwood, Washington (the City) was incorporated on April 23, 1959, and operates under the laws of the State of Washington applicable to an optional code city with a Mayor/Council form of government. The City is governed by an elected mayor and seven-member governing council and provides the following services: public safety (police and fire protection), public works (streets, sanitation, and utilities), culture, recreation, and library services, planning and zoning, and general administrative services.

Note 1 Summary of Significant Accounting Policies

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

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

1-A. Reporting Entity

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

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

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

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

The following component unit is discretely presented in the reporting entity:

South Snohomish County Public Facilities District (PFD) - The PFD was established by City Ordinance No 2266 on August 24, 1999, to finance, design, construct, operate and maintain a regional center as a conference, convention or special events center. A five-member board governs the PFD and is appointed to four-year terms by the City Council. In 2003 the name was changed to Lynnwood PFD. The City provides funding for the PFD through hotel/motel taxes, making the PFD dependent upon the City for its revenue source. The PFD issued \$1.93 million Series A Sales Tax Bonds, \$10 million Series B tax exempt Sales Tax Bonds in 2004 and \$17.265 million in Revenue Bonds in 2005. The PFD refunded the Revenue Bonds and Series B Sales Tax Bonds in 2015. As of December 31, 2020, the outstanding sales tax and revenue bonds were \$5.5 million and \$13.8 million, respectively. S&P also raised the bond rating for the City's PDF's bonds, issued on behalf of the City, from "A" to "AA+." The City is contingently liable for the PFD bonds. Separate financial statements for the PFD can be obtained from the Lynnwood PFD Administrative Offices at 3815 196th Street SW, Suite 136, Lynnwood, WA 98036.

1-B. Basis of Presentation

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The *Transportation Capital Fund* had previously been reported as a nonmajor fund but, now meets the criteria to be reported as a major fund and has been reported alongside the General Fund since 2018.

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

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

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

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

Additionally, the City reports the following fund types:

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

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

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

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.

Custodial 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 various deposits payable to State and local agencies.

1-C. Measurement Focus

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

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

Like the government-wide statements, all proprietary fund types and the pension trust fund are accounted for on a flow of economic resources measurement focus on both financial reporting levels. All assets and all liabilities associated with the

operation of these funds are included on the statements of net position. The statements of changes in fund net position present increases (i.e., revenues) and decreases (i.e., expenses) in net total position. The statement of cash flows provides information about how the City finances and meets the cash flow needs of its proprietary activities. The agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

1-D. Basis of Accounting

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

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

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

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

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

On both the government-fund financial statements and the government-wide financial statements, unearned revenues consist of:

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

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

1-E. New Accounting and Reporting Standards

With the 2020 financial statements the City has implemented the following GASB standards:

Statement No. 83 – Certain Asset Retirement Obligations

Statement No. 84 – Fiduciary Activities

Statement No. 88 - Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements

Statement No. 90 – Majority Equity Interests

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

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

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

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

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

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

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

1-F-2 Receivables

All trade and tax receivables are reported net of an allowance for uncollectibles, where applicable. Taxes receivable consists of property taxes, sales tax, utility taxes, gambling taxes, liquor excise tax, state shared program revenues, public transportation and fuel tax. Additional detail on and the composition of receivable balances are presented in Note 3-B.

1-F-3 Interfund Balances

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

1-F-4 Inventories

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

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

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their acquisition value as of the date received. The City maintains a capitalization threshold of five thousand dollars (\$5,000) and an estimated three-year life. Improvements to capital assets are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are expensed. Pursuant to GASB 89, interest incurred during the construction of capital assets utilized by enterprise funds is not capitalized. In 2020 the total amount of interest incurred by the enterprise funds, all of which was charged to expense, was \$1,688,002.

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

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

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

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

1-F-6 Compensated Absences

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 of retirement of employment, unused sick leave may be converted to pay at the current rate on the following basis:

- 1. Termination Voluntary or discharge
 For accrued sick leave hours from one to 720 hours, the accrued sick leave hours shall be paid on a five to one ratio
 (five hours of sick leave equals one hour of pay). The maximum payout amount shall be 144 hours of paid time.
- 2. Termination by layoff
 For accrued sick leave hours from one to 720 hours, the accrued sick leave hours shall be paid on a three-to-one ratio (three hours of accrued sick leave equals one hour of pay). The maximum payout amount shall be 368 hours of paid time. (Ord. 3287 § 5, 2018).
- 3. Retirement (Consistent with the Requirements of the Employee's Applicable Washington State Retirement System), or on Death
 - a. An Employee with Less Than 1,000 Hours of Accrued Sick Leave; The first 192 hours of accrued sick leave shall be paid at 100 percent (every hour of sick leave equals one hour of pay). For accrued sick leave from 193 to 999 hours, the accrued sick leave hours shall be paid on a three-to-one ratio (three hours of accrued sick leave equals one hour of pay). The maximum payout amount shall be 368 hours of paid time. As an example, an employee with 720 accrued hours of sick leave receives 368 hours of paid time as the total accrued sick leave payout amount.
 - b. An Employee with 1,000 or more hours of accrued sick leave: The first 100 hours of accrued sick leave shall be paid at 100 percent (every hour of sick leave equals one hour of pay). For accrued sick leave hours from 101 to 1,600 hours, each hour of accrued sick leave shall be paid at 30 percent (for each hour of accrued sick leave, the employee receives 30 percent of one hour of pay). The maximum payout amount shall be the amount equal to 550 hours of paid time. As an example, an employee with 1,600 accrued hours of sick leave receives 550 hours of paid time as the total accrued sick leave payout amount.

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

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

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

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

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

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

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, compensated absences that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are "due for payment" during the current year. Bonds and local loans are recognized as a liability in the governmental fund financial statements when due. Specific details about long-term debt are reported in Note 3-G.

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

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

Pursuant to GASB Statement No. 65, bond issuance costs, except for insurance, which is amortized over the life of the bonds, are recognized as an outflow of resources in the reporting period in which they are incurred.

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

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

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

- Nonspendable Fund balances are reported as nonspendable when amounts cannot be spent because they are either (a) not in spendable form (i.e., items that are not expected to be converted to cash) or (b) legally or contractually required to be maintained intact.
- Restricted Fund balances are reported as restricted when there are limitations imposed on their use either
 through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors
 or laws or regulations of other governments.

- Committed Fund balances are reported as committed when they can be used only for specific purposes pursuant to constraints imposed by formal action of the City Council through the approval of a motion. Only the City Council may modify or rescind the commitment. The City Council passed Resolution number 2014-20 in 2014 to designate \$6 million in the Revenue Stabilization Fund, a managerial fund that is included in the General Fund to protect the City from major economic downturns or similar adverse conditions. Per Ordinance 3384 the City Council authorized the transfer of \$1.5 million due to the COVID-19 Pandemic to balance the General Fund. \$1,212,266 was transferred leaving \$4,787,734 in the Revenue Stabilization Fund. \$1,571,363, is also identified as committed in nonmajor governmental funds; \$300,655 in Special Revenue Funds, and \$1,270,708 in nonmajor Capital Projects Funds.
- Assigned Fund balances are reported as assigned when amounts are constrained by the City's intent to be used for specific purposes, but are neither restricted nor committed. Through resolution, the City Council has authorized the City Mayor or designee to assign fund balances. Included in the General Fund is approximately \$11 million intended (assigned) to be spent on future economic development.
- *Unassigned* Fund balances are reported as unassigned as the residual amount when the balances do not meet any of the above criterion. The City reports positive unassigned fund balance only in the general fund. Negative unassigned fund balances may be reported in all funds.

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

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

Fund Balance Policy – The City Council approved a full rewrite of Lynnwood's Financial Policies with the adoption of Resolution 2017-07 on April 10, 2017 and, on November 12, 2019, approved the change to section 11 of its financial policies, "Contingency Planning and Responding to Revenue Downturns" with Resolution 2019-10. The revised section includes guidelines for addressing a revenue shortfall, including:

- Deficit financing (borrowing) should not be considered as an appropriate fiscal response.
- Prior to increasing taxes and/or fees to achieve a balanced budget, the City should evaluate opportunities to reduce one time and/or ongoing expenses.
- Rather than instituting "across the board" reductions, Budgeting for Outcomes principles and criteria should be utilized to reduce/discontinue certain levels of service, or delay/discontinue certain projects.
- In instances when combined, actual sales and use tax revenue for the previous two quarters is less than the revenue received during the same period of the previous year, the Mayor shall put forth to the Finance Committee a proposed budget amendment that responds to the under-performance of revenues.

General Fund - The adopted budget should include General Fund reserve¹ balances equaling not less than 2.5 months of the operating expenditures of the prior fiscal year. Reserves may consist of aggregate total of the General Fund *Unassigned* Fund balance and the *Committed* Revenue Stabilization Fund balance. Due to the impacts of the COVID-19 emergency, the City Council passed a resolution in November of 2020 authorizing a variance from the 2.5 month minimum reserve. At the end of 2020, General Fund reserves were equal to 2.2 months.

See Note 5, Other Disclosures, for additional information on the impacts of COVID-19 and Note 4-H, Subsequent Events, for additional information on federal funding in 2021-2022 that can be used to recover lost revenues and thereby restore the fund balance.

^{1 1} The term "Reserve" is a title used in the Financial Policies and is not a designation reported in the financial statements outlined under GASB Statement No. 54.

Enterprise Funds Reserve – Operating Fund. The operating reserve balance targets for Water, Sewer, and Storm Utilities are amounts equivalent to 90, 45, and 30 days of operating expenses, respectively.

Enterprise Funds Reserve – Capital Funds. The capital funds reserve balance targets for the Water, Sewer, and Storm Utilities are amounts equivalent to all Original Asset Values of 1%, 2%, and 1%, respectively.

Debt Management Policies include:

- 1. Term of long-term debt will not exceed the life of the projects financed. Current operations will not be financed with long term debt.
- 2. The City shall strive to maintain current credit rates of:

Rating Agency	General Obligation Bonds	Revenue Bonds
Moody's	- A1	A+
Standard and Poor's	AA+	AA

3. The City debt will not exceed an aggregate total of 7.5% of the assessed valuation of the taxable property within the City in compliance with state law. The individual percentages shall not exceed 2.5% of assessed valuation in any specific category.

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

1-F-11 Operating Revenues and Expenses

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

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

1-F-12 Interfund Activity

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

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

1-F-13 Estimates

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

1-F-14 Comparative Data

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

1-F-15 Deferred Outflows/Inflows of Resources

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

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

Note 2 – Stewardship, Compliance and Accountability

Budgetary Information – The City adopts a biennial budget encompassing all governmental funds. The discretely presented component unit, the Public Facilities District (PFD) has a separate board and adopts an annual budget which is not reported in the City's financial statements.

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

All budgets are adopted on a GAAP basis (i.e., modified accrual basis) All unexpended annual appropriations lapse at the end of the budget biennium except for appropriations for some capital projects which are carried forward from year to year until fully expended or the purpose of the appropriation has been accomplished or abandoned.

The Mayor is authorized to transfer budgeted amounts between departments within any fund with the exception of the General Fund. Any revisions that alter total expenditures of a fund or department in the General Fund must be approved by the City Council. The budget amounts shown in the financial statements are the final authorized amounts as revised during the year. The budget was amended seven (7) times during the 2019-2020 biennium.

Note 3 - Detailed Notes on All Funds

3-A. Deposits and Investments

Cash and Cash Equivalents and Investments

Cash and cash equivalents are generally considered short term, highly liquid investments with a maturity of three months or less from the purchase date.

Investments are recorded at fair value in accordance with GASB Statement No. 72, Fair Value Measurement and Application. Accordingly, the change in fair value of investments is recognized as an increase or decrease to investment assets and investment income.

Deposits

Custodial Credit Risk – In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City's bank balances of deposits as of December 31, 2020, are entirely insured by Federal Depository Insurance (FDIC) up to \$250,000 and all deposits not covered by FDIC insurance are covered by Washington Public Deposit Protection Commission (WPDPC) of the State of Washington for amounts over \$250,000.

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

The City's bank balances as of December 31, 2020, were \$52,392,028 including Fiduciary Funds of \$494,192. The Fiduciary Funds do not include clearing account balances.

Cash Balances at December 31, 2020	Ge	neral Fund	Go	Other vernmental	Internal rvice Funds	Water and ewer Utility	Gol	lf Course	duciary Funds	Total
Cash and Cash Equiv	\$	8,108,570	\$	14,686,669	\$ 2,921,926	\$ 22,480,418	\$	197,831	\$ 494,192	\$ 48,889,606
Restricted Cash		-		-	-	3,462,181		40,241		3,502,422
	\$	8,108,570	\$	14,686,669	\$ 2,921,926	\$ 25,942,599	\$	238,072	\$ 494,192	\$ 52,392,028

Restricted Cash in the Water and Sewer Utility Fund includes unspent bond proceeds of \$3,438,468 associated with the 2018 bond issue. The remaining restricted cash of \$40,241 is based on customer deposits and prepayments.

Investments

In accordance with City policy, the City's investments will be in compliance with all statutes governing the investment of public funds and the provisions of all applicable bond ordinances. The investment portfolio will remain sufficiently liquid to enable the City to meet all operating requirements. Investments of the city shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio and shall be designed with the objective of attaining a market rate of return throughout the budgetary and economic cycles, taking into account the City's investment risk constraints and cash flow.

Investments at Amortized Cost

As of December 31, 2020, the City had the following investments at amortized cost:

		Investments held by City as an agent for other local governments, City's own individuals, or							
Investments	Maturities	in	vestments	private o	rganizations		Total		
Washington Local Government Investment Pool	n/a	,	50.686.975	S		,	50.686.975		
nivestment roof	n/a	•	30,080,973	3		•	30,080,973		
Total		\$	50,686,975	\$	-	\$	50,686,975		

The City is a participant in the Local Government Investment Pool was authorized by Chapter 294, Laws of 1986, and is managed and operated by the Washington State Treasurer. The State Finance Committee is the administrator of the statute that created the pool and adopts rules. The State Treasurer is responsible for establishing the investment policy for the pool and reviews the policy annually and proposed changes are reviewed by the LGIP advisory Committee.

Investments in the LGIP, a qualified external investment pool, are reported at amortized cost which approximates fair value. The LGIP is an unrated external investment pool. The pool portfolio is invested in a manner that meets the maturity, quality, diversification, and liquidity requirements set forth by the GASBS 79 for external investments pools that elect to measure, for financial reporting purposes, investments at amortized cost. The LGIP does not have any legally binding guarantees of share values. The LGIP does not impose liquidity fees or redemption gates on participant withdrawals.

The Office of the State Treasurer prepares a stand-alone LGIP financial report. A copy of the report is available from the Office of the State Treasurer, PO Box 40200, Olympia, Washington 98504-0200, online at http://www.tre.wa.gov.

Investments at Fair Value

The City measures and records its investments within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. These guidelines recognize a three-tiered value hierarchy, as follows:

- Level 1: Quoted prices in active markets for identical assets or liabilities;
- Level 2: These are quoted market prices for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, or other than quoted prices that are not observable;
- Level 3: Unobservable inputs for an asset or liability.

At December 31, 2020, the City had the following fair value measurements:

Type of Asset	 Quoted Prices in Active Markets fo Identical Assets 12/31/2020 (Level 1)			_	nificant Other ervable Inputs (Level 2)	Unob In	nificant eservable aputs evel 3)
Debt Securities	\$ 24,016,593	\$	-	\$	24,016,593	\$	-
Total				\$	24,016,593		

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

Credit Quality Risk – Credit quality risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Currently, the City does not have an investment policy relating to credit quality risk. The ratings of non-governmental debt securities as of December 31, 2020 are:

Debt	S & P				
Security	Rating				
Federal Farm Credit Bank	AAA				
Federal Home Loan Mortgage Corporation	AAA				
Federal Home Loan Bank	AAA				
Federal National Mortgage Association	AAA				
Farmer Mac Federal	Non-Rated				

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

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

The City's investments in the Federal Farm Credit Bank, the Federal Home Loan Mortgage Corporation and the Federal Home Loan Bank, government-sponsored enterprises, which are not explicitly backed by the federal government, are 24.4%, 14% and 23.7% of the City's total investment portfolio fair value, respectively.

3-B. Receivables

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

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

		Trans	portation	Nonmajo	Nonmajor Funds			
	General	(Capital	Special	Capital			
	Fund	P	rojects	Revenue	Projects	Total		
Receivables:								
Accounts	\$17,129,339	\$	-	\$ 180,331	\$ 1,000	\$17,310,670		
Property Taxes	118,632		=	-	-	118,632		
Sales Tax	4,511,108		-	1,077,739	-	5,588,847		
Utility Taxes	828,062		=	-	-	828,062		
Other Taxes	133,336		=	-	-	133,336		
Real Estate Excise Tax	-		-	-	501,076	501,076		
Interest	-		-	-	-	=		
Intergovernmental	1,335,893		612	59,514	363,879	1,759,898		
Gross Receivables	\$24,056,369	\$	612	\$1,317,584	\$865,955	\$26,240,521		
Less: Allowance for								
Uncollectibles	(14,176,574)					(14,176,574)		
Total	\$ 9,879,795	\$	612	\$1,317,584	\$865,955	\$12,063,946		

3-C. Property Taxes

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

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

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

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

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

The City's regular levy for 2020 was \$0.57 per \$1,000 on an assessed valuation of \$7,503,483,372. The special levies identified in the table were approved by the voters and are not subject to the limitations listed above.

Purpose of Levy	Levy Rate per \$1,000	Total Levy Amount
General Government	<u>\$0.57303838673</u>	<u>\$4,300,000</u>
Total City Levy	<u>\$0.57303838673</u>	<u>\$4,300,000</u>

3-D. Capital Assets

Capital asset activity for the year ended December 31, 2020, was as follows:

Governmental Activities:		Beginning Balance						Ending Balance
(including Internal Service fund):		1/1/2020		Increases		Decreases		12/31/2020
Nondepreciable capital assets:								
Land	\$	40,880,986	\$	2,141,623	\$	_	\$	43,022,609
Easements	•	452,683	•	-,,	•	_	*	452,683
Art, non-depreciable		128,219		_		-		128,219
Construction in progress		23,154,975		4,591,851		(13,188,424)		14,558,402
Total nondepreciable capital assets		64,616,863		6,733,474		(13,188,424)		58,161,913
Depreciable capital assets								
Buildings		42,922,248		-		(344,421)		42,577,827
Improvements other than buildings		22,847,213		323,323		(2,217)		23,168,319
Machinery and equipment		17,336,353		2,262,993		(467,930)		19,131,416
Infrastructure		93,135,804		14,829,566		(2,482,168)		105,483,202
Total depreciable capital assets		176,241,618		17,415,882		(3,296,736)		190,360,764
Total capital assets		240,858,481		24,149,356		(16,485,160)		248,522,677
Less accumulated depreciation for:								
Buildings		(19,086,387)		(1,257,460)		344,421		(19,999,426)
Improvements other than buildings		(16,092,117)		(556,463)		-		(16,648,580)
Machinery and equipment		(10,856,899)		(1,258,143)		352,339		(11,762,703)
Infrastructure		(46,258,929)		(2,783,264)				(49,042,193)
Total accumulated depreciation		(92,294,332)		(5,855,330)		696,760		(97,452,902)
Governmental activities capital assets, net	\$	148,564,149	\$	18,294,026	\$	(15,788,400)	\$	151,069,775

Note 3 - Detailed Notes on All Funds (Continued)

	Beginning Balance				Ending Balance
Business-Type Activies:	1/1/2020	 Increases	I	Decreases	 12/31/2020
Nondepreciable capital assets:					
Land	\$ 8,259,914	\$ -	\$	-	\$ 8,259,914
Easements	4,340,120	-		-	4,340,120
Construction in progress	 2,335,565	 6,404,521		(347,611)	 8,392,475
Total nondepreciable capital assets	14,935,599	 6,404,521		(347,611)	 20,992,509
Depreciable capital assets					
Buildings	34,447,324	-		-	34,447,324
Improvements other than buildings	2,774,233	-		-	2,774,233
Machinery and equipment	4,820,580	250,967		(122,832)	4,948,715
Infrastructure	 77,214,033	 7,277,130			 84,491,163
Total depreciable capital assets	 119,256,170	7,528,097		(122,832)	126,661,435
Total capital assets	 134,191,769	 13,932,618		(470,443)	 147,653,944
Less accumulated depreciation for:					
Buildings	(24,540,883)	(438,203)		-	(24,979,086)
Improvements other than buildings	(1,887,698)	(46,681)		-	(1,934,379)
Machinery and equipment	(3,144,878)	(277,942)		97,706	(3,325,114)
Infrastructure	 (22,599,588)	(2,068,128)		-	(24,667,716)
Total accumulated depreciation	 (52,173,047)	 (2,830,954)		97,706	 (54,906,295)
Business-type activities capital assets, net	\$ 82,018,722	\$ 11,101,664	\$	(372,737)	\$ 92,747,649

In 2020, the City completed the 36th Ave W Improvements and the Spruce Park Playground Equipment. In addition, the City made significant progress on the 196th Street SW (SR 524), and Lift Station 4 and 8 Improvements, which are currently both in the construction phase.

Depreciation Expense by Function:

Governmer	ıtal	Acti	vities

Governmental retivities	
General Government	\$ 1,161,828
Public Safety	382,541
Transportation	3,241,966
Economic Environment	16,098
Culture and Recreation	1,052,895
	_
Total Depreciation Expense - Governmental Activities	\$ 5,855,328
Business-type Activities	
Water/Sewer/Storm Utility	\$ 2,797,283
Golf Course	 33,671
Total Depreciation Expense - Business-Type Activities	\$ 2,830,954

Discretely Presented Component Unit Lynnwood Public Facilities District	 Beginning Balance 1/1/2020]	Increases	Dec	creases	Ending Balance 12/31/2020		
Nondepreciable capital assets:								
Land	\$ 6,788,800	\$	-	\$	-	\$	6,788,800	
Construction in progress	 177,326		-		-		177,326	
Total nondepreciable capital assets	 6,966,126				-		6,966,126	
Depreciable capital assets:								
Buildings	19,972,096		-		-		19,972,096	
Building Improvements	815,162		-				815,162	
Land Improvements	548,019		-		-		548,019	
Improvements other than buildings	2,719,245		215,057		-		2,934,302	
Infrastructure	 79,375				-		79,375	
Total depreciable capital assets	 24,133,897		215,057		-		24,348,954	
Total capital assets	 31,100,023		215,057		-		31,315,080	
Less accumulated depreciation for:								
Buildings	(6,535,559)		(471,958)				(7,007,517)	
Building Improvements	(47,551)		(20,379)				(67,930)	
Land Improvements	(25,118)		(27,400)		-		(52,518)	
Improvements other than buildings	(1,387,288)		(244,580)				(1,631,868)	
Infrastructure	 (60,855)		(3,969)				(64,824)	
Total accumulated depreciation	 (8,056,371)		(768,286)		-		(8,824,657)	
Business-type activities capital assets, net	\$ 23,043,652	\$	(553,229)	\$		\$	22,490,423	

3-E. Interfund Transfers and Loans

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

Interfund transfers for the year ended December 31, 2020, consisted of the following:

		TRANSFER TO											
		General Fund					ansporation pital Fund	S pecial Revenue Fund	Debt Service Fund	C P	onmajor Capital rojects Funds		Total
FROM	General Fund	\$	-	\$	28,000	\$ 1,121,950	\$ 1,656,638	\$	-	\$	2,806,588		
FR	Debt Service Funds		686,965		-	-	-		-		686,965		
NSFER	Special Revenue Funds		-		2,206,645	300,000	-	1	,638,302		4,144,947		
SN	Nonmajor Capital Project Fund		200,000	,	-	_			820,495		1,020,495		
TR		\$	886,965	\$	2,234,645	\$ 1,421,950	\$ 1,656,638	\$2	,458,797	\$	8,658,995		

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

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

Interfund Loans for the year ended December 31, 2020 consisted of the following:

		<u>D</u>	UE FROM	
0		G	olf Course	Total
OUE TO	General Fund	\$	1,118,000	\$ 1,118,000
DO	Total	\$	1,118,000	\$ 1,118,000

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

In July 2014, the City Council passed resolution 2014-07 approving a \$1.3 million loan from the General Fund to the Golf Fund for the Golf Fund's temporary cash flow needs. In July 2016 resolution 2014-07 was rescinded and replaced with resolution 2016-12 for a new loan amount of \$1,850,000 and a fifteen-year loan payment schedule. The additional loan of \$550,000 was used to fund construction to add fifty additional parking lot spaces at the Golf Course. The additional loan was made in two installments, \$125,000 in 2016 and \$425,000 in 2017.

3-F - Operating Leases

Office, Warehouse, Storage Space, and Access Lease

The City leases office, warehouse, storage space, and property/land access are under non-cancellable operating leases. Total costs for these leases for the year ending December 31, 2020 was \$350,293 in governmental activities and \$90,163 in business-type activities. The future minimum lease payments are, as follows:

Year Ending	Go	vernmental	Bı	ısiness-Type
December 31,		Activities		Activities
2021		352,740		91,200
2022		364,028		94,118
2023		375,677		97,130
2024		387,698		100,238
_	\$	1,480,142	\$	382,687

Printers and Copiers

The City leases many office printers and copiers under non-cancellable operating leases. Total costs for these leases for the year ending December 31, 2020 was \$100,000 in governmental activities and \$5,544 in business-type activities. The future minimum lease payments for the non-cancellable leases are, as follows:

Year Ending	Gov	vernmental	Business-Type
December 31,	A	Activities	Activities
2021		94,658	5,012
2022		94,658	5,012
2023		94,658	5,012
	\$	283,974	\$ 15,036

3-G. Long-Term Debt

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

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

Changes in Long-term liabilities - Changes in the City's long-term obligations consisted of the following for the year ended December 31, 2020 (includes internal service fund):

	O	utstanding				О	utstanding	An	nounts Due
		1/1/2020	 Additions	R	eductions		12/31/2020	in	One Year
Governmental Activities									
2012 general obligation bonds		21,275,000	-		860,000		20,415,000		895,000
Claims and judgements payable		68,472	88,625		-		157,097		-
Compensated absences		3,281,075	2,346,049		2,059,729		3,567,395		2,196,002
Net pension liability		6,838,403	-		321,729		6,516,674		-
Other post-employment benefits		9,854,835	813,733		-		10,668,568		-
Total Governmental Activities	\$	41,317,785	\$ 3,248,407	\$	3,241,458	\$	41,324,734	\$	3,091,002
Business-Type Activities									
2010 utility system									
revenue bonds	\$	5,905,000	\$ -	\$	5,905,000	\$	-	\$	-
2015 utility system									
revenue bonds		20,815,000	-		940,000		19,875,000		990,000
2018 utility system									
revenue bonds		19,775,000	-		770,000		19,005,000		805,000
2020 utility system									
revenue bonds		-	5,610,000		_		5,610,000		390,000
Unamortized (premiums)/discounts		3,705,763	-		238,428		3,467,336		206,829
Net pension liability		1,370,871	-		18,043		1,352,828		-
Compensated absences		304,148	559,534		287,632		576,050		351,617
Total Business-Type Activities	\$	51,875,782	\$ 6,169,534	\$	8,159,103	\$	49,886,214	\$	2,743,446

Since internal service funds predominately serve the governmental funds, their long-term liabilities are included as part of the above totals for governmental activities. At year-end \$82,502 of internal service funds compensated absences are included in the above amounts. For the governmental activities, the General Fund, Special Revenue Funds, Capital Projects Funds, and Internal Service Funds generally liquidate accrued compensated absences, and the net pension liabilities. Nonmajor debt services funds have generally liquidated long-term debt liabilities. The general fund had liquidated other post-employment benefits liabilities.

The bonds associated with the special assessment (LID) are secured by the assessments levied against property owners in the LID boundaries and further secured by the City's Local Improvement Guarantee Fund (LIG). If the property owners fail to make payments the City can pursue foreclosure and sale of the property. The bonds are not general obligation debt of the City, and the City is acting only as an agent and is in no way liable for the debt. Bondholder remedies against the City are confined to mandating City officials perform their statutory duty to enforce assessments and apply proceeds of the LIG to principal and interest payments. There were no delinquent LID accounts at December 31, 2020.

Arbitrage occurs when the City invests funds borrowed at tax-exempt rates of interest in higher yielding taxable securities. These interest earnings in excess of interest expense must be remitted to the federal government. At the fund level, the City recognizes this liability only when it is due and payable. The City had no arbitrage excess earnings liability in 2020.

The annual total requirements to amortize the debt outstanding for general obligation, revenue bonds, and installment notes payable as of December 31, 2020, including interest, are as follows:

	Government	al A	tivities		Business Ty		
Year	Principal		Interest		Principal	Interest	Total
2021	895,000		761,613		2,185,000	1,710,095	5,551,708
2022	930,000		725,813		2,280,000	1,613,928	5,549,741
2023	960,000		696,488		2,370,000	1,522,783	5,549,271
2024	990,000		667,688		2,460,000	1,427,538	5,545,226
2025	1,020,000		636,750		2,570,000	1,319,270	5,546,020
2026-2030	5,670,000		2,614,050		15,040,000	5,198,503	28,522,553
2031-2035	6,825,000		1,458,400		13,440,000	2,692,231	24,415,631
2036-2040	3,125,000		188,800		4,145,000	421,250	7,880,050
Total	\$ 20,415,000	\$	7,749,601	\$	44,490,000	\$ 15,905,598	\$ 88,560,199

Governmental Activities General Obligation Bonds

Series 2012 General Obligation Bonds - On February 27, 2012 the City issued 25-year Limited Tax General Obligation Bonds for renovating, improving, and expanding the City's Recreation Center in the amount of \$24,955,000. Annual principal payments range from \$285,000 to \$1,595,000, with interest varying from 2% to 4%, paid semi-annually. The final principal and interest payment is scheduled for 2037. These bonds carry a Standard and Poor's rating of AA+.

See Note 4-H, Subsequent Events, for additional information on the planned issuance of \$64 million in limited tax general obligation bonds to finance the construction of a Community Justice Center.

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

2010 Utility Improvement Refunding Bonds (refunded and paid off with 2020 Utility System Revenue Refunding Bonds) - The 2010 Utility System Revenue Bonds were issued on November 9, 2010. The proceeds from the sale of the bonds were 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.

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

2018 Utility System Revenue and Refunding Bonds - The Utility System Revenue and Refunding Bonds, 2018 were issued on October 10, 2018. Gross proceeds of \$22,988,959 consisted of bonds with a face value of \$20,380,000 and bond premium of \$2,608,959. Approximately \$18.3 million of the bond proceeds are to be used for the sewer system projects including upgrades and improvements to lift stations, wastewater treatment plant upgrades and other improvements, to the system as outlined in the Utility Capital Facilities Plan. \$1.335 million from the sale of the bonds was utilized to refund the 2008 Utility System Revenue Bonds in a current refunding. A portion of the proceeds also funded issuance costs associated with the sale. In addition to the 2018 bonds the insurance coverage also released the reserve requirements on the 2010 and 2015 bond issues. Annual principal payments range from \$605,000 to \$1,450,000 with interest varying from 4.00% to 5.0%. The final maturity date is December 1, 2038 and the bonds are callable as early as June 1, 2028. 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.

2020 *Utility System Revenue Refunding Bonds* - On October 22, 2020 the City issued 10-year Utility System Revenue Refunding Bonds in the amount of \$5,610,000 to refund the outstanding principal balance of the 2010 Utility Improvement Refunding Bonds. Annual principal payments range from \$390,000 to \$910,000, with 1.45% interest paid semi-annually. The refunding resulting in Net Present Value Savings of \$833,467. The final principal and interest payment is scheduled for 2030. These bonds were sold via direct placement and not rated.

Asset Retirement Obligations (ARO) - Some tangible capital assets, including the wastewater treatment plant and water wells have been identified as having a legally enforceable liability associated with the retirement of a tangible capital asset, but the liability is not yet reasonably estimable. Estimates are not currently available as the city has no past experience decommissioning these types of assets, or the assets are maintained indefinitely so an estimated remaining useful life is unknown. Once the liability is reasonably estimable, the city will record a liability for the obligation.

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

Lynnwood Public Facilities							
District	Outstanding			Outstanding	Amounts due		
Business-type Activities	1/1/2020	Additions	Reductions 12/31/3020 in one y		in one year		
Bonds payable							
General Obligation Bonds	\$ 6,516,700		\$ 1,031,300	\$ 5,485,400	\$ 1,068,900		
Revenue Bonds	14,570,000		800,000	13,770,000	895,000		
Premium on Revenue Bonds	799,132		52,118	747,014	52,117		
Total Bonds Payable	\$ 21,885,832	\$ -	\$ 1,883,418	\$ 20,002,414	\$ 2,016,017		
Compensated Absences	47,275	-	43,664	3,611	1,806		
Environmental Remediation	5,791,099	48,914	-	5,840,013	200,000		
Net Pension Liability	95,395	2	-	95,397	-		
OPEB Liabilities	73,412	23,107		96,519			
Business-type Activities							
Long Term Liabilities	\$ 27,893,013	\$ 72,023	\$ 1,927,082	\$ 26,037,954	\$ 2,217,823		

For the Lynnwood Public Facility District (PFD) component unit, the debt service requirements to maturity for general obligation bonds are as follows:

Lynnwood PFD	Business-Type Activities		
Year Ending	Series B & Revenue Bonds		
December 31,	Principal	Interest	Total
2021	1,963,900	718,725	2,682,625
2022	2,093,300	656,417	2,749,717
2023	2,243,500	579,681	2,823,181
2024	2,388,200	511,504	2,899,704
2025	2,156,500	438,537	2,595,037
2026 -2030	4,610,000	1,259,513	5,869,513
2031 -2035	3,800,000	367,875	4,167,875
Total	\$ 19,255,400	\$ 4,532,252	\$ 23,787,652

3-H. Pension Plans

The following table represents the aggregate pension amounts for all plans for the year 2020:

Aggregate Pension Amounts – All Plans		
Pension liabilities	\$ (7,869,502)	
Pension assets	6,572,493	
Deferred outflows of resources	6,094,241	
Deferred inflows of resources	(3,631,389)	
Pension expense/expenditures	600,328	

State Sponsored Pension Plans

Substantially all City full-time and qualifying part-time employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing, multiple-employer public employee defined benefit and defined contribution retirement plans. The state Legislature establishes, and amends, laws pertaining to the creation and administration of all public retirement systems.

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

Department of Retirement Systems Communications Unit P.O. Box 48380 Olympia, WA 98540-8380

Or the DRS CAFR may be downloaded from the DRS website at www.drs.wa.gov. The direct link for the 2019 CAFR is https://www.drs.wa.gov/wp-content/uploads/2019/10/CAFR-2019.pdf.

Public Employees' Retirement System (PERS)

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

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

Contributions

The PERS Plan 1 member contribution rate is established by State statute at 6 percent. The employer contribution rate is developed by the Office of the State Actuary and includes an administrative expense component that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates. The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for 2020 were as follows:

PERS Plan 1		
Actual Contribution Rates	Employer	Employee
January – August 2020		
PERS Plan 1	7.92%	6.00%
PERS Plan 1 UAAL	4.76%	
Administrative Fee	0.18%	
Total	12.86%	6.00%
September – December 2020		
PERS Plan 1	7.92%	6.00%
PERS Plan 1 UAAL	4.87%	
Administrative Fee	0.18%	
Total	12.97%	6.00%

PERS Plan 2/3 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the member's average final compensation (AFC) times the member's years of service for Plan 2 and 1 percent of AFC for Plan 3. The AFC is the average of the member's 60 highest-paid consecutive service months. There is no cap on years of service credit. Members are eligible for retirement with a full benefit at 65 with at least five years of service credit. Retirement before age 65 is considered an early retirement. PERS Plan 2/3 members who have at least 20 years of service credit and are 55 years of age or older, are eligible for early retirement with a benefit that is reduced by a factor that varies according to age for each year before age 65. PERS Plan 2/3 members who have 30 or more years of service credit and are at least 55 years old are eligible to retire under one of two provisions:

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

PERS Plan 2/3 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of five percent for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service credit. PERS Plan 2/3 retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit. Other PERS Plan 2/3 benefits include duty and non-duty disability payments, a cost-of-living allowance (based on the CPI), capped at three percent annually and a one-time duty related death benefit, if found eligible by the Department of Labor and Industries. PERS 2 members are vested after completing five years of eligible service. Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years of service if 12 months of that service are earned after age 44.

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

Contributions

The PERS Plan 2/3 employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 UAAL and an administrative expense that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates. The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2020 were as follows:

PERS Plan 2/3		
Actual Contribution Rates	Employer 2/3	Employee 2
January – August 2020		
PERS Plan 2/3	7.92%	7.90%
PERS Plan 1 UAAL	4.76%	
Administrative Fee	0.18%	
Employee PERS Plan 3		Varies
Total	12.86%	7. 90%
September – December 2020		
PERS Plan 2/3	7.92%	7.90%
PERS Plan 1 UAAL	4.87%	
Administrative Fee	0.18%	
Employee PERS Plan 3		Varies
Total	12.97%	7.90%

The City's actual PERS plan contributions were \$979,983 for to PERS 1 and \$1,507,080 to PERS 2/3 for the year ended December 31, 2020.

Public Safety Employees' Retirement System (PSERS)

PSERS Plan 2 was created by the 2004 Legislature and became effective July 1, 2006. To be eligible for membership, an employee must work on a full-time basis and:

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

PSERS membership includes:

- PERS 2 or 3 employees hired by a covered employer before July 1, 2006, who met at least one of the PSERS eligibility criteria and elected membership during the period of July 1, 2006 to September 30, 2006; and
- Employees hired on or after July 1, 2006 by a covered employer, that meet at least one of the PSERS eligibility criteria.

PSERS covered employers include:

- Certain State of Washington agencies (Department of Corrections, Department of Natural Resources, Gambling Commission, Liquor and Cannabis Board, Parks and Recreation Commission, and Washington State Patrol)
- Washington State Counties
- Washington State Cities (except for Seattle, Spokane, and Tacoma)
- Correctional entities formed by PSERS employers under the Interlocal Cooperation Act.

PSERS Plan 2 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the average final compensation (AFC) for each year of service. The AFC is based on the member's 60 consecutive highest creditable months of service. Benefits are actuarially reduced for each year that the member's age is less than 60 (with ten or more service credit years in PSERS), or less than 65 (with fewer than ten service credit years). There is no cap on years of service credit. Members are eligible for retirement at the age of 65 with five years of service; or at the age of 60 with at least ten years of PSERS service credit; or at age 53 with 20 years of service. Retirement before age 60 is considered an early retirement. PSERS members who retire prior to the age of 60 receive reduced benefits. If retirement is at age 53 or older with at least 20 years of service, a three percent per year reduction for each year between the age at retirement and age 60 applies. PSERS Plan 2 retirement benefits are actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and non-duty disability payments, an optional cost-of living adjustment (COLA), and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. PSERS Plan 2 members are vested after completing five years of eligible service.

Contributions

The PSERS Plan 2 employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2. The Plan 2 employer rates include components to address the PERS Plan 1 unfunded actuarial accrued liability and administrative expense currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates.

The PSERS Plan 2 required contribution rates (expressed as a percentage of current-year covered payroll) for 2020 were as follows:

PSERS Plan 2		
Actual Contribution Rates:	Employer	Employee
January – August 2020		
PSERS Plan 2	7.20%	7.20%
PERS Plan 1 UAAL	4.87%	
Administrative Fee	0.18%	
Total	12.14%	7.07%

PSERS Plan 2		
Actual Contribution Rates:	Employer	Employee
September – December 2020		
PSERS Plan 2	7.20%	7.20%
PERS Plan 1 UAAL	4.87%	
Administrative Fee	0.18%	
Total	12.25%	7.20%

The City's actual contributions to the plan were \$87,412 for PSERS Plan 2 for the year ended December 31, 2020.

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

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

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

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

The FAS is the basic monthly salary received at the time of retirement, provided a member has held the same position or rank for 12 months preceding the date of retirement. Otherwise, it is the average of the highest consecutive 24 months' salary within the last ten years of service. Members are eligible for retirement with five years of service at the age of 50. Other benefits include duty and non-duty disability payments, a cost-of living adjustment (COLA), and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. LEOFF 1 members were vested after the completion of five years of eligible service. The plan was closed to new entrants on September 30, 1977.

Contributions

Starting on July 1, 2000, **LEOFF Plan 1** employers and employees contribute zero percent, as long as the plan remains fully funded. The LEOFF Plan I had no required employer or employee contributions for fiscal year 2020. Employers paid only the administrative expense of 0.18 percent of covered payroll.

LEOFF Plan 2 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the final average salary (FAS) per year of service (the FAS is based on the highest consecutive 60 months). Members are eligible for retirement with a full benefit at 53 with at least five years of service credit. Members who retire prior to the age of 53 receive reduced benefits. If the member has at least 20 years of service and is age 50, the reduction is three percent for each year prior to age 53. Otherwise, the benefits are actuarially reduced for each year prior to age 53. LEOFF 2 retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and non-duty disability payments, a cost-of-living allowance (based on the CPI), capped at three percent annually and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. LEOFF 2 members are vested after the completion of five years of eligible service.

Contributions

The **LEOFF Plan 2** employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2. The employer rate includes an administrative expense component set at 0.18 percent. Plan 2 employers and employees are required to pay at the level adopted by the LEOFF Plan 2 Retirement Board.

Effective July 1, 2017, when a LEOFF employer charges a fee or recovers costs for services rendered by a LEOFF 2 member to a non-LEOFF employer, the LEOFF employer must cover both the employer and state contributions on the LEOFF 2 basic salary earned for those services. The state contribution rate (expressed as a percentage of covered payroll) was 3.44% in 2020.

The LEOFF Plan 2 required contribution rates (expressed as a percentage of covered payroll) for 2020 were as follows:

LEOFF Plan 2		
Actual Contribution Rates	Employer	Employee
January – December 2020		
State and local governments	5.15%	8.59%
Administrative Fee	0.18%	
Total	5.33%	8.59%
Ports and Universities	8.59%	8.59%
Administrative Fee	0.18%	
Total	8.77%	8.59%

The City's actual contributions to the plan were \$458,033 for the year ended December 31, 2020.

The Legislature, by means of a special funding arrangement, appropriates money from the state General Fund to supplement the current service liability and fund the prior service costs of Plan 2 in accordance with the recommendations of the Pension Funding Council and the LEOFF Plan 2 Retirement Board. This special funding situation is not mandated by the state constitution and could be changed by statute. For the state fiscal year ending June 30, 2020, the state contributed \$76,297,643 to LEOFF Plan 2. The amount recognized by the City as its proportionate share of this amount is \$286,652.

Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2020 with a valuation date of June 30, 2019. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's (OSA) 2013-2018 Experience Study and the 2019 Economic Experience Study.

Additional assumptions for subsequent events and law changes are current as of the 2019 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2020. Plan liabilities were rolled forward from June 30, 2019, to June 30, 2020, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

- **Inflation:** 2.75% total economic inflation; 3.50% salary inflation
- Salary increases: In addition to the base 3.50% salary inflation assumption, salaries are also expected to grow by promotions and longevity.
- Investment rate of return: 7.40%

Mortality rates were developed using the Society of Actuaries' Pub. H-2020 mortality rates, which vary by member status, as the base table. The OSA applied age offsets for each system, as appropriate, to better tailor the mortality rates to the demographics of each plan. OSA applied the long-term MP-2017 generational improvement scale, also developed by the Society of Actuaries, to project mortality rates for every year after the 2010 base table. Mortality rates are applied on a generational basis; meaning, each member is assumed to receive additional mortality improvements in each future year throughout his or her lifetime.

There were changes in methods and assumptions since the last valuation.

- OSA updated its demographic assumptions based on the results of its latest demographic experience study. See OSA's 2013-2018 Demographic Experience Study at leg.wa.gov/osa.
- OSA updated the Early Retirement Factors and Joint-and Survivor factors used in its model to match the ones
 implemented by DRS on October 1, 2020. These factors are used to value benefits for members who elect to retire
 early and for survivors of members that die prior to retirement.
- The valuation includes liabilities and assets for Plan 3 members purchasing Total Allocation Portfolio annuities when determining contribution rates and funded status.
- OSA simplified its modeling of medical premium reimbursements for survivors of duty-related deaths in LEOFF 2.
- OSA changed its method of updating certain data items that change annually, including the public safety duty-related death lump sum and Washington state average wage. OSA set these values at 2018 and will project them into the future using assumptions until the next Demographic Experience Study in 2025. See leg.wa.gov/osa for more information on this method change.

Discount Rate

The discount rate used to measure the total pension liability for all DRS plans was 7.4 percent.

To determine that rate, an asset sufficiency test was completed to test whether each pension plan's fiduciary net position was sufficient to make all projected future benefit payments for current plan members. Based on OSA's assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.4 percent was used to determine the total liability.

Long-Term Expected Rate of Return

The long-term expected rate of return on the DRS pension plan investments of 7.4 percent was determined using a building-block-method. In selecting this assumption, the Office of the State Actuary (OSA) reviewed the historical experience data, considered the historical conditions that produced past annual investment returns, and considered capital market assumptions and simulated expected investment returns provided by the Washington State Investment Board (WSIB). The WSIB uses the capital market assumptions and their target asset allocation to simulate future investment returns at various future times.

Estimated Rates of Return by Asset Class

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2020, are summarized in the table below. The inflation component used to create the table is 2.2 percent and represents the WSIB's most recent long-term estimate of broad economic inflation.

Asset Class	Target Allocation	% Long-Term Expected Real Rate of Return Arithmetic
Fixed Income	20%	2.20%
Tangible Assets	7%	5.10%
Real Estate	18%	5.80%
Global Equity	32%	6.30%
Private Equity	23%	9.30%
	100%	

Sensitivity of Net Pension Liability/(Asset)

The table below presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.4 percent, as well as what the City's proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage point lower (6.4 percent) or 1-percentage point higher (8.4 percent) than the current rate.

	1% Decrease (6.4%)	Current Discount Rate (7.4%)	1% Increase (8.4%)
PERS 1	\$ 5,815,505	\$ 4,642,907	\$ 3,620,281
PERS 2/3	12,645,895	2,032,522	(6,708,420)
PSERS 2	289,072	(26,553)	(276,355)
LEOFF 1	(1,523,116)	(1,871,267)	(2,172,477)
LEOFF 2	(92,545)	(4,674,672)	(8,426,521)

Pension Plan Fiduciary Net Position

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

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

At June 30, 2020, the City reported a total pension liability of \$7,869,502 of which \$6,675,429 consists of its proportionate share of the net pension liabilities and a total pension asset of \$6,572,493 as follows:

	Liability (or Asset)
PERS 1	\$ 4,642,907
PERS 2/3	2,032,522
PSERS 2	(26,553)
LEOFF 1	(1,871,267)
LEOFF 2	(4,674,672)

The amount of the liability/(asset) reported above for LEOFF Plan 1 and 2 reflects a reduction for State pension support provided to the City. The amount recognized by the City as its proportionate share of the net pension liability/(asset), the related State support, and the total portion of the net pension liability/(asset) that was associated with the City were as follows:

	LEOFF 1 (Asset)	LEOFF 2 (Asset)
LEOFF – employer's proportionate share	\$ (1,871,267)	\$ (4,674,672)
LEOFF – State's proportionate share of the net		
pension liability/(asset) associated with the employer	\$ (12,657,203)	\$ (2,989,099)
TOTAL	\$ (14,528,470)	\$ (7,663,771)

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

	Proportionate Share 6/30/19	Proportionate Share 6/30/20	Change in Proportion
PERS 1	.139755%	.131507%	(.008248%)
PERS 2/3	. 167356%	. 158922%	(.008434%)
PSERS 2	. 267048%	. 192976%	(.074072%)
LEOFF 1	.099898%	.099087%	(.000811%)
LEOFF 2	. 243037%	. 229167%	(.013870%)

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

LEOFF Plan 1 allocation percentages are based on the total historical employer contributions to LEOFF 1 from 1971 through 2000 and the retirement benefit payments in fiscal year 2020. Historical data was obtained from a 2011 study by the Office of the State Actuary (OSA). In fiscal year 2020, the state of Washington contributed 87.12 percent of LEOFF 1 employer contributions and all other employers contributed the remaining 12.88 percent of employer contributions. LEOFF 1 is fully funded and no further employer contributions have been required since June 2000. If the plan becomes underfunded, funding of the remaining liability will require new legislation. The allocation method the plan chose reflects the projected long-term contribution effort based on historical data.

In fiscal year 2020, the state of Washington contributed 39 percent of LEOFF 2 employer contributions pursuant to RCW 41.26.725 and all other employers contributed the remaining 61 percent of employer contributions.

The collective net pension liability (asset) was measured as of June 30, 2020, and the actuarial valuation date on which the total pension liability (asset) is based was as of June 30, 2019, with update procedures used to roll forward the total pension liability to the measurement date.

Pension Expense

For the year ended December 31, 2020, the City recognized pension expense in the state sponsored plans as follows:

]	Pension Expense
PERS 1	\$	(111,260)
PERS 2/3	\$	199,882
PSERS 2	\$	60,296
LEOFF 1	\$	(81,805)
LEOFF 2	\$	448,665
TOTAL	\$	515,778

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2020, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

PERS 1	Deferred Outflows of	Deferred Inflows of
	Resources	Resources
Net difference between projected and actual investment earnings on pension plan investments		\$ (25,850)
Contributions subsequent to the measurement date	\$ 508,578	
TOTAL	\$ 508,578	\$ (25,850)

PERS 2/3	Deferred Outflows of	Deferred Inflows of
	Resources	Resources
Differences between expected and actual experience	\$ 727,613	\$ (254,724)
Net difference between projected and actual investment		(103,223)
earnings on pension plan investments		
Changes of assumptions	28,949	(1,388,388)
Changes in proportion and differences between	266,462	(353,730)
contributions and proportionate share of contributions		
Contributions subsequent to the measurement date	774,651	
TOTAL	\$ 1,797,675	\$ (2,100,064)

PSERS 2	Deferred Outflows of	Deferred Inflows of
	Resources	Resources
Differences between expected and actual experience	\$ 36,483	\$ (1,986)
Net difference between projected and actual investment	\$1,420	
earnings on pension plan investments		
Changes of assumptions	135	(50,195)
Changes in proportion and differences between	8,665	(5,082)
contributions and proportionate share of contributions		
Contributions subsequent to the measurement date	47,148	
_		
TOTAL	\$ 93,852	\$ (57,263)

LEOFF 1	Deferred Outflows of	Deferred Inflows of
	Resources	Resources
Net difference between projected and actual investment earnings on pension plan investments	\$ 0	\$ (19,573)
TOTAL	\$ 0	\$ (19,573)

LEOFF 2	Deferred Outflows of Resources	Deferred Inflows of Resources	
Differences between expected and actual experience	\$ 646,818	\$ (82,910)	
Net difference between projected and actual investment earnings on pension plan investments		(52,103)	
Changes of assumptions	6,772	(723,846)	
Changes in proportion and differences between contributions and proportionate share of contributions	2,333,744	(286,923)	
Contributions subsequent to the measurement date	240,085		
TOTAL	\$ 3,227,420	\$ (1,145,782)	

Deferred outflows of resources related to pensions resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2021. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	PERS 1
2021	\$ (117,308)
2022	\$ (3,690)
2023	\$ 35,794
2024	\$ 59,353
2025	\$ 0
Thereafter	\$ 0

Year ended December 31:	PERS 2/3
2021	\$ (827,780)
2022	\$ (186,001)
2023	\$ 51,720
2024	\$ 141,887
2025	\$ (126,066)
Thereafter	\$ (130,800)

Year ended December 31:	PSERS
2021	\$ (7,155)
2022	\$ (1,896)
2023	\$ 2,471
2024	\$ 6,498
2025	\$ (1,690)
Thereafter	\$ (8,786)

Year ended December 31:	LEOFF 1
2021	\$ (69,871)
2022	\$ (3,643)
2023	\$ 19,863
2024	\$ 34,077
2025	\$ 0
Thereafter	\$ 0

Year ended December 31:	LEOFF2
2021	\$ (67,521)
2022	\$ 204,052
2023	\$ 319,491
2024	\$ 406,711
2025	\$ 218,884
Thereafter	\$ 759,936

Historical funding source for liquidating Department of Retirement Systems Pension Obligations

Historically the Pension Obligations have been liquidated with pension contributions paid by the City in proportion to and by each of the Funds that incurred the underlying covered payroll expenses/expenditures.

City Sponsored Pension Plan - Firemen's Pension Plan

The City is the administrator of the Firemen's Pension System, which is shown as a pension trust fund in the City's financial statements. The Firemen's Pension System is a single-employer, closed defined benefit pension system that was established in conformance with Revised Code of Washington (RCW) Chapter 41.18. Membership is limited to fire fighters employed prior to March 1, 1970 when the LEOFF retirement system was established.

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

Plan membership

At December 31, 2020, pension plan membership consisted of four (4) inactive plan members and one (1) surviving spouse for a total of five (5) members currently receiving benefits. The pension plan is closed to new entrants.

Benefits provided

The City's liability under the Firemen's Pension System consists of all benefits, including payments to beneficiaries, for firemen retired prior to March 1, 1970, and excess benefits over amounts provided by LEOFF for covered fire fighters retired after March 1, 1970. Under the Firemen's Pension System, eligible fire fighters may retire at age 50 with 25 years of service. Death and disability benefits are also provided, as established under the governing State law. Individuals who terminate employment prior to retirement may withdraw their contributions to the plan plus accumulated interest, but by doing so, forfeit their rights to future pension benefits.

Key Elements of Pension Formulas

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

Funding

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

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

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

Assumptions and Other Inputs

As of December 31, 2020, the FPF had \$305,342 in cash and cash equivalents invested in the City's internal investment pool and short term investments. Investments in the City's internal investment pool are invested in the Washington State Treasurer Local Government Investment Pool (LGIP), a Rule 2a-7 money market type fund with an average portfolio maturity of less than 91 days. All investments are valued at fair value. Investment activities of the FPF are co-mingled with the City of Lynnwood treasury and therefore are included in the City's investment policy addressed in Note 3-A.

As of December 31, 2020, the annual money-weighted rate of return on pension plan investments, net of investment expenses, was 2.07 percent. The money-weighted rate of return considers the changing amounts actually invested during a period and weights the amount of pension plan investments by the proportion of time they are available to earn a return during that period.

The net pension liability was measured as of December 31, 2020, and the actuarial valuation date on which the total pension liability is based was as of December 31, 2019, with update procedures used to roll forward the total pension liability to the measurement date.

- **Discount rate:** 2.00% Rate applied in the measurement of the total pension liability
- **Inflation:** 2.00% total economic inflation, 2.50% wage inflation.
- **Investment rate of return**: 2.00% Composite rate is based on the expected return on long-term municipal bonds and is used for both the funded and unfunded liability.
- Actuarial Cost Method: Entry Age Normal
- The mortality table used, RP-2000, is projected to the year 2025 using Scale BB to include an allowance for future improvements in longevity.
- The table below presents the City's net pension liability calculated using the discount rate of 2.00% as well as what the pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (1.00%) or 1-percentage point higher (3.00%) than the current rate:

	1%	Current	1%	
	Decrease	Disc. Rate	Increase	
	1.00%	2.00%	3.00%	
Net Pension Liability	\$1,374,384	\$1,194,073	\$1,041,524	

Changes in the Net Pension Liability

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) – (b)
Balances at 12/31/2019	\$1,519,629	\$310,027	\$ 1,209,602
Changes for the year:		Ź	, ,
Service Cost	-	-	-
Interest	40,740	-	40,740
Changes in assumptions	(130,094)	-	(130,094)
Differences between expected and actual experience	146,585	-	146,585
Contributions – employer	-	66,367	(66,367)
Contributions – employees	-	-	-
Net investment income		6,393	(6,393)
Benefit payments and withdraws (pension expense)	(76,327)	(76,327)	-
Administrative expense		-	-
Other changes	-	-	-
Net changes	(19,096)	(3,567)	(15,529)
Balance at 12/31/2020	\$1,500,533	\$306,460	\$1,194,073
Plan fiduciary net position as a percentage of the total pension liability		20.4%	

Pension Expense and Deferred Inflows and Outflows of Resources

	Pension Expense	
Pension expense recognized for fiscal year ending 2019	\$98,942	
Pension expense recognized for fiscal year ending 2020	\$84,550	

At December 31, 2020, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of	Deferred Inflows of
	Resources	Resources
Differences between expected and actual experience	\$ 304,766	(125,644)
Net difference between projected and actual investment	5,636	-
earnings on pension plan investments		
Changes of assumptions	156,314	(157,212)
Contributions subsequent to the measurement date	-	
TOTAL	\$ 466,716	\$ (282,856)

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

Year ended December 31:	Amount
2021	\$ 48,052
2022	46,783
2023	45,579
2024	13,574
2025	32,227
Thereafter	(2,355)

3-I. Other Post-Employment Benefits

Financial reporting for the LEOFF 1 retiree healthcare plan is included in the City's Comprehensive Annual Financial Report. The plan does not issue stand-alone financial statements.

The following table represents the OPEB amounts for all plans subject to the requirements of GASB 75 for the year 2020:

OPEB Liabilities	\$ 10,668,568
OPEB Assets	\$ 0
Deferred Outflows of Resources	\$ 122,797
Deferred Inflows of Resources	\$ 0
OPEB Expense	\$ 1,239,168

Annual OPEB Cost and Net OPEB Obligation

OPEB Plan Description -

- a. The city administers LEOFF 1 Retiree Medical and Long-Term Care Benefits, a single-employer defined benefit plan.
- b. In accordance with the Revised Code of Washington (RCW) 41.26, the City provides post-retirement health care benefits for members of the Law Enforcement Officers and Firefighters (LEOFF) Plan 1 retirement system hired prior to October 1, 1977. The plan is a closed, single-employer defined benefit healthcare plan administered by the City. The City provides medical, vision, and long-term care insurance, and reimburses for all Board approved claims for medical, dental, vision, and hospitalization costs not covered by standard benefit plan provisions.
- c. Employees covered by benefit terms At December 31, 2020, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	20
Inactive employees entitled to but not yet receiving benefits	0
Active employees	0
Total	20

- d. There are no assets accumulated in a trust that meets the criteria in paragraph 4 of GASB 75. The plan is funded on a pay-as-you-go basis and there are no assets accumulated in a qualifying trust.
- e. Funding for LEOFF retiree healthcare costs is provided entirely by the City as required by RCW. During the City contributed \$284,365 in medical payments and reimbursements.

Assumptions and Other Inputs:

The total OPEB liability in the June 30, 2020, actuarial valuation was determined using the GASB 75 Alternative Measurement Method for LEOFF 1 using the Office of the State Actuary's AMM Online Tool.

A single retirement age of 55.3 was assumed for all active members for the purpose of determining the actuary accrued liability (AAL) and normal cost. Retirement, disablement, termination, and mortality rates were assumed to follow the LEOFF 1 rates used in the June 30, 2018, actuarial valuation report issued by the Office of the State Actuary (OSA).

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

Actuarial Valuation Date: 06/30/2020

Actuarial Measurement Date: 06/30/2020

Actuarial Cost Method: Entry Age

Discount Rate:

Beginning of Measurement Year 3.50% End of Measurement Year 2.21%

Healthcare Trend Rate: Initial rate is about 6%, trends down to about 5% in the 2020's.

Long-term Care Healthcare Trend Rate: 4.50%

Mortality Rates (assuming 100% male population):
Base Mortality Table: RP-2000 Mortality Table

Age Setback: +1 year Healthy / -2 years Disabled Blended 50%/50% Healthy/Disabled

Mortality Improvements: 100% Scale BB

Projection Period: Generational

Medicare Participation Rate: 100.00%

Medical and long-term care costs were projected from June 30, 2018 to the measurement date of June 30, 2020 using the healthcare trend rates detailed in the 2018 LEOFF 1 Medical Benefits Actuarial Valuation Report.

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following presents the total OPEB liability of the City calculated using the current healthcare cost trend rate of 6.0 percent, as well as what the OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (5.0 percent) or one percentage point higher (7.0 percent) that the current rate.

	1% Decrease	Current Healthcare Cost Trend	1% Increase
	(5.0%)	Rate	(7.0%)
		(6.0%)	
Total OPEB Liability	\$ 9,591,431	\$ 10,668,568	\$11,913,540

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

The following presents the total OPEB liability of the City calculated using the discount rate of 2.21 percent², as well as what the OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (1.21 percent) or one percentage point higher (3.21 percent) that the current rate.

	1% Decrease	Current Discount Rate	1% Increase
	(1.21%)	(2.21%)	(3.21%)
Total OPEB Liability	\$ 12,011,704	\$10,668,568	\$ 9,536,042

Changes in Total OPEB Liability

LEOFF 1 Retiree Medical and Long-Term Care Benefits	
Total OPEB Liability at 01/01/2020	\$9,854,835
Service cost	0
Interest	337,538
Changes of benefit terms	0
Changes in experience data and assumptions	901,628
Benefit payments	(425,433)
Other changes	
Total OPEB Liability at 12/31/2020	\$ 10,668,568

At December 31, 2020, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in experience data and assumptions		\$ 0
Payments subsequent to measurement date	\$ 122,797	

Deferred outflows of resources resulting from payments subsequent to the measurement date will be recognized as a reduction of the total OPEB in the year ended December 31, 2021.

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² Source: Bond Buyer General Obligation 20-Bond Municipal Index

3-J. Fund Equity

Fund Balances – Fund balances are classified as follows:

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

General Fund:

Prepaid Postage	\$ 97,776
	\$ 97,776

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

Transportation Capital Fund:

Capital Projects	\$ 2,531,361
	\$ 2,531,361

Nonmajor Governmental Funds:

Capital Projects	\$ 8,768,097
Drug Enforcement/Criminal Justice	3,094,757
Debt Service	111,902
Park Improvements	2,431,018
Recreation programs for low income	87,956
Tourism promotion	894,196
Street and paths improvements	7,175,421
Solid Waste Management	87,570
Supportive Housing	 87,293

Total Nonmajor Governmental Funds \$ 22,738,210

Total Other Governmental Funds

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

General Fund:

Revenue Stablization	\$ 4,870,033
Total General Fund	\$ 4,870,033
Other Governmental Funds:	
Capital Projects	\$ 1,270,708
Tree Reserve	233,168
Art Reserve	50,514
Aid Car Reserve	 16,973

1,571,363

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

General Fund:

Economic Development	\$ 11,043,874

Net Investment in Capital Assets – The net investment in capital assets, reported on the government-wide statement of net position as of December 31, 2020 is as follows:

				Business-
	(3overnmental		type
Net investment in capital assets:		Activities		Activities
Total capital assets	S	248,522,678	s	147,653,944
Less accumulated depreciation		97,452,903		54,906,295
Net capital assets		151,069,775		92,747,649
Less: capital related debt		(20,415,000)		(44,384,871)
Add: unspent bond proceeds		-		3,438,468
Less: unamortized bond premium		-		(3,705,963)
Net investment in capital assets	\$	130,654,775	\$	48,095,283

Note 4 - Detailed Notes on All Funds

4-A. Risk Management

The City of Lynnwood is exposed to various risks of loss from torts; theft of damage, destruction of assets; business interruption; errors and omissions; injuries to employees; and natural disasters. The City combines the reporting of risk management activities into one internal service fund – the Self-Insurance Fund No. 515 – to account for and finance uninsured risks. All departments of the City make payments through Interfund assessments to the self-insurance fund based on estimates of the amounts needed to pay prior and current year claims and to establish a reserve for catastrophic losses.

The City became a member of the Washington Cities Insurance Authority (WCIA) on December 1, 2019. Utilizing Chapter 48.62 RCW (self-insurance regulation) and Chapter 39.34 RCW (Interlocal Cooperation Act), nine cities originally formed WCIA on January 1, 1981. WCIA was created for the purpose of providing a pooling mechanism for jointly purchasing insurance, jointly self-insuring, and/or jointly contracting for risk management services. WCIA has a total of 162 members. New members initially contract for a three-year term, and thereafter automatically renew on an annual basis. A one-year notice is required before membership can be terminated. Termination does not relieve a former member from its unresolved loss history incurred during membership.

Liability coverage is written on an occurrence basis, with a \$50,000 deductible. Coverage includes general, automobile, police, errors or omissions, stop gap, employment practices and employee benefits liability. Limits are \$4 million per occurrence in the self-insured layer, and \$21 million in limits above the self-insured layer is provided by reinsurance. Total limits are \$25 million per occurrence subject to aggregates and sublimits. The Board of Directors determines the limits and terms of coverage annually.

Insurance for property, automobile physical damage, fidelity, inland marine, and boiler and machinery coverage are purchased on a group basis. Various deductibles apply by type of coverage. Property coverage is self-funded from the members' deductible to \$750,000, for all perils other than flood and earthquake, and insured above that to \$400 million per occurrence subject to aggregates and sublimits. Automobile physical damage coverage is self-funded from the members' deductible to \$250,000 and insured above that to \$100 million per occurrence subject to aggregates and sublimits.

In-house services include risk management consultation, loss control field services, and claims and litigation administration. WCIA contracts for certain claims investigations, consultants for personnel and land use issues, insurance brokerage, actuarial, and lobbyist services.WCIA is fully funded by its members, who make annual assessments on a prospectively rated basis, as determined by an outside, independent actuary. The assessment covers loss, loss adjustment, reinsurance and other administrative expenses. WCIA retains the right to additionally assess the membership for any funding shortfall.

An investment committee, using investment brokers, produces additional revenue by investment of WCIA's assets in financial instruments which comply with all State guidelines.

A Board of Directors governs WCIA, which is comprised of one designated representative from each member. The Board elects an Executive Committee and appoints a Treasurer to provide general policy direction for the organization. The WCIA Executive Director reports to the Executive Committee and is responsible for conducting the day to day operations of WCIA.

The claims and judgment payable reported in the schedule Changes in Long Term Liabilities in Note 3-G represents total deductibles of outstanding claims at the end of the year.

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

4-B. Health and Welfare

The City is a member of the Association of Washington Cities Employee Benefit Trust Health Care Program ("AWC Trust HCP"). The AWC Trust HCP was formed in January 2014 when participating cities, towns and non-city entities joined together by signing an interlocal agreement to jointly self-insure certain health benefit plans and programs for participating employees, their covered dependents and other beneficiaries through a designated account. As of December 31, 2020, the AWC Trust HCP had 262 participants.

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. Participating employers pay monthly premiums to the AWC Trust HCP. The AWC Trust HCP is responsible for payment of all covered claims. AWC's stop loss coverage and premiums benefit from the pool size and the ability to withstand self-insuring claims. Members contract to remain in the AWC Trust HCP pool a minimum of three years and participating employers with over 250 employees must provide written notice of termination of all coverage a minimum of one-year in advance of the termination date, and participating employers with under 250 employees must provide written notice of termination a minimum of six months in advance. A participating employer's termination will not obligate that member to past debts, or further contributions to the AWC Trust HCP, and forfeits all rights and interest to the AWC Trust HCP account.

The operations of the Health Care Program are managed by the Board of Trustees or its delegates. The Board of Trustees is comprised of four regionally elected officials from Trust member cities or towns, the Employee Benefit Advisory Committee Chair and Vice Chair, and two appointed individuals from the AWC Board of Directors, who are from Trust member cities or towns. The Trustees or its appointed delegates review and analyze Health Care Program related matters and make operational decisions regarding premium contributions, reserves, plan options and benefits in compliance with Chapter 48.62 RCW. The Board of Trustees has decision authority consistent with the Trust Agreement, Health Care Program policies, Chapter 48.62 RCW and Chapter 200-110-WAC.

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

4-C. Contingent Liabilities

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

The City was a defendant in several lawsuits at December 31, 2020. There is a recent lawsuit filed against the City for the actions of a former employee that occurred while using a City-owned vehicle without permission and outside of City responsibilities. This lawsuit is in the early stages, and is too early to tell what, if any, financial effect it may have on the City. 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, City management believes that the ultimate liability for any such legal actions will not be material to the financial position of the City.

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

4-D. Joint Ventures

SNOHOMISH COUNTY 911 - The City of Lynnwood and other Police and Fire entities jointly operate SNOHOMISH COUNTY 911. SNOHOMISH COUNTY 911, a cash basis, special purpose district, was created under the Interlocal Cooperation Act, as codified in RCW 39.34. This established the statutory authority necessary for Snohomish County, the cities, towns, fire districts, police districts and other service districts to enter into a contract and agreement to jointly establish, maintain and operate a support communications center. Control of SNOHOMISH COUNTY 911 is with a 16-member Board of Directors which is specified in the Interlocal Agreement. SNOHOMISH COUNTY 911 takes 911 calls and performs emergency dispatch services for local governmental agencies including police, fire and medical aid.

In the event of the dissolution of SNOHOMISH COUNTY 911, any money in the possession of SNOHOMISH COUNTY 911 or the Board of Directors after payment of all costs, expenses and charges validly incurred under this Agreement shall be returned to the parties to this Agreement and shall be apportioned between parties based on the average of each participant's contributions to the operating budget over the preceding five years. Before deducting the payment of all costs, expenses and charges validly incurred, the City of Lynnwood's share was \$1,339,103 on December 31, 2020. This value has been recorded in the government-wide statements as an asset for the year ended December 31, 2020.

Snohomish County 911's 2020 operating budget was \$24,575,191, operating revenues received were \$24,285,981 and total operating expenditures were \$23,917,807. Complete financial statements for SNOHOMISH COUNTY 911 can be obtained from SNOHOMISH COUNTY 911's administrative office at 1121 SE Everett Mall Way, Suite 200, Everett, WA 98208.

ALLIANCE FOR HOUSING AFFORDABILITY (AHA) - In September 2013, the City of Lynnwood joined the cities of Edmonds, Everett, Granite Falls, Lake Stevens, Marysville, Mill Creek, Mountlake Terrace, Mukilteo, and Snohomish, the Town of Woodway, and Snohomish County to establish the Alliance for Housing Affordability (AHA). The agreement was amended in May 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 (HASCO). Fiscal agent duties are performed by HASCO.

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	AHA	City's Share of A	AHA's Budget
(7/1/xx-6/30/xx)	Budget	Amount	Percentage
2014	\$92,543	\$2,151	2.39%
2015	\$123,464	\$2,216	2.29%
2016	\$145,590	\$2,143	1.47%
2017	\$97,934	\$3,173	5.40%
2018	\$102,586	\$3,455	5.30%
2019	\$107,391	\$3,686	5.20%
2020	\$112,408	\$3,891	5.10%
2021	\$117,673	\$3,996	5.40%

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 Pam Frost, Director of Finance, HASCO, 12711 4th Ave W, Everett, WA 98204 (or email: <u>pfrost@hasco.org</u>) or from Chris Collier, Program Manager, Alliance for Housing Affordability, 12711 4th Ave W, Everett WA 98204.

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, and Meadowdale Middle School (at 66th Ave W and 168th St SW) The City of Lynnwood is responsible for the maintenance of the complex and bills 50% of the associated costs to the City of Edmonds on a bi-annual basis. In 2020, the City of Edmonds contributed \$34,749.

4-E. Tax Abatements

On May 29, 2007, the City Council adopted Ordinance 2681 under the authority granted to it under Chapter 84.14 RCW designating the City Center Sub-Area as a Designated Residential Target Area and establishing the Multiple-Unit Housing Property Tax Exemption program. The Ordinance enacted the program whereby property owners may qualify for a Final Certificate of Tax Exemption which certifies to the Snohomish County Assessor that the owner is eligible to receive a limited property tax exemption. The program is designed to encourage new construction or rehabilitation of multifamily housing Residential Target Areas in order to reduce development pressure on single-family residential neighborhoods, to increase and improve housing opportunities, and to encourage development densities supportive of transit use.

There are various statutory abatements affecting multiple jurisdictions including the City of Lynnwood. Statutory abatements are reported by the Washington Department of Revenue at the following website: https://dor.wa.gov/about/statistics-reports/information-local-governments/governmental-accounting-standards-board-gasb-statement-no-77. The Department of Revenue report listed \$31,710, in "Taxpayer Savings" applicable to the City of Lynnwood for Fiscal Year 2020.

4-F. Prior Period Adjustments and Restatements

The City is reporting the following adjustments related to prior periods and restatement of beginning net position in the Government Wide Statement of Activities:

Net Position previously reported at December 31, 2019	\$ 172,710,184
Beginning Net Position Restatement In 2018 there was an accrual done in the Transportation Capital Fund, but it was never reversed in 2019. This reversed the prior year journal entry in 2020.	(38,681)
Net Position, as restated, at December 31, 2019	\$ 172,671,503

Transportation Capital fund:

Fund Balance previously reported at December 31, 2019	\$ 5,689,590
Beginning Fund Balance Restatement In 2018 there was an accrual done, but it was never reversed in 2019. This reversed the prior year journal entry in 2020.	(38,681)
Fund Balance, as restated, at December 31, 2019	\$ 5,650,909

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

- The following new fund was opened in 2020:
 - ✓ Special Revenue Fund: Affordable Housing Fund 146
- The following funds were closed in 2020:

 - ✓ General Fund: Program Development Fund 098
 ✓ Debt Service Funds: 800 Mhz Debt Service Fund 215
 - ✓ Debt Service Funds: LID Guaranty Fund 224
 - ✓ Debt Service Funds: LID 93-1 I-5 196th Fund 263

4-H. Subsequent Events -

2021 Bond Issuance

On March 22, 2021, the City Council passed Ordinance No. 3387 providing for the issuance, sale and delivery of not to exceed \$62 million aggregate principal amount of limited tax general obligation bonds to finance the City's Community Justice Center project. The City is scheduled for a bond rating call on May 19, 2021 and anticipates a sale date of June 2, 2021 with funds to be received on June 24, 2021, prior to acceptance of a bid for the project.

The City's Community Justice Center Project (the "Project") will be a purpose-built police department, a re-imagined misdemeanor jail, and a remodeled and expanded court. The City's goal with the Project is to create the necessary space and function to bring enhanced justice service to its community. The City will collaborate with Community Health Center of Snohomish County ("CHC") in providing specific and enhanced jail services. The Project is expected to bring rehabilitative services and options to address and reduce the underlying causes of recidivism. By providing this additional support, the goal is to provide a path out of the criminal justice system. This Project is specifically programmed around increased community access and involvement, and alternatives to the traditional criminal justice system, while maintaining effective levels of

community safety in the City. The City currently owns the existing criminal justice building and additional undeveloped acreage that will be used for this Project.

Over the last 24 years, the City's police department conducted three space needs examinations (in 1999, 2004 and 2009). All three of these studies concluded that the City's current justice facility lacked appropriate space and functionality. The Project will assist the City in creating the infrastructure to meet the demands and expectations of law enforcement and adjudication. The Project will include space for the City's Emergency Operations Center which has been located in temporary space at a fire station building owned by South Snohomish County Fire and Rescue. The Project will also include space for evidence management, which is currently located in off-site, leased space.

The Project will significantly increase the capacity of the jail, more than a doubling of the current size. The increased housing capacity is expected to provide a significant financial benefit as the additional bedspace will allow virtually all City misdemeanor inmates to be housed in this location rather than paying to house inmates elsewhere. Additionally, there will be excess capacity that can be contracted to other municipal police departments where demand is high.

The City expects construction on the Project to begin in June 2021 and be completed by the end of 2022. The expected budget of the Project is \$64,000,000, which will be provided by proceeds of the Bonds and funds from the City's existing criminal justice sales tax account. The City expects to use the criminal justice sales tax, the reallocation of existing contract jail housing expenses, the reallocation of lease expenses for the current evidence facility, and contract housing revenue from the jail to repay the Bonds.

2021-2022 COVID-19 Emergency Relief Funding

In April of 2021, the U.S. Government established the American Rescue Plan Act of 2021 to provide emergency funding related to the ongoing COVID-19 crisis. The plan included \$350 billion in funding for state, local, territorial and tribal governments. The City expects to receive \$8.52 million in Coronavirus State and Local Fiscal Recovery Funds. Half of the funding will be received in 2021 with the other half expected twelve months later in 2022. The funds will be distributed to the State of Washington to then allocate to other jurisdictions. The City expects to receive the first allocation in June of 2021.

Program guidelines provide substantial flexibility for each jurisdiction to meet local needs—including support for households, small businesses, impacted industries, essential workers, and the communities hardest-hit by the crisis. Within the categories of eligible uses listed, recipients have broad flexibility to decide how best to use this funding to meet the needs of their communities. Program rules include a methodology for using funds to recover lost revenues. As of the time this report was filed, the City has not yet determined a comprehensive plan for how the funding will be allocated.

See Note 5, Other Disclosures, for additional information about the impact of COVID-19.

Note 5 – Other Disclosures

COVID-19 (Coronavirus)

The City began 2020 in good economic shape with strong development, increasing property values, low unemployment and sales tax revenues trending higher than 2019. In February 2020, the Governor of the state of Washington declared a state of emergency in response to the spread of a deadly new virus. In the weeks following the declaration, precautionary measures to slow the spread of the virus were ordered. These measures included closing schools, colleges and universities, cancelling public events, prohibiting public and private gatherings, and requiring people to stay home unless leaving for an essential function.

The Mayor issued an Emergency Proclamation in response to the COVID-19 public health crisis in March of 2020. The situation evolved rapidly and resulted in closures of City facilities and parks. Non-essential staff were transitioned to telework, while additional protective measures were put in place for essential workers who could not telework. Preliminary estimates indicated a \$7.8 million revenue loss to the General Fund, primarily from reduced sales tax and recreation revenues. The Mayor called for all departments to immediately reduce spending in order to balance the budget. Measures totaling \$5.6 million included a voluntary separation incentive program, holding positions vacant, reduced hours for part-time/seasonal recreation employees, and foregoing the purchase of non-essential equipment, goods, and services.

Note 5 – Other Disclosures (Continued)

In November of 2020, the City Council passed a resolution authorizing the use of up to \$2.2 million in reserves to balance the General Fund and confirming that the 2021-2022 budget could have General Fund reserves under the 2.5 month minimum required in policy. At the time of 2021-2022 budget adoption, it was estimated that the draw-down on reserves would be less than \$2 million. The actual amount of transfer needed was only \$1.13 million. The General Fund had 2.2 months of operating reserves as of the end of 2020.

The State and Snohomish County allocated \$2 million in federal Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") funds to the City in 2020, which the City used to reimburse itself for necessary expenditures incurred due to the public health emergency with respect to the COVID-19. Expenditures included addressing medical or public health needs, as well as expenditures incurred to respond to second-order effects of the emergency, such as by providing economic support to those suffering from employment or business interruptions. Funds were distributed on a reimbursement basis through December 31, 2020.

See Note 4-H, Subsequent Events, for additional information related to additional federal COVID-19 relief funding legislation that was passed in 2021 from which the City will receive approximately \$8.52 million over the course of two years.

REQUIRED SUPPLEMENTARY INFORMATION

City of Lynnwood, Washington Schedule of Revenues - Budget and Actual General Fund For the Biennium Ended December 31, 2020

	2019 Bier	Driginal Final 19-2020 2019-2020 iennial Biennial Budget Budget			2019 Actual		2020 Actual	Variance With Final Budget
Revenues		-	9					
Taxes:								
Property tax	\$	8,455,000	\$ 8,355,000	\$	3,991,045	\$	4,280,479	\$ (83,476)
Sales tax	4	8,988,457	48,988,457		23,662,407		21,020,927	(4,305,123)
Business taxes	14	4,522,051	14,522,051		6,726,034		5,878,987	(1,917,030)
Other taxes		8,650	8,650		3,719		8,357	 3,426
Total Taxes	7	1,974,158	71,874,158		34,383,205		31,188,750	 (6,302,203)
Licenses and Permits:								
Business licenses		5,235,247	6,235,247		1,747,113		2,552,390	(1,935,744)
Franchise fees		999,251	999,251		442,681		442,577	(113,993)
Permits and fees	;	3,794,300	3,794,300		1,468,116		2,461,621	 135,437
Total Licenses and Permits	1	1,028,798	11,028,798		3,657,910		5,456,588	 (1,914,300)
Intergovernmental:								
Liquor Board taxes		1,022,805	1,022,805		526,303		580,105	83,603
Streamlined sales tax		257,718	257,718		-		-	(257,718)
Other		3,972,382	7,141,646		2,458,966	_	2,629,192	 (2,053,488)
Total Intergovernmental	;	5,252,905	8,422,169		2,985,269		3,209,297	 (2,227,603)
Charges for Services:								
Planning fees	:	2,636,214	2,636,214		609,736		957,496	(1,068,982)
Interfund	•	4,390,041	4,390,041		-		-	(4,390,041)
Recreation	:	5,343,350	5,350,350		2,405,748		889,450	(2,055,152)
Other		1,148,947	1,141,947		391,800		148,161	 (601,986)
Total Charges for Services	1;	3,518,552	13,518,552		3,407,284		1,995,107	 (8,116,161)
Fines and Forfeitures:		9,141,660	9,141,660		4,774,184		3,112,338	 (1,255,138)
Miscellaneous								
Investment interest		406,864	406,864		291,274		214,224	98,634
Rents and concessions		1,045,250	1,061,750		412,286		157,398	(492,066)
Other		701,660	685,660		206,130		124,249	 (355,281)
Total Miscellaneous		2,153,774	2,154,274		909,690		495,871	 (748,713)
Total Revenues	\$ 113	3,069,847	\$ 116,139,611	\$	50,117,542	\$	45,457,951	\$ (20,564,118)

City of Lynnwood, Washington Schedule of Expenditures - Budget and Actual General Fund For the Biennium Ended December 31, 2020

		Original 2019-2020 Biennial Budget	Final 2019-2020 Biennial Budget			2019 Actual				Variance With Final Budget
Expenditures										
General Government										
Legislative/executive	\$	2,221,599	\$	2,217,484	\$	1,024,299	\$	1,020,663	\$	172,522
Administrative services		7,653,752		8,219,789		1,547,379		2,908,357		3,764,053
Information Technology		4,982,295		5,120,866		2,058,790		2,307,455		754,621
Legal		3,348,654		3,348,654		1,713,925		1,608,960		25,769
Human Resources		2,138,387		2,136,267		686,047		897,160		553,060
Property management		3,602,606		3,599,600		1,410,304		1,422,728		766,568
Total General Government		23,947,293		24,642,660		8,440,744		10,165,323		6,036,593
Economic Environment		12,259,706		13,550,089		4,249,562		4,241,544		5,058,983
Judicial		2,287,935		2,285,532		1,024,232		1,014,419		246,881
Culture & Recreation	-	15,980,334		16,029,201	_	7,415,174		5,857,382	-	2,756,645
Public Safety										
Police		44,445,815		44,402,353		21,551,260		19,682,120		3,168,973
Fire		1,936,442		2,276,882	_	1,176,835	_	1,128,477		(28,430)
Total Public Safety		46,382,257		46,679,235		22,728,095		20,810,597	-	3,140,543
Social Services		1,179,517		1,177,988		553,170		447,230		177,588
Transportation		4,036,032		4,154,243		1,165,626		1,481,523		1,507,094
Debt Service		1,000		1,000						1,000
Capital Outlay		10,000		197,000		115,283		181,853		(100,136)
Total Expenditures	\$	106,084,074	\$	108,716,948	\$	45,691,886	\$	44,199,871	\$	18,825,191

The City's budget is adopted on a GAAP basis.

City of Lynnwood, Washington Schedule of Proportionate Share of the Net Pension Liability/Asset As of June 30

PERS 1

Employer's proportion of the net pension liability		_	2020 0.131507%		2019 0.139755%		2018 0.141150%		2017 0.142394%	_	2016 0.132475%	_	2015 0.136623%
Employer's proportionate share of the net pension liability			4,642,907	\$		\$	6,303,807	\$	6,756,706	\$		\$	
Covered payroll			18.699.054		19,984,221		18,716,670		17,249,159		15,699,939		15,566,793
Employer's proportionate share of the net pension liability as a percentage of covered payroll			24.83%		26.89%		33.68%	-	39.17%	Ψ.	45,32%		45.91%
Plan fiduciary net position as a percentage of the total pension liability			68.64%		67.12%		63.22%		61.24%		57.03%		59.10%
	PERS 2/3												
			2020	_	2019		2018	_	2017		2016	_	2015
Employer's proportion of the net pension liability			0.158922%		0.167356%		0.171192%		0.173956%		0.160135%		0.166966%
Employer's proportionate share of the net pension liability			2,032,522	\$	1,625,596	\$	2,922,951	\$	6,044,139	\$	-,,	\$	5,965,790
Covered payroll		\$ 1	18,630,526	\$	18,607,574	\$	17,769,774	\$	16,452,758	\$	14,924,219	\$	14,819,525
Employer's proportionate share of the net pension liability as a percentage of covered payroll			10.91%		8.74%		16.45%		36.74%		54.02%		40.26%
Plan fiduciary net position as a percentage of the total pension liability			97.22%		97.77%		95.77%		90.97%		85.82%		89.20%
	PSERS 2		2020		2019		2018		2017		2016		2015
Employer's proportion of the net pension liability	PSERS 2		2020 0.192976%		2019 0.267048%		2018 0.227010%	_	2017 0.218084%		2016 0.209520%		2015 0.231513%
Employer's proportion of the net pension liability Employer's proportionate share of the net pension liability (asset)	PSERS 2	\$		s		\$		\$		\$		\$	
	PSERS 2	\$	0.192976%	s s	0.267048%	s s	0.227010%	\$ \$	0.218084%	s s	0.209520%	s s	0.231513%
Employer's proportionate share of the net pension liability (asset)	PSERS 2	\$	0.192976% (26,553)		0.267048% (34,727)		0.227010% 2,813		0.218084% 42,729		0.209520% 89,042		0.231513% 42,256
Employer's proportionate share of the net pension liability (asset) Covered payroll	PSERS 2	\$	0.192976% (26,553) 1,136,207		0.267048% (34,727) 1,330,176		0.227010% 2,813 890,458		0.218084% 42,729 742,200		0.209520% 89,042 679,047		0.231513% 42,256 677,061
Employer's proportionate share of the net pension liability (asset) Covered payroll Employer's proportionate share of the net pension liability (asset) as a percentage of covered payroll		\$	0.192976% (26,553) 1,136,207 -2.34%		0.267048% (34,727) 1,330,176 -2.61%		0.227010% 2,813 890,458 0.32%		0.218084% 42,729 742,200 5.76%		0.209520% 89,042 679,047 13.11%		0.231513% 42,256 677,061 6.24%
Employer's proportionate share of the net pension liability (asset) Covered payroll Employer's proportionate share of the net pension liability (asset) as a percentage of covered payroll	PSERS 2	\$	0.192976% (26,553) 1,136,207 -2.34%		0.267048% (34,727) 1,330,176 -2.61%		0.227010% 2,813 890,458 0.32%		0.218084% 42,729 742,200 5.76%		0.209520% 89,042 679,047 13.11%		0.231513% 42,256 677,061 6.24%
Employer's proportionate share of the net pension liability (asset) Covered payroll Employer's proportionate share of the net pension liability (asset) as a percentage of covered payroll		\$	0.192976% (26,553) 1,136,207 -2.34% 101.68%		0.267048% (34,727) 1,330,176 -2.61% 101.85%		0.227010% 2,813 890,458 0.32% 99.79%		0.218084% 42,729 742,200 5.76% 96.26%		0.209520% 89,042 679,047 13.11% 90.41%		0.231513% 42,256 677,061 6.24% 95.08%
Employer's proportionate share of the net pension liability (asset) Covered payroll Employer's proportionate share of the net pension liability (asset) as a percentage of covered payroll Plan fiduciary net position as a percentage of the total pension liability Employer's proportion of the net pension asset Employer's proportionate share of the net pension asset		\$ \$	0.192976% (26,553) 1,136,207 -2.34% 101.68% 2020 0.099087% 1,871,267	\$ 	0.267048% (34,727) 1,330,176 -2.61% 101.85% 2019 0.099898% 1,974,595	\$	0.227010% 2,813 890,458 0.32% 99.79% 2018 0.099543% 1,807,205	s	0.218084% 42,729 742,200 5.76% 96.26% 2017 0.097900% 1,485,358		0.209520% 89,042 679,047 13.11% 90.41% 2016 0.096516% 994,391		0.231513% 42,256 677,061 6.24% 95.08% 2015 0.095558% 1,151,685
Employer's proportionate share of the net pension liability (asset) Covered payroll Employer's proportionate share of the net pension liability (asset) as a percentage of covered payroll Plan fiduciary net position as a percentage of the total pension liability Employer's proportion of the net pension asset Employer's proportionate share of the net pension asset State's proportionate share of the net pension asset associated with the employer		\$ \$ \$ \$ 1	0.192976% (26,553) 1,136,207 -2.34% 101.68% 2020 0.099087% 1,871,267 12,657,203	s s s	0.267048% (34,727) 1,330,176 -2.61% 101.85% 2019 0.099898% 1,974,595 13,356,111	\$ \$ \$	2,813 890,458 0.32% 99.79% 2018 0.099543% 1,807,205 12,223,890	\$ \$ \$	0.218084% 42,729 742,200 5.76% 96.26% 2017 0.097900% 1,485,358 10,046,927	s s s	0.209520% 89,042 679,047 13.11% 90.41% 2016 0.096516% 994,391 6,726,036	s s s	0.231513% 42,256 677,061 6.24% 95.08% 2015 0.095558% 1,151,685 7,789,969
Employer's proportionate share of the net pension liability (asset) Covered payroll Employer's proportionate share of the net pension liability (asset) as a percentage of covered payroll Plan fiduciary net position as a percentage of the total pension liability Employer's proportion of the net pension asset Employer's proportionate share of the net pension asset State's proportionate share of the net pension asset associated with the employer TOTAL		\$ \$ \$ \$ 1	0.192976% (26,553) 1,136,207 -2.34% 101.68% 2020 0.099087% 1,871,267	s s s	0.267048% (34,727) 1,330,176 -2.61% 101.85% 2019 0.099898% 1,974,595	s s s s	0.227010% 2,813 890,458 0.32% 99.79% 2018 0.099543% 1,807,205	\$ \$ \$ \$	0.218084% 42,729 742,200 5.76% 96.26% 2017 0.097900% 1,485,358	s s s	0.209520% 89,042 679,047 13.11% 90.41% 2016 0.096516% 994,391 6,726,036	s s s	0.231513% 42,256 677,061 6.24% 95.08% 2015 0.095558% 1,151,685
Employer's proportionate share of the net pension liability (asset) Covered payroll Employer's proportionate share of the net pension liability (asset) as a percentage of covered payroll Plan fiduciary net position as a percentage of the total pension liability Employer's proportion of the net pension asset Employer's proportionate share of the net pension asset State's proportionate share of the net pension asset associated with the employer TOTAL Covered payroll		\$ \$ \$ \$ 1	0.192976% (26,553) 1,136,207 -2.34% 101.68% 2020 0.099087% 1,871,267 12,657,203 4,528,470	s s s	0.267048% (34,727) 1,330,176 -2.61% 101.85% 2019 0.099898% 1,974,595 13,356,111 15,330,705	\$ \$ \$	2,813 890,458 0.32% 99.79% 2018 0.099543% 1,807,205 12,223,890 14,031,095	\$ \$ \$	0.218084% 42,729 742,200 5.76% 96.26% 2017 0.097900% 1,485,358 10,046,927 11,532,286	s s s	0.209520% 89,042 679,047 13.11% 90.41% 2016 0.096516% 994,391 6.726,036 7,720,427	s s s	0.231513% 42,256 677,061 6.24% 95.08% 2015 0.095558% 1,151,685 7,789,969 8,941,654
Employer's proportionate share of the net pension liability (asset) Covered payroll Employer's proportionate share of the net pension liability (asset) as a percentage of covered payroll Plan fiduciary net position as a percentage of the total pension liability Employer's proportion of the net pension asset Employer's proportionate share of the net pension asset State's proportionate share of the net pension asset associated with the employer TOTAL		\$ \$ \$ \$ 1	0.192976% (26,553) 1,136,207 -2.34% 101.68% 2020 0.099087% 1,871,267 12,657,203	s s s	0.267048% (34,727) 1,330,176 -2.61% 101.85% 2019 0.099898% 1,974,595 13,356,111	s s s s	2,813 890,458 0.32% 99.79% 2018 0.099543% 1,807,205 12,223,890	\$ \$ \$ \$	0.218084% 42,729 742,200 5.76% 96.26% 2017 0.097900% 1,485,358 10,046,927	s s s	0.209520% 89,042 679,047 13.11% 90.41% 2016 0.096516% 994,391 6,726,036	s s s	0.231513% 42,256 677,061 6.24% 95.08% 2015 0.095558% 1,151,685 7,789,969

City of Lynnwood, Washington Schedule of Employer Contributions As of December 31

PERS 1

	_	2020		2019		2018	_	2017	_	2016		2015
Contractually required contributions	\$	979,983	\$	991,659	\$	974,283	\$	875,695	\$	815,773	\$	666,898
Contributions in relation to the contractually required contributions		(979,983)		(991,659)	_	(974,283)	_	(875,695)	_	(815,773)		(666,898)
Contribution deficiency (excess)	\$		\$		\$		\$		\$		\$	-
Covered payroll	\$	19,105,465	\$	19,973,778	\$	19,206,552	\$	17,822,990	\$	16,981,523	\$	15,137,651
Contributions as a percentage of covered payroll		5.13%		4.96%		5.07%		4.91%		4.80%		4.41%
		PERS 2/3										
		2020		2019		2018		2017		2016		2015
Contractually required contributions	\$	1,507,080	\$	1,424,123	\$	1,352,402	\$	1,159,549	\$	1,773,885	\$	1,441,968
Contributions in relation to the contractually required contributions		(1,507,080)		(1,424,123)		(1,352,402)		(1,159,549)		(1,773,885)		(1,441,968)
Contribution deficiency (excess)	\$		\$		\$		\$		\$		\$	-
Covered payroll	\$	19,031,231	\$	18,664,837	\$	18,039,335	\$	17,006,678	\$	16,127,212	\$	14,415,414
Contributions as a percentage of covered payroll		7.92%		7.63%		7.50%		6.82%		11.00%		10.00%
		PSERS 2										
		2020		2019		2018		2017		2016		2015
Contractually required contributions	\$	87,412	•	88,603	\$	73,584	\$	86,976	\$	86,478	\$	71,594
	3		Þ		Þ		J		Þ		Ф	,
Contributions in relation to the contractually required contributions	_	(87,412)	_	(88,603)	_	(73,584)	_	(86,976)	_	(86,478)	_	(71,594)
Contribution deficiency (excess)	\$	-	\$	-	\$		\$		\$		\$	-
Covered payroll	\$	1,214,056	\$	1,242,756	\$	1,074,157	\$	760,560	\$	761,251	\$	658,733
Contributions as a percentage of covered payroll		7.20%		7.13%		6.85%		11.44%		11.36%		10.87%
		LEOFF 2										
		2020		2019		2018		2017		2016		2015
Statutorily or contractually required contributions	\$	458,033	\$	459,958	\$	417,061	\$	684,235	\$	719,240	\$	641,223
Contributions in relation to the statutorily or contractually required contributions	\$	(458,033)	\$	(459,958)	\$	(417,061)	\$	(684,235)	\$	(719,240)	\$	(641,223)
Contribution deficiency (excess)	\$	-	\$		\$		\$		\$		\$	-
Covered payroll	\$	8,893,832	\$	8,837,932	\$	7,944,020	\$	13,337,545	\$	14,242,374	\$	12,697,473

Note to Schedule:

The City currently does not have 10 years of pension data available. Schedule prepared prospectively from 2015.

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

	2020	2019	2018	2017	2016	2015	2014
Total pension liability							
Service cost	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Interest	40,740	50,965	43,728	48,141	47,947	41,432	41,801
Changes in benefit terms	-	-	-	-	-	-	54,392
Differences between expected and actual experience	146,585	356,504	-	116,948	(38,717)	32,573	-
Changes of assumptions	(130,094)	(114,417)	(132,101)	104,541	-	194,582	-
Benefit payments	(76,327)	(95,102)	(95,103)	(96,468)	(94,313)	(70,585)	(73,119)
Net change in total pension liability	(19,096)	197,950	(183,476)	173,162	(85,083)	198,002	23,074
Total pension liability - beginning	1,519,629	1,321,679	1,505,155	1,331,993	1,417,076	1,219,074	1,196,000
Total pension liability - ending (a)	1,500,533	1,519,629	1,321,679	1,505,155	1,331,993	1,417,076	1,219,074
Plan fiduciary net position							
Contributions - employer	66,367	62,165	61,710	54,134	55,130	55,515	56,875
Contributions - nonemployer contributing entities	-	-	-	-	-	-	-
Contributions - employee	-	-	-	-	-	-	-
Net investment income	6,393	9,686	3,639	7,108	-	-	651
Benefit payments, including refunds of contributions	(76,327)	(95,102)	(95,103)	(96,468)	(94,313)	(70,585)	(73,119)
Administrative expense	-	(2,000)	(4,500)	(2,000)	(4,250)	-	(21,825)
Other					(59,479)	(90,652)	(45,326)
Net change in plan fiduciary net position	(3,567)	(25,251)	(34,254)	(37,226)	(102,912)	(105,722)	(82,744)
Plan fiduciary net position - beginning	310,027	335,278	369,532	406,758	509,670	615,392	698,136
Plan fiduciary net position - ending (b)	\$ 306,460	\$ 310,027	\$ 335,278	\$ 369,532	\$ 406,758	\$ 509,670	\$ 615,392
Net pension liability ending (a) - (b)	\$ 1,194,073	\$ 1,209,602	\$ 986,401	\$ 1,135,623	\$ 925,235	\$ 907,406	\$ 603,682
• • • • • • • • • • • • • • • • • • • •							
Plan fiduciary net position as a % of total pension liability (b)/(a)	20.4%	20.4%	25.4%	24.6%	30.5%	36.0%	50.5%
Covered payroll	0	0	0	0	0	0	0
Net pension liability as a % of covered employee payroll	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

Notes to Schedule:

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

The City currently does not have 10 years of pension data available. Schedule prepared prospectively from 2014.

City of Lynnwood, Washington

Schedule of Employer Contributions Firemen's Pension Last 10 Fiscal Years

	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011	
Actuarially/statutorily/contractually determined contribution Actual contribution in relation to the above *	\$ 116,323 66,367	\$ 105,216 62,165	\$105,216 60,146	\$ 77,442 54,134	\$ 77,442 (4,349)	\$ 43,999 (35,137)	\$ 43,999 (10,276)	\$ 51,946 (3,753)	\$ 51,946 1,536	\$ 49,477 (11,407)	
Contribution deficiency (excess)	\$ 49,956	\$ 43,051	\$ 45,070	\$ 23,308	\$ 81,791	\$ 79,136	\$ 54,275	\$ 55,699	\$ 50,410	\$ 60,884	
Covered payroll	-	-	-	-	-	-	-	-	-	-	
Contributions as a % of covered-employee payroll	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	

Notes to Schedule:

Valuation Full date: December 31, 2019
Methods and assumptions used to determine contribution rates:
Actuarial cost method - entry age normal
Amortization method - 30-year, closed as of January 1, 1999
Remaining amortization period - 15 Years
Asset valuation method - Fair Value
Inflation - 2.00%
Salary increases - 2.50%
Investment rate of return - 4.00%
Mortality - RP-2000 using scale BB

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

City of Lynnwood, Washington

Schedule of Investment Returns Firemen's Pension Last 10 Fiscal Years

	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Annual money-weighted rate of return, net of investment expense	2.07%	3.00%	1.03%	1.83%	0.00%	0.00%	0.09%	0.14%	0.16%	0.22%

City of Lynnwood, Washington

Schedule of Changes in Total OPEB Liability and Related Ratios LEOFF 1 Retiree Medical and Long-Term Care Benefits Last Three Fiscal Years (1)

		June 30, ⁽²⁾						
	2020		2019			2018		
Total OPEB liability - beginning	\$	9,854,835	\$	11,617,646	\$	12,036,582		
Service cost		-		-		-		
Interest		337,538		441,313		422,777		
Changes in benefit terms		-		-		-		
Differences between expected and actual experience								
Changes of assumptions		901,628		(1,771,614)		(383,326)		
Benefit payments Other changes		(425,433)		(432,510)		(458,387)		
Net change in total OPEB liability		813,733	_	(1,762,811)		(418,936)		
Total OPEB liability - ending	\$	10,668,568	\$	9,854,835	\$	11,617,646		
Covered payroll		-		-		-		
Total OPEB liability as a % of covered payroll		N/A		N/A		N/A		

Notes to Schedule:

No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB 75.

 $^{^{(1)}}$ Until a full 10-year trend is compiled, only information beginning with 2018 is presented.

⁽²⁾ Although the City is reports on a December 31 year end, the valuation dates are as of June 30.



APPENDIX D

DTC AND ITS BOOK-ENTRY SYSTEM

The following information has been provided by DTC. The City takes no responsibility for the accuracy or completeness thereof, or for the absence of material changes in such information subsequent to the date hereof. Beneficial Owners should confirm the following with DTC or the Participants (as hereinafter defined).

- 1. The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the Bonds. The Bonds will be issued as fully registered securities 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, each in the aggregate principal amount represented by such Bonds, and will be deposited with DTC.
- DTC, the world's largest 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 bookentry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of Bond 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 agencies. 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, 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 a S&P Global Ratings 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.
- 3. Purchases of Bonds under the DTC system 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 expected, however, 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 Direct Participants with DTC are to be 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 shall 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 shall be sent to DTC. If less than all of the Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity 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 the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).
- 8. 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 the 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. Payments to Cede & Co. (or any other nominee as may be requested by an authorized representative of DTC) are 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 depository with respect to the Bonds at any time by giving reasonable notice to the City or the Bond Registrar. Under such circumstances, in the event that a successor depository is not obtained, Bonds are required to be printed and delivered.
- 10. The City may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Bonds will be printed and delivered to DTC.