

## Management's Discussion and Analysis

The management discussion and analysis section of the City of Mount Vernon's annual financial report provides a narrative overview of the City's financial activities for and financial position at the end of December 31, 2007. This information should be read in conjunction with the financial statements and notes to the financial statements that follow.

### Financial Highlights

- Net assets, the amount by which total assets exceed total liabilities, equal \$214,564,071. A total of 84%, or \$181,136,045, of total net assets is invested in capital such as streets, land and buildings. Of the remaining net assets, 15%, or \$31,935,953, of total net assets is available to meet the government's ongoing activities and obligations, and 1%, or \$1,492,073, is restricted for debt service.
- The City of Mount Vernon's net assets increased by \$15,157,581 in 2007, representing an 8% increase over 2006 net assets. Capital assets net of current year depreciation in 2007 increased \$22,176,261, or 12%. Included in increases to capital assets for 2007 was \$9,260,220 of infrastructure contributed by developers for sewer expansions and storm water improvements.
- Governmental fund balances at year end were \$14,908,204, a \$2,638,389 or 22% increase over the prior year. Of this amount, a total of \$14,679,410, or 99%, of the governmental fund balance is unreserved and available to fund ongoing activities with \$5,754,231 being earmarked for capital project activities.
- Unreserved fund balance in the general fund was \$6,340,143, an increase of \$774,950 from the prior year. The largest contributing factor for the 14% increase in fund balance is due primarily to continued strong construction activity and a strong economy in the City

resulting in additional collections of sales and property tax, and building permit related revenues. The other factor for the increase is due to the General Fund under spending the 2007 budget by 5% due largely to unfilled budgeted positions during 2007.

- The City's total long-term debt increased by \$7,785,973 resulting primarily from loans issued to finance the wastewater treatment plant expansion and upgrade project.

### Overview of the Financial Statements

The City's basic financial statements are presented in three parts: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. Other supplementary information in addition to the basic financial statements is also contained in this report. This section of the management's discussion and analysis is intended to introduce and explain the basic financial statements.

### Government-Wide Financial Statements

The government-wide financial statements are designed to give the reader a picture of the financial condition and activities of the City as a whole. This broad overview is similar to the financial reporting of private-sector businesses. The government-wide financial statements have separate columns for governmental activities and business-type activities. Governmental activities of the City include general government, security of persons and property (police and fire), physical environment, transportation, economic environment and culture & recreation. Property, sales, and utility taxes finance the majority of these functions. The City's business-type activities are wastewater, health and sanitation and surfacewater. The City's business-type activities are self supporting through user fees and charges.

The **Statement of Net Assets** presents information on all of the City's assets and liabilities, highlighting the difference between the two as net assets. This statement is similar to the balance sheet of a private sector business.

The **Statement of Net Activities** presents both the gross and net cost of various activities, both governmental and business-type, which are provided by the City. The statement distinguishes revenue generated by specific functions from revenue provided by taxes and other sources not related to a specific function. The revenue generated by specific functions (charges for services, grants, and contributions) is compared to the expenses for those functions to show a net cost for each specific function.

#### **Fund Financial Statements**

The annual financial report includes fund financial statements in addition to the government-wide financial statements. Some funds are required to be established by State law and by bond covenants, while the City Council establishes many other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes or grants. The City's two kinds of funds, governmental and proprietary, use different accounting approaches.

**Governmental funds** are used to account for most of the City's basic services, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Comparing the

governmental fund statements with the government-wide statements can help the reader better understand the long term impact of the City's current year financing decisions. To assist in this comparison, reconciliations between the governmental fund statements and the government-wide financial statements are included with the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balance.

The City of Mount Vernon maintains several individual governmental funds; however, only one City fund is categorized as a major governmental fund, the General Fund. All other governmental funds are combined into a single column labeled *other governmental funds*.

The City maintains budgetary control over its operating funds through the adoption of an annual budget, which is adopted at the fund level and according to state law. A budgetary comparison statement is presented for the general fund as a basic financial statement.

**Proprietary funds** are used by the City to account for business-type activities. Business-type activities provide specific goods or services to a group of customers that are paid for by fees charged to those customers. There is a direct relationship between the fees paid and the services received.

The City of Mount Vernon has two types of proprietary funds; enterprise and internal service funds. Enterprise funds are used to account for goods and services provided to outside customers (citizens and businesses). Internal service funds are used to account for goods and services provided internally to various city departments.

Enterprise funds of the City are used to report the same functions presented as business-type activities in the government-wide statements with the fund statements providing more detail than is reported in the government-wide statements. The

enterprise fund statements provide separate information for the City's wastewater utility, health and sanitation utility and the City's surfacewater utility.

Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for its fleet of vehicles and medical self-insurance.

**Fiduciary funds** account for assets held by the City in a trustee capacity for other governments, private organizations or individuals. Fiduciary funds are not included in the government-wide financial statements because the assets are not available to support the City of Mount Vernon's activities.

### Government-Wide Statement

#### Statement of Net Assets

The following is a condensed version of the statement of net assets for 2007 compared to 2006.

Table 1  
Statement of Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2007	2006	2007	2006	2007	2006
Current and other assets	\$ 23,376,964	\$ 20,486,601	\$ 13,372,384	\$ 14,670,811	\$ 36,749,348	\$ 35,157,412
Capital assets, net of					-	-
accumulated depreciation	105,519,294	103,645,313	98,904,259	78,601,979	204,423,553	182,247,292
Total assets	128,896,258	124,131,914	112,276,643	93,272,790	241,172,901	217,404,704
Long-term liabilities	6,111,582	7,179,000	14,923,408	5,939,628	21,034,990	13,118,628
Other liabilities	3,208,279	3,000,914	2,365,561	1,878,672	5,573,840	4,879,586
Total liabilities	9,319,861	10,179,914	17,288,969	7,818,300	26,608,830	17,998,214
Net assets						
Invested in capital assets,					-	-
net of related debt	98,624,294	95,434,313	82,511,751	71,311,444	181,136,045	166,745,757
Restricted	2,030,661	1,754,707	1,264,066	1,169,513	3,294,727	2,924,220
Unrestricted	18,921,442	16,762,980	11,211,857	12,973,533	30,133,299	29,736,513
Total net assets	\$ 119,576,397	\$ 113,952,000	\$ 94,987,674	\$ 85,454,490	\$ 214,564,071	\$ 199,406,490

The largest component of the City's net assets, 84% or \$181,136,045, is its investment in capital assets less any related outstanding debt issued to acquire those assets. These capital assets such as streets, bridges, buildings, land, sewer and storm water lines, and sewer treatment plant are used to provide services to the citizens and businesses of the City.

Net assets of the City's governmental activities increased 5% or \$5,624,397 in 2007 due primarily to the strong economic and construction environment in our City during 2007. These increases were recognizable in property tax, sales tax,

building related permit revenues and interest earnings.

Net assets of the City's business type activities increased 11% or \$9,533,184 in 2007 with the majority of the increase, \$9,260,220, coming from infrastructure contributed by developers for sewer and storm water improvements. Net assets of the business type activities can only be used to finance the continuing operations of wastewater, health and sanitation, and surfacewater.

**Governmental activities** accounted for 37% or \$5,624,397 of the total increase in the

City's net assets of \$15,157,581. Key elements of the increase are as follows:

- \$1,873,981 of the governmental activities increase came from capital assets activity in 2007. The City did not have any major projects under construction in 2007 with the exception of the Kiwanis Park development project which capital costs totaled \$1,462,708 for the year. Revenues to fund capital assets are recorded as program or general revenues in the statement of activities. The associated construction expenses are not recorded as expenses in the year of construction but rather are allocated to expense over the lives of the assets through depreciation expense.
- Revenues that support ongoing operations were very stable with almost all major revenues showing modest increases over the prior year, such as an increase to property tax revenues resulting solely from new construction of 7% as compared to 2006. Utility tax revenues increased 11%, sales tax increased 3%, and investment interest increased 42% compared to 2006.
- Property tax revenue increased \$397,755 or 7% compared to 2006. The City did not increase property taxes in 2007 representing the third year in a row that the City did not take the lawfully allowable 1% increase in property tax revenues. The entire increase in property tax is attributable to new construction being added to the tax rolls in 2007. \$124,213,612 of new construction assessed value was added to the tax rolls in 2007.
- Investment earnings for government activities increased \$380,171 or 42% from 2006 due to favorable interest rates and due to the increase in cash balances as compared to 2006.

**Business-type activities** of the City's utilities increased the City of Mount

Vernon's net assets by \$9,533,184, or 63% of the total increase in net assets.

- Capital assets for business-type activities increased \$20,302,280, accounting for more than 100% of the increase in net assets for business-type activities. However, by comparison capital assets net of related debt increased \$11,200,307 compared to 2006. \$10,452,880 of loans were issued by the wastewater utility associated with the construction of the wastewater treatment plant expansion and upgrade project. Capital contributions from developers account for \$9,260,220 of the increase in capital assets net of accumulated depreciation for 2007.
- Operating revenues for the wastewater utility showed a nominal increase of \$88,197, or 1% compared to 2006. Unrestricted net assets in the wastewater utility were 11% of total net assets, which reflects a decrease of 19% compared to the prior year.
- The health and sanitation fund had a 3% increase in operating revenues primarily due to strong construction activity in the City. Unrestricted net assets which represent 99% of total net assets increased 2% or \$57,142 over 2006.
- The surfacewater utility showed a nominal increase in operating revenue of 1% compared to 2006. Unrestricted net assets represent 3% of total net assets, which reflects a 17% or \$147,952 decrease in unrestricted net assets compared to 2006.
- No utility rate increases were implemented in 2007. As residential construction remained strong in 2007, it is reasonable that a portion of the revenue increases can be attributed to increases from additional customers and/or usage of services.
- Investment earnings for the business-type activities increased \$58,978 or 13% compared to 2006 due to higher interest rates.

**Changes in Net Assets**

The following schedule shows the revenues, expenses, and related changes in net assets in tabular form for the governmental activities separate from the business-type activities for 2007 and 2006.

Table 2  
Changes in Net Assets

	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
Revenues:						
Program revenues						
Charges for services	\$ 4,170,959	\$ 4,114,454	\$ 12,067,076	\$ 11,849,517	\$ 16,238,035	\$ 15,963,971
Operating grants and contributions	1,499,029	1,693,342	-	-	1,499,029	1,693,342
Capital grants and contributions	3,881,833	1,307,493	10,360,349	12,008,438	14,242,182	13,315,931
General revenues						
Property taxes	6,314,413	5,916,658	-	-	6,314,413	5,916,658
Sales taxes	5,927,202	5,779,558	-	-	5,927,202	5,779,558
Utility taxes	3,566,141	3,216,379	-	-	3,566,141	3,216,379
Real estate excise taxes	1,373,270	1,589,095	-	-	1,373,270	1,589,095
Other taxes	1,265,125	1,232,750	-	-	1,265,125	1,232,750
Investment interest	1,285,423	905,252	501,257	442,279	1,786,680	1,347,531
Miscellaneous	8,821	20,845	192,640	42,059	201,461	62,904
Transfers, internal	272,325	175,000	(272,325)	(175,000)	-	-
Total revenues	<u>29,564,541</u>	<u>25,950,826</u>	<u>22,848,997</u>	<u>24,167,293</u>	<u>52,413,538</u>	<u>50,118,119</u>
Expenses:						
General government	3,403,279	3,147,881	-	-	3,403,279	3,147,881
Security	10,926,482	10,046,680	-	-	10,926,482	10,046,680
Physical environment	1,315,160	1,399,005	-	-	1,315,160	1,399,005
Transportation	4,180,029	3,873,947	-	-	4,180,029	3,873,947
Economic environment	1,110,877	623,796	-	-	1,110,877	623,796
Culture and recreation	2,675,098	2,462,222	-	-	2,675,098	2,462,222
Interest on long-term debt	329,219	280,883	-	-	329,219	280,883
Wastewater	-	-	7,031,832	6,233,553	7,031,832	6,233,553
Health and sanitation	-	-	4,299,164	4,217,069	4,299,164	4,217,069
Surfacewater	-	-	1,984,817	1,778,049	1,984,817	1,778,049
Total expenses	<u>23,940,144</u>	<u>21,834,414</u>	<u>13,315,813</u>	<u>12,228,671</u>	<u>37,255,957</u>	<u>34,063,085</u>
Change in net assets	5,624,397	4,116,412	9,533,184	11,938,622	15,157,581	16,055,034
Net Assets-beginning	113,952,000	109,835,588	85,454,490	73,515,868	199,406,490	183,351,456
Net Assets-ending	<u>\$ 119,576,397</u>	<u>\$ 113,952,000</u>	<u>\$ 94,987,674</u>	<u>\$ 85,454,490</u>	<u>\$ 214,564,071</u>	<u>\$ 199,406,490</u>

## Financial Analysis of the City's Funds

The purpose of the City's **Governmental Funds** is to report on near term revenues/financial resources and expenditures. This information helps determine the City's financial requirements in the near future. In particular, fund balance is a good indicator of the City's resources available at the end of the year.

The governmental funds, as presented on the balance sheet in the basic financial statement section reported fund balance of \$12,269,815, which is 40% or \$3,506,732 higher than at the beginning of the year.

- The General Fund fund balance increased \$774,950, or 14% compared to 2006. This modest increase was due in part to the General Fund under spending its budget by 5% primarily due to unfilled full-time positions. Other factors affecting the increase in fund balance are the increase in utility tax revenues, \$119,379 higher than revenue budget estimates, and investment interest of \$447,671 higher than revenue budget estimates for the year.
- The Streets, Parks and Library Funds fund balance decreased as compared to 2006 for a combined decrease in fund balance of \$257,756 or 14% which is a direct result of operational activities drawing down available fund balance reserves for these funds.
- The Capital Project Funds including Real Estate Excise Tax Funds fund balance increased \$1,591,247 or 38% reflecting a buildup of funds to be used in future years for street and other capital projects. The increase also includes a private contribution of \$1,000,000 received and not spent in 2007 that will be used for the Downtown and Waterfront flood control project
- Other governmental funds reflected minor increases and decreases in fund balance.

- The General Fund is the primary operating fund of the City through which all receipts and payments of ordinary City operations are processed, unless they are required to be accounted for in another fund. Taxes are the major revenue source. The 2007 ending fund balance is 34% of the Fund's 2007 final budget. This meets and exceeds the City's goal to have a balance sufficient to cover daily financial needs. A significant portion of this fund balance will be used in the 2008 budget for one-time expenditures while still meeting the City's goal of maintaining an appropriate fund balance level.
- 2007 expenditures in the General Fund were notably higher than the prior year due to settlement of union contracts with the police guild and fire union. The City also realized a 29% increase to medical premiums for our self-insured medical plan.

The **Proprietary Funds** provide the same type of information found in the government-wide financial statements, but in more detail. Factors concerning the finances of the City's proprietary funds have already been addressed in the discussion of the City's business-type activities.

### General Fund Budgetary Highlights

The following is a brief review of the budgeting changes from the adopted original budget to the amended final budget.

- The General Fund budget was increased a total of \$559,320 during 2007. \$240,000 of the increase was to add a transfer out from the General Fund into the Kiwanis Park Capital Project Fund. The other increases were for unanticipated increases to operating costs such as professional services in the Planning Department and Engineering Department, \$55,000 for consultant costs associated with the

City's Downtown and Waterfront Revitalization Project which were transferred into the capital project fund, and \$146,320 associated with an unanticipated mid-year increase in medical insurance premiums. The revenues associated with these increases came from undesignated fund balance, and increases in sales tax and building permit revenues.

- There were only three budget transfers between departments within the General Fund which did not increase the overall budget for the General Fund. The City Finance budget was increased \$30,000 for grant writing professional services; the Human Resources budget was increased \$50,000 for arbitration related professional services; the Fire budget was increased \$100,000 to cover the cost of union contract salary increases. The non-departmental division of the General Fund was decreased \$180,000 to accommodate the above listed budget transfers.
- The General Fund final budget for 2007 was \$18,714,551 of which \$17,717,895, or 95%, was expended for the year. It is typical that a small percentage of the General Fund budget remains unspent at year end. For the last five years (2003 through 2007) on average 95.6% of the annual General Fund budget is expended. City department managers typically do not spend 100% of all budget line items included in their annual budget. The most significant reason that the 2007 budget was 5% underspent as compared to budget is that some full time positions remained unfilled during the year. The best example of this is in the Police Department where six positions were unfilled for a portion or all of the 2007 year.

## **Capital Assets and Debt Administration**

### **Capital Assets**

The City implemented GASB Statement #34 with the 2003 financial statements. In the 2006 financial statements the City completed the phase-in associated with valuing the infrastructure component of the statement. Historically (prior to GASB Statement 34), a government's largest group of assets (e.g. roads, traffic signals, street lighting) have not been reported nor depreciated in the governmental financial statements. This statement requires that these assets be valued and reported within the Government column of the Government-Wide Statements. The City has elected to depreciate these assets over their estimated useful life.

As of December 31, 2007, the City of Mount Vernon's investment in capital assets for its governmental and business-type activities amounts to \$204,423,553 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment, art, construction in progress, infrastructure, utility systems, streets and bridges.

Capital asset increases attributed to the governmental activities totaled \$1,873,981, with business-type activities capital asset increases totaling \$20,302,280, and accounting for 92% of the total increase in capital assets for the City in 2007.

Major capital asset changes during 2007 included the following:

- No major capital projects were underway in 2007 for governmental activities with the exception of the Kiwanis Park development project which resulted in 2007 costs incurred of \$1,462,708.
- Road projects undertaken during 2007 added \$487,533 of value to the City's infrastructure.

- Wastewater capital projects included the wastewater treatment plant expansion and upgrade project which resulted in 2007 costs of \$13,308,676, with inception to date project costs of \$16,175,352. Construction of this expansion project began in March 2007 and is expected to last 24 months with completion expected in Spring 2009. The total project budget is \$38,500,000 with the primary funding source being public works trust fund loans and a loan with the Department of Ecology state revolving loan program.
- Private development contributed \$5,542,044 to sewer infrastructure and \$3,718,176 to surfacewater infrastructure in 2007.
- Other City utility projects undertaken in 2007 incurred costs totaling \$1,301,244.

### City of Mount Vernon's Capital Assets (net of depreciation)

Table 3  
Capital Assets at Year-End  
(Net of Depreciation)

	Governmental Activities		Business-Type Activities		Total	
	2007	2006	2007	2006	2007	2006
Land	\$ 36,629,437	\$ 35,485,759	\$ 2,344,731	\$ 2,344,731	\$ 38,974,168	\$ 37,830,490
Buildings	8,630,912	8,876,964	7,650,093	8,092,374	16,281,005	16,969,338
Improvements other than buildings	2,351,230	2,529,682	69,313,366	62,139,543	71,664,596	64,669,225
Machinery and equipment	4,817,007	4,221,094	626,475	376,805	5,443,482	4,597,899
Construction in progress	2,410,896	157,859	18,969,594	5,648,526	21,380,490	5,806,385
Infrastructure	50,633,663	52,352,623	-	-	50,633,663	52,352,623
Art	46,149	21,332	-	-	46,149	21,332
<b>Total</b>	<b>\$ 105,519,294</b>	<b>\$ 103,645,313</b>	<b>\$ 98,904,259</b>	<b>\$ 78,601,979</b>	<b>\$ 204,423,553</b>	<b>\$ 182,247,292</b>

Additional information on the City of Mount Vernon's capital assets can be found in note 5 of this report.

### Long-term Debt

At year-end, the City had \$23,287,508 in bonds and notes outstanding versus \$15,501,535 last year, reflecting a net increase of \$7,785,973.

Table 4  
Outstanding Debt, at Year-End  
General Obligation and Revenue Bonds

	Governmental Activities		Business-Type Activities		Total	
	2007	2006	2007	2006	2007	2006
General obligation bonds	\$ 4,540,000	\$ 4,930,000	\$ -	\$ -	\$ 4,540,000	\$ 4,930,000
Special assessment debt with governmental commitment	145,000	145,000	-	-	145,000	145,000
Revenue bonds and notes	2,210,000	3,136,000	16,392,508	7,290,535	18,602,508	10,426,535
Total	\$ 6,895,000	\$ 8,211,000	\$ 16,392,508	\$ 7,290,535	\$ 23,287,508	\$ 15,501,535

Additional information on the City of Mount Vernon's long-term debt activity can be found in note 9 of this report.

The only debt issued in 2007 was related to the wastewater treatment plant expansion and upgrade project. The City wastewater utility has a \$7,000,000 public works trust fund loan of which \$6,650,000 in loan proceeds were received in 2007. The other wastewater utility loan is a Department of Ecology state revolving loan authorized in the amount of \$20,359,763. \$3,802,880 of loan proceeds have been drawn on this loan, entirely in 2007.

The City of Mount Vernon is authorized to issue debt pursuant to the Acts of the State of Washington. With voter approval, the City can issue debt up to 2.5 percent of the assessed valuation. Without a vote, the City can incur debt up to an amount equal to 1.5 percent of the assessed valuation of taxable property within the City. The combination of unlimited tax and limited tax general obligation debt for all purposes cannot exceed 7.5 percent.

### ***Economic Factors***

The City of Mount Vernon considered many factors when setting the 2007 fiscal year budget, property tax rates and the fees that will be charged the citizens of the community for government activities and business-type activities. The state of the economy for the region, state and nation were taken into consideration in establishing

the City's annual budget for 2007. Both residential and commercial growth of the City, were factors weighed, as well as the attraction of our community as a place to live and work. The City has seen substantial growth in residential construction over the last three years and we anticipate that this growth will begin to slow. Based on these considerations as well as others, the City of Mount Vernon is cautiously optimistic above the City's future economic health while taking a very conservative view on budget growth.

The City's overall financial position has improved as compared to the prior year. The City is not facing any foreseeable restrictions or other limitations that would significantly impact funding resources for future uses.

One of the reasons the City improved its overall financial position is due to strong construction activity of large scale public projects such as the construction including the City's wastewater treatment plant project. The City understands that the spike in construction sales tax collections should not be used to fund on-going operational costs.

One significant commitment that the City has undertaken is the wastewater utility plant expansion and upgrade project. The City utility will begin seeing a significant increase in debt service costs beginning in 2009 resulting from the loan financing of this project. Sewer utility rates and sewer

connection fees are currently under review and increases in both of these fees can be expected in the near future. The last time that sewer utility rates were increased was in January 2006.

One other significant project that the City is working on is the Downtown and Waterfront Revitalization Project which has infrastructure costs estimated at \$35,000,000. The three major infrastructure components of this estimated cost include a flood control structure, a promenade that will extend the length of the core downtown area along the river and a parking facility structure in downtown. Many elements of the project are underway or have been completed such as an environmental impact statement and the overall project master plan. The City is currently working on the financing elements of the project. Only costs incurred in 2007 are minor property acquisitions, engineering costs and consultant fees related to the master plan. Construction activity is estimated to begin no earlier than 2010.

The State of Washington, by constitution, does not have a state personal income tax and therefore the state operates primarily using property, sales, business and occupation, and gasoline taxes. The City of Mount Vernon primarily relies on property, sales and utility taxes, and franchise fees to fund governmental activities.

For business-type and certain governmental activities (e.g. permitting and recreation) the user pays a related fee or charge associated with the service provided. No fees were increased during the 2007 year for business-type activities.

### **Financial Contact**

The City's financial statements are designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions

about this report or need additional financial information, contact the City's Finance Department, 910 Cleveland Avenue, P.O. Box 809, Mount Vernon, Washington, 98273.

STATEMENT OF NET ASSETS  
December 31, 2007

	Governmental Activities	Business-Type Activities	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$ 9,827,664	\$ 1,314,002	\$ 11,141,666
Investments	10,990,627	9,209,686	20,200,313
Receivables:			
Taxes	1,343,598	-	1,343,598
Accounts	39,463	1,451,975	1,491,438
Interest	106,280	90,535	196,815
Special assessments	106,722	-	106,722
Due from other governments	954,636	31,383	986,019
Inventory	7,974	-	7,974
Deferred charges	-	10,737	10,737
Restricted assets:			
Cash and cash equivalents	-	1,264,066	1,264,066
Capital assets:			
Non-depreciable	39,086,482	21,314,325	60,400,807
Depreciable, net	66,432,812	77,589,934	144,022,746
<b>Total Assets</b>	<b>128,896,258</b>	<b>112,276,643</b>	<b>241,172,901</b>
<b>LIABILITIES</b>			
Accounts payable	1,407,055	707,812	2,114,867
Employee wages payable	502,037	79,602	581,639
Interest payable	48,386	92,334	140,720
Deferred revenues	291,001	-	291,001
Noncurrent liabilities:			
Special assessment debt with government commitment due within one year	110,000	-	110,000
Other non-current due within one year	849,800	1,485,813	2,335,613
Special assessment debt with government commitment due in more than one year	35,000	-	35,000
Other non-current due in more than one year	6,076,582	14,923,408	20,999,990
<b>Total Liabilities</b>	<b>9,319,861</b>	<b>17,288,969</b>	<b>26,608,830</b>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	98,624,294	82,511,751	181,136,045
Restricted for:			
Streets and transportation	1,054,345	-	1,054,345
Culture and recreation	399,826	-	399,826
Debt service	228,007	1,264,066	1,492,073
Other purposes	348,483	-	348,483
Unrestricted	18,921,442	11,211,857	30,133,299
<b>Total Net Assets</b>	<b>\$ 119,576,397</b>	<b>\$ 94,987,674</b>	<b>\$ 214,564,071</b>

*The accompanying notes are an integral part of this statement*

STATEMENT OF ACTIVITIES  
For The Year Ended December 31, 2007

Functions/Program	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
<b>Governmental activities:</b>							
General government	\$ 3,403,279	\$ 722,726	\$ 218,424	\$ 150,000	\$ (2,312,129)	\$ -	\$ (2,312,129)
Security of persons and property	10,926,482	314,231	375,878	7,156	(10,229,217)	-	(10,229,217)
Physical environment	1,315,160	300,981	31,419	-	(982,760)	-	(982,760)
Transportation	4,180,029	654,821	748,837	1,576,221	(1,200,150)	-	(1,200,150)
Economic environment	1,110,877	1,467,007	91,150	1,200,339	1,647,619	-	1,647,619
Culture and recreation	2,675,098	711,193	33,321	948,117	(982,467)	-	(982,467)
Interest on long-term debt	329,219	-	-	-	(329,219)	-	(329,219)
Total governmental activities	<u>23,940,144</u>	<u>4,170,959</u>	<u>1,499,029</u>	<u>3,881,833</u>	<u>(14,388,323)</u>	<u>-</u>	<u>(14,388,323)</u>
<b>Business-type activities:</b>							
Wastewater	7,031,832	6,384,775	-	6,642,173	-	5,995,116	5,995,116
Health and sanitation	4,299,164	4,317,541	-	-	-	18,377	18,377
Surfacewater	1,984,817	1,364,760	-	3,718,176	-	3,098,119	3,098,119
Total business-type activities	<u>13,315,813</u>	<u>12,067,076</u>	<u>-</u>	<u>10,360,349</u>	<u>-</u>	<u>9,111,612</u>	<u>9,111,612</u>
Total government	<u>\$ 37,255,957</u>	<u>\$ 16,238,035</u>	<u>\$ 1,499,029</u>	<u>\$ 14,242,182</u>	<u>\$ (14,388,323)</u>	<u>\$ 9,111,612</u>	<u>\$ (5,276,711)</u>
<b>General revenues:</b>							
<b>Taxes:</b>							
Property taxes					6,314,413	-	6,314,413
Sales taxes					5,927,202	-	5,927,202
Utility taxes					3,566,141	-	3,566,141
Real estate excise taxes					1,373,270	-	1,373,270
Other taxes					1,265,125	-	1,265,125
Interest and investment earnings					1,285,423	501,257	1,786,680
Miscellaneous					8,821	192,640	201,461
Transfers, internal activities					272,325	(272,325)	-
Total general revenues and transfers					<u>20,012,720</u>	<u>421,572</u>	<u>20,434,292</u>
Change in net assets					5,624,397	9,533,184	15,157,581
Net assets-beginning					<u>113,952,000</u>	<u>85,454,490</u>	<u>199,406,490</u>
Net assets-ending					<u>\$ 119,576,397</u>	<u>\$ 94,987,674</u>	<u>\$ 214,564,071</u>

The accompanying notes are an integral part of this statement

BALANCE SHEET  
GOVERNMENTAL FUNDS  
December 31, 2007

	General Fund	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>			
Cash and cash equivalents	\$ 3,152,068	\$ 4,277,412	\$ 7,429,480
Investments	3,657,915	3,929,133	7,587,048
Receivables:			
Taxes	241,592	11,278	252,870
Accounts	336,625	119,863	456,488
Interest	33,466	39,760	73,226
Special assessments	-	106,722	106,722
Due from other governments	84,222	870,414	954,636
<b>Total Assets</b>	<b>\$ 7,505,888</b>	<b>\$ 9,354,582</b>	<b>\$ 16,860,470</b>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>Liabilities:</b>			
Accounts payable	\$ 553,678	\$ 548,658	\$ 1,102,336
Due to other funds	35,000	-	35,000
Deferred revenues	577,067	237,863	814,930
<b>Total Liabilities</b>	<b>1,165,745</b>	<b>786,521</b>	<b>1,952,266</b>
<b>Fund Balances:</b>			
<b>Reserved for:</b>			
Debt service	-	228,794	228,794
<b>Unreserved, reported in:</b>			
General fund	6,340,143	-	6,340,143
Special revenue funds	-	2,585,036	2,585,036
Capital project funds	-	5,754,231	5,754,231
<b>Total Fund Balances</b>	<b>6,340,143</b>	<b>8,568,061</b>	<b>14,908,204</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 7,505,888</b>	<b>\$ 9,354,582</b>	<b>\$ 16,860,470</b>

*The accompanying notes are an integral part of this statement*

RECONCILIATION OF THE BALANCE SHEET  
TO THE STATEMENT OF NET ASSETS  
GOVERNMENTAL FUNDS  
December 31, 2007

Fund balances - total governmental funds		\$ 14,908,204
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.		
Non-depreciable assets	39,086,482	
Depreciable assets (net)	<u>62,403,918</u>	101,490,400
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Deferred revenue	<u>1,194,632</u>	1,194,632
Some liabilities, including bonds payable and compensated absences payable are not due and payable in the current period and therefore are not reported in the governmental funds.		
Employee wages payable	(675,321)	
Interest payable	(48,386)	
Long-term liabilities	<u>(6,895,000)</u>	(7,618,707)
Internal service funds are used by management to charge the cost of certain activities to individual funds.		
Total assets and liabilities of the internal service funds that are reported with governmental activities.	<u>9,601,868</u>	<u>9,601,868</u>
Net assets of governmental activities		\$ <u><u>119,576,397</u></u>

*The accompanying notes are an integral part of this statement*

STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
For the Year Ended December 31, 2007

	General Fund	Other Governmental Funds	Total Governmental Funds
<b>REVENUES</b>			
Taxes	\$ 13,138,076	\$ 5,053,101	\$ 18,191,177
Licenses and permits	1,425,415	67,597	1,493,012
Intergovernmental revenues	1,020,346	2,068,677	3,089,023
Charge for services	1,533,895	1,005,100	2,538,995
Fines and forfeitures	227,361	37,693	265,054
Investment income	854,531	233,736	1,088,267
Other revenue	112,217	2,050,745	2,162,962
Total Revenues	<u>18,311,841</u>	<u>10,516,649</u>	<u>28,828,490</u>
<b>EXPENDITURES</b>			
Current			
General government	3,850,672	-	3,850,672
Security of persons and property	10,221,970	189,348	10,411,318
Physical environment	1,416,531	22,053	1,438,584
Transportation	-	1,558,406	1,558,406
Economic environment	717,287	367,094	1,084,381
Culture and recreation	-	2,278,553	2,278,553
Capital outlay	334,901	3,741,205	4,076,106
Debt service			
Principal	142,000	1,174,000	1,316,000
Interest and debt issue costs	13,185	294,525	307,710
Total Expenditures	<u>16,696,546</u>	<u>9,625,184</u>	<u>26,321,730</u>
Excess (deficiency) of revenues over (under) expenditures	<u>1,615,295</u>	<u>891,465</u>	<u>2,506,760</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers in	180,700	3,413,745	3,594,445
Transfers out	(1,021,349)	(2,441,771)	(3,463,120)
Sale of capital assets	304	-	304
Total other financing sources (uses)	<u>(840,345)</u>	<u>971,974</u>	<u>131,629</u>
Net change in fund balances	774,950	1,863,439	2,638,389
Fund Balances - January 1	<u>5,565,193</u>	<u>6,704,622</u>	<u>12,269,815</u>
Fund Balances - December 31	<u>\$ 6,340,143</u>	<u>\$ 8,568,061</u>	<u>\$ 14,908,204</u>

The accompanying notes are an integral part of this statement

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, 2007

Net changes in fund balances - total governmental funds	\$	2,638,389
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets are depreciated over their estimated useful lives.		
Expenditures for capital assets	3,359,078	
Less current year depreciation	<u>(3,048,165)</u>	310,913
The effect of various miscellaneous transactions involving capital assets not reported in governmental funds.		
Contributions of capital assets	1,086,997	
Sales of capital assets	<u>(8,941)</u>	1,078,056
Repayment of bond principal is an expenditure in governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		
Principal payments	<u>1,316,000</u>	1,316,000
Some revenues or expenditures reported in the statement of activities are not yet available or expensed and therefore are not reported as revenue or expense in governmental funds.		
	<u>(114,015)</u>	(114,015)
Internal service funds or activities are used by management to charge the costs of certain activities to individual funds. The net revenue (expense) of the internal service funds and internal balances are reported with governmental activities.		
	<u>395,054</u>	<u>395,054</u>
Change in net assets of governmental activities	\$	<u><u>5,624,397</u></u>

*The accompanying notes are an integral part of this statement*

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
GENERAL FUND

For the Year Ended December 31, 2007

	Original Budget 2007	Final Budget 2007	Actual 2007	Variance with Final Budget Positive (Negative)
<b>REVENUES</b>				
Taxes				
Property	\$ 3,928,835	\$ 3,928,835	\$ 4,073,633	\$ 144,798
Sales	4,019,625	4,144,625	4,820,728	676,103
Utility	3,127,000	3,127,000	3,566,141	439,141
Other	623,000	623,000	677,574	54,574
Licenses and permits	1,007,000	1,055,000	1,425,415	370,415
Intergovernmental revenues	1,295,239	1,295,239	1,020,346	(274,893)
Charge for services	1,586,394	1,586,394	1,533,895	(52,499)
Fines and forfeitures	186,500	186,500	227,361	40,861
Investment income	372,000	372,000	854,531	482,531
Other revenue	72,670	72,670	112,217	39,547
Total Revenues	<u>16,218,263</u>	<u>16,391,263</u>	<u>18,311,841</u>	<u>1,920,578</u>
<b>EXPENDITURES</b>				
Current				
General government	4,153,999	4,086,244	3,850,672	235,572
Security of persons and property	10,247,435	10,444,017	10,221,970	222,047
Physical environment	1,476,129	1,559,470	1,416,531	142,939
Economic environment	688,647	731,699	717,287	14,412
Capital outlay	530,106	539,206	334,901	204,305
Debt service				
Principal	142,000	142,000	142,000	-
Interest and debt issue costs	13,185	13,185	13,185	-
Total Expenditures	<u>17,251,501</u>	<u>17,515,821</u>	<u>16,696,546</u>	<u>819,275</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(1,033,238)</u>	<u>(1,124,558)</u>	<u>1,615,295</u>	<u>2,739,853</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	180,700	180,700	180,700	-
Transfers out	(903,730)	(1,198,730)	(1,021,349)	177,381
Sale of capital assets	-	-	304	304
Total other financing sources (uses)	<u>(723,030)</u>	<u>(1,018,030)</u>	<u>(840,345)</u>	<u>177,685</u>
Net change in fund balances	(1,756,268)	(2,142,588)	774,950	2,917,538
Fund Balances - January 1	<u>5,565,193</u>	<u>5,565,193</u>	<u>5,565,193</u>	<u>-</u>
Fund Balances - December 31	<u>\$ 3,808,925</u>	<u>\$ 3,422,605</u>	<u>\$ 6,340,143</u>	<u>\$ 2,917,538</u>

The accompanying notes are an integral part of this statement

STATEMENT OF NET ASSETS  
 PROPRIETARY FUNDS  
 December 31, 2007

	Business-type Activities Enterprise Funds			Totals	Governmental Activities
	Wastewater	Health and Sanitation	Surface- water		Internal Service Funds
<b>ASSETS</b>					
Current assets:					
Cash and cash equivalents	\$ 732,954	\$ 451,919	\$ 129,129	\$ 1,314,002	\$ 2,398,184
Investments	6,256,580	2,502,632	450,474	9,209,686	3,403,579
Accounts receivable	786,614	502,057	163,304	1,451,975	3,000
Interest receivable	63,453	19,756	7,326	90,535	33,055
Due from other funds	-	-	-	-	35,000
Due from other governments	-	-	31,383	31,383	-
Inventory	-	-	-	-	7,822
Prepaid expenses	-	-	-	-	151
Total current assets	<u>7,839,601</u>	<u>3,476,364</u>	<u>781,616</u>	<u>12,097,581</u>	<u>5,880,791</u>
Noncurrent assets:					
Restricted assets					
Debt service:					
Cash and cash equivalents	<u>1,159,242</u>	<u>-</u>	<u>104,824</u>	<u>1,264,066</u>	<u>-</u>
Total restricted assets	<u>1,159,242</u>	<u>-</u>	<u>104,824</u>	<u>1,264,066</u>	<u>-</u>
Deferred charges	<u>10,737</u>	<u>-</u>	<u>-</u>	<u>10,737</u>	<u>-</u>
Capital assets:					
Land	1,799,325	-	545,406	2,344,731	-
Buildings	16,596,725	69,482	-	16,666,207	145,000
Improvements other than buildings	61,129,014	-	31,718,289	92,847,303	72,545
Machinery and equipment	672,590	37,503	280,945	991,038	9,967,432
Construction in progress	18,969,594	-	-	18,969,594	-
Less accumulated depreciation	<u>(25,375,847)</u>	<u>(80,548)</u>	<u>(7,458,219)</u>	<u>(32,914,614)</u>	<u>(6,156,083)</u>
Total capital assets (net of depreciation)	<u>73,791,401</u>	<u>26,437</u>	<u>25,086,421</u>	<u>98,904,259</u>	<u>4,028,894</u>
Total noncurrent assets	<u>74,961,380</u>	<u>26,437</u>	<u>25,191,245</u>	<u>100,179,062</u>	<u>4,028,894</u>
Total assets	<u>\$ 82,800,981</u>	<u>\$ 3,502,801</u>	<u>\$ 25,972,861</u>	<u>\$ 112,276,643</u>	<u>\$ 9,909,685</u>

The accompanying notes are an integral part of this statement

STATEMENT OF NET ASSETS  
 PROPRIETARY FUNDS  
 December 31, 2007

	Business-type Activities Enterprise Funds			Totals	Governmental Activities
	Wastewater	Health and Sanitation	Surface- water		Internal Service Funds
<b>LIABILITIES</b>					
Current liabilities:					
Accounts payable	\$ 495,998	\$ 178,183	\$ 33,631	\$ 707,812	\$ 304,719
Employee benefits payable	52,455	27,147	-	79,602	3,098
Matured interest payable	70,049	-	22,285	92,334	-
Matured loans payable	660,736	-	165,077	825,813	-
Matured bonds payable	660,000	-	-	660,000	-
Total current liabilities	<u>1,939,238</u>	<u>205,330</u>	<u>220,993</u>	<u>2,365,561</u>	<u>307,817</u>
Noncurrent liabilities:					
Employee benefits payable	10,808	5,905	-	16,713	-
Loans payable	13,586,075	-	1,320,620	14,906,695	-
Total noncurrent liabilities	<u>13,596,883</u>	<u>5,905</u>	<u>1,320,620</u>	<u>14,923,408</u>	<u>-</u>
Total liabilities	<u>15,536,121</u>	<u>211,235</u>	<u>1,541,613</u>	<u>17,288,969</u>	<u>307,817</u>
<b>NET ASSETS</b>					
Investment in capital assets, net of related debt	58,884,590	26,437	23,600,724	82,511,751	4,028,894
Restricted for debt service	1,159,242	-	104,824	1,264,066	-
Unrestricted	<u>7,221,028</u>	<u>3,265,129</u>	<u>725,700</u>	<u>11,211,857</u>	<u>5,572,974</u>
Total net assets	<u>\$ 67,264,860</u>	<u>\$ 3,291,566</u>	<u>\$ 24,431,248</u>	<u>\$ 94,987,674</u>	<u>\$ 9,601,868</u>

The accompanying notes are an integral part of this statement

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS  
 PROPRIETARY FUNDS  
 For the Year Ended December 31, 2007

	Business-type Activities Enterprise Funds			Totals	Governmental Activities Internal Service Funds
	Wastewater	Health and Sanitation	Surface- water		
Operating revenues:					
Charges for utility services	\$ 6,384,775	\$ 4,317,541	\$ 1,364,760	\$ 12,067,076	\$ -
Charges for replacement	-	-	-	-	1,654,556
Charges for insurance	-	-	-	-	2,506,595
Total operating revenue	<u>6,384,775</u>	<u>4,317,541</u>	<u>1,364,760</u>	<u>12,067,076</u>	<u>4,161,151</u>
Operating expenses:					
Operations and maintenance	3,438,096	3,849,862	997,064	8,285,022	3,545,970
Taxes	547,262	448,144	17,927	1,013,333	-
Depreciation and amortization	2,867,399	1,158	922,779	3,791,336	582,049
Total operating expenses	<u>6,852,757</u>	<u>4,299,164</u>	<u>1,937,770</u>	<u>13,089,691</u>	<u>4,128,019</u>
Operating income (loss)	<u>(467,982)</u>	<u>18,377</u>	<u>(573,010)</u>	<u>(1,022,615)</u>	<u>33,132</u>
Nonoperating revenues (expenses):					
Investment earnings	352,137	109,784	39,336	501,257	197,157
Miscellaneous revenue	60,550	10,819	121,271	192,640	4,111
Interest expense	(177,098)	-	(47,047)	(224,145)	-
Gain (loss) on sale of fixed assets	(1,977)	-	-	(1,977)	6,656
Total nonoperating revenue (expense)	<u>233,612</u>	<u>120,603</u>	<u>113,560</u>	<u>467,775</u>	<u>207,924</u>
Income (loss) before contributions and transfers	(234,370)	138,980	(459,450)	(554,840)	241,056
Capital contributions	6,642,173	-	3,718,176	10,360,349	12,998
Transfers in	-	-	150,000	150,000	141,000
Transfers out	-	(72,325)	(350,000)	(422,325)	-
Change in net assets	6,407,803	66,655	3,058,726	9,533,184	395,054
Total net assets - beginning	<u>60,857,057</u>	<u>3,224,911</u>	<u>21,372,522</u>	<u>85,454,490</u>	<u>9,206,814</u>
Total net assets - ending	<u>\$ 67,264,860</u>	<u>\$ 3,291,566</u>	<u>\$ 24,431,248</u>	<u>\$ 94,987,674</u>	<u>\$ 9,601,868</u>

The accompanying notes are an integral part of this statement

STATEMENT OF CASH FLOWS  
 PROPRIETARY FUNDS  
 For the Year Ended December 31, 2007

	Business-type Activities Enterprise Funds			Totals	Governmental Activities
	Wastewater	Health and Sanitation	Surface- water		Internal Service Funds
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>					
Cash received from customers	\$ 6,332,069	\$ 4,319,425	\$ 1,355,201	\$ 12,006,695	\$ 4,161,151
Cash payments to suppliers	(2,156,276)	(2,954,772)	(972,474)	(6,083,522)	(3,375,432)
Cash payments to employees	(1,164,268)	(915,854)	-	(2,080,122)	(226,024)
Cash payments for taxes	(547,262)	(448,144)	(17,927)	(1,013,333)	-
Other operating receipts and payments	8,448	-	-	8,448	-
Non-operating income	60,550	10,819	-	71,369	4,111
Net cash provided (used) by operating activities	<u>2,533,261</u>	<u>11,474</u>	<u>364,800</u>	<u>2,909,535</u>	<u>563,806</u>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:</b>					
Transfers in	-	-	150,000	150,000	106,000
Transfers out	-	(72,325)	(350,000)	(422,325)	-
Interfund loan proceeds from other funds	-	49,487	-	49,487	-
Interfund loans payments to other funds	-	-	(49,487)	(49,487)	-
Net cash provided (used) by noncapital financing activities	<u>-</u>	<u>(22,838)</u>	<u>(249,487)</u>	<u>(272,325)</u>	<u>106,000</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>					
Acquisition and construction of capital assets	(14,269,478)	(10,670)	(248,680)	(14,528,828)	(1,060,221)
Proceeds from sale of assets	-	-	-	-	12,815
Capital contributions	1,100,129	-	-	1,100,129	-
Loan/grant proceeds	10,452,880	-	89,888	10,542,768	-
Principal paid on revenue bonds	(640,000)	-	-	(640,000)	-
Principal paid on other debt	(545,830)	-	(165,077)	(710,907)	-
Interest paid on revenue bonds and other debt	(155,801)	-	(49,524)	(205,325)	-
Net cash provided (used) for capital and related financing activities	<u>(4,058,100)</u>	<u>(10,670)</u>	<u>(373,393)</u>	<u>(4,442,163)</u>	<u>(1,047,406)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>					
Investment purchases	(6,250,000)	(2,500,000)	(450,000)	(9,200,000)	(3,400,000)
Investment sales/maturities	6,665,000	2,115,000	800,000	9,580,000	3,592,278
Interest on investments	300,950	93,665	34,733	429,348	170,648
Net cash provided (used) by investing activities	<u>715,950</u>	<u>(291,335)</u>	<u>384,733</u>	<u>809,348</u>	<u>362,926</u>
Net increase (decrease) in cash and cash equivalents	(808,889)	(313,369)	126,653	(995,605)	(14,674)
Cash and cash equivalents, January 1	2,701,085	765,288	107,300	3,573,673	2,412,858
Cash and cash equivalents, December 31	<u>\$ 1,892,196</u>	<u>\$ 451,919</u>	<u>\$ 233,953</u>	<u>\$ 2,578,068</u>	<u>\$ 2,398,184</u>

The accompanying notes are an integral part of this statement

STATEMENT OF CASH FLOWS  
 PROPRIETARY FUNDS  
 For the Year Ended December 31, 2007

	Business-type Activities Enterprise Funds				Governmental Activities Internal Service Funds
	Wastewater	Health and Sanitation	Surface- water	Totals	
	Wastewater	Health and Sanitation	Surface- water	Totals	
Cash at the end of the year consists of:					
Cash and cash equivalents	\$ 732,954	\$ 451,919	\$ 129,129	\$ 1,314,002	\$ 2,398,184
Restricted assets:					
Cash and cash equivalents	<u>1,159,242</u>	<u>-</u>	<u>104,824</u>	<u>1,264,066</u>	<u>-</u>
Total cash at end of year	<u>\$ 1,892,196</u>	<u>\$ 451,919</u>	<u>\$ 233,953</u>	<u>\$ 2,578,068</u>	<u>\$ 2,398,184</u>
Reconciliation of operating income to net cash provided by operating activities:					
Operating income (loss)	\$ (467,982)	\$ 18,377	\$ (573,010)	\$ (1,022,615)	\$ 33,132
Adjustments to reconcile operating income to to net cash provided by operating activities:					
Depreciation	2,867,399	1,158	922,779	3,791,336	582,049
(Increase) decrease in accounts receivable	(40,332)	4,501	(9,015)	(44,846)	-
(Increase) decrease in inventory	-	-	-	-	(1,400)
(Increase) decrease in prepaid expenses	-	-	-	-	(5)
(Increase) decrease in deferred charges	21,474	-	-	21,474	-
Increase (decrease) in accounts payable	82,053	(23,799)	24,046	82,300	(52,268)
Increase (decrease) in employee bene's pay	10,099	418	-	10,517	(1,813)
Non-operating revenue	<u>60,550</u>	<u>10,819</u>	<u>-</u>	<u>71,369</u>	<u>4,111</u>
Net cash provided by operating activities	<u>\$ 2,533,261</u>	<u>\$ 11,474</u>	<u>\$ 364,800</u>	<u>\$ 2,909,535</u>	<u>\$ 563,806</u>
Noncash investing, capital and financing activities:					
Developers contributed infrastructure valued at	\$ 5,542,044	\$ -	\$ 3,718,176	\$ 9,260,220	\$ -
Other funds of the city transferred assets valued at	-	-	-	-	12,998
Fair value of investments increased by	54,045	17,694	6,171	77,910	28,505
Bad debt expense	3,926	2,617	544	7,087	-

STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
December 31, 2007

	Firemen's Pension Fund	Agency Funds
<b>ASSETS</b>		
Cash and cash equivalents	\$ 409,489	\$ 66,772
Investments		
U.S. Government Agency Securities	658,693	-
Local Government Investment Pool	35,037	-
Municipal Government Securities	7,007	-
Receivables:		
Interest	6,963	-
Total Assets	1,117,189	66,772
<b>LIABILITIES</b>		
Liabilities:		
Accounts payable	210	-
Due to other governments	-	43,191
Custodial	-	23,581
Total Liabilities	210	\$ 66,772
<b>NET ASSETS</b>		
Held in trust for pension benefits	\$ 1,116,979	

*The accompanying notes are an integral part of this statement*

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
For the Year Ended December 31, 2007

	Firemen's Pension Fund
ADDITIONS	
Fire insurance premiums	\$ 25,679
Investment interest	38,479
Total additions	<u>64,158</u>
DEDUCTIONS	
Benefit payments	23,910
Adminstration	17,325
Total deductions	<u>41,235</u>
Change in net assets	22,923
Net assets - beginning	<u>1,094,056</u>
Net assets - ending	<u>\$ 1,116,979</u>

*The accompanying notes are an integral part of this statement*

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2007**

NOTES	PAGE
1 Summary of Significant Accounting Policies .....	32
Reporting Entity .....	32
Basic Financial Statements.....	32
Measurement Focus and Basis of Accounting.....	34
Financial Statement Presentation .....	35
Budgets and Budgetary Accounting.....	35
Assets, Liabilities and Fund Equities .....	36
Cash and Investments .....	36
Receivables and Payables.....	36
Inventories .....	37
Restricted Assets .....	37
Capital Assets and Deprecation.....	37
Deferred Revenues.....	37
Compensated Absences.....	37
Long Term Debt.....	38
Fund Equity.....	38
Revenues, Expenditures and Expenses .....	38
2 Compliance and Accountability .....	38
3 Deposits and Investments .....	39
4 Property Taxes .....	40
5 Capital Assets and Depreciation .....	41
6 Pension Plans .....	45
7 Construction Commitments .....	54
8 Interfund Receivables, Payables, and Transfers.....	54
9 Long Term Debt.....	55
10 Contingencies and Litigation .....	59
11 Risk Management .....	60
12 Net Assets .....	62
Required Supplementary Information – Firemen’s Pension Plan .....	64

**Notes to the Financial Statements  
December 31, 2007**

**NOTE 1:**

**Summary of Significant Accounting Policies**

The City of Mount Vernon was incorporated on July 1, 1890. The City operates under the laws of the state of Washington applicable to a code city Mayor/Council form of government. The City Council is composed of seven members elected to four year terms. The City provides what are considered general government services including public safety, streets, parks and recreation, planning and zoning, permits and inspection, sanitation, general administrative, and wastewater services.

The accounting and reporting policies of the City of Mount Vernon conform to generally accepted accounting principles (GAAP) applicable to state and local governments. GAAP for local governments include those principles prescribed by the Governmental Accounting Standards Board (GASB), the Financial Accounting Standards Board (FASB), when applicable, and the American Institute of Certified Public Accountants (AICPA) pronouncements that have been made applicable by GASB Statements or Interpretations.

In June 1999 the Governmental Accounting Standards Board (GASB) issued Statement 34, "Basic Financial Statements and Management Discussion and Analysis for State and Local Governments." This statement includes significant financial reporting changes and allows for a phased implementation based on the size of the government. One of the most significant reporting changes was the inclusion of the government's general infrastructure (roads, bridges, traffic signals, etc.) as governmental assets in the financial statements. GASB 34 permitted an optional four year delay in full reporting of the City's infrastructure.

The City elected to incrementally implement financial reporting under GASB 34 beginning with 2003 and retroactively report infrastructure (assets acquired prior to January 1, 2003) by the fiscal year ending December 31, 2006. Other significant changes in the City's financial reports as a result of GASB 34 are:

- A management discussion and analysis (MD&A) section providing an analysis of the City's overall position and results of operations.
- Financial statements prepared for the City as a whole under the full accrual basis of accounting.
- A change in the fund financial statements to focus on major funds.

The City has also implemented GASB statements 36, 37, and 38 related to revenue recognition, Management Discussion and Analysis and note disclosures.

The City's significant accounting policies are described in the following notes.

**Reporting Entity**

As required by GAAP the City's financial statements present the City of Mount Vernon – the primary government. There are no component units (either blended or discretely presented) included in these statements.

**Basic Financial Statements**

The City's basic financial statements consists of government-wide (reporting the City as a whole) and fund financial statements (reporting the City's major funds). Both the government-wide and fund

financial statements categorize primary activities as either government or business-type. The government-wide financial statements report information on all of the non-fiduciary activities of the government.

#### *Government-Wide Statements*

In the government-wide Statement of Net Assets, both the governmental and business-type activities columns (a) are presented on a consolidated basis by column, (b) and are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The City's net assets are reported in three parts—invested in capital assets net of related debt, restricted net assets, and unrestricted net assets. The City first utilizes restricted resources to finance qualifying activities.

The government-wide Statement of Activities reports both the gross and net cost of each of the City's functions and business-type activities (general government, security of persons & property, physical environment, transportation, economic environment, culture & recreation, wastewater, health and sanitation and stormwater). General government revenues (property taxes, retail sales & use taxes, excise taxes, and other taxes) also support the functions. The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants and contributions. Program revenues must be directly associated with the function or a business-type activity. Operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants reflects capital-specific grants.

The net costs (by function or business-type activity) are normally covered by general revenue.

The government-wide focus is more on the sustainability of the City as an entity and the change in the City's net assets resulting from the current year's activities.

#### *Fund Financial Statements*

The fund financial statements are, in substance, very similar to the financial statements presented prior to implementation of GASB Statement 34. The financial transactions are recorded in individual funds, each accounted for by a separate set of self-balancing accounts that comprise assets, liabilities, reserves, fund equity, revenues and expenditures/expenses. The GASB Statement 34 model's presentation is by major funds in either the governmental or business-type categories. The non-major funds are combined in the fund financial statements and detailed in the combining section.

The governmental funds major fund statements in the fund financial statement are presented on a current financial resource and modified accrual basis of accounting. Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statements' governmental column, reconciliation is presented at the end of the statement, which briefly explains the adjustment necessary to transform the fund statements into the governmental-wide presentation.

Internal service funds of a government are presented in the summary form as part of the proprietary fund financial statements. Since the principal users of the internal services are the City's governmental activities, financial statements for internal services funds are consolidated into the governmental column when presented at the governmental level. These services are reflected in the appropriate functional activity (general government, security of persons & property, physical environment, transportation, economic environment, or culture & recreation).

For the most part, the effect of interfund activity has been eliminated from the government-wide financial statements. Direct expenses of the functional categories are included in the government-wide

statement of activities while indirect expense allocations are eliminated. Indirect expenses are primarily charged to the various functions through the use of internal service funds for fleet maintenance. Elimination of payments to internal service funds are treated as expense reductions. No other indirect expenses are allocated to the various governmental functions. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the government's utility functions and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

### **Measurement Focus and Basis of Accounting**

Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurement made regardless of the measurement focus applied:

#### 1. Accrual:

Both governmental and business-type activities in the government-wide financial statements and the proprietary and fiduciary fund financial statements are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred, regardless of the timing of related cash flows.

Property taxes are billed and collected within the same period in which the taxes

are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. These items are reported as non-operating revenue based on GASB Statement 33. In applying GASB Statement 33 to grant revenues, the provider recognizes liabilities and expenses and the recipient recognizes receivables and revenue when the eligibility requirements, including time requirements, are met. Resources transmitted before the eligibility requirements are met, are reported as advances by the provider and deferred revenue by the recipient.

#### 2. Modified Accrual:

The governmental fund financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual (both measurable and available). "Available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The City considers all revenue reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principal and interest on general obligation long-term debt, if any, is recognized when due.

Under the modified accrual basis of accounting, property taxes, sales taxes, utility taxes, franchise taxes, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current period. Grant revenue is recognized for cost reimbursement grants when the expenditure occurs in accordance with GASB Statement 1. When the expenditure is incurred, grant revenue is considered to have been earned and

therefore available and recognized as revenue. Entitlement grant revenue is not tied to expenditures and is recognized when the City is entitled to receive it according to the grant agreement. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

### Financial Statement Presentation

The City reports the following major governmental funds:

The **General Fund** accounts for all receipt and disbursement transactions of operations that are not accounted for in another fund. The General Fund includes police, fire, municipal court, finance & administration, planning, building inspection, development services, public works & engineering and facilities.

The City reports the following major proprietary funds:

**Wastewater Utility Fund** accounts for all activities of providing sewer services to residents and businesses of the City. This fund also provides for revenues and reserve dollars for maintenance & repair and expansion of the City's sewer system.

**Health and Sanitation Utility Fund** accounts for all activities of providing garbage collection and disposal services to the residents and businesses of the City.

**Stormwater Utility Fund** accounts for the operation, construction and maintenance of the City's stormwater system.

Additionally, the government reports the following fund types:

**Internal Service Funds** account for the maintenance and replacement of the City

owned vehicles and equipment, and insurance services related to the City's self-insurance health care program.

**Agency Funds** account for assets held by the City as an agent for private individuals or other governments. Agency funds are custodial in nature (assets equal liabilities) and do not involve the measurement of the results of operations. The City has five Agency Funds. Hillcrest (Parks) Deposit and Developer Deposits account for damage and inspection deposits. Court Assessments, Mount Vernon School Impact Fees and Miscellaneous Suspense account for funds collected and subsequently transmitted to other governmental agencies.

**Pension Trust Funds** account for the activities of the Fireman's Pension Fund which accumulates resources for excess pension benefits payable to qualified firefighters and law enforcement personnel.

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

### Budgets and Budgetary Accounting

The City budgets in accordance with the Revised Code of Washington (RCW) 35A.33. In compliance with the code, budgets for all funds are established with the exception of the LID Bond funds, and agency funds. Legal budgetary control is established at the fund level, i.e., expenditures for a fund may not exceed the

total appropriation amount. The Mayor may authorize transfers of appropriations within a fund, but the City Council must approve by ordinance any increase or decrease in the total fund appropriations. Appropriations for general, special revenue, debt services and capital project funds, except for the project-length capital projects lapse at year-end.

The budget, as adopted, constitutes the legal authority for expenditures. Budgets are reported according to GAAP. Annual appropriated budgets are adopted for the general, special revenue, debt service, pension trust funds and some capital projects budgets. Budgets for larger capital projects are adopted on a project-length basis.

#### *Procedures for Adopting the Original Budget*

The City of Mount Vernon's budget process is as follows:

- a. Prior to November 1, the mayor submits a proposed budget to the City Council. The budget is based on priorities established by the Council and estimates provided by City departments during the preceding months, and balanced with revenue estimates made by the Finance Director.
- b. The Council conducts public hearings on the proposed budget in November and December.
- c. The Council makes its adjustments to the proposed budget and adopts by ordinance a final balanced budget no later than December 31.
- d. Within 30 days of adoption, the final budget is available to the public.

#### *Amending the Budget*

The Mayor is authorized to transfer budgeted amounts within any fund including between departments in any fund; however, any revisions that alter the total expenditures, including interfund transfers, of a fund, or that affect the number of

authorized employee positions, salary ranges, hours, or other conditions of employment must be approved by the City Council.

When City Council determines that it is in the best interest of the City to increase or decrease the appropriation for a particular fund, it may do so by ordinance.

#### **Assets, Liabilities and Fund Equities**

##### 1. Cash, Cash Equivalents, and Investments

The City has defined cash and cash equivalents as cash on hand, demand deposits, and all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased. These amounts are classified on the balance sheet or in the statement of net assets within cash and cash equivalents or investments in the various funds.

In accordance with GASB 31, investments in external 2a7-like pools, money market investments and other investments with a remaining maturity of one year or less at the time of purchase are stated at amortized cost. All other investments are stated at fair value.

##### 2. Receivables and Payables (Amounts owed/payable to/by the City at year-end.)

*Taxes receivable* consists of property taxes and related interest and penalties (Refer to Note 4).

*Accrued interest receivable* consists of amounts earned on investments at the end of the year.

*Accrued interest payable* consists of amounts owed on notes, loans, and contracts.

*Accounts receivable/payable* consist of amounts owed from/to private individuals or organizations for goods and services including amounts owed. If the transaction is with another governmental unit, it is accounted for within "due from/to other governments".

*Special assessments* are recorded when levied and are liens against the property benefited. Special assessments receivable consist of current and delinquent assessments and related interest and penalties.

Receivables have been reported net of estimated uncollectible accounts. Because property taxes, special assessments, and utility billings are considered liens on property, no estimated uncollectible amounts are established.

Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as *interfund loans*.

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term liabilities are reported in applicable governmental activities, business-type activities, or proprietary fund type statement of net assets.

*Deferred charges* consist of issuance costs for revenue bond refinancing amortized over the life of the bonds.

### 3. Inventories

Inventories are defined as assets which may be held for internal consumption or for resale. All City inventories are maintained on a consumption basis of accounting where items are purchased for inventory and charged to the budgetary accounts as the items are consumed. Inventories are carried at cost on the first in, first out-FIFO basis. No inventory is maintained in governmental funds.

### 4. Restricted Assets

Restricted assets include those monies reserved for revenue bond debt and loans with reserve covenants.

### 5. Capital Assets and Depreciation

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the

governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net assets and in the respective funds. Capital assets are defined by the City as land and buildings with an original cost of \$5,000 or more each; machinery, equipment, and other improvements with an original cost of \$5,000 or more each and an estimated useful life of more than one year; and all vehicles, artwork, transportation and utility infrastructure, regardless of their initial cost. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Land, construction in progress, and works of art are not depreciated. Property, plant, infrastructure and equipment of the City are depreciated using the straight line method. Estimated useful life of these assets varies from 4 to 50 years dependent upon the item. (See note 5 for depreciation detail.)

### 6. Deferred Revenues

Deferred revenues include amounts recognized as receivables but not revenues in governmental funds because the revenue recognition criterion has not been met.

### 7. Compensated Absences

The City does not accrue accumulated sick leave in either the governmental or proprietary funds. All outstanding sick-leave is lost upon termination of employment. Sick leave used during each year is not material. The value of accumulated vacation leave and compensatory time is

estimated to be \$678,419 for governmental funds and \$96,315 for proprietary funds, which represents a normal year's vacation leave accumulation and is not considered material for reporting purposes.

8. Long-term debt – Refer to Note 9

9. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

### **Revenues, Expenditures and Expenses**

*Program Revenues* include charges for services to customers for goods or services provided, operating grants and contributions, and non-operating grants and contributions within the Government-wide Statement of Activities. Charges for services include construction permits, franchise fees, Park fees and business licenses.

*General Revenues* include property taxes, timber taxes, retail taxes, excise taxes, and associated penalties and interest, as well as interest and investment earnings and are recorded within the Government-wide Statement of Activities.

*Interfund Transfers* are permanent reallocations of resources between funds of

the reporting entity and are classified as interfund transfers. For the purposes of the Government-wide Statement of Activities, all interfund transfers between individual governmental funds have been eliminated.

*Expenses/Expenditures* - Expenses in the Government-Wide Statement of Activities are reported by function as a governmental activity (general government, security of person & property, physical environment, transportation, economic environment, culture & recreation, or interest on long-term debt) or a business-type activity (wastewater, health & sanitation or surfacewater). In the fund financial statements, expenditures of governmental funds are classified by; function, debt service principal and interest payments, or purchases of capital items. Proprietary expenditures are classified as operating or non-operating.

*Operating and Non-operating Revenues and Expenses* – Operating revenues and expenses for proprietary funds are those that result from providing services and producing and delivering goods and/or services in connection to the proprietary fund's principle ongoing operations. It includes all revenue and expenses not related to capital and related financing, non-capital financing, or investing activities. All revenue and expenses not meeting this definition are non-operating revenues and expenses.

### **NOTE 2:**

#### **Compliance and Accountability**

There have been no material violations of finance-related legal or contractual provisions, and there have been no expenditures exceeding legal appropriations in any of the funds of the City.

### **NOTE 3:**

#### **Deposits and Investments**

The City of Mount Vernon's deposits and certificates of deposit are entirely covered by federal depository insurance (FDIC) or by collateral held in a multiple financial

institution collateral pool administered by the Washington State Public Deposit Protection Commission (WPDPC). The FDIC insures the first \$100,000 of the City's

deposits. The deposit balances over \$100,000 are insured by the WPDPC. State statute permits additional amounts to be assessed on a pro rata basis to members of the WPDPC pool in the event the pool's collateral should be insufficient to cover a loss.

As of December 31, 2007 the carrying amount of the City's market rate savings account with Bank of America was \$1,058,464, the carrying amount of the City's money market account with U.S. Bank was \$84,235, and bank balances with various banks were \$1,162,824. Petty cash totaled \$25,100.

As required by City policy all securities are held by a third party custodian in the name of the City. The Local Government Investment Pool (LGIP) is an un rated 2a—7 like pool, as defined by GASB 31. Accordingly, participants' balances in the

LGIP are not subject to interest rate risk, as the weighted average maturity of the portfolio will not exceed 90 days. Per GASB 40 guidelines the balances are also not subject to custodial credit risk. The credit risk of the LGIP is limited as most investments are either obligations of the U.S. government, government sponsored enterprises, or insured demand deposit accounts and certificates of deposit. They are either insured or held by a third-party custody provider in the LGIP's name. The fair value of the City's pool investments is determined by the pool's share price. The city has no regulatory oversight responsibility for the LGIP which is governed by the Washington State Finance Committee and is administered by the State Treasurer. The LGIP is audited annually by the Office of the State Auditor, an independently elected public official.

As of December 31, 2007 the City had the following investments and maturities:

Investment Type	Fair Value	Investment Maturities (In Years)		
		Less Than 1	1 to 2	2 to 3
Federal Home Loan Bank	\$ 8,336,653	\$ 3,497,843	\$ 1,852,917	\$ 2,985,893
Federal Farm Credit Bank	3,224,200	1,092,961	-	2,131,239
Federal Home Loan Mortgage Corporation	5,883,563	1,695,593	1,163,103	3,024,867
Federal National Mortgage Association	3,241,450	996,215	-	2,245,235
Municipal Government Securities	215,184	215,184	-	-
Local Government Investment Pool	10,551,370	10,551,370	-	-
	<u>\$ 31,452,420</u>	<u>\$ 18,049,166</u>	<u>\$ 3,016,020</u>	<u>\$ 10,387,234</u>

**Interest Rate Risk** As a means of limiting its exposure to interest rate risk, the City diversifies its investment by security type and institution, and limits holdings in any one type of investment with any one issuer. The City coordinates its investment maturities to closely match cash flow needs and restricts the maximum investment term to less than five years from the purchase date.

**Credit Risk** As required by state law and City policy, all investments of the City's funds are obligations of the U.S. government, U.S. agency issues, Local Government Investment Pool, obligations of the State of Washington, or certificates of deposit with Washington State banks and savings and loan institutions.

**Concentration of Credit Risk** The City diversifies its investments by security type and institution. 100% of the City's portfolio may be invested in U.S. Treasury securities of the Washington State Local Government Investment Pool. No more than 65% of the

City's total investment portfolio may be invested in a single security type or with a single financial institution. Interest rate risk, credit risk and concentration of credit risk are not specifically addressed within the City's investment policy.

**Credit Quality Distribution of Securities  
With Credit Exposure as a Percentage of Total Investments**

<u>Investment Type</u>	<u>Standard and Poor's Rating</u>	<u>Percentage of Portfolio</u>
Federal Home Loan Bank	AAA	38%
Federal Farm Credit Bank	AAA	15%
Federal Home Loan Mortgage Corporation	AAA	27%
Federal National Mortgage Association	AAA	14%
Municipal Government Securities	AAA	1%
Local Government Investment Pool	Not Rated	5%

**NOTE 4:**

**Property Taxes**

The county treasurer acts as an agent to collect property taxes levied in the county for all taxing authorities. Collections are distributed at the end of each month.

**Property Tax Calendar**

January 1	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 taxes are recorded as a receivable when levied, offset by deferred revenue. During the year, property tax revenues are recognized when cash is collected. 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. Pursuant to Washington State law in RCW 84.55.010 and 84.55.0101, taxing districts with a population over 10,000 may increase their levy by the change in implicit price deflator. However, with a finding of substantial need, and a majority plus one vote by the City Council, the levy may be increased up to 101% or less of the previous year unless an increase greater than this limit

is approved by the voters at an election as provided in RCW 84.55.050.

- B. The Washington State Constitution limits the total regular property taxes to 1% of assessed valuation or \$10 of \$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% limit.

The City's regular levy for 2007 was \$2.4043 per \$1,000 of assessed value on an assessed valuation of \$2,389,069,667 and the Voted General Obligation Bond Levy was \$0.2273 per \$1,000 of assessed value on an assessed valuation of \$2,235,261,121 for a total regular and bond levy of \$6,252,115.

#### NOTE 5:

### Capital Assets and Depreciation

#### General Policies

Major expenditures for capital assets, including capital leases and major repairs that increase useful lives, are capitalized. Maintenance, repairs, and minor renewals are accounted for as expenditures or expenses when incurred.

The City has two sculptures capitalized as art. Art and historical treasures are expected to be maintained or enhanced over time and thus, are not depreciated.

All capital assets are valued at historical cost (or estimated cost, where historical cost is not known/ or estimated market value for donated assets/or the lower of cost or fair market value when transferred between proprietary and governmental funds).

The City has acquired certain assets with funding provided by federal financial assistance programs. Depending on the terms of the agreements involved, the federal government could retain an equity interest in these assets. However, the City has sufficient legal interest to accomplish

the purposes for which the assets were acquired, and has included such assets within the applicable statements.

#### Governmental Capital Assets

Governmental long-lived assets of the City purchased, leased, or constructed are recorded as expenditures in the governmental funds and are capitalized, net of depreciation, in the government wide statements. Purchases of governmental infrastructure assets were capitalized on an annual basis beginning in 2003 and the balance of infrastructure networks were capitalized during 2006

#### Proprietary Fund Capital Assets

Capital assets of proprietary funds are capitalized in their respective statements of net assets.

#### Depreciation

Depreciation on all assets is provided on the straight-line basis over the following useful lives:

<u>Type of Asset</u>	<u>Number of Years</u>
Bridges	50
Buildings and Structures	30
Other Improvements	10 - 30
Vehicles	4 - 25
Furniture and Equipment	5 - 10

**Summary of changes: Governmental Activities**

<u>Description</u>	<u>Balance 1/1/2007</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance 12/31/2007</u>
<b>Governmental Activities</b>				
<i>Capital Assets Not being Depreciated:</i>				
Land	\$ 35,485,759	\$ 1,143,678	\$ -	\$ 36,629,437
Construction Work in Progress	157,859	2,253,037	-	2,410,896
Art	21,332	24,817	-	46,149
<i>Total Capital Assets, Not Being Depreciated</i>	<u>\$ 35,664,950</u>	<u>\$ 3,421,532</u>	<u>\$ -</u>	<u>\$ 39,086,482</u>
<i>Capital Assets, Being Depreciated:</i>				
Buildings	\$ 13,089,270	\$ 162,037	\$ -	\$ 13,251,307
Improvements other than Buildings	3,981,033	95,359	-	4,076,392
Machinery and Equipment	10,284,102	1,360,333	174,248	11,470,187
Infrastructure	63,555,983	487,533	-	64,043,516
<i>Total Capital Assets, Being Depreciated</i>	<u>\$ 90,910,388</u>	<u>\$ 2,105,262</u>	<u>\$ 174,248</u>	<u>\$ 92,841,402</u>
<i>Less accumulated depreciation for:</i>				
Buildings	\$ 4,212,306	\$ 408,089	\$ -	\$ 4,620,395
Improvements other than Buildings	1,451,351	273,811	-	1,725,162
Machinery and Equipment	6,063,008	741,820	151,648	6,653,180
Infrastructure	11,203,360	2,206,493	-	13,409,853
<i>Total Accumulated Depreciation</i>	<u>\$ 22,930,025</u>	<u>\$ 3,630,213</u>	<u>\$ 151,648</u>	<u>\$ 26,408,590</u>
Total Capital Assets, Being Depreciated, Net	<u>\$ 67,980,363</u>	<u>\$ (1,524,951)</u>	<u>\$ 22,600</u>	<u>\$ 66,432,812</u>
GOVERNMENTAL ACTIVITIES CAPITAL ASSETS, NET	<u>\$ 103,645,313</u>	<u>\$ 1,896,581</u>	<u>\$ 22,600</u>	<u>\$ 105,519,294</u>

**Depreciation expense was charged to Governmental Type activities as follows:**

<b>Governmental Activities:</b>	<b>Amount</b>
General Government	\$ 18,352
Security of Persons/ Property	302,015
Physical Environment	83,157
Transportation, Including Depreciation of General Infrastructure Assets	2,334,880
Economic Environment	13,275
Culture and Recreation	296,486
Internal Service Funds	582,048
<b>Total Depreciation Expense - Governmental Activities</b>	<u>\$ 3,630,213</u>

**Summary of changes: Business Type Activities**

Description	Balance 1/1/2007	Increases	Decreases	Balance 12/31/2007
<b>Business-Type Activities</b>				
<i>Capital Assets Not being Depreciated:</i>				
Land	\$ 2,344,731	\$ -	\$ -	\$ 2,344,731
Construction Work in Progress	5,648,526	13,395,356	74,288	18,969,594
<i>Total Capital Assets, Not Being Depreciated</i>	\$ 7,993,257	\$ 13,395,356	\$ 74,288	\$ 21,314,325
<i>Capital Assets, Being Depreciated:</i>				
Buildings	\$ 16,666,207	\$ -	\$ -	\$ 16,666,207
Improvements other than Buildings	82,372,519	10,474,784	-	92,847,303
Machinery and Equipment	711,070	299,740	19,772	991,038
<i>Total Capital Assets, Being Depreciated</i>	\$ 99,749,796	\$ 10,774,524	\$ 19,772	\$ 110,504,548
<i>Less accumulated depreciation for:</i>				
Buildings	\$ 8,573,833	\$ 442,281	\$ -	\$ 9,016,114
Improvements other than Buildings	20,232,976	3,300,961	-	23,533,937
Machinery and Equipment	334,265	48,093	17,795	364,563
<i>Total Accumulated Depreciation</i>	\$ 29,141,074	\$ 3,791,335	\$ 17,795	\$ 32,914,614
Total Capital Assets, Being Depreciated, Net	\$ 70,608,722	\$ 6,983,189	\$ 1,977	\$ 77,589,934
BUSINESS-TYPE ACTIVITIES CAPITAL ASSETS, NET	\$ 78,601,979	\$ 20,378,545	\$ 76,265	\$ 98,904,259

**Depreciation expense was charged to Business-Type activities as follows:**

Business-type Activities	Amount
Wastewater	\$ 2,867,399
Health & Sanitation	1,158
Stormwater	922,779
<b>Total Depreciation Expense - Business-type Activities</b>	<b>\$ 3,791,336</b>

**NOTE 6:  
Pension Plans**

Substantially all City full-time and qualifying part-time employees participate in one of the following statewide Washington State retirement systems administered by the

Department of Retirement Systems (DRS), under cost-sharing multiple-employer public employee defined benefit and defined contribution retirement plans. The

Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to: Department of Retirement Systems, Communications Unit, P.O. Box 48380, Olympia, WA 98504-8380. The following disclosures are made pursuant to GASB Statement 27, *Accounting for Pensions by State and Local Government Employers*.

### **Public Employees' Retirement System (PERS) Plans 1, 2 and 3**

#### ***Plan Description***

PERS is a cost-sharing multiple employer retirement system comprised of three separate plans for membership purposes: Plans 1 and 2 are defined benefit plans and Plan 3 is a defined benefit plan with a defined contribution component. Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior courts (other than judges currently in a judicial retirement system); employees of legislative committees; community and technical colleges, college and university employees not participating in national higher education retirement programs; judges of district and municipal courts; and employees of local governments. PERS participants who joined the system by September 30, 1977, are Plan 1 members. Those who joined on or after October 1, 1977 and by either, February 28, 2002 for state and higher education employees, or August 31, 2002 for local government employees, are Plan 2 members unless they exercise an option to transfer their membership to Plan 3. PERS participants joining the system on or after March 1, 2002 for state and higher education employees, or September 1, 2002 for local government employees have the irrevocable option of choosing membership in either PERS Plan 2 or PERS Plan 3. The option must be exercised within

90 days of employment. An employee is reported in Plan 2 until a choice is made. Employees who fail to choose within 90 days default to PERS Plan 3. PERS defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions. PERS retirement benefit provisions are established in state statute and may be amended only by the State Legislature.

Plan 1 members are vested after the completion of five years of eligible service. Plan 1 members are eligible for retirement at any age after 30 years of service, or at the age of 60 with 5 years of service, or at the age of 55 with 25 years of service. The annual benefit is two percent of the average final compensation per year of service, capped at 60 percent. The average final compensation is based on the greatest compensation during any 24 eligible consecutive compensation months. Plan 1 retirements from inactive status prior to the age of 65 may receive actuarially reduced benefits. The benefit is actuarially reduced to reflect the choice of a survivor option. A cost-of-living allowance (COLA) is granted at age 66 based upon years of service times the COLA amount, increased by three percent annually. Plan 1 members may also elect to receive an additional COLA amount (indexed to the Seattle Consumer Price Index), capped at three percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

Plan 2 members are vested after the completion of five years of eligible service. Plan 2 members may retire at the age of 65 with 5 years of service, or at 55 with 20 years of service, with an allowance of two percent of the average final compensation per year of service. The average final compensation is based on the greatest compensation during any eligible consecutive 60-month period. Plan 2 retirements prior to 65 receive reduced benefits. If retirement is at age 55 or older with at least 30 years of service, a three percent per year reduction applies;

otherwise an actuarial reduction will apply. The benefit is also actuarially reduced to reflect the choice of a survivor option. There is no cap on years of service credit; and a cost-of-living allowance is granted (indexed to the Seattle Consumer Price Index), capped at three percent annually.

Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component, and member contributions finance a defined contribution component. The defined benefit portion provides a benefit calculated at 1 percent of the average final compensation per year of service. The average final compensation is based on the greatest compensation during any eligible consecutive 60-month period. Effective June 7, 2006, Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years of service; if twelve months of that service are earned after age 44; or after five service credit years earned in PERS Plan 2 prior to June 1, 2003. Plan 3 members are immediately vested in the defined

contribution portion of their plan. Vested Plan 3 members are eligible to retire with full benefits at age 65, or at age 55 with 10 years of service. Retirements prior to the age of 65 receive reduced benefits. If retirement is at age 55 or older with at least 30 years of service, a 3 percent per year reduction applies; otherwise an actuarial reduction will apply. The benefit is also actuarially reduced to reflect the choice of a survivor option. There is no cap on years of service credit; and Plan 3 provides the same cost-of-living allowance as Plan 2. The defined contribution portion can be distributed in accordance with an option selected by the member, either as a lump sum or pursuant to other options authorized by the Employee Retirement Benefits Board. There are 1,188 participating employers in PERS. Membership in PERS consisted of the following as of the latest actual valuation date for the plans of September 30, 2006.

Retirees and Beneficiaries Receiving Benefits	70,201
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	25,610
Active Plan Members Vested	105,215
Active Plan Members Nonvested	49,812
<b>Total</b>	<b><u>250,838</u></b>

### ***Funding Policy***

Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates, Plan 2 employer and employee contribution rates, and Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statute at 6 percent for state agencies and local government unit employees, and 7.5 percent for state government elected officers. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. All employers are required to contribute at the level

established by the Legislature. Under PERS Plan 3, employer contributions finance the defined benefit portion of the plan, and member contributions finance the defined contribution portion. The Employee Retirement Benefits Board sets Plan 3 employee contribution rates. Six rate options are available ranging from 5 to 15 percent; two of the option graduated rates dependent on the employee's age. As a result of the implementation of the Judicial Benefit Multiplier Program in January 2007, a second tier of employer and employee rates was developed to fund, along with investment earnings, the increased retirement benefits of those justices and

judges that participate in the program. The methods used to determine the contribution requirements are established under state

statute in accordance with chapters 41.40 and 41.45 RCW.

The required contribution rates expressed as a percentage of covered payrolls, as of December 31, 2007 were:

	PERS <u>Plan I</u>	PERS <u>Plan II</u>	PERS <u>Plan III</u>
Employer*	6.13% **	6.13% **	6.13% ***
Employee	6.00% ****	4.15% ****	*****

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

\*\*The employer rate for state elected officials is 9.12% for Plan 1 and 6.13% for Plan 2 and Plan 3.

\*\*\*Plan 3 defined benefit portion only.

\*\*\*\*The employee rate for state elected officials is 7.50% for Plan 1 and 4.15% for Plan 2.

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

Both the City of Mount Vernon and the employees made the required contributions. The City's required contributions for the years ended December 31, 2007 were:

	PERS <u>Plan I</u>	PERS <u>Plan II</u>	PERS <u>Plan III</u>
2007	\$ 24,404	\$ 258,796	\$ 113,804
2006	12,616	134,457	57,990
2005	10,626	78,540	34,700

### **Law Enforcement Officer's and Fire Fighters' Retirement System (LEOFF)**

#### ***Plan Description***

LEOFF is a cost-sharing multiple employer retirement system comprised of two separate defined benefits plans. LEOFF participants who joined the system by September 30, 1977 are Plan 1 members. Those who joined on or after October 1, 1977 are Plan 2 members. Membership in the system includes all full-time, fully compensated, local law enforcement officers and firefighters. LEOFF membership is comprised primarily of non-state employees, with Department of Fish and Wildlife enforcement officers, who were first included prospectively effective July 27, 2003 being an exception. In addition, effective July 24, 2005, current members of PERS who are emergency medical technicians can elect to become members LEOFF Plan 2. Effective July 1, 2003 the

LEOFF Plan 2 Retirement Board was established to provide governance of LEOFF Plan 2. The Board's duties include adopting contribution rates and recommending policy changes to the Legislature for the LEOFF Plan 2 retirement plan. LEOFF defined benefits are financed from a combination of investment earnings, employer and employee contributions, and a special funding situation in which the state pays the remainder through state legislative appropriations. LEOFF retirement benefit provisions are established in state statute and may be amended only by the State Legislature. Plan 1 retirement benefits are vested after completion of five years of eligible service. Plan 1 members are eligible for retirement with five years of service at the age of 50.

The benefit per year of service calculated as a percent of final average salary is as follows:

<u>Term of Service</u>	<u>Percent of Final Average Salary</u>
20 or more years	2.0%
10 but less than 20 years	1.5%
5 but less than 10 years	1.0%

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

Plan 2 members are vested after the completion of five years of eligible service. Plan 2 members are eligible to retire at age

50 with 20 years of service, or at age 53 with five years of service, with an allowance of 2 percent of the final average salary per year of service. The final average salary is based on the highest consecutive 60 months. Plan 2 retirements prior to the age of 53 are actuarially reduced for each year that the benefit commences prior to age 53 and to reflect the choice of a survivor option. 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. There is no cap on years of service credit; and a cost-of-living allowance is granted (indexed to the Seattle Consumer Price Index), capped at 3 percent annually.

There are 383 participating employers in LEOFF. Membership in LEOFF consisted of the following as of the latest actuarial valuation date for the plans of September 30, 2006:

Retirees and Beneficiaries Receiving Benefits	8,951
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	602
Active Plan Members Vested	12,711
Active Plan Members Nonvested	3,603
<b>Total</b>	<b><u>25,867</u></b>

### ***Funding Policy***

Starting on July 1, 2000, Plan 1 employers and employees contribute zero percent as long as the plan remains fully funded. Employer and employee contribution rates are developed by the Office of the State Actuary to fully fund the plan. Plan 2 employers and employees are required to pay at the level adopted by the LEOFF Plan 2 Retirement Board. All employers are required to contribute at the level required by state law. The legislature by means of a

special funding arrangement appropriated money from the state General Fund to supplement the current service liability and fund the prior service costs of Plan 2 in accordance with the requirements of the Pension Funding Council and the LEOFF Plan 2 Retirement Board. However, this special funding situation is not mandated by the state constitution and this funding requirement could be returned to the employers by a change of statute.

The required contribution rates expressed as a percentage of covered payrolls, as of December 31, 2007 were:

	LEOFF Plan I	LEOFF Plan II	
Employer*	0.16%	5.35%	**
Employee	0.00%	8.64%	
State	N/A	3.45%	

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

\*\* The employer rate for ports and universities is 8.80%

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

	LEOFF Plan I	LEOFF Plan II
2007	\$0	\$277,798
2006	\$0	\$230,831
2005	\$0	\$184,293

### Other Retirement Systems - Volunteer Firemen Relief and Pension Fund

The Volunteer Fire Fighters' Relief and Pension Fund System is a cost-sharing multiple-employer retirement system that was created by the legislature in 1945 under Chapter 41.16 RCW. It provides pension, disability and survivor benefits. Membership in the system requires service with a fire department of an electing municipality of Washington State except those covered by LEOFF. The system is

funded through member contributions of \$30 per year; employer contributions of \$30 per year; 40 percent of the Fire Insurance Premium Tax; and earnings from the investment of moneys by the Washington State Investment Board. Members do not earn interest on their contributions; however, they may elect to withdraw their contribution upon termination.

### Firemen's Relief and Pension

#### **Plan Description**

The City is the administrator of the Firemen's Pension Fund, which is a closed, single employer, defined benefit pension plan that was established in conformance with RCW Chapter 41.18. This plan provided retirement and disability benefits, annual cost-of-living adjustments, and death benefits, to plan members and beneficiaries.

Membership is limited to fire fighters employed prior to March 1, 1970, when the LEOFF retirement system was established. The City's obligation under the Firemen's Pension Fund consists of paying all benefits, including payments to beneficiaries, for fire fighters who retired prior to March 1, 1970, and excess benefits over LEOFF for covered fire fighters who retired after March 1, 1970.

Membership of the Firemen's Pension Fund consisted of the following at December 31, 2007 the date of the latest actuarial valuation:

Retirees currently receiving full retirement benefits through the Law Enforcement Officers and Fire Fighters Retirement Plan (LEOFF)	3
Retirees and beneficiaries receiving benefits through both the LEOFF Plan and the Firemen's Pension Plan	4
<u>Active plan members</u>	<u>0</u>
Total	7

### **Summary of Significant Accounting Policies**

The financial statements of the FR&P are prepared using the accrual basis of accounting. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. All plan investments are recorded at fair value. Securities traded on a national exchange are valued at the last reported sales price on the government's balance sheet. Securities without an established market are reported at estimated fair value.

### **Funding Policy**

Under State law, the Firemen's Pension Fund is provided an allocation of 25% of all moneys received by the State from taxes on fire insurance premiums; interest earnings; member contributions made prior to the inception of LEOFF; and City contributions required to meet projected future pension obligations. Neither member nor employer contributions were made to the plan during the year as the actuary has determined that the current assets of the fund, along with future revenues from state fire insurance taxes and interest earnings, will be sufficient to pay the costs of administering the plan including all future Firemen's Pension Fund pension benefits.

### **Annual Pension Cost**

Since the benefits provided by the Plan are the excess benefits between the City's FPF plan and the State's LEOFF plan, a *modified aggregate projected benefit actuarial cost method* is used for funding purposes. Under this method, all excess

liabilities not covered by the actuarial assets as of the date of the valuation are funded as a level dollar or an increasing dollar amount over the period until the youngest participant is expected to reach age 65.

The future investment earnings of the assets are assumed to accrue at an annual rate of 7%. Salaries are assumed to increase at the rate of 5.0% per annum. This assumption is for future inflation increases only. Since members have at least 20 years of service, no additional increase is assumed for merit increases. Certain benefits increase at the same rate as the salaries for active members of the same rank the retiree had attained at retirement. These salaries were assumed to increase at the rate of 5.0% per annum. Other benefits increase at the same rate as the Consumer Price Index increases. The CPI was assumed to increase at the rate of 4.0% per annum.

For GASB reporting purposes, the following table presents the Normal Cost and the ARC as of the valuation date, assuming the UAAL is amortized as a level dollar amount over a closed 30 year period beginning January 1, 1999 (note at December 31, 1999, the UAAL was amortized over 30 years, at December 31, 2002 over 27 years, etc.)

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

**Schedule of Employer Contributions**

<u>Fiscal Year Ending</u>	<u>Employer Contributions</u> <sup>a</sup>	<u>Fire Insurance Premiums</u>	<u>Total Employer Contributions</u>	<u>Annual Required Contribution (ARC)</u> <sup>b</sup>	<u>Percentage of ARC Contributed</u>
December 31, 2002	0	16,984	16,984	0	N/A
December 31, 2003	(4,317)	19,227	14,910	0	N/A
December 31, 2004	(3,694)	22,078	18,384	(72,423)	N/A
December 31, 2005	(7,226) <sup>c</sup>	22,541 <sup>c</sup>	15,315 <sup>c</sup>	(69,365)	N/A
December 31, 2006	(2,009)	25,940	23,931	(69,365)	N/A
December 31, 2007	(20,000) <sup>d</sup>	27,000 <sup>d</sup>	7,000 <sup>d</sup>	(69,560)	N/A

<sup>a</sup> Employer contributions for pensions are total contributions to the Fund net of disbursements from the fund for medical expenses under RCW 41.26.150 and administrative expenses.

<sup>b</sup> The ARC was constrained to be nonnegative for reporting years prior to 12/31/2004.

<sup>c</sup> The contributions as of December 31, 2005 differ from the amounts reported in the Comprehensive Annual Financial Report (CAFR) for 2005. This is because actual contributions have replaced the estimates used in the CAFR.

<sup>d</sup> Assumed amounts will be replaced at year end with actual amounts.

**Three-Year Trend Information**

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Contribution as a Percentage of APC</u>	<u>Net Pension Obligation (NPO)</u>
December 31, 2005	(66,846)	N/A	(248,245)
December 31, 2006	(65,225)	N/A	(337,401)
December 31, 2007	(62,018)	N/A	(406,419) *

\* Assumed amounts will be replaced at year end with actual amounts

**Annual Pension Cost and Net Pension Obligation**

Annual Required Contribution (ARC)	Fiscal Year Ending December 31, 2006	Fiscal Year Ending December 31, 2007
(1) Annual Normal Cost (BOY)	\$ -	\$ -
(2) Amortization of UAAL (BOY)	(65,439)	(66,248)
(3) Interest to EOY [(1)+(2)]x(i) <sup>a</sup>	(3,926)	(3,312)
(4) ARC at EOY [(1)+(2)+(3)]	(69,365)	(69,560)
(5) Interest on NPO	(14,895)	(16,870)
(6) Adjustment to ARC	(19,035)	(24,412)
(7) Annual Pension Cost (APC) [(4)+(5)-(6)]	(65,225)	(62,018)
(8) Employer Contributions <sup>c</sup>	23,931	7,000 <sup>b</sup>
(9) Change in NPO [(7)-(8)]	(89,156)	(69,018) <sup>b</sup>
(10) NPO at BOY [(11) prior year]	(248,245)	(337,401)
(11) NPO at EOY [(9)+(10)]	\$ (337,401)	\$ (406,419) <sup>b</sup>

a "i" is the assumed interest rate: 6% in 2005 & 6% in 2006, 5% in 2007

b Assumed amounts will be replaced at year end with actual amounts

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

**Other Personnel Benefits*****Deferred Compensation***

The City offers its employees three deferred compensation plans in accordance with Internal Revenue Code Section 457 as revised on August 20, 1996. These plans enable employees to defer a portion of their salary until future years. The deferred compensation is available to employees upon termination, retirement, or unforeseeable emergency. It is available to their beneficiaries upon the employee's death. All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are solely the property and right of the contributing employee. Amounts withheld from employee compensation are transmitted directly to the plans' trustee

***Post-Employment Benefits***

In accordance with the Revised Code of Washington (RCW) 41.26, the City provides lifetime medical care for law enforcement officers and fire fighters employed prior to October 1, 1977. Under this requirement, most coverage for eligible retirees is provided through the City's Health Care Program. Under authorization of the Disability Board, however, direct payment is also made for some retiree medical expenses not covered by standard benefit plan provisions. The City's General Fund provides direct medical payments and Medicare Part B premiums on a pay-as-you-go basis. The retiree does not contribute towards the cost of his/her medical care. There are currently 23 retirees eligible to receive benefits.

Costs of providing these post-employment health care benefits in 2007 were as follows:

Mount Vernon Health Care Program	\$239,456
Direct medical payments authorized by the LEOFF 1 Disability Board	5,942
Medicare Part B insurance premiums	10,098
	<hr/>
Total Costs	<u>\$255,496</u>

**NOTE 7:  
Construction Commitments**

At December 31, 2007 the City had contractual obligations on the following construction projects:

Street & Sidewalk projects	\$ 196,085
Parks Development	171,199
Downtown Waterfront Improvements	180,761
Police/Court Campus Improvements	4,394
Drainage utility projects	252,084
Sewer utility projects	23,165,228
	<hr/>
Total Contractual Commitments	<u>\$ 23,969,751</u>

**NOTE 8:  
Interfund Receivables, Payables and Transfers**

The composition of interfund balances as of December 31, 2007, is as follows:

***Due To/ From Other Funds:***

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Internal Service Fund:		
Health Care Fund	General Fund	\$ 35,000
TOTAL		<u>\$ 35,000</u>

The outstanding balances between funds result from an unpaid obligation for a budgeted 2007 cash transfer.

***Interfund Transfers:***

<u>Fund</u>	<u>Transfer In</u>	<u>Transfer Out</u>
General Fund	\$ 180,700	\$ 1,021,349
Health & Sanitation	-	72,325
Surfacewater Utility	150,000	350,000
Governmental Activities Internal Services Funds	141,000	
Non-major governmental funds	3,413,745	2,441,771
Total	<u>\$ 3,885,445</u>	<u>\$ 3,885,445</u>

Interfund transfers are used to:

- 1) Move revenues from the fund with collection authorization to the debt service fund as debt service principal and interest payments become due,
- 2) Move restricted amounts from borrowings to the debt service fund to establish mandatory reserve accounts,

3) Move unrestricted revenues to finance various programs that the government must account for in other funds in accordance with budgetary authorizations, including amounts provided as subsidies or matching funds for various grant programs.

4) Move residual fund balances from a capital project fund when project is completed to close the fund.

### NOTE 9: Long Term Debt

#### General Obligation Bonds

The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for governmental activities. General obligation bonds are a direct obligation 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 by a special property tax levy.

The City of Mount Vernon has two General Obligation bonds outstanding; 1998 Unlimited Tax General Obligation Bonds were issued to refund the 1994 Fire Bond and finance a portion of the construction of a new Public Safety Building and 1998 Limited Tax General Obligation Bond issued for the balance of the costs associated with the Public Safety Building. These bond issues, along with any other City debt issuances, were not subject to Federal arbitrage calculation/ rebate.

General obligation bonds currently outstanding are as follows:

Purpose	Interest Rates	Issued Amount	Outstanding at 12/31/07
1998 LTGO Bond	4.5 - 6.8%	\$ 1,500,000	\$ 955,000
1998 UTGO & Refunding Bond	4.5 - 6.8%	6,020,000	3,585,000
		<u>\$ 7,520,000</u>	<u>\$ 4,540,000</u>

Annual debt service requirements to maturity for general obligation bonds are:

Year Ending December 31	Governmental Activities	
	Principal	Interest
2008	\$ 410,000	\$ 221,439
2009	425,000	202,748
2010	450,000	183,158
2011	470,000	161,965
2012	495,000	139,360
2013 - 2017	2,290,000	333,335
Total	<u>\$ 4,540,000</u>	<u>\$ 1,242,005</u>

### Special Assessment Debt

Special Assessment Bonds are not a direct responsibility of the City, but are funded from the collection of special assessment payments. Debt service principal and interest costs are paid from the LID funds. The City is obligated for special assessment debt to the extent that it is required to establish a guaranty fund, for the purpose of guaranteeing the payment of local improvement bonds and warrants, in the

event there are insufficient funds in the LID funds. LID 232 was formed to finance curb, gutter, sidewalk, street, and signal improvements as well as sanitary and stormwater sewer system installation in the Continental Place area. Delinquent assessments receivable at December 31, 2007 were \$0.00.

Bonds, Issuances, Redemptions and Balances Outstanding:

LID	Issue Date	Maturity Date	Interest Rate	Original Amount Issued	Redemptions to Date	Bonds Outstanding 12/31/2007
232	1999	9/30/09	4.05 - 5.50%	\$ 1,087,493	\$ 942,493	\$ 145,000

Annual debt service requirements to maturity for special assessment bonds:

Year Ending December 31	Governmental Activity	
	Principal	Interest
2008	\$ 110,000	\$ 7,935
2009	35,000	1,925
Total	\$ <u>145,000</u>	\$ <u>9,860</u>

### Public Works Trust Fund Loans

State of Washington Public Works Trust Fund Loans are a direct responsibility of the City. Mount Vernon currently has nine such loans. Six of those loans have an outstanding balance of \$10,183,345 and are being repaid from the Wastewater Utility

Fund and the Surface Water Utility Fund. One loan with an outstanding principal balance of \$1,610,000 is being repaid from the City's Capital Improvement Fund with Real Estate Excise Tax money. All loans have an interest rate of .5%

Year Ending December 31	Government Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2008	\$ 115,000	\$ 8,050	\$ 699,009	\$ 86,565
2009	115,000	7,475	645,647	81,284
2010	115,000	6,900	645,647	73,823
2011	115,000	6,325	645,647	66,362
2012	115,000	5,750	645,647	58,901
2013 - 2017	575,000	20,125	3,041,987	182,589
2018 - 2022	460,000	5,750	2,296,999	73,524
2023 - 2026	-	-	1,562,762	18,580
Totals	\$ <u>1,610,000</u>	\$ <u>60,375</u>	\$ <u>10,183,345</u>	\$ <u>641,628</u>

### Revenue Bonds

Revenue Bonds are payable from revenues generated by the City's Wastewater Utility Fund. Wastewater Refunding Bonds were issued in 2002 to refund sewer bonds issued in 1992. Annual debt service requirement to maturity for revenue bonds are as follows:

Original issue:	\$	3,485,000	
Interest Rates:		2.4 -2.88%	
		<u>Business-Type Activity</u>	
Year Ending December 31		<u>Principal</u>	<u>Interest</u>
2008		660,000	19,800
	\$	<u>660,000</u>	<u>\$ 19,800</u>

### Department of Ecology State Revolving Loan Fund (SRLF)

Department of Ecology loans are payable from revenues generated by the City's Wastewater Utility Fund. \$2,521,000 in loans were issued in 1998 for the CSO Regulator Construction having a 20 year term with interest rates from 4.3% to 4.4%. Outstanding balance at December 31, 2007 is \$1,746,283.

\$20,359,763 in loans were authorized in 2007 for the Wastewater Treatment Plant Upgrade. \$3,802,880 in loans were issued during 2007. The loan has a 20 year term with an interest rate of 2.6%. The outstanding balance at December 31, 2007 is \$3,802,880.

Annual debt service requirements to maturity for SRLF loans are as follows:

		<u>Business-Type Activities</u>	
Year Ending December 31		<u>Principal</u>	<u>Interest</u>
2008	\$	126,804	\$ 74,695
2009		132,387	69,112
2010		242,974	344,078
2011		302,298	152,315
2012		312,531	142,082
2013 - 2017		1,735,130	537,935
2018 - 2022		1,192,292	274,778
2023 - 2027		1,134,736	130,834
2028 - 2029		370,010	9,662
	\$	<u>5,549,163</u>	<u>\$ 1,735,491</u>

### Contracts Payable

The City entered into an agreement with a private party to purchase 14.5 acres of land and buildings located at 19787 Anderson Road to create a City Park. Payments will be made from Park Capital Improvement Fund and REET I Fund. The total financed amount is \$825,000 to be paid over a three year term at an interest rate of 5.5% annually.

		<u>Governmental Activities</u>	
Year		<u>Principal</u>	<u>Interest</u>
2008		156,000	20,533
	\$	<u>156,000</u>	<u>\$ 20,533</u>

### Other Payables

In 2004 an agreement was reached for the City to purchase the railroad abandonment rights for the Mount Vernon Terminal Railway. Payments will be made from the General Fund. The total amount due is \$850,000 to be paid over an eight year term with an interest rate of 2.25% annually.

		<u>Governmental Activities</u>	
Year		<u>Principal</u>	<u>Interest</u>
2008	\$	168,800	\$ 9,990
2009		168,800	6,192
2010		56,400	2,394
2011		50,000	1,125
	\$	<u>444,000</u>	<u>\$ 19,701</u>

**Operating Leases**

The City leases equipment under non-cancelable operating leases. Total costs for such leases were \$36,697 for the year ended December 31, 2007. The future minimum lease payments for these leases are as follows:

<u>Governmental Activities</u>	
<u>Year</u>	<u>Amount</u>
2008	\$ 47,726
2009	27,868
2010	23,824
2011	17,261
2012	14,608
Total minimum lease payments	<u>\$ 131,287</u>

**Changes in Long-Term Liabilities**

Long term liability activity for the year ended December 31, 2007, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<b>Governmental Activities:</b>					
Bonds Payable:					
General obligation bonds	\$ 4,930,000	\$ -	\$ 390,000	\$ 4,540,000	\$ 410,000
Special assessment debt with government commitment	145,000	-	-	145,000	110,000
Total bonds payable	<u>5,075,000</u>	<u>-</u>	<u>390,000</u>	<u>4,685,000</u>	<u>520,000</u>
PWTF Loan	1,725,000	-	115,000	1,610,000	115,000
Contract Payable	1,411,000	-	811,000	600,000	324,800
Compensated Absences	661,363	711,922	694,866	678,419	502,037
Governmental activity Long-term liabilities	<u>\$ 8,872,363</u>	<u>\$ 711,922</u>	<u>\$ 2,010,866</u>	<u>\$ 7,573,419</u>	<u>\$ 1,461,837</u>
<b>Business-Type Activities:</b>					
Revenue Bonds	\$ 1,300,000	\$ -	\$ 640,000	\$ 660,000	\$ 660,000
PWTF Loan	4,122,795	6,650,000	589,450	10,183,345	699,009
DOE Loan	1,867,740	3,802,880	121,457	5,549,163	126,804
Compensated Absences	85,798	106,824	96,307	96,315	79,602
Business-Type activity Long-term liabilities	<u>\$ 7,376,333</u>	<u>\$ 10,559,704</u>	<u>\$ 1,447,214</u>	<u>\$ 16,488,823</u>	<u>\$ 1,565,415</u>

**NOTE 10:  
Contingencies and Litigation**

**Litigation**

The City has recorded in its financial statements all material liabilities. In the opinion of management, the City's insurance policies, insurance reserves and/or operating fund reserves are adequate to pay all known or pending

claims or litigation. As of December 31, 2007, there were a number of damage claims and lawsuits pending against the City. However, in our opinion, with which the City Attorney concurs, neither the potential liability from any single claim or lawsuit, nor the aggregate potential liability

resulting from all pending claims or lawsuits, would materially affect the financial condition of the City.

#### ***Contingencies Under Grant Provisions***

The City participates in a number of federal and state assisted programs. These grants are subject to audit by the grantors of their representatives. Such audits could result in requests for reimbursement to grantor agencies for expenditures disallowed under the terms of the grants. The City's management believes that such disallowances, if any, will be immaterial.

#### ***Other Contingencies***

There are a number of old, closed landfills within the City limits. The City does not own any of the landfill sites, all of which have been closed for over 30 years. The City may incur some liability in the event contamination is discovered, however, there is no known litigation pending at this time. Therefore, the City has no accrued liabilities for landfills at this time.

#### ***Bond Indentures***

The City is in compliance with all significant bond indenture and restrictions.

### **NOTE 11:**

#### **Risk Management**

The City of Mount Vernon manages loss risks through private insurance, risk pooling, self-insurance or risk retention. The various risk categories and coverages are described below. There have been no significant reductions or other coverage changes from the prior year. Furthermore, settlements did not exceed insurance coverage during any of the past three years.

#### ***Property Loss/Hazards Coverage***

The City is exposed to various risks of loss related to theft of, damage to and destruction of assets; and natural disasters for which the government carries commercial insurance.

#### ***Liability Coverage***

The City of Mount Vernon is 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 115 Members.

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, without deductibles. Coverage includes general, automobile, police, public officials' errors or omissions, stop gap, and employee benefits liability. Limits are \$3 million per occurrence self insured layer, and \$11 million per occurrence in the re-insured excess layer with no annual aggregate except \$10 million per member for public officials errors and omissions. The excess layer is insured by the purchase of reinsurance and insurance. Total limits are \$14 million per occurrence. The Board of Directors determines the limits and terms of coverage annually.

Insurance coverage for property, automobile physical damage, fidelity, inland marine, and boiler and machinery are purchased on a group basis. Various deductibles apply by type of coverage. Property insurance and auto physical damage are self-funded from the members' deductible to \$500,000, for all

perils other than flood and earthquake, and insured above that amount by the purchase of reinsurance.

In-house services include risk management consultation, loss control field services, claims and litigation administration, and loss analyses. WCIA contracts for the claims investigation consultants for personnel issues and land use problems, insurance brokerage, 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, and 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. These revenues directly offset portions of the membership's annual assessment.

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.

### ***Employee Healthcare***

Utilizing Chapter 48.62 RCW the Mount Vernon City Council elected to become self-insured for employee health care in August 1992. The self-insurance plan was created for the purpose of controlling health care costs and to provide a more flexible health care plan for the employees of Mount Vernon. All full-time city employees with the exception of some police officers participate in the plan. The plan provides medical, dental, prescription drug and vision

coverage for eligible employees and their dependents.

The plan utilizes a number of cost containment and stop loss features to reduce or limit the operating and benefit costs of the plan. The City has retained a third party administrator (TPA) to handle the processing and payment of all claims as well to provide a comprehensive program of benefit coordination. In addition the City has contracted with a preferred provider organization (PPO) in order to take advantage of discounted physician and related medical service fees.

The City has chosen to establish a risk-financing fund for risks associated with the employee health insurance plan. The risk-financing fund is accounted for as an internal service fund where assets are set aside for claim settlements. Liabilities of the fund are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNR). IBNR at December 31, 2007 was \$298,262. Non-incremental claims adjustment expenses have not been included as part of this liability.

At this time the Employee Health Care Plan is fully funded by the City.

The Washington State Risk Manager annually reviews the plan's financial documents to insure that the City complies with state risk management requirements, claims administration requirements and generally accepted accounting principles.

### ***Unemployment Insurance***

The City retains the risk for the payment of state unemployment compensation and is invoiced for eligible former City employees quarterly by the state Department of Employment Security. Each year the City appropriates funds to meet the estimated obligation. The liability is not considered material and therefore not included in the financial statements.

Changes in the Healthcare self-insurance fund's claims liabilities in 2006 and 2007 were:

	<u>Beginning of Year Liability</u>	<u>Current Year Claims &amp; Changes in Estimates</u>	<u>Claims Payments</u>	<u>End of Year Liability</u>
2006 \$	311,079 \$	1,749,874	\$ 1,734,576	\$ 326,377
2007 \$	326,377 \$	2,513,017	\$ 2,541,132	\$ 298,262

#### NOTE 12:

#### Net Assets

The government-wide and business type fund financial statements utilize a net asset presentation. Net assets are the difference between assets and liabilities. Net assets are categorized as investment in capital assets (net of related debt), restricted, and unrestricted.

1. Investment in Capital Assets (net of related debt) is intended to reflect the portion of net assets which are associated with non-liquid, capital assets less outstanding capital asset related debt.

The net related debt is the debt less the outstanding liquid assets and any associated unamortized cost. Additionally, until the infrastructure assets are reported, infrastructure related debt would reduce the investment in other non-infrastructure fixed assets.

2. Restricted Assets are liquid assets (generated from revenues and not bond proceeds) which have third party (statutory, bond covenant, or granting agency) limitations on their use. The City would typically use restricted assets first, as appropriate opportunities arise, but reserve the right to selectively defer the use thereof to a future project or replacement equipment acquisition.
3. Unrestricted Assets represent unrestricted liquid assets. The City's management may have plans or tentative commitments to expend resources for certain purposes in future periods. Further legal action will be required to authorize the actual expense or expenditures.

Restricted Assets in the Government-wide Statement of Net Assets are as follows:

<u>Fund</u>	<u>Amount</u>
City Street	\$ 286,934
Arterial Street	363,614
Paths and Trails	117,895
Transportation Impact Fees	<u>285,902</u>
Total Restricted for Streets and Transportation	\$ <u>1,054,345</u>
Tourism Promotion	\$ 253,170
Park Impact Fees	<u>146,656</u>
Total Restricted for Culture and Recreation	\$ <u>399,826</u>
UTGO Bond Fund	\$ 15,538
LID Funds	<u>212,469</u>
Total Restricted for Debt Service	\$ <u>228,007</u>
Cable Assessment - government access TV	\$ 110,034
Fire Impact Fees	<u>238,449</u>
Total Restricted for Other Purposes	\$ <u>348,483</u>

**Required Supplementary Information**  
**Firemen's Pension Plan**  
**Schedule of Funding Progress**  
**(rounded to thousands)**

Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liabilities Entry Age	Unfunded Actuarial Accrued Liabilities (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
January 1, 2001	950	109	(841)	872%	0	N/A*
January 1, 2003	1,019	162	(857)	629%	0	N/A
January 1, 2005	1,047	177	(870)	592%	0	N/A
January 1, 2007	1,099	184	(916)	597%	0	N/A

\* Since the covered payroll is \$0, the UAAL as a percentage of covered payroll cannot be defined.