

City of Mount Vernon Washington



Comprehensive Annual Financial Report

For the Fiscal Year Ended December 31, 2010

City of Mount Vernon, Washington
Comprehensive Annual Financial Report
For the Fiscal Year Ended December 31, 2010

Report Prepared By:
City of Mount Vernon Finance Department

Alicia D. Huschka, Finance Director
Mike Weber, Accounting Consultant
Rebecca J. Wade, Accounting Staff

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Mount Vernon
Washington

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
December 31, 2009

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



President

Executive Director

City of Mount Vernon Elected Officials



Mayor Bud Norris

2010 City Councilmembers



**Joe Lindquist
Ward 2**



**Ken Quam
Ward 1**



**Scott McMullen
Ward 2**



**Gary Molenaar
Ward 2**



**Bob Fiedler
Ward 3**



**Mike Urban
Ward 3**



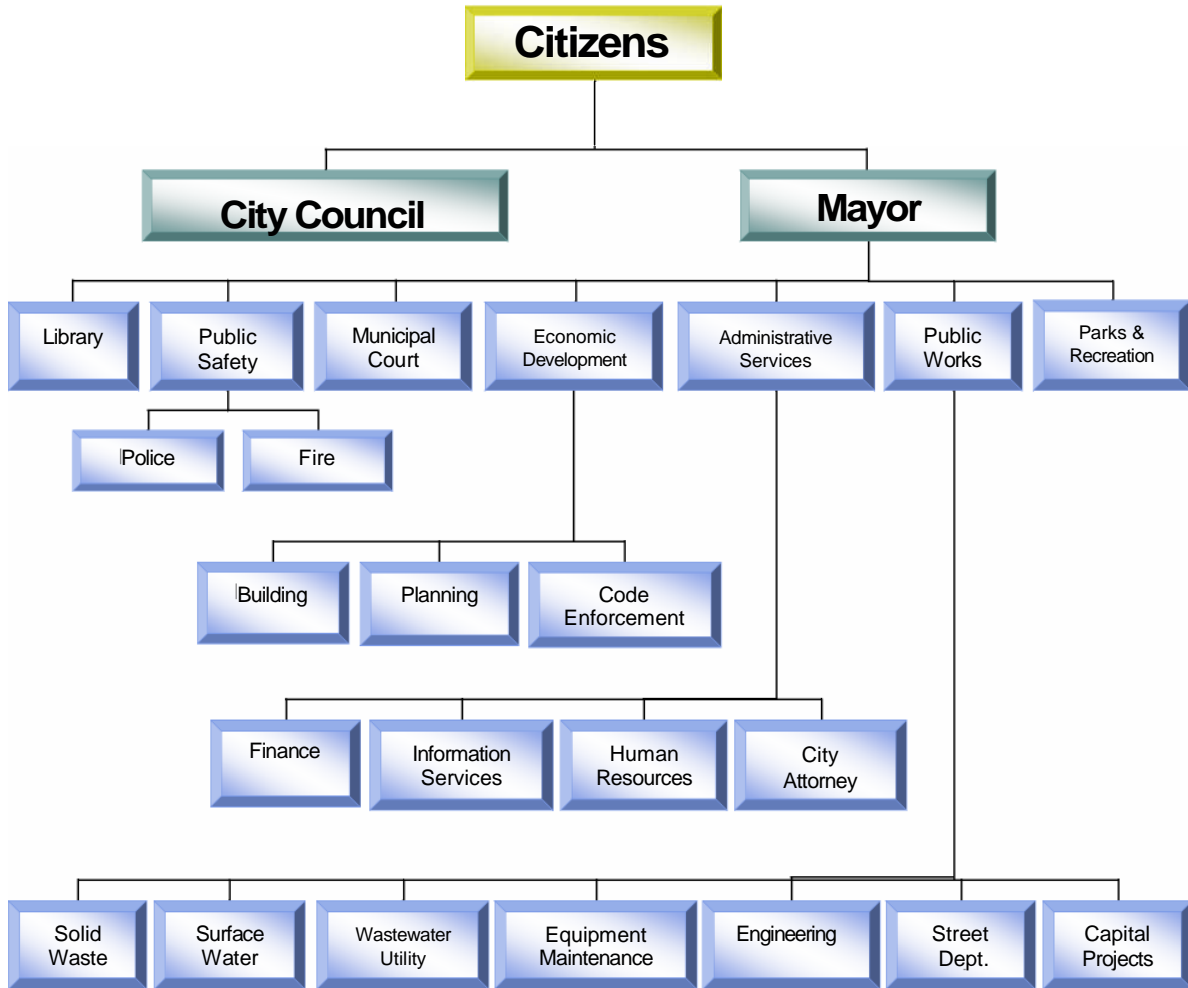
**Dale Ragan
Council At Large**

Administrative Staff

Ken Bergsma
Roy Hari
Kevin Rogerson
Alicia Huschka
Esco Bell
Jana Hanson
Larry Otos
Eric Stendal
Kandy Bartlett
Brian Soneda
Kim Kleppe

Police Chief
Fire Chief
City Attorney
Finance Director
Public Works Director
Community & Economic Development Director
Parks & Recreation Director
Special Projects Administrator
Human Resources Director
Library Director
Information Services Manager

Organization Chart





Washington

June 29, 2011

To the Honorable Mayor, Members of the City Council and Citizens of Mount Vernon:

The comprehensive annual financial report of the City of Mount Vernon, Washington for the year ended December 31, 2010 is hereby submitted as required by State Law, RCW 43.09.230. The report is prepared according to generally accepted accounting principles (GAAP) for government as established by the Governmental Accounting Standards Board (GASB).

As management of the City, we are responsible for both the accuracy of the data, and the completeness and fairness of the presentation, including all related disclosures. The City operates under a comprehensive internal control framework that is established for the purpose of safeguarding assets and the reliability of financial records. Because the cost of internal controls should not outweigh their benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatement.

GAAP requires that management provide a narrative introduction, overview and analysis to accompany the basic financial statements in the form of the Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The City's MD&A can be found immediately following the independent auditor's report.

The independent audit of the financial statements of the City of Mount Vernon was part of a broader, federally mandated "Single Audit" designed to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the audited government's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal awards. The City's Single Audit Report is issued separately and is available upon request.

Cities and counties of the State of Washington must comply with the Budgeting, Accounting and Reporting System (BARS) prescribed by the Office of the State Auditor. State law also provides for annual independent audits by the Office of the State Auditor and requires timely submission of annual financial reports to the state for review.

Profile of the Government

The City of Mount Vernon was incorporated in June 1890. The City is located 60 miles north of Seattle in the northwest portion of the State of Washington. The City of Mount Vernon currently occupies a land area of 12 square miles within the city limits and 16 within the designated Urban Growth Area (UGA) serving a population of 31,020 as of April 2010. The City of Mount Vernon is

empowered to levy a property tax on both real and personal property located within its boundaries. It is also empowered by state statute to extend its corporate limits by annexation of Urban Growth Areas, which occurs periodically when deemed appropriate by the governing council and subject to county approval.

The City of Mount Vernon is a non-charter code city that operates under the council-mayor form of government. Policymaking and legislative authority are vested in the City Council consisting of seven council members. The City Council is responsible, among other things, for passing ordinances, adopting the budget and confirming mayoral appointments of various committee members and city department heads. The Mayor is responsible for carrying out the policies and ordinances of the City Council, for overseeing the day-to-day operations of the government, and for appointing the heads of various departments. The City Council and Mayor are elected on a non-partisan basis. Council members serve four-year staggered terms. The Mayor serves a four-year term. Six council members are elected by ward. The Mayor and one council member are elected at large.

The City of Mount Vernon provides a full range of services, including police and fire protection; the construction and maintenance of streets and other infrastructure; planning, zoning and building inspections; recreational, leisure and cultural events which include park facilities and the city library. Sanitation services are provided through two legally separate utilities, a wastewater utility and solid waste utility. In addition, the handling of storm water run-off is provided through another legally separate utility, surfacewater management. All three utilities function, in essence, as departments of the City of Mount Vernon and therefore have been included as an integral part of the City of Mount Vernon's financial statements.

Budgets are prepared in accordance with the Revised Codes of Washington, RCW 35.33. The annual City budget serves as the foundation of the City of Mount Vernon's financial planning and controls, which must be adopted no later than December 31 of the preceding year. The budget is prepared by fund and department. A budget increase or decrease to a fund must be authorized by the City Council, while appropriation changes within a fund may be authorized by the Mayor. All budgets are controlled on a fund basis.

Local Economy

Mount Vernon is the seat of Skagit County, and is the 35th largest city in the State of Washington. Growth experienced in Mount Vernon can be attributed mainly to the quality of life associated with the rural setting and its commuter proximity to the Seattle-Everett Metropolitan and Bellingham-Vancouver, B.C. areas accessible by I-5, the major north-south transportation corridor in Washington. Skagit Valley Hospital and Skagit Regional Clinics combined, represent the largest employer located in Mount Vernon. Other significant employers in our city include Draper Valley Farms, Mount Vernon School District and Skagit Valley College.

Historically, Skagit County has been designated as economically depressed with higher unemployment rates than the State average, due to the high percentage of seasonal, cyclical and part-time temporary employment positions. This statistic has changed in recent years to be slightly more consistent with the State average. April 2010 unemployment rates were 9.8% for

the State and 10.4% for Mount Vernon, which is also a reflection of the multi-year down-turned economy.

The City of Mount Vernon experienced substantial growth and construction activity in 2005 through 2007. This activity notably declined in 2008, decreasing 41% compared to 2007, and continued to decline in 2009 and again in 2010. Additionally the City has experienced decreases in three major governmental revenues in 2008 through 2010; sales tax, real estate excise tax and investment interest. These decreases were directly related to the significant decline in the economy that was experienced across the nation.

Long-term Financial Planning and Relevant Financial Policies

The City develops six-year financial forecasts, which are updated annually based on economic conditions and other factors. These forecasts are used as a planning tool and during the budget process, which provides the Mayor and City Council key information as they review funding priorities for the long-term operating and capital needs of the City. The Mayor and City Council have established primary goals and priorities, which are updated on an annual basis and are incorporated into the annual budget process.

The City has a policy to maintain an adequate level of general operating reserves to mitigate current and future risks including revenue shortfalls and unanticipated expenditures. The City's goal of maintaining two months of operating expenditures in the General Fund in a stable economy was initially met in 2005 and has been maintained through 2008. The City deliberately used a portion of the reserves in 2009 and again in 2010 to mitigate the downturn in General Fund revenues, while still maintaining an adequate level of reserves equal to 1.5 months of the annual General Fund budget at the close of 2010. A crucial consideration in long-term financial planning is the City's financial policy to maintain adequate reserves in City operating funds.

Major Initiatives

The City of Mount Vernon has undertaken a **flood control project to permanently protect the downtown area** from the threat of flooding, providing flood protection from the base 100-year flood as defined by the Federal Emergency Management Administration (FEMA). The second element of the flood control project is the **redevelopment of the downtown and waterfront area**. Phase I of this project was constructed and completed in 2010 which included construction of the floodwall and a riverwalk urban trail for a portion of the full length of the project. The entire project will run the length of downtown Mount Vernon ending with a ring-dike around the City's wastewater treatment plant. The City continues to aggressively pursue funding opportunities to complete the financing package to complete the final phases of the project.

The Mayor and City Council identified several initiatives and improvements that were needed to meet citizen's demand for services, improved access and livability. Maintaining quality public safety for the citizen's of the City is the primary initiative which is demonstrated in part by the annual budget that is dedicated to public safety. Fifty percent of the 2010 governmental operating fund budgets were dedicated to public safety. Other initiatives include improvements that address traffic congestion and flow patterns in key areas of the City resulting in a few key transportation projects. The City ramped up funding for the annual street maintenance program

improvement projects on Freeway Drive between College Way and Stewart Road, and completed Phase I of the LaVenture Road extension to Anderson Road.

The City also completed Phase II of the Kiwanis Park development project which opened a splash park for the community.

Awards and Acknowledgments

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Mount Vernon for its comprehensive annual financial report for the year ended December 31, 2009. This was the fourth consecutive year, and the eleventh year overall, that the City has achieved this prestigious award. In order to be awarded a Certificate of Achievement, the City published an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

The preparation of this report on a timely basis could not be accomplished without the efforts and dedication of the staff of the Finance Department. I would like to express my appreciation to the staff who assisted in its preparation. I would also like to thank the Mayor and City Council members for their interest and support in conducting the financial operations of the City in a dedicated and responsible manner.

Respectfully submitted,



Alicia D. Huschka, CPA
Finance Director