

# 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

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# FINANCIAL SECTION



Road improvement project



**Washington State Auditor  
Brian Sonntag**

**INDEPENDENT AUDITOR'S REPORT**

June 29, 2011

Mayor and City Council  
City of Mount Vernon  
Mount Vernon, Washington

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Mount Vernon, Skagit County, Washington, as of and for the year ended December 31, 2010, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Mount Vernon, Skagit County, Washington, as of December 31, 2010, and the respective changes in financial position and, where applicable, cash flows thereof, and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we will also issue our report dated June 29, 2011, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements

and other matters. That report will be issued under separate cover in the City's Single Audit Report. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 15 through 23, pension trust fund information on page 73, and information on postemployment benefits other than pensions on page 74 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying information listed as combining financial statements and supplemental information on pages 75 through 111 is presented for purposes of additional analysis and is not a required part of the basic financial statements. This information has been subjected to auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The information identified in the table of contents as the Introductory and Statistical Sections is presented for purposes of additional analysis and is not a required part of the basic financial statements of the City. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

Sincerely,

A handwritten signature in black ink, appearing to read "Brian Sonntag". The signature is fluid and cursive, with a large initial "B" and "S".

**BRIAN SONNTAG, CGFM**  
STATE AUDITOR

This page contains no data

## 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, 2010. 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, equaled \$231,134,086 at the end of 2010. A total of 88%, or \$203,980,915, of total net assets is invested in capital such as streets, land, buildings and utility infrastructure. Of the remaining net assets, 11%, or \$24,762,593, of total net assets is available to meet the City's ongoing activities and obligations, and 1%, or \$2,390,578, is restricted for debt service and other purposes.
- The City of Mount Vernon's net assets decreased by \$990,605 in 2010, representing a 0.4% decrease compared to 2009 net assets. Capital assets net of current year depreciation in 2010 decreased \$2,001,706, or 1%. An offset to the decrease in capital assets in 2010 was an increase to capital assets of \$1,911,222 of infrastructure contributed by developers for storm water improvements.
- The Statement of Net Assets for the year ended December 31, 2010 includes a noncurrent liability for other postemployment benefit obligations of \$1,238,562. This is a result of the implementation of GASB Statement No. 45, first implemented in 2008.
- Governmental fund balances at year end were \$7,604,390, a \$490,435 or 6% decrease from the prior year. Of this amount, a total of \$7,541,492, or 99%, of the governmental fund balance is unreserved and available to fund ongoing activities with \$3,031,784 being earmarked for capital project activities.
- Fund balance in the General Fund at December 31, 2010 was \$2,371,616, a decrease of \$301,901 from the prior year. The largest contributing factor for the 11% decrease in fund balance is due to

budgeting a portion of unreserved fund balance to meet on-going government operations during a downturned economy, while maintaining an adequate level of fund balance in the General Fund. The City has a policy to maintain a General Fund fund balance equal to two months of the annual budget in a stable economy. The fund balance at December 31, 2008 was equal to approximately 2.5 months of the annual general fund budget. The fund balance at December 31, 2009 was approximately 1.6 months of the annual general fund budget, and the fund balance at December 31, 2010 was equal to approximately 1.5 months of the annual general fund budget.

- The City issued no new debt in 2010 resulting in a decrease to long-term debt of \$2,785,776 in 2010, a 6% decrease.

### 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, solid waste 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, for fiscal year 2010, the only City fund categorized as a major governmental fund is the City's 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, solid waste 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 certain medical insurance costs.

**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 2010 compared to 2009 restated (per Note 14, Prior Period Adjustment).

Table 1  
Statement of Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2010	2009	2010	2009	2010	2009
Current and other assets	\$ 18,389,587	\$ 19,389,800	\$ 12,611,876	\$ 14,028,555	\$ 31,001,463	\$ 33,418,355
Capital assets, net of						
accumulated depreciation	116,835,904	116,317,713	127,415,094	129,934,991	244,250,998	246,252,704
Total assets	135,225,491	135,707,513	140,026,970	143,963,546	275,252,461	279,671,059
Long-term liabilities	5,755,854	6,197,205	33,565,110	35,567,101	39,320,964	41,764,306
Other liabilities	2,183,321	2,689,280	2,614,090	3,092,782	4,797,411	5,782,062
Total liabilities	7,939,175	8,886,485	36,179,200	38,659,883	44,118,375	47,546,368
Net assets						
Invested in capital assets,						
net of related debt	112,126,015	110,904,437	91,854,900	92,295,420	203,980,915	203,199,857
Restricted	1,206,545	2,045,148	1,184,033	955,495	2,390,578	3,000,643
Unrestricted	13,953,756	13,871,443	10,808,837	12,052,748	24,762,593	25,924,191
Total net assets	\$ 127,286,316	\$ 126,821,028	\$ 103,847,770	\$ 105,303,663	\$ 231,134,086	\$ 232,124,691

The largest component of the City's net assets, 88% or \$203,980,915, 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 0.4% or \$465,288 in 2010. No significant changes occurred in 2010 compared to 2009 as reflected by a change of only 0.4%.

Net assets of the City's business type activities decreased 1% or \$1,455,893 in 2010. The major increases to net assets of business type activities came from infrastructure improvements totaling \$3,211,691 and a reduction to long-term debt of \$2,079,376 resulting from annual debt service payments. These increases were more than offset by annual depreciation of \$5,731,588. Net assets of the business type activities can only be used to finance the continuing operations of wastewater, solid waste, and surfacewater.

Approximately \$2.4 million, or 1%, of the City's total net assets is subject to legal restrictions. Some of the larger restrictions include debt

service, impact fees that must be dedicated to a particular use (transportation, parks and fire), lodging taxes reserved for tourism related activities and real estate excise taxes that are restricted for capital improvements.

**Governmental activities** net assets increased \$465,288 while total City net assets decreased \$990,605 in 2010. The governmental activities increase in net assets of 0.4% was not significant. The key elements of the increase are as follows:

- \$4,009,181 of the governmental activities increase came from capital assets activity in 2010 of which capital grants provided 87% of the funding for these projects. The City had four major projects under construction in 2010; Freeway Drive and College Way intersection and street improvements had \$482,082 of capital cost in 2010, Phase I of the LaVenture and Anderson Road extension had \$530,540 of capital costs in 2010, the Downtown and Waterfront Revitalization Project completed Phase I of construction in 2010 with capital costs of \$2,539,900 during the year, and the Kiwanis Park project which added a spray park and boardwalk had capital costs of \$612,558 in 2010. Revenues to fund capital assets are recorded as program or general revenues in the statement of activities. Capital

grants and contributions which are included in program revenues funded a major portion of these projects. 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.

- The major tax revenues that support ongoing operations experienced decreases in 2010 compared to 2009. This was a direct result of the on-going recession that the City was enduring, along with the rest of the state and nation. Sales tax revenue decreased 4% compared to 2009 which was a direct reflection of the continued declining economy. Utility tax revenues decreased 4% due to rate reductions and reductions in usage and service. Real estate excise tax decreased 2% as compared to 2009 as the sale of real property continued to decline, and investment interest decreased 41% compared to 2009 as interest rates continued to decline in 2010. Charges for services declined 9% due in large part to drastic reduction in construction and development activity in the City.
- Property tax revenue increased \$112,256 or 1.6% compared to 2009. The City did not increase property taxes in 2010 representing the sixth 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 2010. \$59,688,200 of new construction assessed value was added to the tax rolls in 2010.
- Investment earnings for government activities decreased \$123,190 or 41% from 2009 due to unfavorable interest rates and due to the decrease in cash balances as compared to 2009.

**Business-type activities** net assets decreased by \$1,455,893 at December 31, 2010, a decrease of 1% compared to December 31, 2009.

- The wastewater utility net assets decreased by \$2,453,893 or 3% attributable primarily to the 44% increase in annual depreciation expense, an increase of \$1,369,872, as the utility had first year depreciation on the \$39

million wastewater treatment plant in 2010. The other primary impact to net assets was the lack of any donated capital infrastructure from developers which is highly uncommon. 2010 had minimal construction and development activity resulting in no donated infrastructure to the wastewater utility in 2010. By comparison 2009 had \$1,240,635 of developer donated infrastructure.

- The solid waste utility had a \$204,253, or 7% decrease to net assets. 2010 was the first of a three-year tiered rate increase which is required to keep in step with operational costs of the utility. The surfacewater utility net assets increased \$1,202,253, or 4%, in 2010.
- Capital assets for business-type activities decreased \$2,519,897, due to a 33% increase in depreciation expense and the lack of any developer contributed infrastructure to the wastewater utility. By comparison capital assets net of related debt decreased \$440,520, reflecting a reduction in capital asset debt due to annual principal payments, while no new long-term debt was issued in 2010. The only capital contributions from developers and City capital projects, \$1,911,222, were in the surfacewater utility, due to four large projects that were completed in 2010, each having significant surfacewater improvements.
- Operating revenues for the wastewater utility increased \$333,062, or 5% compared to 2009, primarily due to a rate increase of 5.8% which became effective January 1, 2010. Net assets in the wastewater utility were 31% of total city net assets. Only 11% of the wastewater utility's net assets are unrestricted; 87% of net assets are categorized as investment in capital assets, net of related debt.
- The solid waste utility had a \$189,063, or 5% increase in operating revenues compared to 2009, primarily due to a 7% rate increase which became effective January 1, 2010. The continued decrease in construction activity in 2010 hampered any growth in revenue resulting from customer activity. Unrestricted net assets represent 63% of total net assets, while 37% of net assets represent investment in capital assets, net of related debt.
- The surfacewater utility had a \$99,127 increase in operating revenue compared to 2009. Unrestricted net assets represent 4% of

total net assets for the utility, which reflects a \$321,615, increase in unrestricted net assets compared to 2009. There was very little growth in utility customers in 2010 compared to 2009.

- Investment earnings for the business-type activities decreased \$119,427 or 51% compared to 2009 due to historically low 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 2010 and 2009 restated (per Note 14, Prior Period Adjustment).

Table 2  
Changes in Net Assets

	Governmental Activities		Business-type Activities		Total	
	2010	2009	2010	2009	2010	2009
<b>Revenues:</b>						
Program revenues						
Charges for services	\$ 3,035,948	\$ 3,326,736	\$ 13,185,285	\$ 12,564,033	\$ 16,221,233	\$ 15,890,769
Operating grants and contributions	1,342,299	1,299,699	-	-	1,342,299	1,299,699
Capital grants and contributions	3,503,509	4,770,718	843,170	3,312,084	4,346,679	8,082,802
General revenues						
Property taxes	6,951,899	6,839,643	-	-	6,951,899	6,839,643
Sales taxes	4,660,618	4,874,469	-	-	4,660,618	4,874,469
Utility taxes	3,757,553	3,927,371	-	-	3,757,553	3,927,371
Real estate excise taxes	468,606	479,050	-	-	468,606	479,050
Other taxes	1,132,122	1,104,035	-	-	1,132,122	1,104,035
Investment interest	175,283	298,473	113,302	232,729	288,585	531,202
Miscellaneous	25	7,549	134,847	216,715	134,872	224,264
Total revenues	<u>25,027,862</u>	<u>26,927,743</u>	<u>14,276,604</u>	<u>16,325,561</u>	<u>39,304,466</u>	<u>43,253,304</u>
<b>Expenses:</b>						
General government	3,006,612	3,281,804	-	-	3,006,612	3,281,804
Security	12,601,859	12,954,808	-	-	12,601,859	12,954,808
Physical environment	1,097,413	1,207,840	-	-	1,097,413	1,207,840
Transportation	3,815,482	4,001,586	-	-	3,815,482	4,001,586
Economic environment	740,985	746,454	-	-	740,985	746,454
Culture and recreation	2,536,662	2,652,243	-	-	2,536,662	2,652,243
Interest on long-term debt	139,979	184,040	-	-	139,979	184,040
Wastewater	-	-	9,558,475	7,978,676	9,558,475	7,978,676
Solid waste	-	-	4,492,894	4,561,301	4,492,894	4,561,301
Surface water	-	-	2,304,710	2,281,114	2,304,710	2,281,114
Total expenses	<u>23,938,992</u>	<u>25,028,775</u>	<u>16,356,079</u>	<u>14,821,091</u>	<u>40,295,071</u>	<u>39,849,866</u>
Change in net assets before transfers	1,088,870	1,898,968	(2,079,475)	1,504,470	(990,605)	3,403,438
Transfers, internal	(623,582)	600,000	623,582	(600,000)	-	-
Change in net assets	<u>465,288</u>	<u>2,498,968</u>	<u>(1,455,893)</u>	<u>904,470</u>	<u>(990,605)</u>	<u>3,403,438</u>
Net Assets-beginning (restated)	126,821,028	124,322,060	105,303,663	104,399,193	232,124,691	228,721,253
Net Assets-ending	<u>\$ 127,286,316</u>	<u>\$ 126,821,028</u>	<u>\$ 103,847,770</u>	<u>\$ 105,303,663</u>	<u>\$ 231,134,086</u>	<u>\$ 232,124,691</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 \$7,604,390, which is 6% or \$490,435 lower than at the beginning of the year.

- The General Fund fund balance decreased \$301,901, or 11% compared to 2009. The major reason for the decrease was due to budgeting a portion of unreserved fund balance in 2010. Other impacts to major revenues have been previously discussed.
- 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 providing 75% of the revenues to support 2010 expenditures. The 2010 ending fund balance is 12% of the Fund's 2010 final budget. The City's goal is to have a fund balance equal to two months of operating budget, or 17% of the annual operating budget, in stable economic times. Due to the severe economic downturn experienced in 2009 and 2010, the City used a portion of unreserved fund balance to balance the 2010 budget, while still maintaining 1.5 months of operating budget in unreserved fund balance at the end of 2010.
- Expenditures in the General Fund were \$1,056,454 lower in 2010 as compared to 2009 due to various cost saving measures. Major cost saving elements included converting to a fully insured medical plan and eliminating the city's self-insured medical plan, reductions in the city work force, implementation of a reduced work week and adjustment to equipment rental replacement reserve rates.

The **Proprietary Funds** provide the same type of information found in the government-wide financial statements, but in more detail.

- Net assets in the Wastewater Utility decreased \$2,453,893 compared to 2009. Major impacts to net assets have been addressed in the previous section on business-type activities.
- No new debt was issued in any of the proprietary funds in 2010.
- The Solid Waste Utility net assets decreased \$204,253, or 7% in 2010 compared to 2009. Operating revenues increased \$189,063 or 5% in 2010 as compared to 2009. A comprehensive rate study completed in 2009 concluded that a rate increase for the utility was necessary; however, the city chose to implement the rate increase over a three-year period beginning in 2010.
- Net assets in the Surfacewater Utility increased \$1,202,253, or 4% compared to 2009. More than 100% of the increase can be attributed to capital contributions of \$1,911,222 in 2010. The utility did not have any significant changes in revenue or expense activity.
- Other factors concerning the finances of the City's proprietary funds have previously 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 not supplemented during 2010.
- There were only two budget transfers between departments within the General Fund which did not increase the overall budget for the General Fund. One transfer was necessary to cover the increased cost of unemployment benefits paid in 2010 which exceeded budget estimates. Also the municipal court budget for professional services needed to be increased. The transfers into the human resources and

municipal court budgets came from the non-departmental budget.

- The General Fund final budget for 2010 was \$18,665,986 of which \$17,441,756, or 93%, was expended for the year. It is typical that a small percentage of the General Fund budget remains unspent at year end. For previous years (2005 through 2009) on average 94.2% 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. Two of the most significant reasons that the 2010 budget was 7% under-spent as compared to budget are that some full time positions remained unfilled during the year, and throughout the year the City implemented additional cost saving measures to address the continued declining revenues.

### Capital Assets and Debt Administration

#### Capital Assets

As of December 31, 2010, the City of Mount Vernon's investment in capital assets for its governmental and business-type activities amounts to \$244,250,998 (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 \$518,191, with business-type activities capital assets decreasing by \$2,519,897. 52% of capital assets are for business-type activities.

Major capital asset changes during 2010 included the following:

- Governmental activities had four major projects underway in 2010 which have been detailed in an earlier section. Total capital costs for these projects and other smaller projects in 2010 totaled \$4,009,181.
- Wastewater and surfacewater capital projects totaled \$4,024,276 in 2010. In 2009 the City completed a major plant expansion at the wastewater utility plant which cost \$39 million and was largely funded with low interest government loans. This project was completed in June 2009.
- City capital project and private development contributed \$1,911,222 to surfacewater infrastructure only in 2010.

### 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	
	2010	2009	2010	2009	2010	2009
Land	\$ 39,495,600	\$ 37,613,926	\$ 3,558,370	\$ 3,254,649	\$ 43,053,970	\$ 40,868,575
Buildings	8,326,629	8,750,304	44,848,304	46,623,719	53,174,933	55,374,023
Improvements other than buildings	3,733,559	3,936,604	78,438,740	78,350,875	82,172,299	82,287,479
Machinery and equipment	4,678,959	4,195,988	569,680	589,442	5,248,639	4,785,430
Construction in progress	9,141,693	11,576,965	-	1,116,306	9,141,693	12,693,271
Infrastructure	51,380,958	50,165,420	-	-	51,380,958	50,165,420
Art	78,506	78,506	-	-	78,506	78,506
<b>Total</b>	<b>\$ 116,835,904</b>	<b>\$ 116,317,713</b>	<b>\$ 127,415,094</b>	<b>\$ 129,934,991</b>	<b>\$ 244,250,998</b>	<b>\$ 246,252,704</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 \$40,291,171 in bonds and notes outstanding versus \$43,076,947 last year, reflecting a net decrease of \$2,785,776.

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

	Governmental Activities		Business-Type Activities		Total	
	2010	2009	2010	2009	2010	2009
General obligation bonds	\$ 3,255,000	\$ 3,735,000	\$ -	\$ -	\$ 3,255,000	\$ 3,735,000
Revenue bonds and notes	1,475,976	1,702,376	35,560,195	37,639,571	37,036,171	39,341,947
Total	<u>\$ 4,730,976</u>	<u>\$ 5,437,376</u>	<u>\$ 35,560,195</u>	<u>\$ 37,639,571</u>	<u>\$ 40,291,171</u>	<u>\$ 43,076,947</u>

Additional information on the City of Mount Vernon's long-term debt activity can be found in note 10 of this report.

No debt was issued for governmental activities or business-type activities in 2010.

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 2010 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 2010. 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 had seen substantial growth in 2005 through 2007 in residential construction, to be followed by a severe downturn in the economy that began in 2008 and continued through 2010. A

severe decline in construction activity occurred which we continue to experience, in combination with other depressed economic indicators which were experienced not only at the local level but also at the regional, state and national level. The City closely monitored our financial condition throughout the year and made various mid-year cost reductions to compensate for the declining revenues. We will continue to review monthly revenue trends, and the City is ready to react should we continue to experience declining revenues, by making additional downward adjustments to budgets, should that become necessary. The City has always taken a very conservative view on budget growth which has worked to our advantage during these difficult financial times. The City of Mount Vernon remains cautiously optimistic about the City's future economic health.

The City's overall financial position remains steady. Unrestricted net assets for governmental activities had an increase of \$82,313, less than a 1% increase, when compared to 2009. This can be attributed to a proactive and watchful approach to monitoring and reacting to financial conditions. The City is not facing any foreseeable restrictions or other limitations that would significantly impact funding resources for future uses.

One significant project that the City continues to work on is the Downtown and Waterfront Revitalization Project which has infrastructure costs estimated at \$40,000,000. The three major infrastructure components of this

estimated cost include a flood control structure, a riverwalk promenade that will extend the length of the core downtown area along the river and a parking facility structure in downtown. Phase I construction of the floodwall and riverwalk were completed in 2010. Final property acquisitions for the flood control and riverwalk projects should be completed in 2011, while the second phase of construction on the flood structure and riverwalk could occur in 2012 dependent upon securing all needed funding. The City continues to aggressively work on the financing elements of the project which are needed to complete the project.

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. Fees were increased during the 2010 year for business-type activities in the wastewater and solid waste utilities; otherwise no fee increases occurred at the City.

### **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.