# 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

# STATEMENT OF NET ASSETS
December 31, 2010

| | Governmental Activities | Business-Type Activities | Total |
|---|---|---|---|
| ASSETS | | | |
| Cash and cash equivalents | $ 5,689,871 | $ 1,924,984 | $ 7,614,855 |
| Investments | 8,011,346 | 7,545,189 | 15,556,535 |
| Receivables: | | | |
| Taxes | 1,377,064 | - | 1,377,064 |
| Accounts | 363,626 | 1,867,561 | 2,231,187 |
| Interest | 24,748 | 30,334 | 55,082 |
| Due from other governments | 2,504,926 | 49,659 | 2,554,585 |
| Inventory | 27,328 | - | 27,328 |
| Prepaid items | 153 | 10,116 | 10,269 |
| Deferred charges | 21,087 | | 21,087 |
| Net pension asset | 369,438 | - | 369,438 |
| Restricted assets: | | | |
| Cash and cash equivalents | - | 1,184,033 | 1,184,033 |
| Capital assets: | | | |
| Non-depreciable | 48,715,799 | 3,558,370 | 52,274,169 |
| Depreciable, net | 68,120,105 | 123,856,724 | 191,976,829 |
| Total Assets | 135,225,491 | 140,026,970 | 275,252,461 |
| LIABILITIES | | | |
| Accounts payable | 721,873 | 419,989 | 1,141,862 |
| Employee wages payable | 620,694 | 81,056 | 701,750 |
| Interest payable | 19,778 | 84,524 | 104,302 |
| Noncurrent liabilities: | | | |
| Other non-current due within one year | 820,976 | 2,028,521 | 2,849,497 |
| Net other postemployment benefit obligation | 1,238,562 | - | 1,238,562 |
| Other non-current due in more than one year | 4,517,292 | 33,565,110 | 38,082,402 |
| Total Liabilities | 7,939,175 | 36,179,200 | 44,118,375 |
| NET ASSETS | | | |
| Invested in capital assets, net of related debt | 112,126,015 | 91,854,900 | 203,980,915 |
| Restricted for: | | | |
| Streets and transportation | 570,015 | - | 570,015 |
| Culture and recreation | 324,793 | - | 324,793 |
| Debt service | 6,314 | 1,184,033 | 1,190,347 |
| Other purposes | 305,423 | - | 305,423 |
| Unrestricted | 13,953,756 | 10,808,837 | 24,762,593 |
| Total Net Assets | $ 127,286,316 | $ 103,847,770 | $ 231,134,086 |

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

## STATEMENT OF ACTIVITIES
For The Year Ended December 31, 2010

| Functions/Program | Expenses | Program Revenues: Charges for Services | Program Revenues: Operating Grants and Contributions | Program Revenues: Capital Grants and Contributions | Net (Expense) Revenue and Changes in Net Assets: Governmental Activities | Net (Expense) Revenue and Changes in Net Assets: Business-type Activities | Net (Expense) Revenue and Changes in Net Assets: Total |
|---|---|---|---|---|---|---|---|
| Governmental activities: | | | | | | | |
| General government | $ 3,006,612 | $ 577,946 | $ 160,677 | $ - | $ (2,267,989) | $ - | $ (2,267,989) |
| Security of persons and property | 12,601,859 | 342,638 | 469,689 | 13,730 | (11,775,802) | - | (11,775,802) |
| Physical environment | 1,097,413 | 194,271 | 7,302 | - | (895,840) | - | (895,840) |
| Transportation | 3,815,482 | 771,881 | 667,321 | 843,663 | (1,532,617) | - | (1,532,617) |
| Economic environment | 740,985 | 588,843 | 14,876 | 2,329,720 | 2,192,454 | - | 2,192,454 |
| Culture and recreation | 2,536,662 | 560,369 | 22,434 | 316,396 | (1,637,463) | - | (1,637,463) |
| Interest on long-term debt | 139,979 | - | - | - | (139,979) | - | (139,979) |
| Total governmental activities | 23,938,992 | 3,035,948 | 1,342,299 | 3,503,509 | (16,057,236) | - | (16,057,236) |
| Business-type activities: | | | | | | | |
| Wastewater | 9,558,475 | 7,402,860 | - | 415,530 | - | (1,740,085) | (1,740,085) |
| Solid waste | 4,492,894 | 4,274,237 | - | - | - | (218,657) | (218,657) |
| Surfacewater | 2,304,710 | 1,508,188 | - | 427,640 | - | (368,882) | (368,882) |
| Total business-type activities | 16,356,079 | 13,185,285 | - | 843,170 | - | (2,327,624) | (2,327,624) |
| Total government | $ 40,295,071 | $ 16,221,233 | $ 1,342,299 | $ 4,346,679 | $ (16,057,236) | $ (2,327,624) | $ (18,384,860) |
| | | General revenues: | | | | | |
| | | Taxes: | | | | | |
| | | Property taxes | | | 6,951,899 | - | 6,951,899 |
| | | Sales taxes | | | 4,660,618 | - | 4,660,618 |
| | | Utility taxes | | | 3,757,553 | - | 3,757,553 |
| | | Real estate excise taxes | | | 468,606 | | 468,606 |
| | | Criminal justice sales taxes | | | 474,504 | - | 474,504 |
| | | Hotel/motel, liquor & leasehold taxes | | | 657,618 | - | 657,618 |
| | | Interest and investment earnings | | | 175,283 | 113,302 | 288,585 |
| | | Miscellaneous | | | 25 | 134,847 | 134,872 |
| | | Transfers, internal activities | | | (623,582) | 623,582 | - |
| | | Total general revenues and transfers | | | 16,522,524 | 871,731 | 17,394,255 |
| | | Change in net assets | | | 465,288 | (1,455,893) | (990,605) |
| | | Net assets-beginning (restated) | | | 126,821,028 | 105,303,663 | 232,124,691 |
| | | Net assets-ending | | | $ 127,286,316 | $ 103,847,770 | $ 231,134,086 |

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

BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2010

| | General Fund | Other Governmental Funds | Total Governmental Funds |
|---|---|---|---|
| ASSETS | | | |
| Cash and cash equivalents | $ 597,048 | $ 1,330,588 | $ 1,927,636 |
| Investments | 2,034,709 | 2,193,955 | 4,228,664 |
| Receivables: | | | |
| Taxes | 426,767 | 31,790 | 458,557 |
| Accounts | 266,064 | 97,562 | 363,626 |
| Interest | 10,288 | - | 10,288 |
| Due from other funds | - | 921,643 | 921,643 |
| Due from other governments | 84,720 | 2,420,206 | 2,504,926 |
| Total Assets | $ 3,419,596 | $ 6,995,744 | $ 10,415,340 |
| LIABILITIES AND FUND BALANCES | | | |
| Liabilities: | | | |
| Accounts payable | $ 355,769 | $ 311,975 | $ 667,744 |
| Due to other funds | - | 921,643 | 921,643 |
| Interfund loans payable | - | 400,000 | 400,000 |
| Deferred revenues | 692,211 | 129,352 | 821,563 |
| Total Liabilities | 1,047,980 | 1,762,970 | 2,810,950 |
| Fund Balances: | | | |
| Reserved for: | | | |
| Debt service | - | 14,930 | 14,930 |
| Capital improvements | 37,968 | 10,000 | 47,968 |
| Unreserved, reported in: | | | |
| General fund | 2,333,648 | - | 2,333,648 |
| Special revenue funds | - | 2,176,060 | 2,176,060 |
| Capital project funds | - | 3,031,784 | 3,031,784 |
| Total Fund Balances | 2,371,616 | 5,232,774 | 7,604,390 |
| Total Liabilities and Fund Balances | $ 3,419,596 | $ 6,995,744 | $ 10,415,340 |

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

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# RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET ASSETS GOVERNMENTAL FUNDS
December 31, 2010

| | | | |
|---|---|---|---|
| Fund balances - total governmental funds | | $ | 7,604,390 |
| 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 | 48,715,799 | | |
| Depreciable assets (net) | 64,112,235 | | 112,828,034 |
| Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds. | | | |
| Net pension asset | 369,438 | | |
| Deferred charges | 21,087 | | |
| Deferred revenue | 1,740,070 | | 2,130,595 |
| 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 | (1,219,941) | | |
| Interest payable | (19,778) | | |
| Net other postemployment benefit oblgation | (1,238,562) | | |
| Long-term liabilities | (4,730,976) | | (7,209,257) |
| 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. | 11,932,554 | | 11,932,554 |
| Net assets of governmental activities | | $ | 127,286,316 |

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

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STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended December 31, 2010.

| | General Fund | Other Governmental Funds | Total Governmental Funds |
|---|---|---|---|
| REVENUES | | | |
| Taxes | $ 12,903,629 | $ 3,514,689 | $ 16,418,318 |
| Licenses and permits | 717,750 | 67,971 | 785,721 |
| Intergovernmental revenues | 872,974 | 4,234,401 | 5,107,375 |
| Charge for services | 1,688,989 | 656,299 | 2,345,288 |
| Fines and forfeitures | 309,004 | 32,272 | 341,276 |
| Investment income | 100,202 | 1,800 | 102,002 |
| Other revenue | 100,996 | 481,445 | 582,441 |
| Total Revenues | 16,693,544 | 8,988,877 | 25,682,421 |
| EXPENDITURES | | | |
| Current | | | |
| General government | 3,694,234 | - | 3,694,234 |
| Security of persons and property | 11,707,486 | 207,062 | 11,914,548 |
| Physical environment | 1,294,126 | 45,237 | 1,339,363 |
| Transportation | - | 1,435,242 | 1,435,242 |
| Economic environment | 511,638 | 229,874 | 741,512 |
| Culture and recreation | - | 2,297,071 | 2,297,071 |
| Capital outlay | 94,458 | 4,645,226 | 4,739,684 |
| Debt service | | | |
| Principal | 106,400 | 600,000 | 706,400 |
| Interest | 13,414 | 131,388 | 144,802 |
| Total Expenditures | 17,421,756 | 9,591,100 | 27,012,856 |
| Excess (deficiency) of revenues over (under) expenditures | (728,212) | (602,223) | (1,330,435) |
| OTHER FINANCING SOURCES (USES) | | | |
| Transfers in | 446,311 | 2,030,888 | 2,477,199 |
| Transfers out | (20,000) | (1,617,199) | (1,637,199) |
| Total other financing sources (uses) | 426,311 | 413,689 | 840,000 |
| Net change in fund balances | (301,901) | (188,534) | (490,435) |
| Fund Balances - January 1 | 2,673,517 | 5,421,308 | 8,094,825 |
| Fund Balances - December 31 | $ 2,371,616 | $ 5,232,774 | $ 7,604,390 |

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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, 2010

| | | |
|---|---|---|
| Net changes in fund balances - total governmental funds | | $ (490,435) |
| 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 | 4,523,789 | |
| Less current year depreciation | (3,227,298) | 1,296,491 |
| The effect of various miscellaneous transactions involving capital assets not reported in governmental funds. | | |
| Contributions of capital assets | 130,843 | |
| Transfer of capital assets to Surface-water enterprise funds | (1,483,582) | (1,352,739) |
| Issuance of long-term debt is an other financing source and repayment of debt principal is an expenditure in governmental funds, but the issuance or repayment increases/reduces long-term liabilities in the statement of net assets. | | |
| Principal payments | 706,400 | 706,400 |
| 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. | (242,491) | (242,491) |
| 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. | 548,062 | 548,062 |
| Change in net assets of governmental activities | | $ 465,288 |

*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, 2010

| | Original Budget 2010 | Final Budget 2010 | Actual 2010 | Variance with Final Budget Positive (Negative) |
|---|---|---|---|---|
| REVENUES | | | | |
| Taxes | | | | |
| Property | $ 3,789,037 | $ 3,789,037 | $ 3,960,674 | $ 171,637 |
| Sales | 5,264,000 | 5,264,000 | 4,640,242 | (623,758) |
| Utility | 3,886,000 | 3,886,000 | 3,757,553 | (128,447) |
| Other | 566,000 | 566,000 | 545,160 | (20,840) |
| Licenses and permits | 849,000 | 849,000 | 717,750 | (131,250) |
| Intergovernmental revenues | 1,038,611 | 1,038,611 | 872,974 | (165,637) |
| Charge for services | 1,659,094 | 1,659,094 | 1,688,989 | 29,895 |
| Fines and forfeitures | 263,500 | 263,500 | 309,004 | 45,504 |
| Investment income | 174,000 | 174,000 | 100,202 | (73,798) |
| Other revenue | 87,770 | 87,770 | 100,996 | 13,226 |
| Total Revenues | 17,577,012 | 17,577,012 | 16,693,544 | (883,468) |
| EXPENDITURES | | | | |
| Current | | | | |
| General government | 3,843,268 | 3,843,268 | 3,694,234 | 149,034 |
| Security of persons and property | 12,232,094 | 12,232,094 | 11,707,486 | 524,608 |
| Physical environment | 1,434,606 | 1,434,606 | 1,294,126 | 140,480 |
| Economic environment | 497,264 | 497,264 | 511,638 | (14,374) |
| Capital outlay | 368,940 | 368,940 | 94,458 | 274,482 |
| Debt service | | | | |
| Principal | 256,400 | 256,400 | 106,400 | 150,000 |
| Interest and debt issue costs | 13,414 | 13,414 | 13,414 | - |
| Total Expenditures | 18,645,986 | 18,645,986 | 17,421,756 | 1,224,230 |
| Excess (deficiency) of revenues over (under) expenditures | (1,068,974) | (1,068,974) | (728,212) | 340,762 |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers in | 386,400 | 386,400 | 446,311 | 59,911 |
| Transfers out | (20,000) | (20,000) | (20,000) | - |
| Sale of capital assets | 205,000 | 205,000 | - | (205,000) |
| Total other financing sources (uses) | 571,400 | 571,400 | 426,311 | (145,089) |
| Net change in fund balances | (497,574) | (497,574) | (301,901) | 195,673 |
| Fund Balances - January 1 | 2,673,517 | 2,673,517 | 2,673,517 | - |
| Fund Balances - December 31 | $ 2,175,943 | $ 2,175,943 | $ 2,371,616 | $ 195,673 |

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

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
December 31, 2010

| | Business-type Activities Enterprise Funds | | | | Governmental Activities |
|---|---|---|---|---|---|
| | Wastewater | Solid Waste | Surface-water | Totals | Internal Service Funds |
| ASSETS | | | | | |
| Current assets: | | | | | |
| Cash and cash equivalents | $ 1,325,139 | $ 293,749 | $ 306,096 | $ 1,924,984 | $ 3,762,235 |
| Investments | 5,931,244 | 907,844 | 706,101 | 7,545,189 | 3,782,682 |
| Accounts receivable | 1,023,337 | 611,195 | 233,029 | 1,867,561 | - |
| Interest receivable | 24,708 | 3,049 | 2,577 | 30,334 | 14,461 |
| Due from other governments | - | - | 49,659 | 49,659 | - |
| Inventory | - | - | - | - | 27,327 |
| Prepaid expenses | 4,594 | 4,518 | 1,004 | 10,116 | 153 |
| Total current assets | 8,309,022 | 1,820,355 | 1,298,466 | 11,427,843 | 7,586,858 |
| Noncurrent assets: | | | | | |
| Restricted assets | | | | | |
| Debt service: | | | | | |
| Cash and cash equivalents | 1,101,494 | - | 82,539 | 1,184,033 | - |
| Total restricted assets | 1,101,494 | - | 82,539 | 1,184,033 | - |
| Interfund loan receivable | - | - | - | - | 400,000 |
| Capital assets: | | | | | |
| Land | 1,799,326 | 204,000 | 1,555,044 | 3,558,370 | - |
| Buildings | 55,730,446 | 815,482 | - | 56,545,928 | 145,000 |
| Improvements other than buildings | 74,152,911 | - | 38,918,596 | 113,071,507 | 72,545 |
| Machinery and equipment | 683,482 | 79,636 | 272,054 | 1,035,172 | 10,851,168 |
| Construction in progress | - | - | - | - | - |
| Less accumulated depreciation | (35,759,225) | (144,176) | (10,892,482) | (46,795,883) | (7,060,843) |
| Total capital assets (net of depreciation) | 96,606,940 | 954,942 | 29,853,212 | 127,415,094 | 4,007,870 |
| Total noncurrent assets | 97,708,434 | 954,942 | 29,935,751 | 128,599,127 | 4,407,870 |
| Total assets | $ 106,017,456 | $ 2,775,297 | $ 31,234,217 | $ 140,026,970 | $ 11,994,728 |

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

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STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
December 31, 2010

| | Business-type Activities Enterprise Funds | | | | Governmental Activities |
|---|---|---|---|---|---|
| | Wastewater | Solid Waste | Surface-water | Totals | Internal Service Funds |
| LIABILITIES | | | | | |
| Current liabilities: | | | | | |
| Accounts payable | $ 196,255 | $ 194,987 | $ 28,747 | $ 419,989 | $ 54,129 |
| Employee benefits payable | 50,937 | 30,119 | - | 81,056 | 8,045 |
| Matured interest payable | 69,667 | - | 14,857 | 84,524 | - |
| Matured loans payable | 1,863,444 | - | 165,077 | 2,028,521 | - |
| Total current liabilities | 2,180,303 | 225,106 | 208,681 | 2,614,090 | 62,174 |
| Noncurrent liabilities: | | | | | |
| Employee benefits payable | 29,660 | 3,776 | - | 33,436 | - |
| Loans payable | 32,706,287 | - | 825,387 | 33,531,674 | - |
| Total noncurrent liabilities | 32,735,947 | 3,776 | 825,387 | 33,565,110 | - |
| Total liabilities | 34,916,250 | 228,882 | 1,034,068 | 36,179,200 | 62,174 |
| NET ASSETS | | | | | |
| Investment in capital assets, net of related debt | 62,037,210 | 954,942 | 28,862,748 | 91,854,900 | 4,007,870 |
| Restricted for debt service | 1,101,494 | - | 82,539 | 1,184,033 | - |
| Unrestricted | 7,962,502 | 1,591,473 | 1,254,862 | 10,808,837 | 7,924,684 |
| Total net assets | $ 71,101,206 | $ 2,546,415 | $ 30,200,149 | $ 103,847,770 | $ 11,932,554 |

*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, 2010

| | Business-type Activities Enterprise Funds | | | | Governmental Activities |
|---|---|---|---|---|---|
| | Wastewater | Solid Waste | Surface-water | Totals | Internal Service Funds |
| **Operating revenues:** | | | | | |
| Charges for utility services | $ 7,402,860 | $ 4,274,237 | $ 1,508,188 | $ 13,185,285 | $ - |
| Charges for services/replacement | - | - | - | - | 1,653,853 |
| Charges for insurance | - | - | - | - | 3,319,643 |
| Total operating revenue | 7,402,860 | 4,274,237 | 1,508,188 | 13,185,285 | 4,973,496 |
| **Operating expenses:** | | | | | |
| Operations and maintenance | 3,902,653 | 4,008,242 | 1,033,750 | 8,944,645 | 4,135,479 |
| Taxes | 659,536 | 450,063 | 25,582 | 1,135,181 | - |
| Depreciation and amortization | 4,483,811 | 34,589 | 1,213,188 | 5,731,588 | 599,859 |
| Total operating expenses | 9,046,000 | 4,492,894 | 2,272,520 | 15,811,414 | 4,735,338 |
| Operating income (loss) | (1,643,140) | (218,657) | (764,332) | (2,626,129) | 238,158 |
| **Nonoperating revenues (expenses):** | | | | | |
| Investment earnings | 85,932 | 10,153 | 17,217 | 113,302 | 73,280 |
| Miscellaneous revenue | 60,260 | 4,251 | 70,336 | 134,847 | 5,565 |
| Interest expense | (512,475) | - | (32,190) | (544,665) | - |
| Gain (loss) on sale of capital assets | - | - | - | - | 19,359 |
| Total nonoperating revenue (expense) | (366,283) | 14,404 | 55,363 | (296,516) | 98,204 |
| Income (loss) before contributions and transfers | (2,009,423) | (204,253) | (708,969) | (2,922,645) | 336,362 |
| Capital contributions | 415,530 | - | 1,911,222 | 2,326,752 | 191,700 |
| Transfers in | 140,000 | - | - | 140,000 | 20,000 |
| Transfers out | (1,000,000) | - | - | (1,000,000) | - |
| Change in net assets | (2,453,893) | (204,253) | 1,202,253 | (1,455,893) | 548,062 |
| Total net assets - beginning | 73,555,099 | 2,750,668 | 28,997,896 | 105,303,663 | 11,384,492 |
| Total net assets - ending | $ 71,101,206 | $ 2,546,415 | $ 30,200,149 | $ 103,847,770 | $ 11,932,554 |

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

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended December 31, 2010

| | Business-type Activities Enterprise Funds | | | | Governmental Activities |
|---|---|---|---|---|---|
| | Wastewater | Solid Waste | Surface-water | Totals | Internal Service Funds |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | | | |
| Cash received from customers | $ 7,308,141 | $ 4,209,544 | $ 1,467,127 | $ 12,984,812 | $ 4,973,496 |
| Cash payments to suppliers | (2,525,140) | (3,106,861) | (958,154) | (6,590,155) | (3,858,276) |
| Cash payments to employees | (1,393,519) | (990,431) | (62,002) | (2,445,952) | (257,062) |
| Cash payments for taxes | (659,536) | (450,063) | (25,582) | (1,135,181) | - |
| Other operating receipts and payments | 7,326 | 7,769 | | 15,095 | - |
| Non-operating income | 60,260 | 4,251 | 61,711 | 126,222 | 5,565 |
| Net cash provided (used) by operating activities | 2,797,532 | (325,791) | 483,100 | 2,954,841 | 863,723 |
| CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES: | | | | | |
| Transfers in | 140,000 | - | - | 140,000 | 20,000 |
| Transfers out | (1,000,000) | - | - | (1,000,000) | - |
| Net cash provided (used by noncapital financing activities | (860,000) | - | - | (860,000) | 20,000 |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES: | | | | | |
| Acquisition and construction of capital assets | (1,587,087) | (5,251) | (17,526) | (1,609,864) | (1,145,149) |
| Proceeds from sale of assets | - | - | - | - | 35,202 |
| Capital contributions | 415,530 | - | - | 415,530 | 191,700 |
| Loan/grant proceeds | 850,000 | - | | 850,000 | - |
| Principal paid on other debt | (1,914,299) | - | (165,077) | (2,079,376) | - |
| Interest paid on revenue bonds and other debt | (514,187) | - | (34,666) | (548,853) | - |
| Net cash provided (used) for capital and related financing activities | (2,750,043) | (5,251) | (217,269) | (2,972,563) | (918,247) |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | | | | |
| Investment purchases | (5,880,000) | (900,000) | (700,000) | (7,480,000) | (3,750,000) |
| Investment sales/maturities | 6,000,000 | 1,200,000 | 450,000 | 7,650,000 | 4,405,000 |
| Interfund loan issuance | - | - | - | - | - |
| Interest on investments | 119,103 | 21,211 | 17,934 | 158,248 | 106,526 |
| Net cash provided (used) by investing activities | 239,103 | 321,211 | (232,066) | 328,248 | 761,526 |
| Net increase (decrease) in cash and cash equivalents | (573,408) | (9,831) | 33,765 | (549,474) | 727,002 |
| Cash and cash equivalents, January 1 | 3,000,041 | 303,580 | 354,870 | 3,658,491 | 3,035,234 |
| Cash and cash equivalents, December 31 | $ 2,426,633 | $ 293,749 | $ 388,635 | $ 3,109,017 | $ 3,762,236 |

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

Page 1 of 2

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended December 31, 2010

| | Business-type Activities Enterprise Funds | | | | Governmental Activities |
|---|---|---|---|---|---|
| | Wastewater | Solid Waste | Surface-water | Totals | Internal Service Funds |
| Cash at the end of the year consists of: | | | | | |
| Cash and cash equivalents | $ 1,325,139 | $ 293,749 | $ 306,096 | $ 1,924,984 | $ 3,762,235 |
| Restricted assets: | | | | | |
| Cash and cash equivalents | 1,101,494 | - | 82,539 | 1,184,033 | - |
| Total cash at end of year | $ 2,426,633 | $ 293,749 | $ 388,635 | $ 3,109,017 | $ 3,762,235 |
| Reconciliation of operating income to net cash provided by operating activities: | | | | | |
| Operating income (loss) | $ (1,643,140) | $ (218,657) | $ (764,332) | $ (2,626,129) | $ 238,158 |
| Adjustments to reconcile operating income to | | | | | |
| to net cash provided by operating activities: | | | | | |
| Depreciation | 4,483,811 | 34,589 | 1,213,188 | 5,731,588 | 599,859 |
| (Increase) decrease in accounts receivable | (87,393) | (56,924) | (41,061) | (185,378) | - |
| (Increase) decrease in due from other govt's | - | - | (8,625) | (8,625) | - |
| (Increase) decrease in inventory | - | - | - | - | (13,397) |
| (Increase) decrease in prepaid expenses | (1,683) | (1,683) | (375) | (3,741) | - |
| Increase (decrease) in accounts payable | (19,348) | (85,287) | 13,969 | (90,666) | 29,497 |
| Increase (decrease) in employee bene's pay | 5,025 | (2,080) | - | 2,945 | 4,041 |
| Non-operating revenue | 60,260 | 4,251 | 70,336 | 134,847 | 5,565 |
| Net cash provided by operating activities | $ 2,797,532 | $ (325,791) | $ 483,100 | $ 2,954,841 | $ 863,723 |
| Noncash investing, capital and financing activities: | | | | | |
| Developers/City Governmental Activities contributed infrastructure valued at | $ - | $ - | $ 1,911,222 | $ 1,911,222 | $ - |
| Fair value of investments increase (decrease) | (18,527) | (6,110) | 868 | (23,769) | (18,543) |
| | | | | - | - |

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

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
December 31, 2010

| | Firemen's Pension Fund | Agency Funds |
|---|---|---|
| ASSETS | | |
| Cash and cash equivalents | $ 193,737 | $ 165,742 |
| Investments | | |
| U.S. Government Agency Securities | 593,124 | - |
| Municipal Government Securities | 98,854 | - |
| Certificates of Deposit | 14,122 | - |
| Receivables: | | |
| Interest | 1,941 | - |
| Total Assets | 901,778 | 165,742 |
| LIABILITIES | | |
| Liabilities: | | |
| Accounts payable | 648 | 6,794 |
| Due to other governments | - | 93,048 |
| Custodial | - | 65,900 |
| Total Liabilities | 648 | $ 165,742 |
| NET ASSETS | | |
| Held in trust for pension benefits | $ 901,130 | |

*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, 2010

| | | Firemen's Pension Fund |
|---|---|---|
| ADDITIONS | | |
| Fire insurance premium contributions | $ | 29,654 |
| Investment interest | | 8,993 |
| Total additions | | 38,647 |
| DEDUCTIONS | | |
| Pension benefit payments | | 22,897 |
| Healthcare benefit payments | | 107,120 |
| Total deductions | | 130,017 |
| Change in net assets | | (91,370) |
| Net assets - beginning | | 992,500 |
| Net assets - ending | $ | 901,130 |

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

**NOTES TO FINANCIAL STATEMENTS**
**DECEMBER 31, 2010**

NOTES PAGE

# Notes to the Financial Statements
## December 31, 2010

## 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.

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 consist 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*

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

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 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 reflect capital-specific grants.

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.

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 reported using the current financial resources measurement focus and the modified accrual basis of accounting, as explained in the next section. 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).

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

Both governmental and business-type activities in the government-wide financial statements and the proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and 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.

The governmental fund financial statements are reported using the current financial resources measurement focus and 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 fund:

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.

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

***Surfacewater 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 Firemen'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 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 with the exception of the LID Bond funds, pension trust funds and the Real Estate Excise Tax I, Real Estate Excise Tax II, and Impact Fees Funds capital projects budgets. Budgets for the Road Improvement, Downtown and Waterfront Area, and Park/Other Improvement capital project funds are adopted at the level of the individual project and for fiscal periods that correspond to the lives of the project.

*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 and sales taxes receivable and related interest and penalties (Refer to Note 4 for property tax disclosures).

*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 general obligation 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.)

Interest costs incurred during capital construction performed by proprietary funds are capitalized within the fund in accordance with FASB Statements No. 34 and No. 62. However, interest expense incurred during capital construction performed by governmental funds is not capitalized.

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
It is the City's policy to permit employees to accumulate earned but unused vacation, compensatory time in lieu of overtime, and sick leave benefits as established by City ordinance or union agreement. Vacation is accrued monthly by employees at annual rates ranging from 10 to 25 days per year depending upon tenure and union contract. Sick leave accruals vary, depending upon union agreement. City policy and union contracts may provide for a pay off of sick leave in some instances. The value of accumulated vacation leave, compensatory time and sick leave payable upon separation is estimated to be $1,227,986 for governmental funds and $114,492 for proprietary funds.

8. Long-term debt – Refer to Note 10.

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, solid waste 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.

## NOTE 3:

## Deposits and Investments

**Custodial Credit Risk – Deposits** In accordance with its investment policy, 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). Historically the FDIC insurance program insured the first $100,000 of the city's deposits. The FDIC insurance program was changed in October 2008 to insure the first $250,000 of the City's deposits through December 31, 2013. Deposit balances over the FDIC limit 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, 2010 the carrying amount of the City's market rate savings account with Bank of America was $1,494, the carrying amount of the City's money market account with U.S. Bank was $62,269 and bank balances with various banks were $359,698 Petty cash totaled $25,300.

**Custodial Credit Risk – Investments** In accordance with the City investment 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, 2010 the City had the following investments and maturities:

| | | Investment Maturities (In Years) | | |
|---|---|---|---|---|
| Investment Type | Fair Value | Less Than 1 | 1 to 2 | 2 to 4 |
| Federal Home Loan Bank | $ 6,592,321 | $ 2,016,567 | $ 3,271,076 | $ 1,304,678 |
| Federal Farm Credit Bank | 1,547,439 | - | 1,547,439 | - |
| Federal Home Loan Mortgage Corporation | 1,758,349 | - | 1,004,640 | 753,709 |
| Federal National Mortgage Association | 3,765,569 | - | 3,765,569 | - |
| Municipal Government Securities | 2,348,958 | 505,805 | 467,645 | 1,375,508 |
| Certificates of Deposit | 250,000 | 250,000 | - | - |
| Local Government Investment Pool | 8,709,606 | 8,709,606 | | |
| | $ 24,972,242 | $ 11,481,978 | $ 10,056,369 | $ 3,433,895 |

**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. While the City's investment policy allows a maximum investment maturity of 10 years, the City conservatively coordinates its investment maturities to closely match cash flow needs and internally restricts the maximum investment term to less than five years from the purchase date.

**Credit Risk** As required by state law and the City investment 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 State and Municipal Governments, or certificates of deposit with Washington State banks and savings and loan institutions. While not specifically addressed in the City investment policy, the City only invests in securities which have, at the time of investment, the highest credit rating of a nationally recognized rating agency.

**Concentration of Credit Risk** The City diversifies its investments by security type and institution. According to the City investment policy, with the exception of U.S. Treasury securities and the Washington State Local Government Investment Pool, no more than 65% of the City's total investment portfolio will be invested in a single security type or with a single financial institution. The City has several investments in government-sponsored enterprises which are not explicitly backed by the federal government and exceed 5% of the City's total investment portfolio market value, as shown in the following table.

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

| Investment Type | Standard and Poor's Rating | Percentage of Portfolio |
|---|---|---|
| Federal Farm Credit Bank | AAA | 9% |
| Federal Home Loan Bank | AAA | 41% |
| Federal Home Loan Mortgage Corporation | AAA | 11% |
| Federal National Mortgage Association | AAA | 23% |
| Municipal Government Securities | AAA | 14% |
| Certificates of Deposit | Not Rated | 2% |

## 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. 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 2010 was $2.3795 per $1,000 of assessed value on an assessed valuation of $2,748,352,886 and the Voted General Obligation Bond Levy was $0.1834 per $1,000 of assessed value on an assessed valuation of $2,551,293,873 for a total regular and bond levy of $7,007,763.

## 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 three 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 that 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.

**Asset Reclassification**
The 2010 capital assets reflect a reassignment of $1,483,582 of assets from governmental activities to the Surfacewater Utility Fund.

**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:

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

## Summary of changes: Governmental Activities

| Description | Balance 1/1/2010 | Increases | Decreases | Balance 12/31/2010 |
|---|---|---|---|---|
| **Governmental Activities** | | | | |
| *Capital Assets Not being Depreciated:* | | | | |
| Land | $ 37,613,926 | $ 1,881,674 | $ - | $ 39,495,600 |
| Construction Work in Progress | 11,576,965 | 3,347,607 | 5,782,879 | 9,141,693 |
| Art | 78,506 | - | - | 78,506 |
| *Total Capital Assets, Not Being Depreciated* | $ 49,269,397 | $ 5,229,281 | $ 5,782,879 | $ 48,715,799 |
| *Capital Assets, Being Depreciated:* | | | | |
| Buildings | $ 14,019,189 | $ - | $ - | $ 14,019,189 |
| Improvements other than Buildings | 6,134,066 | 1,195,174 | 1,179,862 | 6,149,378 |
| Machinery and Equipment | 11,835,383 | 1,303,900 | 356,759 | 12,782,524 |
| Infrastructure | 68,042,499 | 3,600,326 | - | 71,642,825 |
| *Total Capital Assets, Being Depreciated* | $100,031,137 | $ 6,099,400 | $ 1,536,621 | $104,593,916 |
| *Less accumulated depreciation for:* | | | | |
| Buildings | $ 5,268,885 | $ 423,675 | $ - | $ 5,692,560 |
| Improvements other than Buildings | 2,197,462 | 218,357 | - | 2,415,819 |
| Machinery and Equipment | 7,639,395 | 800,337 | 336,167 | 8,103,565 |
| Infrastructure | 17,877,079 | 2,384,788 | - | 20,261,867 |
| *Total Accumulated Depreciation* | $ 32,982,821 | $ 3,827,157 | $ 336,167 | $ 36,473,811 |
| Total Capital Assets, Being Depreciated, Net | $ 67,048,316 | $ 2,272,243 | $ 1,200,454 | $ 68,120,105 |
| GOVERNMENTAL ACTIVITIES CAPITAL ASSETS, NET | $116,317,713 | $ 7,501,524 | $ 6,983,333 | $116,835,904 |

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

| **Governmental Activities:** | **Amount** |
|---|---|
| General Government | $ 18,732 |
| Security of Persons/ Property | 339,932 |
| Physical Environment | 84,861 |
| Transportation, Including Depreciation of General Infrastructure Assets | 2,507,860 |
| Economic Environment | 3,769 |
| Culture and Recreation | 272,144 |
| Internal Service Funds | 599,859 |
| **Total Depreciation Expense - Governmental Activities** | $ 3,827,157 |

## Summary of changes: Business Type Activities

| Description | Balance 1/1/2010 | Increases | Decreases | Balance 12/31/2010 |
|---|---|---|---|---|
| **Business-Type Activities** | | | | |
| *Capital Assets Not being Depreciated:* | | | | |
| Land | $ 3,254,649 | $ 303,721 | $ - | $ 3,558,370 |
| Construction Work in Progress | 1,116,306 | - | 1,116,306 | - |
| *Total Capital Assets, Not Being Depreciated* | $ 4,370,955 | $ 303,721 | $ 1,116,306 | $ 3,558,370 |
| *Capital Assets, Being Depreciated:* | | | | |
| Buildings | $ 56,545,928 | $ - | $ - | $ 56,545,928 |
| Improvements other than Building | 109,063,375 | 4,008,132 | - | 113,071,507 |
| Machinery and Equipment | 1,019,028 | 16,144 | - | 1,035,172 |
| *Total Capital Assets, Being Depreciated* | $ 166,628,331 | $ 4,024,276 | $ - | $ 170,652,607 |
| *Less accumulated depreciation for:* | | | | |
| Buildings | $ 9,922,209 | $ 1,775,415 | $ - | $ 11,697,624 |
| Improvements other than Building | 30,712,500 | 3,920,267 | - | 34,632,767 |
| Machinery and Equipment | 429,586 | 35,906 | - | 465,492 |
| *Total Accumulated Depreciation* | $ 41,064,295 | $ 5,731,588 | $ - | $ 46,795,883 |
| Total Capital Assets, Being Depreciated, Net | $ 125,564,036 | $ (1,707,312) | $ - | $ 123,856,724 |
| BUSINESS-TYPE ACTIVITIES CAPITAL ASSETS, NET | $ 129,934,991 | $ (1,403,591) | $ 1,116,306 | $ 127,415,094 |

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

| Business-type Activities | Amount |
|---|---|
| Wastewater | $ 4,483,811 |
| Solid Waste | 34,589 |
| Surfacewater | 1,213,188 |
| **Total Depreciation Expense - Business-type Activities** | $ 5,731,588 |

# NOTE 6:

# Pension Plans

Substantially all City full-time and qualifying part-time employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit and defined contribution retirement plans. The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to: Department of Retirement Systems, Communications Unit, P.O. Box 48380, Olympia, WA 98504-8380; or it may be downloaded from the DRS website at www.drs.wa.gov. The following disclosures are made pursuant to GASB Statement 27, *Accounting for Pensions by State and Local Government Employers* and No. 50, *Pension Disclosures, an Amendment of GASB Statements No. 25 and No. 27.*

## 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 members who joined the system by September 30, 1977 are Plan 1 members. Those who joined on or after October 1, 1977 and by either, February 28, 2002 for state and higher education employees, or August 31, 2002 for local government employees, are Plan 2 members unless they exercise an option to transfer their membership to Plan 3. PERS members joining the system on or after March 1, 2002 for state and higher education employees, or September 1, 2002 for local government employees have the irrevocable option of choosing membership in either PERS Plan 2 or 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. Notwithstanding, PERS Plan 2 and Plan 3 members may opt out of plan membership if terminally ill, with less than five years to live.

PERS Plan 1 and Plan 2 defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions. PERS retirement benefit provisions are established in Chapters 41.34 and 41.40 RCW and may be amended only by the State Legislature.

PERS 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 monthly benefit is two percent of the average final compensation (AFC) per year of service. (The AFC is the monthly average of the 24 consecutive highest-paid service credit months.) The retirement benefit may not exceed 60 percent of AFC. The monthly benefit is subject to a minimum for PERS Plan 1 retirees who have 25 years of service and have been retired 20 years, or who have 20 years of service and have been retired 25 years. Plan 1 members retiring from inactive status prior to the age of 65 may receive actuarially reduced benefits. If a survivor option is chosen the benefit is further reduced. A cost-of-living allowance (COLA) is granted at age 66 based upon years of service times the COLA amount, which is increased 3 percent annually. Plan 1 members may also elect to receive an optional COLA amount that provides an automatic annual adjustment based on the Consumer Price Index. The adjustment is capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 1 provides duty and non-duty disability benefits. Duty disability retirement benefits for disablement prior to the age of 60 consist of a temporary life annuity payable to the age of 60. The allowance amount is $350 a month, or two-thirds of the monthly AFC, whichever is less. The benefit is reduced by any workers' compensation benefit and is payable as long as the member remains disabled or until the member attains the age of 60. A member with five years of covered employment is eligible for non-duty disability retirement. Prior to the age of 55, the allowance amount is 2 percent of the AFC for each year of service reduced by 2 percent for each year that the member's age is less than 55. The total benefit is limited to 60 percent of the AFC and is actuarially reduced to reflect the choice of a survivor option. The cost-of-living allowance is granted at age 66 based upon years of service times the COLA amount (based on the Consumer Price Index), capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 1 members can receive credit for military service while actively serving in the military, if such credit makes them eligible to retire. Members can also purchase up to 24 months of service credit lost because of an on-the-job injury.

PERS Plan 2 members are vested after the completion of five years of eligible service. Plan 2 members are eligible for normal retirement at the age of 65 with 5 years of service. The monthly benefit is 2 percent of the AFC per year of service. (The AFC is the monthly average of the 60 consecutive highest-paid service months.)

PERS Plan 2 members who have at least 20 years of service credit and are 55 years of age or older are eligible for early retirement with a reduced benefit. The benefit is reduced by an early retirement factor (ERF) that varies according to age, for each year before age 65.

PERS Plan 2 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions:

- With a benefit that is reduced by 3 percent for each year before age 65.
- With a benefit that has a smaller (or no) reduction (depending on age) that imposes stricter return-to-work rules.

PERS Plan 2 retirement benefits are also actuarially reduced to reflect the choice, if made, of a survivor option. There is no cap on years of service credit; and a cost-of-living allowance is granted (based on the Consumer Price Index), capped at 3 percent annually.

The surviving spouse or eligible child or children of a PERS Plan 2 member who dies after leaving eligible employment having earned ten years of service credit may request a refund of the member's accumulated contributions. Effective July 22, 2007, said refund (adjusted as needed for specified legal reductions) is increased from 100 percent to 200 percent of the accumulated contributions if the member's death occurs in the uniformed services to the United States while participating in *Operation Enduring Freedom* or *Persian Gulf, Operation Iraqi Freedom*.

PERS 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 monthly benefit that is 1 percent of the AFC per year of service. (The AFC is the monthly average of the 60 consecutive highest paid service months.)

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 for normal retirement at age 65, or they may retire early with the following conditions and benefits

- If they have at least ten service credit years and are 55 years old, the benefit is reduced by an ERF that varies with age, for each year before age 65.
- If they have 30 service credit years and are at least 55 years old, they have the choice of a benefit that is reduced by 3 percent for each year before age 65; or a benefit with a smaller (or no) reduction factor (depending on age) that imposes stricter return-to-work rules.

PERS Plan 3 defined benefit retirement benefits are also actuarially reduced to reflect the choice, if made, of a survivor option. There is no cap on years of service credit and Plan 3 provides the same cost-of-living allowances as Plan 2.

PERS Plan 3 defined contribution retirement benefits are solely dependent upon the results of investment activities.

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 Director of the Department of Retirement Systems.

PERS Plan 2 and Plan 3 provide disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 monthly benefit amount is 2 percent of the AFC per year of service. For Plan 3, the monthly benefit amount is 1 percent of the AFC per year of service.

These disability benefit amounts are actuarially reduced for each year that the member's age is less than 65, and to reflect the choice of a survivor option. There is no cap on years of service credit, and a cost-of-living allowance is granted (based on the Consumer Price Index) capped at 3 percent annually.

PERS Plan 2 and Plan 3 members may have up to ten years of interruptive military service credit; five years at no cast and five years that may be purchased by paying the required contributions. Effective July 24, 2005, a member who becomes totally incapacitated for continued employment while serving the uniformed services, or a surviving spouse or eligible children, may apply for interruptive military service credit. Additionally, PERS Plan 2 and Plan 3 members can also purchase up to 24 months of service credit lost because of an on-the-job injury.

PERS members may also purchase up to five years of additional service credit once eligible for retirement. This credit can only be purchased at the time of retirement and can be used only to provide the member with a monthly annuity that is paid in addition to the member's retirement benefit.

Beneficiaries of a PERS Plan 2 or Plan 3 member with ten years of service who is killed in the course of employment receive retirement benefits without actuarial reduction, if the member was not at normal retirement age at death. This provision applies to any member killed in the course of employment, on or after Jun 10, 2004, if found eligible for the Department of Labor and Industries.

A one-time duty-related death benefit is provided to the estate (or duly designated nominee) of a PERS member who dies in the line of service as a result of injuries sustained in the course of employment, or if the death resulted from an occupational disease or infection that arose naturally and proximately out of said member's covered employment, if found eligible by the Department of Labor and Industries.

There are 1,189 participating employers in PERS. Membership in PERS consisted of the following as of the latest actual valuation date for the plans of June 30, 2009:

| | |
|---|---|
| Retirees and Beneficiaries Receiving Benefits | 74,857 |
| Terminated Plan Members Entitled to But Not Yet Receiving Benefits | 28,074 |
| Active Plan Members Vested | 105,339 |
| Active Plan Members Nonvested | 53,896 |
| **Total** | **262,166** |

***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 director of the Department of retirement Systems sets Plan 3 employee contribution rates. Six rate options are available ranging from 5 to 15 percent; two of the options are 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, 2010 are as follows:

| | PERS Plan I | PERS Plan 2 | PERS Plan 3 |
|---|---|---|---|
| Employer* | 5.31% ** | 5.31% ** | 5.31% *** |
| Employee | 6.00% **** | 3.90% **** | ***** |

*The employer rates include the employer administrative expense fee currently set at 0.16%.
**The employer rate for state elected officials is 7.89% for Plan 1 and 5.31% 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 3.9% 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 were as follows:

| | PERS Plan 1 | PERS Plan 2 | PERS Plan 3 |
|---|---|---|---|
| 2010 | $ 21,194 | $ 234,649 | $ 119,429 |
| 2009 | 29,605 | 327,505 | 157,908 |
| 2008 | 34,331 | 334,478 | 157,355 |

**Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF) Plans 1 and 2**

***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 commissioned officers, firefighters, and as of July 24, 2005, those emergency medical technicians who were given the option and chose LEOFF Plan 2 membership. 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.

Effective July 1, 2003 the LEOFF Plan 2 Retirement Board was established by Initiative 790 to provide governance of LEOFF Plan 2. The Board's duties include adopting contribution rates and recommending policy changes to the Legislature 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 through state legislative appropriations. LEOFF retirement benefit provisions are established in Chapter 41.26 RCW and may be amended only by the State Legislature.

LEOFF Plan 1 members 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 (FAS) is as follows:

| Term of Service | Percent of Final Average Salary |
|---|---|
| 20 or more years | 2.0% |
| 10 but less than 20 years | 1.5% |
| 5 but less than 10 years | 1.0% |

The FAS is the basic monthly salary received at the time of retirement, provided a member has held the same position or rank for 12 months preceding the date of retirement. Otherwise, it is the average of the highest consecutive 24 months' salary within the last 10 years of service. A cost-of living allowance is granted (based on the Consumer Price Index).

LEOFF Plan 1 provides death and disability benefits. Death benefits for survivors of Plan 1 members on active duty consist of the following: (1) If eligible spouse, 50 percent of the FAS, plus 5 percent of FAS for each eligible surviving child, with a limitation on the combined allowances of 60 percent of the FAS; or (2) If no eligible spouse, eligible children receive 30 percent of FAS for the first child plus 10 percent for each additional child, subject to a 60 percent limitation of FAS, divided equally.

The LEOFF Plan 1 disability allowance is 50 percent of the FAS plus 5 percent for each child up to a maximum of 60 percent. Upon recovery from disability before the age of 50, a member is restored to service with full credit for service while disabled. Upon recovery after the age of 50, the benefit continues as the greater of the member's disability allowance or service retirement allowance.

LEOFF Plan 1 members may purchase up to five years of additional service credit once eligible for retirement. This credit can only be purchased at the time of retirement and can be used only to provide the member with a monthly annuity that is paid in addition to the member's allowance.

LEOFF Plan 2 members are vested after the completion of five years of eligible service. Plan 2 members may 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 FAS per year of service. (The FAS is based on the highest consecutive 60 months.) Plan 2 members who retire prior to the age of 53 receive reduced benefits. Benefits 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. A cost-of-living allowance is granted (based on the Consumer Price Index), capped at 3 percent annually.

LEOFF Plan 2 provides disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 allowance amount is 2 percent of the FAS for each year of service. Benefits are actuarially reduced for each year that the member's age is less than 53, unless the disability is duty-related, 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 3 percent for each year prior to age 53. A catastrophic disability benefit equal to 70 percent of their FAS, subject to offsets for worker' compensation and Social Security disability benefits received, is also available to those LEOFF Plan 2 members who are severely disabled in the line of duty and incapable of future substantial gainful employment in any capacity.

Effective June 2010, benefits to LEOFF Plan 2 members who are catastrophically disabled include payment of eligible health care insurance premiums.

Member of LEOFF Plan 2 who leave service because of a line of duty disability are allowed to withdraw 150 percent of accumulated member contributions. This withdrawal benefit is not subject to federal income tax. Alternatively, members of LEOFF Plan 2 who leave service because of a line of duty disability may be eligible to receive a retirement allowance of at least 10 percent of FAS and 2 percent per year of service beyond five years. The first 10 percent of the FAS is not subject to federal income tax.

LEOFF Plan 2 retirees may return to work in an eligible position covered by another retirement system, choose membership in that system and suspend their pension benefits, or not choose membership and continue receiving pension benefits without interruption.

LEOFF Plan 2 members who apply for retirement may purchase up to five years of additional service credit. The cost of this credit is the actuarial equivalent of the resulting increase in the member's benefit.

LEOFF Plan 2 members can purchase service credit for military service that interrupts employment. Additionally, LEOFF Plan 2 members who become totally incapacitated for continued employment while servicing in the uniformed services may apply for interruptive military service credit. Should any such member die during this active duty, the member's surviving spouse or eligible child(ren) may purchase service credit on behalf of the deceased member.

LEOFF Plan 2 members may also purchase up to 24 consecutive months of service credit for each period of temporary duty disability.

Beneficiaries of a LEOFF Plan 2 member who is killed in the course of employment receive retirement benefits without actuarial reduction, if found eligible by the Director of the Department of Labor and Industries.

Benefits to eligible surviving spouses and dependent children of LEOFF Plan 2 members killed in the course employment include the payment of on-going health care insurance premiums paid to the Washington State Health Care Authority.

A one-time duty-related death benefit is provided to the estate (or duly designated nominee) of a LEOFF Plan 2 member who dies as a result of injuries or illness sustained in the course of employment, if found eligible by the Department of Labor and Industries.

There are 372 participating employers in LEOFF. Membership in LEOFF consisted of the following as of the latest actuarial valuation date for the plans June 30, 2009:

| | |
|---|---|
| Retirees and Beneficiaries Receiving Benefits | 9,454 |
| Terminated Plan Members Entitled to But Not Yet Receiving Benefits | 674 |
| Active Plan Members Vested | 13,363 |
| Active Plan Members Nonvested | 3,944 |
| **Total** | **27,435** |

***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, 2010 are as follows:

| | LEOFF Plan I | LEOFF Plan II |
|---|---|---|
| Employer* | 0.16% | 5.24% ** |
| Employee | 0.00% | 8.46% |
| State | N/A | 3.38% |

*The employer rates include the employer administrative expense fee currently set at 0.16%.
** The employer rate for ports and universities is 8.62%

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 as follows:

| | LEOFF Plan I | LEOFF Plan II |
|---|---|---|
| 2010 | $0 | $308,648 |
| 2009 | $0 | $316,094 |
| 2008 | $0 | $309,218 |

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

The Volunteer Fire Fighters' Relief and Pension (VFR&P) 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. The City's VFR&P cost and the percentage of VFR&P cost contributed to the plan for 2010 and the two preceding years were as follows:

| Fiscal Year Ending | Annual VFR&P Cost | Contribution as a Percentage of VFR&P Cost |
|---|---|---|
| December 31, 2008 | $780 | 100% |
| December 31, 2009 | $510 | 100% |
| December 31, 2010 | $720 | 100% |

### Firemen's Pension Plan

***Plan Description***

The City is the administrator of the Firemen's Pension Plan (FPP), which is a closed, single-employer, defined benefit pension plan that was established in conformance with RCW Chapter 41.18. The costs of administering the Plan are paid from the Firemen's Pension Fund. The plan provided retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Retirement benefit provisions are established in state statute and may be amended only by the State Legislature.

Membership is limited to firefighters 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 the difference between pension and medical benefits provided by LEOFF and those provided by the Firemen's Pension Fund for covered firefighters who retire after March 1, 1970.

Membership of the Firemen's Pension Fund consisted of the following at January 1, 2009 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 | 3 |
| Active plan members | 0 |
| Total | 6 |

### *Summary of Significant Accounting Policies*

The financial statements of the FPP 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*

The benefits provided by the Plan are potentially in excess of the State's LEOFF plan. For funding purposes and accruing costs, the benefits are measured by a modified aggregate projected benefit method, with the annual cost spread over the period ending December 31, 2010. Under this method the required contribution is the portion of the actuarial present value of benefits allocated to a valuation year. The actuarial accrued liability is equal to the actuarial value of assets. This cost method is not appropriate for GASB Statements 25 and 27 purposes though it is still recommended for funding purposes.

The future investment earnings of the assets are assumed to accrue at an annual rate of 4%. Salaries are assumed to increase at the rate of 3.5% 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 3.5% 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 2.5% per annum.

For GASB reporting purposes the entry age normal cost method is used. Under this method the projected benefits are allocated on a level basis as a percentage of salary over the earnings of each individual between entry age and assumed exit age. The amount allocated to each year is called the Normal Cost and the portion of the Actuarial Present Value of all benefits not provided for by future Normal Cost payments is called the Actuarial Liability. Since all members have already retired, the amount of the annual Normal cost is small. The Unfunded Actuarial Accrued Liability (UAAL) is the Actuarial Liability minus the actuarial value of the fund assets. The UAAL will be amortized over a closed 30 year period beginning December 31, 1999. The Plan is a closed off plan and GASB disclosures make no special provision for reporting the cost for this type of plan. Therefore, the minimum actuarial required contribution (ARC) disclosed for GASB purposes has no relationship to the City's funding policy for the Plan.

***The Schedule of Funding Progress***

The funded status of the plan as of January 1, 2009, the most recent actuarial valuation date, is as follows:

| (in 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, 2009 | $ 1,088 | $ 357 | $ (731) | 305% | $ - | N/A |

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

The Schedule of Funding Progress entitled "Required Supplementary Information", which follows the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

**Schedule of Employer Contributions**

| Fiscal Year Ending | Employer Contributions [a] | Fire Insurance Premiums | Total Employer Contributions | Annual Required Contribution | Percentage of ARC Contributed |
|---|---|---|---|---|---|
| December 31, 2005 | (7,226) | 22,541 | 15,315 | (69,365) | N/A |
| December 31, 2006 | (2,009) | 25,940 | 23,931 | (69,365) | N/A |
| December 31, 2007 | (19,337) | 25,679 | 6,342 | (69,560) | N/A |
| December 31, 2008 | (38,097) | 29,206 | (8,891) | (69,560) | N/A |
| December 31, 2009 | (117,537) | 27,849 | (89,688) | (53,780) | N/A |
| December 31, 2010 | (107,120) | 29,654 | (77,466) | (53,780) | N/A |

[a] 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.

**Three-Year Trend Information**

| Fiscal Year Ending | Annual Pension Cost (APC) | Contribution as a Percentage of APC | Net Pension Obligation (NPO) |
|---|---|---|---|
| December 31, 2008 | (59,707) | N/A | (456,577) |
| December 31, 2009 | (39,739) | N/A | (406,628) |
| December 31, 2010 | (40,276) | N/A | (369,438) |

**Annual Pension Cost and Net Pension Obligation**

| Annual Required Contribution (ARC) | Fiscal Year Ending December 31, 2009 | Fiscal Year Ending December 31, 2010 |
|---|---|---|
| (1) Annual Normal Cost (BOY) | $ - | $ - |
| (2) Amortization of UAAL (BOY) | (51,712) | (51,712) |
| (3) Interest to EOY [(1)+(2)]x(i) [a] | (2,068) | (2,068) |
| (4) ARC at EOY [(1)+(2)+(3)] | (53,780) | (53,780) |
| (5) Interest on NPO | (18,263) | (16,265) |
| (6) Adjustment to ARC | (32,304) | (29,769) |
| (7) Annual Pension Cost (APC) [(4)+(5)-(6)] | (39,739) | (40,276) |
| (8) Employer Contributions [b] | (89,688) | (77,466) |
| (9) Change in NPO [(7)-(8)] | 49,949 | 37,190 |
| (10) NPO at BOY [(11) prior year] | (456,577) | (406,628) |
| (11) NPO at EOY [(9)+(10)] | $ (406,628) | $ (369,438) |

[a] "i" is the assumed interest rate: 4% in 2009 and 2010

[b] Employer contributions for pensions are total contributions to the Fund net of disbursements fr Fund for medical expenses under RCW 41.26.150 and administrative expenses.

The negative net pension obligation has been recorded as an asset on the City's government-wide statement of net assets.

A separate, audited GAAP-basis postemployment benefit plan report is not available. A separate unaudited Actuarial Valuation Report of the City's Firefighters Pension Fund as of January 1, 2009, by Milliman Actuaries, is available by contacting the City of Mount Vernon Finance Department at 910 Cleveland Ave., Mount Vernon WA 98273.

## NOTE 7:

## Other Postemployment Benefits

Plan Description

As required by the Revised Code of Washington (RCW) chapter 41.26, the City provides lifetime medical care for members of the Law Enforcement Officers and Firefighters (LEOFF) retirement system hired before October 1, 1977 under a defined benefit healthcare plan administered by the City. The members' necessary hospital, medical and nursing care expenses not payable by worker's compensation, social security, insurance provided by another employer, other pension plan, or any other similar source are covered. Most medical coverage for eligible retirees was provided by the city's employee medical insurance program, which transitioned to Association of Washington Cities Employee Benefit Trust (AWC) in August 2009. Under the authorization of the LEOFF Disability Board direct payment is made for other retiree medical expenses not covered by standard medical plan benefit provisions. A separate postemployment benefit plan report is not available.

Funding Policy

Funding for LEOFF retiree healthcare costs is provided entirely by the City as required by RCW. The City's funding policy is based upon pay-as-you-go financing requirements.

Annual OPEB Cost and Net OPEB Obligation

The City's annual other postemployment benefit (OPEB) cost is calculated based upon the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that if paid on an ongoing basis is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities over a period of fifteen years as of December 31, 2010. The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City's net OPEB. The net OPEB obligation (NOO) of $1,238,562 is included as a non-current liability on the Statement of Net Assets.

| | Fiscal Year Ending December 31, 2009 | Fiscal Year Ending December 31, 2010 |
|---|---|---|
| **Determination of Annual Required Contribution:** | | |
| Normal cost at year end | $ 30,252 | $ 28,493 |
| Amortization of UAAL* | 689,932 | 658,726 |
| Annual Required Contribution | $ 720,184 | $ 687,219 |
| **Determination of Net OPEB Obligation:** | | |
| Annual Required Contribution | $ 720,184 | $ 687,219 |
| Interest on prior year Net OPEB Obligation | 24,821 | 43,832 |
| Adjustment to ARC | (51,359) | (90,697) |
| Annual OPEB Cost | 693,646 | 640,354 |
| Contributions Made | (271,165) | (375,844) |
| Increase in Net OPEB Obligation | 422,481 | 264,510 |
| Net OPEB Obligation - beginning of year | 551,571 | 974,052 |
| Net OPEB Obligation - end of year | $ 974,052 | $ 1,238,562 |

*Unfunded Actuarial Accrued Liability (UAAL)

The City's OPEB cost, the percentage of OPEB cost contributed to the plan, and the net OPEB obligation for 2010 were as follows:

| Fiscal Year Ending | Annual OPEB Cost | Contribution as a Percentage of OPEB Cost | Net OPEB Obligation |
|---|---|---|---|
| December 31, 2010 | $ 640,354 | 58.7% | $ 1,238,562 |

Funded Status and Funding Progress

As of December 31, 2010 the plan was 0% funded. The actuarial accrued liability (AAL) for benefits was $7,074,423 and the actuarial value of the assets was $0 resulting in a UAAL of $7,074,423. The Schedule of Funding Progress entitled "Required Supplementary Information", which follows the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial Methods and Assumptions
The City used the alternative measurement method permitted under GASB Statement No. 45. A single retirement age of 56.24 was assumed for all active members for the purpose of determining the AAL and normal cost. Retirement, disablement, termination, and mortality rates were assumed to follow the LEOFF I rates used in the June 30, 2007 actuarial valuation report issued by the Office of the State Actuary (OSA). Healthcare costs and trends were determined by Milliman and used by OSA in the state-wide LEOFF I medical study performed in 2007. The results were based on grouped data with 4 active groupings and 4 inactive groupings. The actuarial cost method used to determine the AAL was Projected Unit Credit. The AAL and NOO are amortized on an open basis as a level dollar over 15 years. The medical inflation rate starts at 9 percent in 2007 and decreases to an ultimate rate of 5 percent in 2015. The return on investment earnings is estimated at 4.5 percent, general inflation is estimated at 3.5 percent and projected salary increases are estimated at 4.5%. In addition specific long-term care assumptions have been developed. These assumptions are individually and collectively reasonable for the purposes of this valuation.

## NOTE 8:

## Construction Commitments

At December 31, 2010 the City had contractual obligations on the following construction projects:

| | | |
|---|---|---|
| Street & Sidewalk projects | $ | 358,918 |
| Downtown Waterfront Improvements | | 155,887 |
| Public Works /Environmental Services | | 81,418 |
| Drainage utility projects | | 23,238 |
| Sewer utility projects | | 60,644 |
| Total Contractual Commitments | $ | 680,105 |

## NOTE 9:

## Interfund Receivables, Payables and Transfers

The composition of interfund balances as of December 31, 2010, is as follows:

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

| Receivable Fund | Payable Fund | | Amount |
|---|---|---|---|
| Non-Major Government Fund Road Improvement Projects | Non-Major Government Fund Downtown/Waterfront Area Fund | $ | 860,723 |
| Non-Major Government Fund Road Improvement Projects | Non-Major Government Fund Park/Other Improvement Fund | | 60,920 |
| Total | | $ | 921,643 |

The outstanding balances between funds resulted from the reclassification of a credit balance in an asset account and to facilitate the closing of a capital project fund.

***Interfund Loans Receivable/ Payable:***

| Receivable Fund | Payable Fund | 1/1/2010 | New Loans | Repayments | 12/31/2010 |
|---|---|---|---|---|---|
| Internal Service Fund: Equipment Rental | Non-Major Government Fund: Downtown Waterfront Project | $ 400,000 | $ | $ - | $ 400,000 |
| TOTAL | | $ 400,000 | $ - | $ - | $ 400,000 |

The City authorized a loan not to exceed $800,000 to provide cash flow to the Downtown and Waterfront Area Project. Repayment is based on an interlocal agreement with Dike District 3, who has agreed to provide $200,000 per year over the next four years for project property acquisition. Outstanding loan balance at 12/31/10 is $400,000.

***Interfund Transfers:***

| Fund | Transfer In | Transfer Out |
|---|---|---|
| General Fund | $ 446,311 | $ 20,000 |
| Waste Water Utility | 140,000 | 1,000,000 |
| Governmental Activities Internal Services Funds | 20,000 | |
| Non-major governmental funds | 2,030,888 | 1,617,199 |
| Sub-Total Fund Financial Statements | 2,637,199 | 2,637,199 |
| Governmental Activities* | - | 1,483,582 |
| Surfacewater Utility* | 1,483,582 | - |
| Total | $ 4,120,781 | $ 4,120,781 |

* Capital assets reassigned from governmental activities to the Surfacewater Utility Fund are shown as transfers in the governmental-wide financial statements. At the fund level the Surfacewater Utility Fund reflects this reassignment as a *capital contribution*.

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 10:

# 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: 2009 Unlimited Tax General Obligation Bonds were issued to refund the 1998 Unlimited Tax General Obligation Bonds and 2009 Limited Tax General Obligation Bonds were issued to refund the 1998 Limited Tax General Obligation Bonds. 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 12/31/10 |
|---|---|---|---|
| 2009 LTGO Refunding Bond | 3.50% | $ 900,000 | $ 720,000 |
| 2009 UTGO Refunding Bond | 3.15% | 3,315,000 | 2,535,000 |
| | | $ 4,215,000 | $ 3,255,000 |

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

| December 31 | Principal | Interest |
|---|---|---|
| 2011 | $ 495,000 | $ 105,052 |
| 2012 | 515,000 | 89,128 |
| 2013 | 520,000 | 72,555 |
| 2014 | 540,000 | 55,842 |
| 2015 | 380,000 | 38,483 |
| 2016 - 2017 | 805,000 | 39,462 |
| Total | $ 3,255,000 | $ 400,522 |

## Special Assessment Debt

Special Assessment Bonds are not a direct responsibility of the City, but are funded from the collection of special assessment payments. 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 Special Assessment Bonds used to finance curb, gutter, sidewalk, street, and signal improvements as well as sanitary and stormwater sewer system installation in the Continental Place area were fully paid off during 2009. Related LID Guarantee Funds were closed during 2010.

### 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 $17,996,138 and are being repaid from the Wastewater Utility Fund and the Surface Water Utility Fund. One loan with an outstanding principal balance of $1,265,000 is being repaid from the City's Capital Improvement Fund with Real Estate Excise Tax money. All loans have a 20 year term and an interest rate of .5%.

| Year Ending | Government Activities | | Business-Type Activities | |
|---|---|---|---|---|
| December 31 | Principal | Interest | Principal | Interest |
| 2011 | $ 115,000 | $ 6,325 | $ 1,192,551 | $ 115,377 |
| 2012 | 115,000 | 5,750 | 1,192,551 | 105,182 |
| 2013 | 115,000 | 5,175 | 1,192,551 | 94,986 |
| 2014 | 115,000 | 4,600 | 1,192,551 | 84,791 |
| 2015 | 115,000 | 4,025 | 1,192,551 | 74,595 |
| 2016 - 2020 | 575,000 | 11,500 | 5,217,767 | 251,027 |
| 2021 - 2025 | 115,000 | 575 | 4,866,082 | 120,356 |
| 2026 - 2028 | - | - | 1,949,534 | 17,643 |
| Totals | $ 1,265,000 | $ 37,950 | $ 17,996,138 | $ 863,957 |

### 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 was 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, 2010 is $1,348,875. $16,263,791 in loans was issued during 2007 to 2009 for the Wastewater Treatment Plant Upgrade having a 20 year term with an interest rate of 2.6%. Outstanding balance at December 31, 2010 is $16,215,182.

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

| Year Ending | Business-Type Activities | |
|---|---|---|
| December 31 | Principal | Interest |
| 2011 | $ 835,970 | $ 476,591 |
| 2012 | 860,522 | 452,039 |
| 2013 | 885,834 | 426,727 |
| 2014 | 911,929 | 400,632 |
| 2015 | 938,833 | 373,728 |
| 2016 - 2020 | 4,711,626 | 1,448,182 |
| 2021 - 2025 | 4,726,219 | 829,091 |
| 2026 - 2029 | 3,693,124 | 195,593 |
| | $ 17,564,057 | $ 4,602,583 |

## Other Payables

***Mount Vernon Terminal Railway:*** 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.

| Governmental Activities | | |
|---|---|---|
| Year | Principal | Interest |
| 2011 | 49,939 | 1,124 |

***City Shop Expansion:*** In 2008 the City entered into an agreement with a private party to purchase property for the City Shop Facility future expansion. A portion of the purchase price was financed through a $250,000 promissory note to be paid over a five year term at an interest rate of 5.5%. Payments will be made out of the City's General Fund. The City paid off the remaining note balance in early 2011.

| Governmental Activities | | |
|---|---|---|
| Year | Principal | Interest |
| 2011 | 150,000 | 8,480 |

***Alpha Helix Sculpture:*** In 2008 the City entered into an agreement to purchase the sculpture "Alpha Helix" from the renowned local artist Joseph Kinnebrew. The agreement included financing in the amount of $22,037 to be paid over a three year term with an interest rate of 0.0%. Payments will be made out of the Tourism Special Revenue fund through revenues paid in from the Mount Vernon Arts Commission's fund raisers and Hotel/Motel Tax revenues.

| Governmental Activities | | |
|---|---|---|
| Year | Principal | Interest |
| 2011 | 11,037 | - |

***Equipment Leases:*** The City leases equipment under non-cancelable operating leases. Total costs for such leases were $56,740 for the year ended December 31, 2010. The future minimum lease payments for these leases are as follows:

| Governmental Activities | |
|---|---|
| Year | Amount |
| 2011 | $ 57,688 |
| 2012 | 42,916 |
| 2013 | 18,410 |
| 2014 | 10,958 |
| 2015 | 4,840 |
| Total minimum lease payments | $ 134,812 |

## Compensated Absences

Compensated Absences are discussed in Note 1: Summary of Significant Accounting Policies. Governmental Funds that pay salary and benefits are the General Fund, Street Fund, Park Fund, Library Fund and Equipment Rental Fund. These funds have been used to liquidate their respective liabilities in prior years.

### Changes in Long-Term Liabilities

Long term liability activity for the year ended December 31, 2010, was as follows:

| | Beginning Balance | Additions | Deductions | Ending Balance | Due Within One Year |
|---|---|---|---|---|---|
| **Governmental Activities:** | | | | | |
| Bonds Payable: | | | | | |
| General obligation bonds | $ 3,735,000 | $ - | $ 480,000 | $ 3,255,000 | $ 495,000 |
| Total bonds payable | 3,735,000 | - | 480,000 | 3,255,000 | 495,000 |
| PWTF Loan | 1,380,000 | - | 115,000 | 1,265,000 | 115,000 |
| Contract Payable | 322,376 | - | 111,400 | 210,976 | 210,976 |
| Net OPEB Obligation | 974,052 | 640,354 | 375,844 | 1,238,562 | - |
| Compensated Absences | 1,104,617 | 993,844 | 870,475 | 1,227,986 | 620,694 |
| Governmental Activity Long-term liabilities | $ 7,516,045 | $ 1,634,198 | $ 1,952,719 | $ 7,197,524 | $ 1,441,670 |
| **Business-Type Activities:** | | | | | |
| PWTF Loan | $ 19,188,689 | $ - | $ 1,192,551 | $ 17,996,138 | $ 1,192,551 |
| DOE Loan | 18,450,882 | - | 886,825 | 17,564,057 | 835,970 |
| Compensated Absences | 111,547 | 106,020 | 103,075 | 114,492 | 81,056 |
| Business-type Activity Long-term liabilities | $ 37,751,118 | $ 106,020 | $ 2,182,451 | $ 35,674,687 | $ 2,109,577 |

## NOTE 11:

## 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, 2010, 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 landfill sites within the City limits. All of which have been closed for over 30 years. The City owns three sites, two of which were converted to parks. The requirement for post remediation monitoring of these sites is minimal. 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. Additionally the City has no material pollution remediation obligations as defined by GASB Statement No. 49.

***Bond Indentures***

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

## NOTE 12:

## 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 145 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 $4 million per occurrence self insured layer, and $16 million per occurrence in the re-insured excess layer. The excess layer is insured by the purchase of reinsurance and insurance and is subject to aggregate limits. Total limits are $20 million per occurrence subject to aggregate sub-limits in the excess layers. 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 $25,000 for all perils other than flood and earthquake, and insured above that amount by the purchase of insurance.

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.

***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.

***Employee Healthcare***

On August 1, 2009 the City of Mount Vernon transitioned from being self-insured for employee health care to participation in the Association of Washington Cities Employee Benefit Trust (AWC); a cost-sharing multiple-employer welfare benefit plan administered by the Association of Washington Cities. Prior to that date the City maintained self-insurance for employee health care under the guidance of Chapter 48.62 RCW. The City had retained a third party administrator to handle the processing and payment of all claims and to provide benefit coordination. The City had 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, 2010 was $0. The Employee Health Care Plan was funded by the City and employee contributions.

When the City transitioned to the Association of Washington Cities Employee Benefit Trust (AWC) employee health insurance coverage was offered to eligible employees and family members. Both the City and employees contribute to the cost of insurance premiums.

The Employee Benefit Trust was established in 1970 to provide cities with comprehensive medical coverage at an affordable price. The Trust program includes dental, life, long term disability, employee assistance program, long term care, and vision benefits. The Trust works with a broker consultant and carriers to create comprehensive health benefits. The Trust issues a publicly available financial report that includes financial statements and required supplementary information for the trust. AWC can be reached at 1076 Franklin St. SE, Olympia, WA 98501 or by phone at 360-753-4137 or 800-562-8981 awc@awcnet.org.

Changes in the Healthcare self-insurance fund's claims liabilities in 2009 and 2010 were:

| | Beginning of Year Liability | Current Year Claims & Changes in Estimates | Claims Payments | End of Year Liability |
|---|---|---|---|---|
| 2009 | $ 390,959 | $ 1,037,028 | $ 1,424,772 | $ 3,215 |
| 2010 | $ 3,215 | $ (3,215) | $ - | $ - |

## NOTE 13:
## 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:

| Fund | | Amount |
|---|---|---|
| City Street | $ | 121,494 |
| Arterial Street | | 281,221 |
| Paths and Trails | | 101,907 |
| Transportation Impact Fees | | 65,393 |
| Total Restricted for Streets and Transportation | $ | 570,015 |
| Tourism Promotion | $ | 294,436 |
| Park Impact Fees | | 20,357 |
| Library - Capital Improvements | | 10,000 |
| Total Restricted for Culture and Recreation | $ | 324,793 |
| UTGO Bond Fund | $ | 6,314 |
| LID Funds | | - |
| Total Restricted for Debt Service | $ | 6,314 |
| Cable Assessment - Government Access TV | $ | 101,317 |
| Fire Impact Fees | | 166,138 |
| Municipal Court - Capital Improvements | | 37,968 |
| Total Restricted for Other Purposes | $ | 305,423 |

## NOTE 14:

## Prior Period Adjustment

Beginning net assets for Governmental Activities in the Statement of Activities on the entity–wide statements have been restated by $(195,293) to account for prior year overstatement of accrual basis receivables.

## 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, 2003 | 1,019 | 162 | (857) | 629% | - | N/A |
| January 1, 2005 | 1,047 | 177 | (870) | 592% | - | N/A |
| January 1, 2007 | 1,099 | 184 | (916) | 597% | - | N/A |
| January 1, 2009 | 1,088 | 357 | (731) | 305% | - | N/A |

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

## Required Supplementary Information

### LEOFF 1 OPEB Retiree Medical Benefits
### Schedule of Funding Progress*
### (rounded to thousands)

| Fiscal year Ended | Actuarial Value of Assets | Actuarial Accrued Liability Entry Age | Unfunded Actuarial Accrued Liabilities (UAAL) | Funded Ratio | Covered Payroll | UAAL as a Percentage of Covered Payroll |
|---|---|---|---|---|---|---|
| December 31, 2008 | $ - | $ 7,610 | $ 7,610 | 0% | $ 280 | 2718% |
| December 31, 2009 | - | 7,410 | 7,410 | 0% | 282 | 2628% |
| December 31, 2010 | - | 7,074 | 7,074 | 0% | 272 | 2601% |

*This is the third year of OPEB implementation. In future years, additional comparative annual funding progress will be shown.