

City of Mount Vernon Washington



Comprehensive Annual Financial Report

For the Fiscal Year Ended December 31, 2015

City of Mount Vernon, Washington
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FINANCIAL SECTION



Installing Elementary School Art on Trumpeter Trail

Management's Discussion and Analysis

The management discussion and analysis section of the City of Mount Vernon's annual financial report provides a narrative overview of the City's financial activities for and financial position at the end of December 31, 2015. This information should be read in conjunction with the financial statements and notes to the financial statements that follow.

Financial Highlights

- Net position, the amount by which total assets exceed total liabilities, equaled \$185,550,994 at the end of 2015. A total of 88%, or \$163,456,515, of total net position is invested in capital such as streets, land, buildings and utility infrastructure. Of the remaining net position, 9%, or \$16,689,813, of total net position is unrestricted and available to meet the City's ongoing activities and obligations, and 3%, or \$5,404,666, is restricted for debt service and other purposes.
 - The City of Mount Vernon's net position increased by \$1,735,677 in 2015, representing a 1% increase compared to 2014 net position. Net position for Governmental Activities increased 0.4% or \$460,476, while Business-type Activities increased 2% or \$1,275,201, compared to the prior year. Total investment in capital assets net of any related debt increased \$762,979.
 - Governmental fund balances at year end were \$8,605,679, an increase of \$521,368, or 6% compared to the prior year. Unassigned Fund Balance in the General Fund was \$3,532,941, a decrease of \$94,938 compared to the prior year. As noted in the Required Supplementary Information (RSI) for the General Fund, fund balance at year end was \$3,621,340, or 17% of the final budget which complies with the City's fiscal policy to maintain a target reserve for General Fund fund balance of 15% of the operating budget.
 - The financial statements represent fund balances as required by GASB which defines governmental fund balances into additional categories on the Balance Sheet for Governmental Funds. Of the \$8,605,679 in governmental fund balances at year end, restricted fund balance is 37% or \$3,217,576 of the total which reflects fund resources subject to externally enforceable legal
- restrictions; committed fund balance is 5% or \$427,647 which represents City imposed limitations as to the use of funds by City Council action; assigned fund balance is 17% or \$1,427,515 which reflects our City government's intended use for certain resources; and unassigned fund balance, all in the General Fund, is 41% or \$3,532,941 of total fund balance for Governmental Funds representing the excess resources of all other categorized fund balances.
 - No debt was issued in 2015 other than an interfund loan to the Arterial Street Fund from the Equipment Rental Fund to temporarily finance a portion of the City's LED Street Lighting Change-Out Project which will save the City \$70,000 annually in electricity costs. The expected annual savings will be used to pay back the interfund loan. The loan amount at year end is \$232,759 and pays interest of 1% per year.
 - The financial statements for the year ended December 31, 2015 include the implementation of Governmental Accounting Standards Board (GASB) Statements 68 and 71, *Accounting and Financial Reporting for Pensions*. This implementation results in the City reporting its proportionate share of net pension assets/liabilities, deferred inflows of resources and deferred outflows of resources as required under the GASBs. This change in accounting principal resulted in a restatement of the December 31, 2014 net positions for governmental activities and business type activities. Note 14 further explains this restatement.

Overview of the Financial Statements

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

Government-Wide Financial Statements

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

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

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

Fund Financial Statements

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

Governmental funds are used to account for most of the City's basic services, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called

modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Comparing the governmental fund statements with the government-wide statements can help the reader better understand the long term impact of the City's current year financing decisions. To assist in this comparison, reconciliations between the governmental fund statements and the government-wide financial statements are included with the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balance.

The City of Mount Vernon maintains several individual governmental funds; however, for fiscal year 2015, only two City funds are categorized as major governmental funds, the City's General Fund and the Downtown & Waterfront Fund. All other governmental funds are combined into a single column labeled *other governmental funds*.

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

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

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

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

fund statements provide separate information for the City’s wastewater utility, solid waste utility and the City’s surfacewater utility.

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

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

**Government-Wide Statement
Statement of Net Position**

The following is a condensed version of the statement of net position for 2015 compared to 2014.

Table 1
Statement of Net Position

	Governmental Activities		Business-Type Activities		Total	
	2015	2014	2015	2014	2015	2014
Current and other assets	\$ 20,196,048	\$ 20,896,875	\$ 17,190,775	\$ 15,953,158	\$ 37,386,823	\$ 36,850,033
Capital assets, net of						
accumulated depreciation	111,746,655	112,004,614	79,069,213	80,974,659	190,815,868	192,979,273
Total assets	131,942,703	132,901,489	96,259,988	96,927,817	228,202,691	229,829,306
Deferred outflows-pension	993,032	447,186	187,808	85,833	1,180,840	533,019
Long-term liabilities	11,741,547	10,673,946	26,873,887	28,635,317	38,615,434	39,309,263
Other liabilities	2,419,247	2,397,610	926,613	698,223	3,345,860	3,095,833
Total liabilities	14,160,794	13,071,556	27,800,500	29,333,540	41,961,294	42,405,096
Deferred inflows-pension	1,621,914	3,584,568	249,329	557,344	1,871,243	4,141,912
Net position						
Net investment in						
capital assets	109,551,655	109,014,614	53,904,860	53,678,922	163,456,515	162,693,536
Restricted	3,217,576	1,817,283	2,187,090	2,084,487	5,404,666	3,901,770
Unrestricted	4,383,796	5,860,654	12,306,017	11,359,357	16,689,813	17,220,011
Total net position	\$ 117,153,027	\$ 116,692,551	\$ 68,397,967	\$ 67,122,766	\$ 185,550,994	\$ 183,815,317

The largest component of the City’s net position, 88% or \$163,456,515, is its investment in capital assets less any related outstanding debt issued to acquire those assets. These capital assets such as streets, bridges, buildings, land, sewer and storm water lines, and sewer treatment plant are used to provide services to the citizens and businesses of the City.

Net position of the City’s governmental activities increased 0.4% or \$460,476, while net position of the City’s business type activities increased 2% or \$1,275,201 in 2015.

Specific to business type activities, no major projects were undertaken in 2015. Net

infrastructure improvements totaled \$1,991,362, annual depreciation expense was \$3,979,578 and long-term debt principal payments totaled \$2,131,384 in 2015. Net position of the business type activities can only be used to finance the continuing operations of wastewater, solid waste, and surface water.

Approximately \$5.4 million, or 3%, of the City’s total net position is subject to legal restrictions. Some of the larger restrictions include debt service, impact fees that must be dedicated to a particular use (transportation, parks and fire), motor vehicle fuel tax dedicated for street operations or capital expenditures, lodging taxes reserved for tourism

related activities and real estate excise taxes that are restricted for capital improvements.

Governmental activities net position increased \$460,476, a 0.4% increase in 2015 compared to 2014. The key elements of variations are as follows:

- Infrastructure improvements and capital purchases in governmental activities increased \$4,299,551 less deletions (net of accumulated depreciation) of \$70,172 for a net increase of \$2,802,798 in 2015 before depreciation, of which capital grants provided 75% of the funding for these projects and acquisitions. Annual depreciation expense was \$4,487,339 and long-term debt principal payments totaled \$795,000 in 2015.
- The City had one major project under construction in 2015, the Downtown and Waterfront Revitalization Project which had \$2,087,846 of capital costs in 2015. Capital purchases totaled \$1,725,893 in 2015 comprised of several fleet vehicles for police, parks, streets and solid waste, which includes a tractor, mowers, street sweeper and 4 garbage trucks. The City's annual street maintenance and overlay program spent \$345,430 repairing city roads in 2015. Roadway improvements constructed by private developers including right of way donated to the City totaled \$361,083 in 2015. Revenues to fund capital assets are recorded as program or general revenues in the statement of activities. Capital grants and contributions which are included in program revenues funded a major portion of these projects. The associated construction expenses are not recorded as expenses in the year of construction but rather are allocated to expense over the lives of the assets through depreciation expense.
- Major tax revenues that support ongoing operations showed some increases in 2015 compared to 2014. Property tax decreased 1% in 2015 compared to 2014, primarily due to certain property tax refunds given resulting from determinations made by the State Department of Revenue for specific exemptions from property tax for certain properties. The only growth the City experienced in property tax was from new construction activity and \$34 million of new assessed value being added in 2015. Sales tax increased 6% in 2015 and real estate excise tax increased 31% as compared to 2014. Utility tax revenues had a net increase of 1% in 2015 compared to 2014. A 6% utility tax on water was imposed in January 2015 which by itself accounts for a 7% increase in total utility tax revenues in 2015 compared to 2014. All other utility tax revenues resulted in a net 6% decrease when compared to 2014. A voter approved 0.3% public safety sales tax first imposed in January 2014 resulted in a 31% increase in this revenue in 2015 compared to 2014, primarily due to 10 months of sales tax reported in 2014 compared to 12 months of tax reported in 2015.
- Charges for services increased 15% compared to 2014 of which increases in building permit revenue account for 9% of the total increase in charges for services compared to 2014. The County jail construction project was permitted in 2015 which generated the majority of the increase in building permit revenue in 2015. Capital grants and contributions decreased \$808,106 or 20% compared to 2014 entirely due to grant revenues associated with the Downtown & Waterfront Project. The overall changes in revenues in governmental activities are indicators that our economy continues to make steady yet slow improvements after the deep recession.
- Although property tax revenue decreased by \$85,375 in 2015, as previously noted, all increases in property tax came from new construction assessed value being added to the tax rolls in 2015. 2015 is the tenth year out of the last eleven years in which the City Council has chosen not to take the lawfully allowable 1% increase in property tax revenues annually.
- Investment earnings for government activities were \$123,889 in 2015 and \$82,053 in 2014. Interest rates continue to be at very low levels and investment earnings are at comparatively low levels; however the primary responsibility of the City is to ensure the safety and liquidity of our investments.

Business-type activities net position increased by \$1,275,201 at December 31, 2015, an increase of 2% compared to December 31, 2014.

- The Wastewater Utility net position increased by \$764,312, an increase of 2% compared to 2014. The Wastewater Utility had \$741,044 of capital improvement costs plus \$696,174 of capital infrastructure donated from developers in 2015, and had \$3,352,086 in depreciation expense.
- The Solid Waste Utility had a \$255,541, or 10% increase in net position. The Utility had \$42,091 in depreciation expense and \$32,890 in capital purchases.
- The Surfacewater Utility net position increased \$255,348, a 2% increase compared to 2014. The utility had \$51,165 of capital purchases, depreciation expense of \$585,401, and infrastructure donated by private developers of \$562,449 and from Governmental Activities related to the Downtown project \$294,353 for total donated infrastructure of \$856,802 in 2015.
- Net capital assets for business-type activities decreased \$1,905,446, due to limited capital projects undertaken in 2015 which totaled \$2,378,076 including \$1,552,976 of donated capital contributions from developers and deletions net of accumulated depreciation of \$303,944, coupled with \$3,979,578 of annual depreciation expense. By comparison net investment in capital assets net of related debt increased \$225,938, reflecting a reduction in capital asset debt due to annual principal payments of \$2,131,384, while no new long-term debt was issued in 2015.
- Wastewater Utility charges for services in 2015 were flat compared to 2014, reflecting a 0% increase. No notable changes to service areas and no change to utility rates account for the minimal change in operating revenues. Net position in the Wastewater Utility was 77% of all business-type activities net position and 28% of total city net position. Only 17% of the utility's net position is unrestricted; 79% of net position is categorized as investment in capital assets, net of related debt.
- The Solid Waste Utility had a 7% increase in charges for services compared to 2014, due to increased activity levels and calls for service, as there was no increase to utility rates in 2015. Unrestricted net position represents 68% of total net position, while 32% of net position represents investment in capital assets, net of related debt.
- Charges for services in the Surfacewater Utility in 2015 were very similar to 2014, with an \$8,800 or 1% decrease compared to 2014, which is not unexpected as there has been minimal growth in customer activity and there were no rate increases nor are any anticipated in the near future. Unrestricted net position represents 11% of total net position for the utility, while 88% of net position represents investment in capital assets, net of related debt.
- Interest and investment earnings for business-type activities increased \$11,929 or 11% compared to 2014. Interest rates continue to be at significantly low levels for the City.

Changes in Net Position

The following schedule shows the revenues, expenses, and related changes in net position in tabular form for the governmental activities separate from the business-type activities for 2015 and 2014.

Table 2
Changes in Net Position

	Governmental Activities		Business-Type Activities		Total	
	2015	2014	2015	2014	2015	2014
Revenues						
Program revenues						
Charges for service	\$ 3,842,373	\$ 3,352,255	\$ 15,106,145	\$ 14,774,595	\$ 18,948,518	\$ 18,126,850
Operating grants and contributions	1,538,728	1,425,286	25,000	3,225	1,563,728	1,428,511
Capital grants and contributions	3,210,309	4,018,415	2,424,259	1,371,672	5,634,568	5,390,087
General revenues						
Property taxes	7,295,533	7,380,908	-	-	7,295,533	7,380,908
Sales taxes	5,923,161	5,568,024	-	-	5,923,161	5,568,024
Utility taxes	3,719,668	3,678,982	-	-	3,719,668	3,678,982
Real estate excise taxes	1,153,308	883,123	-	-	1,153,308	883,123
Other taxes	2,643,263	2,258,476	-	-	2,643,263	2,258,476
Investment interest	123,889	82,053	119,283	107,354	243,172	189,407
Miscellaneous	20,097	4,199	36,116	209,285	56,213	213,484
Total revenues	29,470,329	28,651,721	17,710,803	16,466,131	47,181,132	45,117,852
Expenses:						
General government	3,270,800	2,719,779	-	-	3,270,800	2,719,779
Security	15,349,771	15,347,983	-	-	15,349,771	15,347,983
Physical environment	1,262,497	1,219,098	-	-	1,262,497	1,219,098
Transportation	4,922,361	4,413,146	-	-	4,922,361	4,413,146
Economic environment	1,224,517	1,157,100	-	-	1,224,517	1,157,100
Culture and recreation	2,875,808	2,920,427	-	-	2,875,808	2,920,427
Interest on long-term debt	45,549	58,968	-	-	45,549	58,968
Wastewater	-	-	9,166,369	8,985,989	9,166,369	8,985,989
Solid Waste	-	-	5,169,260	4,835,557	5,169,260	4,835,557
Surfacewater	-	-	2,158,523	1,985,545	2,158,523	1,985,545
Total expenses	28,951,303	27,836,501	16,494,152	15,807,091	45,445,455	43,643,592
Changes in net position before transfers	519,026	815,220	1,216,651	659,040	1,735,677	1,474,260
Transfers, internal	(58,550)	100,000	58,550	(100,000)	-	-
Change in net position	460,476	915,220	1,275,201	559,040	1,735,677	1,474,260
Net position - beginning *	116,692,551	115,777,331	67,122,766	66,563,726	183,815,317	182,341,057
Net position - ending	\$ 117,153,027	\$ 116,692,551	\$ 68,397,967	\$ 67,122,766	\$ 185,550,994	\$ 183,815,317

*Net position - beginning for 2014 is restated

Financial analysis of the City's Funds

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

The governmental funds, as presented on the balance sheet in the basic financial statement

section reported fund balance of \$8,605,679, which is 6% or \$521,368 higher than at the beginning of the year.

- Fund balance in the General Fund decreased \$122,231, a 2.5% decrease compared to 2014. Major services (expenditures) provided for in the General Fund remained steady with increases in most functions due to negotiated cost of living adjustments. A couple noteworthy increases include an increase of \$325,000 in general government expenditures

related to the provision of public defense services, first time debt service principal payments of \$300,000 in 2015 on the Section 108 HUD loan related to the downtown project, and an increase to operating transfers out of \$230,000 related to collection of one-time revenues transferred out for capital facility improvements.

- Total expenditures before operating transfers out increased \$1,395,425 in 2015 compared to 2014 while total revenues before transfers in were \$1,552,322 higher than 2014. Specific major revenue activity compared to the prior year has been previously discussed.
- The General Fund is the primary operating fund of the City through which all receipts and payments of ordinary City operations are processed, unless they are required to be accounted for in another fund. Taxes are the major revenue source providing 77% of the revenues to support 2015 expenditures. The 2015 ending fund balance is 17% of the General Fund's 2015 final budget as reflected in the required supplementary information section for the General Fund Budget and Actual schedule.
- The other major governmental fund for 2015 was the Downtown & Waterfront Fund. The City has undertaken a flood protection and revitalization project in downtown Mount Vernon. This multi-year three phase capital project will have an overall budget of \$28,000,000. Fund balance at the end of 2015 was \$1,104,184, an increase of \$629,026 compared to 2014. This increase in fund balance was planned for and expected as the City prepares for completion of phase III, the third and final phase of the project. Expenditures in 2015 totaled \$2,116,046 of which nearly 100% of the revenue came from intergovernmental revenues primarily state grants. The City constructed a portion of phase III in 2015, and will complete the project in 2017.

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

- Net position in the Wastewater Utility increased \$764,312 compared to 2014. Major impacts to net position have been addressed

in the previous section on business-type activities.

- The Solid Waste Utility net position increased \$255,541 in 2015 compared to 2014. Major impacts to net position have been addressed in the previous section on business-type activities.
- Net position in the Surfacewater Utility increased \$255,348 compared to 2014. Major impacts to net position have been addressed in the previous section on business-type activities.
- Other factors concerning the finances of the City's proprietary funds have previously been addressed in the discussion of the City's business-type activities.

General Fund Budgetary Highlights

The following is a brief review of the budgeting changes from the adopted original budget to the amended final budget for the General Fund as shown in the required supplementary information section for the General Fund Budget and Actual schedule.

- The General Fund budget was not supplemented during 2015. The original adopted budget and the final budget was \$21,820,561.
- There were two budget transfers between departments within the General Fund which did not increase the overall budget. Transfers were necessary to move budget dollars to various departments in the General Fund in reasonably small amounts with the largest amount added to the Fire Department for additional salary and benefit costs due to retirement cash-outs and for overtime related to the Wildland Mobilization season whereby firefighters assist in fighting wildfires across the State with 100% reimbursement of related costs. The transfers came from the CDBG Entitlement Grant budget and Police Department budget.
- As noted the General Fund final budget as reported in the required supplementary information of the financial report for 2015 was \$21,820,561 of which \$21,158,100, or 97%, was expended for the year. It is typical

that a small percentage of the General Fund budget remains unspent at year end. For previous years (2010 through 2014) on average 95% of the final General Fund budget is expended.

There was only one major change to capital assets during 2015. Following are some details related to the City’s capital assets:

Capital Assets and Debt Administration

Capital Assets

As of December 31, 2015, the City of Mount Vernon’s investment in capital assets for its governmental and business-type activities amounts to \$190,815,868 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment, art, construction in progress, infrastructure, utility systems, streets and bridges.

Capital assets net of depreciation decreased \$257,959 for governmental activities, representing less than a 1% decrease compared to 2014, with business-type activities capital assets decreasing by \$1,905,446 or 2%. 59% of capital assets are for governmental activities with 41% attributed to business-type activities.

- Included in governmental activities was one major project that had activity in 2015, the Downtown and Waterfront Revitalization Project with capital outlay costs of \$2,087,847. Before depreciation, capital assets for all governmental activities increased \$2,802,798 in 2015 net of any capital decreases.
- Wastewater, Solid Waste and Surfacewater capital increases net of any capital decreases totaled \$1,991,362 in 2015 before depreciation. No major projects were undertaken in 2015 other than the annual sewer restoration project to repair aging sewer lines which totaled \$334,517 in 2015.
- Private development contributions in 2015 added \$1,619,706 in total; \$361,083 to road infrastructure, \$696,174 to wastewater infrastructure, and \$562,449 in surfacewater infrastructure, noting that an additional \$294,353 was donated to surfacewater from governmental activities, and specifically from the downtown & waterfront project.

Table 3
Capital Assets at Year –End
(Net of depreciation)

	Governmental Activities		Business-Type Activities		Total	
	2015	2014	2015	2014	2015	2014
Land	\$ 33,230,941	\$ 33,083,341	\$ 3,513,785	\$ 3,483,516	\$ 36,744,726	\$ 36,566,857
Buildings	6,299,354	6,770,435	35,793,678	37,864,499	42,093,032	44,634,934
Improvements other than buildings	2,717,069	2,847,562	39,131,305	38,705,114	41,848,374	41,552,676
Machinery and equipment	6,049,057	5,442,661	386,869	365,860	6,435,926	5,808,521
Construction in progress	18,529,453	16,732,315	243,576	555,670	18,773,029	17,287,985
Infrastructure	44,794,909	47,039,460	-	-	44,794,909	47,039,460
Art	125,872	88,840	-	-	125,872	88,840
Total	\$ <u>111,746,655</u>	\$ <u>112,004,614</u>	\$ <u>79,069,213</u>	\$ <u>80,974,659</u>	\$ <u>190,815,868</u>	\$ <u>192,979,273</u>

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

Long Term Debt

At year end, the City had \$27,359,353 in bonds and notes outstanding versus \$30,285,737 last year, reflecting a net decrease of \$2,926,384.

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

	Governmental Activities		Business-Type Activities		Total	
	2015	2014	2015	2014	2015	2014
General obligation bonds	\$ 805,000	\$ 1,185,000	\$ -	\$ -	\$ 805,000	\$ 1,185,000
Revenue bonds and notes	1,390,000	1,805,000	25,164,353	27,295,737	26,554,353	29,100,737
Total	<u>\$ 2,195,000</u>	<u>\$ 2,990,000</u>	<u>\$ 25,164,353</u>	<u>\$ 27,295,737</u>	<u>\$ 27,359,353</u>	<u>\$ 30,285,737</u>

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

No new debt was issued in 2015. In 2014 the only debt issued was in governmental activities, a \$1,000,000 HUD Section 108 loan to be repaid with future CDBG entitlement grant funds over an 8-year period. The loan proceeds were used to partially finance phase II of the Downtown & Waterfront Project. \$300,000 of principal payments were made on this loan in 2015.

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

Economic Factors

The City of Mount Vernon considered many factors when setting the 2015 fiscal year budget, property tax rates and the fees that will be charged the citizens of the community for government activities and business-type activities. The state of the economy for the region, state and nation were also taken into consideration in establishing the City’s annual budget for 2015. Both residential and commercial growth of the City, were factors weighed, as well as the attraction of our community as a place to live and work. The City’s major governmental operating revenues started to show a leveling off in 2011, then slow recovery in 2012 as compared to the lowest points of the recession. These revenues for the year ended in 2015

continued to show slow and steady improvement. For instance, sales tax revenues in 2015 were 24% higher when compared to 2011, the lowest collection year during the recent recession. As a result of a slow and steady increase in sales tax revenues beginning in 2012, the 2015 sales tax revenues are now 6% lower than our highest revenue year in 2007. Property tax collection rates have remarkably recovered, and new construction activity has shown notable improvements since the severe downturn in the economy which began in 2008. Additional revenue improvements are discussed in the *Fund Financial Statements, Governmental Activities section*. The City closely monitors its financial condition throughout the year, reviewing monthly revenue trends and expenditure activity, and will continue to make sound, thoughtful fiscal decisions on behalf of the City. In addition, the City Council and Mayor take a conservative view on budget growth, as is reflected in our annual adopted budgets.

The City has adopted financial management policies that are reviewed annually and are used as tools in the management of the fiscal health of the City.

The City’s overall financial position remains sound, which in part can be attributed to a proactive and watchful approach to monitoring and reacting to financial conditions. Total net position for the City increased by 1% in 2015 compared to 2014. The City of Mount Vernon remains cautiously optimistic about the City’s future economic health.

As mentioned earlier the primary major project that the City continues to work on is the Downtown and Waterfront Revitalization Project which has infrastructure costs estimated at \$44,000,000. Two of the three major infrastructure components of this estimated cost include a flood control structure and a riverwalk promenade that extends the length of the core downtown area along the river with an

estimated total budget of \$28,000,000. Phase I, II and a portion of III which includes construction of the floodwall, riverwalk and park plaza are completed. Construction of the remaining portion of the final phase will be completed in 2017. All funding is secured to fully finance and complete the flood project. The City has already seen resurgence in economic activity and new businesses opening in our downtown core resulting in part from the completion of major portions of this project.

The third component of the overall project is to construct a parking facility(s) structure in the core downtown area to address future development and related parking needs.

The State of Washington, by constitution, does not have a state personal income tax and therefore the state operates primarily using property, sales, business and occupation, and gasoline taxes. The City of Mount Vernon primarily relies on property, sales and utility taxes, and franchise fees to fund governmental activities. The City is not facing any foreseeable restrictions or other limitations that would significantly impact funding resources for future uses.

For business-type and certain governmental activities (e.g. permitting and recreation) the user pays a related fee or charge associated with the service provided.

Financial Contact

The City's financial statements are designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City's Finance Department, 910 Cleveland Avenue, P.O. Box 809, Mount Vernon, Washington, 98273, or visit the City's website at www.mountvernonwa.gov.

STATEMENT OF NET POSITION
December 31, 2015

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 5,221,801	\$ 4,011,494	\$ 9,233,295
Investments	8,001,918	8,685,016	16,686,934
Receivables:			
Taxes	1,314,111	-	1,314,111
Accounts	460,275	2,238,777	2,699,052
Interest	33,752	39,537	73,289
Due from other governments	1,578,626	25,000	1,603,626
Inventory	11,387	-	11,387
Prepaid items	200,000	3,861	203,861
Net state-sponsored pension asset	2,944,917	-	2,944,917
Net FPF pension asset	429,261	-	429,261
Restricted assets:			
Cash and cash equivalents	-	2,187,090	2,187,090
Capital assets:			
Non-depreciable	51,886,266	3,757,361	55,643,627
Depreciable, net	59,860,389	75,311,852	135,172,241
Total Assets	131,942,703	96,259,988	228,202,691
DEFERRED OUTFLOWS			
Deferred Outflows - Pensions	1,000,726	187,808	1,188,534
Total Deferred Outflows	1,000,726	187,808	1,188,534
LIABILITIES			
Accounts payable	1,670,989	778,960	2,449,949
Interest payable	4,870	49,573	54,443
Noncurrent liabilities:			
Employee benefits payable due within one year	743,388	98,080	841,468
Other non-current liabilities due within one year	610,000	2,159,124	2,769,124
Employee benefits payable due in more than one year	839,756	81,898	921,654
Net state-sponsored pension liability	5,059,183	1,627,636	6,686,819
Net other postemployment benefit obligation	3,647,608	-	3,647,608
Other non-current liabilities due in more than one year	1,585,000	23,005,229	24,590,229
Total Liabilities	14,160,794	27,800,500	41,961,294
DEFERRED INFLOWS			
Deferred Inflows - Pensions	1,596,930	249,329	1,846,259
Total Deferred Inflows	1,596,930	249,329	1,846,259
NET POSITION			
Net investment in capital assets	109,551,655	53,904,860	163,456,515
Restricted for:			
Public safety	41,159	-	41,159
Streets and transportation	1,422,896	-	1,422,896
Economic environment	371,738	-	371,738
Debt service	12,270	2,187,090	2,199,360
Other capital improvements	1,369,513	-	1,369,513
Unrestricted	4,416,474	12,306,017	16,722,491
Total Net Position	\$ 117,185,705	\$ 68,397,967	\$ 185,583,672

The accompanying notes are an integral part of this statement

STATEMENT OF ACTIVITIES
For The Year Ended December 31, 2015

Functions/Program	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities:							
General government	\$ 3,270,800	\$ 712,918	\$ 34,766	\$ 10,013	\$ (2,513,103)	\$ -	\$ (2,513,103)
Security of persons and property	15,317,093	411,125	661,368	38,999	(14,205,601)	-	(14,205,601)
Physical environment	1,262,497	103,806	-	-	(1,158,691)	-	(1,158,691)
Transportation	4,922,361	768,967	763,526	683,673	(2,706,195)	-	(2,706,195)
Economic environment	1,224,517	1,277,654	75,101	2,412,729	2,540,967	-	2,540,967
Culture and recreation	2,875,808	567,903	3,967	64,895	(2,239,043)	-	(2,239,043)
Interest on long-term debt	45,549	-	-	-	(45,549)	-	(45,549)
Total governmental activities	<u>28,918,625</u>	<u>3,842,373</u>	<u>1,538,728</u>	<u>3,210,309</u>	<u>(20,327,215)</u>	<u>-</u>	<u>(20,327,215)</u>
Business-type activities:							
Wastewater	9,166,369	8,161,734	-	1,861,810	-	857,175	857,175
Solid waste	5,169,260	5,402,840	-	-	-	233,580	233,580
Surfacewater	2,158,523	1,541,571	25,000	562,449	-	(29,503)	(29,503)
Total business-type activities	<u>16,494,152</u>	<u>15,106,145</u>	<u>25,000</u>	<u>2,424,259</u>	<u>-</u>	<u>1,061,252</u>	<u>1,061,252</u>
Total government	<u>\$ 45,412,777</u>	<u>\$ 18,948,518</u>	<u>\$ 1,563,728</u>	<u>\$ 5,634,568</u>	<u>\$ (20,327,215)</u>	<u>\$ 1,061,252</u>	<u>\$ (19,265,963)</u>
General revenues:							
Taxes:							
Property taxes					7,295,533	-	7,295,533
Sales taxes					5,923,161	-	5,923,161
Utility taxes					3,719,668	-	3,719,668
Public safety sales taxes					1,283,352	-	1,283,352
Criminal justice sales taxes					658,534	-	658,534
Real estate excise taxes					1,153,308	-	1,153,308
Hotel/motel, liquor & leasehold taxes					701,377	-	701,377
Interest and investment earnings					123,889	119,283	243,172
Miscellaneous					20,097	36,116	56,213
Transfers, internal activities					(58,550)	58,550	-
Total general revenues and transfers					<u>20,820,369</u>	<u>213,949</u>	<u>21,034,318</u>
Change in net position					493,154	1,275,201	1,768,355
Net position-beginning (restated)					<u>116,692,551</u>	<u>67,122,766</u>	<u>183,815,317</u>
Net position-ending					<u>\$ 117,185,705</u>	<u>\$ 68,397,967</u>	<u>\$ 185,583,672</u>

The accompanying notes are an integral part of this statement

BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2015

	General Fund	Downtown & Waterfront Fund	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 1,346,641	\$ 12,996	\$ 2,189,600	\$ 3,549,237
Investments	2,395,866	-	1,167,984	3,563,850
Receivables:				
Taxes	1,305,398	-	8,713	1,314,111
Accounts	400,598	-	59,677	460,275
Interest	12,770	-	3,805	16,575
Due from other governments	112,911	1,318,347	147,368	1,578,626
Prepaid items	200,000	-	-	200,000
Total Assets	\$ 5,774,184	\$ 1,331,343	\$ 3,577,147	\$ 10,682,674
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 543,431	\$ 227,159	\$ 618,964	\$ 1,389,554
Interfund loans payable	-	-	232,759	232,759
Total Liabilities	543,431	227,159	851,723	1,622,313
Deferred Inflows of Resources -				
Assets associated with unavailable revenues	447,415	-	7,267	454,682
Fund Balances:				
Restricted for:				
Municipal court improvements	88,399	-	-	88,399
Path & trails	-	-	83,445	83,445
Tourism promotion	-	-	121,195	121,195
Criminal justice	-	-	41,159	41,159
Debt service	-	-	12,270	12,270
REET I capital improvements	-	-	451,101	451,101
REET II street improvements	-	-	403,811	403,811
Impact fees	-	-	250,543	250,543
Downtown and waterfront	-	830,013	-	830,013
Road improvements	-	-	935,640	935,640
Committed to:				
Government access	-	-	202,589	202,589
Fiber optics	-	-	85,792	85,792
Critical areas enhancement	-	-	139,266	139,266
Assigned to:				
Parks	547,714	-	-	547,714
Library	125,188	-	-	125,188
Lincoln commercial block	123,055	-	-	123,055
LEOFF 1 LT care reserve	366,041	-	-	366,041
Downtown and waterfront	-	274,171	-	274,171
Unassigned:				
General Fund	3,532,941	-	-	3,532,941
Streets and arterials	-	-	(8,654)	(8,654)
Total Fund Balances	4,783,338	1,104,184	2,718,157	8,605,679
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 5,774,184	\$ 1,331,343	\$ 3,577,147	\$ 10,682,674

The accompanying notes are an integral part of this statement

Page 1 of 2

RECONCILIATION OF THE BALANCE SHEET
TO THE STATEMENT OF NET POSITION
GOVERNMENTAL FUNDS
December 31, 2015

Fund balances - total governmental funds		\$ 8,605,679
Amounts reported for governmental activities in the statement of net position 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	51,581,063	
Depreciable assets (net)	54,859,806	106,440,869
Other long-term assets are not available to pay for current-period expenditures and therefore are classified as deferred inflows of resources or not recognized in the funds.		
Net LEOFF 1 & 2 pension asset & related deferred out/inflows	2,524,702	
Net volunteer firefighter's pension asset	9,589	
Net firefighter's pension asset & related deferred outflows	434,919	
Deferred inflows of resources	454,682	3,423,892
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	(1,560,533)	
Interest payable	(4,870)	
Net PERS 1 & 2/3 benefit obligation & related deferred out/inflows	(5,067,857)	
Net other postemployment benefit obligation	(3,647,608)	
Long-term liabilities	(2,195,000)	(12,475,868)
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.	11,191,133	11,191,133
Net position of governmental activities		\$ <u><u>117,185,705</u></u>

STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended December 31, 2015

	General Fund	Downtown & Waterfront Fund	Other Governmental Funds	Total Governmental Funds
REVENUES				
Taxes	\$ 18,396,761	\$ -	\$ 1,972,105	\$ 20,368,866
Licenses and permits	1,382,368	-	84,769	1,467,137
Intergovernmental revenues	983,461	2,109,059	1,164,125	4,256,645
Charge for services	2,074,411	210	676,496	2,751,117
Fines and forfeitures	277,477	-	-	277,477
Investment income	69,925	-	9,823	79,748
Other revenue	630,182	-	96,691	726,873
Total Revenues	<u>23,814,585</u>	<u>2,109,269</u>	<u>4,004,009</u>	<u>29,927,863</u>
EXPENDITURES				
Current:				
General government	4,093,320	-	-	4,093,320
Security of persons and property	14,371,783	-	13,297	14,385,080
Physical environment	1,344,928	-	12,155	1,357,083
Transportation	-	-	1,441,037	1,441,037
Economic environment	842,596	28,200	230,286	1,101,082
Culture and recreation	2,460,087	-	-	2,460,087
Capital outlay	467,432	2,087,846	1,419,248	3,974,526
Debt service:				
Principal	300,000	-	495,000	795,000
Interest	3,670	-	42,413	46,083
Total Expenditures	<u>23,883,816</u>	<u>2,116,046</u>	<u>3,653,436</u>	<u>29,653,298</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(69,231)</u>	<u>(6,777)</u>	<u>350,573</u>	<u>274,565</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	166,000	635,803	813,550	1,615,353
Transfers out	(230,000)	-	(1,149,550)	(1,379,550)
Sale of capital assets	11,000	-	-	11,000
Total other financing sources (uses)	<u>(53,000)</u>	<u>635,803</u>	<u>(336,000)</u>	<u>246,803</u>
Net change in fund balances	(122,231)	629,026	14,573	521,368
Fund Balances - January 1	<u>4,905,569</u>	<u>475,158</u>	<u>2,703,584</u>	<u>8,084,311</u>
Fund Balances - December 31	<u>\$ 4,783,338</u>	<u>\$ 1,104,184</u>	<u>\$ 2,718,157</u>	<u>\$ 8,605,679</u>

The accompanying notes are an integral part of this statement

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2015

Net changes in fund balances - total governmental funds	\$	521,368
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	2,784,294	
Less current year depreciation	<u>(3,629,963)</u>	(845,669)
The effect of various miscellaneous transactions involving capital assets not reported in governmental funds.		
Contributions of capital assets	361,083	
Disposals of capital assets	(159,899)	
Transfer of capital assets to Utility Funds	<u>(294,353)</u>	(93,169)
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	<u>795,000</u>	795,000
Some revenues or expenditures reported in the statement of activities are not yet available or expensed and therefore are not reported as revenue or expense in governmental funds.		
	<u>(171,525)</u>	(171,525)
Internal service funds or activities are used by management to charge the costs of certain activities to individual funds. The net revenue (expense) of the internal service funds and internal balances are reported with governmental activities.		
	<u>287,149</u>	<u>287,149</u>
Change in net position of governmental activities	\$	<u><u>493,154</u></u>

The accompanying notes are an integral part of this statement

STATEMENT OF NET POSITION
 PROPRIETARY FUNDS
 December 31, 2015

	Business-type Activities Enterprise Funds				Governmental Activities - Equipment Rental Internal Service Fund
	Wastewater	Solid Waste	Surface- water	Totals	
ASSETS					
Current assets:					
Cash and cash equivalents	\$ 2,565,680	\$ 805,772	\$ 640,042	\$ 4,011,494	\$ 1,672,564
Investments	6,588,633	1,397,589	698,794	8,685,016	4,438,068
Accounts receivable	1,202,812	827,914	208,051	2,238,777	-
Interest receivable	29,865	5,446	4,226	39,537	17,178
Interfund loans receivable	-	-	-	-	232,759
Due from other governments	-	-	25,000	25,000	-
Inventory	-	-	-	-	11,386
Prepaid expenses	1,775	1,775	311	3,861	-
Total current assets	<u>10,388,765</u>	<u>3,038,496</u>	<u>1,576,424</u>	<u>15,003,685</u>	<u>6,371,955</u>
Noncurrent assets:					
Restricted assets:					
Debt service:					
Cash and cash equivalents	2,090,795	-	96,295	2,187,090	-
Total restricted assets	<u>2,090,795</u>	<u>-</u>	<u>96,295</u>	<u>2,187,090</u>	<u>-</u>
Capital assets:					
Land	1,871,048	204,000	1,438,737	3,513,785	-
Buildings	55,465,856	823,699	-	56,289,555	145,000
Improvements other than buildings	54,585,657	42,972	20,363,108	74,991,737	72,545
Machinery and equipment	670,738	160,441	348,911	1,180,090	12,766,012
Construction in progress	243,576	-	-	243,576	-
Less accumulated depreciation	(46,522,815)	(322,530)	(10,304,185)	(57,149,530)	(7,677,771)
Total capital assets (net of depreciation)	<u>66,314,060</u>	<u>908,582</u>	<u>11,846,571</u>	<u>79,069,213</u>	<u>5,305,786</u>
Total noncurrent assets	<u>68,404,855</u>	<u>908,582</u>	<u>11,942,866</u>	<u>81,256,303</u>	<u>5,305,786</u>
Total assets	<u>\$ 78,793,620</u>	<u>\$ 3,947,078</u>	<u>\$ 13,519,290</u>	<u>\$ 96,259,988</u>	<u>\$ 11,677,741</u>
DEFERRED OUTFLOWS					
Deferred outflows - Pensions	\$ 87,982	\$ 87,982	\$ 11,844	\$ 187,808	\$ 20,303

The accompanying notes are an integral part of this statement

STATEMENT OF NET POSITION
 PROPRIETARY FUNDS
 December 31, 2015

	Business-type Activities Enterprise Funds			Totals	Governmental Activities - Equipment Rental Internal Service Fund
	Wastewater	Solid Waste	Surface- water		
LIABILITIES					
Current liabilities:					
Accounts payable	\$ 489,879	\$ 252,339	\$ 36,742	\$ 778,960	\$ 281,435
Employee benefits payable	58,604	39,476	-	98,080	12,004
Matured interest payable	46,684	-	2,889	49,573	-
Matured loans payable	1,994,047	-	165,077	2,159,124	-
Total current liabilities	<u>2,589,214</u>	<u>291,815</u>	<u>204,708</u>	<u>3,085,737</u>	<u>293,439</u>
Noncurrent liabilities:					
Employee benefits payable	63,763	18,135	-	81,898	10,607
Net pension liability - PERS	762,406	762,406	102,824	1,627,636	175,913
Loans payable	<u>23,005,229</u>	-	-	<u>23,005,229</u>	-
Total noncurrent liabilities	<u>23,831,398</u>	<u>780,541</u>	<u>102,824</u>	<u>24,714,763</u>	<u>186,520</u>
Total liabilities	<u>26,420,612</u>	<u>1,072,356</u>	<u>307,532</u>	<u>27,800,500</u>	<u>479,959</u>
DEFERRED INFLOWS					
Deferred inflows - Pensions	<u>116,798</u>	<u>116,798</u>	<u>15,733</u>	<u>249,329</u>	<u>26,952</u>
NET POSITION					
Net investment in capital assets	41,314,784	908,582	11,681,494	53,904,860	5,305,786
Restricted for debt service	2,090,795	-	96,295	2,187,090	-
Unrestricted	<u>8,938,613</u>	<u>1,937,324</u>	<u>1,430,080</u>	<u>12,306,017</u>	<u>5,885,347</u>
Total net position	<u>\$ 52,344,192</u>	<u>\$ 2,845,906</u>	<u>\$ 13,207,869</u>	<u>\$ 68,397,967</u>	<u>\$ 11,191,133</u>

The accompanying notes are an integral part of this statement

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
 PROPRIETARY FUNDS
 For the Year Ended December 31, 2015

	Business-type Activities Enterprise Funds			Totals	Governmental Activities - Equipment Rental Internal Service Fund
	Wastewater	Solid Waste	Surface- water		
Operating revenues:					
Charges for utility services	\$ 8,161,734	\$ 5,402,840	\$ 1,541,571	\$ 15,106,145	\$ -
Charges for services/replacement	-	-	-	-	1,819,914
Total operating revenue	<u>8,161,734</u>	<u>5,402,840</u>	<u>1,541,571</u>	<u>15,106,145</u>	<u>1,819,914</u>
Operating expenses:					
Operations and maintenance	4,359,037	4,567,202	1,544,703	10,470,942	848,190
Taxes	719,165	559,967	21,343	1,300,475	-
Depreciation and amortization	3,352,086	42,091	585,401	3,979,578	857,376
Total operating expenses	<u>8,430,288</u>	<u>5,169,260</u>	<u>2,151,447</u>	<u>15,750,995</u>	<u>1,705,566</u>
Operating income (loss)	<u>(268,554)</u>	<u>233,580</u>	<u>(609,876)</u>	<u>(644,850)</u>	<u>114,348</u>
Nonoperating revenues (expenses):					
Intergovernmental revenue	-	-	25,000	25,000	34,187
Investment earnings	85,898	19,768	13,617	119,283	44,142
Miscellaneous revenue	33,239	2,193	684	36,116	6,220
Interest expense	(432,137)	-	(7,076)	(439,213)	-
Gain (loss) on sale of capital assets	(303,944)	-	-	(303,944)	76,953
Total nonoperating revenue (expense)	<u>(616,944)</u>	<u>21,961</u>	<u>32,225</u>	<u>(562,758)</u>	<u>161,502</u>
Income (loss) before contributions and transfers	(885,498)	255,541	(577,651)	(1,207,608)	275,850
Capital contributions	1,861,810	-	856,802	2,718,612	11,299
Transfers out	<u>(212,000)</u>	<u>-</u>	<u>(23,803)</u>	<u>(235,803)</u>	<u>-</u>
Change in net position	764,312	255,541	255,348	1,275,201	287,149
Total net position - beginning (restated)	<u>51,579,880</u>	<u>2,590,365</u>	<u>12,952,521</u>	<u>67,122,766</u>	<u>10,903,984</u>
Total net position - ending	<u>\$ 52,344,192</u>	<u>\$ 2,845,906</u>	<u>\$ 13,207,869</u>	<u>\$ 68,397,967</u>	<u>\$ 11,191,133</u>

The accompanying notes are an integral part of this statement

STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS
 For the Year Ended December 31, 2015

	Business-type Activities Enterprise Funds			Totals	Governmental Activities - Equipment Rental Internal Service Fund
	Wastewater	Solid Waste	Surface- water		
CASH FLOWS FROM OPERATING ACTIVITIES:					
Cash received from customers	\$ 8,156,408	\$ 5,416,139	\$ 1,548,093	\$ 15,120,640	\$ 1,819,914
Cash payments to suppliers	(2,519,373)	(3,421,202)	(1,377,546)	(7,318,121)	(365,430)
Cash payments to employees	(1,620,194)	(1,149,962)	(189,005)	(2,959,161)	(299,306)
Cash payments for taxes	(719,165)	(559,967)	(21,343)	(1,300,475)	-
Other operating receipts and payments	12,776	12,776	-	25,552	-
Non-operating income	33,239	2,193	4,085	39,517	40,407
Net cash provided (used) by operating activities	<u>3,343,691</u>	<u>299,977</u>	<u>(35,716)</u>	<u>3,607,952</u>	<u>1,195,585</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:					
Receipt of pooled cash due from other funds	-	-	-	-	809,393
Interfund loan to other fund	-	-	-	-	(232,759)
Transfers out	(212,000)	-	(23,803)	(235,803)	-
Net cash provided (used) by noncapital financing activities	<u>(212,000)</u>	<u>-</u>	<u>(23,803)</u>	<u>(235,803)</u>	<u>576,634</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:					
Acquisition and construction of capital assets	(743,033)	(32,890)	(51,165)	(827,088)	(1,519,626)
Proceeds from sale of assets	-	-	-	-	58,325
Capital contributions	1,165,636	-	-	1,165,636	-
Principal paid on other debt	(1,966,306)	-	(165,077)	(2,131,383)	-
Interest paid on revenue bonds and other debt	(433,028)	-	(9,079)	(442,107)	-
Net cash provided (used) for capital and related financing activities	<u>(1,976,731)</u>	<u>(32,890)</u>	<u>(225,321)</u>	<u>(2,234,942)</u>	<u>(1,461,301)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:					
Investment purchases	(6,600,000)	(1,400,000)	(700,000)	(8,700,000)	(4,445,725)
Investment sales/maturities	5,600,000	1,200,000	1,000,000	7,800,000	4,286,626
Interest on investments	68,544	16,366	10,426	95,336	32,549
Net cash provided (used) by investing activities	<u>(931,456)</u>	<u>(183,634)</u>	<u>310,426</u>	<u>(804,664)</u>	<u>(126,550)</u>
Net increase (decrease) in cash and cash equivalents	223,504	83,453	25,586	332,543	184,368
Cash and cash equivalents, January 1	4,432,971	722,319	710,751	5,866,041	1,488,196
Cash and cash equivalents, December 31	<u>\$ 4,656,475</u>	<u>\$ 805,772</u>	<u>\$ 736,337</u>	<u>\$ 6,198,584</u>	<u>\$ 1,672,564</u>

The accompanying notes are an integral part of this statement

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STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS
 For the Year Ended December 31, 2015

	Business-type Activities Enterprise Funds				Governmental Activities - Equipment Rental Internal Service Fund
	Wastewater	Solid Waste	Surface- water	Totals	
	Wastewater	Solid Waste	Surface- water	Totals	Service Fund
Cash at the end of the year consists of:					
Cash and cash equivalents	\$ 2,565,680	\$ 805,772	\$ 640,042	\$ 4,011,494	\$ 1,672,564
Restricted assets:					
Cash and cash equivalents	2,090,795	-	96,295	2,187,090	-
Total cash at end of year	<u>\$ 4,656,475</u>	<u>\$ 805,772</u>	<u>\$ 736,337</u>	<u>\$ 6,198,584</u>	<u>\$ 1,672,564</u>
Reconciliation of operating income to net cash provided by operating activities:					
Operating income (loss)	\$ (268,554)	\$ 233,580	\$ (609,876)	\$ (644,850)	\$ 114,348
Adjustments to reconcile operating income to					
Depreciation	3,352,086	42,091	585,401	3,979,578	857,376
(Increase) decrease in accounts receivable	7,450	26,075	6,522	40,047	-
(Increase) decrease in due from other govt's	-	-	(21,599)	(21,599)	-
(Increase) decrease in inventory	-	-	-	-	(622)
(Increase) decrease in prepaid expenses	1,048	1,049	316	2,413	-
Increase (decrease) in accounts payable	220,605	20,640	(18,727)	222,518	190,042
Increase (decrease) in employee bene's pay	22,852	(616)	-	22,236	(190)
Non-cash GASB 68 PERS pension expense	(25,035)	(25,035)	(3,437)	(53,507)	(5,776)
Non-operating revenue	33,239	2,193	25,684	61,116	40,407
Net cash provided by operating activities	<u>\$ 3,343,691</u>	<u>\$ 299,977</u>	<u>\$ (35,716)</u>	<u>\$ 3,607,952</u>	<u>\$ 1,195,585</u>
Noncash investing, capital and financing activities:					
Developers/city governmental activities contributed infrastructure valued at	\$ 696,174	\$ -	\$ 856,802	\$ 1,552,976	\$ 11,299
Fair value of investments increase (decrease)	2,088	472	1,197	3,757	2,643

The accompanying notes are an integral part of this statement

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STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
December 31, 2015

	Firemen's Pension Fund	Agency Funds
ASSETS		
Cash and cash equivalents	\$ 127,393	\$ 464,278
Investments:		
U.S. Government Agency Securities	352,192	-
Municipal Government Securities	47,119	-
Receivables:		
Interest	1,536	-
Total Assets	528,240	464,278
LIABILITIES		
Liabilities:		
Due to other governments	-	426,652
Custodial	-	37,626
Total Liabilities	-	\$ 464,278
NET POSITION		
Restricted for pension benefits	\$ 528,240	

The accompanying notes are an integral part of this statement

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
 FIDUCIARY FUNDS
 For the Year Ended December 31, 2015

	Firemen's Pension Fund
	<u> </u>
ADDITIONS	
Fire insurance premium contributions	\$ 35,328
Investment interest	4,117
Total additions	<u>39,445</u>
DEDUCTIONS	
Pension benefit payments	10,564
Pension administration	11,100
Contribution to City for OPEB healthcare benefit payments	84,000
Total deductions	<u>105,664</u>
Change in net position	(66,219)
Net position - beginning	<u>594,459</u>
Net position - ending	<u>\$ 528,240</u>

The accompanying notes are an integral part of this statement

**Notes to the Financial Statements
December 31, 2015**

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

The City's significant accounting policies are described below.

Reporting Entity

As required by GAAP the 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.

**Basis of Presentation – Government Wide
and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary 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.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements or a particular function or segment. Internally dedicated resources are reported as general revenues rather than program revenues. Taxes and other items not properly included among program revenues are reported instead as general revenues.

As a general rule the effect of the interfund activity has been eliminated for 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 an internal service fund 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.

Separate fund financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

The City reports the following major governmental funds:

The **General Fund** (or current expense fund) is the City's operating fund. It accounts for all financial resources of the general government, except those required or elected to be accounted for in another fund.

The **Downtown and Waterfront Area Fund** accounts for monies collected and expended for capital expenditures on planned improvements, including downtown flood protection, a park plaza, a riverfront promenade and downtown public restrooms.

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 Fund accounts for the maintenance and replacement of the City owned vehicles and equipment.

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 six Agency Funds. Hillcrest (Parks) Deposits and Developer Deposits account for damage and inspection deposits. Court Assessments, Mount Vernon School Impact Fees, Miscellaneous Suspense and Hospital Parking Facility 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 firefighter personnel.

Measurement Focus and Basis of Accounting

Government-Wide and Governmental Funds:
The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, similar to the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year in which they are levied. Grants and similar items are recognized as revenue as soon as eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the

modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose the City considers all revenue to be available if the revenues are collected within sixty days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Sales taxes, property taxes, fines, and interest associated within the current period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Grant revenue is recognized for cost reimbursement grants when the expenditure occurs in accordance with GASB Statement 33. 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. Most of the other revenue items are considered to be measurable and available only when cash is received by the government.

Proprietary Funds:

The proprietary fund statements are reported using the economic resources measurement focus and full-accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred regardless of the timing of the cash flows.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses

generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City are Wastewater Utility operations, Solid Waste Utility operations, and Surfacewater Utility operations. Operating expenses for the City's utilities include the cost of sales and services, administrative expenses, taxes and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Budgetary Information

The City budgets in accordance with the Revised Code of Washington (RCW) 35A.33. In compliance with the code, budgets for all funds are established, with the exception of non-required agency funds. Annual appropriated budgets are adopted for the general, special revenue, and debt service funds as well as the Real Estate Excise Tax I, Real Estate Excise Tax II, and Impact Fees capital project budgets. Budgets for the Road Improvement and Downtown and Waterfront Area Funds are adopted at the level of the individual project and for fiscal periods that correspond to the lives of the projects.

Legal budgetary control is established at the fund level, i.e., expenditures for a fund may not exceed the total appropriation amount. 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 adopted according to GAAP.

The City's implementation of GASB 54 governmental fund type definition guidance (see note 13) has led to reclassifications of Parks, Library and the Lincoln Commercial Block funds (which have their own legally adopted budgets) from "other governmental

special revenue funds” to “GASB 54 reclassified funds” (included in the General Fund for external accounting purposes), creating a budget perspective difference. A budget basis to GAAP-basis reconciliation for the General Fund is reported as “Required Supplementary Information.”

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.
- 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.

The Mayor is authorized to transfer budgeted amounts within a fund; however, any revisions that alter the total expenditures 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 the 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.

The budget amounts shown in the financial statements are the final authorized amounts as revised during the year.

The financial statements contain the original and final budget information. The original budget is the first complete appropriated budget. The final budget is the original

budget adjusted by all reserves, transfers, allocations, supplemental appropriations, and other legally authorized changes applicable for the fiscal year.

Assets, Liabilities and Fund Balances / Net Position

1. Cash, Cash Equivalents and Investments

It is the City’s practice to invest temporary cash surpluses. At December 31, 2015, the City was holding \$12,012,056 in short-term residual investments of surplus cash. 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 Position.

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.

For additional information on deposits and investments see Note 3, “Deposits and Investments”.

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 consists of amounts owed from/to private individuals or organizations for goods and services including amounts owed for which billings

have not been prepared. If the transaction is with another governmental unit, it is accounted for within "due to/from other governments".

Receivables have been reported net of estimated uncollectible accounts. Because property taxes 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 receivable/payable. All other outstanding balances between funds are reported as "due to/from other funds". Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as 'internal balances'. A separate schedule of interfund loans receivable and payable is furnished in *Note 9, "Interfund Receivable, Payable, and Transfers"*.

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 position.

3. Inventories

Inventories consist of expendable supplies held for consumption. The cost is recorded as an expenditure at the time individual inventory items are consumed. A comparison to market value is not considered necessary. Inventories in proprietary funds are valued by 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

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, and similar items), are reported in the applicable governmental or business-type columns in the government-wide financial statements. These assets generally result from expenditures in the governmental funds. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net position and in the respective funds. Capital assets are defined by the City as assets with an initial, individual cost of \$5,000 or more 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.

Costs for additions or improvements to capital assets are capitalized when they increase the effectiveness or efficiency of the asset. 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 project construction is finalized. Interest incurred during the construction phase of the capital assets of business-type activities is included as part of the capitalized value of the assets constructed. (*See Note 5 "Capital Assets"*).

6. Deferred Inflows/ Outflows of Resources

In addition to assets and liabilities, the Statement of Net Position and Proprietary Fund Statements report separate sections for deferred outflows/inflows of resources, related to GASB 68 Pension reporting. In the Governmental Fund Statements deferred inflows of resources include amounts recognized as receivables but not revenues in governmental funds because the revenue

recognition criterion (availability) has not been met, per GASB 63/65.

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 payoff of sick leave in some instances. The value of accumulated vacation leave, compensatory time and sick leave payable upon separation is estimated to be \$1,583,144 for governmental funds and \$179,978 for proprietary enterprise funds.

8. Pensions

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

the benefit terms. Investments are reported at fair value.

Pension information is also reported for the City-administered Firemen's Pension Fund.

9. Other Post-Employment Benefits

Lifetime full medical coverage is provided to uniformed Police and Fire personnel who became members of the Law Enforcement Officers and Fire Fighters (LEOFF 1) retirement system prior to October 1, 1977. A liability for the accumulated unfunded actuarially required contribution is reported in the Statement of Net Position. The actual medical costs are reported as expenditures in the year they are incurred, and are paid out of the General Fund.

10. Long-term Liabilities

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type Statement of Net Position. (See Note 10, "Long Term Liabilities")

11. Net Position and Fund Balances

For City policies/explanation of net position components, fund balance classification, flow assumptions and minimum fund balance policy see Note 13. "Net Position and Fund Balances".

NOTE 2:

Compliance and Accountability

There have been no material violations of finance-related legal or contractual provisions.

The City's Street & Arterial Funds ended 2015 with negative fund balance of \$8,654.

This was due to the funds financing the LED Street Lighting Change-out project through use of interfund loan proceeds to be repaid by projected annual savings in electricity costs over the next five years (see note 9).

**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). The FDIC insures the first \$250,000 of the City’s deposits. Deposit balances over \$250,000 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, 2015 the carrying amount of the City’s market rate savings account with Bank of America was \$1,326,681, the carrying amount of the City’s money market account with U.S. Bank was \$123,325 and bank balances with various banks and LGIP were \$10,536,750. 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, 2015 the City had the following investments and maturities:

Investment Type	Fair Value	Investment Maturities (In Years)		
		Less Than 1	1 to 2	2 to 4
Federal Farm Credit Bank	\$ 997,192	\$ 997,192	\$ -	\$ -
Federal Home Loan Mortgage Corporation	1,997,075	997,012	1,000,063	-
Federal National Mortgage Association	7,084,744	-	995,760	6,088,984
FICO Strips	4,990,054	-	4,010,150	979,904
Municipal Government Securities	2,017,180	2,017,180	-	-
Local Government Investment Pool	7,016,487	7,016,487	-	-
	<u>\$ 24,102,732</u>	<u>\$ 11,027,871</u>	<u>\$ 6,005,973</u>	<u>\$ 7,068,888</u>

Interest Rate Risk As a means of limiting its exposure to interest rate risk, the City diversifies its investment by security type and institution, and limits holdings in any one type of investment with any one issuer. 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, an acceptably high credit rating of a nationally recognized rating agency. The City's investments in the

obligations of U.S. agencies were rated AAA by Standard & Poor's and Aaa by Moody's Investors Service.

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. At the end of 2015, the City's portfolio had the following concentration of securities in it: 6% Federal Farm Credit Bank, 12% Federal Home Loan Mortgage Corporation, 41% Federal National Mortgage Association, 29% FICO Strips and 12% State and Municipal Government Agencies.

	Cash & Cash Equivalents	Restricted Cash & Cash Equivalents	Investments	Totals
Governmental Funds				
General Fund	\$ 1,346,641	\$ -	\$ 2,395,866	\$ 3,742,507
Waterfront Development Fund	12,996	-	-	12,996
Other Governmental Funds	2,189,600	-	1,167,984	3,357,584
Proprietary Funds				
Waste Water Utility	2,565,680	2,090,795	6,588,633	11,245,108
Solid Waste Utility	805,772	-	1,397,589	2,203,361
Surface Water Utility	640,042	96,295	698,794	1,435,131
Internal Service Fund	1,672,564	-	4,438,068	6,110,632
Statement of Net Position				
Subtotal	9,233,295	2,187,090	16,686,934	28,107,319
Fiduciary Funds				
Firemen's Pension Fund	127,393	-	399,311	526,704
Agency Funds	464,278	-	-	464,278
Total Cash & Investments by Statements				
	\$ 9,824,966	\$ 2,187,090	\$ 17,086,245	\$ 29,098,301

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 inflows of resources. 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.

Levy was \$.12897 per \$1,000 of assessed value on an assessed valuation of \$2,302,864,629 for a total regular and bond levy of \$7,363,195.

The City's regular levy for 2015 was \$2.84682 per \$1,000 of assessed value on an assessed valuation of \$2,482,135,352 and the Voted General Obligation Bond

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 2015 capital assets reflect a reassignment of \$294,353 of assets from governmental activities to the Surfacewater Utility Fund for the installation of storm lines associated with the Waterfront Development Project.

Proprietary Fund Capital Assets

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

Depreciation

Land, construction in progress, and works of art are not depreciated. Property, plant, infrastructure and equipment of the City are depreciated 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

<u>Description</u>	<u>1/1/2015</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance 12/31/15</u>
Governmental Activities				
<i>Capital Assets, Not Being Depreciated:</i>				
Land	\$ 33,083,341	\$ 147,600	\$ -	\$ 33,230,941
Construction Work in Progress	16,732,315	2,262,241	465,103	18,529,453
Art	88,840	37,032	-	125,872
<i>Total Capital Assets, Not Being Depreciated</i>	\$ 49,904,496	\$ 2,446,873	\$ 465,103	\$ 51,886,266
<i>Capital Assets, Being Depreciated:</i>				
Buildings	\$ 14,208,385	\$ -	\$ -	\$ 14,208,385
Improvements Other Than Buildings	6,078,314	20,840	-	6,099,154
Machinery and Equipment	15,039,409	1,725,893	1,496,753	15,268,549
Infrastructure	78,316,011	571,048	-	78,887,059
<i>Total Capital Assets, Being Depreciated</i>	\$ 113,642,119	\$ 2,317,781	\$ 1,496,753	\$ 114,463,147
<i>Less Accumulated Depreciation for:</i>				
Buildings	\$ 7,437,950	\$ 471,081	\$ -	\$ 7,909,031
Improvements Other Than Buildings	3,230,753	151,334	-	3,382,087
Machinery and Equipment	9,596,746	1,049,325	1,426,581	9,219,490
Infrastructure	31,276,551	2,815,599	-	34,092,150
<i>Total Accumulated Depreciation</i>	\$ 51,542,000	\$ 4,487,339	\$ 1,426,581	\$ 54,602,758
Total Capital Assets, Being Depreciated, Net	\$ 62,100,119	\$ (2,169,558)	\$ 70,172	\$ 59,860,389
GOVERNMENTAL ACTIVITIES CAPITAL ASSETS, NET	\$ 112,004,615	\$ 277,315	\$ 535,275	\$ 111,746,655

Depreciation expense was charged to Governmental Type activities as follows:

Governmental Activities:	Amount
General Government	\$ 19,998
Security of Person/ Property	343,401
Physical Environment	129,398
Transportation, Including Depreciation of General Infrastructure Assets	2,732,976
Culture and Recreation	404,190
Internal Service Funds	857,376
Total Depreciation Expense - Governmental Activities	\$ 4,487,339

Summary of changes: Business Type Activities

Description	Balance 1/1/15	Increases	Decreases	Balance 12/31/15
Business-Type Activities				
<i>Capital Assets, Not Being Depreciated:</i>				
Land	\$ 3,483,516	\$ 30,269	\$ -	\$ 3,513,785
Construction Work in Progress	555,670	171,544	483,638	243,576
<i>Total Capital Assets, Not Being Depreciated</i>	\$ 4,039,186	\$ 201,813	\$ 483,638	\$ 3,757,361
<i>Capital Assets, Being Depreciated:</i>				
Buildings	\$ 56,676,269	\$ -	\$ 386,714	\$ 56,289,555
Improvements Other Than Buildings	72,403,545	2,588,192	-	74,991,737
Machinery and Equipment	1,108,381	71,709	-	1,180,090
<i>Total Capital Assets, Being Depreciated</i>	\$ 130,188,195	\$ 2,659,901	\$ 386,714	\$ 132,461,382
<i>Less Accumulated Depreciation for:</i>				
Buildings	\$ 18,811,770	\$ 1,766,877	\$ 82,770	\$ 20,495,877
Improvements Other Than Buildings	33,698,431	2,162,000	-	35,860,431
Machinery and Equipment	742,521	50,701	-	793,222
<i>Total Accumulated Depreciation</i>	\$ 53,252,722	\$ 3,979,578	\$ 82,770	\$ 57,149,530
Total Capital Assets, Being Depreciated, Net	\$ 76,935,473	\$ (1,319,677)	\$ 303,944	\$ 75,311,852
BUSINESS-TYPE ACTIVITIES CAPITAL ASSETS, NET	\$ 80,974,659	\$ (1,117,864)	\$ 787,582	\$ 79,069,213

Depreciation expense was charged to Business-type activities as follows:

Wastewater	\$ 3,352,086
Solid Waste	42,091
Surfacewater	585,401
Total Depreciation Expense - Business-Type Activities	\$ 3,979,578

**NOTE 6:
Pension Plans**

The following table represents the aggregate pension amounts for all plans subject to the requirements of the GASB Statement 68, *Accounting and Financial Reporting for Pensions* for the year 2015:

Aggregate Pension Amounts – All Plans	
Pension liabilities	\$ 6,686,819
Pension assets	\$ 3,374,178
Deferred outflows of resources	\$ 1,188,534
Deferred inflows of resources	\$ 1,846,259
Pension expense/expenditures	\$ 609,113

WA DRS State-Sponsored Pension Plans – PERS & LEOFF

PERS and LEOFF Pension Plans

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

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

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

Or the DRS CAFR may be downloaded from the DRS website at www.drs.wa.gov.

Public Employees' Retirement System (PERS)

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

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

benefit, if found eligible by the Department of Labor and Industries. PERS 1 members were vested after the completion of five years of eligible service. The plan was closed to new entrants on September 30, 1977.

Contributions

The **PERS Plan 1** member contribution rate is established by State statute at 6 percent. The employer contribution rate is developed by the

PERS Plan 1		
Actual Contribution Rates:	Employer	Employee*
January through June 2015	9.21%	6.00%
July through December 2015	11.18%	6.00%

The City actual contributions to the plan were \$6,704 for the year ended December 31, 2015.

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

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

PERS Plan 2/3 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of five percent for each year of retirement before age 65. This option is available only to those who are age 55 or older

Office of the State Actuary and includes an administrative expense component that is currently set at 0.18 percent. Each biennium, the State Pension Funding Council adopts Plan 1 employer contribution rates. The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for 2015 were as follows:

and have at least 30 years of service credit. PERS Plan 2/3 retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit. Other PERS Plan 2/3 benefits include duty and non-duty disability payments, a cost-of-living allowance (based on the CPI), capped at three percent annually and a one-time duty related death benefit, if found eligible by the Department of Labor and Industries. PERS 2 members are vested after completing five years of eligible* service. Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years of service if 12 months of that service are earned after age 44.

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

Contributions

The **PERS Plan 2/3** employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the

defined benefit portion of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 Unfunded Actuarial Accrued Liability (UAAL) and an administrative expense that is currently set at 0.18 percent. Each biennium, the State Pension Funding Council

adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates. The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2015 were as follows:

PERS Plan 2/3		
Actual Contribution Rates:	Employer 2/3	Employee 2*
January through June 2015	9.21%	4.92%
July through December 2015	11.18%	6.12%
Employee PERS Plan 3		varies

The City actual contributions to the plan were \$811,889 for the year ended December 31, 2015.

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

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

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

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

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

Contributions

Starting on July 1, 2000, **LEOFF Plan 1** employers and employees contribute zero percent, as long as the plan remains fully funded. The LEOFF Plan I had no required employer or employee contributions for fiscal year 2015. Employers paid only the administrative expense of 0.18 percent of covered payroll.

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

Contributions

The **LEOFF Plan 2** employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2. The employer rate included an administrative expense component set at 0.18 percent. Plan 2

employers and employees are required to pay at the level adopted by the LEOFF Plan 2 Retirement Board. The LEOFF Plan 2 required contribution rates (expressed as a percentage of covered payroll) for 2015 were as follows:

LEOFF Plan 2		
Actual Contribution Rates:	Employer	Employee
State and local governments	5.23%	8.41%
Ports and Universities	8.59%	8.41%

The City actual contributions to the plan were \$371,121 for the year ended December 31, 2015. The City recognized \$238,425 in on-behalf payments from the State in 2015.

The Legislature, by means of a special funding arrangement, appropriates money from the State General Fund to supplement the current service liability and fund the prior service costs of Plan 2 in accordance with the recommendations of the Pension Funding Council and the LEOFF Plan 2 Retirement Board. This special funding situation is not mandated by the State constitution and could be changed by statute. For the State fiscal year ending June 30, 2015, the State contributed \$58,339,032 to LEOFF Plan 2.

Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2015 with a valuation date of June 30, 2014. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's (OSA) *2007-2012 Experience Study*.

Additional assumptions for subsequent events and law changes are current as of the 2014 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2015. Plan liabilities were rolled forward from June 30, 2014, to June 30, 2015, reflecting each plan's normal cost (using the

entry-age cost method), assumed interest and actual benefit payments.

- **Inflation:** 3% total economic inflation; 3.75% salary inflation
- **Salary increases:** In addition to the base 3.75% salary inflation assumption, salaries are also expected to grow by promotions and longevity.
- **Investment rate of return:** 7.5%

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

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

- The OSA updated demographic assumptions, consistent with the changes from the *2007-2012 Experience Study Report*, used when valuing the PERS 1 and TERS 1 Basic Minimum COLA.

- The OSA corrected how valuation software calculates a member's entry age under the entry age normal actuarial cost method. Previously, the funding age was rounded, resulting in an entry age one year higher in some cases.
- For purposes of calculating the Plan 2/3 Entry Age Normal Cost contribution rates, the OSA now uses the current blend of Plan 2 and Plan 3 salaries rather than using a long-term membership assumption of two-thirds Plan 2 members and one-third Plan 3 members.
- The OSA changed the way it applies salary limits, as described in the *2007-2012 Experience Study Report*.

Discount Rate

The discount rate used to measure the total pension liability for all DRS plans was 7.5 percent.

To determine that rate, an asset sufficiency test included an assumed 7.7 percent long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. (All plans use 7.7 percent except LEOFF 2, which has assumed 7.5 percent). Consistent with the long-term expected rate of return, a 7.5 percent future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue being made at contractually required rates (including PERS 2/3, PSERS 2, SERS 2/3, and TRS 2/3 employers, whose

rates include a component for the PERS 1, and TRS 1 plan liabilities). Based on these assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.5 percent was used to determine the total liability.

Long-Term Expected Rate of Return

The long-term expected rate of return on the DRS pension plan investments of 7.5 percent was determined using a building-block-method. The Washington State Investment Board (WSIB) used a best estimate of expected future rates of return (expected returns, net of pension plan investment expense, including inflation) to develop each major asset class. Those expected returns make up one component of WSIB's capital market assumptions. The WSIB uses the capital market assumptions and their target asset allocation to simulate future investment returns at various future times. The long-term expected rate of return of 7.5 percent approximately equals the median of the simulated investment returns over a 50-year time horizon.

Estimated Rates of Return by Asset Class

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2015, are summarized in the table below. The inflation component used to create the table is 2.2 percent and represents the WSIB's most recent long-term estimate of broad economic inflation.

Asset Class	Target Allocation	% Long-Term Expected Real Rate of Return Arithmetic
Fixed Income	20%	1.70%
Tangible Assets	5%	4.40%
Real EState	15%	5.80%
Global Equity	37%	6.60%
Private Equity	23%	9.60%
	100%	

Sensitivity of NPL

The table below presents the City proportionate share* of the net pension liability (asset) calculated using the discount rate of 7.5 percent, as well as what the City proportionate share of the net pension

liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.5 percent) or 1-percentage point higher (8.5 percent) than the current rate.

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
PERS 1	\$ 4,364,068	\$ 3,584,441	\$ 2,914,036
PERS 2/3	\$ 9,071,515	\$ 3,102,378	\$ (1,467,966)
LEOFF 1	\$ (321,479)	\$ (502,505)	\$ (656,796)
LEOFF 2	\$ 2,436,315	\$ (2,432,823)	\$ (6,097,034)

Pension Plan Fiduciary Net Position

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

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

At June 30, 2015, the City reported a total pension liability of \$ 6,686,819 and a total pension asset of \$ 2,935,328 for its proportionate share of the net pension liabilities as follows:

	Liability (or Asset)
PERS 1	\$ 3,584,441
PERS 2/3	\$ 3,102,378
LEOFF 1	\$ (502,505)
LEOFF 2	\$ (2,432,823)

The amount of the liability/(asset) reported above for LEOFF Plan 2 reflects a reduction for State pension support provided to the City. The amount recognized by the City as its proportionate share of the net pension

liability/(asset), the related State support, and the total portion of the net pension liability/(asset) that was associated with the City were as follows:

	Liability (or Asset)
LEOFF 2 – employer's proportionate share	\$ (2,432,823)
LEOFF 2 – State's proportionate share of the net pension liability/(asset) associated with the employer	\$ (1,608,587)
TOTAL	\$ (4,041,410)

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

	Proportionate Share 6/30/14	Proportionate Share 6/30/15	Change in Proportion
PERS 1	.068914%	.068524%	.000390%
PERS 2/3	.086601%	.086827%	.000226%
LEOFF 1	.040046%	.041694%	.001648%
LEOFF 2	.238170%	.236702%	.001468%

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

LEOFF Plan 1 allocation percentages are based on the total historical employer contributions to LEOFF 1 from 1971 through 2000 and the retirement benefit payments in fiscal year 2015. Historical data was obtained from a 2011 study by the Office of the State Actuary (OSA). In fiscal year 2015, the State of Washington contributed 87.12 percent of LEOFF 1 employer contributions and all other employers contributed the remaining 12.88 percent of employer contributions. LEOFF 1 is fully funded and no further employer contributions have been required since June

2000. If the plan becomes underfunded, funding of the remaining liability will require new legislation. The allocation method the plan chose reflects the projected long-term contribution effort based on historical data.

In fiscal year 2015, the State of Washington contributed 39.80 percent of LEOFF 2 employer contributions pursuant to RCW 41.27.726 and all other employers contributed the remaining 60.20 percent of employer contributions.

The collective net pension liability (asset) was measured as of June 30, 2015, and the actuarial valuation date on which the total pension liability (asset) is based was as of June 30, 2014, with update procedures used to roll forward the total pension liability to the measurement date.

Pension Expense

For the year ended December 31, 2015, the City recognized pension expense as follows:

	Pension Expense
PERS 1	\$ (119,147)
PERS 2/3	\$ 678,003
LEOFF 1	\$ (111,954)
LEOFF 2	\$ 151,407
TOTAL	\$ 598,309

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2015, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

PERS 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ -
Net difference between projected and actual investment earnings on pension plan investments	\$ -	\$ 196,107
Changes of assumptions	\$ -	\$ -
Changes in proportion and differences between contributions and proportionate share of contributions	\$ -	\$ -
Contributions subsequent to the measurement date	\$ 3,618	\$ -
TOTAL	\$ 3,618	\$ 196,107

PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 329,784	\$ -
Net difference between projected and actual investment earnings on pension plan investments	\$ -	\$ 828,186
Changes of assumptions	\$ 4,999	\$ -
Changes in proportion and differences between contributions and proportionate share of contributions	\$ 7,279	\$ -
Contributions subsequent to the measurement date	\$ 425,856	\$ -
TOTAL	\$ 767,918	\$ 828,186

LEOFF 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ -
Net difference between projected and actual investment earnings on pension plan investments	\$ -	\$ 84,833
Changes of assumptions	\$ -	\$ -
Changes in proportion and differences between contributions and proportionate share of contributions	\$ -	\$ -
Contributions subsequent to the measurement date	\$ -	\$ -
TOTAL	\$ -	\$ 84,833

LEOFF 2	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 213,034	\$ -
Net difference between projected and actual investment earnings on pension plan investments	\$ -	\$ 737,133
Changes of assumptions	\$ 6,417	\$ -
Changes in proportion and differences between contributions and proportionate share of contributions	\$ 7,694	\$ -
Contributions subsequent to the measurement date	\$ 184,195	\$ -
TOTAL	\$ 411,340	\$ 737,133

Deferred outflows of resources related to pensions resulting from the City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	PERS 1	PERS 2/3	LEOFF 1	LEOFF 2
2016	\$ <76,004>	\$ <222,715>	\$ <32,918>	\$ <244,475>
2017	<76,004>	<222,715>	<32,918>	<244,475>
2018	<76,004>	<222,716>	<32,918>	<244,477>
2019	31,906	182,021	13,922	171,020
2020				43,684
Thereafter				8,735

WA State Board for Volunteer Fire Fighters State-Sponsored Pension Plan

Volunteer Fire Fighters' and Reserve Officers' Relief and Pension Fund (VFFRPF)

VFFRPF is a cost-sharing, multiple-employer defined benefit plan administered by the State Board for Volunteer Fire Fighters and Reserve Officers. The Board is appointed by the Governor and is comprised of five members of fire departments covered by Chapter 41.24 RCW. Administration costs of the VFFRPF are funded through legislative appropriation. Approximately 500 local governments, consisting of fire departments, emergency medical service districts and law enforcement agencies, contribute to the plan. In addition, the State contributes 40 percent of the fire insurance premium tax. Retirement benefits are established in Chapter 41.24 RCW and may be amended only the Legislature.

The VFFRPF plan does not issue a stand-alone financial report, but is included in the comprehensive annual financial report (CAFR) of the State of Washington. The State CAFR may be downloaded from the Office of Financial Management (OFM) website at www.ofm.wa.gov.

Membership in the VFFRPF includes volunteer firefighters, emergency medical technicians, and commissioned reserve law enforcement

officers of participating employers. After 25 years of active membership, members having reached the age of 65 and who have paid their annual retirement fee for 25 years are entitled to receive a monthly benefit of \$50 plus \$10 per year of service, for a maximum monthly benefit of \$300. Reduced pensions are available for members under the age of 65 or with less than 25 years of service.

Members are vested after ten years of service. The VFFRPF members earn no interest on contributions and may elect to withdraw their contributions upon termination. Death and active duty disability benefits are provided at no cost to the member. Death benefits in the line of duty consist of a lump sum of \$214,000 and funeral and burial expenses of \$2,000. Members receiving disability benefits at the time of death shall be paid \$500.

Contributions

Contribution rates for emergency medical service districts (EMSD) and law enforcement agencies are set each year by the Board based on the actual cost of participation as determined by the Office of the State Actuary. All other contribution rates are set by the Legislature. Municipalities may opt to pay the member's fee on their behalf.

The contribution rates for 2015 were as follows:

VFFRPF	Firefighters	EMSD and Reserve Officers
Municipality fee	\$30	\$105
Member fee	\$30	\$30

The City actual contributions to the plan were \$120 for the year ended December 31, 2015. The City has opted to pay members' fees on their behalf. Contributions on behalf of members were \$120 for the year ended December 31, 2015.

In accordance with Chapter 41.24 RCW, the State contributes 40 percent of the fire insurance premium tax to the plan. For fiscal year 2015, the fire insurance premium tax contribution was \$5.9 million.

Actuarial Assumptions

The total pension liability for the VFFRPF was determined by an actuarial valuation by the Office of the State Actuary (OSA) as of June 30, 2014, and rolled forward to June 30, 2015, using the following actuarial assumptions, applied to all prior periods included in the measurement:

- **Inflation:** 3%
- **Salary increases:** N/A
- **Investment rate of return:** 7.0%

The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's (OSA) 2007-2012 Experience Study. Additional assumptions for subsequent events and law changes are current as of the 2014 valuation report.

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

receive additional mortality improvements in each future year throughout their lifetime.

Discount Rate

The discount rate used to measure the total VFFRPF pension liability was 7 percent. To determine that rate, an asset sufficiency test was completed to test whether the pension plan's fiduciary net position was sufficient to make all projected future benefit payments of current plan members. Consistent with current law, the completed asset sufficiency test included as assumed 7 percent long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. Consistent with the long-term expected rate of return, a 7 percent future investment rate of return on invested assets was assumed for the test. Contributions from plan members, municipalities, and the State will be made at the current contribution rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members.

Long-Term Expected Rate of Return

The long-term expected rate of return on the VFFRPF pension plan investments of 7 percent was determined using a building-block-method. As the plan has assets managed by both the Washington State Investment Board (WSIB) and the Office of the State Treasurer (OST), the long-term expected rate of return

of 7 percent represents an approximate weighted-average of the assets managed by WSIB (7.5% expected return) and OST (4 percent expected return). The Washington State Investment Board (WSIB) used a best estimate of expected future rates of return (expected returns, net of pension plan investment expense, including inflation) to develop each major asset class. Those expected returns make up one component of WSIB’s capital market assumptions. The WSIB uses the capital market assumptions and their target asset allocation to simulate future investment returns at various future times.

The long-term expected rate of return of 7 percent approximately equals the median of the simulated investment returns over a 50-year time horizon.

Estimated Rates of Return by Asset Class

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan’s target asset allocation as of June 30, 2015, are summarized in the table below. The inflation component used to create the table is 2.2 percent and represents the WSIB’s most recent long-term estimate of broad economic inflation.

Asset Class	Target Allocation	% Long-Term Expected Real Rate of Return Arithmetic
Fixed Income	20%	1.70%
Tangible Assets	5%	4.40%
Real EState	15%	5.80%
Global Equity	37%	6.60%
Private Equity	23%	9.60%
	100%	

Sensitivity of NPL

The following present the City proportionate share of the VFFRPF net pension liability (asset) calculated using the discount rate of 7 percent, as well as what the City

proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate that is 1 percentage point lower (6 percent) or 1 percentage point higher (8 percent) than the current rate.

	1% Decrease (6.0%)	Current Discount Rate (7.0%)	1% Increase (8.0%)
VFFRPF	\$3,273	\$ <9,589>	\$ <19,972>

Pension Plan Fiduciary Net Position

Detailed information about the VFFRPF plan’s fiduciary net position is available in the separately issued State of Washington CAFR.

Pension Liabilities (Assets), Pension Expense, and Deferred Outflows of Resources and

Deferred Inflows of Resources Related to Pensions

At June 30, 2015, the City reported an asset of \$9,589 for its proportionate share of the VFFRPF plan’s net pension asset. The City proportion of the net pension asset was based on actual contributions to the plan

relative to total contributions of all participating municipalities. At June 30, 2015, the City proportion was .05%.

The VFFRPF collective net pension liability (asset) was measured as of June 30, 2015, and the actuarial valuation date on which the total pension liability (asset) is based was as of June 30, 2014, with update procedures

used to roll forward the total pension liability to the measurement date.

For the year ended December 31, 2015, the City recognized pension expense of \$798. Deferred outflows of resources and deferred inflows of resources are not material to the VFFRPF plan.

City Administered Firemen’s Pension Plan

Plan Description

The Firemen’s Pension Plan (FPP) is a closed, single-employer defined benefit pension plan established in conformance with RCW Chapter 41.18 administered by the City of Mount Vernon through the Firemen’s Pension Board. The Firemen’s Pension Board consists of five members: Mayor, Finance Committee Chair Councilmember, Finance Director and two appointed LEOFF 1 members. 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, 2015; 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	1
Active plan members	0
Total	4

Summary of Significant Accounting Policies

The FPP is a trust fund in the financial reports of the City. 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. The FPP

operates under the City’s investment policy and State statutes and participates in the pooled cash and investments of the City (see Note 4). All 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. At December 31, 2015 the FPP's share of the City's pooled investments consisted of \$352,192 in U.S. Government Agency securities and \$47,119 in Municipal Government Securities.

Funding Policy

Under State law, the Firemen's Pension Fund (FPF) 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. The FPF has been used in prior years to liquidate the 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.

Net Pension Liability

	<u>December 31, 2014</u>	<u>December 31, 2015</u>
Total pension liability	\$ 107,498	\$ 98,979
Fiduciary net position	594,459	528,240
Net pension liability	(486,961)	(429,261)
Fiduciary net position as a % of total pension liability	553.00%	533.69%
Covered payroll	-	-
Net pension liability as a % of covered payroll	N/A	N/A

The total pension liability was determined by an actuarial valuation as of the valuation date, calculated based on the discount rate and actuarial assumption below, and was then projected forward to the measurement date. There were no significant changes during this period. Any significant changes would need to be reflected as prescribed by GASB 67.

Discount Rate

Discount Rate	2.00%	2.00%
Long-term expected rate of return, net of investment expense	2.00%	2.00%
Municipal bond rate	3.50%	3.50%

Other Key Actuarial Assumptions

Valuation Date	January 1, 2015	January 1, 2015
Measurement Date	December 31, 2014	December 31, 2015
Inflation	2.25%	2.25%
Salary increases (including inflation)	3.25%	3.25%
Mortality	RP-2000 Mortality Table (combined healthy) with generational projection using 100% of Projection Scale BB, with ages set back one year for males and forward one year for females (set forward two years for disabled members)	RP-2000 Mortality Table (combined healthy) with generational projection using 100% of Projection Scale BB, with ages set back one year for males and forward one year for females (set forward two years for disabled members)
Actuarial cost method	Entry Age Normal	Entry Age Normal

Money Weighted Rate of Return

Fiscal year Ending December 31	Net Money-Weighted Rate of Return
2006	N/A
2007	N/A
2008	N/A
2009	N/A
2010	N/A
2011	N/A
2012	N/A
2013	N/A
2014	0.44%
2015	0.73%

The money-weighted rate of return considers the changing amounts actually invested during

a period and weights the amount of pension plan investments by the proportion of time they

are available to earn a return during that period. External cash flows are determined on a monthly basis and are assumed to occur at the beginning of each month. External cash inflows are netted with external cash outflows, resulting in a net external cash flow in each month. The money-weighted rate of return is calculated net of investment expenses.

Discount Rate

GASB 67 generally requires that a blended discount rate be used to measure the Total Pension Liability (the Actuarial Accrued Liability calculated using the Individual Entry Age Normal Cost Method). The long-term expected return on plan investments may be used to discount liabilities to the extent that the Plan's fiduciary net Position (fair market value of assets) is projected to cover benefit payments and administrative expenses. A 20-year high quality (AA/Aa or higher) municipal bond rate must be used for periods where the Fiduciary Net Position is not projected to cover benefit payments and administrative expenses. Determining the discount rate under GASB 67

will often require that the actuary perform complex projections of future benefit payments and asset values.

The City believes that the assumption of 2.0% as of December 31, 2015 is an appropriate long-term expected rate of return on investments such as those in the City's trust. The Bond Buyer General Obligation 20-bond municipal bond index for bonds that mature in 20 years is 3.57% as of December 31, 2015. Rounding this to the nearest ¼% results in a discount rate of 3.5%. Since the Plan assets are significantly greater than the Actuarial Accrued Liability and are not projected to be depleted, the City has used 2.0% as the single discount rate.

Sensitivity Analysis

The following presents the net pension liability of the City, calculated using the discount rate of 2.0%, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (1.0%) or 1 percentage point higher (3.0%) than the current rate.

	1% Decrease 1.0%	Current Discount Rate 2.0%	1% Increase 3.0%
Total pension liability	\$ 114,712	\$ 98,979	\$ 86,772
Fiduciary net position	528,240	528,240	528,240
Net pension liability	(413,528)	(429,261)	(441,468)

Changes in Net Pension Liability

	Increases (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances as of December 31, 2014	\$ 107,498	\$ 594,459	\$ (486,961)
Changes for the year:			
Service cost	-	-	-
Interest on total pension liability	2,045	-	2,045
Effect of plan changes	-	-	-
Effect of economic/demographic gains or losses	-	-	-
Effect of assumptions changes or inputs	-	-	-
Benefit payments	(10,564)	(10,564)	-
Medical payments from fund	-	(84,000)	84,000
Employer contributions	-	-	-
Contributions from state fire insurance premium tax	-	35,328	(35,328)
Net investment income	-	4,117	(4,117)
Administrative expenses	-	(11,100)	11,100
Balance as of December 31, 2015	\$ 98,979	\$ 528,240	\$ (429,261)

Pension Expense

	January 1, 2014 to December 31, 2014	January 1, 2015 to December 31, 2015
Service cost	N/A	\$ -
Interest on total pension liability	N/A	2,045
Effect of plan changes	N/A	-
Administrative expenses	N/A	11,100
Medical payments from fund	N/A	84,000
Contributions from state fire insurance premium tax	N/A	(35,328)
Expected investment return net of investment expense	N/A	(4,117)
Recognition of Deferred Infows/Outflows of Resources		
Recognition of economic/demographic gains or losses	N/A	-
Recognition of assumption changes or inputs	N/A	-
Recognition of investment gains or losses	N/A	1,414
Pension Expense	N/A	\$ 59,114

Paragraph 33d of GASB Statement 68 States that contributions to the pension plan from non-employer contribution entities that are not in a special funding situation should be

recognized as revenue. Accordingly, we have treated the contributions from the State fire insurance premium tax as revenue.

Deferred Outflows/Inflows of Resources

As of December 31, 2015, the deferred inflows and outflows of resources are as follows:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ -
Changes of assumptions	-	-
Net difference between projected and actual earnings	5,658	-
Contributions made subsequent to measurement date	-	-
Total	\$ 5,658	\$ -

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

Year ended December 30:

2016	\$1,414
2017	1,414
2018	1,414
2019	1,416
2020	-
Thereafter*	-

*Note that additional future deferred inflows and outflows of resources may impact these numbers.

Net Pension Obligation

Because the Firemen’s Pension Fund is considered super-funded, the plan makes contributions to the City’s General Fund for LEOFF 1 OPEB medical costs, as allowable under RCW 41.26.150 and to the extent recommended by Milliman Actuaries.

The negative net pension obligation has been recorded as an asset on the City’s government-

wide Statement of net position. 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, 2015 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, Association of Washington Cities Employee Benefit Trust (AWC). 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.

The Firemen's Pension Plan (note 6) contributions to the City's General Fund, as allowable under RCW 41.26.150 and to the extent recommended by Milliman Actuaries, along with other General Fund

funds have been used in prior years to liquidate the pay-as-you-go obligation.

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, 2015. 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 \$3,647,608 is included as a non-current liability on the Statement of Net Position.

Determination of Annual Required Contribution:

Normal cost at year end
 Amortization of UAAL *
 Annual Required Contribution

	Fiscal Year Ending December 31, 2014	Fiscal Year Ending December 31, 2015
	\$ 28,396	\$ 23,752
	856,850	1,088,189
	<u>\$ 885,246</u>	<u>\$ 1,111,941</u>

Determination of Net OPEB Obligation:

Annual Required Contribution
 Interest on prior year Net OPEB Obligation
 Adjustment to ARC
 Annual OPEB Cost
 Contributions Made
 Increase in Net OPEB Obligation

	\$ 885,246	\$ 1,111,941
	96,805	117,182
	<u>(217,669)</u>	<u>(263,487)</u>
	764,382	965,636
	<u>(254,969)</u>	<u>(247,574)</u>
	509,413	718,062

Net OPEB Obligation - beginning of year
 Net OPEB Obligation - end of year

	2,420,133	2,929,546
	<u>\$ 2,929,546</u>	<u>\$ 3,647,608</u>

*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 2013 to 2015 were as follows:

<u>Fiscal Year Ending</u>	<u>Annual OPEB Cost</u>	<u>Contribution as a Percentage of OPEB Cost</u>	<u>Net OPEB Obligation</u>
December 31, 2013	845,436	29.3%	2,420,133
December 31, 2014	764,382	33.4%	2,929,546
December 31, 2015	965,636	25.6%	3,647,608

Funded Status and Funding Progress

As of December 31, 2015 the plan was 0% funded. The City’s funding progress, the accrued liability for benefits, the actuarial

value of the assets, the unfunded actuarial accrued liability (UAAL), the covered payroll, and the UAAL as a percentage of covered payroll for 2015 were as follows.

(In thousands)

<u>Fiscal Year Ended</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability Entry Age</u>	<u>Unfunded Actuarial Accrued Liabilities (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
December 31, 2015	0	12,099	12,099	0%	221	5475%

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial liabilities for benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by

the employer and the plan members) and include the types of benefits provided at the time of each valuation. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities, consistent with the long-term perspective of the calculations. 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, 2014 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 2013. 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 7.0 percent in 2012 and decreases to an ultimate rate of 4.6 percent in 2081. The return on investment earnings is estimated at 4.0 percent, general inflation

is estimated at 3.0 percent and projected salary increases are estimated at 3.75%. 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 and Other Significant Commitments

At December 31, 2015 the City had contractual obligations on the following construction projects:

Project Type	Spent to Date	Remaining Commitment
Downtown Waterfront Improvements	\$ 885,163	\$ 632,472
Public Works/ Transportation Projects	375,870	691,259
Surfacewater Utility Projects	188,319	107,136
Wastewater Utility Projects	753,765	478,750
Total Contractual Commitments	\$ 2,203,117	\$ 1,909,617

NOTE 9:

Interfund Receivables, Payables and Transfers

Interfund Loans Receivable/Payable:

The composition of interfund balances as of December 31, 2015 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>1/1/2015</u>	<u>New Loans</u>	<u>Repayments</u>	<u>12/31/2015</u>
Internal Service	Other Government				
Fund:	Fund:	\$ -	\$ 232,759	\$ -	\$ 232,759
Equipment Replacement	Street & Arterial Funds				
	Total	\$ -	\$ 232,759	\$ -	\$ 232,759

The City authorized a loan not to exceed \$310,000 to provide partial financing for an LED Street Lighting Change-out Project. Repayment is based on the projected annual savings in electricity costs that is

estimated at \$70,000 per year. The interfund loan should be fully paid back within five years. Outstanding loan balance at 12/31/15 is \$232,759.

Interfund Transfers:

Fund	Transfer In	Transfer Out
General Fund	\$ 166,000	\$ 230,000
Downtown & Waterfront Cap Proj Fund	635,803	-
Other (non-major) Government Funds	813,550	1,149,550
Wastewater Utility Fund	-	212,000
Surfacewater Utility Fund	-	23,803
Sub-Total Fund Financial Statements	1,615,353	1,615,353
Government-wide Statement of Activities:		
Governmental Activities	-	294,353
Surfacewater Utility Fund	294,353	-
Total	\$ 1,909,706	\$ 1,909,706

Non-eliminated transfers between Business-Type and Governmental Activities on the Statement of Activities consist of a \$212,000 transfer between the Wastewater Utility and the Downtown & Waterfront Capital Project Fund, a \$23,803 transfer between the Surfacewater Utility and Downtown & Waterfront Capital Project Fund, and a \$294,353 asset transfer from Governmental Funds to the Surfacewater Utility Fund. Capital assets reassigned from governmental activities to the Surfacewater Utility Fund are shown as transfers in the government-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 Liabilities

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.

<u>Purpose</u>	<u>Interest Rates</u>	<u>Issued Amount</u>	<u>Outstanding at 12/31/15</u>
2009 LTGO Refunding Bond	3.50%	\$ 900,000	\$ 225,000
2009 UTGO Refunding Bond	3.15%	3,315,000	580,000
		<u>\$ 4,215,000</u>	<u>\$ 805,000</u>

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

<u>December 31</u>	<u>Principal</u>	<u>Interest</u>
2016	\$ 395,000	\$ 26,145
2017	410,000	13,317
Total	<u>\$ 805,000</u>	<u>\$ 39,462</u>

HUD Section 108 Loan

A Section 108 Loan in the amount of \$1,000,000 was issued by the United States Department of Housing and Urban Development (HUD) to the City during 2014 for the Downtown and Waterfront Capital Project fund, Phase 2 construction.

Outstanding principal balance is being repaid from the City General Fund using HUD Community Development Block Grant (CDBG) Entitlement funds. The loan currently has an interest rate tied to the 3 month LIBOR rate plus 20 basis points.

Annual debt service requirements to maturity for Section 108 Loan is:

<u>Year Ending December 31</u>	<u>Government Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2016	\$ 100,000	\$ 5,432
2017	100,000	9,980
2018	100,000	9,100
2019	100,000	7,760
2020	100,000	6,050
2021 - 2022	200,000	6,310
Total	<u>\$ 700,000</u>	<u>\$ 44,632</u>

Public Works Trust Fund Loans

State of Washington Public Works Trust Fund Loans are a direct responsibility of the City. Mount Vernon currently has nine such loans. Six of those loans have an outstanding balance of \$12,033,384 and are being repaid from the Wastewater Utility

Fund and the Surface Water Utility Fund. One loan with an outstanding principal balance of \$690,000 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 December 31	Government Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2016	\$ 115,000	\$ 3,450	\$ 1,192,551	\$ 64,400
2017	115,000	2,875	1,006,304	54,204
2018	115,000	2,300	1,006,304	49,173
2019	115,000	1,725	1,006,304	44,141
2020	115,000	1,150	1,006,304	39,110
2021 - 2025	115,000	575	4,866,082	120,355
2026 - 2029	-	-	1,949,535	17,642
Total	\$ 690,000	\$ 12,075	\$ 12,033,384	\$ 389,025

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, 2015 is \$560,971.

\$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, 2015 is \$12,569,998.

Year Ending December 31	Business-Type Activities	
	Principal	Interest
2016	\$ 966,573	\$ 345,988
2017	995,178	317,384
2018	1,024,675	287,887
2019	851,399	259,663
2020	873,801	237,261
2021 - 2025	4,726,219	829,091
2026 - 2029	3,693,124	195,592
Total	\$ 13,130,969	\$ 2,472,866

Other Payables

Equipment Leases: The City leases equipment under non-cancelable operating leases. Total costs for such leases were \$63,442 for the year ended December 31, 2015. The future minimum lease payments for these leases are as follows:

Governmental Activities	
Year	Amount
2016	\$ 58,326
2017	30,992
2018	21,301
2019	8,099
2020	4,133
2021	4,133
	<u>\$ 126,984</u>

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. Enterprise Funds that pay salary and benefits are the Wastewater and Solid Waste Utilities. 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, 2015 was as follows:

	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
Governmental Activities:					
Bonds Payable:					
General Obligation Bond:	\$ 1,185,000	\$ -	\$ 380,000	\$ 805,000	\$ 395,000
Total Bonds Payable	<u>1,185,000</u>	<u>-</u>	<u>380,000</u>	<u>805,000</u>	<u>395,000</u>
PWTF Loan	805,000	-	115,000	690,000	115,000
HUD Section 108 Loan	1,000,000	-	300,000	700,000	100,000
Net Pension Liability	3,950,999	1,108,184	-	5,059,183	-
Net OPEB Obligation	2,929,546	965,636	247,574	3,647,608	-
Compensated Absences	1,514,446	1,103,274	1,034,576	1,583,144	743,388
Governmental Activity Long-Term Liabilities	<u>\$ 11,384,991</u>	<u>\$ 3,177,094</u>	<u>\$ 2,077,150</u>	<u>\$ 12,484,935</u>	<u>\$ 1,353,388</u>
Business-Type Activities					
PWTF Loan	\$ 13,225,935	\$ -	\$ 1,192,551	\$ 12,033,384	\$ 1,192,551
DOE Loan	14,069,802	-	938,833	13,130,969	966,573
Net Pension Liability	1,271,095	356,541	-	1,627,636	-
Compensated Absences	157,742	125,222	102,986	179,978	98,080
Business-Type Activity Long-Term Liabilities	<u>\$ 28,724,574</u>	<u>\$ 481,763</u>	<u>\$ 2,234,370</u>	<u>\$ 26,971,967</u>	<u>\$ 2,257,204</u>

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, 2015, 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 or 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 179 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 sublimits 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.

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

The City of Mount Vernon was a member of the Association of Washington Cities

Employee Benefit Trust Health Care Program (AWC Trust HCP). Both the City and employees contribute to the cost of insurance premiums. City department contributions for 2015 totaled \$2,238,848 and employee contributions totaled \$203,950. Chapter 48.62 RCW provides that two or more local government entities may, by Interlocal agreement under Chapter 39.34 RCW, form together or join a pool or organization for the joint purchasing of insurance, and/or joint self-insurance, to the same extent that they may individually purchase insurance, or self-insure.

An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The AWC Trust HCP was formed on January 1, 2014 when participating cities, towns, and non-city entities of the AWC Employee Benefit Trust in the State of Washington joined together by signing an Interlocal Governmental Agreement to jointly self-insure certain health benefit plans and programs for participating employees, their covered dependents and other beneficiaries through a designated account within the Trust.

As of December 31, 2015, 261 cities/towns/non-city entities participate in the AWC Trust HCP.

The AWC Trust HCP allows members to establish a program of joint insurance and provides health and welfare services to all participating members. The AWC Trust HCP pools claims without regard to individual member experience. The pool is actuarially rated each year with the assumption of projected claims run-out for all current members. The AWC Trust HCP includes medical insurance through Group Health, Regence BlueShield and Asuris Northwest Health, dental insurance through Delta Dental of Washington, and vision insurance through Vision Service Plan. Eligible members are cities and towns

within the state of Washington. Non-City Entities (public agency, public corporation, intergovernmental agency, or political subdivision within the state of Washington) are eligible to apply for coverage into the AWC Trust HCP, submitting application to the Board of Trustees for review as required in the Trust Agreement.

Participating employers pay monthly premiums to the AWC Trust HCP. The AWC Trust HCP is responsible for payment of all covered claims. The AWC Trust HCP purchases stop loss insurance for Regence/Asuris plans at an Individual Stop Loss (ISL) of \$1.5 million through Life Map, and Group Health ISL at \$750,000 through Sun Life. The aggregate policy is for 200% of expected medical claims.

Participating employers contract to remain in the AWC HCP for a minimum of three years. Participating employers with over 250 employees must provide written notice of termination of all coverage a minimum of 12 months in advance of the termination date, and participating employers with under 250 employees must provide written notice of termination of all coverage a minimum of 6 months in advance of termination date. When all coverage is being terminated, termination will only occur on December 31. Participating employers terminating a group or line of coverage must notify the HCP a minimum of 60 days prior to termination. A participating employer's termination will not obligate that member to past debts, or further contributions

to the HCP. Similarly, the terminating member forfeits all rights and interest to the HCP Account.

The operations of the Health Care Program are managed by the Board of Trustees or its delegates. The Board of Trustees is comprised of four regionally elected officials from Trust member cities or towns, the Employee Benefit Advisory Committee Chair and Vice Chair, and two appointed individuals from the AWC Board of Directors, who are from Trust member cities or towns. The Trustees or its appointed delegates review and analyze Health Care Program related matters and make operational decisions regarding premium contributions, reserves, plan options and benefits in compliance with Chapter 48.62 RCW.

The Board of Trustees has decision authority consistent with the Trust Agreement, Health Care Program policies, Chapter 48.62 RCW and Chapter 200-110-WAC.

The accounting records of the Trust HCP are maintained in accordance with methods prescribed by the State Auditor's office under the authority of Chapter 43.09 RCW. The Trust HCP also follows applicable accounting standards established by the Governmental Accounting Standards Board ("GASB"). Year-end financial reporting is done on an accrual basis and submitted to the Office of the State Auditor as required by Chapter 200-110 WAC. The audit report for the AWC Trust HCP is available from the Washington State Auditor's office.

NOTE 13:

Net Position and Fund Balances

Net Position

The government-wide and business type fund financial statements utilize a net position presentation. Net position is the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources. Net position is categorized as

net investment in capital assets, restricted, and unrestricted.

- 1. Net Investment in Capital Assets** 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 capital assets.

- 2. **Restricted Component of Net Position** represents 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 Component of Net Position** represents 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 Net Positions in the Government-wide Statement of Net Position are as follows:

<u>Fund</u>	<u>Amount</u>
Criminal Justice Funds	\$ 41,159
Total Restricted for Public Safety	<u>\$ 41,159</u>
City Street and Arterials	\$ -
Paths and Trails	83,445
REET II - Streets	403,811
Road Improvements	<u>935,640</u>
Total Restricted for Streets and Transportation	<u>\$ 1,422,896</u>
Park Impact Fees	\$ 34,967
Fire Impact Fees	104,946
Transportation Impact Fees	110,630
Tourism Promotion	<u>121,195</u>
Total Restricted for Economic Environment	<u>\$ 371,738</u>
UTGO Bond Fund	\$ 10,395
LTGO Bond Fund	<u>1,875</u>
Total Restricted for Debt Service	<u>\$ 12,270</u>
Municipal Court - Capital Improvements	\$ 88,399
REET I - Capital Improvements	451,101
Downtown and Waterfront Improvements	<u>830,013</u>
Total Restricted for Other Capital Improvements	<u>\$ 1,369,513</u>

Fund Balances

The City's fund balances are classified in accordance with Governmental Accounting Standards Board Statement No. 54 (GASB 54), Fund Balance Reporting and Governmental Fund Type Definitions, which requires the City to classify its fund balances based on spending constraints imposed on the use of resources. Fund balances of the governmental funds are classified as follows:

Non-spendable Fund Balance - amounts that cannot be spent because they are either not in spendable form (such as inventory), or legally or contractually required to remain intact (such as notes or interfund receivables).

Restricted Fund Balance - amounts constrained by external parties, constitutional provision, or enabling legislation. Effectively, restrictions may only be changed or lifted with the consent of the resource provider.

Committed Fund Balance - amounts formally constrained by a government using its highest level of decision-making authority (City Council). The commitment of these funds can only be changed by the government taking the same formal action (ordinance) that imposed the constraint originally.

Assigned Fund Balance - amounts that are constrained by the City's expressed intent to use resources for specific purposes but do not meet the criteria to be classified as restricted or committed, per City Policy adopted by Ordinance 3552:

"The City Council has the authority to assign amounts intended to be used for specific purposes. The City Council delegates to both the Mayor and the Finance Director the authority to assign amounts intended to be used for specific purposes, for the purpose of

reporting these amounts in the annual financial statements. In this situation, the amounts cannot be spent without Council approval. In both situations, the assignment cannot exceed the available fund balance in any fund."

With the exception of the General Fund, this is the residual fund balance of the classification of all governmental funds with positive balances.

Unassigned Fund Balance - residual amounts that are otherwise not constrained at all will be reported in the general fund. These are technically available for any purpose. Only the General Fund can report a positive "unassigned fund balance".

Flow Assumption - The City considers restricted fund balance to be spent when an expenditure is incurred for purposes for which restricted and unrestricted fund balances are available unless prohibited by legal constraints or contracts. When an expenditure is incurred for purposes for which committed, assigned or unassigned amounts are available; the City considers committed fund balance to be spent first, then assigned fund balance, and lastly unassigned fund balance.

Minimum Fund Balance Policy – The City of Mount Vernon's Financial Management Policies state that the City shall maintain reserves in the General Fund of 15%, and in other Governmental Operating funds (Streets, Parks & Recreation, and Library) of 10%, of total operating budget, excluding identified one-time revenues. The City is in compliance with its minimum fund balance requirements as of December 31, 2015.

NOTE 14:**Change in Accounting Principal****Governmental Accounting Standards Board (GASB) Statements No. 68 and 71 – Restatement**

For the fiscal year ended December 31, 2015, the City implemented the provisions of GASB No. 68 and 71 – *Accounting and Financial Reporting for Pensions*. Accordingly, beginning net position of the Wastewater Enterprise Fund was reduced

by \$816,257; the Solid Waste Enterprise Fund was reduced by \$816,257; and the Surfacewater Enterprise Fund was reduced by \$110,091. The Governmental activities net position was reduced by \$3,166,847. These reductions reflect the recording of net pension assets/liabilities, deferred inflows of resources and deferred outflows of resources as required under the GASBs.

REQUIRED SUPPLEMENTARY INFORMATION

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

For the Year Ended December 31, 2015

	Original Budget 2015	Final Budget 2015	Actual 2015	Variance with Final Budget Positive (Negative)
REVENUES				
Taxes				
Property	\$ 4,543,040	\$ 4,543,040	\$ 4,524,762	\$ (18,278)
Sales	5,575,000	5,575,000	5,923,161	348,161
Utility	4,191,500	4,191,500	3,719,668	(471,832)
Public safety pass-through sales	1,400,000	1,400,000	1,283,352	(116,648)
Other	700,000	700,000	722,364	22,364
Licenses and permits	1,235,000	1,235,000	1,382,368	147,368
Intergovernmental revenues	971,185	971,185	967,433	(3,752)
Charge for services	2,014,974	2,014,974	1,873,390	(141,584)
Fines and forfeitures	268,500	268,500	249,894	(18,606)
Investment income	87,500	87,500	67,521	(19,979)
Other revenue	242,256	242,256	173,973	(68,283)
Total Revenues	<u>21,228,955</u>	<u>21,228,955</u>	<u>20,887,886</u>	<u>(341,069)</u>
EXPENDITURES				
Current				
General government	4,440,758	4,274,758	4,093,320	181,438
Security of persons and property	14,570,741	14,636,741	14,251,105	385,636
Physical environment	1,349,284	1,349,284	1,317,605	31,679
Economic environment	872,200	872,200	842,596	29,604
Capital outlay	162,078	162,078	129,804	32,274
Debt service				
Principal	200,000	300,000	300,000	-
Interest and debt issue costs	5,500	5,500	3,670	1,830
Total Expenditures	<u>21,600,561</u>	<u>21,600,561</u>	<u>20,938,100</u>	<u>662,461</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(371,606)</u>	<u>(371,606)</u>	<u>(50,214)</u>	<u>321,392</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	173,000	173,000	173,000	-
Transfers out	(220,000)	(220,000)	(220,000)	-
Sale of capital assets	-	-	11,000	11,000
Total other financing sources (uses)	<u>(47,000)</u>	<u>(47,000)</u>	<u>(36,000)</u>	<u>11,000</u>
Net change in fund balances	(418,606)	(418,606)	(86,214)	332,392
Fund Balances - January 1	<u>3,707,554</u>	<u>3,707,554</u>	<u>3,707,554</u>	<u>-</u>
Fund Balances - December 31	<u>\$ 3,288,948</u>	<u>\$ 3,288,948</u>	<u>\$ 3,621,340</u>	<u>\$ 332,392</u>

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL
 BUDGET-TO-GAAP RECONCILIATION FOR THE GENERAL FUND
 For the Year Ended December 31, 2015

	Budget Basis - Perspective Difference						GAAP Basis
	General Fund Actual	Parks Actual	Library Actual	Lincoln Commercial Actual	LEOFF I LT Care Actual	Intra-Fund Eliminations	Total General Fund
REVENUES							
Taxes							
Property	\$ 4,524,762	\$ 1,129,036	\$ 1,094,418	\$ -	\$ -	\$ -	\$ 6,748,216
Sales	5,923,161	-	-	-	-	-	5,923,161
Utility	3,719,668	-	-	-	-	-	3,719,668
Public safety pass-through sales	1,283,352	-	-	-	-	-	1,283,352
Other	722,364	-	-	-	-	-	722,364
Licenses and permits	1,382,368	-	-	-	-	-	1,382,368
Intergovernmental revenues	967,433	-	16,028	-	-	-	983,461
Charge for services	1,873,390	173,173	27,848	-	-	-	2,074,411
Fines and forfeitures	249,894	-	27,583	-	-	-	277,477
Investment income	67,521	-	-	-	2,404	-	69,925
Other revenue	173,973	369,290	24,164	62,755	-	-	630,182
Total Revenues	<u>20,887,886</u>	<u>1,671,499</u>	<u>1,190,041</u>	<u>62,755</u>	<u>2,404</u>	<u>-</u>	<u>23,814,585</u>
EXPENDITURES							
Current							
General government	4,093,320	-	-	-	-	-	4,093,320
Security of persons and property	14,251,105	119,307	-	-	1,371	-	14,371,783
Physical environment	1,317,605	-	-	27,323	-	-	1,344,928
Economic environment	842,596	-	-	-	-	-	842,596
Culture and Recreation	-	1,411,629	1,048,458	-	-	-	2,460,087
Capital outlay	129,804	73,893	141,695	122,040	-	-	467,432
Debt service							
Principal	300,000	-	-	-	-	-	300,000
Interest and debt issue costs	3,670	-	-	-	-	-	3,670
Total Expenditures	<u>20,938,100</u>	<u>1,604,829</u>	<u>1,190,153</u>	<u>149,363</u>	<u>1,371</u>	<u>-</u>	<u>23,883,816</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(50,214)</u>	<u>66,670</u>	<u>(112)</u>	<u>(86,608)</u>	<u>1,033</u>	<u>-</u>	<u>(69,231)</u>
OTHER FINANCING SOURCES (USES)							
Transfers in	173,000	53,000	-	-	20,000	(80,000)	166,000
Transfers out	(220,000)	(80,000)	-	(10,000)	-	80,000	(230,000)
Sale of capital assets	11,000	-	-	-	-	-	11,000
Total other financing sources (uses)	<u>(36,000)</u>	<u>(27,000)</u>	<u>-</u>	<u>(10,000)</u>	<u>20,000</u>	<u>-</u>	<u>(53,000)</u>
Net change in fund balances	(86,214)	39,670	(112)	(96,608)	21,033	-	(122,231)
Fund Balances - January 1	<u>3,707,554</u>	<u>508,044</u>	<u>125,300</u>	<u>219,663</u>	<u>345,008</u>	<u>-</u>	<u>4,905,569</u>
Fund Balances - December 31	<u>\$ 3,621,340</u>	<u>\$ 547,714</u>	<u>\$ 125,188</u>	<u>\$ 123,055</u>	<u>\$ 366,041</u>	<u>\$ -</u>	<u>\$ 4,783,338</u>

The accompanying notes to Required Supplementary Information (RSI) are an integral part of this statement

Page 2 of 2

Required Supplementary Information
Washington DRS State Sponsored Pension Plans PERS, LEOFF & VFFRPF
Schedule of Proportionate Share of the Net Pension Liability

		As of June 30				
		Last 10 Fiscal Years *				
		PERS 1	PERS 2/3	LEOFF 1	LEOFF 2	VFFRPF
		<u>6/30/2015</u>	<u>6/30/2015</u>	<u>6/30/2015</u>	<u>6/30/2015</u>	<u>6/30/2015</u>
Employer's proportion of the net pension liability (asset)	%	0.068524	0.086827	0.041694	0.236702	0.05
Employer's proportionate share of the net pension liability (asset)	\$	3,584,441	3,102,378	(502,505)	(2,432,823)	(9,589)
State's proportionate share of the net pension liability (asset) associated with the employer	\$	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,608,587)</u>	<u>-</u>
TOTAL	\$	3,584,441	3,102,378	(502,505)	(4,041,410)	(9,589)
Employer's covered employee payroll	\$	66,212	7,703,024	197,367	6,920,917	-
Employer's proportionate share of the net pension liability (asset) as a percentage of covered employee payroll	%	5413.58	40.27	(254.60)	(35.15)	na
Plan fiduciary net position as a percentage of the total pension liability (asset)	%	59.1	89.2	127.36	111.67	110.22

* Calendar year 2015 was the 1st year of GASB 68 implementation, therefore only one year is shown.

Required Supplementary Information
 Washington DRS State Sponsored Pension Plans, PERS, LEOFF & VFFRPF
 Schedule of Employer Contributions
 As of December 31, 2015
 Last 10 Fiscal Years*

	PERS 1 <u>12/31/2015</u>	PERS 2/3 <u>12/31/2015</u>	LEOFF 1 <u>12/31/2015</u>	LEOFF 2 <u>12/31/2015</u>	VFFRPF <u>12/31/2015</u>
Statutorily or contractually required contributions	\$ 6,705	785,702	205	371,121	120
Contributions in relation to the statutorily or contractually required contributions	\$ <u>6,705</u>	<u>785,702</u>	<u>205</u>	<u>371,121</u>	<u>120</u>
Contribution deficiency (excess)	\$ <u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Covered employer payroll	\$ 65,762	7,701,686	113,638	7,095,977	-
Contributions as a percentage of covered employee payroll	% 10.2	10.2	0.18	5.23	na

* Calendar year 2015 was the 1st year of GASB 68 implementation, therefore only one year is shown.

Required Supplementary Information
 Firefighters' Pension Fund
 Schedule of Changes in Net Pension Liability and Related Ratios
 Last 10 Fiscal Years*

(In Thousands)	Fiscal Year	
	Ending December 31	
	2015	2014
Total Pension Liability		
Service Cost	\$ -	-
Interest on total pension liability	\$ 2	2
Effect of plan changes	\$ -	-
Effect of economic/demographic (gains) or losses	\$ -	-
Effect of assumption changes or inputs	\$ -	-
Benefit payments	\$ (11)	(12)
Net change in total pension liability	\$ (9)	(9)
Total Pension liability, beginning	\$ 107	117
Total pension liability, ending (a)	\$ 99	107
Fiduciary Net Position		
Employer contributions	\$ -	-
Contributions from state fire insurance premium tax	\$ 35	36
Investment income net of investment expenses	\$ 4	3
Benefit payments	\$ (11)	(12)
Medical payments from fund	\$ (84)	(89)
Administrative expenses	\$ (11)	-
Net change in plan fiduciary net position	\$ (66)	(62)
Fiduciary net position - beginning	\$ 594	656
Fiduciary net position - ending (b)	\$ 528	594
Net pension liability - ending = (a) - (b)	\$ (429)	(487)
Fiduciary net position as a % of total pension liability	533.69%	553%
Covered payroll	\$ -	-
Net pension liability as a % of covered payroll	% N/A	N/A

* Calendar year 2015 was the 2nd year of GASB 67 implementation, therefore only two years are shown.

Required Supplementary Information
 Firefighters' Pension Fund
 Schedule of Changes in Employer Contributions
 Last 10 Fiscal Years

Fiscal Year Ending December 31	Actuarially Determined Contribution	Actual Employer Contribution *	Contribution Deficiency (Excess)	Covered Payroll	Contribution as a % of Covered Payroll
2006	\$ -	\$ 23,931	\$ (23,931)	-	N/A
2007	-	6,342	(6,342)	-	N/A
2008	(8,891)	(8,891)	-	-	N/A
2009	(89,688)	(89,688)	-	-	N/A
2010	(77,466)	(77,466)	-	-	N/A
2011	(81,016)	(81,016)	-	-	N/A
2012	(71,186)	(71,186)	-	-	N/A
2013	(66,526)	(66,526)	-	-	N/A
2014	(53,106)	(53,106)	-	-	N/A
2015	(48,672)	(48,672)	-	-	N/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. It includes revenues from fire insurance premium taxes. Prior to 2014, administrative expenses were also subtracted from employer contributions.*

Required Supplementary Information
Firefighters' Pension Fund
Schedule of Investment Returns
Last 10 Fiscal Years*

Fiscal Year Ending December 31	Net Money-Weighted Rate of Return
2006	N/A
2007	N/A
2008	N/A
2009	N/A
2010	N/A
2011	N/A
2012	N/A
2013	N/A
2014	0.44%
2015	0.73%

* Calendar year 2015 was the 2nd year of GASB 67 implementation, therefore only two years are shown.

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 Liabilities Entry Age	Unfunded Actuarial Accrued Liabilities (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
December 31, 2010	-	7,074	7,074	0%	272	2601%
December 31, 2011	-	7,747	7,747	0%	275	2817%
December 31, 2012	-	7,158	7,158	0%	307	2332%
December 31, 2013	-	10,016	10,016	0%	301	3328%
December 31, 2014	-	9,527	9,527	0%	320	2977%
December 31, 2015	-	12,099	12,099	0%	221	5475%

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

Budgetary Reporting

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement (GASBS) No. 41 for governments with significant budgetary perspective differences.

The perspective differences are related to the Parks, Library, and Lincoln Commercial Block other governmental special revenue funds which have their own legally adopted budgets, but do not qualify as special revenue funds per GASBS 54 and are included in the General Fund for external accounting purposes. Additionally, the LEOFF 1 LT Care Reserve

Fund, formerly a sub-fund of the closed Employee Healthcare internal service fund, with a separate legally adopted budget, is included in the General Fund for external accounting purposes.

The Schedule of Revenues, Expenditures and Changes in Fund Balance, Budget and Actual for the City General Fund presents the adopted General Fund budget information, and provides a budget-basis to GAAP basis reconciliation for the General Fund showing the separately budgeted GASB 54 Reclassified Funds that are included in General Fund for external reporting purposes.

Budgets and Budgetary Accounting Policies

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 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 adopted/reported according to GAAP. Annual appropriated budgets are adopted for the general, special revenue, debt service, 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.

- 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.