

City of Mount Vernon Washington



Comprehensive Annual Financial Report

For the Fiscal Year Ended December 31, 2015

City of Mount Vernon, Washington
Comprehensive Annual Financial Report
For the Fiscal Year Ended December 31, 2015

Report Prepared By:
City of Mount Vernon Finance Department

Alicia D. Huschka, Finance Director
Mike Weber, Senior Financial Analyst
Rebecca J. Wade, Accountant

INTRODUCTORY SECTION



Set Up of Flood Control System on Riverwalk Plaza



Government Finance Officers Association

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

**City of Mount Vernon
Washington**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

December 31, 2014

Executive Director/CEO

City of Mount Vernon Elected Officials



Mayor Jill Boudreau

2015 City Councilmembers



Joe Lindquist
Ward 1



Ken Quam
Ward 1



Mark Hulst
Ward 2



Gary Molenaar
Ward 2



Bob Fiedler
Ward 3



Mary Hudson
Ward 3



Dale Ragan
Council At Large

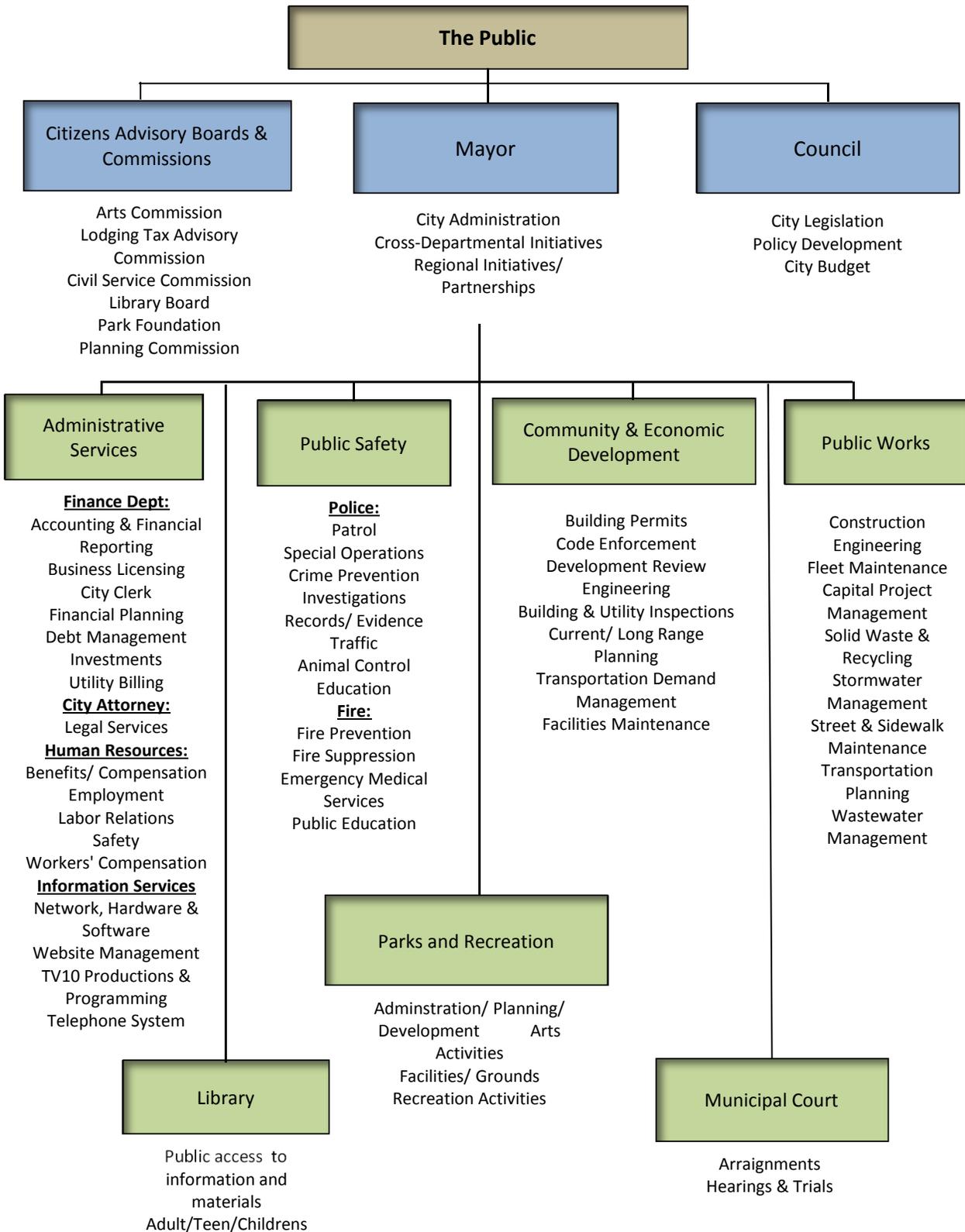
Administrative Staff

Jerry Dodd
Roy Hari
Kevin Rogerson
Alicia Huschka
Esco Bell
Bob Hyde
William King
Kandy Bartlett
Brian Soneda
Kim Kleppe

Police Chief
Fire Chief
City Attorney
Finance Director
Public Works Director
Community & Economic Development Director
Parks & Enrichment Services Director
Human Resources Director
Library Director
Information Services Director

ORGANIZATIONAL STRUCTURE

City of Mount Vernon





June 28, 2016

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

I am pleased to submit the Comprehensive Annual Financial Report of the City of Mount Vernon for the fiscal year ended December 31, 2015. This report is published annually as the official annual financial report and complies with State Law, RCW 43.09.230 requiring timely submission of the annual financial report to the State for review.

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

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

Cities and counties of the State of Washington use the Budgeting, Accounting and Reporting System (BARS) developed and prescribed by the Office of the State Auditor. State law provides for an annual independent audit by the Office of the State Auditor, and this report includes the auditor's opinion with respect to the City's financial statements.

Profile of the Government

The City of Mount Vernon was incorporated in June 1890. The City is located 60 miles north of Seattle in the northwest portion of the State of Washington. The City of Mount Vernon currently occupies a land area of 12 square miles within the city limits and 16 within the designated Urban Growth Area (UGA) serving a population of 33,530 as of April 2015. The City of Mount Vernon is empowered to levy a property tax on both real and personal property located within its boundaries. It is also empowered by state statute to extend its corporate limits by annexation of Urban Growth Areas, which occurs periodically when deemed appropriate by the governing council and subject to county approval.

The City of Mount Vernon is a non-charter code city that operates under the council-mayor form of government. Policymaking and legislative authority are vested in the City Council consisting of seven council members. The City Council is responsible, among other things, for passing ordinances, adopting the budget and confirming mayoral appointments of various committee

members and city department heads. The Mayor is responsible for carrying out the policies and ordinances of the City Council, for overseeing the day-to-day operations of the government, and for appointing the heads of various departments. The City Council and Mayor are elected on a non-partisan basis. Council members serve four-year staggered terms. The Mayor serves a four-year term. Six council members are elected by ward. The Mayor and one council member are elected at large.

The City of Mount Vernon provides a full range of services, including police and fire protection; the construction and maintenance of streets and other infrastructure; planning, zoning and building inspections; recreational, leisure and cultural events which include park facilities and the city library; and general administrative services. The City operates enterprise funds for wastewater and solid waste services, and stormwater management.

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

Local Economy

Mount Vernon is the seat of Skagit County, and is the 32nd largest city in the State of Washington. Growth experienced in Mount Vernon can be attributed mainly to the quality of life associated with the rural setting and its commuter proximity to the Seattle-Everett Metropolitan and Bellingham-Vancouver, B.C. areas accessible by I-5, the major north-south transportation corridor in Washington. Skagit Regional Health is the largest employer located in Mount Vernon. Other significant employers in our city include Skagit County Government, Mount Vernon School District, Skagit Valley College, Skagit Gardens, Skagit Publishing and Draper Valley Farms.

The City of Mount Vernon and the local economy has experienced slow and steady improvements and growth in the last three years since the recent recession when, in 2011, the City noted its lowest levels in certain major revenue categories. In 2013 continuing through 2015, the local economy has shown positive signs of recovery particularly in sales tax activity, development and building construction activity, and most recently with real estate transactions. Sales tax revenues in 2015 have notably increased 24% when compared to the recessionary low point in 2011 for the City. Prior to the recession which firmly took hold in 2008, the City's assessed valuation of property grew by almost \$1.2 billion for the 3-year period 2005 to 2007. After a period of decline in assessed valuations, the City has seen small increases in assessed valuation for the last two years.

The 2015 average unemployment rate in the Mount Vernon-Anacortes area declined to 6.7% in 2015, compared to 9.2% in 2012, while the Washington State 2015 average unemployment rate was 5.7%. Mount Vernon's unemployment rates are somewhat higher than the State average, due to the high percentage of seasonal, cyclical and part-time temporary employment positions.

Long-term Financial Planning and Relevant Financial Policies

The City develops six-year financial forecasts, which are updated annually based on economic conditions and other factors. These forecasts are used as a planning tool and during the budget process, which provides the Mayor and City Council key information as they review funding priorities for the long-term operating and capital needs of the City. The Mayor and City Council have established primary goals and priorities, which are updated on an annual basis and are incorporated into the annual budget process. The stewardship of public funds is one of the greatest responsibilities given to the officials and managers of the City of Mount Vernon; therefore, the establishment and maintenance of wise fiscal policies enables City officials to protect public interests and ensure public trust. The City of Mount Vernon's financial management policies have been adopted by the City Council and are reviewed on an annual basis during the budget process.

The City has a policy to maintain an adequate level of general operating reserves to mitigate current and future risks including revenue shortfalls and unanticipated expenditures. The City's policy is to maintain a target reserve of fifteen percent of the operating budget in the General Fund. A crucial consideration in long-term financial planning is the City's financial policy to maintain adequate reserves in City operating funds. One of the key elements in revenue and expenditure planning is to identify revenues of a limited or indefinite term to ensure that no ongoing service program is lost when such revenues are reduced or discontinued. As part of the budget process, significant one-time receipts and excess reserves, if applicable, can be used to fund non-recurring expenditures.

Major Initiatives

The City of Mount Vernon has undertaken multi-year flood control project to permanently protect the downtown area from the threat of flooding, providing flood protection from the base 100-year flood as defined by the Federal Emergency Management Administration (FEMA). The second element of the flood control project is the redevelopment of the downtown and waterfront area. The first two phases and a portion of the third and final phase of the flood control project are complete, which included construction of the floodwall, a 30,000 square foot park plaza in the heart of downtown, public restrooms and an urban riverwalk that adjoins the floodwall. The final phase of the project will be fully constructed in 2017. The entire project runs the length of downtown Mount Vernon ending with a ring-dike around the City's wastewater treatment plant. The project not only provides protection from flooding of the Skagit River, and removes downtown from the FEMA designated 100-year floodplain, but has also begun to spur economic development and redevelopment in the downtown core.

The Mayor and City Council identified several initiatives and improvements that were needed to meet citizen's demand for services, improved access and livability. Maintaining quality public safety for the citizen's of the City is a primary initiative which is demonstrated in part by the annual budget that is dedicated to public safety. Fifty-nine percent of the 2015 governmental operating fund budgets were dedicated to public safety and criminal justice. Other primary focus areas include improvements that address traffic congestion and flow patterns in key areas of the City resulting in a few key transportation projects. The City continues to dedicate tax revenues each year to maintain and repair city streets through the annual overlay program.

The City is also focused on certain economic opportunity sectors to support and grow a healthy business environment in the City. Primary focus areas include promoting the City's fiber optic infrastructure and a concerted emphasis on encouraging private development of certain industries (technology, health care, agri-tech/value-added agriculture and agriculture tourism, and aerospace supply/advanced manufacturing).

Awards and Acknowledgments

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Mount Vernon for its comprehensive annual financial report for the year ended December 31, 2014. This was the ninth consecutive year, and the sixteenth year overall, that the City has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

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

The preparation of the Comprehensive Annual Financial Report could not be accomplished without the efforts and dedication of City staff. I am very proud of those who have dedicated numerous hours of service to the City in this effort. I would like to express my appreciation to staff members in the Finance Department who assisted in its preparation. I would also like to thank the Mayor and City Council members for their continued interest and support in planning and conducting the financial operations of the City in a dedicated and responsible manner.

Respectfully submitted,



Alicia D. Huschka, CPA
Finance Director