Washington State Auditor's Office

Independence • Respect • Integrity

Financial Statements and Federal Single Audit Report

City of Mount Vernon

Skagit County

For the period January 1, 2014 through December 31, 2014

Published July 23, 2015

Report No. 1014626

Washington State Auditor's Office

July 23, 2015

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

Report on Financial Statements and Federal Single Audit

Please find attached our report on the City of Mount Vernon's financial statements and compliance with federal laws and regulations.

We are issuing this report in order to provide information on the City's financial condition.

Sincerely,

JAN M. JUTTE, CPA, CGFM

ACTING STATE AUDITOR

OLYMPIA, WA

TABLE OF CONTENTS

FEDERAL SUMMARY

City of Mount Vernon
Skagit County
January 1, 2014 through December 31, 2014

The results of our audit of the City of Mount Vernon are summarized below in accordance with U.S. Office of Management and Budget Circular A-133.

Financial Statements

An unmodified opinion was issued on the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information.

Internal Control Over Financial Reporting:

- *Significant Deficiencies:* We reported no deficiencies in the design or operation of internal control over financial reporting that we consider to be significant deficiencies.
- *Material Weaknesses:* We identified no deficiencies that we consider to be material weaknesses.

We noted no instances of noncompliance that were material to the financial statements of the City.

Federal Awards

Internal Control Over Major Programs:

- *Significant Deficiencies:* We reported no deficiencies in the design or operation of internal control over major federal programs that we consider to be significant deficiencies.
- *Material Weaknesses:* We identified no deficiencies that we consider to be material weaknesses.

We issued an unmodified opinion on the City's compliance with requirements applicable to its major federal program.

We reported no findings that are required to be disclosed under section 510(a) of OMB Circular A-133.

Identification of Major Programs:

The following was a major program during the period under audit:

CFDA No.	Program Title
14.248	Community Development Block Grant HUD Section 108 Loan Guarantee

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by OMB Circular A-133, was $300,000.

The City qualified as a low-risk auditee under OMB Circular A-133.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

City of Mount Vernon
Skagit County
January 1, 2014 through December 31, 2014

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Mount Vernon, Skagit County, Washington, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 25, 2015.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of the City's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Jan M Jutte

JAN M. JUTTE, CPA, CGFM

ACTING STATE AUDITOR

OLYMPIA, WA

June 25, 2015

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

City of Mount Vernon
Skagit County
January 1, 2014 through December 31, 2014

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

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

We have audited the compliance of the City of Mount Vernon, Skagit County, Washington, with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2014. The City's major federal programs are identified in the accompanying Federal Summary.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination on the City's compliance.

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2014.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program in order to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

PURPOSE OF THIS REPORT

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Jan M Jutte

JAN M. JUTTE, CPA, CGFM

ACTING STATE AUDITOR

OLYMPIA, WA

June 25, 2015

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

City of Mount Vernon
Skagit County
January 1, 2014 through December 31, 2014

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

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Mount Vernon, Skagit County, Washington, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed on page 14.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Mount Vernon, as of December 31, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 16 through 25, budgetary comparison information on pages 75 through 78, pension trust fund information on page 79 and information on postemployment benefits other than pensions on page 80 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. This schedule is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated June 25, 2015 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

JAN M. JUTTE, CPA, CGFM

ACTING STATE AUDITOR

OLYMPIA, WA

June 25, 2015

FINANCIAL SECTION

City of Mount Vernon
Skagit County
January 1, 2014 through December 31, 2014

REQUIRED SUPPLEMENTARY INFORMATION

BASIC FINANCIAL STATEMENTS

REQUIRED SUPPLEMENTARY INFORMATION

SUPPLEMENTARY AND OTHER INFORMATION

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, 2014. 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 $188,724,769 at the end of 2014. A total of 86%, or $162,693,536, of total net position is invested in capital such as streets, land, buildings and utility infrastructure. Of the remaining net position, 12%, or $22,129,463, of total net position is unrestricted and available to meet the City's ongoing activities and obligations, and 2%, or $3,901,770, is restricted for debt service and other purposes.

- The City of Mount Vernon's net position increased by $1,474,260 in 2014, representing a 1% increase compared to 2013 net position. Net position for Governmental Activities increased $915,220 while Business-type Activities increased $559,040, both increases representing a 1% increase in net position as compared to the prior year. Total investment in capital assets net of any related debt increased $1,611,879.

- Governmental fund balances at year end were $8,084,311, a decrease of $848,097, or 9.5% compared to the prior year. Unassigned Fund Balance in the General Fund was $3,627,879 which is 17% of the final budget which meets the City's informal policy of maintaining a minimum fund balance in the General Fund of two months of operating budget or approximately 16% of the annual adopted budget, in stable economic times.

- 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 $8,084,311 in governmental fund balances at year end, restricted fund balance is 22.5% or $1,817,010 of the total which reflects fund resources subject to externally enforceable legal restrictions; committed fund balance is 4.5% or $362,788 which represents City imposed limitations as to the use of funds by City Council action; assigned fund balance is 28% or $2,276,634 which reflects our City government's intended use for certain resources; and unassigned fund balance, all in the General Fund, is 45% or $3,627,879 of total fund balance for Governmental Funds representing the excess resources of all other categorized fund balances.

- The only debt issued in 2014 was a HUD Section 108 loan in the amount of $1,000,000. Total long-term debt decreased $1,759,479 in 2014, a 5.5% decrease.

Overview of the Financial Statements

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

Government-Wide Financial Statements

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

The ***Statement of Net Position*** presents information on all of the City's assets and liabilities, 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 2014, 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 2014 compared to 2013.

Table 1
Statement of Net Position

	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
Current and other assets	$ 16,975,340	$ 17,449,270	$ 15,953,158	$ 14,802,811	$ 32,928,498	$ 32,252,081
Capital assets, net of accumulated depreciation	112,004,614	109,376,620	80,974,659	83,750,253	192,979,273	193,126,873
Total assets	128,979,954	126,825,890	96,927,817	98,553,064	225,907,771	225,378,954
Long-term liabilities	6,722,946	5,844,959	27,364,223	29,470,703	34,087,169	35,315,662
Other liabilities	2,397,610	2,036,753	698,223	776,030	3,095,833	2,812,783
Total liabilities	9,120,556	7,881,712	28,062,446	30,246,733	37,183,002	38,128,445
Net position						
Net investment in capital assets	109,014,614	106,731,620	53,678,922	54,350,037	162,693,536	161,081,657
Restricted	1,817,283	2,235,340	2,084,487	1,859,187	3,901,770	4,094,527
Unrestricted	9,027,501	9,977,218	13,101,962	12,097,107	22,129,463	22,074,325
Total net position	$ 119,859,398	$ 118,944,178	$ 68,865,371	$ 68,306,331	$ 188,724,769	$ 187,250,509

The largest component of the City's net position, 86% or $162,693,536, 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 1% or $915,220, while net position of the City's business type activities also increase 1% or $559,040 in 2014.

Specific to business type activities, no major projects were undertaken in 2014 as is reflected by the small change in net position. Net infrastructure improvements totaled $1,256,140, annual depreciation expense was $4,037,918 and long-term debt principal payments totaled $2,104,479 in 2014. Net position of the business type activities can only be used to finance the continuing operations of wastewater, solid waste, and surface water.

Approximately $3.9 million, or 2%, 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 $915,220, a 1% increase in 2014 compared to 2013. The key elements of variations are as follows:

- Infrastructure improvements and capital purchases in governmental activities increased $7,213,534 less deletions of $633,058 for a net increase of $6,580,476 in 2014, of which capital grants provided 56% of the funding for these projects and acquisitions. Annual depreciation expense was $4,353,996 and long-term debt principal payments totaled $655,000 while $1.0 million of a HUD Section 108 loan was issued in 2014.

- The City had one major project under construction in 2014, the Downtown and Waterfront Revitalization Project which had $5,168,783 of capital costs in 2014. Capital purchases in 2014 included several fleet vehicles for police, fire, streets, in addition to a mower, cat loader, and backhoe. These internal service fund capital purchases in addition to fire breathing apparatus equipment and other items totaled $1,296,103. The City's annual street maintenance and overlay program spent $351,462 repairing city roads in 2014. Roadway improvements constructed by private developers and donated to the City totaled $397,187 in 2014. 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 had minor increases in 2014 compared to 2013. Property tax increased 2% in 2014 compared to 2013, with the increase in tax revenue exclusively related to new construction activity and $37 million of new assessed value being added. Sales tax increased 2% in 2014; utility tax revenues increased 6% in 2014 compared to 2013; while real estate excise tax increased 12% as compared to 2013. A voter approved 0.3% public safety sales tax first imposed in January 2014 resulted in $979,683 of new tax revenue to the City, which was exclusively paid to Skagit County government for the City's inmate jail costs and to assist in financing the construction of a county jail, a Skagit County government project.

- Charges for services decreased 2% compared to 2013 of which building permit activity decreased 3% in 2014, while capital grants and contributions increased $1,584,524 or 65% compared to 2013 primarily 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 slow improvements after the deep recession.

- The property tax revenue increase of $109,791 in 2014, as previously noted, came from new construction assessed value being added to the tax rolls in 2014. 2014 is the ninth year out of the last ten 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 $82,053 in 2014 and $92,825 in 2013. Interest rates continue to be at extremely 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 $559,040 at December 31, 2014, an increase of 1% compared to December 31, 2013.

- The Wastewater Utility net position increased by $438,168, an increase of 1% compared to 2013. The Wastewater Utility had $843,691 of capital improvement costs of which $272,738 of capital infrastructure was donated from developers in 2014, and had $3,435,349 in depreciation expense.

- The Solid Waste Utility had a $219,755, or 7% increase in net position. The Utility had $37,390 in depreciation expense and $47,005 in capital purchases

- The Surfacewater Utility net position decreased $98,883, a 1% decrease compared to 2013. The Utility had minimal capital purchases, depreciation expense of $565,179, and infrastructure donated by private developers of $318,736 in 2014.

- Net capital assets for business–type activities decreased $2,775,594, due to limited capital project undertakings in 2014 which totaled $1,256,140 including $591,474 of donated capital contributions from developers, coupled with $4,037,918 of annual depreciation expense. By comparison capital assets net of related debt decreased $671,115, reflecting a reduction in capital asset debt due to annual principal payments of $2,104,479, while no new long-term debt was issued in 2014.

- Operating revenues for the Wastewater Utility increased 2% in 2014 compared to 2013, due entirely to a small increase in service as there were no increases to utility rates. Net position in the wastewater utility was 28% of total city net position. Only 17% of the Wastewater 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 2% increase in operating revenues compared to 2013, due to a modest increase in service levels, as there was no increase to utility rates in 2014. Unrestricted net position represents 73% of total net position, while 27% of net position represents investment in capital assets, net of related debt.
- The Surfacewater Utility had a 1% increase in operating revenue compared to 2013, 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 14% of total net position for the utility, while 86% of net position represents investment in capital assets, net of related debt.
- Interest and investment earnings for business-type activities increased $42,886 compared to 2013 due primarily to a change in how interest earned on utility receivable past due accounts are recorded as interest earnings rather than as miscellaneous revenue as in past years. The increased investment earnings was not due to an increase in investment earning interest rates.

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 2014 and 2013.

Table 2
Changes in Net Position

	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
Revenues						
Program revenues						
Charges for service	$ 3,352,255	$ 3,434,147	$ 14,774,595	$ 14,504,425	$ 18,126,850	$ 17,938,572
Operating grants and contributions	1,425,286	1,531,599	3,225	46,775	1,428,511	1,578,374
Capital grants and contributions	4,018,415	2,433,891	1,371,672	1,079,811	5,390,087	3,513,702
General revenues					-	-
Property taxes	7,380,908	7,271,117			7,380,908	7,271,117
Sales taxes	5,568,024	5,468,436			5,568,024	5,468,436
Utility taxes	3,678,982	3,486,416			3,678,982	3,486,416
Real estate excise taxes	883,123	790,094			883,123	790,094
Other taxes	2,258,476	1,218,274			2,258,476	1,218,274
Investment interest	82,053	92,825	107,354	64,468	189,407	157,293
Miscellaneous	4,199	5,479	209,285	102,135	213,484	107,614
Total revenues	28,651,721	25,732,278	16,466,131	15,797,614	45,117,852	41,529,892
Expenses:						
General government	2,719,779	2,666,284		-	2,719,779	2,666,284
Security	15,347,983	14,318,762		-	15,347,983	14,318,762
Physical environment	1,219,098	1,187,759		-	1,219,098	1,187,759
Transportation	4,413,146	4,012,883		-	4,413,146	4,012,883
Economic environment	1,157,100	1,146,894		-	1,157,100	1,146,894
Culture and recreation	2,920,427	2,843,510		-	2,920,427	2,843,510
Interest on long-term debt	58,968	76,050		-	58,968	76,050
Wastewater	-	-	8,985,989	8,834,919	8,985,989	8,834,919
Solid waste	-	-	4,835,557	4,639,970	4,835,557	4,639,970
Surfacewater	-	-	1,985,545	1,872,522	1,985,545	1,872,522
Total expenses	27,836,501	26,252,142	15,807,091	15,347,411	43,643,592	41,599,553
Changes in net position before transfers	815,220	(519,864)	659,040	450,203	1,474,260	(69,661)
Transfers, internal	100,000	50,000	(100,000)	(50,000)	-	-
Change in net position	915,220	(469,864)	559,040	400,203	1,474,260	(69,661)
Net position - beginning	118,944,178	119,414,042	68,306,331	67,906,128	187,250,509	187,320,170
Net position - ending	$ 119,859,398	$ 118,944,178	$ 68,865,371	$ 68,306,331	$ 188,724,769	$ 187,250,509

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 $8,084,311, which is 9.5% or $848,097 less than at the beginning of the year.

- Fund balance in the General Fund decreased $75,128, a 1.5% decrease compared to 2013. Major services (expenditures) provided for in the General Fund remained steady, reflecting no notable increases or decreases in 2014, other than a noteworthy increase in the 'security of persons and property' service area resulting from $979,683 of pass-thru expenditures paid to Skagit County for jail inmate costs and financing of a new jail facility. This cost is 100% funded from a new public safety sales tax imposed in 2014. Other 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 79% of the revenues to support 2014 expenditures. The 2014 ending fund balance is 17% of the General Fund's 2014 final budget as reflected in the required supplementary information section for the General Fund Budget and Actual schedule.

- Expenditures in the General Fund were $1,323,253 higher in 2014 as compared to 2013, an increase of 6% of which 74% of the increase was due to the pass-thru of the public safety sales tax to Skagit County. The City was able to maintain minimal increases in expenditures while giving cost of living adjustments to city employees. The modest increase was accomplished in part due to full implementation and conversion to a high deductible health insurance plan which reduced medical insurance costs for most of the city work force.

- The other major governmental fund for 2014 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 2014 was $475,158, a 61% decrease compared to 2013. This decrease in fund balance was planned for and expected as phase II of the project was primarily completed in 2014. Expenditures in 2014 totaled $5,197,852 of which 62% of the revenues came from intergovernmental revenues primarily state grants and 19% of the financing sources came from loan proceeds of $1,000,000. The City will begin the final phase (phase III) in 2015.

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 $438,168 compared to 2013. Major impacts to net position have been addressed in the previous section on business-type activities.

- The Solid Waste Utility net position increased $219,755 in 2014 compared to 2013. Major impacts to net position have been addressed in the previous section on business-type activities.

- Net position in the Surfacewater Utility decreased $98,883 compared to 2013. 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 supplemented twice during 2014. A $1,215,000 increase was authorized by City Council as the City incurred additional costs associated with the provision of public defense, and to establish a budget related to the new public safety sales tax first imposed in January 2014. A second and far smaller budget amendment of $8,931 was approved by City Council to account for a police grant for equipment purchases.

- 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 related to medical insurance costs not implemented as expected in the Fire Department, for additional Municipal Court costs for interpreter services and in the Finance Department for cost of banking services directly related to low interest rate earnings The transfers came from the non-departmental budget.

- The General Fund final budget as reported in the required supplementary information of the financial report for 2014 was $20,986,436 of which $19,719,363, or 94%, 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 (2008 through 2013) on average 94.6% of the final General Fund budget is expended.

Capital Assets and Debt Administration

Capital Assets

As of December 31, 2014, the City of Mount Vernon's investment in capital assets for its governmental and business-type activities amounts to $192,979,273 (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 attributed to the governmental activities increased $2,627,994 as compared to 2013, with business-type activities capital assets decreasing by $2,775,594. 58% of capital assets are for governmental activities with 42% attributed to business-type activities.

There was only one major change to capital assets during 2014. Following are some details related to the City's capital assets:

- Included in governmental activities was one major project that had activity in 2014, the Downtown and Waterfront Revitalization Project with capital outlay costs of $5,168,783. Before depreciation, capital assets for all governmental activities increased $6,580,476 in 2014 net of any capital decreases.
- Wastewater, Solid Waste and Surfacewater capital increases net of any capital decreases totaled $1,256,140 in 2014 before depreciation. No major projects were undertaken in 2014 other than the annual sewer restoration project to repair aging sewer lines.
- Private development contributions in 2014 added $988,661 in total; $397,187 to road infrastructure, $272,738 to wastewater infrastructure, and $318,736 in surfacewater infrastructure.

City of Mount Vernon's Capital Assets (net of depreciation)

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

	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
Land	$ 33,083,341	$ 32,951,181	$ 3,483,516	$ 3,636,400	$ 36,566,857	$ 36,587,581
Buildings	6,770,435	7,213,549	37,864,499	39,644,259	44,634,934	46,857,808
Improvements other than					-	-
buildings	2,847,562	3,305,707	38,705,114	39,085,217	41,552,676	42,390,924
Machinery and equipment	5,442,661	5,303,868	365,860	331,257	5,808,521	5,635,125
Construction in progress	16,732,315	12,326,375	555,670	1,053,120	17,287,985	13,379,495
Infrastructure	47,039,460	48,197,434	-	-	47,039,460	48,197,434
Art	88,840	78,506	-	-	88,840	78,506
Total	$ 112,004,614	$ 109,376,620	$ 80,974,659	$ 83,750,253	$ 192,979,273	$ 193,126,873

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 $30,285,737 in bonds and notes outstanding versus $32,045,216 last year, reflecting a net decrease of $1,759,479.

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

	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
General obligation bonds	$ 1,185,000	$ 1,725,000	$ -	$ -	$ 1,185,000	$ 1,725,000
Revenue bonds and notes	1,805,000	920,000	27,295,737	29,400,216	29,100,737	30,320,216
Total	$ 2,990,000	$ 2,645,000	$ 27,295,737	$ 29,400,216	$ 30,285,737	$ 32,045,216

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

As previously noted the only debt issued in 2014 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.

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 2014 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 2014. 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 2014 continued to show steady improvement. For instance, sales tax revenues in 2014 were 17% higher when compared to 2011, the lowest collection year during the recent recession. However, the 2014 sales tax revenue remains 11% lower than our highest revenue year in 2007. Property tax collection rates have remarkably recovered, as well as 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'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 decreased by 1% in 2014 compared to 2013. 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. 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. The third component is a parking facility structure in the core downtown area. Phase I and II of the project which included construction of the floodwall, riverwalk and park plaza are completed. Construction of the third and final phase will begin in 2015, as the City works aggressively on securing the final funding to complete the project.

The State of Washington, by constitution, does not have a state personal income tax and therefore the state operates primarily using property, sales, business and occupation, and gasoline taxes. The City of Mount Vernon primarily relies on property, sales and utility taxes, and franchise fees to fund governmental activities. 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.

STATEMENT OF NET POSITION
December 31, 2014

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and cash equivalents	$ 4,422,153	$ 3,781,553	$ 8,203,706
Investments	8,156,980	7,781,257	15,938,237
Receivables:			
Taxes	1,277,106	-	1,277,106
Accounts	561,271	2,278,825	2,840,096
Interest	15,484	17,360	32,844
Due from other governments	2,311,071	3,401	2,314,472
Inventory	10,765	-	10,765
Prepaid items	-	6,274	6,274
Net pension asset	220,510	-	220,510
Restricted assets:			
Cash and cash equivalents	-	2,084,488	2,084,488
Capital assets:			
Non-depreciable	49,904,496	4,039,186	53,943,682
Depreciable, net	62,100,118	76,935,473	139,035,591
Total Assets	128,979,954	96,927,817	225,907,771
LIABILITIES			
Accounts payable	1,681,160	556,440	2,237,600
Employee wages payable	711,046	89,256	800,302
Interest payable	5,404	52,527	57,931
Noncurrent liabilities:			
Other non-current due within one year	795,000	2,131,384	2,926,384
Net other postemployment benefit obligation	2,929,546	-	2,929,546
Other non-current due in more than one year	2,998,400	25,232,839	28,231,239
Total Liabilities	9,120,556	28,062,446	37,183,002
NET POSITION			
Net investment in capital assets	109,014,614	53,678,922	162,693,536
Restricted for:			
Public safety	36,969	-	36,969
Streets and transportation	747,028	-	747,028
Economic environment	437,846	-	437,846
Culture and recreation	-	-	-
Debt service	18,746	2,084,487	2,103,233
Other capital improvements	576,694	-	576,694
Unrestricted	9,027,501	13,101,962	22,129,463
Total Net Position	$ 119,859,398	$ 68,865,371	$ 188,724,769

The accompanying notes are an integral part of this statement

STATEMENT OF ACTIVITIES
For The Year Ended December 31, 2014

		Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
Functions/Program	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities:							
General government	$ 2,719,779	$ 737,270	$ 72,658	$ 10,459	$ (1,899,392)	$ -	$ (1,899,392)
Security of persons and property	15,347,983	377,598	652,631	293,165	(14,024,589)	-	(14,024,589)
Physical environment	1,219,098	76,095	-	-	(1,143,003)	-	(1,143,003)
Transportation	4,413,146	775,431	671,342	452,761	(2,513,612)	-	(2,513,612)
Economic environment	1,157,100	844,337	10,000	3,208,477	2,905,714	-	2,905,714
Culture and recreation	2,920,427	541,524	18,655	53,553	(2,306,695)	-	(2,306,695)
Interest on long-term debt	58,968	-	-	-	(58,968)	-	(58,968)
Total governmental activities	27,836,501	3,352,255	1,425,286	4,018,415	(19,040,545)	-	(19,040,545)
Business-type activities:							
Wastewater	8,985,989	8,191,514	-	1,052,936	-	258,461	258,461
Solid waste	4,835,557	5,032,710	-	-	-	197,153	197,153
Surfacewater	1,985,545	1,550,371	3,225	318,736	-	(113,213)	(113,213)
Total business-type activities	15,807,091	14,774,595	3,225	1,371,672	-	342,401	342,401
Total government	$ 43,643,592	$ 18,126,850	$ 1,428,511	$ 5,390,087	$ (19,040,545)	$ 342,401	$ (18,698,144)
		General revenues:					
		Taxes:					
		Property taxes			7,380,908	-	7,380,908
		Sales taxes			5,568,024	-	5,568,024
		Utility taxes			3,678,982	-	3,678,982
		Public safety sales taxes			979,683	-	979,683
		Criminal justice sales taxes			612,490	-	612,490
		Real estate excise taxes			883,123	-	883,123
		Hotel/motel, liquor & leasehold taxes			666,303	-	666,303
		Interest and investment earnings			82,053	107,354	189,407
		Miscellaneous			4,199	209,285	213,484
		Transfers, internal activities			100,000	(100,000)	-
		Total general revenues and transfers			19,955,765	216,639	20,172,404
		Change in net position			915,220	559,040	1,474,260
		Net position-beginning			118,944,178	68,306,331	187,250,509
		Net position-ending			$ 119,859,398	$ 68,865,371	$ 188,724,769

The accompanying notes are an integral part of this statement

BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2014

	General Fund	Downtown & Waterfront Fund	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	$ 1,500,375	$ -	$ 1,433,582	$ 2,933,957
Investments	2,444,114	-	1,436,540	3,880,654
Receivables:				
Taxes	1,263,413	-	13,693	1,277,106
Accounts	553,714	-	7,557	561,271
Interest	5,960	-	1,297	7,257
Due from other governments	139,277	1,828,235	343,559	2,311,071
Total Assets	$ 5,906,853	$ 1,828,235	$ 3,236,228	$ 10,971,316
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES				
Liabilities:				
Accounts payable	$ 523,644	$ 543,684	$ 522,439	$ 1,589,767
Due to other funds	-	809,393	-	809,393
Total Liabilities	523,644	1,353,077	522,439	2,399,160
Deferred Inflows of Resources -				
Assets associated with unavailable revenues	477,640	-	10,205	487,845
Fund Balances:				
Restricted for:				
Municipal court improvements	79,675	-	-	79,675
Path & trails	-	-	83,925	83,925
Tourism promotion	-	-	177,876	177,876
Criminal justice	-	-	36,696	36,696
Debt service	-	-	18,746	18,746
REET I capital improvements	-	-	272,019	272,019
REET II street improvements	-	-	239,103	239,103
Impact fees	-	-	259,970	259,970
Downtown and waterfront	-	225,000	-	225,000
Road improvements	-	-	424,000	424,000
Committed to:				
Government access	-	-	145,861	145,861
Fiber optics	-	-	72,859	72,859
Critical areas enhancement	-	-	144,068	144,068
Assigned to:				
Parks	508,044	-	-	508,044
Library	125,300	-	-	125,300
Lincoln commercial block	219,663	-	-	219,663
LEOFF 1 LT care reserve	345,008	-	-	345,008
Streets and arterials	-	-	828,461	828,461
Downtown and waterfront	-	250,158	-	250,158
Unassigned	3,627,879	-	-	3,627,879
Total Fund Balances	4,905,569	475,158	2,703,584	8,084,311
Total Liabilities, Deferred Inflows of Resources and Fund Balances	$ 5,906,853	$ 1,828,235	$ 3,236,228	$ 10,971,316

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, 2014

Fund balances - total governmental funds		$ 8,084,311
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.		
Non-depreciable assets	49,904,496	
Depreciable assets (net)	57,486,510	107,391,006
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 pension asset	220,510	
Deferred inflows of resources	487,845	708,355
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	(1,491,645)	
Interest payable	(5,404)	
Net other postemployment benefit oblgation	(2,929,546)	
Long-term liabilities	(2,990,000)	(7,416,595)
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.	11,092,321	11,092,321
Net position of governmental activities		$ 119,859,398

The accompanying notes are an integral part of this statement Page 2 of 2

STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended December 31, 2014

	General Fund	Downtown & Waterfront Fund	Other Governmental Funds	Total Governmental Funds
REVENUES				
Taxes	$ 17,627,066	$ -	$ 1,827,353	$ 19,454,419
Licenses and permits	1,027,434	-	67,450	1,094,884
Intergovernmental revenues	631,107	3,208,477	1,130,423	4,970,007
Charge for services	2,061,151	-	580,581	2,641,732
Fines and forfeitures	259,426	-	-	259,426
Investment income	49,506	-	4,616	54,122
Other revenue	606,573	-	27,754	634,327
Total Revenues	22,262,263	3,208,477	3,638,177	29,108,917
EXPENDITURES				
Current:				
General government	3,472,819	-	-	3,472,819
Security of persons and property	14,089,834	-	11,866	14,101,700
Physical environment	1,305,741	-	8,777	1,314,518
Transportation	-	-	1,431,264	1,431,264
Economic environment	846,159	29,069	245,864	1,121,092
Culture and recreation	2,374,669	-	25,000	2,399,669
Capital outlay	399,093	5,168,783	932,558	6,500,434
Debt service:				
Principal	-	-	655,000	655,000
Interest	76	-	60,442	60,518
Total Expenditures	22,488,391	5,197,852	3,370,771	31,057,014
Excess (deficiency) of revenues over (under) expenditures	(226,128)	(1,989,375)	267,406	(1,948,097)
OTHER FINANCING SOURCES (USES)				
Transfers in	151,000	250,000	807,755	1,208,755
Transfers out	-	-	(1,108,755)	(1,108,755)
Loan proceeds	-	1,000,000	-	1,000,000
Total other financing sources (uses)	151,000	1,250,000	(301,000)	1,100,000
Net change in fund balances	(75,128)	(739,375)	(33,594)	(848,097)
Fund Balances - January 1	4,980,697	1,214,533	2,737,178	8,932,408
Fund Balances - December 31	$ 4,905,569	$ 475,158	$ 2,703,584	$ 8,084,311

The accompanying notes are an integral part of this statement

Page 1 of 2

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, 2014

Net changes in fund balances - total governmental funds		$ (848,097)
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	6,115,259	
Less current year depreciation	(3,570,320)	2,544,939
The effect of various miscellaneous transactions involving capital assets not reported in governmental funds.		
Contributions of capital assets	397,187	
Disposals of capital assets	(207,673)	189,514
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.		
Loan proceeds	(1,000,000)	
Principal payments	655,000	(345,000)
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.	(627,620)	(627,620)
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.	1,484	1,484
Change in net position of governmental activities		$ 915,220

The accompanying notes are an integral part of this statement

Page 2 of 2

STATEMENT OF NET POSITION
PROPRIETARY FUNDS
December 31, 2014

	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	$ 2,431,022	$ 722,319	$ 628,212	$ 3,781,553	$ 1,488,196
Investments	5,586,544	1,197,116	997,597	7,781,257	4,276,326
Accounts receivable	1,210,262	853,990	214,573	2,278,825	-
Interest receivable	12,612	2,516	2,232	17,360	8,228
Due from other funds	-	-	-	-	809,393
Due from other governments	-	-	3,401	3,401	-
Inventory	-	-	-	-	10,764
Prepaid expenses	2,823	2,824	627	6,274	-
Total current assets	9,243,263	2,778,765	1,846,642	13,868,670	6,592,907
Noncurrent assets:					
Restricted assets					
Debt service:					
Cash and cash equivalents	2,001,949	-	82,539	2,084,488	-
Total restricted assets	2,001,949	-	82,539	2,084,488	-
Capital assets:					
Land	1,871,048	204,000	1,408,468	3,483,516	-
Buildings	55,852,570	823,699	-	56,676,269	145,000
Improvements other than buildings	52,836,344	42,971	19,524,230	72,403,545	72,545
Machinery and equipment	670,738	127,551	310,092	1,108,381	12,561,941
Construction in progress	555,670	-	-	555,670	-
Less accumulated depreciation	(43,253,499)	(280,439)	(9,718,784)	(53,252,722)	(8,165,878)
Total capital assets (net of depreciation)	68,532,871	917,782	11,524,006	80,974,659	4,613,608
Total noncurrent assets	70,534,820	917,782	11,606,545	83,059,147	4,613,608
Total assets	$ 79,778,083	$ 3,696,547	$ 13,453,187	$ 96,927,817	$ 11,206,515

The accompanying notes are an integral part of this statement

Page 1 of 2

STATEMENT OF NET POSITION
PROPRIETARY FUNDS
December 31, 2014

	Business-type Activities Enterprise Funds				Governmental Activities - Equipment Rental Internal Service Fund
	Wastewater	Solid Waste	Surface-water	Totals	
LIABILITIES					
Current liabilities:					
Accounts payable	$ 269,274	$ 231,698	$ 55,468	$ 556,440	$ 91,393
Employee benefits payable	49,893	39,363	-	89,256	11,827
Matured interest payable	47,575	-	4,952	52,527	-
Matured loans payable	1,966,307	-	165,077	2,131,384	-
Total current liabilities	2,333,049	271,061	225,497	2,829,607	103,220
Noncurrent liabilities:					
Employee benefits payable	49,622	18,864	-	68,486	10,974
Loans payable	24,999,275	-	165,078	25,164,353	-
Total noncurrent liabilities	25,048,897	18,864	165,078	25,232,839	10,974
Total liabilities	27,381,946	289,925	390,575	28,062,446	114,194
NET POSITION					
Net investment in capital assets	41,567,289	917,782	11,193,851	53,678,922	4,613,608
Restricted for debt service	2,001,948	-	82,539	2,084,487	-
Unrestricted	8,826,900	2,488,840	1,786,222	13,101,962	6,478,713
Total net position	$ 52,396,137	$ 3,406,622	$ 13,062,612	$ 68,865,371	$ 11,092,321

The accompanying notes are an integral part of this statement

Page 2 of 2

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
For the Year Ended December 31, 2014

	Business-type Activities Enterprise Funds				Governmental Activities - Equipment Rental
	Wastewater	Solid Waste	Surface-water	Totals	Internal Service Fund
Operating revenues:					
Charges for utility services	$ 8,191,514	$ 5,032,710	$ 1,550,371	$ 14,774,595	$ -
Charges for services/replacement	-	-	-	-	1,630,929
Total operating revenue	8,191,514	5,032,710	1,550,371	14,774,595	1,630,929
Operating expenses:					
Operations and maintenance	4,371,075	4,273,953	1,386,328	10,031,356	914,961
Taxes	714,709	524,214	21,657	1,260,580	-
Depreciation and amortization	3,435,349	37,390	565,179	4,037,918	783,676
Total operating expenses	8,521,133	4,835,557	1,973,164	15,329,854	1,698,637
Operating income (loss)	(329,619)	197,153	(422,793)	(555,259)	(67,708)
Nonoperating revenues (expenses):					
Intergovernmental revenue	-	-	3,225	3,225	26,663
Investment earnings	75,747	19,509	12,098	107,354	27,933
Miscellaneous revenue	203,960	3,093	2,232	209,285	3,984
Interest expense	(464,856)	-	(12,381)	(477,237)	-
Gain (loss) on sale of capital assets	-	-	-	-	10,612
Total nonoperating revenue (expense)	(185,149)	22,602	5,174	(157,373)	69,192
Income (loss) before contributions and transfers	(514,768)	219,755	(417,619)	(712,632)	1,484
Capital contributions	1,052,936	-	318,736	1,371,672	-
Transfers out	(100,000)	-	-	(100,000)	-
Change in net position	438,168	219,755	(98,883)	559,040	1,484
Total net position - beginning	51,957,969	3,186,867	13,161,495	68,306,331	11,090,837
Total net position - ending	$ 52,396,137	$ 3,406,622	$ 13,062,612	$ 68,865,371	$ 11,092,321

The accompanying notes are an integral part of this statement

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended December 31, 2014

	Business-type Activities Enterprise Funds				Governmental Activities - Equipment Rental Internal Service Fund
	Wastewater	Solid Waste	Surface-water	Totals	
CASH FLOWS FROM OPERATING ACTIVITIES:					
Cash received from customers	$ 8,173,215	$ 4,937,931	$ 1,555,288	$ 14,666,434	$ 1,630,929
Cash payments to suppliers	(2,934,650)	(3,152,013)	(1,198,077)	(7,284,740)	(554,919)
Cash payments to employees	(1,572,019)	(1,090,745)	(153,076)	(2,815,840)	(284,749)
Cash payments for taxes	(714,709)	(524,214)	(21,657)	(1,260,580)	-
Other operating receipts and payments	10,240	10,240		20,480	-
Non-operating income	203,960	3,093	48,831	255,884	30,646
Net cash provided (used) by operating activities	3,166,037	184,292	231,309	3,581,638	821,907
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:					
Pooled cash due from other funds	-	-	-	-	(809,393)
Transfers out	(100,000)	-	-	(100,000)	-
Net cash provided (used by noncapital financing activities	(100,000)	-	-	(100,000)	(809,393)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:					
Acquisition and construction of capital assets	(577,136)	(47,006)	(46,708)	(670,850)	(701,089)
Proceeds from sale of assets	-	-	-	-	34,482
Capital contributions	780,198	-	-	780,198	-
Principal paid on other debt	(1,939,402)	-	(165,077)	(2,104,479)	-
Interest paid on revenue bonds and other debt	(470,566)	-	(14,858)	(485,424)	-
Net cash provided (used) for capital and related financing activities	(2,206,906)	(47,006)	(226,643)	(2,480,555)	(666,607)
CASH FLOWS FROM INVESTING ACTIVITIES:					
Investment purchases	(5,600,000)	(1,200,000)	(1,000,000)	(7,800,000)	(4,286,626)
Investment sales/maturities	6,300,000	1,500,000	1,200,000	9,000,000	5,842,662
Interest on investments	111,627	26,437	19,000	157,064	56,582
Net cash provided (used) by investing activities	811,627	326,437	219,000	1,357,064	1,612,618
Net increase (decrease) in cash and cash equivalents	1,670,758	463,723	223,666	2,358,147	958,525
Cash and cash equivalents, January 1	2,762,213	258,596	487,085	3,507,894	529,671
Cash and cash equivalents, December 31	$ 4,432,971	$ 722,319	$ 710,751	$ 5,866,041	$ 1,488,196

The accompanying notes are an integral part of this statement

Page 1 of 2

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended December 31, 2014

	Business-type Activities Enterprise Funds				Governmental Activities - Equipment Rental Internal Service Fund
	Wastewater	Solid Waste	Surface-water	Totals	
Cash at the end of the year consists of:					
Cash and cash equivalents	$ 2,431,022	$ 722,319	$ 628,212	$ 3,781,553	$ 1,488,196
Restricted assets:					
Cash and cash equivalents	2,001,949	-	82,539	2,084,488	-
Total cash at end of year	$ 4,432,971	$ 722,319	$ 710,751	$ 5,866,041	$ 1,488,196

	Wastewater	Solid Waste	Surface-water	Totals	Governmental Activities - Equipment Rental Internal Service Fund
Reconciliation of operating income to net cash provided by operating activities:					
Operating income (loss)	$ (329,619)	$ 197,153	$ (422,793)	$ (555,259)	$ (67,708)
Adjustments to reconcile operating income to					
Depreciation	3,435,349	37,390	565,179	4,037,918	783,676
(Increase) decrease in accounts receivable	(8,059)	(84,539)	4,917	(87,681)	-
(Increase) decrease in due from other govt's	-	-	43,374	43,374	-
(Increase) decrease in inventory	-	-	-	-	17,645
(Increase) decrease in prepaid expenses	1,119	1,045	233	2,397	146
Increase (decrease) in accounts payable	(129,616)	25,739	34,942	(68,935)	58,329
Increase (decrease) in employee bene's pay	(7,097)	4,411	-	(2,686)	(827)
Non-operating revenue	203,960	3,093	5,457	212,510	30,646
Net cash provided by operating activities	$ 3,166,037	$ 184,292	$ 231,309	$ 3,581,638	$ 821,907
Noncash investing, capital and financing activities:					
Developers/city governmental activities contributed infrastructure valued at	$ 272,738	$ -	$ 318,736	$ 591,474	$ -
Fair value of investments increase (decrease)	(16,639)	(3,641)	(3,009)	(23,289)	(13,253)

The accompanying notes are an integral part of this statement

Page 2 of 2

STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
December 31, 2014

	Firemen's Pension Fund	Agency Funds
ASSETS		
Cash and cash equivalents	$ 94,820	$ 460,070
Investments:		
U.S. Government Agency Securities	436,320	-
Municipal Government Securities	62,478	-
Receivables:		
Interest	841	-
Total Assets	594,459	460,070
LIABILITIES		
Liabilities:		
Accounts payable	-	-
Due to other governments	-	419,425
Custodial	-	40,645
Total Liabilities	-	$ 460,070
NET POSITION		
Held in trust for pension benefits	$ 594,459	

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, 2014

		Firemen's Pension Fund
ADDITIONS		
Fire insurance premium contributions	$	36,194
Investment interest		2,740
Total additions		38,934
DEDUCTIONS		
Pension benefit payments		11,668
Pension administration		-
Contribution to City for OPEB healthcare benefit payments		89,300
Total deductions		100,968
Change in net position		(62,034)
Net position - beginning		656,493
Net position - ending	$	594,459

The accompanying notes are an integral part of this statement

Notes to the Financial Statements
December 31, 2014

NOTE 1:
Summary of Significant Accounting Policies

The City of Mount Vernon was incorporated on July 1, 1890. The City operates under the laws of the state of Washington applicable to a code city Mayor/Council form of government. The City Council is composed of seven members elected to four year terms. The City provides what are considered general government services including public safety, streets, parks and recreation, planning and zoning, permits and inspection, sanitation, general administrative, and wastewater services.

The accounting and reporting policies of the City of Mount Vernon conform to generally accepted accounting principles (GAAP) applicable to state and local governments. GAAP for local governments include those principles prescribed by the Governmental Accounting Standards Board (GASB), the Financial Accounting Standards Board (FASB), when applicable, and the American Institute of Certified Public Accountants (AICPA) pronouncements that have been made applicable by GASB Statements or Interpretations.

The City's significant accounting policies are described in the following notes.

Reporting Entity

As required by GAAP the City's financial statements present the City of Mount Vernon – the primary government. There are no component units (either blended or discretely presented) included in these statements.

Basic Financial Statements

The City's basic financial statements consist of government-wide (reporting the City as a whole) and fund financial statements (reporting the City's major funds). Both the government-wide and fund financial statements categorize primary activities as either government or business-type. The government-wide financial statements report information on all of the non-fiduciary activities of the government.

Government-Wide Statements

The government-wide financial statements (i.e., the statement of net 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.

In the government-wide Statement of Net Position both the governmental and business-type activities columns are presented on a consolidated basis by column, and are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The City's net position is reported in three parts- net investment in capital assets, restricted net position, and unrestricted net resources to finance qualifying activities.

The government-wide Statement of Activities reports both the gross and net cost of each of the City's functions and business-type activities (general government, security of persons & property, physical environment, transportation, economic environment, culture & recreation, wastewater, solid waste and surfacewater). General government revenues (property taxes, retail sales & use taxes, excise taxes, and other taxes) also support the functions.

The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants and contributions. Program revenues must be directly associated with the function or a business-type activity. Operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants reflect capital-specific grants.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

For the most part, the effect of interfund activity has been eliminated from the government-wide financial statements. Direct expenses of the functional categories are included in the government-wide statement of activities while indirect expense allocations are eliminated. Indirect expenses are primarily charged to the various functions through the use of 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.

The net costs (by function or business-type activity) are normally covered by general revenue.

The government-wide focus is more on the sustainability of the City as an entity and the change in the City's net position resulting from the current year's activities.

Fund Financial Statements

Financial transactions are recorded in individual funds, each accounted for by a separate set of self-balancing accounts that comprise assets, liabilities, deferred inflows/outflows, reserves, fund equity, revenues and expenditures/ expenses. The GASB Statement 34 model's presentation is by major funds in either the governmental or business-type categories. The non-major funds are combined in the fund financial statements and detailed in the combining section.

The governmental funds major fund statements in the fund financial statement are reported using the current financial resources measurement focus and the modified accrual basis of accounting, as explained in the next section. Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statements' governmental column reconciliation is presented at the end of the statement, which briefly explains the adjustment necessary to transform the fund statements into the governmental-wide presentation.

Internal service funds of a government are presented in the summary form as part of the proprietary fund financial statements. Since the principal users of the internal services are the City's governmental activities, financial statements for internal services funds are consolidated into the governmental column when presented at the governmental level. These services are reflected in the appropriate functional activity (general government, security of persons & property, physical environment, transportation, economic environment, or culture & recreation).

Measurement Focus and Basis of Accounting

Both governmental and business-type activities in the government-wide financial statements and the proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred, regardless of the timing of related cash flows.

Property taxes are billed and collected within the same period in which the taxes are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. These items are reported as non-operating revenue based on GASB Statement 33. In applying GASB Statement 33 to grant revenues, the provider recognizes liabilities and expenses and the recipient recognizes receivables and revenue when the eligibility requirements, including time requirements, are met. Resources transmitted before the eligibility requirements are met, are reported as advances by the provider and deferred inflow by the recipient.

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual (both measurable and available). "Available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The City considers all revenue reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principal and interest on general obligation long-term debt, if any, is recognized when due.

Under the modified accrual basis of accounting, property taxes, sales taxes, utility taxes, franchise taxes, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current period. Grant revenue is recognized for cost reimbursement grants when the expenditure occurs in accordance with GASB Statement 1. When the expenditure is incurred, grant revenue is considered to have been earned and therefore available and recognized as revenue. Entitlement grant revenue is not tied to expenditures and is recognized when the City is entitled to receive it according to the grant agreement. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

Financial Statement Presentation

The City reports the following major governmental funds:

The **General Fund** accounts for all receipt and disbursement transactions of operations that are not accounted for in another fund. The General Fund includes police, fire, municipal court, finance & administration, planning, building inspection, development services, public works & engineering, facilities, parks and library.

The **Downtown and Waterfront Area Fund** accounts for monies collected and expended for capital expenditures on planned improvements, including downtown flood protection, a parking facility, a riverfront promenade and other improvements.

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) Deposit 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.

Private-sector standards of accounting and financial reporting and AICPA pronouncements issued prior to December 1, 1989, have recently been codified into Governmental Accounting Standards Board (GASB) Statement No. 62 and are followed in both the government-wide and proprietary fund financial statements.

Budgets and Budgetary Accounting

The City budgets in accordance with the Revised Code of Washington (RCW) 35A.33. In compliance with the code, budgets are established, with the exception of non-required 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 according to GAAP. 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 projects budgets. Budgets for the Road Improvement and Downtown and Waterfront Area capital project funds are adopted at the level of the individual project and for fiscal periods that correspond to the lives of the project.

The City's 2011 implementation of GASB 54 governmental fund type definition guidance (see note 13) has led to a reclassification 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."

Procedures for Adopting the Original Budget

The City of Mount Vernon's budget process is as follows:

a. Prior to November 1, the mayor submits a proposed budget to the City Council. The budget is based on priorities established by the Council and estimates provided by City departments during the preceding months, and balanced with revenue estimates made by the Finance Director.

b. The Council conducts public hearings on the proposed budget in November and December.

c. The Council makes its adjustments to the proposed budget and adopts by ordinance a final balanced budget no later than December 31.

d. Within 30 days of adoption, the final budget is available to the public.

Amending the Budget

The Mayor is authorized to transfer budgeted amounts within any fund including between departments in any fund; however, any revisions that alter the total expenditures, including interfund transfers, of a fund, or that affect the number of authorized employee positions, salary ranges, hours, or other conditions of employment must be approved by the City Council.

When City Council determines that it is in the best interest of the City to increase or decrease the appropriation for a particular fund, it may do so by ordinance.

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 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 Net Position/Fund Balances

1. Cash, Cash Equivalents, and Investments

The City has defined cash and cash equivalents as cash on hand, demand deposits, and all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased. These amounts are classified on the balance sheet or in the statement of net position within cash and cash equivalents or investments in the various funds.

In accordance with GASB 31, investments in external 2a7-like pools, money market investments and other investments with a remaining maturity of one year or less at the time of purchase are stated at amortized cost. All other investments are stated at fair value.

2. Receivables and Payables (Amounts owed/payable to/by the City at year-end.)

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

Accrued interest receivable consists of amounts earned on investments at the end of the year.

Accrued interest payable consists of amounts owed on notes, loans, and contracts.

Accounts receivable/payable consist of amounts owed from/to private individuals or organizations for goods and services. If the transaction is with another governmental unit, it is accounted for within "due from/to 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.

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 are defined as assets which may be held for internal consumption or for resale. All City inventories are maintained on a consumption basis of accounting where items are purchased for inventory and charged to the budgetary accounts as the items are consumed. Inventories are carried at cost on the first in, first out-FIFO basis. No inventory is maintained in governmental funds.

4. Restricted Assets
Restricted assets include those monies reserved for revenue bond debt and loans with reserve covenants.

5. Capital Assets and Depreciation
General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net position but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net position and in the respective funds. Capital assets are defined by the City as land and buildings with an original cost of $5,000 or more each; machinery, equipment, and other improvements with an original cost of $5,000 or more each and an estimated useful life of more than one year; and all vehicles, artwork, transportation and utility infrastructure, regardless of their initial cost. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. Major outlays for capital assets and improvements are capitalized as project construction is finalized.

Land, construction in progress, and works of art are not depreciated. Property, plant, infrastructure and equipment of the City are depreciated using the straight line method. Estimated useful life of these assets varies from 4 to 50 years dependent upon the item. (See Note 5 for depreciation detail.)

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

6. Deferred Inflows of Resources
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 $1,514,446 for governmental funds and $157,742 for proprietary enterprise funds.

8. Long-term Debt – Refer to Note 10.

9. Net Position/ Fund Balances – Refer to Note 13.

Revenues, Expenditures and Expenses

Program Revenues include charges for services to customers for goods or services provided, operating grants and contributions, and non-operating grants and contributions within the Government-wide Statement of Activities. Charges for services include construction permits, franchise fees, park fees and business licenses.

General Revenues include property taxes, timber taxes, retail taxes, excise taxes, and associated penalties and interest, as well as interest and investment earnings and are recorded within the Government-wide Statement of Activities.

Interfund Transfers are permanent reallocations of resources between funds of the reporting entity and are classified as interfund transfers. For the purposes of the Government-wide Statement of Activities, all interfund transfers between individual governmental funds have been eliminated.

Expenses/Expenditures - Expenses in the Government-Wide Statement of Activities are reported by function as a governmental activity (general government, security of person & property, physical environment, transportation, economic environment, culture & recreation, or interest on long-term debt) or a business-type activity (Wastewater, Solid Waste or Surfacewater). In the fund financial statements, expenditures of governmental funds are classified by; function, debt service principal and interest payments, or purchases of capital items. Proprietary expenses are classified as operating or non-operating.

Operating and Non-operating Revenues and Expenses – Operating revenues and expenses for proprietary funds are those that result from providing services and producing and delivering goods and/or services in connection to the proprietary fund's principle ongoing operations. It includes all revenue and expenses not related to capital and related financing, non-capital financing, or investing activities. All revenue and expenses not meeting this definition are non-operating revenues and expenses.

NOTE 2:
Compliance and Accountability

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

NOTE 3:
Deposits and Investments

Custodial Credit Risk – Deposits In accordance with its investment policy, the City of Mount Vernon's deposits and certificates of deposit are entirely covered by federal depository insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington State Public Deposit Protection Commission (WPDPC). Historically the FDIC insurance program insured the first $100,000 of the city's deposits. The FDIC insurance program was changed in October 2008 and now insures the first $250,000 of the City's deposits. Deposit balances over the FDIC limit are insured by the WPDPC. State statute permits additional amounts to be assessed on a pro rata basis to members of the WPDPC pool in the event the pool's collateral should be insufficient to cover a loss.

As of December 31, 2014 the carrying amount of the City's market rate savings account with Bank of America was $731,948, the carrying amount of the City's money market account with U.S. Bank was $5,610 and bank balances with various banks were $10,080,226. 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, 2014 the City had the following investments and maturities:

		Investment Maturities (In Years)		
Investment Type	Fair Value	Less Than 1	1 to 2	2 to 4
Federal Home Loan Bank	$ 2,989,002	$	$	2,989,002
Federal Farm Credit Bank	1,991,107		997,385	993,722
Federal Home Loan Mortgage Corporation	3,991,044		2,990,756	1,000,288
Federal National Mortgage Association	3,414,363			3,414,363
FICO Strips	1,992,649			1,992,649
Municipal Government Securities	2,058,870		2,058,870	
Local Government Investment Pool	7,061,579	7,061,579		
	$ 23,498,614	$ 7,061,579	$ 6,047,011	$ 10,390,024

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 2014, the City's portfolio had the following concentration of securities in it: 18% Federal Home Loan Bank, 12% Federal Farm Credit Bank, 24% Federal Home Loan Mortgage Corporation, 21% Federal National Mortgage Association, 12% FICO Strips and 13% State and Municipal Government Agencies.

NOTE 4:
Property Taxes

The county treasurer acts as an agent to collect property taxes levied in the county for all taxing authorities. Collections are distributed at the end of each month.

Property Tax Calendar

January 1	Taxes are levied and become an enforceable lien against properties.
February 14	Tax bills are mailed.
April 30	First of two equal installment payments is due.
May 31	Assessed value of property established for next year's levy at 100% of market value.
October 31	Second installment is due.

Property taxes are recorded as a receivable when levied, offset by deferred revenue. During the year, property tax revenues are recognized when cash is collected. No allowance for uncollectible taxes is established because delinquent taxes are considered fully collectible.

The City may levy up to $3.60 per $1,000 of assessed valuation for general governmental services, subject to two limitations:

A. Pursuant to Washington State law in RCW 84.55.010 and 84.55.0101, taxing districts with a population over 10,000 may increase their levy by the change in implicit price deflator. With a finding of substantial need, and a majority plus one vote by the City Council, the levy may be increased up to 101% or less of the previous year unless an increase greater than this limit is approved by the voters at an election as provided in RCW 84.55.050.

B. The Washington State Constitution limits the total regular property taxes to 1% of assessed valuation or $10 of

$1,000 of value. If the taxes of all districts exceed this amount, each is proportionately reduced until the total is at or below the 1% limit.

The City's regular levy for 2014 was $2.835367 per $1,000 of assessed value on an assessed valuation of $2,456,133,945 and the Voted General Obligation Bond Levy was $.2105172 per $1,000 of assessed value on an assessed valuation of $2,270,597,328 for a total regular and bond levy of $7,442,042.

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.

The City reclassified its governmental paths and trails from “Improvements Other Than Buildings” to “Infrastructure” in 2014. This reclassification resulted in corresponding changes in assets of $675,283, and accumulated depreciation of $264,796.

Proprietary Fund Capital Assets

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

Depreciation

Depreciation on all assets is provided on the straight-line basis over the following useful lives.

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

Summary of changes: Governmental Activities

Description	1/1/2014	Increases	Decreases	Balance 12/31/14
Governmental Activities				
Capital Assets, Not Being Depreciated:				
Land	$ 32,951,181	$ 132,160	$ -	$ 33,083,341
Construction Work in Progress	12,326,375	5,246,998	841,058	16,732,315
Art	78,506	10,334	-	88,840
Total Capital Assets, Not Being Depreciated	$ 45,356,062	$ 5,389,492	$ 841,058	$ 49,904,496
Capital Assets, Being Depreciated:				
Buildings	$ 14,208,385	$ -	$ -	$ 14,208,385
Improvements Other Than Buildings	6,650,570	103,028	675,283	6,078,315
Machinery and Equipment	14,351,485	1,113,309	425,385	15,039,409
Infrastructure	76,399,638	1,916,373	-	78,316,011
Total Capital Assets, Being Depreciated	$ 111,610,078	$ 3,132,710	$ 1,100,668	$ 113,642,120
Less Accumulated Depreciation for:				
Buildings	$ 6,994,836	$ 443,114	$ -	$ 7,437,950
Improvements Other Than Buildings	3,344,863	150,686	264,796	3,230,753
Machinery and Equipment	9,047,617	950,645	401,514	9,596,748
Infrastructure	28,202,204	3,074,347	-	31,276,551
Total Accumulated Depreciation	$ 47,589,520	$ 4,618,792	$ 666,310	$ 51,542,002
Total Capital Assets, Being Depreciated, Net	$ 64,020,558	$ (1,486,082)	$ 434,358	$ 62,100,118
GOVERNMENTAL ACTIVITIES CAPITAL ASSETS, NET	$ 109,376,620	$ 3,903,410	$ 1,275,416	$ 112,004,614

Depreciation expense was charged to Governmental Type activities as follows:

Governmental Activities:	Amount
General Government	$ 18,001
Security of Person/ Property	313,858
Physical Environment	100,608
Transportation, Including Depreciation of General Infrastructure Assets	2,728,927
Culture and Recreation	408,926
Internal Service Funds	783,676
Total Depreciation Expense - Governmental Activities	$ 4,353,996

Summary of changes: Business Type Activities

Description	Balance 1/1/14	Increases	Decreases	Balance 12/31/14
Business-Type Activities				
Capital Assets, Not Being Depreciated:				
Land	$ 3,636,400	$ -	$ 152,884	$ 3,483,516
Construction Work in Progress	1,053,120	148,976	646,426	555,670
Total Capital Assets, Not Being Depreciated	$ 4,689,520	$ 148,976	$ 799,310	$ 4,039,186
Capital Assets, Being Depreciated:				
Buildings	$ 56,676,269	$ -	$ -	$ 56,676,269
Improvements Other Than Buildings	70,575,931	1,827,614	-	72,403,545
Machinery and Equipment	1,029,521	85,044	6,184	1,108,381
Total Capital Assets, Being Depreciated	$128,281,721	$ 1,912,658	$ 6,184	$ 130,188,195
Less Accumulated Depreciation for:				
Buildings	$ 17,032,010	$ 1,779,760	$ -	$ 18,811,770
Improvements Other Than Buildings	31,490,714	2,207,717	-	33,698,431
Machinery and Equipment	698,264	50,441	6,184	742,521
Total Accumulated Depreciation	$ 49,220,988	$ 4,037,918	$ 6,184	$ 53,252,722
Total Captial Assets, Being Depreciated, Net	$ 79,060,733	$ (2,125,260)	$ -	$ 76,935,473
BUSINESS-TYPE ACTIVITIES CAPITAL ASSETS, NET	$ 83,750,253	$ (1,976,284)	$ 799,310	$ 80,974,659

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

Wastewater	$ 3,435,349
Solid Waste	37,390
Surfacewater	565,179
Total Depreciation Expense - Business-Type Activities	$ 4,037,918

NOTE 6:
Pension Plans

Substantially all City_full-time and qualifying part-time employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit retirement plans. The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to: Department of Retirement Systems, Communications Unit, P.O. Box 48380, Olympia, WA 98504-8380; or it may be downloaded from the DRS website at www.drs.wa.gov.

Public Employees' Retirement System (PERS) Plans 1, 2, and 3

Plan Description

The Legislature established PERS in 1947. Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior courts; employees of legislative committees; employees of district and municipal courts; and employees of local governments. Membership also includes higher education employees not participating in higher education retirement programs. Approximately 49 percent of PERS salaries are accounted for by state employment. PERS retirement benefit provisions are established in Chapters 41.34 and 41.40 RCW and may be amended only by the State Legislature.

PERS is a cost-sharing multiple-employer retirement system comprised of three separate plans for membership purposes: Plans 1 and 2 are defined benefit plans and Plan 3 is a defined benefit plan with a defined contribution component.

PERS members who joined the system by September 30, 1977 are Plan 1 members. Those who joined on or after October 1, 1977 and by either, February 28, 2002 for state and higher education employees, or August 31, 2002 for local government employees, are Plan 2 members unless they exercised an option to transfer their membership to Plan 3. PERS members joining the system on or after March 1, 2002 for state and higher education employees, or September 1, 2002 for local government employees have the irrevocable option of choosing membership in either PERS Plan 2 or Plan 3. The option must be exercised within 90 days of employment. Employees who fail to choose within 90 days default to Plan 3.

PERS is comprised of and reported as three separate plans for accounting purposes: Plan 1, Plan 2/3, and Plan 3. Plan 1 accounts for the defined benefits of Plan 1 members. Plan 2/3 accounts for the defined benefits of Plan 2 members, and the defined benefit portion of benefits for Plan 3 members. Plan 3 accounts for the defined contribution portion of benefits for Plan 3 members. Although members can only be a member of either Plan 2 or Plan 3, the defined benefit portions of Plan 2 and Plan 3 are accounted for in the same pension trust fund. All assets of this Plan 2/3 may legally be used to pay the defined benefits of any of the Plan 2 or Plan 3 members or beneficiaries, as defined by the terms of the plan. Therefore, Plan 2/3 is considered to be a single plan for accounting purposes.

PERS Plan 1 and Plan 2 retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to the PERS Plan 1 and Plan 2 defined benefit plans accrue interest at a rate specified by the Director of DRS. During DRS' Fiscal Year 2013, the rate was five and one-half percent compounded quarterly. Members in PERS Plan 1 and Plan 2 can elect to withdraw total employee contributions and interest thereon, in lieu of any retirement benefit, upon separation from PERS-covered employment.

PERS Plan 1 members are vested after the completion of five years of eligible service.

PERS Plan 1 members are eligible for retirement from active status at any age with at least 30 years of service, at age 55 with 25 years of service, or at age 60 with at least 5 years of service. Plan 1 members retiring from inactive status prior to the age of 65 may receive actuarially reduced benefits.

The monthly benefit is 2 percent of the average final compensation (AFC) per year of service, but the benefit may not exceed 60 percent of the AFC. The AFC is the monthly average of the 24 consecutive highest-paid service credit months.

PERS Plan 1 retirement benefits are actuarially reduced to reflect the choice, if made, of a survivor option.

Plan 1 members may elect to receive an optional COLA that provides an automatic annual adjustment based on the Consumer Price Index. The adjustment is capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 1 provides duty and non-duty disability benefits. Duty disability retirement benefits for disablement prior to the age of 60 consist of a temporary life annuity. The benefit amount is $350 a month, or two-thirds of the monthly AFC, whichever is less. The benefit is reduced by any workers' compensation benefit and is payable as long as the member remains disabled or until the member attains the age of 60, at which time the benefit is converted to the member's service retirement amount.

A member with five years of covered employment is eligible for non-duty disability retirement. Prior to the age of 55, the benefit amount is 2 percent of the AFC for each year of service reduced by 2 percent for each year that the member's age is less than 55. The total benefit is limited to 60 percent of the AFC and is actuarially reduced to reflect the choice of a survivor option. Plan 1 members may elect to receive an optional COLA amount (based on the Consumer Price Index), capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 2 members are vested after the completion of five years of eligible service. Plan 2 members are eligible for normal retirement at the age of 65 with five years of service. The monthly benefit is 2 percent of the AFC per year of service. The AFC is the monthly average of the 60 consecutive highest-paid service months. There is no cap on years of service credit; and a cost-of-living allowance is granted (based on the Consumer Price Index), capped at 3 percent annually.

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

PERS Plan 2 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions, if hired prior to May 1, 2013:

- With a benefit that is reduced by 3 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 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of 5 percent for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service.

PERS Plan 2 retirement benefits are actuarially reduced to reflect the choice, if made, of a survivor option.

PERS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component and member contributions finance a defined contribution component. As established by Chapter 41.34 RCW, employee contribution rates to the defined contribution component range from 5 percent to 15 percent of salaries, based on member choice. Members who do not choose a contribution rate default to a 5 percent rate. There are currently no requirements for employer contributions to the defined contribution component of PERS Plan 3.

PERS Plan 3 defined contribution retirement benefits are dependent upon the results of investment activities. Members may elect to self-direct the investment of their contributions. Any expenses incurred in conjunction with self-directed investments are paid by members. Absent a member's self-direction, PERS Plan 3 contributions are invested in the Retirement Strategy Fund that assumes the member will retire at age 65.

For DRS' Fiscal Year 2013, PERS Plan 3 employee contributions were $99.0 million, and plan refunds paid out were $69.4 million.

The defined benefit portion of PERS Plan 3 provides members a monthly benefit that is 1 percent of the AFC per year of service. The AFC is the monthly average of the 60 consecutive highest-paid service months. There is no cap on years of service credit, and Plan 3 provides the same cost-of-living allowance as Plan 2.

Effective June 7, 2006, PERS Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years of service, if twelve months of that service are earned after age 44; or after five service credit years earned in PERS Plan 2 by June 1, 2003. Plan 3 members are immediately vested in the defined contribution portion of their plan.

Vested Plan 3 members are eligible for normal retirement at age 65, or they may retire early with the following conditions and benefits:

- If they have at least ten service credit years and are 55 years old, the benefit is reduced by an ERF that varies with age, for each year before age 65.
- If they have 30 service credit years and are at least 55 years old, and were hired before May 1, 2013, they have the choice of a benefit that is reduced by 3 percent for each year before age 65; or a benefit with a smaller (or no) reduction factor (depending on age) that imposes stricter return-to-work rules.
- If they have 30 service credit years, are at least 55 years old, and were hired after May 1, 2013, they have the option to retire early by accepting a reduction of 5 percent for each year before age 65.

PERS Plan 3 benefits are actuarially reduced to reflect the choice, if made, of a survivor option.

PERS Plan 2 and Plan 3 provide disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 monthly benefit amount is 2 percent of the AFC per year of service. For Plan 3, the monthly benefit amount is 1 percent of the AFC per year of service. These disability benefit amounts are actuarially reduced for each year that the member's age is less than 65, and to reflect the choice of a survivor option. There is no cap on years of service credit, and a cost-of-living allowance is granted (based on the Consumer Price Index) capped at 3 percent annually.

PERS members meeting specific eligibility requirements have options available to enhance their retirement benefits. Some of these options are available to their survivors.

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

From January 1, 2007 through December 31, 2007, judicial members of PERS were given the choice to elect participation in the Judicial Benefit Multiplier (JBM) Program enacted in 2006. Justices and judges in PERS Plan 1 and Plan 2 were able to make an irrevocable election to pay increased contributions that would fund a retirement benefit with a 3.5 percent multiplier. The benefit would be capped at 75 percent of AFC. Judges in PERS Plan 3 could elect a 1.6 percent of pay per year of service benefit, capped at 37.5 percent of AFC.

Newly elected or appointed justices and judges who chose to become PERS members on or after January 1, 2007, or who had not previously opted into PERS membership, were required to participate in the JBM Program.

There are 1,176 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2013:

Retirees and Beneficiaries Receiving Benefits	85,328
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	31,047
Active Plan Members Vested	150,706
Terminated Plan Members Nonvested	101,191
Total	**368,272**

Funding Policy

Each biennium, the state Pension Funding Council adopts PERS Plan 1 employer contribution rates, PERS Plan 2 employer and employee contribution rates, and PERS Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statute at 6 percent for state agencies and local government unit employees, and at 7.5 percent for state government elected officials. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. Under PERS Plan 3, employer contributions finance the defined benefit portion of the plan and member contributions finance the defined contribution portion. The Plan 3 employee contribution rates range from 5 percent to 15 percent.

As a result of the implementation of the Judicial Benefit Multiplier Program in January 2007, a second tier of employer and employee rates was developed to fund, along with investment earnings, the increased retirement benefits of those justices and judges that participate in the program

The methods used to determine the contribution requirements are established under state statute in accordance with Chapters 41.40 and 41.45 RCW.

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2014, are as follows:

Members Not Participating in JBM:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer*	9.21%**	9.21%**	9.21%***
Employee	6.00%****	4.92%****	*****

* The employer rates include the employer administrative expense fee currently set at 0.18%.
** The employer rate for state elected officials is 13.73% for Plan 1 and 9.21% for Plan 2 and Plan 3.
*** Plan 3 defined benefit portion only.
**** The employee rate for state elected officials is 7.50% for Plan 1 and 4.92% for Plan 2.
***** Variable from 5.0% minimum to 15.0% maximum based on rate selected by the PERS 3 member.

Both the City of Mount Vernon and the employees made the required contributions. The City's required contributions for the years ended December 31 were as follows:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
2014	$5,920	$480,016	$212,442
2013	$8,703	$393,276	$181,955
2012	$8,732	$333,149	$152,703

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

<u>Plan Description</u>

LEOFF was established in 1970 by the Legislature. Membership includes all full-time, fully compensated, local law enforcement commissioned officers, firefighters and, as of July 24, 2005, emergency medical technicians. LEOFF membership is comprised primarily of non-state employees, with Department of Fish and Wildlife enforcement officers, who were first included effective July 27, 2003, being an exception. LEOFF retirement benefit provisions are established in chapter 41.26 RCW and may be amended only by the State Legislature.

LEOFF is a cost-sharing multiple-employer retirement system comprised of two separate defined benefit plans. LEOFF members who joined the system by September 30, 1977 are Plan 1 members. Those who joined on or after October 1, 1977 are Plan 2 members.

Effective July 1, 2003, the LEOFF Plan 2 Retirement Board was established by Initiative 790 to provide governance of LEOFF Plan 2. The Board's duties include adopting contribution rates and recommending policy changes to the Legislature.

LEOFF retirement benefits are financed from a combination of investment earnings, employer and employee contributions, and a special funding situation in which the state pays through legislative appropriations. Employee contributions to the LEOFF Plan 1 and Plan 2 defined benefit plans accrue interest at a rate specified by the Director of DRS. During DRS' Fiscal Year 2013, the rate was five and one-half percent compounded quarterly. Members in LEOFF Plan 1 and Plan 2 can elect to withdraw total employee contributions and interest earnings, in lieu of any retirement benefit, upon separation from LEOFF-covered employment.

LEOFF Plan 1 members are vested after the completion of five years of eligible service. Plan 1 members are eligible for retirement with five years of service at the age of 50.

The benefit per year of service calculated as a percent of final average salary (FAS) is as follows:

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

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

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

A one-time duty-related death benefit is provided to the beneficiary or the estate of a LEOFF Plan 1 member who dies as a result of injuries or illness sustained in the course of employment, or if the death resulted from an occupational disease or infection that arose naturally and proximately out of the member's covered employment, if found eligible by the Department of Labor and Industries.

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

LEOFF Plan 2 members are vested after the completion of five years of eligible service.

Plan 2 members are eligible for retirement at the age of 53 with five years of service, or at age 50 with 20 years of service. Plan 2 members receive a benefit of 2 percent of the FAS per year of service (the FAS is based on the highest consecutive 60 months), actuarially reduced to reflect the choice of a survivor option. 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 3 percent for each year prior to age 53. Otherwise, the benefits are actuarially reduced for each year prior to age 53. A cost-of-living allowance is granted (based on the Consumer Price Index), capped at 3 percent annually.

LEOFF Plan 2 provides disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 benefit amount is 2 percent of the FAS for each year of service. Benefits are reduced to reflect the choice of survivor option and for each year that the member's age is less than 53, unless the disability is duty-related. If the member has at least 20 years of service and is age 50, the reduction is 3 percent for each year prior to age 53.

A disability benefit equal to 70 percent of their FAS, subject to offsets for workers' compensation and Social Security disability benefits received, is also available to those LEOFF Plan 2 members who are catastrophically disabled in the line of duty and incapable of future substantial gainful employment in any capacity. Effective June 2010, benefits to LEOFF Plan 2 members who are catastrophically disabled include payment of eligible health care insurance premiums.

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

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

A one-time duty-related death benefit is provided to the beneficiary or the estate of a LEOFF Plan 2 member who dies as a result of injuries or illness sustained in the course of employment, or if the death resulted from an occupational disease or infection that arose naturally and proximately out of the member's covered employment, if found eligible by the Department of Labor and Industries.

Benefits to eligible surviving spouses and dependent children of LEOFF Plan 2 members killed in the course of employment include the payment of eligible health care insurance premiums.

Legislation passed in 2009 provides to the Washington state registered domestic partners of LEOFF Plan 2 members the same treatment as married spouses, to the extent that the treatment is not in conflict with federal laws.

LEOFF members meeting specific eligibility requirements have options available to enhance their retirement benefits. Some of these options are available to their survivors.

There are 374 participating employers in LEOFF. Membership in LEOFF consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2013:

Retirees and Beneficiaries Receiving Benefits	10,511
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	699
Active Plan Members Vested	16,830
Terminated Plan Members Nonvested	1,600
Total	**29,640**

Funding Policy

Employer and employee contribution rates are developed by the Office of the State Actuary to fully fund the plans. Starting on July 1, 2000, Plan 1 employers and employees contribute zero percent, as long as the plan remains fully funded. Plan 2 employers and employees are required to pay at the level adopted by the LEOFF Plan 2 Retirement Board.

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 DRS' Fiscal Year 2014, the state contributed $55.6 million to LEOFF Plan 2.

The methods used to determine the contribution requirements are established under state statute in accordance with Chapters 41.26 and 41.45 RCW.

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2014, are as follows:

	LEOFF Plan 1	LEOFF Plan 2
Employer*	0.18%	5.23%
Employee	0.00%	8.41%
State	N/A	3.36%**

*The employer rates include the employer administrative expense fee currently set at 0.18%.

** The City recognized $226,807 in on-behalf payments from the State for 2014

Both the City of Mount Vernon and the employees made the required contributions. The City's required contributions for the years ended December 31 were as follows:

	LEOFF Plan 1	LEOFF Plan 2
2014	$0	$340,886
2013	$0	$324,640
2012	$0	$332,277

Other Retirement Systems – Volunteer Firemen Relief and Pension Fund

The Volunteer Fire Fighters' Relief and Pension (VFR&P) Fund System is a cost-sharing multiple-employer retirement system that was created by the legislature in 1945 under Chapter 41.16 RCW. It provides pension, disability and survivor benefits. Membership in the system requires service with a fire department of an electing municipality of Washington State except those covered by LEOFF. The system is funded through member contributions of $30 per year; employer contributions of $30 per year; 40 percent of the Fire Insurance Premium Tax; and earnings from the investment of moneys by the Washington State Investment Board. Members do not earn interest on their contributions; however, they may elect to withdraw their contribution upon termination.

The City's VFR&P cost and the percentage of VFR&P cost contributed to the plan for 2014 and the two preceding years were as follows:

Fiscal Year Ending	Annual VFR&P Cost	Contribution as a Percentage of VFR&P Cost
December 31, 2012	$480	100%
December 31, 2013	$480	100%
December 31, 2014	$390	100%

Firemen's Pension Plan

Plan Description

The City is the administrator of the Firemen's Pension Plan (FPP), which is a closed, single-employer, defined benefit pension plan that was established in conformance with RCW Chapter 41.18. The costs of administering the Plan are paid from the Firemen's Pension Fund. The plan provided retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Retirement benefit provisions are established in state statute and may be amended only by the State Legislature. Membership is limited to firefighters employed prior to March 1, 1970, when the LEOFF retirement system was established. The City's obligation under the Firemen's Pension fund consists of paying the difference between pension and medical benefits provided by LEOFF and those provided by the Firemen's Pension Fund for covered firefighters who retire after March 1, 1970.

Membership of the Firemen's Pension fund consisted of the following at January 1, 2013; 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 financial statements of the FPP are prepared using the accrual basis of accounting. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. All plan investments are recorded at fair value. Securities traded on a national exchange are valued at the last reported sales price on the government's balance sheet. Securities without an established market are reported at estimated fair value.

Funding Policy

Under State law, the Firemen's Pension Fund (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.

Annual Pension Cost

The benefits provided by the Plan are potentially in excess of the State's LEOFF plan. For funding purposes and accruing costs, the benefits are measured by a modified aggregate projected benefit method, with the annual cost spread over the period ending December 31, 2013. Under this method the required contribution is the portion of the actuarial present value of benefits allocated to a valuation year. The actuarial accrued liability is equal to the actuarial value of assets. This cost method is not appropriate for GASB Statements 25 and 27 purposes though it is still recommended for funding purposes.

The future investment earnings of the assets are assumed to accrue at an annual rate of 2%. Salaries are assumed to increase at the rate of 3.5% per annum. This assumption is for future inflation increases only. Since members have at least 20 years of service, no additional increase is assumed for merit increases. Certain benefits increase at the same rate as the salaries for active members of the same rank the retiree had attained at retirement. These salaries were assumed to increase at the rate of 3.5% per annum. Other benefits increase at the same rate as the Consumer Price Index increases. The CPI was assumed to increase at the rate of 2.5% per annum.

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

Schedule of Funding Progress

The funded status of the plan as of January 1, 2013; the most recent actuarial valuation date, is as follows:

(In thousands)

Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liabilities Entry Age	Unfunded Actuarial Accrued Liabilities (UAAL)	Funded Ratio	Covered Payroll *	UAAL as a Percentage of Covered Payroll
January 1, 2013	730	93	(637)	785%	0	NA

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

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

Schedule of Employer Contributions

Fiscal Year Ending	Employer Contributions [a]	Fire Insurance Premiums	Total Employer Contributions	Annual Required Contribution	Percentage of ARC Contributed
December 31, 2009	(117,537)	27,849	(89,688)	(53,780)	NA
December 31, 2010	(107,120)	29,654	(77,466)	(53,780)	NA
December 31, 2011	(111,991)	30,975	(81,016)	(44,532)	NA
December 31, 2012	(100,682)	29,496	(71,186)	(44,532)	NA
December 31, 2013	(99,209)	32,683	(66,526)	(46,908)	NA
December 31, 2014	(89,300)	36,194	(53,106)	(46,908)	NA

[a] Employer contributions for pensions are total contribution to fund, net of contributions transferred out from the fund for medical expenses under RCW 41.26.150 and administrative expenses.

Three-Year Trend Information

Fiscal Year Ending	Annual Pension Cost (APC)	Contribution as a Percentage of APC	Net Pension Obligation (NPO)
December 31, 2012	(29,166)	NA	(274,164)
December 31, 2013	(32,595)	NA	(240,233)
December 31, 2014	(33,383)	NA	(220,510)

Annual Pension Cost and Net Pension Obligation

Annual Required Contribution (ARC)	Fiscal Year Ending December 31, 2013	Fiscal Year Ending December 31, 2014
(1) Annual Normal Cost (BOY)	$ -	$ -
(2) Amortization of UAAL (BOY)	(45,988)	(45,988)
(3) Interest to EOY [(1) + (2)]x i [a]]	(920)	(920)
(4) ARC at EOY [(1) + (2) +(3)]	(46,908)	(46,908)
(5) Interest on NPO	(5,483)	(4,805)
(6) Adjustment to ARC	(19,796)	(18,330)
(7) Annual Pension Cost (APC) [(4)+(5)-(6)]	(32,595)	(33,383)
(8) a. Fire insurance premiums	32,683	36,194
b. Disbursements for non-pension	(7,600)	-
c. Contributions to City for OPEB costs	(91,609)	(89,300)
d. Employer Contributions [b]	(66,526)	(53,106)
(9) Change in NPO [(7)-(8)]	33,931	19,723
(10) NPO at BOY [(11)prior year]	(274,164)	(240,233)
(11) NPO at EOY [(9)+(10)]	$ (240,233)	$ (220,510)

[a] "I" is the assumed interest rate: 2% in 2013 and 2014.

[b] Employer contributions for pensions are total contribution to fund, net of contributions transferred out from the fund for medical expenses under RCW 41.26.150 and administrative expenses.

Because the Firemen's Pension Fund is considered super funded, the plan makes contributions to the City's General Fund for LEOFF 1 OBEP 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, 2013 by Milliman Actuaries is available by contacting the City of Mount Vernon Finance Department at 910 Cleveland Ave., Mount Vernon WA 98273.

NOTE 7:
Other Postemployment Benefits

Plan Description

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

Funding Policy

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

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, 2014. 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 $2,929,546 is included as a non-current liability on the Statement of Net Position

Determination of Annual Required Contribution:	Fiscal Year Ending December 31, 2013	Fiscal Year Ending December 31, 2014
Normal cost at year end	$ 35,558	$ 28,396
Amortization of UAAL *	900,892	856,850
Annual Required Contribution	$ 936,450	$ 885,246
Determination of Net OPEB Obligation:		
Annual Required Contribution	$ 936,450	$ 885,246
Interest on prior year Net OPEB Obligation	72,898	96,805
Adjustment to ARC	(163,912)	(217,669)
Annual OPEB Cost	845,436	764,382
Contributions Made	(247,746)	(254,969)
Increase in Net OPEB Obligation	597,690	509,413
Net OPEB Obligation - beginning of year	1,822,443	2,420,133
Net OPEB Obligation - end of year	$ 2,420,133	$ 2,929,546

*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 2012 to 2014 were as follows:

Fiscal Year Ending	Annual OPEB Cost	Contribution as a Percentage of OPEB Cost	Net OPEB Obligation
December 31, 2012	620,486	55.0%	1,822,443
December 31, 2013	845,436	29.3%	2,420,133
December 31, 2014	764,382	33.4%	2,929,546

Funded Status and Funding Progress

As of December 31, 2014 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 2014 were as follows.

(In thousands)

Fiscal Year Ended	Actuarial Value of Assets	Actuarial Accrued Liability Entry Age	Unfunded Actuarial Accrued Liabilities (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
December 31, 2014	0	9,527	9,527	0%	320	2977%

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 multiyear 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, 2011 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, 2014 the City had contractual obligations on the following construction projects:

Downtown Waterfront Improvements	$	283,857
Public Works/ Environmental Services		388,220
Drainage Utility Projects		42,055
Sewer Utility Projects		25,616
Total Contractual Commitments	$	739,748

NOTE 9:

Interfund Receivables, Payables and Transfers

Due To/ From Other Funds:

The composition of interfund balances as of December 31, 2014 is as follows:

Receivable Fund	Payable Fund	Amount
Governmental	Major	
Internal Service Fund	Government Fund	$ 809,393
Equipment Replacement	Downtown/Waterfront Area Fund	

The outstanding balances between funds resulted from the reclassification of a credit balance in an asset account.

Interfund Transfers:

Fund	Transfer In	Transfer Out
General Fund	$ 151,000	$ -
Downtown & Waterfront Cap Proj Fund	250,000	-
Wastewater Utility Fund		100,000
Other (non-major) Government Funds	807,755	1,108,755
Total	$ 1,208,755	$ 1,208,755

Non-eliminated transfers between Business-Type and Governmental Activities on the Statement of Activities consist of a $100,000 transfer between the Wastewater Utility and the Waterfront Development Capital Project Fund, Major Government Fund.

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.

Purpose	Interest Rates	Issued Amount	Outstanding at 12/31/14
2009 LTGO Refunding Bond	3.50%	$ 900,000	$ 330,000
2009 UTGO Refunding Bond	3.15%	3,315,000	855,000
		$ 4,215,000	$ 1,185,000

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

December 31	Principal	Interest
2015	$ 380,000	$ 38,483
2016	395,000	26,145
2017	410,000	13,317
Total	$ 1,185,000	$ 77,945

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:

Year Ending	Government Activities	
December 31	Principal	Interest
2015	$ 300,000	$ 3,365
2016	100,000	3,500
2017	100,000	9,980
2018	100,000	9,100
2019	100,000	7,760
2020 - 2022	300,000	12,360
Total	$ 1,000,000	$ 46,065

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 $13,225,935 and are being repaid from the Wastewater Utility Fund and the Surface Water Utility Fund. One loan with an outstanding principal balance of $805,000 is being repaid from the City's Capital Improvement Fund with Real Estate Excise Tax money. All loans have a 20 year term and an interest rate of .5%.

Year Ending	Government Activities		Business-Type Activities	
December 31	Principal	Interest	Principal	Interest
2015	$ 115,000	$ 4,025	$ 1,192,551	$ 74,595
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 - 2024	230,000	1,725	4,975,482	145,233
2025 - 2028	-	-	2,846,439	31,874
Total	$ 805,000	$ 16,100	$ 13,225,935	$ 463,620

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, 2014 is $732,415.

$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, 2014 is $13,337,387

Year Ending	Business-Type Activities	
December 31	Principal	Interest
2015	$ 938,833	$ 373,728
2016	966,574	345,988
2017	995,178	317,384
2018	1,024,675	287,887
2019	851,399	259,663
2020 - 2024	4,605,050	950,259
2025 - 2029	4,688,093	311,685
Total	$ 14,069,802	$ 2,846,594

Other Payables

Equipment Leases: The City leases equipment under non-cancelable operating leases. Total costs for such leases were $66,807 for the year ended December 31,

2014. The future minimum lease payments for these leases are as follows:

Governmental Activities	
Year	Amount
2015	$ 65,978
2016	53,882
2017	21,671
2018	10,687
	$ 152,218

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, 2014 was as follows:

	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
Governmental Activities:					
Bonds Payable:					
General Obligation Bond:	$ 1,725,000	$ -	$ 540,000	$ 1,185,000	$ 380,000
Total Bonds Payable	1,725,000	-	540,000	1,185,000	380,000
PWTF Loan	920,000	-	115,000	805,000	115,000
HUD Section 108 Loan	-	1,000,000	-	1,000,000	300,000
Net OPEB Obligation	2,420,133	764,382	254,969	2,929,546	-
Compensated Absences	1,473,465	1,081,641	1,040,660	1,514,446	711,046
Governmental Activity Long-Term Liabilities	$ 6,538,598	$ 2,846,023	$1,950,629	$ 7,433,992	$1,506,046
Business-Type Activities					
PWTF Loan	$ 14,418,486	$ -	$1,192,551	$13,225,935	$1,192,551
DOE Loan	14,981,730	-	911,928	14,069,802	938,833
Compensated Absences	160,428	122,767	125,453	157,742	89,256
Business-Type Activity Long-Term Liabilities	$ 29,560,644	$ 122,767	$2,229,932	$27,453,479	$2,220,640

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, 2014, there were a number of damage claims and lawsuits pending against the City. However, in our opinion, with which the City Attorney concurs, neither the potential liability from any single claim or lawsuit, nor the aggregate potential liability resulting from all pending claims or lawsuits, would materially affect the financial condition of the City.

Contingencies Under Grant Provisions

The City participates in a number of federal and state assisted programs. These grants are subject to audit by the grantors of their representatives. Such audits could result in requests for reimbursement to grantor agencies for expenditures disallowed under the terms of the grants. The City's management believes that such disallowances, if any, will be immaterial.

Other Contingencies

There are a number of old landfill sites within the City limits. All of which have been closed for over 30 years. The City owns three sites, two of which were converted to parks. The requirement for post remediation monitoring of these sites is minimal. The City may incur some liability in the event contamination is discovered, however, there is no known litigation pending at this time. Therefore, the City has no accrued liabilities for landfills at this time. Additionally the City has no material pollution remediation obligations as defined by GASB Statement No. 49.

Bond Indentures

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

NOTE 12:
Risk Management

The City of Mount Vernon manages loss risks through private insurance, risk pooling, self-insurance or risk retention. The various risk categories and coverages are described below. There have been no significant reductions or other coverage changes from the prior year. Furthermore, settlements did not exceed insurance coverage during any of the past three years.

Property Loss/Hazards Coverage

The City is exposed to various risks of loss related to theft of, damage to and destruction of assets; and natural disasters for which the government carries commercial insurance.

Liability Coverage

The city of Mount Vernon is a member of the Washington Cities Insurance Authority (WCIA). Utilizing Chapter 48.62 RCW (self-insurance regulation) and Chapter 39.34 RCW (Interlocal Cooperation Act), nine cities originally formed WCIA on January 1, 1981. WCIA was created for the purpose of providing a pooling mechanism for jointly purchasing insurance, jointly selfinsuring, and / or jointly contracting for risk management services. WCIA has a total of 176 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 is 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 2014 totaled $2,206,470 and employee contributions totaled $182,767. 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, 2014, 263 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 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 the AWC Board of Directors President and

Vice President. 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:

Fund		Amount
Criminal Justice Funds	$	36,969
Total Restricted for Public Safety	$	36,969
City Street and Arterials	$	-
Paths and Trails		83,925
REET II - Streets		239,103
Road Improvements		424,000
Total Restricted for Streets and Transportation	$	747,028
Park Impact Fees	$	90,916
Fire Impact Fees		87,731
Transportation Impact Fees		81,323
Tourism Promotion		177,876
Total Restricted for Economic Environment	$	437,846
UTGO Bond Fund	$	16,630
LTGO Bond Fund		2,116
Total Restricted for Debt Service	$	18,746
Municipal Court - Capital Improvements	$	79,675
REET I - Capital Improvements		272,019
Downtown and Waterfront Improvements		225,000
Total Restricted for Other Capital Improvements	$	576,694

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".

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

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
GENERAL FUND
For the Year Ended December 31, 2014

	Original Budget 2014	Final Budget 2014	Actual 2014	Variance with Final Budget Positive (Negative)
REVENUES				
Taxes				
Property	$ 4,562,129	$ 4,562,129	$ 4,568,535	$ 6,406
Sales	5,250,000	5,365,000	5,568,024	203,024
Utility	3,708,500	3,708,500	3,678,982	(29,518)
Public safety pass-through sales	-	1,100,000	979,683	(120,317)
Other	680,000	680,000	679,704	(296)
Licenses and permits	992,000	992,000	1,027,434	35,434
Intergovernmental revenues	1,023,342	1,032,273	612,299	(419,974)
Charge for services	2,124,700	2,124,700	1,853,842	(270,858)
Fines and forfeitures	281,000	281,000	232,513	(48,487)
Investment income	88,500	88,500	47,964	(40,536)
Other revenue	199,560	199,560	189,110	(10,450)
Total Revenues	18,909,731	20,133,662	19,438,090	(695,572)
EXPENDITURES				
Current				
General government	4,016,331	3,838,531	3,472,819	365,712
Security of persons and property	12,981,320	14,365,251	13,960,296	404,955
Physical environment	1,339,311	1,352,111	1,274,234	77,877
Economic environment	1,016,136	1,021,136	846,159	174,977
Capital outlay	181,907	181,907	145,779	36,128
Debt service				
Principal	200,000	200,000	-	200,000
Interest and debt issue costs	7,500	7,500	76	7,424
Total Expenditures	19,742,505	20,966,436	19,699,363	1,267,073
Excess (deficiency) of revenues over (under) expenditures	(832,774)	(832,774)	(261,273)	571,501
OTHER FINANCING SOURCES (USES)				
Transfers in	163,000	163,000	163,000	-
Transfers out	(20,000)	(20,000)	(20,000)	-
Total other financing sources (uses)	143,000	143,000	143,000	-
Net change in fund balances	(689,774)	(689,774)	(118,273)	571,501
Fund Balances - January 1	3,825,827	3,825,827	3,825,827	-
Fund Balances - December 31	$ 3,136,053	$ 3,136,053	$ 3,707,554	$ 571,501

Page 1 of 2

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

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, 2014

		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	$ 4,568,535	$ 1,105,629	$ 1,046,509	$ -	$ -	$ -	$ 6,720,673
Sales	5,568,024	-	-	-	-	-	5,568,024
Utility	3,678,982	-	-	-	-	-	3,678,982
Public safety pass-through sales	979,683						979,683
Other	679,704	-	-	-	-	-	679,704
Licenses and permits	1,027,434	-	-	-	-	-	1,027,434
Intergovernmental revenues	612,299	-	18,808	-	-	-	631,107
Charge for services	1,853,842	182,500	24,809	-	-	-	2,061,151
Fines and forfeitures	232,513	-	26,913	-	-	-	259,426
Investment income	47,964	-	-	-	1,542	-	49,506
Other revenue	189,110	330,544	25,654	61,265	-	-	606,573
Total Revenues	19,438,090	1,618,673	1,142,693	61,265	1,542	-	22,262,263
EXPENDITURES							
Current							
General government	3,472,819	-	-	-	-	-	3,472,819
Security of persons and property	13,960,296	129,538	-	-	-	-	14,089,834
Physical environment	1,274,234	-	-	31,507	-	-	1,305,741
Economic environment	846,159	-	-	-	-	-	846,159
Culture and Recreation	-	1,358,750	1,015,919	-	-	-	2,374,669
Capital outlay	145,779	111,448	133,327	8,539	-	-	399,093
Debt service							
Principal	-	-	-	-	-	-	-
Interest and debt issue costs	76	-	-	-	-	-	76
Total Expenditures	19,699,363	1,599,736	1,149,246	40,046	-	-	22,488,391
Excess (deficiency) of revenues over (under) expenditures	(261,273)	18,937	(6,553)	21,219	1,542	-	(226,128)
OTHER FINANCING SOURCES (USES)							
Transfers in	163,000	3,000	-	-	20,000	(35,000)	151,000
Transfers out	(20,000)	-	-	(15,000)	-	35,000	-
Total other financing sources (uses)	143,000	3,000	-	(15,000)	20,000	-	151,000
Net change in fund balances	(118,273)	21,937	(6,553)	6,219	21,542	-	(75,128)
Fund Balances - January 1	3,825,827	486,107	131,853	213,444	323,466	-	4,980,697
Fund Balances - December 31	$ 3,707,554	$ 508,044	$ 125,300	$ 219,663	$ 345,008	$ -	$ 4,905,569

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

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 and December.

c. The Council makes its adjustments to the proposed budget and adopts by ordinance a final balanced budget no later than December 31.

d. Within 30 days of adoption, the final budget is available to the public.

Amending the Budget

The Mayor is authorized to transfer budgeted amounts within any fund including between departments in any fund; however, any revisions that alter the total expenditures, including interfund transfers, of a fund, or that affect the number of authorized employee positions, salary ranges, hours, or other conditions of employment must be approved by the City Council.

When City Council determines that it is in the best interest of the City to increase or decrease the appropriation for a particular fund, it may do so by ordinance.

Required Supplementary Information

Firemen's Pension Plan
Schedule of Funding Progress
(rounded to thousands)

Valuation Date		Actuarial Value of Assets		Actuarial Accrued Liabilities Entry Age		Unfunded Actuarial Accrued Liabilities (UAAL)	Funded Ratio		Covered Payroll	UAAL as a Percentage of Covered Payroll
January 1, 2003	$	1,019	$	162	$	(857)	629%	$	-	NA
January 1, 2005		1,047		177		(870)	592%		-	NA
January 1, 2007		1,099		184		(915)	597%		-	NA
January 1, 2009		1,088		357		(731)	305%		-	NA
January 1, 2011		901		233		(668)	387%		-	NA
January 1, 2013		730		93		(637)	785%		-	NA

*Since the covered payroll is $0, the UAAL as a percentage of covered payroll connot be defined.

Required Supplementary Information

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

Fiscal Year Ended	Actuarial Value of Assets	Actuarial Accrued Liabilities Entry Age	Unfunded Actuarial Accrued Liabilities (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
December 31, 2009	-	7,410	7,410	0%	282	2628%
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%

CITY OF MOUNT VERNON
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Year Ended December 31, 2014

1	2	3	4	5			6
				Expenditures			
Federal Agency Name/ Pass-Through Agency Name	**Federal Program Name**	**CFDA Number**	**Other I.D. Number**	**From Pass-Through Awards**	**From Direct Awards**	**Total**	**Foot-note Ref.**
U.S Dept of Justice Passed Through WA Dept of Commerce	Violence Against Women Formula Grants	16.588	2013-WF-AX-0055	$ 8,860		$ 8,860	
U.S Dept of Justice	Bulletproof Vest Partnership Program	16.607	FY 2012/2013 BVP		$ 4,049	4,049	
U.S Dept of Justice	Public Safety Partnership and Community Policing Grants	16.710	2010-UMWX-0342		53,469	53,469	
U.S. Dept of Housing & Urban Development	Community Development Block Grants/Entitlement Grants	14.218	B-13-MC-53-0020		76		
			B-14-MC-53-0020		72,582		
			Subtotal		72,658	72,658	3
U.S. Dept of Housing & Urban Development	Community Development Block Grants_Section 108 Loan Guarantees	14.248	B-12-MC-53-0020		1,000,000	1,000,000	
U.S. Dept of Transportation Passed Through WA DOT	Highway Planning and Construction	20.205	HSIP-000S(332) Citywide Signal Safety Improvements	45,734			
			HSIP-0538(009) College and Laventure Intersection Safety Improvements	14,839			
			SRTS-9229(001) Safe Routes to School 2010	9,158			
			Subtotal	69,731		69,731	
U.S. Dept of Transportation Passed Through WA Traffic Safety Commission (WTSC)	State and Community Highway Safety	20.600	DUI Patrol Overtime	1,479		1,479	
U.S. Dept of Transportation Passed Through WA Traffic Safety Commission (WTSC)	Occupant Protection Incentive Grants	20.602	Seatbelt Patrol Overtime	2,272		2,272	
Institute of Museum and Library Services Passed Through WA State Library	Grants to States	45.310	Digital Literacy G-4796/14-DL-005	3,005		3,005	
U.S. Dept of Homeland Security	Assistance to Firefighters Grant	97.044	EMW-2013-FR-00496		330,477	330,477	4
Total Federal Awards Expended				**$ 85,347**	**$ 1,460,653**	**$ 1,546,000**	

The accompanying notes to the Schedule of Expenditures of Federal Awards are an integral part of this Schedule.

City of Mount Vernon
Notes to the Schedule of Expenditures of Federal Awards
And State and Local Financial Assistance

NOTE 1 - BASIS OF ACCOUNTING

These schedules are prepared on the same basis of accounting as the City of Mount Vernon's financial statements. The City uses the accrual basis of accounting for all funds except governmental fund types and agency funds, which use the modified accrual basis of accounting.

NOTE 2 - PROGRAM COSTS

The amount shown as current year expenditures represents only the City's grant portion of the program costs. Entire program costs, including the City portion may be more than shown.

NOTE 3 - AMOUNTS AWARDED TO SUBRECIPIENTS

Included in the total amount expended for this program is $ 40,958 that was passed through to subrecipients who administered their own projects.

NOTE 4 - JOINT REGIONAL GRANT

Included in the total amount expended for this program is $ 76,885 of grant funded assets distributed to a local fire district as part of a joint regional grant award.

ABOUT THE STATE AUDITOR'S OFFICE

The State Auditor's Office is established in the state's Constitution and is part of the executive branch of state government. The State Auditor is elected by the citizens of Washington and serves four-year terms.

We work with our audit clients and citizens to achieve our vision of government that works for citizens, by helping governments work better, cost less, deliver higher value, and earn greater public trust.

In fulfilling our mission to hold state and local governments accountable for the use of public resources, we also hold ourselves accountable by continually improving our audit quality and operational efficiency and developing highly engaged and committed employees.

As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

Our audits look at financial information and compliance with state, federal and local laws on the part of all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits of state agencies and local governments as well as fraud, state whistleblower and citizen hotline investigations.

The results of our work are widely distributed through a variety of reports, which are available on our website and through our free, electronic subscription service.

We take our role as partners in accountability seriously, and provide training and technical assistance to governments, and have an extensive quality assurance program.

Contact information for the State Auditor's Office	
Deputy Director for Communications	Thomas Shapley Thomas.Shapley@sao.wa.gov (360) 902-0367
Public Records requests	(360) 725-5617
Main telephone	(360) 902-0370
Toll-free Citizen Hotline	(866) 902-3900
Website	www.sao.wa.gov