Office of the Washington State Auditor
Pat McCarthy

Financial Statements and Federal Single Audit Report

City of Mount Vernon

For the period January 1, 2018 through December 31, 2018

Published July 11, 2019

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Office of the Washington State Auditor
Pat McCarthy

July 11, 2019

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,

Pat McCarthy

State Auditor

Olympia, WA

Insurance Building, P.O. Box 40021 • Olympia, Washington 98504-0021 • (360) 902-0370 • Pat.McCarthy@sao.wa.gov

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City of Mount Vernon
January 1, 2018 through December 31, 2018

SECTION I – SUMMARY OF AUDITOR'S RESULTS

The results of our audit of the City of Mount Vernon are summarized below in accordance with Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

Financial Statements

We issued an unmodified opinion on the fair presentation of the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information in accordance with accounting principles generally accepted in the United States of America (GAAP).

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 Program:

- *Significant Deficiencies:* We reported no deficiencies in the design or operation of internal control over the major federal program 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 in accordance with 2 CFR 200.516(a).

Identification of Major Federal Programs

The following program was selected as the major program in our audit of compliance in accordance with the Uniform Guidance.

CFDA No.	Program or Cluster Title
20.205	Highway Planning and Construction Cluster – Highway Planning and Construction

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by the Uniform Guidance, was $750,000.

The City did not qualify as a low-risk auditee under the Uniform Guidance.

SECTION II – FINANCIAL STATEMENT FINDINGS

None reported.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported.

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
January 1, 2018 through December 31, 2018

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, as of and for the year ended December 31, 2018, 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, 2019. As discussed in Note 14 to the financial statements, during the year ended December 31, 2018, the City implemented Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*.

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.

Pat McCarthy

State Auditor

Olympia, WA

June 25, 2019

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH THE UNIFORM GUIDANCE

City of Mount Vernon
January 1, 2018 through December 31, 2018

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, with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended December 31, 2018. The City's major federal programs are identified in the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards 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 the audit requirements of Title 2 *U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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, 2018.

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 the Uniform Guidance, 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.

We noted certain matters that we have reported to the management of the City in a separate letter dated June 25, 2019.

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 the Uniform Guidance. 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.

Pat McCarthy

State Auditor

Olympia, WA

June 25, 2019

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

City of Mount Vernon
January 1, 2018 through December 31, 2018

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, as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed on page 16.

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, 2018, 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.

Matters of Emphasis

As discussed in Note 14 to the financial statements, in 2018, the City adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information listed on page 16 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 Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). 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, 2019 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.

Pat McCarthy

State Auditor

Olympia, WA

June 25, 2019

FINANCIAL SECTION

City of Mount Vernon
January 1, 2018 through December 31, 2018

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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 and financial position at the end of December 31, 2018. 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 and deferred outflows of resources exceed total liabilities and deferred inflows of resources, equaled $193,566,616 at the end of 2018. A total of 90%, or $173,991,302, of total net position is invested in capital such as streets, land, buildings and utility infrastructure. Of the remaining net position, 6.7%, or $13,074,802, of total net position is unrestricted and available to meet the City's ongoing activities and obligations, and 3.3%, or $6,500,512, is restricted for debt service and other purposes.
- The City of Mount Vernon's net position decreased by $1,857,182 in 2018, representing a .9% decrease compared to 2017 net position. The decrease was primarily the result of implementing the new Government Accounting Standards Board requirement for reporting other postemployment benefits. The City booked an adjustment to beginning net position of negative $5,358,285. See Note 14. Net position for Governmental Activities decreased 2.6% or $3,356,691, while Business-type Activities increased 2.2% or $1,499,509, compared to the prior year. Total investment in capital assets net of any related debt increased $220,682.
- Governmental fund balances at year end were $10,935,641, an increase of $923,780, or 9.2% compared to the prior year. Unassigned Fund Balance in the General Fund was $4,852,424, an increase of $124,928 compared to the prior year. As noted in the Required Supplementary Information (RSI) for the General Fund, fund balance at year end was $4,852,424, or 20 % of the final budget which complies with the City's fiscal policy to maintain a target reserve for General Fund balance of 15% of the operating budget.
- The financial statements represent fund balances as required by GASB which defines governmental fund balances into additional categories on the Balance Sheet for Governmental Funds. Of the $10,935,641 in governmental fund balances at year end, restricted fund balance is 39.7% or $4,339,005 of the total which reflects fund resources subject to externally enforceable legal restrictions; committed fund balance is 5.4% or $590,535 which represents City imposed limitations as to the use of funds by City Council action; assigned fund balance is 10.6% or $1,153,674 which reflects our City government's intended use for certain resources; and unassigned fund balance is 44.3% or $4,852,424 of total fund balance for Governmental Funds representing the excess resources of all other categorized fund balances.
- No debt was issued in 2018.

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 surface water. The City's business-type activities are self-supporting through user fees and charges.

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

The ***Statement of 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 2018, only the City's General Fund is a major 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 surface water 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 2018 compared to 2017.

Table 1
Statement of Net Position

	Governmental Activities		Business-Type Activities		Total	
	2018	2017	2018	2017	2018	2017
Current and other assets	$ 25,885,906	$ 23,153,463	$ 16,214,617	$ 16,209,736	$ 42,100,523	$ 39,363,199
Capital assets, net of accumulated depreciation	121,253,010	120,800,832	72,456,060	74,933,535	193,709,070	195,734,367
Total assets	147,138,916	143,954,295	88,670,677	91,143,271	235,809,593	235,097,566
Deferred outflows-pension	1,436,862	1,087,184	71,229	217,337	1,508,091	1,304,521
Long-term liabilities	16,623,175	11,786,464	17,537,777	20,584,000	34,160,952	32,370,464
Other liabilities	3,403,516	2,345,106	2,793,968	3,808,344	6,197,484	6,153,450
Total liabilities	20,026,691	14,131,570	20,331,745	24,392,344	40,358,436	38,523,914
Deferred inflows	3,187,939	2,192,069	204,694	262,306	3,392,633	2,454,375
Net position						
Net investment in capital assets	120,508,010	119,840,832	53,483,292	53,929,788	173,991,302	173,770,620
Restricted	4,339,005	6,913,650	2,161,507	2,085,317	6,500,512	8,998,967
Unrestricted	514,134	1,963,358	12,560,668	10,690,853	13,074,802	12,654,211
Total net position	$ 125,361,149	$ 128,717,840	$ 68,205,467	$ 66,705,958	$ 193,566,616	$ 195,423,798

The largest component of the City's net position, 90% or $173,991,302, 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 decreased 2.7% or $3,356,691, while net position of the City's business type activities increased 2.2% or $1,499,509 in 2018.

Specific to business type activities, no major projects were undertaken in 2018. Net infrastructure totaled $83,123,556, annual depreciation expense was $4,765,604 and long-term debt principal payments totaled $2,030,979 in 2018. Net position of the business type activities can only be used to finance the continuing operations of wastewater, solid waste, and surface water.

Approximately $6.5 million, or 3.5%, of the City's total net position is subject to legal restrictions. Some of the larger restrictions include net pension assets, 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 decreased $3,356,691, a 2.6% decrease in 2018 compared to 2017. The key elements of variations are as follows:

- The City implemented GASB Statement No. 75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* in 2018. This resulted in an adjustment to beginning fund balance of ($5,358,285).
- Infrastructure improvements and capital purchases in governmental activities increased $3,956,840, accumulated depreciation net change was $3,504,662 for a net increase of $350,466. Annual depreciation expense was $4,765,604 and long-term debt principal payments totaled $215,000 in 2018.
- The City capitalized the Downtown and Waterfront Revitalization Project in 2018. Vehicle *purchases* totaled $1,235,493 in 2018 comprised of several fleet vehicles for Police, Fire, Parks, Solid Waste, Street and Wastewater, which includes garbage trucks, police cars, dump trucks and a fire truck. The City's annual street maintenance and overlay program spent $1,634,588 repairing city roads in 2018. Roadway improvements constructed by private developers including right of way donated to the City totaled $156,735 in 2018. Revenues to fund capital assets are recorded as program or general revenues in the statement of activities. Capital grants and contributions which are included in program revenues funded a major portion of these projects. The associated construction expenses are not recorded as expenses in the year of construction but rather are allocated to expense over the lives of the assets through depreciation expense.
- Major tax revenues that support ongoing operations showed overall increases in 2018 compared to 2017. Property tax remained stable in 2018. Sales tax increased 9.4% in 2018, also due mainly to an increase in construction activity. Real estate excise tax and utility tax remained stable compared to 2017. Revenue from Transportation Benefit District (TBD) sales tax increased 77% compared to 2017, where only seven months were collected. All other taxes increased a total of 41% in 2018 compared to 2017.
- Charges for services increased 35% compared to 2017, of which increases in revenues like transportation impact fees and engineering fees and charges, as well as increases in interfund engineering and street services and administrative overhead charges make up the majority of the total increase. Capital grants and contributions decreased by 91.6% compared to 2017 mostly due to the completion of the Downtown & Waterfront Project, and those grants used for that purpose. The overall changes in revenues in governmental activities are indicators that our economy continues to make steady yet slow improvements after the deep recession.
- Property tax revenue increased by $25,941 in 2018, as previously noted, property tax remained stable in 2018.
- Investment earnings for government activities were $233.668 in 2018 and $83,018 in 2017, an increase of $150,650. Interest rates have increased slightly but continue to be at low levels which maintain investment earnings at comparatively low levels. Since the City holds all bonds to maturity the unrealized losses will not be realized. The primary responsibility of the City is to ensure the safety and liquidity of our investments and is being managed through a structured laddered investment portfolio.

Business-type activities net position increased by $1,499,510 at December 31, 2018, an increase of 2.2% compared to December 31, 2017.

- The Wastewater Utility net position increased by $964,863, an increase of 1.9% compared to 2017. Operating costs decreased $604,351, this was mainly due to a reduction in net pension liability expenses.
- The Solid Waste Utility had a $305,235, or 9.5% increase in net position. The Utility had $29,312 in depreciation expense and no capital purchases in 2018.
- The Surfacewater Utility net position increased $229,411, a 1.8% increase compared to 2017. The utility had depreciation expense of $602,704, and infrastructure donated by private developers of $152,666 in 2018.
- Net capital assets for business–type activities decreased $2,742,499, due to limited capital projects undertaken in 2018 which totaled $1,650,473 including $1,189,691 of donated capital contributions from developers and deletions, coupled with $4,162,697 of annual depreciation expense. Net investment in capital assets net of related debt decreased $446,496, reflecting a reduction in capital asset debt due to annual principal payments of $2,030,979, while no new long-term debt was issued in 2018.

- Wastewater Utility charges for services in 2018 increased 3.3% compared to 2017. No notable changes to service areas and no change to utility rates account for the minimal change in operating revenues. Net position in the Wastewater Utility was 76% of all business-type activities net position and 27% of total city net position. Only 17% of the utility's net position is unrestricted; 79% of net position is categorized as investment in capital assets, net of related debt.
- The Solid Waste Utility had a 5.1% increase in charges for services compared to 2017, due to increased activity levels and calls for service, as there was no increase to utility rates in 2018. Unrestricted net position represents 72% of total net position, while 28% of net position represents investment in capital assets, net of related debt.
- Charges for services in the Surfacewater Utility in 2018 increased 49% compared to 2017, which is not unexpected as there was a rate increase in 2018. Unrestricted net position represents 9.3% of total net position for the utility, while 91% of net position represents investment in capital assets, net of related debt.
- Interest and investment earnings for business-type activities increased $147,220 as compared to $49,697 in 2017. As previously stated, interest rates have increased slightly in 2018 but continue to be at low levels which maintain investment earnings at comparatively low levels.

- ***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 2018 and 2017.

Table 2
Changes in Net Position

	Governmental Activities		Business-Type Activities		Total	
	2018	2017	2018	2017	2018	2017
Revenues						
Program revenues						
Charges for service	$ 6,768,130	$ 4,998,690	$ 16,569,243	$ 15,480,466	$ 23,337,373	$ 20,479,156
Operating grants and contributions	502,246	1,651,473	57,243	25,000	559,489	1,676,473
Capital grants and contributions	563,011	6,703,691	1,189,691	1,600,688	1,752,702	8,304,379
General revenues						
Property taxes	7,595,647	7,569,733	-	-	7,595,647	7,569,733
Sales taxes	7,730,663	7,068,622	-	-	7,730,663	7,068,622
Utility taxes	4,180,841	4,186,049	-	-	4,180,841	4,186,049
Transportation Benefit District Tax	1,768,530	1,000,128	-	-	1,768,530	1,000,128
Real estate excise taxes	1,699,748	1,794,496	-	-	1,699,748	1,794,496
Other taxes	3,551,620	2,963,537	-	-	3,551,620	2,963,537
Investment interest	233,668	83,018	147,220	49,697	380,888	132,715
Miscellaneous	1,006,856	10,966	137,959	49,111	1,144,815	60,077
Total revenues	35,600,960	38,030,403	18,101,356	17,204,962	53,702,316	55,235,365
Expenses:						
General government	8,500,805	3,769,496	-	-	8,500,805	3,769,496
Security	14,398,159	15,830,775	-	-	14,398,159	15,830,775
Physical environment	1,009,749	1,191,504	-	-	1,009,749	1,191,504
Transportation	5,280,705	4,603,181	-	-	5,280,705	4,603,181
Economic environment	742,702	1,759,249	-	-	742,702	1,759,249
Culture and recreation	3,579,609	3,273,919	-	-	3,579,609	3,273,919
Interest on long-term debt	187,637	25,487	-	-	187,637	25,487
Wastewater	-	-	8,724,772	9,600,276	8,724,772	9,600,276
Solid Waste	-	-	5,482,497	5,400,168	5,482,497	5,400,168
Surfacewater	-	-	2,294,577	2,152,457	2,294,577	2,152,457
Total expenses	33,699,366	30,453,611	16,501,846	17,152,901	50,201,212	47,606,512
Changes in net position before transfers	1,901,594	7,576,792	1,599,510	52,061	3,501,104	7,628,853
Transfers, internal	100,000	1,200,757	(100,000)	(1,200,757)	-	-
Change in net position	2,001,594	8,777,549	1,499,510	(1,148,696)	3,501,104	7,628,853
Net position - beginning	123,359,555	119,940,291	66,705,958	67,854,654	190,065,513	187,794,945
Net position - ending	$ 125,361,149	$ 128,717,840	$ 68,205,467	$ 66,705,958	$ 193,566,617	$ 195,423,798

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 $10,935,641 which is 9.2% or $4,923,870 higher than at the beginning of the year.

- Fund balance in the General Fund increased $21,123, a .35% increase compared to 2017. Major services (expenditures) provided for in the General Fund increased 7.8% compared to 2017. Revenues increased 6.2% compared to 2017. Increases in most function expenditures are due to negotiated cost of living adjustments.
- Total General Fund expenditures before operating transfers out increased $2,068,772 or 7.8% in 2018 compared to 2017 while total General Fund revenues before transfers in were $1,653,072 higher than 2017. Specific major revenue activity compared to the prior year has been previously discussed.
- The General Fund is the primary operating fund of the City through which all receipts and payments of ordinary City operations are processed, unless they are required to be accounted for in another fund. Taxes are the major revenue source providing 78% of the revenues to support 2018 expenditures. The 2018 ending fund balance is 19% of the General Fund's 2018 final budget as reflected in the required supplementary information section for the General Fund Budget and Actual schedule.
- The are no major governmental funds for 2018.

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 $964,863 compared to 2017. Major impacts to net position have been addressed in the previous section on business-type activities.
- The Solid Waste Utility net position increased $305,235 in 2018 compared to 2017. Major impacts to net position have been addressed in the previous section on business-type activities.
- Net position in the Surfacewater Utility increased $229,411 compared to 2017. 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 as follows during 2018.
    - A $35,000 increase was authorized by City Council for the establishment of the Assistant Finance Director position.
    - City Council authorized the establishment of the Park Ranger position for the Mount Vernon Police Department with no budgetary increase.
    - A $10,000 increase was authorized by City Council for the establishment of an Assistant Fire Chief, Nurse Educator and 15 Firefighter Paramedics for the Mount Vernon Fire Department to accommodate the support of the new ambulance services as of January 1, 2019.
    - A $300,000 increase was authorized by City Council for additional Jail Sales Tax revenue collected to pass thru to Skagit County.

- There were budget transfers between departments within the General Fund which did not increase the overall budget. Transfers were necessary to move budget dollars to various departments in the General Fund in reasonably small amounts with the largest amounts added to the Non-Departmental fund for vacancy savings, overages in elections services and the public defense contract as well as a transfer to the Fire Department for additional salary and benefit costs due to increased overtime expenses related to the Wildland Mobilization season whereby firefighters assist in fighting wildfires across the State with 100% reimbursement of related costs. Other department budget transfers included, supplementing the City Council budget for increases in legal publications, Municipal Court for probation services, Mayor's Office for increased Skagit Council of Government expenses and to CDBG Entitlement Grant for SCCAA-Community Action Agency expenses. The transfers came from the Police Department and CDBG Entitlement Grant budgets.
- As noted the General Fund final budget as reported in the required supplementary information of the financial report for 2018 was $25,889,989 of which $24,829,999, or 96%, was expended for the year. It is typical that a small percentage of the General Fund budget remains unspent at year end. For previous years (2010 through 2017) on average of approximately 95% of the final General Fund budget is expended.

Capital Assets and Debt Administration

Capital Assets

As of December 31, 2018, the City of Mount Vernon's investment in capital assets for its governmental and business-type activities amounts to $173,831,586 (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 increased $507,462 for governmental activities, representing a .4% increase compared to 2017, with business-type activities capital assets decreasing by $446,496 or .8%. 69% of capital assets are for governmental activities with 31% attributed to business-type activities.

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

	Governmental Activities		Business-Type Activities		Total	
	2018	2017	2018	2017	2018	2017
Land	$ 33,413,695	$ 34,080,336	$ 3,826,316	$ 3,826,316	$ 37,240,011	$ 37,906,652
Buildings	6,444,463	6,512,370	30,123,628	31,867,428	36,568,091	38,379,798
Improvements other than					-	-
buildings	30,436,763	2,599,245	36,239,638	37,593,039	66,676,401	40,192,284
Machinery and equipment	7,235,978	6,193,183	603,492	378,850	7,839,470	6,572,033
Construction in progress	1,423,575	27,850,001	1,662,987	1,267,902	3,086,562	29,117,903
Infrastructure	42,166,664	43,433,825	-	-	42,166,664	43,433,825
Art	131,872	131,872	-	-	131,872	131,872
Total	$ 121,253,010	$ 120,800,832	$ 72,456,061	$ 74,933,535	$ 193,709,071	$ 195,734,367

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 $21,963,747 in bonds and notes outstanding versus $24,590,228 last year, reflecting a net decrease of $2,626,481.

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

	Governmental Activities		Business-Type Activities		Total	
	2018	2017	2018	2017	2018	2017
General obligation bonds	$ -	$	$ -	$ -	$ -	$ -
Revenue bonds and notes	745,000	960,000	18,972,769	21,003,747	19,717,769	21,963,747
Total	$ 745,000	$ 960,000	$ 18,972,769	$ 21,003,747	$ 19,717,769	$ 21,963,747

No new debt was issued in 2018.

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

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.

Net Pension Liability

Government Accounting Standards Board standards are national and apply to all government financial reports prepared in accordance with generally accepted accounting principles. When accounting for pension costs, GASB 27 focused on a funding approach. This approach limited pension costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's net pension liability. GASB 68 takes an earnings approach to pension accounting; however, the nature of Washington's statewide pension systems and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

GASB 68 requires the net pension liability to equal the City's proportionate share of each plan's collective:

1. Present value of estimated future pension benefits attributable to active and inactive employees' past service.
2. Minus plan assets available to pay these benefits.

GASB notes that pension obligations, whether funded or unfunded, are part of the "employment exchange" – that is, the employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension. GASB noted that the unfunded portion of this pension promise is a present obligation of the government, part of a bargained-for benefit to the employee, and should accordingly be reported by the government as a liability since they received the benefit of the exchange. However, the City is not responsible for certain key factors affecting the balance of this liability. In Washington, the employee shares the obligation of funding pension benefits with the employer. The amounts they contribute are calculated as a percentage of the employee's pay. In a few plans, those percentages are set in statute, but for the most part, the legislature can adjust the rates as needed. The Washington State Investment Board collectively invests the contributions and the earnings on those investments help to fund the plans.

The Office of State Actuary (OSA) performs a valuation of the retirement plans every other year, studying the experience of each and analyzing the effects of anticipated economic and demographic changes. In the valuation, OSA determines how much money must be contributed annually to pay for the benefits members are expected to earn during their public service.

OSA's recommendations then go to the Pension Funding Council, which is responsible for evaluating and adopting employee and employer contribution rates (subject to review by the Legislature). There is one exception – rates for the Law Enforcement Officers' and Fire Fighters' (LEOFF) Plan 2 are evaluated and adopted by the LEOFF Plan 2 Retirement Board.

A plan with assets that equal its liabilities is termed *fully funded*, which means the value of the assets on hand equals the plan's accrued liabilities. Any gap between the benefits earned and a retirement plan's assets is referred to as an unfunded liability. A plan with unfunded liability is considered underfunded.

Washington State has fully funded and underfunded state retirement plans. Current state funding policy requires additional contributions to return the underfunded plans to a fully funded status. As a result of that commitment, it is expected all Washington state retirement plans will have adequate assets to provide for all earned benefits into the future.

Most long-term liabilities have set repayment schedules or, in the case of compensated absence (i.e. sick and vacation leave), are satisfied through paid time-off or termination payments. There is no repayment schedule for the net pension liability. As explained above, changes in pension benefits, contribution rates, and return on investments effect the balance of the net pension liability, but are outside the control of the local government. In the event that contributions, investment returns, and other changes are insufficient to keep up with required pension payments, State statute does not assign/identify the responsible party for the unfunded portion. Due to the unique nature of how the net pension liability is satisfied, this liability is separately identified within the long-term liability section of the statement of net position.

In accordance with GASB 68, the City's statements prepared on an accrual basis of accounting include an annual pension expense for their proportionate share of each plan's change in net pension liability not accounted for as deferred inflows/outflows.

Economic Factors

The City of Mount Vernon considered many factors when setting the 2018 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 2018. 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 2018 continued to show slow and steady improvement. For instance, sales tax revenues in 2018 were almost 64% higher when compared to 2011, the lowest collection year during the recent recession. As a result of a slow and steady increase in sales tax revenues beginning in 2012, the 2018 sales tax revenues were 9.4% higher than 2017. Property tax collection rates have remarkably recovered, and new construction activity has shown notable improvements since the severe downturn in the economy which began in 2008. Additional revenue improvements are discussed in the Fund Financial Statements, Governmental Activities section. The City closely monitors its financial condition throughout the year, reviewing monthly revenue trends and expenditure activity, and will continue to make sound, thoughtful fiscal decisions on behalf of the City. In addition, the City Council and Mayor take a conservative view on budget growth, as is reflected in our annual adopted budgets.
The City has adopted financial management policies that are reviewed annually and are used as tools in the management of the fiscal health of the City.

The City's overall financial position remains sound, which in part can be attributed to a proactive and watchful approach to monitoring and reacting to financial conditions. Total net position for the City decreased by 1% in 2018 compared to 2017. This was primarily the result of implementing a new Government Accounting Standards Board requirement for reporting on other postemployment benefits. See note 14. 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 continued to work on was the Downtown and Waterfront Revitalization Project which has infrastructure costs estimated at $44,000,000. The third and final major infrastructure components of this estimated cost included 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 $31,000,000. All funding was secured to fully finance and complete the flood project. The City has already seen resurgence in economic activity and new businesses opening in our downtown core resulting in part from the completion of this major project.

The final component of the overall project is to construct a parking facility(s) structure in the core downtown area to address future development and related parking needs. The City of Mount Vernon is in the planning phase of a new project that will include a new city library, community center and parking structure.

The City of Mount Vernon is also planning on a voted ballot measure to include a bond for a new Fire Station #1 and an expansion and improvements to Fire Station #3 in late 2019 or 2020.

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, contacts the City's Finance Department, 910 Cleveland Avenue, Mount Vernon, Washington, 98273, or visit the City's website at www.mountvernonwa.gov.

STATEMENT OF NET POSITION
December 31, 2018

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and cash equivalents	$ 6,300,574	$ 2,667,858	$ 8,968,432
Investments	11,335,418	9,123,908	20,459,326
Receivables:			
Taxes	1,575,030	-	1,575,030
Accounts	570,397	2,153,118	2,723,515
Interest	22,511	75,983	98,494
Due from other governments	28,269	32,243	60,512
Inventory	49,930	-	49,930
Net state-sponsored pension asset	5,506,794	-	5,506,794
Net FPF pension asset	281,983	-	281,983
Restricted assets:			
Cash and cash equivalents	215,000	2,161,507	2,376,507
Capital assets:			
Non-depreciable	34,969,142	5,489,304	40,458,446
Depreciable, net	86,283,868	66,966,756	153,250,624
Total Assets	147,138,916	88,670,677	235,809,593
DEFERRED OUTFLOWS			
Deferred Outflows - Pensions	1,436,862	71,229	1,508,091
Total Deferred Outflows	1,436,862	71,229	1,508,091
LIABILITIES			
Accounts payable	2,097,458	730,106	2,827,564
Employee wages/benefits payable	923,900	146,644	1,070,544
Interest payable	-	33,819	33,819
Current liabilities			
Compensated Absences due within one year	167,158	25,696	192,854
Other non-current liabilities due within one year	215,000	1,857,703	2,072,703
Noncurrent liabilities:			
Compensated Absences due in more than one year	1,504,424	231,262	1,735,686
Net state-sponsored pension liability	4,224,741	191,449	4,416,190
Total OPEB liability	10,077,146	-	10,077,146
Other non-current liabilities due in more than one year	816,864	17,115,066	17,931,930
Total Liabilities	20,026,691	20,331,745	40,358,436
DEFERRED INFLOWS			
Deferred Inflows - Pensions	3,187,939	204,694	3,392,633
Total Deferred Inflows	3,187,939	204,694	3,392,633
NET POSITION			
Net investment in capital assets	120,508,010	53,483,292	173,991,302
Restricted for:			
Public safety	1,513,668	-	1,513,668
Streets and transportation	2,475,055	-	2,475,055
Economic environment	350,282	-	350,282
Debt service		2,161,507	2,161,507
Unrestricted	514,134	12,560,668	13,074,802
Total Net Position	$ 125,361,149	$ 68,205,467	$ 193,566,616

The accompanying notes are an integral part of this statement

STATEMENT OF ACTIVITIES
For The Year Ended December 31, 2018

Functions/Program	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Position: Governmental Activities	Net (Expense) Revenue and Changes in Net Position: Business-type Activities	Net (Expense) Revenue and Changes in Net Position: Total
Governmental activities:							
General government	$ 8,500,805	$ 2,268,250	$ 91,663	$ -	$ (6,140,892)	$ -	$ (6,140,892)
Security of persons and property	14,398,159	665,657	155,251	-	(13,577,251)	-	(13,577,251)
Physical environment	1,009,749	1,110,635	-	-	100,886	-	100,886
Transportation	5,280,705	1,797,891	-	563,011	(2,919,803)	-	(2,919,803)
Economic environment	742,702	71,099	219,204	-	(452,399)	-	(452,399)
Culture and recreation	3,579,609	854,598	36,128	-	(2,688,883)	-	(2,688,883)
Interest and redemption of long-term debt	187,637		-	-	(187,637)	-	(187,637)
Total governmental activities	33,699,366	6,768,130	502,246	563,011	(25,865,979)	-	(25,865,979)
Business-type activities:							
Wastewater	8,724,772	8,423,358	7,243	1,037,025	-	742,854	742,854
Solid waste	5,482,497	5,837,011	-	-	-	354,514	354,514
Surfacewater	2,294,577	2,308,874	50,000	152,666	-	216,963	216,963
Total business-type activities	16,501,846	16,569,243	57,243	1,189,691	-	1,314,331	1,314,331
Total government	$ 50,201,212	$ 23,337,373	$ 559,489	$ 1,752,702	$ (25,865,979)	$ 1,314,331	$ (24,551,648)
General revenues:							
Taxes:							
Property taxes					7,595,647	-	7,595,647
Sales taxes					7,730,663	-	7,730,663
Utility Tax					4,180,841	-	4,180,841
Public safety sales taxes					1,598,174	-	1,598,174
Criminal justice sales taxes					834,193	-	834,193
Transportation benefit district sales taxes					1,768,530	-	1,768,530
Real estate excise taxes					1,699,748	-	1,699,748
Other taxes					1,119,253	-	1,119,253
Interest and investment earnings					233,668	147,220	380,888
Miscellaneous					1,006,856	137,959	1,144,815
Transfers					100,000	(100,000)	-
Total general revenues and transfers					27,867,573	185,179	28,052,752
Change in net position					2,001,594	1,499,510	3,501,104
Net position-beginning					128,717,840	66,705,958	195,423,798
Accounting Change OPEB					(5,358,285)		(5,358,285)
Restate Net Position - beginning					123,359,555		190,065,513
Net position-ending					$ 125,361,149	$ 68,205,467	$ 193,566,616

The accompanying notes are an integral part of this statement

BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2018

	General Fund	Other Governmental Funds	Total Governmental Funds
ASSETS			
Cash and cash equivalents	$ 2,122,000	$ 2,158,118	$ 4,280,118
Investments	3,871,278	3,036,968	6,908,246
Receivables:			
Taxes	1,677,837	-	1,677,837
Accounts	537,220	63,297	600,517
Interest	21,918	9,837	31,755
Due from other funds	131,968		131,968
Due from other governments	160,509	147,124	307,633
Total Assets	$ 8,522,730	$ 5,415,344	$ 13,938,074
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES			
Liabilities:			
Accounts payable	$ 1,194,412	$ 293,095	$ 1,487,507
Employee wages/benefits payable	859,146	51,243	910,389
Due to other funds		131,967	131,967
Interfund loans payable	-	68,091	68,091
Total Liabilities	2,053,558	544,396	2,597,954
Deferred Inflows of Resources -			
Assets associated with unavailable revenues	404,479	-	404,479
Fund Balances:			
Restricted for:			
Municipal court improvements	67,042	-	67,042
Streets and arterials	-	758,704	758,704
Path & trails	-	94,023	94,023
Transportation benefit district improvements	-	556,545	556,545
Tourism promotion	-	171,456	171,456
Criminal justice	-	50,296	50,296
Economic development		178,826	178,826
REET I capital improvements	-	781,008	781,008
REET II street improvements	-	284,775	284,775
Fire Station Improvements		131,000	131,000
Impact fees	-	1,265,330	1,265,330
Road improvements	-	-	-
Road improvements	-		-
Committed to:			
Government access	-	282,538	282,538
Fiber optics	-	194,837	194,837
Critical areas enhancement	-	113,160	113,160
Assigned to:			
Parks	329,328	-	329,328
Library	200,170	-	200,170
Lincoln commercial block	190,799	-	190,799
LEOFF 1 LT care reserve	424,928	-	424,928
Streets and arterials	-	192,940	192,940
Downtown and waterfront	-	(184,491)	(184,491)
Road improvements		-	-
Unassigned:			
General Fund	4,852,424	-	4,852,424
Total Fund Balances	6,064,692	4,870,949	10,935,641
Total Liabilities, Deferred Inflows of Resources and Fund Balances	$ 8,522,730	$ 5,415,345	$ 13,938,072

The accompanying notes are an integral part of this statement

RECONCILIATION OF THE BALANCE SHEET
TO THE STATEMENT OF NET POSITION
GOVERNMENTAL FUNDS
December 31, 2018

Fund balances - total governmental funds		$ 10,935,641
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.		
Non-depreciable assets	33,545,566	
Depreciable assets (net)	81,056,624	114,602,190
Other long-term assets are not available to pay for current-period expenditures and therefore are classified as deferred inflows of resources or not recognized in the funds.		
Net LEOFF 1 & 2 pension asset & related deferred out/inflows	5,506,794	
Net volunteer firefighter's pension asset	281,983	
Net firefighter's pension asset & related deferred outflows	1,423,559	
Deferred inflows of resources	(3,187,939)	4,024,397
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.		
Compensated Absences	1,647,834	
Deferred inflows of resources	(417,782)	
Net other postemployment benefit obligation		
Fund Balance Prior Accounting change	5,358,285	
Net PERS 1 & 2/3 benefit obligation & related deferred out/inflows	10,077,146	
Long-term liabilities	106,308	(16,771,791)
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.	12,570,712	12,570,712
Net position of governmental activities		$ 125,361,149

The accompanying notes are an integral part of this statement

STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended December 31, 2018

	General Fund	Other Governmental Funds	Total Governmental Funds
REVENUES			
Taxes	$ 22,005,782	$ 4,521,267	$ 26,527,049
Licenses and permits	1,379,373	69,081	1,448,454
Intergovernmental revenues	1,031,530	807,598	1,839,128
Charge for services	2,687,856	1,524,417	4,212,273
Fines and forfeitures	222,897	-	222,897
Investment income	186,973	9,891	196,864
Other revenue	608,898	115,927	724,825
Total Revenues	28,123,309	7,048,181	35,171,490
EXPENDITURES			
Current:			
General government	6,361,396	179,213	6,540,609
Security of persons and property	15,214,517	6,059	15,220,576
Physical environment	1,980,725	325,681	2,306,406
Transportation	854,592	2,205,676	3,060,268
Economic environment	166,352	274,863	441,215
Culture and recreation	3,104,453	-	3,104,453
Capital outlay	647,234	3,129,413	3,776,647
Debt service:			
Principal	100,000	75,000	175,000
Interest	11,206	1,431	12,637
Total Expenditures	28,440,475	6,197,336	34,637,811
Excess (deficiency) of revenues over (under) expenditures	(317,166)	850,845	533,679
OTHER FINANCING SOURCES (USES)			
Transfers in	397,700	1,267,000	1,664,700
Transfers out	(60,000)	(1,504,700)	(1,564,700)
Sale of capital assets	589	289,513	290,102
Total other financing sources (uses)	338,289	51,813	390,102
Net change in fund balances	21,123	902,658	923,781
Fund Balances - January 1	6,043,569	3,968,292	10,011,861
Fund Balances - December 31	$ 6,064,692	$ 4,870,949	$ 10,935,641

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, 2018

Net changes in fund balances - total governmental funds		$ 923,781
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	3,730,341	
Less current year depreciation	(3,776,647)	46,306
The effect of various miscellaneous transactions involving capital assets not reported in governmental funds.		
Contributions of capital assets	-	
Disposals of capital assets	(675,549)	(675,549)
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 position.		
Principal payments	(215,000)	(215,000)
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.		
Net state-sponsored pension asset	1,428,371	
Net state-sponsored pension liability	(205,802)	
Net other postemployment benefit obligation	(160,867)	
Employee benefits payable	164,701	
Deferred Inflows of resources	(404,479)	
Other	314,268	1,136,192
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.	785,865	785,865
Change in net position of governmental activities		$ 2,001,594

The accompanying notes are an integral part of this statement

Page 2 of 2

STATEMENT OF NET POSITION
PROPRIETARY FUNDS
December 31, 2018

	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	$ 1,481,304	$ 835,815	350,739	$ 2,667,858	$ 2,235,456
Investments	6,973,160	1,454,417	696,331	9,123,908	4,366,406
Accounts receivable	1,129,735	757,876	265,507	2,153,118	17,167
Interest receivable	62,665	9,247	4,070	75,983	23,340
Interfund loans receivable	-			-	68,091
Due from other governments	7,243		25,000	32,243	
Inventory	-			-	49,930
Total current assets	9,654,107	3,057,355	1,341,647	14,053,109	6,760,389
Noncurrent assets:					
Restricted assets					
Debt service:					
Cash and cash equivalents	2,161,507	-	-	2,161,507	-
Total restricted assets	2,161,507	-	-	2,161,507	-
Capital assets:					
Land	1,741,579	646,000	1,438,737	3,826,316	
Buildings	55,335,306	329,072		55,664,378	145,000
Improvements other than buildings	57,261,148	42,972	21,786,249	79,090,369	72,545
Machinery and equipment	754,597	234,745	330,620	1,319,962	16,416,450
Construction in progress	1,538,712	6,668	117,608	1,662,988	
Less accumulated depreciation	(56,956,538)	(281,339)	(11,870,074)	(69,107,951)	(9,983,175)
Total capital assets (net of depreciation)	59,674,804	978,117	11,803,140	72,456,061	6,650,820
Total noncurrent assets	61,836,311	978,117	11,803,140	74,617,568	6,650,820
Total assets	$ 71,490,418	$ 4,035,472	$ 13,144,787	$ 88,670,677	$ 13,411,209
DEFERRED OUTFLOWS					
Deferred outflows - Pensions	$ 43,103	$ 23,496	$ 4,630	$ 71,229	$ 7,810

The accompanying notes are an integral part of this statement

Page 1 of 2

STATEMENT OF NET POSITION
PROPRIETARY FUNDS
December 31, 2018

	Business-type Activities Enterprise Funds				Governmental Activities - Equipment Rental Internal Service Fund
	Wastewater	Solid Waste	Surface-water	Totals	
LIABILITIES					
Current liabilities:					
Accounts payable	$ 378,463	$ 268,223	83,421	$ 730,106	$ 609,951
Employee wages/benefits payable	75,606	59,673	11,366	146,644	13,511
Compensated Absences	15,681	8,330	1,684	25,696	2,375
Matured interest payable	33,819			33,819	
Matured loans payable	1,857,703	-	-	1,857,703	
Total current liabilities	2,361,272	336,225	96,471	2,793,968	625,837
Noncurrent liabilities:					
Compensated Absences	141,131	74,971	15,159	231,262	21,373
Net pension liability - PERS	115,852	63,153	12,444	191,449	20,992
Loans payable	17,115,066	-	-	17,115,066	
Total noncurrent liabilities	17,372,049	138,124	27,603	17,537,777	42,365
Total liabilities	19,733,321	474,350	124,074	20,331,745	668,202
DEFERRED INFLOWS					
Deferred inflows - Pensions	122,052	66,532	16,110	204,694	22,115
NET POSITION					
Net investment in capital assets	40,702,035	978,117	11,803,140	53,483,292	6,650,820
Restricted for debt service	2,161,507	-	-	2,161,507	-
Unrestricted	8,814,607	2,539,969	1,206,092	12,560,668	6,077,881
Total net position	$ 51,678,148	$ 3,518,085	$ 13,009,234	$ 68,205,467	$ 12,728,702

The accompanying notes are an integral part of this statement

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
December 31, 2018

31-Dec-18

	Business-type Activities Enterprise Funds				Governmental Activities - Equipment Rental Internal Service Fund
	Wastewater	Solid Waste	Surface-water	Totals	
Operating revenues:					
Charges for utility services	$ 8,374,358	$ 5,837,011	2,308,874	$ 16,520,243	$ -
Charges for services/replacement	49,000	-	-	49,000	2,665,853
Total operating revenue	8,423,358	5,837,011	2,308,874	16,569,243	2,665,853
Operating expenses:					
Operations and maintenance	4,040,416	4,865,486	1,660,650	10,566,552	800,832
Taxes	816,615	587,700	31,223	1,435,538	
Depreciation and Amortization	3,530,681	29,312	602,704	4,162,697	1,076,965
Total operating expenses	8,387,712	5,482,498	2,294,577	16,164,787	1,877,797
Operating income (loss)	35,646	354,513	14,297	404,456	788,056
Nonoperating revenues (expenses):					
Intergovernmental revenue	7,243		50,000	57,243	23,793
Investment earnings	102,108	32,664	12,448	147,220	36,804
Miscellaneous revenue	119,901	18,058		137,959	63,050
Interest expense	(337,060)			(337,060)	
Gain (loss) on sale of capital assets	-	-	-	-	32,152
Total nonoperating revenue (expense)	(107,808)	50,722	62,448	5,362	155,799
Income (loss) before contributions and transfers	(72,162)	405,235	76,745	409,818	943,855
Capital contributions	1,037,025	-	152,666	1,189,691	
Transfers in		-		-	
Transfers out		(100,000)		(100,000)	-
Change in net position	964,863	305,235	229,411	1,499,509	943,855
Total net position - beginning	50,713,286	3,212,850	12,779,822	66,705,958	11,784,847
Total net position - ending	$ 51,678,149	$ 3,518,085	$ 13,009,233	$ 68,205,467	$ 12,728,702

The accompanying notes are an integral part of this statement

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended December 31, 2018

	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	$ 8,280,549	$ 5,863,225	$ 2,209,249	$ 16,353,023	$ 2,666,891
Cash payments to suppliers	(3,357,032)	(4,047,092)	(1,745,740)	(9,149,864)	(184,108)
Cash payments to employees	(1,850,567)	(1,282,406)	(226,731)	(3,359,704)	(283,975)
Cash payments for taxes	(816,642)	(587,700)	(31,223)	(1,435,565)	-
Other operating payments	43,711	(14,061)	-	29,650	62,870
Non-operating income	76,190		-	76,190	
Net cash provided (used) by operating activities	2,376,209	(68,034)	205,555	2,513,730	2,261,678
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:					
Interfund loan repayments	-	-	50,000	50,000	75,000
Interfund loan to other fund	-	-	-	-	-
Transfers in	-	-	-	-	-
Transfers out	-	(100,000)	-	(100,000)	-
Net cash provided (used by noncapital financing activities	-	(100,000)	50,000	(50,000)	75,000
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:					
Acquisition and construction of capital assets	(1,278,500)	(32,119)	(254)	(1,310,873)	(1,578,536)
Proceeds from sale of assets	-	-	(215,271)	(215,271)	(511,829)
Capital contributions	1,037,025	-	(152,666)	884,359	-
Principal paid on other debt	(1,857,702)	-	-	(1,857,702)	-
Interest paid on revenue bonds and other debt	(337,060)	-	-	(337,060)	-
Net cash provided (used) for capital and related financing activities	(2,436,237)	(32,119)	(368,191)	(2,836,547)	(2,090,365)
CASH FLOWS FROM INVESTING ACTIVITIES:					
Investment purchases	(6,711,863)	(1,467,066)	(1,467,066)	(9,645,995)	(4,404,383)
Investment sales/maturities	6,400,000	1,527,315	1,544,281	9,471,596	4,053,814
Interest on investments	382,996	29,987	87,474	500,457	378,440
Net cash provided (used) by investing activities	71,133	90,236	164,689	326,058	27,871
Net increase (decrease) in cash and cash equivalents	11,105	(109,917)	52,053	(46,759)	274,184
Cash and cash equivalents, January 1	10,604,866	2,400,149	995,015	14,000,030	6,327,678
Cash and cash equivalents, December 31	$ 10,615,971	$ 2,290,231	$ 1,047,070	$ 13,953,272	$ 6,601,861

The accompanying notes are an integral part of this statement

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STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended December 31, 2018

	Business-type Activities Enterprise Funds				Governmental Activities - Equipment Rental Internal Service Fund
	Wastewater	Solid Waste	Surface-water	Totals	
Reconciliation of operating income to net cash provided by operating activities:					
Operating income (loss)	$ 35,645	$ 354,514	$ 14,297	$ 404,456	$ 788,056
Adjustments to reconcile operating income to to net cash provided by operating activities:					
Depreciation	3,530,681	29,312	602,704	4,162,697	1,076,965
(Increase) decrease in accounts receivable	15,309	32,882	(61,834)	(13,643)	-
(Increase) decrease in due from other govt's	(7,243)	-	-	(7,243)	-
(Increase) decrease in inventory	(59,999)	-	-	(59,999)	(31,277)
(Increase) decrease in interest recievable	(15,309)	(2,677)	(425)	(18,411)	-
Increase (decrease) in accounts payable	(528,082)	35,586	(291,941)	(784,437)	499,578
Increase (decrease) in employee bene's pay	7,909	7,467	14,764	30,140	(6,573)
Non-cash GASB 68 PERS pension expense	(678,893)	(543,174)	(72,009)	(1,294,076)	(128,121)
Non-cash capital asset adjustment	-		-	-	-
Non-operating revenue	76,190	18,058		94,248	63,050
Net cash provided by operating activities	$ 2,376,209	$ (68,034)	$ 205,555	$ 2,513,730	$ 2,261,678

The accompanying notes are an integral part of this statement

STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
December 31, 2018

	Firemen's Pension Fund	Agency Funds
ASSETS		
Cash and cash equivalents	$ 128,407	$ 472,265
Investments:		
U.S. Government Agency Securities	248,707	-
Receivables:		
Interest	1,522	-
Total Assets	378,635	472,265
LIABILITIES		
Liabilities:		
Accounts payable	-	-
Due to other governments	-	404,607
Custodial	-	67,659
Total Liabilities	-	$ 472,266
NET POSITION		
Restricted for pension benefits	$ 378,635	

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, 2018

	Firemen's Pension Fund
ADDITIONS	
Fire insurance premium contributions	$ 35,111
Investment interest	2,407
Impact Fees	
Other Revenues	
Total additions	37,518
DEDUCTIONS	
Pension benefit payments	3,200
Pension administration	1,072
Contribution to City for OPEB healthcare benefit payments	69,000
Impact Fees	
Other	
Total deductions	73,272
Change in net position	(35,754)
Net position - beginning	414,389
Net position - ending	$ 378,635

The accompanying notes are an integral part of this statement

Notes to the Financial Statements
December 31, 2018

NOTE 1:
Summary of Significant Accounting Policies

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

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

The City's significant accounting policies are described below.

Reporting Entity

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

Basis of Presentation – Government Wide and Fund Financial Statements

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

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

As a general rule the effect of the interfund activity has been eliminated for the government-wide financial statements. Direct expenses of the functional categories are included in the government-wide statement of activities while indirect expense allocations are eliminated. Indirect expenses are primarily charged to the various functions through the use of an internal service fund for fleet maintenance. Elimination of payments to internal service funds are treated as expense reductions. No other indirect expenses are allocated to the various governmental functions. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the government's utility functions and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Separate fund financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements.

Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

The City reports the following major governmental funds:

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

The City reports the following major proprietary funds:

Wastewater Utility Fund accounts for all activities of providing sewer services to residents and businesses of the City. This fund also provides for revenues and reserve dollars for maintenance & repair and expansion of the City's sewer system.

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

Surfacewater Utility Fund accounts for the operation, construction and maintenance of the City's stormwater system.

Additionally, the government reports the following fund types:

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

Agency Funds account for assets held by the City as an agent for private individuals or other governments. Agency funds are custodial in nature (assets equal liabilities) and do not involve the measurement of the results of operations. The City has six Agency Funds. Hillcrest (Parks) Deposits and Developer Deposits account for damage and inspection deposits. Court Assessments, Mount Vernon School Impact Fees, Miscellaneous Suspense and Hospital Parking Facility account for funds collected and subsequently transmitted to other governmental agencies.

Pension Trust Funds account for the activities of the Firemen's Pension Fund which accumulates resources for excess pension benefits payable to qualified firefighter personnel.

Measurement Focus and Basis of Accounting

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

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

Sales taxes, property taxes, fines, and interest associated within the current period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Grant revenue is recognized for cost reimbursement grants when the expenditure occurs in accordance with GASB Statement 33. When the expenditure is incurred, grant revenue is considered to have been earned and therefore available and recognized as revenue. Entitlement grant revenue is not tied to expenditures and is recognized when the City is entitled to receive it according to the grant agreement. Most of the other revenue items are considered to be measurable and available only when cash is received by the government.

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

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

Budgetary Information

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

Legal budgetary control is established at the fund level, i.e., expenditures for a fund may not exceed the total appropriation amount. Appropriations for general, special revenue, debt services and capital project funds, except for the project-length capital projects lapse at year-end. The budget, as adopted, constitutes the legal authority for expenditures. Budgets are adopted according to GAAP.

The City's implementation of GASB 54 governmental fund type definition guidance (see note 13) has led to reclassifications of Parks, Library and the Lincoln Commercial Block funds (which have their own legally adopted budgets) from "other governmental special revenue funds" to "GASB 54 reclassified funds" (included in the General Fund for external accounting purposes), creating a budget perspective difference. A budget basis to GAAP-basis reconciliation for the General Fund is reported as "Required Supplementary Information."

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

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

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

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

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

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

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

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

The financial statements contain the original and final budget information. The original budget is the first complete appropriated budget. The final budget is the original budget adjusted by all reserves, transfers, allocations, supplemental appropriations, and other legally authorized changes applicable for the fiscal year.

**Assets, Liabilities and Fund Balances /
Net Position**

Cash, Cash Equivalents and Investments

It is the City's practice to invest temporary cash surpluses. At December 31, 2018, the City was holding $11,896,290 in short-term residual investments of surplus cash. The City has defined cash and cash equivalents as cash on hand, demand deposits, and all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased. These amounts are classified on the balance sheet or in the Statement of Net Position.

In accordance with GASB 79, money market investments and other investments with a remaining maturity of one year or less at the time of purchase are stated at amortized cost. All other investments are stated at fair value.

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

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

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

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

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

Accounts receivable/payable consists of amounts owed from/to private individuals or organizations for goods and services including amounts owed for which billings have not been prepared. If the transaction is with another governmental unit, it is accounted for within "due to/from other governments".

Receivables have been reported net of estimated uncollectible accounts. Because property taxes and utility billings are considered liens on property, no estimated uncollectible amounts are established.

Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as interfund loans receivable/payable. All other outstanding balances between funds are reported as "due to/from other funds". Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as 'internal balances'. A separate schedule of interfund loans receivable and payable is furnished in *Note 9, "Interfund Receivable, Payable, and Transfers*".

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term liabilities are reported in applicable governmental activities, business-type activities, or proprietary fund type statement of net position.

Inventories/Prepaid Items

Inventories consist of expendable supplies held for consumption. The cost is recorded as expenditure at the time individual inventory items are consumed. A comparison to market value is not considered necessary. Inventories in proprietary funds are valued by the first in, first out-FIFO basis. No inventory is maintained in governmental funds. Prepaid items represent payments for goods/services to be used in future years. The cost is recorded as expenditure in the period in which they are actually consumed.

Restricted Assets

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

Capital Assets and Depreciation

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, and similar items), are reported in the applicable governmental or business-type columns in the government-wide financial statements. These assets generally result from expenditures in the governmental funds. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net position and in the respective funds. Capital assets are defined by the City as assets with an initial, individual cost of $5,000 or more and an estimated useful life of more than one year; and all vehicles, artwork, transportation and utility infrastructure, regardless of their initial cost. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation.

Costs for additions or improvements to capital assets are capitalized when they increase the effectiveness or efficiency of the asset. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. Major outlays for capital assets and improvements are capitalized as project construction is finalized. Interest incurred during the construction phase of the capital assets of business-type activities is included as part of the capitalized value of the assets constructed. (*See Note 5 "Capital Assets"*).

Deferred Inflows/ Outflows of Resources

In addition to assets and liabilities, the Statement of Net Position and Proprietary Fund Statements report separate sections for deferred outflows/inflows of resources, related to GASB 68 Pension reporting and transportation impact fee credits. In the Governmental Fund Statements deferred inflows of resources include amounts recognized as receivables but not revenues in governmental funds because the revenue recognition criterion (availability) has not been met, per GASB 63/65.

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 $1,671,582for governmental funds and $256,958 for proprietary enterprise funds.

Pensions

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

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

Other Post-Employment Benefits

Lifetime full medical coverage is provided to uniformed Police and Fire personnel who became members of the Law Enforcement Officers and Fire Fighters (LEOFF 1) retirement system prior to October 1, 1977. A liability for the accumulated unfunded actuarially required contribution is reported in the Statement of Net Position. The actual medical costs are reported as expenditures in the year they are incurred, and are paid out of the General Fund. See Note 7.

Long-term Liabilities

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

Net Position and Fund Balances

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

NOTE 2:
Compliance and Accountability

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

NOTE 3:
Deposits and Investments

Deposits

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

As of December 31, 2018 the City held the following deposits and short-term investments operating within the parameters outlined in GASB 79, and qualifying to be reported at amortized cost: market rate savings account U.S. Bank $1,260,566, interest bearing reserve with OPUS bank $1,572,924 bank balances with various banks $2,486,871 and Local Government Investment Pool $6,578,791. Petty cash totaled $23,275.

Investments

Custodial Credit Risk - 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 only limitation on withdrawal is a 24 hour notice for withdrawals in excess of 10 million. 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.

Investments Measured at Fair Value - The City measures and reports investments at fair value using the valuation input hierarch established by generally accepted accounting principles as follows:

- Level 1: Quoted prices in active markets for identical assets or liabilities;
- Level 2: These are quoted market prices for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, or other than quoted prices that are not observable;
- Level 3: Unobservable inputs for an asset or liability.

As of December 31, 2018 the City had the following investments measured at fair value:

		Fair Value Measurement Using		
Investments by Fair Value Level	**12/31/2018**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Input (Level 2)**	**Significant Unobservable Input (Level 3)**
Federal Agricultural Mortgage Corporation	$ 495,823	$	$ 495,823	$
Federal Farm Credit Bank	7,900,256		7,900,256	
Federal Home Loan Mortgage Corporation	6,040,143		6,040,143	
Federal National Mortgage Association	4,208,556		4,208,556	
Resolution FDG Corp Strip	1,007,144		1,007,144	
FICO Strips	995,754		999,754	
Total Investments by Fair Value Level	$ 20,647,676		$ 20,647,676	

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.

		Investment Maturities		
Investment Type	Fair Value	Less than 1 year	1 to 2 Years	3 to 4 years
Federal Agricultural Mortgage Corporation	$ 495,823	$ 495,823	$	$
Federal Farm Credit Bank	7,900,256	$2,973,810	2,977,716	1,948,730
Federal Home Loan Mortgage Corporation	6,040,143	1,973,728	2,082,804	1,983,611
Federal National Mortgage Association	4,208,556	991,284	3,217,272	
Resolution FDG Corp Strip	1,007,144		1,007,144	
FICO Strips	995,754	995,754		
Local Government Investment Pool	6,578,791	6,578,791		
Total Investments by Fair Value Level	$ 27,226,468	$ 14,009,190	$ 9,284,937	$ 3,932,341

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 2018, the City's portfolio had the following concentration of securities in it: 38% Federal Farm Credit Bank, 29% Federal Home Loan Mortgage Corporation, 21% Federal National Mortgage Association, 2% Federal Agricultural Mortgage Corporation, 5% Resolution FCG Corp Strip, and 5% FICO Strips.

	Cash & Cash Equivalents	Restricted Cash & Cash Equivalents	Investments
General Fund	$ 1,907,000	$ 215,000	$ 3,839,297
Other Government Funds	2,158,118		3,129,715
Waste Water Utility	1,481,304	$ 2,161,507	6,973,160
Solid Waste Utility	835,815		1,454,417
Surface Water Utility	350,739		696,331
Internal Service Fund	2,235,456		4,366,406
Statement of Net Position	**$8,968,432**	**$ 2,376,507**	**20,459,326**
Fiduciary Funds			
Firemen's Pension Fund	128,407		248,707
Agency Funds	472,265		
Total Cash & Investments	**$ 9,569,104**	**$ 2,376,507**	**$ 20, 647,676**

NOTE 4:
Property Taxes

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

Property Tax Calendar

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

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

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

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

B. The Washington State Constitution limits the total regular property taxes to 1% of assessed valuation or $10 of $1,000 of value. If the taxes of all districts exceed this amount, each is proportionately reduced until the total is at or below the 1% limit.

The City's regular levy for 2018 was $2.4318 per $1,000 of assessed value on an assessed valuation of $3,126,145,191.

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 four sculptures capitalized as art. Art and historical treasures are expected to be maintained or enhanced over time and thus, are not depreciated.

Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation. Capital assets transferred between proprietary and governmental funds are valued at the lower of cost or acquisition value.

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.

Proprietary Fund Capital Assets

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

Depreciation

Land, construction in progress, and works of art are not depreciated. Property, plant, infrastructure and equipment of the City are depreciation 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	1/1/2018	Increases	Decreases	Balance 12/31/18
Governmental Activities				
Capital Assets, Not Being Depreciated:				
Land	$ 34,080,336	$ 140,780	$ 807,421	$ 33,413,695
Construction Work in Progress	27,850,001	1,457,129	27,883,555	1,423,575
Art	131,872	-	-	131,872
Total Capital Assets, Not Being Depreciated	$ 62,062,209	$ 1,597,909	$ 28,690,976	$ 34,969,142
Capital Assets, Being Depreciated:				
Buildings	$ 15,210,192	$ 416,272	$ -	$ 15,626,464
Improvements Other Than Buildings	6,292,348	27,990,281	-	34,282,629
Machinery and Equipment	17,316,470	2,365,461	757,772	18,924,159
Infrastructure	82,087,891	1,786,300	750,635	83,123,556
Total Capital Assets, Being Depreciated	$ 120,906,901	$ 32,558,314	$ 1,508,407	$ 151,956,808
Less Accumulated Depreciation for:				
Buildings	$ 8,697,822	$ 484,179	$ -	$ 9,182,001
Improvements Other Than Buildings	3,693,103	152,763	-	3,845,866
Machinery and Equipment	11,123,287	1,231,992	667,098	11,688,181
Infrastructure	38,654,066	2,896,670	593,844	40,956,892
Total Accumulated Depreciation	$ 62,168,278	$ 4,765,604	$ 1,260,942	$ 65,672,940
Total Capital Assets, Being Depreciated, Net	$ 58,738,623	$ 27,792,710	$ 247,465	$ 86,283,868
GOVERNMENTAL ACTIVITIES CAPITAL ASSETS, NET	$ 120,800,832	$ 29,390,619	$ 28,938,441	$ 121,253,010

Depreciation expense was charged to Governmental Type activities as follows:

Governmental Activities:	**Amount**
General Government	$ 14,122
Security of Person/ Property	342,831
Physical Environment	108,208
Transportation, Including Depreciation of General Infrastructure Assets	2,799,093
Culture and Recreation	424,385
Internal Service Funds	1,076,965
Total Depreciation Expense - Governmental Activities	$ 4,765,604

Summary of changes: Business Type Activities

Description	1/1/2018	Increases	Decreases	Balance 12/31/18
Business-Type Activities				
Capital Assets, Not Being Depreciated:				
Land	$ 3,826,316	$ -	$ -	$ 3,826,316
Construction Work in Progress	1,267,902	625,360	230,275	1,662,987
Total Capital Assets, Not Being Depreciated	$ 5,094,218	$ 625,360	$ 230,275	$ 5,489,303
Capital Assets, Being Depreciated:				
Buildings	$ 55,664,378			$ 55,664,378
Improvements Other Than Buildings	78,125,281	1,025,088	60,000	79,090,369
Machinery and Equipment	1,054,911	265,051		1,319,962
Total Capital Assets, Being Depreciated	$134,844,570	$ 1,290,139	$ 60,000	$ 136,074,709
Less Accumulated Depreciation for:				
Buildings	$ 23,796,950	$ 1,743,800		$ 25,540,750
Improvements Other Than Buildings	40,532,242	2,378,489	60,000	42,850,731
Machinery and Equipment	676,061	40,409		716,470
Total Accumulated Depreciation	$ 65,005,253	$ 4,162,698	$ 60,000	$ 69,107,951
Total Captial Assets, Being Depreciated, Net	$ 69,839,317	$ (2,872,559)	$ -	$ 66,966,758
BUSINESS-TYPE ACTIVITIES CAPITAL ASSETS, NET	$ 74,933,535	$ (2,247,199)	$ 230,275	$ 72,456,061

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

Business-Type Activities	**Amount**
Wastewater	$ 3,530,681
Solid Waste	29,312
Surfacewater	602,704
Total Depreciation Expense - Business-Type Activities	$ 4,162,697

NOTE 6:

Pension Plans

The following table represents the aggregate pension amounts for all plans subject to the requirements of the GASB Statement 68, *Accounting and Financial Reporting for Pensions* for the year 2018:

Aggregate Pension Amounts – All Plans	
Pension liabilities	$ (4,416,190)
Pension assets	$ 5,506,795
Deferred outflows of resources	$ 1,508,091
Deferred inflows of resources	$ (3,392,633)
Pension expense/expenditures	$ (68,042)

WA DRS State-Sponsored Pension Plans – PERS & LEOFF

PERS and LEOFF Pension Plans

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

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

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

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

Public Employees' Retirement System (PERS)

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

PERS Plan 1 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the member's average final compensation (AFC) times the member's years of service. The AFC is the average of the member's 24 highest consecutive service months. Members are eligible for retirement from active status at any age with at least 30 years of service, at age 55 with at least 25 years of service, or at age 60 with at least five years of service. Members retiring from active status prior to the age of 65 may receive actuarially reduced benefits. Retirement benefits are actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and non-duty disability payments, an optional cost-of-living adjustment (COLA), and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. PERS 1 members were vested after the completion of five years of eligible service. The plan was closed to new entrants on September 30, 1977.

Contributions

The **PERS Plan 1** member contribution rate is established by State statute at 6 percent. The employer contribution rate is developed by the Office of the State Actuary and includes an administrative expense component that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates. The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for 2018 were as follows:

PERS Plan 1		
Actual Contribution Rates:	**Employer**	**Employee**
January – June 2018		
PERS Plan 1	7.49%	6.00%
PERS Plan 1 UAAL	5.03%	
Administrative Fee	0.18%	
Total	**12.70%**	**6.00%**
July – December 2018		
PERS Plan 1	7.52%	6.00%
PERS Plan 1 UAAL	5.13%	
Administrative Fee	0.18%	
Total	**12.83%**	**6.00%**

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

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

PERS Plan 2/3 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of five percent for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service credit. PERS Plan 2/3 retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit. Other PERS Plan 2/3 benefits include duty and non-duty disability payments, a cost-of-living allowance (based on the CPI), capped at three percent annually and a one-time duty related death benefit, if found eligible by the Department of Labor and Industries. PERS 2 members are vested after completing five years of eligible service. Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years of service if 12 months of that service are earned after age 44.

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

Contributions

The **PERS Plan 2/3** employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 UAAL and an administrative expense that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates. The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2018 were as follows:

PERS Plan 2/3		
Actual Contribution Rates:	**Employer 2/3**	**Employee 2***
January – June 2018		
PERS Plan 2/3	7.49%	7.38%
PERS Plan 1 UAAL	5.03%	
Administrative Fee	0.18%	
Employee PERS Plan 3		varies
Total	**12.70%**	**7.38%**
July – December 2018		
PERS Plan 2/3	7.52%	7.41%
PERS Plan 1 UAAL	5.13%	
Administrative Fee	0.18%	
Employee PERS Plan 3		varies
Total	**12.83%**	**7.41%**

The City's actual PERS plan contributions were $463,686 to PERS Plan 1 and $672,599 to PERS Plan 2/3 for the year ended December 31, 2018.

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

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

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

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

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

Contributions

Starting on July 1, 2000, **LEOFF Plan 1** employers and employees contribute zero percent, as long as the plan remains fully funded. The LEOFF Plan I had no required employer or employee contributions for fiscal year 2018. Employers paid only the administrative expense of 0.18 percent of covered payroll.

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

Contributions

The **LEOFF Plan 2** employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2. The employer rate included an administrative expense component set at 0.18 percent. Plan 2 employers and employees are required to pay at the level adopted by the LEOFF Plan 2 Retirement Board. The LEOFF Plan 2 required contribution rates (expressed as a percentage of covered payroll) for 2018 were as follows:

LEOFF Plan 2		
Actual Contribution Rates:	**Employer**	**Employee**
State and local governments	5.25%	8.75%
Administrative Fee	0.18%	
Total	**5.43%**	**8.75%**
Ports and Universities	8.75%	8.75%
Administrative Fee	0.18%	
Total	**8.93%**	**8.75%**

The City's actual contributions to the plan were $418,668 for the year ended December 31, 2018.

The Legislature, by means of a special funding arrangement, appropriates money from the state General Fund to supplement the current service liability and fund the prior service costs of Plan 2 in accordance with the recommendations of the Pension Funding Council and the LEOFF Plan 2 Retirement Board. This special funding situation is not mandated by the state constitution and could be changed by statute. For the state fiscal year ending June 30, 2018, the state contributed $68,152,127 to LEOFF Plan 2. The amount recognized by the City as its proportionate share of this amount is $260,788.

Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2018 with a valuation date of June 30, 2017. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's (OSA) *2007-2012 Experience Study* and the *2017 Economic Experience Study*.

Additional assumptions for subsequent events and law changes are current as of the 2016 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2018. Plan liabilities were rolled forward from June 30, 2017, to June 30, 2018, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

- **Inflation:** 2.75% total economic inflation; 3.50% salary inflation
- **Salary increases**: In addition to the base 3.50% salary inflation assumption, salaries are also expected to grow by promotions and longevity.
- **Investment rate of return:** 7.4 %

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

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

- Updated valuation interest rate, general salary growth, and inflation assumptions to be consistent with the assumptions adopted by the Pension Funding Council and LEOFF 2 Board.
    - Lowered the valuation interest rate from 7.70% to 7.50% for all systems except LEOFF 2. For LEOFF 2 the valuation interest rate was lowered from 7.50% to 7.40%.
    - Lowered assumed general salary growth from 3.75% to 3.50% for all systems.
    - Lowered assumed inflation from 3.00% to 2.75% for all Systems
- Modified how the valuation software calculates benefits paid to remarried duty-related death survivors of LEOFF 2 members.
- Updated the trend that the valuation software uses to project medical inflation for LEOFF 2 survivors of a duty-related death, and for certain LEOFF 2 medical-related duty disability benefits.

Discount Rate

The discount rate used to measure the total pension liability for all DRS plans was 7.4 percent.

To determine that rate, an asset sufficiency test was completed to test whether each pension plan's fiduciary net position was sufficient to make all projected future benefit payments for current plan members. Consistent with current law, the asset sufficiency test included an assumed 7.50% long-term discount rate to determine funding liabilities for calculating future contributions rate requirements. (All plans use 7.50% except LEOFF Plan 2, which has assumed 7.40%)

Consistent with the long-term expected rate of return, a 7.40% percent future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue being made at contractually required rates (including PERS 2/3, PSERS 2, SERS 2/3, and TRS 2/3 employers, whose rates include a component for the PERS 1, and TRS 1 plan liabilities). Based on these assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.40% percent was used to determine the total liability.

Long-Term Expected Rate of Return

The long-term expected rate of return on the DRS pension plan investments of 7.40 percent was determined using a building-block-method. In selecting this assumption, the Office of the State Actuary (OSA) reviewed the historical experience data, considered the historical conditions that produced past annual investment returns, and considered capital market assumptions and simulated expected investment returns provided by the Washington State Investment Board (WSIB).

The CMA's contain three pieces of information for each class of assets WSIP currently invests in:

- Expected Annual Return
- Standard deviation of the annual return
- Correlations between the annual returns of each asset class with every other asset class

The WISB uses the CMA's and their target asset allocation to simulate future investment returns at various future times.

Estimated Rates of Return by Asset Class

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2018, are summarized in the table below. The inflation component used to create the table is 2.2 percent and represents the WSIB's most recent long-term estimate of broad economic inflation.

Asset Class	Target Allocation	% Long-Term Expected Real Rate of Return Arithmetic
Fixed Income	20%	1.70%
Tangible Assets	7%	4.90%
Real Estate	18%	5.80%
Global Equity	32%	6.30%
Private Equity	23%	9.30%
	100%	

Sensitivity of Net Pension Liability / (Asset)

The table below presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.4 percent, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.4 percent) or 1-percentage point higher (8.4 percent) than the current rate.

	1% Decrease (6.4%)	Current Discount Rate (7.4%)	1% Increase (8.4%)
PERS 1	$3,66,138	$ 2,983,177	$ 2,391,594
PERS 2/3	$6,554,635	$ 1,433,013	$ (2,766,145)
LEOFF 1	$ (629,469)	$ (791,268)	$ (930,568)
LEOFF 2	$ (627,077)	$ (4,715,526)	$ (8,050,133)

Pension Plan Fiduciary Net Position

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

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

At June 30, 2018, the City reported a total pension liability of $ 4,416,190 and a total pension asset of $ 5,506,795 for its proportionate share of the net pension liabilities as follows:

	Liability (or Asset)
PERS 1	$ 2,983,177
PERS 2/3	$ 1,433,013
LEOFF 1	$ (791,268)
LEOFF 2	$ (4,715,526)

The amount of the liability /(asset) reported above for LEOFF Plan 1 and 2 reflects a reduction for State pension support provided to the City. The amount recognized by the City as its proportionate share of the net pension liability/(asset), the related State support, and the total portion of the net pension liability/(asset) that was associated with the City were as follows:

	LEOFF 1 Asset	LEOFF 2 Asset
Employer's proportionate share	$ (791,268)	$ (4,715,720)
State's proportionate share of the net pension liability/(asset) associated with the employer	$ (5,351,712)	$ (3,053,216)
TOTAL	$ (6,142,980)	$ (7,768,936)

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

	Proportionate Share 6/30/17	Proportionate Share 6/30/18	Change in Proportion
PERS 1	.066530%	.066797%	.000267%
PERS 2/3	.083921%	.083929%	.000008%
LEOFF 1	.044365%	.043584%	(.000099)%
LEOFF 2	.230365%	.232267%	.001902%

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

LEOFF Plan 1 allocation percentages are based on the total historical employer contributions to LEOFF 1 from 1971 through 2000 and the retirement benefit payments in fiscal year 2018. Historical data was obtained from a 2011 study by the Office of the State Actuary (OSA). In fiscal year 2018, the state of Washington contributed 87.12 percent of LEOFF 1 employer contributions and all other employers contributed the remaining 12.88 percent of employer contributions. LEOFF 1 is fully funded and no further employer contributions have been required since June 2000. If the plan becomes underfunded, funding of the remaining liability will require new legislation. The allocation method the plan chose reflects the projected long-term contribution effort based on historical data.

In fiscal year 2018, the state of Washington contributed 39.3 percent of LEOFF 2 employer contributions pursuant to RCW 41.26.725 and all other employers contributed the remaining 60.70 percent of employer contributions.

The collective net pension liability (asset) was measured as of June 30, 2018, and the actuarial valuation date on which the total pension liability (asset) is based was as of June 30, 2017, with update procedures used to roll forward the total pension liability to the measurement date.

Pension Expense

For the year ended December 31, 2018, the City recognized pension expense as follows:

	Pension Expense
PERS 1	$ 274,878
PERS 2/3	$ (57,369)
LEOFF 1	$ (116,462)
LEOFF 2	$ (169,089)
TOTAL	$ (68,042)

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

PERS 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ -
Net difference between projected and actual investment earnings on pension plan investments	$ -	$ (118,550)
Changes of assumptions	$ -	$ -
Changes in proportion and differences between contributions and proportionate share of contributions	$ -	$ -
Contributions subsequent to the measurement date	$ 237,497	$ -
TOTAL	$ 237,497	$ (118,550)

PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 175,650	$ (250,894)
Net difference between projected and actual investment earnings on pension plan investments	$ -	$ (879,363)
Changes of assumptions	$ 16,764	$ (407,824)
Changes in proportion and differences between contributions and proportionate share of contributions	$ 1,140	$ (35,684)
Contributions subsequent to the measurement date	$ 342,596	$ -
TOTAL	$ 536,150	$ (1,573,765)

LEOFF 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ -
Net difference between projected and actual investment earnings on pension plan investments	$ -	$ (64,239)
Changes of assumptions	$ -	$ -
Changes in proportion and differences between contributions and proportionate share of contributions	$ -	$ -
Contributions subsequent to the measurement date	$ -	$ -
TOTAL	$ -	$ (64,239)

LEOFF 2	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 252,602	$ (109,495)
Net difference between projected and actual investment earnings on pension plan investments	$ -	$ (825,281)
Changes of assumptions	$ 2,669	$ (676,763)
Changes in proportion and differences between contributions and proportionate share of contributions	$ 60,785	$ (24,539)
Contributions subsequent to the measurement date	$ 215,879	$ -
TOTAL	$ 531,935	$ (1,636,078)

Deferred outflows of resources related to pensions resulting from the City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended

December 31, 2018. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	PERS 1 Yearly Amortization	PERS 2/3 Yearly Amortization	LEOFF 1 Yearly Amortization	LEOFF 2 Yearly Amortization
2019	$ 5,187	$ (168,100)	$ 61	$ (95,127)
2020	(25,916)	(296,811)	(14,492)	(220,080)
2021	(77,766)	(536,363)	(39,470)	(485,897)
2022	(20,055)	(197,430)	(10,339)	(179,619)
2023		(71,886)		(62,618)
Thereafter		(109,551)		(276,682)

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

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

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

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

Membership in the VFFRPF includes volunteer firefighters, emergency medical technicians, and commissioned reserve law enforcement officers of participating employers. After 25 years of active membership, members having reached the age of 65 and who have paid their annual retirement fee for 25 years are entitled to receive a monthly benefit of $50 plus $10 per year of service, for a maximum monthly benefit of $300. Reduced pensions are available for members under the age of 65 or with less than 25 years of service.

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

Contributions

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

The contribution rates for 2018 were as follows:

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

The City actual contributions to the plan were \$30 for the year ended December 31, 2017. The City has opted to pay members' fees on their behalf. Contributions on behalf of members were \$90 for the year ended December 31, 2018.

In accordance with Chapter 41.24 RCW, the State contributes 40 percent of the fire insurance premium tax to the plan. For fiscal year 2018, the fire insurance premium tax contribution was \$7.2 million. The city received \$23,211 of this amount.

Actuarial Assumptions

The total pension asset for the VFFRPF was determined by an actuarial valuation by the Office of the State Actuary (OSA) as of June 30, 2016, and rolled forward to June 30, 2017, using the following actuarial assumptions, applied to all prior periods included in the measurement:

- **Inflation:** 2.50%
- **Salary increases**: N/A
- **Investment rate of return:** 7.0%

The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's (OSA) *2007-2012 Experience Study*. Additional assumptions for subsequent events and law changes are current as of the 2017 valuation report.

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

Discount Rate

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

Long-Term Expected Rate of Return

The long-term expected rate of return on the VFFRPF pension plan investments of 7.4 percent was determined using a building-block-method. In selecting this assumption, the Office of the State Actuary (OSA) reviewed the historical experience data, considered the historical conditions that produced past annual investment returns, and considered capital market assumptions and simulated expected investment returns provided by the Washington State Investment Board (WSIB). The WSIB uses the capital market assumptions and their target asset allocation to simulate future investment returns over various time horizons.

Estimated Rates of Return by Asset Class

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2018, are summarized in the table below. The inflation component used to create the table is 2.2 percent and represents the WSIB's most recent long-term estimate of broad economic inflation.

Asset Class	Target Allocation	% Long-Term Expected Real Rate of Return Arithmetic
Fixed Income	20%	1.70%
Tangible Assets	7%	4.90%
Real Estate	18%	5.80%
Global Equity	32%	6.30%
Private Equity	23%	9.30%
	100%	

Sensitivity of Net Pension Asset

The following presents the City's proportionate share of the VFFRPF net pension asset calculated using the discount rate of 7 percent, as well as what the City's proportionate share of the net pension asset would be if it were calculated using a discount rate that is 1-percentage point lower (6 percent) or 1-percentage point higher (8 percent) than the current rate:

	1% Decrease (6.0%)	Current Discount Rate (7.0%)	1% Increase (8.0%)
VFFRPF	$(13,192)	$ (23,211)	$ (32,148)

Pension Plan Fiduciary Net Position

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

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

At June 30, 2018, the City reported an asset of $23,211 for its proportionate share of the VFFRPF plan's net pension asset. The City proportion of the net pension asset was based on actual contributions to the plan relative to total contributions of all participating municipalities. At June 30, 2018, the City proportion was .04%.

The VFFRPF collective net pension asset was measured as of June 30, 2018, and the actuarial valuation date on which the total pension liability is based was as of June 30, 2017, with update procedures used to roll forward the total pension liability to the measurement date.

For the year ended December 31, 2018, the City recognized pension expense of $18,011. Deferred outflows of resources and deferred inflows of resources are not material to the VFFRPF plan.

City Administered Firemen's Pension Plan

Plan Description

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

Membership of the Firemen's Pension fund consisted of the following at January 1, 2018; the date of the latest actuarial valuation:

Retirees currently receiving full retirement benefits through the Law Enforcement Officers and Fire Fighters Retirement Plan (LEOFF)	2
Active plan members	0
Total	2

Summary of Significant Accounting Policies

The FPP is a trust fund in the financial reports of the City. The financial Statements of the FPP are prepared using the accrual basis of accounting. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. The FFP operates under the City's investment policy and State statutes and participates in the pooled cash and investments of the City (see Note 4). All investments are recorded at fair value. Securities traded on a national exchange are valued at the last reported sales price on the government's balance sheet. Securities without an established market are reported at estimated fair value. At December 31, 2018 the FPP's share of the City's pooled investments consisted of $248,707 in U.S. Government Agency securities.

Funding Policy

Under State law, the Firemen's Pension Fund (FPF) is provided an allocation of 25% of all moneys received by the State from taxes on fire insurance premiums; interest earnings; member contributions made prior to the inception of LEOFF; and City contributions required to meet projected future pension obligations. The FPF has been used in prior years to liquidate the pension obligations. Neither member nor employer contributions were made to the plan during the year as the actuary has determined that the current assets of the fund, along with future revenues from State fire insurance taxes and interest earnings, will be sufficient to pay the costs of administering the plan including all future Firemen's Pension Fund pension benefits.

Net Pension Liability	**December 31, 2017**	**December 31, 2018**
Total Pension Liability	$ 123,915	$ 96,652
Fiduciary Net Position	414,389	378,635
Net Pension Liability	(290,474)	(281,983)
Fiduciary net position as a % of total pension liability	334.41%	391.75%
Covered Payroll	-	-
Net Pension Liability as a % of Covered Payroll	**N/A**	**N/A**

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

Discount Rate		
Discount Rate	2.00%	4.00%
Long-term expected rate of return, net of investment expense	2.00%	4.00%
Municiple Bond Rate	3.50%	4.00%
Other Key Actuarial Assumptions		
Valuation Date	January 1, 2017	January 1, 2017
Measurement Date	December 31, 2017	December 31, 2018
Inflation	2.25%	2.25%
Salary increases (including inflation)	3.25%	3.25%
Mortality	RP-2000 Mortality Table (combined healthy) with generational projection using 100% of Projection Scale BB, with ages set back one year for males and forward one year for females (set forward two years for disabled members.)	RP-2000 Mortality Table (combined healthy) with generational projection using 100% of Projection Scale BB, with ages set back one year for males and forward one year for females (set forward two years for disabled members.)
Actuarial Cost Method	Entry Age Normal	Entry Age Normal

Money Weighted Rate of Return

Fiscal year Ending December 31	Net Money-Weighted Rate of Return
2009	N/A
2010	N/A
2011	N/A
2012	N/A
2013	N/A
2014	0.44%
2015	0.73%
2016	0.82%
2017	0.07%
2018	0.60%

The money-weighted rate of return considers the changing amounts actually invested during a period and weights the amount of pension plan investments by the proportion of time they are available to earn a return during that period. External cash flows are determined on a monthly basis and are assumed to occur at the beginning of each month. External cash inflows are netted with external cash outflows, resulting in a net external cash flow in each month. The money-weighted rate of return is calculated net of investment expenses.

Discount Rate

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

The City believes that the assumption of 4.0% as of December 31, 2018 is an appropriate long-term expected rate of return on investments such as those in the City's trust. The Bond Buyer General Obligation 20-bond municipal bond index for bonds that mature in 20 years is 4.10% as of December 27, 2018. Rounding this to the nearest ¼% results in a discount rate of 4.00%. Using 4.00% for both the long-term expected rate of return and the bond index will mean that 4.00% could be used as the single discount rate. This will need to be re-evaluated as of December 31, 2019.

Sensitivity Analysis

The following presents the net pension liability of the City, calculated using the discount rate of 4.00%, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (3.0%) or 1 percentage point higher (5.0%) than the current rate.

	1% Decrease 3.00%	Current Discount Rate 4.00%	1% Increase 5.00%
Total Pension Liability	$ 108,091	$ 96,652	$ 87,396
Fiduciary Net Position	378,635	378,635	378,635
Net Pension Liability	(270,544)	(281,983)	(291,239)

Changes in Net Pension Liability	Total Pension Liability (a)	Increases (Decreases) Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances as of December 31, 2017	123,915	414,389	(290,474)
Changes fot the year:			
Service Cost	-		-
Interest on total pension liability	2,437		2,437
Effect of plan changes	-		-
Effect of econonmic/demographic gains or losses	-		-
Effect of assumptions changes or inputs	(25,699)		(25,699)
Benefit payments	(4,001)	(4,001)	
Medical payments from fund		(69,000)	69,000
Employer contributions		-	-
Contributions from state fire insurance premium tax		35,111	(35,111)
Net investment income		2,407	(2,407)
Administrative expenses		(3,200)	3,200
Prior year adjustment		2,929	(2,929)
Balances as of December 31, 2018	96,652	378,635	(281,983)

Pension Expense	January 1, 2017 to December 31, 2017	January 1, 2018 to December 31, 2018
Prior year adjustment	$ -	$ (2,929)
Service cost	-	-
Interest on total pension liability	2,549	2,437
Effect of plan changes	-	-
Administrative expenses	11,575	3,200
Medical payments from fund	69,436	69,000
Contributions from state fire insurance premium tax	(36,436)	(35,111)
Expected investment return net of investment expenses	(8,851)	(7,937)
Recognition of Deferred Inflows/Outflows of Resources		
Recognition of economic/demographic gains or losses	-	-
Recognition of assumption changes or inputs	-	(25,699)
Recognition of investment gains or losses	4,290	5,396
Pension Expense	42,563	8,357

Paragraph 33d of GASB Statement 68 States that contributions to the pension plan from non-employer contribution entities that are not in a special funding situation should be recognized as revenue. Accordingly, we have treated the contributions from the State fire insurance premium tax as revenue.

Deferred Outflows/Inflows of Resources

As of December 31, 2018, the deferred inflows and outflows of resources are as follows:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ -
Changes of assumptions	-	-
Net difference between projected and actual earnings	13,303	-
Contributions made subsequent to measurement date	-	-
Total	$ 13,303	$ -

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

Year ended December 31:	
2019	$5,398
2020	3,984
2021	2,815
2022	1,106
2023	-
Thereafter*	-

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

Net Pension Obligation

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

The negative net pension obligation has been recorded as an asset on the City's government-wide Statement of net position. A separate, audited GAAP-basis postemployment benefit plan report is not available. A separate unaudited Actuarial Valuation Report of the City's Firefighters Pension Fund as of January 1, 2018 is available by contacting the City of Mount Vernon Finance Department at 910 Cleveland Ave., Mount Vernon, WA 98273.

NOTE 7:
Defined Benefit Other Postemployment Benefit (OPEB) Plans

The following table represents the aggregate OPEB amounts for all plans subject to the requirements of GASB Statement No. 75 for the year 2018:

Aggregate OPEB Amounts – All Plans	
OPEB Liabilities	$ (10,077,146)
OPEB Assets	
Deferred Outflows of Resources	$ 189,206
Deferred Inflows of Resources	
OPEB expenses/expenditures	$ (350,073)

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

Employees Covered by Benefit Terms

For the year 2018, there were no active employees covered and 18 inactive members participating. There were no inactive employees entitled to but not receiving benefits.

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.

Excise Tax

The federal Patient Protection and Affordable Care Act levies a 40 percent excise tax on employers for the value of health plan costs that exceed certain thresholds. Plans that exceed this threshold are considered high cost or "Cadillac" health plans. The excise tax impacts the medical inflation trend for these "Cadillac" plans. Medical trend, claims cost, and aging factors were determined by healthcare actuaries at Milliman. The medical inflation trend is the percent that medical costs are expected to increase in future years. The City opted to include the excise tax in the Office of State Actuary (OSA) 2018 actuary calculation for the OPEB obligation.

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. 75. Health care trend rates were assumed to follow the LEOFF 1 rates used in the OSA's 2016 LEOFF 1 Medial Benefits Actuarial Valuation Report. GASB Statement No. 75 requires the discount rate to be based on a 20-year, tax-exempt, high-quality municipal bond rate. OSA relied on the Bond Buyer General Obligation 20-Bond Municipal Index to determine the discount rate for each measurement date. This resulted in a 3.58% discount rate for our beginning total OPEB liability, measured as of June 30, 2017 and 3.87% of our ending total OPEB liability, measured as of June 30, 2018.

GASB Statement No. 75 requires the valuation results to be prepared using the Entry Age Normal actuarial cost method. In the 2016 LEOFF 1 Medical Benefits AVR, OSA presented results using the Project Unity Credit actuarial cost method, an acceptable method under GASB Statements No. 43 and 45.

The actuarial valuation and measurement date was 6/30/2018, with the actuarial cost method based on entry age. The amortization method was recognized immediately and there was no asset valuation based on the fact that there are no assets in a qualifying trust.

Assumptions	
Discount Rate Beginning Measurement Year	3.58%
Discount Rate End of Measurement Year	3.87%
Medical Costs	Initial rate is approximately 12% / 7% for Excise tax
Long Term Care	4.5%
Medical Part B Premiums	Approximately 5%, varies by year
Base Mortality Rate	RP-2000 Mortality Table
Age Setback	Blended 50%/50% Healthy/Disabled
Mortality Improvements	100% Scale BB
Projection Period	Generational
Medicare Participation Rate	100%
	Assume 100% male population

The following represents the total OPEB liability of the City calculated using the current healthcare cost trend rate of 6.8%, as well as what the OPEB liability would be if it were calculated using a rate that is 1% point lower (5.8%) or 1% higher (7.8%) than the current healthcare cost trend rate.

	1% Decrease (5.8%)	**Current Healthcare Rate (6.8%)**	**1% Increase (7.8%)**
Total OPEB Liability	$ 8,976,344	$ 10,077,146	$ 11,368,257

The following represents the total OPEB liability of the City calculated using the current discount rate of 6.8%, as well as what the OPEB liability would be if it were calculated using a discount rate that is 1% point lower (5.8%) or 1% higher (7.8%) than the current discount rate.

	1% Decrease (2.5%)	**Current Discount Rate (3.5%)**	**1% Increase (4.5%)**
Total OPEB Liability	$ 11,456,940	$ 10,077,146	$ 8,928,915

Changes in total OPEB liability:

Assumptions	
Total OPEB Liability at 1/1/2018	$ 10,427,219
Service Cost	None
Interest	$ 367,095
Changes in Experience Data and Assumptions	$ (367,780)
Estimated Benefit Payments	$ (349,388)
Total OPEB Liability at 12/31/2018	$ 10,077,146
Medicare Participation Rate	100%

At December 31, 2018, The City reported a deferred outflows of resources for payments subsequent to the measurement date of $189,206. This will be recognized as a reduction of the total OPEB liability in the year ended December 31, 2019.

NOTE 8:

Construction and Other Significant Commitments

At December 31, 2018 the City had contractual obligations on the following construction projects:

Project Type	Spent To Date	Remaining Commitment
Downtown Waterfront	$ 6,052,465	$ 233,557
Public Works/Transportation	$ 1,503,174	$ 428,009
Surface Water Utility	$ 115,690	$ 530,232
Wastewater Utility	$ 2,931,837	$ 8,322,527
Total Contractual Commitments	$ 10,603,166	$ 9,514,324

NOTE 9:

Interfund Receivables and Loans, Payables, and Transfers

Interfund Receivables

Receivable Fund	Payable Fund	1/1/2018	New Loans	Repayments	12/31/2018
Internal Service Fund: Equipment Replacement	Street & Arterial Fund	$143,091		$75,000	$68,091

The City authorized a loan not to exceed $310,000 to provide partial financing for an LED Street Lighting Change-out Project. Repayment is based on the projected annual savings in electricity costs. The interfund loan should be fully paid back within four years. Outstanding loan balance at 12/31/18 is $68,091.

Due to/ From Other Funds:

Receivable Fund	Payable Fund	Amount
General Fund	Downtown Waterfront Area Fund	$ 184,491

The outstanding balances between funds resulted from the reclassification of credit balances in asset accounts.

Interfund Transfers:

Fund	Transfers In	Transfers Out
General Fund	$ 397,700	$ 60,000
Non-Major Government Funds	$ 1,267,000	$ 1,504,700
Solid Waste Utility		$ 100,000
Wastewater Utility	$ 1,315,000	$ 1,315,000
Total Transfers	$ 2,979,700	$ 2,979,700

Non-eliminated transfers between Business-Type and Governmental Activities on the Statement of Activities consist of a $100,000 transfer between the Capital Improvement REET 1 and Solid Waste.

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

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 December 31 Government Activities	Principal	Interest
2019	$ 100,000	$ 7,760
2020	$ 100,000	$ 6,050
2021	$ 100,000	$ 4,150
2022	$ 100,000	$ 2,210
Total	$ 400,000	$ 20,170

Public Works Trust Fund Loans

State of Washington Public Works Trust Fund Loans are a direct responsibility of the City. Mount Vernon currently has four such loans outstanding. The total balance is $8,828,225 and is being repaid from the Wastewater Utility Fund. One loan with an outstanding balance of $346,000 is being repaid from the City's Capital Improvement Fund with Real Estate Excise Tax funds. 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
2019	$ 115,000	$ 1,725	$ 1,006,304	$ 44,141
2020	$ 115,000	$ 1,150	$ 1,006,304	$ 39,110
2021	$ 115,000	$ 575	$ 1,006,304	$ 34,078
2022			$ 1,006,304	$ 29,047
2023			$ 1,006,304	$ 24,015
2024-2028			$ 3,796,706	$ 50,858
Total	345,000	3,450	$8,828,225	$221,249

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%. These were paid in full on December 31, 2018.

$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, 2018 is $10,114,543.

Year Ending	Business-Type Activities	
December 31	Principal	Interest
2019	$ 851,399	$ 259,663
2020	$ 873,801	$ 237,261
2021	$ 896,793	$ 214,269
2022	$ 920,389	$ 190,673
2023	$ 944,606	$ 166,455
2024-2028	$ 5,109,191	$ 446,118
2029	$ 548,364	$ 7,167
Total	$10,114,543	$1,521,607

Other Payables

Equipment Leases: The City leases equipment under non-cancelable operating leases. Total costs for such leases were $60,141 for the year ended December 31, 2018. The future minimum lease payments for these leases are as follows:

Governmental Activities	
Year	Amount
2018	$ 60,141
2019	58,881
2020	52,151
2021	33,188
2022	9,946
2023	1,415
	$ 215,723

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, Solid Waste and Surfacewater 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, 2018 was as follows:

	Beginning Balance	**Additions**	**Deductions**	**Ending Balance**	**Due Within One Year**
Government Activities					
PWTF Loan	460,000		115,000	345,000	115,000
HUD Section 108 Loan	500,000		100,000	400,000	100,000
Net Pension Liability	4,562,970	4,224,741	4,562,970	4,224,741	
OPEB Obligation	4,935,490	5,491,729	350,073	10,077,146	
Compensated Absences	1,512,309	159,273		1,671,582	167,188
Governemtal Activities Long-Term Liabilities	11,970,769	9,875,743	5,128,043	16,718,469	382,188
Business-Type Activities					
PWTF Loan	9,834,529		1,006,304	8,828,225	851,399
Doe Loan	11,169,218		1,024,675	10,144,543	1,006,304
Net Pension Liability	1,509,784	191,449	1,509,784	191,449	
Compensated Absences	239,269	256,958	239,269	256,958	25,696
Business-Type Activity Long-Term Liabilities	22,752,800	448,407	3,780,032	19,421,175	1,883,399

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, 2018, there were a number of damage claims and lawsuits pending against the City. However, in our opinion, with which the City Attorney concurs, neither the potential liability from any single claim or lawsuit, nor the aggregate potential liability resulting from all pending claims or lawsuits, would materially affect the financial condition of the City.

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

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

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

NOTE 12:
Risk Management

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

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

Liability Coverage
The City of Mount Vernon is a member of the Washington Cities Insurance Authority (WCIA).

Utilizing Chapter 48.62 RCW (self-insurance regulation) and Chapter 39.34 RCW (Interlocal Cooperation Act), nine cities originally formed WCIA on January 1, 1981. WCIA was created for the purpose of providing a pooling mechanism for jointly purchasing insurance, jointly self-insuring, and / or jointly contracting for risk management services. WCIA has a total of 161 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 provides employees with medical, dental and vision insurance. The City joined the Employers Health Coalition of Washington (EHCW) in 2016 to provide quality but affordable healthcare to its employees. EHCW is an independent, 501-C-6 non-profit coalition established to provide public employers with health care benefits. The EHCW is affiliated with the Employers Health Coalition of Ohio founded in 1983. EHCW currently represents over 250 organizations with 1.5 million members in 14 states. Through the membership in EHCW the City utilized the brokerage services of Alliant to establish agreements with Premera/Blue Cross for provision of the City's health care plans.

Full time employees working at least 32 hours per week year round are eligible for healthcare insurance. The City offers two Premera healthcare plan options to its employees for enrollment; $10 co-pay plan and a high deductible plan. The City pays monthly premiums to Premera/Blue Cross, who is responsible for payment of all covered claims for both plans.

The City covers 100% of the deductible for employees and their dependents enrolled in the high deductible plan ($1,500 for individual employees and $3,000 for families). The City utilized the services of BPAS through the EHCW to provide HRA/VEBA administration. Employees who are actively employed on December 31st of this year receive any unused deductible amount in the form of a HRA/VEBA contribution in April of the following year.

The City has continued its membership in the Association of Washington Cities Employee Benefit Trust Health Care Program (AWC Trust HCP) for provision of dental and vision insurance coverage. AWC was created in an agreement to form a pooling arrangement 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.

Both the City and employees contribute to the cost of insurance premiums. City department healthcare contributions for 2018 totaled $2,548,454 and employee contributions totaled $187,873.

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	$	50,296
Fire Station Improvements		131,000
Total Restricted for Public Safety	$	181,296
City Street and Arterials	$	758,704
Paths and Trails		94,023
Transportation Benefit District		556,545
REET II - Streets		284,775
Total Restricted for Streets and Transportation	$	1,694,047
Impact Fees	$	1,265,330
Economic Development		178,826
Tourism Promotion		171,456
Total Restricted for Economic Environment	$	1,615,612
Municipal Court - Capital Improvements	$	67,042
REET I - Capital Improvements		781,008
Total Restricted for Other Capital Improvements	$	848,050
Total Restricted for Pension Payments	$	4,339,005

Fund Balances

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

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

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

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

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

"The City Council has the authority to assign amounts intended to be used for specific purposes. The City Council delegates to both the Mayor and the Finance Director the authority to assign amounts intended to be used for specific purposes, for the purpose of reporting these amounts in the annual financial statements. In this situation, the amounts cannot be spent without Council approval. In both situations, the assignment cannot exceed the available fund balance in any fund."

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

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

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

Minimum Fund Balance Policy – The City of Mount Vernon's Financial Management Policies state that the City shall maintain reserves in the General Fund of 15%, and in other Governmental Operating funds (Streets, Parks & Recreation, and Library) of 10%, of total operating budget, excluding identified one-time revenues. The City is in compliance with its minimum fund balance requirements as of December 31, 2018.

NOTE 14:

Accounting Change

In accordance with the implementation of GASB Statement No. *75 Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions,* we show a beginning fund balance adjustment of ($5,358,285) to reflect the beginning net OPEB liability. The total OPEB liability for the City was $10,077,146.

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
GENERAL FUND
For the Year Ended December 31, 2018

	Original Budget 2018	Final Budget 2018	Actual 2018	Variance with Final Budget Positive (Negative)
REVENUES				
Taxes				
Property	$ 4,802,418	$ 4,802,418	$ 4,916,684	$ 114,266
Sales	7,070,000	7,070,000	7,730,663	660,663
Utility	4,223,500	4,223,500	4,180,841	(42,659)
Public safety pass-through sales	1,360,000	1,660,000	1,598,174	(61,826)
Other	805,000	805,000	900,457	95,457
Licenses and permits	1,377,000	1,377,000	1,379,373	2,373
Intergovernmental revenues	1,276,864	1,276,864	1,031,530	(245,334)
Charge for services	2,515,050	2,515,050	2,444,611	(70,439)
Fines and forfeitures	283,000	283,000	198,733	(84,267)
Investment income	103,000	103,000	186,166	83,166
Other revenue	164,774	164,774	161,443	(3,331)
Total Revenues	23,980,606	24,280,606	24,728,675	448,069
EXPENDITURES				
Current				
General government	5,319,548	6,484,652	6,361,396	123,256
Security of persons and property	15,203,698	15,483,698	15,214,517	269,181
Transportation	863,033	863,033	854,592	
Physical environment	1,953,160	1,953,160	1,980,725	(27,565)
Economic environment	693,643	693,643	166,352	527,291
Capital outlay	273,077	303,077	141,211	161,866
Debt service				
Principal	100,000	100,000	100,000	-
Interest and debt issue costs	8,726	8,726	11,206	(2,480)
Total Expenditures	24,414,885	25,889,989	24,829,999	1,059,990
Excess (deficiency) of revenues over (under) expenditures	(434,279)	(1,609,383)	(101,324)	(1,508,059)
OTHER FINANCING SOURCES (USES)				
Transfers in	244,700	257,000	245,289	(11,711)
Transfers out	(505,000)	(247,000)	(40,000)	207,000
Total other financing sources (uses)	(260,300)	10,000	205,289	195,289
Net change in fund balances	(694,579)	(1,599,383)	103,965	(1,312,770)
Fund Balances - January 1	585,853	24,200	4,815,501	4,791,301
Fund Balances - December 31	$ (108,726)	$ (1,575,183)	$ 4,919,467	$ (6,494,650)

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, 2018

		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	$ 4,916,684	$ 1,403,994	$ 1,274,969	$ -	$ -	$ -	$ 7,595,647
Sales	9,328,837	-	-	-	-	-	9,328,837
Public safety pass-through sales	834,193						834,193
Other	4,247,106	-	-	-	-	-	4,247,106
Licenses and permits	1,379,373	-	-	-	-	-	1,379,373
Intergovernmental revenues	1,031,530	-	-	-	-	-	1,031,530
Charge for services	2,444,611	204,465	38,780	-	-	-	2,687,856
Fines and forfeitures	198,733		24,165	-	-	-	222,898
Investment income	186,166	(2,864)	(1,482)	-	5,152	-	186,972
Other revenue	161,443	340,039	36,317	71,099	-	-	608,898
Total Revenues	24,728,676	1,945,634	1,372,749	71,099	5,152	-	28,123,310
EXPENDITURES							
Current							
General government	6,361,396	-	-	-	-	-	6,361,396
Security of persons and property	15,214,517	-	-	-	-	-	15,214,517
Physical environment	1,980,725	-	-	17,425	-	-	1,998,150
Economic environment	166,352	-	-	-	-	-	166,352
Transportation	854,592	1,942,763	1,134,715	-	-	-	3,932,070
Capital outlay	141,211	332,840	176,673	6,062	-	-	656,786
Debt service							
Principal	100,000	-	-	-	-	-	100,000
Interest and debt issue costs	11,206	-	-	-	-	-	11,206
Total Expenditures	24,829,999	2,275,603	1,311,388	23,487	-	-	28,440,477
Excess (deficiency) of revenues over (under) expenditures	(101,323)	(329,969)	61,361	47,612	5,152	-	(317,167)
OTHER FINANCING SOURCES (USES)							
Transfers in	245,289	143,000	-	-	10,000	(242,000)	156,289
Transfers out	(40,000)	(10,000)	-	(10,000)	-	242,000	182,000
Total other financing sources (uses)	205,289	133,000	-	(10,000)	10,000	-	338,289
Net change in fund balances	103,966	(196,969)	61,361	37,612	15,152	-	21,122
Fund Balances - January 1	4,815,501	526,296	138,809	153,187	409,776	-	6,043,569
Fund Balances - December 31	$ 4,919,467	$ 329,328	$ 200,170	$ 190,799	$ 424,928	$ -	$ 6,064,692

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

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Required Supplementary Information
Washington DRS State Sponsored Pension Plans PERS, LEOFF & VFFRPF
Schedule of Proportionate Share of the Net Pension Liability
As of June 30
Last 10 Fiscal Years *

		PERS 1 6/30/2018	PERS 1 6/30/2017	PERS 1 6/30/2016	PERS 1 6/30/2015	PERS 2/3 6/30/2018	PERS 2/3 6/30/2017	PERS 2/3 6/30/2016	PERS 2/3 6/30/2015	LEOFF 1 6/30/2018	LEOFF 1 6/30/2017	LEOFF 1 6/30/2016	LEOFF 1 6/30/2015
Employer's proportion of the net pension liability (asset)	%	0.066797	0.06653	0.066818	0.068524	0.083929	0.083921	0.083989	0.086827	0.043584	0.044365	0.045489	0.041694
Employer's proportionate share of the net pension liability (asset)	$	2,983,177	3,156,900	3,588,440	3,584,441	1,433,013	2,915,854	4,228,780	3,102,378	(791,268)	(673,115)	(468,667)	(502,505)
State's proportionate share of the net pension liability (asset) associated with the employer	$	-	-	-	-	-	-	-	-	(3,053,216)	(4,552,931)	-	-
TOTAL	$	2,983,177	3,156,900	3,588,440	3,584,441	1,433,013	2,915,854	4,228,780	3,102,378	(3,844,484)	(5,226,046)	(468,667)	(502,505)
payroll	$	8,783,524	8,306,278	7,949,271	7,769,236	8,235,074	8,235,074	7,883,157	7,703,024	-	-	-	-
the net pension liability (asset) as a percentage of covered employee payroll	%	33.96%	38.01%	45.15	46.14	17.40%	35.41%	53.64	40.27	na	na	na	na
Plan fiduciary net position as a percentage of the total pension liability (asset)	%	33.96	61.24	57.03	59.10	16.46	90.97	85.82	89.20	135.96	135.96	123.74	127.36

Required Supplementary Information
Washington DRS State Sponsored Pension Plans PERS, LEOFF & VFFRPF
Schedule of Proportionate Share of the Net Pension Liability
As of June 30
Last 10 Fiscal Years *
(continued)

		LEOFF 2	LEOFF 2	LEOFF 2	LEOFF 2	VFFRPF	VFFRPF	VFFRPF	VFFRPF
		6/30/2018	6/30/2017	6/30/2016	6/30/2015	6/30/2018	6/30/2017	6/30/2016	6/30/2015
Employer's proportion of the net pension liability (asset)	%	0.232267	0.230365	0.238952	0.236702	0.01	0.01	0.04	0.05
Employer's proportionate share of the net pension liability (asset)	$	(4,715,526)	(3,196,720)	(1,389,817)	(2,432,823)	(5,200)	(5,200)	(6,777)	(9,589)
State's proportionate share of the net pension liability (asset) associated with the employer	$	(3,053,216)	(2,073,652)	(906,059)	(1,608,587)	-	-	-	-
TOTAL	$	(7,768,742)	(5,270,372)	(2,295,876)	(4,041,410)	(5,200)	(5,200)	(6,777)	(9,589)
payroll	$	7,685,708	7,219,692	7,250,317	6,920,917	-	-	-	-
the net pension liability (asset) as a percentage of covered employee payroll	%	63.35	(44.28)	(31.67)	(35.15)	na	na	na	na
Plan fiduciary net position as a percentage of the total pension liability (asset)	%	1.02	113.36	106.04	111.67	119.25	119.25	108.97	110.22

** Fiscal year 2017 was the 3rd year of GASB 68 implementation, therefore only three years are shown.*

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

		PERS 1 12/31/2018	PERS 1 12/31/2017	PERS 1 12/31/2016	PERS 1 12/31/2015	PERS 2/3 12/31/2018	PERS 2/3 12/31/2017	PERS 2/3 12/31/2016
Statutorily or contractually required contributions	$	446,486	425,932	391,350	341,255	647,605	584,599	501,530
Contributions in relation to the statutorily or contractually required contributions	$	446,486	425,932	391,350	341,255	647,608	584,599	501,530
contribution deficiency (excess)	$		-					
Covered employee payroll	$	8,783,524	8,585,367	8,117,079	7,767,448	8,707,613	8,511,117	8,049,715
Contributions as a percentage of covered employee payroll	%	5.08	4.96	4.82	4.39	7.44	6.23	5.68

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

		PERS 2/3	LEOFF 1	LEOFF1	LEOFF1	LEOFF1	LEOFF 2	LEOFF 2
		12/31/2015	12/31/2018	12/31/2017	12/31/2016	12/31/2015	12/31/2018	12/31/2017
Statutorily or contractually required contributions	$	437,170					402,773	395,594
Contributions in relation to the statutorily or contractually required contributions	$	437,170					402,773	395,594
contribution deficiency (excess)	$							
Covered employee payroll	$	7,701,686					7,685,708	7,418,072
Contributions as a percentage of covered employee payroll	%	5.68					5.24	5.33

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

		LEOFF 2 12/31/2016	LEOFF 2 12/31/2015	VFFRFP 12/31/2018	VFFRFP 12/31/2017	VFFRFP 12/31/2016	VFFRFP 12/31/2015
Statutorily or contractually required contributions	$	377,529	371,121	90	90	90	120
Contributions in relation to the statutorily or contractually required contributions	$	377,529	371,121	90	90	90	120
contribution deficiency (excess)	$						
Covered employee payroll	$	7,218,503	7,095,977				
Contributions as a percentage of covered employee payroll	%	5.23	5.23	NA	NA	NA	NA

Notes to Schedule:
Until a full 10-year trend is compiled, only information for those years available is presented.

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

(In Thousands)		Fiscal Year Ending December 31 2018	2017	2016	2015	2014
Total Pension Liability						
Service Cost	$	-	-	-	-	-
Interest on total pension liability	$	2	3	2	2	2
Effect of plan changes	$	-	-	-	-	-
Effect of economic/demographic (gains) or losses	$	-	-	43	-	-
Effect of assumption changes or inputs	$	(26)	-	-	-	-
Benefit payments	$	(4)	(12)	(10)	(11)	(12)
Net change in total pension liability	$	(27)	(10)	34	(9)	(9)
Total Pension liability, beginning	$	124	133	99	107	117
Total pension liability, ending (a)	$	97	124	133	99	107
Fiduciary Net Position						
Employer contributions	$	-	-	-	-	-
Contributions from state fire insurance premium tax	$	35	36	36	35	36
Investment income net of investment expenses	$	2	-	4	4	3
Benefit payments	$	(4)	(12)	(10)	(11)	(12)
Medical payments from fund	$	(69)	(69)	(84)	(84)	(89)
Administrative expenses	$	(3)	(12)	(3)	(11)	-
Net change in plan fiduciary net position	$	(36)	(56)	(58)	(66)	(62)
Fiduciary net position - beginning	$	414	471	528	594	656
Fiduciary net position - ending (b)	$	379	414	471	528	594
Net pension liability - ending = (a) - (b)	$	(282)	(290)	(337)	(429)	(487)
Fiduciary net position as a % of total pension liability		391.75%	334.41%	352.76%	533.69%	553.00%
Covered payroll	$	-	-	-	-	-
Net pension liability as a % of covered payroll	%	N/A	N/A	N/A	N/A	N/A

** Calendar year 2017 was the 4th year of GASB 67 implementation, therefore only four years are shown.*

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

Fiscal Year Ending December 31	Actuarially Determined Contribution	Actual Employer Contribution *	Contribution Deficiency (Excess)	Covered Payroll	Contribution as a % of Covered Payroll
2008	(8,891)	(8,891)	-	-	N/A
2009	(89,688)	(89,688)	-	-	N/A
2010	(77,466)	(77,466)	-	-	N/A
2011	(81,016)	(81,016)	-	-	N/A
2012	(71,186)	(71,186)	-	-	N/A
2013	(66,526)	(66,526)	-	-	N/A
2014	(53,106)	(53,106)	-	-	N/A
2015	(48,672)	(48,672)	-	-	N/A
2016	(48,268)	(48,268)	-	-	N/A
2017	(33,000)	(33,000)	-	-	N/A
2018	(33,889)	(33,889)	-	-	N/A

**Employer contributions for pensions are total contributions to the Fund net of disbursements from the Fund for medical expenses under RCW 41.26.150. It includes revenues from fire insurance premium taxes. Prior to 2014, administrative expenses were also subtracted from employer contributions.*

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

Fiscal Year Ending December 31	Net Money-Weighted Rate of Return
2008	N/A
2009	N/A
2010	N/A
2011	N/A
2012	N/A
2013	N/A
2014	0.44%
2015	0.73%
2016	0.82%
2017	0.07%
2018	0.60%

** Calendar year 2017 was the 4th year of GASB 67 implementation, therefore only four years are shown.*

Required Supplementary Information
LEOFF 1 OPEB Retiree Medical Benefits
Schedule of Changes in Total OPEB Liability and Related Ratios
For the Year Ending December 31, 2018
Last 10 Fiscal Years

	2018	2019	2020	2021	2122	2023	2024	2025	2026
Total OPEB liability - beginning	$ 10,427,219	-	-	-	-	-	-	-	-
Service Cost	-								
Interest	367,095								
Changes in benefit terms									
Differnces between expected and actual experience									
Changes in assumptions	(367,780)								
Benefit payments	(349,388)								
Other changes									
Total OPEB liability - ending	$ 10,077,146	-	-	-	-	-	-	-	-
Covered employe payroll	18								

Notes to Schedule:

Until a full 10-year trend is compiled, only information for those years available is presented.

No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB 75

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

Budgetary Reporting

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

The perspective differences are related to the Parks, Library, and Lincoln Commercial Block other governmental special revenue funds which have their own legally adopted budgets, but do not qualify as special revenue funds per GASBS 54 and are included in the General Fund for external accounting purposes. Additionally, the LEOFF 1 LT Care Reserve Fund, formerly a sub-fund of the closed Employee Healthcare internal service fund, with a separate legally adopted budget, is included in the General Fund for external accounting purposes.

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

Budgets and Budgetary Accounting Policies

The City budgets in accordance with the Revised Code of Washington (RCW) 35A.33. In compliance with the code, budgets are established with the exception of agency funds. Legal budgetary control is established at the fund level, i.e. expenditures for a fund may not exceed the total appropriation amount. The Mayor may authorize transfers of appropriations within a fund, but the City Council must approve by ordinance any increase or decrease in the total fund appropriations. Appropriations for general, special revenue, debt services and capital project funds, except for the project-length capital projects lapse at year-end.

The budget, as adopted, constitutes the legal authority for expenditures. Budgets are adopted/reported according to GAAP. Annual appropriated budgets are adopted for the general, special revenue, debt service, pension trust funds and the Real Estate Excise Tax I, Real Estate Excise Tax II, and Impact Fees Funds capital projects budgets. Budgets for the Road Improvement, Downtown and Waterfront Area, and Park/Other Improvement capital project funds are adopted at the level of the individual project and for fiscal periods that correspond to the lives of the project.

Procedures for Adopting the Original Budget

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

a. Prior to November 1, the Mayor submits a proposed budget to the City Council. The budget is based on priorities established by the Council and estimates provided by City departments during the preceding months, and balanced with revenue estimates made by the Finance Director.
b. The Council conducts public hearings on the proposed budget in November.
c. The Council makes its adjustments to the proposed budget and adopts by ordinance a final balanced budget no later than December 31.
d. Within 30 days of adoption, the final budget is available to the public.

Amending the Budget

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

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

City of Mount Vernon
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2018

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures: From Pass-Through Awards	Expenditures: From Direct Awards	Expenditures: Total	Passed through to Subrecipients	Note
CDBG - Entitlement Grants Cluster								
ASSISTANT SECRETARY FOR COMMUNITY PLANNING AND DEVELOPMENT, HOUSING AND URBAN DEVELOPMENT, DEPARTMENT OF	Community Development Block Grants/Entitlement Grants	14.218	B-15-MC-53-0020	-	51,492	51,492	-	1,7
ASSISTANT SECRETARY FOR COMMUNITY PLANNING AND DEVELOPMENT, HOUSING AND URBAN DEVELOPMENT, DEPARTMENT OF	Community Development Block Grants/Entitlement Grants	14.218	B-16-MC-53-0020	-	8,000	8,000	-	1,7
ASSISTANT SECRETARY FOR COMMUNITY PLANNING AND DEVELOPMENT, HOUSING AND URBAN DEVELOPMENT, DEPARTMENT OF	Community Development Block Grants/Entitlement Grants	14.218	B-17-MC-0020	-	80,663	80,663	-	1,7
ASSISTANT SECRETARY FOR COMMUNITY PLANNING AND DEVELOPMENT, HOUSING AND URBAN DEVELOPMENT, DEPARTMENT OF (via Community Action Agency)	Community Development Block Grants/Entitlement Grants	14.218	B-18-MC-0020	138,803	-	138,803	77,464	1,7
			Total CDBG - Entitlement Grants Cluster:	**138,803**	**140,155**	**278,958**	77,464	
US Dept of Justice through WA Depart of Commerce	Violence Against Women Formula Grant	16.558	F18-31103-032	-	17,068	17,068	-	1,7
OFFICE OF JUSTICE PROGRAMS, JUSTICE, DEPARTMENT OF	Bulletproof Vest Partnership Program	16.607	FY 2018 BVP	-	5,475	5,475	-	1,7
Highway Planning and Construction Cluster								

The accompanying notes are an integral part of this schedule.

City of Mount Vernon
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2018

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures: From Pass-Through Awards	Expenditures: From Direct Awards	Expenditures: Total	Passed through to Subrecipients	Note
FEDERAL HIGHWAY ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF	Highway Planning and Construction	20.205	RAIL-7323(005) - LA #9396	-	88,926	88,926	-	1,2,7
FEDERAL HIGHWAY ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF	Highway Planning and Construction	20.205	REP-0538(011)-LA#8450	-	196,851	196,851	-	1,2,7
FEDERAL HIGHWAY ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF	Highway Planning and Construction	20.205	REP-0538(012) -LA #9239	-	170,943	170,943	-	1,2,7
FEDERAL HIGHWAY ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF	Highway Planning and Construction	20.205	REP-0538(011)-LA#9238	-	67,641	67,641	-	1,2,7
Total Highway Planning and Construction Cluster:				**-**	**524,361**	**524,361**	-	
Total Federal Awards Expended:				**138,803**	**687,060**	**825,863**	**77,464**	

The accompanying notes are an integral part of this schedule.

City of Mount
Vernon, Washington

Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2018

Note 1 – Basis of Accounting

This Schedule is prepared on the same basis of accounting as the City's financial statements. The City uses modified accrual accounting for government funds and accrual accounting for proprietary funds.

Note 2 – Program Costs

The amounts shown as current year expenditures represent only the federal grant portion of the program costs. Entire program costs, including the City's portion, are more than shown. Such expenditures are recognized following, as applicable, either the cost principles in the OMB Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments, or the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Note 7 – Indirect Cost Rate

The City has not elected to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

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	
Public Records requests	PublicRecords@sao.wa.gov
Main telephone	(360) 902-0370
Toll-free Citizen Hotline	(866) 902-3900
Website	www.sao.wa.gov